ASSOCIATION OF BUSINESS TRIAL LAWYERS
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The In-House Interview: Peter Lawrence of Lexmark Enterprise Software
By Justin N. Owens

[**Editor's Note:** This is the first installment of a new Q&A column in which ABTL members will interview local in-house counsel. Peter Lawrence is Associate General Counsel at Lexmark Enterprise Software with primary responsibility for the Kofax business division. Mr. Lawrence received his undergraduate degree from UC Irvine, and joined Kofax/Lexmark after graduating from Chapman Law School in 2006.]

Q: Describe a typical day as Associate General Counsel for Lexmark.

A: My position at Lexmark requires a broad skill set, and my typical day involves a little bit of everything: HR issues, managing litigation matters, and overseeing strategic deals and closings. Lexmark's Kofax business division has been very dynamic during my tenure, and we have experienced consistent growth with one to two strategic acquisitions each year.

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The Federal Defend Trade Secrets Act: What Use Is It In California?
By Benjamin A. Nix and David A. Grant

I. Introduction

Almost all companies have information that they consider trade secrets. And all states have laws protecting their interest in such information from misappropriation. But for a long time there was no federal equivalent. Until now, unless diversity jurisdiction existed, a party in California seeking court intervention to protect its trade secrets was limited to proceeding in state court under the California Uniform Trade Secrets Act (the "CUTSA"). Under the CUTSA, almost any information may potentially be protected as a trade secret provided it has economic value because it is not generally known and is subject to reasonable efforts to maintain its secrecy.

On May 11, 2016, President Obama signed into law the Defend Trade Secrets Act of 2016 (the "DTSA"). The DTSA adds a civil component to federal law already in existence that made it a crime to steal intellectual property. The definition of "trade secrets" under the DTSA is substantively no different from under the CUTSA. So, while substantive trade secret law is essentially unchanged, a California plaintiff in an intrastate trade secret dispute now has the option of original jurisdiction in federal court with potential procedural advantages of litigating there. What might those potential advantages be?

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The President's Message
By Scott B. Garner

I write this, my last President's Message, from 30,000 feet over the Pacific Ocean. My seat neighbor just asked me if I was in Maui for business or pleasure, and my answer was yes. I suppose not everyone would consider spending four nights in a hotel full of lawyers to be pleasure, but then not everyone is a member of ABTL.

Our 2016 Annual Seminar in Maui was a big success. The programs went off without a hitch – this year's theme being a mock trial about Sheldon Cooper and Amy Fara Fowler's alleged heist of Big Bank's trade secret client list. We, along with a mock jury of island locals, were treated to everything from a pre-trial discovery conference to closing arguments from some of the most talented lawyers in the state. Included among the lawyer-participants were Orange County's Darren Aitken, Sherry Bragg, Michele Maryott, Ken Parker, and Dan Robinson. And, as with any ABTL Annual Seminar, the judiciary contributed mightily to the program. Orange County judges William Claster, Kirk Nakamura, and Josephine Staton each presided over one of the mock proceedings.

But as good as the programs were – and always are – what is most appealing about these conferences is the comradery among the lawyers. Whether it is sipping a Mai Tai poolside with a work colleague or viewing giant turtles under water with an opposing counsel, each of us was able to relax and enjoy each other's company.

Much has been said and written about the incivility of lawyers, and Orange County has not been immune to such complaints. In the extreme, we read about lawyers tasing lawyers at depositions or a male lawyer making inappropriate and derogatory comments to a female adversary. I am confident, however, that behavior like this would not occur where two ABTL lawyers are on opposite sides of a case. And that perhaps is one of the most significant benefits of attending seminars like the one in Maui.

Too often an adversary is just an email address, a

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Arbitration and the Return of the Class Action
By Lisa Sandoval

In *AT&T Mobility v. Concepcion*, 563 U.S. 333 (2011), the U.S. Supreme Court held that arbitration clauses containing class action waivers are generally enforceable in light of the Federal Arbitration Act's ("FAA's") "liberal federal policy favoring arbitration." Now, five years later, in response to the rapid rise of employees and consumers forced to arbitrate their claims, federal agencies and lower courts have begun to chip away at that holding in favor of class action litigation.

The Supreme Court's Precedent Limiting Class Actions and Favoring Arbitration

Prior to *Concepcion*, there was a split among the circuit courts on whether arbitration clauses waiving class actions rights were unconscionable, and therefore, unenforceable. Under Section 2 of the FAA, arbitration agreements are generally "valid, irrevocable, and enforceable." (9 U.S.C. § 2.) The "savings clause" of Section 2, however, permits courts to invalidate an arbitration clause "upon such grounds as exist at law or in equity for the revocation of any contract," such as unconscionability, duress, or fraud. (*Id.*) *Concepcion* held that the FAA preempted California's common law rule that class-action waivers in arbitration agreements are unconscionable. (564 U.S. at 347.) In an opinion by Justice Antonin Scalia, the Supreme Court explained that "States cannot require a procedure that is inconsistent with the FAA" and credited the district court's conclusion that the "Concepcions were better off under their arbitration agreement with AT&T than they would have been as participants in a class action." (*Id.* at 352 (emphasis omitted).)

During the same term, the Supreme Court also limited the availability of class action relief in employment disputes, holding in *Wal-Mart Stores v. Dukes* that "the mere claim by employees of the same company that they suffered a Title VII injury . . . gives no cause to believe that all their claims can productively be litigated at once." (564 U.S. 338, 350 (2011).) While *Dukes* addressed the "commonality"

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Arbitration Provisions in M&A Contracts: A Double-Edged Sword
By Ryan Smith

Many business executives and attorneys view arbitration provisions as a way to reduce post-closing litigation expenses relating to M&A contracts. Many M&A contracts, however, contain arbitration provisions that actually increase the costs associated with post-closing litigation instead of providing a quick and cost-saving resolution. That being said, a properly drafted arbitration provision can prevent headaches down the road and save the client significant litigation-related expenses.

