INTELLECTUAL PROPERTY UPDATE AND YEAR IN REVIEW

The Intellectual Property Newsletter of Dykema • December 2021

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TRADEMARK MODERNIZATION ACT

The Trademark Modernization Act (TMA) will have significant impacts on brand owners and might offer new tools and procedures for challenging blocking trademarks and problematic registrations for those willing to take advantage of the new law. The TMA was passed by Congress in December 2020 before the USPTO announced the final Rules for implementation on November 17, 2021. Most aspects of the final Rules will take effect on December 18, 2021, and December 27, 2021, and could affect the ways brand owners challenge other registrations—including in the clearance process, as well as the way brand owners might have to document, support, and defend the legitimacy of their own claims of "use in commerce." In addition to these new procedures, the TMA will also affect deadlines for responding to Office Actions and will implement other changes. The key provisions in the TMA are highlighted below.

The TMA might allow some opportunities for brand owners to remove blocking trademark registrations during the clearance process but brand owners will also want to take steps now to document legitimate use and archive specimens and proof of use in commerce to help ensure the TMA will not be weaponized in unforeseen ways to cancel registrations.

BACKGROUND

Compared to most other countries, the United States is somewhat unique in its stringent requirements to prove "use in commerce" with acceptable specimens and Declarations of Use, with the risk of mistakes and inaccurate statements resulting in claims of fraud and invalidation of trademark registrations. In recent years, the USPTO has observed an influx of suspicious claims of use in commerce and what it believes are improper claims of use, including claims of use for extensive "laundry lists" of goods and services that are unsupported with additional specimens of use during the post-registration "audit" program. To address these issues, and allow for third parties to initiate an expedited and inexpensive challenge to questionable registrations, Congress and the USPTO will now allow new procedures to challenge improper claims of use in U.S. commerce, namely, through expungement and reexamination proceedings.

Expungement will allow for the expedited challenge of a registration on the basis the mark "*has never been used in commerce* on or in connection with some or all of the goods or services recited in the registration" (or, for Madrid Protocol registrations or registrations based on a home country registration, there is no excusable non-use).

An expungement Petition can be filed against a registration between the third and 10th year after issuance of the registration and, significantly, up until December 27, 2023, the 10-year limit will not apply, so older registrations can also be challenged.

If the expungement Petition is successful, the challenged goods and services will be deleted from the registration. If unsuccessful, a further challenge under the TMA for those goods and services cannot be raised again.

The new law also provides for reexamining a registration based on a specific claim that the mark "was not in use in commerce on or in connection with some or all of the goods or services recited in the registration on or before the relevant date." The "relevant date" is the filing date of use-based application or the date an Amendment to Allege Use was filed (or the expiration date of the deadline for filing the Statement of Use). A reexamination Petition may be filed during the first five years.

If the Petition is successful, the challenged goods and services will be deleted from the registration.

Although there are limits to repeat challenges to the same goods/services, for the time being, there is no limit on the number of Petitions that can be filed against a registration.

REQUIREMENTS FOR THE PETITION

It is significant that Petitions may be filed anonymously, for example, using a law firm, although the USPTO Director may require identification of the real party in interest (e.g., in cases of abusive filings). Foreign petitioners will have to designate U.S. counsel to handle the Petition. Petitions can be filed beginning on December 27, 2021.

The fee for either Petition is $400 for each class of goods/services. The Petition for Expungement must identify the goods/services that were never used in commerce under the mark, along with any supporting evidence and a verified statement setting forth "the elements of the reasonable investigation the petitioner conducted to determine that the mark has never been used in commerce." The Petition for Reexamination must identify the goods/services that were not in use in commerce as of the relevant date, along with supporting evidence and a verified statement setting forth the elements of the investigation conducted.

The nature of the investigation that is sufficient will vary under the circumstances and will consider relevant trade channels in deciding whether to institute the proceeding. The Rules indicate that a prima facie case will provide a registrant with sufficient notice of the claimed nonuse to allow the registrant to respond to and potentially rebut the claim with competent evidence. The Final Rule and the Legislative History clarify that an internet search alone is unlikely to be sufficient. It remains to be seen if the USPTO will appreciate the business nuances and trade channels for particular industries or if they will be more inclined to allow challenges in the hopes of clearing "deadwood" from the register.

