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UNITED STATES DISTRICT COURT

NORTHERN DISTRICT OF CALIFORNIA

SAN JOSE DIVISION

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| SOAPROJECTS, INC., ) | Case No.: 10-CV-01773-LHK |
| ) | |
| Plaintiff, ) | ORDER GRANTING IN PART AND |
| ) | DENYING IN PART SCM |
| v. ) | MICROSYSTEMS, INC.'S MOTION TO |
| ) | DISMISS |
| SCM MICROSYSTEMS, INC. (d/b/a Identive ) | |
| Group) and KAMAL KANT GUPTA, ) | |
| ) | |
| Defendants. ) | |
| ) | |

On August 27, 2010, Defendant SCM Microsystems, Inc. moved to dismiss four of Plaintiff SOAProjects, Inc.'s claims. Dkt. No. 27 ("Mot. to Dismiss"); *see also* Dkt. No. 33 ("Reply Br."). SOAProjects opposes the motion. Dkt. No. 31 ("Opp'n"). After hearing oral argument and considering the parties' submissions, this Court GRANTS in part and DENIES in part SCM's motion.

## I. BACKGROUND

SOAProjects claims that SCM improperly hired one of its consultants in breach of contract and further alleges that SCM acted in concert with this consultant to illegally obtain SOAProjects' confidential information and trade secrets. SOAProjects supports these claims with the following allegations from its First Amended Complaint ("FAC," Dkt. No. 22).

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### A. Master Agreement

SOAProjects, a California corporation, provides consulting services. FAC ¶ 2, 10. In August 2008, SOAProjects entered into a written Master Agreement with SCM, a provider of solutions for secure access, secure identity, and secure exchange. *Id.* ¶¶ 3, 11. This Master Agreement, signed by representatives of both parties, provided the following. *Id.* ¶ 12. First, the Master Agreement provided that SOAProjects would supply SCM with "financial and accounting compliance projects." *Id.* ¶ 12. Second, pursuant to the Master Agreement, an Addendum for Services would be created for each project. *Id.* ¶ 13. This Addendum would be signed by representatives from both parties and would specify in writing the rate and date for each respective project. *Id.* Third, the Master Agreement provided that California law would govern. *Id.* ¶ 14. Fourth, the Master Agreement contained a provision restricting SCM from soliciting SOAProjects consultants. [1] *Id.* ¶ 15. This provision included a monetary penalty if breached. *Id.* ¶ 16.

Pursuant to a September 1, 2008 Addendum, SOAProjects agreed to provide consulting services to SCM in connection with stock administration work. *Id.* ¶ 17.

### B. Confidentiality Agreement

On September 17, 2008, SOAProjects and Defendant Kamal Kant Gupta entered into an Employment Agreement and a Confidentiality Agreement. *Id.* ¶ 18. Under the Confidentiality Agreement, Gupta agreed not to disclose SOAProjects' confidential information, as defined by the agreement, or use such information except for the benefit of SOAProjects. *Id.* ¶¶ 21-22.

To protect access to its confidential and proprietary information, SOAProjects maintains a Virtual Private Network ("VPN"). *Id.* ¶ 24. Access to the VPN is restricted to SOAProjects employees only and is password-protected. *Id.* Not all with access to the VPN, however, can access SOAProjects trade secrets. Such access is limited to high level employees. *Id.* SOAProjects also subscribes to licensed research tools that require passwords and login

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[1] As alleged in the FAC, the provision provided: "SCM agrees that, for so long as this Agreement and the original engagement letter is in effect and for a period of one (1) year after its termination SCM will not, for any purpose(s), solicit . . . any SOAProjects consultants identified during their consulting services by SOAProjects." FAC ¶ 15.

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1   information to access.  *Id.* ¶ 25.  Gupta had access to both trade secrets through the VPN and

2   SOAProjects' licensed research tools.  *Id.* ¶ 31.

3   **C. Employment Transition Agreement**

4   During his time at SOAProjects, Gupta provided financial consulting and compliance

5   services to SCM and worked on a proposal for SOAProjects to assist SCM with other services.  *Id.*

6   ¶ 32-35.  On or before October 2009, SCM began soliciting Gupta for employment.  *Id.* ¶ 36.  SCM

7   and Gupta then initiated negotiations with SOAProjects to allow Gupta to join SCM.  *Id.* ¶ 37.

