

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: dburt@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) CASE NO.: CV 12-00694 LHK
19 corporation,)
20 Plaintiff,) **DEFENDANTS' PARTIAL MOTION**
21 v.) **TO DISMISS (Rule 12(b)(6))**
22 SOLARCITY CORPORATION, a Delaware) Date: November 8, 2012
23 corporation; TOM LEYDEN, an individual;) Time: 1:30 p.m.
24 MATT GIANNINI, an individual; DAN LEARY,) Courtroom: 8
and FELIX AGUAYO, an individual;) Judge: The Honorable Lucy H. Koh
25 and ALICE CATCHART, an individual,)
Defendants.)

26
27
28

TABLE OF CONTENTS

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

	<u>Page</u>
I. INTRODUCTION.....	1
II. FACTUAL ALLEGATIONS.....	2
III. ARGUMENT	3
A. Legal Standard: Rule 12(b)(6) Motion to Dismiss.....	3
B. Plaintiff’s Alternative Claims Never Existed under California Law.	3
C. Even if the Plaintiff’s Alternative Claims had Existed Historically, the California UTSA Would Now Preempt Them.	6
1. UTSA Preemption by Operation of Common Law.....	7
2. UTSA Preemption by Operation of Statute.....	8
3. The Legislative History Supports Broad UTSA Preemption.	10
4. California Courts Reject Plaintiff’s Theory.	10
5. Other State Supreme Courts Favor the Majority Position.....	12
6. Better-Reasoned District Court Cases Take the Majority Position.	13
7. Plaintiff’s Minority Position Theory Would Nullify the UTSA.	15
8. UTSA Preemption at the Pleading Stage is Important for this Case.....	16
D. Plaintiff’s Prospective Economic Advantage Claim Fails for Other Reasons.	18
IV. CONCLUSION	19

TABLE OF AUTHORITIES

		<u>Page</u>
1	CASES	
2		
3		
4	<i>Accuimage Diagnostics Corp. v. Terarecon, Inc.</i> , 260 F. Supp. 2d 941 (N.D. Cal. 2003).....	14, 18
5	<i>Adkins v. Model Laundry Co.</i> , 92 Cal. App. 575 (1928).....	5
6	<i>AirDefense, Inc. v. AirTight Networks, Inc.</i> , 2006 WL 2092053 (N.D. Cal. July 26, 2006).....	14
7	<i>Alvarado v. Federal Express Corp.</i> , 2008 WL 2340211 (N.D. Cal. June 5, 2008)	13
8	<i>American Paper & Packaging Prods. v. Kirgan</i> , 183 Cal. App. 1318 (1986).....	16
9	<i>American Philatelic So’y v. Claibourne</i> , 3 Cal.2d 689 (1935)	6
10	<i>Amron Int’l Diving Supply, Inc. v. Hydrolinx Diving Comm., Inc.</i> , 2011 WL 5025178 (S.D. Cal. Oct. 21, 2011).....	15
11	<i>Art of Living Found. v. Does</i> , 2011 WL 2441898 (N.D. Cal. June 15, 2011)	16
12	<i>Ashcroft v. Iqbal</i> , 129 S.Ct. 1937 (2009)	2, 3, 18, 19
13	<i>Batdorf v. Trans Union</i> , 2000 WL 635455 (N.D. Cal. May 8, 2000).....	2
14	<i>Bell Atlantic Corp. v. Twombly</i> , 127 S.Ct. 1955 (2007)	2, 3, 18, 19
15	<i>Bishop v. Hyundai Mtr. Am.</i> , 44 Cal. App. 4th 750 (1996).....	8
16	<i>BlueEarth Biofuels, LLC v. Hawaiian Elec. Co., Inc.</i> , 235 P.3d 310 (Haw. 2010)	12
17	<i>Briseno v. City of Santa Ana</i> , 6 Cal. App. 4th 1378 (1992)	8, 10
18	<i>Burbank Grease Serv., LLC v. Sokolowski</i> , 717 N.W.2d 781 (Wisc. 2006).....	12
19	<i>Buxton v. Eagle Test Sys., Inc.</i> , 2010 WL 1240749 (N.D. Cal. Mar. 26, 2010).....	18
20	<i>Cacique, Inc. v. Robert Reiser & Co.</i> , 169 F.3d 619 (9th Cir. 1999).....	14
21	<i>Cadence Design Systems, Inc. v. Avant! Corp.</i> , 29 Cal. 4th 215 (2002).....	10
22	<i>Camreta v. Greene</i> , 131 S.Ct. 2020 (2011).....	13
23	<i>Cell-Tech Comm., Inc. v. Los Angeles Cell. Tech. Co.</i> , 20 Cal.4th 163 (1999).....	6
24	<i>Cenveo Corp. v. Slater</i> , 2007 WL 527720 (E.D. Pa. Feb. 12, 2007)	11, 12, 15
25	<i>Computer Economics, Inc. v. Gartner Group, Inc.</i> , 1999 WL 331778020 (S.D. Cal. 1999).....	17
26	<i>Convolve, Inc. v. Compaq Computer Corp.</i> , 2006 WL 839022 (S.D.N.Y. Mar. 31, 2006).....	14

1 *Diamond Power Int’l, Inc. v. Davidson*, 540 F. Supp. 2d 1322,1345-46 (N.D. Ga.
2007)..... 14

2 *Dicks v. Jensen*, 768 A.2d 1279 (Vt. 2001)..... 12

3 *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025 (N.D. Cal. 2005) 14

4 *Don King Prod./Kingvision v. Lovato*, 911 F. Supp. 419 (N.D. Cal. 1995) 5

5 *Flexible Lifeline Sys., Inc. v. Precision Lift, Inc.*, 654 F.3d 989 (9th Cir. 2011) 16

6 *Fortna v. Martin*, 158 Cal. App. 2d 634 (1958)..... 4

7 *Frantz v. Johnson*, 999 P.2d 351 (Nevada 2000) 12

8 *Fremont Indem. Co. v. Fremont Gen. Corp.*, 148 Cal. App. 4th 97 (2007)..... 5

9 *Gil v. Bank of Am., Nat’l Assn.*, 138 Cal. App. 4th 1371 (2006)..... 9

10 *Hauck Mfg. Co. v. Astec Indus., Inc.*, 375 F. Supp. 2d 649 (E.D. Tenn. 2004) 14

11 *Heller v. Cepia, LLC*, 2012 WL 13572 (N.D. Cal. Jan. 4, 2012)..... 14

12 *I.E. Assoc. v. Safeco Title Ins. Co.*, 39 Cal. 3d 281 (1985) 8

13 *Jardin v. DATAlegro*, 2011 WL 3300152 (S.D. Cal. July 29, 2011)..... 14

14 *Joffe v. United Cal. Bank*, 141 Cal. App. 3d 541 (1983) 9

15 *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 171 Cal. App. 4th
16 939 (2009) 11, 15

17 *Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal. 4th 1134 (2003)..... 18

18 *Kremen v. Cohen*, 337 F.3d 1024 (9th Cir. 2003)..... 5

19 *Las Tunas Beach Geologic Hazard Abatement Dist. v. Superior Court*, 38 Cal.
20 App. 4th 1002 (1995) 9

21 *Leatt Corp. v. Innovative Safety Tech., LLC*, 2010 WL 2803947 (S.D. Cal. July 15,
2010)..... 15

22 *Mattel, Inc. v. MGA Ent’t, Inc.*, 782 F. Supp. 2d 911 (C.D. Cal. 2011)..... 14

