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Nonpublic Information and California Tort Law: A Proposal for Harmonizing California's Employee Mobility and Intellectual Property Regimes Under the Uniform Trade Secrets Act

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Abstract

California courts increasingly face the question whether the Uniform Trade Secrets Act preempts alternative tort claims alleging the misuse of nonpublic information. Analyzing that question requires a detailed analysis of California's historical treatment of such claims, as well as California's longstanding public policy in favor of employee mobility. The most important question for UTSA preemption is whether California courts recognize a tort theory for information that the plaintiff deems "confidential but not rising to the level of a trade secret." Based on an in-depth historical review of hundreds of cases and numerous tort claims, this Article concludes that California law has not and should not recognize such a theory as a means to evade the Uniform Trade Secrets Act. The doctrine of UTSA preemption provides a means to centralize and harmonize California's rules for nonpublic commercial information and the right of California employees to pursue the jobs of their choosing.

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Nonpublic Information and California Tort Law: A Proposal for Harmonizing California's Employee Mobility and Intellectual Property Regimes Under the Uniform Trade Secrets Act

I. Introduction

[¶1] This Article asks whether California tort law permits a claim that a defendant has misused commercial information that is not a trade secret – whether alleged as unfair competition, conversion, or some similar label. This question has moved to the forefront in trade secret litigation as debates grow over the Uniform Trade Secrets Act's preemption of alternative tort claims. The first published opinion on UTSA preemption under California law appeared in 2003. Since then, courts have increasingly had to wrestle with what tort claims regarding nonpublic information California law permitted before the UTSA was enacted in 1985, and what tort claims the UTSA now preempts.

[¶2] This seemingly abstract question raises serious questions of public policy – specifically, the protections California courts have long granted to employees who change jobs and join competitors, and the degree to which individuals and businesses in California are free to use information that does not qualify as a trade secret. If a litigant can sue over information that is admittedly nonsecret, or if a litigant can press an alternative tort claim where allegedly confidential information fails to qualify as a trade secret, these interests in employee mobility and free use of nonsecret information are endangered.

[¶3] Answering the question requires a review of California's ninety-year history of tort cases where allegedly nonpublic information was at issue. That jurisprudence forms a tangled web of claims brought under a variety of labels, in more than one hundred published decisions. To date, no article or treatise has analyzed the full history of California's treatment of claims regarding nonpublic information. The problem has received little attention despite the frequency with which trade secret-

type cases are litigated, and its importance to employees planning to change jobs.² The trade secret treatises have noted the question and the UTSA preemption debate without detailed analysis.³ In turn, litigants often brief these issues at the early pleading stage on crowded motion calendars, presenting only surface citations to courts which have little time to study these complex issues in detail. As a result, the published rulings indicate that courts and attorneys are missing key arguments and considerations, even when they reach the right conclusions.

[¶4] This Article aims to remedy the absence of a detailed analysis by providing a guide for courts and litigants, with specific proposals for UTSA preemption tied to California public policy. This Article is in part a map of the law – an attempt to answer the question, “what was the common law in California regarding what information could be used or not used before the UTSA was enacted?” To that end, this Article will cite scores of historical cases whose common root is a claim that a defendant misused information protected by state law, and analyze whether or not those cases applied different tests to determine if the information could be used or not. This Article will also analyze the effect of Business and Professions Code section 16600, a statute that courts have repeatedly used to prohibit claims against former employees where the information at issue does not constitute trade secrets.

[¶5] Based on that historical review, this Article proposes that California tort law has not and would not recognize a tort claim for information “that does not rise to the level of a trade secret” as an

² One notable exception addressing California law is James H. A. Pooley, *Protecting Not-So-Secret Trade Secrets*, DAILY JOURNAL SUPPLEMENT, Sept. 26, 1996 at 4, which explains the problem of alternative tort claims under labels such as breach of confidence, calling them a “hydra” which “may seem to be unnecessary artifacts.” This short article by the author of a treatise on trade secret law – unfortunately published in a legal newspaper not available on computer databases – proposes various arguments against such claims, but does not address a UTSA preemption argument.

One law review article has taken an opposing position and argued for the recognition of a category of intellectual property that is somewhere between nonsecret and secret, without a California-specific analysis. See Robert Unikel, *Bridging the “Trade Secret” Gap: Protecting “Confidential Information” Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841 (1998). The flaws in this article will be addressed in detail below.

³ See, e.g., Rudolf Callmann, CALLMANN ON UNFAIR COMPETITION, TRADEMARKS, AND MONOPOLIES § 14:2 (4th Ed. 1981) (Supp. 2005) (noting issue and inconsistent rulings in various cases); James Pooley, TRADE SECRETS § 2.03 (2005) (noting issue with case citations); CEB, TRADE SECRETS PRACTICE IN CALIFORNIA § 1.16 (1996) (2nd Ed. Supp. 2005) (same).

alternative to a trade secrets claim under the Uniform Trade Secrets Act. In turn, a test for UTSA preemption that takes California's tort law regarding nonpublic information into full account might consist of the following two steps:

[¶6] (1) Was the proposed tort claim available for a trade secret-type claim before the UTSA was enacted in 1985? If not, the claim should fail.

[¶7] (2) If so, does the claim allege the misuse of nonpublic commercial information, regardless of how the plaintiff has subjectively labeled the claim? If so, the UTSA should preempt the claim.

[¶8] This simple test, if applied, would enable courts to address UTSA preemption questions in a manner consistent with California's common law and its public policies favoring competition and the freedom to use nonsecret information.

II. The Uniform Trade Secrets Act and Preemption of Common Law Tort Claims

The Basics: California's Public Policy in Favor of Employee Mobility

[¶9] Trade secret cases, particularly in Silicon Valley, can be as complex as patent cases. In trade secret litigation, the threshold question is whether the information the plaintiff accuses the defendant of misusing is truly secret, or is instead in the public domain such that it is free for anyone to use. Through Business and Professions Code section 16600, California has long provided unique protection for employees who change jobs – the most frequent targets of trade secret lawsuits – by announcing a policy in favor of employee mobility and barring attempts by former employers to penalize former employees for using nonsecret information.

[¶10] The policy underlying section 16600 matters for UTSA preemption and the question whether California permits tort claims for misuse of information that is labeled “confidential but not a

trade secret.” Through such a theory, parties seek to hold former employees liable for using information that is not a trade secret – essentially using tort law to create an implied noncompetition contract with the departing employee. This would encroach on the policies protected by section 16600. Over the decades, courts have used section 16600 to protect the right to join a competitor and use nonsecret information. If there had historically been a tort claim for information “less than a trade secret,” the former employees in all such cases could have been liable, because they all used information learned from a former employer.

[¶11] Thus, before addressing the scope of preemption under the Uniform Trade Secrets Act, it is important to understand California’s public policy as applied through section 16600.⁴ What is now section 16600 was enacted in 1872, and the earliest cases construing the statute addressed anticompetitive arrangements between businesses.⁵ By the 1930s, however, courts began using the statute to void employment agreements and similar contracts that sought to penalize former employees for using nonsecret information, engaging in competitive business, or both. Many such decisions described a strong public policy favoring employee mobility.⁶ Federal courts applying California law

⁴ Although none of the courts which have addressed UTSA preemption have considered section 16600, a full consideration of California law in this area would seemingly require doing so. California rules of statutory interpretation establish the legal fiction that the Legislature is presumed to enact statutes with full knowledge of existing statutes and judicial decisions, and is not presumed to overthrow long-established rules in enacting a statute unless an intent to do so is made clear. *See, e.g.,* *Young v. Gannon*, 97 Cal. App. 4th 209, 223 (2002) (stating rules); *Gaetani v. Goss-Golden West Sheet Metal Profit Sharing Plan*, 84 Cal. App. 4th 1118, 1127 (2000) (same). Likewise, statutes are to be interpreted in light of existing public policy. *See, e.g.,* *Golden State Homebuilding Assocs. v. City of Modesto*, 26 Cal. App. 4th 601, 608 (1994) (stating rule).

⁵ Early cases under the statute include *Vulcan Powder Co. v. Hercules Powder Co.*, 96 Cal. 510 (1892) (possibly the first case under section 16600, then Civil Code 1673; companies formed illegal price fixing contract for dynamite manufacture); *Merchants’ Ad-Sign Co. v. Sterling*, 124 Cal. 429, 431-35 (1899) (first published case to void a noncompetition agreement, though not in an employment context); *Getz Bros. & Co. v. Fed. Salt Co.*, 147 Cal. 115, 118-19 (1905) (voiding a contract which sought to discourage third parties from purchasing salt from other sources).

⁶ Examples where courts used section 16600 to void noncompetition contracts or contracts barring use of nonsecret information include *Summerhays v. Scheu*, 10 Cal. App. 2d 574, 576 (1935) (contract to purchase pending patent applications void to the extent it sought to restrain use of inventions before patents issued); *Hunter v. Superior Court*, 36 Cal. App. 2d 100, 113-15 (1939) (voiding noncompetition clause barring future manufacture of similar blinds); *Fortna v. Martin*, 158 Cal. App. 2d 634, 638-39 (1958) (noncompetition clause void to extent it barred use of information not a trade secret);

have also used section 16600 to void restrictive post-employment covenants.⁷ Although the outer bounds of the statute have been subject to a host of inconsistent decisions,⁸ courts have repeatedly used the statute to announce a public policy favoring employee mobility.

Golden State Linen Service, Inc. v. Vidalin, 69 Cal. App. 3d 1, 10 (1977) (in failed trade secret case, voiding noncompetition clause of employment contract); KGB, Inc. v. Giannoulas, 104 Cal. App. 3d 844, 850-51 (1980) (unfair competition action aimed at former employee who acted in a chicken costume during employment and after changing jobs failed; case primarily turned on First Amendment and lack of confusion but the ruling also turned on the idea that employer had no ownership in defendant's general costume act); Metro Traffic Control, Inc. v. Shadow Traffic Network, 22 Cal. App. 4th 853, 860-61 (1994) (holding noncompetition clauses void absent showing of trade secrets, thus protecting right to use nonsecret traffic reporting skills); Kolani v. Gluska, 64 Cal. App. 4th 402, 407-08 (1998) (voiding broad noncompetition clause); Thompson v. Impaxx, Inc., 113 Cal. App. 4th 1425, 429-32 (2003) (voiding employment contract to the extent it prohibited post-employment solicitation of employer's nonsecret customers).

⁷ See *Davis v. Jointless Fire Brick Co.*, 300 F. 1, 4-5 (9th Cir. 1924) (voiding noncompetition clause under section 16600); *Robinson v. Jardine Ins. Brokers Int'l, Ltd.*, 856 F. Supp. 554, 558-59 (N.D. Cal. 1994) (finding clause barring any contact with former employer's customers likely to be void under section 16600).

⁸ When faced with the question of how far section 16600 extends to void restraints on competition, state and federal courts have taken a slightly different course. For the most part, however, restraints aimed at departing employees have been voided. The following cases, believed to be a complete list of authorities on this issue, provide a sense of the statute's reach and California's hostility to trade restraints. See *Morey v. Paladini*, 187 Cal. 727, 738 (1922) (voiding a contract setting up a regional monopoly and holding that the statute makes no exceptions for "partial" restraints); *King v. Gerold*, 109 Cal. App. 2d 316, 318-19 (1952) (party barred from violating license agreement by manufacturing house trailer design after expiration of license; unclear if information was patented, or whether it was nonsecret; discussed further below); *Morris v. Harris*, 127 Cal. App. 2d 476, 478 (1954) (rejecting noncompetition contract including portion barring former employee from accepting business from employer's customers; holding that section 16600 makes no exceptions for partial restraints); *Boughton v. Socony Mobil Oil Co.*, 231 Cal. App. 2d 188, 193-94 (1964) (trade restraint on real property permitted); *Muggill v. Reuben H. Donnelley Corp.*, 62 Cal. 2d 239, 242-43 (1965) (voiding clause that ended pension payments if former employee joined competitor under section 16600); *Buskuhl v. Family Life Ins. Co.*, 271 Cal. App. 2d 514, 522-23 (1969) (contract with insurance agent barred solicitation of "confidential" customers, but also recited that agent's unaccrued commissions would be terminated if he solicited customers or plaintiff's other agents, or if he joined a competitor; court upheld the portion of the contract cutting off unaccrued commissions as a punishment for solicitation of customers or agents but voided noncompetition penalty clause, citing *Muggill*; decision permits a narrow restraint if – and this is not discussed in the case – the coworker solicitation would involve use of solely nonsecret information); *Frame v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 20 Cal. App. 3d 668, 672-73 (1971) (voiding contract providing that employee who joined competitor would forfeit profit-sharing rights); *Ware v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 24 Cal. App. 3d 35, 42-43 (1972) (same); *Gordon Termite Control v. Terrones*, 84 Cal. App. 3d 176, 178-79 (1978) (voiding clause requiring former employee to pay \$50 per employer's customer he called upon; customers were found nonsecret); *Bosley Med. Group v. Abramson*, 161 Cal. App. 3d 284, 288-92 (1984) (voiding sham noncompetition clause that sought to fit within section 16601 exception by requiring defendant to purchase small percentage of shares in plaintiff); *Loral Corp. v. Moyes*, 174 Cal. App. 3d 268 (1985) (permitting clause barring solicitation of former co-workers; case did not analyze whether such information was secret and appears inconsistent with the 2003 *Impaxx* case); *Thompson v. Impaxx, Inc.*, 113 Cal. App. 4th 1425, 429-32 (2003) (voiding customer nonsolicitation clause in employment contract to the extent it barred contacts with nonsecret customers). In the federal courts, see *Zajicek v. Koolvent Metal Awning Corp.*, 283 F.2d 127, 132 (9th Cir. 1960) (portion of license contract for sale of awnings barring licensee from selling any other types of awnings during life of contract (a type of narrow restraint) voided under section 16600); *Armorlite Lens Co. v. Campbell*, 340 F. Supp. 273, 275 (S.D. Cal. 1972) (voiding holdover invention assignment clause under section 16600); *Beneficial Life Ins. Co. v. Knoblauch*, 653 F.2d 393, 395-98 (9th Cir. 1981) (penalty clause requiring repayment of salary advances if former employee worked for competitor voided under section 16600); *Smith v. CMTA-IAM Pension Trust*, 654 F.2d 650, 660-61 (9th Cir. 1981) (distinguishing prior cases and permitting a "restraint limited in nature" – a clause in multiemployer pension trust plan forfeiting some pension benefits for

Why UTSA Preemption is Important for this Public Policy

[¶12] Whether a plaintiff who alleges the misuse of nonpublic information can do so only through the Uniform Trade Secrets Act or under common law tort claims may appear at first blush to be an abstract question of little importance. To the contrary, a plaintiff's ability to sue over information that is nonsecret, or deemed somehow confidential but less than secret, could endanger California's longstanding policies in favor of employee mobility, and render the use of nonsecret information unlawful. Under trade secret law, trade secrets must, of course, be secret, and the defense can defeat a trade secret claim by finding the information (or information much like it) in the public domain.⁹ Likewise, under section 16600 employees can make fairly accurate assumptions about what information they can use from job to job; if it is nonsecret, they can use it. But if California courts recognized tort claims for "confidential information not rising to the level of a trade secret," all of this would be jeopardized. Employees could be found liable for using information generally known to the trade, because the former employer convinced a court that the information was still somehow "confidential."

