IN THE UNITED STATES DISTRICT COURT

FOR THE NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

Spring Design, Inc.,

Plaintiff,

v.

Barnesandnoble.com, LLC,

Defendant.

/

NO. C 09-05185 JW

ORDER DENYING DEFENDANT'S MOTION TO DISMISS

I. INTRODUCTION

Spring Design, Inc. ("Plaintiff") brings this action against Barnesandnoble.com, LLC ("Defendant") alleging, *inter alia*, misappropriation of trade secrets in violation of California's Uniform Trade Secrets Act ("CUTSA"), Cal. Civ. Code §§ 3426, *et seq*., violation of California Unfair Competition Law ("UCL"), Cal. Bus. & Prof. Code §§ 17200, *et seq*., and New York common law claims. Plaintiff alleges that after it disclosed certain confidential product features for an eReader device to Defendant pursuant to a Non-Disclosure Agreement, Defendant improperly incorporated the same product features into its own eReader device.

Presently before the Court is Defendant's Motion to Dismiss Plaintiff's Second Amended Complaint. (hereafter, "Motion," Docket Item No. 87.) The Court finds it appropriate to take the Motion under submission without oral argument. See Civ. L.R. 7-1(b). Based on the papers submitted to date, the Court DENIES Defendant's Motion.

II. STANDARDS

Pursuant to Federal Rule of Civil Procedure 12(b)(6), a complaint may be dismissed against a defendant for failure to state a claim upon which relief may be granted against that defendant.

Dismissal may be based on either the lack of a cognizable legal theory or the absence of sufficient facts alleged under a cognizable legal theory. Balistreri v. Pacifica Police Dep't, 901 F.2d 696, 699 (9th Cir. 1990); Robertson v. Dean Witter Reynolds, Inc., 749 F.2d 530, 533-34 (9th Cir. 1984). For purposes of evaluating a motion to dismiss, the court "must presume all factual allegations of the complaint to be true and draw all reasonable inferences in favor of the nonmoving party." Usher v. City of Los Angeles, 828 F.2d 556, 561 (9th Cir. 1987). Any existing ambiguities must be resolved in favor of the pleading. Walling v. Beverly Enters., 476 F.2d 393, 396 (9th Cir. 1973).

However, mere conclusions couched in factual allegations are not sufficient to state a cause of action. Papasan v. Allain, 478 U.S. 265, 286 (1986); see also McGlinchy v. Shell Chem. Co., 845 F.2d 802, 810 (9th Cir. 1988). The complaint must plead "enough facts to state a claim for relief that is plausible on its face." Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007). A claim is plausible on its face "when the plaintiff pleads factual content that allows the court to draw the reasonable inference that the defendant is liable for the misconduct alleged." Ashcroft v. Iqbal, 129 S. Ct. 1937, 1949 (2009). Thus, "for a complaint to survive a motion to dismiss, the non-conclusory 'factual content,' and reasonable inferences from that content, must be plausibly suggestive of a claim entitling the plaintiff to relief." Moss v. U.S. Secret Serv., 572 F.3d 962, 969 (9th Cir. 2009). Courts may dismiss a case without leave to amend if the plaintiff is unable to cure the defect by amendment. Lopez v. Smith, 203 F.3d 1122, 1129 (9th Cir. 2000).

III. DISCUSSION

Defendant moves to dismiss Plaintiff's (1) UCL claim on the ground that it is preempted by CUTSA, and (2) New York common law claims on the ground that the Court has already ruled that California law applies to these claims. (Motion at 5.) The Court addresses each ground in turn.

A. CUTSA Preemption of the UCL Claim

Defendant moves to dismiss Plaintiff's UCL claim on the ground that it is preempted by CUTSA because it is based on the same nucleus of facts as Plaintiff's trade secret misappropriation

claim. (Motion at 5-7.) Plaintiff contends, *inter alia*, that a preemption determination would be premature pending a finding of whether the disclosed information qualifies as a trade secret.[1]

The "general purpose" of CUTSA is "to make uniform the law with respect to the subject of [trade secrets] among states enacting it." Cal. Civ. Code § 3426.8. CUTSA includes a preemption provision that displaces common law and statutory theories of recovery to the extent that they are predicated on the same facts upon which one could assert a claim for misappropriation of trade secrets. See Cal. Civ. Code § 3426.7; Digital Envoy, Inc. v. Google, Inc., 370 F. Supp. 2d 1025, 1034-35 (N.D. Cal. 2005); see also Cacique, Inc. v. Robert Reiser & Co., Inc., 169 F.3d 619, 624 (9th Cir. 1999). However, "claims arising out of facts similar to, but distinct from, those underlying a claim for misappropriation of trade secret are not preempted." AirDefense, Inc. v. AirTight Networks, Inc., No. 05-4615, 2006 WL 2092053, at *3 (N.D. Cal. Jul. 26, 2006); Cal. Civ. Code § 3426.7(b).

