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**IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION**

TMX FUNDING, INC., a Delaware corporation,
Plaintiff,

v.

IMPERO TECHNOLOGIES, INC., a California corporation; CLARENCE NICHOLAS STEIGELMAN, an individual; RONALD J LESNIAK, an individual; MITCHELL A HEINLEIN, an individual; JOSEPH ZHANG, a.k.a. XIANGCHOU ZHANG, an individual; MICHELLE DOVER, an individual; and DAVID LESNIAK, an individual,
Defendants.

Case Number C 10-00202 JF (PVT)

**ORDER¹ GRANTING IN PART
AND DENYING IN PART
MOTION TO DISMISS**

[re doc. no. 55]

Defendants Impero Technologies, Inc. (“Impero”), Clarence Steigelman (“Steigelman”), Ronald Lesniak (“R. Lesniak”), Mitchell Heinlein (“Heinlein”), Joseph Zhang (“Zhang”), Michelle Dover (“Dover”), and David Lesniak (“D. Lesniak”) (collectively, “Defendants”) move

¹ This disposition is not designated for publication in the official reports.

1 pursuant to Fed. R. Civ. P. 12(b)(6) to dismiss the complaint of Plaintiff TMX Funding, Inc.
2 (“TMX”). The Court has considered the moving and responding papers and the oral arguments
3 of counsel presented at the hearing on May 28, 2010. For the reasons discussed below, the
4 motion will be granted in part and denied in part, with leave to amend.

5 **I. BACKGROUND**

6 TMX filed the instant action against Defendants on January 14, 2010, asserting the
7 following claims for relief: (1) misappropriation of trade secrets in violation of California’s
8 Uniform Trade Secrets Act (“UTSA”), Cal. Civ. Code § 3426, *et seq.*; (2) breach of the duty of
9 loyalty, (3) breach of contract, (4) conversion of personal property, (5) unfair competition in
10 violation of California’s Unfair Competition Law (“UCL”), Cal. Bus. & Prof. Code § 17200, *et*
11 *seq.*, (6) interference with prospective economic advantage; and (7) the violation of Cal. Penal
12 Code § 502(e). As remedies for the alleged violations, TMX seeks a constructive trust and an
13 accounting.

14 **A. Factual history**

15 TMX is the purchaser of certain assets and collateral of Teledex, a designer and
16 manufacturer of hotel guest room telecommunication solutions. (Complaint ¶¶ 21, 27.) TMX
17 acquired the assets and collateral of Teledex after the expiration of several forbearance
18 agreements with respect to a loan on which Teledex was the borrower. (Complaint ¶¶ 26-27.)
19 The individual Defendants, who were employees of Teledex, were terminated during TMX’s
20 purchase of Teledex’s assets. (Complaint ¶¶ 37-42, 53.) TMX alleges that the individual
21 Defendants formed Defendant Impero following their termination from Teledex, which operates
22 in the same general field as Teledex. (Complaint ¶ 56.) Shortly after its acquisition of Teledex,
23 TMX suspected that some of Teledex’s property – including laptops and trade secret
24 information – had been stolen. (Complaint ¶¶ 56-63.)

25 **B. Procedural history**

26 On January 20, 2010, TMX moved for a temporary restraining order (“TRO”) and an
27 order to show cause why Defendants should not be enjoined from unlawfully taking, retaining
28 and utilizing property and confidential, proprietary, and trade secret information allegedly

1 belonging to TMX. On January 29, 2010, the Court denied the request for a TRO. On February
2 12, 2010, the Court held a hearing on TMX’s motion for a preliminary injunction. In an order
3 dated March 18, 2010, the Court found that TMX had satisfied its evidentiary burden under
4 California law for obtaining a preliminary injunction. On March 31, 2010, the Court issued a
5 preliminary injunction; Defendants subsequently appealed the order granting a preliminary
6 injunction and moved to stay or modify the preliminary injunction. On May 21, 2010, the Court
7 modified the preliminary injunction; Defendants thereafter dismissed their appeal.

