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## Ex Parte Seizures and the Defend Trade Secrets Act

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# Ex Parte Seizures and the Defend Trade Secrets Act

By Eric Goldman\*

## Abstract

*Congress is considering the Defend Trade Secrets Act, which would create a new federal trade secret civil cause of action. The Act includes a quirky and unprecedented ex parte procedure for trade secret owners to obtain a seizure order. The seizure provision applies in, at best, a narrow set of circumstances, and it oddly attempts to protect intangible trade secrets by seizing chattels. Despite procedural safeguards, the seizure provision also enables anti-competitive misuse.*

*More generally, the fact-based disputes that inevitably must be resolved in trade secret litigation make trade secrets an especially poor basis for ex parte actions. As a result, we should be nervous about the proposed seizure provision in the Defend Trade Secret Act—and all other ex parte seizure procedures in trade secret cases.*

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### *I. Introduction*

Perhaps the most unusual feature of the Defend Trade Secret Act of 2015 (hereinafter the “Act”)<sup>1</sup> is its lengthy provisions enabling trade secret owners to obtain seizure orders on an ex parte basis (hereinafter the “Seizure Provision”). Visually, the Seizure Provision dominates the Act’s text, accounting for about 42% of its word count.<sup>2</sup> Doctrinally, the Seizure Provision would represent an unprecedented innovation. No state trade secret law has a trade secret-specific ex parte seizure process similar to the Seizure Provision.<sup>3</sup>

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1. Defend Trade Secrets Act of 2015, H.R. 3326 & S. 1890, 114th Cong. (2015). All quotations of and citations in this Essay to the Seizure Provision’s terms are to the Senate’s version as of July 29, 2015 [hereinafter DTSA]. The Seizure Provisions appear to be identical in both the House and Senate bills as introduced.

2. The House bill (H.R. 3326) has 2,810 words, of which the Seizure Provision accounts for 1,180 words. H.R. 3326, 114th Cong. (2015).

3. See *Markup of: H.R. 5233, “The Trade Secrets Protection Act of 2014”*

The Seizure Provision attracted strong criticism in the bill's 2014 draft,<sup>4</sup> and it easily could have been removed from the bill to help move the bill forward. Instead, the Seizure Provision reappeared, albeit in weakened form,<sup>5</sup> in the bill's 2015 version. Given how the Provision survived in the face of criticism and occupies such a large share of the bill's text, the Seizure Provision seems extraordinarily important to the bill's sponsors and advocates.<sup>6</sup>

Yet, the Seizure Provision does not solve many, if any, problems. In light of the remedies already available to trade secret owners in ex parte temporary restraining orders (TROs), the Seizure Provision purports to apply to only a narrow set of additional circumstances. In exchange for that modest benefit,

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*Before the H. Comm. on the Judiciary*, 113th Cong. ll. 415–29 (2014) (statement of Rep. Lofgren), [http://judiciary.house.gov/\\_cache/files/4d029f1e-fbf3-40e1-acdde555b464c984/09.17.14-markup-transcript.pdf](http://judiciary.house.gov/_cache/files/4d029f1e-fbf3-40e1-acdde555b464c984/09.17.14-markup-transcript.pdf) (last visited Oct. 25, 2015) [hereinafter Markup Hearing] (“[I]t is worth noting that the UTSA has been enacted by 47 states and the District of Columbia, and not a single one of those entities, not the 47 states or D.C., have included an ex parte seizure provision.”) (on file with the Washington and Lee Law Review). The proposed European Union (EU) Trade Secret Directive requires seizure procedures but does not require any ex parte mechanism. See *Proposal for a Directive of the European Parliament and of the Council on the Protection of Undisclosed Know-How and Business Information (Trade Secrets) Against Their Unlawful Acquisition, Use and Disclosure*, § 2, art. 9(1), COM (2013) 813 final (Nov. 28, 2013) (stating that Members “shall ensure that the competent judicial authorities may, at the request of the trade secret holder,” order a variety of “interim and precautionary measures against the alleged infringer”), <http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52013PC0813&from=EN>.

4. See, e.g., Markup Hearing, *supra* note 3, ll. 257–63, 696–700 (statements of Reps. Lofgren and Johnson) (noting their express objections to the seizure provisions). See generally Goldman, *supra* note \* (explaining negative reactions to the ex parte seizure provisions).

5. See David S. Levine & Sharon K. Sandeen, *An Open Letter to the Sponsors of the Revised Defend Trade Secrets Act*, TECH. & MARKETING L. BLOG (Aug. 3, 2015), <http://blog.ericgoldman.org/archives/2015/08/federal-trade-secret-bill-re-introduced-and-its-still-troublesome-guest-blog-post.htm> (last visited Oct. 25, 2015) (cataloging some of the differences between the Seizure Provision in the 2014 and 2015 bill versions) (on file with the Washington and Lee Law Review).

6. See, e.g., Markup Hearing, *supra* note 3, ll. 570–71 (statement of Rep. Nadler) (calling it a “key component” of the bill); *id.* l. 680 (statement of Rep. Holding) (calling it a “key section”); *id.* l. 696 (statement of Rep. Johnson) (observing that the Seizure Provision seems to be “the biggest addition” of the bill).

the Seizure Provision creates the risk of anti-competitive seizures and seizures that cause substantial collateral damage to innocent third parties. To discourage such abuses, the Act imposes procedural safeguards and creates a cause of action for wrongful seizures. Unfortunately, those safeguards are miscalibrated to achieve the desired protections against abusive seizures.

Tightening the Act's safeguards would not fix the more fundamental problems with ex parte seizures in trade secret cases. Trade secret cases routinely involve factual disputes that will not be appropriate for ex parte resolution and will increase the potential for erroneous seizures, even when trade secret owners are careful and well-meaning. The types of fact inquiries required for trade secret cases differ in important ways from the inquiries required in copyright and trademark cases; so although copyrights and trademarks have dedicated ex parte seizure provisions, the idiosyncratic attributes of trade secret cases make ex parte proceedings even more problematic.

Because of the unique problems raised by ex parte determinations of trade secret issues, any trade secret-based ex parte seizure has an unusually high risk of error. Therefore, Congress and judges should approach any ex parte remedies in trade secret cases with extreme caution.