It is important for litigators to understand the purpose of arbitration provisions in M&A contracts. Indeed, litigators will eventually have to litigate these provisions, and it is helpful to have a general understanding of how and why parties included a particular provision. Additionally, litigators are often asked for their input on arbitration provisions, and it is important to consider the pros and cons of arbitration provisions and the particular needs of the client before reflexively encouraging sweeping arbitration provisions in all agreements.

Nearly 56% of M&A transactions result in post-closing disputes. *See* Gary L. Benton, *Efficiently Resolving M&A Disputes*, Silicon Valley Arbitration & Mediation Center (2015). Despite the frequency of litigation resulting from M&A transactions, many transactional attorneys routinely cut and paste arbitration provisions from prior deals when drafting M&A contracts. This is a significant mistake because inartfully drafted arbitration provisions can actually lead to *more* litigation than M&A contracts that do not contain such provisions. *See, e.g., Medtronic Vascular, Inc. v. Nanomedsystems, Inc.*, Civil Action No. 8888, 2014 Del. Ch. LEXIS 54 (Jan. 27, 2014) (provisions in exhibit to Merger Agreement did not affect applicability of arbitration provision). Many attorneys have become adept at litigating over the scope of arbitration provisions as a means to draw out the litigation and drastically increase costs. As a re-

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ABTL Community Outreach Update
By James Carter

Once again, the ABTL supported the on-going efforts of Habitat for Humanity in Orange County. While the opportunity was limited this year, six individuals from Crowell & Moring's Orange County office assisted in a home build in Santa Ana. They were involved in critical pre-inspection framing work. One of the participants, anti-trust associate Tiffany Chang, reported that the experience provides unique learning and service opportunities, and rewarded her and the others with an immediate appreciation for how much good a little giving can do. A heart-felt thanks to Tiffany and the other members of the Crowell & Moring team for their contributions.

As the year closes, the ABTL will be directing its traditional holiday support towards the children served by the Illumination Foundation, a growing charitable organization battling homelessness in Orange County. Prior to our final dinner program of the year on November 15th, you will receive further information with details on how we've arranged for our contributions to reach the children directly, and how you can participate this year by sharing a little of your good fortune with others.

♦ *James Carter is a partner in the employment law department of Jackson Lewis P.C., and is currently serving as ABTL's Community Outreach Chair.*

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These acquisitions typically involve a flurry of activity leading up to the deal closing, followed by a longer process of absorbing and understanding the new business and its employees, products and customers.

Q: What do you like best about your role as in-house counsel?

A: I really enjoy the opportunity to be part of, and contribute to, a larger team. As in-house counsel it's essential that I understand the company's entire business, and how the various business divisions interact with one another. One of my mentors encouraged me to spend time outside the legal department, developing relationships with employees at all seniority levels and in all departments of the company. Developing these relationships gives me a better understanding of the challenges and issues facing our employees on a day-to-day basis, and also establishes a level of trust so that the business people see me as a partner and problem solver, instead of a rule enforcer. Lawyers are great, but I really enjoy working with a wide range of non-legal employees that have a wide range of backgrounds and skill sets.

I also appreciate that as in-house counsel I can focus solely on my client's needs, without the additional pressure of billable hours.

Q: What qualities do you look for in outside litigation counsel?

A: The best outside counsel make the effort to understand our business at more than a superficial level. They understand our challenges and our goals, and tailor their legal services accordingly. This might mean knowing when a focused email will be sufficient to answer a question, and recognizing that a 50-page memo is rarely necessary. When outside counsel has a strong understanding of the business, they can add value beyond pure legal analysis to help the company achieve its larger goals.

Relatedly, it's important for outside counsel to recognize that their recommendations for action—for example, to settle or not to settle—will often be conveyed to a business executive with no formal legal training. These decision makers won't care about the case law or law review articles, and are instead looking for an analysis that clearly states the risks and rewards of a

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recommended course of action. Accordingly, outside counsel's work product should provide a clear cost-benefit analysis that incorporates the attorney's legal expertise but is easily digested by a non-lawyer.

The best outside counsel are also adaptable. Sometimes outside counsel can best serve the client by litigating a dispute like a pit bull, but other times outside counsel can diffuse a contentious situation by bringing a neutral and detached perspective to the table.

Q: What advice would you give to junior or mid-level associates interested in moving from a law firm to an in-house position?

A: In most in-house environments, you will need to demonstrate a broad spectrum of practical legal skills. Additionally, a strong understanding and knowledge of a particular business or industry—and the legal challenges facing firms in that industry—can be a good way to distinguish yourself from other candidates when applying for a specific in-house position.

Q: You have spent the past 10 years as in-house counsel for a major Orange County corporation. What changes have you seen in the market for in-house attorneys over the past decade?

A: I think Orange County has always been a highly competitive environment for attorneys seeking in-house positions, primarily because there are a finite number of major companies based in Orange County. This was exacerbated by the Great Recession, as companies either eliminated permanent employee positions or were hesitant to expand their permanent employee headcount.

As the economy has recovered, many local companies have focused on outsourcing their legal work while keeping the permanent employee headcount stable. Companies have also placed increased pressure and workload on their existing in-house attorneys; to the extent the idyllic 9-to-5 schedule ever existed for in-house counsel, it has been replaced by something closer to big-law hours.

