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Trade Secrets and State Sovereign Immunity

When a state misappropriates trade secrets, sovereign immunity presents major barriers to relief—however, those barriers are not insurmountable.

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Trade secret cases often follow a similar pattern. A business partnership or relationship with a contractor falls apart, and one party sets off with the other's trade secret. A lawsuit then follows in which damages are available. The same fact pattern may play out where the defendant is a state entity—for example, a state university hospital system that stole a collaborator's work in developing a new medical treatment. In such circumstances, a trade secret owner must contend with the doctrine of state sovereign immunity, which imposes significant barriers to relief.

Abrogation of Sovereign Immunity

State sovereign immunity, a doctrine reflected in the 11th Amendment, protects state entities from suit in federal court. Congress, however, may abrogate a state's immunity pursuant to its authority under the 14th Amendment. In 2016, Congress enacted the Defend Trade Secrets Act (DTSA), which created a federal cause of action for trade secret misappropriation. After the DTSA's enactment, some litigants have argued that it abrogated state sovereign immunity for trade secret misappropriation.

While the Supreme Court has not resolved whether the DTSA abrogates state sovereign immunity, plaintiffs face an uphill battle. Congress may abrogate sovereign immunity where it unequivocally expresses its intent to do so and acts pursuant to a valid exercise of its authority under the 14th Amendment. Both requirements are likely not satisfied with respect to the DTSA. The DTSA contains no specific provision authorizing suits against states, and there is no indication that Congress enacted the DTSA under the 14th Amendment (as opposed to the Commerce Clause).

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Jordan Rice, with MoloLamken

In the analogous contexts of patent and copyright infringement lawsuits, the Supreme Court held that Congress did not abrogate state sovereign immunity. In 1999's *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, the Supreme Court held that, despite Congress' clear intent to abrogate sovereign immunity in patent cases, Congress had not identified a sufficient pattern of patent infringement by the states to enable it to validly abrogate sovereign immunity under the 14th Amendment. In 2020's *Allen v. Cooper*, the Supreme Court reached a similar decision with respect to copyright law.

There is little reason to believe courts would find that Congress abrogated sovereign immunity with the DTSA in light of *Florida Prepaid* and *Allen*. And, indeed, courts that have considered the issue have concluded that states are immune from

suit under the DTSA, including, for example, the U.S. District Court for the Northern District of California in *Evans v. Presidio Trust* and the U.S. District Court for the District of Maryland in *MedSense LLC v. University System of Maryland*. Frustrated plaintiffs must find another path forward against states.

Injunctive Relief

One avenue to seek redress against states for trade secret misappropriation is to pursue relief under the doctrine of *Ex parte Young*. Under that doctrine, a court may enjoin a state official from violating federal law, including the DTSA. Damages, however, are not available.

In the contexts of patent and copyright cases, courts have concluded that injunctive relief is available despite state sovereign immunity. Likewise, in *KaZee v. Callender*, the U.S. District Court for the Eastern District of Texas denied a motion to dismiss a trade secret misappropriation claim seeking injunctive relief under *Ex parte Young*. While no remedy for a trade secret owner's lost profits, *Ex parte Young* provides at least some relief against state defendants.

State Law Options

States are free to waive sovereign immunity as they see fit. Most states have done so through enactment of a state "tort claims act," or similar legislation, that provides a path to at least partial recovery for aggrieved trade secret owners. Such laws vary from state to state, but generally they allow litigants to sue state entities for violations of state law, including state trade secret misappropriation laws (which are not preempted by the DTSA).

State tort claims acts, however, often contain numerous restrictions. They may bar certain types of relief, including punitive damages and injunctions. They may cap damages well below the amount of harm suffered from the trade secret misappropriation. They generally require the lawsuit to be brought in state courts. And they may contain other procedural hurdles, like pre-suit notice requirements or state administrative proceedings. Consequently, at least for some litigants, pursuing relief under a state tort claims act may not be worth the expense.

Takings Claims

In *Florida Prepaid*, the Supreme Court suggested that a patent owner seeking relief from a state may be able to pursue a constitutional "takings" claim—a claim that requires states to pay just compensation for use of private property. A trade secret owner should be able to pursue such a claim given the Supreme Court's recognition in 1984's *Ruckelshaus v. Monsanto* that a trade secret is property protected under the takings clause.

A takings claim, however, presents difficulties of its own. For one thing, state sovereign immunity still applies. As the U.S. Court of Appeals for the Seventh Circuit recently recognized in *Pavlock v. Holcomb*, every circuit court to consider the question has held that state sovereign immunity applies to Takings claims as long as state courts remain open to such claims, which is generally the case. For another, as the Supreme Court of Texas held in 2021 in a copyright takings case, *Jim Olive Photography v. University of Houston System*, infringement of an intellectual property may not constitute a taking at all. But that issue remains far from settled.

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When a state misappropriates trade secrets, sovereign immunity presents major barriers to relief. But those barriers are not insurmountable. A trade secret owner has options, albeit limited ones, to seek redress.

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