## *II. The Seizure Provision*

### *A. What It Says*

In general, the Act provides a way for a trade secret owner to obtain, on an ex parte basis, an order to seize “property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.”<sup>7</sup> The Seizure Provision applies when a party “would destroy, move, hide, or otherwise make [the material to be seized] inaccessible to the court” if he or she received notice of the proceeding.<sup>8</sup>

The plaintiff can request the seizure in the complaint or in an affidavit,<sup>9</sup> and the statute specifies factors the judge should

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7. S. 1890, 114th Cong. § 2(b)(2)(A)(i) (2015).

8. *Id.* § 2(b)(2)(A)(ii)(VI).

9. *Id.* § 2(b)(2)(A)(i).

consider.<sup>10</sup> If the court grants the seizure order, it must set a hearing within seven days.<sup>11</sup> The plaintiff must post a bond,<sup>12</sup> may not publicize the seizure,<sup>13</sup> and must deposit the seized materials with the court.<sup>14</sup> Furthermore, the plaintiff must show “immediate and irreparable injury”<sup>15</sup> and that the harm it will suffer outweighs the harm to other parties.<sup>16</sup>

At the hearing, if the plaintiff cannot make the necessary showing of its case, the seizure order must be dissolved or modified appropriately.<sup>17</sup> Any party injured by the seizure may sue for “a wrongful or excessive seizure.”<sup>18</sup>

### *B. Two Key Drafting Ambiguities*

Despite its length, the Seizure Provision is not well drafted. Two key ambiguities stand out.

#### *1. What Assets Can Be Seized?*

The statute indicates that the plaintiff can seize “property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.”<sup>19</sup> This makes sense in a situation where a single, high-value chattel item (a “Valuable Artifact”) contains the trade secret. For example, if someone steals the papers containing the Coca-Cola secret recipe,<sup>20</sup> the

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10. *Id.* § 2(b)(2)(A)(ii).

11. *Id.* § 2(b)(2)(B)(iv).

12. *Id.* § 2(b)(2)(B)(v).

13. *Id.* § 2(b)(2)(C).

14. *Id.* § 2(b)(2)(D).

15. *Id.* § 2(b)(2)(A)(ii)(II).

16. *Id.* § 2(b)(2)(A)(ii)(III).

17. *Id.* § 2(b)(2)(F)(ii).

18. *Id.* § 2(b)(2)(G).

19. *Id.* § 2(b)(2)(A)(i).

20. Coca-Cola’s formula is the paradigmatic example of a venerable high-value trade secret, although it is not clear if it has, in fact, remained a secret. See *This American Life Reveals What it Believes Is the Original Recipe for Coca-Cola*, PR NEWSWIRE (Feb. 15, 2011), <http://www.prnewswire.com/news-releases/this-american-life-reveals-what-it-believes-is-the-original-recipe-for->

Seizure Provision could help the trade secret owner seize those papers before they got too far. Representative Goodlatte provided a paradigmatic situation where the Seizure Provision is supposed to help: “[A] thief sneaks into a facility, steals a trade secret and is heading to the airport to fly to China and sell it.”<sup>21</sup>

Representative Goodlatte’s “grab-and-go” scenario sounds like the premise of a Hollywood blockbuster movie,<sup>22</sup> but outside of the movies, how often do such situations occur? Even the bill supporters recognize the Seizure Provision should apply only in “the most extreme cases.”<sup>23</sup> Even then, if someone is truly “heading to the airport,” the trade secret owner needs a faster mechanism than any court can provide.<sup>24</sup> If a fleeing criminal has

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coca-cola-116263029.html (last visited Oct. 25, 2015) (stating that the public radio program “found what appeared to be a copy of the famously guarded trade secret in a newspaper column published in the Atlanta Journal and Constitution on February 18, 1979”) (on file with the Washington and Lee Law Review). *Cf. infra* Part II.B.1 (discussing whether a court can properly determine trade secret status in an ex parte proceeding).

21. Markup Hearing, *supra* note 3, ll. 511–14 (statement of Rep. Goodlatte); *see also id.* ll. 572–73 (statement of Rep. Nadler) (the Seizure Provision “will stop thieves planning to flee the country with stolen American property”).

22. This description generally fits the “heist” and “caper” genres of Hollywood films, which often involve cash or a valuable artifact as the targeted item but sometimes include high-value information as the target. Thus, a “grab-and-go” plot motif is quite common in movies. Some blockbuster heist/caper movies where a “trade secret” type item is the target include *Blackhat*, *The Dark Knight*, *Jurassic Park*, *Mission Impossible* (both *I* and *III*), *Paycheck*, *Salt*, and *Sneakers*. If Congress’s grab-and-go concerns are really being fueled by Hollywood’s imagination, it would not be the first time; Congress’s enactment of the Computer Fraud & Abuse Act in response to the movie *WarGames* (1983) is a classic example. 18 U.S.C. § 1030 (2012).

23. Markup Hearing, *supra* note 3, ll. 526–27 (statement of Rep. Goodlatte); *see also id.* ll. 594–95 (statement of Rep. Nadler) (asserting that it will be “extremely difficult to obtain a seizure order under this bill as it should be”).

24. *See* R. Mark Halligan, *Protection of U.S. Trade Secret Assets: Critical Amendments to the Economic Espionage Act of 1996*, 7 J. MARSH. REV. INTELL. PROP. L. 656, 682 (2008) (arguing in favor of a seizure provision because in today’s environment, trade secrets can be transferred to foreign countries and other parts of the world in seconds). Halligan further argues that the traditional process of notice to the defendant and opportunity to be heard do not work well in trade secret cases because the defendants can hide or destroy the purloined trade secret assets in seconds. *Id.*

If the real problem occurs instantaneously (“*in seconds!*”), no court procedure will solve that problem, even if we completely give up any pretense of

stolen a Valuable Artifact, the trade secret owner will need to call law enforcement, not run to a court.

Although the Seizure Provision's application to the Valuable Artifact scenario ought to substantially limit its effects, unfortunately the Seizure Provision was not drafted so narrowly. By its terms, it applies to other, more common types of trade secret misappropriation.

