2017 WRITING COMPETITION MATERIALS FOR BOSTON COLLEGE LAW SCHOOL'S STUDENT PUBLICATIONS

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INSTRUCTION SHEET
2017 WRITING COMPETITION FOR
BOSTON COLLEGE STUDENT PUBLICATIONS

I. INTRODUCTION

This writing competition provides students with the opportunity to secure a position on a student-edited publication at Boston College Law School. The *Boston College Law Review* and the *Uniform Commercial Code Reporter-Digest* will use this writing competition as the basis for selecting their second-year staffs.

II. DATES, ELIGIBILTY, AND NOTIFICATION

This year's writing competition packets will made be available on May 12th. Everyone's completed **Memo** and P**ersonal Statement** must be submitted no later than 8 a.m., Friday, May 26th. If you had no scheduled exams after the 12th, your **Bluebook Exercise** is due on that date and time as well. If you are in a class that has an exam AFTER MAY 12th, you have received an email setting forth the applicable extension for your *Bluebook* exercise. Although no submissions will be accepted after the deadlines (whatever they may be), students who wish to hand in the competition before a deadline may do so. All students entering their second year of law school, who have successfully completed all their first year courses and are in good academic standing with a cumulative grade point average of 2.0 or better, are eligible to participate. In addition, students entering their third year of law school, who are in good academic standing, and who wish to compete for a position on the *Uniform Commercial Code Reporter-Digest*, may participate. Students selected for membership will receive notification in advance of the resume drop date in July, at the email address provided in the contact information form explained more fully below.

III. SUBMISSION DIRECTIONS

A. Four components—all of which are described more fully below—make up your submission: (a) a 12-page memorandum of law, (b) a *Bluebook* exercise, a (c) a preference sheet and (d) a personal statement. You will submit all materials electronically.

- Submit the memo to **LawMemo@bc.edu**
- Submit the Bluebook exercise and preference sheet to **BlueBook@bc.edu**
- Submit the personal statement to **Personal.Statement@bc.edu**

Those email addresses are for submitting only. Since they will not be monitored until the end of the competition, do NOT use them for general questions. (For questions, see the directions below.) To submit the materials, you will need to create three separate emails. You will attach the Memo to the email addressed to LawMemo@bc.edu, the *Bluebook* Exercise/Preference Sheet to the email addressed to BlueBook@bc.edu, and the personal statement to Personal**.**Statement@bc.edu. (See illustrations below.) The submissions will be distributed to the graders in a way that preserves your anonymity.

B. **In order to preserve anonymity, you are provided with templates in which you must draft your submission components.** These templates are available for downloading at the law reviews' website: https://www.bc.edu/bc-web/schools/law/sites/current-students/more/get-involved/law-reviews.html. (Although there is nothing magical about these templates, were you to create your own

Word documents, the graders would be able to determine your identity by examining the documents' Properties fields. Do yourself a favor: follow these directions and USE THE TEMPLATES.) The simple directions, which are repeated in each of the templates, ask you to particularize the template with your exam number in the header, and to save the document, naming it with your exam number in a specified way (i.e., #### Memo.doc for the memorandum, #### BBE.doc for the *Bluebook* exercise, and #### PS.doc for the personal statement). Once completed, these are the documents that you will attach to the emails described above.

C. **Bear in mind that the deadlines are absolute. Graders will not read any submissions that are received thereafter. Accordingly, it's probably best not to wait until one minute before the deadline to transmit your submission. In addition, you are strongly advised to keep back-ups of your work as you draft, just in case you encounter destructive computer problems close to the deadline.** Upon submission, you will receive an auto reply acknowledgement of receipt and a request for contact information.

D. If you have questions about this process, or if you encounter difficulties, feel free to contact John Gordon in Stuart 518 or at 617-552-8557 or at gordonjo@bc.edu.

IV. INSTRUCTIONS FOR WRITTEN ASSIGNMENTS

Part 1. <u>A Memorandum of Law</u>

You are asked to write a memorandum based on the information supplied in the enclosed fact pattern and the supporting law. Your assignment asks you to focus on specific issues. Raising other issues will only hurt your score. Submissions are limited to **12 pages,** including footnotes, if you choose to include any. The memo must be double spaced and have the margins provided in the drafting template; it must be in a font no smaller than 12 point. Going over the page limit, changing the margins, or employing a smaller font will automatically affect your score adversely. (And, FYI, for the memo, it's better to draft in the actual template than to draft in a separate document and cut and paste that content into the template. Otherwise you may overwrite the default settings and inadvertently hand in a memo with the wrong margins or font size or whatever.) This year's fact pattern asks you to draft a memorandum for a partner in a law firm. We understand that the various LR&W sections espouse slightly different styles for memos. <u>You are encouraged, therefore, to use a format with which you are comfortable and structure it to answer the specific question or questions the partner has asked you.</u> The graders are told specifically not to add or deduct points for reasonable variations (such as headings in all caps or bold or whatever); they will evaluate the substance not the form.

Although we have made every effort to provide you with all the information needed for correct citation form, we realize that in some instances information may be inadvertently omitted. In the event that you are missing, for example, a date, DO THE BEST YOU CAN. Do not worry; the evaluators will be able to draw the distinction between a missing date indicated as (20xx) and generally sloppy citation form. This year's fact pattern contains a record comprising 13 short exhibits. Your assignment memo provides a suggested form for citing to those documents, as well as the firm's preferred form for citing to California state court cases. Other than those exceptions, citations in your memo must conform to the 20th edition of *A Uniform System of Citation* (the *Bluebook)* as much as possible.

Submitted materials may only be identified by your first year examination number. This number MUST appear on the upper right hand corner of each page of the submission. Your name CANNOT appear anywhere on your submission (including in the document's Properties field). If you are in the second year of a joint degree program (or are otherwise using an exam number that was NOT issued by the Law School at the beginning of this academic year), please make sure to request a new exam number from Academic Services—otherwise, you may be using an exam number that was subsequently reassigned to another student. (It's happened; it's a nightmare.)

Part 2a. Citation Exercise

In addition to writing the memorandum, you are asked to demonstrate your willingness to learn and use the *Bluebook*. There is, therefore, an exercise designed to show your familiarity with citation form. Although the memorandum may be an important indicator of your analytical abilities, **if you are unable to cite correctly, or are unwilling to perform routine proofing duties, you won't be considered an asset to a journal staff**. The exercise comprises several paragraphs from a simulated law review article, supported by a bunch of footnotes that contain numerous citation errors. This package includes two versions of the article: one is the **Author's Original** (with unspeakable footnotes), the other is the **Editor's Rework** (with footnotes the editor worked diligently to correct). As the directions found at the beginning of the exercise will make clear, you are asked to provide the *Bluebook* rules that offer the authority for those citation error corrections. In addition, you are asked to explain *why* a particular rule pertains and how you applied it. The more detailed your explanation, the more likely you will be to learn the rule and how it operates (which is, after all, the point of the *Bluebook* exercise), so thorough answers are encouraged. Don't be surprised, therefore, if your *Bluebook* exercise is at least as long as (or longer than) your memo; budget your time accordingly.

Part 2b. Preference Sheet

At the end of the *Bluebook* exercise template posted on the web, you'll find a preference sheet that will allow you to specify whether you'd prefer to join the *UCC Reporter Digest* or the *Boston College Law Review*.

Part 3. Personal Statement

The Law School recognizes that editing a journal is a collaborative process significantly affected by those who are selected to participate in it. As a result, the publications are committed to identifying students of diverse life experiences and backgrounds who can contribute their perspectives to all aspects of the journals' operation. In addition to the memo and citation exercise, therefore, you are asked to submit a short personal statement that tells us something about you. As the Personal Statement prompt below makes clear, the reviews will use the personal statements to identify prospective members who can bring wide ranging points of view to the membership.

V. ASSISTANCE

Each memo, citation exercise, and personal statement must be your own work. No assistance from members of the legal community, upper class law students, or faculty members is permitted. You may not speak to any other participant about the materials for the duration of the competition. If you wish to reacquaint yourself with the Law School's Academic Policies and Procedures (the "Code"), it is available at:

http://www.bc.edu/bc-web/schools/law/sites/current-students/academics/forms-policies.html

The Code governs both regular course work and co-curricular activities, including participation in the law review writing competition. Although the faculty recognizes the educational value of the exchange of ideas, and in many instances encourages students to discuss legal concepts and problems among themselves and with the faculty, the faculty also recognizes its responsibility to evaluate each student upon his or her own merits. The basis of the Code, and the *a priori* assumption of the Law School, is that all work submitted by a student for grading or other evaluation is his or her own work product. The handing in of work under the name or examination number of a student constitutes a certification by the student that the Code has been observed in the preparation of such work and that the student bearing the name or number has actually prepared the work or taken the examination. If you have *any* questions about the foregoing, you should refer to the Academic Policies and Procedures. Allegations of breach of the Code will be subject to Law School procedures governing academic discipline.

This packet contains all the materials required to write the memorandum. The use of nutshells, horn books, casebooks, Lexis and Westlaw (even to access electronic versions of the cases provided below), case reporters, and the like, **is strictly prohibited**. Other than the *Bluebook* (and standard reference materials such as a dictionary or the *Chicago Manual of Style*, purely by way of example), the enclosed items are the **only** materials you may consult for this competition and the only ones you may cite in your memo. If you have any <u>general</u> questions about the competition, you may stop by the Publications Office (or call 617-552-8557) during regular business hours, or email John Gordon at gordonjo@bc.edu. We will make every effort to answer GENERAL questions about the competition, the materials provided, or the citation exercise. **We cannot answer substantive questions.**

VI. JUDGING AND NOTIFICATION

Every memo submitted will be read and evaluated by six 3L editors. The entries will be judged on the level of analysis and quality of writing—including citation form. The six normalized scores will be averaged to determine the memo's final grade. John Gordon will grade the *Bluebook* exercise. A diversity committee will evaluate the personal statements. Your actual score will derive from an equation that takes into account your first year GPA (not including your second semester elective), as well as your memo, *Bluebook* exercise, and personal statement scores. (GPA=50%; memo=25%; BBE=15%; PS=10%.) The decisions of the evaluators are final.

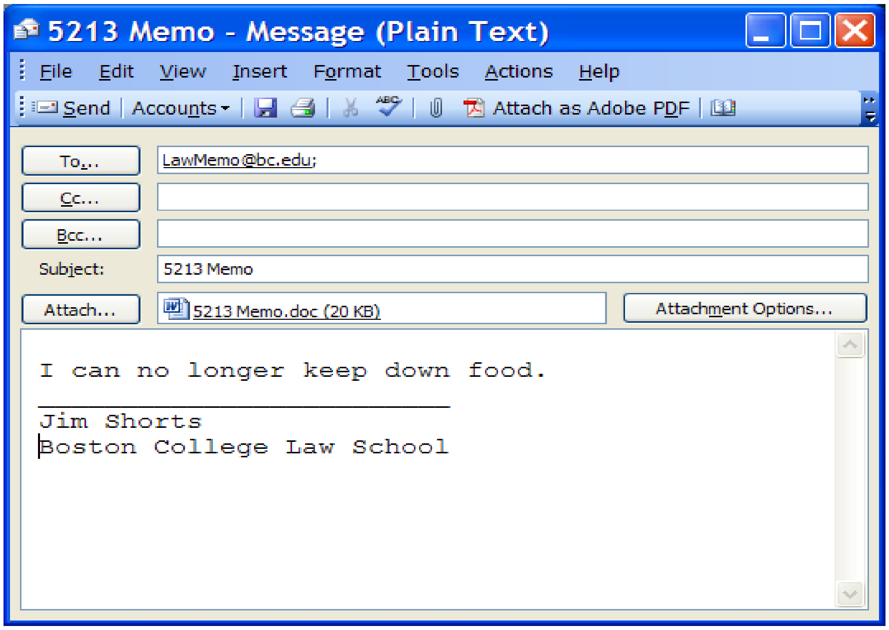
When you submit your memo, you will receive an auto reply acknowleding receipt. That reply will contain a link to a Google form that asks for your contact info **(which we need, obviously, to let you know if you've been selected for membership)**. If, for whatever reason, you neglect to fill out that form, or if the information changes before July, send an email to John at gordonjo@bc.edu that includes:

- your name
- your telephone number
- your email address

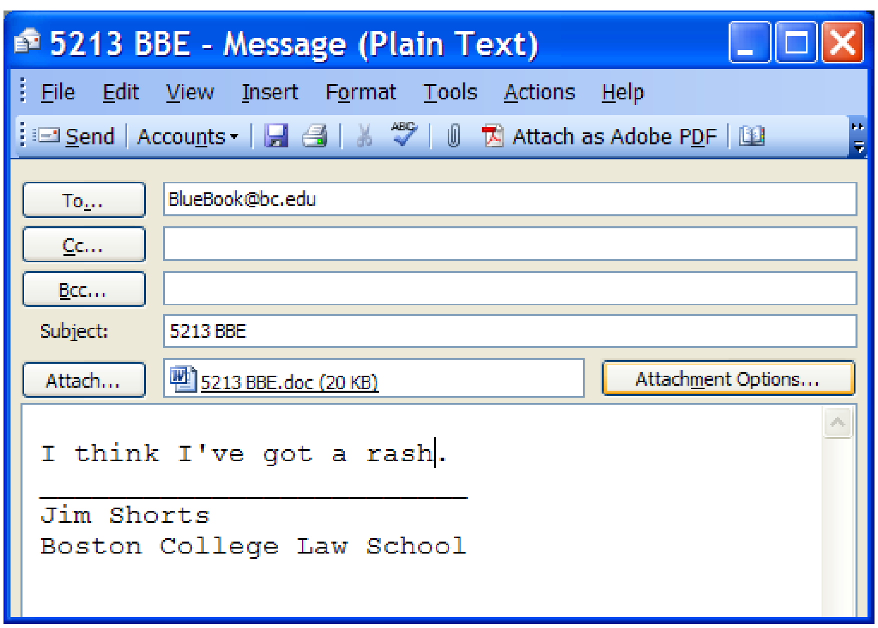
If your submission is chosen, you will be notified by email. Shortly thereafter, we will also send an email to every member of the class listing the students comprising the journal staffs so you will know if you have *not* been selected. Good luck.

SUBMISSION ILLUSTRATIONS

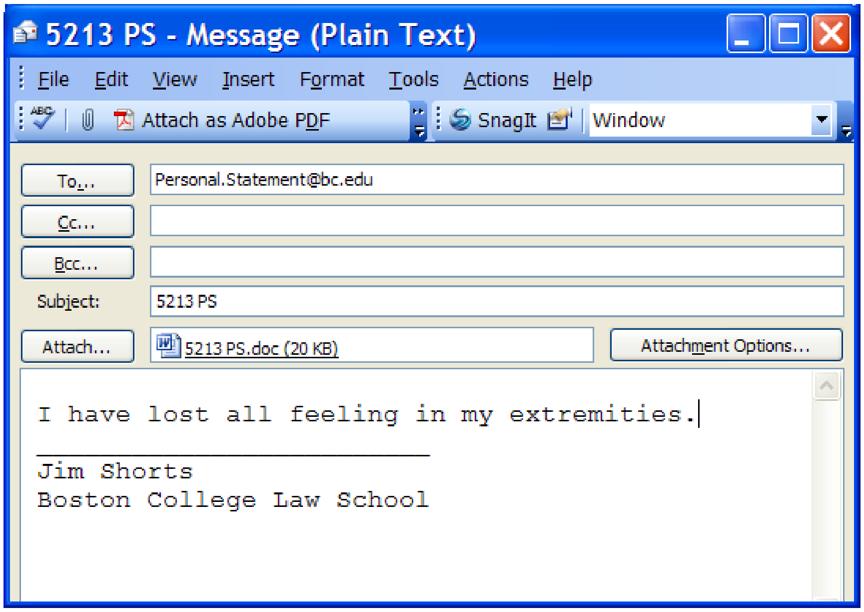
Send the memo, drafted in the memo template downloaded from the law review web site and saved in the required exam number format (#### Memo.doc), to: **LawMemo@bc.edu**. The subject line of this email should be your exam number followed by Memo (i.e., #### Memo).



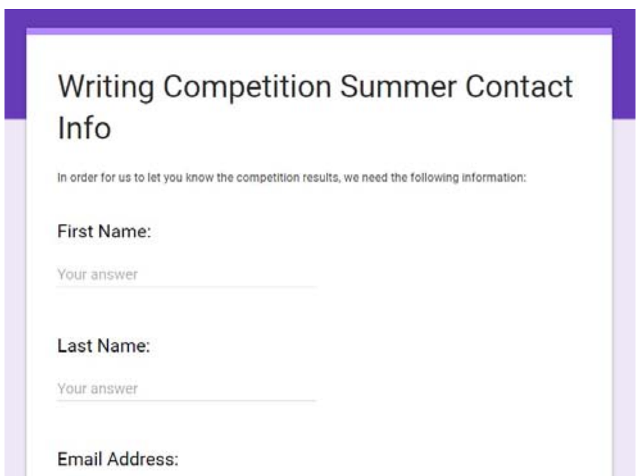
Send the *Bluebook* exercise (which includes the Preference Sheet), downloaded from the law review web site and saved in the required exam number format (#### BBE.doc), to: **BlueBook@bc.edu**. The subject line for this email should be your exam number followed by BBE (i.e., #### BBE).



Send the Personal Statement, downloaded from the law review web site and saved in the required exam number format (#### PS.doc), to: **Personal.Statement@bc.edu**. (In case that's hard to read, it's Personal(dot)Statement@bc.edu.) The subject line for this email should be your exam number followed by PS (i.e., #### PS).



When you submit your memo, you'll receive a confirming email containing a link to this Google Form:



THIS IS IMPORTANT: If you use a word processing software program other than Word, or if you use some atypical beta version of Word, CONVERT your memo to pdf before emailing it. **(Word, however, is preferred.)** Because the submissions are identified only by exam number it is impossible for the publications office to email you if we encounter difficulty and, for example, the memo won't open. In the past, someone from Academic Services has had to contact the writers of problem submissions, which is anxiety producing for the writer, extra work for Academic Services, and a drag in general. Ninety-nine percent of the submissions transmit and open perfectly; but if you have reason to believe that you may be part of the troublesome one percent, pdf is the way to go. **Again, however, Word is preferred.**

To: Law Review Writing Competition Participants
From: The Editors-in-Chief
K.G. Gesserling (gasselin@bc.edu)
Caitlin Toto (totoca@bc.edu)
Elizabeth Williams (willibev@bc.edu)
Date: May 12, 2017
Re: About the *BCLR* and the *UCC Reporter-Digest*

Congratulations on completing your exams. In a little while, this will all be over and your first year of law school will truly be behind you. As you may know, you can rank by personal preference which of the school's two publications you wish to join. We advise you to consider the options carefully. You will be extremely involved with your journal work—as well as your publication's staff—for the next two years. It is much more likely that your experience will be a positive one if you are writing in an area of law that is consistent with your natural interests.

The *Review* and the *Digest* have different structures and, therefore, impose different requirements. First the *Review*. As a second year staff member you are required to complete two written assignments and perform the production work needed to publish the *Review*'s issues. The production work generally entails pulling sources and some proofreading. You may also assist 3Ls in checking articles for both cite and substance—in other words, performing the work needed to insure the accuracy of the information contained in journal articles. Not only is this work extremely important, it's also probably the most effective way of learning the *Bluebook*. By the end of 2L year, the *Review* requires that you complete an in-depth, comprehensive article of publishable quality on a topic of your own choosing. In addition to the long piece of scholarly writing, however, the *Review* requires you to write a short case comment early in the fall semester as well. We do this as much to indoctrinate you to the process as anything else. Comment writing teaches journal students how to write in law review style before sending them off to draft their big note. Comments selected for publication will become part of the *Review*'s online companion, the *E. Supp*., and will be posted to the *Review*'s web page and to the Digital Commons, as well as being added to the Lexis, Westlaw, and Hein electronic retrieval databases. In that way, many law review students can expect to have a citation to add to their resumes.

The *UCC Reporter-Digest* is slightly different; its assignments take the form of weekly analytical case annotations throughout each semester. All cases involve Uniform Commercial Code issues. Digest members enjoy a diverse and immensely collaborative writing experience. Second-year students serve as staff writers and are responsible for annotating one significant commercial law case each week. Every staff writer is published fifteen to twenty times. Third-year editors train the staff writers and review all submissions, working one-on-one with a new writer each week to develop analytical and writing skills. These skills are essential and transferable to practice in any area of the law. Writers and editors also work closely with Professor Ingrid Hillinger, who has served as the Digest faculty advisor for more than twenty years. Staff writers are responsible for proofreading and preparing annotations for the *Digest*'s quarterly releases. Digest members do not cite-check articles and are not required to write single topic notes. Second-year Digest members are required to take Secured Transactions in the fall of their second year. Digest participation satisfies the Upper-Level Writing graduation requirement.

Regardless of which journal you wish to join, membership on the staff of a legal publication is a rewarding experience. But like most valuable affiliations, the benefits are accompanied by burdens. There will probably be very few times in your careers during which you will have the luxury of spending two years acquainting yourself with an area of the law that interests you. There will also probably be few experiences that demand as much of your time and energy as review membership. Because this is such an important decision, we encourage you to make it carefully.

Statement by Publication Committee Re: Policy on Accommodating Other Academic Commitments That May Interfere with Full Participation on Publications

A decision to join a scholarly publications at the Law School entails a two-year commitment to the publication and to one's fellow students working on that publication. A student who accepts an invitation to a publication may later be excused from that obligation in order to participate in an academic program requiring residency away from Boston (the London program, for example) or other recognized academic pursuit that is inconsistent with full participation in the publication, only by petitioning the publication's board of editors and the faculty advisor thereof. Accommodation of such other academic pursuit will be provided unless the board, in consideration with its faculty advisor(s), concludes that the interests of the publication would be adversely affected.

In weighing whether and how to accommodate a student's request to undertake an academic program that may be inconsistent with full participation in the publication, the board and its advisor(s) will weigh the editorial position and duties that have been assumed by the student, the adequacy of notice given by the student, the specific needs and concerns raised by the publication in the coming year, and other relevant issues that may be raised in a full consultation with the board.

If accommodation cannot be reached, a student will remain on the publication staff or will not receive academic credit for work on the publication.

As to consideration of "adequacy of notice," a board should be notified by the student as early in the student's planning process as possible if a program is being considered that might prove to be inconsistent with full participation in the publication, and in no case later than two weeks before the publication's board elections.

Anyone interested in availing themselves of both the study abroad and law review programs should contact John Gordon (gordonjo@bc.edu or 617-552-8557) to discuss the nuances of timing attendant to joint participation.

Library Hours

Because there are a number of weekends and a couple of graduations during the competition, access to the law library may be more limited than you'd like. Although you do *not* need the library for research purposes, you may need a quite place to work. O'Neill Library on main campus may be more accessible during the competition, and you are more than welcome to use it.

You can access hours for the law library here: http://libguides.bc.edu/hours

To: Writing Competition Participants
From: John Gordon
Date: May 12, 2017
Re: Personal Statement

The law school is committed to building an outstanding intellectual community composed of members who will contribute to the legal profession both while in school and over the course of their careers. One way of doing that is to sponsor academic journals that impart analytical, writing, and reasoning skills to the participating students. But an equally important aspect of the journals program is to further the conversation that takes place in the legal academic community. Journal members participate in this conversation in a number of ways. By selecting articles written by outside authors, for example, they have a hand in determining what gets talked about. By performing extensive edits of all the articles published, they help shape the content. And by working closely with second year staff writers, third year editors help to contour the topics written upon, argued, and analyzed. In short, the editorial process is a collaborative one, and one that is significantly affected by those who are selected to participate in it. To that end, we seek, as part of the selection process, to identify students of diverse life experiences and interests, who can contribute their perspectives to all aspects of a journal's operation.

Students who participate in the writing competition, therefore, are asked to submit a personal statement of no more than 500 words. The information contained in these personal statements will not only help the journals identify students who have demonstrated an interest in a particular area of law, but will also help the reviews realize their commitment to staff diversity. A committee will evaluate the personal statements in order to find prospective journal members who can bring a wide range of points of view to the membership. That committee will evaluate, among other things, various issues involving educational background, employment experience, military or community service, professional achievement, age, gender, race, ethnicity, disability, sexual orientation, national origin, religion, socio-economic background, and ideological viewpoint, should you deem any of those factors relevant to your candidacy and elect to discuss them.

With regard to these and other aspects of diversity, you should clearly identify and discuss any personal characteristics, background factors, unique experiences, or qualifications that you would like to bring to the committee's attention. Feel free to shape the content and subject matter of the personal statement as you think best. The committee's goal, after all, is to discern what qualities you possess (not otherwise made evident through the other components of the writing competition) that will contribute to the success of the journals. Potential subjects for a personal statement might include, for example, how your personal background informed your decision to attend law school, affected your first-year law school experience, or shaped your future professional goals. Alternatively, you might choose to highlight your scholarly interests and illustrate how they may affect your suitability for journal membership. Or, you might want to describe an experience, case, class, or person that significantly changed or affected you. You may even choose to suggest a potential Note topic and explain why it is of interest to you. The bottom line is this: the committee seeks to understand how your background will contribute to the quality of a journal's staff.

You should know that we will also judge the personal statement as an independent piece of expository writing and will read it both for quality of expression and attention to proofreading detail. The editors who evaluate the personal statements, however, will not be grading the writing competition memos.

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CITATION EXERCISE

In the following exercise, you are asked to correct a number of footnotes that contain errors of citation. For the most part, you are given a set of notes with common mistakes of form, and those notes as they appear after being edited. In the template posted on the law review's web page, each note is set forth separately along with its corrected version. Using the *Bluebook*'s index and the Quick Reference inside the front cover, you should be able to find authority for the improved form of citation. The purpose of this exercise is not to trick you; it is to teach the most often-used fundamentals of the *Bluebook*. This year, you mostly drafted memoranda in your LR&W class. As a result, you concentrated on the *Bluebook*'s blue pages. On a journal, however, you will work on articles—drafting your own footnotes and checking the footnotes of others. By working through this exercise, you will encounter the *Bluebook*'s most important rules and the nuanced circumstances under which they apply. Gaining familiarity with these rules will assist you in the drafting and editing responsibilities you will encounter as part of your journal experience. No one on a review staff (or in life for that matter) expects you to be familiar with the entirety of the *Bluebook*'s contents. Your journal *will*, however, expect you to familiarize yourself with the most commonly used rules and be willing to spend some time searching for the more esoteric ones that control in specific instances.

The following illustration provides an example of what your answers might look like. As it makes clear, you are asked to provide the *Bluebook* rules that account for the corrections, **as well as a reasoned explanation**. Each note contains numerous inaccuracies, some fairly subtle, so compare the original and the edited versions carefully. **Make sure that your explanation is thorough:** in this case, you'll observe that very minor changes to a very few lines of citation required close to **34 lines of explanation**. Although some of the *Bluebook*'s tenets are simply rule based (I can think of no significant reason, after all, why amendments to the U.S. constitution are rendered in roman numerals), you should be able to discern the rationale behind others. <u>Notice that the explanations demonstrate *foremost* that the writer has explained the rules to him- or herself. The key to this exercise is to show that you understand how the rules *apply* rather than showing you know how to use the *Bluebook's* index to find the applicable rule and parroting its pertinent language.</u> (In the example below, for instance, the student has provided a well reasoned explanation for why the *Bluebook* places restrictions on the use of short cites to restatements. Merely stating that you shouldn't use *supra* for a restatement because Rule 4.2 says not to, does not demonstrate they you've given much thought to why the rule exists and, therefore, would NOT receive a good score.)

Original:
[6] *See* Lazarus v. Clover Fine Wine and Lingerie Co., Inc., 492 F.2d 546 (9th Cir.), *cert. denied,* 416 U.S. 940 (1974); RESTATEMENT, *supra* note 4, § 3, cmt. b.
Edited:
[6] *See* Lazarus v. Clover Fine Wine & Lingerie Co., 492 F.2d 546 (9th Cir. 1974); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 3, cmt. b (AM. LAW INST. 1995).
Explanation:

Rules	Explanation
Rule 10.7	**Rule 10.7** governs when to set forth prior and subsequent history of a cited case. The rule provides that denial of certiorari should be omitted unless the decision is fewer than two years old, most likely because after two years, the Court's unwillingness to revisit the legal issue contained in the lower court's decision is considered sufficiently well established. Since *Lazarus* was decided in 1974, *cert. denied* is clearly not required. Were the denial of certiorari particularly relevant to the assertion made in the footnote's accompanying text, the rule would allow for its inclusion. Evidently, however, the editor determined that in this instance the denial was of no real relevance and has properly deleted it.
Rule 10.5 (d) Rule 10.5 Rule 10.7.1 (a)	Having deleted the unnecessary denial of certiorari, the editor has moved the date that formerly followed the case's subsequent history. **Rule 10.7.1 (a)** implies that the 9th Circuit disposed of *Lazarus* in the same year the Supreme Court denied certiorari, thus the editor correctly moved the year of decision to the jurisdiction parenthetical as required by **Rule 10.5**, which dictates that a cite should contain such a date whenever possible. **Rule 10** offers further support for this edit, providing an example of the required format.

Rule 10.2.2 Rule 10.2.1 (c) Rule 10.2.1 (h)	Although footnote 6 is a citation, **Rule 10.2.2** provides that case names in <u>citation</u> sentences should follow the rules set forth in **Rule 10.2.1** regarding case names in <u>text</u> sentences. Accordingly, the editor applied **Rule 10.2.1(c)**, which provides that a space-saving ampersand should replace the word "and" in a case name (a rule seemingly reiterated in T6—the table controlling abbreviations of case names in citations). Finally, **Rule 10.2.1(h)** provides authority for removing "Inc." because the party is already clearly identified as a business; this is a good example of how the *Bluebook* encourages brevity whenever possible so long as clarity is not compromised.
Rule 4.2 Rule 12.9.4	Although the *Bluebook* encourages the use of short citation forms to save space, **Rule 4.2** notes that the use of *supra* is not appropriate in all instances. Specifically, the rule prohibits the use of *supra* to refer to restatements. This prohibition makes sense since there are numerous restatements, they have similar-sounding names, and they are published in many iterations and editions. References in an article to multiple restatements—or even to competing editions of a single restatement—could potentially confuse a reader. In anticipation of that risk, the *Bluebook* demands that each reference to a restatement take the full citation form. As a result, the editor has appropriately followed **Rule 12.9.4** to strike the author's misguided use of a short form; in its place, we now find the required long form of citation including, as compelled by the rule, the restatement's full title, its institutional author, and its date of publication. It appears, however, the editor has mistakenly added a comma to set off the reference to comment b. The example provided on page 132 does not seem to endorse such punctuation so I would remove it.

And, you'll notice, that since editors will sometimes make mistakes, if you think something is wrong in the corrected version, you should feel free to point out the error and offer *Bluebook* authority for your suggested change. (If, however, you find an error that is an obvious typo—a period missing from the abbreviation "Inc." for example—please do not spend excessive time trying to locate a rule for it; point it out if you wish and get on with your life.)

For the last 6 footnotes, you do NOT have to provide explanations for the required edits. All you need to do is redraft the notes in conformity with the *Bluebook*'s rules. When doing so, you'll often need to reference sources used earlier in the exercise *so, I don't know* (BIG HINT HERE), *you might consider refamiliarizing yourself with those sources (i.e., by rereading the corrected footnotes) before you draft the final six*. In some footnotes there are live links to additional sources you'll need in order to provide their correct cite form. If the links don't work, the sources are also posted on the reviews' website (with the templates). If, for some reason, you cannot access the sources either way, email me and I'll send you PDFs.

THIS IS IMPORTANT: In some instances, I have made up the citation of a case, or the headline of an article, or the url of a website. Therefore, you wouldn't necessarily find the case in a reporter, or the article in the paper, or whatever. And if you did, it wouldn't conform with the format that's provided in the exercise. First, you're not supposed to be looking at the actual source material (unless it's provided as part of the exercise). But second, often, just to make your lives easier, I simplified (which is to say, falsified) the citations so you'll have a less difficult time completing the exercise. The point is, even if you know something in the edited version is amiss, pretend it's fine for the purposes of this exercise. After all, we're testing your ability to apply a *Bluebook* rule, not whether you happen to know that, say, there's no entry for "e-personation" in *Black's Law Dictionary*. Also, if there's a slight discrepancy between the hard copy version included in these directions and the version found on the web, assume the web version controls. Sometimes I find a minor error after we've sent the materials to the printer that I'm able to correct on the web version. If you want to point that out just to make me feel bad, feel free; but don't worry that there's some super-nuanced test afoot to divine your proofing skills. It's just shoddy workmanship on my part.

To complete this exercise, access its template on the law review web site. On the version found there, the Preference Sheet is attached to the exercise. To submit the Bluebook Exercise/Preference Sheet, please email it to BlueBook@bc.edu, saved in the required exam number format (#### BBE.doc). The subject line for this email should read your exam number followed by BBE (i.e., #### BBE).

DIGITAL DOPPELGANGERS: E-PERSONATION, CYBERHARASSMENT, AND OTHER FORMS OF ONLINE HARM

AUTHOR'S ORIGINAL

The practice of e-personation occurs when an imposter uses another's personal information to create a false profile on a social networking site.[1] Although some e-personations are done purely in jest, often the perpetrator has more malign intentions that can result in harm to the target's reputation, financial standing and, in some cases, an erroneous but very real criminal record.[2] Aspersive e-personation is unlawful in all cases, but because the legal system

[1] Blacks Law Dictionary defines e-personation this way:

> E-personation: /ˈe- pərsəˈnāSH(ə)n/; NOUN. 1. impersonation of another person or entity through electronic means; 2. creating a bogus online profile on social media to knowingly and credibly impersonate another for the purpose of harming, intimidating, threatening, or defrauding. Related term: catfishing (a variation of "cat phishing").

BLACK'S LAW DICTIONARY 419 (9th ed. 2009). As the definition indicates, the practice is known colloquially as Catfishing. *See* Ellen McCarthy, *What Is Catfishing? A Brief (and Sordid) History*, WASHINGTON POST, January 9, 2016, at B19, *available at* https://www.washingtonpost.com/news/arts-and-entertainment/wp/2016/01/09/what-is-catfishing/?utm_term=.5b6dfda3cb7f. *See also* Thamel, Pete "Manti Te'o in His Own Words," Sports Illus. (issue 3, 2013) page 28.

[2] An instructive example: although Chris Andersen, a power forward for the Denver Nuggets, was never charged with a crime, his life was upended when interactions with Shelly Chartier, a reclusive and prolific online impersonator, caused law enforcement to search his computer's hard drive for alleged possession of child pornography. *See* Colleen M. Koch, *To Catch a catfish: A statutory solution for victims of online impersonation*, 88(1) University of Colorado Law Review 233 (2017). As a result of that investigation—even though based on completely spurious charges—Andersen missed the deciding game of the Nugget's playoff series against the Los Angeles Lakers. *Id.* Thereafter, he was released from the team. *See* John Ingold, *Nuggets Cut Chris "Birdman" Andersen and Sign Anthony Randolph*, DENVER POST (July 17, 2012), http://www.denverpost.com/ci_21097577/nuggets-cut-chris-birdman-andersen. Although Andersen's name was eventually cleared, in the interim period NBA teams hesitated to sign a contract with a potential child-sex criminal. *See* Colleen M. Koch, *To Catch a Catfish*, at 236. It took until the middle of the NBA season for Andersen to get a provisional (10 day) contract with the Miami Heat, and a full year for investigators to officially clear his name. Koch at 237. The experience reportedly transformed him from a charismatic and memorable player into a recluse—due in part to the online impersonation scheme of which he was the victim. John Ingold, *Woman Who Catfished Chris "Birdman" Andersen Online Sentenced to Jail*, DENVER POST (Oct. 28, 2015), http://www.denverpost.com/2015/10/28/woman-who-catfished-chris-birdman-andersen-online-sentenced-to-jail/. (Just to close the circle: Shelly Chartier later got married—to a man whom she met (of course!) online. *Id.*)

has yet to devise a standard method of redress, attorneys have attempted recovery under an array of retaliatory legal theories.[3]

Litigated e-personation cases have resulted in mixed, not to mention unpredictable, outcomes.[4] As an initial matter, they are vulnerable to myriad First Amendment challenges.[5] Prosecutors face procedural hurdles as well.[6] Additionally, courts are notoriously apprehensive about placing their imprimatur on novel legal theories.[7] The muddled pastiche of statutes does not help clarify the procedural confusion.[8]

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[3] Very few states have enacted statutes containing language explicitly criminalizing Internet impersonation. *But see, e.g.*, New York Penal Law § 190.25(4); California Penal Code § 528.5; Hawaii Revised Statutes § 711-1106.6. Most states, however, have legislated statutes that, without referencing Internet impersonation directly, are sufficiently capacious to regulate conduct that includes e-personation. New Jersey Code of Criminal Justice § 2C:21-17 (the crime of impersonation includes use of electronic communication to defraud). Federal courts have recognized that statutes designed for general Internet fraud are applicable for prosecution of Internet impersonation cases as well. *See* U.S. v. Lori Drew, 259 F.R.D. 449 (2009); Computer Fraud and Abuse Act, 18 U.S.C.A. § 1030(4) (West). Finally, in all states e-personation constitutes one or more torts—including misappropriation of name or likeness, or violation of the right of publicity—for which civil liability attaches. *See, e.g.*, Texas Civil Practice & Remedies Code § 143.001; *see also* RESTATEMENT (SECOND) OF TORTS § 328A (AM. LAW INST. 1979) (detailing the common-law tort of negligent enablement of imposter fraud).

[4] Courts, even within states, differ as to whether Internet impersonation constitutes a misdemeanor or a felony offence. *Compare* State of Texas v. Stubbs, 502 S.W.3d 218, 222 (Tex. App. 2016) (convicting under felony charges students who created a phony online profile of their principal), *with* Draker v. Texas, 271 S.W.3d 318, 324 (Tex. Supreme Ct. 2008) (upholding a misdemeanor conviction of a student who created an online profile of a school administrator).

[5] Appellants have attacked the statutes at issue as unconstitutionally vague or overbroad, or infringing a protected right to parody. *See generally* Carlton Kinkaide, Eleanor Sterritt & Camille Koch, *Parody as a Protected Interest in the Internet Age*, *in* WE ARE NOT WHO WE PRETEND TO BE: ONLINE PERSONAE IN THE AGE OF ANONYMITY, pgs. 122, 131 (Isaac Rasmusen ed., Oxford Press 2011) (collecting essays); *see* Taylor v. State of Texas, 656 F.3d 1151, 1160 (5th Cir. 2011) (holding Texas statute unconstitutionally vague); U.S. CONST. amend. I (1798, rev. 1992) ("Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.").

[6] *See id.* at 130 (cataloguing both civil and criminal procedure complexities in various jurisdictions). The Justice Department has authored a manual for navigating the procedural landscape. *See* UNITED STATES DEPARTMENT OF JUSTICE, CIVIL RIGHTS DIVISION, CIV. & CRIM. LITIG. GUIDELINES FOR INTERNET-BASED LEGAL ACTIONS 34 (Oct. 2016), http://www.justice.gov/crt/page/file/910161/download; *see also* Eleanor Sterritt, *Procedural Traps for the Unwary in the Virtual Courtroom*, 2009 ALA. JOUR. OF PROCEDURE AND GOVT. 477, 483 (2009) (noting that in the area of Internet litigation, some states are not current with respect to process and procedure). And procedure matters: Justice Rehnquist has, in a variety of jurisprudential settings, consistently dissented when appellants failed to follow a procedural rule absolutely. *See, e.g.*, Central Hudson and Electric Corp. v. Public Service Commission, 100 S. Ct. 1243, 1256 (1980) ("[N]ot every person aggrieved by administrative action is *necessarily* entitled to the protections of due process.") (emphasis in the original).

[7] *See* U.S. v. Lori Drew, 259 F.R.D. 449, 451 (C.D. Cal. 2009). In *Drew*, a Missouri woman—the mother of a thirteen year old girl—created a fake MySpace profile in order to harass one of her daughter's classmates. *Id.* at 459. That harassment led to the targeted child's suicide. *Id*. When Missouri declined to prosecute Drew due to a lack of applicable criminal charges that corresponded with her actions, the Los Angeles United States Attorney's Office successfully prosecuted her under the Computer Fraud and Abuse Act ("CFAA"). *Id.* at 461; *cf. Draker, supra* note 4, at 324 (misdemeanor con-

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viction); *State of Texas*, 502 S.W.3d at 222 (criminal conviction); Amanda Harmon Cooley, *Guarding Against a Radical Redefinition of Liability for Internet Misrepresentation: The United States v. Drew Prosecution and the Computer Fraud and Abuse Act, in* WE ARE NOT WHO WE PRETEND TO BE: ONLINE PERSONAE IN THE AGE OF ANONYMITY, pgs. 182, 194–197 (Isaac Rasmusen ed., Oxford Press 2011); *but see* Barnes v Yahoo!, 570 F.3d 1096, 1101 (9th Cir. 2009) (holding that the CFAA insulated an Internet service provider from charges that it negligently failed to remove a fake online profile).

[8] *See supra* note 3 and accompanying text. The federal scheme is no more lucid than the states'. *Id.*

[9] Black's Law Dictionary defines harassment as "the act of systematic and/or continued unwanted and annoying actions of one party or group, including threats and demands." BLACK'S LAW DICTIONARY 610 (9th ed. 2009). It defines cyberharrasment as "the use of Information and Communications Technology (ICT) to harass, control, manipulate or habitually disparage a child, adult, business, or group without a direct threat of physical harm." BLACK'S LAW DICTIONARY 211 (9th ed. 2009). Both may be implicated in the common-law tort of negligent enablement of imposter fraud. *See* RESTATEMENT, *supra* note 3, § 330; Ingold, *supra* note 2.

[10] *See* ARTURO RENZI, DEVELOPING ISSUES IN INTERNET IMPERSONATION AND IDENTITY THEFT 2000 – 2010 104 (2012); CASSIE COX, PROTECTING VICTIMS OF CYBERSTALKING, CYBERHARASSMENT, AND ONLINE IMPERSONATION THROUGH PROSECUTIONS AND EFFECTIVE LAWS 144 (2015). *See generally* CAL. PENAL CODE § 528.5 (criminalizing online impersonation explicitly); Barnes v Yahoo!, 570 F.3d 1096, 1101 (9th Cir. 2009) (recognizing a safe harbor for Internet service providers acting in good faith).

[11] The rate of recidivism among cyber bullies has not yet been quantified. Recent commentary, however, suggests that the calculation of recidivism rates in other contexts is extremely unreliable. *See* Liptak, Adam, "Did the supreme court base a ruling on a myth?" March 6, 2017 *New York Times* on page A6 (" . . . the Supreme Court's scientifically dubious guidance on the actual risk of recidivism that sex offenders pose has been unquestionably repeated by almost all other lower courts.").

[12] The act of creating a webpage may constitute expressive conduct protected by the First Amendment; it does not follow, however, that lewd or defamatory content displayed thereon is similarly protected. *See* Texas v. Michael Dwain Bradshaw, 501 S.W.3d 655, 674 (2016). Although courts have recognized that the First Amendment protects both anonymous speech and the use of a pseudonym to conduct online communications, e-personating another to post sexually explicit photographs, solicit sexual encounters, or espouse racist views are not protected activities. *See Bradshaw, supra*, at 674, fts. 5 and 6; *see generally* Hustler Mag., Inc. v. Jerry Falwell, 485 U.S. 46, 50 (1988) (holding that the First Amendment protects parodies of public figures); *see also, e.g.*, Boston v. Ahearn, 764 S.E.2d 582, 583–84 (Ga. App. 2014) (declining to protect racist views); Am. Civil Liberties Union of Ga. v. Miller, 977 F. Supp. 1228, 1233 (N.D. Ga. 1997) (staying a Georgia statute making false e-identification *per se* unlawful); United States v. Osinger, 753 F.3d 939, 947 (9th Cir. 2014) (declining to protect sexually explicit photographs).

required information is missing,[13] or you otherwise feel compelled to justify your edits for some reason,[14] you may provide (very brief) clarification.[15]

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[13] *See, e.g.*, *supra* notes 2–4 and accompanying text; *Cent. Hudson & Elec. Corp.*, *supra* note 6, at 583; Boston v. Ahearn, 764 S.E.2d 582, 583–84 (Ga. App. 2014); Academic, Digital and Industrial Hospital Equipment Co., Inc. v. Regional Medical Manufacturers, 970 N.E.2d 1, 17 (Ill. 2012); Am. Civil Liberties Union of Ga. v. Miller, 977 F. Supp. 1228, 1233 (N.D. Ga. 1997); United States v. Osinger, 753 F.3d 939, 947 (9th Cir. 2014); N.C. Gen. Stat. Ann. § 106-aa (West 2016); N.Y. PENAL LAW § 190.25(4); FED. R. EVID. 410; HAW. REV. STAT. § 711-1106.6; 18 U.S.C. § 1030(4) (2012); U.S. CONST. amend. I; ARTURO RENZI, DEVELOPING ISSUES IN INTERNET IMPERSONATION AND IDENTITY THEFT 2000 – 2010, at 104 (2012); RESTATEMENT, *supra* note 3, at § 325(a); Colleen M. Koch, *To Catch a Catfish: A Statutory Solution for Victims of Online Impersonation*, 88 U. COLO. L. REV. 233, 235 (2017); Pete Thamel, *Manti Te'o in His Own Words*, SPORTS ILLUSTRATED, Jan. 17, 2013, at 26, 28; Ingold, *supra* note 1; Carlton Kinkaide, Eleanor Sterritt & Camille Koch, *supra* note 5, at 131.

