

# California trade secrets update – March 2011

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1. Some recent California trade secrets issues
  - a. § 16600 prohibition on non-compete agreements; viable TS exception?
  - b. Injunction for threatened misappropriation, but not for “inevitable disclosure”
  - c. Identify TS with reasonable particularity before commencing discovery
  - d. “Not readily ascertainable” is not an element, but ready ascertainability is a defense
  - e. CUTSA preemption of CL breach of confidence; federal IP preemption if not truly secret
  - f. Attorney fees for D when P brings TS claim in bad faith (e.g. ignoring § 16600)
2. State bar trade secrets committee
  - a. Treatise on California trade secrets: Kay, Edelson et al., *Trade Secret Protection and Litigation in California*, 2e (2009)
  - b. Model TS protective order: <http://ipsection.calbar.ca.gov/#model> (e.g., access by atty, outside consultants, experts only, not by party itself; in progress: source code)
  - c. In progress: Model employee confidentiality agreement (avoid over-reaching)
  - d. In progress: Model third-party NDA
  - e. David Almeling et al. studies: “A Statistical Analysis of Trade Secret Litigation in State Court” (Feb. 2011) and “A Statistical Analysis of Trade Secret Litigation in Federal Court” (March 2010): <http://www.omm.com/davidalmeling/>
    - i. Few strangers: TS owner almost always knows the alleged misappropriator
    - ii. Confidentiality agreement is most important reasonable secrecy precaution
3. Recent cases and ongoing sagas
  - a. In re Toyota Motor Corp. Unintended Acceleration Marketing, Sales Practices and Products Liability Litigation, C.D.Cal., Nov. 2010; see 2010 WL 4867562 – TS as evidence in products liability case; protective order
  - b. Ikon v. Rezente, 2010 WL 5129293 (E.D.Cal., Dec. 2010) – preemption
  - c. Mattel v. MGA, 2010 WL 5422504 (C.D. Cal., Dec. 2010) – preemption
  - d. Accenture v. Sidhu, 2010 WL 4691944 (N.D.Cal., Nov. 2010) – CFAA & employees

- e. *Robinson v. U-Haul*, 2010 WL 4113578 (Ct.App., 1D, Div. 4, Oct. 2010, nonpublished) – TS exception to non-compete prohibition; malicious prosecution
  - f. *HP v. Mark Hurd*, Complaint (Santa Clara Cty., Sept. 2010) – inevitable disclosure
  - g. *Kovesdy v. Kovesdy*, 2010 WL 3619826 (N.D.Cal., Sept. 2010) – customer list was not TS (or not P’s TS); preemption
  - h. *Ajaxo v. E\*Trade*, 187 Cal.App.4th 1295 (Ct.App., 6D, Aug. 2010) – reasonable royalties
  - i. *Silguero v. Creteguard*, 187 Cal.App.4th 60 (Ct. App., 2D, Div. 1, July 2010) – non-compete “understanding”
  - j. *Silvaco v. Intel*, 184 Cal.App.4th 210 (Ct. App., 6D, April 2010) – misappropriation, definition of “use”, knowledge
  - k. *Perlan Therapeutics v. Sup. Ct. (Nextbio)*, 178 Cal.App.4th 1333 (Ct. App., 4D, Div. 3, Feb. 2010) – identifying TS with “reasonable particularity”
  - l. *Majestic Marketing v. Nay*, 2010 WL 338966 (Ct. App., 4D, Jan. 2010, nonpublished) – TS definition; injunction scope; TS exception to non-compete
4. Pre-2010 cases
- a. *Jasmine Networks v. Sup. Ct. (Marvell Semiconductor)*, 180 Cal.App.4th 980 (Ct. App., 6D, Dec. 2009) – TS ownership
  - b. *Dowell v. Biosense*, 179 Cal.App.4th 564 (Ct. App., 2D, Div. 2, Oct. 2009) – dicta doubts continued viability of CL TS exception to non-compete prohibition
  - c. *LVRC v. Brekka*, 581 F.3d 1127 (9C, Oct. 2009) – CFAA & employees “w/o authorization”
  - d. *Laiwala v. Hyundai*, 2009 WL 3004340 (Ct.App., 1D, Div. 5, Sept. 2009) – TS grand theft under Pen. Code. § 499c; finding of factual innocence; malicious prosecution; SLAPP
  - e. *Retirement Group v. Galante* (Ct. App., 4D, Div. 1, July 2009) – TS exception to non-compete prohibition (if narrowly tailored?)
  - f. *Clorox v. SJ Johnson*, 627 F.Supp.2d 954 (ED Wisconsin, June 2009) –applying California law re: inevitable disclosure; P show threatened misappropriation with (a) past misuse; (b) shown intent to misuse; or (c) wrongfully refuses to return TS after demand.
  - g. *FLIR v. Parrish*, 174 Cal.App.4th 1270 (Ct. App., 2D, Div. 6, June 2009) – \$1.6 million attorney fees to D for P’s bad faith TS claim based on “inevitable disclosure”
  - h. *KC Multimedia v. Bank of America*, 171 Cal.App.4th 939 (Ct. App., 6D, March 2009) – CUTSA preempts CL claims for breach of confidence, interference with contract