EXPUNGEMENT/REEXAMINATION PROCEEDING

The Petition and the evidence will be entered in the Trademark Status and Document Retrieval (TSDR) system for the subject registration record and will be public record. The USPTO will also send a courtesy email notice to the registrant or its attorney, if an email address is of record. If a prima facie case of non-use is established, the Director will institute a proceeding. At that point, the Petitioner's role in the proceeding is finished. The Respondent will be allowed three months to reply with evidence of use (with a one-month extension available for a fee). The Respondent may respond by providing appropriate evidence and/or deleting from the registration some or all of the goods or services at issue. Appropriate evidence will generally consist of acceptable "specimens" of use but, at a minimum, must be consistent with the U.S. definition of "use in commerce" (which is linked to the USPTO's view of acceptable specimens). Merely providing the same specimens to the PTO that were previously filed will not be acceptable. Considering the proceeding can occur years later and records might no longer be in existence, the USPTO might also consider corroborating evidence to explain the historic use in commerce (although what will be acceptable remains to be seen).

The Director of the USPTO is also allowed to initiate either proceeding, presumably if a bogus specimen or claim of use is brought to the USPTO's attention. If the Respondent does not offer acceptable evidence or does not reply, the goods/services will be canceled. The PTO must show nonuse by a preponderance of the evidence. An appeal to the Trademark Trial and Appeal Board or Petition to the Director can be made within three months of the decision.

"BRAND OWNERS MIGHT WANT TO USE THE NEW EXPEDITED PROCEEDINGS TO CANCEL REGISTRATIONS WITH SUSPICIOUS CLAIMS OF USE BUT THE TMA AND OTHER TRENDS AT THE PTO SERVE AS REMINDERS THAT BRAND OWNERS – AND THEIR ATTORNEYS – NEED TO BE DILIGENT IN DOCUMENTING USE FOR ALL GOODS AND SERVICES INDEFINITELY."

– JENNIFER FRASER

USES FOR THE NEW PROCEEDINGS, OTHER IMPLICATIONS, AND STRATEGY

Offensively, it is clear the new proceedings could assist in removing potentially blocking trademarks during the clearance and application process. For the time being, the USPTO will allow the Petitions to be filed anonymously, and thus companies can allow private lawyers/firms to file on their behalf to keep their identity and business plans to use the mark secret from public knowledge. This will be useful particularly when companies expand into new product areas or do not want to publicly reveal their business plans.

Proceedings challenging use on a certain date can be commenced many years later, meaning that to defend a proceeding could require specimens and other proof of use as of a certain date many years later. Because record-keeping years later can be less reliable, particularly considering document retention policies at many organizations, brand owners would be wise to retain some archival copies of specimens, or at least ensure their counsel is maintaining additional examples of use.

Because these proceedings are new and there is a potential for "weaponization" of these challenges, it is possible the USPTO could modify these rules to add new safeguards or impose other requirements but, for the time being, brand owners should be able to take advantage of the new proceedings.

NEW OFFICE ACTION DEADLINES

Beginning on December 1, 2022, Office Actions issuing during examination of the application and post-registration will now have a shorter response time of three months, as compared to six months. A three-month extension will be available for a fee. The three-month time period does not apply to Madrid applicants. The USPTO also hopes the new deadlines will remove blocking trademark applications and registrations.

Dykema's Trademark Practice Group Leader, Jennifer Fraser, was involved in providing comments and language for the proposed legislation to Congressional Staff. Prior to implementation, many of the provisions were discussed at length and provide insight into the nuances of the new rules.

IN A SIGNIFICANT DECISION, THE TTAB LOWERS THE STANDARD FOR PROVING FRAUD AND RECKLESS DISREGARD FOR THE TRUTH CAN RESULT IN CANCELLATION

In a significant case from the Trademark Trial and Appeal Board (TTAB), the TTAB lowered the burden in proving fraud, ruling reckless disregard in signing documents can constitute fraud, rendering a trademark registration invalid. This year, the TTAB issued a precedential decision, cancelling a registration on the ground of fraud. See *Chutter, Inc. v. Great Management Group, LLC*, 2021 USPQ2d 1001 (TTAB 2021). Prior to this decision, to prevail on a claim of fraud, a party typically needed to show an intent to deceive the USPTO.

