Defend Trade Secrets Act of 2016 Best Practices Released: What Every Company Needs to Know to Protect Their Trade Secrets

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As many clients know, last year a federal Trade Secret statute was passed known as the "Defend Trade Secrets Act of 2016" (or the "DTSA"). A provision in the DTSA stated that the Federal Judicial Center—the research and education agency of the judicial branch that assists the federal courts and is chaired by the Chief Justice of the United States—was to issue "Best Practices" guidelines within 2 years of the DTSA being enacted. These Best Practices are to be shared with all Federal Courts in the nation as well as submitted to the Senate Judiciary Committee and the House Judiciary Committee.

Just this past week the Federal Judicial Center (the "FJC") released its preliminary Best Practices, noting that they are being circulated prior to the due date so that the courts can benefit from having early guidance on the subject matter. Butzel Long was among a select group of federal judges, members of the U.S. Marshals Service, well known law school professors, and other "experienced members of the bar" who were acknowledged by the FJC as one of those whom the Center wanted to thank for giving comments and suggestions in the construction of the best practices (as seen on page (viii) of the document). The best practices can be found here.

Butzel Long's involvement stemmed in part from the fact that Butzel defended against the very first seizure application under the DTSA in the nation. Butzel has since been at the forefront in the analysis and study of the DTSA and the application of the new statute, defending clients, bringing claims under the DTSA for aggrieved plaintiffs, and speaking nationally and internationally on the subject. This is yet one more example of Butzel Long continuing its 160-plus years of being leaders in the law, experts in their practice areas, and staying out in front of new issues implicating its clients. Below is a highlight of the Best Practices.

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As Butzel reported at the time the DTSA was passed, the new Act contains a significant new tool for parties who can prove that their trade secrets have been misappropriated. That new tool is the *ex parte* seizure provision. Essentially, if very stringent requirements and factors are met, a plaintiff can obtain a court order—without any notice to the defendant—that permits law enforcement personnel to appear at the defendant's premises to seize the allegedly misappropriated property. All of this can occur before the defendant even knows that a suit was filed against it. It must be stressed, however, that such *ex parte* seizures should only be granted under "extraordinary circumstances."

The DTSA tasked the FCJ with developing recommended best practices for (1) the seizure of information and media storing the information; and (2) the securing of the information and media once seized. The FJC has now published its exhaustive and thorough Best Practices. The Best Practices contain guidelines, suggestions, illustrative examples, proposed forms, and proposed orders. The Best Practices "were written for the federal courts and are designed to help them meet their obligations in seizures of misappropriated trade secrets set forth in the DTSA." The FJC stressed that "the practices are not intended to displace courts' actual experience with this type of seizure or their consideration of the special circumstances of each particular case," and notes that "[a] district may adopt the practices in part, elect to have the practices converted into standing orders issued by individual judges, incorporate the practices within a larger set of local rules governing all trade secret cases, or not adopt any of the practices at all."

While written for the courts, "attorneys may find the practices helpful as a guide to navigating the various requirements" of the DTSA. Also, while written for use by federal courts, because the DTSA can be enforced (and *ex parte* seizures granted) by state courts, the Best Practices may be useful in state courts as well. The Best Practices themselves are too voluminous and detailed to recount in great granularity in this Client Alert, but some of the highlights are noted below. You can contact Butzel Long's Trade Secret Practice Group with any questions you may have as to these Best Practices, the DTSA, or any other Trade Secret concerns you or your company may have.

Highlighted Excerpts from the DTSA Best Practices

Below are a few of the many suggested Best Practices published by the FJC. The Best Practice appears in bold and italics, with the text below each Best Practice being Butzel Long's commentary.

Best Practice 1-2: *Nothing in these trade secret seizure best practices is intended to limit the discretion of the court to adjust the practices on the basis of the circumstances of any particular case, including, without limitation, the simplicity or complexity of the case as shown by the trade secrets, technology, products, or parties involved.*

This warning is important because it not only makes abundantly clear that the judges remain the arbiter of the cases and motions in front of them and should rely on their own judgment and experience (and not just these Best Practices), but it is an equally important reminder to attorneys

that we must still act as advocates and not fall into the trap of rote repetition of the Best Practices. We must analyze each case, argue why the Best Practices should or should not be applied, and take our own positions and make our own arguments.