- i. *Brescia v. Angelin*, 172 Cal.App.4th 133 (Ct. App., 2D, Div. 4, March 2009) – TS identification re: 15 ingredients of low-carb pudding was sufficient for discovery; need not particularize how differs from general skills in the field.
  - j. *Urbina v. Goodyear*, 2009 WL 481655 (C.D.Cal., Feb. 2009) – TS privilege in products liability litigation; see also *Bridgestone Firestone*, 7 Cal.App.4th 1384 (1992)
  - k. *Wallis v. PHL*, 168 Cal.App.4th 882 (Ct. App., 3D, Nov. 2008) – protective order
  - l. *Central Valley General Hospital v. Smith*, 162 Cal.App.4th 501 (Ct.App., 5D, April 2008) – injunction for threatened misappropriation; not “inevitable disclosure”
  - m. *First Advantage v. Private Eyes*, 569 F.Supp.2d 929 (N.D.Cal., March 2008) – preemption
5. Authorities
- a. California Uniform Trade Secrets Act (CUTSA), Cal. Civ. Code §§ 3426 - 3426.11
  - b. Cal. Code Civ. Pro. § 2019.210 (stating TS claim with reasonable particularity)
  - c. Cal. Bus. & Prof. Code §§ 16600 – 16602.5 (no restraint on engaging in trade, with statutory exceptions e.g. sale of business)
  - d. Cal Bus. & Prof. Code §§ 16606 – 16607 (customer lists of telephone answering services and employment agencies constitute trade secrets)
  - e. Cal. Evid. Code § 1060 - 1063 (trade secret privilege)
  - f. Cal. Penal Code § 499c (grand theft of trade secret)
  - g. Computer Fraud & Abuse Act (CFAA), 18 USC 1030
  - h. Economic Espionage Act (EEA), 18 USC 90
  - i. Restatement (Second) of Torts §§ 757 – 759 ?
  - j. Restatement (Third) of Unfair Competition §§ 39 – 45 ?
  - k. Uniform Trade Secrets Act (UTSA)
  - l. Trade Secrets Act (TSA), 18 USC 1905 (federal gov’t disclosure of private TS; see California Gov’t Code § 6254(k))
6. *In re Toyota Motor Corp. Unintended Acceleration Marketing, Sales Practices and Products Liability Litigation*, C.D.Cal., Nov. 2010; see 2010 WL 4867562 – TS as evidence in products liability case
- a. “Toyota Motor Corp. agreed in court to turn over access to technical data about its electronic throttle control system that is alleged to be the cause of some of the automaker’s sudden-acceleration problems. [] Lawyers for Toyota told a judge today in federal court in Santa Ana, California, that they will provide attorneys for Toyota vehicle

