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The DTSA *Ex Parte* Civil Seizure Remedy: Constitutional or Not?

Esha Bandyopadhyay and Markus Weyde

In recent years, innovators have increasingly been turning to trade secret protection for their creations. With increased limitations on the patentability of inventions, particularly technologies in the software space, trade secrets have become an attractive alternative to patents.

Thus far, federal courts have been reluctant to issue DTSA seizure orders and involve law enforcement to carry out such orders.

In May 2016, President Obama signed the Defend Trade Secrets Act (DTSA) into law, creating a federal cause of action for trade secret misappropriation. Prior to the enactment of the DTSA, trade secret misappropriation actions were governed by state law. In addition to providing the obvious benefit of

Esha Bandyopadhyay is a principal in Fish & Richardson's Silicon Valley office, practicing intellectual property and technology-related commercial litigation and counseling. She can be reached at bandyopadhyay@fr.com. **Markus Weyde**, an associate in the firm's Southern California office, focuses on intellectual property services such as patent litigation, inter partes and ex parte post-grant work, strategic counseling, and opinion work. He can be reached at weyde@fr.com.

federal question jurisdiction, the DTSA offers a new potential remedy, *ex parte* civil seizure, to “prevent the propagation or dissemination of the trade secret that is the subject of the action”¹ and the tampering with or destruction of evidence. This particular remedy is unique to the DTSA and not available under any state’s legislation. It provides plaintiffs with the opportunity to file an *ex parte* request with the court to obtain a seizure order. If the court issues the seizure order, U.S. Marshals can be dispatched to seize the evidence at issue—without notice to the defendant.

Thus far, federal courts have been reluctant to issue DTSA seizure orders and involve law enforcement to carry out such orders. While some trade secret plaintiffs have had success seeking *ex parte* temporary restraining orders that provide for the copying of drives, few have successfully obtained an *ex parte* seizure order. On average, courts have increasingly denied seizure applications over the years and, to date, no federal appellate decision has addressed seizure orders. Despite its rare use, the very existence of this mechanism has sparked great debate as to its appropriateness, primarily due to its draconian nature. This article analyzes the constitutionality of the *ex parte* civil seizure remedy in trade secret cases, with a particular eye toward similar considerations in copyright and trademark contexts.

Civil Seizure Remedy Overview

The DTSA provides that “the court may, upon *ex parte* application but only in *extraordinary circumstances*, issue an order providing for the seizure of property.”² The requirements to obtain a seizure order, which, amongst others, include factors similar to preliminary injunctions and temporary restraining orders, are set forth in 18 U.S.C. § 1836(b)(2)(ii) (some of the requirements below are paraphrased for brevity):

- Rule 65, or other equitable relief would be inadequate, because the defendant would evade, avoid, or otherwise not comply with such an order.
- An immediate and irreparable injury will occur if such seizure is not ordered.
- The harm to the applicant of denying the application outweighs the harm to the defendant and substantially outweighs the harm to third parties.
- The applicant is likely to succeed on the merits of a claim alleging trade secret misappropriation.
- The defendant has actual possession of the trade secret and property to be seized.
- The applicant has described with reasonable particularity the matter to be seized and, to the extent reasonable, identifies the location of the matter to be seized.
- The defendant would destroy, move, hide, or otherwise make such matter inaccessible to the court, if notice is given.
- The applicant has not publicized the requested seizure.

Constitutionality of the Seizure Remedy

Ex parte seizure provisions are not new. The Lanham Act authorizes *ex parte* seizures of counterfeit goods³ and the Copyright Act authorizes *ex parte* impoundments of documents and things related to copyright infringement.⁴ Notably, both

of these provisions have been unsuccessfully challenged. Despite several constitutional challenges of the *ex parte* seizure provision of the 1984 Amendment to the Lanham Act, courts have held that the provision passes constitutional muster.⁵ Similarly, although the *ex parte* impoundment of documents and things under the Copyright Act has raised constitutional questions and has been challenged on various constitutional grounds, neither the U.S. Supreme Court nor Congress has explicitly repealed this provision.⁶

It is generally understood that for plaintiffs, the harm of being denied an *ex parte* civil seizure boils down to preventing the use and/or dissemination of the trade secret and preservation of evidence.

But hypothetical seizures in the context of trade secret disputes have generated a more significant debate than has previously been observed. This is in part because the DTSA’s broad definition of “trade secret,” particularly in light of varying and inconsistent definitions of the term in states’ implementations of the Uniform Trade Secrets Act, is so vague that seizure could potentially strip defendants of their constitutional right to due process (*i.e.*, the 14th Amendment requirement that any seizure of property by a government actor or court order must be consistent with due process).⁷ Due process analysis generally requires consideration of the private interest that will be affected by the official action, the risk of erroneous deprivation, and the government’s interest.⁸ The most debated due process considerations with respect to the DTSA’s seizure remedy relate to (1) the risk of error; (2) the risk of catastrophic and cascading harm to defendants and third parties; and (3) the risk of overzealous application.⁹ Indeed, these risks are not negligible. On the other hand, the safeguards provided by the DTSA—*i.e.*, the requirements for obtaining an order set forth in 18 U.S.C. § 1836(b)(2)(ii)—are arguably sufficient to survive constitutional scrutiny. We consider each of these concerns below.

