

Pleading And Identifying Trade Secrets In Calif.

Law360, New York (October 24, 2013, 5:13 PM ET) -- The initial stage of a trade secrets case is critical. The complaint not only gives the defendant initial notice of “facts” regarding the alleged trade secrets and how they were supposedly misappropriated, but it also often serves as the launching point for an early motion for a temporary restraining order or preliminary injunction.

California has a unique statutory requirement: The plaintiff must identify its trade secrets with “reasonable particularity” before starting discovery.[1] Cal. Civ. Proc. Code § 2019.210. A plaintiff who proffers an inadequate trade secret disclosure risks losing on a motion to compel[2], or motion to exclude evidence regarding trade secret claim. *Imax*, 152 F.3d at 1168).[3]

Yet, the proper pleading and identification of trade secrets in litigation is a difficult task.[4] The plaintiff’s dilemma is that he wants to pursue a grievance of exposed or stolen “secrets” without informing the world of the same; at the same time, the defendant needs to know what the supposed trade secrets are in order to defend himself.

A party alleging claims for trade secret misappropriation will usually confront two basic issues: which causes of action, other than misappropriation of trade secrets under the California Uniform Trade Secrets Act (California Civil Code §§ 3426-3426.11), can be asserted regarding the same basic conduct and how specifically the claimant must allege trade secret-related claims and/or identify the trade secrets.

Regarding the first question, the prevailing rule in California and the majority rule in federal courts within the Ninth Circuit is that the CUTSA broadly preempts all common law claims, regardless of the name (e.g., breach of fiduciary duty, breach of confidence, breach of loyalty, conversion, fraud, interference with contract or unfair competition) that are “based on the same nucleus of facts” as the trade secrets claim.[5]

Preemption questions are often decided on the pleadings under the majority rule; while under the minority rule, courts will usually allow the quasi-trade secret claims to proceed at least to allow for sufficient discovery to discern the degree of overlap between the trade secret and related claims.[6]

Regarding the second question, the standards for pleading a trade secret claim and identifying trade secrets pursuant to Section 2019.210 are often blurred by the courts, but they are conceptually distinct. In pleading a trade secret claim, there are many variables that affect the degree of specificity needed to allege a viable claim, including the nature of the trade secrets, the secrecy efforts, the business relationships involved and the type(s) of alleged misappropriation.

But under the prevailing pleading standard in California and federal courts, the plaintiff should allege facts or “factual matter” rather than “conclusions” in support of each of the elements of a trade secret claim.[7]

The standards for properly identifying trade secrets under Section 2019.210 are also varied, but there are certain general principles that apply as indicated below.

Similar Claims Are Often Preempted by the CUTSA

California trade secret law is codified by the CUTSA. See Cal. Civ. Code §§ 3426-3426.11. Pursuant to California Civil Code section 3426.7(b), the CUTSA “preempts common law claims that are ‘based on the same nucleus of facts as the misappropriation of trade secrets claim for relief.’” K.C. Multimedia, 171 Cal.App.4th at 958.[8]

The *Silvaco* court, which is the only California court to specifically address this issue (in a footnote), emphasized the sweeping nature of the CUTSA:

[A] prime purpose of the [CUTSA] law was to sweep away the adopting states’ bewildering web of rules and rationales and replace it with a uniform set of principles for determining when one is — and is not — liable for acquiring, disclosing, or using ‘information ... of value.’ (See § 3426.8.) Central to the effort was the act’s definition of a trade secret. (See § 3426.1, subd.(d).) Information that does not fit this definition, and is not otherwise made property by some provision of positive law, belongs to no one, and cannot be converted or stolen.

Silvaco, 184 Cal.App.4th at 239 n.22.

A majority of district courts within the Ninth Circuit apply *Silvaco* to preempt all common law tort claims that sound in trade secret misappropriation.[9] Thus, under the majority rule, all other quasi-trade secret causes of action that are based on the same nucleus of facts as the misappropriation of trade secrets claim, including claims styled as those for breach of fiduciary duty, breach of confidence, breach of loyalty, conversion, fraud, interference with contract or unfair competition, are preempted.

That is true even if, as a plaintiff may argue that the alleged confidential information does not rise to the level of a trade secret.[10] It is also true even if a plaintiff has pled additional or different elements or remedies.[11] .

Accordingly, courts adhering to the majority rule will often apply the CUTSA preemption at the pleading stage.[12]

Courts applying a minority rule will usually allow the quasi-trade secret claims to proceed at least to allow for sufficient discovery to discern the degree of overlap between the trade secret and quasi-trade secret claims.[13]

Pleading and Then Identifying Trade Secrets

There is a conceptual distinction, often blurred by courts and practitioners, between pleading the elements of the trade secrets claim and identifying the trade secrets — pursuant to Section 2019.210 — to a degree sufficient to proceed with discovery.