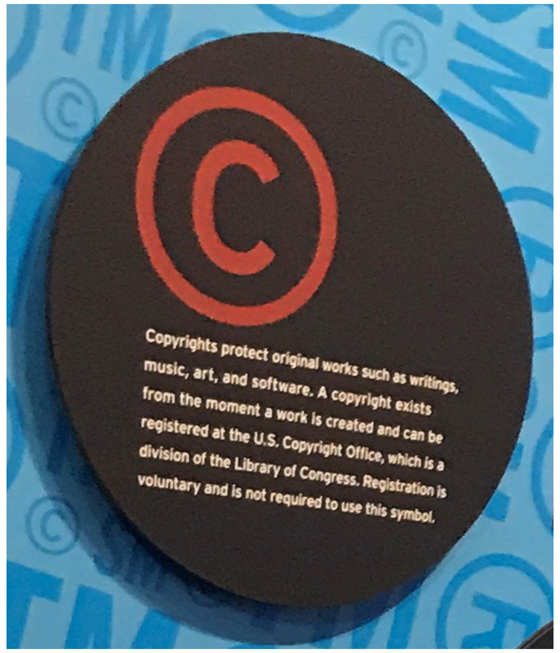
Chutter illustrates why it is imperative to verify the accuracy of claims of "use of commerce" and other statements made to the USPTO. In *Chutter*, registrant's counsel signed and submitted a Section 15 Declaration of Incontestability claiming there were no proceedings involving the rights in the mark, and such statement was false and counsel admitted in a deposition he was unfamiliar with the Section 15 requirements. In canceling the registration, the TTAB confirmed "reckless disregard" for the accuracy and truth of contents in any filings with the USPTO now satisfies the "willful intent" element of fraud. The TTAB declared "[t]o find otherwise could encourage declarants to conclude that such disregard carries no consequence and they can fail to read documents they are signing without penalty. 'Statements made with such degree of solemnity clearly are or should be investigated thoroughly prior to signature and submission to the USPTO.'"

WHAT DOES THIS MEAN?

Counsel and Applicants/Registrants alike have a duty to investigate the claims made in any filing and to make sure they understand the legal requirements for those claims. This can be a complicated assessment, particularly when there are many goods or services in an application or registration and use in U.S. commerce must be verified for **every listed item**. *Chutter* illustrates the risk of failing to do can lead to dire consequences as the entire registration was cancelled (in contrast to simply negating the questionable Section 15 Declaration of Incontestability).

Some might believe it is overly cumbersome to verify such statements and meet the strict standards of "use in commerce" in the U.S. for all goods or services, including having "specimens" showing use in commerce to meet the statutory definition; however, it is worth it when considering the failure to do so can result in sanctions and the loss of longstanding trademark registrations. *Chutter* is an important reminder that trademark owners and attorneys must remain vigilant in submitting accurate information to the USPTO at all times.

COPYRIGHT OFFICE SMALL CLAIMS BOARD



In 2011, Congress asked the Copyright Office to study the current system for resolving copyright claim disputes with a relatively small economic value, as well as possible alternative systems. At issue was the fact that copyright law required copyright lawsuits be brought in federal court where litigation costs can be expensive, discouraging plaintiffs whose potential relief might be less than litigation costs.

On December 27, 2020, the Copyright Alternative in Small-Claims Enforcement Act of 2020 (CASE Act) was enacted as part of the 2021 Consolidated Appropriations Act, and required the Copyright Office to establish a Copyright Claims Board (CCB) within one year of enactment, unless the Register of Copyrights, for good cause, extends the time period for no more than 180 additional days until June 25, 2022. The CCB will be located in the Copyright Office's offices in Washington, DC. However, proceedings will typically be handled electronically so that the parties will not need to travel to Washington, DC, to participate.