For example, assume the trade secret owner is chasing software source code instead of a Valuable Artifact. The Seizure Provision seemingly allows the trade secret owner to seize any storage medium containing the uncompiled source code. If that is a computer server, then a seizure could cause significant collateral damage, as servers often will contain other information that was not misappropriated and may be crucial to the defendant's business operations.<sup>25</sup> And how would the provision apply if the defendant is selling executable software compiled from the source code? It is unclear if the Seizure Provision would extend to all executable code versions of the software; if it does, then the Seizure Provision would allow the trade secret owner to take its rival out of the market, at least for a short while.

The seizable assets are also unclear in a typical "departing employee" situation. Sometimes, the departing employee will email, or download to a flash drive, a substantial number of stolen electronic files. Obviously, the flash drive can be seized, but the Seizure Provision apparently allows seizure of every other copy of allegedly stolen information, which could include every computer that contains one or more stolen files, along with any hard copy files containing printouts. Read literally, every storage medium of a departing employee's new employer potentially would be subject to seizure. A thorough seizure in a departing employee situation could easily shut down the new employer until the hearing.

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due process.

25. *Cf.* *Steve Jackson Games, Inc. v. U.S. Secret Serv.*, 816 F. Supp. 432, 438 (W.D. Tex. 1993) (describing the loss sustained by the business due to the government's seizure), *aff'd on other grounds*, 36 F.3d 457 (5th Cir. 1994). In that famous case, the Secret Service seized a computer server containing an allegedly stolen file, but taking the server in its entirety caused significant collateral damage that permanently undermined the company's business.



To reduce the risk of overreaching seizures, the Act provides that any seizure order must

provide for the narrowest seizure of property necessary to achieve the purpose of this paragraph and direct that the seizure be conducted in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt the legitimate business operations of the person accused of misappropriating the trade secret that are unrelated to the trade secret that has allegedly been misappropriated.<sup>26</sup>

That sounds terrific, but how will this work in practice? If a computer hard drive has a single file containing a misappropriated trade secret commingled among a hundred thousand other files, how will someone implement a “narrow” seizure? If the seizure does not grab the hard drive in total, someone must review all of the files to find the ones with illicit content and then delete those files<sup>27</sup> or technologically render the files inaccessible. Either the task will consume extraordinary amounts of labor, time and skill, or the “narrowest” seizure will not be very narrow. And due to the easy dissemination of electronic data, a seizure may require the review of dozens or hundreds of chattel items.

The emphasis on Valuable Artifacts reflects outmoded twentieth century thinking; it attempts to control chattels to protect intangible assets. This mismatch between tangible and intangible means the Seizure Provision fundamentally misapprehends the modern nature of trade secrets.

## *2. What Financial Exposure Will a Mistaken Plaintiff Face?*

The Act creates a new cause of action for parties injured by a “wrongful or excessive seizure,” but the statute does not specify the applicable scienter requirement.<sup>28</sup> Perhaps this means that

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26. S. 1890, 114th Cong. § 2(b)(2)(B)(ii) (2015).

27. And would the deleted file be backed up somewhere for restoration if the seizure is erroneous, or will the deletion be permanent?

28. In the analogous Lanham Act provision for seizing counterfeit goods, the “term ‘wrongful seizure’ was intentionally left undefined by Congress.” 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 30:44 (4th ed. 2015). See generally Michael Coblenz, *How the Seizure of Counterfeit Goods Can Go Bad:*

the standard is strict liability. If so, trade secret owners will not use the Seizure Provision because they will face liability for making any mistake, however innocent—and, as discussed below, even a well-prepared and well-meaning trade secret owner may make unavoidable mistakes. Thus, strict liability would almost certainly negate the Seizure Provision in practice.

More likely, courts interpreting the word “wrongful” will read a scienter requirement into the statute. This would have two unwanted consequences. First, it would set up costly battles over the trade secret owner’s scienter when seeking the seizure. Each quick seizure could produce a multi-year litigation hangover.

Second, depending on the scienter level added to the statute, the wrongful seizure cause of action could be negated. For example, the cause of action for wrongfully sending copyright takedown notices (a § 512(f) claim, added in the DMCA)<sup>29</sup> fails if the copyright owner had a “subjective good faith” when sending the takedown notice.<sup>30</sup> Due to this high scienter requirement, it has become virtually impossible for plaintiffs to win § 512(f) claims,<sup>31</sup> and as a result, 512(f) lawsuits are rarely brought. An

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Waco International v. KHK Scaffolding, et. al., 3 MINN. INTELL. PROP. REV. 59 (2002) (discussing the Lanham Act wrongful seizure provision requirements).

As discussed below, however, the Lanham Act’s wrongful seizure cause of action applies only when the seizure was in “bad faith.” *Infra* note 32 and accompanying text. It is unclear why the Act does not have an equally explicit scienter standard.

29. 17 U.S.C. § 512(f) (2012).

30. Rossi v. Motion Picture Ass’n of Am. Inc., 391 F.3d 1000, 1004 (9th Cir. 2004) (“[Section] 512(c)(3)(A)(v) imposes a subjective good faith requirement upon copyright owners.”).

31. For example, *Lenz v. Universal Music*, Nos. 13–16106 & 13–16107, 2015 WL 5315388, at \*1, \*6 (9th Cir. Sept. 14, 2015) requires senders to consider the possibility that the complained-about usage could constitute fair use, but the court reiterated that there was no liability if the sender had subjective good faith. This scienter standard makes it virtually impossible for § 512(f) plaintiffs to win because they cannot find or introduce evidence disproving the sender’s subjective good faith. See Venkat Balasubramani, *9th Circuit Sides With Fair Use in Dancing Baby Takedown Case*, TECH. & MARKETING L. BLOG (Sept. 21, 2015), <http://blog.ericgoldman.org/archives/2015/09/9th-circuit-sides-with-fair-use-in-dancing-baby-takedown-case.htm> (last visited Oct. 25, 2015) (describing *Lenz*’s key holdings and implications on fair use) (on file with the Washington and Lee Law Review).

overly trade secret owner-favorable scienter requirement will make wrongful seizure claims equally ineffectual.

