

California

1. What is the statutory authority for trade secret protection in your state?

The statutory authority for trade secret protection in California is the California Uniform Trade Secrets Act (CUTSA), which is located in sections 3426 through 3426.11 of the California Civil Code. California Uniform Trade Secrets Act, §§ 3426-3426.11. CUTSA is largely identical to the Uniform Trade Secrets Act (“UTSA”). *Id.* California, like 48 other states, adopted the UTSA and incorporated it into their state civil code. California did so in 1984. *Id.*

In addition, California law may impose criminal penalties for stealing trade secrets. *See* Cal. Penal Code § 499(c). Cal. Penal Code § 499c.

Last, the Defend Trade Secrets Act (“DTSA”), which went into effect in May 2016, allows claimants to file directly in federal court when there is a connection between a trade secret and interstate or foreign commerce. *See* item #8 below for more detail regarding the DTSA and its relationship to the UTSA. Generally speaking, CUTSA tends to “protect a broader range of information in the civil context” than DTSA, which tends to concern more scientific or technical information. Brian M. Malsberger, *Trade Secrets: A State-by-State Survey*, 6th Ed., Vol. 1, ABA Section of Labor and Employment Law, 243.

2. What are the elements of a trade secret claim in your state, and are any unique?

California Code of Civil Procedure § 2019.210 provides that before commencing discovery relating to any action alleging the misappropriation of a trade secret under the CUTSA, the moving party must first identify the trade secret with reasonable particularity. *Brescia v. Angelin*, 172 Cal. App. 4th 133, 143 (Ct. App. 2009). Trade secret is defined as “information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) Derives 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.” *Altavion, Inc. v. Konica Minolta Systems Laboratory, Inc.*, 226 Cal. App. 4th 26, 42 (2014) (quoting CCP 2019.210). More detail provided on how parties establish if certain information qualifies as a trade secret in #3 below.

California Civil Code §3426.1 outlines the elements of a trade secret misappropriation claim:

1. Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means;
2. Disclosure or use of a trade secret of another without express or implied consent by a person who:
 - a. Used improper means to acquire knowledge of the trade secret; or

- b. At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
 - i. Derived from or through a person who used improper means to acquire it;
 - ii. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
 - iii. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
 - iv. Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

Even though California adopted the UTSA “without significant change,” *DVD Copy Control Assn., Inc. v. Bunner*, 31 Cal. 4th 864, 874 (Cal. 2003), the CUTSA differs from the UTSA in the following ways:

1. A court may order reasonable royalty payments so long as the payments do not exist past the period of time the use could have been prohibited. UTSA does not contain such a limitation.
2. CUTSA’s definition of “improper means” provides that “[r]everse engineering or independent derivation alone shall not be considered improper means.” This does not appear in the UTSA.
3. CUTSA includes “limited liability company” in its definition of person, while the UTSA does not include that term.
4. The USTA states that in order to be a trade secret, the information must not be “readily ascertainable” by proper means. CUTSA does not include the “readily ascertainable” clause. See response to #6 below for more information on California’s interpretation of “readily ascertainable.”

3. How specific do your courts require the plaintiff to be in defining its “trade secrets?” (This could include discussing discovery case law requiring particularity.)

In California, the party alleging misappropriation must “describe with reasonable particularity the trade secrets at issue.” CCP § 2019.210; *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F.Supp.2d 1332, 1335 (S.D. Fla. 2001) (applying California and Florida Law). This must occur before commencing discovery. *Id.* The trade secret designation mandated by § 2019.210 is “not itself a pleading but functions like one in a trade secret case because it limits the scope of discovery in much the same way as the allegations of a complaint limit discovery in other types of civil actions . . . [this means] that a plaintiff must make some showing that is reasonable under all 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.” CCP § 2019.210.

Ultimately, though, whether protected information qualifies as a trade secret “is a relative concept and requires a fact-intensive analysis.” *Premier Displays & Exhibits v. Cogswell*, 2009 U.S. Dist. LEXIS 119462, 8 (C.D. Cal 2009). Where the plaintiff makes a showing that is reasonable, i.e. proper and rational, and the trade secret has been described with “reasonable particularity,” a court will deem it sufficient for discovery to commence. *Advanced Modular Sputtering, Inc. v. Superior Court*, 132 Cal. App. 4th 826, 830 (Ct. App. 2005).