23 *Matthews Paint Co. v. Seaside Paint and Lacquer Co.*, 148 Cal. App. 2d 168
24 (1957) 16

25 *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652 (N.H. 2006)..... 12

26 *Olshewski v. Hudson*, 87 Cal. App. 282 (1927) 5

27 *Pacific Scene, Inc. v. Penasquitos, Inc.*, 46 Cal. 3d 407 (1988) 8

28 *Palantir Tech., Inc. v. Palantir.net*, 2011 WL 62411 (N.D. Cal. Jan. 7, 2011) 2

Payne v. Elliot, 54 Cal. 339 (1880)..... 5

1 *People v. Frazier*, 128 Cal. App. 4th 807 (2005)..... 15

2 *RK Ent., LLC v. Pro-Comp Mgmt, Inc.*, 158 S.W.3d 685 (Ark. 2004) 12

3 *Robbins v. Supermarket Sales, LLC v. Supermarket Equip. Sales, LLC*, 722 S.E.2d
 4 55 (Ga. 2012)..... 12

5 *Sargent Fletcher, Inc. v. Able Corp.*, 110 Cal. App. 4th 1658 (2003) 16

6 *Savor, Inc. v. FMR Corp.*, 812 A.2d 894 (Del. 2002)..... 12

7 *Scandinavian Air Serv. v. United Aircraft*, 601 F.2d 425 (9th Cir. 1979) 13

8 *Silicon Knights, Inc. v. Crystal Dynamics, Inc.*, 983 F. Supp. 1303 (N.D. Cal. 1997) 18

9 *Silicon Labs Integration, Inc. v. Melman*, 2010 WL 890140 (N.D. Cal. Mar. 8,
 2010)..... 18

10 *Silvaco Data Systems v. Intel Corp.*, 184 Cal. App. 4th 210 (2010) *overruled in part*
 11 *on unrelated ground, Kwikset v. Superior Court*,
 51 Cal.4th 310 (2011)..... 11, 12, 14, 15, 17

12 *Thacker v. FCC*, 503 F. 3d 984 (9th Cir. 2007) 16

13 *Thomas v. Quintero*, 126 Cal. App. 4th 635 (2005)..... 9

14 *Thompson v. Impaxx, Inc.*, 113 Cal. App. 4th 1425 (2003) 4

15 *TPS Utilicom Serv., Inc. v. AT&T Corp.*, 223 F. Supp. 2d 1089 (C.D. Cal. 2002)..... 18

16 *Van de Kamp v. Gumbiner*, 221 Cal. App. 3d 1260 (1990) 8, 10

17 *Vernon v. City of Los Angeles*, 27 F.3d 1385 (9th Cir. 1994)..... 13

18 *VSL Corp. v. General Tech., Inc.*, 46 U.S.P.Q.2d 1356 (N.D. Cal. 1998) 17

19 *Weins v. Sporleder*, 605 N.W.2d 488 (South Dakota 2000) 12

20 *West v. Amer. Tel & Tel. Co.*, 311 U.S. 223 (1940)..... 13

21 *Westside Center Assoc. v. Safeway Stores 23, Inc.*, 42 Cal. App. 4th 507 (1996) 18

22 *Wolfe Elec. Inc v. Duckworth*, _ P.3d _, 293 Kan. 375 (Kan. 2011)..... 13

23 *XpertUniverse, Inc. v. Cisco Sys., Inc.*, 2011 WL 1226365 (D. Del. March 28,
 24 2011)..... 14

25 *Zengen, Inc. v. Comerica Bank*, 41 Cal.4th 239 (2007) 8, 9, 12, 13

26 **STATUTES**

27 Cal. Bus. & Prof. Code § 16600..... 4

28 Cal. Civ. Code. § 3426.1 16

Cal. Civ. Code § 3426.1(a)..... 16

1	Cal. Civ. Code § 3426.1(d)(2).....	16
2	Cal. Civ. Code § 3426.3	17
3	Cal. Civ. Code § 3426.4	17
4	Cal. Civ. Code § 3426.7(a).....	9
5	Cal. Civ. Code § 3426.7(b)	9
6	Cal. Civ. Code. § 3426.8.....	13
7	Cal. Civ. Proc. Code § 2019.210.....	8, 16
8	Cal. Civ. Proc. Code § 3426-3426.11	7, 8
9	Cal. Gov. Code § 6254.7.....	9
10	California Business & Professions Code section 17200.....	3, 6, 19
11	Code § 1060	9
12	Code § 14022	9
13	RULES	
14	Rule 12(b)(6) of the Federal Rules of Civil Procedure.....	1
15	Rules 7-1 and 7-2	1
16	Rule 12(b)(6).....	3, 17
17	MISCELLANEOUS	
18	2011 WL 1375311, *3 (S.D. Cal. Apr. 12, 2011).....	14
19	<i>Graves, Nonpublic Information and California Tort Law</i>	4
20	Pooley et al., TRADE SECRETS PRACTICE IN CALIFORNIA § 2.32 (2010)	4
21	WRIGHT & MILLER, FED. PRACTICE & PROC. § 1346 (2010)	2
22		
23		
24		
25		
26		
27		
28		

Notice of Motion

PLEASE TAKE NOTICE that, pursuant to Rule 12(b)(6) of the Federal Rules of Civil Procedure and Civil Local Rules 7-1 and 7-2, on November 8, 2012 at 1:30 p.m. or as soon thereafter as this matter may be heard, Defendants will and hereby do move this Court to dismiss six of Plaintiff SunPower's causes of action for failure to state a claim. This motion is based on this Notice, the Memorandum of Points and Authorities, the Declaration of Koray Bulut, and the Proposed Order filed with this Notice.

Defendants seek an order dismissing six of Plaintiff's causes of action because they do not exist under California law and would be preempted by the Uniform Trade Secrets Act if they did exist, and one cause of action because Plaintiff did not allege facts to state a claim.

Memorandum of Points and Authorities**I. INTRODUCTION**

By this motion, Defendants respectfully request an order dismissing six of Plaintiff's twelve causes of action for failure to state a claim. Six claims are alleged under a legal theory that does not exist in California law, and the Uniform Trade Secrets Act would preempt them if the theory did exist. One claim also fails because Plaintiff does not properly plead it.

Plaintiff alleges that the individual defendants engaged in unlawful computer access, that they took customer- and business-related information, and thus misappropriated trade secrets. Whatever the ultimate merits, this portion of the Complaint is run-of-the-mill.

But there is more: Plaintiff seeks to radically rewrite California's intellectual property laws and create a new category of IP protection for something it calls "non-trade secret proprietary information." To that end, Plaintiff alleges six alternative tort claims, with labels such as "conversion" and "trespass to chattels."

Plaintiff's goal is obvious, given the flurry of motion practice and case law in recent years on the issue of Uniform Trade Secrets Act preemption of alternative tort claims. Specifically, Plaintiff wants to plead around the UTSA and give itself a fallback, insurance position where the Defendants could be liable even if the information at issue turns out not to be secret. Plaintiff, in short, wants to nullify the UTSA's secrecy requirement, and thus rewrite the

1 balance California's legislature struck between the interests of employers, former employees,
2 and those who hire them. In this too-good-to-be-true scenario, the UTSA would be rendered
3 superfluous, and California's employee mobility rules would be radically narrowed.

4 Whether Plaintiff can plead such claims is a question of law. The answer is "no," for two
5 simple reasons: first, California never recognized claims against former employees for "non-
6 trade secret proprietary information," even before the UTSA was enacted in 1985. Second, even
7 if such claims had existed historically, the UTSA would preempt them. Indeed, California's
8 courts have made absolutely clear that California follows the majority position on UTSA
9 preemption – a position which prohibits such claims.