Given that California and most federal courts in the Ninth Circuit impose a separate trade secret identification requirement at the outset of discovery, it is logical to separate these two functions: applying prevailing pleading standards in California and federal courts to the trade secret claim and then requiring, before trade secret-related discovery, that the plaintiff specifically identify its alleged trade

secrets.[14]

Section 2019.210 requires that trade secrets be identified with “reasonably particularity” “before commencing discovery.” This statute’s legislative history indicates that it was intended to codify the pre-CUTSA decision in *Diodes Inc. v. Franzen*, 260 Cal.App.2d 244, 251-53, 257 (1968), in which the California Court of Appeals held that the plaintiff had not sufficiently pled its alleged “secret process” for purposes of alleging a trade secret misappropriation claim and dismissed the complaint on demurrer without leave to amend.

The *Diodes* court explained that the plaintiff had failed "to plead facts showing that it ever had any trade secret to protect. The plaintiff’s third amended complaint speaks in circumlocutions and innuendoes. The subject matter of the so-called ‘secret process’ is not stated."

The Ninth Circuit has not addressed whether Section 2019.210 applies in federal court, and the district courts within the circuit are split.[15] But even federal courts that do not apply 2019.210 often require, as part of case management responsibilities, the plaintiff to specifically identify its alleged trade secrets in a manner consistent with Section 2019.210 before the commencement of discovery.[16]

Accordingly, most litigants identify trade secrets at that outset of discovery in a document separate from the pleadings.[17]

This implies, by negative inference, that identifying the alleged trade secrets is not required in the initial pleading. It also accords with the sensible goal of not requiring a plaintiff to specifically identify its alleged trade secret in a publicly filed document.

Moreover, given that a Section 2019.210 disclosure only addresses the first element of a trade secret claim (i.e., possession of a trade secret),[18] the function of pleading a trade secret claim should be distinguished from the function of identifying the trade secret for purposes of Section 2019.210.

In pleading a trade secret claim, there are many variables that affect the degree of specificity needed to allege a viable claim, including the nature of the trade secrets, the secrecy efforts, the business relationships involved and the type(s) of alleged misappropriation.

But under prevailing pleading standards in California and federal courts, the plaintiff should allege facts or factual matter rather than formulas or conclusions in support of each of the elements of a trade secret claim.

One who seeks protection against the use or disclosure of a trade secret must plead facts showing (1) the existence of subject matter which is capable of protection as a trade secret; (2) the secret was disclosed to the defendant, or to a person for whose conduct a defendant is liable, under circumstances giving rise to a contractual or other legally imposed obligation on the part of the discloser not to use or disclose the secret to the detriment of the discloser; and (3) if the defendant is an employee or former employee of the plaintiff or if the defendant is charged with having received the secret from an employee or former employee, the facts alleged must also show that the public policy in favor of the protection of the complainant's interest in maintaining the secret outweighs the interest of the employee in using his knowledge to support himself in other employment.[19]

In addition, the Ninth Circuit apparently requires that plaintiffs plead the alleged trade secrets with “sufficient particularity” and distinguish it “from matters of general knowledge in the trade.”[20]

In identifying the alleged trade secrets pursuant to Section 2019.210, the courts have applied various rules and reached differing results such that the meaning of identifying the trade secret with “reasonable particularity” is neither clear nor coherent.

Although the scope of the disclosure necessary varies based on the facts, the following rules can be discerned from the case law:

- “Reasonable particularity” is a flexible standard: The “reasonable particularity” requirement is a flexible standard.[21]
- Reasonable under the circumstances: The plaintiff must “make some showing that is reasonable, i.e. fair, proper, just and rational ... under all of the circumstances to identify its alleged trade secret in a manner that will allow the trial court to control the scope of subsequent discovery, protect all parties’ proprietary information, and allow them a fair opportunity to prepare and present their best case or defense at a trial on the merits.” *Advanced Modular Sputtering, Inc. v. Sup. Ct.*, 132 Cal.App.4th 826, 836 (2005).
- Distinguishing prior art not generally required: Although *Diodes* stated that a plaintiff “should describe the subject matter” and “boundaries” of the trade secret with “sufficient particularity” and required that the description of the trade secret differentiate the alleged trade secret “from matters of general knowledge in the trade” (*Diodes*, 260 Cal.App.2d at 253), Section 2019.210 uses the phrase “reasonable particularity” and excludes the “general knowledge in the trade” requirement. Accordingly, distinguishing the trade secret from “general knowledge in the trade” (i.e. prior art) is not a per se requirement.[22] But some federal courts may still require distinguishing prior art pursuant to *Diodes*.[23]
- But sometimes, prior art must be distinguished: The claimant may be required to distinguish the alleged trade secret from prior art if “the alleged trade secrets consist of incremental variations on, or advances in the state of the art in a highly specialized technical field” (*Advanced Modular*, 132 Cal.App.4th at 836); “when the nature of the alleged trade secret or the technical field in which it arises makes a detailed description alone inadequate to permit the defendant to learn the limits of the secret and develop defenses or to permit the courts to understand the secret and fashion discovery” (*Brescia*, 172 Cal.App.4th at 150); or in federal court. *Supra* at 3.
- Minute detail not required: The plaintiff need not define its trade secret down to the finest detail or require a mini-trial on misappropriation before discovery is allowed (*Advanced Modular*, 132 Cal.App.4th at 835-36); thus, questions regarding whether the alleged trade secret matter has been publicly known or is publicly available generally goes to the “merits.”[24]
- But specificity is required: The alleged trade secrets should be defined precisely and segregated (e.g., listed numerically) see e.g., *Perlan*, 178 Cal.App.4th at 1350, 1352, and “surplusage” and “catch-all language” should be avoided.[25] The *Perlan* court reasoned that “if [the plaintiff] does not know what its own trade secrets are, it has no basis for suggesting defendants misappropriated them.” *Perlan*, 178 Cal.App.4th at 1350.
- The disclosure should be liberally construed: The identification of trade secrets “should be liberally construed, and reasonable doubts about its sufficiency resolved in favor of allowing discovery to go forward.” *TelSwitch Inc. v. Billing Solutions Inc.*, No. C 12-00172 EMC LB (N.D. Cal. Sept. 6, 2012) (citing *Brescia*, 172 Cal.App.4th at 149).

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[1] Many district courts within the Ninth Circuit have applied California's requirement that the plaintiff must identify its trade secrets with "reasonable particularity" before starting discovery. See *Agency Solutions.Com, LLC v. TriZetto Group, Inc.*, 819 F.Supp.2d 1001, 1015 (E.D. Cal. 2011); *Neothermia Corp. v. Rubicor Medical, Inc.*, 345 F.Supp.2d 1042, 1043-1044 (N.D. Cal. 2004); *Computer Economics, Inc. v. Gartner Group, Inc.*, 50 F.Supp.2d 980, 984-987 (S.D. Cal. 1999).

[2] See e.g., *Social Apps LLC v. Zynga Inc.*, No. 4:11-cv-04910 YGR, (N.D. Cal. June 14, 2012), motion for summary judgment (see e.g., *Imax Corporation v. Cinema Technologies Inc.*, 152 F.3d 1161, 1164-68 (9th Cir. 1998); *Pixon, Inc. v. Placeware Inc.*, 421 F.Supp.2d 1233, 1240-46 (N.D. Cal. 2005)

[3] In the Ninth Circuit, a plaintiff must also identify the alleged trade secrets with "sufficient particularity" in the complaint or risk losing on a motion to dismiss. See *Imax*, 152 F.3d at 1164-65 ("A plaintiff seeking relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist. The plaintiff should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons . . . skilled in the trade.") (emphasis in original).

[4] See e.g., *Intermedics Inc. v. Ventritex Inc.*, 822 F.Supp. 634, 655 (N.D. Cal. 1983) (identifying trade secrets "can be both conceptually elusive and inherently arbitrary").

[5] *K.C. Multimedia Inc. v. Bank of America Technology & Operations Inc.*, 171 Cal.App.4th 939, 958-59 (2009); see also *Silvaco Data Systems v. Intel Corp.*, 184 Cal.App.4th 210, 232-36 (2010), disapproved on other grounds by *Kwikset Corp. v. Sup. Ct.*, 51 Cal. 4th 310, 337 (2011); *Digital Envoy Inc. v. Google Inc.*, 370 F.Supp.2d 1025, 1035 (N.D. Cal. 2005); *Gabriel Techs. Corp. v. Qualcomm Inc.*, No. 08-1992 (S.D. Cal. Sept. 3, 2009).

[6] See e.g., *Anheuser-Busch Companies LLC v. Clark*, No. 2:13-cv-00415-GEB-CKD (E.D. Cal. 2013) (court catalogued the "three distinct approaches" used in analyzing the CUTSA preemption).

