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## Toward a Federal Jurisprudence of Trade Secret

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# Toward a Federal Jurisprudence of Trade Secret

## **Cover Page Footnote**

"The authors thank Camilla Hrdy, Lydia Loren, Elizabeth Rowe, and Joan Shaughnessy for their valuable feedback on this Article. In addition, they thank Derek Harvieux, Will Knapp, Cara Moulton, and Max Schramm for their research support."

# TOWARD A FEDERAL JURISPRUDENCE OF TRADE SECRET LAW

*Sharon K. Sandeen<sup>†</sup> & Christopher B. Seaman<sup>††</sup>*

## ABSTRACT

The May 2016 enactment of the Defend Trade Secrets Act of 2016 (DTSA), which created a new federal civil cause of action for trade secret misappropriation, raises a host of issues that federal courts will have to consider under their original subject matter jurisdiction, rather than applying state law through the courts' diversity jurisdiction. This means that for the first time, an extensive body of federal jurisprudence will be developed to govern the civil protection and enforcement of trade secrets in the United States. In addition, due to the DTSA's changes to the existing federal criminal law governing trade secrets, the Economic Espionage Act of 1996 (EEA), federal courts will be required to further develop their EEA jurisprudence.

Because the DTSA is modeled after and includes many provisions taken directly from the Uniform Trade Secrets Act (UTSA), it is widely anticipated that federal courts will consult and rely upon existing case law regarding the UTSA to decide how to apply the DTSA. However, nothing in the DTSA's language mandates such an approach, and federal courts may elect to depart from state law precedent in some situations. Moreover, there are unique aspects of the DTSA, such as the *ex parte* seizure provision and protection for whistleblowers, which will raise questions of first impression for the federal courts. Additionally, because preexisting provisions of the EEA will be subject to greater scrutiny due to the number of civil cases that are likely to be filed under the DTSA, unresolved issues under the EEA are also likely to be extensively litigated.

While it is premature to catalogue all the issues that litigants may raise in trade secret cases brought under the DTSA, this Article seeks to identify and analyze several major areas of anticipated dispute and to provide a framework for resolving them. Part I begins with a brief introduction to U.S. trade secret law. Part II details the origins and legislative history of the DTSA. Part III discusses the interpretive rules and methodologies that are likely to govern federal courts' development of a federal jurisprudence of trade secrecy, including the circumstances under which they might rely upon existing state trade secret

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case law or instead develop a “federal common law” of trade secrecy. Finally, Part IV examines how key provisions of the DTSA should be interpreted in light of these rules and methodologies, organized into four subcategories: (1) “new” language in the DTSA that does not appear in state trade secret laws; (2) language “borrowed” from the UTSA that is defined by statute; (3) language “borrowed” from the UTSA that is not defined by statute; and (4) issues not clearly addressed in either the DTSA or the UTSA. In doing so, this Article provides a framework for future analysis of other provisions in the DTSA.

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## I. INTRODUCTION AND BACKGROUND

In the annals of trade secret law, 2016 will either be seen as the year that trade secrecy came of age and was recognized as a form of intellectual property<sup>1</sup> protection on par with patent, copyright, and trademark law; an unfortunate disruption and complication of trade secret jurisprudence; or

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1. Internationally, the labeling of trade secrets as “intellectual property” is controversial because of the right to exclude that typically flows from intellectual property rights and the reluctance to create another form of exclusive rights. See Sharon K. Sandeen, *The Limits of Trade Secret Law: Article 39 of the TRIPS Agreement and the Uniform Trade Secrets Act on Which It Is Based*, in THE LAW AND THEORY OF TRADE SECRECY: A HANDBOOK OF CONTEMPORARY RESEARCH (Rochelle C. Dreyfuss & Katherine J. Strandburg eds., 2011). This may explain, in part, why the DTSA contains a provision that states that trade secrets shall not be considered “intellectual property” for any other purpose of federal law. See Defend Trade Secrets Act, Pub. L. No. 114-153, § 2(g), 130 Stat. 376, 382 (2016); see also Eric Goldman, *The Defend Trade Secrets Act Isn’t an “Intellectual Property” Law*, 33 SANTA CLARA HIGH TECH. L.J. 541, 542 (2017) (explaining that while this language “preserves the status quo” for website immunity from liability for third-party content under Section 230 of the Communications Decency Act, it also “potentially affects hundreds of other statutes”).

something in between. With the adoption of the Defend Trade Secrets Act of 2016 (DTSA) by the U.S. Congress<sup>2</sup> and the EU Trade Secret Directive by the European Parliament and the Council of the European Union,<sup>3</sup> which story is ultimately told will depend in significant part on how both pieces of legislation are interpreted and applied by courts. Although proponents of both laws argue they will create greater uniformity regarding trade secret principles, it will take years of judicial decision-making (and in the EU, statutory enactments by Member states as well) before we will know whether that claim is fulfilled.

The May 11, 2016 enactment of the DTSA created a federal civil cause of action for trade secret misappropriation for the first time. For over 175 years, state law governed civil trade secret principles in the United States, first as common law (as expressed in the Restatement (First) of Torts), and since 1979, principally through the Uniform Trade Secrets Act (the UTSA).<sup>4</sup> The UTSA is one of the most widely-adopted uniform laws, having been enacted into law by forty-seven states, Puerto Rico, and the U.S. Virgin Islands.<sup>5</sup> While many assume that the principles governing trade secrecy articulated in the UTSA (and in non-UTSA states, the Restatements) will continue to apply to the DTSA, this is not a foregone conclusion for the simple reason that federal courts are not bound to interpret the DTSA in accordance with the UTSA.<sup>6</sup> Rather, courts will likely look first to the language of the DTSA and Congress's intent in enacting it.

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2. Pub. L. No. 114-153, 130 Stat. 376 (2016).

3. Council Directive 2016/943, 2016 O.J. (L 157) 1 (EU).

4. For a comprehensive history of trade secret law in the United States, see Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. 493 (2010).

5. UNIF. TRADE SECRETS ACT (amended 1985), 14 U.L.A. 536-659 (2005) [hereinafter UTSA]. The only states not to adopt the UTSA are New York, Massachusetts, and North Carolina, although North Carolina has a statute that is very similar to the UTSA. See N.C. GEN. STAT. §§ 66-152 to 66-157 (1981). The most recent two states to adopt the UTSA were New Jersey in 2012 and Texas in 2013. N.J. STAT. ANN. § 56:15-1 (West 2012); TEX. CIV. PRAC. & REM. CODE ANN. § 134A.001 (West 2013).

6. In her testimony before the U.S. Senate Judiciary Committee in December 2015, Sharon Sandeen suggested that the DTSA should be amended to include a provision requiring that the DTSA be applied and interpreted in accordance with the commentary of the UTSA, but no such amendment was made. *Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm: Hearing on S. 1890 and H.R. 3326 Before the Full S. Comm. on the Judiciary*, 114th Cong. (2015) (statement of Sharon Sandeen, Professor of Law, Hamline University School of Law), <https://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Sandeen%20Testimony.pdf>. However, a small portion of the commentary with respect to reverse engineering and independent development is included in the text of the DTSA. See 18 U.S.C. § 1839(6) (Supp. IV 2016).

Next, courts will likely examine and apply a hierarchy of other sources to both interpret the DTSA and fill its gaps. Whether these “other sources” include the UTSA, its commentary, and state court decisions applying them remains to be seen.

This Article analyzes the process federal courts will engage in to create, for the first time, a federal jurisprudence of civil trade secret law. Because the background and history of the DTSA’s enactment are integral to its interpretation and application, Part II begins with a legislative history of the DTSA. Part III discusses the rules and methodologies that federal courts are likely to employ to interpret and apply the DTSA. Because the DTSA does not expressly address all issues that are likely to arise in trade secret cases, federal courts will be required to fill gaps in the statute by either relying upon existing state law or by creating so-called “federal common law.” How this is done is a complicated part of federal jurisprudence that, in some cases, may lead federal courts to refer to the UTSA or to develop new approaches to various issues. Finally, Part IV discusses some of the DTSA’s key provisions and analyzes how these interpretative rules and methodologies should apply to each of them.

## II. THE CREATION OF A FEDERAL CIVIL CAUSE OF ACTION FOR TRADE SECRET MISAPPROPRIATION

This Part describes the circumstances that led to the creation of a federal civil cause of action for trade secret misappropriation. Because Professor Sandeen previously wrote a detailed account of the background and history of U.S. trade secret law,<sup>7</sup> this Part only briefly recounts that history with an emphasis on the Supreme Court’s landmark decision in *Kewanee Oil*, which held that federal patent law did not preempt state-based protection for trade secrets. Next, this Part covers the enactment of the Economic Espionage Act (EEA) of 1996, which provided for federal criminal (but not civil) liability for certain forms of trade secret misappropriation. Finally, it examines the legislative history of the Defend Trade Secrets Act of 2016, including significant changes to the legislation as it made its way through Congress and the perspectives of both its proponents and opponents.

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7. See generally Sandeen, *supra* note 4; see also Sharon K. Sandeen, *Relative Privacy: What Privacy Advocates Can Learn from Trade Secret Law*, 2006 MICH. ST. L. REV. 667, 673–76, 681–87 (2006) (discussing the common law development of trade secret law in the United States).



## A. STATE LAW ORIGINS

Until the DTSA's passage, state law nearly exclusively governed trade secrecy in the United States.<sup>8</sup> The common law of trade secrecy (or breach of confidence law as it is known in the U.K.<sup>9</sup>) originated in England in the early 1800s as a way to protect against the disclosure of proprietary manufacturing knowledge in an era of mass industrialization.<sup>10</sup> The concept then migrated to the United States beginning in 1837 in a case involving a sale of a business and the failure of the seller/defendant to disclose his secret process for making chocolate.<sup>11</sup> In 1868, the same court found that the holder of a secret manufacturing process has a property interest "which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons."<sup>12</sup> In the following decades, numerous state courts granted relief for misappropriation of proprietary information based upon various common law theories.<sup>13</sup> Similarly, federal courts sitting in diversity prior to

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8. The principal exception was federal criminal law, most notably the Economic Espionage Act of 1996, which provides substantial criminal penalties for theft of trade secrets. *See* Pub. L. No. 104-294, 110 Stat. 3488 (1996) (codified as amended at 18 U.S.C. §§ 1831–39 (2012)). Some trade secret owners have used other federal laws, like the Computer Fraud and Abuse Act, 18 U.S.C. § 1030 (2012), and section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 (2012), as a vehicle for asserting civil claims in federal court. None of these statutes, however, created a general private cause of action for trade secret misappropriation under federal law. *See* Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 334–38 (2015) (describing the limits of these statutes for bringing civil trade secret claims).

9. *See* TANYA APLIN ET AL., GURRY ON BREACH OF CONFIDENCE: THE PROTECTION OF CONFIDENTIAL INFORMATION § 3.03 (2d ed. 2012).

10. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (AM. LAW INST. 1995) ("The modern law of trade secrets evolved in England in the early 19th century, apparently in response to the growing accumulation of technical know-how and the increased mobility of employees during the industrial revolution."); *see also* Catherine L. Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS L.J. 441, 450–51 (2001) (describing the decline of the master–apprentice relationship in a pre–industrial economy as a method of confidentially transferring craft knowledge, and the associate rise of "a new set of rules," including trade secrecy, in response to this development). *Newbery v. James*, 35 Eng. Rep. 1011 (Ch. 1817), is commonly cited as the first reported trade secret case. MELVIN F. JAGER, TRADE SECRETS LAW § 2:2 (2016).

11. *Vickery v. Welch*, 36 Mass. 523 (1837).

12. *Peabody v. Norfolk*, 98 Mass. 452, 458 (1868).

13. *See* JAGER, *supra* note 10, § 2:2 (describing nineteenth and early–twentieth century trade secret decisions); *see also* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (AM. LAW INST. 1995) ("Early trade secret cases, responding to requests for injunctive relief against breaches of confidence, frequently supported the exercise of equity

*Erie Railroad Co. v. Tompkins*<sup>14</sup> applied common law principles to protect against the unauthorized dissemination and use of trade secret information.<sup>15</sup>

The American Law Institute (ALI) undertook the first effort to synthesize trade secret law in the United States, as reflected in the Restatement (First) of Torts, published in 1939.<sup>16</sup> Although lacking the force of codified law, this Restatement was highly influential, operating as “the primary source for an understanding of the purpose and meaning of trade secret law” for at least fifty years.<sup>17</sup> Section 757 of the Restatement captured the common law principle that a party could be liable for disclosing or using another’s trade secret in breach of a duty of confidence or following the discovery of the secret “by improper means.” It also recognized that third parties to the original misappropriation could be liable if they learned the secret with notice of its secrecy and its misappropriation.<sup>18</sup> In addition, the comments to § 757 set forth the types of information eligible for protection<sup>19</sup> and the requirement that “the subject

jurisdiction by describing the plaintiff’s interest in the trade secret as a property right . . .”).

14. *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938).

15. *See, e.g.*, *E.I. DuPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917) (authorizing trial court to enter injunction to prevent against defendant’s disclosure of alleged trade secret information); *Shellmar Prods. Co. v. Allen-Qualley Co.*, 87 F.2d 104, 105–10 (7th Cir. 1936) (affirming entry of injunction prohibiting defendant from “making, using, or selling a certain type of wrap for food products such as candy bars, and from using, revealing, or making known the processes and machinery used in its manufacture”).

16. RESTATEMENT (FIRST) OF TORTS § 757–58 (AM. LAW INST. 1939).

17. *See Sandeen, supra* note 4, at 502; *see also* ELIZABETH A. ROWE & SHARON K. SANDEEN, *CASES AND MATERIALS ON TRADE SECRET LAW* 27 (2d ed. 2017); Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 282 (1980) (explaining that the Restatement’s “principles became primary authority by adoption in virtually every reported case”).

18. RESTATEMENT (FIRST) OF TORTS § 757 (AM. LAW INST. 1939); *see also* Arthur L. Goodhart, *Restatement of the Law of Torts, Volume IV: A Comparison Between American and English Law*, 91 U. PA. L. REV. 487, 488 (1943) (“Section 757 deals with liability for disclosure or use of another’s trade secret. It provides that a person is liable not only where he breaks a contract of secrecy or induces another to break such a contract, but also where he knows that the secret is being disclosed to him improperly or by mistake and he takes advantage of it.”). Section 758 of the Restatement further provided that an unwitting recipient of trade secret information without knowledge of its status would not be liable for misappropriation. RESTATEMENT (FIRST) OF TORTS § 758 (AM. LAW INST. 1939).

19. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (AM. LAW INST. 1939) (“A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”).

matter of a trade secret must be secret . . . so that, except by the use of improper means, there would be difficulty in acquiring the information.”<sup>20</sup> It also sanctioned a wide range of remedies for misappropriation, including injunctive relief, damages for past harm, and disgorgement of defendant’s profits.<sup>21</sup> Significantly, however, the common law of trade secrecy as expressed by the Restatement (First) of Torts did not apply to trade secrets that were not in commercial use.<sup>22</sup>

B. THE *ERIE/SEARS/COMPCO* SQUEEZE

About the same time as the Restatement’s publication, the U.S. Supreme Court’s landmark decision in *Erie* effectively eliminated the possibility of a non–statutory federal law of trade secrecy.<sup>23</sup> *Erie* famously declared that “there is no federal general common law.”<sup>24</sup> Rather, *Erie* and its progeny generally require federal courts to apply the substantive law of the state where the court sits (including choice of law rules), unless the Constitution, a federal statute, or an applicable Federal Rule of Civil Procedure governs the issue.<sup>25</sup>

Concerns about uniformity between state and federal courts motivated the *Erie* Court to reject its previous rule in *Swift v. Tyson*,<sup>26</sup> which held that federal courts sitting in diversity were not required to apply state common law and could exercise “an independent judgment as to what the common

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20. *Id.* This comment also listed six factors for determining whether the trade secret holder took sufficient precautions to keep the information secret. *See id.* (“Some factors to be considered in determining whether given information is one’s trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”).

21. *Id.* cmt. e.

22. *Id.* § 757 (protecting information “used in one’s business” and giving “an opportunity to obtain an advantage over competitors who did not know or use it”).

23. *See* Sandeen, *supra* note 4, at 503 (“Because of *Erie*, the federal judiciary was out of the business of developing the common law except in connection with the interpretation and application of federal statutes.”).

24. *Erie*, 304 U.S. at 78.

25. *See id.* (“Except in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state.”); *see also* Federal Rules of Decision Act, 28 U.S.C. § 1652 (2012); *Hanna v. Plumer*, 380 U.S. 460, 465 (1965) (“[F]ederal courts sitting in diversity cases . . . are to apply state substantive law and federal procedural law.”).

26. 41 U.S. 1 (1842).

law . . . is—or should be.”<sup>27</sup> As Justice Brandeis explained, *Swift* “introduced grave discrimination by noncitizens against citizens” by making “rights enjoyed under the unwritten ‘general law’ vary according to whether enforcement was sought in the state or in the federal court.”<sup>28</sup> Thus, “[i]n attempting to promote uniformity of law throughout the United States, the [*Swift*] doctrine had prevented uniformity in the administration of the law.”<sup>29</sup> Subsequent decisions have reiterated that a principal objective of the *Erie* doctrine is to promote uniformity in the application of substantive law to the extent feasible under our federalist system,<sup>30</sup> but uniformity as between the state and federal courts of a state (“*Erie* uniformity”), rather than uniformity among federal courts.<sup>31</sup>

While *Erie* foreclosed a federal common law of trade secrecy, two other Supreme Court decisions raised the question whether federal patent law preempted state protection of trade secrets. In a pair of decisions Justice Hugo Black wrote and issued on the same day in 1964, the Court in *Sears, Roebuck & Co. v. Stiffel Co.*<sup>32</sup> and *Compco Corp. v. Day-Brite Lighting, Inc.* (collectively *Sears/Compco*)<sup>33</sup> held that the Patent Act preempted Illinois’s unfair competition law prohibiting product simulation.<sup>34</sup> In both cases, the defendants copied and sold an unpatented lighting fixture identical to those plaintiffs offered.<sup>35</sup> The trial court held both defendants

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27. *Erie*, 304 U.S. at 71.

28. *Id.* at 74–75.

29. *Id.* at 75.

30. See *Hanna*, 380 U.S. at 474 (Harlan, J., concurring) (“*Erie* recognized that there should not be two conflicting systems of law controlling the primary activity of citizens, for such alternative governing authority must necessarily give rise to a debilitating uncertainty in the planning of everyday affairs.”).

31. See Amanda Frost, *Overvaluing Uniformity*, 94 VA. L. REV. 1567, 1574–79 (2008) (discussing the asserted importance of the uniform interpretation of federal law); see also Sharon K. Sandeen, *The Myth of Uniformity in IP Law*, 51 GA. L. REV. (forthcoming 2018).

32. 376 U.S. 225 (1964).

33. 376 U.S. 234 (1964).

34. Product simulation is a claim of unfair competition based on “an unprivileged imitation of the physical appearance of another’s goods.” RESTATEMENT (SECOND) OF TORTS § 741 (AM. LAW INST. 1977); see also Note, *Protection for the Artistic Aspects of Articles of Utility*, 72 HARV. L. REV. 1520, 1527 (1959) (explaining that before *Sears/Compco*, “[t]he originator of a design may, in the unusual case, be able to secure protection against copying by resort to the state law of unfair competition”).

35. In *Sears*, the plaintiff (Stiffel) had obtained design and utility patents covering its product, but the district court held these patents “invalid for want of invention” (i.e., obviousness). *Sears*, 376 U.S. at 226. In *Compco*, the plaintiff (Day-Brite) obtained design patent for its fixture, which the district court rejected as invalid. *Compco*, 376 U.S. at 235.

liable for unfair competition, finding the similarity of their products to the plaintiffs' products would likely confuse customers.<sup>36</sup> The U.S. Supreme Court unanimously reversed in both cases, holding that Illinois law could not impose liability for the copying of an unpatented good because it would conflict with the Patent Act's policy of granting protection "only for true inventions, and then only for a limited time."<sup>37</sup> Using expansive language, and based upon concerns about federal uniformity, the Court suggested that *any* state laws granting protection for inventions that failed to satisfy the Patent Act's rigorous requirements would inevitably clash with federal law and thus would be invalid under the Supremacy Clause.<sup>38</sup>

The reasoning of *Sears/Compco* gave rise to speculation that a conflict between state law and federal patent policy might be found whenever state law sought to restrict the use of unpatented ideas, including those held as trade secrets.<sup>39</sup> Indeed, the combined effect of *Erie* and *Sears/Compco*—which Professor Sandeen previously labeled the *Erie/Sears/Compco* squeeze<sup>40</sup>—created a vacuum in federal law as *Erie* swept aside the federal law of unfair competition that had developed before 1938, while *Sears/Compco* limited the ability of states to adopt their own principles of unfair competition. This led the New York City Bar Association and other attorneys and organizations to call for federal legislation to address the uncertainty regarding state unfair competition law, of which trade secrecy is a part.<sup>41</sup> Beginning even before the Court's decisions in *Sears/Compco*,

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36. *Sears*, 376 U.S. at 226; *Compco*, 376 U.S. at 235.

37. *Sears*, 376 U.S. at 232–33.

38. *See id.* at 230–32 (stating that under the federal patent laws, “the prerequisites to obtaining a patent are strictly observed” and “uniform federal standards are carefully used to promote innovation,” and “allow[ing] a State by use of its law of unfair competition to prevent the copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public”).

39. *See, e.g.*, Martin J. Adelman, *Trade Secrets and Federal Pre-emption—The Aftermath of Sears and Compco*, 49 J. PATENT OFF. SOC'Y 713, 731 (1967); Gordon L. Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967); James M. Treece, *Patent Policy and Preemption: The Stiffel and Compco Cases*, 32 U. CHI. L. REV. 80 (1964); Note, *Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards of Patentability*, 87 HARV. L. REV. 807 (1974); Comment, *The Stiffel Doctrine and the Law of Trade Secrets*, 62 NW. U. L. REV. 956 (1968); Note, *Trade Secrets Law After Sears and Compco*, 53 VA. L. REV. 356 (1967).

40. Sandeen, *supra* note 4, at 507.

41. *Id.* at 504–05; *see also* John R. Peterson, *The Legislative Mandate of Sears and Compco: A Plea for a Federal Law of Unfair Competition*, 69 DICK. L. REV. 347, 348–49 (1965) (asserting that the “controversy and confusion as to the meaning of the Court’s



New York Congressman John V. Lindsay repeatedly introduced legislation to create a federal statute for unfair competition, including trade secrecy in some versions, which would supplement the Lanham Act.<sup>42</sup> Ultimately, this issue was resolved with the Court's decision in *Kewanee Oil Co. v. Bicron Corp.*<sup>43</sup> and the subsequent adoption of the Uniform Trade Secrets Act (UTSA).

### C. *KEWANEE* AND THE UNIFORM TRADE SECRETS ACT

The *Kewanee* case brought patent law's potential preemption of state trade secret law to the forefront.<sup>44</sup> Although it was not the first federal court to find at least some aspects of state law regarding confidential information preempted by the Patent Act,<sup>45</sup> the Sixth Circuit's opinion in *Kewanee*<sup>46</sup> teed the issue up for the Supreme Court to review.<sup>47</sup> In an opinion that carefully considered different types of inventions and whether they might be eligible for patent protection, the Court held that although the Constitution granted Congress the power to legislate in the area of intellectual property<sup>48</sup> this did not prohibit states from also adopting laws and policies designed to promote innovation.<sup>49</sup> Rather, "the only limitation on the states is that in regulating the areas of patents and copyrights they do not conflict with the operation of the laws in this area passed by

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decisions" in *Sears* and *Compco* "illustrate the necessity for clarifying legislation," and contending that unfair competition law "should be written into federal legislation"); Note, *Misrepresentation and the Lindsay Bill: A Stab at Uniformity in the Law of Unfair Competition*, 70 YALE L.J. 406 (1961) (discussing the initial Lindsay Bill).

42. See H.R. 7833, 86th Cong. (1959); H.R. 10038, 87th Cong. (1962); H.R. 4651, 88th Cong. (1963); see also Sandeen, *supra* note 4, at 505–06 (discussing the Lindsay Bill).

43. 416 U.S. 470 (1974).

44. For a detailed history of the lead-up to and aftermath of *Kewanee*, see Sharon K. Sandeen, *Kewanee Revisited: Returning to First Principles of Intellectual Property Law to Determine the Issue of Federal Preemption*, 12 MARQ. INTELL. PROP. L. REV. 299 (2008).

45. See *Painton & Co. v. Bourns, Inc.*, 309 F. Supp. 271 (S.D.N.Y. 1970) (refusing to enforce the trade secret provision of a manufacturing agreement, finding a conflict with patent policy), *rev'd*, 442 F.2d 216 (2d Cir. 1971).

46. See *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1087 (6th Cir. 1973) ("[T]he field of protection afforded to this plaintiff by that Trade Secret Law has been preempted by the Patent Laws of the United States."), *rev'd*, 416 U.S. 470 (1975).

47. See, e.g., *Dekar Indus. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970); *Water Servs., Inc. v. Tesco Chems., Inc.*, 410 F.2d 163 (5th Cir. 1969); *Servo Corp. of Am. v. Gen. Elec. Co.* 337 F.2d 716 (4th Cir. 1964).

48. U.S. CONST. art. I, § 8, cl. 8.

49. *Kewanee*, 416 U.S. at 478–79; cf. *Goldstein v. California*, 412 U.S. 546, 560 (1973) (holding that U.S. copyright law did not preempt a state law protecting pre-1972 sound recordings).