10 Specifically, the California UTSA preempts causes of action that repackage trade secret
11 claims under a different label in order to reduce the elements the plaintiff must prove. The
12 California Supreme Court's rules for interpretation of state statutes, the UTSA itself, its
13 legislative history, and controlling California cases all make clear that the UTSA occupies the
14 field and bars alternative tort claims for misuse of commercial information said to be protectable
15 but not "secret." This statutory preemption promotes uniformity among the states that have
16 enacted the UTSA, and prevents parties from avoiding the UTSA's rights, remedies, burdens of
17 proof, and procedural requirements by relabeling a trade secret claim.

18 Separately, Plaintiff alleges in conclusory fashion that Defendants have interfered with its
19 prospective economic relations with customers, but it fails to name a single such customer and
20 fails to allege any facts that, under *Twombly* and *Iqbal*, could support that cause of action. As a
21 result, Defendants respectfully request that the Court dismiss Causes of Action 4-6, 8, and 9.¹

22 II. FACTUAL ALLEGATIONS

23 Plaintiff alleges that it owns trade secrets in unspecified customer-related information and
24

25 ¹ Defendants will file their respective Answers to the Complaint after the motion challenging
26 the pleadings is resolved, as the courts permit when there is a partial motion to dismiss. *See*
27 *Palantir Tech., Inc. v. Palantir.net*, 2011 WL 62411, *2 (N.D. Cal. Jan. 7, 2011) (partial motion
28 to dismiss stays time to answer remaining claims); *Batdorf v. Trans Union*, 2000 WL 635455, *5
(N.D. Cal. May 8, 2000) (same); WRIGHT & MILLER, FED. PRACTICE & PROC. § 1346 (2010).
Defendants reserve their rights to challenge the remaining causes of action on the pleadings.

1 other commercial information. Plaintiff alleges that Defendants violated the Uniform Trade
2 Secrets Act. Plaintiff also alleges that the individual defendants breached contracts, violated two
3 computer access statutes, and engaged in a conspiracy. *See* Complaint ¶¶ 56-117, 156-73.

4 Separately – and in an open effort to plead around the Uniform Trade Secrets Act and
5 render information protectable under California law even if it turns out to be non-secret –
6 Plaintiff alleges a host of backup, alternative causes of action. In each, Plaintiff contends that it
7 owns information under state law labeled as “non-trade secret proprietary information.” *See*
8 Complaint ¶¶ 120, 126, 132, 142, 149, 154.

9 These claims are (1) Breach of Confidence (Fourth Cause of Action); (2) Conversion
10 (Fifth Cause of Action); (3) Trespass to Chattels (Sixth Cause of Action); (4) Tortious
11 Interference with Prospective Economic Advantage (Seventh Cause of Action) (5) Common Law
12 Unfair Competition (Eighth Cause of Action); and (6) Unfair Competition under California
13 Business & Professions Code section 17200 (Ninth Cause of Action). *See* Complaint ¶¶ 73-165.

14 **III. ARGUMENT**

15 **A. Legal Standard: Rule 12(b)(6) Motion to Dismiss.**

16 In the face of a Rule 12(b)(6) motion to dismiss, conclusory assertions unsupported by
17 facts and formulaic recitation of the elements of a claim are insufficient. *See Ashcroft v. Iqbal*,
18 129 S.Ct. 1937, 1951 (2009); *Bell Atlantic Corp. v. Twombly*, 127 S.Ct. 1955, 1964-65 (2007).

19 **B. Plaintiff’s Alternative Claims Never Existed under California Law.**

20 Using the labels “conversion,” “breach of confidence,” “trespass to chattels,” and
21 “common law unfair competition” – claims which are then piggybacked onto two additional
22 causes of action – Plaintiff alleges that departing employees took and misused “non-trade secret
23 proprietary information.” This is an intellectual property claim, because Plaintiff seeks to
24 control the use and dissemination of intangible commercial information. Plaintiff does not, by
25 contrast, allege misuse of tangible property, or trespass upon real property.

26 Plaintiff invented these claims: there is no such thing, as a matter of California law, as a
27 tort claim against a departing employee (or the company that hires the employee) for misuse of
28 “non-trade secret proprietary information.”

1 Indeed, using the word “proprietary” – which means having an ownership interest in
2 something – only begs the question of what provision of positive law could give Plaintiff a
3 property right in such information. If Plaintiff claims to own information protected by federal
4 law – patents, copyrights, trademarks, or trade dress – it would have raised such claims. Plaintiff
5 has separately raised a specific UTSA trade secret claim (seemingly for the exact same customer-
6 and business-related information). So what could be left?

7 The answer is nothing. When a former employer sues a departing employee (and/or the
8 new employer), California’s strong public policy in favor of employee mobility has historically
9 limited the employer’s claim to trade secret law: information that is (1) not generally known, (2)
10 that is the subject of reasonable security measures, and (3) that has at least some value to
11 competitors. There was never such thing as an alternative tort claim under which a former
12 employer could sue a former employee for “non-secret” information that did not satisfy those
13 three criteria. That is one reason California law famously prohibits non-competition agreements
14 in employment contracts (except for contract terms barring trade secret misuse).

15 Commercial information under California law is either a UTSA trade secret, subject to a
16 contractual secrecy obligation, subject to the patent, copyright, or trademark laws, or freely
17 available for anyone to use. *See* Cal. Bus. & Prof. Code § 16600; *Thompson v. Impaxx, Inc.*, 113
18 Cal. App. 4th 1425 (2003) (collecting pre-UTSA and post-UTSA cases; making clear that
19 attempt to bar employee from using non-secret information after resignation is an illegal trade
20 restraint under section 16600); Pooley et al., *TRADE SECRETS PRACTICE IN CALIFORNIA* § 2.32
21 (2010) (“The dividing line between what §16600 prohibits and what it allows is straightforward:
22 If information is nonsecret, the statute permits former employees to use it; if information is secret
23 (nonpublic), the statute allows contracts barring use of that information.” (citing *Fortna v.*
24 *Martin*, 158 Cal. App. 2d 634, 639 (1958)); Graves, *Nonpublic Information and California Tort*
25 *Law*, 10 UCLA J. OF LAW. & TECH. 1 (2006) (outlining history of California intellectual property
26 claims from the nineteenth century to the UTSA’s enactment in 1985; concluding that no such
27 claims existed against departing employees) (PDF available online).

28 If it were otherwise, every defendant who historically prevailed in the many published

1 California decisions by showing that information was not secret would have lost instead, because
2 the plaintiff would still have been able to proceed even if the information were not secret. An
3 examination of Plaintiff's specific claims shows that none exist under California law:

4 • **Conversion:** The California courts ruled long ago that conversion is not a proper
5 cause of action for customer list-based accusations against departing employees – the same fact
6 pattern Plaintiff alleges here. *See Olshewski v. Hudson*, 87 Cal. App. 282, 286 (1927) (rejecting
7 conversion claim for trade secret-type customer list fact pattern); *Adkins v. Model Laundry Co.*,
8 92 Cal. App. 575, 583 (1928) (same). More specifically, no California court has ever allowed a
9 conversion claim for intangible information said to be “non-trade secret proprietary
10 information.” And Plaintiff does not allege facts to support the extremely limited types of
11 intangible information on which courts have recognized conversion claims (such as improper
12 control of an Internet domain, withholding of fixed monies, diversion of fixed and specific
13 broadcasts, or misuse of intangibles that must be embodied in a specific tangible document).
14 *See, e.g., Kremen v. Cohen*, 337 F.3d 1024, 1031 (9th Cir. 2003) (cybersquatting on an Internet
15 domain); *Fremont Indem. Co. v. Fremont Gen. Corp.*, 148 Cal. App. 4th 97, 119-26 (2007)
16 (monies relating to reduced tax liability); *Don King Prod./Kingvision v. Lovato*, 911 F. Supp.
17 419, 426 (N.D. Cal. 1995) (satellite television transmission); *Payne v. Elliot*, 54 Cal. 339, 341
18 (1880) (shares in stock certificates).