The tribunal for the CCB will consist of three Officers appointed by the Librarian of Congress on the recommendation of the Register of Copyrights. CCB proceedings will be designed to be user-friendly so that parties can represent themselves or by attorneys if they wish. Unlike in federal court, where statutory damages of up to $150,000 per work are available, the CCB will be able to award either actual or statutory damages of up to $30,000 in total damages in any one proceeding, regardless of the number of works at issue but will limit statutory damage awards to $15,000 per work. Costs and attorneys' fees capped at $5,000 can be awarded against bad faith parties (capped at $2,500 if a party is not represented by an attorney).

A party wishing to file a claim with the CCB will need to have a copyright registration or have filed an application with the Copyright Office either before or simultaneously with filing a claim with the CCB. Participation will be voluntary allowing a respondent to opt out and terminate a CCB proceeding. CCB proceedings will be streamlined and discovery will be limited with the parties relying primarily on written materials. Formal motions will not be allowed unless requested by the parties or the CCB.

The parties will be able to review their CCB decision online. CCB decisions will not be precedential, meaning that the CCB will not have to follow prior decisions in later cases. CCB decisions will have no impact on unrelated federal court proceedings. There will be limited review of CCB decisions. If a party disagrees with a CCB decision they will be able to seek review, both in the Copyright Office and federal court. However, the types of issues the Copyright Office or a federal court will consider upon review will be more limited than if the case was originally brought or defended in federal court.

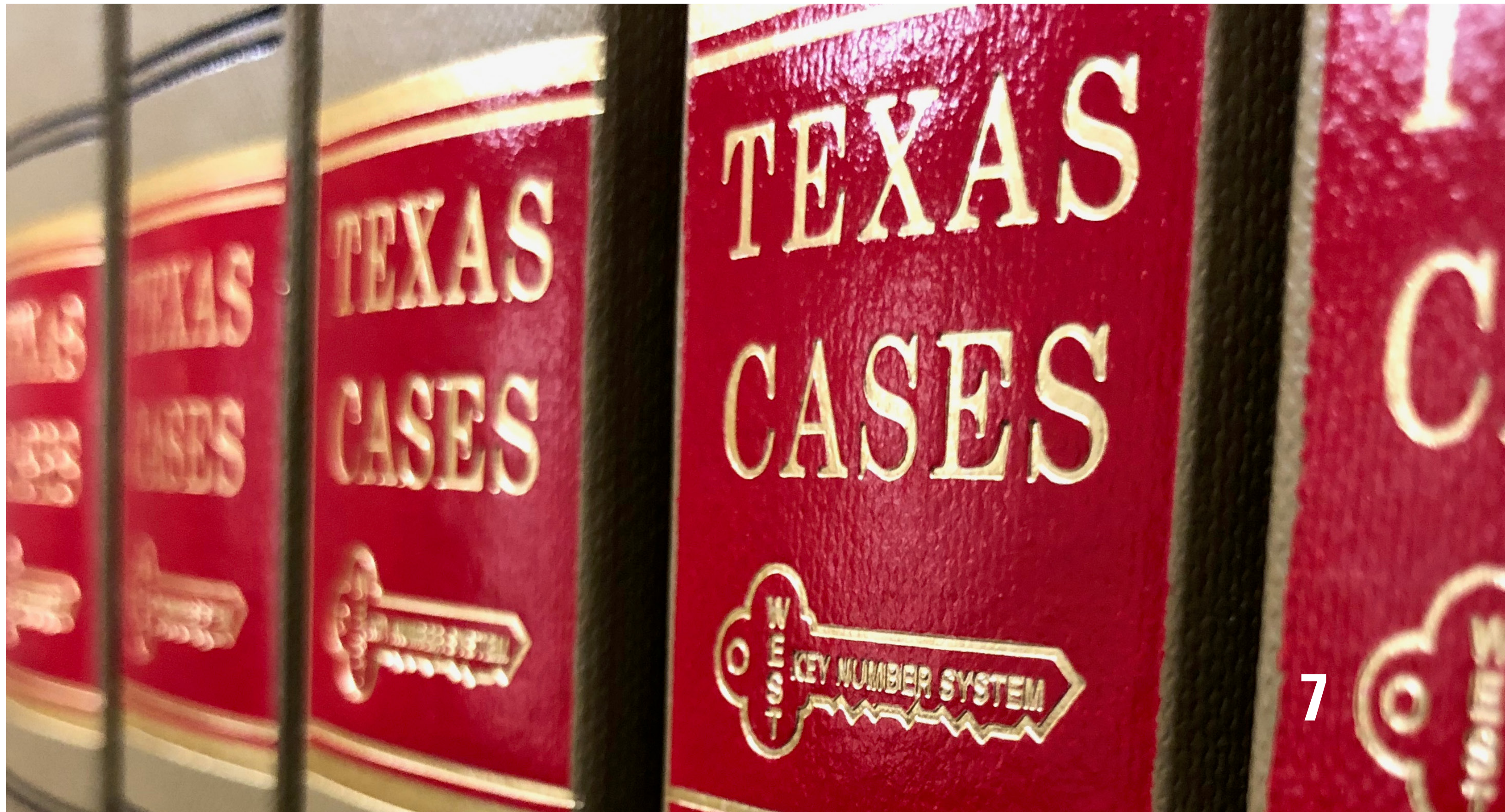
Before the CCB begins taking cases, the Copyright Office will develop procedures through rulemaking processes with public comments. The Office has extended the time frame for comments until December 15, 2021 and we will provide updates on the proceedings as a useful tool to expeditiously resolve smaller copyright claims.

