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## The New Defend Trade Secrets Act (DTSA): Notable Provisions and Strategic Considerations

April 29, 2016

The Defend Trade Secrets Act (DTSA)<sup>1</sup> cleared the House by a 410-2 vote on April 27, 2016. The Senate passed the measure on an 87-0 vote earlier this month, and the DTSA is now headed to the White House for President Obama's signature. The Obama Administration has already voiced strong support for the DTSA.<sup>2</sup> Once enacted, the law is designed to go into effect immediately, and will apply to the misappropriation of trade secrets that occurs on or after that date.

The central provision of the DTSA provides: "An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce." It will amend Chapter 90 of Title 18 of the U.S. Code, "Protection of Trade Secrets."

The DTSA, which some have referred to as the most significant expansion of federal law in intellectual property since the Lanham Act in 1946,<sup>3</sup> will result in substantial shifts in how companies litigate trade secret disputes. For the first time, the DTSA provides a federal private right of action for trade secret claims, enabling companies to sue in federal court for damages related to theft of trade secrets. Some noteworthy features of the new law include a provision for civil seizure early in the action, without notice to the defendant, and the ability to restrict a former employee from joining a competitor in certain circumstances. While the DTSA provides for original jurisdiction of trade secret cases in federal court, it does not create exclusive jurisdiction, so an aggrieved party would still be able to bring a claim in state court. O'Melveny attorneys have been among those who have advocated for a federal trade secret statute.<sup>4</sup>

### Federal Cause of Action and Relation to Existing State Laws

Currently, state laws govern trade secret misappropriation (as a civil matter); there is as yet no federal civil cause of action for theft of trade secrets. While most states have enacted the Uniform Trade Secrets Act (UTSA), slight differences exist among the versions enacted in various states. Two states, Massachusetts and New York, have not enacted the UTSA, and rely on different sources of law. Thus, plaintiffs who bring trade secret litigation in different states may face differences in legal standards, jurisdiction issues, discovery rules, and procedural requirements.

In California, for example, plaintiffs bringing a trade secret misappropriation action are required to identify the allegedly stolen trade secrets with "reasonable particularity" before discovery commences. Other states do not impose such a requirement by statute, although some impose a similar requirement by judicial decision. With the DTSA,

working under one discovery process in federal court will likely simplify the discovery process.

Importantly, the DTSA does not eliminate or preempt existing state laws. Because the DTSA was largely modeled after the UTSA, which has been adopted in 48 states, many provisions are the same as or similar to various state laws. The remedies under most state trade secret laws and the DTSA, for example, both include money damages, unjust enrichment, injunctive relief, reasonable royalty, exemplary damages (for willful and malicious misappropriation), and attorneys' fees.

### **Notable Provisions of the DTSA: Seizure and Former Employees**

One noteworthy difference between the DTSA and state trade secret laws is the early seizure remedy. Under the DTSA, courts can impose an *ex parte* civil seizure of property so that plaintiffs can quickly reclaim the allegedly stolen trade secrets. While this measure aims to prevent the dissemination of trade secrets early in the case, it raises concerns because under an *ex parte* order, the defendant would have no advance notice of the seizure.

This differs from the usual procedure in most state litigation, in which courts usually do not grant injunctions until later in the case, after the judge has heard both sides. To address concerns, amendments to the bill clarify that a court may grant an order only in "extraordinary circumstances," and seizure of any goods may only occur under the direction of law enforcement officials.

Another notable provision is a remedy designed to help prevent former employees from taking company secrets to competitors. Earlier versions of the bill raised concerns that it would severely limit employees' mobility. To address this concern, under the amended bill, any injunctive relief that purports to limit a former employee's future employment options must be based on "evidence of threatened misappropriation," not merely on "the information the person knows." Also, the "threatened misappropriation" need not be an actual threat, but may be based on circumstantial evidence of likely misappropriation.

The DTSA makes it clear that any injunction against a former employee must not conflict with an applicable state law that "prohibit[s] restraints on the practice of a lawful profession, trade, or business." Because state laws governing restraints on employment vary, this may result in different outcomes in different states. In particular, there may be tension between the DTSA and states that have employment laws that tend to be favorable to employee mobility, and state laws (and any state-to-state variations) will likely remain important in employee-related claims in trade secret litigation.

### **Jurisdiction and Related Strategies**

One consequence of passage of the DTSA is that claims that were traditionally in state court may now appear more frequently in federal court due to supplemental jurisdiction. These include claims that are often brought alongside trade secret misappropriation claims, such as state law claims for improper employee solicitation, breach of contract, and unfair competition. Plaintiffs who prefer litigation in federal forum may thus be able to bring their entire dispute against a competitor in district court.

### **Remaining Questions**

The DTSA's definition of trade secret misappropriation does not include express territory-based limitations. As a result, questions remain regarding the extraterritorial reach of the new law, and whether a U.S.-based company will be permitted to bring an action under the DTSA against a foreign entity that allegedly stole its trade secrets in a foreign country.

While not yet law, the DTSA will become law once the president signs the bill, which is likely to be soon.

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<sup>1</sup> [http://www.hatch.senate.gov/public/\\_cache/files/400b7787-2e35-46fd-97c5-708b2bd98dfb/EHF15262.pdf](http://www.hatch.senate.gov/public/_cache/files/400b7787-2e35-46fd-97c5-708b2bd98dfb/EHF15262.pdf)

<sup>2</sup> "S. 1890 would establish a Federal civil private cause of action for trade secret theft that would provide businesses with a more uniform, reliable, and predictable way to

protect their valuable trade secrets anywhere in the country.”

[https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1890s\\_20160404.pdf](https://www.whitehouse.gov/sites/default/files/omb/legislative/sap/114/saps1890s_20160404.pdf)

<sup>3</sup> E.g., <http://blogs.wsj.com/law/2016/04/27/congress-may-be-about-to-shake-up-trade-secret-law-is-that-a-good-thing/>

<sup>4</sup> Articles by O’Melveny attorneys on a federal trade secret law include: “Defend Trade Secrets Act — A Primer, an Endorsement, and a Criticism,” *Patently-O* (May 30, 2014); “A Practical Case For Federalizing Trade Secret Law,” *IP Law 360* (June 23, 2009); “Four Reasons to Enact a Federal Trade Secrets Act,” *19 Fordham Intellectual Property, Media & Entertainment Law Journal* 769 (April 2009).

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