[¶13] In addition, tort claims designed to evade the Uniform Trade Secrets Act could, if successful, affect the procedural posture of a lawsuit in several ways. For example, the UTSA's statute

becoming employed in same industry – because it was not a total forfeiture, and because it was related to collective bargaining scheme); *Campbell v. Board of Trustees*, 817 F.2d 499, 502-03 (9th Cir. 1987) (remanding for trial to allow former employee to show that noncompetition clause barred him from his specialty); *Scott v. Snelling & Snelling, Inc.*, 732 F. Supp. 1034, 1041-42 (N.D. Cal. 1990) (rejecting argument that noncompetition clause could be upheld as a narrow limitation against unfair competition by ex-franchisors; noting that California's Bus. & Prof. Code § 16600 rejects the "rule of reason" approach to noncompetition clauses found in other states, yet stating that "California courts may, in some circumstances apply a 'rule of reason' to only partial restrictions on competition [...]"); *General Commer. Packaging, Inc. v. TPS Package Eng'g, Inc.*, 126 F.3d 1131, 1132-34 (9th Cir. 1997) (permitting clause under which general contractor with Disney forbade its subcontractor from doing business with Disney during term of contract; holding further that California law allows partial restraints); *Latona v. Aetna U.S. Healthcare, Inc.*, 82 F. Supp. 2d 1089, 1094 (C.D. Cal. 1999) (finding noncompetition clause void but noting parties' arguments over so-called "narrow restraint exception").

⁹ See, e.g., Cal. Civ. Code. § 3426.1; *DVD Copy Control Ass'n., Inc. v. Bunner*, 116 Cal. App. 4th 241, 251 (2004) (widespread Internet postings destroyed secrecy); *Gate-Way, Inc. v. Wilson*, 94 Cal. App. 2d 706, 714 (1949) (no secret where aspects of plaintiff's process for coating metal were in the public domain).

of limitations is three years.¹⁰ Imagine a plaintiff who sues after four years, calls the information “confidential” instead of “trade secrets,” and denies that UTSA preemption applies. Similarly, the UTSA provides that exemplary damages are limited to no more than double the award of compensatory damages, and allows the court rather than the jury to make that determination. Imagine a plaintiff who calls the information “confidential” instead of “trade secrets” and claims a right to argue for five-fold punitive damages to a jury. The same might be true for the reasonable royalty remedy, another damages provision which the UTSA directs courts to decide, rather than juries.

[¶14] As a further example, trade secret plaintiffs must identify the alleged secrets with particularity before discovery begins.¹¹ Imagine a plaintiff who calls the information “confidential” instead of “trade secrets,” and refuses to identify the information at issue. Burdens of proof might also be altered. Under the UTSA, a trade secret plaintiff bears the ultimate burden of proving that the defendant did not independently derive the information at issue.¹² One can imagine a plaintiff who pleads an alternative tort claim and argues that this rule is inapplicable, and that independent derivation is instead an affirmative defense.

[¶15] We can predict that as a result of permitting tort claims for information “not rising to the level of a trade secret,” parties could be liable for using nonsecret information they previously had full

¹⁰ See Cal. Civ. Code. § 3426.6.

¹¹ See Cal. Civ. Proc. Code § 2019.210 (formerly section 2019(d)). Recent decisions have limited a plaintiff’s ability to try this evasive tactic, but it will remain a danger if any form of alternative tort claim involving nonpublic information were held to exist and to survive the UTSA. See *Advanced Modular Sputtering, Inc. v. Superior Court*, 132 Cal. App. 4th 826, 906-07 (2005) (holding that statute applied to the plaintiff’s alternative tort claims because they were all premised on trade secret misappropriation; oddly, neither the litigants nor the court addressed UTSA preemption more generally, despite holding that a statute originally enacted as part of the California UTSA overrode alternative tort claims on the narrower question of identification); *Neothermia Corp. v. Rubicor Med., Inc.*, 345 F. Supp. 2d 1042, 1044 (N.D. Cal. 2004) (holding that section 2019(d) applies to contract claim where plaintiff alleged misuse of “proprietary information.”).

¹² See *Sargent Fletcher, Inc. v. Able Corp.*, 110 Cal. App. 4th 1658, 1659 (2003) (plaintiff’s ultimate burden to prove absence of independent derivation).

right to use. Even if a defendant showed that the information in question was generally known to the trade, the plaintiff might still have a claim.

[¶16] From a broader public policy perspective, the results would be disastrous for Silicon Valley companies, all of which benefit from the use of nonsecret information to develop innovative technologies. Former employees would have difficulty deciding with certainty what information they could or could not use at the next job. The UTSA itself would be rendered meaningless, because plaintiffs would have no reason to follow its strict guidelines. Likewise, section 16600 would be rendered meaningless, because plaintiffs could use tort claims to create implicit noncompetition covenants to penalize former employees for using nonsecret information.

The Statute

[¶17] With these important policy questions in mind, we will now turn to the enactment of California's UTSA, and the case law shaping its preemptive effect on tort claims for the misuse of nonpublic information.

[¶18] California enacted the Uniform Trade Secret Act, with some modifications, with an effective date of January 1, 1985.¹³ The UTSA is now the law in some forty jurisdictions,¹⁴ and provides a complete tort claim and remedial scheme for the misuse of commercial information not

¹³ See Cal. Civ. Code § 3426.10 (effective date). California's most important UTSA modification was a provision requiring a pre-discovery identification of the alleged secrets, now codified at Cal. Civ. Proc. Code § 2019.210.

¹⁴ Forty-two states and the District of Columbia have enacted the UTSA. See Ala. St. §§ 8-27-1-8-27-6 (2005); Alas. St. §§ 45.50.910-945 (2005); Ariz. St. §§ 44-401-407 (2005); Ark. St. §§ 4-75-601-607 (2005); Cal. Civ. Code §§ 3426-.11 (2005); Co. St. §§ 7-74-101-110 (2005); Conn. Gen. Stat. §§ 35-50-58 (2005); Del. St. Tit. 6 §§ 2001-2009 (2005); D.C. Code §§ 36-401-408 (2005); Fla. St. §§ 688.001-009 (2005); Ga. St. §§ 10-1-760-767 (2005); Hi. St. §§ 482B1-B9 (2005); Id. St. §§ 48-801-807 (2005); Ill. St. Ch. 765 §§ 1065/1-9 (2005); Ind. St. §§ 24-2-3-1-8 (2005); Iowa St. §§ 550.1-.8 (2005); Kan. St. §§ 60-3320-3330 (2005); Ken. St. §§ 365.880-900 (2005); La. Rev. St. §§ 51:1431-1439 (2005); Me. St. Tit. 10 §§ 1541-1548 (2005); Md. Coml. §§ 11-1201-1209 (2005); Mich. St. §§ 445.1901-.1910 (2005); Minn. St. §§ 325C.01-.08 (2005); Miss. St. §§ 75-26-1-19 (2005); Mt. St. §§ 30-14-401-409 (2005); Neb. Rev. St. §§ 87-502-507 (2005); Nev. St. §§ 600A.010-.100 (2005); N.H. St. §§ 350-B:1-9 (2005); N.M. St. §§ 57-3A-1-3A7 (2005); N.C. Gen. Stat. §§ 66-152-157 (2005); N.D. St. §§ 47-25.1-01-.08 (2005); Ohio St. §§ 1333.61-.69 (2005); Okl. St. Tit. 78 §§ 85-94 (2005); Or. St. §§ 646.461-.475 (2005); R.I. St. §§ 6-41-1-11 (2005); S.C. St. §§ 39-8-10-130 (2005); S.D. St. §§ 37-29-1-11 (2005); Tenn. St. §§ 47-25-1701-1709 (2005); Utah St. §§ 13-24-1-9 (2005); Va. St. §§ 59.1-336-343 (2005); Wa. St. Tit. 19 §§ 19.108.010-.940 (2005); W.V. St. §§ 47-22-1-10 (2005); Wis. St. §§ 134.90 (2005).

generally known to a particular trade or industry.¹⁵ Since 1985, California courts have interpreted the statute to clarify issues such as which party bears the burden of proof regarding the defense of independent derivation, whether a nonsuit is appropriate when a plaintiff fails to prove damages, and what acts trigger the statute of limitations.¹⁶ Given the breadth of the statute and the additional rules for trade secret claims that have developed through its case law, the first question in exploring the UTSA's preemptive effect is whether the passing of the statute alone superseded California's common law on misuse of nonpublic information.

California's Rules for Preemptive Statutes and the UTSA's Preemption Clause

[¶19] Even absent an express preemptive clause, California law provides that complete statutory schemes preempt the common law on the same subject matter. The California Supreme Court has held that “general and comprehensive legislation” which carefully describes the course of the affected conduct and spells out limitations and exceptions, “indicates a legislative intent that the statute should totally supersede and replace the common law dealing with the subject matter.”¹⁷ Thus, for example, where a party sought to use historical tort claims to plead around the comprehensive Uniform Commercial Code, the reviewing court rejected that effort.¹⁸

¹⁵ See, e.g., CAL. CIV. CODE 3416.1-11 (defining trade secrecy, defining improper means of obtaining the information, defining misappropriation, and listing categories of damages and attorneys' fees).

¹⁶ See *Cadence Design Systems, Inc. v. Avant! Corp.*, 29 Cal. 4th 215, 226 (2002) (triggering event for UTSA statute of limitations); *Sargent Fletcher, Inc. v. Able Corp.*, 110 Cal. App. 4th 1658, 1659 (2003) (plaintiff's burden to prove elements of trade secret tort and absence of independent derivation); *Unilogic, Inc. v. Burroughs Corp.*, 10 Cal. App. 4th 612, 629 (1992) (plaintiff's failure to show defendant's commercial use of trade secret was insufficient basis for nonsuit).

¹⁷ See *Pacific Scene, Inc. v. Penasquitos, Inc.*, 46 Cal. 3d 407, 411 (1988) (citing *I.E. Assoc. v. Safeco Title Ins. Co.*, 39 Cal. 3d 281, 285-86 (1985) (applying same rule)); see also *Las Tunas Beach Geologic Hazard Abatement Dist. v. Superior Court*, 38 Cal. App. 4th 1002, 1012-14 (1995) (government reorganization statute precluded common law theories to dissolve a geologic hazard abatement district); *Van de Kamp v. Gumbiner*, 221 Cal. App. 3d 1260, 1283-84 (1990) (1976 statute meant to occupy field regarding supervision of health care plans and thus displaced state attorney general's common law authority over such plans).

¹⁸ See *Bishop v. Hyundai Mtr. Am.*, 44 Cal. App. 4th 750, 757 (1996) (applying statutory interpretation rules in rejecting party's attempt to assert older common law remedy that legislature limited by enacting the UCC).

¶20] In addition, however, the UTSA contains an express preemption clause, which spells out two exceptions and provides that civil remedies based on trade secret claims are preempted:

¶21] 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, or (3) criminal remedies, whether or not based upon misappropriation of a trade secret.¹⁹

¶22] On its face, this preemption clause has three exceptions. One is for criminal remedies – presumably a reference to California Penal Code section 499c, the statute for criminal trade secret misappropriation.²⁰ One is for contract actions – such as a suit for breach of a confidentiality contract. The third is for “other civil remedies that are not based upon misappropriation of a trade secret.” This exception is the focus of all UTSA preemption disputes because trade secret plaintiffs typically assert that their alternative tort claims – unfair competition, tortious interference, and the like – are not based upon trade secret misappropriation, even if they share the same predicate factual allegations.

The UTSA’s California Legislative History

¶23] In turn, the statute’s legislative history sheds light on the preemptive scope of the UTSA. A 1983 Assembly Committee Digest quoted the National Conference of Commissioners on Uniform States Laws: “The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation . . . for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.”²¹ The UTSA’s legislative sponsor, Assemblyman Elihu Harris, then extracted and quoted this phrase in his September

¹⁹ See Cal. Civ. Code. § 3426.7(b).

²⁰ Cases under the criminal statute include *People v. Serrata*, 62 Cal. App. 3d 9 (1976); *People v. Gopal*, 171 Cal. App. 3d 524 (1985).

²¹ See Assembly Committee Digest for AB 501 (April 25, 1983) (containing UTSA Commissioner’s Comment with text quoted above) (on file with author).