Best Practice 1-3: ***The court should provisionally enter a standard protective order or at least provide for the designation and protection of information as "Confidentially-Attorneys' Eyes Only" until it enters a protective order.***

Because the Defendant is not even given notice when an application for ex parte seizure is filed, it will be important for Courts to protect everyone's interest with a strong protective order.

Best Practice 2: ***The court should presumptively designate the United States Marshal to serve and execute any seizure order issued pursuant to 18 U.S.C. §1836(b)(2). An applicant for a seizure order who accepts this presumptive choice should be required to ascertain the availability of the marshal to serve and execute the seizure order within seven days of the issuance of the order before filing its application and, if the marshal is not available, to note this on its application. An applicant who requests the designation of a federal law enforcement officer other than the United States marshal to serve and execute the seizure order should be required to accompany such a request with a showing that the service and execution of the order falls within the scope of duties of this officer.***

It is vital for an applicant to keep in mind that he or she cannot simply file an application for *ex parte* seizure with the Court and then hope that the Court or the Marshals make everything happen from there. It is incumbent on the attorney and the plaintiff—before filing the application—to do its homework and line up the appropriate law enforcement officers or at least confirm its availability.

Best Practices 3-1 through 3-4: ***Nomination of Technical Experts***

These Best Practices, which are not quoted here in full due to their length, pertain to the nomination of a technical expert to "assist" the federal marshals in conducting the seizure. The Best Practices advise that the courts should require the applicant, at the time of filing the application for *ex parte* seizure, to nominate a technical expert to assist and to explain how the nominated technical expert can accomplish the work for which they will be retained in an 8 hour period. The applicant should also list the proposed technical expert's name, expertise, any conflicts of interest between the technical expert and any of the parties, and to confirm the consent and availability of the technical expert. The applicant should even go so far as to have lined up, in advance and if necessary, a locksmith and a transportation company if such services will be necessary.

Best Practice 4-1: ***Nomination of Substitute Custodians: At the time of the filing of the application for a seizure order, the applicant should be required to nominate as many vendors as may be necessary to serve the court as substitute custodians of the material seized pursuant to the seizure order.***

The DTSA states that any seized property will be held in custody by the courts. Many courts, however, are either not equipped to hold such property, do not have the room for such property, or are simply not inclined to act as custodians for private property. Thus, the applicant should anticipate whether a third-party vendor or other alternate custodian should be suggested to hold the seized property.

This Best Practice and its annotations also indicate that whomever acts as custodian of the seized property should be able to provide at a *minimum* the same level of security that the plaintiff alleges it provides to keep its trade secrets confidential. Under the DTSA, in order for information to even be considered trade secrets, a plaintiff must show that it takes "reasonable measures to keep such information secret." The Best Practices suggest that an application for a seizure order must allege what "reasonable measures" it took, and that these "reasonable measures" are "a fair and convenient metric for assessing the fitness of the nominee to serve as a substitute custodian for the seized material." A vendor should "provide at least the same level of protection given to the trade secrets prior to the alleged misappropriation."

Also, because the DTSA expressly notes that seized materials shall be secure from both physical *and electronic* access, the Best Practices suggest that any seized electronic devices be secured in Faraday enclosures, which act as barriers against the transmission of radio signals into and out of the enclosures, which themselves may take various forms such as cages, boxes, or bags. These Faraday enclosures essentially cut off any wireless access to or from an electronic device. This Best Practice simply confirms that, if followed, the practice of ex parte seizures will be neither easy nor inexpensive.

Best Practice 5-1: *Appointment of Technical Experts and Substitute Custodians: The court should provide a formal appointment order for each technical expert or substitute custodian.*

The technical experts and custodians are supposed to be neutral parties with no affiliation to either party. This raises the question of to whom they are devoted and to whom they report. It also could raise questions as to liability for such third-parties. The Best Practices suggest that all of these questions could be answered by the court officially appointing the third-party technical experts and custodians as court-appointed actors on behalf of the court itself. This could also give those parties immunity for any claims from either party (whether contractual claims from the plaintiff or from invasion of privacy type claims from the defendant). It will be interesting to see how many courts adopt this Best Practice.

