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# The Novel Remedy of Ex Parte Civil Seizure under the Defend Trade Secrets Act

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Imagine you are having a quiet day at the office when you receive a call from a corporate client in need of fast action to protect valuable trade secrets. Your client has compelling evidence that a recently terminated employee dishonestly gained possession of confidential computer files without authorization and then sought to cover it up. The files would prove to be invaluable in the hands of a competitor, and your client wants to secure their return and to prevent any further dissemination of this valuable information. You are ready to jump into action, but what do you do?

As recently as May 2016, your best option for immediate protection would be to seek a TRO and injunctive relief under the South Carolina Trade Secrets Act.<sup>1</sup> Under this scheme, however, the best you could hope for would be to obtain a court order prohibiting the defendant from using or sharing the information constituting a trade secret. But the obvious limitation of this relief is that you have no choice but to rely upon the defendant to comply with the order when it is that same defendant that already displayed dishonesty. Further, by the time you obtain the

relief, it may already be too late.

But now, if the trade secret is related to a product or service used or intended for use in interstate or foreign commerce, there is a powerful new remedy under federal law: an ex parte order for civil seizure. Under the Defend Trade Secrets Act, 18 U.S.C. §§ 1831 *et seq.* (DTSA) effective as of May 2016, a broad federal scheme for the protection of trade secrets allows an aggrieved party, without notice to the other side, to seek an order in U.S. District Court for federal marshals to seize storage devices or other property if “necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.”<sup>2</sup>

In this manner, a trade secret case can be won before it even begins. Often the most important objective of a legal action filed against someone who misappropriated trade secrets is to recover the trade secrets and prevent any further misappropriation or dissemination of the confidential information. Under state versions of the Uniform Trade Secrets Act, this objective might never be accomplished because an unscrupulous defendant might deny any misappropriation

and hide the evidence. However, under the DTSA, the objective of recovery may be accomplished at the very outset of a case, potentially reducing the cost and expense of protracted litigation. Although the risk of non-recovery still exists, a plaintiff can place more confidence in an involuntary seizure of property likely to contain the trade secrets than in a voluntary turnover of the trade secrets, and this confidence can help bring about a prompt resolution of the dispute.

The granting of such a powerful weapon to a plaintiff undoubtedly has the very real potential of abuse. A plaintiff armed with a federal court order to seize private property could wreak havoc without appropriate checks. As a result, the DTSA contains numerous provisions in order to ensure that a civil seizure order only issues under “extraordinary circumstances.”<sup>3</sup> Some of these protections include that the plaintiff must present specific facts (by affidavit or verified complaint) demonstrating that: a standard order for equitable relief under Rule 65 would be inadequate because the defendant “would evade, avoid, or otherwise not comply with such an order”; an immediate and irrep-



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arable injury will occur if seizure is not ordered; the harm to plaintiff for denial of the seizure outweighs the harm to the defendant and substantially outweighs the harm to third parties if the order were granted; there is a likelihood of success on the merits; the defendant has possession of the trade secret; the property to be seized is described with reasonable particularity; the defendant would otherwise destroy, move, hide or otherwise make such property inaccessible to the court if put on notice; and the plaintiff has not publicized the requested seizure.<sup>4</sup> These factors often are naturally present when there is persuasive evidence demonstrating that valuable trade secrets have been misappropriated, but there likely would need to be some type of deceit or other bad conduct involved to demonstrate a likelihood that the defendant would not comply with standard injunctive relief.

