

A Boost to Uniformity

By Stuart P. Jasper

The California Uniform Trade Secrets Act just became a bit more uniform. A new opinion brings California courts into line with a majority of courts in other jurisdictions in holding that the act pre-empts "claims based on the same nucleus of facts as trade secret misappropriation." *K.C. Multimedia Inc. v. Bank of America Technology & Operations Inc.*, 2009 DJDAR 3150. The 6th District Court of Appeal applied the rule so as to pre-empt claims for breach of confidence, tortious interference with contract and statutory unfair competition, Business and Professions Code Section 17200.

The decision, addressing a matter of first impression for California appellate courts, should enable trial courts to trim complaints that use the factual predicate for a Uniform Trade Secrets Act claim to plead a handful of common law torts and a Section 17200 claim. The ruling should simplify pleading so that both the intellectual property lawyer and the general business litigator are on the same footing. The result should be that a prototypical claim under the act is accompanied by a claim for breach of contract (usually an employment or confidentiality agreement) and nothing more relating to competitively significant secret information, however categorized. Expensive law and motion practice testing the legal sufficiency of the pleadings should, ideally, be reduced.

Following *K.C.*, claims that arise from the same operative set of facts as misappropriation of trade secrets, most often a departing salesperson alleged to have taken customer or sales information to a new employer, should not be pleaded as other torts. These torts typically are common law misappropriation of trade secrets, conversion, unfair competition, breach of confidence or, less frequently, "misappropriation of confidential information" (since passage of the act, there is no such tort).

The ruling has significant consequences for clients, because Uniform Trade Secrets Act remedies are different than remedies arising from common law torts. In some ways the act provides lesser remedies than the displaced torts. The four-year statute of limitations of a Section 17200 claim is pre-empted by the three-year statute of limitations of the act (three years after actual or constructive discovery). Punitive damages, usually limited only by constitutional strictures except in antitrust cases (treble damages allowed), are limited to double damages.

But the Uniform Trade Secrets Act has remedies that common law torts lack. Rarely does a common law tort allow award of attorney

fees. The act allows award of fees of both attorneys and outside experts against parties who engage in certain bad faith or wilful and malicious conduct. In these intensely litigated cases, fees can be substantial (in *K.C.*, the defendant was awarded more than \$1.1 million in fees and costs).

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more than offset by the remedies of the uniform act.

Perhaps the greatest benefit of the uniform act is the most obvious: "to effectuate its general purpose to make uniform the law with respect to [trade secrets] among states enacting it." In 1971 a University of Pennsylvania Law Review commentator wrote that trade secret protection was beset by "the doubtful and confused status of both common law and statutory remedies." He concluded: "[c]lear, uniform trade secret protection is urgently needed." In 1985 the prefatory note to the Model Act with 1985 amendments conceded: "Notwithstanding the commercial importance of state secret law to interstate business, this law has not developed satisfactorily. ... [I]ts development is uneven. ... [T]here is undue certainty concerning the parameters of trade secret protection, and the appropriate remedies for misappropriation of a trade secret."

Until *K.C.*, no California appellate court has addressed directly in a published opinion the issue of what tort remedies other than common law misappropriation of trade secrets are pre-empted by the California version of the Uniform Trade Secrets Act. Some trial courts have addressed the issue. See, e.g., *Convolve Inc. v. Compaq Computer Corp.*, 2006 U.S. Dist. LEXIS 69425 (S.D.N.Y. 2006), which applied the California Uniform Trade Secrets Act; *Ernest Paper Products Inc. v. Mobil Chemical Co. Inc.*, 1997 U.S. Dist. LEXIS 21781 1 (C.D. Cal 1997); *Softchoice Corp. v. En Pointe Technologies Inc.*, 2006 WL 3350798. All of the foregoing have reached the same conclusion as did the court in *K.C.*, that the Uniform Trade Secrets Act pre-empts claims for unfair competition and other torts that arise from the same nucleus of operative facts as the claim for misappropriation of trade secrets.