Congress.”<sup>50</sup> The Court first concluded there was clearly no preemption for trade secret information that was not patentable<sup>51</sup>—for example, trade secrets that fell outside the scope of patentable subject matter,<sup>52</sup> or that were merely obvious or trivial improvements over the existing state-of-the-art.<sup>53</sup> For this category of information, “the holder . . . would have no reason to apply for a patent whether trade secret protection existed or not,” and “[a]bolition of trade secret protection would, therefore, not result in increased disclosure to the public.”<sup>54</sup> The more difficult question, the Court conceded, involved trade secrets that were potentially patentable. For this category of information, the majority concluded that there was no preemption because trade secret law ultimately “provides far weaker protection in many respects than patent law”—for instance, it does not prohibit independent discovery or reverse engineering of the secret, and protection can be lost if the secret is disclosed or becomes widely known.<sup>55</sup> As a result, the Court concluded there was no conflict between U.S. patent law and Ohio’s trade secret law because inventors of patent-eligible inventions would generally opt for patent protection (and disclosure) rather than secrecy.<sup>56</sup>

After the Court’s decision in *Kewanee*, the American Bar Association (ABA) and the National Conference of Commissioners on Uniform State Laws (NCCUSL, now known as the Uniform Law Commission) resumed a previously stalled effort to create a model statute that would help harmonize state trade secret law.<sup>57</sup> This culminated in the UTSA, promulgated in 1979 and amended in 1985.<sup>58</sup> Among other goals, the UTSA’s drafters sought to create “unitary definitions of trade secret and trade secret misappropriation,”<sup>59</sup> as well as to codify basic principles that had been developed through case law,<sup>60</sup> thereby representing “the first major attempt to legislate trade secret misappropriation[,] rather than to leave it in the

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50. *Kewanee*, 416 U.S. at 479.

51. *Id.* at 483–84.

52. 35 U.S.C. § 101 (2012).

53. *Id.* § 103.

54. *Kewanee*, 416 U.S. at 483.

55. *Id.* at 489–90.

56. *Id.* at 490–91.

57. See Sandeen, *supra* note 4, at 512–15, 517–20.

58. UTSA, Prefatory Note.

59. *Id.*

60. Klitzke, *supra* note 17, at 284; see also Christopher Rebel J. Pace, *The Case for a Federal Trade Secrets Act*, 8 HARV. J.L. & TECH. 427, 432–33 (1995).

hands of the courts.”<sup>61</sup> The UTSA has been enormously influential in modern trade secret law, having been adopted by forty–seven states since its promulgation.<sup>62</sup>

#### D. ECONOMIC ESPIONAGE ACT (EEA) OF 1996

Congress’s first meaningful foray into the realm of trade secrecy occurred with the enactment of the Economic Espionage Act (EEA) of 1996.<sup>63</sup> Prior to the EEA, there was no federal civil or criminal law directed specifically at trade secret misappropriation by private actors.<sup>64</sup> But in the wake of claims of widespread espionage by foreign actors against domestic industry (a theme later revisited with the DTSA), Congress provided for criminal penalties for two forms of trade secret theft: (1) espionage on behalf of a foreign entity<sup>65</sup> and (2) theft of trade secrets for pecuniary gain.<sup>66</sup> These provisions define “misappropriation” essentially identically, imposing liability on any individual or entity that:

(1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains a trade secret;

(2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret; [or]

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61. Pace, *supra* note 60, at 433.

62. *Trade Secrets Act: Enactment Status Map*, UNIF. LAW COMM’N, <http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets%20Act> (last visited Dec. 22, 2017). New York and Massachusetts are two states that still rely upon common law, not having adopted the UTSA or their own trade secret statute. See Seaman, *supra* note 8, at 353. North Carolina has adopted a statutory scheme of trade secret protection, but it differs so substantially from the UTSA that the Uniform Law Commission has declined to classify it as a UTSA jurisdiction. See *id.* at 329, 353 n.247.

63. Pub. L. No. 104-294, 110 Stat. 3488 (1996) (codified as amended at 18 U.S.C. §§ 1831–32 (2016)).

64. See S. REP. NO. 104-359, at 10 (1996) (“[N]o Federal law protects proprietary economic information from theft and misappropriation in a systematic, principled manner. As a result, prosecutors have had trouble shoe-horning economic espionage into these laws.”); Ben Shiffman et al., *Intellectual Property Crimes*, 49 AM. CRIM. L. REV. 929, 932 (2012) (“[N]o federal criminal statute dealt directly with the theft of commercial trade secrets until . . . 1996.”). While an older federal statute, 18 U.S.C. § 1905 (2012), makes it a misdemeanor offense for federal officials and employees to publicly disclose trade secret information learned during their official duties, this law does not apply to private actors.

65. 18 U.S.C. § 1831(a) (Supp. IV 2016).

66. *Id.* § 1832(a).



(3) receives, buys, or possesses a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted without authorization[.]<sup>67</sup>

The EEA also prohibits attempts and conspiracies to commit misappropriation<sup>68</sup> and applies to extraterritorial conduct by U.S. citizens or entities, as well as noncitizens, if “an act in furtherance of the offense was committed in the United States.”<sup>69</sup>

Despite increasing enforcement in recent years, the EEA has not been widely utilized by federal prosecutors. According to a 2012 study, the federal government had filed 124 total criminal cases under the EEA, an average of less than eight indictments per year.<sup>70</sup> The paucity of enforcement actions caused commentators to call the EEA a “disappointment”<sup>71</sup> and conclude that it is “not acting as a deterrent against theft of trade secrets.”<sup>72</sup> It also provided a justification for the DTSA’s enactment.

#### E. DEFEND TRADE SECRETS ACT OF 2016

During consideration of the EEA, members of Congress contemplated adding a civil cause of action to the bill, but ultimately declined to do so.<sup>73</sup> As a result, trade secret holders continued to bring misappropriation claims under state law, and the volume of trade secret litigation significantly

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67. *Id.* § 1831(a)(1)–(3); *id.* § 1832(a)(1)–(3) (containing the same definition with the exception of replacing each instance of “a trade secret” with the phrase “such information”).

68. *Id.* §§ 1831(a)(4)–(5); *id.* § 1832(a)(4)–(5).

69. *Id.* § 1837.

70. Peter J. Toren, *An Analysis of Economic Espionage Act Prosecutions: What Companies Can Learn from It and What the Government Should Be Doing About It!*, 84 PAT. TRADEMARK & COPYRIGHT J. 884, 885 (2012); *see also Criminal Law—Economic Espionage—Ninth Circuit Upholds First Trial Conviction Under § 1831 of the Economic Espionage Act of 1996—United States v. Chung*, 659 F.3d 815 (9th Cir. 2011), 125 HARV. L. REV. 2177, 2177 (2012) [hereinafter *EEA Note*] (“[S]urprisingly few cases have been prosecuted under the [EEA].”) (footnote omitted).

71. Chris Carr et al., *The Economic Espionage Act: Bear Trap or Mousetrap?*, 8 TEX. INTELL. PROP. L.J. 159, 199 (2000).

72. Toren, *supra* note 70, at 886; *see also EEA Note, supra* note 70, at 2181 (“[F]ederal prosecutors have taken a markedly tentative approach toward prosecuting § 1831 offenses.”).

73. *See* 142 CONG. REC. 27111–12 (1996) (statement of Sen. Arlen Specter) (explaining that “[a]doption of [the EEA] will not be a panacea, but it is a start,” and recognizing that “available civil remedies may not be adequate to the task” of protecting trade secrets and “that a Federal civil cause of action is needed”).

increased in the 1990s and 2000s.<sup>74</sup> In the wake of several high-profile incidents of economic espionage,<sup>75</sup> as well as reports of widespread trade secret theft by foreign entities allegedly costing American businesses billions of dollars in losses,<sup>76</sup> members of Congress revisited the idea of a civil cause of action for trade secret misappropriation. This Section details the history of the DTSA, including the arguments in favor of the bill, the arguments of its opponents, and changes to the legislation as it made its way through Congress.<sup>77</sup>

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74. See David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 302 tbl.1 (2009) (showing that trade secret decisions in federal court went from averaging less than five per year before the late 1980s to over fifteen decisions per year by the 2000s); cf. David S. Almeling et al., *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57 (2011) (showing a more modest increase in trade secrets decisions in state court over this time).

75. See, e.g., Michael S. Schmidt & David E. Sanger, *5 in China Army Face U.S. Charges of Cyberattacks*, N.Y. TIMES (May 19, 2014), <https://www.nytimes.com/2014/05/20/us/us-to-charge-chinese-workers-with-cyberspying.html> (reporting criminal charges under the EEA against members of People's Liberation Army Unit 61398, which allegedly invaded the computer networks of several major American corporations, including Westinghouse, Alcoa and U.S. Steel, for the purpose of stealing trade secret information); *E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, 564 Fed. App'x 710 (4th Cir. 2014) (per curiam); Bill Donahue, *Kolon Pleads Guilty to DuPont Trade Secrets Theft*, LAW360 (Apr. 30, 2015, 5:44 PM), <https://www.law360.com/articles/650192/kolon-pleads-guilty-to-dupont-trade-secrets-theft> (explaining that the jury awarded DuPont over \$900 million for Kolon's alleged theft of trade secrets related to Kevlar bulletproof vests); Dan Levine, *U.S. Charges Chinese Man with Hacking into Boeing*, REUTERS (July 11, 2014, 6:20 PM), <http://www.reuters.com/article/boeing-china-cybercrime/u-s-charges-chinese-man-with-hacking-into-boeing-idUSL2N0PM2FV20140711> (documenting Chinese national charged with theft of information related to military aircraft produced by Boeing).

76. COMM'N ON THE THEFT OF AM. INTELLECTUAL PROP., THE IP COMMISSION REPORT 1 (2013), [http://ipcommission.org/report/IP\\_Commission\\_Report\\_052213.pdf](http://ipcommission.org/report/IP_Commission_Report_052213.pdf) ("The scale of international theft of American intellectual property (IP) is unprecedented—hundreds of billions of dollars per year . . ."); OFFICE OF THE NAT'L COUNTERINTELLIGENCE EXEC., FOREIGN SPIES STEALING US ECONOMIC SECRETS IN CYBERSPACE: REPORT TO CONGRESS ON FOREIGN ECONOMIC COLLECTION AND INDUSTRIAL ESPIONAGE, 2009–2011 at 4 (2011), <https://www.hsdll.org/?view&did=720057> ("Estimates from academic literature on the losses from economic espionage range . . . from \$2 billion to \$400 billion or more a year . . ."); UNITED STATES INT'L TRADE COMM'N, CHINA: EFFECTS OF INTELLECTUAL PROPERTY INFRINGEMENT AND INDIGENOUS INNOVATION POLICIES ON THE U.S. ECONOMY xiv (2011), <http://www.usitc.gov/publications/332/pub4226.pdf> (estimating that in 2009, U.S. firms lost between \$14.2 billion and \$90.5 billion due to IP infringement in China).

77. In the interests of full disclosure, both authors publicly opposed the Defend Trade Secrets Act. See *infra* notes 117, 158–172 and accompanying text. Despite this, we have strived in this Article to present a fair account of both sides' arguments regarding the legislation.

### 1. *Legislative History of the DTSA*

The DTSA traces its origins to legislation first introduced in the 112th Congress (2011–2012). In 2011, newly-elected Senator Chris Coons of Delaware offered an amendment to a currency manipulation bill that would have amended the EEA to create a civil cause of action for trade secret misappropriation.<sup>78</sup> Senator Coons explained that his motivation was to provide greater trade secret protection to American businesses like DuPont—a major employer in Senator Coons’ home state that had recently accused a Korean firm of misappropriating trade secrets for DuPont’s next-generation Kevlar synthetic fiber.<sup>79</sup> The amendment would have followed the UTSA by authorizing both injunctive relief and monetary damages caused by the misappropriation,<sup>80</sup> as well as exemplary damages and attorney’s fees for willful and malicious misappropriation up to the amount of actual damages awarded.<sup>81</sup> In addition, it would have permitted courts to order, on an *ex parte* basis, the seizure of “any property (including computers) used or intended to be used, in any manner or part, to commit or facilitate” trade secret misappropriation or to preserve evidence of such misappropriation.<sup>82</sup> And like the later-passed DTSA, the amendment would not have preempted existing state trade secret law.<sup>83</sup>

The following year, Senators Coons, Herb Kohl of Wisconsin, and Sheldon Whitehouse of Rhode Island introduced a standalone bill, the Protecting American Trade Secrets and Innovation Act of 2012, which was similar in numerous respects to Senator Coons’ failed amendment.<sup>84</sup> Several of the differences are noteworthy, however, because they were eventually

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78. S. Amend. 729, Currency Exchange Rate Oversight Reform Act of 2011, S. 1619, 112th Cong. (2011), *reprinted in* 157 CONG. REC. S6229–30 (daily ed. Oct. 5, 2011). Senator Herb Kohl of Wisconsin also sponsored this amendment.

79. 157 CONG. REC. S6175 (daily ed. Oct. 5, 2011) (statement of Sen. Coons). A jury awarded DuPont \$919 million for the defendant’s willful misappropriation. *Verdict, E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc.*, No. 3:09-CV-58, 2011 WL 4445717, (E.D. Va. Sept. 14, 2011).

80. S. Amend. 729, Currency Exchange Rate Oversight Reform Act of 2011, S. 1619, 112th Cong. (2011), *reprinted in* 157 CONG. REC. S6229–S6230 (daily ed. Oct. 5, 2011) (to be codified at 18 U.S.C. §§ 1836(a)(2), 1836(b)(4)(A)–(B)) (authorizing injunctive relief, damages for actual loss due to the misappropriation, and disgorgement of any unjust enrichment due to the misappropriation to the extent not considered in calculating actual damages).

81. *Id.*

82. *Id.*

83. *Id.*

84. S. 3389, 112th Cong. (2012).

incorporated into the DTSA. First, the bill modified the previously-proposed ex parte seizure provision by authorizing a party injured by a seizure order to bring a civil action against the plaintiff for damages, attorney's fees, and punitive damages if the seizure was sought in bad faith.<sup>85</sup> Second, it would have expressly incorporated the UTSA's definition of "misappropriation"<sup>86</sup> and defined "improper means" consistent with the UTSA's commentary by making clear that no liability would attach for reverse engineering or independent development of a trade secret.<sup>87</sup> However, it would have maintained the EEA's definition of a trade secret, which was arguably broader than the UTSA's definition in some respects.<sup>88</sup> Finally, the bill included a jurisdictional requirement, requiring "misappropriation of a trade secret that is related to or included in a product for or placed in interstate or foreign commerce."<sup>89</sup> This bill expired without a hearing or committee vote.

In the 113th Congress (2013–2014), more headway was made toward enacting federal trade secret legislation, although again falling short. Subcommittees of both the Senate and House Judiciary Committees held hearings on the issue of trade secret theft and possible solutions where numerous witnesses advocated for a federal civil remedy.<sup>90</sup> Thereafter,

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85. *Id.* § 2(a).

86. *Compare id.* § 2(b), with UTSA § 1(2).

87. *Compare* S. 3389, 112th Cong. § 2(b) (2012) (“[T]he term ‘improper means’ . . . does not include reverse engineering or independent derivation.”), with UTSA § 1 cmt (explaining that “[p]roper means include” “[d]iscovery by reverse engineering” and “independent invention”). Trade secret litigator Russell Beck has argued that the EEA’s use of the term “independent derivation” rather than “independent invention” (as in the UTSA) suggests that the former might be broader by permitting a misappropriator to “cleanse his or her conduct by modifying a trade secret . . . [and] then using only the modified secret.” Russell Beck, *Defend Trade Secrets Act and What It Means*, FAIR COMPETITION L. (May 11, 2016), <https://faircompetitionlaw.com/2016/05/11/defend-trade-secrets-act-and-what-it-means/>. To the best of the authors’ knowledge, however, no court has adopted this distinction. *Cf.* Pioneer Hi-Bred Int’l v. Holden Found. Seeds, Inc., 35 F.3d 1226, 1240 (8th Cir. 1994) (“Proof of derivation removes the possibility of independent development . . .”).

88. *See* Seaman, *supra* note 8, at 361–62; *see also* Peter J. Toren, *Five Things to Know About the Defend Trade Secrets Act*, IPWATCHDOG (May 11, 2016), <http://www.ipwatchdog.com/2016/05/11/five-things-know-defend-trade-secrets-act/id=68954/>.

89. S. 3389, 112th Cong. § 2(a) (2012).

90. *See generally* *Economic Espionage and Trade Secret Theft: Are Our Laws Adequate for Today’s Threats?: Hearing Before the Subcomm. on Crime & Terrorism of the S. Comm. on the Judiciary*, 113th Cong. (2014), <https://www.judiciary.senate.gov/meetings/economic-espionage-and-trade-secret-theft-are-our-laws-adequate-for-todays-threats>; *Trade Secrets: Promoting and Protecting American Innovation, Competitiveness*

several bills were introduced in both the House and Senate to amend the EEA to create a private cause of action.<sup>91</sup> The most notable of these proposals were the Defend Trade Secrets Act of 2014, sponsored by Senators Coons and Orrin Hatch of Utah,<sup>92</sup> and the Trade Secrets Protection Act of 2014, which was introduced by a bipartisan group of members of the House Judiciary Committee.<sup>93</sup> The Defend Trade Secrets Act of 2014 was patterned after Senator Coons' prior proposals with a few modifications, such as: modifying the ex parte seizure provision to more closely follow a similar provision in the federal Lanham Act governing seizures of goods bearing counterfeit marks;<sup>94</sup> increasing the ceiling on the amount of exemplary damages;<sup>95</sup> and extending the statute of limitations period to five years.<sup>96</sup> The Trade Secrets Protection Act was similar to prior proposals as well, except that it provided some additional limitations to protect against potential abuse of the ex parte seizure remedy, such as requiring the applicant to demonstrate both immediate and irreparable harm if the seizure was not ordered.<sup>97</sup> Both bills failed to be adopted into law, although the Trade Secrets Protection Act was favorably reported out of committee in late 2014.<sup>98</sup>

The effort to create a federal civil remedy for trade secret misappropriation finally succeeded in the 114th Congress. In July 2015, many of the same lawmakers who sponsored previous proposals introduced identical bills in the House and Senate called the Defend Trade Secrets Act

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*and Market Access in Foreign Markets: Hearing Before the Subcomm. on Courts, Intellectual Prop., & the Internet of the H. Comm. on the Judiciary*, 113th Cong. 7–67 (2014), <https://judiciary.house.gov/wp-content/uploads/2016/02/113-97-88436.pdf>.

91. See Defend Trade Secrets Act of 2014, S. 2267, 113th Cong. (2014); Trade Secrets Protection Act of 2014, H.R. 5233, 113th Cong. (2014); Private Right of Action Against Theft of Trade Secrets Act of 2013, H.R. 2466, 113th Cong. (2013); Future of American Innovation and Research Act of 2013, S. 1770, 113th Cong. (2013); see also Seaman, *supra* note 8, at 340–48 (describing these bills in greater detail).

92. S. 2267, 113th Cong. (2014).

93. H.R. 5233, 113th Cong. (2014). The bill's initial sponsors were Representatives Steve Chabot (R–OH), Howard Coble (R–NC), John Conyers (D–MI), Suzan DelBene (D–WA), George Holding (R–NC), Hakeem Jeffries (D–NY), Jerrold Nadler (D–NY), and Cedric Richmond (D–LA).

94. S. 2267, 113th Cong. § 2(a) (2014).

95. See *id.* (authorizing a court to award exemplary damages of up to three times the amount of compensatory damages).

96. *Id.* § 2(a).

97. H.R. 5233, 113th Cong. § 2(a) (2014).

98. See H.R. REP. NO. 113-156 (2014).

of 2015.<sup>99</sup> The new legislation largely tracked the proposals introduced in the previous Congress. Among other things, the bills would modify the EEA to:

- permit the “owner of a trade secret” to “bring a civil action” if “the person is aggrieved by the misappropriation of a trade secret that is related to a product or service used in, or intended for use in, interstate or foreign commerce”;<sup>100</sup>
- grant federal district courts original but not exclusive jurisdiction over such civil claims;<sup>101</sup>
- adopt the UTSA’s definition of “misappropriation” and codify the UTSA’s commentary that reverse engineering and independent invention were not “improper means”;<sup>102</sup>
- authorize the “seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action” upon an ex parte application, subject to numerous requirements;<sup>103</sup>
- create a cause of action for a person damaged by a “wrongful or excessive seizure” order, and authorizing monetary damages, attorney’s fees, and punitive damages in cases of bad faith;<sup>104</sup>
- authorize a court to award injunctive relief “to prevent any actual or threatened misappropriation on such terms as the court deems reasonable, provided the order does not prevent a person from accepting an offer of employment under conditions that avoid actual or threatened misappropriation;”<sup>105</sup>

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99. Defend Trade Secrets Act of 2016, S. 1890, 114th Cong. (2015); Defend Trade Secrets Act of 2015, H.R. 3326, 114th Cong. (2015). For convenience, the footnotes below cite only to the Senate’s version of the DTSA as introduced.

100. H.R. 3326, 114th Cong. § 2(a) (2015). Note that the words “or service” were added in the wake of *United States v. Aleynikov*, 636 F.3d 71 (2d Cir. 2012). See Theft of Trade Secrets Clarification Act of 2012, S. 3642, 112th Cong. (2012) (amending 18 U.S.C. § 1832 (2012)).

101. H.R. 3326, 114th Cong. § 2(a) (2015).

102. *Id.* § 2(b).

103. *Id.* § 2(a).

104. *Id.*; see also 15 U.S.C. § 1116(d)(11) (2012) (describing the remedies for wrongful seizure under the Lanham Act, which were incorporated by reference into the DTSA).

105. H.R. 3326, 114th Cong. § 2(b) (2015). The DTSA also would permit courts to “requir[e] affirmative actions to be taken to protect the trade secret.” *Id.* § 2(b).



- authorize a court to award monetary remedies similar to the UTSA, including “damages for actual loss caused by the misappropriation,” “damages for unjust enrichment caused by the misappropriation that is not addressed in computing damages for actual loss,” or as an alternative, “a reasonable royalty for the misappropriator’s unauthorized disclosure or use of the trade secret”;<sup>106</sup>
- authorize a court to award exemplary damages “in an amount not more than [three] times the amount of the [compensatory] damages awarded” if “the trade secret was willfully and maliciously misappropriated;”<sup>107</sup>
- grant reasonable attorney’s fees to the prevailing party if (1) “a claim of . . . misappropriation is made in bad faith,” (2) “a motion to terminate an injunction is made or opposed in bad faith,” or (3) “the trade secret was willfully and maliciously misappropriated;”<sup>108</sup>
- impose a five–year statute of limitations period for bringing such claims, which would begin to run when the misappropriation was actually discovered “or by the exercise of reasonable diligence should have been discovered”;<sup>109</sup> and
- reaffirm that the EEA/DTSA would not “preempt or displace any other remedies, whether civil or criminal. . . for the misappropriation of a trade secret” under federal, state, or local law.<sup>110</sup>

The legislation also included an uncodified “Sense of Congress” provision that, *inter alia*, stated that the EEA as amended should “appl[y] broadly to protect trade secrets from theft.”<sup>111</sup> In addition, it would impose a new requirement on the Attorney General to make biannual reports to Congress on the scope of trade secret theft occurring abroad and recommendations about additional actions to reduce its impact on American businesses.<sup>112</sup> Finally, it provided the EEA and DTSA “shall not be

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106. *Id.*

107. *Id.*

108. *Id.*

109. *Id.* § 2(d). The DTSA also provided that “a continuing misappropriation constitutes a single claim of misappropriation.” *Id.*

110. 18 U.S.C. § 1838 (2012); *see also* H.R. 3326, 114th Cong. § 2(f) (2015).

111. H.R. 3326, 114th Cong. § 4 (2015). Unlike other provisions of the DTSA, section 4 was not designated for codification in the United States Code.

112. *Id.* § 3.

construed to be a law pertaining to intellectual property for purposes of any other Act of Congress.”<sup>113</sup>

Action first proceeded in the Senate, where the Judiciary Committee held the first and only hearing on the legislation in December 2015.<sup>114</sup> At this hearing, witnesses from private industry and an experienced trade secret litigator expressed support, while Professor Sandeen spoke in opposition, presenting the law professors’ position against the bill.<sup>115</sup> Witnesses in favor emphasized the desirability of a uniform national standard for trade secrets law, access to a federal forum for trade secret misappropriation claims, and the need for an *ex parte* seizure remedy in extraordinary cases.<sup>116</sup> Professor Sandeen argued that the DTSA would not directly address the problem of cyberespionage (cited by many supporters as a reason for the bill) and raised several concerns, including the potential abuse of DTSA litigation for anticompetitive purposes, the likely increase in attorney’s fees to adjudicate trade secret claims in federal court, and how the federal courts might address the inevitable disclosure doctrine.<sup>117</sup> During the hearing, members of the Senate Judiciary Committee were generally supportive of the DTSA,<sup>118</sup> although several senators expressed concern about the impact and potential abuse of the *ex parte* seizure provision,<sup>119</sup> which had been criticized by some academics and practitioners.<sup>120</sup>

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113. *Id.* § 2(g).

114. *See generally Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm: Hearing on S. 1890 and H.R. 3326 Before the Full S. Comm. on the Judiciary*, 114th Cong. (2015), (statement of Sharon Sandeen, Professor of Law, Hamline University School of Law), <https://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Sandeen%20Testimony.pdf>.

