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Defend Trade Secrets Act: 5 Years Later, Here's What We Know

By **Bill Donahue**

Law360 (May 10, 2021, 3:16 PM EDT) -- The Defend Trade Secrets Act, which created a federal system of trade secrets law for the first time, turns five years old on Tuesday.

After passing both the House and the Senate by overwhelming majorities, the statute was signed into law by then-President Barack Obama on May 11, 2016, capping off a yearslong effort to turn trade secrets into a form of federal intellectual property.

The goal was to bring more consistency to a patchwork of state-level trade secrets laws, as well as to give litigants easier access to federal courts, which supporters said were better suited than local courts to handle complex, bet-the-company cases.

Five years later, the law is looking more than ever like a subtle tweak rather than a radical overhaul. Though it created a direct way to sue in federal court, it largely adopted the substance of existing state trade secrets laws. It also included explicit wording that it hadn't overridden the current system.

"I often say that it both changed everything and changed nothing," said Kenneth A. Kuwayti, a partner at Morrison & Foerster and an expert in trade secrets law.

"It's incredibly important because it gives you the right to go to federal court and all that goes along with it," Kuwayti said. "But at the same time, it didn't preempt state law, and on the most important aspects of the act, it followed state law."

Access To Federal Court: Doors Open

The most straightforward goal of the DTSA was to enable access to the federal court system for trade secrets litigants. On that front, experts say the law has worked exactly as advertised.

Federal trade secrets cases had always existed, thanks to diversity jurisdiction as well as state-law theft claims being tied to a federal claim like patent infringement. But the DTSA created a private right of action under existing federal law, offering a direct route in nearly all cases.

Plaintiffs seem to have accepted the invitation. According to data compiled by Lex Machina, the federal courts saw 1,075 trade secrets cases in 2015, the year before the statute's enactment. Two years later, the federal judiciary saw 1,396 such cases — a nearly 30% increase.

"The number of cases in federal court has increased substantially," Kuwayti said. "To me, that's really the most significant effect of the act."

There are concrete reasons for why litigants are opting to file cases in federal court now that they can. State courts are fine for some matters, but companies sometimes worry they lack the legal firepower and the technical know-how to handle cutting-edge, billion-dollar cases.

"Federal court is generally a better venue for what I call technology trade secret cases, which can resemble patent cases," said Mark A. Klapow, co-chair of the litigation practice at Crowell & Moring LLP and a veteran trade secrets attorney.

"Federal courts have nationwide subpoena power, which state courts do not, and federal judges generally have more resources available to them than state judges," Klapow said.

Harmonized National Law: Not Quite Yet

When the DTSA was enacted, the hope was that enabling access to federal court would lead to more consistent case law than under the old state-by-state system. But five years later, experts say the jury is still out on that front.

To be sure, the existence of a single nationwide statute provides trade secrets owners with more certainty than dozens of similar-but-different state laws did. And over a longer period of time, appeals courts and the U.S. Supreme Court will try to harmonize how that law is interpreted.

"They now have a federal law that provides them with a baseline standard to measure their putative trade secrets rights against, rather than solely relying upon state law," said Robert Milligan, a partner at Seyfarth Shaw LLP. "There is certainly more uniformity under the federal law."

But the DTSA was fundamentally a compromise bill aimed at securing broad support, not a sweeping replacement of the existing system. Remember: The statute expressly opted not to override existing state laws, and it used highly similar language to those older statutes.

As a result, many federal courts have, in practice, tended to interpret the new federal statute in the same way they interpreted the old state laws — particularly since many cases feature both a federal and a state law claim.

That means existing discrepancies from state to state have sometimes been ported over to the new law. A great example is "inevitable disclosure" — a trade secrets doctrine that says a former employee must be stopped from starting a new job if it would necessarily involve disclosing secrets.

In California, where state courts had resoundingly rejected the doctrine, federal courts have ruled it cannot be applied under the DTSA, either. But federal judges in Illinois, following state courts there, have granted injunctions based on the doctrine.

"The goal of uniformity has not yet been realized," said Kuwayti, the Morrison & Foerster attorney. "And I think that it's not surprising given the approach that was taken, to not displace state law."

Ex Parte Seizures: Fears Not Realized

When the DTSA was in the works, some critics worried its so-called ex parte seizure provision might be abused, but five years later, experts say the mechanism has hardly been used at all.

The provision sounds scary: It allows federal courts to order law enforcement officials to seize private property if necessary to stop "propagation or dissemination of the trade secret," all without a chance for a defendant to respond.

While supporters argued fast action was needed to prevent irreparable harm in an all-digital world, critics feared the rules might give too much power to an employer suing a former worker, or to a big company suing a smaller ex-client.

But five years later, experts say that problematic scenario has not come to pass.

"Many of us suggested at the time that concern over the ex parte seizure provision was overblown," said Klapow, the Crowell & Moring attorney. "It turns out we were wrong: The concern was entirely misplaced, not just overblown."

"There have been pitifully few seizure cases, not enough to even draw any useful conclusions from," he said.

That's likely because, by design, it's extremely hard to win them.

Such orders can only be issued in "extraordinary circumstances," when a plaintiff can show "with particularity" what property is to be seized. And defendants on the receiving end of an ex parte order can seek damages if they feel the provision has been abused or they were unfairly targeted.

"The statute has several safeguards built into the statutory requirements before a litigant can obtain an ex parte seizure order," said Milligan, the Seyfarth attorney. "The federal courts have generally done a good job of smoking out anti-competitive, frivolous suits at the motion-to-dismiss stage or through the denial of improvident requests for injunction relief."

Extraterritoriality: Global Reach

One big question when the DTSA was passed was the extent to which the law would apply overseas. In the five years since, courts have started to make clear that the law does indeed have global reach.

The Economic Espionage Act — the 1996 criminal statute that was amended to form the basis for the DTSA — was explicitly written to apply extraterritorially. But there was doubt as to whether that extended to the private civil cause of action created by the new statute.

Last year, an Illinois federal judge ruled that it did. Siding with Motorola in a lawsuit that claimed a Chinese firm called Hytera Communications hired away three engineers who stole millions of lines of code, the court said the two statutes should be "read as a cohesive whole" that applies overseas.

In technical terms, the court said a plaintiff can sue under the DTSA so long as the misappropriator is a U.S. citizen or entity, or "an act in furtherance of" the theft occurred domestically.

The ruling, which eventually resulted in a $760 million damages award to Motorola, was a huge boon to

the power of the DTSA, which will now be far more helpful to plaintiffs operating in a world where the movement of information is largely borderless.

The Motorola decision has since been followed by similar decisions by federal judges in North Carolina, New York and California, suggesting that extraterritoriality for the DTSA is here to stay.

"That was a pretty significant decision," Kuwayti said. "One of the major reasons for passing a federal act is that trade secrets theft crosses both state lines and international lines. Having a federal cause of action really makes sense when you have that kind of a scenario."

--Editing by Marygrace Murphy.