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A Monumental Year for Trade Secrets: Focus in 2015 Will Be on New Legislation

As one practitioner put it, ''2015 could be the year of trade secrets,'' making this often overlooked area of the law one to watch in the coming months.

President Obama will in all likelihood sign into law a bill to create a federal private right of action for trade secret misappropriation in 2015.

The specific components of that bill will probably track the provisions of a House bill that was introduced in 2014.

There will, however, be a few tweaks to that House bill, and stakeholders are not being shy in their suggestions of what, specifically, those tweaks should be.

But while domestic trade secret legislation will be the biggest development in this area in the coming year, it will not be the only development. One attorney noted that the European Union is also considering trade secret protection and could move before the end of the year.

Additionally, even without the benefit of uniform federal protection, businesses have still succeeded in securing some fairly large damages awards for trade secret misappropriation, and many expect that trend to increase.

Some are also turning to the International Trade Commission to vindicate their trade secret interests. Although damages are not available in ITC litigation, cases generally move faster there than in district court or state court, and some practitioners say that an injunction barring the importation of goods that were manufactured with misappropriated technology can be just as beneficial as a huge damages award.

COURTS

The *2014 Trade Secrets Litigation Round-Up*, authored by lawyers at Gibson, Dunn & Crutcher, painstakingly recounted the trade secrets case-law developments of 2014 (89 PTCJ 627, 1/9/15). Among other findings, the Insight discussed developments in a number of ''high-stakes trade secret cases.'' Those developments include massive damages awards in a handful of cases, including the Minnesota Supreme Court's refusal to vacate an arbiter's award of $525 million in compensatory damages to Seagate for misappropriation of certain of trade secrets (*Seagate Tech. LLC v. W. Digital Corp.*, 854 N.W.2d 750, 2014 BL 282893 (Minn. 2014)).

Although the Seagate award was the largest damages award, there were a handful of other awards in 2014 for more than $10 million. And it's not just attorneys who are taking notice.

''I think organizations are realizing that litigating trade secret misappropriation cases can be very important and can have enormous economic implications—whether they are protecting their own assets or facing claims that they have misappropriated secrets of others,'' Victoria Cundiff of Paul Hastings LLP, New York, told Bloomberg BNA.

Patent Door Closes, Trade Secrets Window Opens. The growing interest in trade secret protection is being driven by more than just an interest in high damages awards, however.

Indeed, the Supreme Court's recent hostility to patents and America Invents Act-created procedures that have laid waste to scores of patents are among the factors pushing some American companies to seriously consider protecting their inventions as trade secrets, panelists at a symposium hosted by the Patent and

Trade Secrets Rising

Trade Secrets are poised to have a breakout year in 2015.

New legislation at home and abroad could dramatically alter the legal landscape, while trade secret protection picks up patent slack.

Must Reads:

- *2014 Trade Secrets Litigation Round-Up* (89 PTCJ 627, 1/9/15)
- *Many Hope Trade Secrets Legislation Moves in Lame-Duck Session; Critics, Skeptical of Bills' Effectiveness, Ask: ''Why Here, Why Now?''* (89 PTCJ 115, 11/14/14)

Turn to Trade Secrets

Look Ahead: More and more companies will turn to trade secrets protections as patent eligibility standards continue to evolve. However, while trade secret protections may be an adequate alternative in some instances, such as with respect to computer technologies, they will prove less useful in others.

Trademark Office in early January said (89 PTCJ 686, 1/16/15).

Practitioners that spoke with Bloomberg BNA generally agreed with the symposium panelists.

''With some of the difficulties that the Supreme Court has thrown in the way of patent protection, some organizations are doing the calculus of asking whether particular information is better protected as a trade secret,'' Cundiff said.

''There is growing appreciation for the fact that, with patent eligibility being what it is, it is time for some people to start thinking about protecting their inventions through other forms of intellectual property,'' Kurt G. Calia of Covington & Burling LLP, Redwood Shores, Calif., told Bloomberg BNA.

The most recent adverse Supreme Court ruling was when the court found certain computer-related claims patent ineligible in *Alice Corp. Pty. Ltd. v. CLS Bank Int'l*, 134 S. Ct. 2347, 2014 BL 170103 (June 19, 2014) (88 PTCJ 513, 6/20/14).