Finally, even if injured seizure victims can successfully sue for a wrongful or excessive seizure, what will their damages be? The Seizure Provision cross-references the Lanham Act's analogous ex parte seizure provision for counterfeit goods,<sup>32</sup> which specifies the following relief:

[The injured party] shall be entitled to recover such relief as may be appropriate, including damages for lost profits, cost of materials, loss of good will, and punitive damages in instances where the seizure was sought in bad faith, and, unless the court finds extenuating circumstances, to recover a reasonable attorney's fee. The court in its discretion may award prejudgment interest . . . .<sup>33</sup>

That sounds great, but what does this mean in practice? How courts assess damages will determine whether or not the Seizure Provision operates as intended.

For example, several Congress members indicated that punitive damages should eliminate any risk of competitive misuse.<sup>34</sup> The odds of a court awarding punitive damages, however, are extremely low. Courts are likely to require the injured party to show that the trade secret owner acted with subjective bad faith, but admissible non-circumstantial evidence of such bad faith will rarely exist. Furthermore, as discussed below, trade secret owners may simply be ignorant of their case's weaknesses until challenged by an adversary, and judges are not likely to award punitive damages when the trade secret owner does inadequate or poor research. So, while truly egregious seizures may trigger punitive damages, it is overly optimistic to think that punitive damages will eliminate abusive seizures.

Additionally, calculating non-punitive damages will be challenging. A seizure could massively disrupt a targeted business or even temporarily shut it down; and the resulting

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32. 15 U.S.C. § 1116 (2012).

33. *Id.* § 1116(d)(11).

34. At the Markup Hearing, Congressmembers referenced "punitive damages" five times. *See* Markup Hearing, *supra* note 3. For example, Rep. Goodlatte said that "if a larger company improperly goes after a small business or start-up, they have a remedy that includes punitive damages for any harm done to it." *Id.* ll. 529–31.

business interference could kill the targeted business permanently. For well-established businesses with predictable revenues and costs, it may be possible to non-speculatively estimate the costs and foregone revenues from a wrongful seizure. In contrast, thinly resourced start-up enterprises could suffer less clear consequences from a wrongful seizure. As we are increasingly seeing small start-ups blossom into Unicorns and Decacorns,<sup>35</sup> a disrupted start-up may lose billions of dollars of market cap potential.<sup>36</sup> Judges will be reluctant to award large and seemingly speculative compensating damages to an unproven start-up, even if a seizure permanently diminishes or destroys its business.<sup>37</sup>

### 3. Implications

With respect to the Seizure Provision's effects, the devil is in details that Congress has not resolved (yet). If the courts interpret the Act to create strict liability for a wrongful seizure and award large damages from lost business opportunities, trade secret owners will be too afraid to use the provision. In contrast, if courts require subjective bad faith to establish a wrongful seizure and narrowly construe the damages from disruption and lost business opportunities, trade secret owners will seek ex parte seizures routinely. Congress could further tweak the wrongful seizure provisions to make its intent clearer, though it will not be

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35. A Unicorn is a private company with a billion dollar valuation, and a Decacorn is a private company with a ten billion dollar valuation. Jillian D'Onfro, *There Are So Many \$10 Billion Startups That There's A New Name for Them: 'Decacorns'*, BUSINESS INSIDER (Mar. 18, 2015, 9:42 AM), <http://www.businessinsider.com/decacorn-is-the-new-unicorn-2015-3> (last visited Oct. 25, 2015) (on file with the Washington and Lee Law Review).

36. Cf. Eric Goldman, *UMG v. Shelter Capital: A Cautionary Tale of Rightsowner Overzealousness*, TECH. & MARKETING L. BLOG (Dec. 27, 2011), [http://blog.ericgoldman.org/archives/2011/12/umg\\_v\\_shelter\\_c.htm](http://blog.ericgoldman.org/archives/2011/12/umg_v_shelter_c.htm) (last visited Oct. 25, 2015) (discussing how copyright owner lawfare squashed a promising start-up competitor to YouTube, despite the start-up's compliance with the law, and suggesting that a billion dollar bond would have been appropriate to ensure compensation for the start-up's lost opportunity) (on file with the Washington and Lee Law Review).

37. Cf. *Lenz v. Universal Music Corp.*, No. 5:07-cv-03783-JF, 2013 WL 271673, at \*8-9 (N.D. Cal. Jan. 24, 2013) (circumscribing damages for a wrongful copyright takedown).

possible to fix other structural problems with the Seizure Provisions discussed below. Otherwise, without further revisions, the wrongful seizure claim will not, as Congress apparently hopes, suppress or redress overreaching and abusive seizure requests.

### *C. Overlaps With Other Seizure Statutes*

Even without the Seizure Provision, trade secret owners can effectuate ex parte seizures in several ways (in addition to criminal law enforcement for stolen chattel).

#### *1. TROs*

Trade secret owners already may seek ex parte TROs, including impoundment, under Federal Rule of Civil Procedure 65(b). As the Committee Notes on Rules to the 2001 amendment<sup>38</sup> indicate:

A common question has arisen from the experience that notice of a proposed impoundment may enable an infringer to defeat the court's capacity to grant effective relief. Impoundment may be ordered on an ex parte basis under subdivision (b) if the applicant makes a strong showing of the reasons why notice is likely to defeat effective relief. Such no-notice procedures are authorized in trademark infringement proceedings, *see* 15 U.S.C. §1116(d), and courts have provided clear illustrations of the kinds of showings that support ex parte relief. *See* *Matter of Vuitton et Fils S.A.*, 606 F.2d 1 (2d Cir.1979); *Vuitton v. White*, 945 F.2d 569 (3d Cir.1991). In applying the tests for no-notice relief, the court should ask whether impoundment is necessary, or whether adequate protection can be had by a less intrusive form of no-notice relief shaped as a temporary restraining order.

The next section will explain why courts should apply these provisions with extreme caution in trade secret cases. Nevertheless, for purposes of assessing the need for the Seizure

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38. FED. R. CIV. P. 65, advisory committee's notes on the 2001 amendment.