8   Following these negotiations, SOAProjects and SCM allegedly entered into an Employment

9   Transition Agreement.  *Id.* ¶ 38.  Under the Employment Transition Agreement, SOAProjects

10  agreed not to enforce the non-solicitation clause in the Master Agreement.  *Id.*  In exchange, SCM

11  agreed to pay SOAProjects a fee of 25% of Gupta's annual base compensation and to continue to

12  engage SOAProjects for all technical accounting projects as required for at least the fiscal years

13  2010 and 2011.  *Id.*  Furthermore, SCM agreed that Gupta would not perform for SCM "in-house"

14  the same services that SOAProjects performed for SCM.  *Id.*  SOAProjects claims that SCM's

15  Chief Financial Officer Martin Wimmer confirmed these conditions during a November 26, 2009

16  conference call.  *Id.* ¶ 41.

17  On November 22, 2009, Gupta sent an e-mail to Manav Singh, a senior executive at

18  SOAProjects, confirming in writing certain conditions of Gupta's transition to SCM.  *Id.* ¶ 39.

19  Gupta confirmed that SOAProjects would be paid 25% of his salary upfront.  *Id.*  In addition,

20  Gupta confirmed that his new job at SCM would mainly involve operations responsibility, and

21  therefore, SCM would still need SOAProjects to assist on technical accounting work.  *Id.* ¶ 40.  On

22  December 3, 2009, Wimmer also sent Singh a letter documenting SCM's intent to continue to use

23  SOAProjects in the future.  *Id.* ¶ 42.

24  **D. Misappropriation of Trade Secrets**

25  According to SOAProjects, between November 10, 2009 and December 3, 2009, Gupta

26  created files on his computer containing copies of confidential and proprietary information.  *Id.* ¶

27  51.  SOAProjects claims there was no business justification for this activity.  *Id.*  Gupta left

28  SOAProjects on December 24, 2009 and returned his computer to a SOAProjects Human

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1  Resources Director. *Id.* ¶ 49. According to SOAProjects, Gupta later returned and, through

2  allegedly deceptive means, persuaded the HR Director to give him access to his old computer and

3  to the VPN password. *Id.* ¶¶ 57-61. Using his computer, Gupta accessed SOAProjects' trade

4  secrets and confidential information and sent himself an e-mail containing this information. *Id.* ¶

5  63. Gupta then returned the computer. *Id.* ¶ 70.

6  SOAProjects claims that Gupta is now working at SCM and is using SOAProjects' trade

7  secrets and confidential information to perform services for SCM that SOAProjects previously

8  provided. *Id.* ¶¶ 73-75. It alleges that SCM acted in concert with Gupta and is kowingly enjoying

9  the benefits of his theft. *Id.* ¶ 141. Since hiring Gupta, SCM has not used SOAProjects' services

10  for any new projects. *Id.* ¶ 76. In addition, SOAProjects claims that Gupta has contacted current

11  and potential clients and has convinced some of them not to hire SOAProjects. *Id.* ¶¶ 83-84.

12  Although SCM disputes that Gupta is using SOAProjects' trade secrets and confidential

13  information, SCM's counsel conceded at the hearing that Gupta is in Germany working for SCM as

14  SCM's Vice President of Finance and Corporate Controller.

15  **E.  Current Action and Motion**

16  On April 23, 2010, SOAProjects filed its original complaint alleging nine causes of action

17  against SCM and Gupta. Dkt. No. 1. After SCM moved to dismiss SOAProjects' claims against it,

18  Dkt. No. 11, the parties stipulated to, and the court approved of, SOAProjects filing an amended

19  complaint, Dkt. Nos. 18, 19. In its FAC, SOAProjects alleges thirteen causes of action. It makes

20  claims for relief against Gupta based on the following: Violations of Federal Computer Fraud and

21  Abuse Act (18 U.S.C. § 1030), Violations of Computer Data Access and Fraud Act (CAL. PENAL

22  CODE § 502), Trespass to Chattels, Breach of Contract, Misappropriation of Trade Secrets,

23  Tortious Interference with Contract, Tortious Interference with Prospective Economic Advantage,

24  Fraud, Trade Libel, and Unfair Business Practices (CAL. BUS. & PROF. CODE § 17200 *et seq.*).

25  At issue in this motion to dismiss are SOAProjects' claims against SCM: Breach of

26  Contract, Promissory Estoppel, Unjust Enrichment, and Misappropriation of Trade Secrets. SCM

27  moves this Court under FED. R. CIV. P. 12(b)(6) to dismiss all four claims as against SCM.