The DTSA also includes other protections to ensure against abuse when a civil seizure is ordered. It requires that the order: (a) be narrowly tailored; (b) prohibit access to the seized property by the plaintiff prior to any hearing; (c) provide guidance to the law enforcement officials executing the seizure (including the hours of the seizure and whether force may be used to access locked areas); (d) set a hearing date within seven days; and (e) require adequate security to be posted.<sup>5</sup> The DTSA also requires federal law enforcement officers to carry out the seizure, grants discretion to the court to allow local law enforcement to participate, and prohibits the plaintiff from participating in the seizure, further safeguarding against abuse.<sup>6</sup>

Because the DTSA is so new, there are only a few published decisions nationwide that discuss its civil seizure remedy, and none in South Carolina. Although there are no published opinions in our jurisdiction, the matter has come before the U.S. District Court for the District of South Carolina. In *AVX Corp. v. Kim*, No. 6:17-cv-00624-MGL (D.S.C. March 8, 2017, as amended March 13, 2017), the application for

ex parte seizure alleged that the former employee had downloaded and copied a series of computer files without permission or authorization and repeatedly lied, obfuscated and attempted to conceal his actions when directly asked about it.<sup>7</sup> In deciding to grant ex parte seizure, the court noted its concern regarding the veracity of the defendant and determined that the evidence of dishonesty warranted the granting of the application for ex parte seizure.<sup>8</sup> Under an order issued in March 2017, the court authorized an ex parte civil seizure, directing the U.S. Marshals to seize, with force as necessary, various computer and storage devices in the defendant's possession that reasonably might contain certain trade secrets.<sup>9</sup> After the seizure and after the defendant made an appearance in the case, the court issued a consent order for a computer forensics expert to take custody of the devices in order to analyze them, remove any confidential files, retain forensic images, make reports to the parties and return the devices to the defendant. The aftermath of this process was a settlement and voluntary dismissal.<sup>10</sup>

As for other jurisdictions, the vast majority of courts that have considered ex parte seizure applications under the DTSA have denied those applications. One of the most common reasons for those denials is the plaintiff failed to show an order under Rule 65 of the Federal Rules of Civil Procedure or another form of equitable relief would be inadequate.<sup>11</sup>

Furthermore, other courts have indicated that generic allegations of a plaintiff's fear that a defendant will destroy evidence are not enough to warrant ex parte seizure.<sup>12</sup>

However, in addition to the District of South Carolina, at least two other courts have granted applications for ex parte seizure under the DTSA. In *Mission Capital Advisors v. Romaka*, Case No. 1:16-cv-05878 LLS (S.D.N.Y. Jul. 29, 2016), the U.S. District Court for the Southern District of New York originally de-

nied the plaintiff's ex parte seizure application.<sup>13</sup> However, the court subsequently granted ex parte seizure after the defendant ignored various court orders and failed to appear for the show cause hearing. The court determined this conduct sufficiently showed an order under Rule 65 would be inadequate.<sup>14</sup>

Finally, the Circuit Court for Genesee County in Flint, Michigan, also granted an ex parte seizure application on April 17, 2017. In *USSPEEDO 5, Inc. v. Pierce*, Case No. 17-108876-CB (Genesee County, Michigan), a former employee was alleged to have misled his former employer and stolen trade secrets to start his own new company to compete against his former company.<sup>15</sup> As in *AVX Corp.*, the court determined the evidence of defendant's deceit to be a crucial factor in granting the ex parte seizure.<sup>16</sup> This case shows that a state court also can enforce the federal statute.

In sum, although many courts have denied applications for ex parte seizure under the DTSA in light of the fact that Rule 65 often provides an adequate remedy, the courts that have granted such applications relied upon the fact that there was evidence the defendant was deceitful or failed to comply with prior court orders. In these circumstances, an ex parte order for civil seizure can lead to a prompt resolution, as in *AVX v. Kim*, and thereby serve the important interest of promoting a swift, economical resolution of a complex legal dispute.

*Prior to publication a court granted an ex parte seizure of the defendants' electronic devices and Dropbox account in Blue Star Land Servs., LLC v. Coleman*, No. CIV-17-931-R, 2017 WL 6210901, at \*1 (W.D. Okla. Dec. 8, 2017). Although the court's order does not contain specific reasoning as to why the seizure was granted, it noted that it "found extraordinary circumstances justifying an ex parte seizure and that it clearly appears from specific facts that [the plaintiff] satisfied the DTSA's eight ex parte seizure order requirements." *Id.* at \*3 (internal quotations omitted).