115. *Id.*

116. *See id.* at 5 (statement of Thomas R. Beall, Vice President and Chief Intellectual Property Counsel, Corning Inc.), <https://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Beall%20Testimony.pdf>; *id.* at 4–5 (statement of Karen Cochran, Associate General Counsel and Chief Intellectual Property Counsel, E.I. du Pont de Nemours & Co.), <https://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Cochran%20Testimony.pdf>; *id.* at 7–8 (statement of James Pooley, Principal, James Pooley, PLC), <http://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Pooley%20Testimony.pdf>.

117. *Id.* at 1–7 (statement of Professor Sharon K. Sandeen).

118. *See generally id.* (statements of Sen. Hatch, Sen. Coons, Sen. Grassley), <https://www.judiciary.senate.gov/meetings/protecting-trade-secrets-the-impact-of-trade-secret-theft-on-american-competitiveness-and-potential-solutions-to-remedy-this-harm>.

119. *See generally id.* (questions of Sen. Whitehouse and Sen. Klobuchar).

120. *See generally* Eric Goldman, *Ex Parte Seizures and the Defend Trade Secrets Act*, 72 WASH. & LEE L. REV. ONLINE 28 (2015).



The following month, Senators Hatch and Coons offered a manager's amendment that made numerous changes to the DTSA, including addressing some provisions that the law professors found objectionable.<sup>121</sup> Specifically, the amendment provided that only the "owner" (as defined) of a trade secret could bring a civil claim,<sup>122</sup> reduced the statute of limitations period from five years to three years to follow the majority rule under state law,<sup>123</sup> and amended the definition of "trade secret" and "improper means" to be more consistent with the UTSA.<sup>124</sup> The amendment also lowered the amount of potential exemplary damages to twice (rather than triple) the amount of compensatory damages.<sup>125</sup> In addition, it added language providing that an ex parte seizure could be ordered only in "extraordinary circumstances"<sup>126</sup> and included further limitations on the scope and enforcement of such seizures.<sup>127</sup>

Another significant modification in the manager's amendment limited the scope of injunctive relief for departing employees. First, the bill was amended so that any injunction must "be based on evidence of threatened

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121. S. 1890, 114th Cong. § 2(a) (2015) (as amended on Jan. 8, 2016).

122. *Id.* § 2(a)(1) (codified as amended at 18 U.S.C. § 1836(b)(1) (Supp. IV 2016)).

123. *Id.* § 2(d) (codified as amended at 18 U.S.C. § 1836(d) (Supp. IV 2016)); *see also* Seaman, *supra* note 8, at appendix B (showing that the majority of states have a three-year statute of limitations period).

124. Specifically, the amendment changed the EEA's existing definition of "trade secret" by striking the words "the public" from the requirement that a trade secret is "not . . . generally known to, and not readily ascertainable through proper means by, the public" and inserting "another person who can obtain economic value from the disclosure or use of the information." S. 1890, 114th Cong. § 2(b) (2015) (codified as amended at 18 U.S.C. § 1839(3)(B) (Supp. IV 2016)). It also clarified that in addition to "reverse engineering" and "independent derivation," "improper means" also does not include "any other lawful means of acquisition" of a trade secret. *Id.* (codified at 18 U.S.C. § 1839(6)(B) (Supp. IV 2016)).

125. *Id.* § 2(a) (codified at 18 U.S.C. § 1836(b)(3)(C) (Supp. IV 2016)).

126. *Id.* (codified at 18 U.S.C. § 1836(b)(2)(A)(i) (Supp. IV 2016)).

127. For instance, the revised ex parte seizure provision required that "the person against whom seizure" would be ordered must have actual possession of both the trade secret and the property to be seized, *id.* (codified at 18 U.S.C. § 1836(b)(2)(A)(ii)(V) (Supp. IV 2016)), it "prohibit[ed]" (rather than merely "restrict[ed]") access to the trade secret by the party requesting the seizure, *id.* (codified at 18 U.S.C. § 1836(b)(2)(B)(iii)(I) (Supp. IV 2016)), and it required the district court to "provide guidance to law enforcement officials" regarding how they are to execute the seizure order, *id.* (codified at 18 U.S.C. § 1836(b)(2)(B)(iv) (Supp. IV 2016)). It also authorizes the court to appoint a special master "to locate and isolate all misappropriated trade secret information and to facilitate the return of unrelated property and data to the person from whom the property was seized." *Id.* (codified at 18 U.S.C. § 1836(b)(2)(D)(iv) (Supp. IV 2016)).

misappropriation and not merely on the information the person knows.”<sup>128</sup> Second, the bill included new language regarding the inevitable disclosure doctrine and restraints of trade by providing that an injunction cannot “conflict with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”<sup>129</sup> In effect, these revisions incorporated state law governing restrictive covenants (such as noncompete agreements) by reference, ensuring that such law will apply in federal court, although they did not directly address potential choice of law issues.<sup>130</sup>

Finally, the manager’s amendment made several other discrete modifications to the DTSA. It added trade secret misappropriation as a predicate offense for criminal liability under the Racketeer Influenced and Corrupt Organizations Act (RICO),<sup>131</sup> and it increased the penalties for violating the criminal theft of trade secrets under the EEA to the greater of \$5 million or three times the value of the stolen trade secrets.<sup>132</sup> It also required the Federal Judicial Center to develop recommended best practices for seizing, storing, and securing trade secret information.<sup>133</sup>

In addition, Senators Charles Grassley (Iowa) and Patrick Leahy (Vermont) offered a new amendment intended to “provide protection to whistleblowers who disclose trade secrets to law enforcement in confidence for the purpose of reporting or investigating a suspected violation of law.”<sup>134</sup> This proposal, based on an article by Professor Peter Menell of the University of California, Berkeley School of Law,<sup>135</sup> would immunize an individual from civil and criminal liability for the confidential disclosure of trade secret information to a “[f]ederal, state, or local governmental official, either directly or indirectly, or to an attorney” if the disclosure was made “solely for the purpose of reporting or investigating a suspected violation of

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128. *Id.* (codified at 18 U.S.C. § 1836(b)(3)(A)(i)(I) (Supp. IV 2016)).

129. *Id.* (codified at 18 U.S.C. § 1836(b)(3)(A)(i)(II) (Supp. IV 2016)).

130. See Sharon K. Sandeen, *Senate Judiciary Committee Passes Amended Defend Trade Secrets Act. What Changed?*, TECH. & MARKETING L. BLOG (Jan. 28, 2016), <http://blog.ericgoldman.org/archives/2016/01/senate-judiciary-committee-passes-amended-defend-trade-secrets-act-what-changed-guest-blog-post.htm>.

131. S. 1890, 114th Cong. § 3(b) (2015) (codified as amended at 18 U.S.C. § 1961(1) (Supp. IV 2016)).

132. *Id.* § 3(a)(1) (codified at 18 U.S.C. § 1832(b) (Supp. IV 2016)).

133. *Id.* § 6.

134. S. REP. NO. 114-220, at 5 (2016).

135. Peter S. Menell, *Tailoring a Public Policy Exception to Trade Secret Protection*, 105 CALIF. L. REV. 1, 61 (2017).

law.”<sup>136</sup> In addition, it would permit the disclosure of a trade secret “in a complaint or other document filed in a lawsuit or other proceeding, if such filing was made under seal.”<sup>137</sup> Notably, this provision—unlike the rest of the DTSA—would preempt any contrary federal or state law that would otherwise impose liability for the disclosure.<sup>138</sup> The Senate Judiciary Committee unanimously adopted this Amendment at what is known as an Executive Business Meeting, but the whistleblower provision was never subject to a public hearing where testimony was allowed.<sup>139</sup>

Several months later, in April 2016, the full Senate unanimously voted to pass the DTSA as modified by the manager’s amendment.<sup>140</sup> The House then acted quickly, favorably reporting the Senate’s version of the DTSA out of committee later the same month without further changes,<sup>141</sup> and then overwhelmingly approving the bill on the floor under suspension of the rules (a procedure typically used for non-controversial legislation).<sup>142</sup> President Obama signed the DTSA into law on May 11, 2016.<sup>143</sup> Pursuant to its terms, the DTSA applies to all acts of trade secret misappropriation occurring on or after this date.<sup>144</sup>

## 2. *Supporters and Their Arguments*

The DTSA’s sponsors offered several reasons in support of a federal civil cause of action for trade secret misappropriation. First, as with the EEA before it, they argued that it was needed to address the growing problem of trade secret theft against American businesses, particularly in light of technological developments since the EEA (like widespread use of the internet) that made it easier to engage in and conceal misappropriation of

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136. S. 1890, 114th Cong. § 7(b)(1)(A)(ii) (2015) (codified as amended at 18 U.S.C. § 1833(b)(1)(A) (Supp. IV 2016)).

137. *Id.* § 7(b)(1)(B) (codified as amended at 18 U.S.C. § 1833(b)(1)(B) (Supp. IV 2016)).

138. *Id.* § 7(b)(1)(A) (codified as amended at 18 U.S.C. § 1833(b)(1)(A) (Supp. IV 2016)).

139. S. REP. NO. 114-220, at 5 (2016).

140. 150 CONG. REC. D321 (daily ed. Apr. 4, 2016). The floor vote in the Senate was 87–0.

141. 152 CONG. REC. D400, D408 (daily ed. Apr. 20, 2016); *see also* H.R. REP. NO. 114-529 (2016).

142. 162 CONG. REC. H2028, D438 (daily ed. Apr. 27, 2016). The floor vote in the House was 410–2.

143. 162 CONG. REC. S2675, D501 (daily ed. May 11, 2016).

144. S. 1890, 114th Cong. § 2(e) (2015).

trade secret information.<sup>145</sup> Some also alluded to organized efforts by foreign actors and governments to engage in misappropriation as a reason for Congress to act.<sup>146</sup> Second, sponsors contended that existing state laws varied significantly in their treatment of trade secrets and that the DTSA would help “harmonize U.S. law” by creating a “single national baseline” for trade secret protection.<sup>147</sup> Third, they asserted that the DTSA would benefit trade secret owners by providing access to federal court in a manner similar to other forms of intellectual property, such as patents and copyrights.<sup>148</sup> Finally, supporters pointed to the bill’s *ex parte* seizure provision, which they asserted would allow trade secret owners to quickly obtain a federal court order authorizing the seizure of property to prevent further dissemination of the trade secrets and preserve evidence of misappropriation.<sup>149</sup>

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145. See S. REP. NO. 114-220, at 1–2 (2016) (listing several studies suggesting that “annual losses to the American economy caused by trade secret theft” ranged in the hundreds of billions of dollars and asserting that “[p]rotecting trade secrets has become increasingly difficult given ever-evolving technological advancements”); H.R. REP. NO. 114-529, at 3–4 (2016) (citing similar studies). Note, however, that these figures, when traced to the underlying studies, concern the estimated value of *all* intellectual property theft, not just the theft of trade secrets. Moreover, as Zoe Argento has explained, there is scant factual evidence to back up these numbers. See Zoe Argento, *Killing the Golden Goose: The Dangers of Strengthening Domestic Trade Secret Rights in Response to Cyber-Misappropriation*, 16 YALE L.J. 172, 197–99 (2014).

146. See H.R. REP. NO. 114-529, at 4 (2016) (noting the “significant and growing threat presented by criminals who engage in espionage on behalf of foreign adversaries and competitors” (quoting H.R. REP. NO. 112-610, at 1 (2012))); 161 CONG. REC. S7251 (daily ed. Oct. 8, 2015) (statement of Sen. Hatch) (“[C]yber theft of trade secrets is at an all-time high, particularly as it involves Chinese competitors . . .”).

147. 162 CONG. REC. S1630 (daily ed. Apr. 4, 2016); see also *id.* at S1627 (Sen. Hatch) (“[H]aving a uniform set of standards that defines legal protections for trade secrets is crucial . . . . State laws today are perhaps even more variable in their treatment of trade secrets than they were at the time the [UTSA] was proposed in 1979.”); H.R. REP. NO. 113-657, at 7 (2014) (“While 48 states have adopted variations of the UTSA, the state laws vary in a number of ways . . . .”); S. REP. NO. 114-220, at 14 (2016) (“This narrowly drawn legislation will provide a single, national standard for trade secret misappropriation . . .”).

148. S. REP. NO. 114-220, at 3 (2016) (“A Federal cause of action will allow trade secret owners to protect their innovations by seeking redress in Federal court, bringing their rights into alignment with those long enjoyed by owners of other forms of intellectual property . . . .”); *id.* at 14–15 (“Victims [of trade secret theft] will be able to move quickly to federal court, with certainty of the rules, standards, and practices to stop trade secrets from winding up being disseminated and losing their value.”); see also 161 CONG. REC. S7251 (daily ed. Oct. 8, 2015) (Sen. Coons) (explaining the DTSA “gives trade secret owners access to . . . our excellent Federal courts, which provide nationwide service of process and execution of judgments”).

149. See H.R. REP. NO. 114-529, at 3 (2016).

Numerous large industrial, high-technology, and pharmaceutical and medical device firms promoted enactment of the DTSA, including Boeing, Caterpillar, Corning, Eli Lilly, General Electric, IBM, Intel, Johnson & Johnson, Nike, Pfizer, Procter & Gamble, and 3M, as well as industry and business associations such as the U.S. Chamber of Commerce, the National Association of Manufacturers, the Biotechnology Association, and the Software & Information Industry Associations.<sup>150</sup> Many of these same organizations also engaged in extensive lobbying efforts under the moniker “Protect Trade Secrets Coalition,” retained the prominent law firm of Covington & Burling LLP, and expended at least \$1.25 million in support of the DTSA.<sup>151</sup> Numerous other U.S.-based firms, including DuPont,<sup>152</sup> Microsoft,<sup>153</sup> Monsanto,<sup>154</sup> and Yahoo!,<sup>155</sup> also engaged in lobbying for the DTSA. The DTSA also received support from the intellectual property bar,

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150. Letter from Ass’n of Glob. Automakers, Inc., et al., to Senator Orrin Hatch et al. (July 29, 2015), <https://www.congress.gov/crec/2015/10/08/CREC-2015-10-08-pt1-PgS7249.pdf>; see also Letter from Adobe et al., to Senator Charles E. Grassley et al. (Jan. 20, 2016), <http://www.nam.org/Issues/Technology/Intellectual-Property-Rights/Joint-Industry-Coalition-Letter-in-Support-of-Defend-Trade-Secrets-Act-to-Senate.pdf> (listing forty-four firms and associations supporting the DTSA).

151. *Protect Trade Secrets Coalition*, CTR. FOR RESPONSIVE POLITICS, <https://www.opensecrets.org/lobby/clientsum.php?id=F119265&year=2017> (last visited Dec. 22, 2017) (disclosing that the Protect Trade Secrets Coalition spent \$500,000 in 2014, \$520,000 in 2015, and \$250,000 in 2016); Isaac Arnsdorf, *How a Bill (with Virtually No Opposition Still Takes Two Years Before It Almost) Becomes a Law (in 2016)*, POLITICO (May 9, 2016) (listing nearly thirty lobbyists who worked in favor of the DTSA’s passage).

152. *DuPont Co*, CTR. FOR RESPONSIVE POLITICS, [https://www.opensecrets.org/lobby/clientissues\\_spec.php?id=D000000495&year=2016&spec=CPT](https://www.opensecrets.org/lobby/clientissues_spec.php?id=D000000495&year=2016&spec=CPT) (last visited Dec. 22, 2017) (listing “Intellectual Property Protection and Enforcement – H.R. 3326 and S. 1890 – The Defend Trade Secrets Act” as a lobbying issue).

153. *Microsoft Corp*, CTR. FOR RESPONSIVE POLITICS, [https://www.opensecrets.org/lobby/clientissues\\_spec.php?id=D000000115&year=2016&spec=CPT](https://www.opensecrets.org/lobby/clientissues_spec.php?id=D000000115&year=2016&spec=CPT) (last visited Dec. 22, 2017) (listing “S.1890 – Defend Trade Secrets Act of 2015” as a lobbying issue).

154. *Monsanto Co*, CTR. FOR RESPONSIVE POLITICS, [https://www.opensecrets.org/lobby/clientissues\\_spec.php?id=D000000055&year=2016&spec=CPT](https://www.opensecrets.org/lobby/clientissues_spec.php?id=D000000055&year=2016&spec=CPT) (last visited Dec. 22, 2017) (listing “Issues relating to the Defend Trade Secrets Act of 2015 (H.R. 3326, S. 1890)” as a lobbying issue).

155. *Yahoo! Inc*, CTR. FOR RESPONSIVE POLITICS, [https://www.opensecrets.org/lobby/clientissues\\_spec.php?id=D000022330&year=2016&spec=CPT](https://www.opensecrets.org/lobby/clientissues_spec.php?id=D000022330&year=2016&spec=CPT) (last visited Dec. 22, 2017) (listing “S.1890, Defend Trade Secrets Act” as a lobbying issue).

including the Intellectual Property Law Section of the American Bar Association<sup>156</sup> and the American Intellectual Property Law Association.<sup>157</sup>

### 3. *Opponents and Their Arguments*

The primary opposition to the DTSA came from a group of law professors. These professors (including the authors of this Article) uniformly acknowledged the need to protect legitimate trade secrets but expressed concerns regarding several aspects of the DTSA,<sup>158</sup> as well as reservations about the broader notion that a federal civil cause of action for trade secret misappropriation was necessary or desirable.<sup>159</sup>

In an August 2014 letter responding to then-pending legislation, thirty-one law professors “urge[d] Congress to reject the proposed legislation to create a new private cause of action under the Economic Espionage Act of 1996.”<sup>160</sup> While “acknowledg[ing] the need to increase protection . . . against domestic and foreign cyber-espionage,” the letter contended that the proposed legislation “is not the way to address those concerns” because it would “create or exacerbate many existing legal problems.”<sup>161</sup> First, the professors argued that existing state law governing trade secrets is “robust” and “substantially uniform,” and that adopting a parallel federal statute for trade secret claims—particularly one that did not preempt existing state law—would result in “less uniformity and predictability” because a new federal law would not necessarily follow existing state law precedent.<sup>162</sup> Notably, this is the very concern that animated the Supreme Court’s decision in *Erie*. Second, the letter raised concerns that the proposed ex parte seizure provision was “not necessary in light of the broad discretion that federal courts already have under the Federal Rules of Civil Procedure” and that this provision could be misused by trade secret holders to harm

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156. See Letter from Theodore H. Davis, Jr., Section of Intellectual Prop. Law, Am. Bar Ass’n, to Senator Charles E. Grassley et al. (Oct. 5, 2015), *reprinted in* 161 CONG. REC. S7252–53 (Oct. 8, 2015).

157. See Letter from Denise W. DeFranco, President, Am. Intellectual Prop. Law Ass’n, to Senator Charles E. Grassley et al. (Dec. 1, 2015), <http://www.aipla.org/advocacy/congress/114C/Documents/AIPLA%20Letter%20Supporting%20S1890%20Trade%20Secret%2012.1.15.pdf>.

158. See generally, David S. Levine & Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 WASH. & LEE L. REV. ONLINE 230 (2015); Goldman, *supra* note 120.

159. See generally Seaman, *supra* note 8; Argento, *supra* note 145.

160. Letter from David S. Levine et al., Professors of Law, to Members of the United States Cong. (Aug. 26, 2014), [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2699735](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2699735) [hereinafter *Professors’ 2014 Letter*].

161. *Id.* at 1.

162. *Id.* at 2.



legitimate competitors.<sup>163</sup> The professors also contended that the legislation could increase the risk of accidental disclosure of trade secret information because defendants would likely challenge the existence of subject matter jurisdiction (specifically, the requirement that the trade secret is “related to a product or service . . . used in interstate or foreign commerce”), and in response, plaintiffs would be compelled to identify and disclose trade secret information early in the litigation process.<sup>164</sup> Finally, the letter argued that federal legislation may have a negative impact on innovation, as threats of misappropriation claims against former employees who join a competitor or start their own business might “limit mobility of labor and potential innovation collaboration” by “reducing the diffusion of skills and knowledge and stifling the innovation that flows from the sharing of ideas and information.”<sup>165</sup>

In response to the DTSA’s reintroduction the following year, a second letter signed by forty-two law professors reiterated and expanded upon these arguments.<sup>166</sup> First, the letter expressed continued concern that the bill’s *ex parte* seizure provision—although narrower than in previous proposals—“still contains significant potential to cause anticompetitive harm, particularly against U.S.-based small businesses, startups, and other entrepreneurs.” It also argued that the *ex parte* seizure provision was “impermissibly vague” and “may result in significant harm to [an] alleged misappropriator’s legitimate business operations.”<sup>167</sup> Second, it asserted that the DTSA “appears to implicitly recognize the so-called inevitable disclosure doctrine,” which permits trade secret holders to obtain injunctive relief against a former employee if the employee’s new job “will inevitably lead [him or her] to rely on the plaintiff’s trade secrets.”<sup>168</sup> Federal adoption of the inevitable disclosure doctrine, the professors argued, could harm innovation by decreasing labor mobility.<sup>169</sup> In addition, it would conflict with existing law in some states, like California, that have rejected the

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163. *Id.* at 3–5.

164. *Id.* at 5.

165. *Id.* at 6.

166. Letter from Eric Goldman et al., Professors of Law, Charles E. Grassley, Chairperson, United States Senate Judiciary Comm. (Nov. 17, 2015), <https://cyberlaw.stanford.edu/files/blogs/2015%20Professors%20Letter%20in%20Opposition%20to%20DTSA%20FINAL.pdf> [hereinafter *Professors’ 2015 Letter*].

167. *Id.* at 3.

168. *Id.* at 4.

169. *Id.* at 5.

doctrine as a matter of long-standing public policy.<sup>170</sup> Third, the letter contended that the DTSA would likely increase the length and cost of trade secret litigation, including through the liberal discovery permitted under the Federal Rules of Civil Procedure.<sup>171</sup> Finally, it reasserted that, contrary to the sponsors' assertions, the DTSA would result in less uniformity.<sup>172</sup> While the law professors ultimately could not stop the DTSA's enactment, their advocacy resulted in numerous changes to the pending legislation.

### III. INTERPRETATIVE RULES AND METHODOLOGIES OF THE FEDERAL COURTS

With the DTSA's enactment, we have a federal statute but little federal jurisprudence to guide us as to the meaning of many of its provisions.<sup>173</sup> Since the DTSA is modeled after the UTSA, incorporating several of its provisions verbatim, some appear to assume that the two will be interpreted and applied consistently.<sup>174</sup> But the federal courts' approach to statutory interpretation and post-*Erie* jurisprudence concerning the development and scope of "federal common law" do not necessarily support such an assumption.<sup>175</sup> Moreover, even if federal courts do turn to existing state trade secret law to help interpret or fill gaps in the DTSA's text,<sup>176</sup> they will

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170. *Id.* (citing *White v. Schlage Lock Co.*, 125 Cal. Rptr. 2d 277, 291–94 (Ct. App. 2002)); *see also* Letter from Sharon K. Sandeen, Professor of Law, Hamline Univ. School of Law, to Senator Dianne Feinstein (Aug. 24, 2014) (on file with authors) (explaining the long-standing public policy of California).

171. *Professors' 2015 Letter*, *supra* note 166, at 5–6.

172. *Id.* at 6–7.

173. Some federal jurisprudence exists with respect to the original Economic Espionage Act of 1996 (EEA), but given recent amendments to the EEA by the DTSA and the Theft of Trade Secrets Clarification Act of 2012, Pub. L. No. 112-236, 126 Stat. 1627, there is still a lot of "old" and "new" language to construe.

174. *See, e.g.*, ROBERT MERGES, PETER S. MENELL & MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE: 2017, VOL. I: PERSPECTIVES, TRADE SECRETS, AND PATENTS* 43–44 (noting that 47 of 50 states have adopted the UTSA, and stating that the Defend Trade Secrets Act "brought uniformity of federal law without significantly changing the rules that have developed in state law").

175. *See* 19 CHARLES ALAN WRIGHT ET AL., *FEDERAL PRACTICE AND PROCEDURE* § 4514–20 (3d ed. 2016).

176. *See id.* § 4518 (explaining that federal courts apply the forum's state law when either "a federal statute . . . directs that forum state law is to be applied, or as a matter of discretion in the exercise of their power to determine the content of federal common law"); *cf. Semtek Int'l, Inc. v. Lockheed Martin Corp.*, 531 U.S. 497, 504–09 (2001) (electing as a matter of federal common law to adopt state substantive law regarding the preclusive effect of a federal court's judgment in a diversity action because it would promote *Erie* uniformity).



also be faced with the potentially significant question of *which* state law to apply, as the substance of state trade secret law may vary.<sup>177</sup> Thus, although one of the asserted purposes for the DTSA was greater national uniformity (as opposed to *Erie* uniformity), this may be unachievable if federal courts follow forum state precedent, thus federalizing any existing conflicts between states' law.<sup>178</sup>

As further explained below, courts applying the DTSA will be confronted with two separate but overlapping approaches. The first is the familiar process of statutory interpretation based upon the statutory text, congressional intent, legislative history, and other rules and canons of statutory construction. But in cases where these sources fail to provide clear answers—which we think will be common—courts may turn to other sources of law to resolve ambiguities and fill gaps in the DTSA's language, the latter process being known as “interstitial lawmaking” that results in the creation of “specialized federal common law.”<sup>179</sup> Thus, despite *Erie*'s famous proclamation that “there is no federal general common law,”<sup>180</sup> federal courts since *Erie* have developed interstitial federal common law in numerous areas, running the gamut from disputes involving comprehensive and preemptive federal statutes to purely state-based causes of action that affect a “uniquely federal interest.”<sup>181</sup> Unfortunately, federal courts are not always careful to delineate when they engage in statutory interpretation or in gap-filling, leading a group of civil procedure experts to explain:

The demarcation between ‘statutory interpretation’ or ‘constitutional interpretation,’ on the one hand, and judge-made law on the other, is not a sharp line. Statutory interpretation shades

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177. See H.R. REP. NO. 114-529, at 4 (2016) (“While 48 states have adopted variations of the UTSA, the state laws vary in a number of ways . . .”).