What follows is reference to three recent cases that help to illustrate how California courts apply the

“reasonable particularity” standard to how plaintiffs present trade secrets.

Alta Devices, Inc. v. LG Elecs., Inc. (2019): In response to a motion to compel, a magistrate judge held that plaintiffs cannot simply refer to documents without also describing which part of the document is claimed to be a trade secret. Further, plaintiffs need to specifically describe the technology at issue, as opposed to just generically stating the type of technology. *Alta Devices, Inc. v. LG Elecs., Inc.* 2019 WL 176261 (N.D. Cal. 2019)

Cisco Systems, Inc. v. Chung (2020): Plaintiff’s trade secret disclosure survived defendant’s motion to strike plaintiff’s trade secret designation on grounds that it was deficient. The court held that the plaintiff’s description of a “multi-prong business expansion plan” and a “multi-step sales strategy aimed at capturing the market share,” which was supported by documentation, provided the defendants with ample information “to investigate the claims against them.” *Cisco Sys., Inc. v Chung*, 2020 WL 7495085, 9-10 (N.D. Cal 2020).

Proofpoint, Inc. v. Vade Secure, Inc. (2020): Here, a defendant sought a protective order from discovery due to a lack of reasonable particularity in the plaintiff’s trade secret disclosure. The plaintiff provided an affidavit from a professor that stated that the plaintiff’s disclosures gave people of the professor’s similar level of knowledge/skill enough information to “understand what is being claimed” and to distinguish the claimed trade secrets from information generally known to the public. The court held that “reasonable particularity” need only be specific enough so that someone with a similar level of understanding as the defendant would understand the trade secret at issue. *Proofpoint, Inc. v. Vade Secure, Inc.*, 2020 WL 1911195, 7 (N.D. Cal 2020).

4. What is required in your state for a plaintiff to show it has taken reasonable measures to protect its trade secrets? (Preferably answer with practical, factual requirements from decisions.)

In California, a plaintiff must show that it has taken reasonable measures to protect its trade secrets. Broadly speaking, according to California Jury Instructions, reasonable efforts “are efforts that would be made by a reasonable [person/business] in the same situation and having the same knowledge and resources as [Plaintiff], exercising due care to protect important information of the same kind.” Judicial Council Of California Civil Jury Instruction 4404, 2021. Here are factors to consider when determining whether the plaintiff made reasonable efforts to protect secrecy:

1. Whether documents or computer files containing the information were marked with confidentiality warnings;
2. Whether Plaintiff instructed its employees to treat the information as confidential; restricted access to the information to persons who had a business reason to know the information; kept the information in a restricted or secured area; required employees or others with access to the information to sign confidentiality or nondisclosure agreements; or took any action to protect the specific information, or whether it relied on general measures taken to protect its business information or assets;
3. The extent to which any general measures taken by Plaintiff would prevent the unauthorized disclosure of the information; and
4. Whether there were other reasonable measures available to Plaintiff that it did not take.

Below are foundational case law examples of what does or does not satisfy the “reasonable efforts” requirement:

Courtesy Temporary Service, Inc. v. Camacho (1990): The court held that the company satisfied the “reasonable efforts” requirement by making the following efforts to maintain secrecy of the company’s customer list: (i) information regarding the company’s customers was not divulged to anyone outside the business, (ii) information was distributed on an “as needed basis,” only to the extent necessary to carry out their duties, (iii) different branch offices did not share customer info with one another, and (iv) employees were made aware of the confidential and proprietary nature of any information disclosed. *Courtesy Temporary Service, Inc. v. Camacho*, 222 Cal. App. 3d 1278 (1990).

Religious Technology Center v. Netcom On-Line Communications Service, Inc. (1995): Here, the court stated that the plaintiff made “a more than adequate showing” on the issue of reasonable efforts by using: “locked cabinets, safes, logging and identification of the materials, [extremely limited] availability of the material worldwide . . . electronic sensors attached to documents, locked briefcases for transporting works, alarms, security personnel, and confidentiality agreement.” *Religious Technology Center v. Netcom On-Line Communications Service, Inc.*, 907 F.Supp. 1231, 1253-1254 (N.D. Cal. 1995).