8 II. LEGAL STANDARD

9 A complaint may be dismissed for failure to state a claim upon which relief may be
10 granted if a plaintiff fails to proffer “enough facts to state a claim to relief that is plausible on its
11 face.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007). TMX relies on *Morton v. Rank*
12 *Am, Inc.*, 812 F. Supp. 1062, 1065 (C.D. Cal. 1983), for the proposition that a motion to dismiss
13 will be granted only if “it appears beyond doubt that the plaintiff can prove no set of facts in
14 support of his claim which would entitle him to relief.” However, the “‘no set of facts’ language
15 has been questioned, criticized, and explained away long enough” and “is best forgotten as an
16 incomplete, negative gloss on an accepted pleading standard”. *Twombly*, 550 U.S. at 562-63.

17 Allegations of material fact must be taken as true and construed in the light most
18 favorable to the nonmoving party. *Cahill v. Liberty Mut. Ins. Co.*, 80 F.3d 336, 337-38 (9th Cir.
19 1997). Nonetheless, the Court need not accept as true allegations that are conclusory,
20 unwarranted deductions of fact, or unreasonable inferences. *See Sprewell v. Golden State*
21 *Warriors*, 266 F.3d 979, 988 (9th Cir. 2001). *See also Twombly*, 550 U.S. at 561 (“a wholly
22 conclusory statement of [a] claim” will not survive a motion to dismiss). While the record in the
23 instant case is well developed because of the evidence submitted in connection with TMX’s
24 motion for a preliminary injunction, the Court’s review on a motion to dismiss is limited to the
25 face of the complaint and matters judicially noticeable. *MGIC Indem. Corp. v. Weisman*, 803
26 F.2d 500, 504 (9th Cir. 1986); *N. Star Int’l v. Ariz. Corp. Comm’n*, 720 F.2d 578, 581 (9th Cir.
27 1983). Under the “incorporation by reference” doctrine, the Court also may consider documents
28 which are referenced extensively in the complaint and which are accepted by all parties as

1 authentic. *In re Silicon Graphics, Inc. Sec. Litig.*, 183 F.3d 970, 986 (9th Cir. 1999). Leave to
2 amend should be granted unless it is clear that the complaint’s deficiencies cannot be cured by
3 amendment. *Lucas v. Dep’t of Corr.*, 66 F. 3d 245, 248 (9th Cir. 1995).

4 In assessing whether to grant an opportunity to amend, the Court considers “the presence
5 or absence of undue delay, bad faith, dilatory motive, repeated failure to cure deficiencies by
6 previous amendments, undue prejudice to the opposing party[,] and futility of the proposed
7 amendment.” *Lee v. SmithKline Beecham, Inc.*, 245 F.3d 1048, 1052 (9th Cir. 2001) (quoting
8 *Moore v. Kayport Package Exp., Inc.*, 885 F.2d 531, 538 (9th Cir. 1989)). When amendment
9 would be futile, dismissal may be ordered with prejudice. *Dumas v. Kipp*, 90 F.3d 386, 393 (9th
10 Cir. 1996).

11 Finally, although their claims arise under state law, TMX’s allegations are subject to the
12 Federal Rules of Civil Procedure. Defendants contend that allegations of “intentional torts like
13 misappropriation of trade secrets, breach of fiduciary duty, unfair competition and the like”,
14 (Def.’s Mot. at 3-19:21), are subject to the heightened pleading requirements of Fed. R. Civ. P.
15 9(b). *See* Fed. R. Civ. P. 9(b) (requiring that “a party must state with particularity the
16 circumstances constituting fraud or mistake”); *Vess v. Ciba-Geigy Corp. USA*, 317 F.3d 1097,
17 1103-04 (9th Cir. 2003) (if “the claim is said to be ‘grounded in fraud’ or to ‘sound in fraud,’
18 [then] the pleading of that claim as a whole must satisfy the particularity requirement of Rule
19 9(b).”); and *Kaplan v. Rose*, 49 F.3d 1363, 1370 (9th Cir.1994) (claims based in fraud “must state
20 precisely the time, place, and nature of the misleading statements, misrepresentations, and
21 specific acts of fraud.”). However, TMX’s claims do not sound in fraud or mistake. As
22 discussed below, while a claim for the misappropriation of trade secrets must be pled with
23 “sufficient particularity”, the claim is not subject to Fed . R. Civ. P. 9(b).