owners access to the 'source codes' for the system if the judge issues a confidentiality order covering the company's product and trade secrets.... Mark Robinson, one of the lead plaintiffs' lawyers, told the judge the codes are vital in the case because they will allow experts to analyze the throttle system and come up with their own determination over whether flaws may have been a factor in episodes of inadvertent acceleration. [] 'We've been like someone standing outside a house with a camera taking pictures of the house and knowing what it looks like without knowing what it's made up of inside,' Robinson told the judge. 'We need to analyze this data and see how it related or didn't relate to the recalls.' " ("Toyota Lawyers Agree to Release Source Code in Lawsuits Over Acceleration," Bloomberg, Nov. 9, 2010)

- b. [Intersection of TS law with evidence law: TS privilege, protective orders]
7. Ikon v. Rezente, 2010 WL 5129293 (E.D.Cal., Dec. 2010) -- preemption
  - a. Former employees of office equipment servicing company now work for direct competitor; alleged violation of post-employment obligations by soliciting P's customers and employees (D's ex-coworkers), using P trade secrets.
  - b. Are claims for interference with prospective economic relations and breach of duty of loyalty preempted by CUTSA?
  - c. Yes, as to claims based on same nucleus of facts as TS misappropriation claim. CUTSA provides *exclusive* remedy for TS misappropriation under CA law.
  - d. [TS occupies field; is broad category of IP; overlap especially with employment law.]
8. Mattel v. MGA, 2010 WL 5422504 (C.D. Cal., Dec. 2010) – preemption; see also Mattel v. MGA, 616 F.3d 904 (9C, July 2010)
  - a. MGA introduced "Bratz" dolls in 2001; former Mattel employee Carter Bryant had developed Bratz concept during off-hours while at Mattel (makers of Barbie), and pitched it to MGA while still at Mattel. Mattel sued for ownership of Bratz copyright. Jury found for Mattel; 9C reversed (Kozinski). At retrial, Mattel asserted TS theft by MGA. MGA counter-claims for TS misappropriation, based on Mattel "market intelligence department" employees' use of bogus business cards to access showrooms with forthcoming Bratz dolls, and record them with a small video camera. [MGA also accuses Mattel counsel Quinn Emanuel of RICO conspiracy to "defraud confidential information." ] Trial court: no SJ; some claims preempted by CUTSA.

- b. [Some claims preempted which appear to have different elements; shows CUTSA occupies field; if not truly secret, then preempted by federal copyright & patent.]
9. Accenture v. Sidhu, 2010 WL 4691944 (N.D.Cal., Nov. 2010) – CFAA
- a. D is former employee of P; during medical leave of absence from P, D used P’s secure online network to download more than 900 documents. D had during the medical leave also started working for a HCL, a direct competitor of P. P later determined that D’s medical condition was fabricated. P’s complaint included violation of the federal Computer Fraud and Abuse Act (CFAA), which inter alia prohibits intentionally accessing without authorization, or exceeding authorized access, to obtain information from a protected computer.
  - b. Did D’s use of then-employer’s network, to misappropriate TS for other employer, come within the without- or exceed-authorization language of the CFAA?
  - c. No; CFAA (which is in part a criminal statute) does not incorporate employer policies or handbooks into its definition of authorization. An employee may violate employer-placed limits on accessing computer information, and still have authorization under CFAA. See also Nosal, Brekka, Atpac, Nat’l City Bank.
10. Robinson v. U-Haul, 2010 WL 4113578 (Ct.App., 1D, Div. 4, Oct. 2010, unpublished) – TS exception to non-compete prohibition; malicious prosecution (see § 3426.4 re: bad faith claim)
- a. D purchased a business which was an independent U-Haul dealer. D signed an agreement that, upon termination, he would not operate any similar business within a 3-mile radius for the period of the then-existing yellow pages. D left U-Haul and opened a Budget dealership at the same location. U-Haul alleged that D misappropriated TS contained in the U-Haul dealer operations manual, including e.g. pricing info, marketing strategy, and organization, “not generally known to the equipment rental industry.” D brought a malicious prosecution action.
  - b. Was there a reasonably debatable basis for U-Haul’s claim?
  - c. No; given § 16600, no reasonable attorney would have thought tenable U-Haul’s attempt to enforce the non-compete agreement. U-Haul argues that the agreement was necessary to protect its TS, but the so-called “trade secrets exception” to § 16600 is on “shaky legal grounds” (referring to Edwards, Dowell, Retirement Group).
11. Hewlett Packard v. Mark Hurd, Complaint (Santa Clara Cty., Sept. 2010) – inevitable disclosure

