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The Effects of the Defend Trade Secrets Act

For companies operating across state and national borders, navigating state trade secret laws tends to be inefficient and inadequate. On May 11, 2016, President Obama signed the Defend Trade Secrets Act (DTSA) into law, creating, for the first time, a federal private right of action for trade secret claims, providing companies an option to sue in federal court.

Prior to the enactment of the DTSA, injured parties could only file civil trade secret misappropriation claims in state court under state law. The Uniform Trade Secrets Act (UTSA) published by the Uniform Law Commission provided a framework to help states establish standard guidelines. Most states, including California, adopted the UTSA in some form, however it is not executed and interpreted consistently across states. The DTSA is an attempt to unify the body of law.

The new law became effective as soon as it was enacted on May 11, 2016, and it applies to any misappropriation of trade secrets that occurs on or after that date. It is important to note that a party may still sue for trade secret misappropriation in state court; however, if the case has a nexus to interstate commerce, that party may elect to sue in federal court.

What is misappropriation of trade secrets?

In general, a “trade secret” refers to any unique and secret information that gives an owner or business a competitive business advantage because its competitors do not have it. In order for the information to remain a trade secret, its owner must take steps to safeguard it to maintain its secrecy. When a business or person obtains a trade se-

cret by theft, the breach of a confidentiality agreement, or by making it known to others despite knowledge that the information was improperly obtained, this is called misappropriation of the trade secret.

Federal versus California Trade Secrets Laws

The UTSA adopted by California (CUTSA) and the DTSA have many similarities. One similarity is that a party must initiate a lawsuit for trade secret misappropriation within three years after the misappropriation has or should have been discovered. Both acts specify that “a continuing misappropriation constitutes a single claim of misappropriation.” In addition, both acts have substantially similar definitions of “trade secret” and “misappropriation.” Therefore, the scope of the DTSA will most likely be the same as the scope of the CUTSA.

Most important to businesses are the numerous additions to the DTSA, creating the following substantial differences between the DTSA and the CUTSA.

Standing

The DTSA specifies that an “owner of a trade secret” may file a civil action for trade secret misappropriation. In contrast, the CUTSA does not limit standing to a current trade secret owner. Therefore, while former owners and potentially current or former licensees, may have standing to sue under the CUTSA in state court, only trade secret owners may sue in federal court under the DTSA.

Whistleblowing and Retaliation

One addition to the DTSA that has a significant impact on employers is the immunity provided to whistleblowers

and the related notification requirement. Under the DTSA, an employee cannot be held criminally or civilly liable under Federal or State trade secret law for the disclosure of a trade secret made in confidence to an attorney or government official for the purpose of reporting or investigating a suspected violation of law. If an employer retaliates against an employee for whistleblowing and the employee sues for retaliation, the employee is then allowed to disclose the trade secret to his attorney and use the information in court.

Employers are required to provide notice of this immunity to their employees. This notice must be provided in “any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” Employers who do not provide this notice will not be able to take full advantage of the remedies under the DTSA. For example, employers may not be awarded exemplary damages or attorneys’ fees and costs for willful and malicious trade secret misappropriation.

Seizure Remedy

The DTSA provides a new seizure remedy. An owner of a trade secret may now receive an order from the court allowing the “seizure of property necessary to prevent the propagation or dissemination of the trade secret.” In order to obtain the order, the court must find that the facts support the following requirements:

1. An injunction, temporary restraining order, or other form of equitable relief would be inadequate because the party to be enjoined would “evade, avoid, or otherwise not comply with such an order”;



2. An immediate and irreparable injury will occur without the seizure;
3. The harm to the trademark owner outweighs the harm to the person enjoined, and substantially outweighs the harm to any third parties;
4. "The applicant is likely to succeed in showing that . . . the information is a trade secret and . . . the person against whom the seizure would be ordered" either misappropriated or conspired to misappropriate the trade secret;
5. The person to be enjoined actually possesses the trade secret and the property to be seized;
6. "The application describes with reasonable particularity the matter to be seized," and the location of the seizure;
7. The party to be enjoined would "destroy, move, hide, or otherwise make such matter inaccessible to the court"; and
8. "The applicant has not publicized the requested seizure."

These numerous requirements would likely make it difficult to obtain a seizure order from the court.

Protection from Disclosure

The DTSA includes an added layer of protection for trade secret information. Under the DTSA, the court may not authorize or direct the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential.

What Should Businesses Do?

Businesses should, at a minimum:

1. **Update contracts, agreements, and policies:** Businesses should update any document that governs the use of a trade secret or other confidential information to include (1) clear definitions of trade secrets and confidential information; and (2) notice of the immunity provided to whistleblowers. Businesses do not need to set forth the notice in the contract or agreement itself, but may provide the required notice by cross-referencing a separate policy provided to employees. No matter what method an employer chooses to implement, it is imperative that these documents are updated to incorporate the DTSA.

2. **Identify and protect trade secrets:** Under the DTSA, an owner may not sue for misappropriation of trade secrets unless the trade secrets are generally unknown to the public and the owner has taken reasonable measures to keep the information secret. Consult with an attorney to ensure that your business is properly identifying and protecting all of its trade secrets. In addition, educate your employees on your company's trade secrets and how they should be handled and maintained.

3. **Implement proper procedures for incoming and outgoing employees:** Enact policies and procedures outlining the steps that a new or former employee should take to ensure that he or she will not misappropriate your business or a former employer's trade secrets.

Contact an attorney if you need help revising your employment and confidentiality agreements as well as your employee handbooks in order to properly incorporate the DTSA into your business policies, or if you require assistance identifying and protecting your business' trade secrets.

ABOUT THE AUTHOR...

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Padmini Cheruvu is a litigation associate with a focus on intellectual property, employment and business disputes. She has assisted clients in all stages of litigation, including settlement negotiations, hearings, discovery, pre-trial motions, and trial preparation. She assists clients in securing, protecting, and enforcing their intellectual property rights, with an emphasis on trademarks and trade secrets.



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