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Clerk of Court
Superior Court of CA,
County of Santa Clara
2014-1-CV-274103
Reviewed By: R. Walker

SUPERIOR COURT OF CALIFORNIA
COUNTY OF SANTA CLARA

ELI ATTIA, et al.,
Plaintiffs,

vs.

GOOGLE, INC., et al.,
Defendants.

Case No.: 2014-1-CV-274103

**ORDER AFTER HEARING ON
SEPTEMBER 15, 2017**

**Plaintiffs' Motion for Leave to File a
Fourth Amended Complaint**

The above-entitled matter came on regularly for hearing on Friday, September 15, 2017 at 9:00 a.m. in Department 19 (Complex Civil Litigation), the Honorable Peter H. Kirwan presiding. A tentative ruling was issued by the Court on September 14, 2017. The appearances are as stated in the record. Following the hearing, the Court directed the parties to submit supplemental briefing addressing certain issues, which they filed on September 29 and October 2, 2017. Having now reviewed and considered all of the written submissions of all parties, having heard and considered the oral argument of counsel, and being fully advised, the Court orders as follows:

This is an action for misappropriation of trade secrets and related causes of action. Currently before the Court is a motion by plaintiffs Eli Attia ("Attia") and Eli Attia Architect

1 PC to file a fourth amended complaint (“4AC”), which would assert new claims under the
2 federal Racketeer Influenced and Corrupt Organizations Act (“RICO”) based on an alleged
3 pattern of trade secret misappropriation by defendants. Defendants Google, Inc., Larry Page,
4 Sergey Brin, Sebastian Thrun, and Eric “Astro” Teller (collectively, the “Google Defendants”)
5 oppose the motion.

6 Defendants Flux Factory, Inc., Michelle Kaufmann, Jennifer Carlile, Augusto Roman,
7 and Nicholas Chim (collectively the “Flux Factory Defendants”) move to join in the Google
8 Defendants’ opposition, and their request for joinder is GRANTED.

9 10 I. Factual and Procedural Background

11 In the operative third amended complaint (“TAC”), plaintiffs allege that Attia is one of
12 the world’s leading and most innovative architects. (TAC, ¶ 1.) Attia has spent the last 50
13 years creating a game-changing new technology that can fundamentally impact the way
14 buildings are created, which is called “Engineered Architecture” or “EA.” (*Ibid.*)

15 In 2009, Attia began looking for a partner, and on or about July 25, 2010, he was
16 approached by Google X, an affiliate of defendant Google, Inc. (“Google”), through defendant
17 Teller. (TAC, ¶¶ 24-26.) On or about August 8, 2010, Google proposed and executed with
18 Attia a Non-Disclosure Agreement (“NDA”) permitting Google to use confidential information
19 received from Attia to facilitate technical discussions concerning existing or future product
20 development efforts by the parties. (*Id.* at ¶ 27.) Google also induced Attia to relocate with
21 his family to Palo Alto in late 2010 so that he could work at Google’s Mountain View
22 headquarters. (*Id.* at ¶ 28.)

23 On January 12, 2011, Attia entered into an Inbound Services Agreement (“ISA”) and an
24 associated Statement of Work (“SOW”), in which Google acknowledged that its efforts to
25 develop a software system implementing EA, dubbed the “Genie Project,” “was inspired by
26 [Attia’s] experience and Pre-Existing Intellectual Property.” (TAC, ¶¶ 30, 36-37.) Exhibit A
27 to the SOW describes certain of Attia’s proprietary information and identifies documents that
28 contain his proprietary information, including “[a]ll presentations & brochures,” notes, emails,

1 patents, and “other related intellectual property developed as of the SOW Effective Date.” (*Id.*
2 at ¶ 37.) Under the ISA, any “invention, improvement, development, concept, discovery or
3 other proprietary information” that Attia had an interest in before January 12, 2011 remained
4 his property. (*Ibid.*)

5 During the negotiations regarding the ISA and SOW, Google made a request for a non-
6 exclusive, royalty-free, perpetual, irrevocable, worldwide license, which was rejected, and then
7 proposed a royalty for a non-exclusive license, which was also rejected; ultimately, Attia
8 agreed to provide a “non-commercial” and nonexclusive license to use the proprietary
9 information only until “June 31 [*sic*], 2011.” (TAC, ¶ 38.) The SOW provided that if the
10 program was successful and any of Attia’s Pre-Existing Property was used to develop Genie,
11 “Google, in its sole discretion, will consider seeking an exclusive license and will make
12 reasonable efforts to negotiate for a license to a portion or all of the Pre-existing Property at
13 mutually agreed upon price and terms.” (*Id.* at ¶ 39.)

