Preemption Under California's Uniform Trade Secrets Act

By Andres Quintana, Esq.

Absent controlling California legal authority or clarification from the California Legislature, the appropriateness and breadth of the application of the preemption doctrine to California's version of the Uniform Trade Secrets Act remains widely unsettled. The apprehension centers on the degree to which California's Uniform Trade Secrets Act ("CUTSA"), codified at *Civil Code* Sections 3246, *et seq.*, supersedes common law and statutory causes of action based upon the same operative facts that give rise to a statutory trade secrets misappropriation claim. For instance, are claims for common law trade secrets misappropriation now preempted by the CUTSA? What about claims brought under California Business & Professions Code § 17200? The answers are obviously critical when assessing pre-litigation strategy and properly pleading trade secrets cases. An expanded application of the preemption doctrine to the CUTSA would encourage defendants to attack pleadings premised on trade secrets misappropriation but couched as other statutory and tort-related causes of action. Further, it would effectively restrict potential claims and remedies available to plaintiffs beyond those provided by the CUTSA. To date, only a handful of lower federal and California trial court decisions exist discussing preemption and the CUTSA. While these lower court decisions have predominately applied the preemption doctrine to displace various causes of action, neither the California Court of Appeal nor the California Supreme Court has substantively weighed in on the preemption question through a published opinion.

California is presently one of forty-six states (plus the District of Columbia) that adopted the model Uniform Trade Secrets Act approved by the National Conference of Commissioners on Uniform State Laws in 1979.[i] California adopted the Uniform Trade Secrets Act without significant change.[ii] The primary purpose of California's trade secret law was "to promote and reward innovation and technological development and maintain commercial ethics."[iii] The enactment of the CUTSA provided "'unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.[iv]

1. ***Application Of CUTSA Preemption.***

Included in the CUTSA is Section 3426.7, the Act's so-called preemption clause. That section reads, in relevant part:

> "(a) 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.

> (b) 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."[v]

The preemptive affect of the Act is negatively expressed through its statement describing which causes of action it does not displace, such as contract claims. Without affirmative preemption language in the Act or a uniform legal standard, most lower federal and California trial courts have interpreted Section 3427.7(b)(2) of the CUTSA as having a preemptive effect when allegations forming the predicate facts for a common law claim are based on "the same operative facts", "the same nucleus of facts",[vi] "same factual allegations"[vii] or "arising out of facts similar to, but distinct from," underlying the trade secret misappropriation claim.[viii] Essentially, the preemption inquiry for those claims not specifically exempted by Section 3426.7(b)'s savings clause, focuses on whether other claims are no more than a restatement of the same operative facts supporting trade secret misappropriation.[ix] When common law claims are based on some "new" or "additional" facts that go beyond those required under, or that form the basis for, the alleged CUTSA claim, then CUTSA preemption is not generally found.[x]

The decision of *Digital Envoy v. Google* illustrates the application of CUTSA preemption.[xi] In *Digital Envoy*, the plaintiff alleged that Google's use of a Digital Envoy technology that allowed Google to make an "educated guess" about the approximate location of site users breached a licensing agreement, and also filed misappropriation, unjust enrichment and unfair competition claims arising from the same conduct. The court considered the CUTSA, which explicitly states that it does not preempt claims based upon breach of contract, criminal remedies, or other claims that are not based on trade secret misappropriation, and concluded that there would be no need for such a provision in California's statutory scheme unless it preempted other claims that are based on trade secret misappropriation.[xii]

Google argued that the CUTSA preempted the unfair competition and unjust enrichment claims. California's statute, Google argued, explicitly states that it does not preempt claims that are based upon breach of contract, criminal remedies, or other claims that are not based on trade secret misappropriation, and "there would be no need for inclusion of this provision in California's statutory scheme unless the UTSA preempted other claims based on misappropriation."

The *Digital Envoy* court agreed, finding that Digital Envoy's claims were preempted under the CUTSA since they based on the same "nucleus of facts" as its trade secrets misappropriation claim.[xiii] Otherwise, the *Digital Envoy* court reasoned, Section 3426.7(b) of the CUTSA "would appear to be rendered meaningless if, in fact, claims which are based on trade secret misappropriation are not preempted by the state's statutory scheme."[xiv] .

