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May 11, 2016

President Obama Signs Defend Trade Secrets Act

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This afternoon, President Obama signed the Defend Trade Secrets Act of 2016 (“DTSA”) into law, creating a new Federal cause of action for misappropriation of trade secrets. The new law is the most significant expansion of Federal intellectual property law in a generation, and brings with it significant benefits – but also new responsibilities – for intellectual property owners and employers. And in this era of narrowed subject matter eligibility for patenting, the DTSA may provide enough of an incentive for intellectual property owners to keep more information as trade secrets.

Prior to the enactment of the DTSA, trade secret owners could protect their rights under state law or a patchwork of Federal laws that provided criminal and civil sanctions for interstate trade secret misappropriation or misuse of computerized data, such as the Economic Espionage Act (“EEA”) and the Computer Fraud and Abuse Act (“CFAA”). However, although most states – all except Massachusetts and New York – have adopted a version of the Uniform Trade Secrets Act (“UTSA”) those enactments have actually not been uniform, and the variations have proved to be important to trade secret owners seeking relief. Furthermore, the state law nature of UTSA claims has made it difficult to chase misappropriators across state law and collect evidence from third parties located out-of-state or overseas. Prior Federal laws did not provide much more help, relegating aggrieved parties to seeking criminal sanctions under the EEA or twisting their civil claims into the ill-fitting paradigm of the CFAA. Against this backdrop, Congress worked for several years to build a strong bipartisan consensus for a Federal civil cause of action for misappropriation of trade secrets, resulting in the DTSA.

The DTSA includes three key provisions that intellectual property owners should know about. First, the Federal civil cause of action for misappropriation of trade secrets. Second, an *ex parte* seizure provision that can be invoked in extraordinary circumstances. Third, whistleblower

protections that preempt criminal and civil liability under either Federal or state law, and place certain new obligations upon employers.

First, the DTSA allows a trade secret owner (whether the assignee or a licensee) to bring a civil action against a misappropriator if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce. The definition of a trade secret is intentionally broad and based on the definition in the UTSA, which requires (i) the owner to have taken reasonable measures to keep the information secret and (ii) the information to derive independent economic value from not being generally known or readily ascertainable through proper means to another person who can obtain economic value from the information. The acts that constitute misappropriation are also taken from the UTSA, and essentially require the misappropriator to have used improper means to have obtained the trade secrets, or been the beneficiary of someone else who used improper means and know that the information was improperly obtained. Notably, the DTSA specifically states that reverse engineering, independent derivation, or any other lawful means of acquisition do not constitute improper means.

Second, unlike the UTSA, the DTSA provides a means for a trade secret owner to have a court seize stolen trade secrets, without notice to the misappropriator, if the misappropriator is seeking to flee the country, planning to disclose the trade secret to a third party immediately, planning to destroy evidence of the misappropriation, or is otherwise not amenable to enforcement of the court's orders. There are strict requirements for the initial *ex parte* seizure petition, the scope of the court's seizure order, and the post-seizure treatment of the evidence. Further, the DTSA requires a hearing within one week to allow a defendant to argue that the *ex parte* seizure was improper. And if the seizure proves to be wrongful or excessive, the aggrieved subject of the seizure can bring a cause of action against the trade secret owner (and the damages are not limited by any seizure bond set by the court).

Third, the DTSA insulates whistleblowers against liability under any Federal or state trade secret law (either criminal or civil), so long as the whistleblower discloses any trade secrets in confidence either in a lawsuit filed under seal or to government officials, if the purpose is reporting a suspected violation of the law. Furthermore, employers must provide notice of the whistleblower protections in all future contracts with employees (which can include disclosure in the form of an employee handbook). In that context, the DTSA indicates that the term "employees" includes contractors as well. If an employer fails to make the disclosure, it is barred

from obtaining exemplary damages or attorney's fees in an action against an employee under the DTSA.

All in all, the DTSA is a powerful new tool that intellectual property owners now have at their disposal. It strengthens trade secret rights, and makes them easier to enforce. Given that patent rights have been chipped away in certain contexts (especially through lack of subject matter eligibility for certain types of inventions), it may be enough incentive for intellectual property owners to keep their inventions secret. It certainly merits greater consideration of secrecy, given its strengthening of owners' rights; on the other hand, it also requires employers to start taking steps to ensure notice of whistleblower rights. So, in the end, it is likely to be a boon to both innovators and employees.

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