

2004 WL 5257661 (Cal.Superior) (Trial Order)
Superior Court of California.
Alameda County

TSMC, NORTH AMERICA, at al, Plaintiffs,
v.
SMIC AMERICAS, et al, Defendants.

No. RGo4-156932.
September 23, 2004.

**Order (1) Continuing Motion to Stay, (2) Sustaining Demurrer with Leave to Amend, and
(3) Denying Motion to Strike.**

[Ronald M. Sabraw](#), Judge.

Date: September 20, 2004

Time: 2:00 p.m.

Dept.: 22

Three motions of Defendants came on for hearing on September 20, 2004, in Department of this Court, the Honorable Ronald M. Sabraw presiding. Counsel appeared on behalf of Plaintiffs and on behalf of Defendants. After consideration of the points and authorities and the evidence, as well as the oral argument of counsel, IT IS ORDERED:

MOTION TO STAY

Motion of SMIC to stay this case pending resolution of the ITC case is CONTINUED to October 13, 2004, at 4:00 pm.

TSMC filed this case in Alameda County Superior Court on May 20, 2004, alleging that SMIC has misappropriated its trade secrets and is unlawfully interfering with its contracts and prospective business advantage. TSMC seeks damages and injunctive relief.

TSMC filed a complaint before the International Trade Commission on August 18, 2004, alleging that SMIC has misappropriated its trade secrets and is unlawfully importing into the United States certain goods that are based on or incorporate those trade secrets. TSMC seeks nationwide injunctive relief, but cannot recover damages.

Of particular concern in this motion is that the United States Congress has enacted legislation directing that where a federal civil action concerns the same issues as an ITC proceeding, the federal court must stay the civil action. [28 U.S.C. 1659\(a\)](#) states, “In a civil action involving parties that are also parties to a proceeding before the [ITC] under section 337 of the Tariff Act of 1930 at the request of a party to the civil action that is also a respondent in the proceeding before the Commission, the district court shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission,” Although this statute does not technically apply to state courts, appropriate deference to a clearly expressed legislative intent suggests that the Court stay this case.

As a general matter, when an action in a federal court covers the same subject matter as that in a California state action, the California court has the discretion but not the obligation to stay the state court action. “In exercising its discretion the court should consider (1) the importance of discouraging multiple litigation designed solely to harass an adverse party, and (2) of avoiding unseemly conflicts with the courts of other jurisdictions. It should also consider (3) whether the rights of the parties can best be determined by the court of the other jurisdiction because of the nature of the subject matter, the availability of witnesses, or the stage to which the proceedings in the other court have already advanced.” [Caiafa Prof Law Corp. v. State Farm Fire & Cas. Co.](#) (1993) 15 Cal. App. 4th 800, 804.

The Court has examined the complaint in this case and the complaint in the ITC proceedings and finds that they both concern the alleged misappropriation of trade secrets by SMIC. The Court has reviewed the standards that the ITC uses when considering claims for misappropriation of trade secrets and finds that they are substantially similar to the California standards. Compare *Floppy Disk Drives*, 1985 LEXIS 134 at pp49-52 and *Certain Garment Hangers*, 1987 LEXIS 85 at p147-157 with [Cal. Civil Code 3426 et seq.](#) The actions are different in their legal theories, their geographic focus (California/National) and their remedies (damages/injunction), but they both concern the common inquiry into whether SMIC misappropriated TSMC’s trade secrets.

The Court concludes that a partial stay of this case is appropriate to give effect to the policies underlying [28 U.S.C. 1659](#). In addition, a stay is appropriate under the factors in *Caiafa*: the California and ITC actions concern the same subject matter, parallel litigation on the trade secret issue would not be beneficial, parallel litigation raises the specter of an unseemly conflict with the ITC, and the ITC is well equipped to determine the rights of the parties.

Any stay must, however, follow both [28 U.S.C. 1659\(a\)](#) and [28 U.S.C. 1659\(b\)](#). The latter

section states that at the conclusion of the ITC proceedings, the record of that proceeding “shall be transmitted to the district court and shall be admissible in the civil action...” If a stay is issued in this action, then the record of the ITC proceedings must be available to the parties in this action just as they would be to the parties in a federal action that is stayed pending an ITC proceeding.

This Court cannot order the parties to violate the ITC’s standard protective order that limits the use of the record in ITC proceedings, but the Court can, and does, condition the grant of a stay on a stipulation in the ITC proceeding that the records of that proceeding can be used in this action at the conclusion of the ITC proceeding.

THEREFORE, IT IS ORDERED:

All discovery is temporarily stayed until the next case management conference on October 13, 2004, at 4:00 p.m.