1984 letter to California's governor requesting his approval of the bill.²² At the same time, the committee which drafted the original UTSA model provisions included a comment to the model preemption clause noting that "This Act . . . applies to duties imposed by law in order to protect competitively significant information. It does not apply to duties voluntarily assumed through an express or an implied-in-fact contract."²³ Beyond this recognition and approval of the UTSA's preemptive purpose, the legislative history discloses no specific debate for or against preemption of common law claims. It also contains no explanation why California's preemption clause came to be worded in the negative, rather than the positive as in other UTSA jurisdictions.²⁴

State Court Rulings Relating to UTSA Preemption

[¶24] As of this writing, no California appellate court has yet considered the scope of the UTSA's preemption clause. Three state court rulings, however, at least imply that common law claims based on trade secret-type theories did not survive the UTSA's enactment. First, and most important, the California Supreme Court has suggested that common law claims for trade secret misappropriation did not survive the UTSA's enactment. In *Cadence Design Systems Incorporated v. Avant! Corporation*, the court stated that if a plaintiff had alleged wrongdoing that began before the enactment of the UTSA and continued afterwards, the plaintiff would have two separate claims – one common law claim for the pre-UTSA period, and one UTSA claim for post-1984 acts.²⁵ In so doing, the Court strongly suggested that the common law claim did not survive the UTSA.²⁶

²² See Letter from Elihu M. Harris to Gov. George Deukmejian, Sept. 12, 1984, at 2 (on file with author).

²³ See Assembly Committee Digest for AB 501 (April 25, 1983) (UTSA Commissioners' Comment to model § 7).

²⁴ A 1997 federal slip opinion rejected a plaintiff's argument that because California worded its preemption clause differently than other UTSA states, California intended lesser preemption. See generally *Ernest Paper Prod., Inc. v. Mobil Chem. Co., Inc.*, 1997 WL 33483520, *8-9 (C.D. Cal. 1997) (preempting Business & Profession code section 17200 claim).

²⁵ 29 Cal. 4th 215 (2002).

²⁶ *Id.* at 224.

[¶25] Two other cases involved fact patterns where the alleged wrongdoing began or took place before January 1, 1985 – the UTSA’s effective date. In *Balboa Insurance Company vs. Trans Global Equities*, the plaintiff alleged the misuse of nonpublic information under a common law unfair competition theory.²⁷ Although the case dates from 1990, the court noted that it was proceeding under a common law theory because the facts arose before January 1, 1985.²⁸ Like *Cadence*, this decision suggests that such common law claims would not be proper vehicles for such a claim after the UTSA was enacted. Similarly, in *Ralph Andrews Production, Incorporated v. Paramount Pictures Corporation*, the court addressed a type of breach of confidence claim based on facts that arose in 1983.²⁹ The court noted the UTSA’s 1985 enactment and instructed the trial court that should it reach the remedial phase, the common law would apply to the pre-UTSA facts.³⁰

[¶26] More recently, several trial courts have considered UTSA preemption arguments raised with varying degrees of detail, with different results. None of these cases resulted in citable authority, of course, and the litigants’ briefs varied widely in arguments raised and degree of historical detail provided.³¹

²⁷ 218 Cal. App. 3d 1327 (1990).

²⁸ *Id.* at 1345, n. 22 (unfair competition action over computer and customer information).

²⁹ 222 Cal. App. 3d 676 (1990).

³⁰ *Id.* at 685-86. Similarly, a 1992 UTSA case noted in dicta that were there any conflict between common law and UTSA trade secrecy standards, “the provisions of the Uniform Trade Secrets Act would control.” *See also* *Vacco Indus., Inc. v. Van Den Berg*, 5 Cal. App. 4th 34, 51 n.17 (1992).

³¹ The author is aware of several UTSA preemption rulings in San Francisco Bay Area superior courts, particularly in Santa Clara County. Most found preemption, one declined to rule on the issue at the general demurrer stage because the plaintiff’s allegations included other tortious acts apart from what the defendant argued was preempted, and one declined to find preemption in the absence of appellate authority. Many of the litigants, including those involved in the latter ruling, did not present arguments under section 16600 and none presented a detailed history of California’s common law regarding misuse of allegedly nonpublic information.

Rulings in Federal Court on Preemption Under California's UTSA

[¶27] Unlike the state courts, federal district courts applying California trade secret law have ruled on UTSA preemption several times since 1997. The Ninth Circuit has not yet ruled directly on the question of UTSA preemption, but did so implicitly in a case where a plaintiff sought to evade the UTSA's remedial scheme through an alternative claim for common law unfair competition.³²

[¶28] Three federal district court rulings have addressed UTSA preemption in some detail. In *Accuimage Diagnostics Corp. v. Terarecon, Inc.*,³³ the Northern District of California agreed with the defendant's argument that the UTSA preempted a common law misappropriation claim. The *Accuimage* court found three reasons to preempt the claim: (1) the text of Civil Code section 3426.7; (2) the California Supreme Court's indication in *Cadence Design Systems* that a common law trade secret claim would not have survived the UTSA;³⁴ and (3) out-of-state UTSA preemption rulings.

[¶29] In *Digital Envoy, Inc. v. Google, Inc.*, the Northern District court ruled that the UTSA preempted claims for unfair competition under Business and Professions Code section 17200 and unjust enrichment on the ground that they arose from the same common nucleus of facts as the trade secret allegation.³⁵ Likewise, the court in *Callaway Golf Co. v. Dunlop Slazenger Group Am., Inc.*, applied the California UTSA to preempt conversion and other, similar claims.³⁶

[¶30] There are also at least four unpublished federal slip opinions that address California UTSA preemption. In *Easton Sports, Inc. v. Warrior Lacrosse, Inc.*, the Eastern District of Michigan applied the California and Michigan UTSA's to find claims for tortious interference that centered on alleged

³² See *Cacique, Inc. v. Robert Reiser & Co., Inc.*, 169 F.3d 619, 624 (9th Cir. 1999) (affirming ruling that party could not make common law unfair competition claim to avoid California UTSA remedies).

³³ See 260 F. Supp. 2d 941, 954 (N.D. Cal. 2003).

³⁴ *Id.* at 952 (discussing *Cadence*).

³⁵ See 370 F. Supp. 2d 1025, 1035 (N.D. Cal. 2005).

³⁶ See 318 F. Supp. 2d 216, 219-20 (D. Del. 2004).

misuse of confidential information and breach of fiduciary duty preempted, while permitting the plaintiff a chance to prove tortious interference claims independent of trade secret misappropriation.³⁷ In *Memry Corporation v. Kentucky Oil Technology, N.V.*, the Northern District of California ruled in an unpublished slip opinion that the California UTSA preempted common law misappropriation, conversion, unfair competition, and unjust enrichment claims “to the extent that they allege that [cross-defendant] misused confidential information.”³⁸

[¶31] Another unpublished case, the first to address the issue under California law, engaged in a fairly comprehensive statutory analysis to find an unfair competition claim under Business & Professions Code section 17200 preempted. In *Ernest Paper Products, Inc. v. Mobil Chemical Co., Inc.*, the court considered California’s case law on the effect of comprehensive statutes and the text of section 3426.7 in reaching its decision.³⁹

[¶32] Finally, in a badly reasoned slip opinion, the Northern District of California in *PostX Corporation v. Secure Data in Motion* permitted a plaintiff to proceed with an alternative, trade secret-like tort claim despite a UTSA preemption argument.⁴⁰ This Article will discuss the flaws in this slip

³⁷ See *Easton Sports, Inc. v. Warrior Lacrosse, Inc.*, 2005 WL 2234559, *1-3 (E.D. Mich. Sept. 14, 2005) (holding in favor of preemption but denying motion to dismiss).

³⁸ See *Memry Corp. v. Kentucky Oil Technology, N.V.*, 2005 WL 1656877, *1 (N.D. Cal. July 14, 2005). The court also allowed a claim as to admittedly nonsecret information. This Article will conclude that the court made a mistake with that ruling, as discussed in Section III.C below.

³⁹ See 1997 WL 33483520, *8-9 (C.D. Cal. 1997).

⁴⁰ See *PostX Corp v. Secure Data in Motion*, 2004 WL 2663518, *3 (N.D. Cal. Nov. 20 2004).

opinion in Section III.C below.⁴¹ The subsequent *Google* case noted some of these faults in distinguishing the ruling.⁴²

UTSA Preemption Outside California

[¶33] Rulings on UTSA preemption outside California are numerous, with a discernable majority and minority position on the validity of claims for “confidential information not rising to the level of a trade secret.” These rulings sometimes explain that the UTSA was intended to codify the various common law claims for the same conduct,⁴³ or that allowing alternative tort claims would undermine the statute.⁴⁴ As might be expected, the out-of-state cases have had little difficulty finding no preemption where the tort claim at issue clearly related to conduct not involving trade secret misappropriation – such as alleged fraud or trademark violations.⁴⁵ At the same time, most of the decisions find alternative claims such as unfair competition, tortious interference, and conversion preempted in matter-of-fact rulings without detailed analysis.⁴⁶

⁴¹ The author is aware of two other unpublished 2004 federal slip opinions in the Northern District of California regarding UTSA preemption that are not available on computer databases; one found preemption and one deferred a ruling on the issue. The litigants in both cases did not heavily brief the issue.

⁴² See *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025, 1034-35 (N.D. Cal. 2005) (distinguishing *PostX* and *Clear Channel*).

⁴³ See, e.g., *Compuware Corp. v. IBM Corp.*, No. 02-CV-70906, 2003 WL 23212863, at *8 (E.D. Mich. Dec. 19, 2003) (Michigan UTSA; UTSA’s purpose was to “codify all the various common law remedies for theft of ideas” so that “plaintiffs who believe their ideas were pilfered may resort only to the UTSA.”).

⁴⁴ See, e.g., *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 788-89 (W.D. Ky. 2001) (allowing a plaintiff to plead common law theories regarding the same information as a trade secret claim “would undermine the uniformity and clarity that motivated the creation and passage of the Uniform Act.”).

⁴⁵ See, e.g., *Bliss Clearing*, 270 F. Supp. 2d at 949 (trademark claims not preempted, while others were); *Micro Display Sys., Inc. v. Axtel, Inc.*, 699 F. Supp. 2d 202, 205 (D. Minn. 1988) (misrepresentation and other non-intellectual property claims not preempted).

⁴⁶ The following is a representative, though hardly comprehensive, list of non-California courts which found UTSA preemption: **Wisconsin**: *Burbank Grease Serv., LLC v. Sokolowski*, 693 N.W.2d 89, 99-102 (Wis. Ct. App. 2005) (on review); **Oregon**: *Acrymed, Inc. v. Convatec*, 317 F. Supp. 2d 1204, 1217-18 (D. Or. 2004); **Arkansas**: *R.K. Enter., LLC v. Pro-Comp Mgmt., Inc.*, 158 S.W.3d 685, 690-91 (Ark. 2004); **Michigan**: *Compuware Corp. v. IBM Corp.*, No. 02-CV-70906, 2003 WL 23212863 (E.D. Mich. Dec. 19, 2003); **Georgia**: *Penalty Kick Mgmt. Ltd. v. Coca Cola Co.*, 318 F.3d 1284, 1297-98 (11th Cir. 2003); **Florida**: *Allegiance Healthcare Corp. v. Coleman*, 232 F. Supp. 2d 1329, 1335-36 (S.D. Fla.

[¶34] As in California courts, trade secret plaintiffs elsewhere have argued that alternative claims should survive UTSA preemption because they are supposedly based on “confidential information not rising to the level of a trade secret,” or some similar formulation. A minority of out-of-state courts have fallen for this tactic, in each case without analyzing whether such a claim existed historically or explaining how such a claim could be litigated or tested for confidentiality in a manner different from a trade secret claim. Nor have these courts considered that their rulings effectively entitle a plaintiff to simply label the information at issue “confidential” rather than “trade secrets” to plead around the UTSA.⁴⁷

[¶35] By contrast, the majority of nationwide courts which have faced this question have ruled against the concept of alternative tort claims based on purported “information not rising to the level of a trade secret.”⁴⁸ As one recent court responded to an argument that there is no preemption “if the

2002); **Kentucky**: Auto Channel, Inc. v. Speedvision Network, LLC, 144 F. Supp. 2d 784, 788-89 (W.D. Ky. 2001); **Connecticut**: On-Line Techs. v. Perkin Elmer Corp., 141 F. Supp. 2d 246, 260-61 (D. Conn. 2001), *aff'd in part*, 386 F.3d 1133 (Fed. Cir. 2004); **Nevada**: Frantz v. Johnson, 999 P.2d 351 (Nev. 2000); **Illinois**: Thomas & Betts Corp. v. Panduit Corp., 108 F. Supp. 2d 968, 971 (N.D. Ill. 2000); **Kansas**: C&F Packing Co. v. IBP, Inc., 224 F.3d 1296, 1307 (Fed. Cir. 2000); **South Dakota**: Weins v. Sporleder, 605 N.W.2d 488, 491-92 (S.D. 2000); **Ohio**: Glasstech, Inc. v. TGL Tempering Sys., Inc., 50 F. Supp. 2d 722, 730 (N.D. Ohio 1999); **Washington**: *Ed Nowogroski Ins., Inc. v. Rucker*, 944 P.2d 1093, 1097 (Wash. Ct. App. 1997); **Virginia**: Smithfield Ham and Prods. Co. v. Portion Pac, Inc., 905 F. Supp. 346, 348-49 (E.D. Va. 1995); **Delaware**: Leucadia, Inc. v. Applied Extrusion Techs., Inc., 755 F. Supp. 635, 637 (D. Del. 1991) (same).

