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Trade Secrets Bill with Controversial Civil Seizure Provision Passes Senate

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Recently, Congress and the courts in the United States have been active in reining in what many have seen as patent system that has run amuck. In the process, they have placed a number of limits on patent holders' ability to effectively and successfully enforce patents. But as opportunities to enforce intellectual property through patent suits have been narrowed, another IP door appears to be opening.

For several years, Congress has been working on legislation that would, in effect, federalize what until now has been a state-by-state system of trade secret law. The current version, the Defend Trade Secrets Act of 2016 (S. 1890) ("DTSA"), was approved by the Senate on April 4, 2016 with bipartisan support.

The DTSA would operate to expand the existing Economic Espionage Act by, among other things, adopting much of the framework of the Uniform Trade Secrets Act ("UTSA") and permitting private parties to bring civil trade secret misappropriation actions. UTSA-derived provisions are already in effect in 48 of the 50 states. Thus, while there are some differences between the DTSA and the UTSA, it is unclear whether the DTSA would represent a meaningful departure from existing trade secrets law, at least substantively. There are differing views.

The DTSA's Civil Seizure Provision

What *would* almost certainly represent a significant new development is the DTSA's civil seizure procedure, which is not contemplated under the UTSA. Under the proposed law, upon application by a party asserting theft of trade secrets, a federal court would have the authority to order law enforcement officials to enter land and seize property "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." Most strikingly, the bill envisions an *ex parte* process under which seizures would be authorized and executed without any notice to the relevant property owner(s), including third parties—a process that naturally raises due process and Fourth Amendment concerns.

Supporters of the bill point to analogous *ex parte* seizure provisions contained in the Lanham Act[1] (authorizing *ex parte* seizures of counterfeit goods) and the Copyright Act[2] (authorizing *ex parte* impoundments of documents and things related to copyright infringement)—provisions that have survived constitutional scrutiny.

Moreover, Rule 64 of the Federal Rules of Civil Procedure authorizes

prejudgment seizures of property under applicable state law (*e.g.*, writs of replevin or sequestration remedies), and *ex parte* seizures under such state law provisions have likewise been upheld under many circumstances. Courts have also justified *ex parte* seizures under the All Writs Act.[3] Thus, there is precedent for these types of procedures.

It is also worth noting that *ex parte* seizure procedures are used in intellectual property cases in numerous jurisdictions outside of the United States. For example, in the United Kingdom, so-called "Anton Piller" orders have been utilized for many years to secure documents and things on an *ex parte* basis, in exceptional circumstances.

Significant Controversy

Nevertheless, the prospect of *ex parte* seizures in the trade secrets context has generated significant controversy in the United States. One major source of concern is the fact-intensive nature and overall complexity of trade secrets disputes. What exactly is the information at issue and does it qualify as a trade secret? How, if at all, has it been maintained in secrecy? Does the target of the seizure really have the information in his or her possession, and if so, how was the information obtained? Was reverse engineering involved? And so on.

Even on a preliminary basis, the complex factual issues involved in trade secret disputes may not lend themselves to fair resolution through expedited and non-adversarial *ex parte* procedures. Indeed, it does not take much imagination to conceive how, in the wrong hands, one-sided *ex parte* seizure proceedings might be used for improper purposes.

For example, in one Lanham Act counterfeit goods case, the plaintiff's attorney "ran roughshod over the applicable statutes and rules," submitting an inaccurate and misleading affidavit and convincing the lower court to authorize a private investigator to conduct the seizure and hand the seized property to the attorney.[4] In another, the district court described a scheme in which the plaintiffs obtained seizure orders in a succession of counterfeiting cases, only to dismiss each case approximately one year after seizing the goods, without having ever established that the goods were, in fact, counterfeit.[5]

Rigorous Procedural Safeguards

In an effort to eliminate potential mischief, and to ensure that the new DTSA scheme passes constitutional muster, the bill's sponsors have included a number of key procedural safeguards:

- *Ex parte* seizures would be reserved for "extraordinary circumstances" only;
- A seizure order would only issue upon the plaintiff's filing of an affidavit or verified complaint that sets forth "specific facts" establishing, among other things: (1) immediate and irreparable injury if seizure is not ordered; (2) a likelihood of success on the merits of the trade secret claim; (3) the balance of harms favors the applicant; (4) the identity and location of the material to be seized,

with reasonable particularity; and (5) more ordinary procedures (such as a TRO motion under Rule 65) would be ineffective because the seizure target would evade the order or destroy the evidence;

- The applicant would be required to post a bond sufficient to cover damages should the seizure turn out to be wrongful or excessive;
- Any seizure order would "provide for the narrowest seizure of property necessary" and would be executed by law enforcement officials;
- The court would be required to provide specific guidance to the officials executing the seizure that "clearly delineates" the scope of their authority and details how the seizure must be conducted;
- The court would also be required to schedule an adversarial hearing for the earliest possible time after the seizure was executed, at which hearing the applicant would bear the burden of proof of establishing that the seizure order was proper; and
- The bill provides for a civil action for damages based on a wrongful or excessive seizure.

Taken together, these safeguards are significant and may reduce the likelihood of erroneous seizure orders and/or abuse of the system. In fact, it is possible that the obstacles to securing a seizure order would be so significant that, as a practical matter, they would eliminate the seizure remedy as an alternative in all but the most egregious scenarios. That appears to be an intended result.

In any event, having navigated the Senate, the DTSA will now pass to the House of Representatives for further consideration. A companion bill to S. 1890, H.R. 3326, was introduced in July 2015 and has enjoyed broad bipartisan support. In an era of partisan rancor, the DTSA may yet be one instance—the *ex parte* seizure provision notwithstanding—in which legislators find ways to work together across the aisle to achieve results.

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[1]*See* 15 U.S.C. § 1116(d).
[2]*See* 17 U.S.C. § 503(a).
[3]28 U.S.C. § 1651.
[4]*Warner Brothers v. Dae Rim Trading, Inc*., 877 F.2d 1120 (2d Cir. 1989).
[5]*NASCAR v. Doe*, 584 F. Supp. 2d 824 (W.D.N.C. 2008).