14 Google was so satisfied with the viability of Attia’s Engineered Architecture
15 technology that it applied to the United States Patent and Trademark Office for patents
16 containing numerous claims reciting Attia’s Pre-existing Property, including his Engineered
17 Architecture trade secrets disclosed pursuant to the NDA and the ISA/SOW. (TAC at ¶ 46.)
18 However, defendants plotted to squeeze Attia out of the project and misappropriate his Pre-
19 existing Property, including his EA secrets. (*Id.* at ¶ 53.) Google pretended to kill the Genie
20 Project to give Attia the false impression that it was not planning to misappropriate his Pre-
21 existing Property. (*Id.* at ¶ 57.) But rather than shutting down Project Genie, Google was
22 surreptitiously taking steps to develop and promote Genie further, which Attia discovered in
23 mid-December of 2011. (*Id.* at ¶¶ 58-60.) Google spun off Project Genie into a new company,
24 defendant Flux Factory, Inc. (“Flux Factory”), which was co-founded and is headed by
25 defendants and former Project Genie team members Kaufmann, Carlile, Roman, and Chim.
26 (*Id.* at ¶¶ 67, 69.) Flux Factory is simply a reconstitution of Project Genie under a different
27 name. (*Id.* at ¶ 69.)

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1 The Google Defendants had the obligation to negotiate a license to use Attia's Pre-
2 existing Property, including his Engineered Architecture trade secrets, and fairly compensate
3 Attia if they wanted to continue using it. (TAC, ¶ 76.) But they refused to do so and
4 intentionally misappropriated Attia's proprietary Engineered Architecture invention. (*Ibid.*)

5 Based on these allegations, the TAC sets forth the following causes of action:

6 (1) misappropriation of trade secrets (by Attia against all defendants); (2) breach of the
7 ISA/SOW (by plaintiffs against Google); and (3) declaratory relief (by plaintiffs against all
8 defendants).

9 Plaintiffs filed this action on December 5, 2014. After the Court granted plaintiffs'
10 unopposed motion to file a first amended complaint, the Google Defendants demurred to each
11 cause of action asserted in that pleading and moved to strike plaintiffs' request for punitive
12 damages. On February 1, 2016, the Court issued an order sustaining the demurrer with leave to
13 amend as to the claim for trade secret misappropriation and without leave to amend as to a
14 claim for breach of the NDA; overruling the demurrer as to the claims for breach of the ISA
15 and declaratory relief; and granting the motion to strike without leave to amend. Plaintiffs
16 filed a second amended complaint, and on August 22, 2016, the Court overruled defendants'
17 demurrer to that pleading and granted in part their motion to strike certain allegations from it.
18 Plaintiffs subsequently filed the TAC, and defendants answered.

19 Fact discovery opened on May 12, 2017. The parties stipulated to a case schedule,
20 which was adopted by order of the Court on June 9, 2017. The scheduling order provides that
21 September 15, 2017—the date of the hearing on this matter—is the deadline for “substantial
22 completion of document production,” as well as for amending the pleadings. February 16,
23 2018 is the deadline to complete fact discovery, and May 18, 2018 is the deadline to complete
24 expert discovery. Trial is scheduled for September 2018.

25 26 II. Legal Standard

27 Section 473, subdivision (a)(1) of the Code of Civil Procedure states in pertinent part:
28 “[t]he court may ... , in its discretion after [notice to the adverse party, allow, upon any terms as

1 may be just, an amendment to any pleading or proceeding in other particulars” (*Atkinson v.*
2 *Elk Corp.* (2003) 109 Cal.App.4th 739, 76.) In considering a motion for leave to amend,
3 “courts are bound to apply a policy of great liberality in permitting amendments to the
4 complaint at any stage of the proceedings, up to and including trial.” (*Atkinson v. Elk Corp.*
5 (2003) 109 Cal.App.4th 739, 761.) “[I]t is a rare case” in which a court will be justified in
6 denying a party leave to amend his pleadings. (*Morgan v. Superior Court (Morgan)* (1959)
7 172 Cal.App.2d 527, 530.) “If the motion to amend is timely made and the granting of the
8 motion will not prejudice the opposing party, it is error to refuse permission to amend and
9 where the refusal also results in a party being deprived of the right to assert a meritorious cause
10 of action or a meritorious defense, it is not only error but an abuse of discretion.” (*Ibid.*)