Provision, existing federal TRO procedures already provide for ex parte seizures for trade secret owners.<sup>39</sup>

Recognizing this overlap, the Act expressly provides for ex parte seizures only when TROs would be ineffective because the applicable party “would evade, avoid, or otherwise not comply with such an order.”<sup>40</sup> But because Rule 65 already contemplates ex parte seizures, what do those circumstances look like? For example, the Seizure Provision is probably still too slow to redress the paradigmatic Valuable Artifact “grab-and-go” scenario.

On the plus side, the Seizure Provision provides trade secret-specific procedures—including a balancing of the various parties’ interests—that helpfully supplement Rule 65’s more general procedures. To achieve that benefit, however, the Act would need to expressly cross-reference Rule 65 ex parte seizures in trade secret cases. As drafted now, the Seizure Provision only applies when TROs do not.

Furthermore, though the Seizure Provision has numerous safeguards, it does not expressly tell judges that seizure orders should be extraordinary; as a result, judges may treat the Seizure Provision as relatively routine. Linking the Seizure Provision to Rule 65 would communicate to judges, who already know that ex parte TROs are extraordinary, that these seizures also should be treated as extraordinary. Or, Congress could expressly say that the seizures are extraordinary.

## 2. ITC § 337 Investigations

The International Trade Commission (“ITC”) can exclude infringing goods from being imported into the United States.<sup>41</sup> Such proceedings are called § 337 investigations. The ITC can issue exclusion orders based on trade secrets,<sup>42</sup> so § 337

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39. See generally, e.g., *V’Guara Inc. v. Dec*, 925 F. Supp. 2d 1120 (D. Nev. 2013) (granting an ex parte TRO to prevent trade secret misappropriation).

40. S. 1890, 114th Cong. § 2(b)(2)(A)(ii)(I) (2015).

41. 19 U.S.C. § 1337 (2012).

42. See *TianRui Grp. Co. v. Int’l Trade Comm’n*, 661 F.3d 1322, 1338 (Fed. Cir. 2011) (“[W]e therefore hold that it was proper for the Commission to find a section 337 violation based in part on acts of trade secret misappropriation occurring overseas.”); P. Andrew Riley & Jonathan Stroud, *A Survey of Trade*

investigations provide trade secret owners with another option to interdict items. Exclusion orders may be issued on an expedited basis, such as in a TRO.<sup>43</sup>

Admittedly, § 337 exclusion orders solve different problems than the Seizure Provision. First, although the allegedly infringing party does not need to participate in the investigation, they receive notice of the investigation before any seizures occur.<sup>44</sup> Second, § 337 investigations are faster than typical litigation,<sup>45</sup> but they are usually much slower than the Seizure Provision. Third, a § 337 exclusion order only restricts the movement of goods into the United States,<sup>46</sup> so it may not help when a seizure target is a domestic company. Nevertheless, a § 337 investigation may overlap with some situations where a trade secret owner would consider the Seizure Provision.

### 3. Seizure Provisions in Ancillary Doctrines

Defendants may simultaneously violate several of a plaintiff's IP rights, in which case the other IPs may offer a seizure remedy that would indirectly help protect the trade secret as well.<sup>47</sup> As discussed above, the Lanham Act has an *ex parte*

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*Secret Investigations at the International Trade Commission: A Model for Future Litigants*, 42 COLUM. SCI. & TECH. L. REV. 41, 50–54 (2013) (surveying the ITC's trade secret docket).

43. 19 U.S.C. § 1337(e)(3) (2012).

44. *Id.* § 1337(b)(1).

45. *See id.* (instructing the ITC to reach its conclusions “at the earliest practicable time” and specifying Congress’s desire for “expeditious adjudication”); *see also* U.S. INT’L TRADE COMM’N, PUB. NO. 4105, ANSWERS TO FREQUENTLY ASKED QUESTIONS 23, ¶ 18 (2009), [http://www.usitc.gov/intellectual\\_property/documents/337\\_faqs.pdf](http://www.usitc.gov/intellectual_property/documents/337_faqs.pdf) (“Historically, the Commission has strived to complete most investigations in less than 15 months.”).

46. 19 U.S.C. § 1337(d)(1) (2012).

47. For example, the Religious Technology Center (“RTC”), also known as the Church of Scientology, initiated a series of crackdowns on Internet leaks of its secret texts using copyright’s *ex parte* seizure provision. *See* Natalie Hanlon-Leh, *Lessons From Cyberspace & Outerspace: The Scientology Cases*, 27 A.B.A. SUM BRIEF 48, 57 (1998) (explaining the seizure issues involved in the Scientology cases). At the conclusion of the RTC’s enforcement actions, there were substantial questions about the enforcement action’s legitimacy, which raise related questions about the appropriateness of the initial *ex parte* seizure. *See id.* at 58 (ending with the question: “How should a court approach seizure

seizure procedure for counterfeit goods. Copyright law also provides an impoundment remedy<sup>48</sup> that may be pursued *ex parte*<sup>49</sup> following the same procedures and restrictions as the trademark counterfeiting seizure statutory provisions. Registered copyright and trademark owners also can record their rights with the Customs Department,<sup>50</sup> which will impound infringing goods as they go through customs.

Similarly, other quasi-IP rights can provide overlapping *ex parte* remedies, such as the Computer Fraud & Abuse Act.<sup>51</sup>

Finally, *ex parte* chattel-oriented remedies may apply to chattel that contains trade secrets, such as replevin and sequestration.<sup>52</sup>

#### 4. Summary

Given the numerous *ex parte* seizure procedures already in place, it is hard to construct a realistic hypothetical where the Seizure Provision will solve a problem that no existing seizure mechanism addresses. What, exactly, is the problem Congress is convinced needs to be solved?

### III. Problems With *Ex Parte* Seizures for Trade Secrets<sup>53</sup>

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and impoundment of computer media to protect against abuses and unlawful searches?”).

48. 17 U.S.C. § 503 (2012).

49. *Id.* § 503(a)(3).

50. *Intellectual Property Rights E-Recordation (IPRR) Application*, U.S. CUSTOMS & BORDER PROT., <https://iprr.cbp.gov/> (last visited Oct. 25, 2015) (on file with the Washington and Lee Law Review).

