Defend Trade Secrets Act: Lessons From Year 1

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How the time flies: The Defend Trade Secrets Act, the culmination of a yearslong bipartisan effort to create a federal system of trade secrets law, was signed into law by President Barack Obama one year ago Thursday.
The new law, which overwhelmingly passed both the House and the Senate, effectively "federalized" trade secrets law, allowing companies for the first time to file private civil lawsuits under the federal Economic Espionage Act.

Though it largely embraced existing law, creating a federal cause of action was still a major change. Until then, companies could either sue under various state laws or, in rare circumstances, lobby federal prosecutors to bring criminal charges.

The goal of the new law was to harmonize that state-by-state landscape, as well as give litigants easier access to federal courts, which supporters argued are better-equipped than state courts to handle cross-state and international cases, as well as complex technological issues.

But, like any new law, lofty goals and stated aims don't always align with actual impact. To get the real picture, Law360 reached out to trade secrets experts, asking for the lessons they've learned over DTSA's first year. Here's what they said:

No Ex Parte Fouls, Yet

Without question, the most controversial aspect of DTSA was its "ex parte

seizure" provisions, which allowed plaintiffs to ask courts to order law enforcement officials to seize property if necessary to stop “propagation or dissemination of the trade secret,” all without a chance for the defendant to respond.

Supporters argued that this kind of quick relief was needed to prevent modern trade secrets theft, but critics repeatedly warned that the ex parte provisions could be used abusively, particularly by larger companies against smaller rivals and individual former employees.

It’s early yet, but after a year of litigation, those fears have not been realized, according to experts.

“While there have been some attempts to invoke the seizure provision, very few have been successful and the courts seem to have a good handle that the remedy should be used in only the most extraordinary circumstances,” said Robert B. Milligan, a partner with Seyfarth Shaw LLP.

“Extraordinary” is, quite literally, the key word there.

The statute expressly limits the ex parte provision to "extraordinary circumstances," and requires parties show "with particularity" what property is to be seized as well as show that the target would destroy the property if put on notice.

Owing to those limits and others in the statute, the first few courts to consider motions for DTSA ex parte seizures have been exceedingly cautious in granting them.

In a case filed by Brunswick Rail Management, for instance, the company sought a DTSA ex parte seizure of a mobile phone and laptop held by a former employee; the court declined on the grounds that seizure was not necessary, instead simply issuing a temporary restraining order and requiring the defendant to bring the property to a hearing.

Over the first year of DTSA, the Brunswick case is one of just a few to consider

the ex parte provision, as not many plaintiffs have even sought them.

"This concern was shown to be overblown," said Eric Ostroff, a partner at Meland Russin & Budwick and editor of the blog Protecting Trade Secrets. "There have only been a few requests for ex parte seizure orders, and I am not aware of any situations where this remedy was abused."

For Better or Worse, Access to Federal Court

One of the top goals of DTSA was access to federal courts: a different — and some would argue more sophisticated — option for litigants who had previously been forced to bring their misappropriation cases in state court unless they had a separate federal cause of action.

That goal, to a certain extent, has been realized.

"The biggest impact that the DTSA has provided is options for clients," Milligan said. "While in some instances plaintiffs still pursue such claims in state court, I am seeing more and more plaintiffs elect to pursue such claims under the DTSA."

But the question of whether federal courts are a better venue for trade secrets claims, at this point, is still up for debate.

Michael Weil, a partner with Orrick Herrington & Sutcliffe LLP, said most state courts would hear and rule on a request for a temporary restraining order with 24 hours of filing; in the wake of DTSA, Weil said he'd seen federal courts "sit on a TRO request" for two weeks.

The new subject matter has also been an issue, Weil said.

"I have also seen federal judges who seem unfamiliar with trade secrets law confuse patent concepts — such as novelty — with trade secrets concepts," he said. "It may take some time for the federal judiciary to develop a body of law and become familiar with trade secrets cases."

Mixed Messages on Harmony

Another big aim of DTSA was harmonization under a single federal statute.

The Uniform Trade Secrets Act, a blueprint adopted by most states when writing their own trade secrets laws, had helped to create consistency, but DTSA's supporters said there were still big differences as a litigant went from state court to state court.

A year later, has DTSA moved the U.S. toward a more consistent system of trade secrets law?

The best answer, unfortunately, is that a year is an incredibly small sample size when it comes to case law, but the experts that spoke with Law360 said courts have offered some clues, sometimes contradictory, on how they'll apply the new statute.

"Federal courts have frequently cited to cases interpreting their state's trade secret act when interpreting the DTSA, which means that there will be material overlap between the state and federal trade secrets laws," Ostroff said.

On the other hand, Seyfarth's Milligan said he'd also seen courts starting fresh with the new federal statute.

"I have noticed that some federal judges interpreting provisions of the DTSA have not felt limited in construing existing state court authority under the UTSA to reach their decisions," he said. "In other words, they are interpreting the plain language of the statute as they interpret it."