Citing to *Digital Envoy* and its progeny cases, California trial courts and federal courts interpreting the CUTSA have almost uniformly invoked the preemption doctrine to displace an assortment of common law claims. These superseded claims include unjust enrichment,[xv] common law trade secrets misappropriation,[xvi] intentional interference with

economic relationships,[xvii] conversion,[xviii] intentional interference with contractual relations,[xix] common law unfair competition,[xx] and breach of the duty of loyalty.[xxi] Notably, these decisions are consistent with trade secrets preemption opinions from other states that enacted a similar version of the model Uniform Trade Secrets Act.[xxii] Indeed, Section 3426.8 of the CUTSA states that the Act "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."[xxiii]

2. ***CUTSA Preemption And Unfair Business Practices Claims.***

One significant area where California trial courts and federal courts appear to disagree is the potential preemption of unfair business practices claims under California Business & Professions Code § 17200. The majority of opinions, including *Digital Envoy*, support CUTSA preemption of Section 17200 claims if they are based on the same nucleus of facts or operative facts as the trade secrets misappropriation claim.[xxiv] However, at least one unpublished California appellate case – *Global Med Technologies, Inc. v. Jackson* – has found that Section § 17200 claims survive preemption under Section 3426.7(a) of the CUTSA on the ground that it is a "statute relating to misappropriation of a trade secret, or any statute otherwise regulating trade secrets".[xxv]

For support, *Global Med* relied exclusively upon on *Courtesy Temporary Service v. Camacho*, a 1990 case reviewing a preliminary injunction issued to restrain former employees from soliciting customers and/or utilizing or disclosing certain confidential proprietary information concerning those customers.[xxvi] The over-reliance on *Camacho* is questionable for several reasons. First, the *Camacho* court interpreted Section 3426.7(a) nonpreemptively with respect to Section 17200. The court explicitly "decline[d] to rely on" *American Paper & Packaging Products, Inc. v. Kirgan,* 183 Cal.App.3d 1318 (1986), one of the first cases decided after the adoption of the CUTSA, which had interpreted the CUTSA preemptively and specifically held that "[p]rior to the adoption of the UTSA, decisions in the area of customer lists as trade secrets were founded on equitable principles of common law.... [T]o the extent that [pre-UTSA cases] set forth rules in conflict with the dictates of the UTSA, they no longer control." *American Paper,* 183 Cal.App.3d at 1324. Instead, the *Camacho* court permitted an injunctive action under Section 17200 together with a trade secret misappropriation claim relying on two pre-CUTSA cases. The *Camacho* court explicitly distinguished *American Paper* on the ground that there was "overwhelming" and "unrefuted evidence" of "admitted" misappropriation, while in *American Paper* there was "disputed testimony" and defendants denied receiving confidential information.[xxvii] The *Camacho* court concluded that undisputed misappropriation, "which was not shown in *American Paper,* is enjoinable as a patently unfair trade practice under the UTSA."[xxviii]

3. ***Continued Uncertainty Among Attorneys Over CUTSA Preemption.***

The ongoing ambiguity regarding the scope of CUTSA preemption over common law and Section 17200 claims has fostered disagreement among professional Bar groups. Most

recently, at the 2007 **Conference of Delegates of California Bar Associations**, the Orange County Bar Association proposed Trade Secrets Resolution 08-02-2007 which proposed to amend Section 3426.7 of the CUTSA "to establish that the trade secrets statute preempts certain tort and statutory causes of action based on the same operative facts".[xxix] The proposed amendment would have added an affirmative statement regarding the causes of action that the trade secrets statute preempts.[xxx] The Santa Clara Bar Association, however, opposed the Resolution contending, among other things, that in addition to a claim for misappropriation of trade secrets, the same operative facts may also give rise to other tort claims such as interference with contract or prospective economic advantage, copyright infringement, and unfair competition.[xxxi] The Resolution Committee ultimately disapproved the Resolution.[xxxii]

With the increase of trade secrets litigation and importance of resolving these open preemption questions, a definitive decision from the California appellate courts should not be too far away.

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i *See* Uniform Trade Secrets Act, 14 U.L.A. §§1-12 at 437 (1980) (amended 1985) (West Master ed. 1990) ("Uniform Law").

ii *DVD Copy Control Assoc., Inc. v. Bunner* (2003) 31 Cal.4th 864, 874.

iii *Id.* at 878.

iv *American Credit Indem. Co. v. Sacks* (1989) 213 Cal.App.3d 622, 630 (quoting Commissioners' Prefatory Note to Uniform Trade Secrets Act, 14 West (U.L.A.) 537, 538).

v Cal. Civ.Code § 3426.7.

vi *Digital Envoy*, 370 F.Supp.2d at 1034-35.

vii *AirDefense, Inc. v. AirTight Networks, Inc.,* 2006 WL 2092053, *3 (N.D.Cal., July 26, 2006);

viii *B. Braun Medical, Inc. v. Rogers*, 163 Fed. Appx. 500, 508 (9th Cir. 2006)(stating that the language of CUTSA "has been interpreted to mean that the CUTSA was intended to occupy the field [of trade secret misappropriation] in California"); *Callaway Golf Co. v. Dunlop Slazenger Group Americas, Inc.*, 318 F.Supp.2d 216, 219 (D.Del. 2004)(holding that the CUTSA "preempts common law claims that 'are based on misappropriation of a trade secret'").