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**II. LEGAL STANDARD**

A district court may dismiss a pleading that "fail[s] to state a claim upon which relief can be granted." FED. R. CIV. P. 12(b)(6). Motions to dismiss under Rule 12(b)(6) test "the legal sufficiency of a claim." *Navarro v. Block*, 250 F.3d 729, 732 (9th Cir. 2001). "Dismissal can be based on the lack of a cognizable legal theory or the absence of sufficient facts alleged under a cognizable legal theory." *Balistreri v. Pacifica Police Dept.*, 901 F.2d 696, 699 (9th Cir. 1990) (citation omitted). Although the pleading need not contain detailed factual allegations to survive a motion to dismiss, it must contain "enough facts to state a claim to relief that is plausible on its face." *Bell Atlantic Corp. v. Twombly*, 550 U.S. 544, 570, 127 S. Ct. 1955, 1974, 167 L. Ed. 2d 929 (2007). This occurs "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*, 556 U.S. ___, 129 S. Ct. 1937, 1949, 173 L. Ed. 2d 868 (2009). In making this determination, "[a]ll allegations of material fact are taken as true and construed in the light most favorable to the nonmoving party." *Cahill v. Liberty Mut. Ins. Co.*, 80 F.3d 336, 337-38 (9th Cir. 1996). This does not, however, apply to legal conclusions. *See Iqbal*, 129 S. Ct. at 1949. If a district court dismisses a claim, it "should grant leave to amend even if no request to amend the pleading was made, unless it determines that the pleading could not possibly be cured by the allegation of other facts." *Doe v. United States*, 58 F.3d 494, 497 (9th Cir. 1995) (quotation and quotation marks omitted).

**III. ANALYSIS**

SCM moves this Court to dismiss SOAProjects' fourth claim (breach of contract), fifth claim (promissory estoppel), sixth claim (unjust enrichment), and eighth claim (misappropriation of trade secrets) against SCM. The Court will consider each claim in turn.

**A. Breach of Contract**

SOAProjects' breach of contract claim is based on SCM's alleged breach of the Employment Transition Agreement. Opp'n 3. SCM argues that the claim must fail because SOAProjects has not pled facts showing the existence of a valid and enforceable contract. Mot. to Dismiss 6. SOAProjects' complaint does not contain allegations that the Employment Transition Agreement was ever reduced, in its complete form, to writing. Under California's statute of frauds,

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1  "[a]n agreement that by its terms is not to be performed within a year from the making thereof" is

2  invalid unless it, "or some note or memorandum thereof, [is] in writing and subscribed by the party

3  to be charged or by the party's agent." CAL. CIV. CODE § 1624(a)(1). Neither party appears to

4  dispute that the Employment Transition Agreement was not to be performed within a year. As

5  alleged, SCM promised "to continue to engage SOAProjects for all technical accounting projects as

6  required for at least the fiscal years 2010 and 2011." FAC ¶ 38, 41.

7  SOAProjects, however, makes three arguments defending the validity of its contract.

8  Although two of these arguments fail, one does permit SOAProjects' breach of contract claim to

9  survive SCM's motion to dismiss.

10  **1.  Memorandum that Satisfies the Statute of Frauds**

11  First, SOAProjects argues that then SCM Chief Financial Officer Martin Wimmer's

12  December 3, 2009 letter to then SOAProjects CEO Manav Singh constitutes a memorandum

13  sufficient to satisfy the writing requirement of California's statute of frauds.[2]  Opp'n 5.  "A

14  memorandum satisfies the statute of frauds if it identifies the subject of the parties' agreement,

15  shows that they made a contract, and states the essential contract terms with reasonable certainty."

16  *Sterling v. Taylor*, 40 Cal. 4th 757, 766, 55 Cal. Rptr. 3d 116, 123, 152 P.3d 420, 425, (2007).

17  "What is essential depends on the agreement and its context and also on the subsequent conduct of

18  the parties."  *Id.* (quotation omitted).  According to SOAProjects' complaint, Wimmer's letter stated

19  the following:

20  > I would like to hereby confirm our agreement that SCM intends to continue to use
21  > SOAProjects for all technical accounting projects as and when required and all
    > [financial consulting and compliance services] projects in Santa Ana and Germany,
22  > to the extent possible, at least for fiscal year 2010 and 2011. As discussed, the
    > hiring of Mr. Kamal Kant [Gupta] does not mean that SCM intend [sic] not to use
23  > SOAProjects services in the future; on the contrary, we intend to continue to engage
    > your team for projects as appropriate. We appreciate you making this exception for
24  > us and your support in the hiring of Mr. Kamal Kant to SCM.

25  FAC ¶ 43 (alterations in original).

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[2] None of the parties dispute that Wimmer's letter was subscribed, as required by the statute of frauds, by SCM's agent.

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1	The letter contains some evidence of the existence of a contract. In the first line, the letter

2	states that it is confirming a previous agreement between SCM and SOAProjects. The letter

3	proceeds to set out a basic requirements contract that is set to last for more than one year. For at

4	least 2010 and 2011, SCM will use SOAProjects to perform certain services. The letter even goes

5	so far as to identify two specific geographic areas where SOAProjects will provide other services.

