LOS ANGELES
Daily Journal
www.dailyjournal.com
WEDNESDAY, MAY 4, 2016

PERSPECTIVE

California trade secrets vs. DTSA

By Andrea Weiss Jeffries and Derek Gosma

Federal-level protection of trade secrets is considered a likely reality after Congress approved the Defend Trade Secrets Act last week by wide margins. President Barack Obama is expected to sign the bill into law, presenting an opportunity for California companies to reevaluate their intellectual property strategies in light of recent developments in patent law.

So how do the DTSA's key features compare to California's trade secrets law? And how should companies now evaluate whether patent or trade secret protection is more suitable to a given innovation?

The DTSA is based on the Uniform Trade Secrets Act (UTSA), a version of which is already in effect in most states, including California (CUTSA). However, the DTSA will serve to broaden trade secret protection in California in the following respects.

Jurisdiction. The DTSA provides for original jurisdiction in federal court for trade secret cases involving products or services "used in, or intended for use in, interstate commerce." Additionally, the DTSA explicitly leaves undisturbed any existing state law trade secret regimes, which means that claims for the same course of conduct may be brought under both CUTSA and DTSA. As a result, trade secret holders will be able to select the cause of action and forum (state or federal court) that best suit each case.

Civil seizure. The DTSA grants courts the authority to seize property on an ex parte basis to "prevent the propagation or dissemination of the trade secret that is the subject of the action." Seizure is a powerful remedy that is intended to enable trade secret owners to mitigate immediately the impact of misappropriation. In order to obtain this extraordinary relief, a trade secret holder must show a likelihood of success on the merits, the inadequacy of other equitable relief and that irreparable harm will occur unless the property is seized. The DTSA also requires a showing that "the person against whom seizure would be ordered ... would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person."

> The DTSA explicitly leaves undisturbed any existing state law trade secret regimes, which means that claims for the same course of conduct may be brought under both CUTSA and DTSA.

Trade secret identification. Unlike the CUTSA, under the DTSA the plaintiff does not need to identify the trade secrets at issue with "reasonable particularity" before any discovery may take place. As a result, pursuing an action under the DTSA may be appealing when the trade secret to be enforced is not amenable to California's strict identification requirements. (Note, however, that the DTSA's civil seizure provisions require trade secret owners to identify any matter to be seized with "reasonable particularity" prior to issuance of a seizure order.)

No preemption of related tort cases. CUTSA actions preempt tort claims "based on the same nucleus of facts" as the trade secret misappropriation claim. At present, there is no indication that federal courts will apply the same standard to the DTSA. Thus, a plaintiff who is interested in pursuing relief for tort claims, in addition to relief for the trade secret misappropriation, will soon have that option under the DTSA.

The passage of the DTSA is helping to raise the profile of trade secret protection at the same time that some companies are becoming concerned about their continued ability to rely on patent protection to protect their innovations. In recent years, the post-grant review proceedings created by the America Invents Act, as well as the U.S. Court of Appeals for the Federal Circuit's decisions on patentable subject matter, have presented new challenges to patent owners. Thus, the expanded protections for trade secrets provided by the DTSA may make trade secret protection more appealing, at least for certain technologies.

Following are some of the many questions to consider in evaluating whether to pursue trade secret or patent protection:

Has the information been publicly disclosed? Publicly available information is not eligible for trade secret protection, but may still be eligible for patent protection if less than a year has passed since the disclosure.

Will the patent claims be valid and enforceable? Stated differently, can claims be drafted narrowly enough to survive scrutiny under the Supreme Court's two-part Alice test, avoid the prior art, and still protect the invention? If the patentability of a given technology is in doubt, trade secrets may be a better option.

Is the technology easily reverse-engineered or likely to be developed independently by competitors? Because trade secrets only retain their value so long as they remain confidential, they are best suited to protect technologies that are difficult to reverse engineer and unlikely to be developed independently by competitors or otherwise discovered. Patents, by contrast, may be used to exclude others from practicing the invention even if they independently arrive at the same invention later.

Will the technology have significant value in 20 years or more? Depending upon its filing date and subject to certain exceptions, a patent expires within 20 years from application, whereas trade secrets are of unlimited duration: Consider the formula for Coca Cola, which is still a trade secret decades after its creation. Thus, if a company is seeking protection for a term of more than 20 years, trade secrets may be the better course.

Can the technology be kept secret? Maintaining a trade secret requires "substantial efforts" to decrease the likelihood and potential impact of trade secret misappropriation. Indeed, the protections implemented by the trade secret owner are considered by the courts in determining whether the trade secrets were appropriately safeguarded in the first instance, and hence worthy of legal protection. If a company's security infrastructure is outdated, it should be upgraded before relying heavily on trade secret protection.

In the end, the selection of intellectual property protection is a multi-faceted analysis that changes as the law evolves. The DTSA represents just such an evolution, and, if passed into law as expected, will provide trade secret owners with another powerful tool with which to protect their rights. Now is an opportune time to assess whether utilizing trade secret protection can help your company get a leg up on the competition.

Andrea Weiss Jeffries *is a partner in the Los Angeles office of WilmerHale whose practice focuses on complex patent and technology disputes. You can reach her at (213) 443-5397 or Andrea.Jeffries@WilmerHale.com.*

Derek Gosma *is a senior associate in the Los Angeles office of WilmerHale who specializes in high-stakes intellectual property litigation, primarily in the fields of telecommunications and computer engineering. He may be reached at (213) 443-5308 or Derek.Gosma@WilmerHale.com.*


ANDREA JEFFRIES
WilmerHale


DEREK GOSMA
WilmerHale