Lawyers Ready to Reap Work From Federal Trade Secrets Act

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SAN FRANCISCO — After languishing for more than three years, a bill that would allow parties to sue in federal court over trade secrets theft appears on track to be passed by Congress. But while most lawyers in the field agree it will be a boon to their practices, there's a sharp divide over whether the legislation spells relief or a new threat to Silicon Valley's fast-moving economy.

The Defend Trade Secrets Act sailed through the Senate this past week with no opposition. Though the bill had been bogged down in both chambers because of a lack of movement on patent reform, prospects for the measure look good in the House as well.

A primary selling point of the Defend Trade Secrets Act (DTSA) is that it will simplify litigation by replacing a state-by-state patchwork with one comprehensive national law. Robert Milligan, who co-chairs the trade secrets, computer fraud & noncompetes practice group at Seyfarth Shaw in Los Angeles, says this essentially puts legal protection for trade secrets on par with patents, copyrights and trademarks.

Still, some intellectual property lawyers worry about provisions that would allow the owner of a trade secret to request a federal court order to seize the property of an alleged thief.

Critics of the bill—including academics and some attorneys—say this new mechanism is ripe for abuse. They warn of a new generation of "trade secret trolls" who, like their royalty-demanding patent kin, will wield this tool as a weapon to hamstring competitors. Imagine a startup having all of its computers raided, for example, based on allegations that a new hire from another firm brought over proprietary information.

"It can lead to a lot of anti-competitive shenanigans," said Bradford Newman, who leads Paul Hastings' employee mobility and trade secret practice in Silicon Valley.

To the bill's supporters, that's nothing but hyperbole. James Pooley, who was most recently the deputy director general at the World Intellectual Property Organization and testified in favor of the DTSA at a Senate Judiciary Committee hearing last December, dismisses this threat in a forthcoming article in the *George Mason Law Review*.

"[T]here never has been such a thing as a 'trade secret troll,' and there is no reason to believe that

the pending legislation will cause this imagined beast to materialize," Pooley writes. He and other supporters argue that there's a fundamental difference between patents and trade secrets: while a patent can be unwittingly infringed, in a trade secrets case, the plaintiff has to show some act of misappropriation.

There are also disagreements among legal experts and lawyers about whether the proposed law—which is aimed at streamlining the current pastiche of state laws—will actually achieve what it sets out to do, or only make the landscape more confusing for victims of trade secrets theft.

To be sure, the legislation has ramifications beyond Silicon Valley. But lawyers and others following the issue say that it is particularly relevant to the region's tech businesses.

Especially in light of new limitations on patentability expressed in *Alice v. CLS Bank International, t*he 2014 decision by the U.S. Supreme Court, keeping competitive information secret has become all the more valuable to the tech industry, said Karineh Khachatourian, managing partner of Duane Morris' Silicon Valley office. "I think that Silicon Valley companies are probably most affected by this type of issue."

"There's a greater concentration of companies that rely on secrecy than anywhere else in the world," said Pooley, a former Morrison & Foerster partner who has a solo litigation practice specializing in patents and trade secrets. "People don't always do it successfully."

NEW LIFE IN CONGRESS

Various versions of the DTSA have been introduced in successive congresses since 2012. It had been bogged down in both chambers primarily because advocates of patent reform legislation wanted to move that first. To anyone who has watched the fight over patent reform unfold, that wasn't an encouraging sign that the trade secrets bill would advance any time soon.

But that linkage now appears to have dissolved. On April 4, the Senate approved the trade secrets bill, 87-0. And the House looks like it might be following on its heels in short order.

Rep. Bob Goodlatte, a Virginia Republican and chairman of the House Judiciary Committee, cheered the Senate's passage of the bill in a statement Tuesday, adding: "I look forward to moving legislation to protect American trade secrets through the House Judiciary Committee in the coming weeks."

Goodlatte's statement is an important signal, according to Richard Hertling, of counsel at the Washington office of Covington & Burling, which has lobbied in support of the bill on behalf of the Protect Trade Secrets Coalition. The coalition includes companies such as Caterpillar, Corning Inc., Eli Lilly and Co., General Electric, Microsoft, Monsanto, and Nike, according to a Covington advisory.

"Chairman Goodlatte is among the strongest House advocates for his patent litigation reform bill … and I don't think he would have indicated an intention to move forward with this [trade secrets] legislation if patent reform were going to stand in the way," Hertling said.

