

**RESOLUTION 08-02-2007**

**DIGEST**

Trade Secrets: Preemption of Certain Causes of Action

Amends California Civil Code section 3426.7 to establish that the trade secrets statute preempts certain tort and statutory causes of action based on the same operative facts.

**RESOLUTIONS COMMITTEE RECOMMENDATION  
DISAPPROVE**

History:

No similar resolutions found.

Reasons:

This resolution amends California Civil Code section 3426.7 to establish that the trade secrets statute preempts certain tort and statutory causes of action based on the same operative facts. This resolution should be disapproved because it restricts the claims and remedies available to plaintiffs beyond those provided by the Uniform Trade Secrets Act (“UTSA”).

It is not uncommon for a plaintiff to plead and pursue alternative claims based on the same set of facts. For example, the same operative facts that support a statutory claim for misappropriation of trade secrets may also support tort claims such as interference with contract or prospective economic advantage and/or statutory claims for copyright infringement and unfair competition. These causes of action, though based on the same operative facts, address different wrongs and provide different remedies than the UTSA. No reason is given as to why plaintiffs asserting claims under the UTSA should be treated differently by being restricted regarding the claims and remedies they can pursue.

Finally, contrary to the Statement of Reasons in support of this resolution, reported California appellate decisions do exist that allow a plaintiff to pursue UTSA claims as well as other tort and/or statutory claims based on the same operative facts. (See, e.g., *ReadyLink Healthcare v. Cotton* (2005) 126 Cal.App.4th 1006; *Advanced Modular Sputtering, Inc. v. Superior Court* (2005) 132 Cal.App.4th 826.)

**TEXT OF RESOLUTION**

RESOLVED that the California Conference of Bar Associations recommends that legislation be sponsored to amend Cal. Civ. Code § 3426.7 to read as follows:

- 1 §3426.7
- 2 (a) Except as otherwise expressly provided, this title does not supersede any
- 3 statute relating to misappropriation of a trade secret, or any statute otherwise regulating
- 4 trade secrets.
- 5 (b) This title does not affect (1) contractual remedies, whether or not based upon
- 6 misappropriation of a trade secret, (2) other civil remedies that are not based upon

7 misappropriation of a trade secret, or (3) criminal remedies, whether or not based upon  
8 misappropriation of a trade secret.

9 (c) This title displaces all common law and statutory tort claims which are based on  
10 the same operative facts supporting the alleged misappropriation of trade secrets under this  
11 title.

12 (d) This title does not affect the disclosure of a record by a state or local agency  
13 under the California Public Records Act (Chapter 3.5 (commencing with Section 6250) of  
14 Division 7 of Title 1 of the Government Code). Any determination as to whether the  
15 disclosure of a record under the California Public Records Act constitutes a  
16 misappropriation of a trade secret and the rights and remedies with respect thereto shall be  
17 made pursuant to the law in effect before the operative date of this title.

(Proposed new language underlined; language to be deleted stricken.)

PROPONENT: Orange County Bar Association

STATEMENT OF REASONS:

Existing Law: The trade secrets statute states which causes of action it does *not* displace or preempt, such as contract actions, but it does not affirmatively identify which causes of action it *does* preempt. Its syntax is awkward.

This Resolution: The proposed amendment to Cal. Civ. Code § 3426.7 would add an affirmative statement regarding the causes of action that the trade secrets statute preempts. In particular, tort claims such as unfair competition would now clearly be preempted if based on the same common nucleus of facts that support the statutory trade secrets claim.

The Problem: California adopted the Uniform Trade Secret Act (UTSA) into law in 1984, but made amendments to the uniform code provisions regarding which other claims were to be displaced by the new trade secrets law. The statute as enacted implies that non-contract claims are pre-empted by the statute, but makes only a vague reference to other claims which are “not affect[ed].”

No California appellate court has issued a published decision on this point. California trial courts, federal courts, and other states’ courts construing either California law or similar provisions in other states’ laws have addressed the issue. With rare exception, they have concluded that the statute pre-empts tort claims based upon the same nucleus of facts as the misappropriation of trade secrets claim. *See, eg., Softchoice Corp. v. En Pointe Technologies, Inc.*, 2006 WL 3350798 (Cal.Superior, Rosenberg, J.); *Samsung Electronics America, Inc. v. Konica Minolta Printing Solutions USA, Inc.*, 2006 WL 3012875 (Cal.Superior, Didier, J.); *Convolve, Inc., v. Compaq Computer Corp.* (S.D.N.Y.2006) 2006 U.S. Dist. LEXIS 69425 1, 9 [applying California UTSA]; *Ernest Paper Products, Inc. v. Mobil Chemical Co., Inc.*, (C.D.Cal.1997) 1997 U.S. Dist. LEXIS 21781 1, 8-9 (Baird, J.). The UTSA invites courts to look to opinions construing the act in other jurisdictions. (Civ.C. § 3426.8). Other states have uniformly reached the same conclusion, again with rare exception. *See, eg., Mortgage*

*Specialists, Inc. v. Davey* (N.H.2006) 904 A.2d 652, 663; *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.* (W.D.Mich.2003) 270 F.Supp.2d 943, 948; *but see, Burbank Grease Services, LLC v. Sokolowski* (Wis.2006) 717 N.W.2d 781 (no preemption based on narrow construction of Wisconsin statute). The comment to the model UTSA of the Uniform Law Commissioners refers to preemption of any claims alleging competitively significant secret information.

Absent clarification by the Legislature, however, uncertainty remains as to the viability of many causes of action pled in trade secrets cases. In view of the uniformity of those courts which have addressed the issue in finding such preemption, we should not wait for other jurisdictions or for California appellate courts to resolve this issue of California law. Nor should parties and the courts continue to waste resources litigating the issue of whether tort claims are pre-empted by the trade secret statute.

#### **IMPACT STATEMENT:**

This resolution does not affect any other law, statute or rule.

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**RESPONSIBLE FLOOR DELEGATE:** John B. Sganga, Jr.

#### **COUNTERARGUMENT**

##### **SANTA CLARA COUNTY BAR ASSOCIATION**

This resolution should not be adopted. It would eliminate all tort claims “based on the same operative facts” as those supporting a misappropriation of trade secrets cause of action. This is not a desirable result. 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. For instance, the creator of computer code may have both a claim for misappropriation of trade secrets as to some elements of the code and a claim for copyright infringement as to other elements.

Moreover, other common law and statutory torts provide additional and/or different remedies than those provided under sections 3426.2 and 3426.3 of the Uniform Trade Secrets Act. For example, in addition to actual damages and disgorgement, a plaintiff should be allowed to seek future lost profits and punitive damages that are not limited by section 3426.3 (c) to twice the compensatory award. In the case of copyright infringement, a plaintiff should not be prohibited from seeking statutory damages under the federal Copyright Act. Although a plaintiff should not

be entitled to recover more than once for particular damages, it is not unusual or inappropriate for a defendant's actions to give rise to multiple causes of action with alternative remedies.

This resolution would cause section 3426.7 to be internally inconsistent. Subsection (a) of section 3426.7 states that the title of which section 3426.7 is a part "does not supersede" any other statute regulating trade secrets, but subsection (c), which would be inserted by the proposed amendment, states that the title displaces statutory tort claims, which would appear to include tort claims based on statutes regulating trade secrets.

The Santa Clara County Bar Association delegation urges a no vote on Resolution 08-02-07.