''The *Alice* case has certainly forced software developers to think more carefully about trade secret protection when the code is not viewable by the user,'' Cundiff said.

''There is growing appreciation for the fact that, with patent eligibility being what it is, it is time for some people to start thinking about protecting their inventions through other forms of intellectual property.''

—KURT G. CALIA, COVINGTON & BURLING LLP

''What we have seen, particularly with some of the erosion of the ability to either procure or otherwise successfully enforce certain patents, is that we as a company have taken an increased look at trade secret law,'' Mark A. Charles of Proctor & Gamble said during the PTO symposium.

''There are technologies—for instance, processing computer algorithms—that at one juncture we may have been more bullish about seeking some type of patent protection on, but now trade secret may be a better method of protection,'' Charles said.

But another panelist said her company had not changed its practices.

Tina M. Chappell of Intel Corp. said, ''The decision of whether to patent something or whether to keep something as a trade secret, in my experience for us, has not changed based on the dynamic of the AIA or based on what the Federal Circuit is doing.'' She listed a number of factors that go into Intel's calculation of whether an invention is best protected as a patent or a trade secret, and said that those factors have generally remained unchanged by external forces.

Those factors are:

- Whether any marketed product can be reverse engineered: if so, trade secret protections would be insufficient;
- Whether other actors working in the same area are likely to discover a similar invention: if so, it may be wise to defend the invention by filing a patent application;
- Whether the company has the budget to pursue patent protection; and
- Whether infringement would be easy to detect in somebody else's products: if not, that may weigh against patent protection.

Patent Spillover on Laches? ''One of the things I am going to be very intrigued by this year is the issue of laches,'' Calia said.

In May, the Supreme Court ruled that the common law doctrine of laches cannot bar a copyright claim that was brought within the prescribed statute of limitations, regardless of how much earlier the initial infringement had occurred (*Petrella v. Metro-Goldwyn-Mayer*, 134 S. Ct. 1962, 110 U.S.P.Q.2d 1605 (2014) (88 PTCJ 233, 5/23/14). In December, the Federal Circuit agreed to review en banc the question of whether *Petrella* should be applied to instances of patent infringement (89 PTCJ 606, 1/9/15).

''Even though the Federal Circuit is looking at this in the context of a patent infringement case, I don't see why it would necessarily be limited to patent cases,'' Calia said. ''It is possible that the Federal Circuit will make broader pronouncements on laches that effect trade secret owners,'' he said.

***Tianrui* Made ITC More Attractive.** Although more than three years old, ripples from the Federal Circuit's decision in *Tianrui Group Co. v. Int'l Trade Comm'n*, 661 F.3d 1322, 100 U.S.P.Q.2d 1401 (Fed. Cir. 2011) (82 PTCJ 810, 10/14/11), are still being felt.

Action at ITC

Look Ahead: Companies that want relatively fast results, and above all hope to prevent the importation of goods manufactured with pilfered trade secrets, will increasingly turn to the ITC for exclusion orders under Section 337 of the Tariff Act

In a 2-1 decision, the court affirmed an order by the International Trade Commission excluding the importation of goods because it determined that those goods—manufactured in China using a domestic company's trade secrets—would harm the domestic industry.

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Notably, the appellate court said that it was immaterial that the alleged misappropriation took place in China. What mattered, according to the majority, was

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that the subsequent importation of the goods would harm the holder of the trade secret, and thus constituted ''unfair methods of competition.'' Accordingly, the court said that the ITC appropriately used its authority under 19 U.S.C. § 1337(a)(1)(A) to exclude the importation of the goods.

Practitioners say that *Tianrui* has resulted in a small uptick of trade secret cases being filed in the ITC, but may be too early to know the full impact.

''That case certainly suggests that the ITC is open for business when it comes to trade secret misappropriation cases,'' David S. Bloch of Winston & Strawn LLP, San Francisco, told Bloomberg BNA. ''I think we will see even more trade secret-based ITC claims filed in 2015, and I am anxious to see how those cases develop.''

The problem, of course, is that the ITC can only issue an injunction. It cannot award damages.