11 While often paramount, the policy of liberality in permitting amendments should be
12 applied only where no prejudice is shown to the adverse party. (*Atkinson v. Elk Corp., supra,*
13 109 Cal.App.4th at p. 761.) Where an amendment would require substantial delay in the trial
14 date and substantial additional discovery; would change not only the specific facts and causes
15 of action pled, but the tenor and complexity of the complaint as a whole; and where no reason
16 for the delay in seeking leave to amend is given, refusal of leave to amend is not an abuse of
17 discretion. (See *Magpali v. Farmers Group* (1996) 48 Cal.App.4th 471, 486-488 [affirming
18 denial of request to amend made during trial].) “Even if a good amendment is proposed in
19 proper form, unwarranted delay in presenting it may – of itself – be a valid reason for denial,”
20 which “may rest upon the element of lack of diligence in offering the amendment after
21 knowledge of the facts, or the effect of the delay on the adverse party.” (*Roemer v. Retail*
22 *Credit Co.* (1975) 44 Cal.App.3d 926, 939-940 [trial court appropriately denied request to
23 amend answer made during trial]; see also *P & D Consultants, Inc. v. City of Carlsbad* (2010)
24 190 Cal.App.4th 1332, 1345 [plaintiff did not seek leave to amend until after the trial readiness
25 conference, amendment would require additional discovery and might prompt a demurrer or
26 other pretrial motion, and plaintiff’s explanation for the delay was inadequate].)

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1 III. Analysis

2 Plaintiffs seek to add several pages of allegations regarding other instances where
3 defendants were accused of trade secret misappropriation, in order to support proposed claims
4 for racketeering against Google, Larry Page, and Sergey Brin (18 U.S.C. § 1962(b) and (c))
5 and associated claims for conspiracy against all defendants (18 U.S.C. § 1962(d)). The
6 proposed allegations pertain to technologies unrelated to those involved in this action, to which
7 plaintiffs have no connection. The events at issue gave rise to six other lawsuits against
8 Google, dating from 2004 to the present. Five of these lawsuits were resolved in Google's
9 favor (although not necessarily on the merits), while one is ongoing in the United States
10 District Court for the Northern District of California.¹

11 A. Plaintiffs' Investigation and the Timing of Their Request to Amend

12 In his original declaration filed in support of plaintiffs' motion, plaintiffs' counsel
13 stated that the investigation into these new claims "began after the Court entered its order on
14 August 22, 2016, denying Defendants' third demurrer" and "took approximately four to five
15 months."² Plaintiffs consulted with Professor Robert G. Blakely, who was involved in drafting
16 RICO. After completing their investigation, which involved searching publicly-available
17 materials "including publications, court records, other lawsuits against Google and the results
18 of various government investigations relating to Google's misappropriation of intellectual
19 property," plaintiffs determined that there was "a pattern of conduct by Defendants that was
20 substantially similar to the facts underlying the Attias' claim for misappropriation of trade
21 secrets." Counsel indicated that plaintiffs waited to develop their potential RICO claims until
22 the pleadings on their original claims were resolved: "Before asserting the proposed RICO
23 claims, Plaintiffs needed the Court to dispose of Defendants' multiple demurrers challenging

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25 ¹ In addition, plaintiffs propose allegations regarding regulatory investigations of Google for antitrust and other
26 potential violations, concerning technologies unrelated either to this action or to the six other actions discussed in
the 4AC. The relevance of these allegations to the proposed RICO claims is not apparent to the Court.

27 ² According to defendants, the federal Defend Trade Secrets Act ("DTSA") took effect on May 11, 2016; at this
28 time, criminal trade secret theft became a RICO predicate act. Plaintiffs did not discuss this new law or indicate
when they became aware of it and its potential impact on this case in their moving or reply papers. At the hearing
on this matter, plaintiffs' counsel indicated that, while counsel was aware of the DTSA, they did not believe it would
impact the case until they learned of an alleged pattern and practice of trade secret misappropriation by Google.

1 the legal validity of their claims ... for misappropriation of Plaintiffs' trade secrets," since the
2 viability of plaintiffs' own trade secret claims is "a key predicate" to any RICO causes of
3 action.

4 In their opposition, defendants noted that four to five months after August 2016 is, at
5 the latest, January 2017, but plaintiffs did not file the instant motion until July 25, 2017.
6 Plaintiffs did not address this gap in their timeline in either their moving or reply papers. At
7 the hearing, counsel offered a different account of the events surrounding plaintiffs'
8 investigation, stating that the investigation actually did not begin until April of 2017 and
9 concluded in or around June of 2017. Counsel stated that plaintiffs were unaware of their
10 potential RICO claims until attorneys not associated with this case raised this possibility to
11 plaintiffs' representative in light of similarities to another case involving Google.