24 III. DISCUSSION

25 Defendants argue that TMX has failed to allege enough facts to state a claim for relief that
26 is plausible on its face. In addition, Defendants contend that the USTA preempts all of TMX’s
27 claims, except its claims for the misappropriation of trade secrets and breach of contract.

28 //

1 **A. Misappropriation of trade secrets (Claim 1)**

2 Defendants contend that TMX has failed (1) to identify the alleged trade secrets with
3 particularity and (2) to plead that they have misappropriated the trade secrets.

4 **1. Identification of trade secrets with sufficient particularity**

5 Under the USTA, a “trade secret” is information including a “program, device, method,
6 technique, or process, that: (1) [d]erives independent economic value, actual or potential, from
7 not being generally known to the public or to other persons who can obtain economic value from
8 its disclosure or use; and (2) [i]s the subject of efforts that are reasonable under the circumstances
9 to maintain its secrecy.” Cal. Civ. Code § 3426.1(d). A complaint for the misappropriation of
10 trade secrets “should describe the subject matter of the trade secret with sufficient particularity to
11 separate it from matters of general knowledge in the trade or special knowledge of those persons
12 who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within
13 which the secret lies.” *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 253 (Cal. App. 2d Dist.
14 1968). However, “[o]ne who seeks to protect his trade secrets from wrongful use or disclosure
15 does not have to spell out the details of the trade secret to avoid [dismissal]. To so require would
16 mean that the complainant would have to destroy the very thing for which he sought protection by
17 making public the secret itself.” *Id.* at 252.

18 TMX alleges nine broad categories of trade secret information:

- 19 a. Its software, source codes, data, formulas, and other technical information
20 developed as proprietary and confidential products and services;
- 21 b. Its business methods and marketing plans, such as prospective customer and sales
22 methods for attracting and retaining customers;
- 23 c. Its product information, including, but not limited to, cost, pricing, margin data
24 and other financial information;
- 25 d. Customer lists;
- 26 e. Contact names and information at the various accounts;
- 27 f. Names and contact information of the person(s) with purchasing authority and
28 person(s) with influence over purchasing decisions at the various accounts;
- g. Customer profiles, including but not limited to, a record of all of its previous
transactions, feedback, and service history with the various accounts;

1 h. Special buying and service needs, buying and service patterns, agreements with
2 customers, and buying preferences of customers, including special terms,
discounts, and accessories;

3 j. Login and password information to access the computer networks, servers,
4 computer systems, and telephone systems.

5 (Complaint ¶ 43.) This description is sufficient to permit Defendants at least to ascertain the
6 boundaries within which the secrets lie.

7 **a. Separate from the trade's general knowledge of the subject matter**

8 Defendants contend that TMX insufficiently alleges how the information described above
9 is separate from the trade's general knowledge of the subject matter. While *Twombly* arguably
10 heightened the overall pleading standard under Fed. R. Civ. P. 12(b)(6), the facts alleged in the
11 complaint still are construed in the light most favorable to the nonmoving party. See *Von Saher*
12 *v. Norton Simon Museum of Art at Pasadena*, 592 F.3d 954, 960 (9th Cir. 2010). It is self evident
13 that some of the types of information alleged are not generally known to others in the trade.

14 Entities outside of Teledex certainly would not have general knowledge of Teledex's login and
15 password information for access to Teledex's computer networks and servers, nor would they
16 have access to Teledex's software, source codes, data, formulas, business methods, marketing
17 plans, or margin data. At least with respect to Teledex's login and password information, the
18 information's only economic value derives from the fact that it is *not* generally known to others.

19 **b. Subject to efforts to maintain its secrecy**

20 TMX sufficiently alleges its reasonable efforts to maintain the secrecy of the information
21 that it has identified. The complaint refers to at least two agreements with respect to proprietary
22 information: a Propriety Information and Employee Inventions Agreement, (Complaint Ex. F),
23 and a Confidential Information Policy and Agreement, (Complaint Ex. G). Construing the facts
24 in the light most favorable to TMX, Teledex would have required its employees to sign these
25 agreements. Teledex also maintained computer login procedures and password protection for at
26 least some of the information that TMX has identified. (Complaint ¶¶ 49-50.)

