

# Calif. Plaintiffs May Prefer State Court For Trade Secret Claims

By **Dylan Wiseman** (December 9, 2019)

Lawyers are oddly attracted to shiny, new things.

According to the Lex Machina Trade Secret Litigation Report 2018, the 2016 enactment of the Defend Trade Secrets Act produced a dramatic increase in the filing of trade secret claims in the federal courts. The DTSA catapulted trade secrets to equal footing with patents, copyrights and trademarks under federal law.



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The DTSA finally opened the door to the federal courts for trade secrets disputes. The U.S. District Court for the Northern District of California has seen the number of trade secrets cases increase from 27 in 2015 to 64 in 2018. Likewise, in 2018 the U.S. District Court for the Central District of California, which leads the nation in trade secret filings, saw a 14.6% increase in trade secrets disputes compared to 2015.

Prior to 2016, in California, trade secrets disputes were exclusively a function of state law under the California Uniform Trade Secrets Act. California enacted its CUTSA in 1985 and has an extensive body of law around it.

Filing under the DTSA is certainly advantageous when an American company pursues claims against a foreign business. Indeed, when Congress enacted the DTSA in 2016, it enjoyed bipartisan support by giving American companies a remedy against foreign businesses pilfering American trade secrets.

However, according to Lex Machina's 2018 data, for trade secrets lawsuits filed in the Northern District of California and Central District of California, less than one-third involve American companies filing DTSA claims against foreign actors. The vast majority of 2018 DTSA cases feature California plaintiffs suing California defendants.

Those disputes take the familiar form of a company's suing its former employee and his or her new company over alleged acts of unfair competition. Lawyers are drawn to the new basis for federal question jurisdiction provided by the DTSA.

However, when a California business sues California defendants, there are considerable advantages to filing in California's state courts and not invoking the DTSA and filing in federal court.

In many fields, plaintiffs lawyers avoid federal courts like the plague. Federal judges are generally more inclined to grant summary adjudication to defendants than their California counterparts. Federal judges are more inclined to dispose of actions on procedural grounds than California state court judges.

Indeed, defendants often remove cases to federal court because it is perceived as being more favorable to defendants. However, when it comes to prosecuting trade secrets cases between American businesses, somehow these well-established principles are disregarded by plaintiffs' counsel.

Similarly, lawyers filing trade secrets cases in the federal courts somehow ignore the fact

that a federal civil verdict must be unanimous. Federal Rule of Civil Procedure 48 permits between six and 12 jurors in federal matters, and defense counsel always insist upon 12. In a hyperdivided U.S. culture, it is extremely difficult for anyone to agree to anything, let alone unanimously agree.

In California's state courts, persuading nine of the 12 jurors results in a victory. For that reason alone, California businesses proceeding against California defendants should avoid the temptation to file in federal court. Given that most cases settle, filing a trade secrets dispute in federal court may diminish the settlement value because of the difficulties in obtaining a unanimous verdict.

The definition of what a trade secret is under California law is more favorable to plaintiffs than the DTSA's definition. Under California law, whether the information was "readily ascertainable by proper means" is not part of the definition of a trade secret.[1] California's Legislature expressly declined to adopt the "readily ascertainable by proper means" standard because it would "muddy the meaning of the term trade secret and invite the various parties to speculate on the time needed to discover a trade secret." [2]

In contrast, Congress dove headfirst into the muddled quagmire of the "readily ascertainable by proper means" standard, which is part of the definition of a trade secret under the DTSA.[3] The practical implications are significant. Federal litigants could spend considerable resources trying to establish that the alleged trade secrets are or are not "readily ascertainable by proper means," while California does not even consider that issue as part of its statutory definition.

This distinction is meaningful because the DTSA imposes a considerably more rigorous standard to show the information is a trade secret." For a plaintiff trying to establish its technology or customer list as a trade secret, being in State or federal court could mean the difference between winning or losing.

Filing in the federal courts does not eliminate the procedural safeguards afforded in the California state courts around identifying trade secrets. Filing in federal court does not obviate the need for a plaintiff to identify with reasonable particularity its alleged trade secrets before commencing discovery relating to the trade secret.[4]

Some crafty federal practitioners have attempted — to no avail — to argue that California's Section 2019.210 does not apply in federal court.[5] While the U.S. Court of Appeals for the Ninth Circuit has yet to address the applicability of California Code of Civil Procedure Section 2019.210, the Northern District and Central District courts have applied Section 2019.210 on the grounds that sequencing discovery is consistent with Rule 26.

Also, under the DTSA, for a plaintiff to recover its attorney fees or exemplary damages, the plaintiff's confidentiality agreements must have very specific whistleblower immunity provisions.[6] In enacting the DTSA, Congress sought to have American businesses update their confidentiality agreements to add the whistleblower immunity term. While some businesses updated their agreements, many did not. A California plaintiff that has not updated its confidentiality provisions should seriously consider filing in state court, rather than in federal court.

Based on Lex Machina's data, nearly all of the 2019 trade secrets lawsuits involving California parties filed in the Northern District of California and the Central District of California allege both violations of the DTSA and the CUTSA. This begs the question: Why would plaintiffs lawyers, who could have brought the dispute originally in state court,

subject themselves to federal judges who are more inclined to rule in favor of defendants, expose the client to the conflicting definitions of a trade secret under the DTSA and CUTSA and subject the client to unanimous jury verdicts?

Federal judges are appreciating what California judges have known for decades — trade secrets disputes are hard-fought, hotly contested disputes, which often involve emotional issues like betrayal and deceit. Even though Congress has elevated trade secrets to the stature of patents, copyrights, and trademarks, trade secret litigation remains unlike other intellectual property litigation. Patent litigation is like lawn tennis, while trade secret litigation is always a street brawl. Thus, federal judges are quickly growing weary of the deluge of new, hotly contested trade secret lawsuits.

In summary, lawyers should resist the temptation of shiny new things and file trade secrets actions in California's state courts, particularly where the dispute involves exclusively California businesses or residents. There are few, if any, meaningful advantages for burdening federal judges with claims under the DTSA for California-based disputes. Doing so will also enable the DTSA to serve its intended purpose — to allow American businesses to pursue foreign defendants in our federal courts.

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[1] Civil Code § 3426.1(d).

[2] *Abba Rubber, Inc. v. Seaquist*, 235 Cal. App. 3d 1, 21 (1991).

[3] 18 U.S.C. §1839(3).

[4] California Code of Civil Procedure §2019.210.

[5] *M/A-COM Technology Solutions, Inc. v Litrinium, Inc.* 2019 WL 4284523, \*2 (C.D. Cal. June 11, 2019); *Poynt Corporation v. Innowi, Inc.* 2019 WL 935499, \*3 (N.D. Cal. Feb. 26, 2019); *Alta Devices, Inc. v. LG Electronics, Inc.*, 2019 WL 176261, \*2-3 (N.D. Cal. Jan. 10, 2019); *Swarmify, Inc. v. Cloudflare, Inc.*, 2018 WL 2445515, at \*2 (N.D. Cal. May 31, 2018).

[6] 18 U.S.C. §1833(b)(3).