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A Recurring Question In Calif. Federal Trade Secret Cases

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Although trade secret misappropriation claims are grounded in state law, litigants commonly find themselves in a federal district court. A recurring question for federal courts adjudicating a trade secret misappropriation claim in California is whether to apply California Code of Civil Procedure Section 2019.210, which requires a party alleging trade secret misappropriation to identify its trade secrets with reasonable particularity before engaging in discovery on the trade secret misappropriation claim. The courts are split on this issue. Section 2019.210 provides:

In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) of Part 1 of Division 4 of the Civil Code), before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.

In 1984, the California Legislature adopted Section 2036.2, the predecessor statute to Section 2019.210. Since then, federal courts have wrestled with the question of whether the statute applies in a federal court action alleging misappropriation of trade secrets.

This article provides a brief abstract of both the history and public policy considerations behind Section 2019.210 and examines the varying case law regarding the application of 2019.210 in federal courts since its enactment.

The History and Public Policy Considerations Behind Section 2019.210

The genesis of Section 2019.210 and its predecessor statutes was the 1968 decision in Diodes Inc. v. Franzen, 260 Cal. App. 2d 244 (1968). Diodes, which was decided 16 years before the enactment of the California Uniform Trade Secrets Act ("CUTSA"), involved the alleged misappropriation of a "secret process" for developing a type of semi conductor. The complaint in Diodes failed to identify the subject matter of the "secret process," but instead spoke "in circumlocutions and innuendos." Id. at 251. The court found that the plaintiff did not "plead facts showing that it ever had any trade secret to protect." Id. The court held:

Before a defendant is compelled to respond to a complaint upon claimed misappropriation or misuse of a trade secret and to embark on discovery which may be both prolonged and expensive, the complainant 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 who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies.

Id. at 253. In articulating this disclosure requirement, the Diodes court made clear that the primary public policy rationales of the requirement were to prevent costly and unnecessary discovery and to give the court and the defendant "reasonable notice of the issues which must be met at the time of trial." Id.

In 1984, the California Legislature enacted the CUTSA, Cal. Civ. Code §§ 3426, et seq. In the same year, the trade secret identification requirement set forth by the Diodes court was codified by the California Legislature in California Code of Civil Procedure Section 2036.2. Section 2036.2 was unique to California and not part of the Uniform Trade Secrets Act. It was included in the California legislation at the California State Bar's suggestion. The California State Bar commented that the proposed statute was "intended to codify Diodes Inc. and afford a measure of protection against the procedure of initiating an action to pursue extensive discovery without revelation of the trade secret or secrets." See Computer Econ. Inc. v. Gartner Grp. Inc., 50 F. Supp. 2d 980, 984-85 (S.D. Cal. 1999) (quoting Comments from the Patent, Trademark, and Copyright Section of the California State Bar to Assemblyman Harris, at 5 (March 28, 1983)). The Computer Economics court specifically noted:

One area not addressed by the Uniform Act is the area of plaintiff's abuse in initiating trade secret lawsuits for the purpose of harassing or even driving a competitor out of business by forcing a competitor to spend large sums in defending unwarranted litigation. For example, where a plaintiff's employee quits and opens a competing business, a plaintiff often files a lawsuit for trade secret misappropriation which states that the defendant took and is using plaintiff's trade secrets, but does not identify the trade secrets. The plaintiff can then embark upon extensive discovery which the new business is ill equipped to afford. Furthermore, by not informing the defendant with any degree of specificity as to what the alleged trade secrets are, defendant may be forced to disclose its own business or trade secrets, even though those matters may be irrelevant, and the defendant may not learn the exact nature of the supposedly misappropriated trade secrets until the eve of trial.

Computer Econ., 50 F. Supp. 2d at 985 n.6 (quoting legislative history). The California Legislature renumbered this provision twice: It was recodified as Section 2019(d) in 1987 and renumbered as Section 2019.210 in 2004. These revisions were nonsubstantive and did not alter the text of the statute.

