

1 First Amended Complaint for Failure to State a Claim.

2 **I. BACKGROUND**

3 On May 25, 2011, Plaintiff Aqua Connect, Inc.
4 ("Plaintiff") filed this Action against Defendants Code
5 Rebel, LLC, Arben Kryeziu, and Vladimir Bickov in the
6 Superior Court of California, County of Los Angeles
7 [1]. The original Complaint had seven different
8 claims. On July 13, 2011, the Action was removed to
9 this Court [1].

10 On July 20, 2011, in response to the original
11 Complaint, Movants filed a motion to dismiss this case
12 based on lack of personal jurisdiction and failure to
13 state a claim for four of the seven claims [5]. On
14 September 26, 2011, this Court issued an Order denying
15 in part and granting in part the Movants' motion to
16 dismiss [18]. This Court denied Movants' motion as it
17 pertained to personal jurisdiction and Plaintiff's
18 False Promise claim. This Court granted, however, with
19 leave to amend, Movants' motion to dismiss as to
20 Plaintiff's third, fourth, and seventh claims, which
21 were claims for inducing breach of contract,
22 misappropriation of trade secrets, and fraudulent
23 transfer, respectively.

24 On October 20, 2011, Plaintiff filed its First
25 Amended Complaint ("FAC") [23]. In its FAC, Plaintiff
26 dropped its inducing breach of contract and fraudulent
27 transfer claims. However, Plaintiff made alterations
28 to its misappropriation of trade secret claim, which is

1 the third claim in Plaintiff's FAC.

2 On November 14, 2011, Movants filed the present
3 Motion to Dismiss First Amended Complaint [25].

4 Movants only request that the Court dismiss Plaintiff's
5 misappropriation of trade secret claim.

6 **II. ANALYSIS**

7 Under Federal Rule of Civil Procedure 12(b)(6), a
8 dismissal can be based on the lack of cognizable legal
9 theory or the lack of sufficient facts alleged under a
10 cognizable legal theory. Fed. R. Civ. P. 12(b)(6); see
11 also Balistreri v. Pacifica Police Dep't, 901 F.2d 696,
12 699 (9th Cir. 1990). A party need not, however, state
13 the legal basis for his claim, only the facts
14 underlying it. McCalden v. California Library Ass'n,
15 955 F.2d 1214, 1223 (9th Cir. 1990).

16 In the present Motion, Defendant has moved the
17 Court to dismiss Plaintiff's Misappropriation of Trade
18 Secret Claim. In its FAC, Plaintiff alleges that
19 Movants downloaded a trial version of Plaintiff's Aqua
20 Connect Terminal Server software ("ACTS") and
21 subsequently reverse engineered ACTS in violation of
22 the End User License Agreement ("EULA"), which Movants
23 had to agree to in order to use the trial version of
24 ACTS. Plaintiff alleges that Movants misappropriated
25 the trade secrets within ACTS and used that information
26 to create and distribute a competing software product.

27 To state a cause of action for misappropriation of
28 a trade secret under California law, a plaintiff must

1 plead that (1) the plaintiff owned a trade secret, (2)
2 the defendant acquired, disclosed, or used the
3 plaintiff's trade secret through improper means, and
4 (3) the defendant's actions damaged the plaintiff.
5 Civ. Code § 3426.1; Cytodyn, Inc. v. Amerimmune Pharm.,
6 Inc., 160 Cal. App. 4th 288, 297 (Ct. App. 2008).
7 "Improper means" includes theft, bribery,
8 misrepresentation, breach or inducement of a breach of
9 a duty to maintain secrecy, or espionage through
10 electronic or other means," but "[r]everse engineering
11 or independent derivation alone shall not be considered
12 improper means." Civ. Code. § 3426.1(a); Sargent
13 Fletcher, Inc. v. Able Corp., 110 Cal. App. 4th 1658,
14 1666 (Ct. App. 2003).

15 This Court finds that the FAC does not support a
16 legally cognizable trade misappropriation claim because
17 the only improper means pled in the FAC is reverse
18 engineering, which according to California law, "shall
19 not be considered improper means" by itself. Plaintiff
20 argues that the EULA form contract and its alleged
21 breach by Movants can legally convert the alleged
22 reverse engineering into an "improper means" of
23 acquiring Plaintiff's trade secret. The Court finds,
24 however, that Plaintiff's argument lacks merit.
25 Justice Moreno in his concurrence to a California
26 Supreme Court decision, states that "nowhere has it
27 been recognized that a party wishing to protect
28 proprietary information may employ a consumer form

1 contract to, in effect, change the statutory definition
2 of 'improper means' under trade secret law to include
3 reverse engineering, so that an alleged trade secret
4 holder may bring an action." DVD Copy Control Ass'n,
5 Inc. v. Bunner, 31 Cal. 4th 864, 901 n.5 (2003)(Moreno,
6 J., concurring).