19 • **Trespass to Chattels:** Likewise, there is no historical California case where a former
20 employer was permitted to allege an intellectual property claim against a departing employee
21 under a trespass to chattels label – much less for “non-trade secret proprietary information.” *See*
22 *generally Graves, supra* (claim not listed among the host of pre-UTSA claims brought against
23 former employees in California); *Olshewski*, 87 Cal. App. 2d at 288 (explaining in detail why a
24 trade secret-type claim for customer lists is not cognizable in trover or trespass to chattels, for the
25 same reasons the plaintiff's conversion claim was not cognizable).

26 • **Breach of Confidence:** The same is true for breach of confidence. The tort did exist
27 historically, before the UTSA was enacted, but not as a vehicle to sue departing employees, and
28 certainly not to sue departing employees for information said to be “non-trade secret” and

1 “proprietary.” *See* Graves, *supra* ¶¶ 49-50 (discussing history of claim in California).

2 • **Common Law Unfair Competition:** There are two types of common law unfair
3 competition. First, “unfair competition” was a common label for a trade secret claim in the
4 decades before the UTSA was enacted. No such cases permitted liability against departing
5 employees for “non-trade secret proprietary information.” *See id.* ¶¶ 48 (explaining history of
6 claim). All such claims are now preempted by the UTSA, as discussed below. Second, and
7 entirely separately, “common law unfair competition” is a tort claim for palming-off, where the
8 defendant passes off the plaintiff’s goods as its own or hijacks its goodwill. *See, e.g., Cell-Tech*
9 *Comm., Inc. v. Los Angeles Cell. Tech. Co.*, 20 Cal.4th 163, 193 (1999) (explaining nature of
10 claim); *American Philatelic Soc’y v. Claibourne*, 3 Cal.2d 689, 697-99 (1935) (example of a
11 common law unfair competition claim involving deceitful sales).

12 In summary, Plaintiff’s made-up theory never existed historically under California law.
13 Plaintiff deliberately invented it here as an attempt to create a non-existent category of California
14 intellectual property law. Because no such category exists, and because recognition of such a
15 category would conflict with decades of California law and its oft-expressed public policy in
16 favor of employee mobility, these four causes of action should be dismissed, and Plaintiff’s
17 claims for tortious interference with prospective economic advantage and unfair competition
18 under section 17200 should be dismissed because they depend upon such claims.

19 **C. Even if the Plaintiff’s Alternative Claims had Existed Historically, the**
20 **California UTSA Would Now Preempt Them.**

21 Even if Plaintiff’s alternative tort claims had historically existed under California’s trade
22 secret and employee mobility laws, California’s UTSA would nonetheless preempt them as a
23 matter of law.

24 UTSA preemption disputes sometimes arise when a plaintiff attempts to raise an old-
25 fashioned, pre-UTSA trade secret cause of action, such as “common law trade secret
26 misappropriation” – causes of action that were historical vehicles for trade secret claims before
27 the UTSA was enacted on January 1, 1985. Here, as set forth above, Plaintiff’s claims do not
28 have even the benefit of that sort of pedigree. Thus, we begin the UTSA preemption analysis in

1 an unusual posture: Plaintiff seeks to proceed on a theory that never existed before the UTSA
2 was enacted, and to do so despite the UTSA's now firmly established preemptive effect.

3 Around the country, there is a split – a majority position and a minority position – as to
4 whether a plaintiff can deliberately plead around the UTSA by alleging alternative tort or
5 statutory claims aimed at creating state law intellectual property protection for commercial
6 information that proves to be non-secret. Because the UTSA imposes a secrecy requirement and
7 does not allow parties to claim IP protection otherwise, trade secret plaintiffs have fought
8 mightily to convince courts that the UTSA is not really a “uniform” act, that the UTSA's secrecy
9 requirement is something that ought to be eliminated, and that the intent of the statute's drafters
10 was to allow plaintiffs to avoid the statute in cases where the application of the statute would
11 defeat the plaintiff's claim.

12 By 2010, the California appellate courts (and most federal district courts applying
13 California law) had conclusively settled the UTSA preemption question by expressly rejecting
14 the minority position, and by taking the broad, majority position. Specifically, California's
15 UTSA preempts *as a matter of law* any common law tort claims based upon misuse of business
16 information said to be “confidential” or “proprietary” but “not secret” – such as breach of
17 fiduciary duty, conversion, unjust enrichment, and the like. This rule of statutory preemption
18 results from the California Supreme Court's mandate in favor of statutory preemption (including
19 under other Uniform Acts), the text of the statute itself, the statute's legislative history in
20 California, California case law, and the majority practice in other jurisdictions.

21 Nonetheless, plaintiffs continue to press the issue, and some federal district courts have
22 issued slip rulings entirely inconsistent with California law, generally without reference to
23 controlling California principles. Here, for that reason, Defendants will explain in depth why
24 Plaintiff's obvious effort to plead around the UTSA is deficient as a matter of law.

25 **1. UTSA Preemption by Operation of Common Law.**

26 Voted into law in 1984, California's Uniform Trade Secrets Act provides a detailed and
27 comprehensive scheme to regulate claims concerning the alleged misuse of confidential
28 information. *See* Cal. Civ. Proc. Code § 3426-3426.11. The statute defines secrecy and non-

1 secrecy, ways to misappropriate information, defenses, remedies, sanctions, protective orders, a
2 statute of limitations, and other matters. *See id.* A discovery statute enacted alongside the
3 UTSA provides a mechanism for pre-discovery identification of claims. *See* Cal. Civ. Proc.
4 Code § 2019.210.

5 The California Supreme Court has set forth clear rules governing the preemptive effect of
6 such comprehensive statutes. Legislation which carefully describes the course of conduct
7 affected and spells out certain limitations “indicates a legislative intent that the statute should
8 totally supersede and replace the common law dealing with the subject matter” – even if there is
9 no express preemption clause included in the statute at issue. *See Pacific Scene, Inc. v.*
10 *Penasquitos, Inc.*, 46 Cal. 3d 407, 411 (1988) (holding that Corporations Code enactments
11 addressing corporate dissolution “precluded resort to dormant common law doctrines for the
12 provision of extra-statutory relief.”); *I.E. Assoc. v. Safeco Title Ins. Co.*, 39 Cal. 3d 281, 289
13 (1985) (foreclosure statutes occupy the field and impliedly barred claim premised on non-
14 statutory allegations against trustee).²

15 There is no question that the UTSA is a comprehensive statute encompassing its field.
16 Thus, even if the UTSA were silent on preemption of common law claims seeking state law
17 intellectual property protection for commercial information said to be confidential or proprietary,
18 the statute would have preemptive effect and displace such claims.

19 2. UTSA Preemption by Operation of Statute.