NPE CASES CONTINUE TO RISE

Recently, the number of patent litigation cases brought by non-practicing entities (NPE) has taken an upswing with an increase of over 18% in the third quarter of 2021, as compared to the same period last year. Two particular NPE plaintiffs and the recent economy are believed to have some influence on the recent increase since companies that tightened their budgets are more reluctant to risk expensive litigation proceedings.

While the pandemic has disrupted the operation of many businesses, the pandemic has not required patent asserting entities to make drastic changes to their everyday business operations. In the third quarter of 2021 NPE litigation has been targeting the automotive sector (up 185%), mobile communications and devices (up 133%), consumer electronics and PCs (up 71%), semiconductors (up 64%), financial services (up 48%), and other sectors of business (up 160%, collectively).

For years, the Eastern District of Texas was the venue of choice for thousands of patent owner plaintiffs and particularly NPEs. At the end of 2018 Judge Albright streamlined patent litigation in the Western District of Texas which attracted new cases. While only 85 patent cases were filed in West Texas in 2017, 288 were filed in 2019 and over 850 in 2020. This has drawn the attention of Senators Leahy and Tillis who are now asking Supreme Court Chief Justice John G. Roberts Jr. to facilitate a Judicial Conference study of patent litigation "forum shopping," a move apparently aimed at shifting such cases away from a Western District of Texas hot bed. In addition, since the Wall Street Journal published its investigation of recusal failures, judges have now notified parties of recusal violations in a total of 509 cases, with the Eastern District of Texas having the must recusals.



PRIDE IN PATENT OWNERSHIP ACT INTRODUCED

The recently introduced Pride in Patent Ownership Act (PPOA), introduced by Senators Thom Tillis and Patrick Leahy, aims to "ensure a fair innovation system for small businesses, non-profits, and independent entrepreneurs who have a right to know, without expensive litigation, who has the exclusive rights over a particular invention." The PPOA aims to accomplish this goal by limiting a patentee's ability to recover enhanced damages under 35 U.S.C. §284, if the patentee fails to record their interest in the patent, within 90 days of issuance. The legislation further requires identification Zor patent agents for prosecution of the application, as well as the amount contributed. With respect to the legislation's proposal to limit enhanced damages in response to a patentee failing to record their interest, the legislators should further consider the balance between the rights of potential licensees versus the rights of patent holders, in view of the overall goals of the patent system.

