

1 ULRICO S. ROSALES, State Bar No. 139809
CHARLES T. GRAVES, State Bar No. 197923
2 KORAY J. BULUT, State Bar. No. 230298
WILSON SONSINI GOODRICH & ROSATI
3 Professional Corporation
650 Page Mill Road
4 Palo Alto, CA 94304-1050
Telephone: (650) 493-9300
5 Facsimile: (650) 565-5100
Email: urosales@wsgr.com

6 Attorneys for Defendant
7 SolarCity Corporation

8 DAVID R. BURTT, State Bar No. 201220
ONGARO BURTT & LOUDERBACK LLP
9 650 California Street, Fifth Floor
San Francisco, CA 94108-2739
10 Telephone: (415) 433-3900
Facsimile: (415) 433-3950
11 Email: dburttt@obllaw.com

12 Attorneys for Defendants
Tom Leyden, Matt Giannini,
13 Dan Leary, Felix Aguayo, and Alice Cathcart

14

15 UNITED STATES DISTRICT COURT
16 NORTHERN DISTRICT OF CALIFORNIA
17 SAN JOSE DIVISION

18 SUNPOWER CORPORATION, a Delaware)
corporation,)
19)
Plaintiff,)
20)
v.)
21)
SOLARCITY CORPORATION, a Delaware)
22 corporation; TOM LEYDEN, an individual;)
MATT GIANNINI, an individual; DAN LEARY,)
23 an individual; FELIX AGUAYO, an individual;)
and ALICE CATCHART, an individual,)
24)
Defendants.)

CASE NO.: CV 12-00694 LHK
**REPLY BRIEF IN SUPPORT OF
DEFENDANTS' PARTIAL MOTION
TO DISMISS (Rule 12(b)(6))**

Date: November 8, 2012
Time: 1:30 p.m.
Courtroom: 8
Judge: The Honorable Lucy H. Koh

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28 **MISCELLANEOUS**

Cal. State Bar IP Section, TRADE SECRET LITIGATION AND PROJECTION IN
CALIFORNIA § 7 at 172 (2nd Ed. 2010) 10

1 **I. INTRODUCTION**

2 Whenever a court entertains a motion regarding UTSA preemption of alternative tort
3 claims, it is important to bear in mind why a trade secret plaintiff seeks to avoid UTSA
4 preemption: it wants to undercut the statute's procedural and substantive requirements, and be
5 able to prevail even if the information at issue proves to be non-secret. SunPower is asking this
6 Court to throw out the rules. Defendants want those rules to apply.

7 SunPower's opposition arguments and citations are reminiscent of those often seen in
8 motion practice in California courts prior to March 2009, during a period of uncertainty when the
9 California appellate courts had not yet decided whether California would adopt the majority
10 position or the minority position regarding UTSA preemption. That uncertainty has since been
11 resolved: in March 2009, and again in May 2010, California appellate courts conclusively
12 adopted the majority position and expressly rejected the minority position – meaning that the
13 California UTSA preempts all alternative tort claims that depend on allegations that a defendant
14 misused commercial information said to have been shared in confidence.

15 Without saying so directly, SunPower asks this Court to do something it lacks power to
16 do: refuse to follow published California appellate decisions on a question of state law, and
17 instead issue a directly contrary ruling. But federal district courts applying state law “must
18 follow” state appellate decisions in situations like this one.

19 Throughout its opposition, SunPower never even concedes that there is a majority
20 position and a minority position on UTSA preemption. Instead, it acts as if the issue were still
21 up in the air, and argues that the minority position on UTSA preemption should be adopted.
22 There is no nuance in SunPower's position: it believes that UTSA preemption should never
23 apply to any alternative tort claim alleging misuse of commercial information said to have been
24 shared in confidence, so long as the plaintiff artfully labels the information at issue “non-trade
25 secret information,” “confidential but not secret,” or some other alternative phrasing.

26 If SunPower's position were accepted, the UTSA would not be a “uniform” act, and the
27 protections that the UTSA affords to trade secret defendants would become illusory: a former
28 employer could bring tort claims over information learned on the job without having to identify

1 trade secrets and ultimately prove that such information is a trade secret. A losing trade secret
2 plaintiff with failed claims could nevertheless still prevail merely by changing the phrases it uses
3 to describe the information at issue. SunPower, in other words, wants this Court to create a new
4 category of intellectual property under California law, to encompass failed trade secret claims.
5 There is no public policy justification for SunPower's position, which would undermine decades
6 of California law in favor of employee mobility and the clear intent of the California legislature
7 in adopting the UTSA.