- a. On Sept. 7, 2010, HP sought an injunction preventing former HP president and CEO Mark Hurd from joining Oracle as president. HP alleged breach of contract and threatened misappropriation of TS. On the one hand, CUTSA § 3426.2(a) includes injunctions for “threatened misappropriation.” On the other, California has rejected (Whyte v. Schlage Lock, 101 Cal.App.4th 1443, 2002) the “inevitable disclosure” doctrine represented by Pepsico v. Redmond. HP’s complaint carefully avoided the word “inevitable,” but stated that Hurd would “necessarily” use HP TS at Oracle, and that he “cannot perform his job at Oracle without” using or disclosing HP TS. HP alleged that Hurd’s failure to provide HP with notice of the new job (apart from Oracle’s press release) gave rise to an inference that TS misappropriation was imminent. The parties settled less than two weeks later, on Sept. 20.
  - b. What was HP trying to do?
12. Kovesdy v. Kovesdy, 2010 WL 3619826 (N.D.Cal., Sept. 2010) – customer list was not TS (or not P’s TS); preemption
- a. Probate dispute was resolved by selling income-tax business, including customer list, to son P. Customer list was largely the result of efforts by stepmother D. After probate sale, stepmother D started own income-tax business. P sued D for TS misappropriation of customer list, seeking preliminary injunction. P did not establish that customer list was the result of substantial time, expense, and effort by P, nor that it had commercial value and was not readily ascertainable by competitors. P admitted allowing D to borrow P computer containing customer list, so that she could work at home.
  - b. No preliminary injunction; where a customer list is the product of a former employee’s personal efforts and contacts, it is not the TS of the employer (citing Courtesy Temporary Serv. v. Camacho, 222 Cal.App.3d 1278, 1990, in turn citing Moss, Adams v. Shilling, 179 Cal.App.3d 124, 1986).
  - c. [Moss, Adams re: announcement, rolodex, personal acquaintances; but Courtesy opposite outcome re: P’s efforts.]
13. Ajaxo v. E\*Trade and Everypath, 187 Cal.App.4th 1295 (Ct.App., 6D, Aug. 2010) – royalties
- a. P sued Ds for TS misappropriation re: wireless stock trading (“Wirelessproxy XO”). A jury found D to have willfully misappropriated; at a second trial re: unjust enrichment, P asserted that D made \$300 million from the TS, and D said it lost \$2 million. § 3426.3(b) allows reasonable royalties when neither damages nor unjust enrichment are provable.