Since enactment of CUTSA and Section 2019.210, a robust body of California case law further expounded on the public policy considerations behind California's requirement for early identification of trade secrets before commencing discovery. First, it promotes well investigated claims and dissuades the filing of meritless trade secret complaints. Second, it prevents the misuse of the discovery process as a means to obtain a competitor's trade secrets. Third, the rule assists the court in framing the scope of discovery and determining whether discovery requests properly fall within that scope. Fourth, it enables a defendant to form complete and well-reasoned defenses, ensuring that it need not wait until the eve of trial to defend effectively against trade secret claims. See, e.g., Brescia v. Angelin, 172 Cal. App. 4th 133, 144 (2009); Advanced Modular Sputtering Inc. v. Superior Court, 132 Cal. App. 4th 826, 833-34 (2005); Computer Econ., 50 F. Supp. 2d at 985.

While there is little, if any, divergence among California state courts in applying the mandate of Section

2019.210 in trade secret misappropriation actions, federal courts are divided on the applicability of the California statute in federal court. Indeed, the substantive policy goals underlying this California procedural statute present vexing questions for the Erie analysis.

Federal Courts' Interpretations of Section 2019.210

Since the enactment of the statute in 1984, at least 60 federal court decisions reference either Section 2019.210 or its predecessor statutes. Indeed, discussion of Section 2019.210 in federal court is not localized to California federal courts; the jurisprudence includes decisions from judicial districts as diverse as the Southern District of Florida, see Del Monte Fresh Produce Co. v. Dole Food Co., 148 F. Supp. 2d 1322 (S.D. Fla. 2001) (applying Florida law and finding that the then-section 2019(d) did not conflict with Florida law), the Eastern District of Texas, see MedioStream Inc. v. Microsoft Corp., 749 F. Supp. 2d 507 (E.D. Tex. 2010) (applying California trade secret law and declining to dismiss a claim under section 2019.210 because discovery related to the allegedly misappropriated trade secret had not commenced prior to the plaintiff's disclosure of the trade secret), and the Southern District of New York, see Innovative BioDefense Inc. v. VSP Techs., 2013 U.S. Dist. LEXIS 95429 (S.D.N.Y. July 3, 2013) (applying New York rather than California law but noting that application of New York law would not violate the public policy grounds underlying Section 2019.210). While the Ninth Circuit has not yet addressed this issue, Section 2019.210 has been cited in the Ninth Circuit. See, e.g., nSight Inc. v. PeopleSoft Inc., 296 Fed. Appx. 555, 560-61 (9th Cir. 2008) (noting that the plaintiff "did not identify any trade secret with reasonable particularity" pursuant to section 2019.210). Federal district courts have approached Section 2019.210 in three distinct ways.

Case Law Finding California Code of Civil Procedure Section 2019.210 Should Apply in Federal Court

Very briefly, a federal court sitting in diversity must apply state substantive law and federal procedural law. See Erie R.R. v. Thompkins, 304 U.S. 64, 78 (1938). The Erie doctrine applies equally to state law claims that are brought to the federal courts through supplemental jurisdiction. See Charles O. Bradley Trust v. Zenith Capital LLC, 2005 U.S. Dist. LEXIS 35562, at *10 n.2 (N.D. Cal. May 3, 2005); Mangold v. California Pub. Utils. Comm'n, 67 F.3d 1470, 1478 (9th Cir. 1995) ("The Erie principles apply equally in the context of pendent jurisdiction"). The determination of whether a rule is "substantive" or "procedural" requires the court to consider whether the state rule conflicts with any applicable federal rule. See Hanna v. Plumer, 380 U.S. 460, 471 (1965). If there is a conflict, the federal rule prevails. Id. If there is not a conflict, the court then considers whether the failure to apply the state rule would significantly affect the outcome of the litigation or forum-shopping incentives. Id. at 468.

One interpretation of Section 2019.210 is that, despite being found in the California Code of Civil Procedure, it is a substantive statute which does not conflict with any applicable Federal Rule of Civil Procedure. Courts following this interpretation generally reject the argument that Section 2019.210 conflicts with the federal discovery provisions outlined in Rule 26 and note that application of Section 2019.210 in federal court will dissuade forum shopping by trade secret misappropriation plaintiffs. See, e.g., Computer Econ., 50 F. Supp. 2d at 988-90; SocialApps LLC v. Zynga Inc., 2012 U.S. Dist. LEXIS 82767 (N.D. Cal. June 14, 2012); Gabriel Techs. Corp. v. Qualcomm Inc., 2011 U.S. Dist. LEXIS 142478 (S.D. Cal. Dec. 12, 2011).