6	SCM correctly points out, however, that the language of the letter is too general and

7	indeterminate to satisfy the statute of frauds. Reply Br. 3-4. The letter uses words such as

8	"intends," "to the extent possible," "as and when required," and "as appropriate." *Id.* at 4. Such

9	words fail to provide reasonable certainty as to what the contract requires of the parties during the

10	period of time allegedly covered by the contract.

11	Moreover, the letter leaves out several of the other alleged terms of the Employment

12	Transition Agreement, including the 25% of Gupta's salary fee and the restriction on SCM's use of

13	Gupta "in-house." Reply Br. 4. Although "[i]t is well established that a note or memorandum

14	under the statute of frauds need not contain all of the details of an agreement between the parties,"

15	*Gold Seal Prods. v. R. K. O. Radio Pictures*, 134 Cal. App. 2d 843, 864, 286 P.2d 954 (1955)

16	(quoting *Gibson v. De La Salle Inst.*, 66 Cal. App. 2d 609, 627, 152 P.2d 774 (1944)) (quotation

17	marks omitted), it still must contain the "'essential' or 'meaningful' terms," *In re Marriage of*

18	*Benson*, 36 Cal. 4th 1096, 1108, 32 Cal. Rptr. 3d 471, 479, 116 P.3d 1152, 1159 (2005) (citations

19	omitted). Given that SOAProjects' main concern was protecting clients from hiring away

20	SOAProjects consultants and then discontinuing use of SOAProjects services, the salary fee and

21	"in-house" restriction terms are essential in the context of the agreement. By not including them

22	and failing to outline any other terms with reasonable certainty, the Wimmer letter fails to qualify

23	as a memorandum under the statute of frauds.

24	At the hearing, SOAProjects' counsel argued that the Court should also consider Gupta's e-

25	mail on November 22, 2009 as another writing that, in connection with the Wimmer letter, satisfies

26	the statute of frauds. SOAProjects is correct that "several papers, only one of which is signed by

27	the party to be charged, may be considered together to constitute an adequate memorandum of the

28	contract." *Karl v. Jebien*, 231 Cal. App. 2d 769, 772, 42 Cal. Rptr. 461 (1965) (citing *Searles v.*

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1    *Gonzalez*, 191 Cal. 426, 431, 216 P. 1003 (1923)); *see also Straus v. De Young*, 155 F. Supp. 215,

2    218 (S.D. Cal. 1957) (holding that it is well-settled in California that "it is not necessary that the

3    party to be charged sign all of the documents comprising the contract, if one of the documents in

4    the series, or all of the documents taken together set forth clearly and completely all of the essential

5    elements of the contract, except those which may be reasonably implied as being present and

6    inherent in the deal") (citations omitted). Gupta's e-mail, however, fails to cure the Wimmer

7    letter's defects. SOAProjects claims that Gupta's e-mail contained the following statements.

8    SOAProjects will make 25% of my salary upfront which will be $53,250 which is
9    equivalent of 444 hours. So if there is a 20-35% reduction of work due to the fact
     that I am there now, that will be covered through this upfront payment.

10   In addition, I will make sure SOAProjects continue to do the [financial consulting
     and compliance services] work in Southern California. Also, I will try to have
11   SOAProjects do the [financial consulting and compliance services] work for SCM
     in Germany . . . .

12   My job at SCM will be mainly involved with operations responsibility and not
13   necessarily writing the actual technical memos, etc. I will be mainly involved in
     managing and reviewing the work and therefore SCM will still need assistance from
14   SOAProjects for quite a lot technical accounting work.

15   FAC ¶¶ 39-40. Although the first paragraph does provide a definitive statement that SOAProjects

16   will be paid the 25% fee alleged to be part of the agreement, the rest of the e-mail suffers from the

17   same infirmities as the Wimmer letter; it fails to state any essential terms of a contract between

18   SCM and SOAProjects with reasonable certainty. Gupta states that he, not SCM, will make sure

19   that SOAProjects continues to perform work for SCM. Moreover, he "will try" and have

20   SOAProjects perform work for SCM in Germany. Finally, the language of the last paragraph reads

21   as a personal communication between Gupta and SOAProjects, not a contract term.

22   Because the Employment Transition Agreement cannot, by its terms, be performed in one

23   year and because no note or memorandum exists spelling out its essential terms with reasonable

24   certainty, the statute of frauds renders the alleged contract unenforceable. However, SOAProjects

25   can overcome this if SOAProjects can adequately allege equitable estoppel.