⁴⁷ See, e.g., *McKesson Med.-Surgical, Inc. v. Micro Bio-Medics, Inc.*, 266 F. Supp. 2d 590, 600 (E.D. Mich. 2003) (in cursory discussion under Michigan law, finding breach of loyalty claim not preempted based on plaintiff’s argument that UTSA does not preempt “other confidential information” that is not a trade secret; it should be noted that subsequent federal court rulings in Michigan have applied a broader preemption standard); *Custom Teleconnect, Inc. v. International Tele-Serv., Inc.*, 254 F. Supp. 2d 1173 (D. Nev. 2003) (Nevada law); *Stone Castle Financial, Inc. v. Friedman, Billings, Ramsey & Co.*, 191 F. Supp. 2d 652 (E.D. Va. 2002) (Virginia law); *Combined Metals of Chicago, Ltd. P’ship. v. Airtek, Inc.*, 985 F. Supp. 827, 830 (N.D. Ill. 1997) (cursory ruling that fiduciary duty claim would not be preempted if information not a trade secret; subsequent Illinois district court rulings apply preemption more broadly, such as *Tax Track Sys. Corp. v. New Investor World, Inc.*, 2005 WL 936638, *9 (N.D. Ill. Mar. 24, 2005) (“ITSA preempts non-contract claims based on misappropriation of confidential information, as well as trade secrets.”)).

⁴⁸ Cases that have expressly addressed reasons why alternative tort claims should be preempted include *Burbank Grease Serv., LLC v. Sokolowski*, 693 N.W.2d 89, 99-100 (Wis. Ct. App. 2005) (on review); *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp. 2d 943, 947-49 (W.D. Mich. 2003); *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 789 (W.D. Ky. 2001); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 972 (N.D. Ill. 2000). It should also be noted that cases too numerous to list here have issued rulings indicating that any theory of misuse of allegedly nonpublic information is preempted. See, e.g., *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265 (7th Cir. 1992) (Illinois UTSA “abolished all common law theories of misuse of such [confidential] information [...] Unless defendants misappropriated a (statutory) trade secret, they did no legal wrong.”).

information does not constitute a trade secret[:]” “[A]llowing otherwise displaced tort claims to proceed on the basis that the information may not rise to the level of a trade secret would defeat the purpose of the UTSA.”⁴⁹ Another court held that such a theory would render the UTSA “meaningless.”⁵⁰ South Dakota’s Supreme Court noted that the plaintiff’s subjective labeling of the claim should not be the issue: “In analyzing claims for the purpose of applying the displacement provision, the issue is not what label the plaintiff puts on their claims. Rather, the court is to look beyond the label to the facts being asserted in support of the claims.”⁵¹

[¶36] It is not entirely clear what weight these out-of-state decisions would have under California law. The state’s UTSA contains a provision suggesting that courts construe the statute “to make uniform the law with respect to the subject of this title among states enacting it.”⁵² But California’s employee mobility scheme is much more protective than other states, which suggests that California courts should defer to California’s public policy first before looking to out-of-state rulings.

III. California Tort Law and Nonpublic Information: What Claims are “Based Upon Trade Secret Misappropriation”?

[¶37] Given the text of Civil Code 3426.7 and the UTSA’s legislative history, few if any litigants would argue that there is never preemption of alternative tort claims under California’s UTSA. But what common law causes of action does the theory preempt? Stated more precisely, can a plaintiff label

⁴⁹ See *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co., Inc.*, 270 F. Supp. 2d 943, 947-49 (W.D. Michigan 2003) (collecting cases and rejecting *Stone Castle*).

⁵⁰ See *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 972 (N.D. Ill. 2000) (“[Plaintiff] also argues that preemption is improper because the confidential information taken by [defendant] may not rise to the level of a trade secret. However, this theory would render [the UTSA’s preemption clause] meaningless ...”).

⁵¹ See *Weins v. Sporleder*, 605 N.W.2d 488, 491-92 (S.D. 2000).

⁵² CAL. CIV. CODE § 3426.8 (2005).

a claim for misuse of nonpublic information under a title other than “trade secret” and survive a preemption challenge?

[¶38] To answer this question, we must ask whether California pre-UTSA law ever permitted causes of action for misuse of allegedly nonpublic information where that information did not satisfy the test for trade secrecy. This is a question not merely of how the plaintiff labeled its cause of action, but whether there was any difference in substantive legal tests applied to define the degree of secrecy necessary to support the claim. We must also ask if California law has ever permitted causes of action for misuse of admittedly nonsecret information, and if so whether such a theory might apply to commercial information of the type used by employees who change jobs and join a competitor. This also raises the question of interplay between section 16600 and the UTSA.

[¶39] Part of the confusion over UTSA preemption arises simply because parties and courts used so many different labels under the common law to refer to the same tort – what we today call misappropriation of trade secrets. Upon a surface review of historical cases, one might assume that claims with different labels – unfair competition, “confidential information,” and the like – were in fact different torts with different legal tests and elements. To the contrary, the vast majority of California tort cases alleging the misuse of allegedly nonpublic information applied the same test for secrecy, regardless of label.

[¶40] Additional confusion arises because litigants sometimes assume that certain causes of action – such as conversion and statutory unfair competition under Business & Professions Code section 17200 – were used before the UTSA as vehicles for trade secret-type claims. A review of the historical case law shows, however, that certain tort claims were not used for such allegations in the pre-UTSA common law period.

A. California Common Law Before 1985: Claims for Misuse of Nonpublic Information

[¶41] Over time, California courts during the pre-UTSA period up to 1985 used a variety of different labels for the same types of claims. Decisions might speak of a “breach of trust” or “unfair competition” to refer to the same conduct, and they quite often used the phrases “trade secret” and “confidential information” in the same sentence, without indicating that there was any legal distinction between them. And then as now, plaintiffs sometimes sought to proceed under a list of repetitive causes of action based on the same predicate factual allegations.⁵³

[¶42] What is most important about these cases to the question of UTSA preemption is that these courts applied the same legal standards to analyze virtually every such case, regardless of label. If, as it seems from a comprehensive historical analysis, California courts applied the same trade secrecy analysis no matter whether the claim was called “unfair competition” or “misappropriation,” or whether the subject matter was “trade secrets” or “confidential information,” then there was no separate tort theory for nonpublic, commercial information apart from trade secret law in the first place. In turn, if there never was such an alternative theory under California law, there is no such theory a litigant can use to plead around the UTSA.

[¶43] What follows, then, is a historical review of California trade secret cases, under whatever label the parties or courts attached to them. This review will show that regardless of label, the overwhelming majority of such cases applied the same legal standard, and used labels interchangeable to refer to the same cause of action and same categories of nonpublic information. Moreover, this legal standard was the same regardless whether the intellectual property at issue was simple and relatively

⁵³ For an extreme example, *see* *Motorola, Inc. v. Fairchild Camera & Instr. Corp.*, 366 F. Supp. 1173, 1175 (D. Ariz. 1973) (plaintiff’s California trade secret accusations entitled “Complaint for: Unfair Competition; Interference with Advantageous Personnel Relationships; Antitrust Violation; Unjust Enrichment; Constructive Trust upon Benefits Wrongfully Obtained ...”).

weak – as in the case of customer lists – or whether it was complex and highly proprietary – as in the case of technical information.

[¶44] This is not to suggest that California law has been uniform. There are a handful of decisions with unclear holdings, questionable dicta, and, in a few cases, rulings that are inconsistent with the majority. We will analyze these cases below to find out whether they offer any alternative theories that could survive UTSA preemption.

Trade Secret Cases

[¶45] The first published California trade secret case dates from 1915,⁵⁴ about a century after the concept developed in England and in the Eastern industrial states.⁵⁵ In the early decades, virtually every California case was a request for an injunction based on an alleged misuse of a secret customer list, without a specified cause of action. It is often unclear from such decisions whether the claim was based on tort or contract principles – because the former employee defendants often had confidentiality contracts with the plaintiff former employer – or both. The consistent theme among the cases which reached the merits of whether the information was truly secret is that the dispositive question is whether the information was known to the trade, or otherwise public.⁵⁶ All of this was also true for pre-UTSA

⁵⁴ See *Empire Steam Laundry v. Lozier*, 165 Cal. 95, 96 (1915) (customer list “a trade secret of great value”; this case was also the first to hold that what is now Business & Professions Code section 16600 does not void trade secrecy obligations because “Equity always protects against the unwarranted disclosure and unconscionable use of trade secrets and confidential business communications.”).

⁵⁵ Although California’s first reported case was not until 1913, trade secret law arose in the first half of the nineteenth century in England and in East Coast jurisdictions. See generally Miguel Deutch, *The Property Concept of Trade Secrets in Anglo-American Law: An Ongoing Debate*, 31 U. RICH. L. REV. 313, 369 n.3 (1997) (“The legal protection of the right in trade secrets developed at a relatively late stage. In England the possibility of such protection was hinted at for the first time in the matter of *Perceval v. Philipps*, 35 Eng. Rep. 225 (1813).”); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39, Reporter’s Note (“The first reported trade secret case in England is said to be *Newbery v. James*, 35 Eng. Rep. 1011 (Ch. 1817)[.]”); *Vickery v. Welch*, 36 Mass. 523 (1837).

⁵⁶ See *New Method Laundry Co v. MacCann*, 174 Cal. 26, 29 (1916) (customer list “constituted trade secrets”); *Adkins v. The Model Laundry Co.*, 92 Cal. App. 575, 585 (1928) (plaintiff brought improper legal form of action for “trade secrets” customer list accusations; proper form at that time was only an equitable suit for injunction); *Dairy Dale Co. v. Azevedo*, 211 Cal. 344, 345 (1931) (customer list injunction case described as a “trade secrets” theory; questionable decision allowed secrecy in half the population of the districts in question); *Avocado Sales Co. v. Wyse*, 122 Cal. App. 627, 632-34 (1932)

(customer information not “secret lists” or “confidential” and was instead “readily ascertainable”); Scavengers Protective Assoc. v. Serv-U-Garbage Co., 218 Cal. 568, 570-71 (1933) (customer “trade secrets” injunction; standard described as “such would be the case where the customers are not scattered members of the public whose identities and addresses are generally unknown, but are retail dealers whose shops are recognizable by anyone, who advertise their businesses openly, and whose identities and addresses can be readily ascertained by a total stranger, by simple observation, or by reference to telephone or business directories.”); Cohn v. Clare, 6 Cal. App. 2d 504, 506 (1935) (information regarding former employee used about a lease was not a “secret of the trade” and “neither confidential nor secret” and thus plaintiff lost); Holley v. Hunt, 13 Cal. App. 2d 335, 336-37 (1936) (judgment barred defendant from using “trade secrets” gained through “confidential business arrangement” contract); Metropolitan Laundry Co., Ltd., 20 Cal. App. 2d 246, 247-48 (1937) (customer list injunction regarding “trade secrets”); Santa Monica Ice and Cold Storage Co. v. Rossier, 42 Cal. App. 2d 467, 469 (1941) (customer list injunction case; “The gravamen of the action is the alleged disclosure and unlawful use of trade secrets and confidential information ...”); Riess v. Sanford, 47 Cal. App. 2d 244, 245-47 (1941) (injunction and damages for use of “trade or business secrets”); Barnes v. Cahill, 56 Cal. App. 2d 780, 783 (1943) (customer list portion of suit claimed information as “confidential trade secret”); Continental Car-Na-Var Corp. v. Moseley, 24 Cal. 2d 104, 107 (1944) (claims over “alleged trade secrets” rejected); Wallich v. Koren, 80 Cal. App. 2d 223, 224-25 (1947) (customer list case; “unfair trade practices” regarding “trade secrets”); DeLuxe Box Lunch & Catering Co., Inc. v. Black, 86 Cal. App. 2d 434, 437 (1948) (injunction request over claimed “trade secrets” rejected); Gate-Way, Inc. v. Wilson, 94 Cal. App. 2d 706, 713-14 (1949) (no “trade secrets” where information in public domain and generally known to trade); Bernstein v. Piller, 98 Cal. App. 2d 441, 442 (1950) (plaintiff’s failed complaint alleged misuse of “secret” information); Sketchley v. Lipkin, 99 Cal. App. 2d 849, 854 (1950) (injunction for use of “trade secret” technical information); Dynamic Air Eng’g, Inc. v. Western Design and Mfg. Corp., 101 Cal. App. 2d 770, 770 (1951) (plaintiff’s “trade secrets” claim failed); Gordon v. Schwartz, 147 Cal. App. 2d 213, 217-219 (1956) (customer list injunction action; principles of “trade secret” law reviewed); Mathews Paint Co. v. Seaside Paint & Lacquer Co., 148 Cal. App. 2d 168, 172 (1957) (injunction action; plaintiff’s customer and business information not “secret” and instead “generally known in the business world”); American Alloy Steel Corp. v. Ross, 149 Cal. App. 2d 215, 219-20 (1957) (same); A.B.C. Distrib. Co. v. Distillers Distrib. Corp., 154 Cal. App. 2d 175, 191-92 (1957) (trade secret accusation invalid where plaintiff gave defendant information after relationship ended); Gordon v. Landau, 49 Cal. 2d 690, 694 (1958) (contract barring use of “trade secret” customer information held valid over section 16600 challenge); Fortna v. Martin, 158 Cal. App. 2d 634, 636-37 (1958) (injunction sought for use of alleged “trade secrets and confidential information”); By-Buk Co. v. Printed Cellophane Tape Co., 163 Cal. App. 2d 157, 161 (1958) (trade secret case over technical information); Ingrassia v. Bailey, 172 Cal. App. 2d 117, 124 (1959) (injunction over customer information found to be “an actual trade secret”; contract not void under section 16600); Lloyd Pest Control Co. v. Lopez, 173 Cal. App. 2d 606, 608 (1959) (trade secret injunction request based on customer information rejected under early application of independent derivation principles); State Farm Mut. Auto. Ins. Co. v. Dempster, 174 Cal. App. 2d 418, 425 (1959) (injunction case over “alleged trade secrets” in customer information); Ungar Elec. Tools, Inc. v. Sid Ungar Co., Inc., 192 Cal. App. 2d 398, 400 (1961) (trade secret action over technical information), *overruled on unrelated ground*; Nichols v. Hast, 62 Cal. 2d 598, 601 (1965); American Loan Corp. v. California Commercial Corp., 211 Cal. App. 2d 515, 518 (1963) (customer list case described as one for “unfair use of business secrets”); Whitted v. Williams, 226 Cal. App. 2d 52, 57 (1964) (customer information-based trade secret case); Components for Research, Inc. v. Isolation Prods., Inc., 241 Cal. App. 2d 726, 727 (1966) (trade secret case over technical information); King v. Pac. Vitamin Corp., 256 Cal. App. 2d 841, 846-50 (1967) (customer list case over information described as “trade secrets” and “confidential information”; claim rejected because information publicly available in telephone books and trade directories); Cal Francisco Inv. Corp. v. Vrionis, 14 Cal. App. 3d 318, 320-22 (1971) (trade secret action over customer information found to be nonprotectable because real estate listings were one-off transactions without repeat business); Sinclair v. Aquarius Elec., Inc., 42 Cal. App. 3d 216, 219-22 (1974) (trade secret action brought as contract claim against business partner); Greenly v. Cooper, 77 Cal. App. 3d 382, 390-91 (1978) (customer list trade secret case also making reference to “unfair competition” and “confidential” information to describe the same acts).

federal trade secret cases applying California law.⁵⁷ Many of the early cases used the phrases “trade secret” and “confidential” interchangeably, or together as one phrase, with no apparent distinction between them.