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## Endnotes

- <sup>1</sup> See generally, S.C. CODE ANN. §§ 39-8-1 et seq.
- <sup>2</sup> See Defend Trade Secrets Act, 18 U.S.C. §§ 1831 et seq. (DTSA); see also 18 U.S.C. § 1836(b)(2)(A)(i).
- <sup>3</sup> *Id.*
- <sup>4</sup> 18 U.S.C. § 1836(b)(2)(A)(ii)(I)-(VIII).
- <sup>5</sup> 18 U.S.C. § 1836(b)(2)(B).
- <sup>6</sup> 18 U.S.C. § 1836(b)(2)(E).
- <sup>7</sup> *AVX Corp. v. Kim*, Case No. 6:17-cv-00624-MGL (D.S.C. March 8, 2017, as amended March 13, 2017).
- <sup>8</sup> *Id.*
- <sup>9</sup> Order Granting Motion Entry of Civil Seizure; Granting TRO; Granting Motion for Hearing; Granting Motion Entry of Proposed Order, Case No. 6:17-cv-00624-MGL (D.S.C. March 8, 2017).
- <sup>10</sup> Consent Order, Case No. 6:17-cv-00624-MGL (D.S.C. April 25, 2017).
- <sup>11</sup> See, e.g., *OOO Brunswick Rail Mgmt. v. Sultanov*, Case No. 5:17-CV-00017-EJD, 2017 WL 67119, at \*2 (N.D. Cal. Jan. 6, 2017) (denying an *ex parte* seizure application under the DTSA for the defendant's company-issued devices, but granting relief in the form of a preservation order, a temporary restraining order under Rule 65 preventing the defendant from accessing, modifying or destroying the devices or other evidence, and an order to deliver the devices to the court's custody at the time of the scheduled hearing on the matter); see also *Magnesita Refractories Co. v. Mishra*, Case No. 2:16-CV-524-PPS-JEM, 2017 WL 365619, at \*1 (N.D. Ind. Jan. 25, 2017) (stating that the court entered an *ex parte* temporary restraining order under Rule 65 ordering seizure of defendant's laptop for inspection, as opposed to granting *ex parte* seizure under the DTSA).
- <sup>12</sup> See, e.g., *Jones Printing, LLC v. Adams Lithographing Co.*, Case No. 1:16-cv-442 (E.D. Tenn. Nov. 3, 2016) (denying the *ex parte* seizure application because the plaintiff presented conclusory allegations and failed to demonstrate why relief under Rule 65 would be inadequate in the case, as Rule 65 relief seems to be the preferred form of injunctive relief under the DTSA); see also *Balearia Caribbean Ltd. Corp. v. Calvo*, Case No. 1:16-cv-23300-KMV (S.D. Fla. Aug. 5, 2016) (denying an *ex parte* seizure application because the plaintiff failed to allege specific facts sufficient to constitute extraordinary circumstances, instead generally alleging there was no reason to suspect the defendant would stop his allegedly improper actions and the electronic information at issue could easily be transferred or hidden); see also *Dazzle Software II, LLC v. Kinney*, No. 2:16-cv-12191-MFL-MLM (E.D. Mich. July 18, 2016) (denying, after a hearing, the plaintiff's application for *ex parte* seizure of certain computers and computer storage devices held by the defendant because the court was unpersuaded an injunction under Rule 65 would be inadequate).
- <sup>13</sup> *Mission Capital Advisors v. Romaka*, Case No. 1:16-cv-05878 LLS (S.D.N.Y. Jul. 29, 2016).
- <sup>14</sup> *Id.* at 2.
- <sup>15</sup> *USSpeedo 5, Inc. v. Pierce*, Case No. 17-108876-CB (Genesee County, Michigan).
- <sup>16</sup> *Id.*