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Trade Secrets Update

Federal Defend Trade Secrets Act of 2016

and

Texas Uniform Trade Secrets Act

Michael K. Oldham

Author Contact Information:
Michael K. Oldham
Reynolds Frizzell LLP
1100 Louisiana, Suite 3500
Houston, Texas 77002

oldham@reynoldsfrizzell.com
713-485-7207

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I. Introduction

Only 3 years ago, enforcing trade secrets in Texas was the stuff of state common law, private contracts, and the Texas Theft Liability Act (TTLA). For the new lawyer, trade secrets law looked unnecessarily Byzantine, patch-work, and inconsistent. For the more experienced lawyer, for better or worse, it was home. Changing things would mean having to forget the old way of doing things, and learn a new system. Ugh.

Well, times have changed: First, in 2013, Texas became one of the last hold-out states to adopt a version of the Uniform Trade Secrets Act. The Texas Uniform Trade Secrets Act now governs trade secret misappropriation claims; it displaces both Texas common law and the TTLA (with some exceptions, as discussed below). Then, in May of this year, President Obama signed the federal Defend Trade Secrets Act of 2016 ("DTSA"), which created a new Federal civil cause of action for misappropriation of trade secrets that relate to interstate or foreign commerce.

Not to fear: Things haven't really changed all that much. You can learn your way around the new statutes without too much headache or heartache. And, as usual, change really can be a good thing. The law is trending toward uniformity, which means better predictability for lawyers and their clients. New lawyers, no doubt, will love the newer statutory schemes and only wonder why the "Uniform" trade secrets acts are not *more uniform* from state to state.

This Update is not intended to serve as an exhaustive primer for trade secrets litigation in Texas. If you are asked to handle a trade secrets case, then you need to read the statutes for yourself. You should read the cases applying them, too: There are not very many yet! Rather, what follows is an attempt to highlight some of the more conspicuous changes to the law (and areas that appear to remain largely *unchanged)*, along with a few potential litigation strategies that you should consider before deciding your own plan of attack or defense.

II. Federal Defend Trade Secrets Act of 2016 ("DTSA")

The Defend Trade Secrets Act of 2016 ("DTSA"), 18 U.S.C. § 1836, was signed into law on May 11, 2016 and is effective for any trade secret misappropriation falling within the DTSA "for which any act occurs on or after" that date. *See* Pub. L. No. 114-153, 130 Stat. 376, 382. The DTSA was enacted as an amendment to the Economic Espionage Act of 1996 (EEA), and several sections of the EEA (in addition to § 1836) were made applicable to civil actions for trade secret misappropriation under the DTSA. *See* Defend Trade Secrets Act, Pub. L. No. 114-153, 130 Stat. 376 (codified as amended at 18 U.S.C. §§ 1832(b), 1833, 1835, 1836(b)–(d), 1839(3)–(7) (2016)).

For the first time, there is now a federal civil cause of action for misappropriation of trade secrets. Until this year, trade secrets were left solely to state law. So, is this a big deal for parties and practitioners, or not? Will the primary arena for trade secrets litigation shift from state courts to federal courts? Time will tell. Here are a few things to consider and watch out for.

A. What trade secrets cases can be brought in federal court? (*Hint: nearly all of them*)

1. Theft of trade secrets relating to interstate or foreign commerce

The DTSA gives federal district courts original subject matter jurisdiction over civil actions pertaining to the theft of trade secrets used in interstate or foreign commerce. *See* 18 U.S.C. § 1836(c) ("The district courts of the United States shall have original jurisdiction of civil actions brought under this section."). Actually, the DTSA's reach is even broader than that. The DTSA states:

> An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is ***related to a product or service*** used in, ***or intended for use in***, interstate or foreign commerce.

18 U.S.C. § 1836(b) (emphasis added).

First, internal trade secrets are protected (for example, customer lists, training materials, etc.). The trade secret need only "relate" to a product or service that is used or intended for use in interstate commerce – it stands to reason that the trade secret itself does need to be placed in commerce or be intended to be placed in commerce (because the whole point is to keep it secret).

Second, the trade secret does not need to relate to a product or service that is in active commercial use. Courts have noted that Congress inserted the language highlighted above – "***related to a product or service*** used in, ***or intended for use in***" – to make clear that Congress has invoked its full Commerce Clause power. The statute covers theft of trade secrets that relate to products used in interstate or foreign commerce, ***and also*** those that relate to products that are still "being developed or readied for the marketplace." *See, e.g.*, *U.S. v. Agrawal*, 726 F.3d 235, 244-45 (2nd Cir. 2013) (noting in dicta that Congress amended the Economic Espionage Act to include such language in response to that Court's decision in *United States v. Aleynikov*, 676 F.3d 71 (2nd Cir. 2012)[1], and to make clear that the statute reaches theft of trade secrets relating to products that are "being developed or readied for the marketplace").

The DTSA confers original subject matter jurisdiction; diversity of citizenship is not required. *See* 18 U.S.C. § 1836(c) ("The district courts of the United States shall have original jurisdiction of civil actions brought under this section.").

[1] In *Aleynikov*, the Second Circuit had held that the statutory phrase "a product that is produced for or placed in interstate or foreign commerce" constituted a limitation on the EEA's scope such that the EEA did not apply to trade secrets – like proprietary trading software – that enable interstate or foreign commerce but are not themselves intended to be placed in the stream of commerce. *See* 676 F.3d at 80-81. Congress later amended the EEA to make clear that it invokes the full extent of Congress's regulatory power under the Commerce Clause.

Title search: Trade Secrets Update: Federal Defend Trade Secrets Act of 2016 and Texas Uniform Trade Secrets Act

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