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# CALIFORNIA'S TRADE SECRET DISCLOSURE STATUTE DOESN'T APPLY IN FEDERAL COURT – OR MAYBE IT DOES

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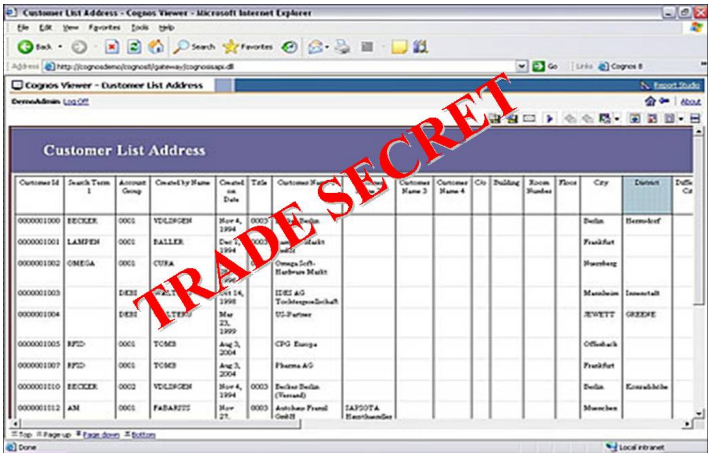


It's been a while since we've last posted here on ***Who's The Boss***, and to all our Faithful Followers (yes, Mom, I'm talking to you), we apologize. It's amazing how billable hours and sunny weekends at the beach can mess up an otherwise perfect day for blogging. But I digress. We're back, we're happy, and we have things to say.

Let's start with California's special take on trade secrets, one of our favorite subjects. In particular, recall the state statute requiring plaintiffs to identify their trade secrets "with reasonable particularity" before discovery can be commenced. (California Code of Civil Procedure Section 2019.210.) We blogged about this earlier when Sylvester Stallone's low carb chocolate pudding kindly added to our understanding of the parameters of the trade secret designation statute. Well, the statute is in the legal news again.

This time, the question is whether CCP 2019.210 applies to trade secret cases in federal court. One would think this would be a relatively easy issue – pick one, yes or no, and let's get on with it. But apparently that would take the fun out of it. Instead, California's district courts have had a tough time making up their minds on this one…and it's causing we trade secret practitioners some consternation.

The latest to try his hand at this one is Judge Moskowitz in the Southern District of California, who believes he has sorted it all out for us in his recent opinion in ***Hilderman v. Enea Teksci, Inc.*** (USDC SD CA 2010) No. 05cv1049, 2010 WL 143440.

**CCP 2019.210 REVIEW**

A little background first (with apologies to fellow TSGs who know this already).

Recall that CCP 2019.210 requires a plaintiff to describe his trade secrets "with reasonable particularity" before he can commence discovery. The rule certainly seems reasonable enough:

> "Before a defendant is compelled to respond to a complaint based 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."

***Diodes, Inc. v. Franzen*** (1968) 260 Cal.App.2d 244, 253, 67 Cal.Rptr. 19.

The purpose of the disclosure rule is also noble enough: (a) help the court shape discovery; and (b) provide the defendant with sufficient notice of what he is alleged to have stolen so he can develop a defense.

So what can go wrong with this? Plenty.

**DOES 2019.210 APPLY TO FEDERAL CASES?**

In the ***Hilderman*** case, the counterclaimant, apparently just assuming that 2019.210 applied in the federal action, served a trade secret disclosure on the counter-defendants identifying the trade secrets at issue as (a) employee contact information; (b) customer information; and (c) some kind of "processes and checklists." Discovery and litigation thereupon proceeded and the cased steamrolled forward.

However, just before trial, it appears that the counterclaimant may have been trying to pull a fast one – it wanted to present evidence of additional allegedly stolen trade secrets, including pricing information, vendor leads, and employee leads. Naturally enough the counter-defendants cried foul, moving to exclude this evidence on the grounds that it had not been disclosed pursuant to 2019.210. Not a bad argument – since it wasn't disclosed, the party didn't know these alleged secrets were part of the case, and hence did not undertake appropriate discovery regarding them. One cannot blame the counter-defendants for feeling sandbagged.

Judge Barry Moskowitz of the Southern District of California surprised everyone by ruling that the counter-defendants' argument lacked merit, not because they weren't sandbagged, but because Section 2019.210 doesn't apply to federal court actions to begin with.

The Court first noted that while the 9th Circuit has so far been silent on this issue, "[t]he district courts have reached different conclusions." Nonetheless, with appropriate "due respect" for its sister courts who obviously got it all wrong, the *Hilderman* court held that 2019.210 conflicted with FRCP 26. (Rule 26 requires certain initial disclosures by parties in all federal cases, and serves as the gatekeeper for the initiation of discovery.) It would be unseemly, after all, for a little state court rule like 2019.210 to impact the initiation of discovery in big federal court when there is a perfectly good federal rule on the books doing the same thing.

Now this would seem to be a good thing for the counterclaimant who was hoping to have no limits on the alleged trade secrets it could assert at trial as having been misappropriated. On the other hand, is it fair to the counter-defendants, having relied on the now non-mandatory 2019.210 disclosures, to have to defend against new alleged trade secret thefts without having had a chance to prepare a defense? Talk about your surprise at trial.

**FAIRNESS**

Well, that wasn't a hat rack sitting behind the bench. Judge Moskowitz was all over the fairness argument, and had that one covered without the need for 2019.210:

> "Accordingly, the Court holds that § 2019.210 does not apply to federal actions. The Court's holding does not, however, give [the counter-claimant] free reign to try trade secret claims that were not disclosed in its "Trade Secret Disclosure." As discussed at the hearing, as a matter of fairness, Counter-Defendants must have been given fair notice of [couner-claimant's] trade secret claims, whether in the "Trade Secret Disclosure" or other discovery responses. If Counter-Defendants were not given fair warning of certain trade secret claims, [counter-claimant] may be barred from presenting these claims at trial."

In other words, defendants are entitled to notice of the trade secrets at issue, even in federal court. And whether that notice comes by way of a potentially non-mandatory 2019.210 disclosure, or an interrogatory response, it doesn't really matter. So long as the defense is given "fair warning" of the trade secret claims, all is good. At least

in Judge Moskowitz's court.

What does all this mean? Well, it continues the debate over whether 2019.210 applies to federal trade secret cases. The money now seems to be favoring "inapplicable." Nonetheless, if you find yourself as a defendant in a federal trade secret claim, cover yourself. Whether there is a 2019.210 disclosure or not, make sure your interrogatories at least ask for an itemized statement of each and every trade secret at issue.