But, ''If you can prevent the importation into the United States, that is a money remedy,'' Cundiff said. ''It is not putting money into your pocket, but it is making sure that money is not being taken out of your pocket.''

Moreover, Cundiff said there are other aspects of ITC litigation that may be enticing to American businesses.

''For those fearful of the process either of litigating outside of the United States, or of getting discovery outside of the United States for use here, the ITC can be a very attractive alternative,'' she said.

DOJ Can't Do It All. The Electronic Espionage Act of 1996, 18 U.S.C § § 1831-1839, currently allows for criminal prosecution of theft of trade secrets. Under the EEA, the Department of Justice can bring criminal charges against individuals that misappropriate trade secrets on behalf of foreign governments and companies.

DOJ Stretched

Look Ahead: In 2014, the DOJ moderately increased the number of prosecutions it brought under the EEA. But trade secret misappropriation continues to grow and all stakeholders agree that more must be done. For many, the creation of a federal civil trade secret statute will do more than any other single thing to help protect American trade secrets.

The *2014 Trade Secrets Litigation Round-Up* noted that the government brought 20 cases under the EEA in the first nine months of 2014. Perhaps the most interesting of those cases was *United States v. Dong*, No. 14 Cr. 00118 (W.D. Pa. May 1, 2014), where the government charged five Chinese military hackers of cyber espionage against U.S. corporations.

Chinese nationals are frequently defendants in EEA cases, but ''this is a new stage in trade secret enforcement,'' Bloch said. ''We are not accusing a Chinese-based private company. We are accusing an arm of the Chinese government.''

Bloch noted that generally you would expect this sort of dispute to be settled through diplomatic negotiations. But the fact that the charges were brought perhaps shows just how seriously the administration is taking cyber espionage and trade secret misappropriation.

The administration is not alone. There is strong bipartisan support for trade secret protection in both chambers of Congress.

''One of the rewarding things about working on trade secrets is that everybody thinks that they are a good thing and need to be protected,'' Ted Schroeder, who works for Sen. Christopher A. Coons (D-Del.), said during the PTO trade secrets symposium.

But DOJ actions under the EEA are not enough protection on their own, particularly when it comes to threats from foreign entities.

''One of the reasons why there is so much interest in creating a private right of action is that there is an appreciation for the fact that the only federal trade secret law that exists now is a criminal statute,'' Calia said. ''There are only so many cases that the DOJ can bring, and a civil remedy will allow for stakeholders to do things on their own, which will lead to more protection across the board.''

CONGRESS

In November, it appeared as if either the Trade Secrets Protection Act of 2014 or the Defend Trade Secrets Act of 2014 had a chance to move during the lame-duck session of Congress. Specifically, it looked as if the House's Trade Secret Protection Act was primed to move following a Sept. 17 markup of the bill at which point it was unanimously reported out of the House Judiciary Committee (88 PTCJ 1259, 9/19/14).

However, neither of the bills received any attention during the lame-duck session, and so both must be introduced anew in the 115th Congress. Such introductions are likely to happen sooner rather than later.

Priority in House, Senate. ''This is a priority for members,'' Jason G. Everett, who serves as chief minority counsel for the House Subcommittee on Courts, Intellectual Property and the Internet, said during the PTO symposium.

Legislation Close

Look Ahead: Trade secret legislation will get enacted in 2015. Congress is close to finalizing the provisions of that legislation, but there is still time for stakeholders to weigh in with constructive feedback.

''The legislation is very, very close,'' Schroeder said.

Stakeholders who worked to get the litigation to where it was at the end of 2014—with just a few issues remaining to be ironed out—are confident that the legislation will pass both chambers.

''There is no doubt in my mind that legislation is really the big ticket item,'' Calia said. ''And I think that is going to happen this year. The only question is if it will be held up until after patent litigation reform.''

Schroeder, in fact, addressed that issue at the PTO symposium, saying, ''I think this will proceed on its own time frame.''

Discovery Protections Needed. Like the Senate bill, which was introduced in April by Sens. Coons and Orrin G. Hatch (R-Utah) (88 PTCJ 41, 5/2/14), the House bill would have amended 18 U.S.C. § 1836 to create a

private civil action for misappropriation of a trade secret.