8 Because SunPower can cite no precedent in support of its position, it (1) repeatedly cites
9 cases decided before March 2009, when there was no guiding rule in California and a handful of
10 federal district courts took the minority position; (2) cites cases decided after March 2009 that
11 did not analyze the precedential California rulings in *K.C. Multimedia* and *Silvaco Data Systems*
12 because the litigants did not adequately brief the issue; (3) cites cases that did not consider the
13 question of UTSA preemption at all; and (4) cites cases from the small number of non-California
14 jurisdictions that have taken the minority position, or those where courts are still split on the
15 question, without telling the Court that such cases reflect the minority position.

16 None of this could allow the Court to deviate from the rules set down in *Silvaco* and *K.C.*
17 *Multimedia* – much less create a new category of intellectual property for failed trade secrets that
18 no California court or legislature has ever recognized. Where two appellate courts have spoken
19 without leaving any room for doubt, where the California Supreme Court has ruled in favor of
20 statutory preemption when construing another Uniform Act, and where the UTSA's legislative
21 history and California's rules for the preemptive effect of statutes all run in the same direction,
22 SunPower's carefully selective citation of pre-2009 cases, cases that do not address UTSA
23 preemption, and so forth carry no weight whatsoever.

24 In this reply, Defendants will demonstrate why every single argument SunPower makes
25 directly contradicts the clear and binding holdings of *K.C. Multimedia* and *Silvaco*. The time to
26 re-hash the UTSA preemption argument is long past. All of SunPower's alternative tort claims
27 should be dismissed without leave to amend.

28

1 **II. ARGUMENT**

2 **A. California Appellate Rulings on UTSA Preemption are Binding.**

3 SunPower’s opposition arguments can be rejected for the simple reason that it cannot ask
4 this Court to reject California appellate rulings that bind this Court. “In deciding an issue of state
5 law, when there is relevant precedent from the state's intermediate appellate court, the federal
6 court **must** follow the state intermediate appellate court decision unless the federal court finds
7 convincing evidence that the state's supreme court likely would not follow it.” *In re Salazar*, 470
8 B.R. 557, 561 (S.D. Cal. 2012) (quoting *Hayes v. Cnty. of San Diego*, 658 F.3d 867, 870 (9th
9 Cir.2011) (emphasis added); *Ryman v. Sears, Roebuck & Co.*, 505 F.3d 993, 994 (9th Cir. 2007).

10 Here, the California appellate courts have twice unequivocally adopted the majority
11 position on UTSA preemption. In Footnote 22 *Silvaco*— a necessary part of its holding — the
12 court rejected the minority position by repudiating one of the leading minority position rulings
13 (from the Eastern District of Pennsylvania) and by making clear that litigants cannot pursue
14 alternative tort claims (such as conversion) even if the information at issue fails to qualify as a
15 trade secret. *See Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 239 n.22 (2010).

16 SunPower does not attempt to show that there is “convincing evidence” that the
17 California Supreme Court would reject *K.C. Multimedia* and *Silvaco*, because the overwhelming
18 evidence is all to the contrary. Indeed, SunPower failed to offer any opposition to the following
19 factors that Defendants addressed with detailed citations in their opening papers:

- 20
- The California Supreme Court has twice held that the effect of comprehensive
21 statutory enactments is to occupy the field and preempt all common law claims in the same field;
 - The California Supreme Court in 2007 ruled in favor of strong preemption under
22 another Uniform Act (the UCC) – a ruling that the *Silvaco* court favorably discussed;
 - The California UTSA’s legislative history shows that the bill sponsor described the
23 statute as a “substitution of unitary definitions of trade secret and trade secret misappropriation,
24 and a single statute of limitations for the various property, quasi-contractual, and violation of
25 fiduciary relationship theories of noncontractual liability utilized at common law”;
 - The California UTSA instructs courts to seek uniformity with other UTSA
26
27
28

1 jurisdictions, and those jurisdictions that have decided between the majority and minority
2 positions on UTSA preemption have overwhelmingly ruled in favor of the majority position (*i.e.*,
3 8 to 1 among state supreme courts);¹ and

4 • Before and after *K.C. Multimedia* and *Silvaco*, the majority of courts applying
5 California law took the majority position on UTSA preemption, and those taking the majority
6 position tend to contain far more in-depth discussion, analysis, and reasoning;

7 • The majority position on UTSA preemption prevents litigants from undermining the
8 statute's requirements of pre-discovery claim identification and secrecy, circumventing its
9 limited remedies, and evading a defendant's attorneys' fees recovery in "bad faith" cases; and

10 • The majority position harmonizes with California's Business and Professions Code
11 16600, which famously prohibits non-competition covenants and permits departing employees to
12 use any commercial information that is not a trade secret, while the minority position would
13 create a conflict with that statute;

