TRADE SECRETS

Intersection of state and federal law


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Peter H Bales examines the nuances of the federal Defend Trade Secrets Act and its similarities with California's Uniform Trade Secrets Act

In May 2016, the US Congress enacted the Defend Trade Secrets Act ("DTSA"), which created a federal private right of action for trade secret misappropriation "if the trade secret is related to a product or service use in, or intended for use in, interstate or foreign commerce."[1] The elements of a trade secret misappropriation claim under the DTSA are substantially similar to those under California's Uniform Trade Secrets Act ("CUTSA").[2]

However, notably absent from the DTSA is an early trade secret identification requirement. The CUTSA specifically requires that *"[i]n any action alleging the misappropriation of a trade secret under the [CUTSA], before commencing discovery relating to the trade secret*, the party alleging the misappropriation shall identify the trade secret with reasonable particularity…".[3] The question that remains open for the US Court of Appeals for the Ninth Circuit is whether a plaintiff can avoid California's trade secret identification obligations by filing its claims in a federal court rather than a state court.

Before the DTSA, California federal courts were applying section 2019.210's requirements in federal suits alleging a CUTSA claim.[4] After noting that the Ninth Circuit has not decided the issue, the court in *Loop AI Labs, Inc* agreed "with the reasoning of cases finding that a federal court may properly apply section 2019.210 in federal suits alleging CUTSA claims."[5] The court further explained that "…section 2019.210 does not conflict with Rule 26 (or any other Federal Rule of Civil Procedure), but instead complements and is consistent with 'Rule 26's requirements of early disclosure of evidence relevant to the claims at issue and the court's authority to control the timing and sequence of discovery in the interests of justice.'".[6] As explained by Magistrate Judge Donna M Ryu in *Loop AI Labs, Inc,* her decision "deters forum shopping, for '[a] plaintiff with a weak trade secret claim would have ample reason to choose federal court if it offered a chance to circumvent the requirements of [section 2019.210].'"[7]

After the DTSA was passed, California federal courts continue to apply 2019.210 to federal suits alleging both a CUTSA claim and a DTSA claim. In *Openwave Messaging, Inc v Open-Xchange, Inc*,[8] plaintiff alleged misappropriation of trade secrets under federal and California law. District Judge William H Orrick held that 2019.2010 did apply.

While the Ninth Circuit has yet to decide whether Section 2019.210 of the California Code of Civil Procedure applies to actions in federal court, courts in this district have routinely applied the trade secret disclosure provisions in Section 2019.210. Until the Ninth Circuit decides otherwise, it appears that most California federal courts will continue to hold plaintiffs to 2019.210's requirements in cases where plaintiffs include a CUTSA claim. But it is less likely that a California federal court will hold a plaintiff to such requirements if the only misappropriation claim is a federal claim for violation of DTSA since the federal statute does not have an early disclosure requirement prior to commencing discovery.

A defendant faced with only a DTSA claim can still request that a court force a plaintiff to describe its trade secrets with sufficient particularity at the pleading stage.

In *Vendavo, Inc v Price Fx*,[9] a California district court recently decided a motion to dismiss a DTSA claim where there was no accompanying CUTSA claim. District Judge Richard Seeborg did not expressly rely upon 2019.210, but still found that "the plaintiff must '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 persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies.'"[10]

The defendant invoked 2019.210 to support its motion to dismiss and Seeborg J warned against using that "state procedural rule".

On reply, [defendant] invokes California Code of Civil Procedure § 2019.210, *a state procedural rule* requiring a plaintiff to "identify the trade secret with reasonable particularity" prior to commencing discovery. That provision does not create a pleading requirement even in state court, *it certainly does not govern the adequacy of the complaint in federal court.* If anything, it supports that plaintiffs cannot be expected to disclose publicly in the complaint the very secrets they look to protect.[11]

Unless Congress adds a similar provision to the DTSA, 2019.210 will probably not be controlling in federal court where there is no accompanying CUTSA claim.

Footnotes

1. 18 USC § 1836(b)(1).
2. *Waymo LLC v Uber Techs, Inc* (ND Cal 15 May 2017) 2017 U Dist Lexis 73843, at *7
3. Cal Code Civ Proc § 2019.210. Emphasis added.
4. *Loop AI Labs, Inc v Gatti* (ND Cal 21 Dec 2015) 2015 US Dist. LEXIS 170349.
5. Id 7-8 (citations omitted).
6. Id. (citations omitted).
7. *Loop AI Labs, Inc v Gatti,* 2015 US Dist LEXIS 170349, *7-8.
8. ND Cal 2 Feb 2018) 2018 US Dist Lexis 17776, *10-12.
9. ND Cal 23 Mar 2018) 2018 US Dist Lexis 48637.
10. Id. at *9-10 (citations omitted).
11. Id at fn 3. Emphasis added.

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