51. *See, e.g.*, *Transcon. Fund Admin., LLC v. Zhani*, No. 15 Civ. 8840, at \*2 (N.D. Ill. Oct. 8, 2015) (issuing an *ex parte* TRO on Computer Fraud & Abuse Act grounds because the defendant threatened “to make the files he stole public, thus improperly disclosing the misappropriated information to the world at large”), *available at* <http://digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=2065&context=historical>.

52. *See, e.g.*, William P. Glenn, Jr., *Ex-Parte Seizure of Intellectual Property Goods*, 9 TEX. INTELL. PROP. L.J. 307, 310–13 (2001) (providing an overview of seizure remedies).

53. *Ex parte* seizures also raise Constitutional issues, including potential



The previous Part of this Essay critiqued the Seizure Provision's specific details. This Part will take a higher-level look at why ex parte seizures in trade secret cases are universally problematic, whether via the Seizure Provision or existing ex parte seizure processes.

*A. Our System Is Not Designed for Ex Parte Proceedings*

In general, our legal system was not built for ex parte proceedings. Our system relies on adversarial proceedings, where advocates make their case before a neutral adjudicator. In theory, in adversarial proceedings, self-interested advocates will highlight their strongest arguments and highlight the weaknesses of their opponent's arguments; and in theory, this back-and-forth between advocates helps the truth emerge. Because the advocates are trashing each other's arguments, the judge can focus on enforcing the applicable rules of engagement to ensure that the advocates do not overreach procedurally.

An adjudicatory system built for adversarial proceedings cannot handle ex parte proceedings very well.<sup>54</sup> While the petitioner will showcase its case's strengths, a self-interested opponent will not be present to point out the case's weaknesses. As a result, the judge only hears the petitioner's glossiest story. For judges used to picking between the advocates' narratives after they have been picked apart by their opponents, only hearing one side of the story runs contrary to the judge's traditional decision-making process.<sup>55</sup>

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due process, search and seizure, and First Amendment problems. *See, e.g.*, Mark D. Robins, *Computers and the Discovery of Evidence—A New Dimension To Civil Procedure*, 17 J. MARSHALL J. COMPUTER & INFO. L. 411, 487–90 (1999) (addressing Constitutional restrictions on ex parte seizure orders). The Constitutional issues are beyond this Essay's scope.

54. *See* *Granny Goose Foods, Inc. v. Teamsters*, 415 U.S. 423, 439 (1974) (“[O]ur entire jurisprudence runs counter to the notion of court action taken before reasonable notice and an opportunity to be heard has been granted both sides of a dispute.”).

55. A similar dynamic occurs with class action settlements, where plaintiff and defense counsel jointly urge the judge to approve their desired settlement. Judges may try to rely on class objectors as a counterweight to the possibility of collusion between plaintiff and defense counsel, but objectors rarely materialize or invest much energy in their advocacy. *See generally, e.g.*, Theodore Eisenberg

Judges could compensate for this one-sided advocacy by actively challenging the petitioner's glossy story. Sometimes this happens. More frequently, however, judges are not used to, or comfortable with, acting as an active counterweight to the petitioner's narrative. Some of this reticence may reflect the personality of judges, but it also reflects the judge's lack of first-hand knowledge about the facts. Unlike an adversarial opponent, who has its own first-hand knowledge of the facts at issue, a judge not personally involved in the situation cannot guess what countervailing facts might exist. With this limited understanding of the facts, judges are not well-positioned to confidently push back against a petitioner's factual narrative.

Because of the heightened risk of errors attributable to their procedural deficiencies, all *ex parte* remedies should be exceptionally rare. They also should be coupled with industrial-grade procedural protections, though strong procedural protections are not enough to prevent serious harm.

We have seen several examples of misguided *ex parte* seizures in the IP context, even when (nominally) supervised by judges. One set of examples comes from the Department of Homeland Security's Immigration and Customs Enforcement ("ICE") domain name seizures, as part of "Operation In Our Sites" and other campaigns.<sup>56</sup> Pursuant to its civil seizure authority (and thus, with a magistrate judge's approval), ICE has seized hundreds of domain names allegedly used to commit copyright and trademark infringement.<sup>57</sup> Unfortunately, because ICE does not consult with targeted domain name owners, unsurprisingly, ICE has made numerous serious mistakes in its seizures.

For example, regarding the domain name Dajaz1.com, ICE made a mistake of fact. It believed that the site published infringing songs, when in fact copyright owners voluntarily

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& Geoffrey Miller, *The Role of Op-outs and Objectors in Class Action Litigation: Theoretical and Empirical Issues*, 57 VAND. L. REV. 1529 (2004).

56. See Annemarie Bridy, *Carpe Omnia: Civil Forfeiture in the War on Drugs and the War on Piracy*, 46 ARIZ. ST. L.J. 683, 708–26 (2015) (discussing ICE's various domain name seizure programs).

57. *Operation In Our Sites*, U.S. IMMIGR. & CUSTOMS ENF'T (May 22, 2014), <https://www.ice.gov/factsheets/ipr-in-our-sites> (last visited Oct. 25, 2015) (on file with the Washington and Lee Law Review).

submitted songs to Dajaz1 hoping they would be published. ICE later admitted that its sole evidence against Dajaz1 was unverified allegations from the RIAA, allegations which the RIAA subsequently admitted were uninformed.<sup>58</sup>

With “Rojadirecta” domain names operated by Puerto 80, ICE made a mistake of law. Puerto 80 had already defeated infringement claims in its home country of Spain, yet ICE believed that the domain names were being used for infringing conduct in the United States. After new legal precedent<sup>59</sup> reinforced that ICE’s seizure was predicated on an incorrect interpretation of the law, ICE simply gave up and returned the domain names.<sup>60</sup>

Because ICE’s erroneous seizures are tantamount to shutting down legal speech, the seizures of completely legal domain names raise obvious Constitutional problems. They also show the difficulty of redressing the harms of the mistaken seizure. Even if we made the domain name owners “whole” for the losses they suffered from the wrongful seizure, we will never know what socially beneficial activities we lost because of the government’s disruption/censorship of legal speech.