14 SunPower ignores all of this, as if it does not exist. In addition, the California Supreme
15 Court had an opportunity to overrule *Silvaco*, but it denied review on August 18, 2010. That is
16 another factor in the analysis when determining whether there is any room not to follow state
17 appellate rulings. *See In re Salazar*, 470 B.R. at 561. SunPower made no argument that could
18 overcome the rule that federal district courts "must follow" state appellate decisions on questions
19 of state law. Given the clear rule that district courts "must follow" state appellate holdings and
20

21 ¹ There are also at least four states other than California whose intermediate appellate courts
22 have adopted the majority position in a published ruling, and none that have taken the minority
23 position. Including California, the score is now 13-1 in favor of the majority position. *See*
24 *generally HDNet, LLC v. North Am. Boxing Council*, 972 N.E.2d 920, 924 (Ind. Ct. App. 2012)
25 (following rulings from other states); *CDC Restoration & Const., LC v. Tradesmen Contractors,*
26 *LLC*, 274 P.3d 317, 330, 2012 WL 876745, at *12 (Utah Ct. App. Feb. 24, 2012) ("we join the
27 majority of courts that have addressed this issue and hold that the UTSA preempts claims based
28 on unauthorized use of information, irrespective of whether that information meets the statutory
definition of a trade secret."); *Rogers Indus. Prod., Inc. v. HF Rubber Mach. Inc.*, 936 N.E.2d
122, 130 (Ohio Ct. App. 2010) (Ohio UTSA preempts claims "based solely on allegations of
misappropriation of trade secrets or other confidential information"); *Thola v. Henschell*, 164
P.3d 524, 529-30 (Wash. Ct. App. 2007) (taking the majority position, but deciding against
preemption on facts where tortious interference claim "does not involve the acquisition or
disclosure of confidential information.").

1 the overwhelming legal and public policy reasons to do so, this Court should reject SunPower's
2 invitation to eviscerate existing California law.

3 **B. *K.C. Multimedia and Silvaco* are Controlling.**

4 Having failed to respond to almost every point Defendants made in their opening papers,
5 SunPower's primary argument is that *K.C. Multimedia* and *Silvaco* do not apply if a plaintiff
6 alleging misuse of commercial information said to have been shared in confidence selects a
7 phrase other than "trade secrets" to describe the information at issue. This is not an effort to
8 distinguish those cases: it is an effort to destroy them, because this is exactly the argument that
9 both rejected.

10 Specifically, SunPower argues that using a different descriptive phrase transforms a claim
11 such that it shares no common nucleus of facts with a UTSA claim. SunPower's view is that
12 *K.C. Multimedia* and *Silvaco* were really just about what labels are put on claims, not about the
13 substantive facts being alleged. Implicitly, SunPower asks this Court to conclude that
14 California's appellate courts intended that their holdings should be openly flouted and
15 circumvented by any plaintiff which uses different phrases to describe its claims. SunPower also
16 claims that preemption applied in both *K.C. Multimedia* and *Silvaco* only because the alternative
17 tort claims were expressly based on information that constituted trade secrets. *See Opp.* at 6-7.

18 These attempts to mischaracterize the unequivocal holdings of *K.C. Multimedia* and
19 *Silvaco* are incorrect. In both cases (as well as every other UTSA preemption ruling), the
20 plaintiff made arguments virtually identical to those SunPower makes here: the UTSA does not
21 preempt alternative tort claims alleging misuse of commercial information said to have been
22 shared in confidence, so long as the plaintiff is careful not to use the phrase "trade secrets" to
23 describe the information it sues over and instead uses a phrase such as "proprietary but not
24 secret" or "confidential but not secret." Both courts rejected all such arguments.

25 Moreover, in both cases, the UTSA claims failed, yet UTSA preemption of the alternative
26 tort claims still applied. That is, under both cases, UTSA preemption applied regardless of
27 whether the trade secret claim was ultimately successful. This makes good sense: it would be
28 silly if a trade secret defendant defeated an UTSA claim, only to lose anyway because the

1 plaintiff could change the label on its claim, ignore the secrecy requirement, and continue
2 pursuing the claim. Heads, the plaintiff wins – tails, the plaintiff wins: it is too clever by half.