Cases Without Specified Causes of Action

[¶46] Some early cases did not label the cause of action or subject matter at all, or used only the term “confidential information” to denominate the information at issue, but nonetheless applied the same standards as that applied in the trade secret cases.⁵⁸

Common Law Unfair Competition

[¶47] For many decades, common law “unfair competition” was the rubric under which trade secret claims were frequently asserted and discussed. Starting by 1929 and with increasing frequency in the 1940s and into the 1950s, California courts frequently used the phrase as a synonym for trade secret actions.⁵⁹ In the federal courts, most trade secret claims applying California law were called “unfair

⁵⁷ See *Whittaker Corp. v. Execuair Corp.*, 736 F.2d 1341, 1344 (9th Cir. 1984) (claim for “misappropriation of trade secrets”); *Garner-Bare Co. v. Munsingwear, Inc.*, 723 F.2d 707, 714 (9th Cir. 1984) (one of plaintiff’s claims was for “trade secret infringement”); *Forro Precision, Inc. v. Int’l Bus. Machines Corp.*, 673 F.2d 1045, 1049 (9th Cir. 1982) (counterclaim for misuse of technical information styled as misappropriation of trade secrets); *Droeger v. Welsh Sporting Goods Corp.*, 541 F.2d 790, 791 (9th Cir. 1976) (trade secret action over backpack design); *GCA Corp. v. Chance*, 217 U.S.P.Q. (BNA) 718, 719 (N.D. Cal. 1982) (plaintiff raised claim for “unlawful misappropriation of trade secrets”).

⁵⁸ See *Langendorf United Bakeries, Inc. v. Phillips*, 5 Cal. 2d 150, 153 (1936) (customer list injunction case; information described as “valuable information of a confidential character”); *Cornish v. Dickey*, 172 Cal. 120, 121-22 (1916) (injunction in customer list case; no phrases such as “trade secret” appear in the decision); *Nalley’s Inc. v. Corona Processed Foods, Inc.*, 240 Cal. App. 2d 948, 950 (Ct. App. 1966) (customer list injunction case over information described as “confidential information”); *Western Electro-Plating Co. v. Henness*, 180 Cal. App. 2d 442, 450 (Ct. App. 1960) (injunction action for customer information described as “confidential information”), *second appeal*, 196 Cal. App. 2d 564, 566 (Ct. App. 1961) (describing an action on second appeal for “unfair solicitation of plaintiff’s former customers and unfair competition generally”); *MacKenchie Bread Co. v. Huber*, 60 Cal. App. 539, 541-42 (Ct. App. 1923) (customer list injunction case; no title of cause of action given); *Theodore v. Williams*, 44 Cal. App. 34, 38-39 (Ct. App. 1919) (same; defendant had been enjoined from soliciting customers, but found not to have violated injunction); see also *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Corp.*, 407 F.2d 288, 290-91 (9th Cir. 1969) (action over technical information styled as “misappropriation of its confidential business information”).

⁵⁹ See *Aetna Bldg. Maint. Co. v. West*, 39 Cal. 2d 198, 200 (1952) (landmark trade secret decision on solicitation standards and secrecy standards styled as an action for “unfair competition”); *George v. Burdusis*, 21 Cal. 2d 153, 159 (1942) (plaintiffs styled their cause of action “unfair competition” in customer list case, though the decision uses the phrase “trade secrets” to discuss controlling law); *Gloria Ice Cream & Milk Co. v. Cowan*, 2 Cal. 2d 460, 464-65 (1935) (defendant used “unfair tactics” in unclear decision where court held that defendant would be enjoined even if customer identities were

competition” causes of action.⁶⁰ At the same time, California courts appear not to have applied any different legal standard to a trade secret-type claim if the claim was called “unfair competition.” Rather,

not “trade secrets”; court either allowed injunction for use of nonsecret information, or, more likely, found that defendant’s use of “whatever information he had acquired as its agent during years of service” went beyond customer names without specifying what that information was); *Fidelity Appraisal Co. v. Federal Appraisal Co.*, 217 Cal. 307, 309 (1933) (use of former employer’s information described by plaintiff as “unfair competition”; case remanded on other issues); *Pasadena Ice Co. v. Reeder*, 206 Cal. 697, 703-05 (1929) (customer list injunction case using phrases “unfair competition,” “confidential information,” and “business secrets”); *Balboa Ins. Co. v. Trans Global Equities*, 218 Cal. App. 3d 1327, 1345 n.22 (Ct. App. 1990) (unfair competition action over computer and customer information; facts arose in 1984 before UTSA enacted so case explicitly proceeded under common law rather than statute); *Sammons & Sons v. Ladd-Fab, Inc.*, 138 Cal. App. 3d 306, 312-13 (Ct. App. 1982) (unfair competition claim premised on use of nonsecret information in marketed products failed); *Rigging Int’l Maint. Co. v. Gwin*, 128 Cal. App. 3d 594, 598 (Ct. App. 1982) (failed action of alleged misuse of confidential information styled as breach of contract, unfair competition, and tortious interference); *Klamath-Orleans Lumber, Inc. v. Miller*, 87 Cal. App. 3d 458, 461 (Ct. App. 1978) (customer list action styled as “unfair business competition”); *Peerless Oakland Laundry Co. v. Hickman*, 205 Cal. App. 2d 556, 558-59 (Ct. App. 1962) (customer list injunction case described as involving “unfair competition” principles regarding “confidential information”); *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279, 281 (Ct. App. 1962) (action over technical trade secrets brought as “unfair competition” claim; trade secret principles used to reject allegations); *Southern Cal. Disinfecting Co. v. Lomkin*, 183 Cal. App. 2d 431, 435 (Ct. App. 1960) (customer list action described as one for “unfair solicitation of customers and unfair competition”); *Ojala v. Bohlin*, 178 Cal. App. 2d 292, 296 (Ct. App. 1960) (“unfair competition” case alleging misuse of gun holster design disclosed in confidence and described as “not public property”); *Paraco, Inc. v. Owens*, 166 Cal. App. 2d 777, 778-82 (Ct. App. 1959) (“action to restrain unfair competition” over customer information with reference to “trade secrets” law; injunction denied because “information was not confidential and was readily accessible to competitors”); *Reid v. Mass Co.*, 155 Cal. App. 2d 293, 301 (Ct. App. 1957) (injunction action regarding customer information; court described analysis as “what constitutes unfair competition by a former employee” but also referring to “secrets”); *Alex Foods, Inc. v. Metcalfe*, 137 Cal. App. 2d 415, 424 (Ct. App. 1955) (describing issue in customer solicitation case as whether former employee engaged in “unfair competition,” but then discussing “trade secret” rules and rejecting claim based on wholesaler status of customers at issue); *Levine v. E. A. Johnson & Co.*, 107 Cal. App. 2d 322, 323 (Ct. App. 1951) (“unfair competition action” for use of alleged “trade secrets” failed); *Matzen v. Horwitz*, 102 Cal. App. 2d 884, 886-87 (Ct. App. 1951) (customer-solicitation case; action for “unfair competition” regarding “confidential knowledge”); *Scutt v. Bassett*, 86 Cal. App. 2d 373, 375-77 (Ct. App. 1948) (unfair competition claim rejected where, among other things, plaintiff’s design was admittedly nonsecret); *California Intelligence Bureau v. Cunningham*, 83 Cal. App. 2d 197, 199-201 (Ct. App. 1948) (“unfair trade practices” case regarding “plaintiff’s methods, confidential information and secrets”).

⁶⁰ See *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 402 (9th Cir. 1982) (plaintiff’s trade secret claim styled as “unfair competition”); *Hollingsworth Solderless Terminal Co. v. Turley*, 622 F.2d 1324, 1328 (9th Cir. 1980) (trade secret portion of claim styled as “unfair competition” over use of “confidential information”); *Walker v. Univ. Books, Inc.*, 602 F.2d 859, 861 (9th Cir. 1979) (trade secret claim styled as “unfair competition resulting from misappropriation of trade secrets”); *Pachmayr Gun Works, Inc. v. Olin Mathieson Chem. Corp.*, 502 F.2d 802, 803 (9th Cir. 1974) (trade secret portion of plaintiff’s claim styled as “unfair competition”), *superseded by statute as recognized in* *Transgo, Inc. v. Ajac Transmission Parts Corp.*, 768 F.2d 1001, 1012-13 (9th Cir. 1985); *Mayview Corp. v. Rodstein*, 480 F.2d 714, 718-19 & n.7 (9th Cir. 1973) (plaintiff’s “unfair competition” claim rejected where trial court failed to determine what “trade secret or confidential information” was at issue); *Dekar Indus., Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304, 1305 (9th Cir. 1970) (plaintiff’s “unfair competition” action based on alleged technical “trade secrets”); *Bowser, Inc. v. Filters, Inc.*, 398 F.2d 7, 8-10 (9th Cir. 1968) (plaintiff’s “unfair competition” claim based on “trade secrets” accusations); *Engelhard Indus., Inc. v. Research Instrumental Corp.*, 324 F.2d 347, 352 (9th Cir. 1963) (using both “unfair competition” and “trade secret” terminology to analyze claim over technical information); *Rohr Aircraft Corp. v. Rubber Teck, Inc.*, 266 F.2d 613, 620 (9th Cir. 1959) (plaintiff’s “unfair competition” claim based in part on “trade secret” allegation); *Digital Dev. Corp. v. Int’l Memory Sys.*, 185 U.S.P.Q. (BNA) 136, 137-38 (S.D. Cal. 1973) (“unfair competition” counterclaim based on “trade secret” accusations); *Knudsen Corp. v. Ever-Fresh Foods, Inc.*, 336 F. Supp. 241, 243-44 (C.D. Cal. 1971) (plaintiff complained of “competitive business conduct which is unfair” based on information alleged to be “confidential or trade secrets,” but pricing and marketing strategies were generally

common law trade secret claims were understood to fall within the broader conceptual category of unfair business practices, a category which also included conceptually distinct claims relating to palming off and similarly deceitful conduct, discussed below.

Breach of Fiduciary Duty

[¶48] Another common theory of trade secret misappropriation was breach of fiduciary duty – particularly when a fiduciary misused the principal’s nonpublic information before resignation to start or join a competing business.⁶¹ One of the pre-UTSA period’s most famous decisions, *Bancroft-Whitney Company v. Glen*, was a fiduciary duty case.⁶² Using inconsistent terminology but apparently a single legal standard, the court found in one section of the ruling that the fiduciary misused certain “confidential” information, and found in another section that several defendants had not misappropriated “trade secrets.”

known and customers were listed in trade journals); *Plant Indus., Inc. v. Coleman*, 287 F. Supp. 636, 637 (C.D. Cal. 1968) (plaintiff sought to stop defendant from “unfairly competing” with “trade secrets”); *Architectural Models, Inc. v. Neklason*, 264 F. Supp. 312, 317 (N.D. Cal. 1967), *aff’d*, 397 F.2d 405 (9th Cir. 1968) (plaintiff “unfair competition” claim based on “trade secret” allegations over technical information); *Blastcrete Equip. Co., v. Ridley & Co.*, 174 F. Supp. 277, 278-79 (S.D. Cal. 1959) (plaintiff’s “unfair competition” claim based on “trade secrets” accusation); *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250, 255-57 (S.D. Cal. 1958), *aff’d*, 283 F.2d 695 (9th Cir. 1960) (using terms “unfair competition” and “trade secrets” and “breach of confidence” to analyze claims against former employees for alleged use of technical information); *National Welding Equip. Co. v. Hammon Precision Equip. Co.*, 165 F. Supp. 788, 795-96 (N.D. Cal. 1958) (plaintiff’s “unfair competition” claim based on “trade secrets” allegation rejected because information generally known to the trade).

