Harmonization?
Interpreting the DTSA in Light of State Law

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DTSA and Harmonization

- The DTSA "will provide a single, national standard for trade secret misappropriation with clear rules and predictability for everyone involved."

  S. Rep. No. 114-220, at 14 (2016).

- "Simply put, our bill will harmonize U.S. [trade secrets] law."

  Sen. Chris Coons (D-DE), DTSA sponsor

But...

- No preemption of state law (18 U.S.C. § 1838)
  - Claims under both DTSA and state TS law
  - Other state law claims (unfair competition, unjust enrichment, etc.)
- Reliance on state law in applying DTSA
  - Contract law (NDA, employment contracts)
  - Agency law (fiduciary duties)
  - Competition/employment law (non-compete agreements)

Interpreting the DTSA

- Category #1: New to civil trade secrets law
  - Commerce Clause requirement
  - *Ex parte* seizure provision
  - "Whistleblower" immunity
  - Extraterritoriality

- Courts will likely turn to existing federal law to help interpret these provisions.

Interpreting the DTSA

- Category #2: Borrowed from UTSA
  - Definition of trade secret (with some differences)
  - "Reasonable efforts" standard for secrecy
  - Definition of misappropriation
  - "Improper means"
  - Reverse eng'g, independent invention exceptions
  - Most remedies provisions

Interpreting the DTSA

Do these provisions incorporate existing precedent? Probably yes.

> "Where Congress borrows terms of art in which are accumulated the legal tradition and meaning, . . . 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."

Molzof v. United States, 502 U.S. 301, 307 (1992) (quoting Morrissette v. United States, 324 U.S. 246, 263 (1952))

Which Precedent?

- Interpret DTSA consistent w/forum state law to avoid vertical disuniformity
  - See, e.g., Kuryakan Holdings LLC v. Ciro, LLC, 2017 WL 1026025, at *5 (W.D. Wis. Mar. 15, 2017) ("The court's analysis will use Wisconsin's UTSA, but the analysis would apply as well to the DTSA as well.")
- But this may create horizontal disuniformity b/w fed courts if it mirrors differences b/w existing state laws

Divergence: Continuing Misappropriation

- DTSA:
  - Applies to "misappropriation of a trade secret ... for which any act occurs on or after the date of [DTSA's] enactment." Pub. L. 114-152, § 2(e)
  - "A continuing misappropriation constitutes a single claim of misappropriation." 18 U.S.C. §1836(d)

- UTSA § 11:
  - The UTSA "does not apply to any misappropriation occurring prior to the effective date. With respect to a continuing misappropriation that began prior to the effective date, the [UTSA] also does not apply to continuing misappropriation... after the effective date."

Divergence: Continuing Misappropriation

"If Congress had wished to prevent application of the DTSA to continuing misappropriations that began pre-enactment, it easily could have. This simply would have required it to (as it did with countless other provisions) "rubberstamp" § 11 of the UTSA into the DTSA. Given its obvious familiarity with the UTSA's—and other state trade secrets laws'—provisions, any suggestion that Congress was unaware of the availability and import of § 11 would be nonsensical. It only follows that, when Congress did not adopt the anti-retroactivity provisions found in the UTSA and many states' trade secret laws, it did so consciously and for a reason."

Brand Energy & Infrastructure Servs., Inc. v. Irex Contracting Group, 2017 WL 1105648 (E.D. Pa. Mar. 24, 2017)

Interpreting the DTSA

- Category #3: Applying other (non-TS) state laws in the context of a DTSA claim
  - Contract law (e.g., NDA)
  - Agency law (fiduciary duties)
  - Employment law
  - Criminal law (e.g., theft, bribery as "improper means")

State Law or Federal Common Law?

"In the 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." Clearfield Trust Co. v. United States, 318 U.S. 363, 367 (1943).

State Law or Federal Common Law?

"In past cases of statutory interpretation, when we have concluded that Congress intended terms such as 'employee,' 'employer,' and 'scope of employment' to be understood in light of agency law, we have relied on the **general common law of agency, rather than on the law of any particular State**, to give meaning to these terms."

Community for Creative Non-Violence v. Reid, 490 U.S. 730 (1989) (emphasis added).

Another Example: Injunctive Relief

Under the DTSA, a federal court may not grant an injunction that would "otherwise **conflict with an applicable State law** prohibiting restraints on the practice of a lawful profession, trade or business."

18 U.S.C. § 1836(b)(3)(A)(i)(II) (emphasis added).

Divergence: Non-Competes

- Generally enforceable if reasonable in scope and duration.

- But see Cal. Bus. Code 16600 ("Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade or business of any kind is to that extent void.").

But Which State Law is "Applicable"?

- See First W. Capital Mgmt. Co. v. Malamed, 2016 WL 8358549 (D. Colo. Sept. 30, 2016) (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").

California Strikes Back

Cal. Labor Code § 925 (effective Jan. 1, 2017):

(a) An employer shall not require an employee who primarily resides and works in California, as a condition of employment, to agree to a provision that would do either of the following:

(1) Require the employee to adjudicate outside of California a claim arising in California.

(2) Deprive the employee of the substantive protection of California law with respect to a controversy arising in California.

(b) Any provision of a contract that violates subdivision (a) is voidable by the employee, and if a provision is rendered void at the request of the employee, the matter shall be adjudicated in California and California law shall govern the dispute.