The PPOA requires patent owners to assign their patent so that they can be publicly identified and, according to Congress, contacted with respect to licensing opportunities. If the patent owner does not comply, then hefty limitations on the recovery of enhanced damages are imposed. Such a requirement may increase the chances for the public to contact patent owners with respect to licensing opportunities. However, a core principle of the patent system is the patent owner's right to choose whether to exclude others from making and using their technological development. This right is granted to an inventor as an incentive for publicly disclosing their invention and agreeing to allow it to eventually enter the public domain. This right includes the ability to make a decision with respect to licensing of the patent and should include the ability to make a decision of whether to make their information public, through a publicly available assignment of their patent. If a patent owner is interested in licensing their patent, then they can complete an assignment, allowing the public to identify who owns the patent. However, to force a patent owner to record an assignment, which publicly identifies them, imposes additional requirements on the patent owner. These additional requirements minimally erode some of the patentees rights, potentially making patenting less attractive to prospective patentees. While the requirement to assign a patent may not be viewed as overly burdensome, it still imposes additional costs and regulations that need to be complied with by patent owners. In a patent system that already has seemingly decreased the value of patents through introducing additional ways to challenge them, such as Inter Partes review, it does not seem wise to continually introduce more regulations, which could make the patenting process more burdensome for some patentees.

Currently, when a patent is unassigned, the inventor is presumed to be the initial owner of the patent. Many individual inventors and small businesses rely on this presumption, rightfully foregoing the filing of an assignment. For some individual inventors and small businesses, the PPOA will require them to complete an extra step in order to provide the public better access to contact them with respect to licensing opportunities. This adds an extra burden, on top of an already expensive process. While it is unclear if these additional burdens will have an impact on the number of patent filings made, it will increase the cost associated with those filings, to some extent. The extra steps associated with filing an assignment are additional costs on top of the already expensive and time consuming process. Additional regulations, especially those impacting a right to recover damages, introduce additional risks to patent prosecutors, which may lead to greater malpractice insurance costs and thus additional fees associated with the patenting process, which will likely be passed on to these individuals and small businesses.

WHILE THE LEGISLATION SEEMS TO BE BORNE OUT OF GOOD INTENTIONS, SOME ADDITIONAL THOUGHT MAY BE NEEDED WITH RESPECT TO UNINTENDED CONSEQUENCES OF THE LEGISLATION AND WHETHER THE LEGISLATION WILL BE ABLE TO ACCOMPLISH ITS INTENDED GOAL OF ENSURING A "FAIR INNOVATION SYSTEM."

– JON SEPPELT

Although the notion that patents are personal property has been impacted by *Oil States Energy Services, LLC v. Greene's Energy Group, LLC*, patents can still be conveyed like personal property. Accordingly, true ownership interests in patents can be disguised behind various types of corporate structures and shell companies, which can make identifying and contacting a patent owner behind one of these entities difficult and costly. The proposed legislation does not appear to address this issue, which can be a common tactic for non-practicing entities (NPE). Thus it would appear that these legal structures would still be available when the true owner of a patent wishes to obscure their ownership interest. Accordingly, patent owners with significant monetary resources and NPEs would still be able to hide behind these legal entities, whereas individual inventors and small businesses that may not have the resources to hide behind one of these corporate structures would be disproportionately impacted, thereby conflating the purpose of the legislation. Although the legislation would theoretically appear to make it easier for small businesses, non-profits, and independent entrepreneurs to contact patent owners; many times, the patent owners being contacted will also be small businesses and independent entrepreneurs. Even though all patent owners would be subject to these new regulations, it is the aforementioned group of patent owners including small businesses and independent entrepreneurs, on which the legislation could have a disproportionate effect. The costs associated with complying with the proposed legislation, while not inordinate, will likely have a greater impact on these small businesses and independent entrepreneurs than other patents owners, such as large corporations. Thus, the proposed legislation appears to potentially bolster opportunities for those wishing to license patents, while imposing increased costs and regulations on patent holders, including small businesses and independent entrepreneurs. It is hoped legislators will further consider the balance between the rights of potential licensees versus patent holders, as well as the overall goal of the patent system, before passing the final version.