[14] Some estimate that between 2001 and 2005, the number of reported Internet impersonation cases rose from 30 or 40 per month to about one hundred and fifty. Eleanor Sterritt, *Procedural Traps for the Unwary in the Virtual Courtroom*, 2009 ALA. JOUR. OF PROCEDURE AND GOVT. 477, 490 (2009). A number of cases have construed e-personation. *See, e.g.*, Barnes v Yahoo!, 570 F.3d 1096, 1101 (9th Cir. 2009); *Lori Drew*, 259 F.R.D. at 451; *Draker,* 271 S.W.3d at 324; *Stubbs*, 502 S.W.3d at 222.

[15] PLEASE REMEMBER THAT SHORT FORMS ARE IMPORTANT.

DIGITAL DOPPELGANGERS: E-PERSONATION, CYBERHARASSMENT, AND OTHER FORMS OF ONLINE HARM

EDITOR'S REWORK

The practice of e-personation occurs when an imposter uses another's personal information to create a false profile on a social networking site.[1] Although some e-personations are done purely in jest, often the perpetrator has more malign intentions that can result in harm to the target's reputation, financial standing and, in some cases, an erroneous but very real criminal record.[2] Aspersive e-personation is unlawful in all cases, but because the legal system has yet to devise a standard method of redress, attorneys have attempted recovery under an array of retaliatory legal theories.[3]

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[2] An instructive example: although Chris Andersen, a power forward for the Denver Nuggets, was never charged with a crime, his life was upended when interactions with Shelly Chartier, a reclusive and prolific online impersonator, caused law enforcement to search his computer's hard drive for alleged possession of child pornography. *See* Colleen M. Koch, *To Catch a Catfish: A Statutory Solution for Victims of Online Impersonation*, 88 U. COLO. L. REV. 233, 235 (2017). As a result of that investigation—even though based on completely spurious charges—Andersen missed the deciding game of the Nugget's playoff series against the Los Angeles Lakers. *Id.* Thereafter, he was released from the team. *See* John Ingold, *Nuggets Cut Chris "Birdman" Andersen and Sign Anthony Randolph,* DENVER POST (July 17, 2012), http://www.denverpost.com/ci_21097577/nuggets-cut-chris-birdman-andersen. Although Andersen's name was eventually cleared, in the interim period NBA teams hesitated to sign a contract with a potential child-sex criminal. *See* Koch, *supra,* at 236. It took until the middle of the NBA season for Andersen to get a provisional (ten day) contract with the Miami Heat, and a full year for investigators to officially clear his name. *Id*. at 237. The experience reportedly transformed him from a charismatic and memorable player into a recluse—due in part to the online impersonation scheme of which he was the victim. John Ingold, *Woman Who Catfished Chris "Birdman" Andersen Online Sentenced to Jail*, DENVER POST (Oct. 28, 2015), http://www.denverpost.com/2015/10/28/woman-who-catfished-chris-birdman-andersen-online-sentenced-to-jail/ [hereinafter Ingold, *Catfish Sentenced to Jail*]. (Just to close the circle: Shelly Chartier later got married—to a man whom she met (of course!) online. *Id*.)

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Litigated e-personation cases have resulted in mixed, not to mention unpredictable, outcomes.[4] As an initial matter, they are vulnerable to myriad First Amendment challenges.[5] Prosecutors face procedural hurdles as well.[6] Additionally, courts are notoriously apprehensive about placing their imprimatur on

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[5] Appellants have attacked the statutes at issue as unconstitutionally vague or overbroad, or infringing a protected right to parody. *See* U.S. CONST. amend. I ("Congress shall make no law . . . abridging the freedom of speech . . . ."); Taylor v. Texas, 656 F.3d 1151, 1160 (5th Cir. 2011) (holding Texas statute unconstitutionally vague). *See generally* Carlton Kinkaide et al., *Parody as a Protected Interest in the Internet Age*, *in* WE ARE NOT WHO WE PRETEND TO BE: ONLINE PERSONAE IN THE AGE OF ANONYMITY 122, 131 (Isaac Rasmusen ed., 2011) (collecting essays).

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novel legal theories.[7] The muddled pastiche of statutes does not help clarify the procedural confusion.[8]

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[7] *See Drew*, 259 F.R.D. at 451. In *Drew*, a Missouri woman—the mother of a thirteen year old girl—created a fake MySpace profile in order to harass one of her daughter's classmates. ***Id.*** at 459. That harassment led to the targeted child's suicide. *Id*. When Missouri declined to prosecute Drew due to a lack of applicable criminal charges that corresponded with her actions, the Los Angeles United States Attorney's Office successfully prosecuted her under the Computer Fraud and Abuse Act ("CFAA"). ***Id.*** at 461; ***cf. Draker***, 271 S.W.3d at 324 (misdemeanor conviction); ***Stubbs***, 502 S.W.3d at 222 (criminal conviction); Amanda Harmon Cooley, *Guarding Against a Radical Redefinition of Liability for Internet Misrepresentation: The* United States v. Drew *Prosecution and the Computer Fraud and Abuse Act, in* WE ARE NOT WHO WE PRETEND TO BE, *supra* note 5, at 182, 194–97. *But see* Barnes v Yahoo!, 570 F.3d 1096, 1101 (9th Cir. 2009) (holding that the CFAA insulated an Internet service provider from charges that it negligently failed to remove a fake online profile).

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[9] You supply the citation.

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[14] You supply the citation.

[15] PLEASE REMEMBER THAT SHORT FORMS ARE IMPORTANT.

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Herreshoff & Sparkman, LLP
Attorneys at Law

Time-Sensitive Client Legal Analysis

Ernest Adams <eadams@herreshoffsparkman.com>
To: J. Doe <jdoe@herreshoffsparkman.com>
05/12/2017 01:03:55PM

The firm has received a new matter from our long-time client, Michelle Trubinsky, the CEO of Past Era Sports, Inc. Past Era gained national recognition for being the first to market a remote, BlueTooth enabled flying "quidditch snitch" that interfaces with a user-programmable smartphone app. Past Era named the remote snitch and the accompanying smart-phone app the *SeekerPro*. In essence, quidditch players can program the remote snitch, using the cell phone app, to fly within the bounds of a particular geographical area and, at varying levels of difficulty, evade attempted capture. Quidditch players across the country, mainly on college campuses, have become enamored of the authentic feeling of playing quidditch that the *SeekerPro* provides.

Past Era began marketing both the cell phone app and accompanying remote seeker early in 2013. Since its release, the package has consistently been its top revenue producer. Many companies have released poor imitations, but none has succeeded in matching the *SeekerPro*'s intuitive evasion logic.

Ms. Trubinsky informs me that Past Era's principle competitor, Prime Time Performance Products, has been gaining market share selling its own remote, BlueTooth enabled flying "quidditch snitch" that interfaces with a user-programmable smartphone app. Prime Time's smartphone app, and the snitch that accompanies it, function almost identically to Past Era's *SeekerPro*. Prime Time released its version in September 2014, and called it *The Golden Seeker.*

Past Era has kept both the *SeekerPro*'s app source code, and the technology used for rivet assembly of the snitch's outer casing, a closely guarded secret. Michelle is convinced that two former Past Era employees—Matt Konsil and Bryan Briggson—provided Prime Time with both the final rivet assembly on the snitch and the app's source code.

Michelle tells me that Past Era was well aware of Prime Time's competitor product in 2014, but didn't worry about it until Prime Time drastically reduced its manufacturer's suggested retail price (MSRP) — a move that began cutting into the *Seeker Pro's* market share. Michelle believes that Prime Time achieved significant development savings by using Past Era's closely guarded source code and design schematics, thereby allowing Prime Time to reduce the price of its product. She has provided the firm with some evidence for her assertion, including records that indicate Konsil made copies of the source code and the design schematics on his last day of work before security could escort him from Past Era's design headquarters in Menlo Park. She's asked our firm to investigate what legal remedies might be available to Past Era. To that end, I have asked several associates to explore various legal theories. Here is your assignment.

First, I would like you to focus most of your analysis on whether Past Era has a viable claim for trade secret misappropriation. In particular, please analyze these three interrelated issues:

- a.) Do the source code and final rivet assembly technique for the *SeekerPro* constitute protectable trade secrets;
- b.) if so, did Past Era take reasonable precautions to safeguard the secrets, and;
- c.) if so, did Konsil, Briggson, or Prime Time misappropriate Past Era trade secrets in violation of California law?

Second, a few of the cases suggest that some of Past Era's trade secret claims against Konsil, Briggson, and Prime Time might be affected by the UTSA's statute of limitations (*Cadence Design Systems, Inc. v. Avant! Corp.* and *Cypress Semiconductor Corp. v. Superior Court,* for example; there may be others). In light of these concerns, please walk me through the UTSA's statute of limitations provisions, assess the record documents to calculate a timeline of the facts, and provide me with a very quick evaluation (in just a couple of pages or so) of which of Past Era's claims, if any, might be time barred.

Please draft a memo, no more than 12 pages, addressing the issues above. It will be helpful to me if you organize your memo with appropriate headings and sub-headings. Include a summary of the relevant facts **limited to the first 2 pages of your memo**. I'd also appreciate a short conclusion summarizing your analysis at the end. A paralegal has organized the materials Past Era provided (in addition to some other available evidence). When you cite to the evidentiary materials, please use the citation system she created and indicated at the bottom right of each page: R1 or R5, for example. (I'd appreciate it if you would cite to the record in both your summary of the facts and discussion sections. The record documents are so short, you needn't provide pin cites to them. Those materials are sufficiently complete that you should not need to cite to this assignment email.) Please cite California state court cases to the applicable Cal. Rptr. (or Cal. App. Rptr. as the case may be). Where you cite a federal case applying California law, please cite to West's Federal Reporter. Otherwise, please use the *Bluebook*'s conventional cite forms.

Please ***do not analyze*** any other potential claims, such as breach of contract or unfair competition. Also, please do not conduct any further research—we bill Past Era per search in WestLaw, and they've asked us to keep the costs low at this initial exploratory stage of the litigation.

I have set up a client meeting for May 26th, so I'll need your analysis by then. Thanks for your help on this.

Ernie

MEMORANDUM

Date: December 28, 2013

To: Michelle Trubinsky, Chief Executive Officer

From: Wayne Brady, Director of Market Research

RE: 2013 Year End Market Research Summary

2013 has been a very good year for Past Era. As you know, our annual revenue has increased 15% from 2012, with strong performance by the *SeekerPro* leading the way. Sales of the *SeekerPro* accounted for 20% of annual gross revenues after its release in January of this year. *RatchetBasket* and *HoverCroquet* also delivered significant cash flows for the company.

Our analysis of the technical sports market suggests that the *SeekerPro* will continue to perform very well in the next few years, especially across high school and collegiate demographics. No competitor product presently on the market matches *SeekerPro*'s intuitive evasion technology or realistic random flight characteristics. Consequently, *SeekerPro* continues to represent the only fully accurate immersive quidditch experience. We forecast continued growth into adult social sports leagues, and potential application of our proprietary technology to the other quidditch balls: Buldgers and Quaffles. In the coming years, we anticipate offering a truly unique quidditch experience: full immersion and simulation of all active quidditch technology in a single package. Our market analysis indicates potential revenues of more than $30 million. Needless to say, these are very valuable Past Era properties.

Our analysis reveals similar potential across our other BlueTooth enabled products—in general, market trends suggest that consumers value the interactive and customizable characteristics of our programmable products, and appreciate the intuitively easy smart-phone app that accompanies them.

In sum, the future looks bright at Past Era! Until one of our lagging competitors matches our user experience and manufacturing technology, the field is clear for continued dominance.

Proprietary Technology Security Policy

Revision: January 1, 2014

NOTICE

As of the effective date of this revision, employees are required to adhere to the following security protocols:

1. The following measures apply to building security and access controls
    a. Employees must display valid company identification at all times while on company property
    b. Building access shall be only through controlled security checkpoints—employees must scan RFID-enabled identification cards for building access
    c. Access to "technical design areas," as designated by the Director of Proprietary Technology Security, shall be controlled through biometric identification of authorized design personnel
    d. Printed Master Design Schematics and engineering blueprints shall be stored at all times in locked storage, to be removed only for design consultation
        i. Employees with authorization to remove Master Design Schematics or engineering blueprints from locked storage must sign the document out, and log its removal by scanning their employee ID. Upon return, employees must log the document in.
        ii. Master Design Schematics and engineering blueprints may not be removed from company property under any circumstances
2. The following measures apply to software, computer code, and related materials
    a. All work on "source code," or human-readable programming, must be conducted on an "air gapped" computer terminal (i.e., a computer that is not, and has never been, connected to the internet), and only authorized employees with appropriate login credentials may access "source code terminals"
    b. No employee may copy, reproduce in any medium, or otherwise remove source code from their employee computer terminal under any circumstances
    c. No software or program may be released outside of Past-Era as source code—all programs must be compiled as machine-readable executable code before release
    d. Employees with authorization to access source code terminals must change their login credentials every 60 days—passwords must be at least 10 characters in length, contain a number, a capital letter, and a special symbol, and may not be repeated

EMPLOYEE NONDISCLOSURE AGREEMENT

This agreement (the "Agreement") is entered into by **Past Era Sports Inc.** ("Company") and **Matt Konsil** ("Employee").

1. Company's Trade Secrets

In the performance of Employee's job duties with Company, Employee will be exposed to Company's Confidential Information. "Confidential Information" means information or material that is commercially valuable to Company and not generally known or readily ascertainable in the industry. This includes, but is not limited to:

(a) technical information concerning Company's products and services, including product know-how, formulas, designs, devices, diagrams, software code, test results, processes, inventions, research projects and product development, technical memoranda and correspondence;

(b) information concerning Company's business, including cost information, profits, sales information, accounting and unpublished financial information, business plans, markets and marketing methods, customer lists and customer information, purchasing techniques, supplier lists and supplier information and advertising strategies;

(c) information concerning Company's employees, including salaries, strengths, weaknesses and skills;

(d) information submitted by Company's customers, suppliers, employees, consultants or co-venture partners with Company for study, evaluation or use; and

(e) any other information not generally known to the public which, if misused or disclosed, could reasonably be expected to adversely affect Company's business.

2. Nondisclosure of Trade Secrets

Employee shall keep Company's Confidential Information, whether or not prepared or developed by Employee, in the strictest confidence. Employee will not disclose such information to anyone outside Company without Company's prior written consent. Nor will Employee make use of any Confidential Information for Employee's own purposes or the benefit of anyone other than Company.

3. Confidentiality Obligation Survives Employment

Employee's obligation to maintain the confidentiality and security of Confidential Information remains even after Employee's employment with Company ends and continues for so long as such Confidential Information remains a trade secret.

Employee has carefully read all of this Agreement and agrees that all of the restrictions set forth are fair and reasonably required to protect Company's interests. Employee has received a copy of this Agreement as signed by the parties.

Employee: Matt Konsil

Matt Konsil (Signature)

Date: November 8, 2008

Company: Past Era Sports Inc.,

Michelle Trubinsky(Signature)

Michelle Trubinsky on behalf of Past Era Sports Inc. (Typed or Printed Name)

Date: November 8, 2008

EMPLOYEE NONDISCLOSURE AGREEMENT

This agreement (the "Agreement") is entered into by **Past Era Sports Inc.** ("Company") and **Bryan Briggson** ("Employee").

1. Company's Trade Secrets

In the performance of Employee's job duties with Company, Employee will be exposed to Company's Confidential Information. "Confidential Information" means information or material that is commercially valuable to Company and not generally known or readily ascertainable in the industry. This includes, but is not limited to:

(a) technical information concerning Company's products and services, including product know-how, formulas, designs, devices, diagrams, software code, test results, processes, inventions, research projects and product development, technical memoranda and correspondence;

(b) information concerning Company's business, including cost information, profits, sales information, accounting and unpublished financial information, business plans, markets and marketing methods, customer lists and customer information, purchasing techniques, supplier lists and supplier information and advertising strategies;

(c) information concerning Company's employees, including salaries, strengths, weaknesses and skills;

(d) information submitted by Company's customers, suppliers, employees, consultants or co-venture partners with Company for study, evaluation or use; and

(e) any other information not generally known to the public which, if misused or disclosed, could reasonably be expected to adversely affect Company's business.

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Employee shall keep Company's Confidential Information, whether or not prepared or developed by Employee, in the strictest confidence. Employee will not disclose such information to anyone outside Company without Company's prior written consent. Nor will Employee make use of any Confidential Information for Employee's own purposes or the benefit of anyone other than Company.

3. Confidentiality Obligation Survives Employment

Employee's obligation to maintain the confidentiality and security of Confidential Information remains even after Employee's employment with Company ends and continues for so long as such Confidential Information remains a trade secret.

Employee has carefully read all of this Agreement and agrees that all of the restrictions set forth are fair and reasonably required to protect Company's interests. Employee has received a copy of this Agreement as signed by the parties.

Employee: Bryan Briggson

Bryan Briggson (Signature)

Date: November 16, 2008

Company: Past Era Sports Inc.,

Michelle Trubinsky(Signature)

Michelle Trubinsky on behalf of Past Era Sports Inc. (Typed or Printed Name)

Date: November 16, 2008

Recent Resignations of Two Employees: Matt Konsil and Bryan Briggson

Michelle Trubinsky <mtrubinsky@pasterasports.com>
To: Angela McDonald <amcdonald@pasterasports.com>
02/15/2014 03:46:45PM

Hi Angela,

I hope everything is well with you and your new daughter. We all look forward to your return to work at Past Era. We have missed you. I'm writing because, while you were on maternity leave, two long-term employees, Matt Konsil (Senior Technical Lead for App Development) and Bryan Briggson (Chief of New Products Engineering) resigned. Matt resigned on January 15, 2014, and Bryan resigned on February 1, 2014. In accordance with company policy, I am reporting both their resignations to you now, in your capacity as Director of Human Resources.

We all look forward to having you back!

Michelle

URGENT: Potential Technology Security Breaches: Departing Employees

Frank Moriarty <fmoriarty@pasterasports.com>
To: Michelle Trubinsky <mtrubisky@pasterasports.com>
03/15/2014 04:55:00AM

Michelle -

In accordance with standard company policy, my team conducted an information security audit for two recently departed employees, Matt Konsil and Bryan Briggson. Our review flagged two significant security protocol abnormalities that merit immediate attention.

First, our review of Matt's source code terminal logs indicates that some or all of the source code for *SeekerPro*'s control app (version 4.1.1) was copied roughly 15 minutes before Matt's meeting with HR, where he informed the Company of his resignation. The logs indicate that the program was copied to an external disk, most likely a USB flash drive. We have not been able to determine how Matt bypassed our system controls designed to prevent copying to an external device.

Because Matt was compliant following his resignation, security did not conduct a physical search of his person as he was escorted off campus—it is possible that he copied the *SeekerPro* control code and smuggled it out of the building on the day he resigned.

Second, our review of Bryan's activities in the weeks prior to his resignation indicates a suspicious pattern of Master Design Schematic withdrawals. In the three weeks prior to Bryan's last day, he logged out the *SeekerPro*'s final rivet assembly pattern, Master Design Schematic, and engineering blue prints a total of ten times. On five occasions, he checked out all three sets of documents simultaneously. At least three times, the documents were logged out for more than five hours before they were returned to the vault. Our review of Bryan's activity logs indicates that he was not working on anything related to the *SeekerPro* at the time of these withdrawals—our understanding from interviews with others in the New Products Engineering Department is that Bryan was in the midst of an update to the *RatchetBasket*'s primary spring design when he checked the *SeekerPro* documents out.

Please let me know how you would like me to proceed.

Frank

Frank I. Moriarty
Director of Proprietary Technology Security
Past-Era Sports, Inc.
fmoriarty@pasterasports.com
(650) 249 – 7732

"I am convinced that there are only two types of companies: those that have been hacked and those that will be." Robert S. Mueller III, Director, Federal Bureau of Investigation

FOR IMMEDIATE RELEASE

Menlo Park, CA – 30 March 2014: Prime Time Performance Products (NYSE: PTPX) announced the hiring of two new senior technical staff this afternoon at their company headquarters in Menlo Park, California. Matt Konsil has joined Prime Time as Director of Advanced Controls Software Development, taking over as the Company's leader in smartphone app design. Prime Time also welcomed Bryan Briggson as Senior Vice-President of New Product Engineering. Briggson will lead Prime Time's continued expansion into dynamic, BlueTooth enabled immersive sports equipment.

Prime Time CEO Mycroft Twickensham said, "We are absolutely thrilled to welcome these two industry visionaries to the Prime Time family. Matt and Bryan represent the best of the best in this explosive new market segment. With their leadership, we will go confidently in the direction of our dreams. The sky is truly the limit."

Both Konsil and Briggson bring extensive industry experience, most recently in senior technical roles at Past Era Sports.

GREENDRAGON.com
Revolutionary Tech Reviews

Past Era: Consider The Gauntlet Thrown

Prime Time Performance Products Releases *Golden Seeker*

April 6, 2014
10:21 AM

By Coral Davenport
Menlo Park, CA: Well, it's finally happened. The day that some in the high-tech sports industry thought would never arrive has dawned: a viable challenger to Past Era's heretofore market-crushing *SeekerPro* has crashed the party. Prime Time Performance Products, a relatively new entrant to the immersive sports technology space, has released its initial version of a remote, BlueTooth enabled flying quidditch snitch set to compete directly with Past Era's remotely controlled gizmo, and they're calling it the *Golden Seeker*. Prime Time says it hopes to complete beta testing by late August, and anticipate wide-release at the beginning of September.

Industry insiders say that the *Golden Seeker* closely mirrors Past Era's *SeekerPro*. Users will be able to program the snitch directly from their smartphone using a BlueTooth wireless connection, then let it fly within the bounds of a pre-selected geographic area, just as they can with the *SeekerPro*. And just like the *SeekerPro*, Prime Time says the *Golden Seeker*'s evasion algorithms will allow quidditchers to select from three "challenge levels:" "First Year," "Prefect," and "World Cup." At each successive level, the snitch evades human capture with increased diligence. Prime Time Director of Advanced Controls Software Development Matt Konsil boasts that, when set to "World Cup" evasion, "only the most seasoned collegiate seekers will be able to locate and capture the *Golden Seeker*."

A video of Prime Time's new industry darling in action at last week's *Technically Operating Remote Technology in Sports* (TORTS) conference impressed Hamilton College's Quidditch Club captain Michael Scott. "The *Golden Seeker* looks to have all the same functionality as the *SeekerPro*, and the rumor is that Prime Time will offer it at half the price!" raved Scott. "And that's a relief," he added, "because the college keeps trying to pull our funding to give to the football team."

URGENT: Prime Time Stole our Engineering!

Dave Goldstein <dgoldstein@pasterasports.com>
To: Frank Moriarty <fmoriarty@pasterasports.com>
04/06/2014 11:32:33AM

Frank – have you seen the article on GreenDragon this morning about Prime Time's new remote snitch? They're calling it the Golden something – I didn't catch the full name. Anyway, the author mentioned video of the thing in action, so I went and found it online. I couldn't believe what I saw!

The first thing I noticed was it's flight characteristics – the thing has practically zero induced drag. It took us the better part of five years to design something so aerodynamically clean. Then it hit me – there's no way they could have designed something like this without using our assembly techniques, or something very similar.

Just to be sure, I enhanced the video and looked more closely. That's when I noticed the rivet assembly of the upper and lower hemispheres of the shell. It looks identical to the marks our assembly process leaves. I know you probably don't remember, but we spent years trying to resolve parasitic and induced aerodynamic drag problems with our assembly. The final product leaves this row of dimples at the equator of the snitch, and theirs looks exactly the same.

I think Bryan gave them this stuff when he committed his treason – there's no way Prime Time came up with this on their own. Is there anything Technology Security can do?

Dave

David H. Goldstein
Director
New Products Engineering
Past Era Sports, Inc.
(650) 249 – 7710
dgoldstein@pasterasports.com

"The glass isn't half empty. It's been designed to the wrong specifications."

GOLDEN SEEKER SNITCH PRODUCT RELEASE

Golden Seeker Product Release Special Deal

Buy our new remote controlled seeker with accompanying app:

- One-time 30% discount on smartphone app with purchase
- Go to app store on iphone to purchase after buying seeker to get discount using code

Sept. 1, 2014

PT
Prime Time

URGENT: Alert about Prime Time Golden Seeker

Dave Goldstein <dgoldstein@pasterasports.com>

To: Michelle Trubinsky <mtrubinsky@pasterasports.com>
09/15/2014 09:45:33AM

Hi Michelle,

Per your request I purchased the new *Golden Seeker* from Prime Time. I bought the remote seeker at a local sports store and then paid for and downloaded the app later that night. When I started running the app on my phone I realized that it had the exact same format as ours. Then I took it back to the lab and started testing it.

When I was testing their product I noticed that the app crashed performing the exact same function that gave us difficulty early on in our development process. After doing even more testing, I discovered that Prime Time's app had the exact same bug that we originally had in ours before we fixed it after an April 3rd team meeting. The exact same. The odds of them having the same bug in the same spot in their code as us are a million to one. I am convinced they somehow stole our source code.

Also after purchasing the product and getting to view it up close, I can confirm that elements of Prime Time's product bear striking similarities to our final rivet assembly. I thought I should report this to you right away.

Dave

David H. Goldstein
Director
New Products Engineering
Past Era Sports, Inc.
(650) 249 – 7710
dgoldstein@pasterasports.com

"The glass isn't half empty. It's been designed to the wrong specifications."

Recent Resignations of Two Employees: Matt Konsil and Bryan Briggson

Michelle Trubinsky <mtrubinsky@pasterasports.com>
To: Bill Minot <bminot@minotcapitalventures.com>
04/08/2014 03:46:45PM

Hi Bill,

I hope you're doing well and enjoying the spring weather. I'm writing to keep you and the rest of the Board informed about recent developments with the *SeekerPro*. As you know, we've enjoyed immense success with our product, in part because nobody else has been able to approach the *SeekerPro*'s user experience or flight characteristics.

You may have seen, however, that Prime Time Performance Products has a new product out on the market that appears to perform nearly as well as the *SeekerPro*. We believe that their product owes much of its success to stolen technology – two former Past Era employees who were intimately involved in the engineering behind the *SeekerPro* were recently hired at Prime Time.

Despite this overt act of corporate espionage, after consultation with the rest of Past Era's executive team, I have decided not to pursue legal action at this time. We believe that the negative publicity, especially with our target demographics (Generation Y and younger, who believe in "open source" principles and shared technology) would significantly undermine our brand loyalty and competitive advantage. Our assessment is that the consequences of legal action outweigh the benefits of pursuing it at this stage.

Our preliminary analysis over the last week indicates that our sales remain strong, and that our early market lead and well-established brand credibility position us to remain the largest distributor of immersive sports equipment nationally. Should the facts on the ground change, of course, we will rethink our legal position.

Please let me know if you, or the Board, have questions or concerns. As always, I am happy to help as I can.

Best regards,

Michelle

Recent Resignations of Two Employees: Matt Konsil and Bryan Briggson

Michelle Trubinsky <mtrubinsky@pasterasports.com>

To: Bill Minot <bminot@minotcapitalventures.com>
05/11/2017 02:18:45PM

Hi Bill,

I am writing to inform you of legal action I am initiating on behalf of the company. You may recall that, in 2014, we elected to forego legal remedies against Prime Time Performance Products for the theft of critical technology developed for use in the *SeekerPro*. As I mentioned in that email, we would reconsider our legal position if the facts on the ground changed.

The facts have changed. Beginning in mid-2015, Prime Time began a slow but steady decrease in its MSRP for its competitor product, the *Golden Seeker*. We are unable to match that decrease in price because we are still recouping nearly a decade of research and development expenses that went into creating the *SeekerPro*. We believe that Prime Time's price reductions are only possible because they stole our technology – they simply could not afford to market their product for the price they are presently advertising if they had designed it in-house. The design expenses for a product like this are astronomical.

Unfortunately, Prime Time's cheaper product has significantly affected our market share. Sales of the *SeekerPro* have diminished appreciably in the last 6 months. The accompanying decrease in revenue has made recouping our development costs even more difficult. We are, to be blunt, in a precarious position.

Accordingly, I have contacted Ernie Adams, our outside counsel at Herreshoff & Sparkman. I have asked him to begin considering our legal options. In the meantime, I plan to reach out to Mycroft Twickensham at Prime Time to attempt to resolve this amicably.

I will keep you and the Board informed at every step of the way. Please don't hesitate to get back to me with questions or concerns – my inbox is always open.

Kind regards,

Michelle

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Table of Authorities

(final page of materials 111)

Forgive me if this is infantilizing, but I get questions about it every year. For the purposes of pin citing, you should be able to figure out the appropriate pagination by referring to the bolded asterisks embedded in the text of the cases. In *Cadence Design Systems*, for example, the Cal. 4th pagination is denoted with a single asterisk; the P.3d pagination is indicated with a double asterisk, and so forth.

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West's Annotated California Codes
Civil Code (Refs & Annos)
Division 4. General Provisions (Refs & Annos)
Part 1. Relief
Title 5. Uniform Trade Secrets Act (Refs & Annos)

West's Ann.Cal.Civ.Code § 3426.1

§ 3426.1. Definitions

Effective: January 1, 2012
Currentness

As used in this title, unless the context requires otherwise:

(a) "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.

(b) "Misappropriation" means:

(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(2) Disclosure or use of a trade secret of another without express or implied consent by a person who:

(A) Used improper means to acquire knowledge of the trade secret; or

(B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:

(i) Derived from or through a person who had utilized improper means to acquire it;

(ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

(c) “Person” means a natural person, corporation, business trust, estate, trust, partnership, limited liability company, association, joint venture, government, governmental subdivision or agency, or any other legal or commercial entity.

(d) “Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and

(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Credits
(Added by Stats.1984, c. 1724, § 1. Amended by Stats.1994, c. 1010 (S.B.2053), § 54.)

West's Annotated California Codes
Civil Code (Refs & Annos)
Division 4. General Provisions (Refs & Annos)
Part 1. Relief
Title 5. Uniform Trade Secrets Act (Refs & Annos)

West's Ann.Cal.Civ.Code § 3426.6

§ 3426.6. Time for bringing action

Effective: January 1, 2012

An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim.

Credits
(Added by Stats.1984, c. 1724, § 1.)

Notes of Decisions (62)

West's Ann. Cal. Civ. Code § 3426.6, CA CIVIL § 3426.6
Current with urgency legislation through Ch. 4 of 2017 Reg.Sess

End of Document

235 Cal.App.3d 1, 286 Cal.Rptr. 518

ABBA RUBBER COMPANY,
Plaintiff and Respondent,
v.
ROY J. SEAQUIST et al.,
Defendants and Appellants.

No. E008603.
Court of Appeal, Fourth District, Division 2, California.
Oct. 16, 1991.

[Opinion certified for partial publication. *]

SUMMARY

A rubber roller manufacturer sued three former employees for misappropriation of trade secrets, unfair competition, intentional interference with business relations, and breach of contract, arising from the former employees' alleged use of plaintiff's confidential customer lists. The trial court issued a preliminary injunction restraining defendants from soliciting any of plaintiff's former customers and requiring that plaintiff post a $1,000 undertaking as a condition of the issuance of the injunction. (Superior Court of Riverside County, No. 205622, Edward D. Webster, Judge.)

The Court of Appeal reversed. The court held that defendants did not waive their right to challenge the sufficiency of the undertaking by making a written, ex parte objection, rather than a noticed motion, as required by Code Civ. Proc., § 995.930, subd. (c), since defendants substantially complied with the statutory procedure. The court further held that a $1,000 undertaking was insufficient under Code Civ. Proc., § 529, to protect against the damages defendants could sustain as a result of the injunction, given defendants' undisputed contention that the customers' invoices totalled $315,000 per year, and given the fact that defendants could incur substantial attorney fees and expenses appealing the issuance of the preliminary injunction or defending against the main action at trial. The court further held, however, that the trial court did not err in concluding that the customer list was a trade secret, since there was evidence that the list contained information of value to competitors, in that it identified consumers of rubber rollers who were not known to plaintiff's competitors. (Opinion by McKinster, J., with Ramirez, P. J., and Timlin, J., concurring.)

HEADNOTES

Classified to California Digest of Official Reports

(1)
Injunctions § 20--Waiver of Right to Sufficient Undertaking--Failure to Object.
The court has a mandatory duty to require an undertaking by an applicant for a preliminary injunction as a condition of issuing the injunction (Code Civ. Proc., § 529, subd. (a)). Since an undertaking is an indispensable prerequisite to the issuance of a preliminary injunction, and the injunction does not become effective until an undertaking is required and furnished, the restrained party does not waive its right to an undertaking by failing to request it. Moreover, the restrained party is entitled, not only to an undertaking, but to one in an amount sufficient to pay it such damages as it might sustain by reason of the injunction if it proves to have been improperly issued, and the restrained party does not waive the right to a sufficient undertaking by failing to demand it.

(2a, 2b)
Injunctions § 20--Preliminary Injunctions--Undertaking--Waiver of Right to Sufficient Undertaking--Objection by Improper Procedure.
Defendants, who were restrained from soliciting plaintiff's former customers, did not waive their right to challenge the sufficiency of the undertaking posted by plaintiff, by objecting to the undertaking by an ex parte, written objection rather than the noticed motion procedure required by Code Civ. Proc., § 995.930, subd. (c)). Defendants substantially complied with the statutory procedure, since their written objection alerted both the court and counsel to the specific issue of the adequacy of the undertaking, set out an estimate of what an adequate undertaking would be, and identified the basis for that estimate, and plaintiff was able to respond in writing before the trial court made a final ruling. Moreover, neither the trial court nor plaintiff insisted upon strict compliance with the statutory procedure, and it was

doubtful that strict compliance would have materially added to the substance of the objection.

(3)
Bonds § 5--Actions--Statutory Procedure for Objections--Sufficiency of Substantial Compliance.
Unless the intent of Code Civ. Proc., § 995.930 (statutory procedure for objections to bonds) can be served only by demanding strict compliance with its terms, substantial compliance is the governing test. Substantial compliance means actual compliance with respect to the substance essential to every reasonable objective of the statute.

(4)
Evidence § 25--Effect of Improper Admission or Exclusion--Requirement of Timely and Specific Objection--Purpose.
Evid. Code, § 353, which requires that an evidentiary objection be timely made and specifically stated, is intended to prevent error by the trial court and to avoid unfair surprise to opposing parties. Compliance with the statute fulfills those twin objectives by giving the trial judge a concrete legal proposition to pass on, and by advising opposing counsel of the alleged defect, to afford him or her the opportunity to reframe or withdraw the question, lay additional foundation, modify the offer of proof, or take other steps designed to minimize the prospect of reversal on appeal.

(5)
Bonds § 5--Actions--Statutory Procedure for Objections--Purpose.
The objectives of the procedures outlined by Code Civ. Proc., § 995.930 (noticed motion for objecting to bond) are to reduce the likelihood that the trial court will persist in an erroneous failure to comply with its duty to require the posting of a sufficient bond, and to do so in a way that will provide sufficient notice to the opposing side to enable it to respond in a meaningful fashion. The statute seeks to accomplish these goals by requiring the beneficiary of the bond to specify in writing the precise manner in which the bond is allegedly insufficient, and by requiring a noticed motion, so that the objection will be explained in a memorandum of points and authorities and the opponent will have an opportunity to respond. Also, by requiring the objecting party to estimate the bond amount that would be sufficient, the statute presents the trial court with concrete alternatives from which to choose. The short time limit within which to object ensures that the trial court's supposed error will be raised promptly.

(6)
Injunctions § 20--Preliminary Injunctions--Undertaking--Determination of Sufficiency--Trial Court's Discretion.
The trial court's function in determining the sufficiency of an undertaking (Code Civ. Proc., § 529, subd. (a)), is to estimate the harmful effect that the preliminary injunction is likely to have on the restrained party, and to set the undertaking at that sum. That estimation is an exercise of the trial court's sound discretion, and will not be disturbed on appeal unless it clearly appears that the trial court abused its discretion by arriving at an estimate that is arbitrary or capricious, or is beyond the bounds of reason. In reviewing the trial court's estimate, the first step is to identify the types of damages that the law allows a restrained party to recover in the event it is determined that the issuance of the injunction was unjustified. The only limits are that the harm must have been proximately caused by the wrongfully issued injunction, and that the damages be reasonably foreseeable.

(7)
Injunctions § 20--Preliminary Injunctions--Undertaking--Damages for Wrongful Injunction--Lost Profits.
For purposes of recovering on an undertaking (Code Civ. Proc., § 529, subd. (a)) for an injunction that restrains the operation of a business, foreseeable damages include the profits that the operator of the business would have made had the injunction not prevented him or her from carrying on the business.

(8a, 8b, 8c)
Injunctions § 20--Preliminary Injunctions--Undertaking--Determination of Sufficiency--Propriety of Nominal Undertaking for Injunction Restraining Use of Trade Secrets.
The trial court erred in requiring plaintiff, who sought a preliminary injunction restraining defendants from soliciting its former customers, to post only a nominal undertaking of $1,000 (Code Civ. Proc., § 529). That

estimate of the damages defendants could sustain as a result of the injunction was not reasonable. Defendants argued without dispute that the customers' invoices totalled $315,000 per year. The trial court's belief that it would be simple for defendants to locate new customers, thus making the injunction a minor inconvenience, ignored the fact that the statute required the court, in estimating the undertaking, to assume that the injunction was wrongfully issued, and that defendants were entitled to solicit business from both plaintiff's former customers and new customers, thus increasing their profitability. The estimate also failed to account for the substantial attorney fees and expenses defendants could incur in appealing the issuance of the preliminary injunction or defending against the main action at trial.

[See **Cal.Jur.3d,** Injunctions, § 77; 6 **Witkin,** Cal. Procedure (3d ed. 1985) Provisional Remedies, § 310.]

(9)

Injunctions § 34--Dissolution and Modification--Preliminary Injunctions--Damages Recoverable on Undertaking--Attorney Fees and Expenses of Dissolution.

Reasonable attorney fees and expenses incurred in successfully procuring a final decision dissolving a preliminary injunction are recoverable as damages within the meaning of an undertaking (Code Civ. Proc., § 529), to the extent those fees are for services that relate to the dissolution. Thus, a successful appeal from an order granting an injunction, after notice and hearing, gives rise to liability on the bond for damages in the amount of the attorney fees incurred in prosecuting that appeal. Alternatively, if the preliminary injunction is valid and regular on its face, requiring the defendant to defend against the main action in order to demonstrate that the injunction was wrongfully issued, the prevailing defendant may recover that portion of the attorney fees attributable to defending against those causes of action on which the issuance of the preliminary injunction was based.

(10)

Injunctions § 20--Preliminary Injunctions--Undertaking--Determination of Sufficiency--Propriety of Considering Likelihood of Defendant's Success on Merits.

A trial court must deny an application for a preliminary injunction unless there is a reasonable probability that the plaintiff will be successful in the assertion of his or her rights. If the trial court grants the application, however, it is impermissible to require the plaintiff to post only a nominal undertaking on the ground that the defendant is unlikely to be entitled to collect any damages as a result of the wrongful issuance of the injunction. The undertaking is designed to compensate the defendant in the event, however unlikely, that the injunction is finally determined to be unjustified, and the probability that the defendant will actually obtain such a determination is irrelevant in determining the likely amount of the damages.

(11)

Injunctions § 12--Preliminary Injunctions--Grounds.

In deciding whether or not to issue a preliminary injunction, the trial court should consider two interrelated factors. The first is the likelihood that the plaintiff will prevail on the merits at trial. That is because a request for an injunction must be denied unless there is a reasonable probability that the plaintiff will be successful in the assertion of its rights. The second is the interim harm the plaintiff is likely to sustain if the injunction is denied, compared to the harm the defendant is likely to suffer if the injunction is issued. The trial court balances these two factors to determine that, pending a trial on the merits, the defendant should or should not be restrained from exercising the claimed right.

(12)

Injunctions § 9--Preliminary Injunctions--Trial Court's Discretion.

The determination of whether to issue a preliminary injunction rests in the sound discretion of the trial court and may not be interfered with on appeal except for an abuse of discretion. A trial court will be found to have abused its discretion only when it has exceeded the bounds of reason or contravened the uncontradicted evidence. Further, the burden rests with the party challenging the injunction to make a clear showing of an abuse of discretion.

(13)

Unfair Competition § 7--Acts Constituting Unfair Competition--Use of Trade Secrets--Definition of Trade Secret.

The definition of “trade secret” consists of three elements: (1) information, (2) which is valuable because it is unknown to others, and (3) which the owner has attempted to keep secret (Civ. Code, § 3426.1, subd. (d)). A customer list is one of the types of information that can qualify as a trade secret.

(14)

Unfair Competition § 7--Acts Constituting Unfair Competition--Use of Trade Secrets--Customer List as Trade Secret.

The trial court did not err in concluding that a list of customers who purchased rubber rollers from plaintiff constituted a trade secret that defendants, who were plaintiff's competitors, could be enjoined from using, since the information in the list had value that was derived from the fact it was not generally known to competitors, who could obtain economic value from use of that information. Substantial evidence indicated that the it was not generally known the customers on plaintiff's list were consumers of rubber rollers, since plaintiff's president testified that determining which companies need rubber rollers was very difficult, expensive, and time consuming, and that the lists, which were kept confidential, were an enormously valuable resource that could not be duplicated without years of effort and expense.

[Former employee's duty, in the absence of express contract, not to solicit former employer's customers or otherwise use his knowledge of customer lists acquired in earlier employment, note, 28 **A.L.R.3d** 7. See also **Cal.Jur.3d,** Unfair Competition, § 15; 11 **Witkin,** Summary of Cal. Law (9th ed. 1990) Equity, §§ 103, 114.]

(15)

Unfair Competition § 7--Acts Constituting Unfair Competition--Use of Trade Secrets--Where Information Readily Ascertainable.

Under California law, information can be a trade secret under Civ. Code, § 3426.1, subd. (d)(1), even though it is readily ascertainable, as long as it has not actually been ascertained by others in the industry. The Legislature, in adopting the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.), chose to exclude the requirement that the information not be readily ascertainable by proper means, apparently because it felt conditioning the scope of a trade secret on the extent to which the information was not readily ascertainable would muddy the meaning of the term and would invite the parties to speculate on the time needed to discover a secret. The fact information is readily ascertainable, however, remains a defense to a claim of misappropriation of trade secrets.

COUNSEL

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McKINSTER, J.

In an action concerning the alleged misappropriation of trade secrets, the trial court issued a preliminary injunction, restraining the defendants from soliciting any former customers of the plaintiff. The defendants challenge the plaintiff's entitlement to injunctive relief, the form and scope of the injunction, and the adequacy of the amount of the undertaking specified by the trial court. Concluding that the injunction is vague and that the amount of the undertaking is insufficient, we reverse the order.

Factual Background

Roy J. Seaquist began manufacturing rubber rollers under the name of ABBA Rubber Company in 1959. He sold the business in 1980. The plaintiff bought the business in 1982.

J.T. “Jose” Uribe began working at ABBA in 1973. He remained there through the various changes of ownership, rising to vice-president and general manager in 1987. His brother, J.A. “Tony” Uribe began working for the company in 1985, and later was promoted to sales manager. In these capacities, both Uribes became very familiar with the identities of ABBA's customers.

Meanwhile, Mr. Seaquist had started a metal fabrication business known as Seaquist Company (Seaquist). In 1985, following the expiration of the noncompetition clause in the agreement by which he had sold ABBA, Seaquist also began manufacturing rubber roller products. However, it had no sales force, and did not significantly expand.

On September 11, 1989, Jose Uribe either quit or was fired from ABBA. The same day, he was hired by Seaquist, which simultaneously leased a new building from which to operate an expanded rubber roller business. Several weeks later, Seaquist hired Tony Uribe as a salesman. He had been fired by the plaintiff in early 1989, and since then had been working for yet another manufacturer of rubber rollers.

While the Uribes deny taking any records from ABBA, they admit to soliciting business from some ABBA customers. They did this in part by means of a letter which announced Jose Uribe's relocation from ABBA to Seaquist, and which invited the recipient to contact him regarding Seaquist's "ability to provide ... an advantage in price, quality and service."

Procedural Background

The plaintiff filed a complaint on June 13, 1990, which alleged misappropriation of trade secrets, unfair competition, intentional inference with ***8** business relations, breach of contract, and other theories. It named as defendants Mr. Seaquist, Jose Uribe, and Tony Uribe, and prayed for preliminary and permanent injunctive relief and damages.

Six days later, the plaintiff made an ex parte application for a temporary restraining order (TRO) and for an order to the defendants to show cause why a preliminary injunction should not issue. Ultimately, the trial court denied the application for the TRO, but granted the application for the preliminary injunction. The preliminary injunction was signed on August 20, 1990, and issued on August 24, 1990, when the plaintiff filed the requisite $1,000 undertaking.

The injunction restrained the defendants from engaging in any of the following acts:

"1. Further solicitation of business from any of the recipients of the September 15, 1989 solicitation letter sent by defendants;

"2. Solicitation of business from any person or entity who has purchased rubber rollers from ABBA between January 1, 1989 and August 7, 1990, and who was on the ABBA customer list as of September 11, 1989 (hereafter referred to as 'ABBA customers'), or facilitating any other person or entity's solicitation of ABBA customers; and

"3. Divulging, making known or making any use whatsoever of the trade secrets of ABBA, concerning the customers subject to the restraints set forth in paragraph 2 of this Preliminary Injunction, which trade secrets consist of:

"(a) the names of ABBA customers;

"(b) the contact persons for ABBA customers, their addresses and telephone numbers;

"(c) the amounts and types of rubber rollers purchased from ABBA by ABBA customers;

"(d) the dates on which each ABBA customer last purchased rubber rollers from ABBA;

"(e) information as to when each ABBA customer opened its account with ABBA; and

"(f) any other information relating to ABBA customers' needs and anticipated needs as communicated to ABBA by these customers." ***9**

Contentions

The defendants contend that the trial court abused its discretion in issuing the injunction, because the identity of the plaintiff's customers was not a trade secret. They also attack the form of the injunction, on the grounds that it does not allow them to determine, in advance and with certainty, what conduct is permissible and what conduct is prohibited. Similarly, they contend that the injunction is impermissibly overbroad, because it proscribes the solicitation of businesses which are not customers of the plaintiff or the identities of which are otherwise not secret. Finally, they assert that the amount of the undertaking specified in the injunction is inadequate.