A different ICE seizure highlights the inevitability of collateral damage from wrongful seizures.<sup>61</sup> As part of its Operation Save

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58. Mike Masnick, *Breaking News: Feds Falsely Censor Popular Blog For Over A Year, Deny All Due Process, Hide All Details . . .*, TECHDIRT (Dec. 8, 2011, 8:29 AM), <https://www.techdirt.com/articles/20111208/08225217010/breaking-news-feds-falsely-censor-popular-blog-over-year-deny-all-due-process-hide-all-details.shtml> (last visited Oct. 25, 2015) (giving an account of this scandal) (on file with the Washington and Lee Law Review).

59. *Flava Works, Inc. v. Gunter*, 689 F.3d 754 (7th Cir. 2012).

60. See Ryan Singel, *Oops! Copyright Cops Return Seized RojaDirecta Domain Names—19 Months Later*, WIRED (Aug. 29, 2012, 4:07 PM), <http://www.wired.com/2012/08/domain-names-returned/> (last visited Oct. 25, 2015) (“The government, which seized the domain names for simply including links to copyrighted content, dropped the Rojadirecta claim, seemingly due to a recent ruling by Judge Richard Posner.”) (on file with the Washington and Lee Law Review). See generally *Puerto 80 Projects, S.L.U. v. United States*, No. 11 Civ. 3983 (S.D.N.Y. terminated Aug. 4, 2011).

61. See Press Release, Office of the Press Sec’y, U.S. Dep’t of Homeland Sec., Joint DHS-DOJ “Operation Protect Our Children” Seizes Website Domains Involved in Advertising and Distributing Child Pornography (Feb. 15, 2011), <http://www.dhs.gov/news/2011/02/15/joint-dhs-doj-operation-protect-our-children-seizes-website-domains-involved> (last visited Oct. 25, 2015).

Our Children, ICE seized the Mooo.com domain name because it allegedly facilitated the distribution of child pornography. Mooo.com, however, was a user-generated content service that hosted 84,000 different websites, only one of which was the target of ICE's operation. Because of ICE's poor research, 84,000 legitimate websites were taken offline as the collateral damage of ICE's overreaching pursuit of one illegitimate website.<sup>62</sup>

It is easy to mock ICE for being digital Keystone Kops, but we should not dismiss their errors as purely due to ICE's incompetence, randomness, or anomalies. Instead, ex parte seizures inevitably and unavoidably *will* make mistakes, so of course ICE's campaign of ex parte seizures was destined to screw up, no matter how careful ICE was—though ICE's incompetence did not help.

ICE's mistakes also demonstrate how difficult it is to compensate the victims of wrongful seizures. In the Mooo.com case, how can we adequately compensate the tens of thousands of disrupted webmasters? Just like it is impossible to make these victims of ICE's wrongful seizures whole, it seems unlikely that the Seizure Provision's wrongful seizure cause of action will adequately redress the many victims of wrongful seizures.

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(announcing “the execution of seizure warrants against 10 domain names of websites engaged in the advertisement and distribution of child pornography as part of ‘Operation Protect Our Children’”) (on file with the Washington and Lee Law Review).

62. See Ernesto, *U.S. Government Shuts Down 84,000 Websites, ‘By Mistake’*, TORRENTFREAK (Feb. 16, 2011), <https://torrentfreak.com/u-s-government-shuts-down-84000-websites-by-mistake-110216/> (last visited Oct. 25, 2015) (discussing ICE's “massive error”) (on file with the Washington and Lee Law Review).

The Megaupload case provides another example of how legitimate players can become collateral damage in an overzealous seizure. See, for example, Kyle Goodwin's lawsuit to obtain the files he stored on Megaupload's servers that were seized during the U.S. government's pursuit of alleged infringers on Megaupload's service. *United States v. Dotcom*, No. 12 Crim. 3 (E.D. Va. Aug. 21, 2015); see *Megaupload Data Seizure*, ELECTRONIC FRONTIER FOUND., <https://www.eff.org/cases/megaupload-data-seizure> (last visited Oct. 25, 2015) (providing documents from this suit) (on file with the Washington and Lee Law Review).

*B. Special Fact Issues in Trade Secret Cases*

While all ex parte seizure processes will make mistakes, some distinctive features about trade secrets make ex parte seizures involving trade secrets especially error-prone.

*1. Existence of a Trade Secret*

The Act says a seizure order may issue if the plaintiff

is likely to succeed in showing that—

(aa) the information is a trade secret;

(bb) the person against whom seizure would be ordered—

(AA) misappropriated the trade secret of the applicant by improper means; or

(BB) conspired to use improper means to misappropriate the trade secret of the applicant; and

(cc) the person against whom seizure would be ordered has possession of the trade secret.<sup>63</sup>

Because the statutory definition of “trade secret” is so expansive,<sup>64</sup> to satisfy this pleading standard, the plaintiff simply needs to present evidence that it tried to keep its information secret and derived value from the information.

In an ordinary adversarial process, the defendant would attack the subject information’s status as a trade secret. Loss of trade secret status, however, is typically confirmed only after

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63. S. 1890, 114th Cong. § 2(b)(2)(A)(ii)(IV) (2015).

64. As defined in 18 U.S.C. § 1839(3) (2012):

the term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public.

See Christopher B. Seaman, *The Case Against Federalizing Trade Secrecy*, 101 VA. L. REV. 317, 361 (2015) (explaining how this definition is broader than the Uniform Trade Secret Act’s definition).

substantial discovery, which helps explain why trade secret misappropriation litigation is so costly.<sup>65</sup> But in an *ex parte* action, the plaintiff's claim that the information is a trade secret goes unchallenged. There are several ways this can lead to erroneous results, such as botched secrecy and reverse engineering.

*a. Botched Secrecy*

A classic way that a trade secret owner loses trade secret protection is by the owner's mishandling of secrecy. Often, the owners do not realize they did not maintain secrecy correctly. In those cases, plaintiffs can pursue an *ex parte* action based on their uninformed, but erroneous, belief that they still have trade secret protection. A court has almost no chance of discovering the lost secrecy on its own.

*b. Reverse Engineering*

Similarly, a third party usually<sup>66</sup> may reverse engineer trade secrets and freely use that information.<sup>67</sup> After a successful reverse engineering, the trade secret owner can prove that the defendant "possesses" the information the plaintiff asserts is a trade secret (as required by subparagraph (cc)), even though the defendant could show—if it appeared in court—that such possession was completely lawful.