3 *Silvaco's* Footnote 22 is worth quoting again, because the plaintiff in that case made a
4 ferocious argument exactly like SunPower's argument here, citing many of the same cases
5 (SolarCity's counsel represented one of the many defendants in that litigation). The court
6 expressly rejected that position in by repudiating one of the most well-known minority position
7 rulings. Indeed, it made clear that California "emphatically rejects" the minority position on
8 UTSA preemption by requiring that a plaintiff affirmatively prove that a property right exists
9 under "positive law," and cannot create a tort claim that the law has never recognized:

10 We emphatically reject the *Cenveo* court's suggestion that the uniform act was not
11 intended to preempt "common law conversion claims based on the taking of
12 information that, though not a trade secret, was nonetheless of value to the
13 claimant." [citation] On the contrary, a prime purpose of the law was to sweep
14 away the adopting states' bewildering web of rules and rationales and replace it
15 with a uniform set of principles for determining when one is – and is not – liable
16 for acquiring, disclosing, or using "information . . . of value." [citation] Central to
17 the effort was the act's definition of a trade secret. [citation] Information that does
18 not fit this definition, and is not otherwise made property by some provision of
19 positive law, belongs to no one, and cannot be converted or stolen. By permitting
20 the conversion claim to proceed on a contrary rationale, the *Cenveo* court impliedly
21 created a new category of intellectual property, far beyond the contemplation of the
22 act, subsuming its definition of "trade secret" and effectively obliterating the
23 uniform system it seeks to generate.

24 *See Silvaco*, 184 Cal. App. 4th at 239 n.22 (underlining added). Instead of conceding the
25 holding, SunPower disregards its duty of candor to the Court and asserts that "[n]either *K.C.*
26 *Multimedia* nor *Silvaco* addressed causes of action that were expressly based on non-trade secret
27 information, as in SunPower's Complaint." Opp. at 7:14-15. That is the direct opposite of what
28 *Silvaco's* Footnote 22 says, as it refuted the very same argument SunPower makes here – and, in
point of fact, that is exactly what the plaintiff in *Silvaco* tried to argue.²

25 ² *See also VasoNova Inc. v. Grunwald*, 2012 WL 4119970, at *4 (N.D. Cal. Sept. 18, 2012)
26 (preempting alternative claims at the pleading because the facts alleged were just like a trade
27 secret claim); *Heller v. Cepia, L.L.C.*, 2012 WL 13572, at *7 (N.D. Cal. Jan. 4, 2012) (following
28 *Silvaco*); *Mattel, Inc. v. MGA Entm't, Inc.*, 782 F. Supp. 2d 911, 986-87 (C.D. Cal. 2011) (same;
"In an effort to align with the California courts that have addressed this issue, the Court
concludes that UTSA supersedes claims based on the misappropriation of confidential
(continued...)

1 **1. Cases Decided Before *K.C Multimedia* and *Silvaco* are Void.**

2 Underscoring SunPower's failure to admit that California has definitively adopted the
3 majority position, SunPower cites district court cases pre-dating *K.C. Multimedia* and *Silvaco*
4 that took the minority position (and that were outnumbered even before 2009 by cases taking the
5 majority position) as if such cases have precedential value. *See* Opp. at 4 (citing *PostX Corp. v.*
6 *Secure Data in Motion, Inc.*, 2004 WL 2663518 (N.D.Cal. Nov. 20, 2004); *TeraRecon, Inc. v.*
7 *Fovia, Inc.*, 2006 WL 2691405 (N.D.Cal. Sept. 20, 2006); *Ali v. Fasteners for Retail, Inc.*, 544 F.
8 Supp. 2d 1064 (E.D.Cal. 2008); *E-Smart Tech., Inc. v. Drizin*, 2009 WL 35228 (N.D.Cal. Jan. 6.
9 2009), and *First Advantage Background Servs. Corp. v. PrivateEyes, Inc.*, 569 F. Supp. 2d 929,
10 942 (N.D. Cal. 2008)).

11 SunPower's reliance on these cases is akin to a patent infringement plaintiff citing
12 inconsistent, pre-*eBay* cases about presumptions of irreparable harm, or a Computer Fraud and
13 Abuse Act plaintiff citing inconsistent, pre-*Nosal* cases about the scope of that statute when
14 applied to employees. Once a binding court has squarely ruled on an issue, all prior inconsistent
15 rulings are a nullity, and have zero precedential value with respect to the issue decided. The
16 Court should disregard SunPower's heavy reliance on pre-March 2009 rulings.

17 **2. Cases that do Not Analyze *K.C Multimedia* and *Silvaco* are Void.**

18 Defendants correctly predicted that SunPower would also cite post-March 2009 district
19 court slip rulings that did not analyze the holdings in *K.C. Multimedia* and *Silvaco*, and that did
20 not address any of the statutory interpretation, legislative history, and public policy issues
21 addressed by Defendants and also seen in many of the majority position rulings. Indeed,
22 SunPower cites two slip rulings – *TMX Funding, Inc. v. Impero Tech., Inc.*, 2010 WL 2509979,
23 at *5 (N.D. Cal. June 17, 2010) and *PQ Labs, Inc. v. Qi*, 2012 WL 2061527, at *12 (N.D. Cal.
24 June 7, 2012) – neither of which cited *Silvaco*, treat the preemption issue in only a few sentences
25 without analysis, and mistakenly followed a pre-March 2009 ruling (*First Advantage*) which is
26

27 (...continued from previous page)
28 information, whether or not that information meets the statutory definition of a trade secret.”);
Digital Envoy, Inc. v. Google, Inc., 370 F. Supp. 2d 1025, 1034-35 (N.D. Cal. 2005).