26   **2. Equitable Estoppel**

27   SOAProjects' second argument is that SCM is estopped from asserting the statute of frauds

28   defense. Opp'n 6. "In California, . . . the doctrine of equitable estoppel can, in appropriate

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1　　circumstances, prevent a party from asserting the Statute of Frauds." *In re Eastview Estates II*, 713

2　　F.2d 443 (9th Cir. 1983) (citation omitted).　According to the authority cited by SOAProjects,

3　　Opp'n 6, "a substantial change of position in reliance on an oral agreement will estop reliance on

4　　the statute [of frauds]." *Estate of Housley*, 56 Cal. App. 4th 342, 357, 65 Cal. Rptr. 2d 628 (1997)

5　　(quoting *Hall v. Hall*, 222 Cal. App. 3d 578, 585-86, 271 Cal. Rptr. 773 (1990)).　SOAProjects

6　　claims that its conduct meets this standard.　According to SOAProjects, it changed its position in

7　　reliance on the alleged promises made during the November 26, 2009 conference call.　Opp'n 6-7.

8　　　　　　Another California Court of Appeal outlines a slightly more rigorous equitable estoppel

9　　standard.　In *Byrne v. Laura*, 52 Cal. App. 4th 1054, 1068, 60 Cal. Rptr. 2d 908 (1997), the court

10　　identified the leading case on equitable estoppel as *Monarco v. Lo Greco*, 35 Cal. 2d 621, 623, 220

11　　P.2d 737 (1950).　In that case, Justice Traynor stated that the doctrine of estoppel is meant "to

12　　prevent fraud that would result from refusal to enforce oral contracts in certain circumstances."

13　　*Monarco*, 35 Cal. 2d at 623.　Justice Traynor went on to say that "[s]uch fraud may inhere in the

14　　unconscionable injury that would result from denying enforcement of the contract after one party

15　　has been induced by the other seriously to change his position in reliance on the contract."　*Id.*

16　　(citing cases).　According to the court in *Byrne*, "[t]he equitable principles set forth in *Monarco*

17　　have been echoed in many subsequent cases and are well settled."　52 Cal. App. 4th at 1068 (citing

18　　cases).　This standard appears to be the prevailing one.

19　　　　　　Under this standard,[3] SCM argues that SOAProjects failed to allege facts showing that

20　　SCM engaged in any fraudulent conduct or that SOAProjects suffered any unconscionable injury.

21　　Reply Br. 6.　SOAProjects has, however, pled enough facts to state a plausible claim that equitable

22　　estoppel applies in this case.　First, "[i]n order to raise [equitable] estoppel, fraud in some form is

23　　essential, but it is not required that an actual intent to defraud or mislead exist; all that is required is

24　　that there exist a fraud inhering in the consequence of thus setting up the statute."　*Notten v.*

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26　　[3] SCM actually cites to *Secrest v. Security Nat. Mortg. Loan Trust 2002-2*, 167 Cal. App. 4th 544,
84 Cal. Rptr. 3d 275 (2008) for the equitable estoppel standard.　That case, however, involved
estoppel via part performance.　Because part performance and equitable estoppel are separate
grounds to defeat the statute of frauds, *see Warren v. Merrill*, 143 Cal. App. 4th 96, 113 & n.19, 49
Cal. Rptr. 3d 122 (2006), and SOAProjects has not argued part performance, *Secrest* is not
applicable.

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1    *Mensing*, 3 Cal. 2d 469, 476, 45 P.2d 198, 202 (1935) (quoting *Seymour v. Oelrichs*, 156 Cal. 782,

2    796, 106 P. 88, 94 (1909)); *see also Mintz v. Rowitz*, 13 Cal. App. 3d 216, 223-24, 91 Cal. Rptr.

3    435 (1970) (applying *Notten*).  Moreover, the party invoking the statute of frauds as a defense need

4    not have represented that the contract would be put in writing in order to be estopped.  *See*

5    *Monarco*, 35 Cal. 2d at 626.  Rather, the important promise is the promise that the oral contract

6    will be performed.  *Id.*

7           SOAProjects alleges enough facts to state a plausible claim that this type of fraud has

8    occurred.  According to SOAProjects, it agreed not to enforce any potential causes of action under

9    the Master Agreement in exchange for SCM's promises that SCM would pay the 25% fee, continue

10   to use SOAProjects' services in 2010 and 2011, and not employ Gupta to perform "in-house" the

11   same services that Gupta performed for SCM as an employee of SOAProjects.  FAC ¶ 41.

12   SOAProjects claims that Gupta and SCM confirmed these promises on multiple occasions

13   following the initial agreement.  After Gupta left SOAProjects and began work at SCM,

14   SOAProjects alleges that SCM failed to pay any fee, discontinued engaging SOAProjects for any

15   consulting services, and is using SOAProjects' trade secrets for SCM's benefit.

