United States Senate Committee on the Judiciary
Hearing on
"Protecting Trade Secrets: The Impact of Trade Secret Theft on American Competiveness and Potential Solutions to Remedy this Harm"

Questions for the Record for Thomas R. Beall, Corning Incorporated

Questions from Senator Whitehouse:

1. In executing a civil seizure order under the Defend Trade Secrets Act ("DTSA"), what degree of force would law enforcement agents be entitled to use? Would law enforcement agents executing the seizure be permitted to knock down doors? Open locked cabinets by force? Should they be authorized to restrain the defendant or sequester staff and employees during the search of a business?

Answer: As a threshold matter, we believe that the DTSA's stringent requirements for obtaining a seizure order ensure that seizure will be used rarely and in narrow circumstances. To justify a seizure order, the applicant must provide very specific information about not only the misappropriation itself but also the necessity and equity of the seizure. When seizure is ordered, it must be carried out by a law enforcement officer. As a company, while we do not set the policies or standards for law enforcement officials, we respect the fact that they must protect public safety even as they enforce the law. We do not believe that inappropriate force will be a significant issue in enforcing a seizure order under the DTSA because we are unaware of issues regarding inappropriate force in the context of copyright or trademark protection - areas of intellectual property in which a similar order is authorized.

2. Who should be responsible for sorting through the data and electronic devices seized pursuant to a DTSA civil seizure order? Should courts permit the plaintiff who initiated the suit to search through the seized devices to locate stolen trade secret information? Isn't this role best performed by a disinterested third party appointed by the court?

Answer: We believe that the DTSA provides an important safeguard by restricting access to seized material until all parties have had an opportunity to be heard in court. We are confident that a court will then tailor the review of the seized material based on the specific facts, similar to the manner in which a court would restrict discovery involving confidential information. In some instances, this may involve a third-party appointed by the court.

3. Testimony offered at the hearing indicated that a civil seizure order issued pursuant to the DTSA could not be used to seize data in the cloud because the DTSA requires that the defendant be in possession of the misappropriated trade secret. Do you agree with this assessment? Isn't a civil plaintiff likely to argue that a defendant possesses the data the defendant stores in the cloud? Doesn't the dictionary definition of "possession," which includes ownership or control, support this argument?

Answer: A seizure order issued pursuant to the DTSA should not be used to seize either data in the cloud or a computer server on which the data resides. The DTSA now includes a number of safeguards which were negotiated with cloud service companies to protect against such an occurrence. These safeguards were included in the version of the legislation reported last year by the House Judiciary Committee, and were included again in S. 1890 and its companion bill, H.R. 3326, when the two bills were introduced with identical language this year. Regarding protection of third parties, three of the safeguards are particularly important: *First*, a seizure can only be ordered against the party that used "improper means" to misappropriate the trade secret. "Improper means" includes theft or bribery, but not mere knowledge that the secret was improperly obtained. A cloud service company, therefore, would not be subject to a seizure order by virtue of its customer storing a stolen trade secret on the company's server because the cloud company would not have used improper means to misappropriate the information.

Second, a seizure order can only issue if a temporary restraining order (TRO) would be inadequate to prevent the propagation or dissemination of the trade secret because the party would "evade, avoid, or otherwise not comply with such an order." We believe this safeguard is significant because, in the case of a legitimate and responsible third party service provider, a court presumably would consider a TRO adequate to prevent propagation or dissemination.

Third, a seizure cannot be ordered against a person unless the applicant can show that the person would "destroy, move, hide, or otherwise make such matter inaccessible to the court" if the person had advance knowledge of the order. This further protects third parties, including cloud providers, but allows an order to issue when necessary to prevent a person attempting to abscond with the secret.

4. Are the protections in the DTSA against overseizure a meaningful constraint? Is a court that has found sufficient evidence to grant a civil seizure order likely to later rule that the seizure was wrongful or excessive? If law enforcement agents executing a civil seizure order overseize or act wrongfully would the plaintiff be liable for their actions?