The court in Computer Economics, 50 F. Supp. 2d at 988-90, undertook an exhaustive analysis of Federal Rule of Civil Procedure 26 and Section 2019.210. The court found that the "slight similarity of subject matter and purpose between Rule 26(c) and [Section 2019.210] does not render the two rules in conflict. Since litigants would likely use them together, Rule 26(c) and [Section 2019.210] can exist side

by side ... each controlling [their] own intended sphere of coverage without conflict." Id. at 989 (internal citations omitted). The court also found that Section 2019.210 does not conflict with Rule 26(b)(1) because "the state statute does not alter the scope of discoverable evidence under Rule 26(b)(1); it merely postpones discovery until a plaintiff identifies its allegedly misappropriated trade secrets." Id. Finally, the Computer Economics court found that Section 2019.210 does not conflict with any other provision of Rule 26.

After concluding that Section 2019.210 does not conflict with any applicable Federal Rule of Civil Procedure, the Computer Economics court analyzed the procedural and substantive nature of section 2019.210. Here, the court noted several reasons that compelled application of Section 2019.210 in federal court.

First, Section 2019.210 was enacted as an integral part of the CUTSA in order to curb unsupported trade secret lawsuits, and this state statute "strikes a balance between a plaintiff's right to protect its trade secrets and a defendant's right to be free from the burdens associated with unsupported trade secrets claims." Id. at 992. Thus, a "federal court cannot separate [Section 2019.210] from the whole of California's Uniform Trade Secrets Act without frustrating the legislature's legitimate goals and disregarding the purposes of Erie." Id.

Second, failure by the federal court to apply section 2019.210 in diversity cases would encourage forum shopping because "[n]on-application of [Section 2019.210] would entitle a plaintiff to virtually unlimited discovery, enhancing its settlement leverage and allowing it to conform misappropriation claims to the evidence produced by the defendant in discovery." Id. Thus, if Section 2019.210 did not apply in federal court, it "would inequitably deprive defendants of the protections of [Section 2019.210] and attract to federal court the unsupported trade secret lawsuits the statute was enacted to deter." Id.

Finally, the Computer Economics court found that there were no countervailing federal interests outweighing the state's interest in enforcement of Section 2019.210; Section 2019.210 "harmoniously coexists with various provisions of Rule 26 and enhances the court's ability to control discovery in trade secret cases." Id. Accordingly, the Computer Economics federal court ordered the trade secret plaintiff to comply with Section 2019.210. Id.

More recently, a court in the Northern District of California came to a similar conclusion regarding the applicability of Section 2019.210 in federal court. See SocialApps LLC, 2012 U.S. Dist. LEXIS 82767, at *7. The SocialApps court found that the disclosure provisions of Section 2019.210 are applicable in federal court because Section 2019.210 does not conflict with any federal rule. Id. at *7. Instead, Section 2019.210 "is generally 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." Id. Section 2019.210 is further consistent "with the court's authority to issue a protective order regarding discovery of trade secret and confidential information." Id. Finally, the SocialApps court found that application of Section 2019.210 to trade secret claims in federal court "avoids improper incentives for choosing a federal forum." Id.

Case Law Finding California Code of Civil Procedure Section 2019.210 Should Not Apply in Federal Court

Some courts interpreting Section 2019.210 find that Section 2019.210 and the Federal Rules of Civil Procedure are in direct conflict. These courts note that where a federal rule of procedure covers a rule of practice, the federal rule governs in a federal case, even in the face of a contrary state rule.

Accordingly, these courts refuse to apply the discovery provisions of Section 2019.210 and instead rely solely on the federal discovery rules. See, e.g., Funcat Leisure Craft Inc. v. Johnson Outdoors Inc., 2007 U.S. Dist. LEXIS 8870, at *6 (E.D. Cal. Jan. 29, 2007); Hilderman v. Enea Teksci Inc., 2010 U.S. Dist. LEXIS 1527, at *9 (S.D. Cal. Jan. 8, 2010).