12 The Court is unable to reconcile these descriptions of plaintiffs' investigation.
13 Counsel's declaration indicated that plaintiffs intentionally waited until defendants' challenges
14 to their original claims were resolved to begin to investigate potential RICO claims. But at the
15 hearing, counsel stated that plaintiffs were not even aware of the potential to allege RICO
16 claims until sometime around April of 2017—eight months after the motions challenging the
17 original claims were resolved. Counsel's declaration stated that the investigation took four or
18 five months, but at the hearing he stated that the investigation lasted from April to June of this
19 year—three months, at most. Further, counsel never addressed another of the Court's
20 concerns: why plaintiffs did not inform defendants and the Court of their potential RICO
21 claims when the scheduling order for this action was negotiated and entered earlier this year.
22 Even if the Court were to accept plaintiffs' new timeline, the scheduling order was entered in
23 June. By then, plaintiffs must have known that the scheduling order would be rendered
24 obsolete if they were permitted to file their amendment, but they failed to give defendants or
25 the Court notice of their plan.

26 "The law is well settled that a long deferred presentation of the proposed amendment
27 without a showing of excuse for the delay is itself a significant factor to uphold the trial court's
28 denial of the amendment." (*Leader v. Health Industries of America, Inc.* (2001) 89

1 Cal.App.4th 603, 613, internal citations and quotations omitted.) “The law is also clear that
2 even if a good amendment is proposed in proper form, unwarranted delay in presenting it
3 may—of itself—be a valid reason for denial.” (*Ibid.*) While it is unusual to deny leave to
4 amend a year before trial, the Court does have discretion in this situation, and plaintiffs’
5 unwarranted delay in seeking leave to amend weighs in favor of exercising it. (See *Fisher v.*
6 *Larsen* (1982) 138 Cal.App.3d 627, 649 [court was within its discretion to deny leave to amend
7 following summary judgment where a five-month delay in offering the amendment was
8 unexplained]; *Leader v. Health Industries of America, Inc.*, *supra*, 89 Cal.App.4th at p. 614
9 [leave to amend was appropriately denied where action had been pending for nearly six years,
10 demurrers to third amended complaint had been sustained, and plaintiffs sought leave to amend
11 a month after the deadline to amend had passed].)

12 B. Prejudice to Defendants

13 In its tentative ruling and at the hearing on this matter, the Court expressed its concerns
14 regarding plaintiffs’ delay in seeking leave to amend and the prejudice that defendants would
15 inevitably experience in conducting and providing new, expansive discovery on the proposed
16 RICO claims while preparing the original claims for trial in September 2018. In addition,
17 defendants maintain that the proposed RICO claims do not state a cause of action, and indicate
18 that they will challenge these claims by demurrer if amendment is permitted.

19 To address these concerns, plaintiffs have proposed that the Court bifurcate the trial in
20 this action so that the RICO claims are tried after the other claims, and stay all discovery on the
21 RICO claims until the original claims are resolved. This proposal eliminates most of the
22 prejudice that defendants would experience if amendment is permitted. While defendants
23 would still have to engage in motion practice on the RICO pleadings, issue litigation holds, and
24 begin some internal investigation of the RICO claims, this is relatively minor prejudice in the
25 context of a complex action like this one.³ Defendants also contend that they will be

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28 ³ In their supplemental opposition papers, defendants make no attempt to quantify the time or cost involved in these specific efforts, instead focusing on the burden they would incur in conducting discovery and taking the RICO claims to trial. The Flux Factory Defendants argue in their supplemental opposition papers that they are experiencing a range of financial, business, and reputational harms as a result of this litigation, and that these harms

1 prejudiced by the further passage of time since the predicate events alleged in support of the
2 RICO claims. While the Court acknowledges this point, the passage of time will impact
3 plaintiffs as well. On balance, the Court finds that the prejudice to defendants will be
4 relatively limited by plaintiffs' proposal.

5 C. Conclusion

6 While the Court is unsatisfied by plaintiffs' explanation for the delay in offering their
7 proposed amendment and sensitive to the impact on defendants, "courts are bound to apply a
8 policy of great liberality in permitting amendments to the complaint at any stage of the
9 proceedings, up to and including trial." (*Atkinson v. Elk Corp.*, *supra*, 109 Cal.App.4th at
10 p. 761.) Because plaintiffs' proposal to bifurcate trial and stay discovery on the RICO claims
11 until the other claims are resolved minimizes the prejudice to defendants, the Court will
12 exercise its discretion to permit the amendment on this condition.

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14 IV. Order

15 The motion for leave to file the 4AC is GRANTED, and the 4AC is deemed filed and
16 served. Discovery on plaintiffs' RICO claims is stayed. The parties shall appear for a case
17 management conference on OCTOBER 27, 2017 at 9 a.m. in Department 19 to address the
18 bifurcation and scheduling of the trial on the RICO claims and the briefing schedule for
19 demurrers to the 4AC.

20 Dated: _____



Honorable Peter H. Kirwan
Judge of the Superior Court

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28 would increase as a result of adding RICO claims to the case. While the Court is sympathetic to these issues, they
are often inherent in the litigation process and do not constitute the type of unfair prejudice that would support
denying plaintiffs' motion.