

Clients & Friends Memo

The Defend Trade Secrets Act: Significant Recent Changes to Intellectual Property Law May Provide New Avenues for Protecting Potentially Unpatentable Critical Discoveries

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I. Introduction

On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act (“DTSA”), marking one of largest changes to intellectual property law since the America Invents Act of 2011. This legislation will allow companies to more rigorously protect their trade secrets which are defined as any information that is not generally known to the public, whose holder has made reasonable efforts to maintain its secrecy, where an independent economic value is derived from that secrecy.

Unlike patents, trade secrets are not disclosed to the public, making them a potentially attractive alternative to patents for some IP rights holders. Moreover, trade secrets also lack a patent’s statutorily-limited exclusivity period; however, any third party who lawfully learns or independently develops a trade secret may practice it without liability to the owner. The protection of trade secrets and the ability to prevent their dissemination can, therefore, be of paramount importance to any company relying on trade secrets to protect their IP. Although theft of trade secrets has been a federal crime since the Economic Espionage Act of 1996 (“EEA”), the DTSA amends the EEA to create Federal civil liability for trade secret misappropriation.

Bolstering trade secret law comes at a critical time for various industries, such as software developers and biotech and pharmaceutical companies, who are increasingly discovering that their previously patentable innovations are no longer patent-eligible. In *Alice Corp. v. CLS Bank International*, 134 S. Ct. 2347, 2357-60 (2014), the Supreme Court held that inventions directed to laws of nature, natural phenomena, and abstract ideas are not patent-eligible unless the patent claims add an “inventive concept” to the claims. Following this holding, courts have begun to invalidate vast numbers of software and business-method patents.

Pharmaceutical and medical device companies also have found their patents invalidated as no longer patent-eligible under *Alice*. For example, in *Mayo Collaborative Services v. Prometheus Laboratories*, 132 S. Ct. 1289, 1294-99 (2012), the Supreme Court found that a medical discovery related to the relationship between metabolites in blood and a response to a certain therapeutic drug was not patentable because it represented a “principle of nature.” Similarly, in *Association for Molecular Pathology v. Myriad Genetics*, 133 S. Ct. 2107, 2116-20 (2013), the Supreme Court found that the discovery of the precise location and genetic sequence of certain DNA strands that could be used to screen for cancer was not patentable because the claims did not do more than attempt to claim the naturally-occurring DNA sequence. Both decisions voided the patent protection for significant medical advancements, and could serve to stifle medical innovation going forward. Significantly, in *Ariosa v. Sequenom*, 788 F.3d 1371, 1375-80 (Fed. Cir. 2015), the Federal Circuit was compelled under this caselaw to find that a method of detecting and extracting cell-free fetal DNA constituted patent-ineligible subject matter, despite the Federal Circuit’s agreement that the “previously-unknown,” “valuable,” “groundbreaking,” and “breakthrough” discovery was superior to the riskier methods previously practiced by practitioners. In denying rehearing of the case, the Federal Circuit Judges wrote concurrences and dissents sharply criticizing current patent eligibility law as overly restrictive and potentially stifling innovation. However, on June 27, 2016, the Supreme Court denied *certiorari*, apparently ending the hopes for any immediate reform to patent eligibility law. *Ariosa v. Sequenom*, No. 15-1182 (S. Ct. June 27, 2016).

In this current environment, software and pharmaceutical companies may find that the innovations and discoveries critical for their success may not be protectable under U.S. patent law. As such, these companies are not incentivized to disclose their inventions to the public, but rather may turn to trade secret protection as an alternative method to protect innovation despite the current state of patent eligibility law.

II. Provisions of the DTSA

Employers considering protecting their intellectual property through trade secrets under the DTSA should, therefore, be aware of the possibilities and requirements of the new law. Prior to the DTSA, there were no federal laws providing for civil enforcement of trade secrets, and, therefore, all trade secret misappropriation claims were governed by and adjudicated under state law. All but two states have enacted legislation based on the Uniform Trade Secrets Act (“UTSA”), which was used as the model for the DTSA. The DTSA does not preempt any state law, however, and applies only to misappropriation of trade secrets that are “related to a product or service used in, or intended for use in, interstate or foreign commerce.” See 18 U.S.C. § 1836(b). Several additional provisions of the DTSA are noteworthy because they represent a significant change from the UTSA and require owners to take certain steps.