Answer: Yes, we believe the protections are very meaningful. As a starting point, a seizure order issued under the DTSA must be the "narrowest seizure of property necessary" to achieve the purpose of the section and must minimize any interruption of the business operations of third parties. And this concern for minimizing the interruption of business operations extends even to the person accused of misappropriating the trade secret - indicating, in our view, a real effort in the legislation to treat all parties fairly.

Moreover, a person suffering damage by reason of a wrongful or excessive seizure can bring an action against the applicant for damages for lost profits, cost of materials, loss of good will, punitive damages in instances where the seizure was sought in bad faith, and attorney fees. We believe this high price for abuse will discourage seizure applications except where they are truly justified. For Corning, such disincentives are important because, while the seizure remedy is a

critical component of the legislation, we do not want it to be abused against us or any other responsible party.

5. Should civil seizure under the DTSA be limited to those instances where a defendant is likely to flee the United States? Should more be done to carve out routine employer-employee disputes from the civil seizure provisions of the DTSA?

Answer: The seizure provision allows trade secret owners, in extreme circumstances, to recover stolen secret information before it is sold to a competitor or otherwise disseminated. In such situations, time is of the essence. Once the secret is disclosed, it by definition loses its value. Sometimes the thief is looking to flee the country; other times, the thief may be attempting to sell it from the United States. In either case, the ability to act quickly and prevent disclosure is critical. Because the seizure remedy of the DTSA would be available only within narrow circumstances and contains numerous safeguards, we do not believe it would be used in routine employer-employee disputes.

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Questions from Senator Klobuchar:

1. The Defend Trade Secrets Act allows a party to seek an ex parte order to seize misappropriated trade secrets. Some have expressed concerns that some companies may try to abuse this provision to gain a competitive advantage against their competitors.

- What provisions in the bill protect against this type of the abuse?
- How effective will these provisions be in preventing attempts to misuse this seizure provision?

Answer: The legislation contains a number of safeguards to prevent abuse. First, in order to obtain a seizure order, the applicant must demonstrate:

a) that seizure is necessary to prevent the propagation or dissemination of the trade secret;
b) a Rule 65(b) temporary restraining order would be inadequate because the defendant would evade, avoid or otherwise not comply with it;
c) immediate and irreparable injury will occur if the seizure is not ordered;
d) the harm to the applicant of not issuing a seizure order outweighs the harm to the defendant of issuing it;
e) the likelihood of demonstrating the information is a trade secret and the defendant used improper means to obtain it; and
f) the defendant would destroy, move, or hide the matter if it had notice from the applicant.

As a threshold matter, we think it will be a significant burden for a trade secret owner to meet all of these requirements. For example, it would be difficult to persuade a court that a person will evade a federal court order or destroy evidence without showing very specific information leading to that conclusion.

Second, in the exceptional case where the trade secret owner is able to meet this burden and justify seizure, the court's order must be the "narrowest seizure or property necessary" to prevent dissemination of the secret. And then the defendant can move at any time to modify or dissolve the order, with a hearing on the matter not later than seven days after the order issues.

Moreover, a person suffering damage by reason of a wrongful or excessive seizure can bring an action against the applicant for damages for lost profits, cost of materials, loss of good will, punitive damages in instances where the seizure was sought in bad faith, and attorney fees.

We think these safeguards against abuse of the seizure provision will be very effective. The bill sets a high bar for getting ex-parte seizure in the first place, then allows the defendant to be heard quickly in court, and provides significant punishment for abuse.

2. The focus of most of this hearing is on remedying the harm suffered by companies who are victims of trade secret disclosures.

- Do you see this legislation as providing benefits to companies even before they lose trade secrets, based on increased certainty that if something goes wrong they can recover?
- What are those benefits?

Answer: Yes, we do see this legislation as providing benefits to companies even before they lose trade secrets. For companies like Corning, having effective, predictable, and enforceable trade secret laws provide the confidence we need to continue to invest in research and development, develop new products, improve our manufacturing processes, and keep related jobs in the United States.

Moreover, the DTSA will help us internationally. Currently, the United States encourages other nations to adopt both civil and criminal trade secret protections, even though it has no national civil trade secret statute itself. We think the DTSA will give the United States a shining example of an effective civil trade secret law, which will be helpful in persuading other countries to create meaningful trade secret protections of their own.