Pyro Spectaculars North, Inc. v. Souza (2012): The court found that the plaintiff used reasonable efforts to protect its trade secret information where it required its employees to sign confidentiality agreements; maintained its confidential information remotely on secure network servers; required employees to use passwords, although with minimum complexity, to access the company database; and compartmentalized data and limited access by geographic region and job function. *Pyro Spectaculars North, Inc. v. Souza*, 861 F. Supp. 2d 1079, 1090 (E.D. Cal. 2012)

In addition, the following measures have recently been ruled to satisfy the reasonable efforts requirement: (i) simply requiring employees to sign confidentiality or nondisclosure agreements is generally a reasonable step to ensure secrecy *Fitspot Ventures, LLC v. Bier*, 2015 BL 283490 at 4 (C.D. Cal. 2015); *Whyte v Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1454 (2002); *ReadyLink Healthcare v. Cotton*, 126 Cal. App. 4th 1006, 1018 (2005).; (ii) relying on a “variety of protective measures” like NDA’s, secure servers, controlled access to particular facilities, and strict internal rules governing the sharing and copying of electronic information, *PQ Labs, Inc. v. Yang Qi*, No. 12-0450 CW (N.D. Cal. 2014); (iii) providing an employee handbook which required employees to maintain the confidentiality of its “strategy, customers,...[and] financial information” and submitting a declaration stating that its employees are only given access to such confidential information on a need to know basis, *Cutera, Inc. v. Lutronic Aesthetics, Inc.*, No. 2:20-CV-00235-KJM-DB (E.D. Cal. 2020).; (iv) using physical barriers like requiring employees to show ID to security personnel when entering areas with confidential information, *United States v. Chung*, 659 F.3d 815, 827 (C.D. Cal. 2011); (v) using “secure eye contractors” required to have worked with the company for several years, signed confidentiality agreements, and not having been allowed to retain any materials with trade secrets, *United States v. Liew*, 856 F.3d 585, 602 (9th Cir. 2017); and (vi) thoroughly eliminating a former employee’s access to any trade secret information via any online portal at or before the date of termination, *Hooked Media v. Apple*, 55 Cal. App. 5th 323, 269 (2020).

5. Does your state apply the inevitable disclosure doctrine? If so, how is it applied?

Under the inevitable disclosure doctrine “a plaintiff may prove a claim of trade secret misappropriation by demonstrating that [a] defendant’s new employment will inevitably lead him to rely on the plaintiff’s trade secrets.” *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1269 (7th Cir. 1995). California law expressly rejects this approach and requires that some evidence of use or disclosure be presented, i.e. an employer can satisfy its evidentiary burden by showing that the former employee used trade secret information to solicit former employer’s customers. *RBC Bearings Inc. v. Caliber Aero, LLC*, 2016 U.S. Dist. LEXIS 100521, at 5 (C.D. Cal. 2016).

In *Whyte v. Schlage Lock Company*, the court stated: “Lest there be any doubt about our holding, our rejection of the inevitable disclosure doctrine is complete.” *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1463 (Ct. App. 2002). The policy rationale is that drawing an inference that an individual will undoubtedly misappropriate the trade secret of a former employer is similar to imposing an after-the-fact agreement to not compete. This is directly at odds with California's strong public policy in favor of employee mobility, *RBC Bearings Inc.*, at 5; Cal. Bus. & Profs. Code § 16600, and would alter the employment relationship without the employee’s consent, *Whyte*, at 1462-3.

In 2020, the California Court of Appeal issued a ruling reinforcing the state’s rejection of the doctrine of inevitable disclosure. As A Reminder That California Has Rejected The Doctrine Of Inevitable Disclosure, Court of Appeal Rules Knowledge Of Former Employer’s Trade Secret Information Does Not By Itself Constitute Misappropriation, *National Law Review*, October 2020. *Hooked*, a small tech startup, accused Apple of misappropriating “technical information, such as algorithms and app recommendation strategies,” offering evidence that: (i) “its former employees were assigned to tasks at Apple similar to the work they did at *Hooked*,” and (ii) a former *Hooked* employee produced a detailed plan for a recommendations system, much like *Hooked*’s version, within weeks of being hired by Apple; and “an expert opined that the source code for Apple’s recommendations system was similar to the source code for *Hooked*’s.” *Hooked Media v. Apple*, 55 Cal. App. 5th 323, 332 (2020).