We conclude that the undertaking is insufficient, and therefore reverse the trial court's order granting the preliminary injunction. For the guidance of the trial court and the parties in the event that any further injunctions, either preliminary or permanent, are issued in this matter, we also address the defendants' contentions concerning the merits, form, and scope of the injunction.

Discussion

A. Is the Undertaking Too Low?

Prior to the issuance of the minute order in which the trial court announced its decision on the application for the preliminary injunction, neither the plaintiff nor the defendants had addressed the issues of either the requirement for or the amount of the undertaking to be posted by the plaintiff in the event that the plaintiff's application was granted.[1] Not surprisingly, therefore, the minute order was silent on the need for or amount of any undertaking. Thereafter, the plaintiff submitted a proposed preliminary injunction, which also had no provision for any undertaking.

While no hearing was held concerning the form of the order, the defendants submitted to the judge written objections to the form proposed by the plaintiff. Those objections raised the lack of any provision for an undertaking, and proposed the sum of $315,000, based upon the evidence which the plaintiff had previously submitted concerning Seaquist's income from former customers of the plaintiff. The plaintiff responded that the defendants ***10** had waived their right to “request” an undertaking, and that in any event an undertaking was not required. As an aside, it noted that an undertaking of only $1,000 had been specified in the exemplar which it had provided to the court. The trial court amended the form of order proposed by the plaintiff by adding the requirement of a $1,000 undertaking, and signed the injunction.

On appeal, the defendants renew their objection to the lack of a sufficient bond.

1. *Did the Defendants Waive Their Objection*?

As its initial response to the defendants' attack on the amount of the undertaking, the plaintiff again contends that the objection has been waived. Specifically, the plaintiff argues, without authority, that they waived their right to make such a challenge because they failed to raise the issue prior to the issuance of the trial court's ruling on the application for the preliminary injunction. Although not specifically raised by the plaintiff, we also consider whether a waiver resulted from the defendants' failure to contest the adequacy of the undertaking by a noticed motion.

a. *No Waiver by Failing to Request Undertaking in Advance.*

([1]) The conditioning of the issuance of a preliminary injunction upon the posting of an undertaking is statutorily required: “On granting an injunction, the court or judge *must* require an undertaking on the part of the applicant. ...” (Code Civ. Proc.,[2] § 529, subd. (a), italics added.) That duty is mandatory, not discretionary. (*Neumann v. Moretti* (1905) 146 Cal. 31, 33 [79 P. 512].) Nothing in the statute conditions the trial court's obligation to require such an undertaking upon a request from the parties. To the contrary, an injunction does not become effective until an undertaking is required and furnished (*Griffin v. Lima* (1954) 124 Cal.App.2d 697, 699 [269 P.2d 191]), and must be dissolved if an undertaking is not filed within the time allowed by statute (§ 529, subd. (a)). Since an undertaking is an indispensable prerequisite to the issuance of a preliminary injunction, regardless of whether the party to be restrained has reminded the court to require the applicant to post one, the restrained party does not waive its right to that statutorily mandated protection by failing to affirmatively request it. Therefore, the defendants' initial silence did not waive their right to an undertaking. ***11**

Furthermore, the defendants are entitled, not merely to any undertaking, but to an undertaking in an amount sufficient to pay the defendants “such damages ... as [they] may sustain by reason of the injunction, if the court finally decides that the applicant was not entitled to the injunction.” (§ 529, subd. (a).) Once again, this is an obligation imposed upon the trial court by statute, independent of any request from the party to be restrained. Therefore, the mere fact that the defendants did not expressly demand, prior to the time that the trial court took the plaintiff's application for preliminary injunction under submission, that any such injunction be conditioned upon the posting of a sufficient undertaking, did not result in a waiver of their right to challenge the amount of the subsequent undertaking.

b. ***No Waiver by Failing to File a Motion.***

([2a]) A closer issue is whether such a waiver occurred because the defendants failed to strictly comply with the statutory procedure governing objections to the amounts of undertakings. [3]

The Bond and Undertaking Law, enacted in 1982, applies to all bonds [4] "given as security pursuant to any statute of this state, except to the extent the statute prescribes a different rule or is inconsistent." (§§ 995.010 and 995.020, subd. (a).) Article 9 of that law, comprised of sections 995.910 through 995.960, "governs objections to a bond given in an action or proceeding." (§ 995.910.) An "objection" includes a contention that "[t]he amount of the bond is insufficient." (§ 995.920, subd. (b).) Thus, that article governed the challenge being made here, concerning the amount of the undertaking to be given in this action pursuant to section 529.

Section 995.930 prescribes the manner in which such an objection is to be made: "(a) An objection shall be in writing and shall be made by noticed motion. The notice of motion shall specify the precise grounds for the objection. If a ground for the objection is that the amount of the bond is insufficient, the notice of motion shall state the reason for the insufficiency and shall include an estimate of the amount that would be sufficient.

"(b) The objection shall be made within 10 days after service of a copy of the bond on the beneficiary or such other time as is required by the statute providing for the bond.

"(c) If no objection is made within the time required by statute, the beneficiary is deemed to have waived all objections except upon a showing ***12** of good cause for failure to make the objection within the time required by statute or of changed circumstances."

Obviously, the means used by the defendants here to communicate their objection to the trial court-an ex parte objection rather than a noticed motion-did not comply with the letter of those statutory procedures. Were they nevertheless sufficient to prevent the waiver threatened by section 995.930, subdivision (c)?

([3]) "Unless the intent of the statute can only be served by demanding strict compliance with its terms, substantial compliance is the governing test." (*Downtown Palo Alto Com. For Fair Assessment v. City Council* (1986) 180 Cal.App.3d 384, 394 [225 Cal.Rptr. 559].) "Substantial compliance ... means actual compliance in respect to the substance essential to every reasonable objective of the statute." (*Stasher v. Harger-Haldeman* (1962) 58 Cal.2d 23, 29 [22 Cal.Rptr. 657, 372 P.2d 649], italics omitted.) Thus, we consider the purposes of the objection procedure described by section 995.930.

([4]) Since the purpose of the procedures specified in this section has not previously been judicially determined, we analogize to an objection statute which has received extensive judicial attention: Evidence Code section 353, which requires that any evidentiary objection be timely made and specifically stated. The objectives of those requirements are to prevent error by the trial court and to avoid unfair surprise to opposing parties. (*People v. Morris* (1991) 53 Cal.3d 152, 187-188 [279 Cal.Rptr. 720, 807 P.2d 949].) Compliance with the statute furthers those twin objectives in two ways. First, it gives the trial judge "a concrete legal proposition to pass on ...." (*Bundy v. Sierra Lumber Co.* (1906) 149 Cal. 772, 776 [87 P. 622].) Second, it advises opposing counsel of the alleged defect, to afford him the opportunity to reframe or withdraw the question (*ibid.*), "lay additional foundation, modify the offer of proof, or take other steps designed to minimize the prospect of reversal" on appeal (*People v. Morris, supra,* 53 Cal.3d at p. 188).

([5]) The objection procedure outlined by section 995.930 has similar objectives: to reduce the likelihood that the trial court will persist in an erroneous failure to comply with its duty to require the posting of a sufficient bond; and to do so in a way which will provide sufficient notice to the opposing side to meaningfully respond. It seeks to accomplish these goals in a variety of ways. For instance, it requires the beneficiary of the bond-in this circumstance, the party being enjoined-to specify in writing the precise manner in which the bond is allegedly insufficient. (§§ 995.930, subd. (a), 995.920.) By requiring that it be made by noticed motion ***13** (§ 995.930, subd. (a)), the statute ensures that the nature of the objection will be further explained in a memorandum of points and authorities. The requirement of notice also guarantees the opponent an opportunity to respond. By requiring the objecting party to estimate the amount of a bond which would be sufficient (*ibid.*), the statute presents the trial court with concrete alternatives from which to choose. Finally, the short time limit in which to object (*id.,* at subd. (b)) ensures that the trial court's supposed error will be raised promptly.

([2b]) In determining whether the defendants' incomplete compliance with section 995.930 is sufficient to prevent an unintentional waiver, we measure their performance against these statutory purposes. Their written objection alerted both the court and counsel to the specific issue (i.e., that the proposed order "fail[ed] to make provision for a bond" that would protect the defendants "against the possibility that [the plaintiff would] not prevail at trial"). It set out an estimate of what an adequate bond would be ($315,000 per year), identified the evidence on which that estimation was based, and explained how that figure was calculated from that evidence. Prior to any final ruling being made, the plaintiff was able to respond in writing (without, we might add, contending that the objection was untimely, objecting that the procedure was improper, or claiming that it had been prejudiced by the lack of additional notice). Finally, the objection was not only made promptly upon the trial court's initial ruling, but before that ruling was put into effect by the entry of a formal order.

In short, although the objection was not in the prescribed form, it nevertheless complied with the substance of each of the statutory requirements, and thereby met the objectives of section 995.930. While the abbreviated procedure adopted by the defendants was not and is not statutorily authorized, it is doubtful whether strict compliance with the procedural requirements of the statute would have materially added to the substance, as opposed to the length, of the objection. Instead, the trial court would have been presented with the same facts, the same argument, and the same issue. [5]

Under these facts, we find that the defendants' ex parte objection substantially complied with the statutory procedure for contesting the sufficiency of the bond. Since neither the trial court nor the plaintiff insisted upon strict compliance with section 995.930, that substantial compliance is sufficient to prevent the waiver provided by subdivision (c) of that section. Therefore, the ***14** defendants did not waive their right to have this court review the adequacy of the amount of that bond on appeal.

2. *Is the Undertaking Insufficient?*

([6]) Section 529, subdivision (a), requires that the amount of the undertaking be sufficient to "pay to the party enjoined such damages ... as the party may sustain by reason of the injunction, if the court finally decides that the applicant was not entitled to the injunction." Thus, the trial court's function is to estimate the harmful effect which the injunction is likely to have on the restrained party, and to set the undertaking at that sum. (*Hummell v. Republic Fed. Savings & Loan Assn.* (1982) 133 Cal.App.3d 49, 51 [183 Cal.Rptr. 708]; *Greenly v. Cooper* (1978) 77 Cal.App.3d 382, 390 [143 Cal.Rptr. 514].) That estimation is an exercise of the trial court's sound discretion, and will not be disturbed on appeal unless it clearly appears that the trial court abused its discretion by arriving at an estimate that is arbitrary or capricious, or is beyond the bounds of reason. (*Greenly, supra,* at p. 390.)

In reviewing the trial court's estimation, the first step is to identify the types of damages which the law allows a restrained party to recover in the event that the issuance of the injunction is determined to have been unjustified. The sole limit imposed by the statute is that the harm must have been proximately caused by the wrongfully issued injunction. (§ 529, subd. (a).) Case law adds only the limitation that the damages be reasonably foreseeable. (*Rice v. Cook* (1891) 92 Cal. 144, 148 [28 P. 219] [not " 'remote' "]; *Handy v. Samaha* (1931) 117 Cal.App. 286, 290 [3 P.2d 602] [" 'reasonably anticipated' "].)

([7]) When an injunction restrains the operation of a business, foreseeable damages include "the profits which [the operator] would have made had he not been prevented by the injunction from carrying on his business." (*Lambert v. Haskell* (1889) 80 Cal. 611, 618 [22 P. 327].) ([8a]) Thus, the defendants correctly sought to have the undertaking include the losses which they will incur by reason of the prohibition against their continued solicitation of business from former customers of the plaintiff. In their objection, the defendants argued that, by the plaintiff's own analysis of the evidence, those customers accounted for 87.7 percent of Seaquist's invoices, representing $26,000 in sales per month, or $315,000 per year. The plaintiff did not dispute their interpretation of the evidence, either below or on appeal. Therefore, while those lost sales will undoubtedly be offset to some degree by savings resulting from reduced sales expenses or costs of goods sold, it is undisputed that the injunction will cause the defendants to incur very substantial lost profits. ***15**

At the final hearing on the application for the injunction, the trial court appeared to believe that it would be a simple matter for the defendants to locate new customers for their products, and that the proposed injunction, restraining them from soliciting further orders from the plaintiff's customers, would be only a "minor inconvenience ...." [6] This may have been the trial court's rationale for setting the undertaking at the nominal sum of $1,000. [7] Certainly, it is the ground upon which the plaintiff seeks to justify that action.

That reasoning, however, ignores the fact that section 529 requires that the potential damages be estimated on the assumption that the preliminary injunction was wrongfully issued, i.e., that the plaintiff did not have the right to keep the defendants from soliciting its customers. Under that hypothetical circumstance, the defendants would be entitled to solicit business from both the plaintiff's former customers and entirely new customers, and thus would be entitled to retain all profits from sales to both subsets of potential buyers. Therefore, the losses which they are likely to suffer from being precluded from soliciting business from their existing customer base cannot be offset by any profits they may make from sales to new customers. A nominal undertaking cannot be justified on the ground that the defendants' profitability could remain constant, when their sales and profitability might have risen in the absence of the injunction.

Furthermore, the plaintiff's analysis ignores another type of damage which the undertaking must take into account: attorney's fees. ([9]) "It is now well settled that reasonable counsel fees and expenses incurred in successfully procuring a final decision dissolving the injunction are recoverable as 'damages' within the meaning of the language of the undertaking, to the extent that those fees are for services that relate to such dissolution [citations]." (*Russell v. United Pacific Ins. Co.* (1963) 214 Cal.App.2d 78, 88-89 [29 Cal.Rptr. 346]; and see generally 6 Witkin, Cal. Procedure (3d ed. 1985) Provisional Remedies, §§ 334-335, pp. 283-284, and Conners, Cal. Surety and Fidelity Bond Practice (Cont.Ed.Bar 1969) Injunction, §§ 22.18-22.21, ***16** pp. 321-323.) Thus, "a successful appeal from an order granting an injunction, after notice and hearing, gives rise to liability on the bond for damages" in the amount of the attorney's fees incurred in prosecuting that appeal. (*Russell v. United Pacific Ins. Co., supra,* at p. 85.) If the preliminary injunction is valid and regular on its face, requiring the defendant to defend against the main action in order to demonstrate that the injunction was wrongfully issued, the prevailing defendant may recover that portion of his attorney's fees attributable to defending against those causes of action on which the issuance of the preliminary injunction had been based. (*Id.,* at pp. 85-86, 88-89.)

([8b]) Thus, in calculating the amount of the undertaking to be required in this case, the trial court should have considered at least (1) the profits to be lost by the defendants from the elimination of the vast majority of their existing customers, and (2) the attorney's fees and expenses to be incurred in either prosecuting an appeal of the preliminary injunction, or defending at trial against those causes of action upon which the preliminary injunctive relief had been granted. ([10]) **(See fn. 8.)** By setting that undertaking at $1,000, the trial court impliedly estimated that those two classes of damages would total no more than that sum. [8]

([8c]) That estimation is not within the bounds of reason. Even ignoring the lost profits, there is no reasonable possibility that the attorney's fees and expenses necessary to dissolve the injunction, either through appeal or trial, would not exceed $1,000. It is well known that litigation is extraordinarily expensive. That is especially true in commercial litigation such as this, in which two businesses are fighting over the right to sell to a particular customer base amid allegations of misappropriation of trade secrets and unfair competition. Such a battle is likely to be vigorously fought, as shown by the number and length of the submissions by both sides concerning the application for preliminary injunction below. Expenses alone would be likely to substantially exhaust the liability limit created by the trial court. Indeed, in the current appeal, filing fees and the costs of the preparation of the ***17** clerk's and reporters' transcripts have certainly consumed over half of that sum. When attorney's fees and lost profits are added into the equation, the utter inadequacy of the undertaking is clear.

B. Was the Issuance of an Injunction an Abuse of Discretion?

The plaintiff contends that the injunction was necessary to restrain the misappropriation of trade secrets, as authorized by the Uniform Trade Secrets Act (Civ. Code, §§ 3426-3426.10), and the statutory remedies for unfair competition (Bus. & Prof. Code, §§ 17200- 17208). We conclude that the preliminary injunction was justified by the plaintiff's showing regarding misappropriations of trade secrets, and thus do not decide whether it could also have been justified on the ground of unfair competition.

1. *Standard of Review*

A court may enjoin actual or threatened misappropriations of trade secrets. (Civ. Code, § 3426.2, subd. (a).) ([11]) “[T]rial courts should evaluate two interrelated factors when deciding whether or not to issue a preliminary injunction. The first is the likelihood that the plaintiff will prevail on the merits at trial.” (*IT Corp. v. County of Imperial* (1983) 35 Cal.3d 63, 69 [196 Cal.Rptr. 715, 672 P.2d 121].) That is because a request for an injunction must be denied “unless there is a reasonable probability that plaintiff will be successful in the assertion of his rights.” (*Continental Baking Co. v. Katz, supra,* 68 Cal.2d at p. 528.) “The second is the interim harm that the plaintiff is likely to sustain if the injunction were denied as compared to the harm that the defendant is likely to suffer if the preliminary injunction were issued.” (*IT Corp., supra,* at pp. 69-70.) The trial court balances these two factors to determine either “ ' ”that, pending a trial on the merits, the defendant should or that he should not be restrained from exercising the right claimed by him.“ ' ” (*Id.,* p. 70, quoting from *Continental Baking Co., supra,* at p. 528.)

([12]) That determination “ 'rests in the sound discretion of the trial court, and ... may not be interfered with on appeal, except for an abuse of discretion.' ” (*IT Corp., supra,* 35 Cal.3d at p. 69, quoting from *People v. Black's Food Store* (1940) 16 Cal.2d 59, 61 [105 P.2d 361].) “A trial court will be found to have abused its discretion only when it has ' ” exceeded the bounds of reason or contravened the uncontradicted evidence. “ ' [Citations.] Further, the burden rests with the party challenging the injunction to make a clear showing of an abuse of discretion.” (*IT Corp., supra,* at p. 69.)

Therefore, our inquiry is defined as follows: Have the defendants clearly shown that the trial court either exceeded the bounds of reason or ***18** contravened uncontradicted evidence when it concluded that they should be restrained from exercising their alleged right to solicit the plaintiff's customers?

2. *Definition of Trade Secret*

While the defendants also contest the form and scope of the injunction, their sole challenge to the substance of the injunction is that the trial court abused its discretion because there was no evidence, contradicted or otherwise, to establish that the plaintiff's customer list satisfied all of the elements of the definition of a trade secret.

([13]) “ 'Trade secret' means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

“(1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and

“(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” (Civ. Code, § 3426.1, subd. (d).) Thus, the definition consists of three elements: (a) information (b) which is valuable because unknown to others and (c) which the owner has attempted to keep secret. (See Comment, *The Secret's Out: California's Adoption of the Uniform Trade Secrets Act-Effects on the Employer-Employee Relationship* (1987) 20 Loyola L.A. L.Rev. 1167, 1218-1219 [hereafter Comment].)

A customer list is one of the types of information which can qualify as a trade secret. (*American Paper & Packaging Products, Inc. v. Kirgan* (1986) 183 Cal.App.3d 1318, 1323-1324 [228 Cal.Rptr. 713].) The defendants do not claim otherwise. Similarly, they admit that substantial, albeit conflicting, evidence supports the trial court's conclusion that the plaintiff took reasonable steps to maintain the secrecy of the information. Thus, the first and third elements are satisfied.

a. *Was the Information Generally Known*?

([14]) The defendants focus on the second element: that the information has value which is derived from the fact that it is not generally known to other persons (i.e., the plaintiff's competitors) who can obtain economic value from the use of that information. The trial court expressly found this element to exist, but the defendants argue that its conclusion is not supported by the record. Specifically, they contend that while the plaintiff did present ***19** evidence that its customer list was valuable, it did not demonstrate that its value was derived from its secrecy.

The defendants are correct in pointing out that a showing of value, by itself, is not sufficient to satisfy the statutory definition. A list of those persons who have demonstrated a willingness to order and pay for the goods or services of a particular business will always have value to that business. However, the statute also requires that the information have value to other businesses which are unaware of the information and which could put that information, if known, to beneficial use.

By itself, knowledge of the identities of the businesses which buy from a particular provider of goods or services is of no particular value to that provider's competitors. However, that information is valuable to those competitors if it indicates to them a fact which they previously did not know: that those businesses use the goods or services which the competitors sell.

By way of illustration, consider a hypothetical market for widgets, supplied by five widget sellers. There are 100,000 businesses engaged in industries which have been known to use widgets in their operations; however, there is no way for the widget sellers to know for sure which of those individual businesses use widgets and which do not. Seller A has a list of 500 businesses to which he has sold widgets in the recent past. That list proves a fact which is unknown to his competitors: that those 500 businesses are consumers of widgets, the product they are trying to sell. Therefore, it has independent value to those competitors, because it would allow them to distinguish those proven consumers, who are definitely part of the widget market, from the balance of the 100,000 potential consumers, who may or may not be part of the market. With that list, they would know to target their sales efforts on those 500 businesses, rather than on 500 other businesses who might never use widgets.

Now imagine the same facts, but assume that each of the other four sellers of widgets knows that the businesses on Seller A's customer list are proven widget consumers (although they do not know that those businesses buy their widgets from Seller A). Under those circumstances, Seller A's customer list has no independent economic value, because the identities of those consumers are already known to his competitors.

In both situations, the identities of the businesses which bought widgets from Seller A are unknown. The distinguishing factor is whether it is also unknown that those businesses bought widgets at all. Thus, the customer list in the first hypothetical would be a protectable trade secret, while the list in the second hypothetical would not be. ***20**

For instance, the facts in *American Credit Indemnity Co. v. Sacks* (1989) 213 Cal.App.3d 622 [262 Cal.Rptr. 92] fit within the first hypothetical. There, only 6.5 percent of the businesses which could use the product-credit insurance-actually did so. (*Id.,* p. 625.) There was no way to distinguish those that did from the 93.5 percent that did not; thus, a seller of that product could not " 'see at a glance where to attempt to sell his wares.' " (*Id.* at p. 633, quoting from *Avocado Sales Co. v. Wyse* (1932) 122 Cal.App. 627, 634 [10 P.2d 485].) Because knowledge of the customer list would allow "a competitor to direct sales efforts to the elite 6.5 percent of those potential customers which already have evinced a predisposition to purchase credit insurance," that list was held to have economic value from not being known to those competitors, and otherwise to meet the definition of a trade secret. (*American Credit Indemnity Co., supra,* at pp. 630-631.)

Courtesy Temporary Service, Inc. v. Camacho (1990) 222 Cal.App.3d 1278 [272 Cal.Rptr. 352] would also fall within the first hypothetical. There, the "product" being sold was temporary employees. While all employers were potential consumers of such a product, there was no way to determine which employers actually sought or hired temporary employees. Therefore, the plaintiff's customer list had economic value to competitors of the plaintiff, because it listed a fact unknown to them: the identity of employers "who have demonstrated their willingness to use temporary employees. ..." (*Id.,* p. 1282.)

In applying this distinction to the facts before us, the critical factual issue is whether it is generally known that the businesses on the plaintiff's customer list are consumers of rubber rollers. If that fact is known to competing suppliers of rubber rollers, then the fact that those businesses are customers of the plaintiff is not a trade secret. However, if it is not known that those businesses use rubber rollers, then their identity as plaintiff's customers is a trade secret.

Here, substantial evidence indicates that this information was not known. For instance, the plaintiff's president testified "that one of the most difficult parts of [the plaintiff's] job is to determine which companies, of all the businesses in the United States, need rubber rollers .... Customers are not readily recognizable or identifiable, and the process which brings to light the names of potential customers is ... expensive and time consuming." "[T]he customer lists represent a winnowing down from a generalized list of companies which may utilize rubber rollers or rubber molded products to a valuable and discrete listing of a more limited number of existing and potential customers. [Those lists] are an enormously valuable resource to [the plaintiff], as well as to any competitor. Indeed, any competitor ... could not duplicate [those lists] without similar years of effort and expense." ***21** Those lists are confidential, to keep their contents from the plaintiff's competitors. The trial court could have inferred from that evidence that it was not generally known that those businesses used rubber rollers.

b. *Was the Information Readily Ascertainable?*

([15]) The defendants argue that the identity of the consumers of rubber rollers nevertheless fails to meet the definition of a trade secret because those identities are "readily ascertainable," and thus not secret. Specifically, they claim that the identity of those consumers is revealed in trade directories, telephone books, and other sources which list the names of "several types of businesses which commonly use rubber rollers ...."

This contention must fail, because whether a fact is "readily ascertainable" is not part of the definition of a trade secret in California. Section 1, subdivision (4)(i), of the Uniform Trade Secrets Act, as proposed by the National Conference of Commissioners on Uniform State Laws, refers to information which "derives independent economic value, actual or potential, from not being generally known to, *and not being readily ascertainable by proper means by,* other persons who can obtain economic value from its disclosure or use ...." (14 West's U. Laws Ann. (1990) U. Trade Secrets Act, § 1, p. 438, italics added.) However, when the Legislature adopted that provision as Civil Code section 3426.1, subdivision (d)(1), it deleted the highlighted phrase. That deletion apparently resulted from arguments that conditioning the scope of a trade secret on the extent to which the information was not readily ascertainable would " 'mudd[y] the meaning of the term trade secret' " and " 'invite[] the various parties to speculate on the time needed to discover a secret.' " (Comment, *supra,* 20 Loyola L.A. L.Rev. at p. 1214, fn. 231, quoting from Senate Com. on Judiciary, Selected Bill Analyses (1984) Assem. Bill No. 501, pp. 5-6.)

In short, our Legislature chose to exclude from the definition only that information which the industry already knows, as opposed to that which the industry could easily discover. Therefore, under California law, information can be a trade secret even though it is readily ascertainable, so long as it has not yet been ascertained by others in the industry. Accordingly, we decline to follow *American Paper & Packaging Products, Inc. v. Kirgan,*

supra, to the extent that it suggests that information is not protectable as a trade secret if it is "known *or readily ascertainable*" (183 Cal.App.3d at p. 1326; italics added).[9]
***22**

C, D [*]

. . . .

Disposition

An injunction cannot remain in effect without an adequate undertaking. Therefore, the preliminary injunction is reversed. No further preliminary injunction shall be issued unless its issuance is conditioned upon the furnishing of an adequate undertaking. We do not purport to determine what an adequate amount would be. Rather, we leave that determination to the trial court, taking into consideration the types of damages discussed in this opinion. If further evidence or argument would assist the trial court in that determination, it may wish to conduct a hearing in the manner of Code of Civil Procedure section 995.950.

Any preliminary or permanent injunction issued in this case in the future shall both clearly and narrowly define the scope of the proscribed activities, in accordance with the views expressed in this opinion.

Appellants shall recover their costs on appeal.

Ramirez, P. J., and Timlin, J., concurred.

Footnotes

* Pursuant to California Rules of Court, rules 976(b) and 976.1, this opinion is certified for publication with the exception of parts C and D.

1 The closest that either party came to raising those issues was the plaintiff's submission, two days before the hearing, of a copy of the preliminary injunction issued by a different trial court in another case involving allegations of misappropriations of trade secret customer lists. While that injunction had been conditioned upon the posting of a bond in the sum of only $1,000, it was not offered on that point, but solely as an example of the description of the acts to be enjoined.

2 Unless specified otherwise, all further statutory references are to the Code of Civil Procedure.

3 As noted, the plaintiff did not initially raise this omission as the manner in which the alleged waiver had occurred. However, after we pointed out the issue in a request for further briefing, it enthusiastically embraced that argument.

4 The law speaks primarily in terms of bonds, because it defines that term to include undertakings. (§ 995.140, subd. (a)(2).)

5 Although the final order required a $1,000 bond where the tentative ruling had required no bond at all, we do not view the factual circumstances, or the issue, as having been substantially changed by that addition. Under the facts of this case, a $1,000 bond is the equivalent of no bond at all.

6 "The Court: You're telling me that these customers are easy to find, they're in all these directories, there's no problems. Well, what's the big deal about having [the defendants] go out and solicit people who are not Abba customers and eliminating the people from contacting the Abba customers?

"The Court: ... [W]hat would be the inconvenience? What would it be other than a minor inconvenience since these [other potential buyers] are available for you to go out and do that?"

7 In the abstract, $1,000 is not an insignificant sum. It may be an appropriate undertaking in cases of harassment or trespass. However, in the context of an undertaking designed to secure a business's right to recover damages resulting from the improvident issuance of legal process, it is negligible. For instance, the statutory *minimum* for an undertaking filed in connection with a superior court's writ of attachment is $7,500. (§ 489.220.)

8 Since a trial court must deny an application for a preliminary injunction "unless there is a reasonable probability that plaintiff will be successful in the assertion of his rights" (*Continental Baking Co. v. Katz* (1968) 68 Cal.2d 512, 528 [67 Cal.Rptr. 761, 439 P.2d 889]), the trial court below, by granting the application, impliedly found that the defendants were not likely to prevail at trial. From this finding, it may have reasoned that only a nominal undertaking was necessary because it was not probable that the defendants would ever be entitled to collect any damages for the harm caused by the preliminary injunction.

If so, that reasoning is fallacious. The undertaking is designed to compensate the defendants in the event, however unlikely, that the preliminary injunction is finally determined to have been unjustified. The probability that they will actually obtain such a favorable determination, either through appeal or trial, is irrelevant in determining the likely amount of those damages.

9 While ease of ascertainability is irrelevant to the definition of a trade secret, “the assertion that a matter is readily ascertainable by proper means remains available as a defense to a claim of misappropriation.” (Legis. committee com., West's Ann. Civ. Code, § 3426.1 (1991 pocket supp.) p. 111.) Therefore, if the defendants can convince the finder of fact at trial (1) that “it is a virtual certainty that anyone who manufactures” certain types of products uses rubber rollers, (2) that the manufacturers of those products are easily identifiable, and (3) that the defendants' knowledge of the plaintiff's customers resulted from that identification process and not from the plaintiff's records, then the defendants may establish a defense to the misappropriation claim. That defense, however, will be based upon an absence of misappropriation, rather than the absence of a trade secret.

* See footnote, *ante,* page 1.

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163 Cal.App.2d 157, 329 P.2d 147, 118 U.S.P.Q. 550

BY-BUK COMPANY (a Partnership), Respondent,
v.
PRINTED CELLOPHANE TAPE COMPANY
(a Partnership) et al., Appellants.

Civ. No. 21708.
District Court of Appeal, Second
District, Division 3, California.
Aug. 26, 1958.

HEADNOTES

(1a, 1b)
Master and Servant § 14--Mutual Duties and Rights--Trade Secrets.
Where a company undertook with the Veterans Administration to train a disabled veteran as its employee, such disabled veteran, on completion of his training, could not divulge to a competitor for whom he went to work trade secrets of the company that trained him, since knowledge of the obligation of an employee not to violate the duty of confidence was imputed to the Veterans Administration and if they had desired to exempt a trainee therefrom they would have expressed it in the training contract.

See **Cal.Jur.2d,** Master and Servant, § 26; **Am.Jur.,** Master and Servant, § 97.

(2)
Master and Servant § 14--Mutual Duties and Rights--Trade Secrets.
Every employee is under an implied obligation not to divulge or use confidential information that he acquires by reason of his employment.

Implied obligation of employee not to use trade secrets or confidential information for his own benefit or that of third persons after leaving the employment, note, 165 **A.L.R.** 1453.

(3)
Master and Servant § 14--Mutual Duties and Rights--Trade Secrets.
Confidential information acquired by an employee by reason of his employment is the property of the employer and the employee holds it in trust for the employer and cannot use it in violation of his trust.

(4)
Master and Servant § 14--Mutual Duties and Rights--Trade Secrets.
There is no conflict between a federal statute providing for training of disabled veterans in a trade and the law of this state making it the duty of an employee not to divulge the secrets of his employer; the employee under training may on completing his training use, in his trade, all of the skills that have been taught to him but may not so use those skills as to violate his trust.

(5)
Injunctions § 25--Matters Controllable--Trade Secrets.
It is not necessary, in order that a process of manufacture be a trade secret, that it be patentable or something that could not be discovered by others by their own labor and ingenuity.

(6)
Injunctions § 25--Matters Controllable--Trade Secrets.
A trade secret may consist of any formula, pattern, device or compilation of information used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.

(7)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin defendants from using certain machines developed by defendant from information divulged to it by a former employee of plaintiff, to produce certain products, such machines were trade secrets belonging to plaintiff where the evidence showed that they were produced by plaintiff through a trial and error method after an unsuccessful search for machines or plans for machines that would give it the desired results and that defendants did not and were unable to produce the products in question until they copied plaintiff's machines.

(8)
Injunctions § 25--Matters Controllable--Trade Secrets.
Secret formulas and processes are property rights that will be protected by injunction, not only as against those who attempt to disclose or use them in violation of confidential relations or contracts express or implied, but also as against those who participate in such attempt with knowledge of such confidential relations or contract, though they might in time have reached the same result by their independent experiments or efforts.

See **Cal.Jur.2d,** Injunctions, § 35; **Am.Jur.,** Injunctions, § 110 et seq.

(9)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff which were divulged to defendants by plaintiff's former employee, there was no error in allowing one of the partners in plaintiff partnership to answer a question asking him if all the features of the machinery about which he had testified were novel with him, since novelty need not be proved only by expert testimony, the question did not call for an opinion as to the novelty of the machinery, but only as to his knowledge of the existence of like machines and since the novelty was proven by his testimony as to his research and his trial and error methods of developing the machinery.

(10)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff which were divulged to defendants by plaintiff's former employee, who was being trained by plaintiff under a contract with the Veterans Administration, plaintiff did not come into court with unclean hands because it failed to increase the employee's pay in accordance with the terms of the contract where the relationship between plaintiff and the employee was terminated by the employee for the purpose of entering into another occupation, the employee was not obligated to remain in plaintiff's employ and plaintiff was not obligated to continue with his training, and where plaintiff was not seeking to enforce the contract with the government or the contract of employment with the employee.

(11)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff which were divulged to defendants by plaintiff's former employee, the fact that plaintiff may have violated a third person's patent or appropriated another's trade name did not render plaintiff's hands unclean, since any wrong done thereby was done to the owner of the patent or the trade mark and defendants had no concern therewith.

(12)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff which were divulged to defendants by plaintiff's former employee, it was not error to exclude evidence offered by defendants that they had made certain improvements and changes in the machines as originally built by them, since, although they may have improved or modified plaintiff's process, they were still wrongfully using its property.

(13)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff which were divulged to defendants by plaintiff's former employee, a decree that enjoined defendants from the production through proper means of the articles that its machines were designed to produce was too broad, but only a modification of the injunctive provisions, not a reversal of the judgment, was required.

(14a, 14b)
Trademarks § 12--Subjects of Trademarks--Pictures.
A finding that a certain picture had acquired a "secondary meaning" was not supported by evidence that it had been

used not only by defendants but also by others long before the use of such a device or symbol by plaintiff and where there was a lack of evidence that any members of the buying public associated the symbol with the product produced by plaintiff or that the symbol was used for any other purpose than to show the facility with which the product could be removed from the carrier tape which would apply to such product manufactured by other persons.

(15)
Trademarks § 3--Right as Property.
In order that a name or symbol may be said to have acquired a "secondary meaning" and as such become the property of the person using it, it is necessary that it shall have been so used as to identify the articles, in connection with which it is used, in the mind of the purchasers thereof as the product of the person using the name or symbol.

(16)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff, a finding that plaintiff was entitled to damages because defendants had sold their products under the representation that they were the same as plaintiff's was not supported by the evidence where it appeared that defendants offered their goods as being of their own manufacture and under an entirely different name from that used by plaintiff, and such finding was immaterial in any event, since defendants remained liable in damages for the sale of products produced on the machines they constructed through the use of plaintiff's trade secrets.

(17)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff, a finding that plaintiff was entitled to damages because defendants patterned their scheme of doing business after plaintiff's was not supported by evidence contained in a brochure published by defendants where there was no copying by defendants and nothing in their brochure that would enable them to palm off their goods as those of plaintiff or which would lead a prospective purchaser to believe that defendants' goods were those of, or the same as those of, plaintiff.

(18)
Injunctions § 25--Matters Controllable--Trade Secrets.
In an action to enjoin the use of certain machinery on the ground that it was constructed by defendants through the use of trade secrets belonging to plaintiff, the fact that findings in support of a decree that plaintiff was entitled to damages were unsupported by evidence did not require a reversal of the judgment, where the issue of damages was yet to be adjudicated.

SUMMARY

APPEAL from a judgment of the Superior Court of Los Angeles County. Harold C. Shepherd, Judge pro tem. [*] Modified and affirmed.

Action to enjoin use, assembly or manufacture of certain machinery and for other relief. Judgment for plaintiff modified and affirmed.

COUNSEL
Harry J. Miller and Levoy, Miller & Salinger for Appellants.
Laughlin E. Waters, United States Attorney, Richard A. Lavine, Assistant United States Attorney, Chief, Civil Division, and Hiram W. Kwan, Assistant United States Attorney, as Amici Curiae, on behalf of Appellants.
Fulwider, Mattingly & Huntley and Henry Grivi for Respondent.

NOURSE, J. pro tem. [*]

Defendants appeal from a judgment enjoining them from using, assembling, or manufacturing certain machinery which was a trade secret of the plaintiff; ordering them to dismantle the machines assembled by them that embodied plaintiff's trade secret and decreeing that the plaintiff is entitled to damages, both compensatory and punitive, to be fixed upon an accounting hereinafter to be had.

Prior to June of 1954 both the plaintiff and the defendants Gevirtz, doing business as copartners under the name of Printed Cellophane Tape Company, hereinafter called "Tape Company," had engaged in the business of manufacturing and selling pressure-sensitive adhesive tape for industrial uses.

In the spring of 1954 Homer G. Buck, one of the partners of plaintiff partnership, hereinafter called "Buck," learned that a competitor, whose manufacturing operations were conducted in the eastern United States, was manufacturing and selling overlapping masking discs and die-cut masks of pressure-sensitive tape for use by manufacturers in masking certain parts of apparatus which they desired to shield from abrasives or paint. Desiring to produce a similar product Buck commenced experiments for the purpose of constructing machines or apparatus which would produce die-cut masks and overlapping masking discs. While Buck was in the process of developing these machines the defendant Robert Black, hereinafter called "Black," entered plaintiff's employ as a part-time employee and rendered some aid to Buck in the assembly of the machines upon which Buck was working. ***162**

Black was a disabled veteran of World War II and was entitled to the benefits of Public Law 16, 78th Congress. On May 1st plaintiff, hereinafter called "By-Buk," entered into a contract with the Veterans Administration under which it undertook to accept "from time to time and within its own discretion in each case, disabled veterans of World War II for a course of training on the job" which would render each employable as a "Die Maker (Steel Rule)." By the contract it agreed to provide competent instruction to each trainee accepted. The agreement further provided that it might be terminated by the establishment or the Veterans Administration on 15 days' notice and that each veteran accepted for training would be under the control and supervision of By-Buk and subject to the same rules and regulations "governing the conduct of *other* comparable *employees."* (Italics ours.) On the same date Black entered plaintiff's employ to be trained as a die maker.

At about that time there was prepared on a form of the Veterans Administration a schedule of the skills in which Black was to be trained, the time allotted to instruction in each skill and a statement of the wages to be paid; the starting wage being $1.50 an hour and increasing in 6-month steps of $.25 an hour.[1] After May 1st Black continued to work with Buck on the assembling of the two machines and after their completion he operated the machines at times for the purpose of producing die-cut masks and overlapping discs. Buck, on several occasions both before and after May 1st, told Black that the processes of die-cutting masks and overlapping discs which were embodied in the machines were not to be disclosed to others and plaintiff at all times endeavored to prevent others from examining the machines and to keep its processes of producing the die-cut masks and overlapping discs secret.

Black continued in his employment with By-Buk until June 1954 and during the period of his employment By-Buk gave him training in the various skills which it had undertaken to teach him.

On June 30, 1954, Black terminated his employment with the plaintiff and in August entered the employ of defendant Tape Company. Upon entering the employ of Tape Company Black disclosed to Tape Company and defendants Gevirtz plaintiff's methods of producing die-cut masks and overlapping discs and, under their instructions, constructed two machines which were substantially copies of plaintiff's machines. ***163**

Upon the completion of these machines defendant Tape Company commenced the production of die-cut masks and overlapping discs and sold these articles to the trade in competition with the die-cut masks and overlapping discs produced by plaintiff. In producing these it used materials similar to those used by plaintiff. In its brochures sent to the trade in soliciting the sale of overlapping discs plaintiff had used a picture showing a roll of overlapping discs and the hands of a person removing the discs from the carrier tape. It advertised its overlapping discs under the name of Kwiky Dots. In its brochures defendant Tape Company used substantially the same picture of the hands removing the overlapping dots from the carrier as did the plaintiff[2] but gave its product the name of Pee-Cee Tapes.

The court found the facts in substantial accordance with the facts we have stated. Each of the facts we have stated is supported by substantial evidence. Other findings of the trial court which are attacked by appellant will be noted later in our discussion of the case.

Under numerous headings defendants and amicus curiae attack the judgment of the trial court as impairing the purposes of the Veterans Administration training statutes and regulations (Public Law 16, and regulations adopted thereunder) and as being in contravention of the contract entered into by plaintiff with the Veterans Administration.

([1a]) Boiled down, it is apparently defendants' contention that Black was not an employee of the plaintiff but that plaintiff had sought to teach him as a student its business and that therefore upon terminating his relationship with plaintiff he was entitled to put to use any knowledge that he had acquired of plaintiff's business and processes of manufacturing. We see no merit in these contentions.

Plaintiff's undertaking with the Veterans Administration was to train Black, *as its employee,* in certain skills in order that he might be qualified for employment as a die maker. By the express terms of the contract between plaintiff and the Veterans Administration any person employed by plaintiff and whom it agreed to train was subject to the same obligations, rules and regulations as any other employee. Irrespective of whether there was an express agreement on Black's part (which defendants and their amicus curiae in their brief ***164** choose to term a "secret agreement") not to divulge the means by which plaintiff was able to produce its die-cut masks and overlapping discs, that duty was implied in the contract of employment. ([2]) Every employee is under the implied obligation not to divulge or use confidential information which he acquires by reason of his employment. ([3]) Such information is the property of the employer and the employee holds that property in trust for the employer and cannot use it in violation of his trust. (*Empire Steam Laundry v. Lozier,* 165 Cal. 95, 100-102 [130 P. 1180, Ann.Cas. 1914C 628, 44 L.R.A.N.S. 1159]; *Riess v. Sanford,* 47 Cal.App.2d 244, 246-247 [117 P.2d 694]; *Stone v. Goss,* 65 N.J. Eq. 756 [55 A. 736, 103 Am.St.Rep. 794, 63 L.R.A.N.S. 344]; *Irving Iron Works v. Kerlow Steel Flooring Co.,* 96 N.J.Eq. 702 [126 A. 291]; 28 Am.Jur. § 111, p. 304.) The proposition is well stated in the work last cited, as follows: "The disclosure by an employee of trade secrets and other confidential information obtained by him in the course of his employment is a breach of trust, and it is well settled that a court of equity will restrain any threatened disclosure or use thereof to the detriment of the employer. The character of the secrets, if peculiar and important to the business, is not material. They may be secrets of trade, secrets of title, secrets of process of manufacture, or any other secrets of the employer important to his business. ...

"Injunctive relief against disclosures of trade secrets and other confidential information obtained by an employee is undoubtedly available to the employer, where the employee has expressly agreed not to disclose the trade or business secrets. Such an agreement is not an unlawful restraint of trade unless it is more extensive than is reasonably required to protect the master's interests. But an express negative covenant not to make use of trade secrets or processes is not indispensible to the granting of the relief. It is sufficient if from the circumstances of the case and the relation of the parties as employer and employee an agreement to that effect may be implied from the confidential relation. In fact, it is said that in the case of an employee such an obligation exists in the absence of any stipulation to the contrary."

([1b]) The obligation not to violate the duty of confidence, being implied by law, there was nothing secret about it. Knowledge of it was imputed to the Veterans Administration and if they desired to exempt a trainee from such obligation they undoubtedly would have expressed it in the contract. To ***165** express it, however, would be to defeat the very object of the contract for it is impossible to envision an employer who would accept an employee who was, in effect, licensed to steal its secrets. As Black could not use or divulge the secrets of plaintiff without violating his trust, Tape Company could not with knowledge of that trust make use of plaintiff's property (its secrets), and when it attempted so to do, it became a constructive trustee of that property. (*Irving Iron Works v. Kerlow Steel Flooring Co., supra,* Civ. Code, § 2243.) ([4]) There is no conflict between the federal statute providing for the training of disabled veterans in a trade and the law of this state which makes it the duty of an employee not to divulge the secrets of his employer. The employee under training may upon completing his training use, in his trade, all of the skills that have been taught him but may not so use those skills as to violate his trust.

The judgment here does not enjoin the defendant Black from using all of the skills which he learned under the training of By-Buk. It only enjoins him from divulging the secrets of plaintiff which he acquired while being trained in the skills necessary to his contemplated trade.

Of the numerous cases cited by defendants and amicus curiae only two are even remotely in point. *Young v. Hampton,* 36 Cal.2d 799 [228 P.2d 1, 19 A.L.R.2d 830], cited by counsel is not controlling here. There the contract sought to be enforced by the plaintiff was one entered into in direct violation of a federal statute and if enforced would have defeated the very purposes of the statute. That is not the case here as we have heretofore pointed out.

In *Orkin Exterminator Co. v. Dewberry,* 204 Ga. 794 [51 S.E.2d 669], the plaintiff-employer sought to enforce, against an employee whom it accepted for on-the-job training, a contract by which the employee agreed not to engage in the trade or business as to which the plaintiff had undertaken to train him at any place in the State of Georgia excepting a very small portion thereof for a period of one year after the termination of his employment. The Supreme Court of Georgia properly held, not only that the contract was void as in restraint of trade, but, that its effect was to defeat the very purposes of the training contract. Such is not the case here. In the present case Black was free to, and under the express terms of the decree here, is permitted to, use all of the skills as to which he was trained by plaintiff. Plaintiff did not undertake to train Black to enter into the business of ***166** manufacturing and selling the articles which it was engaged in manufacturing and selling, but only to train him as a die maker. This trade he is free to follow.