[7] See e.g., *Diodes Inc. v. Franzen*, 260 Cal.App.2d 244, 252-53 (1968); *Pellerin v. Honeywell Intern., Inc.*, 877 F.Supp.2d 983, 989 (S.D. Cal. 2012) (the party claiming trade secret misappropriation "must plead facts showing it is entitled to relief").

[8] See also *Banks.com, Inc. v. Keery*, C09-06039 WHA, 2010 WL 727973, at *4 (N.D. Cal. Mar. 1, 2010); *Silvaco*, 184 Cal.App.4th at 236 (the "CUTSA provides the exclusive remedy for conduct falling with its terms, so as to supercede other civil remedies 'based upon misappropriation of trade secret'").

[9] See e.g., *Sunpower Corp. v. Solarcity Corp.*, No. 12-CV-00694-LHK (N.D. Cal. Dec. 11, 2012) (explaining that while "[o]nly one California court has explicitly considered this issue," the majority of district courts within the Ninth Circuit and in most other state supreme courts analyzing similar Uniform Trade Secret Act provisions have applied this rule).

[10] See e.g., *Sunpower* ("the Court follows *Silvaco*, *FormFactor*, *Heller*, and *Mattel* in holding that CUTSA supersedes claims based on the misappropriation of information, regardless of whether such information ultimately satisfies the definition of trade secret."); *Mattel, Inc. v. MGA Entertainment, Inc.*, 782 F.Supp.2d 911, 987-89 (C.D. Cal. 2011) (breach of fiduciary duty claim was preempted because it was a "new label[] to the same nucleus of facts upon which [the CUTSA claim] was based," regardless of whether the information qualified as a trade secret) (citing *K.C. Multimedia*, 171 Cal.App.4th at 960).

[11] See e.g., *Sunpower* (the “test does not focus on whether a non-CUTSA claim requires the pleading of different elements than the CUTSA claim, but rather whether ‘there is [a] material distinction between the wrongdoing alleged in a [C]UTSA claim and that alleged in [the non-CUTSA] claim[.]’”)

[12] See e.g., *First Advantage Background Services, Corp. v. Private Eyes, Inc.*, 569 F.Supp.2d 929, 936-38 (N.D. Cal. 2008) (court granted motion to dismiss quasi-trade secret claims, namely, breach of confidence and intentional interference with prospective economic advantage, with prejudice); *K.C. Multimedia*, 171 Cal. App.4th at 956-962.

[13] See, e.g., *Language Line Servs. Inc. v. Language Servs. Associates Inc.*, No. CV 10-02605 RS (N.D. Cal. May 6, 2013) (court granted partial summary judgment on quasi-trade secret claim of conversion because “plaintiff has failed to show its claim of conversion is based on facts distinct from those on which its CUTSA claim is based”); *TMX Funding Inc. v. Impero Technologies Inc.*, No. C 10-00202 JF (PVT) (N.D. Cal. June 17, 2010) (court stated that “[i]f, in subsequent pleadings or briefs, or at trial, it is established that the disclosures on which [the plaintiff] bases this claim were trade secrets, the claim will be dismissed with prejudice”).

[14] If the nature of the trade secret can be succinctly described in the complaint without exposing its essence (e.g., customer list, pricing plans, etc.), it often makes sense for a plaintiff to include in the complaint allegations to satisfy the 2019.210 requirement to: (1) bolster its opposition to any demurrer/motion to dismiss; and (2) eliminate a condition precedent for commencing discovery.

[15] Compare *Hilderman v. Enea TekSci, Inc.*, No. 05cv1049 BTM(AJB) (S.D. Cal. 2010), subsequent determination (S.D. Cal. 2010) (court found Section 2019.210 conflicts with Federal Rule of Civil Procedure 26) with *Social Apps* (court found Section 2019.210 does apply in federal court in part because it does not conflict with any Federal Rule of Civil Procedure).

[16] See e.g., *Jardin v. Datallegro, Inc.*, No. 10cv2552 IEG (WVG), (S.D. Cal. 2011) (district court affirmed magistrate’s order of “discovery procedures similar to those that would be required under § 2019.210” while noting that it was “abundantly clear” that the magistrate did not apply state law). Further, the Ninth Circuit appears to require that plaintiffs plead the trade secrets with “sufficient particularity.” *Imax*, 152 F.3d at 1164-65.