- b. Reasonable royalties for P when D lost money using its TS?
  - c. Y; here, D has not realized a profit or other calculable benefit as a result of TS misappropriation (receiving venture funding was irrelevant); thus, unjust enrichment is not “provable,” and thus under § 3426.3(b) reasonable royalties may be awarded. Lower court error in concluding that P’s net loss meant that unjust enrichment was “provable.” [Counter-intuitive]
14. Silguero v. Creteguard, 187 Cal.App.4th 60 (Ct. App., 2D, Div. 1, July 2010) – non-compete “understanding”
- a. P was employed at-will as a sales rep by Floor Seal Technology (X), which required that P sign a confidentiality agreement prohibiting “all sales activity” for 18 months after termination of employment. X terminated P’s employment, and P was hired by Creteguard (D). X contacted D and requested D’s cooperation in enforcing the non-compete. While acknowledging the invalidity of the non-compete (§ 16600), D terminated P’s employment “to keep the same respect and understanding” with D’s “colleagues” in the same industry (floor covering). P sued for wrongful termination.
  - b. Trial court granted D’s demurrer, on the basis that § 16600 would have covered X’s termination of P, but not D’s honoring of the invalid P/X agreement.
  - c. Appeals court reversed, based on clear legislative intent of § 16600; D’s desire to keep an “understanding” with its industry competitors operates as a no-hire agreement. However, it is not a viable claim under the Cartwright Act (§§ 16720-16728).
15. Silvaco v. Intel, 184 Cal.App.4th 210 (Ct. App., 6D, April 2010) – misappropriation, definition of “use”, knowledge
- a. Silvaco (P) develops circuit-design software (SmartSpice; SPICE = “Simulation Program with Integrated Circuit Emphasis”). In an earlier suit, Silvaco obtained a judgment against a competitor, Circuit Semantics (CSI), which working with ex-Silvaco employees was found to have misappropriated Silvaco TS to develop its competing product, DynaSPICE. Silvaco then sued several CSI customers, including Intel (D), for TS misappropriation. (P’s founder Ivan Pesic stated, “Silvaco was screwed despite winning that judgment because the ex-CSI customers were using over 12,000 copies of my stolen code. Customers had permanent licenses of DynaSPICE. They were under no pressure to replace it with a legit copy of SmartSpice.”) Intel moved for SJ, contending that it could not have misappropriated P’s TS, because it never possessed P’s TS. The DynaSPICE

product, used by Intel (D), is distributed as object (binary) code, not source code. P does not allege that D knows the TS itself, merely that D is using X's product which D knows contains P's TS. Trial court granted D's motion; appeals court affirmed.

- b. Is D's possession of X's product, known by D (because of industry publicity for P v. X judgment) to contain P's TS misappropriated by X, sufficient to constitute TS misappropriation by D?
  - c. No. "One who bakes a pie from a recipe certainly engages in the 'use' of the latter, but one who eats the pie does not, by virtue of that act alone, make 'use' of the recipe in any ordinary sense, and this is true even if the baker is accused of stealing the recipe from a competitor, and the diner knows of that accusation." While this is surely the correct result, the factual basis is misplaced: an object-code product may well incorporate a TS from the source code. P's president had, apparently to show that P took reasonable security precautions to protect its TS, incorrectly stated in deposition that the TS inside SmartSpice "are protected by the binary code. Natural protection. You cannot do anything with binary code." If this were true of P's code (which it likely isn't), then of course it would likely also be true of X's code used by P.
16. Perlan Therapeutics v. Sup. Ct. (NextBio), 178 Cal.App.4th 1333 (Ct. App., 4D, Div. 3, Feb. 2010) – identifying TS with "reasonable particularity"
- a. Employee Yu incorporated P to develop protein-based therapeutics; P developed a common-cold medicine, ColdSol. Yu resigned from P in 2001. Yu then incorporated NextBio (D). In 2003, other P employees left P to join D, which obtained \$50 million funding to research flu therapies. P sued D. Under § 2019.210, P filed a TS identification statement which repeated the language of its complaint, or cited articles published in 2005-6. D moved for a protective order until P identified the TS at issue with reasonable particularity, describing P's TS statement as "a non-committal collection of loosely worded conclusory allegations, mainly referring to the Charles Invention," and noting the statement's reliance on the word "included."
  - b. Has P stated the TS at issue with sufficient particularity to allow discovery?
  - c. No; D may recover costs for its petition.
  - d. [How diff Advanced Modular Sputtering; Brescia?]
17. Majestic Marketing v. Nay, 2010 WL 338966 (Ct. App., 4D, Jan. 2010, nonpublished) – TS definition; injunction scope; TS exception to non-compete

