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A California Federal Court Reinvigorates the Growing Tension over the Preemptive Scope of California's Uniform Trade Secrets Act

By Dylan Wiseman and Todd Ratshin

In the latest twist in the developing law regarding the preemptive scope of California's Uniform Trade Secrets Act (UTSA)¹ a California federal court in *Amron International Diving Supply, Inc. v. Hydrolinx Diving Communication, Inc.*² ("Amron") recently issued a decision reinvigorating the growing tension between courts addressing the issue of UTSA preemption – a tension that, unfortunately, is likely to continue into the foreseeable future.

Amron: The Facts

Amron is a manufacturer and supplier of commercial diving equipment, including radios and "unscramblers" that allow divers and surface personnel to communicate with one another. Saad Sadik ("Sadik") was employed with Amron as an electrical engineer from October 2000 until April 2010. Both at the beginning and during the course of his employment, Sadik signed various nondisclosure agreements whereby he agreed not to disclose to others or use for his own or another's benefit any of Amron's confidential information or trade secrets, including:

. . . know how, customers lists, distributor and/or sales representative lists, information pertaining to suppliers or manufacturers utilized by the Company, information relating to distribution methods, accounts, technical data in which the Company has a proprietary interest, or any other information not generally available to the general public relating to the Company's business affairs or activities.

The nondisclosure agreements executed by Sadik further assigned all his interest in any ideas or inventions during the term of his employment to Amron and prohibited him from soliciting any customers, distributors, suppliers, or manufacturers who do business with Amron.

Amron terminated Sadik's employment in April 2010. After terminating Sadik, Amron conducted a forensic examination of two lab computers to which Sadik had access during his employment. This forensic examination revealed that Sadik had copied more than 100,000 files from Amron's computer systems and had purged thousands of engineering documents from the computer systems, as well. The files copied by Sadik included, among other things, details of Amron's products, internal test procedures and results, and vendor and customer account information.

After the termination of his employment with Amron, Sadik founded Hydrolinx Diving

Communication, Inc. and began to compete with Amron in the diving communication equipment market. Amron's investigation into Sadik's employment also revealed that Sadik had tampered with Amron's product designs for a highly confidential project involving a Helium Speech Unscrambler, a device that allows divers to communicate with surface personnel from depths that require helium in the diver's air supply. While working on this project and while using Amron's resources and equipment, Sadik developed a superior product (without informing Amron), which he later incorporated into his Hydrolinx competing line of products.

Amron's Lawsuit Against Hydrolinx and Sadik

Amron sued Hydrolinx and Sadik. Amron's complaint included a cause of action for trade secret misappropriation under the UTSA. Amron's complaint also included claims for, among others, breach of confidence, conversion, trespass to chattels, interference with prospective business advantage, unjust enrichment, unfair competition, common law misappropriation, and computer data access and fraud. Hydrolinx and Sadik asserted that these additional causes of action were preempted by Amron's trade secret misappropriation claim and moved to dismiss them.

The court in *Amron* first addressed the general inquiry to be applied in determining whether claims are preempted by the UTSA. Following the analyses set forth by federal courts applying California law on the issue, the *Amron* court determined that the UTSA preempts claims that are based on facts that are identical to the facts alleged to support a separate claim of trade secret misappropriation. However, the court also found that the UTSA will not preempt claims that rely on "additional or different facts or theories of liability than those forming the basis of the trade secret claim." The *Amron* court then concluded that the targeted causes of action were not preempted by UTSA because they did not allege identical facts as those alleged to support Amron's trade secret misappropriation claim.

The court additionally held that the preemption issue was prematurely raised at the pleading stage. In this regard, the court noted that the status of the information alleged to constitute a trade secret was just that – a matter of allegation. The court therefore concluded that it was premature to address the preemption issue until a distinction could be made between what information is determined to constitute a trade secret and Amron's other confidential or proprietary non-trade secret information.³

The Developing Conflict Regarding UTSA's Preemptive Breadth

The decision in *Amron* represents the latest decision in the developing back-and-forth over how far UTSA's preemptive scope will reach.⁴

California's two recent appellate decisions have adopted an expansive view regarding the preemptive scope of the UTSA: *Silvaco Data Systems v. Intel Corp.*⁵ and *K.C. Multimedia, Inc. v. Bank of America Technology & Operations, Inc.*⁶

In *K.C. Multimedia*, the trial court dismissed causes of action for breach of confidence, interference with contract, and unfair competition from the plaintiff's fifth amended complaint on the eve of trial based on UTSA preemption grounds. On the eve of trial, the trial court conducted an *ad hoc* review of the preemption issues while considering motions in limine. Notably, the plaintiff did not object to that process. The Court of Appeal, Sixth Appellate District, affirmed the dismissal of these causes of action, finding that no objection was made to the ad hoc pre-trial process resulting in the dismissal, and that the plaintiff's claims were all based on the same "nucleus of facts" as the plaintiff's trade secret misappropriation claim.⁷

