

# The ex parte seizure order in trade secrets: then and now

By R. Mark Halligan, Esq., FisherBroyles, LLP

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On Oct. 11, 1996, President Clinton signed the Economic Espionage Act of 1996 (EEA) into law: “Trade secrets are an integral part of virtually every sector of our economy and are essential to maintaining the health and competitiveness of critical industries operating in the United States. Economic espionage and trade secret theft threaten our Nation’s national security and economic well-being.”

The EEA was enacted as a federal criminal statute with no private civil cause of action. This proved to doom the effectiveness of the EEA. Economic espionage and trade secret theft continued unabated. Alarm bells were ringing loud and clear that trade secret theft had become rampant and U.S. corporations were now the equivalent of a giant cookie jar permitting foreign agents and unscrupulous competitors to steal American know-how with a low probability of detection or prosecution. The estimates of trade secret theft were staggering. Estimates ranged from \$200 billion to \$300 billion annually.

In 2008, I published a law review article in the John Marshall Law School Review of Intellectual Property Law entitled “Protection of U.S. Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996.” Two critical amendments were proposed: (1) a federal EEA civil cause of action and (2) a civil ex parte seizure provision. R. Mark Halligan, 7 J. Marshall Rev. Intell. Prop. L. 656 (2008).

First, the foundation for a federal EEA civil cause of action was clear. The victims of trade secret theft must have access to the federal courts. Restricting application of the EEA to federal criminal prosecutions proved severely deficient protection for U.S. trade secret assets.

Second, the ex parte seizure order — with the element of surprise — became a vital tool to address the theft of trade secrets and the preservation of evidence as most trade secrets reside in an electronic environment. Computers facilitate the copying and transfer of proprietary information surreptitiously. One can download trade secret information from the company’s computer to a thumb drive or other media, transfer proprietary information to other computers, upload proprietary information to the internet, and transmit the purloined information anywhere in the world in a matter of minutes or even seconds.

Senator Herbert Kohl (D-Wis.) was a key sponsor of the EEA in 1996, and his legislative staff read my 2008 law review article, conducted

many interviews, and began working on these two proposed amendments to the EEA.

In the 112th Congress, Senator Kohl and Senator Christopher Coons (D-Del.) introduced S. 3389, entitled Protecting American Trade Secrets and Innovation Act of 2012 (PATSI). The bill proposed the two amendments discussed in the 2008 RIPL law review article: (1) adding a private civil cause of action and (2) civil ex parte seizure provisions. The bill was referred to the Senate Judiciary Committee, but no further action was taken in the 112th Congress.

In the 113th Congress, after Senator Kohl’s retirement, Senator Coons and Senator Orrin Hatch (R-Utah) introduced S. 2267 entitled The Defend Trade Secrets Act of 2014. Once again, the legislation advanced the two proposed amendments to the EEA: (1) adding a private civil cause of action and (2) civil ex parte seizure provisions. S. 2267 was referred to the Senate Judiciary Committee where a hearing on the bill was held.

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*What has happened since the enactment of the Defend Trade Secrets Act? Have we seen the estimates of trade secret theft decline annually? The answer is no. Companies continue to incur substantial losses.*

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On the House side, H.R. 5233 was introduced by Representative George Holding (R-NC) with strong bipartisan support. After a markup hearing, H.R. 5233 was reported out of the House Judiciary Committee, but no further action was taken on the floor as the 113th Congress expired.

In the 114th Congress, S. 1890 and H.R. 3326 were introduced on the same day. This was a historical *bipartisan, bicameral* introduction of the same bill called The Defend Trade Secrets Act of 2015. The Senate Judiciary Committee held a hearing that would presage the enactment of the proposed DTSA legislation. The foundation of the two critical amendments (federal civil cause of action and ex parte seizure provisions) were now well established in congressional hearings dating to the 112th Congress.

On Jan. 28, 2016, the Senate Judiciary Committee held a voice vote for passing the DTSA. The full Senate passed the DTSA on April 4, 2016 (87-0). The House of Representatives passed the DTSA on April 27, 2016 (410-2). President Obama signed the DTSA into law on May 11, 2016.

At last, eight years after the original 2008 law review article, and the hard work of many dating back to Senator Kohl's legislative staff, the two critical amendments to the Economic Espionage Act became law: The Defend Trade Secrets Act of 2016 (DTSA). The new federal civil cause of action is codified as 18 USC Section 1836(b)(1) and the new ex parte seizure provisions are codified in 18 USC Section 1836(b)(2).

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So, what has happened since the enactment of the DTSA? Have we seen the estimates of trade secret theft decline annually? The answer is no. Companies continue to incur substantial losses. The Commission on the Theft of American Intellectual Property estimates that intellectual property theft costs the United States economy \$600 billion annually.

So, what is going on? U.S. companies are not using the DTSA ex parte seizure provisions to stop trade secret theft and to recover purloined trade secret assets. There remains little investment by U.S. companies in internal trade secret asset management systems for the identification, classification, protection and valuation of trade secret assets. Often, U.S. companies do not even know what the trade secrets are or where they are until after the fact, eliminating the utility of the ex parte seizure provisions.

There are eight requirements for issuing a DTSA ex parte seizure order:

- (1) The relief available under Rule 65 of the Federal Rules of Civil Procedure must be inadequate (because the defendant will evade, avoid, or otherwise not comply with the order).

### About the author



**R. Mark Halligan** is a partner at **FisherBroyles, LLP** and is based in Chicago. He focuses his practice on intellectual property litigation and is recognized as a leading practitioner in the development of automated trade secret asset management blockchain systems. He has taught Advanced Trade Secrets Law in the LLM program at UIC John Marshall Law School for the past 26 years and is the lead author of the "Defend Trade Secrets Act Handbook," 3rd Edition, published by Wolters Kluwer. He can be reached at [rmark.halligan@fisherbroyles.com](mailto:rmark.halligan@fisherbroyles.com).

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- (2) An immediate and irreparable injury will occur if such seizure is not ordered.
- (3) The harm to the plaintiff of denying the application outweighs the harm to the legitimate interests of the defendant.
- (4) The plaintiff must be likely to succeed in showing that there is trade secret misappropriation and acquisition by the defendant by improper means or a conspiracy to misappropriate the trade secret using improper means.
- (5) The person against whom seizure is ordered must have actual possession of the trade secret.
- (6) The ex parte seizure application must describe with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, the location where the matter is to be seized.
- (7) The plaintiff must show that the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court if the applicant were to proceed with notice to such person.
- (8) The applicant must not have publicized the requested seizure.

The DTSA statutory application for a civil seizure order requires an affidavit or verified complaint that addresses these eight requirements.

As one can see, there is a lot of preparation to seek an ex parte seizure order but much of the work can be done before a trade secret theft occurs starting with the identification of trade secrets.

It takes time, effort and money to develop an internal trade secret asset management system and to outfit and train a SWAT team ready to be deployed on a moment's notice to recover stolen trade secrets and to prevent the further propagation or dissemination of trade secret assets. Companies have to do the heavy lifting *before* the trade secret theft occurs. The DTSA provides the statutory framework for ex parte seizure orders, but the trade secret owner must take reasonable steps to be ready to file the DTSA ex parte seizure application in advance of the theft. It is too late once the horse is out of the barn.