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Watch out: The federal Trade Secrets Act provides for ex parte seizure

THE RECENTLY ENACTED DEFEND Trade Secrets Act (DTSA) provides federal court jurisdiction and a potentially powerful new remedy for trade secret cases: ex parte seizure. Under the DTSA, which became law on May 11, 2016, upon a plaintiff's application—and without notice to the alleged thief—federal courts may now authorize the seizure of “property necessary to prevent the propagation or dissemination” of a stolen trade secret.

Ex parte seizure has long been available and used in counterfeiting cases based on federally registered trademarks and copyrights. Accordingly, it is likely that the federal courts will rely on their jurisprudence from this area as the DTSA ex parte seizure

cases make their way through the courts. Typically, an applicant will seek seizure of the counterfeit goods themselves and the tools and records associated with them, such as accounting ledgers, shipping and transport records and facts regarding the chain of manu-

facture, importation, distribution and sale, which enables pursuit of the sources and proceeds of the counterfeiting operations. Using and applying these established principles and practices in trade secret cases will likely prove valuable as aggrieved parties act to stem the harm caused by trade secret theft. Such seizures could prove critical to trade secret claims, particularly in cases of corporate espionage or international theft. Preventing the dissemination before it begins could make the difference between a merely unfortunate security breach and a disastrous hack, such as the one experienced by Sony Corporation when the company's private information and emails were spread far and wide.

Ex parte seizures, however, are extremely invasive and involve the detention, copying and at least temporary loss of control over—and possession of—the seized materials, implicating significant due process concerns. Federal courts almost certainly will rely on the procedural safeguards developed under the trademark and copyright case law to protect the interests of a defendant whose property is subject to seizure. For example, limitations will likely be ordered on access to proprietary information, the time and process for the plaintiff to promptly report back to the court regarding the results of the seizure operation, the preservation of evidence and property, and the bonding process to ensure a remedy against an improvidently granted or executed ex parte seizure order. Parties who learn how to use ex parte seizure properly will reap a substantial advantage in trade secret cases.

This article, the third in a series addressing the DTSA, examines how companies can leverage this tool. To see the first two articles in the series, which provided an overview of the DTSA and its jurisdictional implications, please see [\[LINK\]](#) and [\[LINK\]](#).

“Extraordinary circumstances”

By requiring “extraordinary circumstances,” the DTSA seeks to balance the need for robust trade secret protection against the risk that the remedy could be misused. Accordingly, an applicant seeking a seizure order must present an application based on specific facts to clearly demonstrate that:

1. merely obtaining a preliminary injunction order would be “inadequate,” because the opposing party would “evade, avoid, or otherwise not comply”;
2. irreparable harm would result absent a seizure order;
3. the balance of harm favors seizure;
4. the applicant is likely to succeed in showing that the party against whom seizure would be ordered stole or conspired to steal the secret;
5. the target has actual possession of the trade secret and any property to be seized;
6. the application describes with reasonable particularity the matter to be seized and, to the extent reasonable, the location where the matter is to be seized;

7. the persons against whom seizure would be ordered would destroy, move, hide or otherwise make such matter inaccessible if notice were provided; and
8. the applicant has not publicized the requested seizure.

These elements resemble the requirements found in the Lanham Act and the Copyright Act. In practice, this means that the applicant must meet the classic requirements of a preliminary injunction (elements 2-4), further show that the defendant would destroy or hide the materials if given notice (elements 1, 7), identify the trade secret and where it is being kept (elements 5-6) and file the entire application under seal (element 8).

How to improve the chances of a seizure order

In reviewing ex parte seizure applications, courts will likely balance the need to protect trade secrets against due process concerns and the rights of third parties. While the DTSA provides for swift, post-seizure hearings, applicants seeking seizure orders can also take concrete steps to allay courts’ concerns—and improve their odds of obtaining the order.

To that end, applicants may include provisions to safeguard the defendant’s privacy. Defendants in anti-counterfeiting cases frequently complain about the destruction of property, overreaching seizure efforts invading subject matter and data falling outside the scope of the seizure order, and the associated harm, such as lost profits, the invasion of privacy and the misuse of seized information. To anticipate such complaints, plaintiffs may include in their applications privacy protocols that set forth what materials can be viewed by whom and when, including an “attorneys and experts only” commitment, measures to preserve evidence for all parties, and the engagement of a forensic expert to isolate, preserve and remove the misappropriated secrets from the seized property. Such provisions may ensure that non-offending materials can be safely stored and returned if ordered by a court

and also help to create a clear record of what information was accessed and seized.

Similarly, because the DTSA requires that an applicant must provide “adequate” security to compensate the opposing party for a potentially wrongful seizure, applicants would be wise to calculate and offer, in advance, a reasonable bond. Anticipating the court’s questions and requirements will help remove obstacles to obtaining a requested seizure order. To facilitate swift action, applicants should engage a surety company *before* the ex parte hearing. Applicants should further provide the necessary financial information or security to the surety company and ensure that the surety is poised to issue a bond once the amount is set by the court.

It is crucial for a party contemplating an ex parte seizure-application to anticipate the downstream results and possibilities of defendants’ concerns,

seizures gone bad, and the remedies that courts may impose for overstepping boundaries. Likewise, a party subject to a seizure order must be prepared to immediately take steps to protect its rights and seek remedies from the issuing court. These competing interests—and the ways companies advance them—will likely shape this new, early battleground in trade secret litigation.

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