James Pooley Responses to Senator Grassley Questions for the Record
"Protecting Trade Secrets: the Impact of Trade Secret Theft on American Competitiveness and Potential Solutions to Remedy This Harm"
U.S. Senate Committee on the Judiciary
December 2, 2015

1. The DTSA amends the Economic Espionage Act to create a federal civil remedy for the misappropriation of trade secrets. The DTSA provides that an applicant for relief may file, on *ex parte* basis, for the seizure of property from the party accused of stealing a trade secret if necessary to prevent the propagation or dissemination of the trade secret.

   When legislative solutions that would have created a civil right of action for trade secret theft have been proposed in previous Congresses, there has been concern that the *ex parte* seizure provision may have been overbroad. Does *S.1890* adequately address those concerns? If so, how?

   ANSWER: S.1890 does adequately address the concerns that were raised about proposals for ex parte seizure. We should keep in mind that the process is not new. State laws under the Uniform Trade Secrets Act provide that "affirmative acts to protect a trade secret may be compelled by court order," and ex parte orders have occasionally been granted, both in state and federal courts, where specific facts clearly show that the defendant would not obey a preventive order and that giving advance notice would likely lead to the destruction of the secret. S.1890 makes this authority explicit, but responds to concerns raised with predecessor bills by strictly limiting seizure to property that is "necessary to prevent propagation or dissemination of the trade secret" and that is in the possession of the wrongful actor. It also requires that seizures be carried out by law enforcement, and that property be held by the court pending a hearing, which must be held within seven days. As a further curb against abuse, court orders must be directed to the "narrowest seizure of property necessary" and must minimize interruption of legitimate business. Damages for wrongful

seizure will not be limited to the amount of the required bond. In my opinion and based on my experience, the process of S.1890 is more circumscribed than would be available by proceeding under existing state and federal injunction provisions.

2. Some opponents of a federal civil cause of action have claimed that it could harm small businesses and start-ups and impede employee mobility. In your experience as a practitioner who has represented clients of all sizes in trade secrets cases, and as a researcher on the subject, are these concerns legitimate?

   ANSWER: I firmly believe that providing a federal forum for civil trade secret claims will not harm small businesses or start-ups, nor will it impede employee mobility. In fact, in my experience it could prove a significant advantage for defendants in most cases. This is because unlike state courts where pre-trial issues are often handled for all cases in a single motions department, federal judges have the case from beginning to end and so are more likely to focus at an early time on dismissal of meritless claims. For the defendant in a trade secret case, this can translate into greater predictability and lower cost. And because small businesses and start-ups rely more on secrecy to protect their competitive advantage, having a choice of federal forum will give them more options for enforcing their rights as plaintiffs. As for employee mobility, the applicable language of S.1890 (permitting injunctions against “actual or threatened misappropriation”) is identical to the Uniform Trade Secrets Act. But S.1890 goes further, adding a proviso to ensure that no order can interfere with anyone accepting a new job under conditions that avoid actual or threatened misappropriation.

James Pooley Responses to Senator Whitehouse Questions for the Record
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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: In my experience with execution of search warrants in criminal trade secret cases, the party in possession of the specific matter to be seized (e.g., a storage drive or computer) readily complies with law enforcement officials' requests for access to the identified information. The person accused of trade secret theft typically is not a violent criminal and does not otherwise have any criminal record, and thus force is not needed. In addition, although the court issuing the seizure order cannot be expected to anticipate all issues that might arise in its execution, the DTSA requires that the court "direct that the seizure be conducted in a manner that minimizes any interruption of the business operations of third parties" or of the defendant's operations "that are unrelated to the trade secret that has allegedly been misappropriated."

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: Because of the DTSA's strict requirements that the application identify "with reasonable particularity the matter to be seized and where it is located," the court will normally be in a position to require from the applicant any information that could help determine the specific location or description of the trade secret information within some electronic storage device, whether by the use of file names, key words or other search methodology. The DTSA requires that the search be carried out by government officials and that the court protect "the seized property from disclosure by restricting the access of the applicant, including during the seizure . . . ." In addition, the DTSA requires that any seized property be taken in by the court and protected from "physical and electronic access during the seizure and while in the custody of the court." Therefore, it would not be proper under the DTSA to allow the applicant to "search through the seized devices to locate stolen trade secret information." The DTSA does allow for the applicant to petition the court for access to the seized trade secrets, which the court may permit once both parties have been given the opportunity to be heard.