16          Second, "[t]o cause an estoppel there must be unusual circumstances which give the injury

17   an unjust and unconscionable character."  *Goldstein v. McNeil*, 122 Cal. App. 2d 608, 611, 265

18   P.2d 113 (1954) (citation omitted).  A simple allegation that a party has not lived up to its end of

19   the bargain is not enough.  *See Carlson v. Richardson*, 267 Cal. App. 2d 204, 208, 72 Cal. Rptr.

20   769, 772 (1968) ("[L]oss of bargain, and damage resulting therefrom, do not of themselves estop a

21   [party] from relying upon the Statutes of Frauds.") (citation omitted).   Here, however,

22   SOAProjects' FAC alleges an injury above and beyond SCM's unwillingness to fulfill its

23   obligations under the alleged agreement.  SOAProjects alleges that SCM acted in concert with

24   Gupta to misappropriate SOAProjects' trade secrets.  SOAProjects further alleges that because

25   SCM and Gupta succeeded in obtaining these trade secrets, Gupta can perform for SCM the same

26   services that he performed for SCM while employed at SOAProjects.  According to SOAProjects,

27   SCM's alleged scheme only succeeded because SOAProjects substantially relied on SCM's alleged

28   promises.  These allegations are enough to survive a motion to dismiss.  This finding is supported

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by the fact that "[w]hether the doctrine of equitable estoppel should be applied in a given case is generally a question of fact." *Byrne*, 52 Cal. App. 4th at 1068 (citation omitted).

Because SOAProjects could still prevent SCM from asserting the statute of frauds to invalidate the Employment Transition Agreement by adequately alleging equitable estoppel, the Court will not dismiss SOAProjects' breach of contract claim.

### 3. Severability

Finally, SOAProjects argues that the Employment Transition Agreement is enforceable to the extent that it was to be performed within one year. Opp'n 7. In support, SOAProjects cites to the rule announced in *White Lighting Co. v. Wolfson*: "If a claimant alleges two or more promises of performance 'that can easily be distinguished and separated by the court by reference to the agreement itself', only that promise of performance which falls clearly within the statute of frauds cannot be enforced." 68 Cal. 2d 336, 345, 66 Cal. Rptr. 697 (1968) (quotation omitted).

SCM cites to a more recent Ninth Circuit opinion that applied *White Lightning* more narrowly. Reply Br. 5. In *Texaco, Inc. v. Ponsoldt*, the court "identified two scenarios which warrant application of the divisibility rule." 939 F.2d 794, 801 (9th Cir. 1991). "First, promises not falling under the statute of frauds may be excised and enforced where the promises would otherwise be severable under standard rules of divisibility." *Ponsoldt*, 939 F.2d at 801. "Generally speaking, the test of whether a contract is divisible is that if the consideration is single, the contract is entire, but if the consideration is apportioned, the contract may be regarded as severable." *Ponsoldt*, 939 F.2d at 801 (quoting *Simmons v. California Inst. of Tech.*, 34 Cal. 2d 264, 275, 209 P.2d 581, 587-88 (1949)) (quotation marks omitted). The court noted that the *White Lightning* court employed this rule. *Id.* "Second, a promise coming within the statute of frauds may be excised—and the remainder of the contract enforced—where the promise is clearly ancillary to the contract as a whole." *Id.*

This Court agrees with SCM, *see* Reply Br. 5-6, and the *Ponsoldt* court. The facts of *White Lightning* are distinguishable from this case and do not warrant an overly broad application of its holding. The facts pleaded in the FAC do not show a divisible agreement under either of the

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*Ponsoldt* scenarios. As a result, SOAProjects can only succeed in enforcing the alleged contract if SCM is equitably estopped from relying on the statute of frauds.

### 4. Summary

Even though SOAProjects did not plead facts showing that a writing existed sufficient to satisfy the statute of frauds or that the contract was divisible, SOAProjects did plead enough facts showing that it may be able to use equitable estoppel to prevent SCM from asserting the statute of frauds defense. Because it is plausible that SOAProjects will be able to prevent SCM from invalidating the Employment Transition Agreement, the Court denies SCM's motion to dismiss SOAProjects' breach of contract claim.