7 An analysis of the statutory language of the
8 California Uniform Trade Secret Act corroborates
9 Justice Moreno's concurrence. Civil Code section
10 3426.1, subdivision (a) specifically states that
11 "[r]everse engineering alone shall not be considered
12 improper means." Thus, from the plain language of the
13 statute, reverse engineering must be combined with some
14 other improper action in order for it to form the basis
15 of a cognizable misappropriation claim. The
16 Legislative Committee Comments clarifies that the word
17 "alone" refers to the fact that the reverse engineered
18 item would have to be obtained "by a fair and honest
19 means, such as purchase of the item on the open market
20 for reverse engineering to be lawful." Civil Code §
21 3426.1 (Legislative Committee Comment). Accordingly,
22 reverse engineering is not an improper means of
23 acquiring trade secret information when defendants
24 acquire the item, from which the information is
25 derived, through fair and honest means. Here, the
26 Court finds that the FAC is insufficiently pled because
27 it does not allege that the ACTS trial software was
28 obtained through unfair or dishonest means. FAC ¶ 8

1 (alleging that Movants acquired ACTS by downloading a
2 trial version of ACTS). Though a breach of the EULA
3 may support a cognizable breach of contract claim, the
4 Court finds that the mere presence of the EULA does not
5 convert reverse engineering into an "improper means"
6 within the definition of California trade secret law.

7 In the alternative, Plaintiff argues that a
8 cognizable misappropriation of trade secret claim does
9 not always require a pleading of "improper means."

10 Plaintiff claims that the statutory language of the
11 California Civil Code allows a person to be liable for
12 misappropriation of a trade secret when that person
13 discloses or uses a trade secret acquired (1) under
14 circumstances giving rise to a duty to maintain secrecy
15 or (2) derived from a person who owed a duty to
16 maintain the secrecy of the trade secret. Civ. Code §
17 3426.1. Plaintiff argues that the EULA created a "duty
18 to maintain secrecy," which was allegedly breached when
19 Movants reverse engineered ACTS. The Court finds,
20 however, that Plaintiff's argument lacks merit.

21 California Court have found that this "duty to maintain
22 secrecy" generally exists in the context of a fiduciary
23 duty or an employment agreement to maintain the
24 confidentiality of company trade secrets. See Ali v.
25 Fasteners for Retail, Inc., 544 F. Supp. 2d 1064, 1070
26 (allowing a trade secret claim to proceed in the
27 context of a fiduciary relationship); Ralph Andrews
28 Prod., Inc. v. Paramount, Pictures Corp., 222 Cal. App.

1 3d 676, 682-83 (analyzing liability context of a
2 competitor who hires a former employee of another
3 company who is likely to disclose trade secrets).

4 On the contrary, California courts have not found
5 that this "duty to maintain secrecy" arises from a form
6 license agreement as Plaintiff pleads in the FAC.
7 Confirming this notion is the fact that Plaintiff does
8 not cite to any cases to support its proposition.
9 Thus, the Court find that in order to support a legally
10 cognizable claim, the FAC must plead that Movants
11 "acquired, disclosed, or used the plaintiff's trade
12 secret through improper means." Cytodyn, Inc., 160
13 Cal. App. 4th at 297 (enumerating the required elements
14 for a trade secret misappropriation claim).

15 Here, the Court finds that the FAC has only pled
16 that Movants acquired Plaintiff's trade secret through
17 "reverse engineering." As such, this Court finds that
18 Plaintiff has not pled sufficient facts to support a
19 cognizable trade secret misappropriation claim.

20 **III. CONCLUSION**

21 For the reasons stated above, the Court **GRANTS**
22 Movants' Motion to Dismiss First Amended Complaint for
23 Failure to State a Claim. Accordingly, the Court
24 hereby **DISMISSES** Plaintiff's Misappropriation of Trade
25 Secret Claim, which is Plaintiff's Third Claim in its
26 FAC, **without leave to amend.** The Court dismisses
27 without leave to amend because the Court finds that no
28 ///

1 additional facts can be alleged to support a legally
2 cognizable misappropriation of trade secret claim.

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4 **IT IS SO ORDERED.**

5 DATED: February 13, 2012

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RONALD S.W. LEW

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HONORABLE RONALD S.W. LEW

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Senior, U.S. District Court Judge

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