- a. P markets customized promotional materials e.g. for cheerleading competitions. Father and son D worked as salesmen for P. While still working for P, D formed another company, “Think Green Promos”. P sued D for TS misappropriation, based on its “unique database of customers and potential customers that contains highly detailed information.” While employed by P, D had received an employee manual including a non-compete clause, in which employees agreed and acknowledged e.g. that the business entails “confidential information which have independent economic value as a result of not being generally known to the public.” The handbook also stated, “All customers are property of Majestic Marketing,” and that ex-employees could not contact customers. Trial court granted P preliminary injunction prohibiting D from contacting 3,000 P customers for two years, specifically enumerating 40 customer.
  - b. D appeals that customer list is not a TS (because customized promotional items disclose customer identity on its face, and because web site samples such items), that non-compete clause is void, and that injunction is overbroad (because D should at least be allowed to announce new company).
  - c. Appellate court found that non-compete “may be enforced to the extent that enforcement is necessary to protect a company’s trade secrets”; that information in P database was not entirely disclosed by customized products; and that issue of injunction scope was now moot. Costs for P.
  - d. [“Customers are property”: TS often really about relationships, not about information. TS exception to 16600: contrast Dowell v. Biosense, 179 Cal.App.4th 564, Oct. 2009, dicta doubting continued viability of CL TS exception to 16600.]
18. Trade secret definition (§ 3426.1 (d))
- a. Information
    - i. E.g., formula, pattern, program, device, method, technique, process
    - ii. May be secret compilation (if “integrated”) of otherwise non-secret public info
    - iii. Both technical and non-technical (e.g. customer list)
    - iv. Need not be tangible (e.g. memorized)
    - v. Need not be in continuous use (contrast Restatement 757 v. 759); one-shot
    - vi. May be negative info (what doesn’t work)
    - vii. Need not be novel or unique (but can’t be generally known)
  - b. Independent economic value from secrecy

- i. Actual or potential value
    - ii. Independent of the underlying information (cf. patent v. underlying invention)
    - iii. Value from not being generally known to the public
    - iv. Or value from not being generally known to others who can obtain value from disclosure or use
    - v. California omits “not readily ascertainable by proper means” element, but ready ascertainability may be defense, and may affect value
  - c. Reasonable efforts to maintain its secrecy
    - i. Efforts: secrecy requires active measures; not merely hidden
    - ii. Efforts reasonable under circumstances: efforts < value
    - iii. Requires some demarcation/specificity/boundaries beforehand?
    - iv. See 6 factors in Restatement 757: extent known by employees; effort expended in developing info; ease/difficulty of others acquiring; etc.
    - v. Almeling study found that usually confidentiality agreement is decisive
19. Trade secret misappropriation definition (§ 3426.1 (b))
- a. Threatened as well as actual misappropriation for injunction (§ 3426.2)
  - b. Acquisition, disclosure, or use
  - c. NOTE EEA: alters, downloads/uploads, photocopies, sends/receives, etc.
  - d. Knowledge or reason to know acquired by improper means
  - e. Without express or implied consent (e.g. waiver?)
  - f. Derived from one who used improper means
  - g. Acquired under circumstances -> duty (incl. implied) to maintain secrecy or limit use
  - h. Acquired by owner’s accident or mistake, before recipient material change of position
  - i. Constructive notice?
20. Improper means definition (§ 3426.1 (a))
- a. Theft, bribery, misrepresentation (e.g. bogus business cards; NOTE 499c fraud)
  - b. Breach or inducement of breach of duty to maintain secrecy
  - c. “Espionage” through electronic or other means (e.g., eavesdropping, wiretap?)
  - d. Reverse engineering alone NOT improper means, if RE of publicly-available product
  - e. Independent derivation alone NOT improper means