It was stipulated at the trial that all of the component parts of the machines developed by plaintiff were standard parts which could be procured by anyone in the open market and defendants therefore contend that the finding of the trial court that the machines were unique or unusual is unsupported by the evidence. In making this assertion defendants misconceive what constitutes a trade secret. ([5]) It is not necessary in order that a process of manufacture be a trade secret that it be patentable or be something that could not be discovered by others by their own labor and ingenuity. ([6]) Restatement, Torts, volume 4, section 757, comment b, page 5, defines the term as follows: "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. ... Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article."

The character of the secret if important to the business is not material but it must, as the term implies, be kept secret by the one who claims it. (*Riess v. Sanford, supra,* 47 Cal.App.2d 244, 246; Rest., Torts, vol. 4, § 757, comment b, pp. 5, 6.)

([7]) Under the evidence here plaintiff's machines clearly were trade secrets within the definition above quoted. The evidence shows that Buck, before commencing the development of the machines in question, attempted to learn of any machines which would produce the results which he desired, i.e., the same results which had been accomplished by an eastern competitor, but was unable to find any machines or plans for machines to guide him and that thereafter he, by a system of trial and error, was able, by combining various parts, to produce the results which he desired. The means of producing this result were embodied in the machines which he developed and these means he kept secret.

The evidence further shows without conflict that the defendant Tape Company did not and was unable to produce the products in question until, through the information divulged to it by Black, it copied plaintiff's machines. It is undoubtedly true that if Tape Company had used the same thought, labor and ingenuity which were used by plaintiff it ***167** might have been able to secure the same results that plaintiff did. But this fact does not destroy plaintiff's right not to have its processes wrongfully disclosed to others and used to its detriment. ([8]) As said by the court in *Herold v. Herold China & Pottery Co.,* 257 F. 911, 913 [169 C.C.A. 61]: "[S]ecret formulas and processes ... are property rights which will be protected by injunction, not only as against those who attempt to disclose or use them in violation of confidential relations or contracts express or implied, but as against those who are participating in such attempt with knowledge of such confidential relations or contract, though they might in time have reached the same result by their own independent experiments or efforts." Or, as said by Mr. Justice Holmes in *Chicago Board of Trade v. Christie G. & S. Co.,* 198 U.S. 236 [25 S.Ct. 637, 49 L.Ed. 1031]: "The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's."

([9]) There is likewise no merit in defendant's claim that the trial court erred in permitting Buck to answer the question: "Were all these features that you have just testified to novel with you; in other words, were they new as far as you knew?" Defendants claim that the question of novelty was one to be determined upon the testimony of experts only and that the question called for expert testimony which the witness was unqualified to give.

We have not been cited to any authorities which hold that, in cases of this character, novelty can only be proven by expert testimony and in our opinion that is not the fact. It is further our opinion that novelty, in the sense that plaintiff's process was conceived by him and was unknown to others, was proven by the testimony of Buck as to his research and his trial and error methods of developing the machines in question. Further, the question did not call for any opinion of the witness as to whether or not the machines were novel, but only as to his knowledge as to the existence of like machines.

As an affirmative defense defendants pleaded in general terms that the plaintiff came into court with unclean hands and was therefore not entitled to equitable relief. The trial court found that the allegations of this affirmative defense were untrue. Defendants now assert that this finding is contrary to the evidence. They assert that the evidence established that plaintiff breached the contract between it and the ***168** Veterans Administration in failing, on May 1, 1954, to increase Black's pay to $2.00 per hour and that the evidence further showed without conflict that plaintiff had copied from the patent of a competitor, Hulslander, in producing and selling die-cut masks and overlapping discs and in that he had, by using the word "Kwiky" in connection with his product, appropriated a trade mark of another manufacturer (one Brady) who had for many years been using the registered name "Quik." ([10]) Insofar as the breach by plaintiff of his contract with the Veterans Administration is concerned, it is sufficient to say: first, that the trial court found on conflicting evidence that the relationship between Black and the plaintiff was terminated by Black for the purpose of entering into another occupation; second, that under the contract with the government, Black was not obligated to stay in plaintiff's employ and that plaintiff was not obligated to continue with his training but might terminate his training at any time on 15 days' notice to the government. Further, plaintiff is not seeking to enforce the contract with the government or the contract of employment made with Black but is seeking only to restrain a tortious act of Black in wrongfully using plaintiff's property.

([11]) As to the other acts which it is alleged render plaintiff's hands unclean, it is sufficient to say that they are entirely disconnected with the subject matter of this action or the injury which the decree of the trial court seeks to remedy. Whether plaintiff has infringed upon the patent of Hulslander (this patent does not cover any process or machinery for the production of die-cut masks or overlapping discs but only the products themselves) is a matter between plaintiff and Hulslander and the same is true as to the question of whether plaintiff has appropriated Brady's trade name. Any wrong done in either case was done to the owner of the patent or the trade mark and with these wrongs defendants have no concern. (*Bradley Co. v. Bradley,* 165 Cal. 237 [131 P. 750]; *Germo Mfg. Co. v. McClellan,* 107 Cal.App. 532 [290 P. 534].)

([12]) The defendants assert that the trial court erred in excluding evidence offered by the defendants that as of the time of trial defendants had made certain improvements and changes in the machines as originally built by them and which copied plaintiff's machines. They base their claim of error upon the proposition that equity acts upon conditions as they exist at the time of trial and not necessarily at the commencement of the action. There can be no doubt of the ***169** truth of the proposition stated but it is not applicable here for defendants cannot escape responsibility by showing that they have improved upon or modified plaintiff's process. Even though they may have modified or improved the plaintiff's process they are still wrongfully using its property. (See Rest., Torts, vol. 4, § 757, comment c, p. 9.)

([13]) Defendants assert that certain provisions of the decree are uncertain and so broad as to render the decree invalid as in restraint of trade in contravention of the Sherman Anti-trust Act (15 U.S.C.A. §§ 1, 2) and of the statutes of this state against contracts in restraint of trade. With this contention we are in agreement. Plaintiff's sole right was to a decree which would protect it against the wrongful use of its trade secrets. It had no right to enjoin the defendants from the production through proper means of the articles which its machines were designed to produce. It is clear from the evidence that others than the plaintiff had assembled machines which would produce the same results as plaintiff's and defendants were free to acquire such machines and to use them in the production of die-cut masks and overlapping discs and the court could not by decree limit this right. The decree here, however, enjoins plaintiffs from acquiring and using any machine which is similar to the machines manufactured and used by plaintiff irrespective of whether such machines may have been solely the product of the ingenuity of some third person and irrespective of the fact that such machines may have been manufactured and in use prior to the time plaintiff conceived his method of producing the articles in question.

The fact that the decree is too broad in its terms does not require a reversal of the judgment but only a modification of the injunctive provisions of the decree. What these modifications should be we will hereinafter indicate.

All of the assignments of error with which we have heretofore dealt concern the injunctive relief given by the decree. While there are other assignments of error addressed to the injunctive features of the decree which have not been discussed by us in detail, they are either covered by the assignments which we have disposed of or contain so little substance as not to require discussion.

The remaining assignments of error pertain only to those portions of the judgment which decree that the plaintiff is entitled to an accounting and to both compensatory and punitive damages. ***170**

We now address ourselves to these assignments of error.

The trial court found that the picture showing a roll of tape being unwound and discs detached therefrom by two hands, had acquired a secondary meaning in the minds of the buying public indicating and designating plaintiff as the source of the products in connection with which said picture appears. It further found that the defendants had sold substantially large quantities of die-cut masks and overlapping discs to customers and prospective customers of plaintiff as the same as plaintiff's product under a different name, and that the defendants patterned their entire scheme of doing business after that of plaintiff. As the court did not, by its decree, enjoin the defendants from the use of said picture or from the sale of any products other than those produced by the machines which defendants had wrongfully constructed as copies of plaintiff's, and as it did not enjoin the defendants from continuing their scheme of business, we assume that these findings were made as a basis for later assessing damages.

Asserting that none of these findings are supported by the evidence, defendants have, in conformance with the rules on appeal, directed our attention to the evidence bearing upon the issues thus found by the court. Plaintiff does not assert that there is other evidence than that specified by defendants of the witness Jenkins and to plaintiff's Exhibit Number 14, except that it directs attention to excerpts from the testimony the brochure adopted by the defendants, a copy of which is attached to the amended complaint as Exhibit Number 3. A careful study of the evidence to which our attention has been directed as well as our independent examination of the transcript of oral proceedings and the exhibits, fails to disclose any evidence which would support any of these findings.

([14a]) The finding that the picture in question had acquired a "secondary meaning" finds no support in the evidence. ([15]) In order that a name or a symbol may be said to have acquired a "secondary meaning" and as such become the property of the person using it, it is necessary that it shall have been so used as to identify the articles, in connection with which it is used, in the mind of the purchasers thereof as the product of the person using the name or symbol. (*Morse-Starrett Products Co. v. Steccone,* 86 F.Supp. 796; *Selchow & Righter Co. v. Western Printing & Litho. Co.,* 142 F.2d 707; Rest., Torts, vol. 3, § 716, comment b, p. 560.)

([14b]) Here the evidence shows without conflict that pictures ***171** of human hands being used to detach one material from another, had been used not only by defendants but others long prior to the use of such a device or symbol by the plaintiff. There was an entire lack of evidence that any members of the buying public associated the symbol with overlapping discs produced by the plaintiff or that the symbol was used for any other purpose than to show the facility with which the overlapping discs could be removed from the carrier tape and this would apply to such articles manufactured by other persons. The evidence shows, without conflict, that such discs had been manufactured by others than the plaintiff prior to his production and in fact that he developed the machines in question in order to produce overlapping discs similar to those that had theretofore been manufactured by another.

([16]) The finding that defendants had sold their products under the representation that they were the same as plaintiff's has no foundation in the evidence. The defendants offered their goods as that of their own manufacture and under an entirely different name from that used by the plaintiff and the fact that defendants' goods were of the same design and to be used for the same purpose as plaintiff's does not, under the facts here, constitute any basis for an award of damages. The finding is, however, for practical purposes, immaterial for the defendants remain liable in damages for the sale of die-cut masks and overlapping discs produced by them by means of the machines which they constructed through the use of plaintiff's trade secrets.

([17]) The finding that the defendants "patterned their entire scheme of doing business after that of plaintiff" is without support in the evidence. The only evidence plaintiff points to is the brochure published by the defendants, but a comparison of this brochure with that of the plaintiff convincingly demonstrates that there was no copying by defendants and nothing in defendants' brochure that would enable them to palm off their goods as those of the plaintiff or which would lead any member of the buying public to believe that defendants' goods were the goods of, or the same as those of, the plaintiff.

It may be said in passing that the defendants have the right to produce die-cut masks and overlapping discs and to use in that production the same materials as used by the plaintiff so long as their production is by proper means and without the use of plaintiff's trade secrets and so long as they are not ***172** offered to the public in such a manner as to lead the buying public to believe that defendants' goods are those of the plaintiff. Die-cut masks and overlapping discs were not trade secrets of the plaintiff and the plaintiff had no property right in them as such.

([18]) The fact that the findings above mentioned are unsupported by the evidence does not require a reversal of the judgment inasmuch as the issue of damages is yet to be adjudicated.

Pursuant to the provisions of section 956a of the Code of Civil Procedure, we substitute the following findings of fact for those made by the trial court:

Paragraph 8 of the findings is deleted and in lieu thereof we find:

"VIII. That on or about the 24th day of August, 1954, and in spite of such knowledge and in derogation of plaintiff's said rights, the defendants and each of them, acting in concert and for the benefit of defendants and not plaintiff, wrongfully, improperly and unlawfully copied and appropriated plaintiff's secrets pertaining to said machinery and equipment processes as included in all of the machines particularly described in Paragraph II hereof and in connection therewith defendant Black disclosed all of the details as to the methods of building and operating said machines.

"That during said period and thereafter defendants, through the use of the machines assembled by and containing the trade secrets of the plaintiff, produced and sold substantial quantities of die-cut masks and overlapping discs to customers and prospective customers of the plaintiff."

Paragraph 9 of the findings is deleted and in lieu thereof we find:

"IX. That it is untrue that the defendants have patterned their entire scheme of doing business after that of the plaintiff. That it is true that the defendants have used and distributed a sales brochure, a true and correct copy of which is attached to plaintiff's first amended complaint, marked Exhibit 3, but it is further true that the said brochure does not copy or simulate the brochure of the plaintiff and that the defendants did not thereby mislead the buying public or any member thereof."

Paragraph 10 of the findings is deleted and in lieu thereof we find:

"X. That the defendants and each of them will, unless enjoined, without the permission or consent of plaintiff and ***173** against plaintiff's will, appropriate to their own uses and purposes the machines and processes of manufacture described in Paragraph II of these findings, and plaintiff will suffer great and irreparable damage for which there is no adequate or speedy remedy at law."

The judgment appealed from is modified to read as follows:

"It Is Now Ordered, Adjudged and Decreed

"1. Defendant Printed Cellophane Tape Company, a partnership, Sydney Gevirtz, Don Gevirtz and Robert Black, and each of them are ordered to dismantle the two machines constructed by them for the manufacture of overlapping discs and die-cutting masks and they, and each of them, are enjoined together with their agents, servants and employees, from rebuilding said machines or from disposing of any of said machines or machinery, or any machinery or equipment embodying the combination of ideas, structures, techniques or originations of plaintiff or modification thereof or substitute therefor, except that the punch press units without the other features added thereto by defendants may be disposed of if defendants so desire; and, each of the defendants is forever enjoined from revealing to others the inventions and processes of plaintiff as contained in the machines so dismantled.

"2. The defendants Cellophane Tape Company, a partnership, Sydney Gevirtz, Don Gevirtz and Robert Black, and each of them is hereby permanently enjoined from manufacturing, using or placing in use, directly or indirectly, any and all machines substantially similar to the machines which they are, by Paragraph 1 of this decree, ordered to dismantle.

"3. Defendants Printed Cellophane Tape Company, a partnership, Sydney Gevirtz, Don Gevirtz and Robert Black, and each of them, are enjoined permanently from selling or disposing of any and all overlapping discs or die-cut discs heretofore manufactured and produced by the overlapping machine and die-cutting machine hereinbefore referred to.

"4. Defendants and each of them are ordered to give an account of all of the sales made by defendants of the products made on the overlapping machine and die-cutting machine heretofore described so that damages relating thereto may be determined.

"5. Plaintiff is entitled to a judgment awarding damages against the defendants and each of them, the total amount thereof to be determined following the accounting hereinbefore ordered. ***174**

"6. Plaintiff is entitled to a judgment awarding punitive damages against the defendants and each of them, the amount thereof to be determined following the accounting heretofore ordered.

"7. The defendant Robert Black is not enjoined from using any of the skill, knowledge or information obtained by him as to the making of dies, the use thereof, the operation of a punch press or other machine, which skill, knowledge or information was obtained by him while under training by the plaintiff, so long as his use thereof does not involve the use of the trade secrets of the plaintiff as to the manufacture or assembly of machines or devices for the production of overlapping discs or die-cut discs.

"8. Plaintiff is awarded its costs of suit incurred herein against the defendants and each of them in the amount of $596.85."

The judgment as above modified is affirmed. Each party to bear his own costs on appeal.

Shinn, P. J., and Vallee, J., concurred.

A petition for a rehearing was denied September 12, 1958, and the opinion and judgment were modified to read as printed above. Appellants' petition for a hearing by the Supreme Court was denied October 22, 1958. ***175**

Footnotes

* Assigned by Chairman of Judicial Council.

* Assigned by Chairman of Judicial Council.

1 By agreement this wage schedule was not strictly adhered to.

2 Defendants ceased the use of this picture prior to the commencement of the action.

29 Cal.4th 215, 57 P.3d 647, 127 Cal.Rptr.2d 169, 65 U.S.P.Q.2d 1678, 02 Cal. Daily Op. Serv. 11,301, 2002 Daily Journal D.A.R. 13,129
Supreme Court of California

CADENCE DESIGN SYSTEMS, INC., Plaintiff and Appellant,
v.
AVANT! CORPORATION, Defendant and Appellant.

No. S098266.
Nov. 21, 2002.

SUMMARY

A corporation in the field of integrated circuit design automation sued a competitor for misappropriation of trade secrets after its vice-president joined the competitor. The parties negotiated a settlement of the claims and signed a release. Thereafter, plaintiff sued defendant in federal court for misuse of the secrets occurring after the date of the release. The trial court ruled on summary judgment motions that all of the claims for postrelease misuse were barred by the release. (U.S. Dist. Ct. No. CV 95-20828.) On plaintiff's appeal, the Ninth Circuit Court of Appeals certified the following question to the California Supreme Court: Under the California Uniform Trade Secrets Act (UTSA) (Civ. Code, § 3426), when does a claim for trade secret infringement arise: only once, when the initial misappropriation occurs, or with each subsequent misuse of the trade secret? (Ninth Cir. U.S. Ct. App., Nos. 99-17648 and 99-17649.) The Supreme Court accepted the certification under Cal. Rules of Court, rule 29.5.

The Supreme Court held that a plaintiff's claim under the UTSA for misappropriation of a trade secret against a defendant arises only once, when the trade secret is initially misappropriated, and each subsequent use or disclosure of the secret augments the initial claim rather than arises as a separate claim. Under this interpretation of the UTSA, a trade secret infringer is not rewarded for its infringement with a license to use the infringed technology after the parties settle a claim and execute a release. The parties to the release remain free to fashion the release as broadly or as narrowly as they choose, and a successful plaintiff is entitled to the full panoply of remedies, including injunctive relief, damages for actual loss, and relief from unjust enrichment. (Opinion by Moreno, J., with Kennard, Acting C. J., Baxter, Chin, and Brown, JJ., Nares, J., * and Nott, J., † concurring.)

HEADNOTES

Classified to California Digest of Official Reports

(1a, 1b, 1c)
Unfair Competition § 7--Use of Trade Secrets--California Uniform Trade Secrets Act--When Claim for Continuing Misappropriation Arises-- Single or Multiple Claims.
A plaintiff's claim under the California Uniform Trade Secrets Act (Civ. Code, § 3426) for misappropriation of a trade secret against a defendant arises only once-when the trade secret is initially misappropriated. Each subsequent use or disclosure of the secret does not give rise to a separate claim, but rather augments the initial claim. This interpretation is supported by Civ. Code, § 3426.6, the act's statute of limitations, which provides that "a continuing misappropriation constitutes a single claim." The drafters of that provision explicitly affirmed prior case law supporting this interpretation, and rejected the contrary view that each misappropriation gives rise to a separate claim. This provision, and the act's definition of "misappropriation" (Civ. Code, § 3426.1, subd. (b)), reveal a distinction between a "misappropriation" and a "claim." A "misappropriation" occurs not only at the time of the initial acquisition of the trade secret, but also with each misuse or wrongful disclosure of the secret. A "claim" for misappropriation arises against a given defendant only once, at the time of the initial misappropriation, with each new misuse or wrongful disclosure augmenting that single claim. In the context of a settlement and release of a claim, this interpretation does not effectively reward the defendant with a license to use the misappropriated technology after execution of the release or discourage parties from entering into such releases. The parties remain free to fashion the release as broadly or narrowly as they choose, and a successful plaintiff is entitled to the full panoply of remedies, including injunctive relief, damages for actual loss, and relief from unjust enrichment.

[See 11 Witkin, Summary of Cal. Law (9th ed. 1990) Equity, § 108 et seq.; West's Key Number Digest, Torts 24.]

(2)
Appellate Review § 119--Dismissal--Mootness--Settlement--Exception.
When parties settle a case after oral argument, the Supreme Court may nonetheless exercise its discretion to issue an opinion to resolve the legal issues raised, which are of continuing public interest and are likely to recur.

(3)
Unfair Competition § 7--Use of Trade Secrets--Protection--Distinction from Patents.
The legal protection accorded trade secrets is fundamentally different from that given to patents, in which the patent owner acquires a limited term monopoly over the patented technology, and another party's use of that technology by whatever means infringes the patent. By contrast, the owner of a trade secret is protected only against the appropriation of the secret by improper means and the subsequent use or disclosure of the improperly acquired secret. There are various legitimate means, such as reverse engineering, by which a trade secret can be acquired and used.

COUNSEL
Keker & Van Nest, John W. Keker, Jeffrey R. Chanin, Michael H. Page and Ragesh K. Tangri for Plaintiff and Appellant.
James Pooley as Amicus Curiae on behalf of Plaintiff and Appellant.
Howard, Rice, Nemerovski, Canady, Falk & Rabkin, Bernard A. Burk and Jeffrey E. Faucette for Oracle Corporation, Xilinx, Inc., and 3Com Corporation as Amici Curiae on behalf of Plaintiff and Appellant.
O'Melveny & Myers, Daniel H. Bookin, Darin W. Snyder, James W. Shannon, Erika R. Frick and Hiro N. Aragaki for Defendant and Appellant.
Horvitz & Levy, H. Thomas Watson and Jason R. Litt for Truck Insurance Exchange as Amicus Curiae on behalf of Defendant and Appellant.
Robert G. Bone as Amicus Curiae on behalf of Defendant and Appellant.

MORENO, J.

We granted the request for certification of the United States Court of Appeals for the Ninth Circuit pursuant to California Rules of Court, rule 29.5, to address the following question:

([1a]) Under the California Uniform Trade Secrets Act (UTSA), Civil Code section 3426, [1] when does a claim for trade secret infringement arise: only once, when the initial misappropriation occurs, or with each subsequent misuse of the trade secret? ***218**

([2])**(See fn. 2.)**, ([1b]) We conclude that in a plaintiff's action against the same defendant, the continued improper use or disclosure of a trade secret after defendant's initial misappropriation is viewed under the UTSA as part of a single claim of "continuing misappropriation" accruing at the time of the initial misappropriation. [2]

I. Statement of Facts

The relevant facts, as stated in the Ninth Circuit's certification order to this court, are as follows:

Cadence Design Systems, Inc., and Avant! Corporation compete in the field of integrated circuit design automation. Both companies design "place and route" software, which enables computer chip designers to place and connect tiny components on a computer chip. Cadence formed in 1988 through the merger of several companies. Four senior employees left Cadence in 1991 to found Avant!, originally known as ArcSys.

In March 1994, Cadence vice-president Gerald Hsu resigned from Cadence to sign on with Avant!. Because Hsu possessed valuable business trade secrets and other confidential information, Cadence informed Hsu that it objected to his working at Avant!. Concerned that Hsu would reveal proprietary Cadence information when managing Avant!, Cadence sent Avant! a draft complaint naming Avant! and Hsu as defendants. Cadence alleged trade secret misappropriation and other causes of action. In negotiating a settlement of Cadence's claims, Cadence and Avant! apparently did not discuss Avant!'s alleged use of Cadence's Framework II (DFII) trade secret source code. [3]

After extensive negotiations, in June 1994, the parties entered into a confidential settlement agreement (the Agreement or Release) that included a mutual general release, which provided in part:

"Cadence, [Avant!] and Hsu ... hereby forever release and discharge each other ... of and from any and all manner of action, claim or cause of ***219** action, in law or in equity, suits, debts, liens, contracts, agreements, promises, liabilities, demands, losses, damages, costs or expenses, including without limitation court costs and attorneys' fees, which they may have against each other at the time of the execution of this Agreement, known or unknown, including but not limited to any claims arising out of, or in connection with, or relating directly or indirectly to the following: Hsu's employment with Cadence, the cessation of Hsu's employment with Cadence, any wrongful termination of Hsu, any age or race discrimination by Cadence with respect to Hsu, any anticompetitive activity or unfair competition or trade secret misappropriation by Cadence, Hsu or [Avant!] with respect to Cadence, Hsu or [Avant!] with respect to Cadence, Hsu or [Avant!] ... or any other actions taken by Cadence to with respect to Hsu or [Avant!] or by Hsu or [Avant!] with respect to Cadence."

The Agreement also contained in capital letters a waiver of section 1542 with the following language:

"THESE RELEASES EXTEND TO CLAIMS WHICH THE PARTIES DO NOT KNOW OR SUSPECT TO EXIST IN THEIR FAVOR, WHICH IF KNOWN BY THEM WOULD HAVE MATERIALLY AFFECTED THEIR DECISION TO ENTER INTO THIS RELEASE.

"In connection with such waiver and relinquishment, the Parties acknowledge that they are aware that, after executing this Agreement, they or their attorneys or agents may discover claims or facts in addition to or different from those which they now know or believe to exist ... but that it is their intention hereby fully, finally and forever to settle and release all of the claims, matters, disputes and differences known or unknown, suspected or unsuspected, which now exist, may exist, or heretofore may have existed against each other in connection with the released matters. In furtherance of this intention, the release herein given shall be and remain in effect as a full and complete release notwithstanding the discovery or existence of any such additional or different claim or fact."

In the summer of 1995, a Cadence engineer discovered a "bug" (an error) in Avant!'s ArcCell software program that was similar to a bug he had inadvertently created several years earlier when writing source code for Cadence's DFII product. In December 1995, the Santa Clara County District Attorney executed a search of Avant!'s headquarters. Among the items seized was a log that showed line-by-line copying of Cadence source code in 1991 by a former Cadence employee and Avant! founder.

In December 1995, Cadence sued Avant! for theft of its copyrighted and trade secret source code and sought a preliminary order enjoining the sale of ***220** Avant!'s ArcCell and Aquarius products. In anticipation of trial, both sides filed cross-motions for partial summary judgment concerning the effect of the Release. Avant! argued that because Cadence had released all its claims existing at the time of the Release, any claims based on continuing or future misuse of trade secrets that were stolen prior to the date of the Release were now barred. Cadence maintained that the only claims it had released were those for misappropriation occurring before the effective date of the Release, and not claims to redress Avant!'s continuing or new misuses of its trade secrets after the date of the Release.

The federal district court ruled on these summary judgment motions on October 13, 1999. Reversing its initial order, the district court held that all of Cadence's trade secret claims for post-Release misuse of its DFII trade secrets taken before the Release were barred by the Release. Cadence now is appealing this decision to the Ninth Circuit. If the Release barred Cadence's claims existing at the time of the Agreement, but did not bar future claims, the question still remains: What claims existed at the time of the Agreement? Are all of Cadence's claims for Avant!'s trade secret misappropriation part of the same claim, or does each successive misuse of Cadence trade secret source code give rise to a separate claim? [4]

II. Discussion

Avant! argues that a cause of action for misappropriation of a given trade secret by a particular plaintiff against a particular defendant arises only once, when the trade secret is initially misappropriated. In support of this position, it relies in large part on the rationale set forth in *Monolith Portland Midwest Co. v. Kaiser Aluminum & C. Corp.* (9th Cir. 1969) 407 F.2d 288 (*Monolith*), which applied the California common law of trade secrets. The *Monolith* court rejected the position exemplified by *Underwater Storage, Inc. v. United States Rubber Co.* (D.C. Cir. 1966) 371 F.2d 950, "that the wrong is the adverse use of the secret disclosed in confidence; each use is a new wrong, and a continuing use is a continuing wrong. Underlying this theory is the concept that a trade secret is in the nature of property, which is damaged or destroyed by the adverse use .... California does not treat trade secrets as if they were property. It is the *relationship* between the parties at the time the secret is disclosed that is protected. (***221** *Futurecraft Corp. v. Clary Corp.* (1962) 205 Cal.App.2d 279, 23 Cal.Rptr. 198.) The protected relationship, contractual or confidential, is one to which, as Mr. Justice Holmes observed, 'some rudimentary requirements of good faith' are attached. 'Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property ..., but that the defendant stood in confidential relations with the plaintiffs ....' (*E. I. Du Pont de Nemours Powder Co. v. Masland* (1917) 244 U.S. 100, 102, 37 S.Ct. 575, 576, 61 L.Ed.2d 1016.) *The fabric of the relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated. The cause of action arises but once ....*" (*Monolith*, *supra*, 407 F.2d at p. 293, italics added.)

On the other hand, Cadence asserts that the UTSA, which as discussed below was adopted by California in 1984, changed the common law view typified by *Monolith*, and now views trade secrets as property rather than simply as the protection of a confidential relationship. It further reasons that because trade secret misappropriation is the wrongful taking or use of protected property, *each* new use represents a new claim of misappropriation. As will be discussed, neither Cadence's nor Avant!'s position is entirely correct.

In order to answer the certified question, we must examine the pertinent language of the UTSA. As the Court of Appeal explained in *Glue-Fold, Inc. v. Slautterback Corp.* (2000) 82 Cal.App.4th 1018, 1023 [98 Cal.Rptr.2d 661] (*Glue-Fold*), the UTSA "was approved by the National Conference of Commissioners on Uniform State Laws in 1979 and adopted without significant change by California in 1984. (14 West's U. Laws Ann. (1990) U. Trade Secrets Act, p. 433; Stats. 1984, ch. 1724, § 1, pp. 6252-6253.)" (Fn. omitted.) Section 3426.1 defines certain key terms of the UTSA. "Trade secret" is defined as "information, including a formula, pattern, compilation, program, device, method, technique, or process, that: [¶] (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and [¶] (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." (§ 3426.1, subd. (d).)

"Misappropriation" is defined as "(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or [¶] (2) Disclosure or use of a trade secret of another without express or implied consent by a person who: [¶] (A) Used improper means to acquire knowledge of the trade secret; or ***222** [¶] (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was: [¶] (i) Derived from or through a person who had utilized improper means to acquire it; [¶] (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or [¶] (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or [¶] (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake." (§ 3426.1, subd. (b).)

"Improper means" is defined to "include[] theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means." (§ 3426.1, subd. (a).)

([3]) Thus, the legal protection accorded trade secrets is fundamentally different from that given to patents, in which the patent owner acquires a limited term monopoly over the patented technology, and use of that technology by whatever means infringes the patent. The owner of the trade secret is protected only against the appropriation of the secret by improper means and the subsequent use or disclosure of the improperly acquired secret. There are various legitimate means, such as reverse engineering, by which a trade secret can be acquired and used. (See 2 Callman, The Law of Unfair Competition, Trademarks, and Monopolies (1981) § 14.01, p. 14-6; *id.*, § 14.15, p. 14-102.)

([1c]) The most critical section of UTSA for purposes of this case is section 3426.6, which provides: "An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. *For the purposes of this section, a continuing misappropriation constitutes a single claim*." (Italics added.)

As the Court of Appeal recognized in *Glue-Fold*, *supra*, 82 Cal.App.4th at pages 1023-1024, "[s]ection 3426.6 is derived almost verbatim from section 6 of the Uniform Act as originally drafted. (See 14 West's U. Laws Ann., *supra*, U. Trade Secrets Act, com. to § 6, p. 462.) It is therefore appropriate to accord substantial weight to the commissioners' comment on the construction of what is now section 3426.6. [Citations.] [¶] That comment is: 'There presently is a conflict of authority as to whether trade secret misappropriation is a continuing wrong. *Compare Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288 (CA9, 1969) (not a ***223** continuing wrong under California law-limitation period upon all recovery begins upon initial misappropriation) with *Underwater Storage, Inc. v. U.S. Rubber Co.*, 371 F.2d 950 (CADC, 1966) ... (continuing wrong under general principles-limitation period with respect to a specific act of misappropriation begins at the time that the act of misappropriation occurs). [¶] This Act rejects a continuing wrong approach to the statute of limitations but delays the commencement of the limitation period until an aggrieved person discovers or reasonably should have discovered the existence of misappropriation. If objectively reasonable notice of misappropriation exists, three years is sufficient time to vindicate one's legal rights.' (14 West's U. Laws Ann., *supra*, U. Trade Secrets Act, com. to § 6, p. 462.)" (Fns. omitted.)

The UTSA does not define the term "continuing misappropriation," but its meaning appears evident in light of the definition of "misappropriation." It is the continuing use or disclosure of a trade secret after that secret was acquired by improper means or as otherwise specified in section 3426.1, subdivision (b). Thus, for statute of limitations purposes, a continuing misappropriation is viewed as a single claim. The drafters of the UTSA explicitly affirmed *Monolith* and rejected the contrary view that misappropriation gives rise to multiple claims each time the trade secret is misused or improperly disclosed.

From our examination of the above statutes, a distinction between a "misappropriation" and a "claim" emerges. A *misappropriation* within the meaning of the UTSA occurs not only at the time of the initial acquisition of the trade secret by wrongful means, but also with each misuse or wrongful disclosure of the secret. But a *claim* for misappropriation of a trade secret arises for a given plaintiff against a given defendant only once, at the time of the initial misappropriation, subject to the discovery rule provided in section 3426.6. Each new misuse or wrongful disclosure is viewed as augmenting a single claim of continuing misappropriation rather than as giving rise to a separate claim.

Cadence makes much of the language in section 3426.6 that states, "[*f*]*or the purposes of this section*, a continuing misappropriation constitutes a single claim." (Italics added.) Based on that language, Cadence argues that a continuing misappropriation constitutes a single claim only for statute of limitations purposes. This argument cannot withstand scrutiny. The certified question asks when a *claim* for trade secret infringement arises. The term "claim" does not have some theoretical meaning apart from the context in which it is used. In the present case, the certified question is asked in the context of a release, which is intended to settle or prevent litigation. Therefore, "claim" must be defined in the context of litigation. If "continuing ***224** misappropriation" is viewed as a single claim for statute of limitations purposes (see *Glue-Fold*, *supra*, 82 Cal.App.4th at pp. 1026-1028), then it is difficult to fathom how it could be treated as more than one claim for purposes of litigation generally. For example, a plaintiff could not legitimately plead separate claims of misappropriation for each misuse of a trade secret, for to do so would impermissibly evade the statute of limitations. Nor can it be asserted that separate "claims" accruing at different times can have the same limitations period, because that position is contrary to the rule that each civil action possesses its own statutorily prescribed limitations period. (See Code Civ. Proc., § 312.) The only other alternative is to hold that the term "claim" means one thing in the context of litigation and something else in the context of releases. There is no indication the Legislature intended this kind of inconsistency.

In fact, the phrase "for purposes of this section" can plausibly be explained as a means of contrasting section 3426.6 with section 3426.10, the only other section to refer to "continuing misappropriation." That section states: "This title does not apply to misappropriation occurring prior to January 1, 1985. If a *continuing misappropriation* otherwise covered by this title began before January 1, 1985, this title does not apply to the part of the misappropriation occurring before that date. This title does apply to the part of the misappropriation occurring on or after that date unless the appropriation was not a misappropriation under the law in effect before the operative date of this title." (§ 3426.10, italics added.) In other words, for purposes of section 3426.10, a continuing misappropriation is not necessarily a single claim. Rather, the claim must be divided in two if the continuing misappropriation took place partly before January 1, 1985-one common law claim for misappropriation occurring before that date, and one UTSA claim for misappropriation occurring thereafter. Indeed, if each misappropriation constituted a single claim, all that section 3426.10 would have had to have said is: This title does not apply to misappropriation occurring prior to January 1, 1985. There would be no need to refer to continuing misappropriation because, according to Cadence's theory, that concept does not exist outside the statute of limitations section and it would have been meaningless to refer to "the part of the misappropriation occurring on or after that date." (*Ibid.*)

Another occasion in which an act of continuing misappropriation may be said to constitute more than one claim is when multiple defendants are involved. For example, in *PMC, Inc. v. Kadisha* (2000) 78 Cal.App.4th 1368 [93 Cal.Rptr.2d 663], officers, directors, and investors of a corporation were sued personally for a trade secret misappropriation initiated before their involvement in the corporation. They sought summary judgment in part on the grounds that they could not be held liable because the initial misappropriation had occurred before they assumed their positions. The Court of ***225** Appeal rejected that position, reasoning that the definition of misappropriation includes disclosure or use of a trade secret by persons who knew or had reason to know that the trade secret was acquired by improper means. (*Id.* at p. 1382, citing § 3426.1, subd. (b)(2)(B)(i)-(ii).) But Cadence's assertion that *Kadisha* advances its position is incorrect. That case holds only that there may be separate claims of continuing misappropriation among *different* defendants, with differing dates of accrual and types of tortious conduct-some defendants liable for initial misappropriation of the trade secret, others only for later continuing use. This holding does not conflict with our conclusion that there is only a single UTSA claim against a single defendant misappropriating a single plaintiff's trade secret.

Cadence cites Penal Code section 499c, providing criminal penalties for theft of trade secrets, in support of its argument. It quotes the noncodified statutory purpose of that statute as, in part, "to make clear that articles representing trade secrets, including the trade secrets represented thereby, constitute goods, chattels, materials and property and can be the subject of criminal acts." (Stats. 1967, ch. 132, § 1, p. 1163.) Avant!'s arguments notwithstanding, it appears indisputable that trade secrets are a form of property. But the nature of the property interest and the means by which the interest can be vindicated are matters of state law. The UTSA defines an act of continuing misappropriation for litigation purposes as a single claim.

Cadence cites *Remington Rand Corp. v. Amsterdam-Rotterdam Bank, N.V.* (2d Cir. 1995) 68 F.3d 1478, 1485, in which the court, considering a release similar to the one at issue here, concluded the release did not shield defendants from liability for continuing wrongful use of trade secrets after the date of the release. The case was decided under either New York or New Jersey law. (68 F.3d at p. 1483, fn. 2 [acknowledging uncertainty as to which state law applied].) Neither of these states has adopted the UTSA. (14 West's U. Laws Ann. (2002 supp.) U. Trade Secrets Act, p. 128.) Moreover, the court did not analyze the relevant state statutes, and it is unclear whether its conclusion was based on statutory interpretation or interpretation of the intent of the parties to the release. It is therefore not persuasive authority for holding that each new trade secret misuse in California gives rise to a separate claim.

Cadence also cites federal case law holding that each act of patent infringement gives rise to a separate cause of action. (*Augustine Medical v. Progressive Dynamics* (Fed. Cir. 1999) 194 F.3d 1367, 1371.) Again, this case law has little relevance to the question presented. Although there are similarities between trade secret and patent law, there are also significant differences discussed above. Quite apart from these differences, our conclusion in the present case does not rest on reasoning from general principles of ***226** intellectual property law, but rather on the construction of the specific statutory language of the UTSA. Nor is there any indication that the UTSA was patterned after patent law. [5]

Cadence also argues that viewing Avant!'s continuing misappropriation as a single claim effectively rewards Avant! with a license to use the misappropriated technology and to discourage parties from entering into releases in the future. But however the UTSA defines a trade secret claim, parties to a release in a trade secret dispute remain free to fashion the release as broadly or narrowly as they choose. Moreover, under our interpretation of the USTA, a trade secret infringer is by no means rewarded for its infringement with a license to use the infringed technology. Rather, a successful trade secret plaintiff is entitled to the full panoply of remedies, including injunctive relief against further misappropriation (§ 3426.2), damages for actual loss (§ 3426.3), and relief from unjust enrichment (*ibid.*). [6]

Our answer to the certified question is narrow. As stated, we do not accept Avant!'s position, at least stated in its strongest form, that only the initial misappropriation of a trade secret via the breach of a confidential relationship constitutes misappropriation-the UTSA plainly states otherwise. The potential damages encompassed by a continuing misappropriation claim may expand with each illicit use or disclosure of the trade secret. Nor do we address how the parties intended to define the term "claim" in the present release. All we decide is that the UTSA views a continuing misappropriation of a trade secret of one party by another as a single claim. ***227**

III. Conclusion

We conclude that a plaintiff's claim for misappropriation of a trade secret against a defendant arises only once, when the trade secret is initially misappropriated, and each subsequent use or disclosure of the secret augments the initial claim rather than arises as a separate claim.

Kennard, Acting C. J., Baxter, J., Chin, J., Brown, J., Nares, J., [*] and Nott, J., [†] concurred. ***228**

Footnotes

* Associate Justice of the Court of Appeal, Fourth Appellate District, Division One, assigned by the Acting Chief Justice pursuant to article VI, section 6 of the California Constitution.

† Associate Justice of the Court of Appeal, Second Appellate District, Division Two, assigned by the Acting Chief Justice pursuant to article VI, section 6 of the California Constitution.

1 All statutory references are to the Civil Code unless otherwise indicated.

2 Shortly before the filing of this opinion, we were informed by the parties to this case that they have settled the underlying litigation, although they do not seek dismissal of proceedings in this court. When parties settle a case after oral argument, we may nonetheless exercise our discretion to issue an opinion "to resolve the legal issues raised, which are of continuing public interest and are likely to recur." (*People v. Eubanks* (1996) 14 Cal.4th 580, 584, fn. 2 [59 Cal.Rptr.2d 200, 927

P.2d 310].) The certified question asks us to decide a general point of law regarding an aspect of California's trade secret statute. Accordingly, although the matter is apparently rendered moot, we exercise our discretion to resolve the legal question.

3 Computer software programs are written in specialized languages called source code. The source code, which humans can read, is then translated into language that computers can read. The computer readable form, which operates on a binary system, is called object code.

4 In the present case, it is unclear from the above facts whether the acquisition of the trade secret was itself improper and therefore a misappropriation, or whether the subsequent use of the secret was the initial misappropriation. In any case, the parties agree that Avant! had both acquired and used the trade secret prior to signing the Release. We will assume for purposes of addressing the certified question that the initial misappropriation occurred with the first use of the secret and will, for purposes of this case, equate “initial misappropriation” with “initial use.”

5 Patent law has no equivalent to section 3426.6. The limitations on patent actions set forth in 35 United States Code section 286 differ considerably from section 3426.6. It provides in pertinent part: “Except as otherwise provided by law, no recovery shall be had for any infringement committed more than six years prior to the filing of the complaint or counterclaim for infringement in the action.” (35 U.S.C. § 286.) “This provision has been said not to constitute a 'statute of limitations' in the usual sense of the term, in that 35 U.S.C. section 286 does not say that no suit shall be maintained.... The limitation contained in the 35 U.S.C. section 286 ... does not bar infringement actions, but merely limits recovery of damages to infringements occurring during the six years preceding any damages action brought.” (Rosenberg, 3 Patent Law Fundamentals (rev. 2d ed. 2001) § 17.06 [1][d], p. 17-100.) The federal statute does not employ “continuing misappropriation” or any equivalent concept.

6 Cadence also cites in support of its position a letter from Assemblyman Elihu Harris, the sponsor of the UTSA, to Governor Deukmejian urging him to sign Assembly Bill No. 501 (1983-1984 Reg. Sess.), the UTSA, in order to bring “clarity and uniformity into this important area of law.” (Assemblyman Harris, letter to Governor Deukmejian, Sept. 12, 1984, p. 2.) From this and other general statements in that letter, Cadence wishes to deduce a general policy of strengthening trade secret protection that would lead to support of its position. We are not persuaded. We do not discern how these general statements have any particular bearing on the certified question. Moreover, even if we assume that the UTSA was generally intended to strengthen trade secret protection (a point Avant! disputes), nothing we say in the present opinion vitiates such protection, as discussed immediately above.

* Associate Justice of the Court of Appeal, Fourth Appellate District, Division One, assigned by the Acting Chief Justice pursuant to article VI, section 6 of the California Constitution.

† Associate Justice of the Court of Appeal, Second Appellate District, Division Two, assigned by the Acting Chief Justice pursuant to article VI, section 6 of the California Constitution.

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241 Cal.App.2d 726, 50 Cal.Rptr. 829

COMPONENTS FOR RESEARCH, INC., Plaintiff and Respondent,
v.
ISOLATION PRODUCTS, INCORPORATED, et al., Defendants and Appellants.

Civ. No. 22174.
District Court of Appeal, First District, Division 3, California.
Apr. 28, 1966.

HEADNOTES

(1)
Trademarks § 22(1)--Unfair Competition--Trade Secrets.
A production technique, permitting mass production and commercially feasible manufacture of a product was a trade secret, though some modifications of basic design probably accompanied development of the efficient manufacturing process, which was the substantial development originated by plaintiff.

(2)
Trademarks § 33(3)--Remedies--Questions of Law and Fact.
Where there was conflicting evidence as to whether plaintiff kept its manufacturing process secret in the sense of limiting disclosure to its employees and in making even those disclosures confidential, the fact issue as to secrecy was for the trial court.

(3)
Corporations § 585--Directors--Fiduciary Relationship.
Former directors of a corporation could not claim the right to use the corporation's trade secrets because they participated, as employees, in the development of the secret process, rather than learning an already developed process when they entered that employ. Even absent an express agreement against revelation of trade secrets, a director has a fiduciary duty not to use or reveal them to the corporation's detriment.

(4)
Trademarks § 32(3)(d)--Remedies--Evidence--Unfair Competition.
Where corporate directors were notified that the corporation was making unauthorized use of trade secrets improperly transmitted to it by other directors but the corporation continued to use manufacturing processes that were trade secrets, the directors so notified were liable.

(5)
Trademarks § 34(1)--Remedies--Relief Granted.
The claimed existence of a patent on a product design does not necessarily bar relief for unauthorized use of a trade secret of a manufacturing process involving use of the product design where the court specifically refrains from adjudicating any patent rights, over which the state courts do not have jurisdiction.

See **Cal.Jur.2d,** Trademarks, Tradenames, and Trade Practices, § 21; **Am.Jur.,** Trademarks, Tradenames, and Trade Practices (1st ed § 140 et seq).

(6)
Trademarks § 34(1)--Remedies--Relief Granted.
Where a judgment afforded protection against the use of plaintiff's trade secrets for a manufacturing process by those to whom the secrets had been disclosed in confidence, plaintiff was entitled to such protection, regardless of whether the idea was patented.