Risk of Error

The risk for erroneous deprivation of a defendant is arguably greater in *ex parte* seizure applications under the DTSA than in *ex parte* temporary restraining orders (TROs) under Rule 65 because of the fact intensive nature of trade secret litigation and the difficulty in deciding whether a trade secret exists without a defendant's counter narrative. Indeed, it is unquestionably challenging for courts to comparatively assess the risks without hearing from a defendant. In contrast, a copyright or trademark seizure involves the seizing of infringing copies of a registered work or registered trademark, items that are easily identifiable. This provides law enforcement an objective test when determining what products to confiscate, causing the risk of error to be relatively small. On the other hand, the risk of error in trade secret cases is no different than in other *ex parte* applications under Rule 65, which likewise do not have the objective indicia of a seizure under the copyright or trademark rules. But since the risk of error is but one factor, and is acceptable in other extreme circumstances under Rule 65 (e.g., spoliation of evidence), this problem does not dispose of the issue. If the DTSA's *ex parte* civil seizure mechanism were deemed unconstitutional, then Rule 65 *ex parte* temporary restraining orders might very well be deemed unconstitutional for the same reasons.

Risk of Catastrophic and Cascading Harm to Defendants and Third Parties

It is generally understood that for plaintiffs, the harm of being denied an *ex parte* civil seizure boils down to preventing the use and/or dissemination of the trade secret and preservation of evidence. Measuring a defendant or third party's harm from an *ex parte* seizure is more difficult to articulate and, as discussed above, might not be accurately taken into consideration without testimony from the defendant. Among other things, because it is often difficult to isolate the allegedly misappropriated trade secret, the "seized" item may be more than the alleged trade secret (e.g., an entire hard drive as opposed to the alleged secret contained on the hard drive.) This is particularly true if the trade secret is an integral component embedded in a larger system, such as a software routine or compilation that cannot be isolated from other non-offending data. Additionally, removing the alleged trade secret may have a severe

impact on business operations, potentially causing a defendant or third party to shut down the business altogether. And, data affected by the seizure may belong to third parties and be subject to privacy considerations. Finally, law enforcement may not have the necessary skills to seize the purported trade secret without causing further collateral harm.

Since the DTSA went into effect in May 2016, only a few plaintiffs have requested seizure orders; most of those requests have been denied.

On the other hand, the DTSA contains built-in safeguards to protect defendants and third parties. Specifically, courts must find that injunctive relief under Rule 65 would be inadequate. The DTSA therefore necessarily satisfies the constitutional protections inherent in Rule 65; in fact, the DTSA adds to the already demanding Rule 65 standard the requirement that the court must find that the defendant would "destroy, move, hide, or otherwise make such matter inaccessible to the court" if notice of the seizure was provided. In computer software copyright cases there is likewise the risk of shutting down a business if infringing material is found throughout the business' systems. Notably, even in trademark cases, seizure could be crippling if all of a business's inventory is seized. However, in the trade secret context, the DTSA includes further protection by providing a cause of action for damages due to wrongful or excessive seizure. Additionally, the district court can protect the defendant by conditioning the order on a bond that will cover any loss.

Risk of Overzealous Application

Finally, critics of the DTSA's *ex parte* civil seizure remedy worry that courts may now begin granting *ex parte* seizures routinely and with increasing frequency. This does not appear to have been the case in the three years since the DTSA went into effect. In fact, the opposite seems to be true, with courts generally reluctant to grant such seizure orders. Additionally, DTSA *ex parte* seizure orders are to be granted only when the plaintiff shows "extraordinary circumstances" and only when Rule 65 is inadequate. This is a high bar, high enough that the seizure remedy is likely eliminated in all but the most egregious cases.

Conclusion

Since the DTSA went into effect in May 2016, only a few plaintiffs have requested seizure orders; most of those requests have been denied. There has therefore been limited incentive and opportunity to challenge the constitutionality of the DTSA's seizure provision in court. With the surge of new technologies, particularly in the software space, trade secrets may become a more attractive option to protect a company's intellectual property, and as such, trade secret litigation may be on the rise. If that is the case, defendants may consider constitutional challenge of the seizure remedy a viable option to defend themselves against seizure orders. If the appropriate opportunity arises, courts will have a difficult question before them, with strong arguments on both sides. The DTSA's *ex parte* civil seizure provision may very well be found to be too excessive. On the other hand, much like *ex parte* seizures in the trademark and copyright context, the seizure remedy in the trade secret context may survive constitutional scrutiny.

Notes

1. 18 U.S.C. § 1836(b)(2)(i).
2. 18 U.S.C. § 1836(b)(2)(i), emphasis added.
3. 15 U.S.C. § 1116(d).
4. 17 U.S.C. § 503(a).
5. See, e.g., *Time Warner Entm't Co., L.P. v. Does Nos. 1-2*, 876 F. Supp. 407, 412 (E.D.N.Y. 1994) (The court noted that “[t]he 1984 Amendments to the Lanham Act are constitutional under the Fourth Amendment,” citing *Reebok Int'l Ltd. v. Su Youn Pak*, 683 F.Supp. 929, 930 (S.D.N.Y.1987)); see also *General Motors Corp. v. Gibson Chemical & Oil Corp.*, 786 F.2d 105 (2d Cir. 1986).
6. See, e.g., *First Technology Safety Systems v. Depinet*, 11 F.3d 641, 647 n.8 (6th Cir. 1993).
7. U.S. CONST. amends.V, XIV.
8. *Mathews v. Eldridge*, 424 U.S. 319, 334–35, 96 S. Ct. 893, 903, 47 L. Ed. 2d 18 (1976).
9. See, e.g., https://www.nyulawreview.org/wp-content/uploads/2018/10/NYULawReview-93-4-Levandowski_0.pdf.

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