178. The opponents of the DTSA, including the authors of this Article and even some of its supporters, asserted that claims of a lack of uniformity in state trade secret law were grossly overstated because most states have adopted the UTSA with minimal, if any, changes to its core provisions. See *Professors' 2014 Letter*, *supra* note 160, at 2; *Professors' 2015 Letter*, *supra* note 166, at 6–8.

179. WRIGHT ET AL., *supra* note 175, § 4514; see also Radha A. Pathak, *Incorporate State Law*, 61 CASE W. RES. L. REV. 823, 841 (2011) (“It should be acknowledged that such gap-filling is conceived by some as the creation of federal common law and by others as statutory interpretation.”).

180. *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 78 (1938).

181. See, e.g., *Clearfield Tr. Co. v. United States*, 318 U.S. 363, 367 (1943) (“In absence of an applicable Act of Congress it is for the federal courts to fashion the governing rule of law according to their own standards.”); see also Jay Tidmarsh & Brian J. Murray, *A Theory of Federal Common Law*, 100 NW. U. L. REV. 585 (2006).

into judicial lawmaking on a spectrum, as specific evidence of legislative advertence to the issue at hand attenuates.<sup>182</sup>

The rest of this Part explains the two processes at a macro-level and discusses several cases and issues for illustrative purposes. Part IV then examines specific provisions of the DTSA using these rules and methodologies.

#### A. RULES OF STATUTORY INTERPRETATION

After reading numerous decisions by federal judges, one is struck by the variety of approaches to statutory interpretation. This is due in part to the different interpretive methodologies and sources that federal courts may use to determine the meaning of a statute.<sup>183</sup> It also depends on how detailed the federal law is and whether it provides meaning on the face of the statute itself or requires gap-filling. From a reading of recent Supreme Court cases, however, some general principles emerge that likely will be followed in interpreting the DTSA.<sup>184</sup>

##### 1. *Intent of Congress as Expressed in the Language of the Statute*

The process of statutory interpretation begins with the language of the statute itself.<sup>185</sup> At this initial stage, courts avoid extrinsic sources of information concerning congressional intent because Congress is presumed to have intended what it said and “the objective of statutory interpretation

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182. PAUL M. BATOR, DANIEL J. MELTZER, PAUL J. MISHKIN & DAVID L. SHAPIRO, HART AND WECHSLER’S THE FEDERAL COURTS AND THE FEDERAL SYSTEM 863 (3d ed. 1988); see also Peter Westen & Jeffrey S. Lehman, *Is There Life for Erie After the Death of Diversity?*, 78 MICH. L. REV. 311, 330–41 (1980).

183. See, e.g., Paul J. Mishkin, *The Variousness of “Federal Law”*: Competence and Discretion in the Choice of National and State Rules for Decision, 105 U. PA. L. REV. 797 (1957).

184. For a general description of this process and the applicable hierarchy, see LARRY M. EIG, CONG. RESEARCH SERV., STATUTORY INTERPRETATION: GENERAL PRINCIPLES AND RECENT TRENDS (2011), <https://fas.org/sgp/crs/misc/97-589.pdf>. Although this report provides an overview of statutory interpretation methods and does not comprehensively address all scholarship on the topic of statutory interpretation, it is significant because it is intended to serve as a guide for Members of Congress and their staff. See Abbe R. Gluck & Lisa Schultz Bressman, *Statutory Interpretation from the Inside—An Empirical Study of Congressional Drafting, Delegation, and the Canons: Part I*, 65 STAN. L. REV. 901 (2013) (presenting the results of the largest empirical study to date of congressional staff statutory drafting practices and knowledge of the rules of statutory interpretation).

185. See *Lamie v. United States Tr.*, 540 U.S. 526, 534 (2004) (“[T]he starting point in determining congressional intent is statutory language . . . .”); *Cmty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739 (1989) (“The starting point for our interpretation of a statute is always its language.”).

is to give effect to the intent of Congress.”<sup>186</sup> Where congressional intent is clear, there is no role for the federal courts other than to apply the law as written.<sup>187</sup>

In a perfect world, a statute’s language would be complete and unambiguous, but because this is not always the case, other rules of statutory interpretation have been developed to assist courts in determining and applying Congress’ intent. After reading the statute for guidance, including applicable statutory definitions, courts typically consult: (1) a dictionary, particularly if a term used in a statute is not defined by the statute; (2) the entirety of the statute and the context of the language at issue; (3) canons of statutory interpretation; and (4) legislative history, although some disapprove of this practice.<sup>188</sup>

## 2. *Statutory Definitions*

Unless words used in a statute have statutory definitions, they “will be interpreted as taking their ordinary, contemporary, common meaning.”<sup>189</sup> Where statutory definitions are provided, they control even if they differ from the common meaning.<sup>190</sup> An example of this exists in the DTSA where the term “employee,” as used in the whistleblower provision, is defined in a way that is inconsistent with the common meaning of that term because it includes a “contractor or consultant of the employer” as part of that definition.<sup>191</sup>

While the DTSA includes a definition section for terms like “improper,” “trade secret,” and “misappropriation,”<sup>192</sup> many of the words and phrases used in those provisions are themselves undefined. This includes the key concepts of “generally known,” “readily ascertainable,”

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186. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1390 (2013) (internal quotation marks omitted).

187. EIG, *supra* note 184, at 5 (quoting *Conn. Nat’l Bank v. Germain*, 503 U.S. 249, 253–54 (1992)).

188. Compare ANTONIN SCALIA & BRYAN A. GARNER, *READING LAW* (1st ed. 2012), with William N. Eskridge, Jr., *Norms, Empiricism, and Canons in Statutory Interpretation*, 66 U. CHI. L. REV. 671 (1999).

189. *Diamond v. Diehr*, 450 U.S. 175, 182 (1981); see also *Will v. Mich. Dep’t of State Police*, 491 U.S. 58, 64 (1989).

190. EIG, *supra* note 184, at 6.

191. Compare 18 U.S.C. § 1833(2)(b)(4) (2012), with RESTATEMENT (THIRD) OF AGENCY § 7.07 (AM. LAW INST. 2006) (defining an employee). Such definition is, however, consistent with language in the False Claims Act, which gives “employees, contractors, and agents” standing to seek relief from retaliatory actions relating to whistleblowing activity. See 31 U.S.C. § 3730(h)(1) (2012).

192. 18 U.S.C. § 1839 (2012 & Supp. IV 2016).

“economic value,” and “reasonable efforts” that are embedded in the definition of a trade secret. Thus, even for those parts of the DTSA where definitions exist, federal courts still may have to look elsewhere for guidance in determining their meaning. Hopefully, they will look to the “ordinary meaning” of those terms as they have developed under state trade secret law, but courts may not, particularly where a clear and ordinary meaning has yet to develop under state law.<sup>193</sup>

Although definitions of similar words and phrases may exist in other federal statutes, the preference for statutory definitions ordinarily does not apply to definitions contained in other statutes.<sup>194</sup> Thus, federal courts will interpret the same terms within a statute the same way, but not necessarily consistent with the same language found elsewhere.<sup>195</sup> However, this is not an ironclad rule. For example, a canon of construction known as “the borrowed statute rule”<sup>196</sup> may result in definitions from other statutes (federal or state) being applied if the subject provisions were clearly “borrowed” from the other statute. Moreover, when filling gaps in a statute, it is not unheard of for federal courts to rely upon definitions contained in other statutes.<sup>197</sup> This illustrates how the process of statutory interpretation is convoluted and why the process of filling gaps in a statute may rely on different sources of information than is used in statutory interpretation.

When federal law directly incorporates definitions from other statutes—as is the case with many provisions of the DTSA, including the definition of misappropriation and the remedies provision—the borrowed statute rule directs courts to look to the statute from which the language was borrowed for guidance as to its meaning. Further complicating the process, federal courts may look to state law for a definition when a word is not defined by a federal statute and a dictionary definition does not make sense given the purpose and context of the federal statute.<sup>198</sup>

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193. For example, the definition of “economic value” under state law is both unsettled and under-theorized. See Eric E. Johnson, *Trade Secret Subject Matter*, 33 *HAMLIN L. REV.* 545 (2010).

194. See, e.g., *Gross v. FBL Fin. Servs., Inc.*, 557 U.S. 167, 174 (2009) (“When conducting statutory interpretation, the Court ‘must be careful not to apply rules applicable under one statute to a different statute without careful and critical examination.’” (quoting *Fed. Express Corp. v. Holowecki*, 552 U.S. 389, 393 (2008))).

195. See *Sullivan v. Strop*, 496 U.S. 478, 484 (1990); see also *United Sav. Ass’n of Tex. v. Timbers of Inwood Forest Assocs.*, 484 U.S. 365, 371 (1988).

196. See *infra* notes 218–221 and accompanying text.

197. See, e.g., *Ins. Co. of the West v. United States*, 243 F.3d 1367, 1373 (Fed. Cir. 2001) (looking to analogous statute to establish waiver of sovereign immunity).

198. See, e.g., *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739 (1989)

How the incorporation of another statute into a federal statute is worded determines whether the law to be consulted is that which existed as of the time the subject federal statute was enacted or as it has continued to evolve since that time. If a federal statute specifically incorporates language from another statute, the meaning applied is that which existed on the date the federal statute incorporating such language was enacted.<sup>199</sup> But where the federal statute states, by general reference, that another law applies, then it is presumed that Congress intended the ongoing borrowing of that law as it evolves and changes.<sup>200</sup> However, in both situations, “[b]ecause state law applies as a matter of choice in the incorporated state-law context, the *Erie* obligation to apply state law accurately does not apply.”<sup>201</sup>

Like statutory language generally, statutory definitions can themselves be ambiguous and incomplete, thus requiring courts to rely upon extrinsic sources of information to determine their meaning. These sources might include dictionary definitions and statutory context, as well as interpretations given to the terms by relevant administrative agencies.<sup>202</sup> Where the federal statutory definition is incorporated from state law, as is the case with the definitions of “trade secret,” “misappropriation,” and “improper means” in the DTSA, the extrinsic sources may be based on state law.<sup>203</sup>

### 3. Dictionary Definitions

If a statutory definition is ambiguous, federal courts often look at a dictionary of general distribution published around the same time as the

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(applying the definition of “employee” and “scope of employment” set forth in the Restatement of Agency for the work made for hire doctrine in the Copyright Act, 17 U.S.C. §§ 101, 201 (2012)).

199. See EIG, *supra* note 184, at 39 (“[I]ncorporations by ‘general reference’ normally include subsequent amendments, but . . . incorporations by ‘specific reference’ normally do not.”) (citing NORMAN J. SINGER & J.D. SHAMBIE SINGER, 2B SUTHERLAND STATUTES AND STATUTORY CONSTRUCTION §51.07 (6th ed. 2000)).

200. *Id.*

201. Pathak, *supra* note 179, at 845; see also Louise Weinberg, *Federal Common Law*, 83 NW. U. L. REV. 805, 838 (1989) (“When the relevant sovereign is identified to be ‘the nation,’ we know that any law for the issue, state or federal, will be fashioned on the basis of, or constrained by limits reflecting, *national* policy concerns.”).

202. See *Chevron U.S.A., Inc. v. Nat. Res. Def. Council, Inc.*, 467 U.S. 837 (1984).

203. See, e.g., *Reid*, 490 U.S. at 739 (applying the definition of “employee” and “scope of employment” set forth in the Restatement of Agency for the work made for hire doctrine in the Copyright Act, 17 U.S.C. §§ 101, 201).

statutory enactment.<sup>204</sup> Issues that arise in applying this rule include deciding upon the proper dictionary and the multiple meanings of some words.<sup>205</sup> And even when a word is defined in a dictionary, sometimes a court will determine that, given the purpose of the legislation and the placement of the word in context, the dictionary definition is not helpful.<sup>206</sup> This is particularly true with words and phrases that have become “words of art” in a particular field or that have a specialized legal meaning.<sup>207</sup> For instance, both the UTSA and the DTSA use the term “generally known,” which might be interpreted to mean “generally known to the public.” However, under longstanding principles of trade secret law, it also means generally known *within a specific industry*, even if the information is not well-known among the general public.<sup>208</sup>

#### 4. *The Importance of Context*

Sometimes, the words and phrases that are used in a statute have multiple definitions or are not defined in a dictionary at all, thereby requiring federal courts to resort to other canons of statutory interpretation. One such canon states that ambiguous language should be considered in light of the entirety of the statute, which can provide a better understanding of Congress’s intent than an isolated word.<sup>209</sup> As one court explained:

[R]easonable statutory interpretation must account for both “the specific context in which . . . language is used” and “the broader context of the statute as a whole.” A statutory “provision that may seem ambiguous in isolation is often clarified by the remainder of the statutory scheme . . . because only one of the permissible

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204. See *St. Francis Coll. v. Al-Khazraji*, 481 U.S. 604, 610–11 (1987). However, a court will not consider “idiosyncratic” dictionary definitions. See *MCI Telecomms. Corp. v. AT&T Co.*, 512 U.S. 218, 225–30 (1994).

205. See *MCI Telecomms. Corp.*, 512 U.S. at 225–30.

206. See, e.g., *Bullock v. BankChampaign, N.A.*, 133 S. Ct. 1754, 1758 (2013) (finding dictionary definitions of “defalcation” to be “not particularly helpful”).

207. See, e.g., Karl N. Llewellyn, *Remarks on the Theory of Appellate Decision and the Rules or Canons About How Statutes Are to Be Construed*, 3 VAND. L. REV. 395, 404 (1950) (“Words are to be taken in their ordinary meaning unless they are technical terms or words of art.”).

208. See UTSA § 1 cmt.

209. See *EIG*, *supra* note 184, at 4–5.



meanings produces a substantive effect that is compatible with the rest of the law.”<sup>210</sup>

Thus, each statutory provision should be read with reference to the whole act,<sup>211</sup> which in the case of the DTSA may include the uncodified “Sense of Congress” and the EEA as amended by the DTSA.<sup>212</sup>

### 5. *Other Canons of Statutory Construction*

Over the years, courts have developed a large number of discretionary canons to assist in interpreting statutes.<sup>213</sup> Thus, although the rule that a statute should be interpreted in accordance with its language is “the preeminent canon of statutory interpretation,” other canons may be utilized where appropriate.<sup>214</sup> However, while these canons of construction can prove useful, they are not mandatory and cannot be applied if inconsistent with congressional intent.<sup>215</sup> Rather, they “are designed to help judges determine the Legislature’s intent as embodied in particular statutory language” and “other circumstances evidencing congressional intent can overcome their force.”<sup>216</sup> Also, one canon may be countered by another, making it difficult to predict which of them a court will apply.<sup>217</sup>

How canons of statutory interpretation are likely to be applied to the DTSA are examined in Part IV; for present purposes, it is worth highlighting a few of them, particularly those that may lead federal courts to rely on state law (including the UTSA and cases that interpret it) when interpreting the meaning of the DTSA.

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210. *Util. Air Regulatory Grp. v. EPA*, 134 S. Ct. 2427, 2442 (2014) (quoting *Robinson v. Shell Oil Co.*, 519 U.S. 337, 341 (1997); *United Sav. Ass’n of Tex. v. Timbers of Inwood Forest Assocs.*, 484 U.S. 365, 371 (1988)).

211. *See* *John Hancock Mut. Life Ins. Co. v. Harris Tr. & Sav. Bank*, 510 U.S. 86, 94–95 (1993); *Pavelic & Leflore v. Marvel Entm’t Grp.*, 493 U.S. 120, 123–24 (1989).

212. *See* EIG, *supra* note 184, at 35 (discussing the difference between a statement of purpose and a sense of Congress).

213. For a complete list, see WILLIAM N. ESKRIDGE, JR., PHILIP R. FRICKEY & ELIZABETH GARRETT, *CASES AND MATERIALS ON LEGISLATION: STATUTES AND THE CREATION OF PUBLIC POLICY* 817–18 (4th ed. 2007). *See also generally* Llewellyn, *supra* note 207.

214. *BedRoc Ltd., LLC v. United States*, 541 U.S. 176, 183 (2004).

215. *See* *Circuit City Stores, Inc. v. Adams*, 532 U.S. 105, 115 (2001).

216. *Chickasaw Nation v. U.S.*, 534 U.S. 84, 94 (2001).

217. *See* *POM Wonderful, LLC v. Coca-Cola Co.*, 134 S. Ct. 2228, 2236–37 (2014).

a) The Borrowed Statute Rule

Since the DTSA is based upon the earlier adopted UTSA, as well as some aspects of federal trademark and whistleblower laws and the rules of civil procedure, the most significant of the canons of construction is likely to be the “borrowed statute rule.” This rule provides that when Congress borrows a statute from another source, it also implicitly adopts prior interpretations placed on that statute, absent an express statement to the contrary.<sup>218</sup> However, this canon only applies if the interpretation in question has garnered widespread acceptance, and it does not apply if the federal statute departs from the borrowed statute in “significant ways.”<sup>219</sup> Moreover, as noted previously, there is a difference between the specific incorporation of another statute into a federal law and a general reference to state law.<sup>220</sup>

The borrowed statute rule is most relevant to language from the UTSA that is directly incorporated into the DTSA, such as the definition of misappropriation. This helps explain why many have been quick to assume that UTSA jurisprudence will likely apply to the DTSA. However, because the UTSA itself is not a state statute, but rather a privately-established *uniform law* that has been adopted (sometimes with modifications) by individual states, it is not clear that federal courts will adopt interpretations based on the wording and commentary of the UTSA itself, as opposed to state judicial decisions that have interpreted the enacted version of the UTSA within their jurisdiction. This is significant because, while the adoption of the UTSA by the states is much more uniform than the proponents of the DTSA asserted, there are differences in how states have interpreted and applied several key provisions of the UTSA. Additionally, due to the direct incorporation of language from the UTSA into the DTSA, whether a federal court looks to the UTSA or the forum state’s version of the UTSA, it is likely to apply the law that existed as of the date of the

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218. See *Molzof v. United States*, 502 U.S. 301, 307 (1992) (adopting the several states definition of “punitive damages”); *Metro. Life Ins. Co. v. Taylor*, 481 U.S. 58, 65–66 (1987) (holding that because ERISA contained nearly identical language to the LMRA, ERISA must be interpreted in accordance with the LMRA).

219. See *Shannon v. United States*, 512 U.S. 573, 581 (1994) (declining to construe the Insanity Defense Reform Act of 1984 in accordance with prior judicial interpretations of the District of Columbia statute upon which the Act was based).

220. See Pathak, *supra* note 179, at 827 n.17 (listing examples of federal laws that take the latter approach).



DTSA's enactment.<sup>221</sup> Finally, as discussed further below, the borrowed statute rule will not necessarily serve to fill gaps in the DTSA, unless federal courts are willing to use state judicial decisions that have filled those gaps. If the federal courts choose to fill gaps themselves, will they use the UTSA and its commentary, the law of the forum state, the law of another state, or common law as reflected in the Restatement series?

b) Presumption in Favor of the Common Law

Another canon of statutory construction states that “when a statute covers an issue previously governed by the common law, [courts] must presume that ‘Congress intended to retain the substance of the common law.’”<sup>222</sup> This canon is particularly strong with respect to individual words and phrases that are not otherwise defined in a federal statute.<sup>223</sup> However, if a federal court determines that applying a common law definition or tradition is inconsistent with the federal statutory purpose, it will depart from the common law.<sup>224</sup>

As the history of U.S. trade secret law reveals, there is a rich body of common law related to trade secrets dating back nearly two centuries,<sup>225</sup> making the common law's application to the DTSA plausible.<sup>226</sup> Much of

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221. See *supra* notes 199–200 and accompanying text. Fortunately, because the USTA has been in existence for nearly forty years, much of its terminology is well-settled, particularly in states where it was adopted during the last century, but there remain some issues that are unclear, such as the meaning of “independent economic value.” See Robert Damion Jurens, *Fool Me Once: U.S. v. Aleynikov and the Theft of Trade Secrets Clarification Act of 2012*, 28 BERKELEY TECH. L.J. 833, 835 (2013) (describing the widespread adoption of the USTA over the past thirty–nine years).

222. *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1363 (2013) (relying upon the common law “first sale doctrine” to interpret language in the 1976 Copyright Act) (internal quotation marks omitted) (internal citation omitted).

223. See *Nationwide Mut. Ins. Co. v. Darden*, 503 U.S. 318, 323–24 (1992) (common law definition of employee); *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 98–99 (1991) (state corporation law); *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 739–40 (1989) (common law of agency).

224. See *Taylor v. United States*, 495 U.S. 575, 593–95 (1990) (refusing to follow the common law meaning of “bribery” because doing so would be plainly inconsistent with the statutory purpose); *Consolidated Rail v. Gottshall*, 512 U.S. 532, 542–44 (1994).

225. See *supra* Section II.A.

226. Cf. *Bilski v. Kappos*, 561 U.S. 593, 594 (2010) (explaining that common law limitations on the scope of patentable subject matter apply, despite the fact that they are not included in the text of the Patent Act: “While not required by the statutory text, these exceptions are consistent with the notion that a patentable process must be ‘new and useful.’ And, in any case, the exceptions have defined the statute's reach as a matter of statutory stare decisis going back 150 years.”).

this common law is also reflected in both the text and commentary to the UTSA, including the common law rules that trade secrets do not include the general skill and knowledge of an employee and that reverse engineering and independent development are not acts of misappropriation.<sup>227</sup> But there are other common law principles that are critical to trade secret law that are not expressly set forth in either the UTSA or the DTSA, such as the law governing the creation of duties of confidentiality and the ownership of trade secrets. Moreover, application of this canon to the DTSA seems inappropriate with respect to common law principles that the UTSA was designed to supersede or replace. For instance, at the time of the UTSA's adoption, there was a split of authority regarding the availability and proper length of injunctive relief for trade secret misappropriation.<sup>228</sup> Some courts held that injunctive relief could be granted as a penalty and be perpetual,<sup>229</sup> but the drafters of the UTSA rejected this view in favor of placing limits on the length of injunctive relief.<sup>230</sup> Additionally, when coupled with the preference for using the law of the forum state, application of this canon may mean the common law of trade secrecy would be applied by federal courts sitting in Massachusetts and New York (two states that have yet to adopt the UTSA), but not elsewhere.

c) *In Pari Materia*

The canon of construction known as *in pari materia* holds that similar statutes should be interpreted similarly,<sup>231</sup> although courts may interpret a statute differently from its predecessor statutes if the purpose of the

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227. UTSA § 1 cmt.

228. See Richard F. Dole, Jr., *Permanent Injunctive Relief for Trade Secret Misappropriation Without an Express Limit Upon Its Duration: The Uniform Trade Secrets Act Reconsidered*, 17 B.U. J. SCI. & TECH. L. 173, 187–91 (2011) (describing different “common law lines of authority” regarding “the availability and duration of permanent injunctions restraining misappropriation of trade secrets”).

229. See, e.g., *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204 (Tex. App. 1973).

230. See UTSA § 2 cmt. (“Although punitive perpetual injunctions have been granted . . . Section 2(a) of [the UTSA] adopts the position of the trend of authority limiting the duration of injunctive relief.”); see also Sandeen, *supra* note 4, at 514, 519, 532–33 (describing the UTSA’s position on the duration of injunctive relief).

231. See, e.g., *Morales v. TWA, Inc.*, 504 U.S. 374, 383–84 (1992) (interpreting the definition of “related to” in accordance with prior definitions under different statutory schemes); see also *TWA, Inc. v. Indep. Fed’n of Flight Attendants*, 489 U.S. 426, 432–33 (1989); *Comm’ns Workers of Am. v. Beck*, 487 U.S. 735, 750–52 (1988); *Wimberly v. Labor & Indus. Relations Comm’n*, 479 U.S. 511, 517 (1987); *John Hancock Mut. Life Ins. Co. v. Harris Tr. & Sav. Bank*, 510 U.S. 86, 101–06 (1993).

legislation suggests material differences between the two.<sup>232</sup> Because the DTSA's whistleblower provision is not based upon common law or borrowed from a state statute, this canon may be applied because there are a number of existing whistleblower provisions under federal law.<sup>233</sup> Additionally, this canon, together with the rule of lenity, raises issues related to Congress' decision to place the DTSA within an existing criminal statute and thereby adopt preexisting language originally interpreted for another purpose. In this regard, for important constitutional reasons, including concerns about vagueness and overbreadth, criminal statutes are generally scrutinized with more care.<sup>234</sup> As a result, federal court decisions in criminal cases under the EEA are likely to constrain a broad interpretation of the DTSA.

#### d) The Rule of Lenity

The rule of lenity is a canon of statutory construction that is primarily applied to criminal statutes, but can also apply to the interpretation of civil penalties.<sup>235</sup> Generally, "it leads [courts] to favor a more lenient interpretation of a criminal statute 'when after consulting traditional canons of statutory construction, we are left with an ambiguous statute.'"<sup>236</sup> There is a constitutional dimension to this rule that is based upon the demands of due process; that criminal statutes not be vague and overbroad as written and applied.<sup>237</sup> Thus, as with the previous canon, because Congress amended the EEA to add a private civil cause of action (instead of creating a separate civil cause of action outside of the EEA), interpretations of the EEA for purposes of criminal prosecutions are likely to influence how the same language is interpreted for civil purposes.<sup>238</sup> For instance, issues concerning the scope of the federal courts' subject matter jurisdiction have

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232. See *Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 522–25 (1994).