(7)
Trademarks § 22(8)--Unfair Competition--Injunctive Relief.
Where the use of epoxy resin as insulation in cable terminations, speed-through bushings, and isolation transformers was clearly not secret and not developed by plaintiff who had developed the technique of commercial production of the three products utilizing this insulating medium, an injunction barring production or sale of these devices utilizing epoxy resin as an insulation medium was too broad and should have been limited to use of plaintiff's secret manufacturing process.

SUMMARY

APPEAL from a judgment of the Superior Court of Santa Clara County and from orders denying motions to stay injunctive relief, to dissolve injunction or amend judgment and for a new trial. Homer B. Thompson, Judge. Judgment modified and affirmed; appeal from orders dismissed.

Action to recover damages for the unauthorized use of a trade secret and to enjoin such use. Judgment for plaintiff modified as to scope of injunction and affirmed.

COUNSEL

G. Joseph Bertain, Jr., Eugene W. Doyle, Maas & Little, Little & Evans and James B. Little for Defendants and Appellants.

Roger L. Mosher, McCloskey, Wilson, Mosher & Martin and William Irwin Cohen for Plaintiff and Respondent.

DRAPER, P. J.

Charged with misuse of plaintiff's trade secrets in a manufacturing process, defendant corporation and five individuals were enjoined from such use. Money damages also were awarded against them. All defendants appealed, but only the corporation and four individuals have filed briefs.

The court found that: Plaintiff corporation was organized in 1957, and began development of three basic lines of products for use in the electronics industry. Each involves use of metal conductors to transmit high electrical energy, using epoxy resin as an insulating material. The combination of like conductors and the same insulating material was known and had recognized value. But commercial production, by casting the metal conductor within the resin, presented substantial problems because of the differing expansion of the two materials under heat. Plaintiff spent an estimated $30,000 in experimentation ***728** and trial and error to solve this problem, and developed a technique for manufacture at costs which made the products marketable. Defendant Joseph Bianco was a director of plaintiff from its incorporation until January 1962. From May 20, 1960, to May 1, 1961, he was its sales manager. He had a dispute with the corporation as to its sales program and resigned as sales manager May 1. His brother, Ernest, was a director and production manager of plaintiff from January 17, 1957. He resigned as production manager September 15, 1961, and as director in January 1963. Both Biancos, during their employment by plaintiff, participated in its experimental and development work, and became familiar with its production techniques, which were revealed only to employees. Upon termination of Joseph's employment as sales manager, although he remained a director of plaintiff, he began arrangements for the formation of defendant corporation as a competitor. He took with him drawings and customer lists of plaintiff. Ernest, after Joseph's departure but while he continued as plaintiff's production manager, supplied Joseph with shop drawings of plaintiff, and advised and assisted him in organizing the new venture. Although Ernest remained a director of plaintiff, from September 15, 1961, he devoted full time to the new venture. Defendant Ross became a consultant for plaintiff about May 1961, at the request of Joseph Bianco, although plaintiff had not authorized the employment. Ross' work had to do with testing of products. At about the same time, Joseph talked to Ross about assisting in formation of the competing business. Ross became a director and officer of defendant corporation in January 1962. Defendant Montali became an officer and director of defendant corporation about the same time. He loaned the corporation some $10,000, which was its only financing, at least until issue of its stock in May 1963. The corporation was incorporated October 31, 1961, and began operation that fall. In July 1962, plaintiff sent to each defendant a notice that defendant corporation's manufacture of these products involved use of trade secrets disclosed in confidence to the Biancos, and a demand that they cease use of these trade secrets and of plaintiff's customer lists. Defendants' operations continued without change.

Much of defendants' argument is based upon the misconception that the essence of the trade secrets was the design of the three products. ([1]) But it is clear that the developments made by plaintiff lay in the manufacturing process. ***729** New techniques permitted mass production and commercially feasible manufacture. Some modifications of basic design probably accompanied development of the efficient manufacturing process, but that process was the substantial development originated by plaintiff.

This production technique clearly falls within the definition of a trade secret (4 Rest., Torts, § 757, com. b; *By-Buk Co. v. Printed Cellophane Tape Co.,* 163 Cal.App.2d 157, 166-167 [329 P.2d 147]). Unlike the decision upon which defendants largely rely (*Futurecraft Corp. v. Clary Corp.,* 205 Cal.App.2d 279 [23 Cal.Rptr. 198]) this is a “know-how” case, and the manufacturing process, unlike the design involved in *Futurecraft,* is not revealed by plaintiff's products themselves.

([2]) There is evidence to support the findings that plaintiff kept its process secret in the sense of limiting disclosure to its employees and in making even those disclosures confidential. There was some evidence to the contrary, but this fact issue was for the trial court (*Ungar Electric Tools, Inc. v. Sid Ungar Co., Inc.,* 192 Cal.App.2d 398, 403 [13 Cal.Rptr. 268]).

([3]) The Biancos cannot claim the right to use plaintiff's secrets because they participated, as employees, in the development of the process, rather than learning an already-developed process when they entered that employ. (*Sequoia Vacuum Systems v. Stransky,* 229 Cal.App.2d 281 [40 Cal.Rptr. 203]; *Daniel Orifice Fitting Co. v. Whalen,* 198 Cal.App.2d 791, 797-799 [18 Cal.Rptr. 659].) Even in the absence of an express agreement against revelation of trade secrets, a director is under a fiduciary duty not to use or reveal them to the detriment of the corporation of which he is a director (*Sequoia Vacuum Systems v. Stransky, supra,* at p. 285-286). Both Biancos continued as directors of plaintiff long after they became directly associated in the operations of defendant corporation. Each took drawings and other materials from plaintiff for use by the new corporation. The evidence fully sustains the conclusion that they violated their fiduciary duty to plaintiff. This violation is the essence of the tort, as demonstrated by *Ungar, Sequoia* and *Daniel, supra* (see also *Ojala v. Bohlin,* 178 Cal.App.2d 292 [2 Cal.Rptr. 919]).

([4]) Appellants Montali and Ross were notified in July 1962 that the corporation of which they were directors was making unauthorized use of trade secrets improperly transmitted ***730** to it by the Biancos, their fellow directors. They and the corporation nonetheless continued to use these manufacturing processes. Thus they, too, are liable (4 Rest., Torts, § 758 [b]).

([5]) The claimed existence of a patent on one product design does not necessarily bar relief here granted (see 4 Rest., Torts, § 757, com. b). The patent of plaintiff upon which defendants rely relates to design, and the trade secrets in issue concern production methods and techniques. It follows that no asserted patent, if it exists, bars the relief here granted. Of course, state courts do not have jurisdiction of patent infringement claims, and the court here specifically refrained from adjudicating any patent rights.

As to products which are unpatented, defendants contend that state courts cannot invade the patent field by proscribing mere copying (*Sears, Roebuck & Co. v. Stiffel Co.,* 376 U.S. 225 [84 S.Ct. 784, 11 L.Ed.2d 661]; *Compco Corp. v. Day-Brite Lighting, Inc.,* 376 U.S. 234 [84 S.Ct. 779, 11 L.Ed.2d 669]). But these cases are readily distinguished from that at bench. ([6]) The judgment here but affords protection against the use of plaintiff's trade secrets by those to whom they had been disclosed in confidence. Whether the idea was patented or not, plaintiff is entitled to such protection (*Saco-Lowell Shops v. Reynolds,* 141 F.2d 587, 598), and *Sears* and *Compco* do not modify this rule (*Servo Corporation of America v. General Electric Co.,* 337 F.2d 716, 724-725).

The award of $3,500 compensatory damages and $1,000 punitive damages is, contrary to defendants' view, sustained by the evidence.

([7]) The injunction, however, is too broad. It bars “producing or causing to be produced, sold or attempting to solicit the sale of any products, devices or instruments known and referred to as cable terminations, feed-through bushings, and isolation transformers, or any of them, which products, devices or instruments utilize epoxy resin as an insulation medium.”

It is clear that the use of epoxy resin as insulation in such devices was not secret and was not developed by plaintiff. Rather, plaintiff developed the technique of commercial production of the three products utilizing this insulating medium. In its present form, the injunction goes beyond the evidence. Also, to the extent that the designs are unpatented, it probably invades the federal patent field by barring use of mere design ***731** (*Sears, Roebuck & Co.*

v. Stiffel Co., supra, 376 U.S. 225), unless so limited as to bar only the improper use of plaintiff's trade secrets.

The injunction need not specify in detail the processes whose use is prohibited (*Ungar Electric Tools, Inc. v. Sid Ungar Co., Inc., supra,* 192 Cal.App.2d 398, 404). We recognize, however, that problems may from time to time arise which may require modification or further specification. While jurisdiction to modify would seem inherent (*Sontag Chain Stores Co. v. Superior Court,* 18 Cal.2d 92, 94-96 [113 P.2d 689]), contrary language is found in some decisions (*id.*). We therefore deem it advisable to include in the judgment a specific reservation of jurisdiction to modify the injunction.

The judgment is modified by adding, after the words "epoxy resin as an insulating medium" in line 20 on page 60 of the clerk's transcript, the words "and the manufacture or production of which in any way uses, utilizes, or incorporates any method, technique or process of production developed by plaintiff;" and by adding, following the last word of paragraph 1 of the judgment, the following: "so manufactured. The methods of manufacture of such products heretofore used by defendant corporation are specifically found to have been developed in confidence by plaintiff, and their use is prohibited by this injunction. The court reserves jurisdiction to modify this injunction as the ends of justice may require."

As so modified, the judgment is affirmed. Three orders are also appealed from. Those appeals are dismissed. Respondent is awarded its costs on appeal.

Salsman, J., and Devine, J., concurred. ***732**

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222 Cal.App.3d 1278, 272 Cal.Rptr. 352

COURTESY TEMPORARY SERVICE, INC., Plaintiff and Appellant,
v.
LEONEL CAMACHO et al., Defendants and Appellants.

No. B027238.
Court of Appeal, Second District, California.
Aug. 15, 1990.

SUMMARY

A temporary employment agency brought an unfair trade practices action against former employees who set up a competing agency and simultaneously applied for a preliminary injunction to prohibit the employees from soliciting any of the agency's customers that they serviced while employed at the agency; from soliciting or employing the agency's temporary labor force; and from using or disclosing any of the agency's confidential customer information. The trial court issued a preliminary injunction restraining the employees from soliciting or utilizing the agency's employees, but found that the agency's confidential customer list and related information was an unprotectable work product. (Superior Court of Los Angeles County, No. C628981, Jerry K. Fields, Judge.)

The Court of Appeal reversed that portion of the trial court's order denying the agency's petition for a preliminary injunction enjoining the employees from using the agency's customer list and related information with directions to enter an appropriate preliminary injunction, and otherwise affirmed. It held that the trial court erred in denying the petition for an injunction, since the agency's customer list was a protectable trade secret under the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.), and in failing to enjoin the employees' unfair business practices under Bus. & Prof. Code, § 17200 et seq. (enforcement of unfair competition statutes). (Opinion by Woods (Fred), J., with Lillie, P. J., and Johnson, J., concurring.)

HEADNOTES

Classified to California Digest of Official Reports

(1)
Appellate Review § 12--Decisions Appealable--Order Granting or Refusing Temporary Restraining Order or Preliminary Injunction.
In a temporary employment agency's action against former employees who set up a competing agency, the trial court's order partially denying the agency's request for a preliminary injunction and refusing to enjoin the employees from using the agency's confidential customer list and related information to solicit the agency's customers was directly appealable. All orders granting or refusing either a temporary restraining order or a preliminary injunction are directly appealable.

(2)
Unfair Competition § 7--Acts Constituting Unfair Competition--Use of Trade Secrets--Confidential Customer List--Uniform Trade Secrets Act.
In a temporary employment agency's action against former employees who set up a competing agency, the trial court erred in finding that the agency's customer list and related information stolen by the former employees did not constitute protectable trade secrets. The list fell within the definition of a trade secret under the Uniform Trade Secrets Act (Civ. Code, § 3426.1, subd. (d)) as information that derives an independent economic value from not being generally known to the public or other persons who could obtain economic value from its disclosure or use, and that is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The customer list was the product of a substantial amount of time, expense, and effort on the agency's part. Also, from a negative viewpoint, the list indicated those entities that have not patronized the business and for that reason as well was a protectable trade secret under the act. Moreover, the nature and character of the customer information, such as billing rates, key contacts, specialized requirements and markup rates were sophisticated information, irrefutably of commercial value, and not readily ascertainable to other competitors. The employees acquired commercially valuable information by appropriating the agency's

customers, thereby saving themselves comparable efforts in screening businesses that declined the agency's services. Also, the information was not divulged to any persons outside the business, was given to employees only on a “need to know” basis, and was limited only to customers of the branch office in which an employee worked, and the employees were told of the confidential and proprietary nature of such information.

(3)

Unfair Competition § 7--Acts Constituting Unfair Competition--Use of Trade Secrets--Misappropriation of Confidential Customer List.

In a temporary employment agency's action against former employees who set up a competing agency, the trial court erred in finding that an appellate court decision prohibited it from finding that the agency's customer list and related information stolen by the former employees were a protectable trade secret. Unlike the decision mistakenly relied on by the trial court, in which there was disputed evidence as to whether the former employees being sued were given or had used confidential information, and in which there was no evidence as to the efforts expended in compiling its customer list or in maintaining its secrecy, the record in the agency's action supported a finding that the agency's former employees did not acquire the agency's customers by “the fruit of their own labor,” but rather that they expended scant efforts on their own, and unfairly relied on the agency's efforts in compiling the customer list and related commercially valuable and not easily discoverable information. Using the agency's customer list, payroll records, and billing rates, they intentionally solicited the agency's customers, while still employed by the agency, in a successful attempt to injure the agency by diverting its customers to their competing business Such conduct was enjoinable as a patently unfair trade practice under the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.).

[Former employee's duty, in absence of express contract, not to solicit former employer's customers or otherwise use his knowledge of customer list acquired in earlier employment, note, 28 **A.L.R.3d** 7. See also **Cal.Jur.3d,** Unfair Competition, § 15.]

(4)

Unfair Competition § 7--Acts Constituting Unfair Competition--Use of Trade Secrets--Misappropriation of Confidential Customer List.

In a temporary employment agency's action against former employees who set up a competing agency, the trial court erred in failing to enjoin the employees' unfair business practices under Bus. & Prof. Code, § 17200 et seq. Since the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.) does not supersede any statute relating to misappropriation of a trade secret, even if the agency's customer list would not have qualified as a protectable trade secret under the act, the employees' unfair and deceptive practice in using the list to steal the agency's customers should have been enjoined under Bus. & Prof. Code, § 17200 et seq. (enforcement of unfair trade practices statutes). A former employee's use of confidential information obtained from his former employer to compete with him and to solicit the business of his former employer's customers is unfair competition.

COUNSEL

Thomas M. Regele for Plaintiff and Appellant.

Arthur H. Lampel for Defendants and Appellants. ***1281**

WOODS (Fred), J.

I. Introduction

This is an appeal by Courtesy Temporary Service, Inc., hereinafter “Courtesy,” from an order of the Los Angeles Superior Court partially denying Courtesy's motion for a preliminary injunction to restrain Leonel Camacho, Maria Camacho, and Bianca Alvarez, former employees of Courtesy, hereafter “Employees,” from soliciting Courtesy's customers and/or utilizing or disclosing certain confidential proprietary information concerning such customers.

II. Contentions

Courtesy contends that while in Courtesy's employ, Employees misappropriated Courtesy's confidential customer list, including such information as the volume of the customer's business, specific customer requirements, key managerial customer contacts and billing rates for use in Employees' competing business. Courtesy contends that Employees used such information to solicit, pirate and deceive Courtesy's customers, subjecting Courtesy to a substantial loss of business, all in violation of the law of the State of California against unfair competition, entitling Courtesy to injunctions and damages.

Employees contend that customer lists of temporary help agencies are not protected trade secrets, the court correctly determined that Employees could not be enjoined from contacting or dealing with Courtesy's customers, and that substantial evidence supports the finding that Courtesy's customers were developed from public sources.

As hereafter discussed we resolve all contentions against Employees, as being unmeritorious, and in favor of Courtesy. ***1282**

III. Factual and Procedural Synopsis

A. *Facts*

Courtesy is a California corporation with four branch offices, one of which is located in Hacienda Heights, California. Courtesy is in the temporary employment business, providing temporary workers to various companies, primarily factories, warehouses and light industrial concerns, according to their specific needs. Courtesy actively recruits, interviews and hires people as its own employees and then assigns these employees to its customer companies requesting assistance. Courtesy maintains the employer- employee relationship and is therefore responsible for paying these employees.

Since its inception in 1969, Courtesy has expended a great deal of time, money and effort developing and servicing its clientele and recruiting its labor force. Courtesy employs a permanent sales force to seek out and secure new business and service Courtesy's established business. Courtesy supports its sales staff with print advertising, entertainment expense accounts and promotional gifts and items. As a result, Courtesy has been successful in developing and maintaining an advantageous, stable and continuous customer base.

In the course of its dealings with its customers, Courtesy became knowledgeable and experienced in its customers' operations and developed sophisticated customer information such as the key contacts within the customer's business, special needs and customer characteristics, workers' compensation information, billing rates, profit margins and other financial information. All of this information was the product of substantial time and expense, not generally known to the public nor readily ascertainable in the temporary employment industry. A list of Courtesy's customers, who have demonstrated their willingness to use temporary employees, is not available in a trade or public directory or any other source. In short, there is no source to determine which particular businesses might be seeking or utilizing temporary employees. Rather, Courtesy's customer names, specialized requirements and patronage were secured by screening a large number of such prospects, at considerable time, effort and expense to Courtesy.

Courtesy employs branch managers and personnel supervisors for each of its branch offices. A branch manager's duties include servicing customer accounts and soliciting new business. A personnel supervisor's duties consist of interviewing and screening employee applicants, filling customer job orders and distributing payroll checks to the employees. ***1283**

Defendant Leonel Camacho had been employed by Courtesy as its Hacienda Heights branch manager and sales representative for a total period of nine years until he quit on December 1, 1986, to open a competing business, Transworld Temporaries. Defendant Maria Camacho and Bianca Alvarez had been employed by Courtesy as personnel supervisors in the Hacienda Heights office for approximately six years and two years, respectively, until they quit to join Leonel Camacho at Transworld Temporaries. While in Courtesy's employ, Employees were paid a monthly commission based upon a percentage of the branch office's net monthly sales, in addition to their base salaries.

As part of their duties as branch manager and sales representative and personnel supervisors, respectively, Employees developed familiarity and friendly contacts with Courtesy's customers and employees. In order that Employees might effectively carry out their employment duties, Courtesy necessarily revealed to Employees confidential and proprietary information regarding Courtesy's customers, including their sales volume, profit margins, special employment needs, particular likes and dislikes and pay rates and markups. Similarly, in the course of their employment at Courtesy, Employees necessarily acquired confidential knowledge regarding Courtesy's employees/labor force, including their names, addresses, job skills, past employment history and employment record with Courtesy's customers. At all times, Employees were aware of the confidential nature of this information and of Courtesy's reasonable efforts to ensure its secrecy.

By November 1986, and while still in Courtesy's employ, Employees admittedly planned the formation of a competing temporary employment business, Transworld Temporaries, and the transfer of all of Courtesy's preferred customers serviced by Employees to such competing business. Employees were keenly aware that Courtesy's long-standing, preferred customers would want to keep Courtesy's present temporary employees in their businesses because of their training and experience over the course of extended job assignments. Thus, Employees knew that the quickest and most effective way to appropriate Courtesy's more lucrative accounts and simultaneously establish their own labor force, was to pirate Courtesy's employees.

In furtherance of this scheme, in November 1986, while still employed at Courtesy, Employees began soliciting Courtesy's employees to join them in their soon-to-be-open competing business. Employees admittedly wrote and published a letter to Courtesy's customers and employees thanking them for their patronage, stating that their "*continual* support and cooperation" obliged Employees to "*further* improve," and asking them to "accept the best [Employees] have to offer from [their] *new location.*" The "new ***1284** location" was the address of Employees' competing business, Transworld Temporaries. Employees' statements were intended, and were in fact understood by those who read them, to refer to Courtesy, implying that Courtesy had either relocated or was being taken over by Transworld Temporaries. When Courtesy's employees came into the Hacienda Heights office during the last week of November 1986 to pick up their weekly payroll checks, Employees handed this letter to such employees and directed them to pick up their paychecks at the new address in the future.

Employees were equally intent upon diverting all of Courtesy's preferred and valuable customers' business to Transworld Temporaries. During the course of his deposition, Camacho produced a document which he testified was a customer list which he prepared and used to solicit business for his new company. The first two pages of this list contain the names of all of Courtesy's major customers. In each instance, for a Courtesy customer, the list contains a person to contact in such company for temporary personnel needs. Employees admitted that this list was prepared while still in Courtesy's employ and that the names and information concerning Courtesy's customers on such list were obtained through Employees' employment at Courtesy. Employees' list also includes billing rates and/or markup percentages for Courtesy's customers and only Courtesy's customers. With one exception, Camacho admitted that he solicited the business of all of Courtesy's customers on behalf of Transworld Temporaries prior to Employees' leaving Courtesy's employ. In each such instance of solicitation, Employees admittedly utilized the confidential customer information acquired by Employees while in Courtesy's employ.

Immediately after resigning from Courtesy's employ, Employees obtained payroll information concerning Courtesy's employees for the week ended November 30, 1986, from Courtesy's preferred customers. Employees fully intended to use such payroll information to remunerate Courtesy's employees through their competing business, Transworld Temporaries, and thereafter bill Courtesy's customers for such temporary services.

Finally, utilizing Courtesy's confidential and proprietary information regarding the amount of business transacted by and between said customers and Courtesy, and Courtesy's mark up of these various accounts, Employees have solicited all of Courtesy's more valuable and preferred customers.

Courtesy's advantageous business relations with its customers are threatened to be, and have been, disrupted in that certain preferred customers have begun to use the services of Employees. Combined, Courtesy's subject customers account for nearly $1.5 million in annual sales. Courtesy's sales were immediately decreased by approximately 60 percent by Employees' ***1285** tactics. Although Employees claim to have solicited business from approximately 150 firms, at the end of their first month of business, Employees' new agency claimed only one customer which had not been a customer of Courtesy.

B. *Procedural History*

On December 16, 1986, Courtesy filed its complaint for injunctive relief and money damages for: (1) unfair competition and misappropriation of trade secrets-violation of California Civil Code [1] section 3426 et seq.; (2) violation of California Business and Professions Code section 17200 et seq.; (3) tortious interference with prospective economic advantage; (4) breach of confidential relationship; (5) breach of implied covenant of good faith and fair dealing; and (6) libel/business disparagement. Courtesy simultaneously applied for a temporary restraining order and order to show cause re preliminary injunction, enjoining defendants from (1) soliciting any customers of Courtesy serviced by Employees when employed at Courtesy; (2) soliciting or employing Courtesy's specified temporary labor force employees; and (3) utilizing or disclosing any confidential Courtesy customer information. The Honorable Robert Weil issued the temporary restraining order as requested.

The preliminary injunction hearing took place on March 2, 1987, the Honorable Jerry Fields, judge presiding. At the hearing, the court found, based upon the evidence, that Employees had acted deceitfully, that they had stolen Courtesy's customers and employees and had even attempted to steal Courtesy's money. The court issued a preliminary injunction restraining Employees from soliciting or utilizing Courtesy's employees. However, despite having found Employees' acts to be "abhorrent" and "detestable" the trial court felt itself precluded by *American Paper & Packaging Products, Inc. v. Kirgan* (1986) 183 Cal.App.3d 1318 [228 Cal.Rptr. 713] from enjoining Employees' stealing of Courtesy's confidential customer list and related information and held such list to be unprotectable work product. This appeal and cross-appeal followed.

IV. Discussion

The trial court correctly found that Courtesy's customer list and related information are trade secrets in light of all of the circumstances before it. The trial court erred, however, in failing to correctly interpret and apply the ***1286** law. First, the court erred in relying upon *American Paper* in concluding that Courtesy's customer list and information do not constitute protectable trade secrets under section 3426 et seq. Second, *American Paper* is distinguishable from the facts in this case. Third, *American Paper* misconstrued California's trade secret statute and its legislative intent, and we decline to rely on the decision in this case. Finally, the court erred in not granting the requested injunctive relief under Business and Professions Code section 17200 et seq., a separate ground espoused by Courtesy.

A. *The trial court's order, partially refusing Courtesy's requested preliminary injunction, is directly appealable.*

([1]) All orders granting or refusing either a temporary restraining order or a preliminary injunction are directly appealable. (Code Civ. Proc., § 904.1, subd. (f).)

B. *The trial court erred in finding that Courtesy's customer list and related information stolen by Employees did not constitute protectable trade secrets under the authority of "American Paper" and the Uniform Trade Secrets Act.*

At the preliminary injunction hearing, the trial court sarcastically found that Camacho represented the "American way" by being a "small person who saved his money and went into business on his own in an attempt to make a life for himself and his wife by *stealing, lying and cheating."* (Italics added.) The court labelled this the "worst case" wherein employees have been shown to be "deceitful," specifically finding that Employees stole Courtesy's customers. Despite these findings, the lower court felt itself precluded by *American Paper & Packaging Products, Inc. v. Kirgan, supra,* 183 Cal.App.3d 1318, from enjoining Employees' misappropriation of Courtesy's customer list and related proprietary information. However, neither *American Paper* nor the Uniform Trade Secrets Act (UTSA), section 3426 et seq., compels this result. This case involves a clear factual scenario of a customer list and related information constituting protectable trade secrets.

1. *Courtesy's customer list and related information satisfy the definition of trade secret contained in the Uniform Trade Secrets Act.*

([2]) Effective January 1, 1985, California adopted the Uniform Trade Secrets Act (§§ 3426-3426.10) for misappropriation of trade secrets. It defines a trade secret as "information, including a formula, pattern, compilation, program, device, method, technique, or process, that: [¶] (1) Derives independent economic value, actual or potential, from not being generally ***1287** known to the public or to other persons who can obtain economic value from its disclosure or use; and [¶] (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." (§ 3426.1, subd. (d).)

Measured by this two-prong test, the facts in the instant case conclusively establish that Courtesy's customer list and related information are protectable trade secrets. The legislative intent and better reasoned cases, which the Uniform Trade Secrets Act is meant to codify, establish that a customer list procured by substantial time, effort, and expense is a protectable trade secret.

The UTSA's definition of a " 'trade secret' contains a reasonable departure from the Restatement of Torts (First) definition which required that a trade secret be 'continuously used in one's business.' *The broader definition* in the proposed Act ... includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor." (Italics added and original italics.) (See legis. committee com., 12 West's Ann. Civ. Code, § 3426.1 (1990 pocket supp.) p. 108.)

The compilation by Courtesy of its list of customers was the result of lengthy and expensive efforts, including advertising, promotional campaigns, canvassing, and client entertainment. The court below, however, ruled that such "work effort" of Courtesy in compiling its customer list was "not any secret" entitled to protection and, on such erroneous basis, denied the injunction as to Courtesy's customer list. Contrary to the court's ruling, it is this very "work effort," or process of acquiring and retaining clientele, that constitutes a protectable trade secret.

A list of customers or subscribers "built up by ingenuity, time, labor and expense of the owner over a period of many years is property of the employer," and " '[k]nowledge of such a list, acquired by an employee by reason of his employment, may not be used by the employee as his own property or to his employer's prejudice.' " (*Greenly v. Cooper* (1978) 77 Cal.App.3d 382, 392 [143 Cal.Rptr. 514].) Employees, by appropriating only those customers who, after Courtesy's efforts, chose to patronize Courtesy and saving themselves comparable efforts in screening those entities who declined Courtesy's patronage, have acquired commercially invaluable information.

This concept of "negative" research was emphasized in the case of *Hollingsworth Solderless Terminal Co. v. Turley* (9th Cir. 1980) 622 F.2d 1324. If a customer list is acquired by lengthy and expensive efforts which, from a ***1288** negative viewpoint, indicate those entities that have *not* subscribed to plaintiff's services, it deserves protection as a "trade secret" under the act. According to *Hollingsworth,* even if the customers' names could be found in telephone or trade directories, such public sources " 'would not disclose the persons who ultimately made up the list of plaintiff's customers.' " (*Id.* at p. 1333.) It is the list of persons who actually purchase Courtesy's services that constitute confidential information.

Here, the evidence established that Courtesy's customer list and related information was the product of a substantial amount of time, expense and effort on the part of Courtesy. Moreover, the nature and character of the subject customer information, i.e., billing rates, key contacts, specialized requirements and markup rates, is sophisticated information and irrefutably of commercial value and not readily ascertainable to other competitors. Thus, Courtesy's customer list and related proprietary information satisfy the first prong of the definition of "trade secret" under section 3426.1.

2. *Courtesy's efforts to maintain the confidentiality of its customer list satisfy UTSA's definition of trade secret.*

Courtesy's customer list also satisfies the second prong of the UTSA definition of "trade secret" in that it has been "the subject of efforts that are reasonable under the circumstances to maintain its secrecy." (§ 3426.1, subd. (d)(2).) "[R]easonable efforts to maintain secrecy have been held to include advising employees of the existence of a trade secret, limiting access to a trade secret on 'need to know basis,' and controlling plant access." (See legis. committee com., 12 West's Ann. Civ. Code (1990 pocket supp.) p. 108.)

The unrefuted evidence in this case is that information regarding Courtesy's customers is not divulged to any persons outside the business. It is Courtesy's policy to divulge such confidential and proprietary information to its branch office employees, such as Employees, only as is necessary for them to effectively carry out their specific duties. The sales, customer and employee information for one branch office is not generally revealed to any other branch employees. As to any information revealed to such employees, the employees are told of the confidential and proprietary nature of such information. Access to such customer information was divulged to Employees only on an "as needed basis" to perform their duties and was limited to the branch office wherein Employees exclusively worked. Furthermore, Employees were advised of its confidentiality. These efforts satisfy the secrecy requirement of section 3426.1, subdivision (d)(2), and thus the customer list constitutes a "trade secret." ***1289**

3. *The trial court erred in holding that American Paper precluded it from finding that Courtesy's customer list and related information are protectable trade secrets.*

([3]) In denying Courtesy's requested injunction of Employees' use of Courtesy's customer list and related information, the lower court reasoned that the case of *American Paper & Packaging Products, Inc. v. Kirgan, supra,* 183 Cal.App.3d 1318, mandated the conclusion that Courtesy's customer information was not a protectable trade secret. A careful reading and analysis of *American Paper* reveals that it is factually inapposite to the instant case. *American Paper* held that customer lists can be protectable trade secrets under the UTSA, but that information generally known in the trade and already used by good faith competitors "is not a protectable trade secret and injunction should not issue." (*Id.* at p. 1326.) The *American Paper* court concluded that the plaintiff, a packing concern, had not presented sufficient evidence providing that its customer list was a trade secret and that names of manufacturer customers who require shipping supplies, while they may not be generally known to the public, would be readily ascertainable to other persons in the shipping business. (*Ibid.*) The compilation process that plaintiff had used was found to be "neither sophisticated nor difficult nor particularly time consuming." (*Ibid.*)

In *American Paper,* defendants, shortly after leaving plaintiff's employ, began working as salespersons for a competitor of plaintiff. Although plaintiff had alleged that its customer information was obtained by defendants from its records and files which had been provided to them prior to their termination, defendants denied that they were given information on any actual or potential customers by plaintiff. They alleged that any such customer lists were developed as "fruit of their own labor" by visiting industrial-zoned communities in their sales area, locating and compiling lists of manufacturing companies, making cold calls on such companies, and consulting phone directories. (183 Cal.App.3d at p. 1321.)

Contrary to the disputed testimony that defendants were given confidential information in *American Paper,* the record herein overwhelmingly supports a finding that Employees, using Courtesy's customer lists, payroll records, and billing rates, intentionally solicited Courtesy's customers while still in Courtesy's employ. Employees terminated their employment with Courtesy on December 1, 1986, and were operating their own competing business on the same day. Within two weeks of operation without any visits to industrial-zoned communities, canvassing, or "cold calls," Employees had misappropriated 60 percent of Courtesy's customers.

Whereas plaintiff in *American Paper* had proffered no evidence as to the efforts it expended in compiling its customer list or in maintaining its ***1290** secrecy, Courtesy, in the instant case, has detailed the substantial efforts it expended in acquiring its customers, including years of promotional and advertising campaigns. Whereas defendants in *American Paper* denied having been given any confidential customer information, Employees admitted having used Courtesy's customer lists and financial information to deliberately solicit Courtesy's customers while employed by Courtesy.

In his declaration in opposition to Courtesy's motion for preliminary injunction, Camacho admitted that he "jumped the gun" in soliciting Courtesy's customers while still employed by Courtesy. Camacho admitted having a list of potential clients, which included Courtesy's clients, and that he prepared the list from Courtesy's personnel roster a couple of weeks prior to leaving Courtesy. He further testified that while employed by Courtesy, he had sent "proposal" packages to Courtesy's customers whose names he obtained from Courtesy's "payroll printout." Rather than merely announcing the opening of his own business, almost two weeks prior to the opening of his business, Camacho asked Courtesy's preferred customer, Plastron, about getting temporary employment business from them. Camacho admitted that he had submitted a proposal to Plastron. While still employed by Courtesy, Camacho submitted similar proposals to Courtesy's better customers, including Nutro Products, Lights of America, County Sanitation District, and Industry Deburring, among others.

Another "improper" method used by Employees to divert Courtesy's customers was to convert payroll records of various customers to Employees' own use. Camacho admitted to having requested and obtained from Courtesy's customers, after terminating his employment, weekly payroll reports of Courtesy's temporary employees for the week ending November 30, 1986, with the intent to "run a payroll" through his new agency, Transworld Temporaries, and to "pay [Courtesy's] employees for that work week through Transworld Temporaries."

Employees' solicitation has nourished their new enterprise. As of the end of December 1986, Transworld Temporaries had only invoiced one client that had not been a preferred customer of Courtesy. Such evidence supports the conclusion that Employees, unlike defendants in *American Paper,* did not acquire Courtesy's customers by "the fruit of their own labor" or through public sources, but rather they expended scant efforts of their own, and unfairly relied upon the efforts expended by Courtesy in compiling its customer list and related commercially valuable and not easily discovered information. The evidence further supports the conclusion that Employees, while still employed by Courtesy, used confidential customer information to not merely announce formation of their new business, but to actively solicit Courtesy's customers in a successful attempt to injure Courtesy by diverting ***1291** those customers to Employees' competing business. Such conduct, which was not shown in *American Paper,* is enjoinable as a patently unfair trade practice under the UTSA.

In summary, considering the admitted misappropriation of sophisticated, detailed customer information and active solicitation by Employees in the instant case, as contrasted with the independent efforts of the former employees and innocuous and readily ascertainable information at issue in *American Paper,* the trial court's refusal to grant injunctive relief was an abuse of discretion.

C. *The trial court erred in not enjoining Employees' unfair business practices under Business and Professions Code section 17200 et seq.*

([4]) Finally, the court below erred in relying exclusively on section 3426 et seq. and *American Paper*'s construction of that statute to deny Courtesy's claim under Business and Professions Code section 17200 et seq. The UTSA, specifically section 3426.7, subdivision (a), expressly provides that the Act "does not supersede any statute relating to misappropriation of a trade secret, or any statute otherwise regulating trade secrets." Thus, even if Courtesy's customer list would not qualify as a "trade secret" under section 3426.1, the unfair and deceptive practices of employees in stealing Courtesy's customers should have been enjoined under Business and Professions Code section 17200 et seq.

In its complaint, Courtesy stated a cause of action under Business and Professions Code section 17200 for unfair competition, requesting injunctive relief and alleging, among other things, that by Employees' solicitation, piracy and deceit of Courtesy's customers, Courtesy was irreparably injured in its identity, reputation and goodwill, causing the loss of valuable customers, employees, and profits and threatening the complete destruction of its business.

Business and Professions Code section 17200 provides: "As used in this chapter, unfair competition shall mean and include unlawful, unfair or fraudulent business practice and unfair, deceptive, untrue or misleading advertising and any act prohibited by Chapter 1 (commencing with Section 17500) of Part 3 of Division 7 of the Business and Professions Code." Business and Professions Code section 17203 provides for injunctive relief against "[a]ny person performing or proposing to perform an act of unfair competition within this state."

In *Klamath-Orleans Lumber, Inc. v. Miller* (1978) 87 Cal.App.3d 458 [151 Cal.Rptr. 118], the court upheld a permanent injunction restraining ***1292** two former employees from soliciting their former employer's customers. Plaintiff, a manufacturer of load binders, had compiled a confidential customer list that contained such information as the creditworthiness and purchasing habits of each customer, and the defendants, the plaintiff's shop and office managers, had left plaintiff's employ to organize their own competing business and had written up plaintiff's customer lists from memory. The defendants then mailed advertising brochures to plaintiff's customers.

The court held that the defendants' actions constituted a breach of trust and misappropriation of confidential information. There was "substantial evidence to support the trial court's determination that plaintiff's knowledge was confidential and deserving of protection, and that defendants' ability to solicit both more selectively and more effectively was due to their extensive use of plaintiff's customer list-a patent act of unfair competition." (87 Cal.App.3d at p. 466.) Indeed, the cases are legion holding that a former employee's use of confidential information obtained from his former employer to compete with him and to solicit the business of his former employer's customers, is regarded as unfair competition. (See, e.g., *Greenly v. Cooper, supra,* 77 Cal.App.3d 382, 391-392.)

V. Disposition

That portion of the order of the court denying Courtesy's petition for preliminary injunction against Employees from using Courtesy's confidential customer list and related information is reversed with directions to enter a new and different preliminary injunction in accordance with this opinion. In all other respects the judgment below is affirmed and the cross-appeal is dismissed. Costs on appeal are awarded to appellant Courtesy.

Lillie, P. J., and Johnson, J., concurred. ***1293**

Footnotes

1 Unless otherwise noted, all references are to the Civil Code.

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163 Cal.App.4th 575
Court of Appeal, Sixth District, California.

CYPRESS SEMICONDUCTOR CORPORATION, Petitioner,
v.
SUPERIOR COURT of Santa Clara County, Respondent,
Silvaco Data Systems, Real Party in Interest.

No. H032114.
|
May 30, 2008.

Synopsis
Background: Owner of trade secrets brought trade secret misappropriation action against buyer of its competitor's software. The Superior Court, Santa Clara County, No. CV019992, Marc B. Poché, J., granted owner's motion in limine to exclude evidence relating to statute of limitations. Buyer petitioned for writ of mandate.

Holdings: The Court of Appeal, Premo, Acting P.J., held that:

[1] statute of limitations began to run when owner had reason to suspect that buyer knew or should know that software contained trade secrets, and

[2] a plaintiff's failure to discover defendant's identity does not postpone accrual of cause of action.

Petition granted.

Attorneys and Law Firms

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Morrison & Foerster, James H. Pooley, Palo Alto, William L. Stern, San Francisco, Arturo J. González, Victoria Tidwell, Daniel E. Waldman Attorneys for Petitioner Cypress Semiconductor Corp.

Orrick, Herrington & Sutcliffe, Chris R. Ottenweller, Michael C. Spillner, Menlo Park, Robert S. Shwarts, San Francisco, Janet Craycroft, Tanya Hunter for Intel Corporation as Amicus Curiae on behalf of Petitioner.

PREMO, Acting P.J.

*579 I. INTRODUCTION

This case arises under California's Uniform Trade Secrets Act (Civ.Code, § 3426 et seq. (CUTSA)).[1] The question presented is this: If someone steals a trade secret and then sells it to a third party, when does the statute of limitations begin to run on any misappropriation claim the trade secret owner might have against the third party? The trial court concluded that the limitations period did not begin to run until the third party had actual notice of the trade secret owner's claim to the information. For reasons we shall explain, we disagree with the trial court. We conclude that with respect to the element of knowledge, the statute of limitations on a cause of action for misappropriation begins to run when the *plaintiff* has any reason to suspect that the third party knows or reasonably should know that the information is a trade secret. The third party's actual state of mind does not affect the running of the statute.

*580 II. FACTUAL AND PROCEDURAL BACKGROUND

The trade secret owner in this case is plaintiff Silvaco Data Systems (Silvaco). Silvaco develops and licenses electronic design automation (EDA) software. Customers for EDA software use it to design their own products. One of Silvaco's EDA products was software known as SmartSpice. Silvaco maintained the SmartSpice source code as a trade secret. The source code itself was not distributed with SmartSpice. Like other software programs, the source code, which humans can read, was ****688** compiled into a computer readable or executable form contained in the software. (See *Cadence Design Systems, Inc. v. Avant! Corp.* (2002) 29 Cal.4th 215, 218, fn. 3, 127 Cal.Rptr.2d 169, 57 P.3d 647 (*Cadence*).)

Beginning in late 1998, a former Silvaco employee working for Circuit Systems, Inc. (CSI), incorporated the SmartSpice trade secrets into CSI's product DynaSpice. Silvaco suspected the misappropriation in 2000 and sued both the employee and CSI at that time. Silvaco did not directly notify or take any action against CSI customers who had licensed DynaSpice for use in designing their own products. There is evidence that Silvaco's claim against CSI was reported in EDA trade publications and various sites on the Internet.

On August 18, 2003, Silvaco and CSI entered into a settlement agreement and stipulated judgment. The judgment included the express finding that Silvaco's trade secrets had been incorporated into DynaSpice. The judgment required CSI to cease licensing DynaSpice, to inform customers who had already purchased DynaSpice licenses that the software contained Silvaco trade secrets, and to urge its customers to terminate their use of DynaSpice. Defendant, Cypress Semiconductor Corp. (Cypress), one of the CSI customers, learned of the judgment in late August 2003.

After judgment was entered against CSI, Silvaco directly notified CSI customers that the DynaSpice program contained misappropriated trade secrets. Silvaco first contacted Cypress in September 2003 and demanded that Cypress cease its use of the trade secrets. Silvaco alleges that notwithstanding notice, Cypress continued to use DynaSpice and even went back to CSI to obtain new license keys. Silvaco sued Cypress in May 2004.

At the beginning of trial Silvaco asked the court to exclude evidence relating to Cypress's statute of limitations defense. Cypress had raised the defense on the ground that Silvaco should have commenced suit against the CSI customers when it first suspected that the customers had acquired its trade secrets. Silvaco's opposition turned upon the undisputed fact that Cypress had not known of CSI's misappropriation until August 2003 and the fact that Silvaco was seeking damages only for injuries arising after that ***581** point. Silvaco pointed out that the statute of limitations does not begin to run until all the elements of the cause of action are present and that one of the elements of misappropriation is the defendant's knowledge of the wrongfulness of its conduct. (§ 3426.1.) Since Cypress could not have been charged with knowledge of wrongfulness until August 2003, the statute could not have begun to run until then. The trial court agreed with Silvaco, concluding, as a matter of law, that the cause of action for misappropriation against Cypress "could not have 'accrued' " until August 2003 and that Silvaco had filed suit against Cypress well within the three-year period of limitations. (§ 3426.6.)

Cypress challenged the trial court's order by petition for writ of mandate. Concluding that the question warranted writ review, we granted Cypress's request for stay and issued an order to show cause.

III. ISSUE AND STANDARD OF REVIEW

Simply put, the issue is, when does the statute of limitations begin to run on a cause of action for misappropriation under the CUTSA where the defendant is a third party who was uninvolved in the original misappropriation? The question is one of law to which we apply our independent review. ****689** (*California Teachers Assn. v. San Diego Community College Dist.* (1981) 28 Cal.3d 692, 699, 170 Cal.Rptr. 817, 621 P.2d 856; *Ghirardo v. Antonioli* (1994) 8 Cal.4th 791, 801, 35 Cal.Rptr.2d 418, 883 P.2d 960.)

[1] To the extent our resolution of the question requires us to construe the CUTSA statute of limitations, we apply settled rules. Our fundamental task is to ascertain the intent of the lawmakers. (*In re Harris* (1993) 5 Cal.4th 813, 844, 21 Cal.Rptr.2d 373, 855 P.2d 391.) If there is no ambiguity in the language of the statute, then the plain meaning of the language governs. (*Day v. City of Fontana* (2001) 25 Cal.4th 268, 272, 105 Cal.Rptr.2d 457, 19 P.3d 1196.) If the statutory language permits more than one reasonable interpretation, we may consider various extrinsic aids, including examination of the evils to be remedied and the legislative scheme encompassing the statute in question. (*Ibid.; People v. Garrett* (2001) 92 Cal.App.4th 1417, 1422, 112 Cal.Rptr.2d 643.) We select the interpretation that comports most closely with the apparent intent of the Legislature, with a view toward promoting, rather than defeating, the general purpose of the statute and avoiding an interpretation that would lead to absurd consequences. (*People v. Walker* (2002) 29

Cal.4th 577, 581, 128 Cal.Rptr.2d 75, 59 P.3d 150; *People v. Connor* (2004) 115 Cal.App.4th 669, 678, 9 Cal.Rptr.3d 521.)

*582 IV. DISCUSSION

A. The Single–Claim Rule Does Not Apply

[2] The CUTSA statute of limitations is contained in section 3426.6, which provides: "An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For purposes of this section, a continuing misappropriation constitutes a single claim." Relying upon the second sentence of this section, Cypress and amicus curiae argue that the statute begins to run on all third-party actions when the plaintiff learns of the original misappropriation. In this case that would mean that the limitations period began when Silvaco discovered CSI's misappropriation in or about November 2000. Under this theory, CSI's misappropriation set up one continuing wrong that began the running of the statute against all of Silvaco's misappropriation claims. If this interpretation of section 3426.6 is correct, then Cypress, not Silvaco, would be entitled to judgment as a matter of law since it is undisputed that Silvaco filed its suit against Cypress well over three years after it sued CSI. Although there is some authority for this position, we are not persuaded.