1 wholly inconsistent with *K.C. Multimedia* and *Silvaco*. The fault for these rulings lies entirely
2 with defense counsel who failed to adequately brief the issue and to present the reviewing court
3 with the correct authority, but SunPower should not reap any benefit from its highly selective
4 citation to cursory rulings that are inconsistent with binding state appellate rulings.

5 **C. SunPower’s Claims are Premised on Commercial Information Said to Have**
6 **Been Disclosed in Confidence.**

7 As an alternative argument, SunPower argues that even if the UTSA preemption is the
8 rule, SunPower’s alternative tort claims are nonetheless not preempted because they are about a
9 different subject matter than the subject matter covered by a UTSA claim. *See Opp.* at 5-6.

10 SunPower’s argument is incorrect, because SunPower’s claims are all about – as
11 SunPower admits in describing its allegations – claims that Defendants misused commercial
12 information said to have been disclosed in confidence. *Of course* this is the same subject matter
13 as a trade secret claim! Subjectively re-labeling a claim as “not trade secret but confidential” or
14 “proprietary but not trade secret” is cosmetic, not substantive, and does not alter the fundamental
15 nature of these claims.

16 The UTSA, to be sure, does not preempt every cause of action. If a defendant is accused
17 of embezzlement, theft of office equipment, defamation, secretly running a second business
18 while still employed, or other wrongs not dependent upon misuse of commercial information
19 said to have been shared in confidence, the UTSA does not preempt such claims. Defendants,
20 for example, did not argue that the UTSA preempts SunPower’s CFAA cause of action, because
21 it is a different animal. Everyone agrees – in both majority and minority position jurisdictions –
22 that the UTSA does not apply to qualitatively different claims. *See generally Organ Recovery*
23 *Sys., Inc. v. Preservation Solutions, Inc.*, 2012 WL 116041, at *6 (N.D. Ill. Jan. 16, 2012) (no
24 preemption of claims based on alleged false statements about plaintiff’s product); *Bliss Clearing*
25 *Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp. 2d 943, 949 (W.D. Mich. 2003) (no
26 UTSA preemption of a trademark claim).

27 But that is not the case here, and it would be ridiculous if a litigant could bring tort claims
28 that are functionally identical to a UTSA claim, engage in word-play by using a different phrase

1 to describe them, and thereby evade the UTSA's procedural and substantive requirements. The
2 UTSA preempts alternative tort claims that are "based on the same nucleus of facts as trade
3 secret misappropriation." *Silvaco*, 184 Cal. App. 4th at 232; *K.C. Multimedia, Inc. v. Bank of*
4 *Am. Tech. & Operations, Inc.*, 171 Cal. App. 4th 939, 958 (2009). "If there is no material
5 distinction between the wrongdoing alleged in a UTSA claim and that alleged in a different
6 claim, the UTSA claim preempts the other claim." *Convolve, Inc. v. Compaq Comp. Corp.*, No.
7 00 CV 5141 (GBD), 2006 WL 839022, at *6 (S.D.N.Y. Mar. 31, 2006) (applying California
8 law). "In analyzing claims for the purpose of applying [UTSA preemption], the issue is not what
9 label the plaintiff put on their claims. Rather the court is to look beyond the label to the facts
10 being asserted in support of the claims." *Id.*

11 All of the alleged tortious conduct by Defendants is based on the same allegation that
12 departing employees improperly took SunPower business information said to have been
13 disclosed in confidence. *See* Complaint ¶¶ 120, 126, 132, 142, 149, 154. If this is not the same
14 nucleus of facts as a UTSA claim, nothing is.

15 **D. Deciding UTSA Preemption at the Pleading Stage is Appropriate.**

16 Hoping to put things off, SunPower also argues that the question of UTSA preemption
17 cannot be decided at the pleading stage, as if this is not a pure question of law. *See* Opp. at 12-
18 13. This is a common argument seen in minority position jurisdictions, but it is emphatically not
19 the rule in majority position jurisdictions like California.

20 *Silvaco* and *K.C. Multimedia* directly reject SunPower's argument, and their holdings are
21 binding here. First, *K.C. Multimedia* specifically rejected the argument that deciding UTSA
22 preemption was premature. *K.C. Multimedia* did so on a motion *in limine* that the court found to
23 be the "functional equivalent" of a demurrer (the state court version of a Rule 12 motion). *See*
24 *K.C. Multimedia*, 171 Cal. App. 4th at 952; Cal. State Bar IP Section, TRADE SECRET LITIGATION
25 AND PROJECTION IN CALIFORNIA § 7 at 172 (2nd Ed. 2010) ("The court rejected the argument that
26 deciding preemption before the ultimate disposition of the UTSA claims was premature.").