RECENT CHANGES TO DESIGN PATENT LAWS IN CHINA

Design patent protection has been available in China since the law first iteration of the law in 1985. Design patents are relatively easy to obtain in China insofar as they do not undergo substantive examination. Design patents in China may be literally granted within a few weeks. In some ways, the system for granting design patents is closer in practice to the system of copyright registration in the U.S. And the cost for obtaining a design patent is relatively low, partly because of the lack of substantive examination and partly because there is very little text in the design patent application requiring translation.

Chinese inventors rely on design patent protection in their country to a far greater degree than do foreigners. They know that design patent protection is typically easier to obtain in China than elsewhere (e.g., the U.S.) and can be granted for a broad variety of inventions. So why don't foreigners file more design patent applications in China? Foreign applicants are constrained by their own experiences and, as a result, anticipate not only large prosecution bills but also l*imitations on what can be protected*. Design patent protection in the U.S. is limited to protecting an article having an ornamental appearance (that is, the design elements must be *ornamental* and not *functional*); Chinese design patents may cover functional products. Such "design inventions" would not necessarily be good candidates for patent protection in most other countries.

Unfortunately, the courts have viewed the design patent narrowly resulting in the requirement that the accused article be a virtual photocopy of the design patent itself. However, over the last two years there have been signs that the courts are adopting a more flexible standard. It is too early to know if this represents a durable change but at least the trend is in the right direction.

> THE DOWNSIDE OF DESIGN PATENT PROTECTION IN CHINA IS NOT THE PATENT ITSELF BUT THE WAY IN WHICH CHINESE COURTS HISTORICALLY HAVE INTERPRETED THE SCOPE OF DESIGN PATENTS.
>
> – THOMAS MOGA

The drawing of a design patent is critical insofar as the drawing itself is the patent claim. China is no exception. The *China National Intellectual Property Administration (CNIPA)* has long accepted 3D CAD images which may itself represent a cost savings in that many companies rely on this technology as part of design and manufacturing so may already have figures available without a technical artist needing to prepare additional drawings.

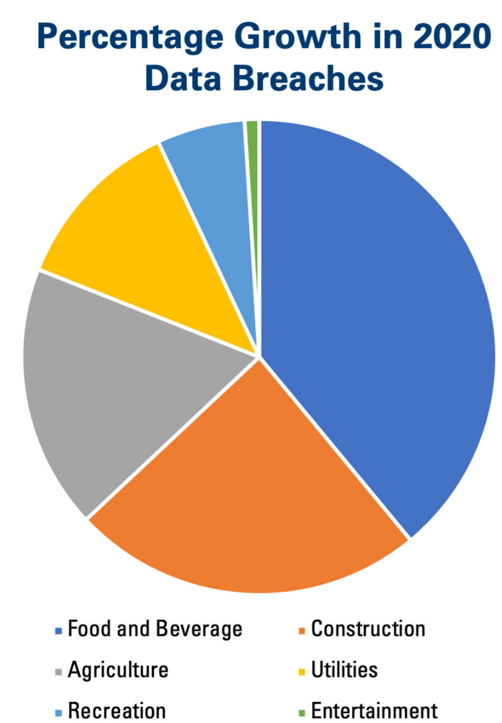
China amended its Patent Law this year to introduce a number of changes, including changes to design patent practice. One of those changes relates to foreign priority applications. Until the Patent Law was an amended, an applicant for a design patent application could only claim priority to a foreign application. According to amended Article 29, an applicant can now claim domestic priority:

> *Where, within twelve months from the date on which any applicant first filed in China an application for a patent for invention or utility model, or within six months from the date on which any applicant first filed in China an application for a patent for design, he or it files with the patent administrative organ under the State Council an application for a patent for the same subject matter, he or it may enjoy a right of priority.*

The amended Patent Law also provides for the term of the design patent to be extended from the current 10 years to 15 years counting from the date of filing (Amended Article 42). It is believed that this change was made as a step toward China's joining the Hague Agreement Concerning the International Registration of Industrial Designs.

One of the most important changes brought about under the amended Patent Law is the amendment made to Article 2 of the Patent Law. According to this article as amended, "designs" refer to "*new designs of aesthetic feeling and suitability to industrial application for the overall or partial shape and/or pattern of products as well as the color and shape and pattern of products*." Previously only "whole" articles could be protected, thus complicating enforcement by requiring the entirety of the design patent to be infringed and not just part. This change will broaden the scope of future design patent protection in China.

