FROM BEHIND CLOSED DOORS TO THE STEPS OF THE FEDERAL COURTHOUSE: THE DEFEND TRADE SECRETS ACT OF 2016

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IP Litigation Alert

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On May 11, 2016, President Obama signed the Defend Trade Secrets Act of 2016 ("DTSA"). The DTSA amends Title 18 of the United States Code Chapter 90, known as the Economic Espionage Act of 1996. The DTSA is the most dramatic overhaul of trade secret law in decades.

Before the DTSA, federal law did not provide for a private, civil cause of action for trade secret misappropriation. Instead, a corporation had two choices when faced with trade secret misappropriation: (1) bring a civil claim under state law, or (2) approach federal authorities and try to convince them to seek criminal sanctions under the Economic Espionage Act of 1996. With the enactment of the DTSA, trade secret owners now have another choice. The current version of the DTSA amends the Economic Espionage Act of 1996 to provide a federal, private right of action for trade secret misappropriation. It allows an owner of a trade secret that is misappropriated to bring a civil action "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)(1).

The DTSA does not drastically change the definition of a trade secret from the Economic Espionage Act of 1996, but it does amend the definition to make it consistent with the Uniform Trade Secrets Act ("UTSA") — the model law on which most states structure their trade secret misappropriation statutes. Specifically, the DTSA provides that a trade secret must not be generally known to, or readily ascertainable by, "another person who can obtain economic value from the disclosure or use of the information," rather than "the public" generally as was required by the Economic Espionage Act of 1996. 18 U.S.C. § 1839(3)(B). The full definition is as follows:

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(3) the term "trade secret" means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if —

> a. the owner thereof has taken reasonable measures to keep such information secret; and b. the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

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18 U.S.C. § 1839(3).

Consistent with the UTSA, the DTSA defines "misappropriation" of a trade secret as the "acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means." 18 U.S.C. § 1839(5)(A). "Misappropriation" also includes the disclosure or use of a trade secret without consent by a person who: (1) used improper means to acquire knowledge of the trade secret, (2) knew or had reason to know at the time of disclosure or use that the trade secret was acquired by improper means, or (3) who knew or had reason to know before a material change in position that the trade secret is a trade secret and was acquired by accident or mistake. 18 U.S.C. § 1839(5)(B). It should be noted that the DTSA includes in the definition of "improper means" — theft, bribery, and breach of a duty to maintain secrecy — and expressly excludes reverse engineering and independent derivation from the definition.

The DTSA also provides those who believe their trade secrets have been misappropriated with remedies akin to those available for other intellectual property rights, such as injunctive relief, monetary damages for actual loss, unjust enrichment, and a potential for reasonable royalties in lieu of other monetary damages. In extraordinary circumstances, the DTSA allows for *ex parte* seizure of "property necessary to prevent the propagation or dissemination of the trade secret." 18 U.S.C. § 1836(b)(2)(A)(i). The *ex parte* seizure remedy was one of the more controversial aspects of the DTSA, but it has roots in intellectual property law—specifically the Lanham Act, which provides for a nearly identical remedy for counterfeit goods. Trade secret owners also have the chance to recover exemplary damages up to two times the damages awarded (and attorneys' fees) if the trade secret is willfully and maliciously misappropriated. Balancing out these remedies, the DTSA provides that either a plaintiff or defendant has the ability to recover attorneys' fees if a claim of misappropriation is made in bad faith, or if a motion to terminate an injunction is made or opposed in bad faith.

Unique to the DTSA, compared to the majority of presently enacted state statutes, is the whistleblower provision, which provides protection from liability for confidential disclosure of a trade secret to the government or in a court filing. *See* 18 U.S.C. § 1833(b). It also protects employees from retaliation by an employer for reporting a suspected violation of law and allows the employee to disclose the trade secret information under seal in the court proceeding. *See* 18 U.S.C. § 1833(b)(2). Finally, the DTSA increases the penalties for a criminal violation of 18 U.S.C. § 1832 from $5,000,000 to the greater of $5,000,000 or three times the value of the stolen trade secrets to the organization, including the costs of reproducing the trade secrets.

While the DTSA creates a new avenue for trade secret owners to protect their intellectual property, it does not preempt state trade secret misappropriation claims. Thus, it will be worth watching whether the DTSA unifies the current patchwork of trade secrets common law that can vary state to state or whether jurisdictional variation continues based on the particular district court or appellate circuit in which a claim is brought. It also remains to be seen whether some federal law precepts that may be different from state law (e.g., *eBay* injunction standard, challenges to subject matter jurisdiction that could require early disclosure of a claimed trade secret) will affect how frequently trade secret owners avail themselves of this new federal cause of action.

Nonetheless, the passage of the DTSA in both the Senate and the House demonstrates the interest the federal government has in ensuring their protection. The DTSA gives trade secret owners the ability to bring an independent federal cause of action, putting trade secrets on par with other forms of intellectual property (i.e., trademarks, copyrights, patents) that have long been the subject of federal law. The DTSA also includes

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additional remedies for trade secret owners currently unavailable under the various state laws, making the federal cause of action potentially a more favorable consideration.

The full text of the DTSA can be found here.

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