27 Second, *Silvaco* also directly addressed this issue and rejected the argument. The
28 plaintiff there cited minority position cases that held dismissal of common-law claims on UTSA

1 preemption grounds would be “premature.” *See* 184 Cal. App. 4th at 238. The court rejected
2 this argument, calling the reasoning of such cases “doubtful” and holding that it is “never
3 ‘premature’ to require that the plaintiff allege facts sufficient to constitute a viable cause of
4 action.” *Id.* at 239. When *Silvaco* decided the question on summary judgment, it did so as a
5 pure question of law. And of course, many courts – including this Court – have addressed
6 UTSA preemption at the pleading stage. *See, e.g., VasoNova Inc. v. Grunwald*, slip op., No. C
7 12-02422 WHA, 2012 WL 4119970, at *4 (N.D. Cal. Sept. 18, 2012) (applying the majority
8 position under California law); *SOAPProjects, Inc. v. SCM Microsys., Inc.*, No. 10-CV-01773-
9 LHK, 2010 WL 5069832, at *10 (N.D. Cal. Dec. 7, 2010) (dismissing unjust enrichment claim;
10 citing *Silvaco*); *AirDefense, Inc. v. AirTight Networks, Inc.*, No. C 05-04615JF, 2006 WL
11 2092053, at *5 (N.D. Cal. July 26, 2006) (same).

12 Instead of conceding these holdings, SunPower went to extremes to pretend that
13 California law is different. First, SunPower cited three minority position rulings to support its
14 argument – *Genzyme Corp. v. Bishop*, 463 F. Supp. 2d 946, 949 (W.D. Wisc. 2006), *Stone Castle*
15 *Fin., Inc. v. Friedman, Billings, Ramsey & Co., Inc.*, 191 F. Supp. 2d 652, 658-59 (E.D. Va.
16 2002) and *Combined Metals of Chicago Ltd. P’ship v. Airtek, Inc.*, 985 F. Supp. 827, 830 (N.D.
17 Ill. 1997) – without telling the Court that they are minority position rulings. Second, and
18 repeating tactics discussed above, SunPower cited a post-March 2009 ruling that did not cite
19 *K.C. Multimedia* or *Silvaco* (*Amron Int’l Diving Supply, Inc. v. Hydrolinx Diving Comm’n, Inc.*,
20 No. 11-CV-1890-H JMA, 2011 WL 5025178, at *10 (S.D. Cal. Oct. 21, 2011)).

21 Third, and showing the lengths it took to engage in selective citation, SunPower cited two
22 early rulings in cases where later rulings in the same case support Defendants’ position that
23 UTSA preemption is a question of law. In the first, a pre-March 2009 ruling on California law
24 that took the minority position (*Callaway Golf Co. v. Dunlop Slazenger Group Am., Inc.*, 295 F.
25 Supp. 2d 430, 437 (D. Del. 2003), the same court later took the majority position and did so as a
26 question of law, not as some factual issue where the plaintiff might have been permitted to
27 proceed under an alternative theory for a failed trade secret claim (*Callaway Golf Co. v. Dunlop*
28 *Slazenger Group Am., Inc.*, 318 F. Supp. 2d 216, 219-20 (D. Del. 2004)). In the second, an

1 August 2011 ruling that did not take account of how *K.C. Multimedia* and *Silvaco* ruled on the
2 issue, a district court punted on UTSA preemption (*Bryant v. Mattel, Inc.*, No. CV 04-9049 DOC
3 RNBX, 2010 WL 3705668, at *22 (C.D. Cal. Aug. 2, 2010)), but later came back in a
4 subsequent decision to comprehensively rule in favor of the majority position as a matter of law
5 (*Mattel, Inc v. MGA Entm't, Inc.*, 782 F. Supp. 2d 911, 985 (C.D. Cal. 2011)).

6 Here, as discussed above, SunPower's claims unquestionably share a common nucleus of
7 facts with a UTSA claim – there is no fact issue, for example, about whether SunPower is
8 alleging some qualitatively different claim like defamation. The only question, therefore, is
9 whether SunPower's defiant attempt to destroy *K.C Multimedia* and *Silvaco* should be permitted.

10 As Defendants noted in their opening papers, applying the rule of UTSA preemption at
11 the pleading stage will prevent Plaintiff from evading the UTSA's procedural and substantive
12 rules as this case proceeds and will facilitate early resolution. The UTSA supplies the rules for
13 claim identification, burdens of proof, remedies, and – most important – what is protectable and
14 what is not. When the only purported “fact” issue is the purely legal question whether SunPower
15 can re-label the same wine in a different bottle to avoid UTSA preemption, there is no such thing
16 as a premature preemption ruling.