⁶¹ See *Bancroft-Whitney Co. v. Glen*, 64 Cal. 2d 327, 330-54 (1966) (action for “breach of fiduciary duty” and “unfair competition” where officer, among other things, used information about coworkers found “not matters of common knowledge” before resigning for next employer; court also found that no employee of the plaintiff had “disclosed or used any trade secret or confidential information of plaintiff,” in a separate section of the decision regarding information about allegedly secret publications); *Diodes, Inc. v. Franzen*, 260 Cal. App. 2d 244, 249-50 (Ct. App. 1968) (cause of action described as one for fraud based on breach of fiduciary duty, in turn premised on trade secret misappropriation, nondisclosure of a plan to leave, and solicitation of coworkers); *Sequoia Vacuum Sys. v. Stransky*, 229 Cal. App. 2d 281, 283 (Ct. App. 1964) (action for “unfair competition and breach of fiduciary duty” alleging that officer used “trade secrets” while still employed to start competing entity), *superseded by statute as recognized in Cooper v. Westbrook Torrey Hills*, 81 Cal. App. 4th 1294, 1299 (Ct. App. 2000); *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791, 799 (Ct. App. 1962) (fiduciary duty case where officer used technical information to start competing business while still employed; rejecting officer’s argument that information was nonsecret by citing a breach of confidence case about reposing confidence in a person). A post-UTSA fiduciary duty case where UTSA preemption was not raised is *David Welch Co. v. Erskine & Tully*, 203 Cal. App. 3d 884, 888-90 (Ct. App. 1988) (collection agency sued former law firm for use of confidential information under fiduciary duty theory).

⁶² See supra note 60.

Breach of Confidence

[¶49] One pre-UTSA theory for the misuse of nonpublic information had a life of its own, and developed for the most part separately from trade secret law. That theory has usually been called “breach of confidence,” but has sometimes also been labeled “implied in fact contract” or “unjust enrichment.” In the typical fact pattern – which almost always involves the entertainment industry – an individual disclosed a confidential script or idea for a movie or television show to a more powerful studio or agent, and then alleges that the defendant used the idea.⁶³ Some federal cases applying California law have also addressed this cause of action.⁶⁴ A major distinction is that breach of

⁶³ See *Desny v. Wilder*, 46 Cal. 2d 715, 736-38 (1956) (plaintiff’s claim that he submitted screenplay concept to defendant permitted to proceed under implied contract theory); *Hollywood Motion Picture Equip. Co., v. Furer*, 16 Cal. 2d 184, 188-89 (1940) (plaintiff disclosed invention to defendant, who orally agreed to exclusive manufacture agreement; court held that plaintiff need not rely on secrecy of the invention because “[w]here a bailee of an article has accepted it under definite terms to hold it and use it for the benefit of the bailor, a confidence has been reposed which should remain inviolate.” “It follows that, even though plaintiffs alleged inventions were of the public domain, the complaint has stated a cause of action by alleging the appropriation of the use by defendant of plaintiff’s said patterns”); *Ralph Andrews Prod., Inc. v. Paramount Pictures Corp.*, 222 Cal. App. 3d 676, 685-86 (Ct. App. 1990) (in what appears to be a type of breach of confidence case involving an idea disclosed to a television producer in 1983, court noted the enactment of the UTSA in 1985 and explained that pre-UTSA law would apply to pre-UTSA facts); *Rokos v. Peck*, 182 Cal. App. 3d 604, 617-20 (Ct. App. 1986) (breach of confidence claimed styled as implied contract and unjust enrichment in idea for script; court noted that the cause of action was not well defined in California law); *Tele-Count Eng’rs, Inc. v. Pacific Tel. & Tel. Co.*, 168 Cal. App. 3d 455, 462-65 (Ct. App. 1985) (affirming jury instructions requiring finding of substantial secrecy on claim for breach of confidence; unclear dicta to the effect that information subject to breach of confidence claim need not be a trade secret); *Klekas v. EMI Films, Inc.*, 150 Cal. App. 3d 1102, 1114-15 (Ct. App. 1984) (failed quasi contract claim based on alleged disclosure of unpublished novel to screenwriter); *Faris v. Enberg*, 97 Cal. App. 3d 309, 316-25 (Ct. App. 1979) (in most detailed discussion of breach of confidence theory, claim that defendant appropriated plaintiff’s idea for television show failed where insufficient evidence of disclosure in confidence); *Fink v. Goodson-Todman Enters. Ltd.*, 9 Cal. App. 3d 996, 1016 (Ct. App. 1970) (overruling demurrer to breach of confidence claim alleging misuse of television show ideas disclosed in confidence; case primarily about common law copyright); *Blaustein v. Burton*, 9 Cal. App. 3d 161, 166 (Ct. App. 1970) (plaintiff alleged “breach of confidential relationship” in addition to contract and unjust enrichment claims in claims that defendant took ideas disclosed in confidence about a Shakespeare adaptation); *Davies v. Krasna*, 245 Cal. App. 2d 535, 549-50 (Ct. App. 1966) (implied in fact contract theory allowed where claim was that writer disclosed idea to motion picture company in confidence); *Heckenkamp v. Ziv Television Programs, Inc.*, 157 Cal. App. 2d 293, 299-300 (Ct. App. 1958) (plaintiff called claim “disclosure and use of unpublished ideas and information revealed in confidence” and described it as “breach of confidence,” but lost because he did not own information disclosed); *Thompson v. California Brewing Co.*, 150 Cal. App. 2d 469, 474 (Ct. App. 1957) (plaintiff alleged oral contract, implied contract, and “violation of confidence” where plaintiff disclosed advertising idea; court noted that “[t]his is, we think, a good deal like some aspects of the law relating to trade secrets”).

⁶⁴ See *Entm’t Research Group, Inc. v. Genesis Creative Group, Inc.*, 122 F.3d 1211, 1226-27 (9th Cir. 1997) (breach of confidence claim based on alleged violation of confidentiality contract, court noted that information must be “confidential” but need not be protectable “as a trade secret” without explaining what the difference would be, if any, between

confidence appears not to have been used to target former employees, in contrast with pre-UTSA trade secret-type cases.

[¶50] Some breach of confidence cases have stated that the claim is distinct from trade secrecy requirements, suggesting that there is a different standard for measuring the claimed confidentiality of “confidential” information.⁶⁵ With one additional case discussed below, these are the only California cases suggesting that there is a standard for “confidential” information that differs from the trade secrecy standard. At the same time, however, the breach of confidence cases have required a showing of confidentiality for the information at issue, without explaining how that standard would be measured any differently than it would under a trade secret claim.⁶⁶ We will discuss the logical problems with this attempted distinction below, in reaching the conclusion that breach of confidence cases are conceptually identical to trade secret cases and should be litigated exclusively through the UTSA.⁶⁷

Tortious Interference

[¶51] In the pre-UTSA period, litigants rarely used a tortious interference theory to press trade secret accusations, but there are some cases applying the claim to trade secret fact patterns.⁶⁸ The UTSA

confidentiality and secrecy); *Whitfield v. Lear*, 751 F.2d 90, 92-93 (2d Cir. 1984) (applying California implied contract concept where plaintiff alleged disclosure of television script to defendant).

⁶⁵ See *Hollywood Motion Picture Equip. Co.*, 16 Cal. 2d at 188-89. Two such cases came after the UTSA without addressing the statute. See *Entm't Research Group, Inc.*, supra note 64 at 1227; *Tele-Count Eng'rs, Inc.*, 168 Cal. App. 3d at 462-63.

⁶⁶ See *Tele-Count Eng'rs, Inc.*, 168 Cal. App. 3d at 462-63; *Faris*, 97 Cal. App. 3d at 323.

⁶⁷ This analysis has omitted discussion of common law copyright cases, which were somewhat similar to breach of confidence cases and have been rendered obsolete by the 1976 Copyright Act. See, e.g., *Williams v. Weisser*, 273 Cal. App. 2d 726 (1969) (unauthorized publication of classroom lecture notes).

⁶⁸ See *Ernst & Ernst v. Carlson*, 247 Cal. App. 2d 125, 129-30 (Ct. App. 1966) (former employee sued for interference with plaintiff's business relations by, among other things, disclosing confidential information to one of plaintiff's customers to harm plaintiff; case contains confusing statements quoting non-California case for concept that confidential information need not be a trade secret to be protectable, but digression appears to be dicta); *Show Mgmt. v. Hearst Publ'g Co.*, 196 Cal. App. 2d 606, 619-21 (Ct. App. 1961) (plaintiff alleged tortious interference based on several theories, including use of “confidential information”; identities of trade show exhibitors were publicly disclosed and thus allegation rejected); see also *Cambridge Filter Corp. v. Int'l Filter Co.*, 548 F. Supp. 1301, 1305-07 (D. Nev. 1982) (in action under California law, plaintiff alleged trade secret claims under theories of “wrongful use of misappropriated trade secrets, interference with

includes inducing a breach of a confidentiality contract as a basis for a cause of action, and thus it would appear that a tortious interference claim based on that accusation should be preempted.⁶⁹

Conspiracy

[¶52] Likewise, trade secret plaintiffs do not appear to have frequently used conspiracy claims as alternative trade secret claims.⁷⁰

B. Other Tort Claims Not Used for Trade Secret Theories in the Pre-UTSA Period

[¶53] Given the frequency with which trade secret plaintiffs allege alternative trade secret claims under labels such as conversion, common law misappropriation, and statutory unfair competition under Business & Professions Code section 17200, it may surprise some to learn that historically California trade secret plaintiffs did not proceed under these theories.

Conversion

[¶54] A conversion claim is based upon the wrongful appropriation of tangible property.⁷¹ Because trade secrets are intangible property, California courts historically never allowed trade secret-

prospective economic advantage and unfair competition”; court treated three claims as one for analysis, holding that injunction for alleged tortious interference would not lie if information at issue was not “confidential”).

⁶⁹ See CAL. CIV. CODE § 3426.1(a) (Deering 2005) (noting that “improper means” includes “inducement of a breach of a duty to maintain secrecy”).

⁷⁰ See *Tri-Tron Int'l v. Velto*, 525 F.2d 432, 433 (9th Cir. 1975) (plaintiff alleged “improper use of a trade secret and with engaging in a civil conspiracy to improperly utilize the secret,” but conspiracy claim rejected as duplicative).

⁷¹ See *Melchior v. New Line Prods., Inc.*, 106 Cal. App. 4th 779, 792 (Ct. App. 2003) (citing *Dielsi v. Falk*, 916 F. Supp. 985, 992 (C.D. Cal. 1996)) (stating the rule). Dicta in a 1996 case mistakenly suggests that trade secrets could be the subject of a conversion action, but the text cites a securities case and does not further analyze the issue. See *Thrifty-Tel, Inc. v. Bezenek*, 46 Cal. App. 4th 1559, 1565 (Ct. App. 1996) (citing a securities case for incorrect dicta statement that conversion can lie for trade secrets). Likewise, a recent Ninth Circuit case that created a new form of conversion for Internet domain squatting included very broad language suggesting that California would permit conversion actions for intangible property, but this generalized assertion is inconsistent with the specific trade secret decisions cited below. See *Kremen v. Cohen*, 337 F.3d 1024 (9th Cir. 2003).

type claims under a conversion theory.⁷² Thus, while courts have rejected conversion claims under an UTSA preemption theory,⁷³ a more fundamental objection would be that California litigants were never allowed to use the conversion claim to allege misuse of nonpublic information in the first place. For that reason, there is no such claim for which an UTSA preemption analysis would be necessary.

Statutory Unfair Competition Under Section 17200

[¶55] California’s unfair competition statute – Business & Professions Code section 17200 – is often pleaded in complaints as a sort of catch-all tort. As with conversion, trade secret plaintiffs often allege a section 17200 claim to repeat the underlying trade secret accusation. It appears that no published case before the UTSA validates the use of section 17200 for trade secret claims. In the short period between the enactment of the current version of the unfair competition statute in 1976 and the enactment of the UTSA in 1985, section 17200 was – at least in the published cases – not a vehicle for trade secret accusations, and certainly not a theory for alternative claims about information deemed “less than a trade secret.”⁷⁴ Because the limited remedies available under a section 17200 action – an injunction and restitution of property – are also available under the UTSA,⁷⁵ and because section 17200

⁷² See *Adkins v. Model Laundry Co.*, 92 Cal. App. 575, 583 (Ct. App. 1928) (following *Olschewski* in customer list case); *Olschewski v. Hudson*, 87 Cal. App. 282, 286 (Ct. App. 1927) (early “trade secrets” case involving customer list; conversion and trover claims rejected as theories of action).

⁷³ See *Callaway Golf Co. v. Dunlop Slazenger Group Americas, Inc.*, 318 F. Supp. 2d 216, 219-20 (D. Del. 2004) (applying the California UTSA).

⁷⁴ It should be noted that it is possible that general pre-UTSA unfair competition cases were brought under the predecessor statute to section 17200 without the published opinion making that clear. In addition, at least one non-California case believed that section 17200 could be a basis for a trade secret-type claim, but its holding appears based on a mistaken citation. See *Tennant Co. v. Advance Mach. Co.*, 355 N.W.2d 720, 725 (Minn. Ct. App. 1985) (Minnesota court applying California pre-UTSA trade secret law held that section 17200 supported a trade secret claim, but made assertion based on citation of 1968 non-statutory case describing trade secret claim as “unfair competition”; court may not have recognized the difference between California statutory unfair competition and pre-UTSA common law unfair competition trade secret claims).

