Powerful Discovery Tools In Trade Secret Litigation

By **Michael Allan and Li Guo** (June 25, 2018)

Michael Allan

Li Guo

Protecting trade secrets in the digital age is a challenge. Trade secrets and proprietary information can be easily copied, downloaded, transferred and deleted. Due to the nature of trade secret cases, it is often critical for plaintiffs to obtain and preserve evidence early in discovery. Fortunately, there are a number of early discovery weapons available to trade secret litigants including expedited discovery, ex parte seizures, temporary restraining orders and preliminary injunctions. Trade secret litigants should understand the early discovery tools that are available and build those tools into their discovery plans. This article will focus on ex parte seizure and expedited discovery.

Ex Parte Seizure

Enacted in 2016, the Defend Trade Secrets Act provides a valuable discovery mechanism to trade secret litigants in the form of an ex parte seizure order. Specifically, the DTSA permits the seizure of property or information "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action."[1]

Ex parte seizures, however, are not granted as a matter of course. Rather, courts evaluate the specific facts of a case in connection with eight different factors.[2] Among those requirements, the first and most difficult one is that a court must find that a Rule 65 order, such as a TRO, or another form of equitable relief, would be inadequate.[3]

A TRO is insufficient when plaintiffs can show that defendants would not comply with it. In Solar Connect and Axis Steel Detailing,[4] the defendants had a high level of computer and technical proficiency and there had been attempts in the past by defendants to delete data and information from computers. Defendants had also shown a willingness to provide false and misleading information and to hide information and move computer files. There, finding that defendants would evade, avoid, or otherwise not comply with a Rule 65 order or other equitable remedy, the court granted an ex parte application for seizure.

When considering whether to grant an ex parte seizure, courts have also looked at the following factors: the manner in which defendants allegedly took the trade secrets, alleged dishonesty with the plaintiff, the nature of the trade secrets, and defendants' prior actions that demonstrate a willingness to evade or ignore the law.[5] In Blue Star Land Services v. Theo C. Coleman, the applicant obtained an ex parte seizure order by showing that the defendants downloaded thousands of company files to their Dropbox, made a spreadsheet blueprinting their scheme to start a competitive company, lied about soliciting other employees, and deleted emails and conversations to cover their activities.[6] Additionally, insufficiency of a Rule 65 order can be demonstrated by deceptive actions to conceal the misappropriation of trade secrets.[7] In AVX v. Junhee Kim, where the court granted a seizure order, the defendant accessed another employee's computer, downloaded trade secret information regarding a confidential process, and lied during the afterward investigation.[8]

To obtain an ex parte seizure order, it is important to show that the defendant, or persons

involved in similar activities, had concealed evidence or disregarded court's order in the past.[9] For example, courts have found that it is not sufficient to base the request for ex parte seizure on the fact that the defendant meticulously planned the misappropriation.[10] The applicant should also address each of the statutory requirements. A court has denied an ex parte seizure motion partly because the plaintiff provides only selective portions of the specific information and legal arguments required by the statute.[11]

Regarding the scope of seizure, "the narrowest seizure of property necessary to achieve the purpose" of the seizure should be conducted.[12] Properties to be seized are often digital devices, such as computers, computer hard drives, memory devices, etc., that likely contain the plaintiff's trade secrets. While a seizure order often grants seizure of the physical property, a court can instead order copying of the data from the digital devices without taking the physical property.[13] For example, a court can order a forensic expert to bring a hard drive to make a copy of the files without taking the digital devices.[14]

When a court finds requirements for ex parte seizure not satisfied, it can turn that into another form of discovery, such as expedited discovery, or an order asking the defendant to produce the property by delivering it to the court.[15]

Expedited Discovery

Expedited discovery in trade secret litigation can be essential. It allows the parties to obtain information to aid a preliminary injunction hearing or request, and protects important information and documents. Approved expedited discovery is often in the form of depositions, interrogatories, requests for production of documents, and requests for identification. Expedited discovery can also require a defendant to produce electronic devices, such as laptops, smartphones, USB drives, which may contain the alleged trade secret. Motions for expedited discovery generally are made very early in the litigation, often contemporaneously with the complaint. Expedited discovery can even be granted before defendants appear in the case.[16]

Generally, when deciding a motion for expedited discovery, most courts apply the flexible "good cause" or "reasonableness" standard, while some courts analyze a set of factors similar to those for obtaining a preliminary injunction. In deciding whether good cause exists, courts consider a variety of factors, including whether a preliminary injunction is pending; the breadth of the discovery requests; the purpose for requesting the expedited discovery; the burden on the defendants to comply with the requests; and how far in advance of typical discovery process the request was made.

Courts often allow parties to engage in expedited discovery to prepare for a preliminary injunction hearing.[17] Despite that, expedited discovery motions should be narrowly tailored and shouldn't be designed to be a fishing expedition. When it is to aid a preliminary injunction or TRO hearing, the requested discovery should be narrowly tailored to seek information pertinent to the hearing, and relate to the events that occurred with respect to the alleged trade secret or confidential information during the relevant time period.[18]

If the motion for expedited discovery is too broad, courts will likely deny or modify the request. For example, the request to create an expedited clone or mirage of defendant's personal email accounts and electronic devices that were allegedly used to access and store the trade secret information was denied.[19] A court has denied expedited discovery request as being extremely burdensome and not "narrow and targeted," when the plaintiff stated it intended to serve a certain number of document requests, interrogatories, depositions, and requests for admissions, without giving more specifics about these

requests.[20]

