

---

## Legal Updates & News

### Legal Updates

---

#### Uniform Trade Secrets Act Preemption: An Obscure Doctrine Finally Gets Its Day in Court

September 2007

by [Michael A. Jacobs](#), [Michael I. Katz](#), [Jana G. Gold](#)

#### Related Practices:

- [Appellate](#)
- [Intellectual Property](#)
- [Litigation](#)

In the last five years, the preemption doctrine of the Uniform Trade Secrets Act (the "UTSA") has become a force to be reckoned with in cases alleging theft of confidential business information. Reported cases addressing UTSA preemption were as scarce as hens' teeth in the decade following the 1985 adoption of the Uniform Act. A quick Westlaw search revealed 8 reported decisions nationwide between 1985 and 1995. In contrast, there have been approximately 20 reported cases in the last 6 months alone.

This groundswell of judicial activity is no accident. A fundamental disagreement has emerged over the extent to which the UTSA displaces common law and statutory causes of action based upon theft of confidential information.

Before addressing the jurisdictional split of opinion, it is worth considering the historical purpose behind the UTSA. The drafters of the UTSA were concerned that the common law of misappropriation had developed unevenly state to state. The legal landscape presented diverse causes of action with distinct statutes of limitations, remedies, and definitional criteria for what business information could be protected and under what circumstances. Forum shopping was common. So too was uncertainty in the business community. The drafters hoped to lend parsimony to this landscape. They proposed a single vehicle for recovery to be adopted by all state legislatures. Preemption, as well as a provision requiring courts to follow the laws of other UTSA jurisdictions, was intended to secure uniformity.

And by all measures the UTSA has been enormously successful. As of the date of this article, 46 of the 50 states (and the District of Columbia) have adopted some variation of the UTSA. The only holdouts are Texas, Massachusetts, New York, and New Jersey, with UTSA legislation pending in the latter two states.

Legislative enthusiasm for the UTSA, however, has not translated into judicial accord on UTSA preemption. Courts nationwide dispute the extent to which the UTSA replaces common law theories of recovery. The majority view construes UTSA preemption broadly.<sup>[1]</sup> Under this view, the UTSA displaces all common law and statutory theories of recovery for idea theft, including breach of fiduciary duty, conversion, tortious interference with contract, unfair competition, and quantum meruit.<sup>[2]</sup> The opposing view holds that UTSA was intended to displace only common law causes of action for misappropriation of trade secrets.<sup>[3]</sup> Under this view, plaintiffs can seek multiple tort-based remedies for theft of confidential business information in addition to asserting a UTSA claim.

The jurisdictional dispute recently came to a boil in *Burbank Grease v. Sokolowski*, a case pitting a collector of used restaurant grease against a former manager who resigned to work for a competitor, taking with him plaintiff's customer lists and sales information.<sup>[4]</sup> The intermediate appellate court affirmed the grant of summary judgment holding that the customer lists did not qualify as trade secrets. Plaintiff argued that it should be allowed nonetheless to present a case to the jury that defendant had breached his fiduciary duties by taking confidential information. Defendant argued those claims were preempted. The appellate court reviewed the opinions of all other UTSA jurisdictions. In a detailed opinion, the court opted to follow the majority of courts and ruled that the

other common law claims were preempted by the UTSA.<sup>[5]</sup> The UTSA, the court held, supplies the sole remedy for theft of confidential information. The court's ruling means that there are only two categories of legally cognizable business information: protectable trade secrets subject to the UTSA, and information in the public domain.<sup>[6]</sup> Business information that does not qualify as a trade secret can be used freely to compete – at least absent a contract.

The Wisconsin Supreme Court, in a split decision, disagreed.<sup>[7]</sup> The majority held that UTSA preemption was limited to displacing common law misappropriation. Plaintiff could assert both a UTSA claim, and tort-based theories of recovery, including breach of fiduciary duty and conversion. If the factfinder ultimately determined that the information at issue does not qualify for trade secret protection, the plaintiff could still prevail under a different theory based on theft of confidential information.<sup>[8]</sup>

The strategic implications for litigating trade secret cases are apparent. Under the weak preemption view, courts should not rule on motions to dismiss or for summary adjudication based on preemption, other than to dismiss a common law claim for misappropriation of trade secrets. Under the strong preemption view, defendants can take steps early in the litigation to narrow the scope of the pleadings. By motion or demurrer, a defendant can seek dismissal of statutory and tort-based theories of recovery for theft of confidential information. It should not make a difference whether plaintiff has pled a cause of action under the UTSA.