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65. Litigation costs for trade secret cases are substantially more than copyright and trademark cases of similar stakes, and the costs can often exceed \$1 million. *2015 Report of the Economic Survey*, AM. INTELL. PROP. L. ASS'N (AIPLA) (2015), <http://www.aipla.org/learningcenter/library/books/econsurvey/2015EconomicSurvey/Pages/default.aspx> (last visited Oct. 25, 2015) (on file with the Washington and Lee Law Review).

66. Exceptions might include contractual restrictions on reverse engineering or restrictions on circumvention in 17 U.S.C. § 1201 (2012).

67. *See, e.g.*, Unif. Trade Secrets Act, comment to Section 1 (1985) ("Proper means include . . . [d]iscovery by 'reverse engineering', that is, by starting with the known product and working backward to find the method by which it was developed.").

Because trade secret owners can lose trade secret status without knowing it, inevitably even well-meaning and careful trade secret owners will cause erroneous ex parte seizures.

*c. Trade Secrets Are Different . . .*

A copyright owner must register its work before suing.<sup>68</sup> Trademark registration is not required to bring a trademark claim,<sup>69</sup> but a Lanham Act ex parte seizure of counterfeit goods requires a registered trademark.<sup>70</sup> As part of the registration process, a government examiner will review the subject matter's eligibility for protection before issuing the registration.<sup>71</sup> Thus, in an ex parte application involving copyrights and trademarks, a public servant has already confirmed copyrightability or trademarkability, and this provides the judge with well-informed and independent guidance about protectability.

In contrast, there is no registration scheme for trade secrets, and no government official reviews a plaintiff's claim to have a trade secret prior to an enforcement action. Thus, in trade secret cases, judges must review the existence of a trade secret as a matter of first impression, without any guidance from an independent government examiner.<sup>72</sup> This determination, conducted ex parte by a non-specialist judge, necessarily will make more mistakes than ex parte proceedings based on registered copyrights and trademarks.

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68. See 17 U.S.C. § 411(a) (2012) (“[N]o civil action for infringement of the copyright in any United States work shall be instituted until preregistration or registration of the copyright claim has been made in accordance with this title.”).

69. 15 U.S.C. § 1125(a) (2012).

70. *Id.* § 1116(d)(1)(A). Courts can and do, however, provide ex parte remedies for unregistered marks. See Lucas G. Paglia & Mark A. Rush, *End Game: The Ex Parte Seizure Process and the Battle Against Bootleggers*, 4 VAND. J. ENT. L. & PRAC. 4, 8 (2002) (describing courts' authority to do this under the Lanham Act).

71. See 17 U.S.C. § 410 (2012) (relating to copyright); 15 U.S.C. § 1115(a) (2012) (regarding trademark).

72. See Markup Hearing, *supra* note 3, ll. 430–53 (statement of Rep. Lofgren) (discussing these differences between trade secrets and copyrights/trademarks).

## 2. *Ownership of a Trade Secret*

Even if the subject information is a trade secret, the plaintiff may not own it. For example, when trade secrets are developed collaboratively, each contributor may have a tenable claim to own any resulting trade secrets. If one collaborator seeks an ex parte seizure against the other collaborator, the judge cannot easily confirm the plaintiff's ownership claim.

The Seizure Provision does not require the judge to rigorously review the plaintiff's ownership claim. Indeed, the plaintiff is not required to allege its ownership; it is only required to show misappropriation "by improper means."<sup>73</sup> But a defendant's lawful exercise of dominion over a trade secret it owns would look like "misappropriation" to a plaintiff.

As with the existence of a trade secret, trade secrets differ from registration-based IPs because the putative owner must establish ownership during the registration process. Although the subsequent chain of title might get murky (IP ownership transfers do not have to be recorded), the initial registration provides at least some useful information about ownership to the judge. In contrast, there is no government determination of their ownership before a trade secret suit. Without any guidance from a government agency about ownership identity, a judge in an ex parte proceeding for trade secrets cannot easily scrutinize the plaintiff's self-serving claims of ownership.

## 3. *Summary of How Trade Secrets Are Different*

It is tempting to think that because trademarks and copyrights have their own ex parte seizure provisions, so should trade secrets. Trade secret doctrine, however, works differently than copyright and trademarks in ways that affect the legitimacy of ex parte seizures, so imitating their seizure provisions does not make sense.

Further, the Seizure Provision could apply to chattels that store intangible information, which is potentially every electronic item used by a business. In contrast, the copyright and

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73. S. 1890, 114th Cong. § 2(b)(2)(A)(ii)(IV)(bb)(AA) (2015).



trademark ex parte seizure provisions apply to chattel manufactured for sale that was designed to infringe, so the seizure's risk of collateral damage is lower and more effective—for example, it keeps illegitimate goods off the streets.

#### IV. Conclusion

With its outdated chattel focus and serious drafting ambiguities, the Seizure Provision's true *raison d'être* remains murky. It also remains unclear why existing legal tools are inadequate. As Representative Johnson said at the Markup Hearing, "I am somewhat baffled still as far as the need for" the Seizure Provision.<sup>74</sup>

Because the law targets problems that may never exist, it does not make sense to create another dangerous exception to our adversarial-based legal system. The procedural fast lane comes with the potential for significant competitive abuse,<sup>75</sup> where a competitor can potentially kick its rival out of the industry—at least for a little while—before the rival gets a chance to make its case in court.

Given the unique attributes of trade secrets that make plaintiffs' self-serving statements impossible for judges to evaluate independently, additional procedural mechanisms are not enough to reduce the risk of errors. Instead, we should fess up to the unavoidable error risks of any ex parte seizures for trade secrets. Accordingly, it would make sense to strip the Seizure Provision from the Act, and judges should treat all other ex parte requests in trade secret cases as the extraordinary requests they really are.

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74. Markup Hearing, *supra* note 3, ll. 729–30.

75. See David S. Levine & Sharon K. Sandeen, *Here Come the Trade Secret Trolls*, 71 WASH. & LEE L. REV. ONLINE 230, 255–57 (2015), <http://scholarlycommons.law.wlu.edu/wlulr-online/vol71/iss4/3> (describing ways this provision could squash competition).