17 **E. Plaintiff's Alternative Tort Claims Never Existed.**

18 To set the stage for its UTSA preemption arguments, Defendants explained in detail in
19 their opening papers that even before the UTSA was enacted in 1985, the claims SunPower seeks
20 to bring never existed, and that SunPower instead is pursuing a new theory never approved by
21 California courts.

22 Indeed, California courts never historically recognized an alternative tort claim – under
23 any label – for a second category of intellectual property that would encompass failed trade
24 secret claims. To the contrary, and consistent with California's Business and Professions Code
25 section 16600, California courts for decades have allowed only one layer of IP protection for
26 commercial information said to have been shared in confidence. If such information is not a
27 trade secret, departing employees have been free to use such information. As Defendants noted,
28 if a second layer of IP had historically existed beyond trade secret law to encompass information

1 that wasn't a trade secret, California would not have so many historical rulings where former
2 employees were found not liable where the information they used was not a trade secret. Instead,
3 the employee would have lost every such case. *See* Opening Brief at 3-6 (citing cases and a
4 study of all relevant California cases since the 1800s).

5 The Court need not specifically rule on this analysis, as UTSA preemption would apply
6 regardless how things stood in decades past. But when Defendants directly challenged
7 SunPower to show that its theory of a second category of intellectual property for "non trade
8 secret information" ever existed under California law before the UTSA was enacted, SunPower
9 failed to come up with a single case in its favor.

10 Indeed – and whether discussing conversion, trespass to chattels, breach of confidence,
11 common law unfair competition, interference with prospective economic advantage, or section
12 17200 – SunPower did not find a single historical case where a court held that commercial
13 information said to have been shared in confidence could be protected under a second layer of IP
14 protection even if it wasn't a trade secret. SunPower did not find a single historical case holding
15 that California courts envision a second, back-up layer of intellectual property protection for
16 commercial information said to have been shared in confidence where the plaintiff subjectively
17 labels the information as "non-trade secret but confidential" or some similar phrase.

18 In the absence of any such cases, SunPower argues that because claims for conversion,
19 trespass, and the like have existed for qualitatively different subject matter like website domain-
20 squatting, unauthorized entry into telephone systems to make long-distance calls, taking of
21 company stock, or taking of copies of music recordings or physical index cards, this somehow
22 means that California historically recognized a second category of intellectual property
23 protection for commercial information, said to have been shared in confidence, that did not meet
24 the requirements for trade secret protection.

25 But not one of the cases SunPower cited (all of which were commonly cited in motion
26 practice before March 2009, when litigants sought to convince courts to adopt the minority
27 position) dealt with intellectual property protection for commercial information, said to have
28 been shared in confidence, that did not meet the requirements for trade secret protection. Not

1 one of them holds that California allows a second, back-up category of intellectual property for
2 failed trade secret claims. Not one of them holds that the requirements of trade secret law ought
3 to be easily circumvented by changing the label of the cause of action. And, needless to say, not
4 one of them addressed California's rules for how comprehensive statutory enactments preempt
5 the common law, California's history of statutory preemption under various Uniform Acts, how
6 relevant legislative history applies to statutory interpretation, and how the strong public policy
7 reflected by California's Business and Professions Code section 16600 places limits on the
8 claims that former employers can bring against their former employees.

9 Such cases therefore are not authority for SunPower's theories, because cases do not
10 stand for propositions they do not address. *See People v. Frazier*, 128 Cal. App. 4th 807, 825
11 (2005) (cases do not provide authority for propositions not addressed); *In re Magnacom*
12 *Wireless, LLC*, 503 F. 3d 984, 993-94 (9th Cir. 2007) (“[s]tatements made in passing, without
13 analysis, are not binding precedent.”)).

14 A good example of SunPower's stretching and straining comes in its discussion of its
15 conversion cause of action. As noted, *Silvaco* specifically rejected SunPower's exact theory of
16 conversion in its Footnote 22. Defendants explained, correctly, that because the California
17 appellate courts twice ruled back in the 1920s that “conversion” was not a proper vehicle for a
18 trade secret-type claim against former employees, that cause of action has never historically
19 existed as an alternative means to litigate a failed trade secret claim. SunPower points to no
20 contrary cases, because none exist. Instead, SunPower points to a Ninth Circuit decision about
21 website domain squatting that had nothing to do with alleged misuse of commercial information
22 said to have been shared in confidence, *Kremen v. Cohen*, 337 F.3d 1024, 1031 (9th Cir. 2003),
23 and notes that Judge Kozinski, in dicta, criticized those 1920s rulings when discussing the
24 general concept that conversion need not always be limited to tangible property.