27 **2. Misappropriation of trade secrets**

28 Defendants also contend that TMX insufficiently alleges that *Defendants* actually

1 misappropriated any trade secrets. TMX alleges that several computers, servers, and hard files
2 were stolen from its offices in San Jose, California, (Complaint ¶¶ 60-61), but it does not allege
3 explicitly that Defendants were responsible for the theft. However, TMX does allege, on
4 information and belief, that “Defendants used confidential and proprietary information to obtain
5 unauthorized access to Teledex servers and computer networks and copied, misappropriated,
6 removed, overwrote, removed [*sic*], and erased confidential, proprietary and trade secret
7 information as recently as January 1, 2010.” (Complaint ¶ 62.) It alleges specifically that
8 Defendants misappropriated information, identifies the method used to misappropriate the
9 information, and indicates the a date on which the information was misappropriated.

10 **B. UTSA preemption**

11 Defendants contend that the UTSA preempts TMX’s claims for breach of the duty of
12 loyalty, conversion, unfair competition, interference with a prospective economic advantage,
13 constructive trust and accounting, and unauthorized access to computerized data in contravention
14 of California Penal Code § 502. The UTSA “preempts common law claims that are ‘based on the
15 same nucleus of facts as the misappropriation of trade secrets claim for relief.’” *K.C. Multimedia,*
16 *Inc. v. Bank of America Technology & Operations, Inc.*, 171 Cal. App. 4th 939, 958 (Cal. App.
17 6th Dist. 2009) (quoting *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025, 1035 (N.D.
18 Cal. 2005)). However, as discussed above, Defendants also dispute that TMX sufficiently
19 identifies any trade secret information. Regardless of whether the information is a trade secret,
20 Defendants may be liable for a breach of the duty of loyalty if they utilized Teledex’s proprietary
21 information, for conversion if they wrongfully deprived TMX of possession of that information,
22 for unfair competition if they misappropriated TMX’s proprietary information, for interfering
23 with TMX’s prospective economic advantage, and for accessing computerized information
24 without authorization.

25 This Court agrees with the approach taken by other courts within this district:

26 To the extent the claim is based on these trade secrets, it cannot go forward. However,
27 [the plaintiff] may continue to pursue the [tort claim] so long as the confidential
28 information at the foundation of the claim is not a trade secret, as that term is defined in
[the UTSA]. If, in subsequent pleadings or briefs, or at trial, it is established that the
disclosures on which [the plaintiff] bases this claim were trade secrets, the claim will be

1 dismissed with prejudice.”

2 *First Advantage Background Services Corp. v. Private Eyes, Inc.*, 569 F. Supp. 2d 929, 942 (N.D.
3 Cal. 2008).

4 **C. Breach of the duty of loyalty (Claim 2)**

5 Defendants point out that they have never been employed by TMX and thus do not owe a
6 duty of loyalty to TMX. TMX alleges that Defendants breached fiduciary duties owed to *Teledex*
7 and that, as Teledex’s successor in interest, it has acquired the right to enforce those claims
8 against Defendants. The individual Defendants contend that they were terminated as of
9 December 10, 2009 and that all of the wrongful conduct alleged by TMX occurred after that date.
10 TMX alleges that at least some Teledex property was stolen before or immediately after
11 December 10, 2009. (Complaint ¶ 61.) While there is a dispute with respect to whether the
12 individual Defendants removed Teledex property and when that property was removed, the
13 complaint lacks allegations of factual details of Defendants’ wrongful actions while still
14 employed at Teledex. The Court concludes that requiring TMX to provide more specific
15 allegations with respect to which Defendants did what and when will clarify TMX’s claim and
16 make it significantly more manageable.

