

If the Defend Trade Secrets Act Becomes Law, How Will it Affect Trade Secrets in Arizona?

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If enacted, the federal Defend Trade Secrets Act (“DTSA”) could change how some trade secret misappropriation claims are litigated in Arizona. Trade secret plaintiffs generally must bring claims for misappropriation in state court, because federal courts lack jurisdiction to resolve lawsuits based solely on misappropriation. The DTSA would give federal courts original jurisdiction to resolve federal trade secret misappropriation claims, providing a new forum with significant implications for trade secret plaintiffs and defendants.

Trade Secret Protection in Arizona

The Arizona Uniform Trade Secrets Act (“AUTSA”), A.R.S. §§ 44-401 to -407, defines a trade secret as information that derives “economic value . . . from not being generally known to, and not being readily ascertainable by proper means by, others who can obtain economic value from its disclosure or use.” Trade secret holders must take reasonable measures to maintain the secrecy of the information.

A plaintiff may seek damages, and injunctive relief, for misappropriation of qualified trade secrets. While the AUTSA preempts all other common law claims for misappropriation of trade secrets, Arizona courts have held that the AUTSA does not preempt common law claims for misappropriation of confidential information that *does not rise to the level of a trade secret*. Whether a cause of action exists for misappropriation of non-trade-secret confidential information is a question the Arizona Supreme Court has yet to address.

DTSA/AUTSA Parallels

Recent amendments harmonize the DTSA with the Uniform Trade Secrets Act, on which the AUTSA is modeled, bringing the DTSA more in line with the AUTSA. For example, the definition of “trade secret,” the statute of limitations (three years), damages provisions (including exemplary damages), and attorneys’ fees provisions of the DTSA and the AUTSA are the same.

Features of the DTSA

The ability for plaintiffs to file a federal civil action for trade secret misappropriation is an important difference between the DTSA and the AUTSA. But the federal civil action applies only to trade secrets that relate “to a product or service used in, or intended for use in, interstate or foreign commerce.” The interstate commerce caveat might prevent local business owners, depending on the circumstances, from taking advantage of the DTSA.

The DTSA’s advantages extend beyond the doors of the federal courts. For example, the DTSA expressly permits *ex parte* seizure of property that embodies misappropriated trade secret information. To be sure, *ex parte* seizure is not an entirely new concept. State law currently provides provisional remedies — including *ex parte* temporary restraining orders¹ and “any affirmative act to protect a trade secret”² — that may help a victim of trade secret theft. Yet, the DTSA’s express provision for *ex parte* seizure of misappropriated trade secret information is new and makes certain the availability of such a procedure to prevent dissemination of a stolen trade secret. Thus, a trade secret plaintiff, with an order from the court, may seize misappropriated trade secret information without first notifying the individual or company alleged to have stolen the information. The DTSA permits such a court order only in extraordinary circumstances, and the requirements to obtain a seizure order are rigorous. In addition to proving

¹ Ariz. R. Civ. P. 65(d).

² A.R.S. § 44-402(C).

entitlement to injunctive relief, the plaintiff must, for example, establish that the defendant is in “actual possession” of the subject trade secret.

The DTSA expressly narrows the inevitable disclosure doctrine: that an employee can be precluded from taking a position with a competitor based solely on the employee’s knowledge of trade secrets acquired while employed by the trade secret owner. The DTSA’s exception to this rule permits an employer to show evidence of threatened misappropriation based on the employee’s conduct. But mere knowledge of trade secrets generally would be insufficient for an injunction prohibiting a person from taking a new job.

The DTSA also protects whistleblowers who disclose trade secret information to the government or in a court filing, if the information is disclosed in confidence or under seal. The DTSA thus protects employees who otherwise would be violating a nondisclosure agreement. The DTSA’s whistleblower provisions also impose a notice requirement upon employers who seek to protect their trade secrets through nondisclosure and non-compete agreements. The DTSA, however, is silent as to the form any such notice must take; instead, the DTSA states only that employers must notify employees of whistleblower immunity in “any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” Failure to comply with this notice requirement results in forfeiture of attorneys’ fees and exemplary damages in an action against an employee.

While it is unclear whether courts interpreting the DTSA will require a trade secret plaintiff to describe the subject trade secrets with reasonable particularity before the plaintiff can take discovery, the DTSA requires courts to permit a trade secret holder to file under seal a description of the holder’s interest in keeping the information confidential. Arizona state courts have not addressed the “disclosure before discovery” issue, but some other states, including California, that follow the UTSA have adopted this disclosure requirement. This disclosure requirement benefits defendants in that it limits costly discovery, including discovery designed to mold the alleged trade secret to the facts discovered, until a plaintiff properly identifies the trade secret at issue. The DTSA, however, would protect trade secret plaintiffs by mandating that any such disclosure be made confidentially and only after an opportunity to brief the issue to the court under seal.

Though many of the issues addressed by the DTSA are not new, the DTSA provides a new setting for redress. The availability of a federal forum has implications, beyond those discussed above, that extend to numerous aspects of misappropriation actions, including:

- Personal jurisdiction and venue;
- Pleading requirements;
- Initial disclosures;
- Proportional discovery;
- Third-party discovery;
- Active case management;
- Rule 34 requests; and
- Expert drafts.

Depending on the circumstances, these implications may influence, and ultimately determine, where a plaintiff files suit.

A Uniform Federal Trade Secrets Law

The DTSA has the potential to increase uniformity within trade secrets law. Most states have adopted versions of the Uniform Trade Secrets Act, but it has not been a uniform adoption, with different states including or dropping different provisions. For example, Arizona did not enact section 8 of the UTSA, which requires courts in the state to apply and construe their state statute in such a way as to make trade secret law uniform.³ A body of federal law, based on a federal statute, would give some consistency to trade secret holders who seek relief in federal court. However, the DTSA explicitly does not preempt any law, federal or state, so plaintiffs will continue to have the option of seeking relief under the DTSA or state law.

If enacted, the DTSA likely will have significant effects on trade secret law, including through additional federal court protection (e.g., a federal claim and *ex parte* seizure), and employee protection — whistleblower and subsequent employment. Although (non-uniform) state laws would persist, the DTSA, if it is enacted and proves successful, could result in a more uniform, national trade secret law.

³ Sid Leach, *Anything but Uniform: A State-By-State Comparison of the Key Differences of the Uniform Trade Secrets Act* 25–26 (October 23, 2015), <http://www.swlaw.com/assets/pdf/news/2015/10/23/How%20Uniform%20is%20the%20Uniform%20Trade%20Secrets%20Act%20-%20by%20Sid%20Leach%20-%20AIPLA%20paper.pdf>.



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