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Federalizing Trade Secret Protection: A Close Look at the Ex Parte Seizure Provision

From the Experts

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Trade secrets are the lifeblood of American business. U.S. companies own an estimated \$5 trillion in trade secrets, roughly \$300 billion of which are stolen every year. Trade secret theft deeply affects big business – including such companies as General Motors and DuPont – but even start-ups and smaller companies are vulnerable. Indeed, lawmakers such as Representative Zoe Lofgren (D-CA) have suggested that in places like Silicon Valley “the value of trade secrets may well exceed the value of patents and copyrights.”

Although trade secret protection is largely the province of the states, Congress finally passed the Defend Trade Secrets Act (DTSA) last month (and it was signed this month by President Obama). The new law created a federal civil cause of action for trade secret misappropriation.

DTSA’s most controversial aspect is arguably its ex parte seizure provision. This rule



would allow alleged victims of trade secret theft to seek a federal court order “providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret” without providing advanced notice to any other party.

According to DTSA co-sponsor Senator Orrin G. Hatch (R-UT), this provision is intended to be used only in emergencies, “when a trade secret

misappropriator is seeking to flee the country or planning to disclose a trade secret immediately.”

But how far does DTSA’s ex parte seizure provision really go? And what impact will it have on American businesses? This article provides a high-level overview of the reach and effect of this new seizure provision on plaintiffs, defendants and third-party bystanders.

DTSA's Ex Parte Seizure Regime

DTSA permits a trade secret owner to apply ex parte for a federal court to “issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” This provision allows a trade secret owner to, for example, make an uncontested application for a court order to halt a hacker or other misappropriator from disseminating protected information. Such an order may only issue in extraordinary circumstances, where more traditional relief—such as a temporary restraining order—is inadequate because the perpetrator would evade or avoid it.

Notably, DTSA also contains several protections for accused misappropriators:

- It provides that a seizure should not interrupt legitimate business activities unrelated to the purported misappropriation, if possible.
- It requires the court to set a hearing no more than seven days after a seizure order issues, unless the affected parties agree to another date.
- It allows any party targeted or otherwise harmed by an order to seek to dissolve or modify the order at any time.
- It requires the court to protect the alleged perpetrator from publicity about the order and the resulting seizure (a particularly

important safeguard if the target is a competitor).

- It permits any party or person who claims to have an interest in the subject matter seized to make an ex parte motion to encrypt any material seized or to be seized that is stored on a storage medium.
- It allows any party targeted or otherwise harmed by an improper seizure to recover damages for lost profits, cost of materials, loss of good will, and attorney fees as well as punitive damages where bad faith is involved.

DTSA's supporters have argued that the legislation would address fears about foreign espionage and organized trade secret theft. For example, they contend that DTSA provides a better remedy than existing state laws when trade secrets are stolen by a foreign company aided by a state actor because DTSA protects all products and services used in “foreign commerce” and empowers courts to stop a defendant from sending stolen secrets out of the country.

However, whether DTSA will live up to its promise of protecting American business depends on how well American businesses learn to navigate the law's promises and pitfalls.

Victims of Trade Secret Threat: Applying for Seizure Orders

Trade secrets are valuable precisely because they are secret.

Unlike copyrighted or patented material, once a trade secret is released to the public, it loses its legal protection against being copied, and thus its financial value. Therefore, a seizure order that halts a thief's further dissemination of a stolen secret promises to be an invaluable tool for any such victim.

At the same time, DTSA presents challenges for the alleged victim. Most notably, the victim must post a potentially hefty security bond to pay for damages if the court concludes the seizure was unjustified or caused harm to third parties. Moreover, once the seizure actually takes place, the victim's power is limited. For example, unlike similar laws in other countries, DTSA does not allow the alleged victim to inspect the seized materials while they are in the custody of the court and use them to support its case against the accused perpetrator. Victims in this position will need to get creative in discovery to remedy this information gap.

Targets of Ex Parte Seizure Orders: Defending Against Seizures

The target of a seizure order could face significant business challenges if its assets are seized without notice or an opportunity to be heard.

DTSA provides a number of safeguards that limit potential abuses by unscrupulous plaintiffs and incidental harm from legitimate seizures as

outlined above. These include, most importantly, the right to a prompt post-seizure hearing and the right to recover damages, backed by a security bond.

At the same time, the very existence of these safeguards tacitly acknowledges the potential for improper use of this seizure remedy. For example, an unscrupulous competitor could target a business rival, hoping to take them offline or out of the marketplace at a critical time period. Similarly, a disappointed former employer could seek an ex parte seizure order against a valued employee, hoping to prevent the employee from starting a new business or to influence a competitor's hiring decision.

These scenarios are hypothetical for now, but may not be for long. Because the seizure application is ex parte, there is no opportunity for the target to challenge the elements of the plaintiff's claim until after the seizure order issues and the property is seized. Moreover, even after the seizure has occurred, the target is prohibited from inspecting the materials seized in order to help prove its innocence.

Indirect Targets of Seizure Order: Protecting Third-Party Assets

Although seizure orders can only be issued against the actual misappropriator or co-conspirator, the potential exists

for an innocent third party to be mistakenly cast as a co-conspirator and thus made the target of an order without notice or an opportunity to be heard. Like the parties, any third party is similarly prohibited from inspecting the materials seized to mount a defense or otherwise extricate itself.

That said, a third party whose property is seized or who suffers harm as a result of a seizure order does have options. Most notably, the third-party may move to dissolve or modify the harmful order. The third party may also seek damages from an alleged victim of trade secret theft to compensate for harm suffered due to an improper seizure.

Conclusion

DTSA's ex parte seizure provision would provide a unique remedy for alleged trade secret theft victims who face immediate and irreparable economic harm from a foreign or domestic misappropriator. American companies should take steps to learn all they can about how this high-stakes statute might affect them. These steps include understanding how to apply for a seizure order to protect dissemination of stolen trade secrets, how to defend against such claims by unscrupulous or overly zealous rivals and how and when to intervene to stop third-party litigation from impairing their own business operations.

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