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: The DTSA contains several provisions – additions since last year's Senate bill – that protect against this result. I understand that the requirement that "the person against whom seizure would be ordered" (a) has misappropriated the trade secret and (b) has possession of it, combined with the additional requirement that the person is likely to destroy it or flee, addressed the concerns of cloud providers to ensure that seizures would not extend to information located on third party servers and would not apply to legitimate businesses generally. The DTSA's approach is consistent with the normal

understanding of the term “possession” as actual, rather than constructive.

In the cloud context, a traditional Rule 65 order issued to the provider would be adequate to secure the trade secret held by the third party provider. Therefore, no seizure application could meet the threshold condition that a Rule 65 order “would be inadequate” because the person would “evade, avoid or otherwise not comply.”

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: If the asserted facts on which the seizure order is based turn out to be wrong, it is the applicant that is responsible, not the court, and the court will not hesitate to hold such applicants accountable. It is important to place this in context: all ex parte requests are extraordinary, and most courts will err on the side of denying them. In my many years’ experience dealing with judges – in both federal and state courts – on ex parte applications, they all react with a natural reticence and skepticism, knowing that they must rely on the applicant to establish a compelling reason to allow this very unusual form of relief. Frequently they will closely question counsel about the nature and quality of the evidence. If they later discover that they have been misled in any way, they likely will impose substantial sanctions, and certainly will entertain proceedings to enforce the right of the wrongfully accused to be made whole. Regarding the liability of the plaintiff for actions of law enforcement in going beyond the bounds of the order or of other legal restrictions on their conduct, I do not claim any special expertise on that question.

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: No, I believe it is not practical to do more than has already been done by the authors of the DTSA to ensure that it meets its objectives while protecting against abuse. Studies show that the vast majority of trade secret loss continues to occur through insiders, mainly employees. When an applicant is able to make the specific, fact-based showing required by the DTSA – that is, that the defendant has in his possession a misappropriated trade secret that is in immediate danger of being completely destroyed or taken from the jurisdiction and that he is likely to ignore a preventive order – the situation is not in any respect "routine," but is fraught with the likelihood of irreparable damage. And although proof of intent to flee the United States represents a heightened degree of this risk, it is by no means the only risk that the seizure provision is designed to mitigate. For example, if a trade secret becomes known beyond the circle of those who are authorized, it could lose its entire value. Electronic transmission out of the jurisdiction is one way such a loss could be realized, and seizure before the transmission happens could prevent the loss.

James Pooley Responses to Senator Klobuchar Questions for the Record
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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: A number of the DTSA seizure provisions combine to make this remedy extremely unlikely to be abused. First, the threshold requirements are very high. Only property "necessary to prevent the propagation or dissemination of the trade secret" may be seized, and the application must particularly identify that property and its location. Seizure may be carried out only against the person who misappropriated and possesses the secret. The sworn application must establish "clearly" from "specific facts" that a preventive order under Rule 65 would be inadequate because the person would likely not comply with it but would hide or destroy the secret; that there is a risk of immediate and irreparable injury that outweighs the harm to the person and substantially outweighs harm to third parties; and that the plaintiff is likely to succeed in proving misappropriation of a valid trade secret. The court must order only the "narrowest seizure" necessary, conducted in a way that minimizes any disruption of legitimate business operations and prevents the applicant from getting access to the secret until both parties have been heard. A full hearing must be held within seven days, when the plaintiff must be ready to demonstrate that the need for seizure still exists, and in the meantime anyone can apply to modify or suspend the order. And as difficult as it is to obtain a seizure order, the DTSA imposes serious consequences if

the applicant gets it wrong. In addition to court-ordered sanctions under Rule 11, the victim of a wrongful seizure is granted a claim for damages that is not limited by the amount of the required bond. Based on my experience dealing with preliminary remedies in state and federal court, and in counseling clients about the risks, I believe that these provisions will provide an effective deterrent against abusive seizure applications.

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: The ideal remedy for trade secret misappropriation is always to prevent it, since a secret once released cannot be recalled, and no one can ever be sure that damages will adequately compensate for a lost business advantage. Experienced lawyers know that the highest priority for business owners is preventive relief. The DTSA responds to this need by providing the same judicial authority as exists under current state law: actual or threatened misappropriation may be enjoined. And it adds a special provision for ex parte seizure to cover those unusual cases in which it can be established that the misappropriator will not obey an injunction but is likely to flee the jurisdiction or destroy the secret. As I have indicated in my previous answer, a seizure order is very difficult to obtain, and properly so. But in those special cases that qualify, the DTSA will provide a very valuable benefit to the trade secret owner.