20 Separately, California courts enforce express preemption clauses contained in
21 comprehensive statutes (including other Uniform Acts) to preclude non-statutory tort claims
22 when parties seek to plead around the statute at issue. *See, e.g., Zengen, Inc. v. Comerica Bank*,
23 41 Cal.4th 239, 255 (2007) (applying preemption language in Uniform Commercial Code to bar
24 common law claims that sought to evade statute’s damages rules); *Bishop v. Hyundai Mtr. Am.*,

25
26 ² *See also Briseno v. City of Santa Ana*, 6 Cal. App. 4th 1378, 1382 (1992) (holding that
27 comprehensive Uniform Housing Code “has also impliedly preempted most local regulations”);
28 *Van de Kamp v. Gumbiner*, 221 Cal. App. 3d 1260, 1284 (1990) (Health and Safety Code
statutes precluded Attorney General from bringing suit with regard to certain health plans).

1 44 Cal. App. 4th 750, 757 (1996) (applying UCC preemption clause to reject extra-statutory
2 damages claims; “We are not free to ignore the Legislature’s unambiguous indication of intent
3 and supplement the Act’s statutory remedies with additional ones drawn from the law of torts.”);
4 *Las Tunas Beach Geologic Hazard Abatement Dist. v. Superior Court*, 38 Cal. App. 4th 1002,
5 1012 (1995) (applying preemption language in Government Code abatement statute to prohibit
6 city from resorting to common law, non-statutory procedures).³ Notably, and as discussed
7 below, one of the California appellate cases which ruled in favor of broad UTSA preemption
8 relied in part on the California Supreme Court’s holding in *Zengen* to do so.

9 As with these other California statutes, the California legislature incorporated a
10 preemption clause into the text of the UTSA. Under that provision, the only exceptions to the
11 UTSA’s preemption scheme are spelled out in the statute itself:

12 This title does not affect (1) contractual remedies, whether or not based upon
13 misappropriation of a trade secret, (2) other civil remedies that are not based upon
14 misappropriation of a trade secret, or (3) criminal remedies, whether or not based
15 upon misappropriation of a trade secret.

16 *See* Cal. Civ. Code § 3426.7(b). In other words, a party can allege a contract claim, and the
17 district attorney can bring a criminal trade secret proceeding, even if the plaintiff alleges a UTSA
18 claim. But a plaintiff cannot seek “other civil remedies” – tort or statutory claims – if they are
19 “based upon misappropriation of a trade secret.”⁴

20 ³ *See also Gil v. Bank of Am., Nat’l Assn.*, 138 Cal. App. 4th 1371, 1376, 1380 (2006)
21 (affirming UCC preemption of common law claims at demurrer stage); *Joffe v. United Cal.*
22 *Bank*, 141 Cal. App. 3d 541, 557-58 (1983) (same).

23 ⁴ Under the canons of statutory interpretation, the inclusion of two express exceptions
24 (criminal and contract actions) means that no additional exceptions are to be implied. *See, e.g.,*
25 *Thomas v. Quintero*, 126 Cal. App. 4th 635, 646 (2005) (applying the maxim of statutory
26 construction, *expressio unius est exclusio alterius*).

27 Separately, the UTSA does not preempt state statutes that regulate trade secrets. *See* Cal.
28 Civ. Code § 3426.7(a). This was a savings clause for statutes which existed on January 1, 1985
and which directly addressed trade secrets; it is not a clause that enables a litigant to raise
alternative claims to evade the UTSA. *See, e.g.,* Cal. Evid. Code § 1060 (treatment of trade
secrets in civil proceedings); Cal. Food & Ag. Code § 14022 (treatment of trade secrets
submitted to government during pesticide evaluations); Cal. Gov. Code § 6254.7 (same for air
pollution data).

3. The Legislative History Supports Broad UTSA Preemption.

On top of California's general rules for preemption and the UTSA's express preemption clause, the legislative history of the California UTSA clearly indicates its preemptive sweep.

When determining the preemptive effect of a statute, courts make use of the statute's legislative history. *See, e.g., Briseno*, 6 Cal. App. 4th at 1382 (Uniform Housing Law preemption; "One need only track the history of the state's housing laws to appreciate the Legislature's desire to preempt local regulation generally."); *Van de Kamp v. Gumbiner*, 221 Cal. App. 3d 1260, 1285 (1990) (health care plan preemption under Health and Safety Code; "The legislative history of the relevant enactments is consistent with the conclusion that the Legislature intended to . . . supercede any common law authority regarding regulation and supervision . . . by the Attorney General.").

The UTSA's California sponsor followed the national committee which drafted the UTSA when he forwarded the bill to the governor for final signature and explained its preemptive purpose:

The contribution of the Uniform Act is *substitution* of unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various *property, quasi-contractual, and violation of fiduciary relationship theories* of noncontractual liability utilized at common law.

See Declaration of Koray Bulut, Exhibit A (attaching September 1984 letter from Elihu Harris to Gov. Deukmajian and April 1983 excerpt from Digest for AB 501) (emphasis added). In other words, the whole point of the statute was to "substitute" *one* definition for claims about commercial information protectable under state law instead of allowing a situation where *more than one* such definition might apply.

4. California Courts Reject Plaintiff's Theory.

Even if no California state court had spoken on the question of UTSA preemption, these rules would be controlling. But the California courts have definitively and conclusively taken the majority position on UTSA preemption. To begin with, the California Supreme Court has strongly implied that the UTSA replaced the common law. In *Cadence Design Systems, Inc. v. Avant! Corp.*, 29 Cal. 4th 215, 224 (2002), the state Supreme Court noted that if a trade secret

1 case involved a fact pattern where the alleged misuse of information took place before and after
2 the UTSA's 1985 enactment date, there would be a common law claim for the pre-UTSA
3 misuse, while the UTSA would govern the period afterwards.

4 Second, two California Court of Appeals decisions have expressly ruled in favor of the
5 majority position on UTSA preemption, holding that the California UTSA broadly preempts
6 alternative tort claims as a matter of law, and that the minority position on UTSA preemption is
7 impermissible in California. *See Silvaco Data Systems v. Intel Corp.*, 184 Cal. App. 4th 210,
8 232-40 (2010) *overruled in part on unrelated ground, Kwikset v. Superior Court*, 51 Cal.4th 310,
9 337 (2011) (affirming UTSA preemption-based demurrer of alternative claims for conversion,
10 intentional and negligent interference, unfair competition, and common count, and explaining
11 reasons for preemption in detail); *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*,
12 171 Cal. App. 4th 939, 957-60 (2009) (same; affirming "broad" preemption of alternative claims
13 for unfair competition, breach of confidence, and tortious interference with contract in pretrial
14 trial court ruling based on the pleadings).

15 These twin rulings make clear that UTSA preemption applies at the pleading stage, and
16 applies whether or not the plaintiff's trade secret claim will ultimately succeed or fail. *See*
17 *Silvaco*, 184 Cal. App. 4th at 232, 236 (plaintiff lost trade secret claim on summary judgment);
18 *KC Multimedia*, 171 Cal. App. 4th at 945-46, 952-53 (plaintiff lost at trial on trade secret claim).