Both bills would have allowed a trade secret owner to seek injunctive relief and monetary damages and both would also have allowed a plaintiff to seek an ex parte order authorizing the seizure of any property that was used to help facilitate the commission of the misappropriation.

The primary difference between the bills was that the House's legislation, which was introduced by Rep. George Holding (R-N.C.) in July (88 PTCJ 859, 8/1/14), detailed with more specificity the requirements for the issuance of such an order.

Concern had been raised—during a June trade secret-focused hearing before the House IP Subcommittee (88 PTCJ 599, 6/27/14)—that the seizure remedy in the Senate bill was so broad that it could potentially sweep in the data of innocent third parties.

When the House bill was introduced, a spokeswoman for democratic lawmakers on the House Judiciary Committee told Bloomberg BNA that the bill's seizure provision was drafted to respond to those concerns.

During the September markup of the House bill, Holding introduced a manager's amendment that provided for an even narrower seizure provision than the one contained in his initial bill.

Specifically, the original language stated than a plaintiff may be entitled to an ex parte seizure order only upon a showing that ''the applicant is likely to succeed in showing that the person against whom seizure would be ordered misappropriated the trade secret and is in possession of the trade secret.''

The new language provided that an ex parte order may issue only on a showing that: the applicant is likely to succeed in showing that the person against whom the seizure would be ordered misappropriated the trade secret by improper means, or conspired to use improper means to misappropriate the trade secret, and is in possession of the trade secret.

However, even following the markup some concerns lingered, with some stakeholders suggesting that the entire process was rushed (89 PTCJ 115, 11/14/14).

Bloch was one of the voices against moving too quickly and, now that Congress has more time to examine the problem, he has a list of things he would like to see included in any new legislative proposal. Congress should:

- harmonize the way damages are measured with state law practices under the Uniform Trade Secrets Act, and also harmonize a statute of limitations period at three years, as opposed to the five year limitations period that was set forth in the 2014 bills;

- specifically state in the legislation that federal courts should draw on existing state court trade precedent; and

- set forth certain discovery protections.

''I think that [the legislation] is going to happen this year.''

— KURT G. CALIA, COVINGTON & BURLING LLP

Cundiff agreed with Bloch's last point. ''I've been following the various legislative proposals over the last few years,'' she said.

''I liked some of the provisions in an earlier proposal, PATSIA [Protecting Trade Secrets and Innovation Act of 2012 [84 PTCJ 459, 7/20/12], which required the trade secret owner to, in short order after filing the suit, identify the specific measures used to protect the trade secret and to identify the trade secret with a fair degree of particularity. These showings would be made under seal in most cases,'' she said.

''That provision was not in the last two proposals. But it would be a constructive addition.''

Seizure Provisions Still Need Work. ''I still have concerns over the seizure provisions,'' Bloch said. ''My sense is that those are what is driving the bus, and I think, if that is the case, we need to make sure we get them right.''

Cundiff believes that those provisions ''will clearly get continued attention.'' She noted, however, that both the House and the Senate bills made it clear that the ex parte seizure remedy would only be available as an extraordinary measure.

During the PTO symposium the congressional staffers made it clear that lawmakers were still seeking input from stakeholders. Moreover, the Senate, which is now under Republican leadership, will likely hold hearings on any proposed legislation given that it held no hearings specifically focused on the legislative proposals in 2014.

'Entire Re-Ordering of Trade Secret Law.' Bloch noted that the EU is also moving forward with an initiative that would require member states to enact trade secret laws that provide a minimum level of protection to trade secret owners. Currently, Bloch noted, most EU countries have no trade secret laws at all.

''[W]e could be witnessing an entire re-ordering of trade secret law.''

— DAVID S. BLOCH, WINSTON & STRAWN LLP

''2015 could be the year of trade secrets because we could be witnessing an entire re-ordering of trade secret law,'' Bloch said. ''If both the U.S. and the EU enacted trade secret laws in one year then it would truly be an astonishing change,'' he said.

''It is hard to know how it would effect things, but there is no question that it would effect things,'' Bloch said. ''This is especially true if you look at the balance between patents and trade secrets, and at how that balance has shifted in recent years.''

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