### B. Promissory Estoppel

SCM next argues that SOAProjects' promissory estoppel claim fails because SOAProjects' breach of contract claim is based on the same promises. Mot. to Dismiss 7. Generally, a plaintiff cannot rely on promissory estoppel when it also seeks to enforce a contract that it argues is supported by valid consideration. *See Horne v. Harley-Davidson, Inc.*, 660 F. Supp. 2d 1152, 1163 (C.D. Cal. 2009) ("Plaintiffs cannot state a cause of action for promissory estoppel because a valid contract, supported by consideration, governs the same subject matter as the alleged promise."). Promissory estoppel is meant as a "substitute for consideration." *Id.* at 1162. The California Supreme Court has stated that the doctrine of promissory estoppel is meant "to make a promise binding, under certain circumstances, without consideration in the usual sense of something bargained for and given in exchange." *Youngman v. Nevada Irrigation Dist.*, 70 Cal. 2d 240, 249, 74 Cal. Rptr. 398, 449 P.2d 462 (1969).

SOAProjects' central theory is that SCM made promises to SOAProjects and that SOAProjects reasonably relied on those promises to its detriment. By claiming both breach of contract and promissory estoppel, SOAProjects is simultaneously alleging that those promises were part of a valid contract and that they were unsupported by consideration. Even though SOAProjects' breach of contract and promissory estoppel claims are mutually exclusive, *see Walker v. KFC Corp.*, 728 F.2d 1215, 1220 (9th Cir. 1984) (holding that as a matter of law, promises supported by adequate consideration cannot also form the basis of a promissory estoppel

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1    claim), the federal rules allow plaintiffs to plead inconsistent claims and theories, *see Molsbergen*

2    *v. United States*, 757 F.2d 1016, 1019 (9th Cir. 1985) (holding that the federal rules give freedom

3    to plead inconsistent claims) (citing FED. R. CIV. P. 8(e)(2)); *see also Instituto De Prevision Militar*

4    *v. Merrill Lynch*, 546 F.3d 1340, 1352 (11th Cir. 2008) ("The Federal Rules of Civil Procedure . . .

5    allow plaintiffs to plead inconsistent theories . . . .") (citing FED. R. CIV. P. 8(d)(3)).

6    　　　Therefore, SCM's motion to dismiss SOAProjects' promissory estoppel claim is denied.

7    **C. Unjust Enrichment**

8    　　　SCM initially argued that no cause of action for unjust enrichment exists in California.

9    Mot. to Dismiss 10.  Although this is technically true, *see Melchior v. New Line Prods., Inc.*, 106

10   Cal. App. 4th 779, 793, 131 Cal. Rptr. 2d 347 (2003), courts have held that unjust enrichment is

11   equivalent to restitution, *see Dinosaur Dev., Inc. v. White*, 216 Cal. App. 3d 1310, 265 Cal. Rptr.

12   525 (1989), and have allowed litigants to seek restitution using an unjust enrichment claim, *see*

13   *Durell v. Sharp Healthcare*, 183 Cal. App. 4th 1350, 1370, 108 Cal. Rptr. 3d 682, 699 (2010).

14   "[R]estitution may be awarded in lieu of breach of contract damages when the parties had an

15   express contract, but it was procured by fraud or is unenforceable or ineffective for some reason."

16   *McBride v. Boughton*, 123 Cal. App. 4th 379, 388, 20 Cal. Rptr. 3d 115, 121 (2004) (citations

17   omitted).  At least part of SOAProjects' unjust enrichment claim is based on SCM's unwillingness

18   to comply with the provisions of the Employment Transition Agreement.  FAC ¶ 119.  Those

19   provisions may prove unenforceable due to the statute of frauds, and thus could be enforced

20   through unjust enrichment.

21   　　　Nevertheless, SOAProjects' attempt to use unjust enrichment to enforce the Employment

22   Transition Agreement fails.  To make out a claim for unjust enrichment SOAProjects must show

23   that SCM received a benefit and that SCM unjustly retained the benefit at SOAProjects' expense.

24   *See Lectrodryer v. SeoulBank*, 77 Cal. App. 4th 723, 726, 91 Cal. Rptr. 2d 881 (2000) (citing *First*

25   *Nationwide Savings v. Perry*, 11 Cal. App. 4th 1657, 1662-63, 15 Cal. Rptr. 2d 173 (1992)); *see*

26   *also AccuImage Diagnostics Corp v. Terarecon, Inc.*, 260 F. Supp. 2d 941, 958 (N.D. Cal. 2003).

27   SOAProjects appears to claim that SCM's retention of Gupta constitutes a benefit.  Even accepting

28   this, SOAProjects' complaint contains no facts showing that such retention is unjust. Indeed,

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1  SOAProjects' counsel conceded as much at oral argument.  California has a strong public policy in

2  favor of allowing employees to freely obtain new employment.  *Cal Francisco Inv. Corp. v.*

3  *Vrionis*, 14 Cal. App. 3d 318, 323, 92 Cal. Rptr. 201 (1971) ("Public policy favors the right of an

4  individual to pursue any calling, business or profession."); *see* CAL. BUS. & PROF. CODE § 16600

5  ("Except as provided in this chapter, every contract by which anyone is restrained from engaging in

6  a lawful profession, trade, or business of any kind is to that extent void."); *see also Latona v. Aetna*

7  *U.S. Healthcare Inc.*, 82 F. Supp. 2d 1089, 1093-94 (C.D. Cal. 1999) (Section 16600's "protection

8  against restraint of employment qualifies as a strong public policy in California.").  Allowing

9  SOAProjects' claim that SCM's unwillingness to comply with its alleged agreement while still

10  employing Gupta constitutes unjust enrichment would contravene this well-established public

11  policy.