The court held that to establish trade secret misappropriation under California law, it is not sufficient to show that a defendant has knowledge of a plaintiff’s trade secrets. Instead, the plaintiff must prove that the defendant improperly acquired or used the sensitive information. In its analysis, the court highlighted principles of free market competition, explaining that Apple was free to employ any of *Hooked*’s employees at any time, and “those employees were free to leave to work for Apple, without any compensation to *Hooked*.” *Id.* at 330. The real issue was whether Apple’s conduct “transformed ordinary free market competition into an actionable legal wrong.” The Court ruled that Apple’s conduct did not cross that line, as the former employees of *Hooked* simply “drew on knowledge and skills they gained from *Hooked* to develop a product for their new employer.” This is clearly allowed in California, where “mere possession of trade secrets by a departing employee [is] not enough for a UTSA violation.” *Id.* at 333.

6. How have courts in your state addressed the defense that an alleged trade secret is “reasonably ascertainable?” What needs to be shown to prevail on that theory?

A claim that information was readily ascertainable by proper means can serve as an affirmative defense to trade secret misappropriation allegations in California. *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514, 1520 (1997); *see also Courtesy Temporary Serv., Inc. v. Camacho*, Cal. App. 3d 1278, 1288 (1990) (holding that plaintiff’s customer list was “the product of a substantial amount of time, expense and effort on the part of the plaintiff . . . and the nature and character of the subject customer information, i.e. billing rates, key contacts . . . is sophisticated information” that is not readily ascertainable to other competitors.) However, “[t]here is no fixed standard for determining what is readily ascertainable by proper means.” Judicial Council Of California Civil Jury Instruction 4420, 2021. Generally speaking, information is readily ascertainable if it can be obtained, discovered, developed, or compiled without significant difficulty, effort, or expense. For example, information will qualify as readily ascertainable if it is widely available in trade journals or other published materials. Conversely, the more difficult particular information is to obtain, the less likely it is that the information is readily ascertainable by proper means. *Id.* But whether information is readily ascertainable is not dispositive of whether or not the information is in fact a trade secret. *Karoun Dairies v. Karoun Dairies*, 2014 BL 28707, 6 (S. D. Cal 2014). The primary issue is whether it has “yet been ascertained by others in the industry.” *Id.*

What follows are a few examples of how California courts consider the affirmative defense that information was readily ascertainable by proper means:

Morlife, Inc. v. Perry (1997): Courts are “reluctant to protect customer lists to the extent they embody information which is ‘readily ascertainable’ through public sources, such as business directories.” But if an employer has spent significant time and effort identifying possible customers, and tailoring its interactions to fit those customers’ unique needs, then courts may be inclined to prohibit former employees from using this information to “capture a share of the market.” *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514, 1522 (1997). The court distinguished between a customer list that includes basic contact information (available in some form of public directory) and one that includes more nuanced information reflective of a company’s commitment to engaging with its customers. *Id.* at 1521.

ABBA Rubber Co. v. Seaquist (1991): The court here helped to distinguish between a defense based upon an absence of misappropriation versus the absence of a trade secret. “If the defendants can convince the finder of fact at trial (1) that ‘it is a virtual certainty that anyone who manufactures’ certain types of products uses rubber rollers, (2) that the manufacturers of those products are easily identifiable, and (3) that the defendants’ knowledge of the plaintiff’s customers resulted from that identification process and not from the plaintiff’s records, then the defendants may establish a defense to the misappropriation claim.” *ABBA Rubber Co. v. Seaquist*, 235 Cal. App. 3d 1, 21-22 (Ct. App. 1991).

San Jose Construction, Inc. v. S.B.C.C., Inc. (2007): the court held that just because information could potentially be reverse engineered, and thus readily ascertainable, it does not mean that a party will prevail on an affirmative defense claim. A court must still consider the time and energy a party put into developing that information, and the actual time frame for reverse engineering. *San Jose Construction, Inc., v. SBCC, Inc.*, 155 Cal. App. 4th 1528, 1542 (Ct. App. 2007).