233. See *e.g.*, 26 U.S.C. § 7623(a)–(b) (2012); 15 U.S.C. § 78U-6 (2012); 7 U.S.C. § 28 (2012).

234. See *City of Hous. v. Hill*, 482 U.S. 451, 459 (1987) (ruling that city ordinance regarding obstruction of a police officer in discharge of duty was unconstitutionally overbroad).

235. See *Kasten v. Saint-Gobain Performance Plastics Corp.*, 563 U.S. 1, 16 (2011) (regarding an anti-retaliation provision, finding statute did not warrant application of rule of lenity).

236. *Id.*; see also EIG, *supra* note 184, at 30–31.

237. See EIG, *supra* note 184, at 30; see also generally Shon Hopwood, *Clarity in Criminal Law*, 54 AM. CRIM. L. REV. 695 (2017) (explaining the purpose and history of the "rule of lenity" for interpreting criminal statutes).

238. See, *e.g.*, *Leocal v. Ashcroft*, 543 U.S. 1, 11–12 & n. 8 (2004) (interpreting "crime of violence" in criminal statute and applying it to noncriminal deportation context).

already arisen under the EEA.<sup>239</sup> Because the DTSA uses similar language, one can expect rulings concerning the federal courts' jurisdiction to hear EEA cases to also define the scope of jurisdiction under the DTSA.

### 6. *Legislative History*

Opinions concerning the role of legislative history in statutory interpretation differ, ranging from those who believe that legislative history is irrelevant and should never be consulted, to those who assert that legislative history has long been, and should remain, an important tool of statutory construction.<sup>240</sup> As a critic of legislative history, Justice Scalia explained: "In analyzing a statute, we begin by examining the text . . . not by 'psychoanalyzing those who enacted it.'"<sup>241</sup> However, not all federal judges hold Justice Scalia's perspective. Moreover, the use of legislative history often depends upon its nature and purpose.<sup>242</sup> Legislative intent language that is set forth in the legislation itself will often be consulted. Additionally, even if federal courts are unwilling to use legislative history for purposes of statutory interpretation, they may consider it as part of the interstitial lawmaking process.

### B. FEDERAL COMMON LAW AND RULES FOR FILLING GAPS

Despite the rules of statutory interpretation, the meaning of a statute cannot always be determined by the statute itself—particularly if the text of the statute is silent on an issue. In these situations, and sometimes dependent on the same sources, federal courts may elect to fill gaps in federal statutes and make federal common law.<sup>243</sup>

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239. *See infra* Section IV.A.1.

240. *Compare* GUIDO CALABRESI, A COMMON LAW FOR THE AGE OF STATUTES 31–43 (1982), *with* ANTONIN SCALIA, A MATTER OF INTERPRETATION: FEDERAL COURTS AND THE LAW 31 (1997).

241. *Carter v. United States*, 530 U.S. 255, 270–71 (2000) (quoting *Bank One Chi., N.A. v. Midwest Bank & Tr. Co.*, 516 U.S. 264, 279 (1996) (Scalia, J., concurring in part and concurring in judgment)).

242. The legislative history of the 1976 Copyright Act is often relied upon by federal judges, in part, because it consists of numerous reports that were prepared during an extensive drafting process. *See e.g.*, *Cnty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 743 (1989).

243. *See United States v. Little Lake Misere Land Co., Inc.*, 412 U.S. 580, 593 (1973) (“[T]he inevitable incompleteness presented by all legislation means that interstitial federal law making is a basic responsibility of the federal courts.”); *see also* Weinberg, *supra* note 201, at 838 (“When the relevant sovereign is identified to be ‘the nation,’ we know that any law for the issue, state or federal, will be fashioned on the basis of, or constrained by limits reflecting, *national* policy concerns.”).

When applied, the process of federal lawmaking to fill gaps in a statutory scheme consists of two basic steps.<sup>244</sup> First, it must be determined if federal courts have the “competence” (power) to make federal common law. At this step, federal courts frequently look at legislative history to determine if Congress intended to leave certain issues to the federal lawmaking process.<sup>245</sup> Such intent may be express or implied. Generally, the less detailed a federal statute, the more likely that Congress intended the federal courts to fill gaps. Second, if power to make federal law exists, federal courts then must determine which body of law to use to fill the gaps.<sup>246</sup> While the Supreme Court has stated a preference for the use of the law of the forum state,<sup>247</sup> for a variety of reasons discussed in Section III.B, courts might look to other sources of law for guidance, such as, in the case of the DTSA, the UTSA and its commentary.

In some circles, the notion that federal courts actually make law is an anathema, but, in fact, lawmaking is a long-standing and necessary part of the judicial process.<sup>248</sup> For a variety of reasons, including the inability or political unwillingness of Congress to address certain issues, federal laws are often written with insufficient detail.<sup>249</sup> Consider the language of section 1 of the Sherman Antitrust Act, which is a single, brief sentence.<sup>250</sup> Because of its brevity, federal courts have been required to both interpret its meaning and fill numerous gaps in its text, including the crucial early decision to read

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244. WRIGHT ET AL., *supra* note 175, § 4514.

245. See Margaret H. Lemos, *Interpretative Methodology and Delegations to Courts: Are “Common Law Statutes” Different?*, in INTELLECTUAL PROPERTY AND THE COMMON LAW (Shyamkrishna Balganesh ed., 2013) (noting that “explicit delegations of substantive lawmaking power to courts are rare” and giving the Federal Rules of Evidence as one example). The Sherman Antitrust Act is frequently cited as an example of implicit lawmaking power.

246. WRIGHT ET AL., *supra* note 175, § 4518.

247. See *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 98 (1991) (“[W]e have indicated that federal courts should ‘incorporat[e] [state law] as the federal rule of decision,’ unless ‘application of [the particular] state law [in question] would frustrate specific objectives of the federal programs.’” (quoting *United States v. Kimbell Foods, Inc.*, 440 U.S. 715, 728 (1979))).

248. See *Hinderlider v. La Palata River & Cherry Creek Ditch Co.*, 304 U.S. 92, 110 (1938) (decided on the very same day as *Erie*); see also Henry Friendly, *In Praise of Erie—And of the New Federal Common Law*, 39 N.Y.U. L. REV. 383, 405 (1964).

249. See WRIGHT ET AL., *supra* note 175, § 4516 (“The need for interstitial lawmaking arises as a consequence of the practical reality that it is impossible for Congress to draft any statute in sufficient detail so that it is completely comprehensive and comprehensible.”).

250. 15 U.S.C. § 1 (2012).

the word “unreasonable” into the statute.<sup>251</sup> Congress always has the power to change or supersede law developed through this process, but it does not always have the will or the votes to do so.<sup>252</sup>

### 1. *Determining the Power of Federal Courts to Fill Gaps*

The first step in the process is for federal courts to determine if they have the authority to make federal common law to fill gaps. The clearest case of such power is a federal statute that indicates congressional intent for courts to fill gaps in the statute, often coupled with language concerning the law to be used.<sup>253</sup> The more difficult cases, particularly in recent years, involve diversity cases based upon state law.<sup>254</sup> Between these extremes are federal question cases based upon a federal statute where an implied delegation by Congress of lawmaking authority to federal courts would have to be found.<sup>255</sup> Sometimes the failure of Congress to provide sufficient specificity is seen as granting such power; other times it requires that the gaps remain until Congress acts.<sup>256</sup> As the Wright & Miller treatise explains:

251. *Bd. of Trade of City of Chi. v. United States*, 246 U.S. 231, 238 (1918); *see also Nat’l Soc’y of Prof’l Eng’rs v. United States*, 435 U.S. 679, 688 (1978) (“The [Sherman Act’s] legislative history makes it perfectly clear that it expected the courts to give shape to the statute’s broad mandate by drawing on common law tradition . . .”). The Lanham Act is an example of a federal intellectual property law that required significant gap-filling that was more often based upon the development of federal common law than state law. Mark P. McKenna, *Trademark Law’s Faux Federalism*, in *INTELLECTUAL PROPERTY AND THE COMMON LAW* (Shyamkrishna Balganesh ed., 2013).

252. *See City of Milwaukee v. Ill. & Mich.*, 451 U.S. 304, 314 (1981) (“Federal common law is a ‘necessary expedient’ . . . and when Congress addresses a question previously governed by a decision rested on federal common law the need for . . . lawmaking by federal courts disappears.” (quoting *Comm. for Consideration of Jones Falls Sewage Sys. v. Train*, 539 F.2d 1006, 1008 (4th Cir. 1976))).

253. This may involve state law being expressly incorporated into federal law by reference without the direct incorporation of the language of a state statute. *See Pathak, supra* note 179; Abbe R. Gluck, *Our [National] Federalism*, 123 *YALE L.J.* 1996, 2020 (2014) (detailing circumstances where Congress has adopted federal laws but then directed federal courts to use state law on specified issues). Two sections of the DTSA provide examples of references to other laws: one directs Congress to look at a provision of the federal Lanham Act, 15 U.S.C. § 1116(d)(11) (2012), for guidance; the other directs federal courts to look at state law governing restraints of trade. *See* 18 U.S.C. § 1836(b)(2)(G) (Supp. IV 2016); *id.* § 1836(b)(3)(i).

254. *See O’Melveny & Myers v. FDIC*, 512 U.S. 79 (1994) (holding in a diversity case that the California rule of decision, rather than a federal rule, governs petitioner’s tort liability).

255. WRIGHT ET AL., *supra* note 175, § 4516.

256. *See, e.g., Elsevier, Inc. v. Comprehensive Microfilm & Scanning Servs., Inc.*, No. 3:10-cv-2513, 2012 WL 727943, at \*4 (M.D. Pa. Mar. 6, 2012) (declining to fill a gap to find a right of contribution under the Lanham Act).



[T]he process of filling the interstices is at some fundamental level an inquiry into congressional intent. But the enterprise of ascertaining this intent is somewhat artificial, because the issues raised in disputes over federal common law competence often are matters Congress simply did not contemplate or, for whatever reason, chose to ignore. Accordingly, the process of filling a statutory “gap” becomes an exercise in assigning significance to silence or inadvertent omission.<sup>257</sup>

The realities of the federal lawmaking process—coupled with the policy behind some Supreme Court Justices’ reluctance to use legislative history in statutory interpretation—explains why there is an increasing insistence that Congress more clearly express its intent, along with some federal courts’ refusals to fill gaps in the absence of such expression of intent.<sup>258</sup> But when the necessity of gap-filling remains, and where Congress has signaled that federal courts can fill gaps, they will do so.

With respect to the DTSA, courts are not dealing with a statute that lacks direction from Congress, but they are not dealing with a gap-less statute either. In fact, at the one hearing on the DTSA in 2015, a senator commented that it is impossible for Congress to adopt a perfect law.<sup>259</sup> Thus, as with other federal statutes—including the federal patent, copyright, and trademark statutes<sup>260</sup>—it is likely that federal courts will find both the need and the power to fill gaps in the DTSA. Because decisions concerning the nature and extent of those gaps, and the law that is used to fill them, may differ among federal courts (at least until the Supreme Court decides an

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257. WRIGHT ET AL., *supra* note 175, § 4516.

258. *See, e.g., Texas Indus., Inc. v. Radcliff Materials, Inc.*, 451 U.S. 630, 647 (2000) (“[W]e are unable to discern any basis in federal statutory or common law that allows federal courts to fashion the relief urged by petitioner . . . .”); *see also* PM Grp. Life Ins. Co. v. W. Growers Assurance Tr., 953 F. 2d. 543 (9th Cir. 1992).

259. *Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm: Hearing on S. 1890 and H.R. 3326 Before the Full S. Comm. on the Judiciary*, 114th Cong. (2015) (statement of Sharon Sandeen, Professor of Law, Hamline University School of Law), <https://www.judiciary.senate.gov/imo/media/doc/12-02-15%20Sandeen%20Testimony.pdf>; *see also* Roderick M. Hills, Jr., *Against Preemption: How Federalism Can Induce the Legislative Process*, 82 N.Y.U. L. REV. 1, 17 (2007) (“[I]f the goal is to mobilize the public to focus its attention on Congress, then it makes sense to choose a default rule that places the burden on the regulated industries to lobby for preemptive legislation, rather than one that places the burden on those anti-preemption interests to lobby for a waiver of preemption.”).

260. *See, e.g., Diamond v. Chakrabarty*, 447 U.S. 303, 315–16 (1980) (holding that non-naturally-occurring microorganisms are patentable under expansive language of 35 U.S.C. § 101).



issue), the “imperfect” aspects of the DTSA are apt to lead to a lack of uniformity.<sup>261</sup>

2. *Deciding What Law to Use to Fill Gaps and to Make Specialized Federal Common Law*

Assuming that federal competence to fill gaps exists, the second step in the federal common lawmaking process is to determine what law should be used to help fill the gaps. The Wright & Miller treatise notes that the power of federal courts to make federal common law is not a high hurdle; the more difficult question is whether federal courts can do so in a manner that “displaces” state law.<sup>262</sup> In other words, although a federal statute is involved, the principles enunciated in *Erie* mean that the process must still pay due respect to state law. The critical language of *Erie* states:

*Except in matters governed by the Federal Constitution or by acts of Congress, the law to be applied in any case is the law of the state. And whether the law of the state shall be declared by its Legislature in a statute or by its highest court in a decision is not a matter of federal concern. There is no federal general common law.*<sup>263</sup>

Importantly, gap-filling under the *Erie* doctrine also has relevance where the applicable “act of Congress” does not directly address an issue.<sup>264</sup> As Justice Scalia explained in *O’Melveny & Myers v. FDIC*, a case in which the Court refused to displace state law:

In answering the central question of displacement of [state] law, we of course would not contradict an explicit federal statutory provision. Nor would we adopt a court-made rule to supplement federal statutory regulation that is comprehensive and detailed; matters left unaddressed in such a scheme are presumably left subject to the disposition provided by state law.<sup>265</sup>

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261. See, e.g., Sandeen, *supra* note 31.

262. See WRIGHT ET AL., *supra* note 175, § 4514 (“[T]here seems to be an easily satisfied threshold for finding sufficient federal interests to justify federal competence, yet . . . there is a reluctance to find that the federal interest is sufficiently strong to justify displacing of forum state law.”).

263. *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 78 (1938) (emphasis added).

264. See, e.g., *De Sylva v. Ballentine*, 351 U.S. 570, 580 (1956) (applying the definition of “children” used in the forum state to fill a gap in the 1909 Copyright Act).

265. *O’Melveny & Myers v. FDIC*, 512 U.S. 79, 85 (1994) (internal quotation marks omitted) (internal citations omitted).

This means that when filling gaps in the DTSA, federal courts will be inclined to consider the law of the forum state first, particularly with respect to language borrowed from state trade secrets law, which is the same allegedly non-uniform law that the DTSA's supporters invoked to justify the law's adoption. Whether and to what extent courts will rely upon sources of law other than the law of the forum state (including, in the case of the DTSA, the UTSA and its commentary) is, as the Wright & Miller treatise explains, "very complicated."<sup>266</sup>

In an attempt to make sense of the jurisprudence, the Wright & Miller treatise identifies three principal exceptions to the preference for the law of the forum state: (1) where there is "significant conflict between some federal policy or interest and the use of state law";<sup>267</sup> (2) where "the policy of the law is so dominated by the sweep of federal statutes that legal restrictions they affect must be deemed governed by federal law";<sup>268</sup> and (3) where there is a "strong national or federal concern originating from the Constitution, from tradition . . . or from practical necessity," including the need for uniformity.<sup>269</sup> The essential issue with respect to the DTSA is whether Congress—which presumably was aware of the Supreme Court's stated preference that federal courts use the law of the forum state to fill gaps—intended for "new" federal common law to be developed instead. Sometimes Congress explicitly states that a state law is preempted or displaced, and other times preemption or displacement must be inferred. A related question is whether any intent to displace the law of the forum state means a total displacement or only a partial displacement.

a) Significant Conflict with Federal Interests

The issue of whether the law of the forum state poses a significant conflict with a federal interest first requires federal courts to determine the federal interest involved.<sup>270</sup> Often, the text and legislative history of the

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266. See WRIGHT ET AL., *supra* note 175, § 4514 ("Whether state law or federal law controls matters *not covered* by the Constitution or an Act of Congress is a very complicated question, one that does not yield to any simple answer in terms of the parties to the suit, the basis of subject-matter jurisdiction, or the source of the right that is to be enforced.") (emphasis added).

267. *Id.* (quoting *Empire Healthchoice Assurance Inc. v. McVeigh*, 547 U.S. 677, 679 (2006)).

268. *Id.* (quoting *Sola Elec. Co. v. Jefferson Elec. Co.*, 317 U.S. 173, 176 (1942)).

269. *Id.*

270. See *O'Melveny & Myers v. FDIC*, 512 U.S. 79 (1994) (noting a failure of the FDIC to identify a federal interest and standing for the proposition that the involvement of a federal entity, alone, is not sufficient).

federal statute indicates the interest, but courts have also found significant conflicts with a federal interest in the absence of a federal statute. When a federal statute like the DTSA is involved, the analysis often focuses on whether Congress intended to “displace” the state law that would normally be used to fill gaps.<sup>271</sup> This concept is similar to the issue of federal preemption of state law, but applies whether or not the federal statute preempts state law because the required conflict “need not be as sharp as must exist for ordinary preemption.”<sup>272</sup> Most cases in this category “implicate the legal relationships and the proprietary interests of the United States.”<sup>273</sup>

The seminal case on the issue of “significant conflicts” is *Clearfield Trust Company v. United States*, decided five years after *Erie*.<sup>274</sup> It involved a check issued by the Works Projects Administration that was accepted for payment by Clearfield Trust despite the endorsement being a forgery.<sup>275</sup> A lawsuit to recover the amount of the check was brought by the United States based upon an express guarantee.<sup>276</sup> Applying Pennsylvania law, the District Court dismissed the lawsuit because the United States failed to give timely notice of the forgery as required by Pennsylvania law.<sup>277</sup> The Court reversed, and the Supreme Court affirmed that decision, finding that “the rights and duties of United States on commercial paper which it issues are governed by federal law rather than state law,” largely due to the constitutional authority under which the commercial paper was issued.<sup>278</sup> In determining which law to apply, the Court reasoned that the need for national uniformity required adoption of a federal rule rather than the law of the forum state.

After *Clearfield*, other cases followed suit, but as Justice Scalia summarized in *O’Melveny & Myers v. FDIC*, the cases of displacement of state law are “few and restricted” and “limited to situations where there is a ‘significant conflict between some federal policy or interest and the use of state law.’”<sup>279</sup> One reason courts have found to ignore the law of the forum

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271. *See id.*

272. *Boyle v. U.S. Techs. Corp.*, 487 U.S. 500, 507 (1988).

273. *WRIGHT ET AL.*, *supra* note 175, § 4515.

274. 318 U.S. 363 (1943)

275. *Id.* at 365.

276. *Id.*

277. *Id.* at 366.

278. *Id.* at 375.

279. *O’Melveny & Myers*, 512 U.S. at 85–86 (quoting *Wheeldin v. Wheeler*, 373 U.S. 647, 651 (1963); *Wallis v. Pan Am. Petrol. Corp.*, 384 U.S. 63, 68 (1966)).

state is due to the “uniquely federal interests” involved, but the list of “uniquely federal interests” is short. It includes cases involving: (1) the obligations and rights of the United States under its contracts;<sup>280</sup> (2) the civil liability of federal officials;<sup>281</sup> (3) federal procurement policy;<sup>282</sup> and (4) “rights of the United States arising under nationwide federal programs.”<sup>283</sup>

Litigants that advocate for a particular interpretation of the DTSA may argue that certain of its provisions, like the whistleblower provision, exhibit a strong federal interest that justifies ignoring forum state law. But it is difficult to make that claim with respect to most of the DTSA since it explicitly recognizes the continuing relevance of state law on many issues.

#### b) Federal Law Dominates the Area Being Regulated

The second exception to the preference for applying the law of the forum state—that “the policy of law is so dominated by the sweep of federal statutes that legal restrictions which they affect must be deemed governed by federal law”—focuses on the degree to which the federal law regulates a particular area. In the absence of specific language, the issue of displacement of state law is conceptually similar to the body of preemption jurisprudence that examines whether federal law “so occupies the field” that it can be presumed that Congress intended that state law be preempted.<sup>284</sup> As the Wright & Miller treatise explains, “[o]ne way to conceptualize [this] judicial power . . . is as an implied delegation by Congress of lawmaking authority to the federal courts.”<sup>285</sup> When the second exception applies, the “strong preference” for application of law of the forum state can be flipped on its head.<sup>286</sup>

There are many examples of federal statutory schemes that have been found to be so comprehensive that federal common law—not the law of the forum state—should be used to fill gaps. These include the Labor

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280. *Boyle v. United Techs. Corp.*, 487 U.S. 500, 504 (1988).

281. *Id.* at 505.

282. *Id.* at 505–06.

283. *United States v. Kimbell Foods, Inc.*, 440 U.S. 715, 726 (1979).

284. *See, e.g., Int’l Paper Co. v. Ouellette*, 479 U.S. 481, 492 (1987) (stating that the Clean Water Act implicitly preempts state claims except where state claims are specifically preserve by the Act’s “saving clause”).

285. WRIGHT ET AL., *supra* note 175, § 4516.

286. For instance, in *Mississippi Band of Choctaw Indians v. Holyfield*, 490 U.S. 30 (1989), the Court expressed an “assumption” against dependence on state law. *Id.* at 43–44.

Management Relations Act,<sup>287</sup> the Fair Labor Standards Act,<sup>288</sup> the National Flood Insurance Program,<sup>289</sup> and the Employment Retirement Income Security Act (ERISA).<sup>290</sup> But the dominance of a federal statute does not always lead to total displacement of the law of the forum state, and even when a court finds an intent to displace forum state law, a principle of state law still may be adopted as federal common law.<sup>291</sup> Thus, although Congress may have the constitutional power to displace state law, sometimes it indicates a preference not to do so.<sup>292</sup> Also, other principles often tip the balance against displacement of state law, explaining why this area of jurisprudence is so complicated.

There is little indication in the text or legislative history of the DTSA that Congress intended to displace state law when filling gaps in the DTSA. To the contrary, the DTSA incorporates several provisions of state law either directly or by reference. It also contains a provision which explicitly states that the DTSA does not preempt or displace state remedies.<sup>293</sup> But the DTSA also contains provisions that are new to trade secret law, or that concern procedural or administrative aspects of the federal courts. As

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287. See WRIGHT ET AL., *supra* note 175, § 4 (“The Supreme Court . . . [held] that Section 301(a) of the [Labor Management Relations] Act . . . authorizes federal courts to fashion a body of federal law for the enforcement of these collective bargaining agreements.”) (internal quotation marks omitted) (internal citation omitted).

288. See, e.g., *Teed v. Thomas & Betts Power Solutions*, 711 F.3d 763, 767 (7th Cir. 2013) (“[T]here is an interest in legal predictability that is served by applying the same standard of successor liability [federal common law] either to all federal statutes that protect employees or to none.”).

289. See WRIGHT ET AL., *supra* note 175, § 4514 n.38 (“Because the National Flood Insurance Program is a statutory program ‘conceived to achieve policies which are national in scope, and since the federal government participates extensively in the program . . . it is clear that the interest of uniformity . . . mandates the application of federal law’ . . . .” (quoting *Flick v. Liberty Mut. Fire Ins. Co.*, 205 F.3d 386, 390 (9th Cir. 2000))).

290. *Id.* n.19 (“It is well settled that federal common law applies . . . to interpret the provisions of an ERISA benefit plan.” (quoting *Morais v. Cent. Beverage Corp. Union Emp.’s Supplemental Ret. Plan*, 167 F.3d 709, 711 (1st Cir. 1999))).

291. The Bankruptcy Code is an example of a comprehensive federal statute where the law of the forum state is applied on many issues, but on other issues the federal courts have developed federal common law. See *Butner v. United States*, 440 U.S. 48, 54 (1979), *superseded in part* by Bankruptcy Reform Act of 1994, Pub. L. No. 103-394 (“The Bankruptcy Act does include provisions invalidating certain security interests as fraudulent, or as improper preferences over general creditors. Apart from these provisions, however, Congress has generally left the determination of property rights in the assets of a bankrupt’s estate to state law.”).

292. See *Butner*, 440 U.S. at 54.

293. 18 U.S.C. § 1838 (2012 & Supp. IV 2016).

discussed further below, these provisions of the DTSA are most likely to result in the development of specialized federal common law to fill gaps.

c) Strong National or Federal Concern Originating from the Constitution, Tradition, or Practical Necessity

On the surface, the third exception to the preference for forum state law may seem similar to the first two, but it often arises in situations where there is no federal statute. It “consists of those actions involving matters that are drawn by implication from the Constitution or based upon tradition or necessity.”<sup>294</sup> An example is the decision of the Supreme Court in *Bivens v. Six Unknown Named Agents of the Federal Bureau of Narcotics* to recognize a private right of action for violation of the Fourth Amendment.<sup>295</sup> But even the seemingly simple principle of looking for federal laws based upon constitutional provisions cannot necessarily override all state law, as cases involving the Patent and Copyright Acts reveal.<sup>296</sup>

With respect to matters of tradition and necessity, it has been recognized that federal courts can extend immunity to legislators,<sup>297</sup> regulate controversies between states,<sup>298</sup> and create federal law governing admiralty and maritime suits.<sup>299</sup> This may also include trade secrets law. For instance, in a trade secret case involving the importation of goods into the United States, the Federal Circuit rejected application of the trade secret law of Illinois, explaining:

The question under section 337 [of the Tariff Act of 1930] is not whether the policy choices of a particular state’s legislature or those reflected in a particular state’s common law rules should be vindicated, but whether goods imported from abroad should be excluded because of a violation of the congressional policy of

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294. WRIGHT ET AL., *supra* note 175, § 4517.