Q: There's a perception that in-house counsel are less involved in the legal community compared to law firm attorneys. Has that been your experience?

A: It can definitely be more difficult to get involved in the legal community as an in-house lawyer, and it requires a more proactive approach. Association of Corporate Counsel ("ACC") provides opportunities to get involved, and I try to find MCLE opportunities that involve a networking element. The local law schools can also be a good way to give back to the legal community, and I have participated in mentoring programs that pair law students or recent graduates with practicing attorneys.

The ABTL thanks Mr. Lawrence for his time.

♦ *Justin N. Owens is a senior litigation associate at Stradling Yocca Carlson & Rauth, and currently serves as Editor of the ABTL Report.*

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There are several procedural considerations that may, in particular cases, make initiating trade secret litigation in federal court more attractive. There is, of course, the new and extraordinary provisional remedy of the civil seizure of the defendant's property where necessary to prevent the propagation or dissemination of the trade secrets that are the subject of the action. But other, subtler advantages to a federal trade secret case may obtain. For instance, a trade secret plaintiff proceeding in federal court may avoid a protracted, pre-discovery dispute regarding its designation of trade secrets in accordance with California Code of Civil Procedure section 2019. Additionally, other common law claims may be less susceptible to a preemption argument where a trade secret claim is pleaded under the DTSA. Finally, there may be other considerations not unique to the DTSA that augur in favor of proceeding in a federal forum. Each of these is considered more fully below.

II. <u>Background</u>

California enacted the CUTSA in 1984, codifying the existing, common law property right while defining what a trade secret is and the consequences for misappropriation. The range of information that can qualify as a trade secret is sprawling. It may include customer lists; product designs; research, development, test, reports, or studies regarding product quality; manufacturing and production techniques; information regarding employees' training, salaries, strengths, weaknesses, or expertise; the identity of

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approved vendors; know-how; business plans; computer software and source code; "negative" know-how or research; and product cost, pricing, and sourcing. This list is not a complete description of the universe of information that may qualify as a trade secret. To qualify as a trade secret, the information need only (1) derive independent economic value from not being generally known, and (2) be the subject of reasonable efforts to maintain its secrecy. CAL. CIV. CODE § 3426.1(d). Provided these two criteria are met, the holder of the trade secret has a protectable property right in that information, entitling the holder to monetary and injunctive relief if the information is misappropriated. CAL. CIV. CODE §§ 3426.2, 3426.3.

Now the DTSA also provides a federal cause of action to the owner of a trade secret that is misappropriated. 18 U.S.C. § 1836(b). Similar to the CUTSA, "trade secret" is defined in the DTSA as "all forms and types of financial, business, scientific, technical, economic, or engineering information," provided that the information (1) was subject to reasonable efforts to maintain its secrecy and (2) derives independent economic value from not being generally known. 18 U.S.C. 1839(3)(A)-(B). And both the CUTSA and DTSA define misappropriation in the same way – essentially the unconsented disclosure or use of a trade secret acquired by improper means or subject to a duty not to disclose, or the acquisition of a trade secret with knowledge that it was acquired by improper means. CAL. CIV. CODE § 3426.1(b); 18 U.S.C. § 1839(5).

Thus, there do not appear to be any substantive differences between proceeding under the CUTSA or the DTSA, leaving only procedural considerations in choosing a state or federal forum.

III. Civil Seizure

The most pronounced procedural difference between proceeding in federal court under the DTSA or proceeding in state court under the CUTSA is the new federal civil seizure provisional remedy. 18 U.S.C. § 1836(b)(2). It provides for the *ex parte* seizure of the defendant's property where the plaintiff's trade secrets are stored – which may include things like computers, email accounts, and cell phones – where the plaintiff demonstrates that such seizure is "necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." 18 U.S.C. § 1836(b)(2)(A)(i).

While this may sound like a panacea to an aggressive trade secret plaintiff, it is an extremely extraordinary measure with many procedural safeguards in place to prevent abuse. For instance, a court cannot issue a civil seizure order absent a host of particular findings that:

- a temporary restraining order or preliminary injunction would be inadequate as the defendant would evade, avoid, or otherwise not comply with such an order;
- immediate and irreparable injury will occur absent seizure;
- the balance of harms tips in the plaintiff's favor;
- the plaintiff is likely to succeed;
- the defendant has actual possession of the trade secret and property;
- the application describes the matter to be seized with reasonable particularity;
- the defendant would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person; and
- the plaintiff has not publicized the requested seizure.

18 U.S.C. § 1836(b)(2)(A)(ii). Even if a plaintiff succeeds in making these showings, the resulting order must still provide for only "the narrowest seizure of property," and a hearing not more than seven days later. 18 U.S.C. § 1836(b)(2)(B)(ii). In essence, the civil seizure provision combines two already extraordinary, and sometimes disfavored, requests – *ex parte* applications and requests for mandatory preliminary injunctive relief. *See, e.g.*, *Mission Power Engineering Co. v. Continental Casualty Co.*, 883 F. Supp. 488, 490 (C.D. Cal. 1995) ("[E]x parte motions are inherently unfair, and they pose a threat to the administration of justice [by] debilitat[ing] the adversary system."); *Henry Schein, Inc. v. Cook*, 2016 WL 3418537, at *3 (N.D. Cal. June 22, 2016) (preliminary injunctions that do more than preserve the status quo are "particularly disfavored").