The court in Funcat, 2007 U.S. Dist. LEXIS 8870, at *6, stated that "it is not within the discretion of the court to willy nilly apply bits and pieces of the discovery civil procedure codes of the various states, even the state in which the district court sits." The Funcat court disagreed with the decision in Computer Economics, finding that if Federal Rule of Civil Procedure 26 "applies, plaintiffs may go forward with the instant discovery. If § 2019.210 applies, plaintiffs are prevented from pursuing discovery if the insufficiency of their § 2019.210 statement is adversely determined. Here, application of § 2019.210 would serve to prevent application of Rule 26." Id. at *7. The court further stated that "Section 2019.210 clearly addresses procedure and not substance. The California statute simply sets out a procedural pleading or identification threshold prior the initiation of discovery — both purely procedural matters. Rule 26 et seq., without question regulates the procedure for discovery." Id. at *8.

Similarly, the court in Hilderman, 2010 U.S. Dist. LEXIS 1527, at *9, found that Section 2019.210 does not apply to federal actions because it conflicts with Federal Rule of Civil Procedure 26. Specifically, the court found that these two provisions conflict because Rule 26 provides for the opening of discovery whereas Section 2019.210 conditions discovery regarding trade secrets on plaintiff sufficiently identifying the trade secret. Id. at *6-7. Thus, "Section 2019.210 imposes burdens on discovery that are not in keeping with the liberal discovery scheme of the Federal Rules of Civil Procedure." Id. at *9. Accordingly, the Hilderman court refused to apply Section 2019.210.

Case Law Applying a Hybrid Approach to California Code of Civil Procedure Section 2019.210

Finally, a third approach to Section 2019.210 combines the practical impact of the procedural and substantive approaches discussed above. Here, courts either decline to rule on the applicability of Section 2019.210 or explicitly hold that Section 2019.210 does not apply in federal court. Nevertheless, these courts utilize the powers and discretion entrusted via the Federal Rules of Civil Procedure to mimic the discovery rubric of section 2019.210. Thus, while not applying the California statute, these courts employ substantially similar discovery procedures as part of their discretion in ordering discovery. See Jardin v. DATAllegro Inc., 2011 U.S. Dist. LEXIS 84507 (S.D. Cal. July 29, 2011); Applied Materials Inc. v. Advanced Micro-Fabrication Equip. Co., 2008 U.S. Dist. LEXIS 82530 (N.D. Cal. Jan. 18, 2008); Advante Int'l Corp. v. Mintel Learning Tech., 2006 U.S. Dist. LEXIS 86334 (N.D. Cal. Nov. 21, 2006); Excelligence Learning Corp. v. Oriental Trading Co., 2004 U.S. Dist. 28125 (N.D. Cal. June 14, 2004).

Jardin, 2011 U.S. Dist. LEXIS 84507, at *12, involved an appeal of a magistrate judge's discovery order compelling a trade secret plaintiff to respond to an interrogatory which would "serve the same purpose as the trade secret statement mandated by § 2019.210." The district court first acknowledged the four policy goals underlying Section 2019.210's mandatory pre discovery trade secret statement. Id. at *9. The court then noted that "the cases rejecting the direct application of § 2019.210 in federal court do not suggest that a federal magistrate judge cannot consider issues related to the policy rationale for § 2019.210; nor do they suggest that a judge employing discovery procedures similar to those mandated by § 2019.210 necessarily applies state law." Id. at *10-11. Thus, the Jardin court observed that the magistrate judge did not apply Section 2019.210 but rather stated that "the policy considerations underlying § 2019.210 are relevant to this case" and ordered procedures under Rule 26 to "manage discovery in a way that ensures fairness across the board." Id. at *13.

Accordingly, the Jardin court upheld the magistrate judge's order, finding that the fact that the magistrate judge "ordered procedures similar to those that § 2019.210 would mandate in state court is of no moment; the Federal Rules provide magistrate judges with broad discretion to manage discovery based on the particular facts of the cases before them." Id. at *15.

Conclusion

Regardless of whether Section 2019.210 is strictly applied in federal court, the substantive policy goals underlying Section 2019.210 remain sound: (1) promoting well-investigated trade secret misappropriation claims, (2) preventing the misuse of discovery to obtain a competitor's trade secrets, (3) defining the proper scope of discovery, and (4) allowing a trade secret misappropriation defendant to form complete and well-reasoned defenses in advance of trial. Accordingly, litigants should assume that a federal court will view a defense request for an early, particularized trade secret identification favorably, and plaintiffs should be ready.

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