295. 403 U.S. 388 (1971).

296. *See* WRIGHT ET AL., *supra* note 175, § 4517 n.41 (“When a state claim has an extra element ‘so that it is qualitatively different from a copyright [or patent] infringement claim,’ the state law escapes preemption.” (quoting *Summit Mach. Tool Mfg. Corp. v. Victor CNC Sys. Inc.*, 7 F.3d 1434, 1440 (1993))).

297. *See id.* § 4517 (“[T]wo decades before *Bivens* . . . the Court extended to state legislators the immunity provided to federal legislators by the Speech and Debate Clause of the Constitution.” (citing *Tenney v. Brandhove*, 341 U.S. 367 (1951))).

298. *See id.* (“[T]he power of federal courts to create federal common law to govern controversies between states was recognized by the Supreme Court quite early and is extremely well-established.”).

299. *See id.* (“The power of the federal courts to create federal common law governing admiralty and maritime suits . . . is well established, undoubtedly in recognition of the necessity of establishing a national body of substantive law.”).



protecting domestic industries from unfair competition, which is a distinctly federal concern as to which Congress has created a federal remedy. In light of the fact that section 337 deals with international commerce, a field of special federal concern, the case for applying a federal rule of decision is particularly strong.<sup>300</sup>

If a substantive issue of trade secret law arose, the court stated that it would apply principles of trade secret law as expressed in the Restatement (Third) of Unfair Competition, the UTSA, and the EEA.<sup>301</sup>

As with the previous exceptions to the preference for the law of the forum state, the DTSA does not reflect such a strong issue of federal concern that state law will never be used to fill gaps, but there are individual parts of the DTSA that may involve strong federal interests “originating from the Constitution, tradition or practical necessity.” This includes the DTSA’s jurisdictional clause and extraterritoriality provision.<sup>302</sup> Thus, these provisions are more likely to result in the development of specialized federal common law than provisions borrowed from state or common law.

#### d) Other Principles

In addition to the three broad categories of cases identified by the Wright & Miller treatise, there are a number of other principles that might spin the displacement of state law analysis one way or the other and that are often addressed under the three categories discussed above or as part of the statutory interpretation process. The principles that may affect application of the DTSA include:

- The desire for a uniform national standard;<sup>303</sup>
- The administration of the federal courts, including docket control and burdens that are placed on the courts;<sup>304</sup>

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300. *TianRui Grp. Co. v. Int’l Trade Comm’n*, 661 F.3d 1322, 1327 (2011).

301. *Id.* at 1328. It remains to be seen if federal courts will now apply the DTSA in such situations or continue to develop federal common law for such purposes.

302. *See infra* Parts IV.A.1, IV.A.5.

303. *See, e.g., Int’l Paper Co. v. Ouellette*, 479 U.S. 481, 496 (1987) (“[State common law] nuisance standards often are ‘vague’ and ‘indeterminate. The application of numerous States’ laws would only exacerbate the vagueness and resulting uncertainty.”).

304. *See* WRIGHT ET AL., *supra* note 175, § 4514, n.38 (“A federal court may use its supervisory power to formulate procedural rules to ‘administer its docket and preserve the integrity of the judicial process.’” (quoting *United States v. Goodson*, 204 F.3d 508, 514 (2000))).

- Where the issue at hand involves the equitable powers of the court;<sup>305</sup>
- Matters related to access to court records;<sup>306</sup> and
- Where different language is used.<sup>307</sup>

The principles that tend to spin the analysis away from the displacement of state law include:

- Matters traditionally covered by common law;<sup>308</sup>
- Matters on which no federal common law exists;<sup>309</sup>
- Where state law is largely undisturbed by the federal statute;<sup>310</sup>
- Where “private parties have entered legal relationships with the expectation that their rights and obligations would be governed by state-law standards;”<sup>311</sup> and
- Judicial reluctance to create federal common law regarding criminal matters.<sup>312</sup>

As the foregoing indicates, a common argument in favor of federal courts exercising federal lawmaking power and displacing the law of the

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305. *See, e.g.,* LaShawn A. by Moore v. Barry, 144 F.3d 847, 853 (D.C. Cir. 1998) (“[A] federal court has broad equitable powers, and may, in certain instances, override state or local law for the purpose of enforcing a decree designed to remedy violations of federal law.”) (internal citations omitted) (citing *Swann v. Charlotte–Mecklenburg Bd. of Educ.*, 402 U.S. 1, 15 (1971)).

306. *See* *Nixon v. Warner Commc’ns, Inc.*, 435 U.S. 589, 597–98 (1978) (recognizing a common law right to inspect and copy judicial records).

307. *See, e.g.,* *Canova v. Shell Pipeline Co.*, 290 F.3d 753, 756–57 (5th Cir. 2002) (applying general common law principles because state law used a different terminology).

308. *See* *Patterson v. McLean Credit Union*, 491 U.S. 164, 183 (1989) (explaining the Court’s “reluctan[ce] to federalize matters traditionally covered by state common law”) (internal quotation marks omitted) (internal citation omitted).

309. *See, e.g.,* *Brissett v. Ashcroft*, 363 F.3d 130, 133 (2d Cir. 2004) (“Where, as here, there is no extant body of federal common law in the area of law implicated by the statute, we may use state law to inform our interpretation of the [relevant] statutory language.”).

310. *See, e.g.,* *PM Grp. Life Ins. Co. v. W. Growers Assurance Tr.*, 953 F.2d 543, 546 (9th Cir. 1992) (“The case for adopting state law rules is strongest where Congress legislates interstitially, leaving state law largely undisturbed.”).

311. *Kamen v. Kemper Fin. Servs., Inc.*, 500 U.S. 90, 98 (1991).

312. *See, e.g.,* *United States v. Christie*, 717 F.3d 1156, 1170 (10th Cir. 2013) (“With few exceptions, federal courts have abjured the power to fashion a federal common law of crime, holding that the Constitution generally assigns the job of specifying federal crimes and punishments to the Legislative Branch.”).

forum state is the asserted need for uniformity.<sup>313</sup> However, as noted by Justice Scalia in *O'Melveny & Meyers*, if the federal courts accepted the uniformity argument in every case, they would “be awash in federal common law rules.”<sup>314</sup> Thus, federal courts often accept a lack of uniformity either because the federal statute explicitly or implicitly does so, or because another of the above-listed principles applies to counterbalance the asserted benefits of uniformity.<sup>315</sup>

For instance, in *Kamen v. Kemper Financial Services, Inc.*, the Supreme Court overturned a decision of the Court of Appeals that adopted as federal common law a rule of the American Law Institute (ALI) instead of the law of the forum state.<sup>316</sup> Application of the ALI’s “universal demand rule” had resulted in dismissal of the plaintiff’s complaint under the federal Investment Company Act because it abolished the futility exception still applicable in the forum state. Citing *Clearfield*, the Court explained:

[O]ur cases indicate that a court should endeavor to fill the interstices of federal remedial schemes with uniform federal rules only when the scheme in question evidences a distinct need for nationwide standards.<sup>317</sup>

Thus, it was not error for the lower court in *Kamen* to fill gaps in the federal statute, but it drew its rule from the wrong source. The countervailing principle against national uniformity was that the case involved an area of law “in which private parties have entered legal relationships with the expectation that their rights and obligations would be governed by state-law standards.”<sup>318</sup>

With respect to matters typically covered by common law, the best way to think of the principle is as a commonsense constraint on the power of federal courts to make “new” law when state law has already spoken on an issue. As Justice Kennedy explained in *Patterson v. McClean Credit Union*, “[a]lthough we must do so when Congress plainly directs, as a rule we

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313. See Frost, *supra* note 31, at 1574; Sandeen, *supra* note 261.

314. 512 U.S. 79, 88 (1994) (internal quotation marks omitted).

315. See *POM Wonderful LLC v. Coca-Cola Co.*, 134 S. Ct. 2228, 2240 (2014) (“Congress not infrequently permits a certain amount of variability by authorizing a federal cause of action even in areas of law where national uniformity is important.”).

316. 500 U.S. 90 (1991).

317. *Id.* at 98.

318. *Id.* (citing *United States v. Kimbell Foods, Inc.*, 440 U.S. 715, 728–729, 739–40 (1979) (commercial law); *Reconstruction Fin. Corp. v. Beaver County*, 328 U.S. 204, 210 (1946) (property law)); see also *De Sylva v. Ballentine*, 351 U.S. 570, 580–81 (1956) (borrowing from family law because of primary state responsibility).

should be and are reluctant to federalize matters traditionally covered by state common law.”<sup>319</sup> Thus, as a general rule, “[s]tatutes which invade the common law . . . are to be read with a presumption favoring the retention of long-established and familiar principles, except when a statutory purpose to the contrary is evident”<sup>320</sup> and provided the common law is “well-established.”<sup>321</sup>

Based upon the foregoing, the decision to displace state law with “new” federal common law is most prevalent when Congress so directs and when it legislates in an area without a rich common law backdrop. Mark McKenna explained this phenomenon with respect to the Lanham Act (the federal law governing trademarks) when he noted that the paucity of existing state trademark law led to the development of a federal common law to fill gaps in the Lanham Act.<sup>322</sup> Interestingly, the absence of a body of state trademark law was the result of the timing of the *Erie* decision, which occurred several years before the Lanham Act’s adoption, as well as the *Erie* Court’s rejection of “federal general common law,” including that governing federally registered trademarks before 1938. Because states did not have much time before the Lanham Act’s adoption in 1946 to develop a robust set of state trademark principles to replace the pre-*Erie* federal common law, the federal courts did so.<sup>323</sup>

The same cannot be said of the DTSA, which was adopted against the backdrop of a robust set of state trade secret principles that were largely put in place after—and as a result of—*Erie*.<sup>324</sup> But an issue with respect to the DTSA is whether the common law of trade secrecy will continue to be applied by federal courts when such law was displaced in most states by the UTSA. On one hand, the UTSA changed (or at least settled) some common law principles of trade secret law that developed before the UTSA was adopted, but on the other hand, its drafting history and commentary contain statements expressing an intent not to change common law, at least too

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319. 491 U.S. 164, 183 (1989) (internal quotation marks omitted).

320. *Isbrandtsen Co. v. Johnson*, 343 U.S. 779, 783 (1952).

321. *Astoria Fed. Sav. & Loan Ass’n v. Solimino*, 501 U.S. 104, 108 (1991); *cf.* *PM Grp. Life Ins. Co. v. W. Growers Assurance Tr.*, 953 F.2d 543, 546 (9th Cir. 1992) (“The case for adopting state law rules is strongest where Congress legislates interstitially, leaving state law largely undisturbed. Under those circumstances, comity and common sense counsel against exercising the power of federal courts to fashion rules of decision as a matter of federal common law.”).

322. McKenna, *supra* note 251.

323. *Id.*

324. *See* Sandeen, *supra* note 4.

much.<sup>325</sup> Thus, federal courts could, and arguably should, look to the UTSA for the expression of the common law of trade secrecy. If they look instead to the trade secrecy provisions of the Restatement (Third) of Unfair Competition, some differences between the interpretation and application of the UTSA and the DTSA may emerge.

### 3. *Deciding Which State is the Forum State*

When a federal court decides to apply the law of the forum state, either because Congress directed it to do so or because it follows the Supreme Court's preference, a separate issue arises regarding which state's law applies.<sup>326</sup> This is due to the fact that the choice of law rules of the forum state (including enforceable choice of law provisions of a contract) might require another state's law to apply.<sup>327</sup> The extent to which the issue arises in DTSA cases and how the choice of law affects outcomes remains to be seen, but the issue has already arisen in cases under the UTSA.<sup>328</sup>

### 4. *Deciding What Law Will Be Used to Displace the Law of the Forum and Create Specialized Federal Common Law*

The last step in the process of gap-filling is to decide what the federal law will be. In doing so, federal courts create a body of "specialized federal common law" which may be based upon a host of laws and legal principles (including state law) or developed from whole cloth. As the Supreme Court explained in *United States v. Standard Oil Co. of California*, a case decided the same year as *Erie*:

It is true, of course, that in many situations, and apart from any supposed influence of the *Erie* decision, rights, interests and legal relations of the United States are determined by application of state law, where Congress has not acted specifically. In our choice of the applicable federal rule we have occasionally selected state law. . . . In other situations, it may fairly be taken that Congress has consented to application of state law, when acting partially in relation to federal interests and functions, through failure to make other provision concerning matters ordinarily so governed. And in

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325. *Id.*

326. WRIGHT ET AL., *supra* note 175, § 4518.

327. U.S. bankruptcy courts have struggled with these issues in many cases. *Id.*

328. *See, e.g.,* Clorox Co. v. S.C. Johnson & Son, Inc., 627 F. Supp. 2d 954 (2009) (applying California law even though the case was filed in Wisconsin).

still others state law may furnish convenient solutions in no way inconsistent with adequate protection of the federal interest.<sup>329</sup>

The goal of this process, although resulting in the development of federal common law, is always to apply the intent of Congress.<sup>330</sup>

Ironically, after deciding to displace state law, federal courts may decide to adopt state legal principles as federal common law, but not necessarily the law of the forum state.<sup>331</sup> This can happen, for instance, where the law of the forum state is inconsistent with the purpose of the federal statute or is outside the norm of the majority of state laws. As the Miller & Wright treatise explains:

In creating federal common law or determining its content, a court is free to choose any rule it deems appropriate, and it may look for guidance to other federal contexts, to what it perceives to be first principles, to considerations of equity and convenience, or to forum state law.<sup>332</sup>

The sources of law and legal principles that federal courts have used to create federal common law include other federal laws,<sup>333</sup> uniform laws,<sup>334</sup> the “better reasoned” common law as expressed in the Restatement or elsewhere,<sup>335</sup> and principles of equity.<sup>336</sup> But whether these resources are used ultimately depends upon what each federal court deems appropriate and, as a practical matter, what arguments are made by counsel.

For instance, in *Mississippi Band of Choctaw Indians v. Holyfield*, after the Court decided not to follow the law of the forum state (Mississippi), it elected to apply the common law meaning of the term at issue. As the Court

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329. 332 U.S. 301, 308–09 (1947) (internal quotation marks omitted) (internal citations omitted).

330. See, e.g., *Kirtsaeng v. John Wiley & Sons, Inc.*, 133 S. Ct. 1351, 1373 (2013) (Ginsburg, J., concurring) (“In the interpretation of statutes, the function of the courts is easily stated. It is to construe the language so as to give effect to the intent of Congress.”) (internal quotation marks omitted) (internal citation omitted).

331. See, e.g., *Singer v. Black & Decker Corp.*, 964 F.2d 1449, 1453 (1992) (“In fashioning federal common law, courts do not look to the law of a particular state, but rather should apply common-law doctrines best suited to furthering the goals of ERISA . . . .”); see also Pathak, *supra* note 179, at 838 (“The rule maker could have chosen to create a uniform federal rule but it instead decided to adopt a rule from state law. As a formal matter, therefore, the borrowed state law is actually federal law.”).

332. WRIGHT ET AL., *supra* note 175, § 4514.

333. *Id.* § 4518 n.6.

334. *Id.* § 4518 n.9.

335. *Id.*

336. *Id.* § 4518 n.5.



explained, “[t]hat we are dealing with a uniform federal rather than a state definition does not, of course, prevent us from drawing on general state-law principles to determine ‘the ordinary meaning of the words used.’”<sup>337</sup>

*Semtek International Inc. v. Lockheed Martin Corp.*<sup>338</sup> provides another illustration of the process that a federal court may follow when a federal law (in that case, the Federal Rules of Civil Procedure) fails to specifically address an issue. After first finding that neither a cited state rule of decision nor a federal statute applied to answer the question at hand, Justice Scalia, writing for the Court, held that federal common law applies to determine the preclusive effect of a judgment rendered by a federal court sitting in diversity.<sup>339</sup> But having done so, he then looked to the law of the forum state to decide what the “specialized federal common law” should be.<sup>340</sup>

The copyright case of *Community for Creative Non-Violence v. Reid*<sup>341</sup> is an example of the use of Restatement definitions to give meaning to a federal statute. In *Reid*, the Court was required to determine the meanings of “employee” and “scope of employment” as used in the 1976 Copyright Act’s definition of a work made for hire.<sup>342</sup> Because neither term was defined in the Act itself, the Court decided to use the common law definitions, explaining:

It is . . . well established that “[w]here Congress uses terms that have accumulated settled meaning under . . . the common law, a court must infer, unless the statute otherwise dictates, that Congress means to incorporate the established meaning of these terms.” . . . In the past, when Congress has used the term “employee” without defining it, we have concluded that Congress intended to describe the conventional master-servant relationship as understood by common-law agency doctrine.<sup>343</sup>

Thus, *Reid* is an example of a federal court applying the canon of construction that favors application of common law, but one where the Restatement’s explication of common law is adopted instead of the common law of the forum state.

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337. *Id.*

338. 531 U.S. 497 (2001).

339. *Id.* at 508.

340. *Id.*

341. 490 U.S. 730 (1989).

342. *See id.* at 739 (“The Act nowhere defines the terms ‘employee’ or ‘scope of employment.’”).

343. *Id.* at 739–40 (citing *NLRB v. Amax Coal Co.*, 453 U.S. 322, 329 (1981); *Perrin v. United States*, 444 U.S. 37, 42 (1979)).

### C. THE EFFECT OF SPECIALIZED FEDERAL COMMON LAW

As the foregoing sets forth, the development of “specialized federal common law” is the last step in a hierarchical process designed to determine the meaning of a federal statute. While federal courts that engage in this process may make federal law from whole cloth, they often choose to adopt the law of a state or a uniform law. In any case, the significance of creating federal common law is that it “is truly federal law in the sense, by virtue of the Supremacy Clause, [that] it is binding on state courts, as well as in the federal courts.”<sup>344</sup>

The importance of this with respect to the DTSA is that if federal courts (and ultimately the Supreme Court) decide not to use the UTSA as the basis for any specialized federal common law, over time the federal law of trade secrecy may diverge from the UTSA. Imagine, for instance, if courts decide to use the law of New York (a non-UTSA state) instead of the UTSA, either for cases filed in New York or more broadly. Also, consider how the trade secret law of a given state may change if state courts, in considering a DTSA claim,<sup>345</sup> are required to apply federal common law to DTSA claims that are considered alongside parallel claims brought under state trade secret law. Depending upon what the federal common law is, either the two sets of laws will tend to conform, or there will be two different sets of laws, state and federal, leading to potentially divergent outcomes.

## IV. APPLYING THE INTERPRETATIVE RULES AND METHODOLOGIES TO THE DTSA

In this Part, we explore some of the issues that are likely to arise as federal courts apply the foregoing interpretive rules and methodologies to the DTSA. First, we examine portions of the DTSA that are *new* to U.S. trade secret law, including sections of the EEA that were amended by the DTSA. Second, we address parts of the DTSA that were *borrowed* from the UTSA and are expressly defined in the DTSA, such as “misappropriation.” Third, we consider how federal courts may deal with words and concepts in the DTSA that were *borrowed* from the UTSA, but that are *not defined*. Lastly, we provide a list of issues likely to arise in trade secret cases, but which are *not directly addressed* by the DTSA.

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344. WRIGHT ET AL., *supra* note 175, § 4514.

345. The DTSA authorizes original but not exclusive jurisdiction in federal courts, *see* 18 U.S.C. § 1836(c) (Supp. IV 2016), meaning that state courts have concurrent authority to decide claims under the DTSA. (Of course, a defendant sued in state court under the DTSA can remove to federal court pursuant to 28 U.S.C. § 1441(a) (2012).)

### A. INTERPRETING AND APPLYING THE “NEW” LANGUAGE

On the surface, how federal courts should interpret and apply the provisions of the DTSA that are “new” (that is, not contained in the UTSA or the EEA) ostensibly presents the most straightforward of the four scenarios because it should merely be a matter of determining congressional intent as embodied in the statutory text, without any need to consider the UTSA. However, the provisions in question have some ambiguities that suggest courts may need to rely upon extrinsic sources for purposes of statutory interpretation, if not gap-filling.<sup>346</sup> Moreover, several provisions are procedural in nature and therefore involve issues where the federal courts have significant experience. The more significant question is: which extrinsic sources will federal courts look to and what role, if any, will the UTSA and its commentary play in this analysis?

The “new” provisions of the DTSA include one that was the subject of extensive discussion and amendment (the *ex parte* seizure provision); one that was added late in the process and was not the subject of a public hearing where testimony was taken (the whistleblower provision); and several less detailed provisions, most of which deal with issues ordinarily considered to be within the exclusive province of the federal government and its courts (for instance, the federal courts’ jurisdiction; the statute’s extraterritorial provision; and the criminal law provisions of the EEA).

#### 1. *The Commerce Clause Provision*

The provision of the DTSA that creates a civil cause of action (section 1836) contains a jurisdictional clause with three distinct parts.<sup>347</sup> This provision is based primarily upon Congress’ Commerce Clause powers,<sup>348</sup>

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346. Although the two provisions in question are very detailed, gap-filling may be needed for terms that are not defined (such as the meaning of “disclosure” in the whistleblower provision), but as noted previously, sometimes such issues are framed as matters of statutory interpretation rather than gap-filling.

347. See 18 U.S.C. §§ 1836 (Supp. IV 2016) (“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 . . .”).

348. See S. REP. NO. 104-359, at 4 (1996) (explaining for the EEA that “the basis for the protection of proprietary economic information is rooted in . . . the power ‘to regulate Commerce . . . among the several states’”); S. REP. NO. 114-220, at 14 (2016) (“This jurisdictional nexus to interstate or foreign commerce is identical to the existing language required for Federal jurisdiction over the criminal theft of a trade secret. . .”). Interestingly, the House version of the DTSA as introduced also relied on the Patent and Copyright Clause, U.S. CONST. art. I, § 8, cl. 8, as constitutional authority for the law, 161 CONG. REC. H5772 (daily ed. July 29, 2015), even though the DTSA provides that it “shall not be

but its language predates the DTSA because it is modeled after similar text in its predecessor, the EEA.<sup>349</sup> It provides that:

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.*<sup>350</sup>

What it means for trade secrets to be (1) “related to a product or service,” (2) “used in, or intended for use in,” and (3) “interstate or foreign commerce” are the critical questions, but none of this terminology is further defined in the DTSA. Nor is such terminology part of the UTSA or the common law of trade secrecy. As a result, if it is deemed ambiguous, courts will likely turn to precedents under the EEA and the language and legislative history of the DTSA to determine the meaning of these phrases.

Based upon comments by the DTSA’s proponents, some apparently assume that the DTSA’s jurisdictional requirement will be as easy for trade secret owners to satisfy as it is for trademark owners under the Lanham Act.<sup>351</sup> However, the jurisdictional language of the two laws is different. Most importantly, the Lanham Act applies to “all commerce which may be lawfully regulated by Congress,”<sup>352</sup> whereas the DTSA is more circumscribed. Moreover, even though the “in commerce” language of the two statutes is similar and has been broadly interpreted under the Lanham Act to apply to intrastate activities that substantially affect interstate commerce,<sup>353</sup> the DTSA’s jurisdiction appears narrower because (unlike the Lanham Act) there must be actual or intended use of the secret “related to a product or service” in “interstate or foreign commerce.”<sup>354</sup>

To date, only a few cases have explored the jurisdictional provisions of the EEA in depth, but those that do tend to suggest that it may be read somewhat more narrowly than proponents assume. The constitutionality of

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construed to be a law pertaining to intellectual property for purposes of any other Act of Congress.” Pub. L. No. 114-153, § 2(g), 130 Stat. 381, 382 (2016).

349. *Compare* 18 U.S.C. § 1836(b)(1) (Supp. IV 2016), *with id.* § 1832(a) (2012).

350. *Id.* § 1836(b)(1) (Supp. IV 2016) (emphasis added).

351. The Lanham Act requires that the plaintiff plead and prove that it “used in commerce” a reproduction, counterfeit, copy, or colorable imitation of plaintiff’s mark. 15 U.S.C. §§ 1114, § 1125 (2012).

352. *Id.* § 1127.

353. *See e.g.*, *Christian Faith Fellowship Church v. Adidas AG*, 841 F.3d 986 (Fed. Cir. 2016); *Larry Harmon Pictures Corp. v. Williams Rest. Corp.*, 929 F.2d 662 (Fed. Cir. 1991).

354. 18 U.S.C. § 1836(b)(1) (Supp. IV 2016).

section 1832 as originally enacted in the EEA was first considered in *United States v. Hsu*, a decision that includes language supporting a broad reading of “related to.”<sup>355</sup> In that case, the court refused to find the “related to” terminology void for vagueness, noting:

We reject [defendant]’s argument that the term “related to or included in a product that is produced for or placed in interstate or foreign commerce” is unacceptably vague . . . . We believe the term “related to or included in” is readily understandable to one of ordinary intelligence, particularly here where the defendant appears to be well versed as to the relationship (and technological differences) between “first generation” and “second generation” taxol technology.<sup>356</sup>

But such a ruling relied upon the specific facts of the case and portends the need in every DTSA case to determine what “related to” means for the specific goods or services at issue.

