

## Trade Secrets Litigation Likely to Surge in 2017 Under the DTSA

In 2016, Congress drastically changed trade secret law with the passage of the Defend Trade Secrets Act of 2016 (the DTSA) that creates a federal civil action for trade secret theft, and we expect plenty of trade secret litigation in 2017.

Previously, for civil cases, trade secrets were protected by a patchwork of common law and state laws based, in part, on the Uniform Trade Secrets Act (UTSA). Many states adopted parts of UTSA, with the notable exceptions of New York and Massachusetts, and the DTSA does not preempt these state laws. But the DTSA gives victims of trade secret theft powerful new remedies to secure the return of the trade secrets and seek damages for their misuse. The most powerful of these is the right to seek an *ex parte* seizure order.

### The Right to Seek a Seizure Order

Under the DTSA, a court may — upon *ex parte* application and based on an affidavit or verified complaint showing that the circumstances are extraordinary — “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.” For trade secret lawyers, this is groundbreaking.

To issue a seizure order, a court must find “that it clearly appears from specific facts” that each of the following elements is present:

- other forms of relief would be inadequate because the defendant “would evade, avoid, or otherwise not comply with such an order”;
- failure to seize the property will cause the moving party immediate and irreparable damage;
- the balance of harms, including potential harm to third parties, weighs in favor of seizure;
- the movant is likely to succeed in showing that the property at issue is a trade secret and that the defendant either misappropriated it or conspired to do so;
- the person against whom seizure would be ordered “has actual possession of the trade secret and any property to be seized”;
- the matter to be seized is described with reasonable particularity, as is its location (to the extent possible);
- if given notice of the possibility of seizure, the party in possession would “destroy, move, hide, or otherwise make such matter inaccessible to the court”; and
- “the applicant has not publicized the requested seizure.”

### How a Seizure Order Will Be Executed

Under the DTSA, a federal law enforcement officer shall serve the seizure order and “**shall** carry out the seizure under the order” (emphasis added). The court may permit state or local law enforcement officials to participate in the seizure, but the plaintiff (and its agents) are not permitted to do so.

A technical expert unaffiliated with either party may participate in the seizure, but only at the request of law enforcement officials (not at the request of either party) and only “if the court determines that the participation of the expert will aid the efficient execution of and minimize the burden of the seizure.”

### What to Expect Post-Seizure

The plaintiff does not get the property back right away. The court will retain exclusive custody over the property until both parties have been heard, and may appoint a special master “to locate and



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#### Related Practice Areas

- Labor & Employment
- Trade Secrets, Restrictive Covenants, and Computer Abuse

isolate all misappropriated trade secret information” and facilitate the return of data and property. Additionally, the DTSA **requires** the court to take “appropriate action to protect the person against whom [a seizure order] is directed from publicity, by or at the behest of the person obtaining the order, about such order and any seizure under such order.”

A hearing will be held within seven days after a seizure order is issued unless the party against whom the order is directed agrees to a later date, and the moving party must post a bond in an amount to be determined by the court. Those who believe they were damaged by a wrongful or excessive seizure may file their own cause of action.

The DTSA has a three-year statute of limitations and does not apply retroactively.

### **New Immunity for Whistleblowers**

The DTSA gives immunity for employees and contractors who disclose trade secrets under certain circumstances. The DTSA also mandates that employers give notice of this immunity in any confidentiality or trade secret agreement with employees or contractors. If employers fail to do so, they cannot secure remedies under the DTSA, including exemplary damages (up to twice the amount of actual damages) and attorneys’ fees for willful or malicious violations. Thus, employers must incorporate the immunity notice into their relevant employment agreements and policies as soon as possible.

Passage of the DTSA was a truly groundbreaking development in trade secrets law, and we expect that litigation in 2017 and beyond will more fully reveal its true reach.

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