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FINALLY, A CITABLE CALIFORNIA CASE CONFIRMING TRADE SECRET PREEMPTION!

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March 24, 2009 | Posted by mike.young@alston.com | Topic(s): Trade Secrets and Unfair Competition, Employment Litigation

It has always been a mystery to me why we in California, home of the Silicon Valley, Goleta, Manhattan Beach, and other hot beds of trade secret development – and trade secret theft – don't have our very own *trade secret preemption case law*. Why have we never had a judicial opinion squarely holding that the California Uniform Trade Secret Act (CUTSA) preempts other related causes of action? Well, the wait is over....

THE OLD LAW -- BARELY CITABLE

In our past demurrers to trade secret complaints, when we sought to eliminate common law and statutory causes of action that overlapped with the trade secret claim, we have always been forced to base our preemption argument on unpublished, Superior Court, out of state, and federal court opinions (not that there's anything wrong with them, mind you) such as:

- *Silicon Image, Inc. v. Analogix Semiconductor, Inc.* (N.D. Cal. 2007) 2007 U.S. Dist. LEXIS 39599, 2007 WL 1455903, at *9 ("courts have held that where a claim is based on the 'identical nucleus' of facts as a trade secrets misappropriation claim, it is preempted by [C]UTSA.");
- *Convolve, Inc. v. Compaq Computer Corp.* (S.D.N.Y. 2006) 2006 U.S. Dist. LEXIS 13848, 2006 WL 839022, at *6 (applying California law) ("If there is no material distinction between the wrongdoing alleged in a [C]UTSA claim and that alleged in a different claim, the [C]UTSA preempts the other claim.");
- *B. Braun Medical, Inc. v. Rogers* (9th Cir. 2006) 163 Fed.Appx. 500, 508 ("CUTSA was intended to occupy the field [of trade secret misappropriation] in California");
- *First Advantage Background Svs., Corp. v. Private Eyes, Inc.* (N.D. Cal. Mar. 5, 2008) No. C-07-2424-C, 2008 WL 618921, at *3 ("all other claims which are based on misappropriation of trade secrets are preempted by CUTSA);
- *Samsung Elec. Am. v. Bilbruck* (Cal. Super. Oct. 19, 2006) No. 06-CC-08239, 2006 WL 3012875, at *1 ("any cause of action . . . based on information – whether labeled a trade secret or confidential information – if it derives independent economic value and is competitively significant secret information – will be preempted by the UTSA");
- *Ernest Paper Products, Inc. v. Mobil Chemical Co., Inc.* (C.D. Cal. 1997)1997 U.S. Dist. LEXIS 21781, 1997 WL 33483520 (the Court held that CUTSA preempted the plaintiff's intentional interference with economic advantage and unfair competition claims.); and
- *Softchoice Corp. v. En Pointe Techs., Inc.* (Cal. Super. Ct. 2006) No. SC 088295, 2006 WL 3350798, at *1 (sustaining the demurrer on claims for unfair competition under § 17200 and aiding and abetting a breach of the duty of loyalty on the basis that they were preempted by CUTSA).

Fine, not all of the cases affirming CUTSA preemption were unpublished. You could cite to a few federal cases

upholding preemption without fear of sanctions, including:

- *Digital Envoy, Inc. v. Google, Inc.* (N.D. Cal. 2005) 370 F.Supp.2d 1025, 1034-35, ("California's [trade secret] statute … preempts [the plaintiff's] claims for unfair competition and unjust enrichment since those claims are based on the same nucleus of facts as the misappropriation of trade secrets claim for relief.");
- *AccuImage Diagnostics Corp v. Terarecon, Inc.* (N.D.Cal., 2003) 260 F.Supp.2d 941, 953 (At least as to common law trade secret misappropriation claims, "UTSA occupies the field in California."); and
- *CallawayGolf Co. v. Dunlop Slazenger Group Americas, Inc.* (D. Del. 2004) 318 F.Supp.2d 216 (CUTSA preempted claims for unjust enrichment, conversion, and negligence since these claims were all "based on misappropriation of a trade secret.")

Is it any wonder that with cases like these, judges have looked askance when we ask them to throw out almost all of a plaintiff's complaint based on CUTSA preemption? (They look askance, but then generally grant the motion, just in case you were wondering.)

THE NEW LAW -- EMINENTLY CITABLE

Well, those skeptical looks should be a thing of the past, thanks to the California appellate court's recent ruling in *K.C. Multimedia Inc. v. Bank of America Technology & Operations Inc* (2009) 171 Cal. App. 4th 939. (We won't summarize the opinion itself. That was nicely done already by James Kachmar of the IP Law Blog.)

There, the 6th District Court, in a nice published and reported case, suitable for framing as well as citing without apology, applied a preemption analysis and held CUTSA to preempt claims for breach of confidence, tortious interference with contract and statutory unfair competition (the formerly dreaded B&P Section 17200 cause of action).

(The Court, too, had to look outside the state for support for its preemption analysis, thereby vindicating the comprehensiveness of our previous research and allowing us to respectfully say "Neener" to our skeptical colleagues who questioned the lack of a decent California precedent.)

This is an important opinion because, as noted by attorney Stuart P. Jasper in his fine March 17, 2009, Los Angeles Daily Journal article entitled "A Boost To Uniformity," the CUTSA remedies are different than those for the common law and statutory claims that are preempted. As an example, the 17200 unfair competition cause of action carries with it a four year statute of limitations whereas CUTSA is a three year statute. Punitive damages are limited to double damages under CUTSA (rather than the Constitutional limitation of "who-knows-what" applicable to your standard tort claim).

WHAT THIS MEANS

What this means for trade secret plaintiffs is that they will need to ensure that their non CUTSA claims do not rely on the same "nucleus of facts" that underlie the trade secret claim. And for trade secret defendants? Check that complaint carefully and be prepared to demurrer. You can now finally support that demurrer with a real live published, citable, and well reasoned appellate court opinion that passes the red-face test.

For those of us who practice in the trade secret field here in California, all I can say is, it's about time.