12      SOAProjects' attempt to use unjust enrichment to recover for SCM's alleged

13  misappropriation of SOAProjects' trade secrets likewise fails because it is preempted by the

14  California Uniform Trade Secret Act.  *See Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210,

15  236, 109 Cal. Rptr. 3d 27, 50-51 (2010) ("We thus reaffirm that CUTSA provides the exclusive

16  civil remedy for conduct falling within its terms, so as to supersede other civil remedies based upon

17  misappropriation of a trade secret.") (citation omitted).  SOAProjects' counsel conceded this at the

18  hearing and represented that SOAProjects could not, at this time, allege any facts that SCM

19  misappropriated any information not falling under the Trade Secret Act.

20      As a result, SOAProjects' claim for unjust enrichment is dismissed without leave to amend.

21      **D.  Misappropriation of Trade Secrets**

22      SCM claims that SOAProjects' complaint fails to plead enough facts to state a

23  misappropriation of trade secrets claim.  Mot. to Dismiss 10-11.  "To state a cause of action for

24  misappropriation of trade secrets under the Uniform Trade Secrets Act ('UTSA'), plaintiff must

25  plead two primary elements: (1) the existence of a trade secret, and (2) misappropriation of the

26  trade secret."  *AccuImage Diagnostics*, 260 F. Supp. 2d at 950 (citing CAL. CIV. CODE § 3426.1(b))

27  (footnote omitted).  SCM claims that because SOAProjects does not plead facts showing any

28  specific trade secrets that Gupta or SCM misappropriated, its claim must be dismissed.  Reply Br.

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1    10.    SOAProjects has, however, identified a number of categories of trade secrets that Gupta

2    downloaded onto his computer and e-mailed to himself.  These include SOAProjects' proprietary

3    technical documents, copies of SOAProjects' white papers, confidential information related to at

4    least four clients, and SOAProjects' strategies, pricing information, current and prospective

5    customer lists, customer information, and products and designs.  SOAProjects has alleged enough

6    facts to state a plausible claim that it had trade secrets and Gupta took those into his possession.

7    Thus, the question becomes whether SOAProjects has pled enough facts raising a plausible

8    claim that SCM misappropriated those trade secrets.  "The UTSA defines 'misappropriation' to

9    include two types of conduct: (1) acquisition, or (2) disclosure or use."  *Id.* at 951 (citing CAL. CIV.

10    CODE § 3426.1(b)) (footnote omitted).  SCM claims that the facts alleged in SOAProjects' FAC

11    rely on a theory of inevitable disclosure to implicate SCM.  Mot. to Dismiss 12.  SCM is correct

12    that "no California court has adopted the inevitable disclosure doctrine."  *Bourns, Inc. v. Raychem*

13    *Corp.*, 331 F.3d 704, 708 (9th Cir. 2003); *see Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443,

14    1464, 125 Cal. Rptr. 2d 277, 294 (2002) ("[T]he inevitable disclosure doctrine cannot be used as a

15    substitute for proving actual or threatened misappropriation of trade secrets.").  Thus, the fact that

16    Gupta allegedly took trade secrets and is now performing the same work for SCM "in-house" does

17    not state a claim against SCM.

18    SOAProjects, however, has alleged more than inevitable disclosure.  According to

19    SOAProjects' FAC, SCM acted in concert with Gupta in misappropriating SOAProjects' trade

20    secrets and is knowingly enjoying the fruits of his theft.  FAC ¶ 141.  This allegation, in the context

21    of the other circumstantial allegations, is sufficient to state a plausible claim that SCM acquired or

22    is using SOAProjects' trade secrets.

23    Therefore, SCM's motion to dismiss SOAProjects' misappropriation claim is denied.

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# IV. CONCLUSION

For the foregoing reasons, SCM's motion to dismiss SOAProjects' claim for unjust enrichment is GRANTED without leave to amend. SCM's motion to dismiss SOAProjects' claims for breach of contract, promissory estoppel, and misappropriation of trade secrets is DENIED.

**IT IS SO ORDERED.**

Dated: December 7, 2010

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LUCY H. KOH
United States District Judge

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