More recently, *United States v. Aleynikov*<sup>357</sup> involved a criminal prosecution under the original language of section 1832 of the EEA for the alleged theft of source code related to Goldman Sachs’ proprietary high-frequency trading system.<sup>358</sup> At that time, section 1832 required that the allegedly misappropriated trade secret information be [1] “related to or included in” [2] “a product that is” [3] “produced for or placed in interstate or foreign commerce.”<sup>359</sup> After first noting that the quoted language included words of limitation (relying in part of the legislative history of the EEA), the Second Circuit applied the provision’s “natural meaning” and found that it applied to two different groups of products: those that were already “placed in” the market, and those that were “produced for” the market.<sup>360</sup> The court also noted that as a criminal statute, any ambiguity regarding the jurisdictional provision’s scope “should be resolved in favor” of the defendant consistent with the rule of lenity.<sup>361</sup> As a result, the court was unwilling to read this language as broadly as the government urged, finding that the alleged trade secret information was neither “placed in” or

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355. 40 F. Supp. 2d 623 (E.D. Pa. 1999).

356. *Id.* at 627.

357. 676 F.3d 71 (2d Cir. 2012).

358. *Id.* at 75.

359. *Id.* at 79.

360. *Id.* at 80.

361. *Id.* at 82.

“produced for” interstate or foreign commerce, and it therefore dismissed the charges against the defendant.<sup>362</sup>

Following *Aleynikov*, Congress quickly passed the Theft of Trade Secrets Clarification Act of 2012, which amended the language of section 1832 so that it now reads: “related to a product or service used in or intended for use in interstate or foreign commerce.”<sup>363</sup> This language then became the model for section 1836 of the DTSA.<sup>364</sup> Significantly, in drafting both the Theft of Trade Secrets Clarification Act and the DTSA, Congress did not take up the *Aleynikov* court’s invitation to exercise the full extent of its Commerce Clause powers, instead continuing to use words of limitation, specifically “related to.” By borrowing the language of section 1832 for use in section 1836, courts interpreting the language of section 1836 are likely to apply precedent under section 1832 pursuant to the borrowed statute rule and as affected by the rule of lenity.

In *United States v. Agrawal*,<sup>365</sup> a case decided after Congress changed the jurisdictional language in the wake of *Aleynikov*, the same court reached a different result, finding that jurisdiction existed in large part due to the specific facts alleged in the indictment, thereby highlighting the fact-specific nature of the EEA’s (and by extension, the DTSA’s) jurisdictional requirement. Rather than asserting that the purported trade secrets were themselves a product sold in interstate commerce, the indictment alleged that the subject trade secrets (confidential computer code) were “related to” a trading system that was a “product” sold in interstate commerce.<sup>366</sup> In dicta, the court briefly reviewed Supreme Court cases construing the phrase “related to” suggesting both an expansive and narrow interpretation of the EEA provision, ultimately concluding that it “need not delineate the outer limits of [its] reach.”<sup>367</sup>

In addition, while the extent of the federal courts’ jurisdiction is obviously a matter of federal interest, principles of federalism nonetheless may counsel in favor of a narrow reading of the DTSA’s jurisdictional requirement. In *Kirschbaum Co. v. Walling*, the Supreme Court noted that when Congress legislates in an area historically dominated by state law, courts should not assume that the new federal statute eviscerates states’ jurisdiction entirely:

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362. *Id.* at 81 (quoting *Russell v. United States*, 471 U.S. 858, 859–60 & n.4 (1985)).

363. Pub. L. No. 112-236, 126 Stat. 1627 (2012).

364. *See supra* Section II.E.

365. 726 F.3d 235 (2d Cir. 2013).

366. *Id.* at 245.

367. *Id.* at 248.



The judicial task in marking out the extent to which Congress has exercised its constitutional power over commerce is not that of devising an abstract formula. . . . We cannot, therefore, indulge in the loose assumption that when Congress adopts a new scheme for federal industrial regulation, it thereby deals with all situations falling within the general mischief which gave rise to the legislation. Such an assumption might be valid where remedy of the mischief is the concern of only a single unitary government. It cannot be accepted where the practicalities of federalism—or, more precisely, the underlying assumptions of our dual form of government and the consequent presuppositions of legislative draftsmanship which are expressive of our history and habits—cut across what might otherwise be the implied range of the legislation.<sup>368</sup>

In other words, because Congress' power is limited, there is a general rule of statutory construction that "federal jurisdiction should be construed strictly."<sup>369</sup> As the foregoing quote suggests, this rule is particularly strong in areas where state law has typically governed, like trade secret law, and is particularly true here, where Congress deliberately decided not to preempt existing state trade secret law (except to the extent inconsistent with the whistleblower provision).<sup>370</sup>

Even if courts adopt a broad definition of interstate commerce analogous to the Lanham Act, the practical application of the DTSA will require plaintiffs to allege and establish facts that they are not required to prove under the UTSA. Under the UTSA, trade secrets need not be used or intended for use "in commerce" to be protected,<sup>371</sup> although available

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368. *Kirschbaum Co. v. Walling*, 316 U.S. 517, 520 (1942).

369. *See, e.g., United States v. Pethick*, 513 F.3d 1200, 1202 (10th Cir. 2008) ("Statutes conferring jurisdiction must be strictly construed."); *Boelens v. Redman Homes, Inc.*, 748 F.2d 1058, 1067 (5th Cir. 1984) ("[S]tatutes conferring jurisdiction on federal courts are to be strictly construed, and doubts resolved against federal jurisdiction.").

370. *See supra* Part II.

371. For example, negative know-how is protected. *See* UTSA § 1 cmt. ("The definition [of a trade secret] includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will not work could be of great value to a competitor."); *see also generally* Charles Tait Graves, *The Law of Negative Knowledge: A Critique*, 15 TEX. INTELL. PROP. L.J. 387, 416 (2007) (further explaining and critiquing the "negative know-how" theory of liability for misappropriation).

remedies for misappropriation may be affected by non-use.<sup>372</sup> In contrast, on its face, the statutory language of the DTSA requires that the plaintiff plead and prove: (1) the existence of one or more trade secrets; (2) that those trade secrets are “related to” goods or services; and (3) that the goods or services are actually used in, or intended for use in, interstate or foreign commerce. Moreover, principles of “jurisdictional sequencing”—which generally require federal courts to determine whether they have jurisdiction before rendering a decision on the merits—may require plaintiffs in trade secret cases to prove these factual predicates before the applicable federal court has power to grant preliminary relief, such as a civil seizure order.<sup>373</sup>

To help determine the meaning of section 1836, federal courts may look at contemporary dictionaries to define what “related to” means, but they are not very helpful. One contemporary dictionary sets forth three definitions for “related”: (1) “connected in some way”; (2) “in the same family”; and (3) “belonging to the same group because of shared characteristics, qualities, etc.”<sup>374</sup> The latter two definitions are inapt, and the first is unsatisfying given that the purpose of the clause is to ensure that Congress has the constitutional power to regulate the behavior in question, and a mere “connection” may not pass muster. What if the trade secrets comprise only a small part of a good? Should any connection suffice?

In addition, federal courts might consult the statutory context, canons of construction, and legislative history, although these sources are not of much help either in defining what Congress meant by “related to.” It is likely, however, that a plaintiff advocating for a broad interpretation will cite the “Sense of Congress” provision of the DTSA<sup>375</sup> and argue that the term should be broadly construed. However, no amount of expressed legislative intent can override constitutional limits on Congress’ power, and as *Aleynikov* shows, courts are generally unwilling to interpret limiting language of the sort in the DTSA to reach as broadly as the full scope of Congress’ Commerce Clause powers.

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372. There is a significant difference between the “bona fide intent to use” provisions of the Lanham Act and the “intended” language of the DTSA because no federal trademark rights are conferred under the Lanham Act until an intent to use application is perfected.

373. See Alan M. Trammel, *Jurisdictional Sequencing*, 47 GA. L. REV. 1099, 1101 (2013) (“Jurisdictional sequencing taps into fundamental questions about the nature and role of subject matter jurisdiction and what, if anything, a court may do before it has established jurisdiction.”).

374. RELATED, MERRIAM-WEBSTER DICTIONARY (2016 ed.).

375. Defend Trade Secrets Act, Pub. L. No. 114-153, § 5, 130 Stat. 376, 383–84 (2016).

Furthermore, the nature of the alleged trade secret, as well as whether and how it is used, will obviously affect the jurisdictional analysis. Even though a person of ordinary intelligence may know the meaning of “related to,” a factual question that is sure to arise concerns the quantum of relationship that is needed. As an example, it is easy to see how the secret formula for Coca-Cola<sup>376</sup> “relates to” the end-product of a bottle of Coca-Cola, but what if the alleged trade secret is an unused, failed, or discontinued formula for a new beverage?<sup>377</sup> Or what if the alleged trade secret consists of information about employees who work for the Coca-Cola Company, but not the beverage itself? With respect to the as yet unused formula, the DTSA requires proof of intent to use, but this phrase is not defined, raising questions about how such intent will be established and whether it needs to be “bona fide” like the Lanham Act requires. On its face, there does not seem to be any basis to argue that so-called “negative information” can be protected under the DTSA, as negative information is not normally in use.<sup>378</sup>

## 2. *Ex Parte Civil Seizure Provision*

One implication of the rules and methodologies for statutory interpretation is that the more detailed a statutory provision is, the less likely courts will rely upon extrinsic sources for meaning because they have more words and statutory context to serve as guidance. Thus, it is possible that federal courts will not need to rely much upon extrinsic sources to interpret and apply the *ex parte* civil seizure provision, which is the lengthiest and most detailed of the DTSA provisions.<sup>379</sup> Additionally, the fact that the civil

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376. See Christian Chessman, *A “Source” of Error: Computer Code, Criminal Defendants, and the Constitution*, 105 CALIF. L. REV. 179, 212 (2017) (describing the “legendary barriers” put up to protect the secret formula of Coca-Cola). Of course, the formulation of Coca-Cola has changed over time—for example, it no longer contains cocaine—so it is a misnomer to refer to it as a single “formula.” See MARK PENDERGRAST, *FOR GOD, COUNTRY, AND COCA-COLA* (3d ed. 2013). And various sources have published purported versions of the Coca-Cola recipe. See, e.g., *The Recipe*, THIS AMERICAN LIFE <https://www.thisamericanlife.org/radio-archives/episode/427/original-recipe/recipe> (last visited Dec. 22, 2017).

377. For example, Coca-Cola introduced a new formula for its signature beverage in 1985 that was unofficially dubbed “New Coke,” but it quickly restored the old formula in the face of widespread negative reaction. See Stephanie Clifford, *Coca-Cola Deleting ‘Classic’ from Coke Label*, N.Y. TIMES (Jan. 30, 2009), <http://www.nytimes.com/2009/01/31/business/media/31coke.html>.

378. See also Seaman, *supra* note 8, at 351.

379. See Goldman, *supra* note 120, at 285 (noting that the *ex parte* seizure provision makes up over forty percent of the DTSA’s text).

seizure provision is also largely a procedural rule means that federal courts, when interpreting and applying it, are likely to apply federal principles.

However, there are reasons why the civil seizure provision may be interpreted and applied with reference to other sources of law. First, the DTSA explicitly requires courts to refer to Federal Rule of Civil Procedure 65 in determining if a civil seizure order should be granted.<sup>380</sup> Second, the DTSA's legislative history and language make clear that the *ex parte* seizure provision is patterned after similar provisions of the Lanham Act (including creating a cause of action for wrongful seizure),<sup>381</sup> thus inviting federal courts to apply existing precedent under federal trademark law. There are also numerous terms and phrases within the civil seizure provision that are not expressly defined and for which extrinsic sources of information may have to be consulted.

The interpretative challenges of the civil seizure provision begin early when it states that a court may only issue such an order in “extraordinary circumstances” and only for the purpose of seizing “property necessary to prevent the propagation or dissemination of property.” The terms “extraordinary circumstances,” “property,” “propagation,” and “dissemination” are not defined in the DTSA (nor in the EEA or UTSA), meaning that federal courts are likely to resort to dictionaries and the context of the DTSA to determine their meanings.

With respect to the requirement of “extraordinary circumstances,” one way to interpret the provision is that it is one of those flexible and amorphous terms that Congress intended the federal courts to define over time through case law, as it has done with other forms of interim relief like preliminary injunctions and temporary restraining orders.<sup>382</sup> Another way to interpret the “extraordinary circumstances” language is in light of its context. For instance, one might argue that the “requirements for issuing order” provision, in effect, defines what is meant by “extraordinary circumstances.” Specifically, the statutory requirement that federal courts must make a finding that a preliminary injunction or temporary restraining order under Federal Rule of Civil Procedure 65 would be “inadequate to achieve the purpose of this paragraph” before ordering a seizure suggests

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380. 18 U.S.C. § 1836(b)(2)(A)(ii)(I) (Supp. IV 2016).

381. *See supra* Part II (describing the legislative history).

382. *See, e.g.,* *Winter v. Nat. Res. Def. Council, Inc.*, 555 U.S. 7, 22 (2008) (holding that a preliminary injunction is an “extraordinary remedy”).

that extraordinary circumstances require facts different in nature and magnitude from those required for relief under Rule 65.<sup>383</sup>

Unfortunately, rather than identify “extraordinary circumstances” that justify the grant of an ex parte civil seizure order, the language of the civil seizure provision seems to muddle the acts which constitute trade secret misappropriation and fails to carefully distinguish between the separate and distinct wrongs of “acquisition by improper means” and “disclosure or use in violation of a duty of confidentiality.” In so doing, the provision appears to require proof of both more egregious and less egregious acts of trade secret misappropriation than is typically required at common law or under the USTA. It arguably requires more egregious acts by requiring proof of direct misappropriation by “improper means.” But then, by not explicitly limiting the actionable circumstances to instances of wrongful acquisition (such as cyber-espionage) or intentional breach of a duty of confidence, it potentially makes any breach of a duty of confidence (or, more troublesome, any conspiracy to breach a confidence,) the basis of a civil seizure order. Under such circumstances, what constitutes “extraordinary circumstances” remains unclear.

Another unclear part of the ex parte civil seizure provision requires that the person against whom the seizure would be ordered have “actual possession of . . . the trade secret; and . . . any property to be seized.” Although “property” is not defined in the DTSA, when read in context, it appears to mean that the “property” need not be the trade secrets themselves, but what this “other” property may be is unclear. One reading is that it refers to the tangible property in which some trade secrets reside, perhaps those “goods and services” to which the trade secrets must be related for jurisdictional purposes. Another, broader reading is that “property” refers to any personal property that may be used for the “propagation” or “dissemination” of trade secrets including, for instance, paper copies, digital storage devices, computers, cell phones, and copy machines.

### 3. *Whistleblower Provision*

Both federal and state law exists to encourage individuals, usually employees of companies, to report suspected violations of law, including

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383. See *OOO Brunswick Rail Mgmt. v. Sultanov*, No. 5:17-cv-00017-EJD, 2017 WL 67119 (N.D. Cal. Jan. 6, 2017) (denying an ex parte seizure under DTSA because other legal obligations, including a preservation order requiring delivery of a company-issued laptop at a court hearing rendered a seizure unnecessary).

fraud in government contracting.<sup>384</sup> Known as “whistleblowers,” these individuals are often sued for trade secret misappropriation related to their disclosure of information concerning the illegal activity. To limit such claims, the DTSA’s whistleblower provision was added late in the legislative process, but it was not subject to a public hearing with testimony on the provision’s merits.<sup>385</sup> As a result, there was no opportunity to identify and address potential ambiguities that exist in its wording, leaving potentially significant work for federal courts in the future.

As with most of the “new” provisions of the DTSA, the whistleblower provision contains few statutory definitions, meaning that the general rule of applying common meanings should apply, unless some other canon of statutory interpretation counsels otherwise. However, there are features of the whistleblower provision that suggest that federal courts will have greater leeway to interpret it without reference to state law and to make specialized federal common law to fill any necessary gaps. First, there is the strong federal policy that the whistleblower provision reflects—namely, to facilitate disclosure of illegal conduct.<sup>386</sup> Second, application of the whistleblower provision to all federal and state civil and criminal actions for trade secret misappropriation demonstrates a preemptive federal purpose.<sup>387</sup> This interpretation is bolstered by the language of the DTSA, which states: “Except as provided in section 1833(b) [the whistleblower provision], this chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret . . . .”<sup>388</sup>

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384. *See, e.g.*, False Claims Act, 31 U.S.C. §§ 3729–33 (2012).

385. The provision was based upon a draft of an article that Peter S. Menell first publicly disseminated in late 2015. *See* Menell, *supra* note 135. Once a draft of his article became public, Professor Menell was contacted by the offices of Senators Leahy and Grassley, and thereafter the language he proposed in his draft paper was added to the DTSA as a “manager’s amendment” in January 2016. *See* James Pooley, *What You Need to Know About the Amended Defend Trade Secrets Act*, PATENTLY-O (Jan. 31, 2016), <https://patentlyo.com/patent/2016/01/amended-defend-secrets.html>. Since this particular amendment was made at an Executive Business Meeting of the Senate Judiciary Committee, and not at a public hearing where testimony could be taken, there is little public legislative history to explain the thinking behind the amendment or its numerous undefined terms. But Professor Menell has recently written an article explaining the provision’s intent. *See* Peter S. Menell, *Misconstruing Whistleblower Immunity Under the Defend Trade Secrets Act*, 1 NEV. L.J. FORUM 92 (2017).

386. Menell, *supra* note 135.

387. 18 U.S.C. § 1833(b) (Supp. IV 2016).

388. *Id.* § 1838.



Because the whistleblower provision was adopted with little notice, it is unclear from the legislative history whether its provisions are modeled after other federal laws, including other federal laws governing whistleblower activity. Thus, it cannot be definitively stated that the borrowed statute rule or the *in para materia* canon of construction will be used to interpret the DTSA. However, since some of the terminology that is used in the DTSA's whistleblower provision is similar to terminology used in other federal whistleblower laws, it seems likely that federal courts will at least look at those other laws for guidance. For instance, there is a significant body of jurisprudence under the False Claims Act (FCA) which defines "public disclosure" and "under seal."<sup>389</sup>

A critical part of the whistleblower provision requires that a "disclosure" of trade secret information must be "in confidence" and "solely for the purpose of reporting or investigating a suspected violation of law."<sup>390</sup> However, this terminology is not defined in the DTSA and, in context, seems likely to be interpreted differently than similar language in the FCA which focuses on specific types of disclosures instead of all "public" disclosures. Indeed, the terms "in confidence" and "disclosure" can mean different things in different contexts, even in trade secret cases.<sup>391</sup> Consequently, their meanings in the DTSA are likely to be litigated because failure to comply with the whistleblower provision's requirements means that immunity from trade secret liability does not apply.<sup>392</sup>

Pursuant to general principles of trade secret law, the term "disclosure" is used in at least two senses: (1) to refer to acts that result in the loss of trade secrecy (and thus may create liability for misappropriation); and (2) to refer to the transfer of information between parties in the context of a

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389. On the issue of "public disclosure" see, for example, *United States ex rel. Moore & Co. v. Majestic Blue Fisheries, LLC*, 812 F.3d 294 (3d Cir. 2016). With respect to the "under seal" requirement, see, for example, *State Farm Fire & Casualty Co. v. United States ex rel. Rigsby*, 137 S. Ct. 436 (2016). See also ROBERT TIMOTHY REAGAN, FED. JUDICIAL CTR., SEALING COURT RECORDS AND PROCEEDINGS: A POCKET GUIDE (2010) (explaining when and how court documents can be sealed).

390. 18 U.S.C. § 1833 (Supp. IV 2016).

391. See Sharon K. Sandeen, *Lost in the Cloud: Information Flows and the Implications of Cloud Computing for Trade Secret Protection*, 19 VA. J.L. & TECH. 1, 64–78 (2014) (detailing the different meanings of disclosure under U.S. intellectual property laws).

392. The meaning of "public disclosure" in False Claims Act cases was highly litigated until Congress amended the FCA to more clearly define and limit the meaning of public disclosure. See Pub. L. No. 111-148, § 10104(j)(2), amending 31 U.S.C. § 3730(e)(4) (2012).

confidential relationship, an act that usually does not result in a loss of trade secrecy.<sup>393</sup> Given the context and purpose of the whistleblower provision, including its “in confidence” requirement, it seems logical to define “disclosure” in the second sense to require whistleblowers to keep the information of wrongdoing that they “disclose” confidential. But nowhere in the DTSA is “in confidence” specifically defined. Under well-established principles of trade secret law, to disclose things “in confidence” means to share trade secrets only when the recipient of the information is under a duty of confidentiality.<sup>394</sup> However, this may be too strict a requirement for whistleblower purposes as the allowed recipients of the information may not owe a formal duty of confidence, and it may be difficult for the whistleblower to secure an express confidentiality agreement, for instance from law enforcement personnel, prior to disclosing any information.

The clause that requires that a disclosure of trade secret occur “solely” for a specified purpose is also not fully explained in the statutory text. This clause was interpreted narrowly by one court, treating it as an affirmative defense that requires clear proof that the defendant satisfied the requirement before dismissing a complaint<sup>395</sup>—a conclusion with which Professor Peter Menell has expressed strong disagreement.<sup>396</sup> There is little doubt that the whistleblower immunity is a “defense” in the sense that it is an argument that a defendant charged with civil or criminal trade secret misappropriation would likely raise, probably labeling it as an “affirmative defense” in an answer to a civil complaint. The critical question, however, is whether it can also serve as the basis for a quick resolution of a trade secret misappropriation lawsuit, such as pursuant to a motion to dismiss or a motion for summary judgment. This is a problem that federal courts have struggled with concerning the immunity provisions of the Communications Decency Act of 1996,<sup>397</sup> without a definitive answer more than twenty years after that statute was adopted, in part because the applicable scope of the immunity is unclear, but also because the application of immunity is often highly fact-dependent.<sup>398</sup> On one hand, providing defendants an easy and low-cost way to terminate litigation is consistent with the underlying purpose of whistleblower immunity, but because the immunity is based

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393. See Sandeen, *supra* note 391, at 64.

394. *Id.*

395. *Unum Grp. v. Loftus*, 220 F. Supp. 3d 143, 147 (D. Mass. 2016).

396. Menell, *supra* note 385.

397. 47 U.S.C. § 230 (2012).

398. See *Barnes v. Yahoo!, Inc.*, 570 F.3d 1096, 1109 (9th Cir. 2009) (reversing a lower court order dismissing all of plaintiff’s claims).

upon a number of factual predicates that may be disputed, this may prevent an early dismissal of litigation.

The notice and liability limiting parts of the whistleblower provision also lack clarity. Although it is clear that some sort of notice to employees is required, the necessary form of notice is muddled with respect to what employees must be given notice of. The “general” requirement is that: “An employer shall provide notice of the immunity set forth in this subsection in any contract or agreement with an employee that governs the use of a trade secret or other confidential information.”<sup>399</sup> But this notice requirement is waived if the employer simply “provides a cross-reference to a policy document provided to the employee that sets forth the employer's reporting policy for a suspected violation of law.”<sup>400</sup> Thus, when read in context, it does not appear that the cross-reference must include notice of the immunity, only notice of whistleblowing opportunities.

While federal courts interpreting the whistleblower provision are likely to feel greater freedom to apply federal standards and make federal common law, they should consult applicable state law for meaning because the whistleblower provision uses terms of art that are well known under state trade secrets law. This is particularly true for the definition of a confidential relationship because this body of law may help to define the meaning of “in confidence” in a way that ensures that the sharing of trade secrets with “Federal, State, or local government officials” does not constitute a waiver of trade secret protection. Additionally, because the “Rule of Construction” at the end of the whistleblower section directs federal courts to consider what constitutes “an act that is otherwise prohibited by law, such as the unlawful access of material by unauthorized means,” both federal and state law should also be consulted.

#### 4. *Limitations on Scope of Injunctive Relief, Including Enforceability of Noncompete Agreements and the Inevitable Disclosure Doctrine*

The passage of the DTSA creates a potential conflict between the enforcement of federal trade secret rights and state laws governing employee mobility and restrictive covenants. In light of the *Erie* doctrine and the Supreme Court’s preference for the law of the forum state when filling gaps, it was likely that federal courts would have applied the employee mobility and restrictive covenant laws of the forum state, but it

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399. 18 U.S.C. § 1833(b)(3)(A) (Supp. IV 2016).

400. *Id.* § 1833(b)(3)(B).

was not a foregone conclusion. Without specific language to such effect, federal courts might have interpreted the DTSA to implicitly preempt or preclude application of such laws.<sup>401</sup> Based upon applicable case law discussed in Part III, it would all depend upon whether the state law unduly conflicted with the federal statute.<sup>402</sup>

Fortunately, Congress amended early drafts of the DTSA to include a provision that makes it clear that state law principles must be applied with respect to the issuance of an injunction, thereby explicitly incorporating by reference a body of law that will continue to evolve at the state level.<sup>403</sup> Specifically, this provision states that a court may not grant an injunction that: “(I) prevent[s] a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or (II) otherwise conflict[s] with an applicable State law prohibiting restraints on the practice of a lawful profession, trade, or business.”<sup>404</sup> Thus, federal courts are likely to limit the scope of injunctive relief against employees, particularly in cases where there is no evidence of actual or threatened disclosure or use of misappropriated trade secrets.

But there is enough ambiguity in how the injunction provision of the DTSA is written to contend that it also represents a decision by Congress to limit or reject the “inevitable disclosure doctrine” that is recognized in some states.<sup>405</sup> This ambiguity arises from the language that states that an injunction must be “based on evidence of actual of threatened misappropriation and not merely on the information the person knows.”<sup>406</sup> In states where application of the inevitable disclosure argument is allowed to substitute for evidence of actual or threatened misappropriation, this language appears to differ from state law. But it might also be read to allow the inevitable disclosure argument to be considered, as long as some other evidence of actual or threatened misappropriation is presented.