19 Crucially for this motion, the rulings make clear that a plaintiff cannot engage in artful
20 wordplay and assert that the information at issue is, for example, "confidential but not secret" or
21 "not secret but otherwise protectable" in order to avoid UTSA preemption. *See Silvaco*, 184 Cal.
22 App. 4th at 236, 238-39 & n.22. Indeed, *Silvaco* made clear that California "emphatically
23 rejects" the minority position on UTSA preemption. *Silvaco* did so by (1) repudiating one of the
24 leading minority position cases (a non-California ruling); and (2) making clear that a plaintiff
25 must affirmatively prove a property right in information that exists under "positive law," and
26 cannot make up a tort claim that the law has never recognized:

27 We emphatically reject the *Cenveo* court's suggestion that the uniform act was not
28 intended to preempt "common law conversion claims based on the taking of
information that, though not a trade secret, was nonetheless of value to the

1 claimant.” [citation] On the contrary, a prime purpose of the law was to sweep
 2 away the adopting states’ bewildering web of rules and rationales and replace it
 3 with a uniform set of principles for determining when one is – and is not – liable
 4 for acquiring, disclosing, or using “information . . . of value.” [citation] Central to
 5 the effort was the act’s definition of a trade secret. [citation] Information that does
 6 not fit this definition, and is not otherwise made property by some provision of
 7 positive law, belongs to no one, and cannot be converted or stolen. By permitting
 the conversion claim to proceed on a contrary rationale, the *Cenveo* court impliedly
 created a new category of intellectual property, far beyond the contemplation of the
 act, subsuming its definition of “trade secret” and effectively obliterating the
 uniform system it seeks to generate.

8 See at 184 Cal. App. 4th at 239 n.22 (rejecting the minority position as exemplified in *Cenveo*
 9 *Corp. v. Slater*, 2007 WL 527720, *4 (E.D. Pa. Feb. 12, 2007)). Notably, *Silvaco* relied on the
 10 California Supreme Court’s UCC preemption ruling in *Zengen*. See *id.* at 234.

11 5. Other State Supreme Courts Favor the Majority Position.

12 California is not alone in this common-sense interpretation of the UTSA. The majority of
 13 courts, especially those that have analyzed the issues surrounding UTSA preemption in detail,
 14 have taken the same position. This includes six of the seven state supreme courts which have
 15 ruled on UTSA preemption.⁵ The most recent, a 2010 decision by the Hawai’i Supreme Court,

17 ⁵ See *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co., Inc.*, 235 P.3d 310 (Haw. 2010)
 18 (describing the current state of UTSA preemption law nationwide, and siding with other state
 19 supreme courts in favoring the majority approach); *Mortgage Specialists, Inc. v. Davey*, 904
 20 A.2d 652, 665 (N.H. 2006) (affirming pre-trial order dismissing alternative claims, ruling that
 21 UTSA is intended as sole claim for trade secret misuse; strongly criticizing Wisconsin ruling in
 22 *Burbank Grease*); *RK Ent., LLC v. Pro-Comp Mgmt, Inc.*, 158 S.W.3d 685, 689-90 (Ark. 2004)
 23 (reversing trial court; finding broad preemption of alternative tort claim); *Robbins v.*
 24 *Supermarket Sales, LLC v. Supermarket Equip. Sales, LLC*, 722 S.E.2d 55, 58 (Ga. 2012)
 25 (approving prior Georgia case law to hold that allowing injunctive relief for information that
 26 failed to qualify as a trade secret “undermined the exclusivity of the GTSA.”; “The fact that the
 27 drawings were not ultimately found to be trade secrets under the act did not make the preemption
 28 clause inapplicable.”); *Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 898 (Del. 2002) (affirming
 preemption of unfair competition and conspiracy claims at the pleading stage); *Frantz v.*
Johnson, 999 P.2d 351, 357-58 (Nevada 2000) (reversing trial court and holding in favor of
 broad preemption of various alternative tort claims); *Weins v. Sporleder*, 605 N.W.2d 488, 492
 (South Dakota 2000) (reversing trial court and holding in favor of broad preemption; explaining
 that it would render the UTSA “meaningless” if a plaintiff’s trade secret claim is dismissed and
 “plaintiffs can simply pursue the same claim in the name of a tort.”); *Dicks v. Jensen*, 768 A.2d
 1279, 1285 (Vt. 2001) (holding that UTSA preemption applies to common law claims even if the
 information does not meet the statutory definition of a trade secret); *cf. Burbank Grease Serv.,*
LLC v. Sokolowski, 717 N.W.2d 781 (Wisc. 2006) (ruling, over passionate dissent, against
 preemption of alternative tort claims despite preemption clause in Wisconsin UTSA); *see also*
 (continued...)

1 includes a comprehensive review of the drafters' intent, conflicting cases around the country, and
 2 commentary, and ultimately rejects the concept that litigants can bring alternative claims for
 3 information said to be "confidential," but "not secret."

4 California's UTSA recognizes the precedential weight of these out-of-state UTSA
 5 decisions. Indeed, it expressly directs courts to "make uniform the law with respect to the subject
 6 matter of this title among states enacting it." *See* Cal. Civ. Code. § 3426.8.

7 **6. Better-Reasoned District Court Cases Take the Majority Position.**

8 Because California's general rules on statutory preemption, the UTSA's text, the UTSA's
 9 legislative history, the California case law, and the majority position's status as precedent under
 10 section 3426.8 together are controlling, there is no need to look to federal court rulings on UTSA
 11 preemption. Federal courts are bound by a state's Supreme Court on questions of state law, and
 12 "[w]here the state supreme court has not spoken on an issue presented to a federal court, the
 13 federal court must determine what result the state supreme court would reach based on state
 14 appellate court opinions, statutes, and treatises." *Vernon v. City of Los Angeles*, 27 F.3d 1385,
 15 1391 (9th Cir. 1994) (emphasis added); *see also Scandinavian Air Serv. v. United Aircraft*, 601
 16 F.2d 425, 429 (9th Cir. 1979) (decisions from the state's courts of appeal are data for
 17 determining how the highest state court would rule). "Decisions by intermediate appellate state
 18 courts are 'not to be disregarded by a federal court unless it is convinced by other persuasive data
 19 that the highest court of the state would decide otherwise.'" *Alvarado v. Federal Express Corp.*,
 20 2008 WL 2340211 at *6 (N.D. Cal. June 5, 2008) (*citing West v. Amer. Tel & Tel. Co.*, 311 U.S.
 21 223, 237 (1940)). By contrast, decisions about state law by other federal district courts are not
 22 binding. *See Camreta v. Greene*, 131 S.Ct. 2020, 2033 n. 7 (2011).

23 Here, the California Supreme Court has set forth a framework for the preemptive effect
 24 of comprehensive statutes, and it has shown in the *Zengen* case on UCC preemption that, indeed,
 25 express preemption clauses are to be broadly applied. In turn, two appellate cases and legislative
 26

27 (...continued from previous page)
 28 *Wolfe Elec. Inc v. Duckworth*, _ P.3d _, 293 Kan. 375 (Kan. 2011) (declining to reach question
 of UTSA preemption's scope and remanding to lower court for that determination).

1 history speak to the issue in question. Taken together, this authority is controlling.