[3] The single-claim argument has its roots in the common law approach to protecting trade secrets. Historically, liability for improper use of trade secrets was based in some jurisdictions, California among them, upon the view that the interest protected by trade secret law is the contractual or confidential relationship within which the trade secrets were disclosed. Breach of that confidence was a single wrong. As one court explained, "The fabric of the relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated. The cause of action arises but once...." (*Monolith Portland Midwest Co. v. Kaiser Aluminum & C. Corp.* (9th Cir.1969) 407 F.2d 288, 293.) Other jurisdictions viewed the interest to be protected as property. Under the property view, each unauthorized use of the property gave rise to a new cause of action with its own statute of limitations. (*Underwater Storage, Inc. v. United States Rubber Co.* (D.C.Cir.1966) 371 F.2d 950.) Thus, under the property view, whether there was one defendant or **690 many, every unauthorized use was a separate claim. The CUTSA adopted the single-claim approach when it specified in section 3426.6 that "a continuing misappropriation constitutes a single claim." The effect of this provision is that the first discovered (or discoverable) misappropriation of a trade secret commences the limitations period. (*Glue–Fold, Inc. v. Slautterback Corp.* (2000) 82 Cal.App.4th 1018, 1026, 98 Cal.Rptr.2d 661 (*Glue–Fold*).) Cypress maintains, therefore, that under section 3426.6 plaintiff's discovery of CSI's original misappropriation triggered the running of the statute.

***583** This approach to the problem has an appealing simplicity but it ignores the added complexity of the case, which is that Cypress is not the original misappropriator, never had any direct relationship with Silvaco, and allegedly committed a different type of misappropriation. Cypress cites *Forcier v. Microsoft Corp.* (N.D.Cal.2000) 123 F.Supp.2d 520 (*Forcier*), in support of the argument that there is but one limitations period even when there are multiple defendants. In our view, this construction of the law could lead to unjust results.

In *Forcier,* the plaintiff had become convinced in 1993 that Greg Stikeleather had misappropriated his trade secrets. The plaintiff did not take action immediately because he thought that Stikeleather's company, Aha!, had gone out of business. Later the plaintiff learned that Aha! had begun marketing a product containing his trade secrets. In 1996, Aha! sold the technology containing the trade secrets to Microsoft. The plaintiff sued Aha! and Microsoft in 1999. (*Forcier, supra,* 123 F.Supp.2d at pp. 523–524.) The district court granted the defendants' motions for summary judgment on the ground that the claims were barred by the CUTSA statute of limitations. (*Id.* at p. 525.) The court noted that the law imposed upon plaintiffs the responsibility " 'to take prompt and assertive corrective action with respect to all of [their] interests whenever [they] detect a fracture in a once confidential relationship.' " (*Ibid.*) *Forcier* concluded from this that the statute began to run in 1993 as to both Aha! and Microsoft. (*Id.* at p. 527.) *Forcier* granted

Microsoft's motion on the alternative ground that, by the time Microsoft obtained the information, it was no longer secret. (*Ibid.*)

To the extent *Forcier* holds that the statute of limitations on the third party's misappropriation begins with the initial misappropriation, we reject it. Microsoft, the third party, did not acquire the trade secrets until nearly three years after the plaintiff discovered the original misappropriation. Under *Forcier's* reasoning, the plaintiff could have lost its cause of action against Microsoft before Microsoft ever came in contact with the trade secrets. If we were to apply this approach in every three-party situation, the CUTSA would be subject to serious abuse. Malevolent third parties would merely have to lie low and wait out the clock. The plaintiffs, through no fault of their own, would forever lose their trade secrets with recourse only against the original misappropriator. (*USM Corp. v. Tremco Inc.* (N.D.Ohio 1988) 710 F.Supp. 1140, 1142–1143, fn. 2.)

[4] **[5]** In our view, a plaintiff may have more than one *claim* for misappropriation, each with its own statute of limitations, when more than one defendant is involved. This is different from saying that each *misappropriation* gives rise to a separate claim, which is what section 3426.6 precludes. Our Supreme Court distinguished between a claim for misappropriation and ***584** the individual act or acts of misappropriation when it held that "a *claim* for misappropriation of a trade secret arises for a given plaintiff against a given defendant only once, at the time of the initial ****691** misappropriation, subject to the discovery rule provided in section 3426.6. Each new misuse or wrongful disclosure is viewed as augmenting a single claim of continuing misappropriation rather than as giving rise to a separate claim." (*Cadence, supra,* 29 Cal.4th 215, 223, 127 Cal.Rptr.2d 169, 57 P.3d 647.) As this articulation of the law plainly implies, a single plaintiff could have separate claims against separate defendants. Indeed, the Supreme Court noted that one situation where a continuing misappropriation could give rise to multiple claims is where more than one defendant is involved. (*Id.* at p. 224, 127 Cal.Rptr.2d 169, 57 P.3d 647.)

Our conclusion is confirmed by reference to the CUTSA, which, although it adopted the single-claim approach for purposes of the statute of limitations, did not wholly reject the property view of trade secret law. The CUTSA defines misappropriation of trade secrets to include the acquisition, disclosure, or use of trade secrets by a person who knows or has reason to know that the secret had been acquired by improper means or even by accident or mistake. (§ 3426.1, subd. (b)(1), (b)(2)(B),(C).) [2] By its plain terms, therefore, the CUTSA incorporates a property approach in that it makes third parties liable even if they had no prior relationship to the owner of the trade secrets. (Cf. *Cadence, supra,* 29 Cal.4th at p. 225, 127 Cal.Rptr.2d 169, 57 P.3d 647.) If we were to apply the interpretation of section 3426.6 that Cypress urges, these third parties would never be liable if the plaintiff's claims against them were not discoverable within three years of the first misappropriator's breach of confidence. It makes much more sense to construe section 3426.6 as meaning that a cause of action for misappropriation against a third-party defendant accrues with the plaintiff's discovery of that defendant's misappropriation. Any continuing misappropriation by that defendant constitutes a single claim.

[6] ***585** In this case, Cypress's acquisition and use of the trade secrets was a consequence of CSI's misappropriation and, to that extent, it was a continuation of the injury caused by CSI's initial misappropriation. But Silvaco does not allege that Cypress was involved in CSI's misappropriation and Silvaco seeks damages arising only from Cypress's use of the software after it learned of the original misappropriation. Under these circumstances, if Silvaco has a claim for misappropriation against Cypress, it is a separate claim with its own limitations period. Any other interpretation of the law would lead to the absurd consequence of allowing a third-party defendant like Cypress to engage in its own misappropriation without risk of suit so long as it waited for the three years to run on the original misdeed.

****692** *B. The Statute is Triggered when the Plaintiff Knows or Has Reason to Know the Third Party Has Knowingly Acquired, Used, or Disclosed Its Trade Secrets*

Silvaco maintains, as it did in the trial court, that the limitations period commenced when Cypress learned that it possessed Silvaco's trade secrets. Cypress argues that the period began to run when Silvaco reasonably should have suspected that CSI customers had acquired its trade secrets. Cypress is partially correct.

[7] [8] [9] The general rule is that a statute of limitations begins to run when the cause of action accrues. (Code Civ. Proc., § 312.) A cause of action accrues " 'when, under the substantive law, the wrongful act is done,' or the wrongful result occurs, and the consequent 'liability arises.' " (*Norgart v. Upjohn Co.* (1999) 21 Cal.4th 383, 397, 87 Cal.Rptr.2d 453, 981 P.2d 79 (*Norgart*).) In the present case, the wrongful act is the misappropriation of trade secrets. Misappropriation of trade secrets is an intentional tort. (§ 3426.1.) A person is liable for misappropriation of trade secret information only if the person knows or has reason to know that he or she is not in rightful possession of the information. (*Ajaxo Inc. v. E*Trade Group Inc.* (2005) 135 Cal.App.4th 21, 66, 37 Cal.Rptr.3d 221.) Silvaco reasons from this that its cause of action against Cypress did not accrue, and the statute did not begin to run, until Cypress had notice of the tainted nature of the information contained in the DynaSpice software it was using. Under the agreed facts this was in August 2003.

[10] Although Silvaco's analysis seems logical enough, the premise is flawed. It is not the law that accrual of a cause of action depends upon the existence, as a matter of fact, of a winning claim. Accrual does not wait "until a plaintiff is in a position to present evidence which will (regardless of what evidence the defense musters) establish facts which make liability a legal certainty." ***586** (*Intermedics v. Ventritex, Inc.* (N.D.Cal.1993) 822 F.Supp. 634, 641.) Courts have rejected the notion that the "statute of limitations begins running only when a plaintiff can unassailably establish a legal claim for trade secret misappropriation, [as that] would effectively eviscerate the statute of limitations in all cases in which the plaintiff never discovers 'smoking gun' evidence of misappropriation." (*Chasteen v. UNISIA JECS Corp.* (10th Cir.2000) 216 F.3d 1212, 1218.)

[11] [12] Our Supreme Court discussed the interplay between accrual and the discovery rule, which delays accrual until the plaintiff discovers or has reason to discover the cause of action, in *Fox v. Ethicon Endo–Surgery, Inc.* (2005) 35 Cal.4th 797, 807, 27 Cal.Rptr.3d 661, 110 P.3d 914. As *Fox* explained: "A plaintiff has reason to discover a cause of action when he or she 'has reason at least to suspect a factual basis for its elements.' [Citations.] Under the discovery rule, suspicion of one or more of the elements of a cause of action, coupled with knowledge of any remaining elements, will generally trigger the statute of limitations period. [Citations.] *Norgart* explained that by discussing the discovery rule in terms of a plaintiff's suspicion of 'elements' of a cause of action, it was referring to the 'generic' elements of wrongdoing, causation, and harm. (*Norgart, supra,* 21 Cal.4th at p. 397, 87 Cal.Rptr.2d 453, 981 P.2d 79.) In so using the term 'elements,' we do not take a hypertechnical approach to the application of the discovery rule. Rather than examining whether the plaintiffs suspect facts supporting each specific legal element of a particular cause of action, we look to whether the plaintiffs have reason to at least suspect that a type of wrongdoing has injured them."

****693** Cypress insists that Silvaco's analysis, which the trial court adopted, improperly adds a "mutual discovery" requirement to section 3426.6. According to Cypress, only the plaintiff's discovery is pertinent to the statute of limitations analysis. It is true that the "discovery" to which section 3426.6 refers is the *plaintiff's* discovery. Indeed, the comments to the Uniform Trade Secrets Act (Uniform Act) note that the act "delays the commencement of the limitation period until an *aggrieved person discovers* or reasonably should have discovered the existence of misappropriation." (14 West's U. Laws Ann. (2005) U. Trade Secrets Act, com. foll. § 6 p. 650, italics added.) [3] But the defendant's state of mind is not irrelevant. Since a cause of action for misappropriation incorporates an element of knowledge on the part of the defendant, the trial court was correct in deciding that Cypress's knowledge was one of the elements necessary to the cause of action. Where the trial ***587** court went astray was in its focus upon Cypress's actual innocent mental state prior to August 2003. That focus was, in effect, an assessment of the merits of Silvaco's claim against Cypress, not a determination of when Silvaco should have suspected that it had been injured by a type of wrongdoing.

[13] The proper focus, for purposes of the running of the statute of limitations, is not upon the defendant's actual state of mind but upon the plaintiff's suspicions.

Indeed, a defendant's bad faith is often something a plaintiff cannot prove directly. In many cases a plaintiff must allege the defendant's tortious state of mind on information and belief. Certainly that plaintiff should not be expected to wait until he or she has direct proof of the defendant's mental state before filing the lawsuit. The plaintiff's subsequent inability to prove the requisite mental state means that the plaintiff cannot prevail on the merits of the claim but it does not retroactively affect the running of the statute of limitations.

[14] **[15]** Furthermore, as Cypress also maintains, it is not necessary that the plaintiff be able to identify the person or persons causing the harm. Since the identity of the defendant is not an element of a cause of action, the failure to discover the identity of the defendant does not postpone accrual of the cause of action. (*Norgart, supra,* 21 Cal.4th at p. 399, 87 Cal.Rptr.2d 453, 981 P.2d 79.) " 'Although never fully articulated, the rationale for distinguishing between ignorance' of the defendant and 'ignorance' of the cause of action itself 'appears to be premised on the commonsense assumption that once the plaintiff is aware of' the latter, he 'normally' has 'sufficient opportunity,' within the 'applicable limitations period,' 'to discover the identity' of the former." (*Ibid.,* quoting *Bernson v. Browning–Ferris Industries* (1994) 7 Cal.4th 926, 932, 30 Cal.Rptr.2d 440, 873 P.2d 613.) In this case, therefore, the statute began to run when Silvaco had any reason to suspect that the CSI customers knew or should have known that they had acquired Silvaco's trade secrets.

[16] Cypress maintains that, unless the statute was triggered simply by Silvaco's knowledge that the customers had the secrets, Silvaco would unilaterally control accrual of its cause of action against the CSI ****694** customers. According to Cypress, if Silvaco knew that the CSI customers had its trade secrets, then Silvaco had a duty to put them on notice of its claim within the period of limitations. Although the CUTSA is designed to encourage such notice, we do not find any such duty within section 3426.6.

[17] Section 3426.6 states that "An action for misappropriation must be brought within three years after *the misappropriation.*" (Italics added.) As we have explained above, the misappropriation that triggers the running of the statute is that which the plaintiff suspects, not that which may or may not actually exist. Cypress's argument presumes a hypothetical situation where ***588** the plaintiff knows that a third party has its secrets and also knows that the third party has no reason to know of the plaintiff's claim to the information. In that situation, not only has there been no actual misappropriation, the plaintiff would have no reason to suspect one. The plain language of section 3426.6 imposes no duty upon the plaintiff in such a situation to notify the third party of its claim. To construe the statute as Cypress insists would require us to rewrite it. We have no power to rewrite statutes. "To rewrite the statute is a legislative, rather than judicial, prerogative." (*Hofer v. Young* (1995) 38 Cal.App.4th 52, 57, 45 Cal.Rptr.2d 27.)

[18] **[19]** That is not to say that the CUTSA provides no incentive for a trade secret owner to put good faith third parties on notice. If the trade secret owner actually knows that the third party is unaware of its claim, the substantive provisions of the CUTSA are designed to encourage prompt notice. A trade secret loses its protected status if the owner does not undertake reasonable efforts to keep it secret. (§ 3426.1, subd. (d).)[4] And good faith acquirers who do not receive notice before materially relying upon the trade secrets may not be liable for misappropriation at all. (*Id.,* subd. (b)(2)(C).) Thus, the failure of the trade secret owner to take prompt action to protect its trade secrets or to alert good-faith acquirers to the existence of its trade secret claims can serve as a defense in the event the trade secret owner eventually decides to pursue a misappropriation claim against the third party. These defenses, however, are separate from the statute of limitations defense.

V. CONCLUSION

We conclude that the trial court erred in ruling, under the stipulated facts, that the statute of limitations did not begin to run until August 2003, when Cypress actually learned that the DynaSpice program contained Silvaco's trade secrets. Rather, the question is: When did Silvaco first have any reason to suspect that a CSI customer had obtained or used DynaSpice knowing, *or with reason to know,* that the software contained Silvaco's trade secrets? Based upon the record before us, this is not a question that can be answered as a matter of law. Accordingly, Cypress is entitled to a jury determination of its statute of limitations defense.

VI. DISPOSITION

Let a peremptory writ of mandate issue directing respondent court to vacate its order granting plaintiff's motion in limine to exclude evidence ***589** pertaining to defendant's statute of limitations defense and to enter a new order denying the motion. The temporary stay order issued on October ****695** 10, 2007, shall remain in effect until this opinion is final. Costs in this original proceeding are awarded to petitioner.

WE CONCUR: ELIA and DUFFY, JJ.

All Citations

163 Cal.App.4th 575, 77 Cal.Rptr.3d 685, 08 Cal. Daily Op. Serv. 6671, 2008 Daily Journal D.A.R. 7940

Footnotes

1 Further unspecified statutory references are to the Civil Code.

2 Section 3426.1, subdivision (b) reads in full:

" 'Misappropriation' means:

"(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

"(2) Disclosure or use of a trade secret of another without express or implied consent by a person who:

"(A) Used improper means to acquire knowledge of the trade secret; or

"(B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:

"(i) Derived from or through a person who had utilized improper means to acquire it;

"(ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

"(iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

"(C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake."

3 The CUTSA is derived from the Uniform Act, which was approved by the National Conference of Commissioners on Uniform State Laws in 1979 and adopted by California without significant change in 1984. (14 West's U. Laws Ann., *supra,* U. Trade Secrets Act, com. to p. 530 (Stats.1984, ch. 1724, § 1, pp. 6252–6253).) Since the pertinent sections of the CUTSA were derived almost verbatim from the Uniform Act, it is appropriate to accord substantial weight to the Commissioners' comment on the construction of those sections. (*Glue–Fold, supra,* 82 Cal.App.4th at pp. 1023–1024, 98 Cal.Rptr.2d 661.)

4 Silvaco seemed to believe that, since the trade secrets were distributed to the CSI customers only in executable form, Silvaco did not need to act immediately to protect their secrecy. Whether Silvaco should have acted more promptly in order to protect its claim from defenses other than the statute of limitations is not an issue before us in this case.

116 Cal.App.4th 241
Court of Appeal, Sixth District, California.

DVD COPY CONTROL ASSOCIATION
INC., Plaintiff and Respondent,
v.
Andrew BUNNER, Defendant and Appellant.

No. H021153.
|
Feb. 27, 2004.
|
Review Denied Aug. 18, 2004. *

Synopsis

Background: Trade association of motion picture, computer, and consumer electronics industries which licensed encryption and decryption technology to manufacturers of hardware and software for playing digital versatile disks (DVDs) sought injunction against internet Web site operators to prevent future disclosure or use of alleged trade secret contained in code of computer program which cracked technology used to encrypt DVD so as to allow a user to play an encrypted DVD on DVD player or drive that did not contain association's decryption technology. The Superior Court, Santa Clara County, No. CV786804, William J. Elfving, J., issued a preliminary injunction against internet Web site operators. Web site operator appealed, and the Court of Appeal, 113 Cal.Rptr.2d 338, reversed. The Supreme Court granted review, superseding the opinion of the Court of Appeal. The Supreme Court, 31 Cal.4th 864, 4 Cal.Rptr.3d 69, 75 P.3d 1, reversed the Court of Appeal and remanded.

Holdings: On remand, the Court of Appeal, Premo, Acting P.J., held that:

[1] association was required to show irreparable harm before obtaining injunction;

[2] association did not show likelihood of prevailing on merits; and

[3] association failed to show irreparable harm if injunction were not issued.

Order granting preliminary injunction reversed.

Attorneys and Law Firms

****187** ***244** Richard R. Wiebe, San Francisco; Hopkins & Carley, Arthur V. Plank, Allonn E. Levy, San Jose; First Amendment Project, James R. Wheaton, David A. Greene; Tomlinson Zisko Morosoli & Maser, Thomas E. Moore, III, Palo Alto; Electronic Frontier Foundation, San Francisco, Cindy A. Cohn, for Defendant–Appellant.

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Opinion

PREMO, Acting P.J.

Plaintiff DVD Copy Control Association, Inc. (DVD CCA) sued defendant Andrew Bunner (Bunner) and others under California's Uniform Trade Secrets Act (UTSA) (Civ.Code, § 3426 et seq.), [1] seeking an injunction to prevent defendants from using or publishing "DeCSS," a computer program allegedly containing DVD CCA's trade secrets.

The trial court granted DVD CCA's request for a preliminary injunction and entered an order prohibiting defendants from posting, disclosing, or ***245** distributing DeCSS or related proprietary material. Bunner appealed. His primary argument on appeal was that the injunction infringed his free speech rights under the state and federal constitutions. This court concluded that the injunction was an unconstitutional prior restraint and reversed.

The California Supreme Court granted review and held that the preliminary injunction did not violate the free speech clauses of the United States and California Constitutions "*assuming* the trial court properly issued the injunction under California's trade secret law." (*DVD*

Copy Control Assn., Inc. v. Bunner (2003) 31 Cal.4th 864, 889, 4 Cal.Rptr.3d 69, 75 P.3d 1 (*DVD*).) The Supreme Court remanded the matter to this court to determine whether the evidence in the record supports the factual findings necessary to establish that the preliminary injunction was warranted under the UTSA. (*Id.* at p. 890, 4 Cal.Rptr.3d 69, 75 P.3d 1.) We now conclude that it was not. [2]

**188 I. FACTUAL AND PROCEDURAL BACKGROUND

A. Introduction

Digital versatile disks (DVD's) are five-inch disks used to store large amounts of data in digital form. A single DVD may contain a full-length motion picture. Unlike motion pictures on videocassettes, motion pictures contained on DVD's may be copied without perceptible loss of video or audio quality. This aspect of the DVD format makes it particularly susceptible to piracy. For this reason, motion pictures stored on DVDs have been protected from unauthorized use by a content scrambling system referred to as CSS. Simply put, CSS scrambles the data on the disk and then unscrambles it when the disk is played on a compliant DVD player or computer. CSS does not allow the content on the DVD to be copied. (*DVD, supra,* 31 Cal.4th at p. 871, 4 Cal.Rptr.3d 69, 75 P.3d 1.) [3]

For obvious reasons, the motion picture industry desired to keep the CSS technology a secret. But to make DVD players and computer DVD drives that can unscramble and play a CSS-protected DVD, the manufacturers had to have the CSS "master keys" and an understanding of how the technology works. In an attempt to keep CSS from becoming generally known, the ***246** industries agreed upon a restrictive licensing scheme and formed DVD CCA to be the sole licensing entity for CSS. Under the CSS licensing scheme, each licensee receives a different master key to incorporate into its equipment and sufficient technical know how to permit the manufacture of a DVD-compliant device. All licensees must agree to maintain the confidentiality of CSS.

In spite of these efforts to maintain the secrecy of CSS, DeCSS appeared on the Internet sometime in October 1999 and rapidly spread to other Web sites, including those of the defendants. According to DVD CCA, DeCSS incorporates trade secret information that was obtained by reverse engineering [4] CSS in breach of a license agreement. DVD CCA alleges that DeCSS allows users to illegally pirate the copyrighted motion pictures contained on DVDs, "activity which is fatal to the DVD video format and the hundreds of computer and consumer electronics companies whose businesses rely on the viability of this digital format."

DVD CCA filed the instant complaint for injunctive relief on December 27, 1999, alleging that Bunner and the other defendants had misappropriated trade secrets by posting DeCSS or links to DeCSS on their Web sites, knowing that DeCSS had been created by improper means. The requested injunctive relief sought to prevent defendants from using DeCSS, from disclosing DeCSS or other proprietary CSS technology on their Web sites or elsewhere, and from linking their Web sites to other Web sites that disclosed DeCSS or other CSS technology.

After first denying DVD CCA's request for a temporary restraining order, the trial court issued a preliminary injunction on January 21, 2000, enjoining defendants ****189** from "[p]osting or otherwise disclosing or distributing, on their websites or elsewhere, the DeCSS program, the master keys or algorithms of [CSS], or any other information derived from this proprietary information." The injunction does not prohibit linking to other Web sites and it does not expressly prohibit defendants from "using" DeCSS.

B. The Factual Record

The evidence before the trial court was submitted in the form of written declarations. John Hoy, president of DVD CCA explained that DeCSS first appeared on the Internet on October 6, 1999. That first posting was in ***247** machine-readable form referred to as object code. [5] The DeCSS source code was posted about three weeks later, on or around October 25, 1999. Hoy declared that both postings contain CSS technology and the master key that had been assigned to DVD CCA's licensee, Xing Technology Corporation (Xing), a manufacturer of computer DVD drives. The intended inference is that DeCSS was created, at least in part, by reverse engineering the Xing software. Since Xing licensed its software pursuant to an agreement that prohibits reverse engineering, Hoy concludes that the CSS technology contained in DeCSS was "obtained in violation of the specific provision in the Xing end-user license 'click wrap' agreement which prohibits reverse engineering." Hoy stated on information and belief that Jon Johansen, a resident of Norway, was the author of the program.

Well before DeCSS was released on the Internet, a number of people had become interested in unraveling the CSS security system. Users of the Linux computer operating system [6] had organized a forum dedicated to finding a way to override CSS. Apparently DVD CCA had not licensed CSS to anyone making DVD drives for the Linux system, so that computers using Linux were incapable of playing DVD's. CSS was widely analyzed and discussed in the academic cryptography community. Another exchange of information took place on www.slashdot.org (Slashdot), a news Web site popular with computer programmers. As early as July 1999 comments on Slashdot revealed a worldwide interest in cracking CSS. The gist of these communications is contained in the following excerpts of a discussion that took place on July 15, 1999:

"Yes, it is true, we have now all needed parts for software decoding of DVDs, but any software doing so will be illegal and/or non-free. [¶] ... The information about CSS was obtained by reverse engineering some DVD software decoder."

"This code was released before anyone checked into the legal end of things.... Best idea now is to download the code. Get it spread around as widely as possible. It may not be able to be used legally when all is said and done, but at least it will be out there for others to work with."

"Well, it might not be the most ethical thing on earth, but if the appropriate algorithms were to be found just lying on the web, once the coders have seen them, they don't have a 'forget' button for their brains...."

****190 *248** Bunner first became aware of DeCSS on or about October 26, 1999 as a result of reading and participating in discussions on Slashdot. Bunner explained that he is a part-time user of Linux and supports its acceptance as a viable alternative to established computer operating systems such as Microsoft Windows. Bunner thought DeCSS would be useful to other Linux users. He claimed that at the time he posted the information on his Web site he had no information to suggest that the program contained any trade secrets or that it involved the misappropriation of trade secrets. There is no evidence as to the date Bunner first posted the program on his Web site.

Counsel representing the motion picture industry had become aware of the DeCSS posting on October 25, 1999. Beginning November 4, 1999, counsel sent letters to Web site operators and Internet service providers hosting Web pages that contained DeCSS or links to DeCSS and demanded the information be taken down. Sixty-six such letters were sent between November 4 and November 23, 1999. None of the letters listed in counsel's declaration were addressed to Bunner or to his Web site address. About 25 of the 66 sites were taken down. DeCSS was also removed from Johansen's Web site on or around November 8, 1999, but a link to DeCSS reappeared on the same site on or around December 11, 1999.

Meanwhile, the news that the CSS encryption system had been penetrated made headlines in Internet news magazines. Wired News ran several articles in the first days of November 1999 announcing the development of DeCSS. An article on November 4, 1999 said: "It shouldn't be surprising that an awful lot of people are upset at this week's Wired News reports about a utility to remove DVD security. But it's out there and people are using it." An article on eMedia around the same time explained that DeCSS was "available for free download from several sites on the World Wide Web."

DVD CCA filed suit on December 27, 1999, naming as defendants the operators of every infringing Web site it could identify. A hearing for a temporary restraining order was to be held the following day. In support of that application, DVD CCA informed the court that since October 25, 1999, DeCSS had been displayed on or linked to at least 118 Web pages in 11 states and 11 countries throughout the world and that approximately 93 Web pages continued to publish infringing information.

The lawsuit outraged many people in the computer programming community. A campaign of civil disobedience arose by which its proponents tried to spread the DeCSS code as widely as possible before trial. Some of the defendants simply refused to take their postings down. Some people appeared at the courthouse on December 28, 1999 to pass out diskettes and written fliers that supposedly contained the DeCSS code. They made and distributed ***249** T-shirts with parts of the code printed on the back. There were even contests encouraging people to submit ideas about how to disseminate the information as widely as possible.

C. The Trial Court's Findings

The trial court issued the preliminary injunction based upon the following findings: First, CSS is DVD CCA's trade secret and for nearly three years prior to the posting of DeCSS on defendants' Web sites, DVD CCA had exerted reasonable efforts to maintain the secrecy of CSS. The court stated that trade secret status should not be deemed destroyed merely because the information was posted on the Internet, because, "[t]o hold otherwise ****191** would do nothing less than encourage misappropriaters [*sic*] of trade secrets to post the fruits of their wrongdoing on the Internet as quickly as possible and as widely as possible thereby destroying a trade secret forever."

Second, the trial court found that the evidence was "fairly clear" that the trade secret had been obtained through a reverse engineering procedure that violated the terms of a license agreement and, based upon some defendants' boasting about their disrespect for the law, it could be inferred that all defendants knew that the trade secret had been obtained through improper means.

Third, the balancing of equities favored DVD CCA. The court determined that while the harm to defendants in being compelled to remove trade secret information from their Web sites was "truly minimal," the current and prospective harm to DVD CCA was irreparable in that DVD CCA would lose the right to protect CSS as a trade secret and to control unauthorized copying of DVD content. The court pointed out: "once this information gets into the hands of an innocent party, the Plaintiff loses their [*sic*] ability to enjoin the use of their [*sic*] trade secret. If the court does not immediately enjoin the posting of this proprietary information, the Plaintiff's right to protect this information as secret will surely be lost, given the current power of the Internet to disseminate information and the Defendants' stated determination to do so." The trial court did not expressly consider the harm to defendants' First Amendment rights.

II. DISCUSSION

A. Standard of Review

[1] **[2]** **[3]** A preliminary injunction is appropriate to maintain the status quo pending trial of the merits. (*Paradise Hills Associates v. Procel* (1991) 235 Cal.App.3d 1528, 1537, 1 Cal.Rptr.2d 514.) The UTSA expressly ***250** provides for an injunction preventing the disclosure of a trade secret. (§ 3426.2.) "Injunctions in the area of trade secrets are governed by the principles applicable to injunctions in general. (*Hilb, Rogal & Hamilton Ins. Services v. Robb* (1995) 33 Cal.App.4th 1812, 1820, fn. 4 [39 Cal.Rptr.2d 887].) 'In deciding whether to issue a preliminary injunction, a trial court weighs two interrelated factors: the likelihood the moving party ultimately will prevail on the merits, and the relative interim harm to the parties from the issuance or nonissuance of the injunction.' (*Hunt v. Superior Court* (1999) 21 Cal.4th 984, 999 [90 Cal.Rptr.2d 236, 987 P.2d 705].)" (*Whyte v. Schlage Lock Co.* (2002) 101 Cal.App.4th 1443, 1449–1450, 125 Cal.Rptr.2d 277.)

[4] **[5]** Citing *California Assn. of Dispensing Opticians v. Pearle Vision Center, Inc.* (1983) 143 Cal.App.3d 419, 433–434, 191 Cal.Rptr. 762 (*Pearle Vision*), DVD CCA argues that where, as here, injunctive relief is authorized by statute, the moving party need not show irreparable injury. *Pearle Vision* affirmed an injunction sought by the State Board of Optometry, among others, stating " 'where an injunction is authorized by statute, a violation thereof is good and sufficient cause for its issuance.' " (*Id.*

at p. 433, 191 Cal.Rptr. 762.) However, the same district Court of Appeal has since declared "this assertion is, as a blanket statement of law, incorrect." (*Leach v. City of San Marcos* (1989) 213 Cal.App.3d 648, 661, 261 Cal.Rptr. 805.) "When the plaintiff is not a governmental entity and the statute does not expressly provide otherwise, a finding of interim harm is necessary." (*Id.* at pp. 661–662, 261 Cal.Rptr. 805.) Thus, even if *Pearle Vision* were a correct statement of the law, it would not apply here. The ****192** UTSA does not authorize an injunction in the absence of a showing of harm and DVD CCA is not a public entity. DVD CCA must have demonstrated both that it had a likelihood of success on the merits and that the balance of harms weighed in favor of granting the injunction.

[6] **[7]** The conclusions of the trial court on these points are typically subject to a deferential standard of review. (*Whyte v. Schlage Lock Co., supra,* 101 Cal.App.4th at p. 1450, 125 Cal.Rptr.2d 277.) However, "where a [F]ederal right has been denied as the result of a [factual] finding ... or where a conclusion of law as to a Federal right and a finding of fact are so intermingled as to make it necessary, in order to pass upon the Federal question, to analyze the facts," appellate review is not so deferential. (*Fiske v. Kansas* (1927) 274 U.S. 380, 385–386, 47 S.Ct. 655, 71 L.Ed. 1108.) The reviewing court must independently review the record to determine whether it supports the requisite factual findings with convincing clarity. (*Bose Corp. v. Consumers Union of U.S., Inc.* (1984) 466 U.S. 485, 514, 104 S.Ct. 1949, 80 L.Ed.2d 502.)

[8] This constitutional standard of review applies here. The Supreme Court's conclusion that the preliminary injunction did not offend Bunner's constitutional rights was premised upon the assumption that the injunction was ***251** proper under the UTSA. (*DVD, supra,* 31 Cal.4th at pp. 889–890, 4 Cal.Rptr.3d 69, 75 P.3d 1.) It follows that we must now exercise our independent judgment to determine whether the record is adequate to establish, with convincing clarity, that the assumption is correct.

B. The Existence of a Trade Secret.

[9] In order to obtain an injunction prohibiting disclosure of an alleged trade secret, the plaintiff's first hurdle is to show that the information it seeks to protect is indeed a trade secret. The UTSA defines a trade secret as "information ... that: [¶] (1) Derives independent economic value, actual or potential, from not being generally known ...; and [¶] (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." (§ 3426.1, subd. (d).) In short, the test for a trade secret is whether the matter sought to be protected is information (1) that is valuable because it is unknown to others and (2) that the owner has attempted to keep secret. (*ABBA Rubber Co. v. Seaquist* (1991) 235 Cal.App.3d 1, 18, 286 Cal.Rptr. 518.) The first element is the crucial one here: in order to qualify as a trade secret, the information "must be secret, and must not be of public knowledge or of a general knowledge in the trade or business." (*Kewanee Oil Co. v. Bicron Corp., supra,* 416 U.S. at p. 475, 94 S.Ct. 1879.)

[10] **[11]** The secrecy requirement is generally treated as a relative concept and requires a fact-intensive analysis. (1 Milgrim on Trade Secrets (2003) § 1.07[2], pp. 1–343, 1–352.) Widespread, anonymous publication of the information over the Internet may destroy its status as a trade secret. (*Religious Technology Center v. Netcom On–Line Com.* (N.D.Cal.1995) 923 F.Supp. 1231, 1256; see also *Religious Tech. Center v. NetCom On–Line Comm.* (N.D.Cal.1995) 907 F.Supp. 1361.) The concern is whether the information has retained its value to the creator in spite of the publication. (See Rest.3d Unfair Competition, § 39, com. f, p. 431.) Publication on the Internet does not necessarily destroy the secret if the publication is sufficiently obscure or transient or otherwise limited so that it does not become generally known to the relevant people, i.e., potential competitors or other persons to whom ****193** the information would have some economic value.

In the instant matter, the secrecy element becomes important at two points. First, if the allegedly proprietary information contained in DeCSS was already public knowledge when Bunner posted the program to his Web site, Bunner could not be liable for misappropriation by republishing it because he would not have been disclosing a trade secret.[7] Second, even if the information was not generally known when Bunner posted it, if it had become public ***252** knowledge by the time the trial court granted the preliminary injunction, the injunction (which only prohibits *disclosure*) would have been improper because DVD CCA could not have demonstrated interim harm.

1. The Likelihood of Prevailing on the Merits

[12] The trial court did not make an express finding that the proprietary information contained in DeCSS was not generally known at the time Bunner posted it. Indeed, there is no evidence to support such a finding. Bunner first became aware of DeCSS on or around October 26, 1999. But there is no evidence as to when he actually posted it. Indeed, neither Bunner's name nor his Web site address appears among the 66 cease and desist letters counsel sent in November. We do know, however, that by the first week in November Internet news magazines were publicizing the creation of DeCSS and informing readers that the program was available to be downloaded for free on the Internet. As early as July 1999 people in the computer programming community were openly discussing the fact that the CSS code had been reverse engineered and were brainstorming ways to be able to use it legally. That means that when DeCSS appeared in October 1999 there was a worldwide audience ready and waiting to download and repost it.

DVD CCA urges us, in effect, to ignore the fact that the allegedly proprietary information may have been distributed to a worldwide audience of millions prior to Bunner's first posting. According to DVD CCA, so long as Bunner knew or should have known that the information he was republishing was obtained by improper means, he cannot rely upon the general availability of the information to the rest of the world to avoid application of the injunction to him. In support of this position, DVD CCA contends that the denial of an injunction would offend the public policies underlying trade secret law, which are to enforce a standard of commercial ethics, to encourage research and invention, and to protect the owner's moral entitlement to the fruits of his or her labors. (See *DVD, supra,* 31 Cal.4th at pp. 880–882, 4 Cal.Rptr.3d 69, 75 P.3d 1.) DVD CCA points out that these policies are advanced by making sure that those who misappropriate trade secrets do not avoid “judicial sanction” by making the secret widely available.

****194** ***253** The first problem with this argument is that by denying a preliminary injunction the court does not per se protect a wrongdoer from judicial sanction, which in most cases would come following trial on the merits.

Second, the evidence in this case is very sparse with respect to whether the offending program was actually created by improper means. Reverse engineering alone is not improper means. (See footnote 7 *ante.*) Here the creator is believed to be a Norwegian resident who probably had to breach a Xing license in order to access the information he needed. We have only very thin circumstantial evidence of when, where, or how this actually happened or whether an enforceable contract prohibiting reverse engineering was ever formed.

Finally, assuming the information was originally acquired by improper means, it does not necessarily follow that once the information became *publicly* available that everyone else would be liable under the trade secret laws for republishing it simply because they knew about its unethical origins. In a case that receives widespread publicity, just about anyone who becomes aware of the contested information would also know that it was allegedly created by improper means. Under DVD CCA's construction of the law, in such a case the general public could theoretically be liable for misappropriation simply by disclosing it to someone else. This is not what trade secret law is designed to do.

It is important to point out that we do not assume that the alleged trade secrets contained in DeCSS became part of the public domain simply by having been published on the Internet. Rather, the evidence demonstrates that in this case, the initial publication was quickly and widely republished to an eager audience so that DeCSS and the trade secrets it contained rapidly became available to anyone interested in obtaining them. Further, the record contains no evidence as to when in the course of the initial distribution of the offending program Bunner posted it. Thus, DVD CCA has not shown a likelihood that it will prevail on the merits of its claim of misappropriation against Bunner.

2. Interim Harm

The element of secrecy also bears upon the question of interim harm. The Restatement explains the relationship this way: "Injunctive relief is often appropriate in trade secret cases to insure against additional harm from further unauthorized use of the trade secret and to deprive the defendant of additional benefits from the appropriation. If the information has not become generally known, an injunction may also be appropriate to preserve the plaintiff's rights in the trade secret by preventing a public disclosure. If the ***254** trade secret has already entered the public domain, an injunction may be appropriate to remedy any head start or other unfair advantage acquired by the defendant as a result of the appropriation. However, if the defendant retains no unfair advantage from the appropriation, an injunction against the use of information that is no longer secret can be justified only on a rationale of punishment and deterrence. Because of the public interest in promoting competition, such punitive injunctions are ordinarily inappropriate in trade secret actions." (Rest.3d Unfair Competition, § 44, com. c, p. 500.)

[13] As the trial court clearly explained, the preliminary injunction prohibiting disclosure was intended to protect the trade secret. Therefore, even if Bunner was liable for misappropriation, if the information had since become generally known, a preliminary injunction prohibiting disclosure would have done nothing to protect the secret because the secret ****195** would have ceased to exist. Further, assuming that an injunction against the *use* of information could be justified, we can conceive of no possible justification for an injunction against the *disclosure* of information if the information were already public knowledge.

This case is distinguishable from *Underwater Storage, Inc. v. United States Rubber Co.* (D.C.Cir.1966) 371 F.2d 950, 955, 125 U.S.App.D.C. 297 (*Underwater Storage*), which DVD CCA cites for the proposition that "a misappropriator or his privies can[not] 'baptize' their wrongful actions by general publication of the secret." In *Underwater Storage* the defendant had misappropriated trade secrets and used them to develop a storage system for the United States Navy. After completing its work for the Navy, the defendant later published the alleged trade secrets, presumably representing them as its own technical know-how. (*Id.* at p. 952.) In resolving a statute of limitations question, the appellate court rejected the contention that the subsequent publication of the secret prevented the plaintiff from seeking compensation from the original misappropriator. The court stated: "Once the secret is out, the rest of the world may well have a right to copy it at will; but this should not protect the misappropriator or his privies." (*Id.* at p. 955.) *Underwater Storage* was not concerned with the issuance of a preliminary injunction. The information was concededly public when the case was filed. The court's holding was that under the circumstances the defendant could still be liable in damages for his previous misappropriation. That holding does not alter the conclusion that a preliminary injunction cannot be used to protect a secret if there is no secret left to protect.

One of the analytical difficulties with this case is that it does not fit neatly into classic business or commercial law concepts. The typical defendant in a trade secret case is a competitor who has misappropriated the plaintiff's business secret for profit in a business venture. In that scenario, the defendant ***255** has as much interest as the plaintiff has in keeping the secret away from good faith competitors and out of the public domain. But here, according to DVD CCA it has no good faith competitors. And the alleged misappropriators not only wanted the information for themselves, they also wanted the whole world to have it.

We concur with the concerns expressed by Judge Whyte in his opinion in *Religious Technology Center v. Netcom On–Line Com., supra,* 923 F.Supp. at page 1256: "The court is troubled by the notion that any Internet user, ... can destroy valuable intellectual property rights by posting them over the Internet, especially given the fact that there is little opportunity to screen postings before they are made. [Citation.] Nonetheless, one of the Internet's virtues, that it gives even the poorest individuals the power to publish to millions of readers, [citation], can also be a detriment to the value of intellectual property rights. The anonymous (or judgment proof) defendant can permanently destroy valuable trade secrets, leaving no one to hold liable for the misappropriation." (Fn.omitted.)

There is little question that such behavior is unethical and that it probably violates other laws. But that which is in the public domain cannot be removed by action of the states under the guise of trade secret protection. (*Kewanee Oil Co. v. Bicron Corp., supra,* 416 U.S. at p. 481, 94 S.Ct. 1879.)

The evidence in the present case is undisputed that by the time this lawsuit was filed hundreds of Web sites had posted the program, enabling untold numbers of persons to download it and to use it. The ****196** only inference that can be drawn from this evidence is that by December 27, 1999 when DVD CCA first took legal action to stop publication of DeCSS, the technology had become available to those persons most interested in obtaining it. DVD CCA presented no evidence that the disclosure it sought to prohibit would cause more or different harm than that it claims it would have suffered by the general disclosure of the program. Accordingly, the record does not support the trial court's finding that the balance of harms favored DVD CCA.

III. CONCLUSION

We conclude that evidence in the limited record before us does not justify the issuance of an injunction under the UTSA. DVD CCA presented no evidence as to when Bunner first posted DeCSS and no evidence to support the inference that the CSS technology was still a secret when he did so. Further, there is a great deal of evidence to show that by the time DVD CCA sought the preliminary injunction prohibiting disclosure of the DeCSS program, DeCSS had been so widely distributed that the CSS technology may have lost its trade secret status. There is no evidence at all to the contrary. ***256** Thus, DVD CCA has not shown a likelihood of success on the merits; nor has it demonstrated that it would suffer further harm if the preliminary injunction did not issue.[8] The preliminary injunction, therefore, burdens more speech than necessary to protect DVD CCA's property interest and was an unlawful prior restraint upon Bunner's right to free speech. (*DVD, supra,* 31 Cal.4th at p. 881, 4 Cal.Rptr.3d 69, 75 P.3d 1; and see *Madsen v. Women's Health Center, Inc.* (1994) 512 U.S. 753, 765, 114 S.Ct. 2516, 129 L.Ed.2d 593.) It follows that issuance of the injunction was an abuse of the trial court's discretion.

It is important to stress that our conclusion is based upon the appellate record filed in this court. It is *not* a final adjudication on the merits. The ultimate determination of trade secret status and misappropriation would be subject to proof to be presented at trial. (*Whyte v. Schlage Lock Co., supra,* 101 Cal.App.4th at p. 1453, 125 Cal.Rptr.2d 277.)

IV. DISPOSITION

The order granting a preliminary injunction is reversed. Defendant Andrew Bunner shall recover his appellate costs.

WE CONCUR: ELIA and MIHARA, JJ.

All Citations

116 Cal.App.4th 241, 10 Cal.Rptr.3d 185, 69 U.S.P.Q.2d 1907, 04 Cal. Daily Op. Serv. 1712, 2004 Daily Journal D.A.R. 2557

Footnotes

* Kennard and Chin, JJ., did not participate therein.

1 Hereafter, all undesignated statutory references are to the Civil Code.

2 After the parties had completed the briefing on remand, DVD CCA filed a voluntary dismissal without prejudice in the court below and moved this court to dismiss the appeal as moot. Bunner opposed. Concluding that the appeal presents important issues that could arise again and yet evade review, we denied the motion. (See *NBC Subsidiary (KNBC–TV), Inc. v. Superior Court* (1999) 20 Cal.4th 1178, 1190, fn. 6, 86 Cal.Rptr.2d 778, 980 P.2d 337.)

3 For a more detailed explanation of the CSS technology see *DVD, supra,* 31 Cal.4th at pages 870–872, 4 Cal.Rptr.3d 69, 75 P.3d 1 and *Universal City Studios, Inc. v. Reimerdes* (S.D.N.Y.2000) 111 F.Supp.2d 294, 305–311 (*Reimerdes*).

4 Reverse engineering is the process by which one starts with a known product and works backward to determine how it was developed or manufactured. (*Kewanee Oil Co. v. Bicron Corp.* (1974) 416 U.S. 470, 476, 94 S.Ct. 1879, 40 L.Ed.2d 315.) The concept is not limited to computer software but applies to any product or process.

5 To oversimplify, object code is a set of instructions comprised of strings of 1's and 0's. The same instructions written in programming language is referred to as source code. To be executable by a computer, source code must be translated into object code. (*Reimerdes, supra,* 111 F.Supp.2d at p. 306.)

6 Linux is an operating system available for free on the Internet. It is popular with computer scientists and programmers. (*Reimerdes, supra,* 111 F.Supp.2d at p. 305.)

7 “Misappropriation” of a trade secret includes: “(1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or [¶] (2) Disclosure or use of a trade secret of another without express or implied consent by a person who: [¶] ... [¶] (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was: [¶] (i) Derived from or through a person who had utilized improper means to acquire it; ...” (§ 3426.1, subd. (b).) “Improper means,” in turn, is defined to include “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means.” (*Id.* at subd. (a).)