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401. *See Professors’ 2014 Letter*, *supra* note 160.

402. *Cf. Kiwanis Int’l v. Ridgewood Kiwanis Club*, 627 F. Supp. 1381, 1392 (D.N.J. 1986), *rev’d*, 806 F.2d 468 (3d Cir. 1986) (“In sum, it would do violence to the delicate balance of power struck by the supremacy clause to hold that the tangential federal interest in trademark uniformity preempts the principled state interest in eliminating discrimination which is at issue here.”).

403. *See supra* Part II.

404. 18 U.S.C. § 1836(b)(3)(A) (Supp. IV 2016).

405. *See* Elizabeth A. Rowe & Sharon K. Sandeen, *Debating Noncompetes and Trade Secrets*, 33 SANTA CLARA HIGH TECH. L. J. 438, 451 (2017).

406. *Id.*

Another significant issue with respect to limitations on injunctive relief is which state's law counts as the "applicable State law prohibiting restraints on the practice of a lawful profession, trade or business."<sup>407</sup> Ordinarily, one would anticipate that if an employment agreement specifies a particular state's law shall apply, federal courts will honor that choice. But this is complicated by the fact that some states, like California, refuse to enforce contractual provisions that purport to require application of another state's noncompete law to an employee whose site of employment is located within the state.<sup>408</sup> And if the employment agreement is silent, and the employer and current or former employee are located in different states that have different positions on the inevitable disclosure doctrine (e.g., a Maryland resident who works in Delaware),<sup>409</sup> then courts will be compelled to determine which state law will govern.<sup>410</sup> In other words, this provision may continue the lack of uniformity that currently exists under state law with respect to the inevitable disclosure doctrine, but add additional layers of complexity by forcing courts to engage in choice-of-law decisions.

##### 5. *Extraterritoriality Provision*

The extraterritoriality provision of the DTSA is "new" in the sense that it is not derived from the state law of trade secrecy, but it is also "old" in the sense that it predates the DTSA because it was part of the EEA as originally adopted.<sup>411</sup> Section 1837 provides that:

This chapter also applies to conduct occurring outside the United States if—

(1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized

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407. 18 U.S.C. § 1836(b)(3)(A)(II) (Supp. IV 2016).

408. CAL. LAB. CODE § 925 (West 2016).

409. *Compare* LeJeune v. Coin Acceptors, Inc., 849 A.2d 451 (Md. 2004) (rejecting the inevitable disclosure doctrine as a matter of Maryland law), *with* E.I. DuPont de Nemours & Co. v. Am. Potash & Chem. Corp., 200 A.2d 428 (Del. Ch. 1964) (recognizing "inevitable disclosure" as justifying injunctive relief "against a threatened use or disclosure" of a trade secret).

410. *See, e.g.*, First W. Capital Mgmt. Co. v. Malamed, No. 16-CV-1961-WJM-MJW, 2016 WL 8358549 (D. Colo. Sept. 30, 2016), *rev'd on other grounds*, 874 F.3d 1136 (10th Cir. 2017) (applying choice of law rules, concluding that Colorado law rather than California law applied, and granting an "injunction that accomplishes the same result as a noncompete provision").

411. For a discussion of the extraterritoriality issue before the adoption of the DTSA, see Elizabeth Rowe & Daniel Mahfood, *Trade Secrets, Trade, and Extraterritoriality*, 66 ALA. L. REV. 63 (2014).

under the laws of the United States or a State or political subdivision thereof; or

(2) an act in furtherance of the offense was committed in the United States.

Although this provision has been on the books for over twenty years, there is not much case law interpreting it. Moreover, as Robin Effron has argued, the expansion of this statute to include civil as well as criminal claims of extraterritorial trade secret theft creates serious issues regarding personal jurisdiction over foreign defendants and applicability of the *forum non conveniens* doctrine.<sup>412</sup>

In terms of statutory interpretation, the first subsections of the extraterritoriality provision contain terms that are likely to be reasonably well understood with reference to other provisions of federal law—for example, whether an individual is a U.S. citizen or lawful permanent resident, or whether an organization (e.g., a corporation, partnership, or other collective entity) is organized under U.S. or state law. The criminal law–type language in the second subsection—e.g., “act in furtherance” and “offense” (rather than violation)—suggests that courts will look to comparable federal criminal law to understand these terms, including the law of conspiracy. It is unclear, however, whether criminal law rules of statutory interpretation like the rule of lenity might also be applied.

#### 6. *Construction with Other Laws*

The construction with other laws provision of the DTSA is significant because it provides that “this chapter shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret.”<sup>413</sup> This explicit statement, coupled with the nonexclusive jurisdiction of the federal courts, means that state trade secret law (as well as other state law causes of action) will coexist with the DTSA, which makes sense when one considers the limited scope of the DTSA’s jurisdictional provision.<sup>414</sup> But not only does the provision state

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412. Robin Effron, *Trade Secrets, Extraterritoriality, and Jurisdiction*, 51 WAKE FOREST L. REV. 765 (2016); cf. Rochelle Cooper Dreyfuss & Orly Lobel, *Economic Espionage as Reality or Rhetoric: Equating Trade Secrecy with National Security*, 20 LEWIS & CLARK L. REV. 419 (2016) (critiquing expansion and enforcement of the EEA).

413. 18 U.S.C. § 1838 (2012 & Supp. IV 2016).

414. See *supra* Section IV.A.1. Indeed, one empirical study of trade secret litigation in federal court under the DTSA has found that the vast majority of plaintiffs have asserted



that the DTSA does not preempt other remedies, it also states that it does not “displace” state remedies. This can, and probably will be, read as specific direction by Congress that state law should be used when filling gaps in the DTSA, at least with respect to the portions of the DTSA for which there are analogous provisions of state law. In most but not all states, this means the UTSA.<sup>415</sup> Of particular significance is section 7 of the UTSA, which limits available claims for trade secret misappropriation to trade secret claims and breach of contract actions.<sup>416</sup>

B. INTERPRETING AND APPLYING THE “BORROWED” AND DEFINED LANGUAGE

The language of the DTSA that was taken directly from the UTSA, and which is also defined in the UTSA, presents the clearest case for federal courts to look to state law to fill gaps and, possibly, to interpret and apply such language. This is because by adopting the exact (or nearly exact) language of the UTSA, it can be assumed that Congress intended that language to be interpreted and applied in the same manner as it is interpreted and applied by state courts.<sup>417</sup> As the U.S. Supreme Court explained in *Molzof v. United States*:

[W]here Congress borrows terms of art in which are accumulated the legal tradition and meaning of centuries of practice, it presumably knows and adopts the cluster of ideas that were attached to each borrowed word in the body of learning from which it was taken and the meaning its use will convey to the judicial mind unless otherwise instructed. In such case, absence of contrary direction may be taken as satisfaction with widely accepted definitions, not as a departure from them.<sup>418</sup>

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both federal and state trade secret misappropriation claims. See David S. Levine & Christopher B. Seaman, *The DTSA at One: An Empirical Study of the First Year of Litigation Under the Defend Trade Secrets Act*, WAKE FOREST L. REV. (forthcoming 2018) (finding that over 80% of complaints alleging a DTSA claim also allege trade secret misappropriation under state law)

415. See *supra* note 5 (noting that all states except Massachusetts, New York, and North Carolina have adopted some version of the UTSA).

416. UTSA § 7; see also generally John Cross, *UTSA Displacement of Other State-Law Claims*, 33 HAMLINE L. REV. 445 (2011).

417. See *supra* Section II.E (legislative history).

418. 502 U.S. 301, 307 (1992) (quoting *Morrisette v. United States*, 342 U.S. 246, 263 (1952)).

The borrowed provisions of the DTSA include: (1) the definition of a “trade secret;” (2) the definition of “misappropriation;” and (3) the definition of “improper means.”

Even though the DTSA, like the UTSA, contains a definition section, there will still be significant work for federal courts in deciding the meaning and scope of these terms because the definitions themselves include language that is not clearly defined. In addition, some issues of interpretation remain unresolved at the state level. For instance, the meaning of the independent economic value requirement is neither well-developed nor clear.<sup>419</sup> Furthermore, although amendments to the EEA’s preexisting definition of a trade secret were made by the DTSA to conform it more closely to the UTSA’s definition, some differences continue to exist and may result in slightly different sets of information being protectable as trade secrets under the DTSA and applicable state law. Also, because the DTSA is technically an amendment to the preexisting EEA, and the EEA is a criminal statute, case law interpreting terms and provisions in the EEA will arguably apply when interpreting the DTSA. Because of the rule of lenity, this sets up a potential conflict between how the EEA and UTSA define the same terms.

### 1. *Definition of “Trade Secret”*

The DTSA definition of a “trade secret” is partly a carryover from the EEA and partly a DTSA amendment that more closely aligns its language with the UTSA. It is identical to the definition that is contained in the UTSA with the exception of the scope of applicable “information.” Specifically, whereas the UTSA refers to any “information,” the DTSA lists only specific types of information that may qualify as a trade secret. Thus, on the face of the statute, it appears that the types of information that are protected by the DTSA are not coextensive with the types of information that are protected under the UTSA. But whether a federal court reads the DTSA’s definition to apply to a narrower set of information than the UTSA will depend upon how the court interprets the first part of the definition and whether the rule of lenity will be applied. As a practical matter, it will also depend upon the actual cases presented and whether an argument can be made that they do not involve “financial, business, scientific, technical, economic, or engineering information.” For instance, how would information in the form of an idea for a television show or a movie be classified? Is it “business information,” or is it literary and artistic information that is not listed in the

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419. See Johnson, *supra* note 193, at 557–58.

DTSA? Although the listed categories are broad, conceptually there may be information that is not covered by the DTSA that would be covered by the UTSA, particularly since the Commerce Clause provision also requires that the information be “related to a good or service used, or intended for use, in interstate or foreign commerce.”

Embedded in the definition of a trade secret is terminology that is well understood under state trade secret law and the UTSA, but that is not defined in the DTSA, including the meanings of: (a) “generally known;” (b) “readily ascertainable;” and (c) “reasonable efforts (measures) to maintain secrecy.” If federal courts stick strictly to the language of the DTSA without applying the borrowed statute rule or common law, it is possible that such terms will be interpreted and applied in a manner that is at odds with state law. But if the borrowed statute rule and canon of construction that favors the common law are applied, then the DTSA’s definition of a trade secret will be applied consistent with the laws of most, if not all, states.

The potential for non-uniform definitions of key trade secret concepts is not insignificant given the specialized meaning that many of these concepts have under the UTSA and applicable state law. For instance, “generally known” under the UTSA and the common law of trade secrecy is not limited to information that is widely known by members of the public, but can include information that is only widely known within a particular industry.<sup>420</sup> Similarly, the concept of “readily ascertainable” under the UTSA generally means that information can be easily found in publicly available publications or goods,<sup>421</sup> but it is subject to differing applications in practice due to the variability of conceptions of “readily.” The rule under the UTSA is that if information is readily ascertainable, then it is not a trade secret in the first instance; if it is not readily ascertainable, then the process of learning the information from public sources may constitute “proper” reverse engineering.

The “independent economic value” requirement is not defined in the UTSA and, indeed, it is not well-understood or theorized in the cases. The UTSA’s drafting history suggest this requirement was intended as an important limitation on the scope of protectable information,<sup>422</sup> but it has not been applied satisfactorily in many cases, leaving the federal courts without much meaningful guidance regarding its meaning. However, if the

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420. UTSA § 1 cmt.

421. *Id.*

422. Sandeen, *supra* note 4.

federal courts simply apply it as it is written, giving meaning to all of its words, then it may actually be applied as it was intended. In this regard, the statute does not simply require any economic value, but a specific type; namely, “independent” economic value “to others” because of its secrecy.<sup>423</sup>

### 2. *Definition of “Misappropriation”*

The definition of misappropriation contained in the DTSA was not in the original version of the EEA, but was added with the other “new” provisions of the DTSA and was borrowed word for word from the UTSA. As in the UTSA, it is a very convoluted provision which defines the following: (1) the various “wrongs” of trade secret misrepresentation, (2) the state of mind that misappropriators must have, and (3) potential third-party liability. Significant portions of the definition of misappropriation rely upon unidentified state law (which in effect are incorporated by reference), including legal and ethical principles that define “improper means” and duties of confidence. This includes principles of contract law which determine when express and implied duties of confidentiality are created and legal principles governing duties of confidence as “a matter of law.”

Because application of the statutory definition of misappropriation relies heavily upon concepts of state law—and those concepts are not themselves defined in either the DTSA or the UTSA—consistent with the rules and methodologies previously discussed, it is likely that they will be interpreted and applied in accordance with the law of the forum state. Such a prediction is bolstered by the fact that these concepts are usually based upon the values and ethics of individual states and often define the expectations of parties doing business in those states. But, as occurred in *Community for Creative Non-Violence v. Reid*, the possibility exists that the federal courts may use a general source of law, like common law as expressed in the Restatements, to make the necessary federal common law.

### 3. *Definition of “Improper Means”*

The definition of “improper means” in the DTSA, as in the UTSA, includes an illustrative list of criminal and tortious behaviors that, when engaged in for the purpose of either wrongfully acquiring or wrongfully disclosing or using a trade secret, constitute “misappropriation.” The precise meaning and scope of “improper means” has not been definitively settled under state law, although many courts and commentators have cited

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423. See Johnson, *supra* note 193, at 556–58.

*E.I. duPont deNemours Co. v. Christopher*<sup>424</sup> for the proposition that “improper means” can include behavior that is not itself a crime, a tort, or a breach of contract, as the language of both the DTSA and UTSA seem to require. Thus, trade secret defendants are likely to urge a definition of “improper means” that requires the commission of specific criminal or tortious behaviors, whereas trade secret owners are apt to urge a broader definition. If federal courts apply the law of the forum state, *Christopher* will apply in Texas and other states where it has been recognized with favor. But if they decide to apply the “plain meaning” of the DTSA, a narrower construction is possible. This example suggests that despite the DTSA’s objective of uniformity, local variation may continue to exist in some areas.

C. INTERPRETING AND APPLYING “BORROWED” LANGUAGE THAT IS NOT DEFINED

There are numerous provisions of the DTSA that were borrowed from the UTSA but that are not defined in either the DTSA or the UTSA. At the state level, these provisions are subject to interpretation by state courts, and there is a rich body of case decisions defining them. The question is whether and to what extent federal courts applying the same language in the DTSA will consult and apply state jurisprudence on these issues.

Applying the foregoing rules and methodologies, it is hard to predict how federal courts will rule with respect to language borrowed from the UTSA but not defined in the DTSA. On one hand, preference for national uniformity would suggest a desire for a single, national standard, particularly since the legislative history of the DTSA is rife with statements about the need for uniformity in trade secret law.<sup>425</sup> On the other hand, it is clear that the DTSA, particularly the borrowed parts, is based upon both state common law and state statutes that adopted the UTSA. But without defined terms “giving content” to the DTSA, will the federal courts first apply the “plain meaning” of the terms used or look to judicial decisions from states to define the terms? If the latter, will they look to the rules of decision of the forum state, or, like the court did in *Mississippi Band of Choctaw Indians*, the “better reasoned” common law, regardless of whether the forum state has adopted such an interpretation?

In the case of the issues listed below, it is not so much that the DTSA does not “cover” them, but that without any statutory definition or associated commentary (as exists in the case of the UTSA) it is unclear whether federal courts can (and should) interpret those terms anew or apply

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424. 431 F.2d 1012 (5th Cir. 1970).

425. See *supra* Part II.

the meaning of those terms as developed under state law. Moreover, to the extent that federal courts decide to apply state law, what happens if there is a conflict in interpretation between various states? In the subsections which follow, we briefly explore what the various approaches may mean for the following issues that are not defined by either the UTSA or the DTSA.

1. *What Constitutes a Duty of Confidentiality and How Are Such Duties Formed?*

Under the law of most states, duties of confidentiality can be created in a variety of ways. They can be defined by statutes, professional norms, or contract. Except where a statute of frauds might apply, the creation of contractual duties of confidentiality can be either written or oral and express or implied-in-fact.<sup>426</sup> Pursuant to principles of equity, they might also be “implied-at-law.” However, there is an important distinction under the UTSA and the law of the states that federal courts should keep in mind when examining the confidentiality prong of trade secret misappropriation—namely, a trade secret claim based upon an alleged breach of a duty of confidence versus other tort or contract claims based upon that same duty. The UTSA, and by extension the DTSA, only applies to the misappropriation of trade secrets. Any supplemental claims will be governed by state law, including state law claims that would otherwise be precluded by section 7 of the UTSA. In other words, section 7 of the USTA limits state-law claims for misappropriation of “competitively significant information.”<sup>427</sup> However, the DTSA, due to its lack of preemption, does not (on its face) bar non-precluded state law claims being heard in federal court under supplemental jurisdiction.

2. *What Constitutes “Know or Reason to Know,” and What Needs to Be Known: The Trade Secrets; The Misappropriation; or Both?*

A largely unexplored and therefore unresolved issue among the states concerns the precise “knowledge” that is needed by an alleged trade secret

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426. See, e.g., *Nilssen v. Motorola, Inc.*, 963 F. Supp. 664, 679 (N.D. Ill. 1997) (“While an express confidentiality agreement may certainly suffice to define the duty of confidentiality necessary for action under [the Illinois UTSA], the existence of such an agreement is not a prerequisite to such an action. Rather a duty of confidentiality may be implied from the circumstances surrounding the parties’ relationship.”) (internal citations omitted).

427. See UTSA § 7 cmt. (“This Act . . . applies to a duty to protect competitively significant secret information that is imposed by law. It does not apply to a duty voluntarily assumed through an express or implied-in-fact contract.”).



misappropriator, particularly when the alleged misappropriator is a third party who was not involved in the initial misappropriation. Does the alleged misappropriator need to know that actual trade secrets exist, or just that the information in question was the subject of some efforts to keep it private? Must they also understand that their behavior constitutes misappropriation? This relates to the notice function of the reasonable efforts requirement which, according to some courts, should at least put employees and others on notice of the desire for confidentiality and the identity of confidential information.

3. *What Constitutes “Willful and Malicious” and “Bad Faith” for the Award of Punitive Damages and Attorney’s Fees?*

Both the UTSA and DTSA authorize an award of exemplary damages for willful and malicious misappropriation. In addition, such conduct may be the basis for awarding attorney’s fees under both the UTSA and DTSA. Further, if a plaintiff alleges trade secret misappropriation in “bad faith,” it may also be subject to an award of attorney’s fees. However, neither the DTSA nor the UTSA attempt to expressly define these requirements.

Federal courts applying the DTSA have several options in interpreting these provisions, not all of which are mutually exclusive. First, they can turn to the body of state law that has developed under the UTSA, which provides considerable guidance as to what types of conduct satisfies these standards.<sup>428</sup> Second, they can apply the (more limited) federal court precedents applying state trade secret law for actions heard under the courts’ diversity jurisdiction prior to the DTSA.<sup>429</sup> Third, the courts might seek guidance from other federal statutes, such as the bankruptcy code provision that willful and malicious injury to property cannot be the basis for

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428. *See, e.g.,* Agilent Techs., Inc. v. Kirkland, No. CIV. A. 3512-VCS, 2010 WL 610725, at \*34 (Del. Ch. Feb. 18, 2010) (finding that the defendants “acted willfully and maliciously with intent to cause commercial harm . . . by using [the plaintiff’s] confidential information and trade secrets” and awarding attorney’s fees); Boeing Co. v. Sierracin Corp., 738 P.2d 665, 684 (Wash. 1987) (affirming trial court’s finding of willful and malicious misappropriation of Boeing’s trade secrets and its award of exemplary damages and attorney fees).

429. *See, e.g.,* E.I. DuPont de Nemours & Co. v. Kolon Indus., Inc., No. 3:09-CV-58, 2011 WL 5872895, at \*1 (E.D. Va. Nov. 22, 2011) (awarding \$350,000 for defendant’s willful and malicious misappropriation under Virginia’s UTSA); Astro-Med, Inc. v. Plant, No. CIV.A. 06-533 ML, 2008 WL 2883769, at \*6 (D.R.I. July 25, 2008), *amended in part*, No. CIV. A. 06-533 ML, 2010 WL 537101 (D.R.I. Feb. 12, 2010) (awarding exemplary damages, attorney’s fees, and costs due to defendant’s willful and malicious misappropriation of trade secrets under Rhode Island’s UTSA).

discharging a debt, in order to determine what mental state is sufficient.<sup>430</sup> For the sake of consistency with the UTSA, some combination of the first two options are most likely to be adopted by federal courts.

4. *What Are the Measures of Actual Loss and Unjust Enrichment? When Are Royalties in Lieu of Injunctions to be Granted, and How Should They Be Calculated?*

Another set of questions relates to monetary remedies available under the DTSA. Both the DTSA and UTSA authorize a successful trade secret plaintiff to recover its actual loss caused by the misappropriation, as well as the misappropriator's unjust enrichment (i.e., disgorgement) to the extent that it is not included in calculations of the plaintiff's loss (in order to avoid double counting). Similar language exists under other federal statutes, including the Copyright Act<sup>431</sup> and the Lanham Act.<sup>432</sup> Again, the federal courts will be confronted with the choice of whether to rely on existing precedent under state trade secret law, on federal court interpretations of other federal intellectual property statutes, or some combination of these options. Federal courts will also be faced with questions about how to determine such monetary remedies, such as whether the principle of apportionment—which is well recognized in patent law—should be applied to prevent a successful trade secret plaintiff from benefitting from innovations and developments unrelated to the plaintiff's trade secret information.<sup>433</sup>

A similar situation exists with respect to awarding royalties in the (presumably rare) event that an injunction is not awarded to prevent future misappropriation. Federal courts could turn to either existing precedent under the UTSA, or they could turn to other bodies of federal law, such as patent law, to help guide this analysis.<sup>434</sup>

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430. 11 U.S.C. § 523(a)(6) (2012).

431. 17 U.S.C. § 504 (2012).

432. 15 U.S.C. § 1117 (2012).

433. See, e.g., Douglas G. Smith, *Application of Patent Law Damages Analysis to Trade Secret Misappropriation Claims: Apportionment, Alternatives, and Other Common Limitations on Damages*, 25 SEATTLE U. L. REV. 821 (2002).

434. See, e.g., Richard F. Dole, Jr., *Statutory Royalty Damages Under the Uniform Trade Secrets Act and the Federal Patent Code*, 16 VAND. J. ENT. & TECH. L. 223 (2014) (arguing that differences between the Patent Act and trade secret laws should counsel against adopting the Patent Act's approach to statutory royalty awards); cf. Christopher B. Seaman, *Ongoing Royalties in Patent Cases After eBay: An Empirical Assessment and Proposed Framework*, 23 TEX. INTELL. PROP. L.J. 203 (2015) (discussing royalty awards granted in lieu of injunctive relief in patent cases).

#### D. DEALING WITH ISSUES NOT DIRECTLY ADDRESSED BY THE DTSA

Finally, over the decades since the recognition of trade secret claims in the United States, a number of issues have arisen that are not addressed in either the DTSA or the UTSA. This includes the long-standing common law concept of “general skill and knowledge,” which is not mentioned in the text of the DTSA, but which is an important limitation on the scope of trade secret protection.<sup>435</sup> It also includes the law governing the ownership of employee-created trade secrets. There are also other unaddressed issues that are procedural or remedial in nature. They include the following questions:

- Are monetary damages available if there was no use or disclosure of the trade secrets?
- Is irreparable harm presumed from a finding of likelihood of success on the merits?
- Does the reasoning of *eBay*<sup>436</sup> apply to injunctive relief under the DTSA?
- What constitutes a sufficient public policy interest to require royalties in lieu of an injunction?
- When is trade secret misappropriation deemed to be “discovered” such that the statute of limitations begins to run?
- How should conflicts between federal patent, copyright, and trade secret law be resolved?
- Who has standing to bring a claim under the DTSA?

Since the foregoing questions primarily concern the standards for the grant of remedies, including injunctive relief, they are likely to be governed by the extensive body of federal jurisprudence, based upon the Constitution, statutes, and principles of equity, concerning remedies. But as issues arise, federal courts may look toward state law for guidance and, with respect to procedural matters, will have more flexibility to do so.

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435. *See, e.g.*, *SI Handling Sys., Inc. v. Heisley*, 753 F.2d 1244, 1267 (3d Cir. 1985) (“[A]n employee’s general knowledge, skill, and experience are not trade secrets. Thus in theory an employer generally may not inhibit the manner in which an employee uses his or her knowledge, skill, and experience—even if these were acquired during employment.”) (internal citations omitted).

436. *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

## V. CONCLUSION

In summary, federal courts will face difficult and complex issues regarding the role of existing federal and state law in interpreting and applying the DTSA. Federal jurisprudence will first be based upon the language of the DTSA itself, as interpreted by the federal courts. But state law will likely play an important role as well, either through statutory interpretation or common law rulemaking as necessary to fill gaps in the DTSA. Based upon the interpretive rules and methodologies previously discussed, possible scenarios for the DTSA include federal courts: (1) adopting the law of the forum state, including the UTSA as adopted and applied in that state; (2) rejecting the law of the forum state in favor of the creation of a federal common law based upon (a) some other state's UTSA law, (b) the UTSA and its commentary, (c) the common law of trade secrecy; or (3) whatever the federal courts think should be the law. No matter what choices the federal courts make, the development of a federal jurisprudence of trade secret law will generate numerous issues in need of further consideration and possible legislative fixes.