2 Even if the Court were to consider federal district court cases which have ruled on UTSA
3 preemption under California law, a majority of federal cases – and all that have engaged in
4 significant analysis of the question – have held in favor of broad preemption. *See, e.g., Heller v.*
5 *Cepia, LLC*, 2012 WL 13572, *7 (N.D. Cal. Jan. 4, 2012) (following *Silvaco*); *Mattel, Inc. v.*
6 *MGA Ent't, Inc.*, 782 F. Supp. 2d 911, 986-87 (C.D. Cal. 2011) (same; “In an effort to align with
7 the California courts that have addressed this issue, the Court concludes that UTSA supersedes
8 claims based on the misappropriation of confidential information, whether or not that
9 information meets the statutory definition of a trade secret.”); *Digital Envoy, Inc. v. Google, Inc.*,
10 370 F. Supp. 2d 1025, 1034-35 (N.D. Cal. 2005) (UTSA preemption of several alternative claims
11 as a matter of law); *Accuimage Diagnostics Corp. v. Terarecon, Inc.*, 260 F. Supp. 2d 941, 953
12 (N.D. Cal. 2003) (comprehensive preemption ruling on a common law misappropriation claim).⁶

13 Looking beyond California’s UTSA, the better-reasoned district court decisions elsewhere
14 have also rejected the theory that Plaintiff advocates. *See, e.g., Diamond Power Int’l, Inc. v.*
15 *Davidson*, 540 F. Supp. 2d 1322,1345-46 (N.D. Ga. 2007) (carefully considering conflicting case
16 law, weighing public policies, and finding conversion claim preempted because it was based on
17 “the taking of supposedly proprietary information; “it would make little sense to go through the
18 rigmarole of proving information was truly a trade secret if a plaintiff could alternatively plead
19 claims with less burdensome requirements of proof.”); *Hauck Mfg. Co. v. Astec Indus., Inc.*, 375
20 F. Supp. 2d 649, 661 (E.D. Tenn. 2004) (lengthy analysis; “If the information is a trade secret, the
21 plaintiff’s claim is preempted; if not, the plaintiff has no legal interest upon which to base his
22

23 ⁶ Others include *Jardin v. DATAlegro*, 2011 WL 3300152, *2, 5 (S.D. Cal. July 29, 2011)
24 and 2011 WL 1375311, *3 (S.D. Cal. Apr. 12, 2011) (both following *Silvaco*); *XpertUniverse,*
25 *Inc. v. Cisco Sys., Inc.*, 2011 WL 1226365, *4 (D. Del. March 28, 2011) (applying majority
26 position under California law to preempt claims said to be premised on “other protectable
27 confidential and proprietary information in addition to trade secrets.”); *AirDefense, Inc. v.*
28 *AirTight Networks, Inc.*, 2006 WL 2092053, at *5 (N.D. Cal. July 26, 2006) (California UTSA
preemption at the pleading stage); *Convolve, Inc. v. Compaq Computer Corp.*, 2006 WL 839022,
*5-6 (S.D.N.Y. Mar. 31, 2006) (applying California UTSA to broadly preempt claims); *see also*
Cacique, Inc. v. Robert Reiser & Co., 169 F.3d 619, 624 (9th Cir. 1999) (affirming ruling that
party could not allege common law unfair competition to avoid California UTSA remedies).

1 claim. Either way, the claim is not cognizable.”).

2 **7. Plaintiff’s Minority Position Theory Would Nullify the UTSA.**

3 Plaintiff’s theory – that it can plead around the UTSA by seeking to protect information it
4 subjectively labels as “non-trade secret proprietary information” – reflects the minority position
5 on UTSA preemption that was rejected by *Silvaco* and by *K.C. Multimedia*. As *Silvaco*
6 explained, Plaintiff offers no provision of California positive law on which it could base a claim
7 that it owns property in such information, and it cannot use a label like “conversion” to invent a
8 property right out of nothing. *See Silvaco*, 184 Cal. App. 4th at 239 n.22.

9 Courts that have taken the minority position do so, as a rule, without considering the
10 issues raised above. In the *Cenveo* case that *Silvaco* “emphatically” rejected, for example, the
11 court simply expressed disbelief that the Pennsylvania UTSA would preempt causes of action
12 premised on non-secret information – without asking whether such claims really existed in the
13 first place, or whether allowing them would render the UTSA’s secrecy requirement and other
14 rules superfluous. Their net result is to destroy the UTSA, and replace it with an alternative, less
15 balanced regime where key defenses such as non-secrecy no longer apply.

16 Some district courts purporting to apply California law have taken the minority position
17 despite *K.C. Multimedia* and *Silvaco* (often without citing the latter, and never noting *Silvaco*’s
18 Footnote 22 which expressly rejects the minority position). For example, *Amron Int’l Diving*
19 *Supply, Inc. v. Hydrolinx Diving Comm., Inc.*, 2011 WL 5025178, *10 (S.D. Cal. Oct. 21, 2011),
20 did not cite *K.C. Multimedia* or *Silvaco*, and took an approach contrary to their holdings by
21 simply assuming that the plaintiff’s alternative claims were valid. And in *Leatt Corp. v.*
22 *Innovative Safety Tech., LLC*, 2010 WL 2803947, *6 & n.5 (S.D. Cal. July 15, 2010), the court
23 purported to engage in a “careful reading” of *Silvaco*, yet did not cite or discuss *Silvaco*’s crucial
24 Footnote 22, and instead issued a ruling directly contrary to *Silvaco*’s holding.

25 Defendants expect that Plaintiff will cite these and other, non-binding minority position
26 cases in its opposition. None are persuasive, none are precedential, none can overcome
27 precedential California authorities, and none analyze the necessary and pertinent questions. *See*
28 *People v. Frazier*, 128 Cal. App. 4th 807, 825 (2005) (cases do not provide authority for

1 propositions not addressed); *Flexible Lifeline Sys., Inc. v. Precision Lift, Inc.*, 654 F.3d 989, 997
2 (9th Cir. 2011) (no precedential effect where issue was not briefed and received summary
3 treatment without consideration) (*citing Thacker v. FCC*, 503 F. 3d 984, 993-94 (9th Cir. 2007)
4 (“[s]tatements made in passing, without analysis, are not binding precedent.”)).

5 **8. UTSA Preemption at the Pleading Stage is Important for this Case.**

6 UTSA preemption is not an abstract matter – it will prevent Plaintiff from attempting to
7 evade the UTSA’s procedural and substantive rules as this case proceeds. Since the UTSA’s
8 1985 enactment, a body of jurisprudence has grown up around the statute to provide for certainty
9 and predictability with regard to issues such as damages and burdens of proof. UTSA
10 preemption prevents parties from circumventing this controlling case law by dressing up the
11 same claim in different language. A few examples illustrate the point:

12 • **Identification of Alleged Secrets:** Trade secret plaintiffs must identify the alleged
13 secrets with particularity before taking discovery. *See* Cal. Civ. Proc. Code § 2019.210; *Art of*
14 *Living Found. v. Does*, 2011 WL 2441898, *13 (N.D. Cal. June 15, 2011). A plaintiff who
15 alleges “non-trade secret proprietary information” cannot refuse to identify the information at
16 issue by denying that UTSA preemption applies.

17 • **Secrecy:** Trade secrets must be secret or there is no liability. *See* Cal. Civ. Code. §
18 3426.1; *American Paper & Packaging Prods. v. Kirgan*, 183 Cal. App. 1318, 1326 (1986)
19 (customer list not secret because competitors knew the same information); *Matthews Paint Co. v.*
20 *Seaside Paint and Lacquer Co.*, 148 Cal. App. 2d 168, 172 (1957) (companies “generally known
21 in the business world as being engaged in their various businesses” cannot be considered part of
22 a secret customer list). A plaintiff cannot nullify this requirement by making up a tort claim that
23 eliminates its burden to prove secrecy.

24 • **Defenses and Burdens of Proof:** The UTSA allows defenses of reverse engineering,
25 independent derivation, and failure to take reasonable measures to protect the information. *See*
26 Cal. Civ. Code § 3426.1(a), (d)(2). In turn, the plaintiff bears the ultimate burden of proving that
27 the defendant did not independently derive the information at issue. *See Sargent Fletcher, Inc. v.*
28 *Able Corp.*, 110 Cal. App. 4th 1658, 1659 (2003) (stating rule). A plaintiff cannot plead

1 alternative torts to eliminate these defenses or alter its burden of proof.