However, it bears noting that the uniform act disclaims any intent to pre-empt contract remedies or criminal charges. The uniform act provides: "Except as provided in subsection (b), this [act] displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret." The comment states: "It applies to a duty to protect competitively significant secret information that is imposed by law." But the California version of the Uniform Trade Secrets Act is written awkwardly, in the negative. The critical part of the provision states: "This title does not affect ... other civil remedies that are not based upon misappropriation of a trade secret." In *K.C.*, the court reached its conclusion by comparing the pre-emption provisions of the uniform act and the California act and concluding that the provision would be rendered meaningless if claims

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dies keyed to misappropriation. Not only are damages recoverable for the actual loss caused by misappropriation, but so is unjust enrichment above the actual loss. If neither is provable, the court may impose a reasonable royalty. But most importantly, the act has injunction provisions focused on trade secrets misappropriation. Either actual or threatened misappropriation may be enjoined. Once a trade secret no longer exists, the injunction may be extended to eliminate the commercial advantage resulting from the misappropriation. If prohibiting future use would be unreasonable, a reasonable royalty may be required as a condition of allowing future use. And the mandatory/prohibitory dichotomy is not employed. According to the act, "[i]n appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order."

The California act has a special companion provision, not part of the uniform act, which requires the plaintiff to identify "with reasonable particularity" before commencing discovery the trade secrets allegedly misappropriated. See *Advanced Modular Sputtering Inc. v. Superior Court*, 132 Cal.App.4th 826 (2005).

The effect of the opinion in *K.C.* is to deprive plaintiffs of the remedies of general torts but to arm them with a quiver of trade secret arrows that aim for the bull's eye of the statutory tort. In most instances, what a plaintiff will give up will be



not based on trade secrets misappropriation were not pre-empted by the statutory scheme, citing *Digital Envoy Inc. v. Google Inc.*, 370 F.Supp.2d 1025 (N.D.Cal.2005). The court stated: "the pertinent statutory language — 'based upon misappropriation' — strongly suggests a factual inquiry, one that examines the conduct alleged in the claim." The court then found, based on a factual analysis of each claim, that the Uniform Trade Secrets Act pre-empted claims for breach of confidence, tortious interference with contract and unfair competition.

Surprisingly, the court did not address the act's legislative history. Nor did the court cite the opinion which had addressed most thoroughly the meaning of the pre-emption statute, the opinion by U.S. District Judge Lourdes Baird in *Ernest Paper*. Baird concluded that the California pre-emption provision "is a more sweeping form of preemption than" Model Section 7(a). Nor, because of its belief that the California statute was unique, did the court in *K.C.* find relevant opinions by other states' appellate courts. See, e.g., *Mortgage Specialists Inc. v. Davey*, 904 A.2d 652 (2006), in which the New Hampshire Supreme Court found that

that state's Uniform Trade Secrets Act pre-empts "claims that are based upon the unauthorized use of information, regardless of whether that information meets the statutory definition of a trade secret."

The court's opinion leaves open for decision questions about the timing of the pre-emption analysis. Usually the issue arises at the pleading stage, by demurrer (state court) or motion to dismiss (federal). Sometimes, as in *Ernest* and *Google*, the issue arises at the summary judgment stage. In *K.C.*, the court raised the issue on its own motion after the defendant had raised the issue in its trial brief.

Even then, on the eve of trial, the plaintiff alleged the issue was premature. It argued: "The parties dispute whether the confidential information constitutes trade secrets. Until such time as that issue has been determined, the issue of pre-emption will not be ripe for determination." The court rejected the argument, noting the trial court "was armed with a great deal of information derived from the long history of the case." Litigants can be expected to distinguish *K.C.* on this basis by urging trial courts to overrule as premature demurrers

alleging pre-emption. These litigants can be expected to argue that the court must decide first whether the information at issue constitutes a trade secret before deciding pre-emption. Their adversaries can be expected to cite *Mortgage Specialists* for the proposition that "the common law no longer protects confidential information from mere misuse unless it is a statutory trade secret."

The California Uniform Trade Secrets Act has become more uniform, but the act, a late bloomer, is essentially in its infancy 25 years after its passage. All but four states (New York, New Jersey, Massachusetts and Texas) have passed the Uniform Trade Secrets Act. *K.C.* is a significant step toward helping California courts achieve the uniformity and simplicity envisioned by the authors of the Uniform Trade Secrets Act.

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