Given the above, it is no surprise that an application for a civil seizure has yet to be addressed in a sin-

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gle opinion or order (reported or unreported) throughout the country. In fact, the only California case that substantively addresses a claim under the DTSA appears to be *Henry Schein, Inc. v. Cook*, 2016 WL 3212457 (N.D. June 10, Cal. 2016). Defendant was a former employee of plaintiff accused of taking a large amount of plaintiff's trade secret information for the purpose of using it in her work for one of plaintiff's competitors. The plaintiff was aggressive right out of the gate, filing a request for a temporary restraining order concurrent with the filing of the complaint and even requesting as part of that application the forensic imaging of the defendant's electronic devices. *Id.* Plaintiff alleged that the defendant had already disregarded her obligations under the law and sought to destroy evidence, but still did not go so far as to request civil seizure. *Id.* Plaintiff succeeded in obtaining a temporary restraining order and preliminary injunction, but not the forensic imaging of defendant's electronic devices. *Id.* Despite the facts alleged in *Henry Schein, Inc.*, the plaintiff still did not seek civil seizure. This provisional remedy may go largely unused. It will be interesting to watch the case law develop around it in the coming years.

IV. <u>Avoidance of CCP 2019.210 as a Hurdle to Discovery</u>

A trade secret plaintiff may also want to proceed in federal court so as to avoid the often contentious issue of compliance with California Code of Civil Procedure section 2019.210 before any discovery may be had. Section 2019.210 provides, "before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity . . . ." It requires a party pursuing a trade secrets claim to provide a "concrete identification of exactly" what alleged trade secrets are at issue. *See Imax Corp. v. Cinema Technologies, Inc.,* 152 F. 3d 1161, 1167 (9th Cir. 1988). Making a Section 2019.210 designation can even require elements of proof by the plaintiff that the subject matter is, in fact, a trade secret as a precursor to taking discovery. *Advanced Modular Sputtering, Inc. v. Superior Court*, 132 Cal. App. 4th 826, 834 (2005) (plaintiff must "identify or designate the trade secrets at issue with 'sufficient particularity' . . . by distinguishing the trade secrets 'from matters of general knowledge in the trade or of special knowledge of those persons . . . skilled in the trade'"); *see also Perlan Therapeutics v. Superior Court,* 178 Cal. App. 4th 1333, 1340-41, 1351 (2009). Thus, even where a Section 2019.210 designation is timely made, it can still lead to protracted disputes regarding the adequacy of the designation, delaying the plaintiff's ability to commence its discovery. *See, e.g.*, *Gabriel Techs. Corp. v. Qualcomm Inc.*, 2012 WL 849167, at *1 n.1 (S.D. Cal. Mar. 13, 2012) ("This discovery dispute . . . has involved seven trade secret designations, three discovery motions and numerous hearing before two separate magistrate judges over the course of roughly 19 months."); *Phoenix Techs., Ltd. v. DeviceVM, Inc.*, 2010 WL 8590525, at *4 (N.D. Cal. Mar. 17, 2010) (requiring expert testimony to determine if plaintiff complied with 2019.210).

In some instances Section 2019.210 has even been an obstacle in federal diversity cases. Federal courts in California have split on the applicability of Section 2019.210 to a claim brought under the CUTSA, some finding that it conflicts with Federal Rule of Civil Procedure 26 and others reconciling the apparent conflict in favor of applying Section 2019.210. *See, e.g ., Gabriel Technologies Corp. v. Qualcomm Inc.,* 2012 WL 849167 (S.D. Cal. March 13, 2012) (Section 2019.210 should be applied because it does not conflict with any federal rule and avoids undesirable forum shopping); *Hilderman v. Enea TekSci, Inc.,* 2010 WL 143440 (S.D. Cal. Jan. 8, 2010) (Section 2019.210 conflicts with Rule 26); *Funcat Leisure Craft, Inc. v. Johnson Outdoors, Inc.,* 2007 WL 273949 (E.D. Cal. Jan. 29, 2007) (even if federal rules do not directly address matter of discovery procedure, court is not free to adopt "bits and pieces of the discovery civil procedure codes of the various states").

By only bringing a claim based on the DTSA, a trade secret plaintiff would avoid Section 2019.210 and enjoy the full range of discovery provided in the Federal Rules of Civil Procedure without first having to designate its trade secrets with reasonably particularity. That said, a defendant to a purely federal trade secret claim might still persuade a judge to impose a 2019.210-like requirement on certain discovery by plaintiff. *See, e.g.*, *Advanced Materials, Inc. v. Advanced Micro-Fabrication Equip. (Shanghai) Co.*, 2008 WL 183520 (N.D. Cal. Jan. 18, 2008) (Section 2019.210 does not apply, but issuing a protective order requiring that the plaintiff disclose to the defendant all trade secrets that it alleged to have been misappropriated before certain discovery could proceed); *see also Proven Methods Seminars, LLC v.*

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American Grants & Affordable Hous. Inst., 2008 WL 282374 (E.D. Cal. Jan. 31, 2008); *Jardin v. DATAllegro, Inc.*, 2011 WL 3299395 (S.D. Cal. July 29, 2011); *Proven Methods Seminars, LLC v. Am. Grants & Affordable Hous. Inst.*, 2008 WL 282374 (E.D. Cal. Jan. 31, 2008). While a defendant may still be able to force some 2019.210-like requirement upon plaintiff, there would be no automatic stay of discovery and the burden would be on the defendant to seek a protective order imposing some 2019.210-like requirement. *See Computer Economics, Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980, 988 (S.D. Cal. 1999) (Under Section 2019.210, "a stay of discovery pending plaintiff's identification of its alleged trade secret is automatically imposed, covering all discovery related to [defendant's] trade secret claims."). The avoidance of a protracted, pre-discovery dispute based on Section 2019.210 is a potential advantage to proceeding in federal court under the DTSA.