Best Practice 6-1: *The court should clearly identify the party against whom seizure is ordered. The court should also explicitly direct the law enforcement officers executing the seizure order to limit seizure to material that is in the actual possession of such party and provide detailed guidance on the meaning of "actual possession."*

As many civil libertarians have lamented even before the passage of the DTSA and have continued to note since, the *ex parte* seizure could potentially have serious Fourth Amendment concerns. In practice, such a seizure is not much different than the execution of a search warrant. Many have been concerned with the lack of direction in the Act itself as to how searches should be conducted, how expansive they could become, or more.

The Best Practices attempt to address this concern at least in part. Best Practice 6-1 suggests that the courts should give express and clear direction as to who is subject to the seizure order and to clearly limit what can be deemed to be in one's "actual possession" for purposes of carrying out the order. Best Practice 6-2 suggests that the court should give clear instructions as to what locations may be searched, whether doors can be opened during a search, or whether containers can be opened to be searched within. Best Practice 6-3 applies the same logic to electronic storage devices; courts are advised to authorize the seizure of electronic storage medium or devices "only when the technical experts determine, after examination of the storage medium, that . . . there is reason to believe that the storage medium actually contains the misappropriated trade secrets; and it is impracticable to extract the misappropriated trade secrets form the storage medium at the locations where material is to be seized." Because the DTSA discussed electronic storage devices but not their power devices, Best Practice 6-4 suggests that courts expressly "authorize the seizure of the power- and data-related accessories of seized electronic devices." Lastly, the Best Practices (6-6) suggest that courts order strict documentation of all that is seized.

Best Practice 9: ***Calculation of Security: The court should require that the applicant propose an amount of security to be posted for purposes of 18 U.S.C. § 1836(b)(2)(B)(vi) based on the number of hours each person is expected to be present to execute the seizure order at the locations where the material is to be seized, including the technical experts, their employees, and their contractors. The court retains the ultimate discretion to set the exact amount of security that the applicant must post, which may be higher or lower than the proposed amount, but should require the applicant to justify any request for a downward adjustment from the proposed amount.***

The DTSA states that a court may demand security be posted before a seizure is carried out. This security is to protect the defendant against any property damage, harm to its business, or from a frivolous application. The security is not a cap on potential damages that a defendant could seek, but gives some level of security. This Best Practice attempts to lay out a somewhat objective and easily calculable amount that courts can rely on. It may, in the real world, prove to be more difficult to calculate than on paper, however (knowing how many people will be present may not be known, nor will the number or hours spent).

It is important to note that even if a court follows this Best Practice, the ultimate decision rests with the court to determine the security. Some are fearful that demanding too high of a security could lead the *ex parte* seizure provision to be a tool for only rich or cash-flush plaintiffs. The flip side, however, is that if no security is demanded then plaintiffs may not be as cautious in filing applications. As with everything under the DTSA (or generally in our courts), the court and particular judge will make the final decision.

Conclusion

Above was only an abridged sampling of the Best Practices released by the FJC. There were other suggested Best Practices that were not delved into due to their complexity, including but not limited to suggestions as to Pre-Seizure Briefings between plaintiff's counsel and the third-party technical

experts, appointment of Special Masters, and more. The Best Practices also include sample Orders, Non-Disclosure Agreements, and other suggestions. What was set forth above was, we hope, an illustration of the type of thought that should go into any application for seizure and in carrying out any order for seizure.

What must be remembered is that these Best Practices are simply that: suggested Best Practices. They are not adopted into the DTSA, they are not obligatory, and they should never replace an applicant's or a court's common sense, experience, and good judgment. What they further prove, too, is that an application for *ex parte* seizure should not be sought unless all of the factors noted in the DTSA can be met and if the situation at hand truly is an "extraordinary circumstance." The amount of work, hours, fees, thought, pragmatic planning, restrictions, and guidelines may prove simply too high to warrant an application unless absolutely necessary. Attorneys and plaintiffs should, in light of the above, always question whether a traditional Rule 65 injunction accompanied with a motion for expedited discovery might not suffice instead.

But if a party finds itself in one of those extraordinary circumstances where it feels it is left with no choice but to file an application for ex parte seizure, these Best Practices should be one of the first resources its attorney reaches for before filing. As always, Butzel Long is here to answer any questions or handle any matters that you may be facing.

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