17 **D. Breach of contract (Claim 3)**

18 Under California law, a *prima facie* claim for breach of contract consists of four elements:
19 (1) the existence of a contract, (2) the plaintiff’s performance or excuse for non-performance, (3)
20 defendant’s breach, and (4) damages to the plaintiff from defendant’s breach.

21 *Walsh v. West Valley Mission Community College Dist.*, 66 Cal. App. 4th 1532, 1545 (Cal. App.
22 6th Dist. 1998). TMX identifies two Teledex form agreements intended to protect proprietary
23 and confidential information: a Proprietary Information and Employee Inventions Agreement,
24 (Complaint Ex. F), and a Confidential Information Policy and Agreement, (Complaint Ex. G).
25 TMX alleges, on information and belief, that Defendants signed these agreements.

26 Defendants contend that TMX insufficiently alleges the existence of a contract, arguing
27 that it does not provide factual support for its allegation that Defendants signed the agreements.
28 For purposes of the instant motion, TMX sufficiently alleges the existence of a contract. TMX

1 specifically alleges that the individual Defendants are former Teledex employees and identifies
2 two form agreements used by Teledex to protect its confidential and proprietary information from
3 disclosure by its employees. Viewed in the light most favorable to TMX, these factual
4 allegations are sufficient to support a reasonable inference that Defendants signed the agreements
5 while they were employed by Teledex.

6 **E. Conversion (Claim 4)**

7 “Conversion is the wrongful exercise of dominion over the property of another. The
8 elements of a conversion are the plaintiff’s ownership or right to possession of the property at the
9 time of the conversion; the defendant’s conversion by a wrongful act or disposition of property
10 rights; and damages.” *Plummer v. Day/Eisenberg, LLP*, 184 Cal. App. 4th 38, 45 (Cal. App. 4th
11 Dist. 2010) (citing *Farmers Ins. Exchange v. Zerin*, 53 Cal. App. 4th 445, 451 (Cal. App. 3d Dist.
12 1997)). Defendants argue that TMX also must allege that it demanded the return of the items that
13 were lost, relying on *Wade v. Markwell & Co.*, 118 Cal. App. 2d 410, 418 (Cal. App. 1953).
14 However, to the extent that such a demand once was an element of the *prima facie* case for
15 conversion, modern California courts do not appear to require it.

16 More troubling is Defendants’ contention that TMX does not allege that *Defendants*
17 actually covered any tangible property. TMX does allege that computers, hard files, hardware,
18 servers, and computer and internet access cards were stolen from its offices in San Jose,
19 California, (Complaint ¶ 61), but it does not allege that Defendants or any particular individual
20 Defendants are responsible. The complaint lacks sufficient factual support to make an inference
21 to that effect reasonable. However, TMX also alleges that Defendants misappropriated intangible
22 property by accessing Teledex’s servers and computer networks on January 1, 2010. (Complaint
23 ¶ 62.) “It would be a curious jurisprudence that turned on the existence of a paper document
24 rather than an electronic one. Torching a company’s file room would then be conversion while
25 hacking into its mainframe and deleting its data would not. That is not the law, at least not in
26 California.” *Kremen v. Cohen*, 337 F.3d 1024, 1034 (9th Cir. 2003).

27 **F. Interference with a prospective economic advantage (Claim 6)**

28 The elements of interference with a prospective economic advantage “are usually stated as

1 follows: ‘(1) an economic relationship between the plaintiff and some third party, with the
2 probability of future economic benefit to the plaintiff; (2) the defendant’s knowledge of the
3 relationship; (3) intentional acts on the part of the defendant designed to disrupt the relationship;
4 (4) actual disruption of the relationship; and (5) economic harm to the plaintiff proximately
5 caused by the acts of the defendant.’” *Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal. 4th
6 1134, 1153 (2003) (citation omitted). Defendants contend that TMX insufficiently alleges (1) the
7 existence of an economic relationship between TMX and a third party and (2) intentional acts of
8 Defendants that have actually disrupted that relationship. TMX alleges in a conclusory fashion
9 that some economic relationship with a third party has been disrupted by Defendants’ intentional
10 acts. (Complaint ¶¶ 108-110.) Such conclusory allegations need not be accepted as true.
11 *Sprewell*, 266 F.3d at 988. The complaint does not provide any factual support for this allegation.

