

Memorandum

President Obama Signs Groundbreaking Federal Trade Secret Legislation

May 11, 2016

Earlier today, President Obama signed the Defend Trade Secrets Act of 2016 (“the DTSA”). The law previously passed the U.S. House of Representatives by a vote of 410-2, and the U.S. Senate by a unanimous vote of 87-0.

The DTSA provides a nation-wide civil cause of action for trade secret misappropriation. Previously, parties that found themselves victims of trade secret misappropriation were left to prosecute their claims using a patchwork of state law causes of action. This situation led to increased costs and complexities as trade secret holders had to determine which state’s laws applied and where to bring suit. Although most states have passed some version of the Uniform Trade Secrets Act (“the UTSA”), there are some notable exceptions (*e.g.*, New York) that protect trade secrets under common law doctrines. Moreover, many states that have enacted the UTSA either have modified provisions within the UTSA or have differing interpretations of the same provisions based on holdings by the various state courts.

Congress passed the DTSA to provide an additional, nation-wide layer of a protection for trade secrets, and allow trade secret holders to sue for misappropriation in the federal courts. Unlike the patent act, the DTSA does not preempt state trade secret law, but rather coexists with it. The DTSA draws heavily from similar provisions in the UTSA. For example, the definition of “trade secrets” in both acts covers a wide range of information—including financial, business, scientific, and engineering information—provided that the trade secret holder (i) has taken reasonable steps to keep the information secret and (ii) derives economic value from the information not being generally known. The DTSA likewise tracks the UTSA’s definition of “misappropriation” to include acquiring a trade secret by someone who has reason to know that the trade secret was acquired by improper means, such as theft, bribery, or espionage.

The DTSA, though, differs from the UTSA in significant respects. First, the DTSA explicitly provides that “improper means” does not include reverse engineering or independent derivation. The UTSA provides similar exclusions only within its comments. Second, the DTSA provides an *ex parte* seizure provision permitting the seizure of property “necessary to prevent the propagation or dissemination of trade secrets.” Although the DTSA provides stringent requirements and protections related to *ex parte* seizures, (including that a party subject to wrongful or excessive seizures may seek damages), the *ex parte* seizure provision could prove to be an important tool in cases where a party fears the dissemination of its trade secret information. Finally, departing from the rule set by the Supreme Court in patent cases, the default remedy under the DTSA for ongoing harm is an injunction. In an important exception, though, injunctive relief is not available if it would prevent a person from accepting an offer of employment on terms that would avoid actual or threatened misappropriation. Thus, the DTSA attempts to leave in place state laws, such as those in California, that favor employee mobility. No doubt, the interplay of these provisions will be clarified through litigation.

The DTSA is poised to provide an important complement to existing state law protection of trade secrets and federal protection of other intellectual property rights. Together with the patent, trademark and copyright laws the DTSA will need to be assessed as a part of overall intellectual property and litigation strategies.

For further information about this decision, please contact one of the following members of the Firm's Litigation Department.

NEW YORK CITY

Lori E. Lesser

+1-212-455-3393
llesser@stblaw.com

Noah M. Leibowitz

+1-212-455-3098
nleibowitz@stblaw.com

PALO ALTO

Jeffrey E. Ostrow

+1-650-251-5030
jostrow@stblaw.com

Harrison J. Frahn

+1-650-251-5065
hfrahn@stblaw.com

Patrick E. King

+1-650-251-5115
pking@stblaw.com

Jason M. Bussey

+1-650-251-5272
jbussey@stblaw.com

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UNITED STATES

New York
425 Lexington Avenue
New York, NY 10017
+1-212-455-2000

Houston
600 Travis Street, Suite 5400
Houston, TX 77002
+1-713-821-5650

Los Angeles
1999 Avenue of the Stars
Los Angeles, CA 90067
+1-310-407-7500

Palo Alto
2475 Hanover Street
Palo Alto, CA 94304
+1-650-251-5000

Washington, D.C.
900 G Street, NW
Washington, D.C. 20001
+1-202-636-5500

EUROPE

London
CityPoint
One Ropemaker Street
London EC2Y 9HU
England
+44-(0)20-7275-6500

ASIA

Beijing
3901 China World Tower
1 Jian Guo Men Wai Avenue
Beijing 100004
China
+86-10-5965-2999

Hong Kong
ICBC Tower
3 Garden Road, Central
Hong Kong
+852-2514-7600

Seoul
25th Floor, West Tower
Mirae Asset Center 1
26 Eulji-ro 5-Gil, Jung-Gu
Seoul 100-210
Korea
+82-2-6030-3800

Tokyo
Ark Hills Sengokuyama Mori Tower
9-10, Roppongi 1-Chome
Minato-Ku, Tokyo 106-0032
Japan
+81-3-5562-6200

SOUTH AMERICA

São Paulo
Av. Presidente Juscelino
Kubitschek, 1455
São Paulo, SP 04543-011
Brazil
+55-11-3546-1000