In *Silvaco*, on the other hand, the trial court dismissed on demurrer causes of action for conversion, common law unfair competition, and intentional and negligent misrepresentation as preempted by the UTSA after the plaintiff had repeatedly amended its lawsuit and discovery had been conducted on the plaintiff's trade secrets claim. Indeed, the challenge in *Silvaco* was made to the plaintiff's sixth amended complaint. The court, again the Sixth Appellate District, affirmed the dismissal of those causes of action on the basis that they were based on the same facts alleged to support the plaintiff's trade secret misappropriation claim and because, without the trade secret claim, the complaint set forth no independent factual foundation to support them.⁸

Federal courts confronted with the issue of UTSA preemption have split on how far these cases expand UTSA's preemptive scope, if at all.⁹

Conclusion: How Amron Affects the Ongoing Dispute over UTSA Preemption

It is interesting that the court in *Amron* does not cite to or discuss either *Silvaco* or *K.C. Multimedia*. *Amron* plainly aligns itself with the

developing line of cases holding that UTSA's preemptive scope does not extend to claims based on something other than, or in addition to, misappropriation of a trade secret, including claims based on misappropriation of confidential and/or proprietary information.

In doing so, the *Amron* court also reinforces the position that the issue of UTSA preemption is prematurely raised at the pleading stage of the litigation. *Amron* thus presents an obstacle to defendants in trade secrets cases who try to invoke UTSA preemption as a basis for seeking dismissal of non-UTSA claims before a determination has been made that the alleged trade secret is actually entitled to lawful protection as a "trade secret" and/or the factual basis of the UTSA and non-UTSA claims and whether such factual bases are identical or not.

Dylan Wiseman is a Shareholder, and Todd Ratshin is an Associate, in Littler Mendelson's Sacramento office. If you would like further information, please contact your Littler attorney at 1.888.Littler or info@littler.com, Mr. Wiseman at dwiseman@littler.com, or Mr. Ratshin at tratshin@littler.com.

¹ Cal. Civ. Code §§ 3426 *et seq.*

² 2011 U.S. Dist. LEXIS 122420 (S.D. Cal. Oct. 21, 2011).

³ *Amron*, 2011 U.S. Dist. 122420, at **27-28 (citing *Callaway Golf Co. v. Dunlop Slazenger Group Ams., Inc.*, 295 F. Supp. 2d 430, 437 (D. Del. 2003) (holding that it is premature to address the preemption question until it is determined what information is entitled to trade secret protection)).

⁴ See, e.g., *Jardin v. DATAlegro, Inc.*, 2011 U.S. Dist. LEXIS 84509 (S.D. Cal. July 29, 2011) (stating that the UTSA "preempts all claims resting on allegation of the misappropriation of confidential information"); *Mattel, Inc. v. MGA Entertainment, Inc.*, 2010 U.S. Dist. LEXIS 136992 (C.D. Cal. Dec. 27, 2010) ("UTSA supersedes claims based on the misappropriation of confidential information, whether or not that information meets the statutory definition of a trade secret"); *Kovesdy v. Kovesdy*, 2010 U.S. Dist. LEXIS 100940 (N.D. Cal. Sept. 13, 2010) (claims for interference with contractual relationship, interference with prospective economic advantage, unfair competition, and conversion not preempted by UTSA because they rely on factual allegations in addition to and different from the trade secret misappropriation claim); *Leatt Corp v. Innovative Safety Tech., LLC*, 2010 U.S. Dist. LEXIS 71362 (S.D. Cal. July 15, 2010) (claims for theft of confidential and/or proprietary information not preempted by UTSA); *Phoenix Techs. Ltd. v. DeviceVM*, 2009 U.S. Dist. LEXIS 114996 (N.D. Cal. Dec. 8, 2009) (claims for misappropriation of confidential and/or proprietary information not preempted by UTSA).

⁵ 184 Cal. App. 4th 210 (2010).

⁶ 171 Cal. App. 4th 949 (2009).

⁷ *K.C. Multimedia*, 171 Cal. App. 4th at 959.

⁸ *Silvaco*, 184 Cal. App. 4th at 236.

⁹ See, e.g., *Leatt Corp., supra*, 2010 U.S. Dist. 71362, at *20 n. 5 (finding that *Silvaco* "does not undermine the conclusion that the UTSA only preempts additional claims that depend on the misappropriation of a trade secret"); *Phoenix Techs. Ltd.*, 2009 U.S. Dist. 114996, at *12 (finding that *K.C. Multimedia* "does not undermine the analytic framework enunciated in *First Advantage* . . . allowing claims to go forward where the gravamen of the claims does not rest on the misappropriation of trade secrets"); *First Advantage Background Services Corp. v. Private Eyes, Inc.*, 569 F. Supp. 2d 929, 942 (N.D. Cal. 2008) (holding that UTSA provides remedies only for the misappropriation of trade secrets and thus does not preempt claims based on misappropriation of confidential or proprietary information); *Mattel, Inc.*, 2010 U.S. Dist. 136992, at **153-54 (finding that *Silvaco* and *K.C. Multimedia* extend UTSA's preemptive scope to "claims based on misappropriation of confidential information").