2 • **Limited Damages:** Trade secret exemplary damages are capped at twice the damages
3 award, decided by a judge and not a jury – there are no UTSA punitive damages. *See* Cal. Civ.
4 Code § 3426.3. A plaintiff who sues under a tort label cannot seek punitive damages from a jury
5 by denying that UTSA preemption applies. Here, notably, Plaintiff seeks “punitive damages” in
6 its alternative claims. *See* Complaint ¶¶ 124, 130, 137, 144, 150.

7 • **Fees for the Defense:** Under the UTSA, a defendant can recover fees and costs in
8 certain cases, including those where the plaintiff sues over information that the plaintiff should
9 have known was not a trade secret. *See* Cal. Civ. Code § 3426.4; *Computer Economics, Inc. v.*
10 *Gartner Group, Inc.*, 1999 WL 331778020, *6-7 (S.D. Cal. 1999) (defense awarded fees where
11 plaintiff claimed trade secrets in non-secret information); *VSL Corp. v. General Tech., Inc.*, 46
12 U.S.P.Q.2d 1356, 1359 (N.D. Cal. 1998) (same). Under Plaintiff’s alternative claims, it could
13 deliberately sue over non-secret information, and Defendants would have no opportunity to
14 recover fees and costs.

15 In sum, Plaintiff’s made-up alternative causes of action would fail to state a claim under
16 Rule 12(b)(6) even if they existed under California law, because they directly conflict with the
17 UTSA, eliminate its specific requirements, and extinguish the balance it presents between the
18 interests of plaintiffs and the interests of defendants. If the UTSA does not preempt such an
19 obvious attempt to tear down the California legislature’s chosen method for litigating
20 information misuse claims by former employers against former employees, then (1) the
21 California Supreme Court’s framework for statutory interpretation must be ignored, (2) the
22 UTSA’s preemption clause is superfluous, (3) the California legislature intended nothing at all
23 when it stated that the statute would substitute a unitary definition of secrecy for “property” and
24 “quasi-contractual” theories, (4) *KC Multimedia* and *Silvaco* are meaningless, and (5) many
25 decades of California public policy favoring employee mobility should be cast aside.

26 Plaintiff cannot ask this Court to render such a total nullification on a question of state
27 law. Plaintiff’s claims premised on information said to be “non-trade secret proprietary” should
28 be dismissed without leave to amend. On the merits of this case, Plaintiff must stand or fall on

1 its UTSA and contract claims.

2 **D. Plaintiff's Prospective Economic Advantage Claim Fails for Other Reasons.**

3 Plaintiff's claim for interference with prospective economic advantage also fails to state a
4 claim even apart from UTSA preemption. In support of this claim, Plaintiff merely alleges that it
5 has an "economic relationship" with "many customers", and that Defendants' actions disrupted
6 such customer relationships. *See* Complaint ¶¶ 138-45. These allegations fail to state a claim
7 under *Iqbal* and *Twombly* because they are entirely conclusory and contain no factual allegations
8 whatsoever.

9 The elements of a claim for interference with prospective economic advantage are: "(1)
10 an economic relationship between the plaintiff and some third party, with the probability of
11 future economic benefit to the plaintiff; (2) defendant's knowledge of the relationship; (3)
12 intentional acts on the part of the defendant designed to disrupt the relationship; (4) actual
13 disruption of the relationship; and (5) economic harm proximately caused by the acts of the
14 defendant." *See Korea Supply Co. v. Lockheed Martin Corp.*, 29 Cal. 4th 1134, 1153 (2003).

15 As to pleading a third party relationship and economic harm, an allegation that there was
16 interference that generally caused harm in the marketplace, without naming any interfered-with
17 third party, is insufficient as a matter of law. *See Westside Center Assoc. v. Safeway Stores 23,*
18 *Inc.*, 42 Cal. App. 4th 507, 527-28 (1996) (interference claim insufficient where potential market
19 alleged as lost relationships; rejecting "interference with the market" theory); *Buxton v. Eagle*
20 *Test Sys., Inc.*, 2010 WL 1240749, *1 (N.D. Cal. Mar. 26, 2010) (granting motion to dismiss
21 where plaintiff failed to allege "specific economic relationships with identifiable third parties");
22 *Silicon Labs Integration, Inc. v. Melman*, 2010 WL 890140, *2 (N.D. Cal. Mar. 8, 2010)
23 (plaintiff must plead a prospective relationship with a specific third party to avoid motion to
24 dismiss); *Accuimage*, 260 F. Supp. 2d at 957 (conclusory allegations of economic relations with
25 unnamed others failed to state a claim); *TPS Utilicom Serv., Inc. v. AT&T Corp.*, 223 F. Supp. 2d
26 1089, 1106-07 (C.D. Cal. 2002) (claim dismissed where based on generalized allegation of
27 economic relationship with consumers in the markets it serves); *Silicon Knights, Inc. v. Crystal*
28

1 *Dynamics, Inc.*, 983 F. Supp. 1303, 1313 (N.D. Cal. 1997) (dismissing claim where plaintiff
2 failed to identify any third party with whom it had allegedly interfered-with relationship).

3 Here, Plaintiff does not allege any prospective relationship between it and any third party
4 that any Defendant allegedly disrupted – no customer is named, no circumstances of disruption
5 are alleged, and no description of why Plaintiff had sufficiently cognizable prospective
6 relationships with any third party is alleged. Plaintiff’s simplistic repetition of the elements of
7 the claim without identifying any third party relationship that was disrupted is exactly the type of
8 conclusory pleading *Iqbal* and *Twombly* prohibit. Plaintiff’s cause of action should be dismissed
9 unless Plaintiff can actually allege facts sufficient to state a claim.

10 **IV. CONCLUSION**

11 For all of these reasons, Defendants respectfully request that the Court dismiss Plaintiff’s
12 claims for (1) Breach of Confidence (Fourth Cause of Action); (2) Conversion (Fifth Cause of
13 Action); (3) Trespass to Chattels (Sixth Cause of Action); (4) Tortious Interference with
14 Prospective Economic Advantage (Seventh Cause of Action) (5) Common Law Unfair
15 Competition (Eighth Cause of Action); and (6) Unfair Competition under California Business &
16 Professions Code section 17200 (Ninth Cause of Action), without leave to amend, because they
17
18
19
20
21
22
23
24
25
26
27
28

1 are based on a legal theory that is not cognizable under California law. Defendants also
2 respectfully request that the Court dismiss Plaintiff's Seventh Cause of Action on separate
3 grounds as well.

4 Dated: August 2, 2012

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

5
6
7 By: /s/
ULRICO S. ROSALES
urosales@wsgr.com

8
9 Attorneys for Defendant
SolarCity Corporation

10
11 ONGARO BURTT & LOUDERBACK LLP

12 By: /s/
DAVID R. BURTT
dburt@obllaw.com

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

17
18
19
20
21
22
23
24
25
26
27
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

ATTESTATION PURSUANT TO GENERAL ORDER 45

I, Koray J. Bulut, am the ECF User whose identification and password are being used to file **Defendants’ Partial Motion to Dismiss (Rule 12(b)(6))**. In compliance with General Order 45.X.B, I hereby attest that each of the signatories above has concurred in this filing.

Dated: August 2, 2012

WILSON SONSINI GOODRICH & ROSATI
Professional Corporation

By: /s/ _____
Koray J. Bulut

Attorneys for Defendant
SolarCity Corporation