
Ninth Circuit Watch: Federal Trade Secret Law Incorporates California's Particularity Requirement

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On October 15, 2020, the U.S. Court of Appeals for the Ninth Circuit held in *InteliClear LLC v. ETC Global Holdings, Inc.*, that the federal Defend Trade Secrets Act ("DTSA") requires trade secret plaintiffs to identify a trade secret with "sufficient particularity" prior to the start of discovery. While "reasonable particularity" is required as a matter of California statutory law, the panel did not identify a specific textual hook in the DTSA as the basis for its ruling. Still, the panel made clear that a plaintiff need only clearly identify one trade secret, leaving open the possibility of expanding the trade secret identifications as the case continues.

Background

Between 2004 and 2006, InteliClear developed software related to securities trading. ETC's predecessor acquired a license to use this software in 2008. In 2018, ETC terminated this license and started building its own competing securities software. When ETC notified InteliClear of the termination, it certified that all copies of InteliClear's system had been destroyed.

Despite this certification, InteliClear employees noticed what they believed were similarities between their software and ETC's new system. InteliClear raised the issue with ETC and the parties eventually agreed to have a computer technology and forensics expert compare the two systems. After receiving the expert's report, InteliClear filed suit against ETC, alleging *inter alia* misappropriation of trade secrets under the DTSA and the California Uniform Trade Secrets Act ("CUTSA").

Before there was significant discovery, the district court granted ETC summary judgment on both the DTSA and CUTSA claims on the grounds that InteliClear had not identified its trade secrets with sufficient particularity. The district court reasoned that while InteliClear had identified "some" trade secrets in a sealed declaration, it had improperly phrased its trade secret claims at a sufficiently high level of generality so as to "leave[] open the possibility that it might later argue that other unnamed elements of the InteliClear System are trade secrets as well."

Decision

The Ninth Circuit reversed the district court's ruling of summary judgment. The panel began by explaining that it would "analyze[]" the DTSA and California claims "together because the elements are substantially similar." It cited a California federal district court opinion in support of this approach, but did not expressly cite any federal appellate authority.

The panel went on to hold that—under both DTSA and California law—a trade secret owner is required to describe a trade secret with sufficient particularity as part of his or her general burden to show that the trade secret is not a matter of general knowledge to the public. The Court relatedly held that a California state law that requires this identification to be done prior to the start of discovery applied to both the federal and state trade secret claims. While the panel cited Ninth Circuit authority interpreting the CUTSA for this proposition, it cited no authority from any court that had read in a statutory requirement from California law into the federal trade secrets statute. Instead, the panel relied on policy, such as the concern that a defendant would have difficulty rebutting—and courts and juries would have difficulty understanding—the plaintiff's case without a clear explanation of the trade secret at issue.

Applying the sufficient particularity standard, the panel concluded that the district court erred by granting summary judgment prior to discovery because IntelIClear had identified at least some of its claimed trade secrets (*e.g.*, the "uniquely designed tables, columns, account number structures, [and] methods of populating table data") in a declaration filed under seal, which avoided concerns about lack of notice to the defendant. Importantly, the panel held that—contrary to the district court's ruling—there was no requirement for the IntelIClear to identify *all* potential trade secrets at the start of litigation. Rather, IntelIClear was permitted to use "hedging language" that "left open the possibility of expanding its identifications" of trade secrets at a later date, so long as it provided at least one trade secret with sufficient particularity to create a triable issue.

To illustrate its rule, the panel cited a Seventh Circuit decision interpreting Wisconsin law where the plaintiff had simply submitted 43 pages "describ[ing]" its proprietary "software without separating the trade secrets from other information that goes into any software package." The panel explained that the Seventh Circuit has rightly concluded the trade secret claim in that case lacked sufficient particularity because it asked the trial court to "parse through [the record] to determine what seemed valuable and generally unknown." In contrast, IntelIClear had "made that determination itself" by submitting a tailored declaration.

Implications

Without much analysis, the panel's ruling reads a non-textual requirement into the DTSA based on precedent interpreting a similar but slightly different state law. This has several interesting implications.

1. The panel's ruling suggests that federal appellate courts may in some circumstances import state law requirements into the DTSA even if the text of the DTSA is not identical to the corresponding state law. For example, the DTSA and CUTSA have slightly different definitions for what constitutes a trade secret and what constitutes "improper means" of acquiring a trade secret. In light of the textual differences, courts could take the view that

state law precedent is not directly applicable when interpreting the DTSA. However, in this case, the Ninth Circuit took the opposite view.

2. The panel's decision may imply that California's state law rules governing sufficient particularity—including a California statute that requires trade secrets to be clearly identified prior to discovery—could be applied to other DTSA claims brought in the Ninth Circuit but outside California and/or without any claim under California law. To the extent that other states apply different particularity rules, there could be future cases in the Ninth Circuit where a plaintiff survives sufficient particularity review under the DTSA but not (for example) Oregon or Idaho trade secret law, or vice versa.

Moreover, if the Ninth Circuit continues to follow the panel's reasoning in future cases, the DTSA may start to take on the shape of the case law from the states where trade secret issues are most often litigated. Thus, the DTSA's scope may start to look more like California law than Alaskan or Hawaiian law. This will to some extent, of course, be the luck of the draw. If the Ninth Circuit first takes up the meaning of "improper means" under a case brought pursuant to DTSA and Alaska law, for example, Alaskan precedent will presumably play an important in shaping the Ninth Circuit's binding understanding of that term.

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