

ALERT

August 2016

**"Seize That Flash Drive!"
*The Defend Trade Secrets Act Necessitates Immediate Action By
Employers, Expands The Scope Of Trade Secrets And Provides For
Seizure Remedies***

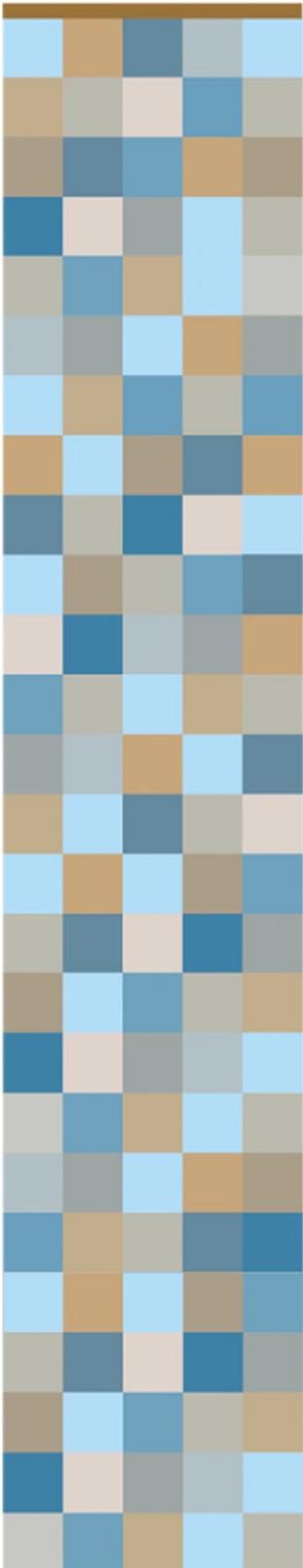
Businesses that seek to protect their valuable trade secrets, and do so efficiently, should be aware of the Defend Trade Secrets Act ("DTSA" or "The Act"), its significant new provisions, and how The Act differs from their governing state's law. In brief, the Act expands the scope of things which may be protected as a trade secret, requires most employers to consider immediate changes in their employment policies, and allows for the extraordinary remedy of *ex parte* seizure orders.

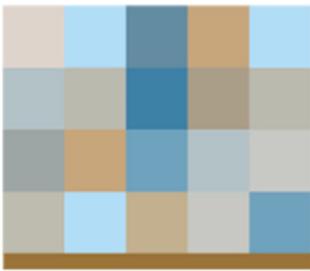
Expansion of the Definition of Trade Secret

President Obama signed the DTSA in May of 2016. The DTSA has a strong focus on whether the employee actually misappropriated the trade secret. In contrast, some state laws, like those in New York, focus more on the value of the trade secret itself. In New York, courts use a balancing test to determine whether information qualifies as a trade secret. These factors include the amount of effort or money expended by the company in developing the information and the expense and difficulty to duplicate it. New York courts also require the trade secret to be in continuous use. On the other hand, the DTSA affords trade secret protection as long as the information is valuable to the business and kept secret. The broader DTSA standard could, in effect, protect the future revenue associated with a misappropriated trade secret, even if the company did not invest a lot of money into its discovery.

Immediate Action Necessary

The DTSA includes a new whistleblower clause that provides immunity for employees who disclose trade secrets to government officials for the sole purpose of reporting violations of the law. Along with whistleblower immunity, employers now have an affirmative obligation to provide a notice of this immunity to their employees in "any contract or agreement with an employee that governs the use of a trade secret or other confidential information." An employer who does not provide this notice will not be able to recover punitive damages or attorneys' fees in a trade secret action against that employee.





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A New Remedy to Protect Your Trade Secrets

The DTSA also provides a unique remedy that does not appear to exist under any state's current trade secret laws - *ex parte* seizure orders. Victims of trade secret misappropriation can obtain an order from the court to seize any property required "to prevent the propagation or dissemination of the trade secret." This court order may be obtained *ex parte*, which means the accused thief does not have to be given notice or a hearing to contest the seizure. This powerful remedy is only available in "extraordinary circumstances." To prevent abuse of such a drastic remedy, The Act imposes a substantial burden on the applicant, whose applications must show at least that: (1) another form of equitable relief would be inadequate because the party to be enjoined would evade, avoid, or otherwise not comply; (2) immediate and irreparable injury will occur if such seizure is not ordered; (3) the harm to the applicant outweighs the interests of the party to be enjoined and substantially outweighs potential harm to third parties.

Recent Cases Brought Under the DTSA

In *Henry Schein, Inc. v. Cook*, the court granted an employer a temporary restraining order and preliminary injunction against its former sales consultant who allegedly stole confidential data. Such relief was available under both the DTSA and state law. However, of note, the federal trade secret claim allowed the employer's seven other state claims to be heard in federal court through the court's exercise of supplemental jurisdiction. This suggests, as many predicted, that employment and contract claims based on state law, which are usually factually intertwined with misappropriation of trade secrets claims, will also be heard in the federal forum more regularly.

In sum, the DTSA provides companies that are victimized by trade secret misappropriation with broader protections and the opportunity to obtain relief in federal courts. Employers who seek to fully protect their trade secrets should immediately consider whether they should update their employment contracts to provide DTSA notice.



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