12 **G. Cal. Penal Code § 502 (Claim 8)**

13 Cal. Pen. Code § 502(c) proscribes a wide range of conduct involving the knowingly
14 unauthorized access of computer data, including knowingly accessing and without permission
15 taking, copying, or making use of any data from a computer, computer system, or computer
16 network, or taking or copying any supporting documentation, whether existing or residing
17 internal or external to a computer, computer system, or computer network; knowingly and
18 without permission using or causing to be used computer services; and knowingly accessing and
19 without permission adding, altering, damaging, deleting, or destroying any data, computer
20 software, or computer programs which reside or exist internal or external to a computer,
21 computer system, or computer network. Cal. Pen. Code § 502(c)(2)-(4). TMX alleges “that
22 Defendants used confidential and proprietary information to obtain unauthorized access to
23 Teledex servers and computer networks and copied, misappropriated, removed, overwrote,
24 removed [*sic*], and erased confidential, proprietary and trade secret information as recently as
25 January 1, 2010.” (Complaint ¶ 62.) If this allegation is true, Defendants conduct may have
26 violated Cal. Pen. Code § 502. Because the information need not be a trade secret for purposes of
27 Cal. Pen. Code § 502, the UTSA does not preempt this claim to the extent that the
28 misappropriated information was not a trade secret.

1 **H. Unfair competition (Claim 5)**

2 The UCL prohibits “any unlawful, unfair or fraudulent business act or practice and unfair,
3 deceptive, untrue or misleading advertising.” Cal. Civ. Code § 17200. Accordingly, “[a]n act
4 can be alleged to violate any or all of the three prongs of the UCL – unlawful, unfair, or
5 fraudulent.” *Berryman v. Merit Prop. Mgmt., Inc.*, 152 Cal. App. 4th 1544, 1554 (2007). For an
6 action based upon an allegedly unlawful business practice, the UCL “borrows violations of other
7 laws and treats them as unlawful practices that the unfair competition law makes independently
8 actionable.” *Cel-Tech Commc’ns, Inc. v. Los Angeles Cellular Tel. Co.*, 20 Cal. 4th 163, 180
9 (1999). As discussed above, TMX states a claim under Cal. Pen. Code § 502, and this is a
10 sufficient predicate for unlawful competition under the UCL. Defendants argue that the UCL
11 claim must be dismissed because TMX seeks compensatory, punitive, and exemplary damages.
12 Defendants are correct that California courts “have stated that under the UCL, ‘[p]revailing
13 plaintiffs are generally limited to injunctive relief and restitution.’” *Korea Supply Co.*, 29 Cal. 4th
14 at 1144 (quoting *Cel-Tech*, 20 Cal.4th at 179) (marks in the original). However, TMX also seeks
15 injunctive relief. (Complaint at 28:3-6, 29:11-15, and 30:1-12.)

16 **I. Constructive trust and accounting (Claim 7)**

17 A constructive trust “is not an independent cause of action but merely a type of remedy for
18 some categories of underlying wrong.” *Glue-Fold, Inc. v. Slautterback Corp.*, 82 Cal. App. 4th
19 1018, 1023 n.3 (Cal. App. 1st Dist. 2000). An accounting “is treated as a cause of action
20 available to a wronged fiduciary [citation], which is subject to the statute of limitations governing
21 the nature of the underlying wrong.” *Id.* Thus, “these equitable forms of remedies are dependent
22 upon a substantive basis for liability”. *Id.* As discussed above, the Court will decline to dismiss
23 TMX’s claim for misappropriation of trade secrets. Accordingly, TMX’s prayer for these
24 remedies remains viable.

25 **IV. DISPOSITION**

26 Defendants motion will be granted with respect to TMX’s claims for breach of the duty of
27 loyalty and interference with prospective economic advantage. The motion otherwise will be
28 denied. Any amended complaint shall be filed within thirty (30) days of the date of this order.

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IT IS SO ORDERED

DATED: 6/8/2010



JEREMY FOGEL
United States District Judge