"By its own terms, however, CUTSA only provides remedies for misappropriation of *trade secrets*, not of any confidential information, and defines that term specifically." First Advantage Background Servs. Corp. v. Private Eyes, Inc., 569 F. Supp. 2d 929, 942 (N.D. Cal. 2008) (emphasis in original). A court may deny a 12(b)(6) motion on the ground that a preemption decision is premature pending a determination of whether the confidential information a plaintiff seeks to protect is actually a trade secret. See id.; Think Village-Kiwi, LLC v. Adobe Sys., Inc., No. 08-4116, 2009 U.S. Dist. LEXIS 32450, at *7 (N.D. Cal. Apr. 1, 2009); Martone v. Burgess, No. 08-2379, 2008 U.S. Dist. LEXIS 68434, at *10 (N.D. Cal. Aug. 25, 2008).

Here, Plaintiff alleges:

> Defendant has made false and misleading advertisement statements to the public, through, for example, Defendant's President William Lynch's public comments that Defendant is responsible for Nook™'s "innovative" combination of product features.[2]

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[1] (Plaintiff's Opposition to Defendant's Motion to Dismiss at 7-10, hereafter, "Opposition," Docket Item No. 98.)

[2] (Second Amended Complaint ¶ 34, hereafter, "SAC," Docket Item No. 85.)

> To the extent any proprietary information disclosed by Plaintiff to Defendant was not a trade secret, Defendant obtained and used Plaintiff's confidential and proprietary information through deceptive means. (SAC ¶ 35.)

With respect to Defendant's alleged false and misleading statements, the Court finds the allegations arise from facts that are similar to, but distinct both in time and substance from, the allegations that Defendant misappropriated Plaintiff's trade secrets. It is clear that the alleged false and misleading statements occurred after Defendant allegedly misappropriated Plaintiff's trade secret. (Compare SAC ¶¶ 10-15, 26 with SAC ¶¶ 16, 34.)

With respect to Defendant's alleged misuse of Plaintiff's non-trade secret confidential information, the Court must first determine whether Plaintiff disclosed protected trade secrets. If the confidential information allegedly disclosed is proved to be a trade secret, then the UCL claim based on this allegation is preempted. See First Advantage, 569 F. Supp. 2d at 942. However, if the confidential information is not a trade secret, then preemption would not apply because the claim would seek a civil remedy not based on the misappropriation of a trade secret. See Cal. Civ. Code § 3426.7(b). Thus, the Court finds that a preemption determination as to the disclosed confidential information is premature pending a determination of whether it is a protected trade secret.

Accordingly, the Court DENIES Defendant's Motion to Dismiss Plaintiff's Fourth Cause of Action for violation of the UCL.

B. New York Common Law Claims

Defendant moves to dismiss Plaintiff's New York common law claims on the ground that the Court has already ruled that California law, not New York law, applies to these claims. (Motion at 5.) Plaintiff does not dispute the Court's choice of law determination in its December 1, 2009 Order,[3] but instead contends that it must include the New York common law claims for the purpose of preserving the choice of law issue on appeal. (Opposition at 11.)

[3] (Docket Item No. 77.)

In Vlaho Miletak, et al. v. Allstate Ins. Co.,[4] for the purpose of preserving claims for appeal, the plaintiff's second amended complaint realleged claims which the Court previously dismissed with prejudice. The Court found that Ninth Circuit precedent[5] required a plaintiff to reallege even dismissed causes of action in order to preserve them for appeal. Allstate at 5.

Here, Plaintiff alleges:

> In the alternative to the claims laid out under CUTSA and the UCL, Defendant's unauthorized use of Plaintiff's trade secrets in violation of the parties non-disclosure agreement also supports claims for trade secret misappropriation and unfair competition under New York common law. (SAC ¶¶ 30, 39.)
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> In the December 1, 2009 Order, the Court found that New York law controls Plaintiff's Breach of Contract claim but California law governs Plaintiff's Misappropriation of Trade Secrets and Unfair Competition Claims. (SAC at 9 n.3, 10 n.4.)

Although the Court has not dismissed Plaintiff's New York common law claims, the Court has made a ruling that California law applies to the Misappropriation of Trade Secrets and Unfair Competition claims. Plaintiff's Complaint and Opposition make clear that the claims are included for purposes of a later appeal of the Court's December 1 Order. As in Allstate, the Court finds that Plaintiff may maintain these claims to preserve its appellate rights.

Accordingly, the Court DENIES Defendant's Motion to Dismiss Plaintiff's Third Cause of Action for New York Common Law Misappropriation of Trade Secrets and Fifth Cause of Action for New York Common Law Unfair Competition. However, the case shall proceed without consideration of these claims.

IV. CONCLUSION

The Court DENIES Defendant's Motion to Dismiss.

Dated: April 8, 2010

JAMES WARE
United States District Judge

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[4] (No. 06-3778 JW, Docket Item No. 53 at 3 ("Allstate").)

[5] Detabali v. St. Luke's Hosp., 482 F.3d 1199 (9th Cir. 2007); Marx v. Local Corp., 87 F.3d 1049 (9th Cir. 1996).

THIS IS TO CERTIFY THAT COPIES OF THIS ORDER HAVE BEEN DELIVERED TO:

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Dated: April 8, 2010

Richard W. Wieking, Clerk

By: /s/ JW Chambers
Elizabeth Garcia
Courtroom Deputy