There is further disagreement among court decisions adopting the “strong preemption” view over the extent to which the UTSA displaces common law causes of action. In many instances, a cause of action is asserted alleging multiple wrongful acts, only one of which is the theft of confidential business information. To further complicate things, sometimes the allegations are intertwined, as in the following hypothetical scenario. Consider a case in which a company sues a former executive for breach of fiduciary duty, alleging she misused confidential business plans, and appropriated for her own use and benefit a corporate opportunity consistent with those plans, all the while concealing her scheme in violation of her duties of loyalty and candor. But for her use of the information in the business plan, one could argue, she would not have appreciated the potential opportunity that was diverted. Under tests articulated by some California courts, for example *Digital Envoy, Inc. v. Google, Inc.*,<sup>[9]</sup> it could be argued that the claim for breach of fiduciary duty is preempted because all the wrongful acts arise “under the same nucleus of facts” as the alleged misappropriation. The same argument could be made applying a similar test adopted by yet other courts, asking whether the cause of action is based primarily on trade secret misappropriation. Other courts hold that there is no preemption if a plaintiff can state a cause of action even without the facts related to the misappropriation.<sup>[10]</sup> No court has analyzed whether these tests are substantively different, as applied.

In the latter scenario, it is not the case that preemption has no place in the defendants' strategy. Rather, the doctrine may not be enforced by procedural vehicles, such as demurrer or motion for summary adjudication, which cannot dispose of only a part of a cause of action. Cal. Civ. Code 437 c (f)<sup>[11]</sup> (Under the hypothetical scenario described above, a defendant may use a motion to strike to remove all allegations of theft of confidential information in the complaint, other than those asserted in support of a claim arising under the UTSA or a contract. See *Mortgage Specialists*, 902 A.2d at 665.<sup>[12]</sup> In federal court, the defendant could move for partial summary judgment, *Bean v. Reiker*.<sup>[13]</sup> Or the defendant may wait until trial and file a motion for non-suit removing those allegations. The point is, there are procedural and strategic implications to whether the weak or strong view of preemption prevails.

So where does California fit into this jurisdictional divide? A growing number of federal decisions hold that some form of the strong preemption view applies under California's UTSA. At least one state appellate decision, *American Credit Indemnity Co. v. Sacks* 213 Cal. App.3d 622, 630 (1989),<sup>[14]</sup> citing the legislative history verbatim, has embraced the strong preemption view – albeit in dicta – stating that California's UTSA provides: “unitary definitions of trade secret and trade secret misappropriation and a single statute of limitations of the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.” But binding state authority is scant.

Federal and state decisions directly conflict on at least one issue: whether a claim for misappropriation of confidential information under Section 17200 of the Business and Professions Code is preempted by the UTSA. Several federal cases say yes. These cases do not follow *Courtesy Temporary Service, Inc. v. Camacho*, 222 Cal. App.3d 1278 (1990),<sup>[15]</sup> a state appellate decision holding that a misappropriation claim under Section 17200 was not preempted because the UTSA, by its own terms at Civil Code § 3426.7, subdivision (a), does not preempt statutes “relating

to misappropriation of a trade secret, or any statute otherwise regulating trade secrets.” The federal courts, without explanation, disagreed that this statutory language was intended to cover Section 17200. So who got it right?

The federal courts are correct. The legislative history to California’s UTSA makes clear that the language at section 3426.7, subdivision(a), was intended to exempt statutes that either regulate trade secrets, such as Penal Code Section 499c, which criminalizes trade secret misappropriation, or that provide that certain types of information are in the public domain. UTSA legislative history, for example, identifies Government Code Section 6254.7(d) as a statute “relating to misappropriation of trade secrets.” Analyses of Assembly Bill 501 prepared for the Assembly Committee on Judiciary [16]Section 6254.7(d) provides that pollution data cannot be a trade secret. Subdivision (a) does not address the availability of other statutory remedies. That is the provenance of subdivision (b).