ix *See Callaway Golf Co. v. Dunlop Slazenger Group Americas, Inc.* (D.Del 2004) 318 F.Supp.2d 216, 219-221; *Digital Envoy, Inc. v. Google, Inc.* (N.D.Cal.2005) 370 F.Supp.2d 1025, 1033-1035.

x *Silicon Image, Inc. v. Analogix Semiconductor, Inc.*, 2007 WL 1455903 (N.D.Cal.,2007); *AirDefense, Inc. v. AirTight Networks, Inc.,* 2006 WL 2092053, *5-6 (N.D.Cal., July 26, 2006).

xi 370 F. Supp. 2d 1025 (N.D. Cal. 2005).

xii *Id.* at 1033.

xiii *Id.* at 1034.
xiv *Id*. at 1035.

xv *Digital Envoy*, 370 F.Supp.2d at **ADD**; *AirDefense, Inc. v. AirTight Networks, Inc.,* 2006 WL 2092053, *6 (N.D.Cal., July 26, 2006);

xvi *Accuimage Diagnostics Corp. v. Terarecon, Inc.*, 260 F.Supp.2d 941 954 (N.D.Cal.2003); *Enreach Technology, Inc. v. Embedded Internet Solutions, Inc.*, 403 F.Supp.2d 968 (N.D.Cal. 2005); *Cacique, Inc. v. Robert Reiser & Co., Inc.*, 169 F.3d 619, 624 (9th Cir. 1999).

xvii *Ernest Paper Prods., Inc. v. Mobil Chem. Co.*, 1997 WL 33483520, at *21-23, *28 (C.D.Cal. Dec. 2, 1997).

xviii *Samsung Electronics America, Inc. v. Bilbruck*, 2006 WL 3012875 (Orange County Sup. Ct., Cal.Superior, Didier, J., December 18, 2006). *See also Global Med Technologies, Inc. v. Jackson*, 2006 WL 3735581 (Cal.App., 3 Dist., December 20, 2006)

xix *AirDefense, Inc. v. AirTight Networks, Inc.,* 2006 WL 2092053, *5 (N.D.Cal., July 26, 2006).

xx *AirDefense, Inc. v. AirTight Networks, Inc.,* 2006 WL 2092053, *4 (N.D.Cal., July 26, 2006).

xxi *Samsung Electronics America, Inc. v. Bilbruck*, 2006 WL 3012875 (Orange County Sup. Ct., Cal.Superior, Didier, J, December 18, 2006).

xxii *See e.g. Penalty Kick Mgmt. Ltd. v. Coca Cola Co*., 318 F.3d 1284, 1297-98 (11th Cir. 2003) (noting that, under Georgia law, state law claims based on the same operative facts as a trade secret claim are preempted by the GTSA); *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F.Supp.2d 943, 948 (W.D.Mich.2003)(the UTSA preemption clause is meant to eliminate all common law claims that are based on the same conduct which could support a UTSA cause of action); *Weins v. Sporleder*, 605 N.W.2d 488, 491 (S.D.2000)(If there is no "material distinction" between the wrongdoing alleged in a UTSA claim and that alleged in a different claim, the UTSA preempts the other claim].) *Vigilante.com, Inc. v.*

Argus Test.com, Inc., 2005 WL 2218405, at *13 (D.Or. Sept. 6, 2005)(Concluding that plaintiff's unfair-competition claim was Oregon's Uniform Trade Secrets Act)

xxiii Cal. Civ. Code § 3426.8.
xxiv *See AirDefense, Inc. v. AirTight Networks, Inc.,* 2006 WL 2092053, *5 (N.D.Cal., July 26, 2006); *Digital Envoy, Inc. v. Google, Inc.,* 370 F.Supp.2d 1025, 1033-34 (N.D.Cal.2005); *First Advantage Background Services Corp. v. Private Eyes, Inc.*, 2007 WL 2572191 (N.D.Cal.,2007); *Softchoice Corp. v. En Pointe Technologies, Inc*., 2006 WL 3350798 (Los Angeles County Sup. Ct., Rosenberg, J., November 13, 2006)(Ruling that the CUSTA preempts Bus. & Prof. § 17200 claims based on misappropriation of a trade secret); *Memry Corp. v. Kentucky Oil Technology, N.V.*, 2007 WL 3289142 (N.D.Cal., November 05, 2007).

xxv *Global Med Technologies, Inc. v. Jackson*, 2006 WL 3735581 (Cal.App. 3 Dist., December 20, 2006).

xxvi 222 Cal.App.3d 1278, 1288 (1990).

xxvii *Id.* at 1288-91.

xxviii *Id.* at 1291.

xxix **Conference of Delegates of California Bar Associations, Resolution.**
http://www.cdcba.org/pdfs/R2007/08-02-2007.pdf

xxx *Id*.

xxxi *Id*.

xxxii *Id*.