The Court will grant a partial stay if Defendants agree that at the conclusion of the trial level of the proceeding before the United States International Trade Commission, the complete record of that proceeding (pleadings, discovery, testimony, hearing transcripts, orders, etc.) will be available to the Plaintiffs in this California action and will be admissible in this action, subject to the protective order in this action and to the extent permitted under the Evidence Code and Code of Civil Procedure.

The anticipated partial stay will stay all discovery in this case that concerns whether SMIC has misappropriated TMSC’s trade secrets, until resolution of the ITC proceeding. At the conclusion of the trial level of the ITC proceeding, the stay will be dissolved and the record of the ITC proceeding will be available to Plaintiffs in this action. It is possible that the ITC’s decision may have claim preclusion or issue preclusion effect in this case as well.

The anticipated partial stay will not stay (1) the pleadings and challenges to the pleadings or (2) discovery concerning TMSC’s damages. Finalizing the pleadings will not place any significant burden on the defendants. Discovery related to monetary remedies is appropriate because the ITC cannot award monetary relief and monetary relief is not a subject of that proceeding. As a result, if the ITC concludes that SMIC misappropriated TMSC’s trade secrets, this case will be able to proceed to trial with a minimum of delay.

If Defendants do not agree to the suggested stipulation concerning the use of the record in the ITC proceeding, then the motion to stay will be denied. The Court will not stay this action pending the resolution of the ITC proceedings and then face the specter of having the parties spend many months repeating all the discovery and motion practice that was done in the ITC proceedings.

Prior to or at the case management conference on October 13, 2004, the parties must inform the court whether they have reached a stipulation that gives effect to [28 U.S.C. 1659\(b\)](#). If a stipulation has been reached, then the Court will grant the partial stay described above. If a stipulation has not been reached, then the motion to stay will be denied.

DEMURRER

The Original Complaint filed May 20, 2004, alleges eight causes of action: (1) Uniform Trade Secrets Act, [Civil Code 3426 et seq](#); (2) common law misappropriation; (3) intentional interference with prospective business advantage; (4) Unfair Competition under [Business and Professions Code 17200](#); (5) unjust enrichment; (6) breach of contract; (7) breach of duty of confidentiality; and (8) intentional interference with contract.

CLAIMS BY TSMC, TSMC, NORTH AMERICA, and WAFER-TECH - EFFECT OF UNIFORM TRADE SECRETS ACT.

TSMC allegedly owned the trade secrets that are the subject of this action. SMIC argues that the Uniform Trade Secrets Act, [Civil Code 3426 et seq](#), has supplanted all common law causes of action for misappropriation of trade secrets.

The Court holds that the Uniform Trade Secrets Act, [Civil Code 3426 et seq](#), supplants all common law claims concerning the misappropriation of trade secrets. This interpretation is required by the language and purpose of the statute.

First, [Civil Code § 3426.8](#), states “This title shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this title among states enacting it.” The Court would miss the goal of making the law uniform if it permitted TSMC to apply common law standards to claims concerning misappropriation of trade secrets.

Second, [Civil Code § 3426.7\(a\)](#) states “Except as otherwise expressly provided, this title does not supersede any statute relating to misappropriation of a trade secret, or any statute otherwise regulating trade secrets.” The Court can infer that when the Legislature stated that *statutes* relating to misappropriation of a trade secret were not superceded, it meant that only *statutes* were not superceded.

Third, [Civil Code § 3426.7\(b\)](#) states “This title does not affect (1) contractual remedies, whether or not based upon misappropriation of a trade secret, (2) other civil remedies that are not based upon misappropriation of a trade secret, or (3) criminal remedies, whether or not based upon misappropriation of a trade secret.” The Court can infer that the Legislature meant this list to be

exclusive. *Kraus v. Trinity Management Services, Inc.* (2000) 23 Cal. 4th 116, 141 (where legislature specifically enumerates certain things, the Court presumes that it intended to exclude others).

The legislative history does not shed any light on whether the Legislature intended the CUTSA to supplant all common law standards to claims concerning misappropriation of trade secrets.

There is no California case law on this point, although Federal case law and case law from other states suggest that statutes based on the Model Uniform Trade Secrets Act were intended to supplant common law claims concerning the misappropriation of trade secrets.

The Court notes that in *Reeves v. Hamilton* (2004) 33 Cal.4th 1140, the Court stated that the plaintiff was pursuing claims under the Uniform Trade Secrets Act and common law theories. The Court did not, however, address whether that was proper. *Ginns v. Savage* (1964) 61 Cal.2d. 520, 524, fn 2 (decisions are not authority for a proposition not addressed directly).