The federal courts are correct for a second reason. Permitting a plaintiff to assert a trade secret misappropriation claim under Section 17200, a statute routinely pled in state court, would undermine the very purpose of the UTSA: to create a unitary remedial scheme governed by a single burden of proof, statute of limitations, fee-shifting provision, and the like. To give but one example, the assertion of parallel claims under the UTSA and Section 17200 invites a court to grant different injunctive relief under Section 17200 than would be permitted under the UTSA. This would require a court to substitute its own view of what is equitable, and its own policy preferences, for those of California’s Legislature expressed in the UTSA. Finally, Section 3426.7, subdivision(b), expressly states that the UTSA preserves only civil remedies that “are not based on misappropriation of a trade secret.” And while Section 17200 provides that the remedies afforded therein are cumulative, the statute goes on to say “[u]nless otherwise expressly provided.” Bus. & Prof. Code § 17205.

Ironically, a doctrine adopted by state legislatures to displace common law remedies has gained judicial acceptance only through the slow accretion of the common law. That process has yet to play out in California. But if the recent surge in opinions is any guide, we likely will not have to wait another 25 years for California appellate courts to weigh in on UTSA preemption.

---

#### Footnotes:

[1]See, e.g., *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 971 (N.D. Ill. 2000); *AutoChannel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 788-89 (W.D. Ky. 2001) (holding that permitting both common law and UTSA claims to be asserted “would undermine the uniformity and clarity that motivated the creation and passage of the Uniform Act.”); *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265 (7<sup>th</sup> Cir. 1992)(the Illinois Trade Secrets Act abolished all common law theories of misuse of confidential information).

[2] See, e.g., *Accuimage Diagnostics Corp. v. Terarecon, Inc.*, 260 F. Supp. 2d 941, 953-54 (N.D. Cal. 2003) (common law trade secret misappropriation claim preempted); *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 666 (N.H., 2006)(UTSA preempts conversion); *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025 (N.D. Cal. 2005), *vacated on other grounds*, 2006 U.S. Dist. LEXIS 6449 (N.D. Cal. Jan. 25, 2006)(UTSA preempts common law and statutory unfair competition and unjust enrichment); *Convolve, Inc. v. Compaq Computer Corp.*, No. 00CV5141, 2006 U.S. Dist. LEXIS 13848 (S.D.N.Y. Mar. 29, 2006) (UTSA preempts claims for tortious interference with contract and prospective business advantage); *Opteum Financial Services, LLC v. Spain*, 406 F. Supp. 3d 1378 (N.D. Ga. 2005)(UTSA preempts claim for quantum meruit); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F.Supp.2d 968, 972 (N.D. Ill. 2000) (ITSA preempts claim for breach of fiduciary duty); *MicroStrategy, Inc. v. Business Objects, S.A.*, 429 F.3d 1344 (Fed. Cir. 2005)(Virginia UTSA preempts claim for civil conspiracy).

[3] *Burbank Grease Serv., LLC v. Sokolowski*, 717 N.W.2d 781 (Wis. 2006).

[4]*Burbank Grease Serv., LLC v. Sokolowski*, 693 N.W.2d 89, 99-102 (Wis. Ct. App. 2005), *reversed*, 717 N.W.2d 781 (Wis. 2006).

[5]*Id.* at 726.

[6]*Id.* at 718.

[7]*Burbank Grease*, 717 N.W. 2d at 785.

[8] *Id.* at 789-90; 793-94; 798.

[9] 370 F. Supp. 2d 1025, 1034 (N.D. Cal. 2005).

[10] See *Mediware Information Systems, Inc. v. Mckesson Information Solutions, LLC*, 2007 U.S. Dist. LEXIS 22087 (D. Kan. Mar. 26, 2007) (declining to dismiss tortious interference claim at pleading stage because plaintiff had alleged facts to support claim whether trade secret claim survived or not.)

[11] See Cal. Civ. Proc. Code § 437c(f)(1).

[12] See *Mortgage Specialists*, 902 A.2d at 665 “[A] claim is preempted when it is based solely on, or to the extent based on, the allegations or the factual showings of unauthorized use of . . . information or misappropriation of a trade secret.”

[13] *Bean v. Reiker*, 120 Cal. App. 403, 409 (1932).

[14] *American Credit Indemnity Co. v. Sacks*, 213 Cal. App.3d 622, 630 (1989).

[15] *Courtesy Temporary Service, Inc. v. Camacho*, 222 Cal. App.3d 1278 (1990).

[16] Analyses of Assembly Bill 501 prepared for the Assembly Committee on Judiciary.