25 SunPower then extrapolates from this dicta that UTSA preemption does not apply, and
26 that California law recognizes a second category of intellectual property protection that would
27 encompass failed trade secret claims. But *Kremen* says no such thing, and regardless what Judge
28 Kozinski thinks of the 1920s cases, Defendants' point that California courts did not historically

1 allow conversion claims for trade secret-type fact patterns in the pre-UTSA period remains
2 unchallenged.

3 The same pattern applies to SunPower’s discussion of all of its other causes of action:
4 misdirection, citation to cases about qualitatively different subject matter, and extrapolation of
5 holdings that plainly do not exist. This is not persuasive when compared to Defendants’
6 exhaustive discussion of California history, rules for statutory interpretation, legislative history,
7 public policy in favor of employee mobility, and binding appellate cases.

8 **F. Conclusion Regarding UTSA Preemption.**

9 A good way to summarize the arguments concerning UTSA preemption is to look again
10 at the legislative history Defendants submitted, showing that the statutory intent was to create a
11 “substitution of unitary definitions of trade secret and trade secret misappropriation, and a single
12 statute of limitations for the various property, quasi-contractual, and violation of fiduciary
13 relationship theories of noncontractual liability utilized at common law”. See Opening Brief,
14 Declaration, Exhibit A.

15 SunPower’s position here is exactly the opposite: it wants to bring “property” theories
16 such as conversion and “quasi-contractual” or “violation of fiduciary relationship” theories such
17 as breach of confidence in place of the unitary definitions, rules, and requirements that the UTSA
18 enacted.

19 What SunPower wants is simple: it does not like the UTSA’s procedural and substantive
20 requirements, it does not like the holdings in *K.C. Multimedia* and *Silvaco*, and it therefore
21 embarked on a creative theory to pretend that its claims are transformed into something
22 qualitatively different than a trade secret fact pattern if it changes the words it uses to describe
23 those claims. It wants nothing short of a new category of intellectual property – covering
24 information that is unpatented, not copyrightable, and that fails to meet the criteria for UTSA
25 trade secret protection.

26 That is a radical demand with far-reaching implications. No California court or
27 legislature has ever hinted that the law should be so transformed. Everything in California law,
28 history, and policy goes in the opposite direction. This Court should follow *K.C Multimedia* and

1 *Silvaco*, dismiss SunPower’s alternative tort claims as a matter of law, and put an end to this
2 naked effort to restructure California trade secret law.

3 **G. Plaintiff’s Prospective Economic Advantage Claim Fails for Other Reasons.**

4 Defendants noted that SunPower’s interference claim also fails because Plaintiff failed to
5 identify the third parties which whom it claims it had a prospective economic advantage. In
6 opposition, SunPower does not deny the case law Defendants cited. Instead – acting as if it has
7 never heard of a protective order or sealing portions of a filing – SunPower argues that it “has no
8 obligation to publicly disclose its confidential information by alleging the customers by name in
9 its Complaint.” This is no opposition at all to the substantive legal point Defendants raised, and
10 it also impliedly concedes that SunPower’s claim shares the same common nucleus of facts as a
11 trade secret claim, and thus is UTSA-preempted. Because SunPower has pointed to no authority
12 to overcome the many cases Defendants cited, the claim fails for this reason as well.

13 **III. CONCLUSION**

14 For all of these reasons, Defendants respectfully request that the Court dismiss Plaintiff’s
15 claims for Fourth through Ninth Causes of Action without leave to amend.

16 Dated: October 18, 2012

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

18 By: /s/ _____
19 ULRICO S. ROSALES
urosales@wsgr.com

20 Attorneys for Defendant
SolarCity Corporation

ONGARO BURTT & LOUDERBACK LLP

23 By: /s/ _____
24 DAVID R. BURTT
dburtt@obllaw.com

25 Attorneys for Defendants
26 Tom Leyden, Matt Giannini, Dan Leary,
27 Felix Aguayo, and Alice Cathcart

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ATTESTATION PURSUANT TO GENERAL ORDER 45

I, Koray J. Bulut, am the ECF User whose identification and password are being used to file the **REPLY BRIEF IN SUPPORT OF DEFENDANTS’ PARTIAL MOTION TO DISMISS (Rule 12(b)(6))**. In compliance with General Order 45, X.B., I hereby attest that David Burt, counsel for Defendants Tom Leyden, Matt Giannini, Dan Leary, Felix Aguayo, and Alice Cathcart, has concurred in this filing.

Dated: October 18, 2012

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

By: /s/ _____
Koray J. Bulut

*Counsel for Defendant
SolarCity Corporation*