V. Preemption

Another procedural difference between the CUTSA and the DTSA may appear in the context of a preemption argument. The CUTSA states that it saves from preemption claims that derive from "(1) contractual remedies, whether or not based upon misappropriation of a trade secret, (2) other civil remedies that are not based upon misappropriation of a trade secret, or (3) criminal remedies, whether or not based upon misappropriation of a trade secret." Cal. Civ. Code § 3426.7(b). The implication is that other claims are preempted. However, as California courts have noted, this is "vexingly oblique" as there is "no explicit declaration of supersessive effect from which to 'save' anything." *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 232-33 (2010). While the California Supreme Court has yet to weigh in on the issue, California courts "have held that where a claim is based on the 'identical nucleus' of facts as a trade secrets misappropriation claim, it is preempted by CUTSA." *Silicon Image, Inc. v. Analogix Semiconductor, Inc.*, 2007 WL 1455903 at *9 (N.D. Cal. May 16, 2007). That is, where a plaintiff brings a claim for trade secret misappropriation under the CUTSA, other claims based on the same nucleus of fact are preempted. *Id.*; *see also K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 171 Cal. App. 4th 939, 958 (2009) ("The UTSA therefore 'preempts' all common law claims that are 'based on the same nucleus of facts as the misappropriation of trade secrets claim for relief.'").

If a plaintiff proceeds in federal court without a CUTSA claim, only a DTSA claim, the preemption analysis may be less "vexingly oblique." Until now, cases finding preemption of common law claims almost always involved a parallel claim under the CUTSA. Without a CUTSA claim, the analysis and outcome may differ. Then again, this may be a distinction without a difference as there would be a companion trade secret claim under the DTSA which is substantively very similar to the CUTSA. But, as there is no decisional authority from the state's highest court on the issue, a federal court may be more inclined to rule against preemption allowing borderline-preempted claims to proceed. *See, e.g.*, *First Advantage Background Servs. Corp. v. Private Eyes, Inc.*, 569 F. Supp. 2d 929, 942 (N.D. Cal. 2008) (to the extent that claims were based on confidential information that was not a trade secret, the claims could go forward); *Think Village-Kiwi, LLC v. Adobe Sys. Inc.*, 2009 WL 902337, *2-3 (N.D. Cal. April 1, 2009) (amendment of claims for misappropriation and breach of confidence was not futile because it was possible for the plaintiff to allege that the information in question was not based on a trade secret). This too may augur in favor of proceeding in a federal forum.

VI. Other Considerations Regarding Federal vs. State Venue

There may be other factors to consider in deciding whether to pursue a trade secret case in federal court or California state court. For example, a federal court has discretion to consider hearsay evidence in ruling on a motion for a preliminary injunction, *see, e.g.*, *Houdini Inc. v. Goody Baskets* LLC, 166 F. App'x 946, 947 (9th Cir. 2006), but a California court will not consider such evidence unless the injunction is one to prevent workplace violence. *See, e.g.*, *Kaiser Found. Hosps. v. Wilson*, 201 Cal. App. 4th 550, 557 (2011). The federal rules regarding summary judgment have significantly shorter time requirements for a motion to be heard, compared to California's requirement that at least 75 days' notice be provided before the hearing on the motion. Cal. Civ. Proc. Code § 437c(a). The parties in federal court will be required to make disclosures early in the case pursuant to Federal Rule of Civil Procedure 26(a)(1),

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whereas California does not require such disclosures. The federal rules regarding expert reports require a retained expert to provide a full report that includes a complete statement of all opinions the witness will offer and the basis for those opinions well in advance of the expert depositions. FED. R. CIV. P. 26(a)(2)(B). California only requires a disclosure of the identity of the expert witness and general areas of expected testimony, and a report will not necessarily be provided before the deposition, assuming one is prepared. CAL. CIV. PROC. CODE § 2034.260(c). Finally, if the matter is likely to go through trial, there is the requirement of a unanimous jury verdict in federal court, *see, e.g.*, *Jazzabi v. Allstate Ins. Co.*, 278 F.3d 979 (9th Cir. 2002), where only nine out of twelve jurors are needed for a verdict in a California civil trial, *see* CAL. CONST. art. I, § 16; CAL. CIV. PROC. CODE § 618.

VII. Conclusion

The DTSA is substantively nearly identical to California trade secret law. Time will tell if any substantive differences emerge as cases under the DTSA are adjudicated. For now, the procedural considerations above inform a California trade secret plaintiff's decision whether to proceed in state court under the CUTSA or in federal court under the DTSA.

♦ Benjamin A. Nix is a partner, and David A. Grant an associate, in the business litigation group at Payne & Fears LLP.

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signatory to an aggressive discovery motion, or a voice on the other end of a telephonic meet and confer. But when a client sends you a new complaint to defend, and you see that the other side's counsel is someone with whom you broke bread in Maui or even at the Westin South Coast Plaza Hotel, that somehow changes the relationship. No longer is every word out of your adversary's mouth "ludicrous" or "disingenuous" or "sanctionable." Suddenly you realize that granting opposing counsel a two-week extension on those discovery responses will not bring on the Four Horsemen of the Apocalypse. And perhaps reaching a stipulation on e-discovery search terms isn't impossible after all.

Of course, none of us are immune from getting frustrated with the progress of a case or the other side's discovery tactics. But we are less likely to fire off that nasty (and, let's face it, counter-productive) email when we have a relationship with opposing counsel. ABTL allows us to develop those relationships.

