Trade Secret Legislation Reintroduced in Congress (3rd Time)

Insights
7.31.15

Maybe the third time is the charm. After trying twice before (see here and here), Congress is making another run at creating a federal claim for trade secret misappropriation. A bipartisan group of legislators from both congressional chambers, introduced a lengthier federal trade secrets act that would create a federal cause of action and create original federal question jurisdiction for trade secret actions in federal court. For those of you who want to read the details, you can review a copy of the bill here, and you can read Senator Hatch's press release here. The bill is entitled the "Defend

Trade Secrets Act." Key aspects are as follows:

- Civil claims for trade secret misappropriation may be brought in federal court.
- Courts are expressly authorized to issue ex parte injunctions for preservation and seizure of evidence. Applications for such orders would require proof that the defendant would destroy the evidence if given notice. A person who suffers damage by reason of a wrongful seizure has a cause of action against the applicant, and "shall be entitled" to recover damages for lost profits, cost of materials, loss of good will, and punitive damages if the seizure was sought in bad faith.
- Much like state Uniform Trade Secrets Act statutes, courts may enjoin actual or threatened misappropriation. Query whether and how this may evolve into a federal claim for inevitable disclosure. Different states have gone different ways on this question. The bill has language stating that although an injunction may be granted to prevent actual or threatened misappropriation, a court order may "not prevent a person from accepting an offer of employment under conditions that avoid actual or threatened misappropriation." In his press release, Senator Hatch states that the purpose of the DTSA is to "harmonize U.S. law…to create a uniform standard for trade secret misappropriation." At a minimum, the federal courts will have to decide where the federal law stands on this question that currently differs from state to state under virtually identical UTSA language.
- Treble damages and/or attorneys' fees for willful and malicious misappropriation.
- Five-year statute of limitations.

- The statute states that it shall not be construed "to preempt any other provision of law."

The last point – preemption – raises numerous interesting questions. Although the bill is not intended to preempt state law, the US Supreme Court has held that "A state statute is void to the extent that it actually conflicts with a valid Federal statute". In effect, this means that a state law will be found to violate the Supremacy Clause when either of the following two conditions (or both) exist:

1. Compliance with both the Federal and state laws is impossible
2. "[S]tate law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress"

What does this mean for states where courts are reluctant to afford customer lists trade secret protection? What about California, where employees generally may announce their affiliation with a new employer to trade secret customers? Different employers may prefer different outcomes on that issue. From the perspective of companies seeking to protect trade secret customer lists, the law across the country provides generally strong protection, but there are some exceptions. If the U.S. Courts were to construe the DSTA similar to the manner in which California courts construe the California UTSA, that could present limitations for companies who seek trade secret status for their customer lists. Naturally, other companies and departing employees may be comfortable with such a result. Either way, employers may want to begin thinking about this issue and consider whether they want to speak up as the bill works its way through committee. In a letter of support, a number of large national entities have already endorsed the bill, including the Association of Global Automakers, Inc., Biotechnology Industry Organization (BIO), The Boeing Company, Boston Scientific, BSA | The Software Alliance (BSA), Caterpillar Inc., Corning Incorporated, Eli Lilly and Company, General Electric, Honda, IBM, Illinois Tool Works Inc., Intel, International Fragrance Association, North America, Johnson & Johnson, Medtronic, Micron, National Alliance for Jobs and Innovation (NAJI), National Association of Manufacturers (NAM), NIKE, The Procter & Gamble Company, Siemens Corporation, Software & Information Industry Association (SIIA), U.S. Chamber of Commerce, United Technologies Corporation and 3M.

At present, it is hard to say for sure whether this legislation has legs. On the one hand, the bipartisan and bicameral support bodes well for passage of the legislation in some shape or form. On the other hand, this is the third time such legislation has been introduced, and setting aside the fortitude of the sponsors, there is no real clear reason to believe the current proposal will fare better than its predecessors. We will continue to monitor this bill. Check back for updates.

Michael R. Greco is a partner in the Employee Defection & Trade Secrets Practice Group at Fisher Phillips. To receive notice of future blog posts either follow Michael R. Greco on Twitter or on LinkedIn or subscribe to this blog's RSS feed.

Related People

Michael R. Greco
Regional Managing Partner
303.218.3655
Email