Therefore, the demurrers to TSMC's second cause of action (common law misappropriation); third cause of action (intentional interference with prospective business advantage), and fifth cause of action (unjust enrichment) are SUSTAINED WITH LEAVE TO AMEND.

Claims concerning the misappropriation of "information, including a formula, pattern, compilation, program, device, method, technique, or process" can be asserted only under the Uniform Trade Secrets Act. [Civil Code § 3426.1\(d\)](#). Claims concerning the misappropriation of other things can be asserted under theories of common law misappropriation and intentional interference with prospective business advantage.

Any First Amended Complaint must differentiate between claims based on the misappropriation of "information" as defined in [Civil Code § 3426.1 \(d\)](#) and the misappropriation of other things. If claim are based on the misappropriation of other things, then the First Amended Complaint must identify those other things with reasonable specificity.

CLAIMS BY TSMC, TSMC, NORTH AMERICA, and WAFER-TECH - UNJUST ENRICHMENT.

In *Melchior v. New Line Productions, Inc.* (2003) 106 Cal. App. 4th 779, 794, the Court stated, "[T]here is no cause of action in California for unjust enrichment. The phrase 'Unjust Enrichment' does not describe a theory of recovery, but an effect: the result of a failure to make restitution under circumstances where it is equitable to do so. Unjust enrichment is " 'a general principle, underlying various legal doctrines and remedies,' " rather than a remedy itself. It is synonymous with restitution." Therefore, the demurrer to the fifth cause of action (unjust

enrichment) is SUSTAINED WITHOUT LEAVE TO AMEND on the alternate ground that it describes the effect of a wrong, but does not state a legal theory of recovery.

CLAIMS BY TSMC, TSMC, NORTH AMERICA, and WAFER-TECH - UCL

The UCL claims in this case are by TSMC and others in their individual capacities. They do not represent the interests of the general public. They bring the UCL claim against a competitor.

An “unlawful” claim against a competitor under the UCL may borrow from the Uniform Trade Secrets Act or other statutes. *Gregory v. Albertson’s, Inc.* (2002) 104 Cal. App. 4th 845, 854 (unlawful claim may borrow from any statute). This is simply the pursuit of a Uniform Trade Secrets Act claim through other means. The demurrer to any “unlawful” claim based on the Uniform Trade Secrets Act is OVERRULED. Any First Amended Complaint must also identify any other statutes that are borrowed in support of the unlawful claim.

An “unfair” claim against a competitor under the UCL may be tethered to the Uniform Trade Secrets Act or other statutes. *Cel-Tech Communications, Inc. v. Los Angeles Cellular Telephone Co.* (1999) 20 Cal. 4th 163, 186-187 (unfair claim may be tethered to any statute). The fluidity permitted under an unfair claim is inconsistent with the uniform standards that the Legislature meant to impose in the Uniform Trade Secrets Act. The demurrer to any “unfair” claim is SUSTAINED WITHOUT LEAVE TO AMEND insofar as it concerns misappropriation of trade secrets or is tethered to the Uniform Trade Secrets Act. The demurrer to any “unfair” claim is SUSTAINED WITH LEAVE TO AMEND insofar as it concerns claims that do not concern the misappropriation of “information” as defined in *Civil Code § 3426.1* (d).

A “fraudulent” claim against a competitor under the UCL may or may not relate to a claim under the Uniform Trade Secrets Act. The demurrer to any “fraudulent” claim is SUSTAINED WITH LEAVE TO AMEND to allege the fraudulent statements or omissions, to whom they were made, who relied on them, and other material information.

CLAIMS BY TSMC, NORTH AMERICA and WAFER-TECH

The Demurrer to the claims by TSMC, North America and Wafer-Tech regarding their standing to assert claims is OVERRULED.

TSMC, North America and Wafer-Tech adequately allege that they license and utilize the alleged trade secrets. As such they allegedly have certain rights to the secrets. As persons with right to the secrets, they may have claims that the defendants have misappropriated the secrets (from whatever source) and that TSMC, North America and Wafer-Tech have suffered a loss

caused by the misappropriation.

The arguments of defendants that TSMC, North America and Wafer-Tech have not suffered any losses because they are not the owners or the exclusive licensees goes to the question of damages, not to the question of standing to assert the claim.

FURTHER PROCEEDINGS

Plaintiffs must file a First Amended Complaint on or before October 1, 2004. Defendants must file a responsive pleading on or before October 22, 2004.

MOTION TO STRIKE

Motion to strike is DENIED.