I have written and spoken on attorney civility, and have been asked by people, including potential clients, whether a client would be at a disadvantage if her lawyer followed basic civility guidelines. It is a fair question, but one I can confidently answer in the negative. Civility does not mean rolling over or giving away a legitimate advantage. To the contrary, it means litigating a case more efficiently, without the distraction and sometimes huge costs caused by unnecessary squabbles. It means showing the judge that you are the adult in the room, even if your adversary insists on playing in the mud. And it means zealously representing your client in the most effective way possible, to get the best results possible – but at the same time acting like a professional. Acting civilly, and maintaining a reputation as a professional, will serve any lawyer well and, consequently, will serve any lawyer's clients well.

There is no better way to pursue the goal of civility than by joining a Bar organization and coming together with your colleagues, including present and future adversaries. The ABTL offers that chance. The ABTL Annual Seminar offers that chance on steroids.

But you don't have to wait until next fall – in the

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wonderful La Costa Resort – to come together with other ABTL members. The next opportunity is November 15 at our last dinner program of 2016. The program promises to be another stimulating one; our speaker is Mary Abbajay, who will be discussing differences among the generations, and the importance of understanding those differences both in the workplace and in the courtroom. Elimination of bias credit will be a welcome perk. And, in the OC ABTL's tradition, we will be raising money for a local charity and gathering stuffed animals for the Orange County Superior Court's adoption program.

But for many of us, the highlight of the evening will be the social hour before the program. That is our opportunity to get to know our colleagues in the Bar and to forge relationships that just may come in handy in a future matter. When you share a glass of wine or a beer with your opposing counsel, you can't expect him to go easy on you at the next hearing. But you can expect him to treat you with a little more civility and respect, to make the litigation experience just a little bit more pleasant, and, most likely, to save your client money by avoiding unnecessary fights. Among the many benefits of attending ABTL functions, these are at the top of the list.

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prong of Rule 23 of the Federal Rules of Civil Procedure, instead of the breadth of the FAA, the narrowing effect on the availability of class actions was the same. The Court emphasized that to establish commonality, class members' "claims must depend upon a common contention . . . of such a nature that it is capable of classwide resolution–which means that determination of its truth or falsity will resolve an issue that is central to the validity of each one of the claims in one stroke." (*Id.* at 2551.) Justice Scalia, the author of *Concepcion* and *Dukes*, thus put the full force of the Court behind arbitration and against class actions.

In 2013, the Court again favored arbitration with its opinion in *American Express Company v. Italian Colors Restaurant*. (133 S. Ct. 2304 (2013).) Writing once more for the Court, Justice Scalia held that "a contractual waiver of class arbitration is enforceable under the Federal Arbitration Act" even if the cost of proving a claim in individual arbitration exceeds the potential recovery. (*Id.* at 2307.) This holding substantially limited the rule that "[a]n arbitration clause will not be enforced if it prevents the effective vindication of federal statutory rights." (*Id.* at 2315 (Kagan, J., dissenting).) And again in 2015, the Supreme Court enforced a no-class-action arbitration clause even though the parties had chosen California's law making such clauses unenforceable. The Court explained that even though the parties may choose any state's law to govern the agreement, California's law was nonetheless preempted by the FAA. (*DIRECTV v. Imburgia*, 136 S. Ct. 463 (2015).) Between *Concepcion* and *DIRECTV*, the Court made clear that the FAA's policy favoring arbitration required courts to enforce class arbitration waivers in the normal course.

Federal Agencies and Courts Are Chipping Away at the Enforceability of Arbitration Clauses

Yet reports of the class action's demise were too soon. In the last two years, federal agencies and certain lower federal courts alike have favored class actions over arbitration. Their opposition reflects the highly critical media coverage of arbitration as precluding consumers from accessing courts. With the future of the Supreme Court very much in doubt, businesses and employers who enter into arbitration agreements with consumers and employees should

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prepare for a rising uptick in class actions.

The Consumer Financial Protection Bureau ("CFPB"), a creature of the Dodd-Frank Act, has proposed to regulate arbitration agreements out of existence between consumers and certain providers of consumer financial products and services. Financial services businesses may still agree to arbitrate with their clients. But, according to the CFPB's proposal, the agreement must be toothless. The agency's proposed rule would require any such arbitration agreement to state, "We agree that neither we nor anyone else will use this agreement to stop you from being part of a class action in court. You may file a class action in court or you may be a member of a class action even if you do not file it." (CFPB, Arbitration Agreements, 81 Fed. Reg. 32830, 32889 (May 24, 2016).) The CFPB proposed the rule after submitting an arbitration report to Congress finding that arbitration agreements restrict consumers' relief for disputes with financial service providers by limiting their access to class actions. (*See* CFPB, Arbitration Study: Report to Congress, http:/files.consumerfinance.gov//201503_cfpb_arbitration-study-report-to-congress-2015.pdf.)

The proposed rule sweeps broadly to apply to most consumer financial products and services that the CFPB oversees, including those related to lending money, storing money, and moving or exchanging money. That includes banks, credit card issuers, providers of certain automobile leases, payment processors, payday lending, and debt collection services. Over 13,000 comments were submitted in response to the proposed rule. Financial products and services industry groups have urged the CFPB to amend or drop the proposal altogether. And legislative critics of the agency have threatened to cut its budget. Consumer groups, on the other hand, have argued for the implementation of the rule to permit more consumers to bring their claims in court. With the CFPB facing political pressure on both sides, the future of the proposal remains uncertain. If the Bureau promulgates the final rule as proposed, it would become effective as early as 2017. Existing arbitration agreements would not be affected.