1. Civil Seizure

Under the DTSA, a plaintiff alleging misappropriation of their trade secrets may seek an injunction to seize property necessary to prevent dissemination of the trade secret. Any such seizure may be done *ex parte*, meaning the defendant may have its property seized pursuant to a federal judge's orders without prior notice to defendants by law enforcement officials. Although this provision has been heavily discussed and has given rise to concerns that malicious competitors could groundlessly seize their competitors' property without notice, the DTSA in fact provides numerous safeguards preventing such conduct. For example, plaintiffs seeking seizure must show that (i) other forms of equitable relief would be inadequate, (ii) immediate and irreparable injury would occur if not for seizure, (iii) the harm of denying the application for seizure outweighs the harm to the legitimate interests of the defendant and substantially outweighs harm to any third parties, (iv) the plaintiff is likely to succeed on the merits, (v) the defendant is actually in possession of the trade secret, (vi) the request for seizure is narrowly tailored to the circumstances, (vii) the material to be seized would be destroyed, moved, or otherwise made inaccessible if the applicant provided notice, and (viii) the applicant has not publicized the requested seizure. See 18 U.S.C. § 1836(b)(2)(A)(ii). The *ex parte* seizure provision is intended to prevent a potentially catastrophic misappropriation of a company's trade secrets while also protecting potential targets of seizure from baseless allegations.

2. Protection for Whistleblowers

The DTSA contains a whistleblower clause that provides immunity for employees who disclose trade secrets to government officials for the sole purpose of reporting illegal activities. Employers are required to provide notice of this immunity to employees in any contract governing the use of trade secrets or other confidential information. 18 U.S.C. § 1833(b)(3)(A). Failure to comply with this requirement can result in the employer being unable to recover exemplary damages or attorney's fees in trade secret misappropriation litigation with an employee not provided with the required notice. As such, employers should update their standard employment agreements to ensure compliance with this new provision of DTSA.

III. Conclusion

While the full impact of the provisions of the DTSA still is unfolding, the DTSA already is being utilized by trade secret holders to protect their intellectual property in federal courts. For example, in *Henry Schein Inc. v. Cook*, No. 16-cv-03166-JST, 2016 U.S. Dist. LEXIS 76038 (N.D. Cal. June 10, 2016), the Northern District of California granted a temporary injunction preventing a former employee of the plaintiff and her new company from using information allegedly stolen from her previous employer. There, the ex-employee allegedly downloaded numerous files, including important customer data, from the plaintiff and brought them to her new employer, a direct

competitor of the plaintiff. The court, exercising federal jurisdiction under the DTSA, granted the plaintiff a temporary restraining order, preventing the ex-employee from discussing, disseminating, or disclosing any of the misappropriated customer data while the action is pending.

The federal civil cause of action for trade secret misappropriation granted under the DTSA has fundamentally changed the way employers may protect their intellectual property, and it remains to be seen whether plaintiffs, and which sorts of plaintiffs, will choose federal courts to file and adjudicate their trade secret disputes. Technology companies may choose to protect certain aspects of their innovations increasingly through trade secret law rather than risk a public disclosure of their invention being held to be patent-ineligible. The availability of federal trade secret action for misappropriation is a potentially important weapon for such companies. In addition, because the DTSA does not preempt state law, plaintiffs may pursue DTSA claims in conjunction with UTSA or various other state tort claims.

The impact and frequency of use of the DTSA has not yet been determined, but the current caselaw landscape in the patent area suggests the DTSA has arrived just in time to provide much needed protections for many technology companies. Moreover, the DTSA also may lead to greater protections for employers facing potentially critical trade secret theft.

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