The Complaint has two aspects (1) the acquisition of trade secrets in California and (2) the acquisition of trade secrets in Taiwan and the subsequent misuse of those trade secrets in California. (P Oppo at 1:20-23.)

Claims concerning the acquisition of trade secrets in California are plainly proper. [Civil Code 3426.1\(b\)\(1\)](#). Plaintiffs may seek to recover damages for injuries sustained in California or elsewhere.

Claims concerning the acquisition of trade secrets in Taiwan and the subsequent misuse of those trade secrets in California require more thought. The gravamen of the claim is that although the trade secrets were acquired in Taiwan, the Defendants have used them in California. This claim is permitted by [Civil Code 3426.1\(b\)\(2\)](#), which defines “misappropriation” as the “disclosure or USE of a trade secret...” Therefore, the use of a trade secret is a “misappropriation” separate and apart from the actual acquisition of the trade secret. [PMC, Inc. v. Kadisha \(2000\) 78 Cal. App. 4th 1368, 1385](#) (“misappropriation is not limited to the initial act of improperly acquiring trade secrets; the use and continuing use of the trade secrets is also misappropriation.”)

Defendants also argue that Plaintiffs can bring only one lawsuit about the acquisition of trade secrets in Taiwan and they are already bringing that action in Taiwan. Defendants rely on the conclusion in [Cadence Design Systems, Inc. v. Avant! Corp. \(2002\) 29 Cal. 4th 215, 225](#), that “there is only a single UTSA claim against a single defendant misappropriating a single plaintiffs trade secret.”

The Court finds that the “one claim” rule announced in Cadence does not preclude Plaintiffs

from pursuing claims in California alleging the acquisition of trade secrets in Taiwan and the subsequent misuse of those trade secrets in California. In *Cadence*, the Court carefully distinguished between a “misappropriation” and a “claim.” The Court then held (1) a misappropriation occurs at the time of the wrongful initial acquisition of the trade secret and also with each misuse or wrongful disclosure of the secret, (2) a *claim* for misappropriation of a trade secret arises for a given plaintiff against a given defendant only once, and (3) that a “claim” must be defined in the context of litigation.

In the context of this litigation, the second aspect of Plaintiffs’ claims concerns the acquisition of trade secrets in Taiwan and the subsequent misuse of those trade secrets in California. This states a claim under California law because it concerns an alleged wrong in California (the misuse of a trade secret). It is irrelevant that Plaintiffs might also pursue a claim under the law of Taiwan alleging a wrong in Taiwan (the acquisition of a trade secret) that caused damages in California. The possibility that a valid California claim may seek the same damages as could be sought in a valid Taiwanese claim does not preclude the California claim. By way of dicta, the Court notes that if Plaintiffs were to obtain a judgment in Taiwan that included damages from the misuse of trade secrets in California, then Defendants could certainly bring that to the Court’s attention.

The Court is guided by the discussion of extraterritorial application of laws in *Norwest Mortgage, Inc. v. Superior Court* (1999) 72 Cal. App. 4th 214. Tracking *Norwest* (with a modification), the Court notes that claims can be divided into four categories: Category IA (claims caused by wrongs in California that cause damage in California); Category IB (claims caused by wrongs outside California that cause damage in California); Category II (claims caused by wrongs in California that cause damage outside California); and Category III (claims caused by wrongs outside California that cause damage outside California). The claims in the second aspect of Plaintiffs’ claims are Category IB claims, and under *Norwest* they can be pursued in California. The reality that Category IB claims could also be pursued in the courts of other states or nations does not prevent the assertion of those claims in California courts.

Factual allegations in the Complaint are simply allegations that provide context for the claims. They do not define the scope of the claims. There is no basis for striking factual allegations in the complaint.

Plaintiffs must file a First Amended Complaint on or before October 1, 2004. Defendants must file a responsive pleading on or before October 22, 2004.

Dated: September 23, 2004

<<signature>>

Judge Ronald M. Sabraw

CLERK'S CERTIFICATE OF MAILING

I certify that the following is true and correct: I am the clerk of the above-named court and not a party to this cause. I served a copy of the Order (1) Continuing Motion to Stay, (2) Sustaining Demurrer with Leave to Amend, and (3) Denying Motion to Strike by placing copies in envelopes addressed as shown below and then by sealing and placing them for collection, stamping or metering with prepaid postage, and mailing on the date stated below, in the United States Mail at Alameda County, California, following standard court practices.

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Dated: September 23, 2004

ARTHUR SIMS

Executive Officer/Clerk of the Superior Court

By <<signature>>

Charlotte Marin, Clerk of Dept. 22