Yet the CFPB isn't the only federal agency that has begun to claw back on the liberal federal policy favoring arbitration. The federal Centers for Medicare and Medicaid Services ("CMS") issued its long-awaited final rule, effective on November 28, 2016, that prohibits nursing homes and other long-term care facilities receiving money from Medicare or Medicaid from "enter[ing] into a pre-dispute agreement for binding arbitration with any resident or resident's representative." (42 C.F.R. § 483.70(n)(1).) That rule was issued along with the first major overhaul of nursing home regulations since 1991.

The rule prohibits binding arbitration admission agreements even if the nursing home resident is given the option to opt out of arbitration. (*Id.*) If a dispute arises between the nursing home and resident, then they may only enter into an agreement after certain requirements are met. Like the CFPB's proposed rule, CMS's rule would not apply to existing arbitration agreements. But like the CFPB's proposal, CMS's final rule reflects a growing opposition to arbitration among federal agencies in favor of class actions.

In addition, the future of arbitration agreements in labor law is up for grabs. There is a circuit split among the courts about whether to defer to the National Labor Relation Board's ("NLRB's") opposition to arbitration. The NLRB interprets Sections 7 and 8 of the National Labor Relations Act ("NLRA") to protect employees' right to file class actions. Under Section 7, "[e]mployees shall have the right to self-organization, to form, join, or assist labor organizations, to bargain collectively through representatives of their own choosing, and to engage in other concerted activities for the purpose of collective bargaining or other mutual aid or protection." (29 U.S.C. § 157.)

According to the NLRB and certain federal courts, class action litigation is one type of "concerted activity" protected by Section 7. (*D.R. Horton, Inc.*, 357 N.L.R.B. No. 184, at *5 (2012); *Lewis v. Epic Sys. Corp.*, 823 F.3d 1147 (7th Cir. 2016).) In a recent opinion deferring to the Board, the Seventh Circuit reasoned that "class legal remedies allow employees to band together and thereby equalize bargaining power." (*Lewis*, 823 F.3d at 1153.) The Seventh Circuit held that there was "no conflict between the NLRA and the FAA" because the FAA's savings clause incorporates the NLRA's principles. (*Id.*) And in *Ernst & Young LLP v. Morris*, the Ninth Circuit followed in step with the Seventh Circuit by holding that workers have a "substantive right" under the NLRA to seek class

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action relief. (No. 13-16599, 2016 WL 4433080, at *3 (9th Cir. Aug. 22, 2016).) The upshot is that mandatory arbitration agreements violate the NLRA, notwithstanding the FAA's liberal policy favoring arbitration.

Not all lower courts have agreed with the NLRB and the Seventh and Ninth Circuits. To the contrary, the Fifth, Second, and Eighth circuits ruled that arbitration agreements barring workers from pursuing class actions were enforceable. (*Owen v. Bristol Care, Inc.*, 702 F.3d 1050 (8th Cir. 2013); *Sutherland v. Ernst & Young LLP*, 726 F.3d 290 (2d Cir. 2013) (per curiam); *Murphy Oil, U.S.A., Inc. v. NLRB*, 808 F.3d 1013 (5th Cir. 2015).) These courts reasoned that arbitration agreements should be enforced unless there is a "contrary congressional command for another statute to override the FAA's mandate." (*Owen*, 702 F.3d at 1052; *see also Sutherland*, 726 F.3d at 295.) They found no such contrary demand in the NLRA or the FLSA. Petitions for certiorari of the decisions in the Fifth Circuit, Seventh Circuit, and Ninth Circuit are pending before the Supreme Court. That could very well decide the future of arbitration in labor disputes.

Guidance from the Court in Preparing to Resolve Disputes

These federal agencies' regulations and opinions will likely be challenged. The Supreme Court may veer away from the pro-arbitration path set by Justice Scalia's opinions in *Concepcion* and *Italian Colors*, or it may not. An early sign may be the Court's decision whether to grant the petitions for certiorari in the labor class actions cases, although the current Court may split 4-4 on the merits even if it grants any of the petitions. The Court also may leave the *Dukes* holding untouched, shifting some of the focus from the enforceability of arbitration clauses to the commonality prong of Rule 23 in employment cases.

In the meantime, the Supreme Court has revealed some guidelines for drafting enforceable arbitration agreements. Businesses and employers with existing arbitration clauses, particularly those spanning multiple jurisdictions, should carefully reexamine them to ensure that they combine the expedition of arbitration with fairness towards consumers and employees. In *Concepcion*, the Court credited the finding that consumers may be "*better off*" with arbitration rather than class action litigation in part because AT&T had carefully crafted its arbitration agreement to resolve disputes expeditiously while respecting consumer rights. (*Concepcion*, 131 S. Ct. at 1753.) AT&T's agreement required (1) the company "pay all costs for nonfrivolous claims"; (2) arbitration to take place in the county where the customer was billed; (3) for small claims, that the consumer may choose whether to proceed "by telephone, in person, or based only on submission"'; (4) that "the arbitrator may award any form of individual relief, including injunctions and presumably punitive damages"; (5) that the company could not seek attorneys' fees; and (6) that the company would "pay a minimum $7,500 recovery and twice the claimant's attorneys' fees" if the customer received an arbitration award greater than the company's last written settlement offer." (*Id.* at 1744.)

Businesses should also prepare for the long-term possibility that federal policy will favor class action relief over arbitration for disputes involving consumers and employees. While arbitration will remain a viable option for many businesses, federal agencies and courts may confine it to certain types of businesses or business-related disputes. Businesses should not run from arbitration, but they should remain on the lookout for the return of class actions.