In order to improve one’s chances of prevailing on the defense that an alleged trade secret is “reasonably ascertainable,” parties often hire experts to testify on technical issues as to whether a trade secret exists, whether information was in fact readily ascertainable, what type of efforts would need to be expended to develop the information, the time required to reverse engineer, and the harm that such a misappropriation would cause. Kevin Clouter, *Discovery on Behalf of Plaintiffs in Trade Secret Misappropriation and Breach of Restrictive Covenant Actions*, Practical Guidance Journal, LexisNexis, January 2020.

7. What are the most recent “hot button” issues addressed by courts in your state regarding trade secret claims?

The questions presented in this compendium cover many of the “hot button” issues regarding trade secret claims currently being addressed by California courts. This includes the state’s recent reaffirmation of its rejection of the inevitable disclosure doctrine; the extent to which experts will be retained to opine on ‘ascertainability,’ reverse engineering, and harms resulting from misappropriation; the continuing development of “reasonable particularity” required to establish whether information qualifies as a trade secret; the methods companies use to protect their trade information, especially considering the pace of technological development; and the developing relationship between CUTSA and DTSA claims. See the response to question #8 below for more detail on how DTSA will continue to impact trade secret law here in California.

8. How does your state’s Trade Secret law differ from the DTSA, as the latter is applied in your Circuit?

The DTSA is modeled on the UTSA, but is distinguishable in the following ways:

Unlike CUTSA, where plaintiffs must first identify disputed trade secrets “with reasonable particularity”

before conducting discovery, the DTSA does not require prediscovery trade secret identification. Thus, the DTSA has the potential to take some of the advantage away from defending litigants. Dylan Wiseman, *California Plaintiffs May Prefer State Court For Trade Secret Claims*, Law360, December 9, 2019.

While CUTSA prohibits any person from misappropriating the trade secrets of another, the DTSA limits actions to “owners” of misappropriated trade secrets related to products or services used in interstate or foreign commerce. The statute does not define “owner,” and its definition is likely to be a contested standing issue in litigation where the current ownership of property is in dispute. Standing issues may also arise when there is uncertainty about whether property moved through interstate commerce. *Id.*

The DTSA allows for the court, on an ex parte basis, to direct law enforcement to seize a defendant’s property in order to prevent the propagation or dissemination of trade secrets. Eric Goldman, *Ex Parte Seizures and the Defend Trade Secrets Act*, 72 Wash. & Lee L. Rev. 284 (2015). Civil seizure may be available under state law generally, but is not an explicit remedy under the UTSA. This provision has attracted significant attention. Even though it is subject to strict standards, some feel it makes the DTSA an appealing alternative to the UTSA. Danielle A. Duszczyszyn, Ph.D. & Daniel F. Roland, *Ex Parte Seizure Under the Defend Trade Secrets Act: Insights on the New Remedy*, Westlaw Journal Intellectual Property, April 8, 2020. It has also given rise to concerns regarding judicial overreach and constitutionality. Esha Bandyopadhyay & Markus Weyde, *The DTSA Ex Parte Civil Seizure Remedy: Constitutional or Not?* Intellectual Property & Technology Law Journal, Vol. 31, No. 12, December 2019. As of April of 2020, fewer than 20 ex parte seizures had been requested, with about half being granted, since the enactment of the DTSA. Dylan Wiseman, *California Plaintiffs May Prefer State Court For Trade Secret Claims*, Law360, December 9, 2019.

CUTSA acknowledges that it is not designed to deter whistleblowing activities, and the DTSA takes that protection one step further by enacting explicit whistleblower immunities and by imposing a requirement that employers give employees notice of those immunities. Failure to comply with the notice requirements only limits plaintiffs’ rights to recover “extraordinary” remedies, namely exemplary damages and attorneys’ fees, but it does not bar claims altogether. John C. Glancy, Danielle Ochs, & Tobias Schlueter, *Five Questions You Should Ask About the Defend Trade Secrets Act*, J.D. Supra, June 22, 2016.