⁷⁵ See CAL. CIV. CODE §§ 3426.2 (injunctive relief), 3426.3(a) (recovery of defendant’s unjust enrichment) (*Deering* 2005).

appears not to have been a recognized means to raise alternative trade secret-type theories, we will conclude below that the UTSA precludes such claims.⁷⁶

Common Law Misappropriation

[¶56] The *Accuimage* case discussed above found a claim for common law misappropriation preempted where the plaintiff attempted to duplicate its trade secret accusation. Because the plaintiff's claim clearly sought to duplicate its UTSA claim, the court's preemption reasoning was sound. At the same time, there is a more fundamental objection to the use of a common law misappropriation claim for a trade secret-type theory that the *Accuimage* court could have applied, similar to the problem with conversion claims. Specifically, the tort of common law misappropriation was *not* a vehicle for a trade secret claim in the pre-UTSA period, with one exception where a court appears to have applied the wrong theory to the claim presented.⁷⁷

[¶57] More importantly, common law misappropriation was once a valid theory recognized by the United States Supreme Court, but later Supreme Court decisions implicitly overruled it, and it thus is no longer good law. The elements of common law misappropriation are the plaintiff's investment in property, the defendant's non-consensual appropriation of that property at little or no cost, and damages.⁷⁸ The doctrine stems from an early problem now covered by copyright law where a party would copy a newspaper's articles without permission. This gave rise to the so-called "hot news"

⁷⁶ Litigants sometimes argue that because the UTSA "does not supercede" statutes "relating to" or "regulating" trade secrets, see CAL. CIV. CODE § 3426.7(a) (Deering 2005), this means that the Legislature meant to allow parties to bring duplicative trade secret claims under section 17200. The premise of this argument is incorrect; at no point between 1976 and 1985 (when section 17200 and the UTSA were respectively enacted) was section 17200 a statute that related to or regulated trade secrets.

⁷⁷ See *Balboa Ins. Co. v. Trans Global Equities*, 218 Cal. App. 3d 1327, 1345 n.22 (Ct. App. 1990) (purported unfair competition action where court quoted the elements of common law misappropriation for pre-UTSA trade secret-type fact pattern).

⁷⁸ See *United States Golf Ass'n v. Arroyo Software Corp.*, 69 Cal. App. 4th 607, 618 (Ct. App. 1999) (listing elements for "common law misappropriation" in a case about the general features of a computerized golf game). This 1999 case, like the 1990 Self-Directed Placement discussed below, seems to have missed the federal Supremacy Clause authorities described in the *Sammons*, *infra* note 80.

doctrine, which allowed a tort claim for common law misappropriation in such narrow circumstances.⁷⁹ The theory rarely appeared in the published case law, and a 1982 California decision thoughtfully distinguished it from trade secret-related accusations and explained how Supreme Court rulings that void state laws seeking to prohibit the use of public domain information implicitly overruled the common law misappropriation theory.⁸⁰ In summary, common law misappropriation is not so much preempted by the UTSA as invalid as to claims alleging the misuse of nonpublic information, and bad law for claims alleging the misuse of admittedly public domain information.

Common Law Unfair Competition Claims for Deceitful Business Practices

[¶58] As noted above, pre-UTSA trade secret cases sometimes proceeded under a common law “unfair competition” label. That label shared little more than a name with the other variety of common law “unfair competition,” which still exists today. A second, distinct form of common law unfair competition is a tort claim that alleges that the defendant passed off the plaintiff’s goods or services as its own, or otherwise used deceit to obtain a competitor’s business trade.⁸¹ Trade secret plaintiffs sometimes use this label in an effort to plead around the UTSA, perhaps confusing the pre-UTSA trade secret version of unfair competition with this second, unrelated tort claim. As with common law

⁷⁹ See *Int’l News Serv. v. Associated Press*, 248 U.S. 215, 235-36 (1918).

⁸⁰ See *Sammons & Sons v. Ladd-Fab, Inc.*, 138 Cal. App. 3d 306, 312-13 (Ct. App. 1982) (section 17200 unfair competition claim premised on use of nonsecret information in marketed products failed based on preemptive effect of federal cases). The Sammons court explained that two 1960s cases that voided state laws seeking to prohibit the use of public domain information operated to overrule *International News*. See *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) (information not covered by a patent could not form basis for state law unfair competition claim); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 228-32 (1964) (same); *Columbia Broad. Sys., Inc. v. DeCosta*, 377 F.2d 315, 319 (1st Cir. 1967) (noting that Sears and Compco acted to overrule the unfair competition theory of *International News*); see also *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 157-60 (1989) (voiding state statute that prohibited the use of unpatented, public information under the Supremacy Clause).

⁸¹ See *Cel-Tech Commc’ns, Inc. v. Los Angeles Cellular Tel. Co.*, 20 Cal. 4th 163, 193 (1999) (Kennard, J., concurring and dissenting) (dissent includes historical description noting that common law unfair competition is for fact patterns where a defendant passes off the plaintiff’s goods or services as its own, or otherwise uses fraud to obtain a business rival’s trade); *American Philatelic Soc’y v. Claibourne*, 3 Cal. 2d 689, 697-99 (1935) (example of a common law unfair competition claim involving deceitful sales); *Weinstock, Lubin & Co. v. Marks*, 109 Cal. 529, 533-34 (1895) (same where defendant deceitfully opened a store closely resembling the plaintiff’s store to confuse customers).

misappropriation, this tort appears from the published cases not to have been used for trade secret-type cases before the UTSA.⁸²

Penal Code Claims for Stolen Property

[¶59] The author is aware of two attempts in 2005 to plead around the UTSA through a section 17200 claim with an underlying Penal Code section 496 claim – the criminal statute for certain categories of stolen property. No pre-UTSA cases reflect such a theory, and in any event the statute does not mention trade secrets.⁸³ Because there is already a separate criminal statute for trade secret theft, using section 496 for a trade secret claim seems inconsistent with legislative intent.

C. Aberrational Cases Before and After the UTSA

[¶60] Not all California trade secret-type cases applied the same uniform test for secrecy. Even putting the breach of confidence cases with their distinct entertainment industry fact patterns to the side, a small minority have applied tests or made dicta statements that were inconsistent with the vast majority of trade secret-type cases. For example, one 1931 customer list trade secret case allowed a claim despite the defendant's argument that the allegedly secret customers constituted half the population of the district in question.⁸⁴ While this case did not explicitly seek to apply an alternative legal standard for testing secrecy, its ruling expands the concept of secrecy to extreme lengths, almost amounting to an implied noncompetition agreement with the plaintiff.

[¶61] In similar fashion, a well-known 1985 case that purportedly applied section 16600 and trade secret law to rule that contracts barring former employees from soliciting their former co-workers

⁸² One can imagine a situation where a defendant misappropriates a plaintiff's trade secrets, and separately attempts to pass off its goods or services as those of the plaintiff or otherwise misleads customers to take the plaintiff's business. In that narrow context, it is possible that a trade secret claim and a common law unfair competition claim could be pleaded separately in the same lawsuit.

⁸³ See CAL. PENAL CODE §§ 496 (stolen property), 499c (theft of trade secrets) (Deering 2005).

⁸⁴ See Dairy Dale Co., supra note 56 at 345 (customer list injunction case described as a "trade secrets" theory; unsound decision allowed secrecy in half the population of the districts in question).

for a year are valid.⁸⁵ The case implicitly assumed that the identity and general skills of employees are trade secrets of their employees and thus subject to a valid restrictive covenant – a questionable proposition that is logically inconsistent with other section 16600 causes that tie the legality of solicitation to the trade secrecy of the party to be solicited.⁸⁶

[¶62] Another early decision that appears on first glance to have penalized a former employee for using nonsecret information may in fact have found that the defendant used other customer-related information that was secret – the ruling is simply unclear.⁸⁷ To the extent it permitted a trade secret violation based on nonsecret information, it would clearly be the extreme outlier among California cases. A 1966 decision suggested in a dicta digression that claims are available for information that is confidential but not a trade secret, but cited non-California authority, did not consider section 16600, and did not suggest how the test for secrecy would differ for “confidential” information versus “secret” information.⁸⁸

[¶63] Finally, one case between businesses found a breach where a defendant corporation used apparently nonsecret information after a license to use the information expired.⁸⁹ This case is in some sense outside the scope of this Article; it does not involve former employees, where section 16600

⁸⁵ See *Loral Corp. v. Moyes*, 174 Cal. App. 3d 268 (Ct. App. 1985).

⁸⁶ See *Thompson v. Impaxx, Inc.*, 113 Cal. App. 4th 1425, 1429-32 (Ct. App. 2003) (collecting earlier, similar cases; voiding customer nonsolicitation clause in employment contract to the extent it barred contacts with nonsecret customers).

⁸⁷ See *Gloria Ice Cream & Milk Co. v. Cowan*, 2 Cal.2d 460, 464-65 (1935) (defendant used “unfair tactics” in unclear decision where court held that defendant would be enjoined even if customer identities were not “trade secrets”; court either allowed injunction for use of nonsecret information, or found that defendant’s use of “whatever information he had acquired as its agent during years of service” went beyond customer names without specifying what that secret information was).

⁸⁸ See *Ernst & Ernst*, supra note 68 at 129-30 (former employer sued former employee for interference with plaintiff’s business relations by, among other things, disclosing confidential information to one of plaintiff’s customers to harm plaintiff; case contains confusing statements quoting a non-California case for concept that confidential information need not be a trade secret to be protectable, but digression appears to be dicta).

⁸⁹ See *King v. Gerold*, 109 Cal. App. 2d 316, 318-19 (Ct. App. 1952) (party barred from violating license agreement by manufacturing house trailer design after expiration of contract; unclear if information was patented, and no analysis of whether anything about the information was non-public or not).

would void an employment contract barring use of nonsecret information. It was also a contract case where two businesses expressly reached agreement regarding the use of particular information. The UTSA does not preempt contract claims, and if two businesses negotiate at arm's length and agree in writing that one will not use an item of nonsecret information, there is little policy reason to oppose the validity of such a contract.⁹⁰

[¶64] In turn, several federal cases, particularly after the UTSA's 1985 enactment, have permitted alternative tort claims – for the most part without ever considering whether such claims were truly valid under California law, or whether they were preempted by the UTSA. One such case contains two clear mistakes of law. In *Self-Directed Placement Corporation v. Control Data Corporation*, the Ninth Circuit stated that California permits a common law unfair competition claim with a standard different from trade secret law – without stating what that difference would be.⁹¹ The court, however, cited the 1990 state court *Balboa* decision as authority for that proposition, apparently without noticing that the *Balboa* court held that the reason it did not apply the UTSA was that its fact pattern arose before 1985. The Ninth Circuit, in other words, looked at the post-UTSA date of the decision to assume that the common law claim survived the UTSA, and missed *Balboa's* explanatory footnote. As a second mistake, *Self-Directed Placement* also missed the 1982 California *Sammons & Sons v. Ladd-Fab*,

⁹⁰ In the author's experience, Silicon Valley companies frequently enter into confidentiality contracts that avoid the risk that one side cannot use information that is nonsecret. Almost all such contracts provide that information in the public domain (or that later enters the public domain without the fault of the receiving party) is exempt from the contract's confidentiality clause. Thus, cases like *King* seem unlikely to arise again.

A related question is that if the UTSA does not preempt contract claims for misuse of non-public information, what test would be applied in such a contract case to analyze whether the information was truly nonpublic? It is difficult to imagine a test any different from that applied under the UTSA. No published case has addressed this question.

⁹¹ See *Self Directed Placement Corp v. Control Data Corp.*, 908 F.2d 462, 466-67 (9th Cir. 1990).

Incorporated case, which explained why the theory the Ninth Circuit referred to was based on a federal theory of unfair competition overruled by subsequent United States Supreme Court decisions.⁹²

[¶65] An unpublished federal slip opinion from 2004 also applied a clearly mistaken ruling regarding UTSA preemption. In *PostX Corporation v. Secure Data in Motion*, the court had already granted summary judgment in favor of the defendant on the plaintiff’s trade secret claim.⁹³ The plaintiff uncovered new evidence and made a new accusation of misuse of nonpublic information, this time under an “unfair competition” label. The defendant moved to bar the claim under the doctrine of UTSA preemption. The court refused to apply the doctrine, albeit without a detailed analysis of the UTSA or any basis for its ruling. It may have been motivated to save the plaintiff’s claim rather than bar it on technical grounds, but one wonders why the court did not simply permit the plaintiff to amend its complaint to allege a new UTSA claim rather than doing violence to the concept of UTSA preemption.

[¶66] Another recent federal slip opinion likewise issued a somewhat confusing ruling on UTSA preemption. In *Memry Corporation v. Kentucky Oil Technology, N.V.*, the court found, following other recent rulings, that the plaintiff’s alternative tort claims for the misuse of “confidential” information were all preempted by the UTSA.⁹⁴ At the same time, it permitted a tort claim for the defendant’s use of admittedly nonsecret information – the plaintiff’s published patent application. The court did not consider the Supreme Court cases or *Sammons* in permitting a state law tort claim for admittedly nonsecret information.

⁹² See *Sammons*, supra note 80 at 309-13 (dismissing plaintiff’s unfair competition claim based on admittedly nonsecret information as a matter of federal preemption, noting that 1960s United States Supreme Court cases had implicitly overruled the older theory of common law misappropriation).

⁹³ See 2004 WL 2663518, *3 (N.D. Cal. Nov. 20, 2004).

⁹⁴ See *Memry Corp.*, supra note 38 at *1.

[¶67] Finally, two other Ninth Circuit decisions contained a plaintiff’s alternative tort claims for unfair competition, without any discussion of UTSA preemption or section 16600.⁹⁵ Trade secret plaintiffs often cite these decisions as authority for the proposition that alternative tort claims are not preempted. However, California interpretive law provides that cases that do not address a proposition (here, UTSA preemption) do not provide authority regarding that proposition.⁹⁶ One recent district court ruling on UTSA preemption noted this issue when a plaintiff cited one of these two circuit decisions.⁹⁷

[¶68] These cases are clearly a minority among the vast majority of California trade secret-type claims. Each suffers from a failure to fully consider relevant law and public policy; some contain clear mistakes of law. Perhaps most important, none of these cases actually defined any standard for a backup claim for information “not rising to the level of a trade secret” when a trade secret-type claim failed. Even those courts which assert or imply that California law recognizes such a concept have never defined how such an alternative claim would be defined and what secrecy test would be applied to the information at issue.