There were important amendments made to the DTSA in the Senate, and it remains unclear how—or whether—those will be incorporated in the House. But it's possible that Goodlatte will use the Senate bill as the template in his committee, pass it, and that the full House could then simply approve the Senate's version—sending the legislation to the president's desk.

Some of the amendments that were made in the Senate in January were specifically aimed at alleviating fears about abuse of the seizure provisions, which set out a system for plaintiffs to quickly reclaim the trade secrets they allege were stolen. Because the aggrieved party could obtain an ex parte court order, the party accused of misappropriating the trade secret would not have any notice that the feds are coming to grab the goods.

That's different from the way things normally work now in state courts, trade secrets lawyers say. In most cases, a judge will want to hear both sides and allow the litigation to fully play out before issuing an injunction to stop a thief from making use of the trade secret. That process can take years, meaning the trade "secret" may no longer be one by the time all is said and done.

Amendments to the bill clarify that a court may grant an order only in "extraordinary circumstances," and that only federal law enforcement officials may take part in the actual seizure.

The amended bill now also foresees the appointment of a special master, who would "locate and isolate all misappropriated trade secret information and to facilitate the return of unrelated property and data to the person from whom the property was seized."

But for Eric Goldman, a professor at Santa Clara University School of Law, that's cold comfort. He argues that the law's requirement to hold a hearing seven days after the seizure order has issued means that there will be a propensity for firms to try to scoop up as much as they can in the first go.

"[I]t still seems impossible that a 'narrow' seizure can find a 'needle in the haystack' within the short time required by the law other than by grabbing the entire haystack, which is the opposite of a narrow seizure," Goldman said in an email.

He also said that it's unclear how courts will interpret provisions that aim to discourage "bad faith" or overbroad requests for a seizure order. Depending on the standard of what it takes to show ill intent, those safeguards could end up not meaning much, he warned.

Kurt Calia, a partner in Covington's Silicon Valley office and vice chair for the trade secrets committee of the Intellectual Property Owner's Association, concedes there's some risk of abuse, but also has faith in the safeguards. "If you go in with flimsy facts or [request an order that's] excessive in scope … there's exposure there," he said.

50 STATES, ONE LAW

Currently, 48 states have enacted slightly different versions of the Uniform Trade Secrets Law. (The outliers are New York and Massachusetts.) There is no federal civil cause of action on the books yet for trade secrets theft, meaning that plaintiffs have to cope with a complicated patchwork of legal standards, discovery rules and jurisdictional issues.

For example, in California, courts require plaintiffs to state with "reasonable particularity" what trade secret was stolen in order to initiate the discovery process—so as not to allow one party to go rooting around in another's files. Other states don't have that procedural requirement, leaving it up to defendants to use other moves to try to narrow the scope of discovery. Calia said he has dealt with instances of running multiple cases around the same stolen trade secrets. Being able to work through one federal court—and one discovery process—would be much simpler, he contends.

He also notes that trade secrets theft often involves files or materials being stolen and taken abroad, often to China. Federal courts are more familiar with conducting discovery internationally,

which can be done under the Hague Evidence Convention. China is one of 59 signatories to the convention.

But even for supporters, there are open questions. Christopher Cox, a litigation partner in the Silicon Valley office of Weil, Gotshal & Manges, expects the law to simplify things but says it remains to be seen when federal courts will defer to state courts on jurisdiction. If one Silicon Valley firm alleges that another stole its customer list, for instance, a federal court may determine that is not an issue of interstate commerce it should get involved in.

Although federal courts already handle trade secrets cases under their diversity jurisdiction, the new federal bill would greatly expand their role. To Newman of Paul Hastings that's a recipe for confusion, not consistency. "Now we're looking at five to 10 years minimum of uncertainty on a national level," said Newman, who represents both plaintiffs and defendants in trade secrets cases. "And you're going to get aberrant facts and aberrant decisions."

What does seem all but certain is that the creation of a new federal tool designed to combat a rampant problem will lead to an uptick in litigation. That may be good news for lawyers who have seen waning business in their patent practices since the process in the wake of Alice and the new patent challenges ushered in by the America Invents Act.

Federal trade secrets legislation "just gives them a red carpet to transform their patent practices into trade secret practices," Newman said.

Estimates, however, differ on how big a bump lawyers are likely to see. "I wouldn't be surprised if there [was] a little bit of a spike," said Calia, explaining that bringing an action under the DTSA would be more like "one-stop shopping" compared with having to launch a multipronged suit. But he doesn't foresee a major wave. "I don't view this as a lawyer employment act or anything like that."

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