8 Because we find the injunction insupportable for the reasons stated, we do not reach Bunner's argument that the injunction would violate the intellectual property clause of the United States Constitution. (U.S. Const., art. I, § 8.)

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55 U.S.P.Q.2d 1935, 00 Cal. Daily Op. Serv.
6543, 2000 Daily Journal D.A.R. 8657

GLUE-FOLD, INC., Plaintiff and Appellant,
v.
SLAUTTERBACK CORPORATION
et al., Defendants and Respondents.

No. A088453.
Court of Appeal, First District, Division 4, California.
Aug. 4, 2000.

SUMMARY

A corporation brought an action alleging misappropriation of trade secret, breach of contract, and violation of Bus. & Prof. Code, § 17200, arising from defendant corporation's marketing of a product alleged to be based on a process developed by plaintiff. The trial court granted summary judgment for defendant on all three causes of action on the ground that they were barred by the applicable statutes of limitations. (Superior Court of Alameda County, No. V016328-6, George C. Hernandez, Jr. Judge.)

The Court of Appeal affirmed. It held that the cause of action for misappropriation of a trade secret was barred by the three-year limitations period of Civ. Code, § 3426.6, even if there were two distinct periods of misappropriation, separated by a period during which plaintiff mistakenly believed that defendant would desist. The court held that the first discovered, or discoverable, misappropriation of a trade secret commences the limitations period. If plaintiff could escape the bar of § 3426.6 by focusing only on the subsequent continuing activity as a separate claim that gives rise to a new statute of limitations period, the statute would not only contravene the principle against splitting a cause of action, but would also condone the continuing wrong approach that was rejected by the drafters of the Uniform Trade Secrets Act, from which § 3426.6 was taken. The court further held that, even if the discovery rule was applicable to the other two claims, that rule is a nonstatutory exception to the applicable limitations periods, and plaintiff had the burden to bring itself within it. Plaintiff's only evidence was a declaration from its president that referred to a press release by defendant concerning the product in question but did not indicate whether plaintiff had any earlier knowledge as to defendant's alleged misconduct. Therefore, the court held, plaintiff did not make the requisite showing that it exercised reasonable diligence in investigating possible misappropriation or that earlier efforts to do so would have been fruitless. (Opinion by Poché, Acting P. J., with Reardon and Sepulveda, JJ. concurring.)

HEADNOTES

Classified to California Digest of Official Reports

(1)
Trusts § 26--Constructive Trusts--Nature of Claim.
A claim for imposition of a constructive trust is not an independent cause of action but merely a type of remedy for some categories of underlying wrong.

(2)
Accounts and Accounting § 21--Accounting--Practice and Procedure-- Applicable Statute of Limitations.
A claim for an accounting is treated as a cause of action available to a wronged fiduciary and it is subject to the statute of limitations governing the nature of the underlying wrong.

(3)
Unfair Competition § 8--Actions--Misappropriation of Trade Secret-- Construction of Limitations Statute.
Civ. Code, § 3426.6, was adopted in 1984 without significant change from the Uniform Trade Secrets Act, approved by the National Conference of Commissioners on Uniform State Laws in 1979. It is therefore appropriate to accord substantial weight to the commissioners' comments on the construction of what is now § 3426.6. Because the statute was adopted without change and the commissioners' comments on it were brief, there is strong reason to believe that the legislators' votes were based in large measure on the commissioners' explanation.

(4a, 4b, 4c)

Unfair Competition § 11--Actions--Misappropriation of Trade Secret--Trial--Summary Judgment--Limitation of Actions.

The trial court properly granted summary judgment for defendant corporation on another corporation's cause of action for misappropriation of trade secrets on the ground that it was barred by the three-year limitations period of Civ. Code, § 3426.6, even if there were two distinct periods of misappropriation, separated by a period during which plaintiff mistakenly believed that defendant would desist. The first discovered, or discoverable, misappropriation of a trade secret commences the limitations period. If plaintiff could escape the bar of § 3426.6 by focusing only on the subsequent continuing activity as a separate claim that gives rise to a new statute of limitations period, the statute would not only contravene the principle against splitting a cause of action, but would also condone the continuing wrong approach that was rejected by the drafters of the Uniform Trade Secrets Act, from which § 3426.6 was taken.

[See 11 Witkin, Summary of Cal. Law (9th ed. 1990) Equity, § 108.]

(5)

Unfair Competition § 7--Acts Constituting Unfair Competition--Use of Trade Secrets--Methods of Misappropriation--Triggering of Limitations Period.

Misappropriation is defined in Civ. Code, § 3426.1, subd. (b), as acquisition of a trade secret, disclosure of a trade secret, or use of a trade secret. Any one of these methods of betraying confidence may constitute the misappropriation the actual or constructive discovery of which will commence the running of the statute of limitations. The limitations period is not triggered solely by what the statute terms continuing misappropriation.

(6)

Statutes § 40--Construction--Consequences.

Statutory language must be read in light of the consequences produced by a particular construction, and with the aim of promoting, not defeating, the purpose of the statute.

(7)

Limitation of Actions § 9--Validity, Construction, and Application of Statutes--Construction--Plain Meaning Rule.

In the absence of a compelling reason for doing otherwise, a statute of limitation is to be construed in accordance with its plain language.

(8)

Limitation of Actions § 31--Commencement of Period--Accrual of Cause of Action--Discovery Rule.

A limitations period does not begin until a cause of action accrues, i.e., all essential elements are present and a claim becomes legally actionable. Developed to mitigate the harsh results produced by strict definitions of accrual, the common law discovery rule postpones accrual until a plaintiff discovers or has reason to discover the cause of action.

(9)

Limitation of Actions § 81--Trial, Judgment, and Appeal--Presumptions and Burden of Proof--Discovery of Trade Misappropriation.

In a corporation's action arising from defendant corporation's alleged act of trade misappropriation, the trial court properly granted summary judgment for defendant as to plaintiff's claims for breach of contract and violation of Bus. & Prof. Code, § 17200, on the ground that they were time-barred. Even if the discovery rule was applicable to these claims, that rule is a nonstatutory exception to the applicable limitations periods, and plaintiff had the burden to bring itself within it. Plaintiff's only evidence was a declaration from its president that referred to a press release by defendant concerning the product in question but did not indicate whether plaintiff had any earlier knowledge as to defendant's alleged misconduct. Therefore, plaintiff did not make the requisite showing that it exercised reasonable diligence in investigating possible misappropriation or that earlier efforts to do so would have been fruitless.

COUNSEL

Law Offices of Bruce A. Lieberman and Bruce A. Lieberman for Plaintiff and Appellant.

Brobeck, Phleger & Harrison, James J. Elacqua and Jeannine Y. Sano for Defendants and Respondents.

POCHÉ, Acting P. J.

The only issues presented on this appeal from a summary judgment concern whether three different statutes of limitation have run on what are essentially three causes of action for the same wrong-misappropriation of a trade secret. The primary issue-and one of first impression for a California court-concerns the construction of the limitation period provided by the Uniform Trade Secrets Act (Uniform Act) which California has adopted (Civ. Code, §§ 3426-3426.11).[1] We conclude that the actual discovery of an act of misappropriating a trade secret commences the limitation period of three years, which is not tolled by subsequent inactivity by the misappropriator. We further conclude that the limitation period is also not tolled if such inactivity is followed by what the Uniform Act calls a "continuing misappropriation."

With respect to the causes of action for breach of contract and violation of the Unfair Trade Practices Act (Bus. & Prof. Code, § 17000 et seq.), we conclude that the party opposing summary judgment failed to produce sufficient evidence to satisfy the "discovery" rule and thereby toll the running of the other statutes of limitation.

Background

The underlying scenario is easily described from uncontradicted evidence. Plaintiff Glue-Fold, Inc. (Glue-Fold) developed a new process for applying glue to paper products intended for mailing. Lacking the expertise to actually make the parts needed, Glue-Fold approached a number of possible collaborators, including defendant Slautterback Corporation (Slautterback). The specifics of Glue-Fold's new process were not revealed to Slautterback until the latter had in March of 1992 executed a "Non-Disclosure Agreement" which provided that each of the parties "agrees not to use Confidential Information for its own use or for any purpose except to evaluate whether such party desires to become engaged with the other Party in a business ***1022** possibility. Each Party agrees not to disclose the other Party's Confidential Information to any third parties or to any of its employees except employees who are required to have the Confidential Information to evaluate the business possibility ...."[2] Slautterback then modified an existing piece of machinery to incorporate Glue-Fold's new process. The resulting product was titled a "buckle folder applicator." At some point described only as "the Fall of 1992," Slautterback officials requested "permission ... to market" the new product. Glue-Fold's president "unequivocally and emphatically" refused.

Nevertheless, Slautterback almost immediately commenced actions that Glue-Fold viewed as misappropriation of its trade secret in the new process. The particulars are as follows:

In October-November of 1992 Slautterback sold a buckle folder applicator to a firm in Burbank. Additional dealings with that firm occurred in February of 1993. A buckle folder applicator was sold to a Minnesota firm in September of 1993. The buckle folder applicator figured prominently in a thousand brochures Slautterback circulated to its distributors in November of that year; the brochure was provided to potential customers until 1995. The applicator also appeared in Slautterback's product catalog beginning in 1993. Slautterback made three more sales of applicators in 1994. Also in 1994 Slautterback had discussions with two other manufacturers concerning buckle folder applicators. In August of 1995 Slautterback issued a press release announcing future demonstrations of its buckle folder applicator. In October of that year Slautterback demonstrated the applicator at a trade show and its marketing manager published an article describing the applicator in a trade publication.

October of 1995 was also the month that Glue-Fold protested to Slautterback about the latter's "direct violation of our Non-Disclosure Agreement," citing several publications and the sale to the Burbank firm. Slautterback disagreed, claiming that the process "was in the public domain prior to 1992." It did, however, discontinue its public advertising until June of 1996. Sporadic discussions through 1998 did not resolve the dispute; meanwhile Slautterback continued advertising the buckle folder applicator.

([1]) , (2)(See fn. 3.) On January 6, 1999, Glue-Fold filed a verified complaint against Slautterback in which the misappropriation supported causes of ***1023** action for breach of contract (the nondisclosure agreement), violation of the Uniform Act, and unfair competition

(Bus. & Prof. Code, § 17200). [3] The trial court granted Slautterback's motion for summary judgment, agreeing that each of Glue-Fold's causes of action was time-barred by a different statute of limitation. Glue-Fold perfected this timely appeal from the judgment entered on the trial court's determination.

Review

I

The parties agree that Glue-Fold's cause of action for "Violation of Uniform Trade Secret Act" is governed by section 3426.6, which provides: "An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. For the purposes of this section, a continuing misappropriation constitutes a single claim."

([3]) Section 3426.6 is derived from the Uniform Act, which was approved by the National Conference of Commissioners on Uniform State Laws in 1979 and adopted without significant change by California in 1984. (14 West's U. Laws Ann. (1990) U. Trade Secrets Act, p. 433; Stats. 1984, ch. 1724, § 1, pp. 6252-6253.) [4] Section 3426.6 is derived almost verbatim from section 6 of the Uniform Act as originally drafted. (See 14 West's U. Laws Ann., *supra*, U. Trade Secrets Act, com. to § 6, p. 462.) It is therefore appropriate to accord substantial weight to the commissioners' comment on ***1024** the construction of what is now section 3426.6. (E.g., *Plas v. Superior Court* (1984) 155 Cal.App.3d 1008, 1016 & fn. 7 [202 Cal.Rptr. 490]; *Smith v. Superior Court* (1977) 68 Cal.App.3d 457, 463 [137 Cal.Rptr. 348].)

That comment is: "There presently is a conflict of authority as to whether trade secret misappropriation is a continuing wrong. *Compare Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288 (CA9, 1969) (not a continuing wrong under California law-limitation period upon all recovery begins upon initial misappropriation) with *Underwater Storage, Inc. v. U.S. Rubber Co.*, 371 F.2d 950 (CADC, 1966), cert. den., 386 U.S. 911 [87 S.Ct. 859, 17 L.Ed.2d 784] (1967) (continuing wrong under general principles-limitation period with respect to a specific act of misappropriation begins at the time that the act of misappropriation occurs). [¶] This Act rejects a continuing wrong approach to the statute of limitations but delays the commencement of the limitation period until an aggrieved person discovers or reasonably should have discovered the existence of misappropriation. If objectively reasonable notice of misappropriation exists, three years is sufficient time to vindicate one's legal rights." (14 West's U. Laws Ann., *supra*, U. Trade Secrets Act, com. to § 6, p. 462.) [5]

([4a]) Slautterback's position, which the trial court accepted, is elementary: Glue-Fold alleged in its complaint that "[i]n or about August, 1995," it "discovered that Slautterback had begun advertising the Buckle Folder Applicator for sale." Glue-Fold is bound by this admission. (E.g., *Foxborough v. Van Atta* (1994) 26 Cal.App.4th 217, 223 [31 Cal.Rptr.2d 525]; *Miller v. Lakeside Village Condominium Assn.* (1991) 1 Cal.App.4th 1611, 1623 [2 Cal.Rptr.2d 796].) Glue-Fold's complaint was filed in January of 1999, at least three years and four months after its admitted discovery of Slautterback's misappropriation. Glue-Fold's trade secret cause of action is therefore barred by the three-year period specified by section 3426.6.

In an attempt to avoid this conclusion, Glue-Fold advances a novel interpretation of the evidence and the statute. It sees itself as the victim of two distinct periods of misappropriation by Slautterback. The first extends up to October of 1995, when Glue-Fold protested to Slautterback. The second, during which Glue-Fold mistakenly believed that Slautterback would desist, began in mid-1996 when Slautterback resumed the public advertising it had halted in November of 1995. Looking to a dictionary ***1025** definition of "continuing" as "continuous, constant: needing no renewal: enduring" and the definition of "continuous" as "marked by uninterrupted extension in space, time, or sequence" (Webster's 9th New Collegiate Dict. (1984) p. 284), Glue-Fold argues that these circumstances show a "sufficient cessation or interruption" of Slautterback's misappropriation that "subsequent acts may give rise to a new statute of limitations period." In short, Glue-Fold contends that it was the victim of two discrete acts and periods of misappropriation, and because it commenced suit within three years of discovering the second period, which was a "continuing" misappropriation, the first is of no consequence.

There are numerous difficulties with this construction. One is that by basing its approach on dictionary definitions of "continuing" and "continuous" Glue-Fold pays insufficient attention to other statutory language, specifically, the central concept of "misappropriation." ([5]) That term is defined by the Uniform Act as acquisition of a trade secret *or* disclosure of a trade secret *or* use of a trade secret. (§ 3426.1, subd. (b)(1) & (2).) Any one of these methods of betraying confidence may constitute the misappropriation that actual or constructive discovery of which will start the clock. The limitation period is not triggered solely by what the statute terms "a continuing misappropriation." Unlike Glue-Fold's approach, proper statutory construction must consider and give meaning to all parts of the enactment at issue. (E.g., *Garcia v. McCutchen* (1997) 16 Cal.4th 469, 476 [66 Cal.Rptr.2d 319, 940 P.2d 906]; *Select Base Materials v. Board of Equal.* (1959) 51 Cal.2d 640, 645 [335 P.2d 672].)

([4b]) Glue-Fold's construction also sidesteps the fact that section 3426.6 expressly uses the discovery of a misappropriation as commencing the limitation period: "An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered." As previously mentioned, Glue-Fold alleged that it "discovered" Slautterback's misappropriation in October of 1995, yet Glue-Fold now appears to say that this discovery was not the discovery intended by section 3426.6. Glue-Fold does not specify what different form of discovery would satisfy section 3426.6, or why its second discovery of Slautterback's misappropriation (i.e., the resumption of public advertising in 1996) is qualitatively different from the first. A statute is not taffy that can be pulled whichever way suits a litigant in a particular controversy. Statutory language must be construed according to the usual and ordinary meaning of the terms used. (E.g., *Romano v. Rockwell Internat., Inc*. (1996) 14 Cal.4th 479, 493 [59 Cal.Rptr.2d 20, 926 P.2d 1114]; *Young v. Haines* (1986) 41 Cal.3d 883, 897 [226 Cal.Rptr. 547, 718 P.2d 909].) ***1026**

Another provision of the Uniform Act specifies that it is to be construed to effectuate its goal of securing uniformity in application. (§ 3426.8.) The unanimous conclusion of courts considering the issue-i.e., from federal courts construing section 3426.6-is that it is the first discovered (or discoverable) misappropriation of a trade secret which commences the limitation period. (See *Ashton-Tate Corp. v. Ross* (9th Cir. 1990) 916 F.2d 516, 523 ["initial misappropriation" of disclosure occurred in February 1985 and was discovered one month later; argument that limitation period commenced upon discovery of 1998 use misappropriation and thereby made timely complaint filed in August 1988 called "unpersuasive"]; *Stutz Motor Car of America v. Reebok Intern., Ltd.* (C.D.Cal. 1995) 909 F.Supp. 1353 [suit filed in 1993 barred because plaintiff knew of misappropriation in 1989]; *Intermedics, Inc. v. Ventritex, Inc.* (N.D.Cal. 1993) 822 F.Supp. 634, 652, 653 (*Intermedics*) ["the court's central concern when analyzing statute of limitations questions with respect to alleged misappropriations of trade secrets is with identifying the point at which the *first* apparent breach of the confidential relationship occurred," "since what trade secret law protects ... is ... a right to maintain the integrity of a confidential relationship, it is the *first* known (or reasonably discoverable) breach of that relationship that creates the right to sue and thus triggers the running of the statute of limitations" (italics added)]; *Intermedics, Inc. v. Ventritex, Inc.* (N.D.Cal. 1992) 804 F.Supp. 35, 44 ["California law requires plaintiff to bring an action within three years after plaintiff discovered or should have discovered defendants' *initial* misappropriation ... (regardless of whether the initial misappropriation is characterized as a use of the trade secret or merely as a disclosure of it)" (italics added)]; see also *Security People, Inc. v. Medeco Security Locks* (N.D.Cal. 1999) 59 F.Supp.2d 1040 [accepting *Intermedics* reasoning for purposes of res judicata analysis].) This is also the construction which the Uniform Act has received in other jurisdictions. (E.g., *McCaffree Financial Corp. v. Nunnink* (1993) 18 Kan.App.2d 40 [847 P.2d 1321]; *McLeod v. Northwest Alloys, Inc.* (1998) 90 Wn.App. 30 [969 P.2d 1066]; *Sokol Crystal Products v. DSC Communications* (7th Cir. 1994) 15 F.3d 1427 [applying Wis. U. Trade Secrets Act]; Trade Secrets Practice in California (Cont.Ed.Bar. 2d ed. 1999) § 11.13, pp. 327-329.) Glue-Fold presents no substantial justification for diverging from the unanimous body of opinion.

There are also substantial practical difficulties with Glue-Fold's construction of section 3426.6. Without question, trade secret misappropriation is ordinarily covert and hard for the betrayed party to discover. This was recognized before (*April Enterprises, Inc. v KTTV* (1983) 147 Cal.App.3d 805, 832, fn. 15 [195 Cal.Rptr. 421]) and after passage of the Uniform Act (*Sokol Crystal Products v. DSC Communications*, *supra*, 15 F.3d 1427, 1430; ***1027** *Intermedics, Inc*. v. *Ventritex, Inc*. (N.D.Cal. 1991) 775 F.Supp. 1258, 1266-1267). There is an air of unreality about Glue-Fold's implicit claim that it was entitled to relax once Slautterback had halted its advertising campaign in November of that year. We agree with the federal court which stated that "California law assumes that once a plaintiff knows or should know that a particular defendant cannot be trusted with one secret, it is unreasonable for that plaintiff simply to assume that that defendant can be trusted to protect other secrets." (*Intermedics*, *supra*, 822 F.Supp. 634, 654.)[6] Glue-Fold had its first clue concerning Slautterback's unreliability when the latter requested permission to market the buckle folder applicator in the fall of 1992. That, together with the discovery in August of 1995 that Slautterback had previously sold an applicator to the Burbank firm, constituted actual notice (§§ 18-19) of Slautterback's misappropriation. Glue-Fold had expressly told Slautterback that the sale "has caused us untold sales losses." Having suffered appreciable harm from Slautterback's wrong, Glue-Fold's cause of action was complete at that time. (E.g., *Romano v. Rockwell Internat., Inc*., *supra*, 14 Cal.4th 479, 487.) Glue-Fold does not deny that a cause of action accrued in August of 1995. What occurred thereafter is not, as Glue-Fold calls it, "a separate claim," but an integral part of what section 3426.6 deems "a single claim." (E.g., *Ashton-Tate Corp. v. Ross*, *supra*, 916 F.2d 516, 524; *Intermedics*, *supra*, 822 F.Supp. 634, 643; cf. *Monolith Portland Midwest Co. v. Kaiser Aluminum & C. Corp*. (9th Cir. 1969) 407 F.2d 288, 292-293 ["The cause of action arises but once" and is "fully matured at the moment ... [of] first adverse use or disclosure"].) If Glue-Fold is allowed to escape the bar of section 3426.6 by focusing only on the subsequent "continuing" activity as "a separate claim" that "give[s] rise to a new statute of limitations period," the statute would not only contravene ***1028** the principle against splitting a cause of action (e.g., 4 Witkin, Cal. Procedure, *supra*, Pleading, § 35, pp. 95-96), it would also condone the continuing wrong approach which the drafters of the Uniform Act expressly repudiated. (See *Intermedics*, *supra*, at pp. 643 ["Section 3426.6 expressly rejects the continuing tort theory"], 651 [California "has squarely rejected the theory that misappropriation of trade secrets is a species of 'continuing wrong.' "].) ([6]) Statutory language must be read in light of the consequences produced by a particular construction, and with the aim of promoting, not defeating, the statute's purpose. (E.g., *Escobedo v. Estate of Snider* (1997) 14 Cal.4th 1214, 1223 [60 Cal.Rptr.2d 722, 930 P.2d 979]; *Economic Empowerment Foundation v. Quackenbush* (1997) 57 Cal.App.4th 677, 686 [67 Cal.Rptr.2d 323].)

([7]) Our Supreme Court recently stated that in the absence of "a compelling reason for doing otherwise," a statute of limitation is to be construed in accordance with its plain language. (*Samuels v. Mix* (1999) 22 Cal.4th 1, 7 [91 Cal.Rptr.2d 273, 989 P.2d 701].) Glue-Fold's construction of section 3426.6 would radically diminish the concepts of misappropriation and discovery as used in the Uniform Act. ([4c]) We therefore reject Glue-Fold's theory that acts which are more than a single act of misappropriation and yet are not sufficiently "regular and uninterrupted" to amount to a continuing misappropriation, do not commence the limitation period specified by section 3426.6.

The undisputed evidence shows that in August of 1995 Glue-Fold had actual notice of the misappropriation of its trade secret by Slautterback. Glue-Fold's cause of action for that wrong, initiated in January of 1999, more than three years later, was therefore barred by section 3426.6. Because this conclusion was established as a matter of law, the trial court correctly granted summary judgment. (E.g., *Romano v. Rockwell Internat., Inc*., *supra*, 14 Cal.4th 479, 487.)

II

The parties agree that Glue-Fold's cause of action for breach of contract is governed by Code of Civil Procedure section 337, which establishes that "An action upon any contract" must be brought within four years. They further agree that Glue-Fold's cause of action for "Violation of

Business and Professions Code Section 17200" is governed by section 17208 of that code, which provides in pertinent part: "Any action to enforce any cause of action ***1029** pursuant to this chapter shall be commenced within four years after the cause of action accrued...." [7]

([8]) A limitation period does not begin until a cause of action accrues, i.e., all essential elements are present and a claim becomes legally actionable. (E.g., Code Civ. Proc., § 312; *Romano v. Rockwell Internat., Inc.*, *supra*, 14 Cal.4th 479, 487; *Angeles Chemical Co. v. Spencer & Jones* (1996) 44 Cal.App.4th 112, 120 [51 Cal.Rptr.2d 594].) Developed to mitigate the harsh results produced by strict definitions of accrual, the common law discovery rule postpones accrual until a plaintiff discovers or has reason to discover the cause of action. (E.g., *Samuels v. Mix*, *supra*, 22 Cal.4th 1, 9; *Norgart v. Upjohn Co*. (1999) 21 Cal.4th 383, 397 [87 Cal.Rptr.2d 453, 981 P.2d 79].) Now well entrenched, the discovery rule is widely applied. (See *Evans v. Eckelman* (1990) 216 Cal.App.3d 1609, 1613 [265 Cal.Rptr. 605]; 3 Witkin, Cal. Procedure (4th ed. 1996) Actions, § 463, pp. 583-584.)

As evidenced by the parties' briefs, appreciating the scope and application of the delayed discovery rule can be difficult. Glue-Fold and Slautterback vigorously dispute whether the rule can be applied to the remaining causes of action. Glue-Fold points to decisions beginning with *April Enterprises, Inc. v. KTTV*, *supra*, 147 Cal.App.3d 805, holding that the discovery rule does apply to causes of action for breach of contract. Slautterback points to decisions appearing to require concealment or misrepresentation by the defendant (see *Matsumoto v. Republic Ins. Co.* (9th Cir. 1986) 792 F.2d 869, 872 and decisions cited) and insists neither of those factors is present here. Glue-Fold responds with decisions making no mention of those factors. (E.g., *Angeles Chemical Co. v. Spencer & Jones, supra,* 44 Cal.App.4th 112, 119-121; *Lee v. Escrow Consultants, Inc*. (1989) 210 Cal.App.3d 915, 919-923 [259 Cal.Rptr. 117].) Neither party mentions decisions between fiduciaries or instances where the damage or harm suffered is difficult to detect or beyond the plaintiff's comprehension. (See *Prudential Home Mortgage Co. v. Superior Court* (1998) 66 Cal.App.4th 1236, 1246 [78 Cal.Rptr.2d 566] and decisions cited.) Slautterback can rely upon a single decision from a federal district court apparently holding that the discovery rule does not apply to claims barred by Business and Professions Code section 17208. (*Stutz Motor Car of America v. Reebok Intern., Ltd.*, *supra*, 909 F.Supp. 1353.) [8] Glue-Fold insists that the logic of applying the rule to the cause of action for breach should extend to its last claim. ***1030**

This skirmishing illuminates a number of intriguing byways, but we have no need to explore them. ([9]) We will assume for purposes of argument that the discovery rule is applicable to Glue-Fold's causes of action. (See *April Enterprises, Inc. v. KTTV*, *supra*, 147 Cal.App.3d 805, 828 ["both causes of action arise out of the fiduciary relationship. When a joint venturer commits a breach of fiduciary duty, the act may often, as here, constitute a breach of contract as well. Given the policy reasons for applying the discovery rule to a fiduciary, it would be pointless to permit the former cause of action and bar the latter"]; *Intermedics, Inc. v. Ventritex, Inc*., *supra*, 775 F.Supp. 1258, 1266-1267 [discovery rule applied to causes of action for breach of contract and unfair competition].) One consequence of this assumption is that, because the rule is a nonstatutory exception to a limitation period, Glue-Fold has the burden of proof to bring itself within it. (*Samuels v. Mix*, *supra*, 22 Cal.4th 1, 10; *April Enterprises, Inc. v. KTTV*, *supra*, at p. 832.)

Glue-Fold's showing in opposition to the summary judgment motion was inadequate to carry that burden. The *only* evidence Glue-Fold produced was a declaration from its president, Dennis Albert. The *only* part of the declaration that is relevant to the discovery issue reads as follows: "I have read the declarations of Slautterback's employees ... submitted in support of defendants' Motion for Summary Judgment .... So far as I understand those declarations, they seem to state that from ... the Fall of 1992 through August of 1994, Slautterback had, behind my back and without my knowledge, sent out materials incorporating Glue-Fold's trade secrets to its own distributors and had sold [some buckle folder applicators]; but, in August, 1995, Slautterback effectively 'went public' with its misappropriation of Glue-Fold's trade secrets by issuing [a] press release ...." This material does not disclose precisely how or when Glue-Fold learned of Slautterback's misappropriation. It may be inferred that this knowledge came from Slautterback's press release, but there are several other omissions where no answers are supplied. For example, although the press release makes no mention of any sales by Slautterback, Glue-Fold's October 1995 letter protests the applicator sale to the Burbank firm. How did Glue-Fold obtain knowledge of that sale? The source and timing are not provided, both of which would be useful in showing whether such information could have been obtained earlier (or, to put it in a way more helpful to Glue-Fold, whether the information could *not* have been obtained earlier). Mr. Albert does not show that ***1031** Glue-Fold could not obtain the "materials" that Slautterback "sent out ... to its own distributors." The Albert declaration does not show whether Glue-Fold ever directly asked if Slautterback was selling buckle folder applicators. In short, Glue-Fold did not show that it exercised reasonable diligence in investigating, or that earlier efforts would have been fruitless.

The summary judgment is affirmed.

Reardon, J., and Sepulveda, J., concurred. ***1032**

Footnotes

1 Unless otherwise noted, all further statutory references are to the Civil Code.

2 The agreement defined "Confidential Information" as "information, technical data, or know-how, including, but not limited to, research, products, software, services, development, inventions, ideas, processes, designs, drawings, engineering, marketing, or finances, disclosed either directly or indirectly in writing, orally or by drawings or inspection of parts or equipment. Confidential Information shall include, but not be limited to, all materials marked 'Confidential Information.' "

3 Also named as a defendant by Glue-Fold was Nordson Corporation, which in September of 1992 had bought Slautterback and become its corporate parent. Nordson played no part in the dealings between Glue-Fold and Slautterback. In the interests of simplicity we therefore refer to Slautterback as the sole defendant.

Glue-Fold's complaint had a fourth cause of action seeking imposition of a constructive trust and an accounting. The former is not an independent cause of action but merely a type of remedy for some categories of underlying wrong. (See 5 Witkin, Cal. Procedure (4th ed. 1997) Pleading, § 796, p. 252.) The latter is treated as a cause of action available to a wronged fiduciary (*id.* at §§ 775-777, pp. 233-235), which is subject to the statute of limitations governing the nature of the underlying wrong. (See *Estate of Peebles* (1972) 27 Cal.App.3d 163, 166 [103 Cal.Rptr. 560].) Because both of these equitable forms of remedies are dependent upon a substantive basis for liability, they have no separate viability if all of Glue-Fold's other causes of action are time-barred.

4 The Legislative Counsel's digest for the enactment states: "Under existing law, no specific cause of action exists for misappropriation of a trade secret. [¶] This bill would establish that cause of action, through enactment in California of the Uniform Trade Secrets Act, which defines terms, provides for injunctive relief, damages, or other relief, requirements that a court take measures to preserve the secrecy of an alleged trade secret by reasonable means, and a statute of limitations applicable to the cause of action, among other provisions." (Legis. Counsel's Dig., Assem. Bill No. 501 (1983-1984 Reg. Sess.) 4 Stats. 1984, Summary Dig., p. 643.)

5 The rule of statutory construction cited above is "particularly true where the statute proposed by the commission is adopted by the Legislature without any change whatsoever and where the commission's comment is brief, because in such a situation there is ordinarily strong reason to believe that the legislators' votes were based in large measure upon the explanation of the commission proposing the bill." (*Van Arsdale v. Hollinger* (1968) 68 Cal.2d 245, 249-250 [66 Cal.Rptr. 20, 437 P.2d 508].)

6 The full context of this quotation emphasizes the soundness of the court's reasoning. "By simultaneously rejecting the continuing wrong theory and insisting on 'discovery' as the trigger for the statute, the legislature seems to have decided to focus on plaintiff's interest in having real notice that conduct by defendant jeopardized the secrecy of *all* the confidences that plaintiff had shared with that defendant. The underlying principle appears to be that once plaintiff knows or should know that a defendant who once was trusted has shown, by any act of misappropriation, that he cannot be trusted, plaintiff should understand that there is a risk that that defendant will commit additional acts of misappropriation, whether they involve repeated misappropriations of one trade secret or initial misappropriations of other confidences. [¶] In other words, we think it fair to infer that California law assumes that once a plaintiff knows or should know that a particular

defendant cannot be trusted with one secret, it is unreasonable for that plaintiff simply to assume that that defendant can be trusted to protect other secrets. This makes sense if, as is the case in California, the law's primary concern is to protect against breaches in or to restore the integrity of confidential relationships. Primacy of that concern suggests a fear that any break in the underlying integrity of a particular relationship puts at risk all the confidences that were shared during that relationship. A law based on these concerns would impose on plaintiffs a responsibility to take prompt and assertive corrective action with respect to all of plaintiffs' interests whenever plaintiffs detect a fracture in a once confidential relationship." (*Intermedics, supra*, 822 F.Supp. 634, 653, fn. omitted.)

7 The Uniform Act as adopted in California provides that its protection does not displace other contractual or civil remedies. (§ 3426.7, subd. (b).) A leading treatise also recognizes that misappropriation of a trade secret can form the basis for many common law and statutory causes of action. (Trade Secrets Practice in California, *supra*, §§ 11.38-11.55, pp. 354-372.3.)

8 We say "apparently" because the decision does not expressly mention the discovery rule but deals with the defendant's alleged fraudulent concealment of material facts as tolling the statute of limitation. (*Stutz Motor Car of America v. Reebok Intern., Ltd*., *supra*, 909 F.Supp. 1353, 1363-1364.) In light of our Supreme Court treating the fraudulent concealment principle as "[a] close cousin of the discovery rule" (*Bernson v. Browning-Ferris Industries* (1994) 7 Cal.4th 926, 931 [30 Cal.Rptr.2d 440, 873 P.2d 613]), it is reasonable to deem them equivalent. This appears to have been the approach of a federal district court considering the matter. (*Suh v. Yang* (N.D.Cal. 1997) 987 F.Supp. 783, 795 & fn. 8.)

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991 F.2d 511
United States Court of Appeals,
Ninth Circuit.

MAI SYSTEMS CORPORATION, a Delaware corporation, Plaintiff–Appellee,
v.
PEAK COMPUTER, INC., a California corporation; Vincent Chiechi, an individual; Eric Francis, an individual, Defendants–Appellants.
MAI SYSTEMS CORPORATION, a Delaware corporation, Plaintiff–Appellee,
v.
PEAK COMPUTER, INC., a California corporation; Vincent Chiechi, an individual; Eric Francis, an individual, Defendants–Appellants.

Nos. 92–55363, 93–55106.
|
Argued and Submitted June 4, 1992 in No. 92–55363.
|
Submitted Feb. 24, 1993 in No. 93–55106. *
|
Decided April 7, 1993.

Computer servicing company appealed from judgment of the United States District Court for the Central District of California, Manuel L. Real, Chief Judge, which granted injunction against copyright infringement and unfair competition with computer systems manufacturer. The Court of Appeals, Brunetti, J., held that: (1) copying for purposes of copyright law occurs when computer program is transferred from permanent storage device to computer's random access memory (RAM); (2) computer service company which loaded copyrighted software into RAM and was able to view system error 108 and diagnose problems with the computer was engaged in copying; (3) genuine issue of fact existed as to whether computer servicing company was actually loaning out copyrighted systems; and (4) evidence sustained finding of appropriation of trade secrets.

Affirmed in part and reversed in part and remanded.

Attorneys and Law Firms

***513** William J. Robinson, Graham & James, Los Angeles, CA, for plaintiff-appellee.

James W. Miller, Musick, Peeler & Garrett, Los Angeles, CA, for defendants-appellants.

Appeal from the United States District Court for the Central District of California.

BEFORE: PREGERSON, BRUNETTI, and FERNANDEZ, Circuit Judges.

Opinion

BRUNETTI, Circuit Judge:

Peak Computer, Inc. and two of its employees appeal the district court's order issuing a preliminary injunction pending trial as well as the district court's order issuing a permanent injunction following the grant of partial summary judgment.

I. FACTS

MAI Systems Corp., until recently, manufactured computers and designed software to run those computers. The company continues to service its computers and the software necessary to operate the computers. MAI software includes operating system software, which is necessary to run any other program on the computer.

Peak Computer, Inc. is a company organized in 1990 that maintains computer systems for its clients. Peak maintains MAI computers for more than one hundred clients in Southern California. This accounts for between fifty and seventy percent of Peak's business.

Peak's service of MAI computers includes routine maintenance and emergency repairs. Malfunctions often are related to the failure of circuit boards inside the computers, and it may be necessary for a Peak technician to operate the computer and its operating system software in order to service the machine.

In August, 1991, Eric Francis left his job as customer service manager at MAI and joined Peak. Three other

MAI employees joined Peak a short time later. Some businesses that had been using MAI to service their computers switched to Peak after learning of Francis's move.

II. PROCEDURAL HISTORY

On March 17, 1992, MAI filed suit in the district court against Peak, Peak's president Vincent Chiechi, and Francis. The complaint includes counts alleging copyright infringement, misappropriation of trade secrets, trademark infringement, false advertising, and unfair competition.

MAI asked the district court for a temporary restraining order and preliminary injunction pending the outcome of the suit. The district court issued a temporary restraining order on March 18, 1992 and converted it to a preliminary injunction on March 26, 1992. On April 15, 1992, the district court issued a written version of the preliminary injunction along with findings of fact and conclusions of law.

The preliminary injunction reads as follows:

> A. Defendants [and certain others] are hereby immediately restrained and enjoined pending trial of this action from:
>
> 1. infringing MAI's copyrights in any manner and from using, publishing, copying, selling, distributing or otherwise disposing ***514** of any copies or portions of copies of the following MAI copyrighted computer program packages: "MPx," "SPx," "GPx40," and "GPx70" (collectively hereinafter, "The Software");
>
> 2. misappropriating, using in any manner in their business including advertising connected therewith, and/or disclosing to others MAI's trade secrets and confidential information, including, without limitation, The Software, MAI's Field Information Bulletins ("FIB") and Customer Database;
>
> 3. maintaining any MAI computer system, wherein:
>
> (a) "maintaining" is defined as the engaging in any act, including, without limitation, service, repair, or upkeep in any manner whatsoever, that involves as part of such act, or as a preliminary or subsequent step to such act, the use, directly or indirectly, of The Software, including, without limitation, MAI's operating system, diagnostic, utility, or other software;
>
> (b) "use" is defined as including, without limitation, the acts of running, loading, or causing to be run or loaded, any MAI software from any magnetic storage or read-only-memory device into the computer memory of the central processing unit of the computer system; and
>
> (c) "computer system" is defined as an MAI central processing unit in combination with either a video display, printer, disk drives, and/or keyboard;
>
> 4. soliciting any MAI computer maintenance customer pursuant to Francis' employment contracts with MAI;
>
> 5. maintaining any contract where customer information was obtained by Francis while employed by MAI pursuant to Francis' employment contract with MAI;
>
> 6. using in any manner in their business, or in advertising connected therewith, directly or indirectly, the trademarks MAI, BASIC FOUR, and/or MAI Basic Four, the letters MAI (collectively, the "MAI Trademarks") or any mark, word, or name similar to or in combination with MAI's marks that are likely to cause confusion, mistake or to deceive;
>
> 7. committing any act which otherwise infringes any of the MAI Trademarks;
>
> 8. advertising, directly or indirectly, that MAI Basic Four is part of Peak's Product line, that Peak has "satellite facilities," and/or that Peak's technicians are "specifically trained on the latest hardware releases of MAI;" and
>
> 9. engaging in any other acts that amount to unfair competition with MAI.
>
> B. IT IS FURTHER ORDERED that Defendants [and certain others] shall hereby, pending trial in this action:
>
> 1. provide a full accounting of all MAI property, including all copyrighted works presently in their possession; and

2. retain any fees paid to them by any MAI maintenance client and place any such fees in an interest bearing escrow account pending final determination of the action at trial or further order of this Court.

We stayed the preliminary injunction in part by an order of June 9, 1992 which provides:

The preliminary injunction issued by the district court on April 15, 1992 is stayed to the following extent:

Section (A)(1), enjoining defendants from "infringing MAI's copyrights in any manner and from using, publishing, copying, selling, distributing, or otherwise disposing of any copies or portions of copies" or certain MAI software, is stayed to the extent that it prohibits defendants from operating MAI computers in order to maintain them.

Section A(2), enjoining defendants from misappropriating MAI trade secrets, is stayed to the extent that it prohibits defendants from operating MAI computers in order to maintain them.

Section A(3), enjoining defendants from "maintaining any MAI computer system," is stayed in its entirety, including subsections (a), (b), and (c).

Section (B), ordering defendants to "provide a full accounting of all MAI property" and to retain fees paid to them ***515** by "any MAI maintenance client" in an escrow account, is stayed in its entirety, including subsections (1) and (2).

The remainder of the district court's preliminary injunction shall remain in effect. This order shall remain in effect pending further order of this court.

In January, 1993, we denied a motion by Peak to stay the district court proceedings. The district court then heard a motion for partial summary judgment on some of the same issues raised in the preliminary injunction. The district court granted partial summary judgment for MAI and entered a permanent injunction on the issues of copyright infringement and misappropriation of trade secrets on February 2, 1993 which provides:

A. Defendants [and certain others] are hereby permanently enjoined as follows:

1. Peak [and certain others] are permanently enjoined from copying, disseminating, selling, publishing, distributing, loaning, or otherwise infringing MAI's copyrighted works, or any derivatives thereof, including those works for which registrations have issued, and works for which registrations may issue in the future. The "copying" enjoined herein specifically includes the acts of loading, or causing to be loaded, directly or indirectly, any MAI software from any magnetic storage or read only memory device into the electronic random access memory of the central processing unit of a computer system. As used herein, "computer system" means an MAI central processing unit in combination with either a video display, printer, disk drives, and/or keyboard.

MAI's copyrighted works, and their derivatives, for which registrations have issued include:

Work	Cert. of Reg. No.	Date Issued
BOSS/IX SOFTWARE		
VERSION 7.5B*20	TX 3 368 502	12/16/91
BOSS/VS LEVEL 7A*42	TXU 524 424 (Supp.)	7/01/92
DIAGNOSTICS	TXU 507 015 (Basic)	3/09/92
BOSS/VS LEVEL 7.5B	TXU 524 423 (Supp.)	7/01/92

Additional MAI copyright registrations are listed on Exh. A hereto.

2. (a) Peak and Francis [and certain others] are permanently enjoined from misappropriating, using in any manner in their business, including advertising connected therewith, and/or disclosing to others MAI's trade secrets, as that term is used in California Civil Code § 3426.1(d). MAI's trade secrets, for purposes of this injunction, shall include, but not be limited to the following: MAI's software, MAI's Field Information Bulletins ("FIB") and all information in such FIB's, and MAI Customer Database and all information in such Database.

(b) In particular, the persons identified in subparagraph (a) herein are permanently enjoined from soliciting any MAI computer maintenance customer and from maintaining any contract with any former MAI computer maintenance customer where knowledge of any such customers was obtained by Francis during his employment with MAI.

We then stayed the permanent injunction in part by an order on February 4, 1993 which provides:

Appellants' emergency motion for stay of the district court's permanent injunction is granted in part. The injunction entered by the district court on February 2, 1993 is stayed to the following extent:

Section (A)(1), enjoining defendants from "infringing MAI's copyrighted works," is stayed to the extent that it prohibits defendants from loading MAI software or operating MAI computers in order to maintain them.

Section A(2), enjoining defendants from misappropriating MAI trade secrets, is stayed to the extent that it prohibits ***516** defendants from loading MAI software or operating MAI computers in order to maintain them.

The remainder of the district court's permanent injunction shall remain in effect....

Since the permanent injunction covers some of the same issues appealed in the preliminary injunction, the appeal of those issues in the context of the preliminary injunction has become moot. *See Burbank–Glendale–Pasadena Airport Authority v. Los Angeles,* 979 F.2d 1338, 1340 n. 1 (9th Cir.1992). Therefore, we grant MAI's motion to dismiss the appeal of the preliminary injunction relative to the issues of copyright infringement and trade secret misappropriation. Since other issues covered in the preliminary injunction are not covered in the permanent injunction, [1] the appeals have been consolidated and both the permanent injunction and parts of the preliminary injunction are reviewed here.

III. JURISDICTION AND STANDARD OF REVIEW

We have jurisdiction over interlocutory orders granting injunctions under 28 U.S.C. § 1292(a)(1).

> In addition, an appeal under 28 U.S.C. § 1292(a)(1) brings before the court the entire order, and, in the interests of judicial economy the court may decide the merits of the case. The court, however, generally will choose to decide only those matters 'inextricably bound up with' the injunctive relief.

Bernard v. Air Line Pilots Ass'n, Int'l, AFL–CIO, 873 F.2d 213, 215 (9th Cir.1989) (citations omitted).

In this case, the district court's grant of the permanent injunction is "inextricably bound up" with the underlying decisions of that court on the merits of the copyright and trade secrets claims. Therefore, our review of the propriety of the permanent injunction is inextricably tied to the underlying decision, and this court has jurisdiction to review the entire order. *Id.*

A grant of summary judgment is reviewed de novo. [2] We must determine, viewing the evidence in the light most favorable to the nonmoving party, whether there are any genuine issues of material fact and whether the district court correctly applied the relevant substantive law. *Federal Deposit Ins. Corp. v. O'Melveny & Meyers,* 969 F.2d 744, 747 (9th Cir.1992). The court must not weigh the evidence or determine the truth of the matter but only determine whether there is a genuine issue for trial. *Id.*

A district court's grant of preliminary injunctive relief is subject to limited review. This court will reverse a preliminary injunction only where the district court "abused its discretion or based its decision on an erroneous legal standard or on clearly erroneous findings of fact." However, "questions of law underlying the issuance of a preliminary injunction" are reviewed de novo. *Glick v. McKay,* 937 F.2d 434, 436 (9th Cir.1991).

