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## Trade Secrets Claims Reach Federal Court: New Law Changes Jurisdiction, Remedies and Duties

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*Until May 12, 2016, trade secret law was the only area of intellectual property law left largely to state courts and state law. But no longer. On May 12, President Obama signed the Defend Trade Secrets Act of 2016, Pub. L. No. 114-153.<sup>1</sup> It establishes a new federal civil remedy for the misappropriation of trade secrets, including an innovative ex parte civil seizure provision, provides non-exclusive federal question jurisdiction for claims arising under the Act, and creates new duties—effective immediately—for employers, contractors and consultants. Much remains to be sorted out by litigation, but several things about the new Act are clear and warrant immediate attention.*

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### Update Confidentiality Agreements Now to Include Notice of Whistleblower Protections

Section 7 of the Act provides whistleblower protection to employees, contractors and consultants who disclose trade secrets in certain situations. Employers **must** provide notice of this protection in any contract governing the use of trade secrets. Failure to comply bars employers from receiving exemplary damages or attorneys' fees in litigation against an employee under new 18 U.S.C. § 1836(b)(3)(C) or § 1836(b)(3)(D).

The new notice must explain that an employee will not be held criminally or civilly liable under any federal or state trade secret law for disclosures of a trade secret made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney where the disclosure is made solely for the purpose of reporting or investigating a suspected violation of law, or (ii) in a complaint or other document filed in a lawsuit or other proceeding, if filed under seal. While the requisites of notice are set forth in the statute, the optimal clause will vary depending on state law and the particulars of the contract.



<sup>1</sup> Text and legislative history are [available here](#).

The new notice requirement took effect immediately; it applies to any agreement governing the use of a trade secret or other confidential information signed or modified on or after May 12, 2016.

### Federal Versus State Law: Let 51 Flowers Bloom

The creation of a new federal cause of action means that trade secret actions can now routinely be litigated in federal court. The Act does not preempt state law, however, and instead expressly supplements state law and state remedies. The prospect of dual enforcement schemes covering the same field brings new opportunities, but also new complexity and uncertainty.

The Act is modeled on and shares a number of similarities with the Uniform Trade Secrets Act, which has been adopted to varying degrees by 48 states and the District of Columbia. But the new Act also differs from the not-entirely-Uniform Act in ways that are not always immediately apparent. For example:

**Definition of “trade secret”:** The Act excludes information that is “readily ascertainable through proper means by another person who can obtain economic value from the disclosure or use of the information.” In contrast, California’s variant of the Uniform Act omits the phrase “readily ascertainable” and adds in its place the phrase “not being generally known to the public or to other persons who can obtain economic value from [the trade secret’s] disclosure or use.” Thus California protects “secrets” that are not “generally known” even if they are “readily ascertainable” by someone who looks.<sup>2</sup>

Now consider the two states that have not enacted the Uniform Act in any form—New York and Massachusetts. New York has its own multi-factor test for a trade secret that departs from the Act and the Uniform Act.<sup>3</sup> For example, while information must be in “continuous use” in the operation of the business to qualify as a trade secret under New York common law<sup>4</sup>, the definition of “trade secret” under the Act contains no such “use it or lose it” component.

**The “inevitable disclosure” doctrine:** Many states will bar a departing employee from taking a job with a competitor if the departing employee knows trade secrets and assumes a position where those secrets may be used, reasoning that the employee will inevitably disclose the secrets to his or her new employer.<sup>5</sup> But the Act, taking a cue from California law<sup>6</sup>, bars injunctions preventing a person from entering into an employment relationship based “merely on the information the person knows” rather than actual “evidence of threatened misappropriation.”

These are just a few of the differences between existing law and the new Act; there are many others. Creating parallel bodies of trade secret law, both available to all, will create some new complexity, at least until litigation sorts it out. For now, anyone contemplating trade secrets litigation, whether as a plaintiff or as a defendant, will want to take a hard look at the new legal options created by the Defend Trade Secrets

<sup>2</sup> Compare 18 U.S.C. § 1839, as modified by section 2(b) of the Act, with Cal. Civ. Code § 3426.1(d). Both differ from section 1(4) of the Uniform Trade Secrets Act (with 1985 amendments).

<sup>3</sup> *Marietta Corp. v. Fairhurst*, 301 A.D.2d 734, 754 N.Y.S.2d 62, 66 (2003).

<sup>4</sup> *Softel, Inc. v. Dragon Med. & Sci. Commc'ns, Inc.*, 118 F.3d 955, 968 (2d Cir. 1997); *Medtech Prod. Inc. v. Ranir, LLC*, 596 F. Supp. 2d 778, 787 (S.D.N.Y. 2008) (applying New York law); *Minn. Mining & Mfg. Co. v. Tech. Tape Corp.*, 23 Misc.2d 671, 678-79, 192 N.Y.S.2d 102, 112-13 (1959) (quoting Restatement of Torts, § 757, comment (b)).

<sup>5</sup> *E.g., PepsiCo v. Redmond*, 54 F.3d 1262, 1269-71 (7th Cir.1995).

<sup>6</sup> *Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111, 1117-20 (N.D. Cal. 1999) (rejecting doctrine under California law). The state of the “inevitable disclosure” doctrine in New York is unsettled, with the viability of the doctrine heavily dependent on the facts presented. *See Payment Alliance Int'l, Inc. v. Ferreira*, 530 F. Supp. 2d 477, 481 (S.D.N.Y. 2007) (accepting doctrine in limited circumstances); *Marietta Corp. v. Fairhurst*, 301 A.D.2d 734, 736, 754 N.Y.S.2d 62 (2003) (rejecting doctrine); *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 309 (S.D.N.Y. 1999) (“[a]bsent evidence of actual misappropriation by an employee, the doctrine should be applied in only the rarest of cases.”).

Act and compare them to existing state law. To some extent we now have a trade secrets smorgasbord, from which litigants can pick and choose.

### New Civil Seizure Provision Can Be Invoked *Ex Parte*

On top of the typical remedies of damages and injunctive relief, section 2 of the Act provides an innovative civil seizure remedy that in appropriate cases can be invoked *ex parte*—that is, without notice to the defendant. This opens the door for a plaintiff to seek a court order seizing property “necessary to prevent the propagation or dissemination of the trade secret.” To avoid the potential abuse of this extraordinary remedy, the Act establishes a very high eight-part test that a plaintiff must satisfy (by a verified complaint or an affidavit) before a court may order property to be seized. The Act also provides remedies in cases of wrongful or excessive seizure, and detailed provisions govern custody of the secrets and publicity about the seizure. Seizure orders will not be lightly granted but in an appropriate case may provide a powerful new weapon against the theft of trade secrets. That may prove to be especially true if the secret is about to leave the country: theft of secrets by foreigners is a particular concern of Congress, as reflected in section 4 of the Act.

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