Parties should be cautious when the requested discovery is directed at non-parties, since courts have denied these motions, finding no basis upon which nonparties should be required to produce documents at this early stage of the case.[21] However, when plaintiffs can show that defendants stored the trade secrets on third parties' servers, courts have ordered those third parties, such as Google and Dropbox, to copy and preserve all digital files and data.[22]

Defendants may be able to successfully oppose the expedited discovery request. For example, if expedited discovery is to aid a preliminary injunction, the defendant can defeat it by showing that one element of the preliminary injunction is not satisfied, such as the lack of likelihood of irreparable harm or failure to present ongoing or impending irreparable harm, when the plaintiff failed to specify any trade secrets that defendants would disclose to cause harm.[23] Defendants can also avoid early discovery by providing requested information in declarations or in its response to the motion, thus mooting the motion.[24]

Although most expedited discovery motions are filed by plaintiffs in trade secret cases, defendants should ask the court to make expedited discovery mutual. Defendants can file their own motions for expedited discovery, such as asking to depose any declarants who submitted declarations in support of plaintiff's motion for preliminary injunction. The parties can also propose a mutually agreed joint discovery plan, making it equal for each party. In additional to the typical discovery requests, defendants can also request the identification of trade secrets at the early stage of the proceeding through expedited discovery.[25]

Conclusion

To successfully apply for an ex parte seizure order, it is important to specify why the relief under Rule 65 is inadequate. It is equally important to present facts, supported by affidavits, to show what had happened, and why the defendants would evade an injunctive order. Parties seeking expedited discovery should attach the motion with narrowly tailored and detailed requests, such as what documents they are seeking, whom they are seeking to depose, and the interrogatories they plan to serve, and why they are seeking this information.

Michael Allan is a partner and Li Guo is an associate at Steptoe & Johnson LLP.

[1] 18 U.S.C. § 1836(b)(2)(A).

[2] Id.

[3] Id.

[4] Solar Connect, LLC v. Endicott et al, No. 2:17-cv-01235, Dkt. 15 at 3 (C.D. Utah, Dec. 4, 2017); Axis Steel Detailing, Inc. v. Prilex Detailing LLC, No. 2:17-cv-00428, Dkt. 11 at 3 (D. Utah, May 23, 2017).

[5] Blue Star Land Services v. Theo C. Coleman et al., No. 5:17-cv-00931, Dkt. 10 at 2-3 (W.D. Okla. Aug. 31, 2017).

[6] Id. at Dkt. 4, Dkt. 10.

[7] AVX v. Junhee Kim, No. 6:17-cv-00624, Dkt. 11 (D.S.D. Mar. 8, 2017).

[8] Id. at Dkt. 4, Dkt. 11.

[9] Balearia Caribbean Ltd. V. Calvo, No. 1:16-cv-23300, Dkt. 10 (S. D. Fla. August 5, 2016).

[10] Id.

[11] Jones Printing LLC v. Adams Lithographing Co., No. 1-16-cv-00442, Dkt. 8 (E.D. Tenn. Nov 3, 2016).

[12] 18 U.S.C. § 1836(B)(ii).

[13] Axis Steel Detailing, Dkt. 11 at 4.

[14] Id.

[15] See Balearia Caribbean, Dkt. 10 at 8-9.

[16] Advantage Sales and Marketing LLC v. Gold, No. 1:18-cv-00312 at 1-4 (D. Colo. Feb 13, 2018).

[17] Allied Building Products Corp. v. Roofing, Siding and Windows of Iowa, et al., No. 4:17-cv-00304, Dkt. 25 (S.D. Iowa Sep. 1, 2017).

[18] See e.g., Concepts in Production, LLC v. Joiner, No. 1:17-cv-00118, Dkt. 21 (N.D. Miss. Oct. 18, 2017); Cortz, Inc. v. Doheny Enterprises, Inc. et al., No. 1-17CV02187, Dkt21 (N.D. Ill., Mar. 30, 2017); Digital Assurance Certification, LLC v. Pendolino, No. 6:17-cv-00072, Dkt. 46 (M.D. Fla. February 23, 2017).

[19] Protection Technologies, Inc. v. Ribler, No. 3:17-cv-00144, Dkt. 9 (D. Nev. March 8, 2017); Henry Schein, Inc. v. Cook, No. 3:16-cv-03166, Dkt. 12 (N.D. Cal. June 10, 2016).

[20] Digital Mentor, Inc. v. Ovivo USA LLC, No. 2:17-cv-01935, Dkt. 35, Dkt. 11-19 (W.D. Wash. Jan. 24, 2018).

[21] Advantage Sales and Marketing LLC v. Gold, No. 1:18-cv-00312, Dkt. 14 at 3 (D. Colo. Feb. 13, 2018).

[22] See Solar Connect, Dkt. 15 at 11; Axis Steel Detailing, Dkt. 11 at 7.

[23] Mid-America Business Systems v. Sanderson, No. 0:17-CV-03876, 2017 WL 4480107, (D. Minn. Oct. 6, 2017); Reconstruction Experts, Inc. v. Jeremiah Franks, No. 18-cv-0466, 2018 WL 1912295, (D. Colo. April 23, 2018).

[24] Code Systems Corporation v. Murphy, No. 2:18-CV-00049, 2018 WL 513796 at *2

(W.D. Wash. Jan. 23, 2018); Stockade Companies, LLC v. Kelly Restaurant Group, LLC, No. 1:17–CV–143, 2017 WL 2635285 at *2 (W.D. Texas June 19, 2017).

[25] A&P Technology, Inc. v. Lariviere, Case No. 1:17-cv-534, 2017 WL 6606961 at *11 (S.D. Ohio Dec. 27, 2017).