CYBERCRIMINALS FINDING SUCCESS IN TARGETING NEW INDUSTRIES



It has been impossible to ignore the constant spam of news articles detailing the epidemic of malicious attempts at data disruption and theft. While the cybersecurity risks of ransomware, malicious data extraction, and business e-mail compromise have been top of mind for professionals in heavily regulated industries for some time now, data from 2020 and the first half of 2021 compels an alarming new conclusion: cybercriminals are no longer a problem just for banks, health care organizations and oil pipelines. Businesses from a wide range of previously untargeted industries are now squarely in the cross-hairs of malicious threat actors.

As tracked and reported by Kroll, the year 2020 saw a 140% rise in reported cyberattacks due to a combination of remote work, the new generation of ransomware, and the sophistication of a modern supply chain attack. The increased cyber risks brought on by the pandemic likely came as no surprise to those in heavily regulated industries, such as financial services and healthcare, who have been focused on data protection and risk mitigation for years. However, 2020 and 2021 have shown that cybercriminals are eager to exploit new vulnerabilities in less-prepared industries. The reported increases are eye-popping: food and beverage (1300% increase in reported attacks), construction (800%), agriculture (600%), utilities (400%), recreation (200%) and entertainment (33%).

Historically less impacted industries are far less prepared to detect and handle the maturity and complexity of the modern day cyberattack. No longer content to attack information technology systems in the traditional sense, cyber criminals are finding weaknesses in a business's operational technology systems, including exploiting vulnerabilities up the supply chain. Emerging extortion techniques are particularly effective against these industries. Threat actors will exfiltrate sensitive data for a shakedown, and if the business will not pay, the threat actor will directly contact journalists, clients and vendors to apply pressure. Suffering from a lack of sufficient insurance coverage or liquid resources, a business may not be able to handle an extended mitigation and remediation process or the loss of its reputation in the market. Gambling on a ransom payment to a cybercriminal may be viewed as the only way to survive.

This puts the affected business between a rock and a hard place. Paying a ransom to a threat actor for the return of data or for a decryption key carries significant risks all its own. In addition to a business having no guarantee that a payment will result in the desired outcome, the U.S. Department of the Treasury's Office of Foreign Assets Control (OFAC) published an advisory in September 2021 warning that paying ransoms may violate OFAC regulations. OFAC has made clear that payments made to entities or individuals on OFAC's Specially Designated Nationals and Blocked Persons List will result in strict civil liability. A business may not know, or may be intentionally misled, about who is behind the attack on their systems. In OFAC's view, it would not matter if a business had no idea that it was paying money to a state-sponsored cyberterrorist group.

Despite all of the attention cyberattacks, ransomware and security incidents have received recently, it is now harder, not easier, for a business to manage these threats. Therefore, the best defense is a good offense. Engaging in tabletop cyber-attack exercises, developing a robust incident response plan, strengthening vendor and customer management programs, and revisiting cyber-insurance coverage are now all but required to manage cyber risk in the modern day, no matter the industry.

NON-COMPETES IN BIDEN ADMINISTRATION AND EFFECT ON TRADE SECRETS LITIGATION

On July 9, 2021, President Biden signed an Executive Order (EO) that encourages the Federal Trade Commission (FTC) to "curtail the unfair use of non-compete clauses and other clauses or agreements that may unfairly limit worker mobility." President Biden's EO does not prohibit non-compete agreements. Rather the goal is to limit the use of non-compete agreements so they do not adversely limit worker mobility. Non-compete agreements are governed by state rather than federal law. California, Oklahoma and North Dakota totally ban enforcement of non-compete agreements, and some states provide exemptions on enforcement based on professional fields. It is unclear how the FTC might be able to limit enforcement of non-compete agreements to certain employees while maintaining protection for confidential information. Confidential information that is not known or available to the public and provides a company with an economic advantage falls under trade secret protection, the unapproved disclosure of which is protected by federal law. Trade secret protection will not be affected by any rules the FTC might propagate for non-compete agreements.

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