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sult, it is important to consider the following steps when negotiating and drafting an arbitration provision:

- Consider whether an arbitration provision is needed in the agreement. Many other contractual provisions can be used to accomplish the same goal – reducing litigation expenses related to the M&A transaction. In fact, a 2012 Harvard Business Law Review study found that only 11% of private M&A deals contained "whole contract" arbitration provisions, and few large public deals contained a "whole contract" arbitration provision. John C. Coates, *Managing Disputes Through Contract: Evidence from M&A*, 2 Harvard Business Law Review 301 (2012). Common alternatives to arbitration provisions include choice of law and forum provisions and jury waivers. *Id.* It is also possible to apply different dispute-resolution provisions to different portions of the contract. *See e.g., Duthie v. Matria Healthcare, Inc*., 540 F.3d 533, 538 (7th Cir. 2008) (Merger Agreement required arbitration for four specific types of disputes, while requiring all other disputes to be heard by Delaware courts).

- Decide the parameters of the arbitration provision. Some arbitration provisions provide for arbitration only for specific disputes, such as tax disputes or escrow fund disputes. *See, e.g.*, *Duthie* 540 F.3d at 538; *First Allmerica Fin. Life Ins. Co. v. Minn. Life Ins. Co.*, 188 F. Supp. 2d 101, 103 (D. Mass. 2002) (arbitration required for any dispute "with respect to the operation of this Agreement"). In this step, it is important to analyze the specifics of the underlying deal. In public transactions, disputes often involve the buyer backing out of the deal or the seller violating deal-protection provisions by entertaining other offers. Sean J. Griffith, *Deal Protection Provisions in the Last Period of Play*, 71 Fordham L. Rev. 1899, 1901 (2003); *see, e.g.*, *Paramount Commc'ns v. Qvc Network*, 637 A.2d 34 (Del. 1994). In those cases, it is desirable to include an arbitration provision that focuses solely on specific performance of the deal. In private transactions, disputes often involve earn-out provisions or purchase price adjustments. David Herrington*, Purchase Price Accounting Arbitration: Why Courts Sometimes Find That Disputes About Purchase Price Are Not Subject To Purchase Price Arbitration,* 26-10 Mealey's International Arb. Rep. 16 (2011). In those situations, it is often desirable to include an arbitration provision that deals with a single accounting expert reviewing the dispute coupled with an expedited hearing in front of an arbitrator. In sum, it is desirable to tailor the arbitration provisions to provide for quick resolutions to common problems that might arise from the particular type of M&A transaction.

- Consider whether the client would benefit from a mediation provision. Including mediation as an initial step in an M&A contract can be an efficient way to get the parties to the table early in the dispute and settle the dispute before significant legal expenses are incurred. The arbitration provision can be a "sliding scale" agreement where mediation is a required first step before arbitration is initiated.

- Take time to precisely draft the arbitration provision. As a general principle, public policy favors resolution of disputes through arbitration. *EEOC v. Waffle House, Inc.*, 534 U.S. 279, 290 (2002). However, a court interpreting an arbitration provision will use ordinary principles of contract interpretation to determine the provision's scope. *Knutson v. Sirius XM Radio Inc.*, 771 F.3d 559, 565 (9th Cir. 2014) ("Arbitration is a matter of contract. . . . A party cannot be required to submit to arbitration any dispute which he has not agreed so to submit."). As such, it is important to clearly define both the applicability and the limits of the arbitration provision to avoid any litigation over its scope. *Boardman v. Pac. Seafood Grp.*, Nos. 15-35257, 15-35504, 2016 U.S. App. LEXIS 8008, at *12 (9th Cir. May 3, 2016) (arbitration provision governing disputes related to certain marketing agreements did not apply to dispute related to proposed acquisition). Such provisions should also designate the location, the arbitration provider, and the substantive law the parties wish to

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use. Parties may also benefit from specifying certain discovery related procedures to reduce costs in the arbitration, including limiting the number of depositions, interrogatories, document requests, and page limits for discovery related motions. Finally, arbitration provisions should specify the court in which the judgment will ultimately be entered.

- Clearly define the parties who are subject to the arbitration provision in order to avoid litigation over who is covered by the provision. For example, federal law dictates that "unless the parties 'clearly agree' to submit a question of arbitrability to the arbitrator, the district court must decide the issue." *First Options of Chicago, Inc. v. Kaplan*, 514 U.S. 938, 992 (1995). Thus, failing to specifically designate the parties can lead to unnecessary litigation outside of the arbitration.

- Decide if a single arbitrator or a panel best fits the parties' needs. Most whole contract arbitration provisions use a three-arbitrator panel. Since most arbitration contracts do not contain whole contract provisions, however, it might be beneficial to designate a single arbitrator to deal with the specific issues covered by the arbitration provision.

- In a multi-contract deal, make sure that all of the arbitration provisions match the provision in the umbrella agreement. This will avoid unnecessary litigation regarding which agreements are covered by the provisions and which provision is the governing provision.

Carefully following these steps will diminish the likelihood of litigation over the scope and applicability of the arbitration provision. As with any important contractual provision, specificity is crucial when crafting these provisions. A diligently-crafted arbitration provision can be a useful tool in limiting post-closing litigation.

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Upcoming Events

November 15, 2016
Dinner & Program
Westin South Coast Plaza

February 15, 2017
Dinner & Program
Westin South Coast Plaza

April 19, 2017
Dinner & Program
Westin South Coast Plaza

June 7, 2017
Dinner & Program
Westin South Coast Plaza

September 13, 2017
Dinner & Program
Westin South Coast Plaza

October 5-8, 2017
44th Annual Seminar
Omni La Costa Resort and Spa
Carlsbad, California

November 8, 2017
Dinner & Program
Westin South Coast Plaza

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