[17] See e.g., *Advanced Modular Sputtering Inc. v. Superior Court*, 132 Cal.App.4th 826, 835-36 (2005); cf. *Perlan Therapeutics v. Sup. Ct.*, 178 Cal.App.4th 1333, 1348-49 (2009) (holding adequacy of a Section 2019.210 statement is a “discovery issue” and therefore must be reviewed on appeal for an abuse of discretion); see generally Robert I. Weil, et al., *Cal. Prac. Guide: Civil Procedure Before Trial*, § 10:274 (“Although the [2019.210] requirement need not be satisfied at the pleading stage, plaintiff’s counsel should be mindful of it when drafting the complaint.”); 2 *Trade Secrets Law* § 22.15 (“The California Civil Code includes an unusual provision that requires a plaintiff in a trade secret case to ‘identify the trade secret with reasonable particularity.’ The trade secrets need not be identified in the Complaint, but must be appropriately identified before discovery by the plaintiff is commenced.”).

[18] The elements of a trade secret claim are:“(1) possession by the plaintiff of a trade secret; (2) the defendant’s misappropriation of the trade secret, meaning its wrongful acquisition, disclosure, or use; and (3) resulting or threatened injury to the plaintiff.” *Silvaco*, 184 Cal.App.4th at 220; Cal. Civ. Code §§ 3426.1-3426.3. Information constitutes a “trade secret” if it: (1) “[d]erives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use”; and (2) “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” Cal. Civ. Code § 3426.1(d).

[19] *Diodes*, 260 Cal.App.2d at 250; see also *Pellerin v. Honeywell Intern. Inc.*, 877 F.Supp.2d 983, 989 (S.D. Cal. 2012) (the party claiming trade secret misappropriation “must plead facts showing it is entitled

to relief”); *VasoNova Inc. v. Grunwald*, No. C12-02422 WHA (N.D. Cal. Dec. 11, 2012) (“To state a claim under the California Uniform Trade Secrets Act, a plaintiff must plead facts sufficient to show that: (1) the plaintiff owned a trade secret; (2) the defendant acquired, disclosed, or used the plaintiff’s trade secret through improper means; and (3) the defendant’s actions damaged the plaintiff.”); *Logtale v. Ikor Inc.*, No. C11-5452CW (N.D. Cal. Aug. 14, 2013) (holding that plaintiff’s conclusory allegations were insufficient to state a claim for trade secret misappropriation); *MedioStream Inc. v. Microsoft Corp.*, 869 F.Supp.2d 1095, 1112-1113 (N.D. Cal. 2012) (same); *Bespaq Corp. v. Haoshen Trading Co.*, No. C04-3698 PJH (N.D. Cal. Jan. 3, 2005) (same); see generally *Ashcroft v. Iqbal*, 556 U.S. 662, 678 (2009) (“To survive a motion to dismiss, a complaint must contain sufficient factual matter, accepted as true, to ‘state a claim to relief that is plausible on its face.’”).

[20] *Imax*, 152 F.3d at 1164-65; see also *Logtale* (applying *Imax* standard at pleading stage to dismiss trade secret misappropriation claim); *Mattel*, 782 F.Supp.2d at 967-68 (California requires that “a party seeking to protect trade secrets [] ‘describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit defendant to ascertain at least the boundaries within which the secret lies.’”).

[21] *Brescia v. Angelin*, 172 Cal.App.4th 133, 148 (2009) (the “essential lesson of *Advanced Modular* is the flexibility of the reasonable particularity standard”). “[A] court does not abuse its discretion by compelling a plaintiff to produce a clear, non-evasive trade secret statement.” See *Perlan Therapeutics, Inc. v. Sup. Ct.*, 178 Cal.App.4th 1333, 1352 (2009).

[22] See e.g., *Brescia*, 172 Cal.App.4th at 149 (“Under this flexible standard, absent a showing that the identification of the alleged trade secret alone lacks the particularity necessary to serve the statutory purposes, the trade secret claimant need not specify how the secret or its elements are distinguishable from matters known to skilled persons in the field.”)

[23] See, e.g., *Imax*, 152 F.3d at 1164-65; *Mattel*, 782 F.Supp.2d at 967-968; *Computer Economics, Inc. v. Gartner Group, Inc.*, 50 F.Supp.2d 980, 984 (S.D. Cal. 1999).

[24] See e.g., *Perlan*, 178 Cal.App.4th at 1346, 1348.

[25] See *id.* at 1350 (court deemed “catch-all” language as an improper attempt to reserve “unilateral right to subsequently amend its trade secret statement”); see also *Imax*, 152 F.3d at 1167 (court deemed “the catchall phrase ‘including every dimension and tolerance that defines or reflects that design’” as insufficient).