IV. What Should be Preempted and Why

[¶69] Sections I and II posed the question of what tort claims alleging misuse of nonpublic information are preempted by California’s Uniform Trade Secrets Act, and whether the law recognizes a claim for “confidential information not rising to the level of a trade secret.” To answer that question,

⁹⁵ See *City Solutions, Inc. v. Clear Channel Commc’ns, Inc.*, 365 F.3d 835, 842 (9th Cir. 2004) (allowing common law misappropriation claim based on apparently nonsecret information without discussion of preemption or section 16600); *Imax Corp. v. Cinema Techs., Inc.*, 152 F.3d 1161 (9th Cir. 1998) (also allowing common law unfair competition claim under similar circumstances).

⁹⁶ See *People v. Frazier*, 128 Cal. App. 4th 807, 825 (Ct. App. 2005) (stating rule that cases do not provide authority for propositions not addressed); *Mares v. Baughman*, 92 Cal. App. 4th 672, 679 (Ct. App. 2001) (same).

⁹⁷ See *Digital Envoy, Inc.*, supra note 42 at 1035 (noting that “the Ninth Circuit did not address the preemption issue in *City Solutions v. Clear Channel Communications, Inc.*”).

Section III reviewed the complete history of such tort claims in California before the UTSA was enacted to find out if pre-UTSA law ever permitted alternative claims for nonsecret information, or for information deemed “confidential but not rising to the level of a trade secret.” Section II also reviewed the public policy favoring employee mobility promoted by Business & Professions Code section 16600, and the manner in which courts have used that statute to bar attempts to penalize departing employees for using nonsecret information.

[¶70] With this body of jurisprudence in mind, we can now propose a theory of what tort claims Civil Code 3426.7 should preempt. In summary, this Article proposes that California’s UTSA is rightly read to preempt all tort claims alleging the misuse of nonpublic, commercial information. At the same time, tort claims regarding personal, noncommercial information should not be preempted. Courts should ignore how a party subjectively labels its cause of action, and look to its substance. In turn, arguments that tort claims can proceed under a theory of “confidential information not rising to the level of a trade secret” should be rejected, for several reasons.

[¶71] To begin a preemption analysis, courts should ask whether the plaintiff’s proposed alternative tort claim was a claim actually used for trade secret-type claims before the UTSA. As described in detail above, causes of action such as conversion were not available in the first place for trade secret-type claims, and thus should fail even before reaching the UTSA preemption question. Put differently, a litigant should not be able to label a claim with a title never used for trade secret actions in order to plead around the UTSA.

[¶72] In a similar vein, there is one category of California tort claims involving confidential information that the UTSA should not be read to preempt – torts alleging the misuse of noncommercial,

personal private information.⁹⁸ The UTSA expressly includes only commercial information, and the development of tort law regarding personal information has nothing to do with the policy interests raised by trade secret-type claims.

[¶73] Second, courts should look past the plaintiff’s subjective labeling of its causes of action – unfair competition, breach of fiduciary duty, conversion, and the like – and analyze whether the predicate factual allegations accuse the defendant of misusing nonpublic information. If so, the Uniform Trade Secrets Act should preempt the claim. Because California trade secret actions historically proceeded under a variety of titles where the underlying legal rules were identical, litigants should not be able to plead around the statute simply by using a title other than “misappropriation of trade secrets.”⁹⁹ This is a pleading tactic easy to rebut because it so transparently relies on the mere semantics of the plaintiff’s word choice, rather than the actual substance of what the plaintiff seeks to litigate. Moreover, California courts have, in other contexts, rejected efforts to avoid the rules for a particular tort claim by labeling it something else.¹⁰⁰

[¶74] This brings us to the key argument litigants make against UTSA preemption: that California tort law permits claims for information labeled “confidential but not rising to the level of a trade secret.” The historical review above indicates that no such claim ever existed – at most, a few courts facing “breach of confidence” claims indicated in dicta that it did exist, but the courts never

⁹⁸ For a recent example of an invasion of privacy tort allegation, see generally *Colleen M. v. Fertility and Surgical Assocs. of Thousand Oaks*, 132 Cal. App. 4th 1466, 1466 (Ct. App. 2005) (alleging invasion of privacy based on disclosure of personal medical information).

⁹⁹ See generally *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514, 1522 (Ct. App. 1997) (stating that labeling information as a “trade secret” does not by itself establish secrecy). If a plaintiff cannot subjectively create a trade secret simply by labeling information as “secret,” it logically follows that a plaintiff cannot avoid UTSA preemption by subjectively labeling a trade secret claim something else.

¹⁰⁰ See *Cel-Tech Comm., Inc.*, supra note 81 at 182-84 (holding that parties may not use a section 17200 unfair competition claim “if some other provision bars it” and that parties cannot plead around a bar to relief by recasting a claim as a section 17200 action); *Embarcadero Mun. Improvement Dist. v. County of Santa Barbara*, 88 Cal. App. 4th 781, 793 (Ct. App. 2001) (rejecting party’s attempt to avoid statute of limitations by labeling a cause of action as one for a constructive trust, based on the true substance of the claim).

actually applied the theory or explained how it would work. No court has ever articulated the elements of such a tort claim, much less provided an analysis of how to prove or disprove those elements. So let us consider how this might work.

[¶75] One might propose that nontechnical, non-complex information might be recognized as a category of information that is “confidential” but not a trade secret. One immediate objection is that California trade secret law has long provided protection for such “thin” intellectual property, such as information about one’s customers.¹⁰¹ If the UTSA encompasses the bare names of allegedly secret customers, it surely covers other such nontechnical commercial information. Thus, proposing a separate category for “confidential” information would duplicate what the UTSA and pre-UTSA trade secret law have always covered.

[¶76] Another objection revolves around the elements of such a tort, and its defenses. How would a defendant, for example, go about proving that the “confidential” information was nonconfidential in a manner different from proving that an alleged trade secret is nonsecret? One imagines that such a defendant would seek out the same information sources as those that can defeat a trade secret claim – the Internet, trade and academic journals, the plaintiff’s own marketed product, and so forth. It would be unworkable and conceptually irrational to create a grey area where a former employee could be penalized for use of information publicly available or known to the trade, but somehow still “confidential” in some manner subjective to the former employer.¹⁰²

¹⁰¹ See, e.g., *Morlife*, supra note 99 at 1519-22 (holding that plaintiff’s non-technical customer list constituted a trade secret under the UTSA and finding defendants liable for contracting plaintiff’s customers after resigning and forming a competing company).

¹⁰² As noted above, one article proposes the recognition of an alternative tort claim for “confidential” information. See Robert Unikel, *Bridging the “Trade Secret” Gap: Protecting “Confidential Information” Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841 (1998). The article collects nationwide cases that have used phrases such as “confidential” or suggested that information need not rise to the level of a trade secret. It suffers from two gross methodological flaws. First, it mechanically cites cases, including California decisions, that use terms such as “confidential” without examining whether their underlying test for secrecy differs from the standard trade secrecy test, implicitly assuming that the use of these

[¶77] One might also consider the real world result of permitting an alternative California tort claim for information deemed “confidential” but not secret – the UTSA would likely be rendered meaningless. No plaintiff would bother alleging an UTSA claim, with its strict standards and court-determined exemplary damages, when it could so easily avoid the statute using the alternative tort. Finally, recognizing such a tort would undercut the public policy in favor of employee mobility recognized for so long under section 16600, by making it much more difficult for employees to change jobs and join competitors.

[¶78] It is fairly easy, then, to dismiss the concept of “confidential information not rising to the level of a trade secret” as an alternative to a trade secret claim – especially against former employees. A more difficult question centers on the one body of California pre-UTSA cases that developed independently of trade secret law. That body of law, the breach of confidence cases, has some decisions stating that “confidential” information need not be a trade secret. Should breach of confidence be preempted?

[¶79] One argument is that breach of confidence cases, so long as they arise in the typical situation of an individual who discloses an idea to an entertainment business and not in trade secret-type former employee contexts, should not be preempted. After all, the UTSA does not preempt contract claims, and, as noted in Section II, the UTSA Commissioners’ Comment states that implied contract actions should also not be preempted.

[¶80] The counterargument centers on the difficulty in articulating an alternative standard to test alleged confidentiality from the UTSA secrecy test. The breach of confidence cases have never fully explained the elements of an alternative tort, but they have clearly required proof of confidentiality. If

words proves that an alternative tort is being permitted. *Id.* at 856 n.76. Second, it utterly fails to explain how such a tort would be analyzed, and how a court could test for “confidential” information in a manner different from the current test for alleged trade secrets. The author also fails to consider that plaintiffs would simply label their claims something other than “trade secret” to plead around the UTSA and fails to evaluate UTSA preemption in more than cursory fashion. *Id.* at 882-89.

that is the case, the UTSA already provides all the rules necessary to litigate such claims. In turn, the UTSA’s legislative history also refers to the displacement of “quasi-contractual” theories of liability, and that was the portion California’s legislative sponsor quoted in his letter forwarding the statute to the governor. On balance, this Article concludes that despite its independent history, the breach of confidence tort should be preempted by the UTSA.

[¶81] There are additional reasons to reject the “confidential but less than a trade secret” theory based on interpretive canons. First, because the UTSA’s section 3426.7 already lists express exceptions (for criminal and contract actions), the rules of statutory interpretation indicate that the inclusion of those exceptions means that no additional exceptions should be written into the statute.¹⁰³ Permitting a new tort claim for information claimed to be confidential but not subject to trade secrecy rules would constitute such an exception. This interpretive rule is especially pertinent given the broad preemptive scope indicated in the statute’s legislative history.

[¶82] Second, the UTSA itself provides a rule under which courts can reject out of hand the minority of historical cases that take aberrant positions regarding the degree of secrecy required to press a trade secret-type claim. The UTSA’s legislative history indicates that the better reasoned pre-UTSA cases should remain law, suggesting that courts can disregard aberrant pre-UTSA cases.¹⁰⁴

[¶83] Finally, and as noted above, a third rule of interpretation provides a means to address those post-UTSA cases that have featured common law trade secret-type claims without reflecting on whether or not they were preempted. This rule, that cases which do not actually address an issue do not provide

¹⁰³ See *Thomas v. Quintero*, 126 Cal. App. 4th 635, 646 (Ct. App. 2005) (“Under the maxim of statutory construction, *expressio unius est exclusio alterius*, if exemptions are specified in a statute, we may not imply additional exemptions unless there is a clear legislative intent to the contrary.”).

¹⁰⁴ See *American Credit Indem. Co. v. Sacks*, 213 Cal. App. 3d 622, 630-31 (Ct. App. 1989) (noting that UTSA Commissioners’ Prefatory Note indicated that the statute codified the “better reasoned cases concerning the remedies for trade secret misappropriation” and citing several pre-UTSA California customer list cases).

authority on that issue, provides a legal ground to dismiss such decisions because they do not provide an actual holding on the doctrine of UTSA preemption.

A. The Problem of the Piggyback Tort

[¶84] If the proposal outlined in this Article were accepted by the California courts, parties would still face a separate, confusing issue: what law governs in the special case of California's piggyback torts, those that depend on a separate underlying tort claim to be valid?

[¶85] There are at least four California tort claims whose validity depends on being attached to a distinct, underlying wrong: tortious interference with prospective economic advantage,¹⁰⁵ civil conspiracy,¹⁰⁶ the unlawful act prong of a Business & Professions Code section 17200 unfair competition claim,¹⁰⁷ and tortious interference in hiring.¹⁰⁸ The problem is this: if the underlying wrongful act for any of these four torts is trade secret misappropriation under the UTSA, can a trade secret plaintiff use the piggyback tort to apply different legal standards? For example, can a plaintiff raise a piggyback tort claim, claim the UTSA as the underlying wrong, but then deviate from the UTSA by seeking a jury trial on the question of exemplary damages?¹⁰⁹

[¶86] The answer should be no. If the sole basis for the existence of the piggyback tort is an underlying UTSA allegation, the rights and remedies should be determined according to the UTSA.

¹⁰⁵ See *Della Penna v. Toyota Motor Sales, U.S.A., Inc.*, 11 Cal. 4th 376, 392-93 (1995).

¹⁰⁶ See *Applied Equip. Corp. v. Litton Saudi Arabia Ltd.*, 7 Cal. 4th 503, 511 (1994) (noting that civil conspiracy requires an underlying tort and that conspirators must in fact owe a duty to the plaintiff).

¹⁰⁷ See *Cel-Tech Commc'ns, Inc.*, supra note 81 at 180 (noting that section 17200 borrows other violations of law to form a claim).

¹⁰⁸ See *Reeves v. Hanlon*, 33 Cal. 4th 1140, 1145 (2004) (court held that tortious interference through hiring states a claim if predicated on an existing unlawful act; UTSA trade secret violations were underlying wrong in case at issue).

¹⁰⁹ Because, as noted above, a section 17200 claim has only limited remedies already available through the UTSA, such claims should be preempted in any event. For the same reason, if a court were to permit a section 17200 claim as a piggyback tort on a UTSA claim, it would be redundant.

Otherwise, the availability of a tack-on piggyback tort such as civil conspiracy would be an easy loophole to plead around the statute.

V. Conclusion

[¶87] There is confusion in California law on the question whether a plaintiff can bring a tort claim that alleges misuse of nonpublic information outside of trade secret law. Much of this confusion stems from the fact that California's historical common law causes of action used different labels for the same underlying theory. Apart from a small number of dicta statements and aberrant rulings, California law has for nearly a century applied one single standard for secrecy and barred tort claims over nonsecret commercial information. The doctrine of Uniform Trade Secrets Act preemption provides a means to apply California's historical protection of employee mobility and the right to use nonsecret commercial information against attempts to get around those policies by pleading alternative tort claims.

[¶88] Applying UTSA preemption against litigants who seek to penalize others for the use of information that is not a trade secret will protect California's longstanding public policy in favor of employee mobility and protect the right to use information in the public domain. And by litigating tort claims for the misuse of nonpublic information through the UTSA, courts and parties can use one uniform set of remedies, burdens of proof, and other procedural rules.