



Federal Trade Secret Legislation Proposal Gains New Life

Insights

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The prospects for federal trade secret legislation has heated up again as there appears to be bipartisan support for a new bill. After failing in previous years, Senator Coons (D) recently joined forces with Senator Hatch (R) to introduce a 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 Coons' press release. 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 notice to the US Attorney in that judicial district and 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 stated 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 expressly states that it does not preempt state 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 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. The press release notes that a number of large national entities have already endorsed the bill, including 3M, Abbott, AdvaMed, Boston Scientific, Caterpillar, Corning, DuPont, General Electric, Eli Lilly, Medtronic, Micron, Microsoft, Monsanto, Phillips, Proctor & Gamble and United Technologies, as well as the National Association of Manufacturers and the U.S. Chamber of Commerce.

At present, one website that tracks legislation gives the bill a three percent chance of passage and an eleven percent chance of the bill getting out of committee (click [here](#)). Consequently, there appears to be an opening to lobby for changes. Indeed, this is far from the first time in recent years that Congress has considered federal trade secret legislation. We will continue to monitor this bill (and state legislation like the Massachusetts bill recently introduced). Check back for updates.

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