"To obtain a preliminary injunction, a party must show either (1) a likelihood of success on the merits and the possibility of irreparable injury, or (2) the existence of serious questions going to the merits and the balance of hardships tipping in [the movant's] favor. These two formulations represent two points on a sliding scale in which the required degree of irreparable harm increases as the probability of success decreases." ***517** *Diamontiney v. Borg,* 918 F.2d 793, 795 (9th Cir.1990) (internal quotations and citations omitted).

In other words, "[w]here a party can show a strong chance of success on the merits, he need only show a possibility of irreparable harm. Where, on the other hand, a party can show only that serious questions are raised, he must show that the balance of hardships tips sharply in his favor." *Bernard v. Air Line Pilots Ass'n, Int'l, AFL–CIO,* 873 F.2d 213, 215 (9th Cir.1989).

IV. COPYRIGHT INFRINGEMENT

The district court granted summary judgment in favor of MAI on its claims of copyright infringement and issued a permanent injunction against Peak on these claims. The alleged copyright violations include: (1) Peak's running of MAI software licenced to Peak customers; (2) Peak's use of unlicensed software at its headquarters; and, (3) Peak's loaning of MAI computers and software to its customers. Each of these alleged violations must be considered separately.

A. Peak's running of MAI software licenced to Peak customers

[1] To prevail on a claim of copyright infringement, a plaintiff must prove ownership of a copyright and a " 'copying' of protectable expression" beyond the scope of a license. *S.O.S., Inc. v. Payday, Inc.,* 886 F.2d 1081, 1085 (9th Cir.1989).

MAI software licenses allow MAI customers to use the software for their own internal information processing. [3] This allowed use necessarily includes the loading of the software into the computer's random access memory ("RAM") by a MAI customer. However, MAI software licenses do not allow for the use or copying of MAI software by third parties such as Peak. Therefore, any "copying" done by Peak is "beyond the scope" of the license.

It is not disputed that MAI owns the copyright to the software at issue here, however, Peak vigorously disputes the district court's conclusion that a "copying" occurred under the Copyright Act.

The Copyright Act defines "copies" as:

> material objects, other than phonorecords, in which a work is fixed by any method now known or later developed, and from which the work can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device.

17 U.S.C. § 101.

The Copyright Act then explains:

> A work is "fixed" in a tangible medium of expression when its embodiment in a copy or phonorecord, by or under the authority of the author, is sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise

> communicated ***518** for a period of more than transitory duration.

17 U.S.C. § 101.

[2] The district court's grant of summary judgment on MAI's claims of copyright infringement reflects its conclusion that a "copying" for purposes of copyright law occurs when a computer program is transferred from a permanent storage device to a computer's RAM. This conclusion is consistent with its finding, in granting the preliminary injunction, that: "the loading of copyrighted computer software from a storage medium (hard disk, floppy disk, or read only memory) into the memory of a central processing unit ("CPU") causes a copy to be made. In the absence of ownership of the copyright or express permission by license, such acts constitute copyright infringement." We find that this conclusion is supported by the record and by the law.

Peak concedes that in maintaining its customer's computers, it uses MAI operating software "to the extent that the repair and maintenance process necessarily involves turning on the computer to make sure it is functional and thereby running the operating system." It is also uncontroverted that when the computer is turned on the operating system is loaded into the computer's RAM. As part of diagnosing a computer problem at the customer site, the Peak technician runs the computer's operating system software, allowing the technician to view the systems error log, which is part of the operating system, thereby enabling the technician to diagnose the problem. [4]

[3] Peak argues that this loading of copyrighted software does not constitute a copyright violation because the "copy" created in RAM is not "fixed." However, by showing that Peak loads the software into the RAM and is then able to view the system error log and diagnose the problem with the computer, MAI has adequately shown that the representation created in the RAM is "sufficiently permanent or stable to permit it to be perceived, reproduced, or otherwise communicated for a period of more than transitory duration."

After reviewing the record, we find no specific facts (and Peak points to none) which indicate that the copy created in the RAM is not fixed. While Peak argues this issue in its pleadings, mere argument does not establish a genuine issue of material fact to defeat summary judgment. A party opposing a properly supported motion for summary judgment may not rest upon the mere allegations or denials in pleadings, but "must set forth specific facts showing that there is a genuine issue for trial." Fed.R.Civ.Proc. 56(e); *Anderson v. Liberty Lobby, Inc.,* 477 U.S. 242, 248, 106 S.Ct. 2505, 2510, 91 L.Ed.2d 202 (1986); *Harper v. Wallingford,* 877 F.2d 728 (9th Cir.1989).

The law also supports the conclusion that Peak's loading of copyrighted software into RAM creates a "copy" of that software in violation of the Copyright Act. In *Apple Computer, Inc. v. Formula Int'l, Inc.,* 594 F.Supp. 617, 621 (C.D.Cal.1984), the district court held that the copying of copyrighted software onto silicon chips and subsequent sale of those chips is not protected by § 117 of the Copyright Act. Section 117 allows "the 'owner' [5] of a copy of a computer program to make or authorize the making of another copy" without infringing copyright law, if it "is an essential step in the utilization of the computer program" or if the new copy is "for archival purposes ***519** only." 17 U.S.C. § 117 (Supp.1988). [6] One of the grounds for finding that § 117 did not apply was the court's conclusion that the permanent copying of the software onto the silicon chips was not an "essential step" in the utilization of the software because the software could be used through RAM without making a permanent copy. The court stated:

> RAM can be simply defined as a computer component in which data and computer programs can be temporarily recorded. Thus, the purchaser of [software] desiring to utilize all of the programs on the diskette could arrange to copy [the software] into RAM. This would only be a temporary fixation. It is a property of RAM that when the computer is turned off, the copy of the program recorded in RAM is lost.
>
> *Apple Computer* at 622.

While we recognize that this language is not dispositive, it supports the view that the copy made in RAM is "fixed" and qualifies as a copy under the Copyright Act.

We have found no case which specifically holds that the copying of software into RAM creates a "copy" under the Copyright Act. However, it is generally accepted that the loading of software into a computer constitutes the creation of a copy under the Copyright Act. *See e.g. Vault Corp. v. Quaid Software Ltd.,* 847 F.2d 255, 260 (5th Cir.1988) ("the act of loading a program from a medium of storage into a computer's memory creates a copy of the program"); 2 *Nimmer on Copyright,* § 8.08 at 8–105 (1983) ("Inputting a computer program entails the preparation of a copy."); *Final Report of the National Commission on the New Technological Uses of Copyrighted Works,* at 13 (1978) ("the placement of a work into a computer is the preparation of a copy"). We recognize that these authorities are somewhat troubling since they do not specify that a copy is created regardless of whether the software is loaded into the RAM, the hard disk or the read only memory ("ROM"). However, since we find that the copy created in the RAM can be "perceived, reproduced, or otherwise communicated," we hold that the loading of software into the RAM creates a copy under the Copyright Act. 17 U.S.C. § 101. We affirm the district court's grant of summary judgment as well as the permanent injunction as it relates to this issue.

B. Use of unlicensed software at headquarters

[4] It is not disputed that Peak has several MAI computers with MAI operating software "up and running" at its headquarters. It is also not disputed that Peak only has a license to use MAI software to operate one system. As discussed above, we find that the loading of MAI's operating software into RAM, which occurs when an MAI system is turned on, constitutes a copyright violation. We affirm the district court's grant of summary judgment in favor of MAI on its claim that Peak violated its copyright through the unlicensed use of MAI software at Peak headquarters, and also affirm the permanent injunction as it relates to this issue.

C. Loaning of MAI computers and software

[5] MAI contends that Peak violated the Copyright Act by loaning MAI computers and software to its customers. Among the exclusive rights given to the owner of a copyrighted work is the right to distribute copies of the work by lending. 17 U.S.C. § 106(3). Therefore, Peak's loaning of MAI software, if established, would constitute a violation of the Copyright Act.

***520** **[6]** MAI argues that it is clear that Peak loaned out MAI computers because Peak advertisements describe the availability of loaner computers for its customers and Chiechi admitted that the available loaners included MAI computers. However, there was no evidence that a MAI computer was ever actually loaned to a Peak customer. Paul Boulanger, a Senior Field Engineer at Peak, testified in his deposition that he was not aware of any MAI systems being loaned to Peak customers or of any customer asking for one. Charles Weiner, a Field Service Manager at Peak, testified in his deposition that he did not have any knowledge of MAI systems being loaned to customers. Weighing this evidence in the light most favorable to Peak, whether Peak actually loaned out any MAI system remains a genuine issue of material fact.

[7] **[8]** As a general rule, a permanent injunction will be granted when liability has been established and there is a threat of continuing violations. *See, National Football League v. McBee & Bruno's, Inc.,* 792 F.2d 726, 732 (8th Cir.1986); 3 *Nimmer on Copyright* § 14.06[B] at 14–88. However § 502(a) of the Copyright Act authorizes the court to "grant temporary and final injunctions on such terms as it may deem reasonable *to prevent or restrain* infringement of a copyright." 17 U.S.C. § 502(a) (emphasis added). While there has been no showing that Peak has actually loaned out any MAI software, the threat of a violation is clear as Peak has MAI computers in its loaner inventory. The permanent injunction is upheld as it relates to this issue.

V. MISAPPROPRIATION OF TRADE SECRETS

[9] The district court granted summary judgment in favor of MAI on its misappropriation of trade secrets claims and issued a permanent injunction against Peak on these claims. The permanent injunction prohibits Peak from "misappropriating, using in any manner in their business, including advertising connected therewith, and/or disclosing to others MAI's trade secrets," including: (1) MAI Customer Database; (2) MAI Field Information Bulletins ("FIB"); and, (3) MAI software.

Peak argues that since MAI's motion for summary judgment only included argument regarding the customer database as a trade secret that the grant of summary judgment on the FIBs and software was overbroad. However, in *Celotex Corp. v. Catrett,* 477 U.S. 317, 106 S.Ct. 2548, 91 L.Ed.2d 265 (1986), the Supreme Court held that "so long as the losing party was on notice that she had to come forward with all of her evidence," summary judgment can properly be entered. *Id.* at 326, 106 S.Ct. at 2554. Although *Celotex* dealt with the court's authority to grant summary judgment *sua sponte,* its notice analysis is applicable to any summary judgment motion.

MAI argues that Peak had adequate notice because, while MAI only presented argument regarding the customer database, it moved for summary judgment on its claims of misappropriation of trade secrets generally, and, because MAI's Statement of Uncontroverted Facts included statements that the FIBs and software were trade secrets. We agree. However, we do not agree with MAI's contention that Peak has waived its right to appeal summary judgment on these issues by failing address the merits in the district court. Therefore, we reach the merits of the grant of summary judgment on each trade secret claim.

A. Customer Database

California has adopted the Uniform Trade Secrets Act ("UTSA") which codifies the basic principles of common law trade secret protection. Cal.Civ.Code §§ 3426–3426.10 (West Supp.1993). To establish a violation under the UTSA, it must be shown that a defendant has been unjustly enriched by the improper appropriation, use or disclosure of a "trade secret."

Peak argues both that the MAI Customer Database is not a "trade secret," and that even if it is a trade secret, that Peak did not "misappropriate" it.

The UTSA defines a "trade secret" as:

> ***521** information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
>
> (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
>
> (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Cal.Civ.Code § 3426.1(d) (West Supp.1993).

MAI contends its Customer Database is a valuable collection of data assembled over many years that allows MAI to tailor its service contracts and pricing to the unique needs of its customers and constitutes a trade secret.

[10] **[11]** We agree that the Customer Database qualifies as a trade secret. The Customer Database has potential economic value because it allows a competitor like Peak to direct its sales efforts to those potential customers that are already using the MAI computer system. Further, MAI took reasonable steps to insure the secrecy to this information as required by the UTSA. MAI required its employees to sign confidentiality agreements respecting its trade secrets, including the Customer Database. Thus, under the UTSA, the MAI Customer Database constitutes a trade secret.

We also agree with MAI that the record before the district court on summary judgment establishes that Peak misappropriated the Customer Database.

"Misappropriation" is defined under the UTSA as:

> (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; [7] or
>
> (2) Disclosure or use of a trade secret of another without express or implied consent by a person who:
>
>> (A) Used improper means to acquire knowledge of the trade secret; or
>>
>> (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the

trade secret was: (i) Derived from or through a person who had utilized improper means to acquire it; (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) Before a material change of his or her position knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or by mistake.

Cal.Civ.Code § 3426.1(b) (West Supp.1993).

Peak contends that Francis never physically took any portion of MAI's customer database and that neither Francis nor anyone under his direction put information he had obtained from working at MAI in the Peak database. However, to find misappropriation under the UTSA, this need not be established.

[12] The UTSA definition of "misappropriation" has been clarified by case law which establishes that the right to *announce* a new affiliation, even to trade secret clients of a former employer, is basic to an individual's right to engage in fair competition, and that the common law right to compete fairly and the right to announce a new business affiliation have survived the enactment of the UTSA. *American Credit Indem. Co. v. Sacks,* 213 Cal.App.3d 622, 262 Cal.Rptr. 92, 99–100 (Cal.Ct.App.1989). However, misappropriation occurs if information from a customer database is used to *solicit* customers. *Id.*

[13] Merely informing a former employer's customers of a change of employment, without more, is not solicitation. *Id.* 262 Cal.Rptr. at 99 (citing *Aetna Bldg. Maintenance Co. v. West,* 39 Cal.2d 198, 246 P.2d 11 (1952)). However, in this case, Francis did more than merely announce his new affiliation with Peak. When Francis began ***522** working for Peak, he called MAI customers whose names he recognized. Additionally, Francis personally went to visit some of these MAI customers with proposals to try and get them to switch over to Peak. These actions constituted solicitation and misappropriation under the UTSA definition. We affirm the district court's grant of summary judgment in favor of MAI on its claim that Peak misappropriated its Customer Database and affirm the permanent injunction as it relates to this issue.

B. Field Information Bulletins

MAI argues summary judgment was properly granted on its claim of misappropriation of the FIBs because the FIBs are a valuable trade secret of MAI and the evidence showed that the FIBs were being used by Peak to operate a business competing unfairly with MAI.

[14] We agree that the FIBs constitute trade secrets. It is uncontroverted that they contain technical data developed by MAI to aid in the repair and servicing of MAI computers, and that MAI has taken reasonable steps to insure that the FIBs are not generally known to the public.

[15] However, whether Peak has misappropriated the FIBs remains a genuine issue of material fact. The only evidence introduced by MAI to establish Peak's use of the FIBs is Peak's advertisements claiming that "Peak's system specialists are specifically trained on the latest hardware releases on MAI Basic Four." MAI asserts that if Peak did not use FIBs that this claim would have to be false. However, Weiner and Boulanger testified in their depositions that they had never seen a FIB at Peak. Similarly, Boulanger, Robert Pratt and Michael McIntosh [8] each testified that they did not have any FIB information when they left MAI. Weighing this evidence in the light most favorable to Peak, whether Peak used any of the FIBs remains a genuine issue of material fact, and the district court's grant of summary judgment on this claim of trade secret misappropriation is reversed and the permanent injunction is vacated as it relates to this issue.

C. Software

MAI contends the district court properly granted summary judgment on its claim of misappropriation of software because its software constitutes valuable unpublished works that allow its machines to be maintained. MAI argues that Peak misappropriated the software by loading it into the RAM.

[16] We recognize that computer software can qualify for trade secret protection under the UTSA. *See e.g.,* *S.O.S., Inc. v. Payday, Inc.,* 886 F.2d 1081, 1089–90 (9th Cir.1989). However, a plaintiff who seeks relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist. *Diodes, Inc. v. Franzen,* 260 Cal.App.2d 244, 67 Cal.Rptr. 19, 22–24 (1968); *see also Universal Analytics Inc. v. MacNeal–Schwendler Corp.,* 707 F.Supp. 1170, 1177 (C.D.Cal.1989) (plaintiff failed to inform defendant or the court "precisely which trade secret it alleges was misappropriated"), *aff'd,* 914 F.2d 1256 (9th Cir.1990).

Here, while MAI asserts that it has trade secrets in its diagnostic software and operating system, and that its licensing agreements constitute reasonable efforts to maintain their secrecy, MAI does not specifically identify these trade secrets. In his Declaration, Joseph Perez, a Customer Service Manager at MAI, stated that the diagnostic software "contain valuable trade secrets of MAI," however, the Declaration does not specify what these trade secrets are. Additionally, we find no declaration or deposition testimony which specifically identifies any trade secrets. Since the trade secrets are not specifically identified, we cannot determine whether Peak has misappropriated any trade secrets by running the MAI operating software and/or diagnostic software in maintaining MAI systems for its customers, and we reverse the district court's grant of summary judgment in favor of MAI on its claim that ***523** Peak misappropriated trade secrets in its computer software and vacate the permanent injunction as it relates to this issue.

VI. BREACH OF CONTRACT

The district court granted summary judgment in favor of MAI on its breach of contract claim against Eric Francis. It is clear from the depositions of Francis and Chiechi that Francis solicited customers and employees of MAI in breach of his employment contract with MAI, and we affirm the district court's grant of summary judgment on this issue and affirm the permanent injunction as it relates to this claim.

VII. PRELIMINARY INJUNCTION

A. Trademark Infringement

In granting the preliminary injunction, the district court found that Peak advertisements that "MAI Basic Four" computers are part of "Peak's Product Line" imply that Peak is a MAI dealer for new computers and constitute trademark infringement. The district court also found that: "Such acts are likely to cause confusion, mistake or deception in that potential purchasers of MAI computers and/or maintenance services will be led to believe that Peak's activities are associated with or sanctioned or approved by MAI."

Peak claims that the district court erred in granting the preliminary injunction because it did not apply the legal tests established by the Ninth Circuit to evaluate whether a likelihood of confusion existed. *See e.g., J.B. Williams Co. v. Le Conte Cosmetics, Inc.,* 523 F.2d 187, 191 (9th Cir.1975) (five factor test to determine likelihood of confusion) *cert. denied,* 424 U.S. 913, 96 S.Ct. 1110, 47 L.Ed.2d 317 (1976); *AMF, Inc. v. Sleekcraft Boats,* 599 F.2d 341, 348–49 (9th Cir.1979) (eight factor test). However, the district court was not required to consider all these factors. As we recognized in *Apple Computer, Inc. v. Formula Int'l, Inc.,* 725 F.2d 521 (9th Cir.1984):

> [I]n granting a preliminary injunction, the parties will not have had a full opportunity to either develop or present their cases and the district court will have had only a brief opportunity to consider the different factors relative to the likelihood of confusion determination.... The appropriate time for giving full consideration to [these factors] is when the merits of the case are tried.

Id. at 526 (citations and quotations omitted).

Peak has not shown how the district court clearly erred in its preliminary trademark conclusions. Accordingly, the district court did not abuse its discretion and this portion of the preliminary injunction is upheld.

B. False Advertising

[17] In granting the preliminary injunction, the district court found that "Peak's advertising ... falsely misleads the public as to Peak's capability of servicing and maintaining MAI computer systems." The injunction prohibits Peak from "advertising, directly or indirectly, that MAI Basic Four is part of Peak's Product line, that Peak has 'satellite facilities,' and/or that Peak's technicians are 'specifically trained on the latest hardware releases of MAI.' "

Peak argues that these representations in its ads are not false. However, the district court's findings are supported by the record. Depositions show that Peak is not an authorized MAI dealer, that its technicians receive no ongoing training and that its "satellite facilities" are actually storage sheds. Perhaps the storage sheds could be legitimately characterized as satellite facilities, but the district court's conclusion otherwise was not clearly erroneous. Accordingly, the district court did not abuse its discretion and this portion of the preliminary injunction is upheld.

VIII. CONCLUSION

The following sections of the preliminary injunction issued by the district court on April 15, 1992 have been mooted by that court's issuing of a permanent injunction:

Section (A)(1), enjoining defendants from infringing MAI's copyrights; Section (A)(2) enjoining defendants from misappropriating ***524** MAI trade secrets; Section (A)(3) enjoining defendants from maintaining MAI computers; Section (A)(4) enjoining defendants from soliciting customers; and, Section (A)(5) enjoining defendants from maintaining certain customer contracts.

The remainder of the district court's preliminary injunction shall remain in effect pending the district court's final judgment. Earlier orders of this court temporarily staying portions of the injunction are vacated.

The permanent injunction issued by the district court on February 2, 1993, is vacated to the following extent:

Section (A)(2)(a), enjoining defendants from "misappropriating ... MAI's trade secrets" is vacated as it relates to MAI's software and MAI's Field Information Bulletins.

The remainder of the permanent injunction shall remain in effect. Earlier orders of this court temporarily staying portions of the injunction are vacated.

The district court's grant of summary judgment is AFFIRMED in part and REVERSED in part. This case is REMANDED for proceedings consistent with this opinion.

All Citations

991 F.2d 511, 61 USLW 2633, 1993 Copr.L.Dec. P 27,096, 26 U.S.P.Q.2d 1458

Footnotes

* The panel unanimously finds this case suitable for decision without oral argument. Fed.R.App.P. 34(a); Ninth Circuit Rule 34–4.

1 These issues include trademark infringement and false advertising.

2 The Central District of California's Local Rule 7.14 provides for the filing of a Statement of Uncontroverted Facts and Conclusions of Law with each motion for summary judgment and for the filing of a Statement of Genuine Issues of Material Fact with all opposition papers. In granting summary judgment, the district court had before it these papers as well as MAI's Motion for Summary Judgment, Peak's Opposition, and MAI's Response. MAI's Statement of Uncontroverted Facts and Conclusions of Law and Peak's Statement of Genuine Issues of Material Fact rely on the declarations and deposition testimony which were filed with the district court in connection with MAI's earlier motion for a preliminary injunction. These declarations and deposition testimony make up the record in this case.

3 A representative MAI software license provides in part:

4. *Software License.*

(a) *License*.... Customer may use the Software (one version with maximum of two copies permitted—a working and a backup copy) ... solely to fulfill Customer's own internal information processing needs on the particular items of

Equipment ... for which the Software is configured and furnished by [MAI]. The provisions of this License ... shall apply to all versions and copies of the Software furnished to Customer pursuant to this Agreement. The term “Software” includes, without limitation, all basic operating system software....

(b) *Customer Prohibited Acts*.... Any possession or use of the Software ... not expressly authorized under this License or any act which might jeopardize [MAI]'s rights or interests in the Software ... is prohibited, including without limitation, examination, disclosure, copying, modification, reconfiguration, augmentation, adaptation, emulation, visual display or reduction to visually perceptible form or tampering....

(c) *Customer Obligations.* Customer acknowledges that the Software is [MAI]'s valuable and exclusive property, trade secret and copyrighted material. Accordingly, Customer shall ... (i) use the Software ... strictly as prescribed under this License, (ii) keep the Software ... confidential and not make [it] available to others....

A representative diagnostic license agreement provides in part:

6. *Access/Non–Disclosure.*

Licensee shall not give access nor shall it disclose the Diagnostics (in any form) ... to any person ... without the written permission of [MAI]. Licensee may authorize not more than three (3) of its *bona fide* employees to utilize the Diagnostics ... if, and only if, they agree to be bound by the terms hereof.

4 MAI also alleges that Peak runs its diagnostic software in servicing MAI computers. Since Peak's running of the operating software constitutes copyright violation, it is not necessary for us to directly reach the issue of whether Peak also runs MAI's diagnostic software. However, we must note that Peak's field service manager, Charles Weiner, admits that MAI diagnostic software is built into the MAI MPx system and, further, that if Peak loads the MAI diagnostic software from whatever source into the computer's RAM, that such loading will produce the same copyright violation as loading the operating software.

5 Since MAI licensed its software, the Peak customers do not qualify as “owners” of the software and are not eligible for protection under § 117.

6 The current § 117 was enacted by Congress in 1980, as part of the Computer Software Copyright Act. This Act adopted the recommendations contained in the *Final Report of the National Commission on New Technological Uses of Copyrighted Works* (“CONTU”) (1978). H.R.Rep. No. 1307, 96th Cong., 2d Sess., pt. 1, at 23. The CONTU was established by Congress in 1974 to perform research and make recommendations concerning copyright protection for computer programs. The new § 117 reflects the CONTU's conclusion that: “Because the placement of a work into a computer is the preparation of a copy, the law should provide that persons in rightful possession of copies of programs be able to use them freely without fear of exposure to copyright liability.” *Final Report* at 13.

7 The UTSA defines “improper means,” as “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means.” Cal.Civ.Code § 3426.1(a) (West Supp.1993).

8 Pratt and Boulanger are both computer technicians who left MAI to work at Peak.

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(Cal. Rules of Court, Rules 8.1105
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Court of Appeal, Sixth District, California.

The PEOPLE, Plaintiff and Respondent,
v.
Chung–Ta HSIEH, Defendant and Appellant.

No. H019958.
|
Dec. 15, 2000.
|
Ordered Not Officially Published Feb. 28, 2001. *

Defendant was convicted, after a court trial in the Superior Court, Santa Clara County, No. 203403, Alden E. Danner, J., of trade secret theft. Defendant appealed. The Court of Appeal, Wunderlich, J., held that: (1) conclusory testimony did not establish that the design shown in defendant's hand-drawn block diagram of interface/quadface modulator was not generally known, and that the design had actual or potential economic value that derived from its secrecy; (2) defendant's former employer took reasonable measures to protect the secrecy of the design; (3) evidence did not establish specific intent to deprive former employer of the design's value; and (4) defendant's use of the diagram in a job interview with a company that did not compete with his former employer was not a punishable "use" under the trade secret theft statute.

Reversed.

Attorneys and Law Firms

***53** Frank R. Ubhaus, William E. Adams, Jamie L.B. Braga, Berliner Cohen, San Jose, for Defendant and Appellant.

Bill Lockyer, Attorney General, David Druliner, Chief Asst. Atty. General, Ronald A. Bass, Senior Asst. Atty. General, Ronald E. Niver, Supervising Deputy Atty. General, Clifford K. Thompson, Juliet B. Haley, Deputy Atty. General, for Plaintiff and Respondent.

Opinion

WUNDERLICH, J.

Following a court trial, defendant was convicted of one count of misappropriating a trade secret in violation of ***54** Penal Code section 499c. [1] The court reduced the conviction to a misdemeanor. (§ 17.) The court found defendant not guilty of two other charges: felony deletion of computer data (§ 502, subd. (c)(4)) and grand theft of a microwave modular switch. (§§ 484/487.) Defendant appeals the judgment of conviction under section 499c on the ground of insufficiency of the evidence. We will reverse.

FACTS

Defendant Chung–Ta Hsieh is an engineer. In 1996, he was hired by Anritsu Microwave Measurement Division (formerly Wiltron), a Morgan Hill company that produces test equipment for sale to the communications industry ("Anritsu"). At the time defendant began working for Anritsu, the company was developing a product it called the 69000b Synthesizer. The 69000b Synthesizer was designed to convert a fixed frequency signal to a flexible, broad-band source, thereby allowing customers to test many different devices with a single instrument. The 69000b Synthesizer incorporated an IQ modulator, on which defendant worked. [2]

Eventually, defendant became dissatisfied with his employment at Anritsu. In the spring of 1997, he complained to his supervisor Eric Liu ("Liu") that his compensation was inadequate and his talent was being underutilized. Defendant also sought relief from the obligation to repay a $25,000 moving allowance that Anritsu had advanced. Negotiations proved unsuccessful in resolving the parties' differences, and the situation deteriorated further. In April 1997, Liu gave defendant a verbal warning about his work performance, followed several days later by a written warning. Defendant's employment was terminated on April 29, 1997.

PROCEDURAL HISTORY

In May 1997, law enforcement officers executed a search warrant on defendant's residence while he was away. During the search, the officers seized evidence, including a crumpled paper containing a handwritten engineering diagram, which they retrieved from the wastebasket in defendant's living room. The paper contained a simplified block diagram of the IQ modulator.

Five months later, the Santa Clara County District Attorney's Office filed a three-count felony complaint against defendant. Count one alleged grand theft of trade secrets in violation of section 499c. Counts two and three charged defendant with altering a computer system for illegal use in violation of section 502, subdivision (c)(4), and of grand theft of a microwave modular switch in violation of sections 484 and 487, subdivision (a). In March 1998, defendant was charged by information with the same violations enumerated in the complaint.

Defendant waived a jury. Court trial began January 21, 1999, and concluded on January 28, 1999. The court acquitted defendant of the second and third counts of the information, but convicted him of the first count, grand theft of a trade secret in violation of section 499c.[3] The ***55** court reduced the conviction to a misdemeanor. (§ 17.) In March 1999, the trial judge sentenced defendant to six months in the county jail, then stayed the sentence on condition that defendant complete 50 hours of uncompensated community service within one year. The court also placed defendant on supervised probation for three years.

Following sentencing, defendant filed this timely appeal.

STANDARD OF REVIEW

[1] Because defendant challenges the evidentiary support for his conviction, we "review the whole record in the light most favorable to the judgment below to determine whether it discloses substantial evidence such that a reasonable trier of fact could find the defendant guilty beyond a reasonable doubt." (*People v. Johnson* (1980) 26 Cal.3d 557, 562, 575–579, 162 Cal.Rptr. 431, 606 P.2d 738.) We view the evidence "in the light most favorable to the prosecution." (*Jackson v. Virginia* (1979) 443 U.S. 307, 319, 99 S.Ct. 2781, 61 L.Ed.2d 560.) "The court does not, however, limit its review to the evidence favorable to the respondent." (*People v. Johnson, supra,* 26 Cal.3d at p. 577, 162 Cal.Rptr. 431, 606 P.2d 738.) Rather, we examine the entire record to determine whether the evidence on each essential point is substantial. (*Ibid.*)

DISCUSSION

[2] [3] In analyzing whether a reasonable trier of fact could have convicted defendant of trade secret theft, we test the evidence in the record against the elements of the statute. By statutory definition, a trade secret must derive economic value from its secrecy, and it must be the subject of reasonable measures to protect it. (§ 499c, subd. (a)(9)(A), (B). See also, Civ.Code, § 3426.1, subd. (d)(1), (2).)[4] Theft of a trade secret requires both intent and an act of misappropriation. (§ 499c, subd. (b)(1); compare, Civ.Code, § 3426.1, subd. (b).) It is the prosecution's burden to establish each element of the crime beyond a reasonable doubt. (*Jackson v. Virginia, supra,* 443 U.S. at p. 316, 99 S.Ct. 2781. See, 1 LaFave & Scott, Substantive Criminal Law (1986) § 1.8(b), p. 68.) Proof of each element "requires more than mere conclusory and generalized allegations." (*People v. Pribich* (1994) 21 Cal.App.4th 1844, 1850, 27 Cal.Rptr.2d 113.) As we explain below, insufficient evidence ***56** as to some elements of the crime compels us to reverse defendant's conviction.

1. Trade Secret Status.

Obviously, a threshold requirement for conviction under section 499c is that the theft must involve a trade secret. (*People v. Pribich, supra,* 21 Cal.App.4th at p. 1849, 27 Cal.Rptr.2d 113.) To constitute a trade secret, the information must derive its value from not being generally known. (§ 499c, subd. (a)(9).) Furthermore, the owner of the information must undertake reasonable efforts to keep it secret. (*Ibid.*) To assess whether the hand-drawn diagram admitted at trial as Exhibit 2A is a trade secret, we examine each element of the statutory definition in turn.

a. Was the information generally known?

[4] [5] Under the statute, as at common law, there is no trade secret protection for information known either to the public at large or to those skilled in the particular field. (*Vacco Industries, Inc. v. Van Den Berg* (1992) 5 Cal.App.4th 34, 50, 6 Cal.Rptr.2d 602 [interpreting Civ.Code, § 3426.1, which incorporates the identical definition of trade secret].) "The subject of a trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business. [Citations.]" (*Kewanee Oil Co. v. Bicron Corp.* (1974) 416 U.S. 470, 475, 94 S.Ct. 1879, 40 L.Ed.2d 315.) Thus, where a company's general approach was "dictated by well known principles of physics," it was "not protectible under accepted trade secret doctrine. It was not 'secret,' for it consisted essentially of general engineering principles in the public domain and part of the intellectual equipment of technical employees." (*Winston Research Corp. v. Minnesota Min. & Mfg. Co.* (1965) 350 F.2d 134, 139. Accord, *Futurecraft Corp. v. Clary Corp.* (1962) 205 Cal.App.2d 279, 281, fn. 1, 23 Cal.Rptr. 198.)

[6] In this case, both the prosecution and the defense offered evidence about whether the information contained on People's Exhibit 2A was generally known. In cursory fashion, Liu testified for the prosecution that Exhibit 2A was secret. His direct testimony on that point, in its entirety, is as follows:

> "Q. Is that design considered proprietary by Wiltron, its property?
>
> A. Yes.
>
> Q. Is it something the company keeps secret, this design, from its competitors and others?
>
> A. Yes."

On cross-examination, Liu expanded on his earlier testimony that the information was proprietary by adding: "It's a selection of the 4 gigahertz." But Liu conceded that the figure of 4 gigahertz came from the outside vendor of the IQ modulator. Liu also conceded that defendant came up with the rest of the values on the diagram.

[7] [8] [9] For his part, defendant testified that the basic design contained in Exhibit 2A was a common receiver system, which had been in use in the industry since World War II, and which he found in an engineering text available in a bookstore. [5] ***57** He acknowledged, however, that the frequency values or parameters on the diagram were those developed while he was at Anritsu. [6]

Even assuming that the trial court properly rejected defendant's evidence that the design was commonly known to engineers, we are troubled by the prosecution's scant testimony on this point. (See, *People v. Pribich, supra,* 21 Cal.App.4th at pp. 1850–1851, 27 Cal.Rptr.2d 113, reversing a conviction under section 499c for lack of substantial evidence, where the testimony consisted of "conclusory and generalized" statements.) The People argue that *Pribich* is inapposite because it construed the predecessor statute. [7] We respectfully disagree. While it is true that *Pribich* interpreted a portion of section 499c that has since been amended, the fundamental premise of that case is sound: proof of an essential element of a crime "requires more than merely conclusory and generalized allegations." (*Id.* at p. 1850, 27 Cal.Rptr.2d 113.)

The People also seek to distinguish *Pribich,* arguing that the record in this case, unlike *Pribich,* contains evidence that the company derived economic value "from exclusive control of the information revealed in Exhibit 2A." We consider that issue now.

b. Did the information derive economic value from secrecy?

[10] [11] To constitute a trade secret, information must have actual or potential economic value that derives from its secrecy. (§ 499c, subd. (a)(9)(A).) Relevant considerations in proving value include " 'the savings effected and the value to the holder in having the information as against competitors; [ ] the amount of effort or money expended in obtaining and developing the information; and [ ] the amount of time and expense it would take for others to acquire and duplicate the information.' [Citations.]" (*State ex rel. Besser v. Ohio State Univ.* (2000) 89 Ohio St.3d 396, 399–400, 732 N.E.2d 373, 378.) But it is not enough that the information have value; under the current statute, actual or potential

economic value must *derive* from the fact that the information is secret. Thus, "a showing of value, by itself, is not sufficient to satisfy the statutory definition.... [T]he statute also requires that the information have value to other businesses which are unaware of the information and which could put that information, if known, to beneficial use." (*ABBA Rubber Co. v. Seaquist, supra,* 235 Cal.App.3d at p. 19, 286 Cal.Rptr. 518.)

[12] In this case, there was conflicting testimony about the value of circuit design files in general. There was also testimony about the development costs Anritsu incurred in its attempts to bring the 69000b Synthesizer to market. The People contend that those costs constitute circumstantial evidence of the value of the end product and, therefore, of IQ modulator component. (Cf., *People v. Gopal* (1985) 171 Cal.App.3d 524, 539, 217 Cal.Rptr. 487.) But the critical inquiry is whether the *particular design* represented by the hand-drawn diagram had actual or potential value to Anritsu *because of its secrecy.* ***58** (*ABBA Rubber Co. v. Seaquist, supra,* 235 Cal.App.3d at pp. 18–19, 286 Cal.Rptr. 518.) The only direct evidence on this point is Liu's testimony. [8] We set it out in full here:

> "Q. Is it something that the company—that has value to the company because it is secret because competitors don't know about it?
>
> A. Yes.
>
> [Defense objection overruled.]
>
> Q. Why don't you make this public—or block diagrams of this type, People's 2A, public?
>
> A. It's a computation, information. Normally we don't make that public to anybody else.
>
> Q. Does the company derive benefit from its secrecy?
>
> A. Yes."

We have the same difficulty with Liu's testimony regarding value that we have with his testimony about secrecy: it states the ultimate fact without any supporting details. The record is devoid of any foundational facts to support Liu's conclusion that Anritsu derived value from Exhibit 2A by keeping it secret.

[13] [14] [15] We recognize, of course, that " '[t]he opinion of an owner of personal property is in itself competent evidence of the value of that property, and sufficient to support a judgment based on that value. [Citations.] The credit and weight to be given such evidence and its effect ... is for the trier of fact. [Citations.]' [Citation.]" (*Resort Video, Ltd. v. Laser Video, Inc.* (1995) 35 Cal.App.4th 1679, 1700, 42 Cal.Rptr.2d 136; cf. Evid.Code, § 813, subd. (a)(2).) In this case, however, neither Liu nor any other witness assigned any particular value to the information. While it may be difficult to value a component of a product that has not yet been marketed, conclusory statements of "potential, independent economic value" are not enough to establish a trade secret in either a civil or a criminal case. (*State ex rel. Besser v. Ohio State Univ., supra,* 732 N.E.2d at p. 379; *People v. Pribich, supra,* 21 Cal.App.4th at p. 1850, 27 Cal.Rptr.2d 113.)

In *People v. Pribich, supra,* 21 Cal.App.4th 1844, 27 Cal.Rptr.2d 113, the defendant was convicted of trade secret theft for possessing a work schedule belonging to his former employer, Aquatec. At trial, a prosecution witness testified that the company would not want the schedule divulged "because it would have revealed where Aquatec was at any point in time regarding its product development." (*Id.* at p. 1850, 27 Cal.Rptr.2d 113.) As the court of appeal noted, however, the witness "did not specifically allege any advantage a competitor could obtain by theoretical access to such information. For example, there was no indication that any unspecified company could or would have worked any faster or differently if it had access to appellant's work schedule." (*Ibid.*) Testimony that the information "would be of 'great interest' to a competitor," and evidence of the company's "desire not to have any competitors know appellant's work schedule, ... do not reveal, except by an insufficient and generalized assumption, that any competitive advantage would specifically flow from the revelation of the information." (*Id.* at p. 1851, 27 Cal.Rptr.2d 113.)

In this case, too, Liu's testimony can be fairly characterized as "an insufficient and generalized assumption" of the ultimate conclusion of an unassigned and unsupported value. We find that testimony insufficient to prove beyond a reasonable doubt that the diagram derived value from secrecy, a necessary element of trade secret status.

***59** c. Did the company use reasonable efforts to maintain secrecy?

[16] "[A] trade secret is protectible only so long as it is kept secret by the party creating it." (*Vacco Industries, Inc. v. Van Den Berg, supra,* 5 Cal.App.4th at p. 50, 6 Cal.Rptr.2d 602. Accord, *Pillsbury, Madison & Sutro v. Schectman* (1997) 55 Cal.App.4th 1279, 1287, 64 Cal.Rptr.2d 698.) "[R]easonable efforts to maintain secrecy have been held to include advising employees of the existence of a trade secret, limiting access to a trade secret on 'need to know basis,' and controlling plant access.... [¶] The efforts required to maintain secrecy are those 'reasonable under the circumstances.' The courts do not require that extreme and unduly expensive procedures be taken to protect trade secrets against flagrant industrial espionage. [Citation.]" (Legis. Com. com., 12A West's Ann. Civ.Code, *supra,* § 3426.1, p. 239.)

[17] Examples of adequate security measures abound in the reported decisions. (See, e.g., *People v. Gopal, supra,* 171 Cal.App.3d at pp. 537–539, 217 Cal.Rptr. 487; *People v. Serrata* (1976) 62 Cal.App.3d 9, 23, 133 Cal.Rptr. 144; *Religious Technology Center v. Netcom On–Line Communication Services, Inc.* (N.D.Cal.1995) 923 F.Supp. 1231, 1253–1254; *MAI Systems Corp. v. Peak Computer, Inc.* (9th Cir.1993) 991 F.2d 511, 521. Compare, *Buffets, Inc. v. Klinke* (9th Cir.1996) 73 F.3d 965, 969.) Whether secrecy measures are sufficient is a factual question for the trial court. (*People v. Gopal, supra,* 171 Cal.App.3d at pp. 538–539, 217 Cal.Rptr. 487.)

[18] In this case, there was ample evidence that the company undertook reasonable general security measures at its workplace; however, with respect to safeguards for the circuit design files in particular, the evidence is less compelling.[9] Nevertheless, on this record, we cannot say that the evidence is insufficient to support the trial court's implicit finding that reasonable measures were taken to protect the secrecy of the information contained in its design files.

2. Misappropriation.

In considering whether theft was proven, we again begin with the statute. As applicable to this case, it provides: "(b) Every person is guilty of theft who, with intent to deprive or withhold the control of a trade secret from its owner, or with an intent to appropriate a trade secret to his or her own use or to the use of another, does any of the following: [¶] (1) Steals, takes, carries away, or uses without authorization, a trade secret." (§ 499c, subd. (b)(1).)

a. Did the People prove intent?

[19] [20] "Penal Code section 20 states that in every crime there must exist a union or joint operation of act, intent, or criminal negligence." (*People v. Peabody* (1975) 46 Cal.App.3d 43, 46, 119 Cal.Rptr. 780, italics omitted.) The People bear the burden of proving intent. (Cf., *In re Jorge M.* (2000) 23 Cal.4th 866, 98 Cal.Rptr.2d 466, 4 P.3d 297 [scienter required, even though statute is silent]; *People v. Simon* (1995) 9 Cal.4th 493, 516, 37 Cal.Rptr.2d 278, 886 P.2d 1271 [same].) "Where intent of the accused is an ingredient of the crime charged, its existence is a question of fact which must be submitted to the jury." (*Morissette v. United States* (1952) 342 U.S. 246, 274, 72 S.Ct. 240, 96 L.Ed. 288, ***60** cited in *Sandstrom v. Montana* (1979) 442 U.S. 510, 521–522, 99 S.Ct. 2450, 61 L.Ed.2d 39.)

[21] In this case, the prosecution was required to prove that defendant intended "to appropriate a trade secret to his ... own use or to the use of another ...." (§ 499c, subd. (b).) In our view, the crime of trade secret theft requires specific intent. In that respect, we find trade secret theft similar to other kinds of theft, which by judicial interpretation involve "the specific intent to permanently deprive the owner of its property." (*People v. Miller* (2000) 81 Cal.App.4th 1427, 1446, 97 Cal.Rptr.2d 684.) " 'The taking must be with the *specific intent to steal,* i.e., to appropriate property of another and permanently deprive him of its possession.... [Citations.]' " (*People v. Turner* (1968) 267 Cal.App.2d 440, 443, 73 Cal.Rptr. 263, original italics.)

[22] [23] In considering the specific intent necessary for a misappropriation for use under section 499c, we must consider the purpose of the statute. Section 499c was enacted out of legislative concern about industrial espionage. (*People v. Gopal, supra,* 171 Cal.App.3d at p.

541, 217 Cal.Rptr. 487.) The statute is designed to protect the actual or potential economic value of commercial secrets. We thus conclude that the proscribed criminal intent is to deprive the owner of the trade secret's value, whether for personal gain or competitive advantage. (Cf., *Religious Technology Center v. Netcom On–Line Com., supra,* 923 F.Supp. at p. 1253; *Smithfield Ham and Products Co. v. Portion Pac* (E.D.Va.1995) 905 F.Supp. 346, 350.)

[24] Furthermore, proof of the requisite specific criminal intent necessarily requires evidence that defendant understood the nature of the information as a trade secret. In a case recently before this court, a software design engineer left his employment, taking with him intellectual property that his former employer claimed as its trade secret. (*Ensoniq Corp. v. Superior Court* (1998) 65 Cal.App.4th 1537, 77 Cal.Rptr.2d 507.) Upon learning that the employee acted on the advice of counsel in taking the intellectual property, the deputy district attorney declined to prosecute for trade secret theft, concluding that there was " 'insufficient evidence to convince a jury beyond a reasonable doubt that [the employee] acted with the required criminal intent.' " (*Id.* at p. 1544, 77 Cal.Rptr.2d 507.) In this case, of course, defendant made no effort to disprove intent by showing that he acted on advice of counsel; nevertheless, it remains the People's burden to establish that defendant appreciated the nature of Exhibit 2A as Anritsu's trade secret. The California Supreme Court recently decided a case in which a minor was prosecuted for possession of a weapon in violation of the Assault Weapons Control Act (AWCA). There, our high court held that "the People bear the burden of proving the defendant *knew or reasonably should have known* the firearm possessed the characteristics bringing it within the AWCA." (*In re Jorge M., supra,* 23 Cal.4th at p. 887, 98 Cal.Rptr.2d 466, 4 P.3d 297, original italics, fn. omitted.) As the court explained, "[a]t issue here, however, is defendant's awareness of the characteristics of a possessed item rather than his awareness of the harmful consequences of an action." (*Id.* at p. 887, fn. 11, 98 Cal.Rptr.2d 466, 4 P.3d 297 [finding the requisite mens rea]; see also, *People v. Winston* (1956) 46 Cal.2d 151, 158, 293 P.2d 40 ["While specific intent to violate the law is immaterial to a conviction for the unlawful possession of a narcotic, knowledge of the object's narcotic character —that is 'knowledge that the facts exist which bring the act ... within the provisions of [the] code'—is required. [Citations.]"].)

[25] In the case before us, the evidence fails to demonstrate that defendant knew or should have known that the diagram constituted a trade secret. On this point, the record includes the testimony of investigator McMullen, who interviewed defendant ***61** after the search and confronted him with the items seized at his home. At trial, McMullen recalled defendant's statement that Exhibit 2A was not proprietary and not a big deal. [10] Defendant also testified about Exhibit 2 at trial, characterizing it as an example of a common design that could be found in an introductory engineering text. Defendant further testified, without contradiction, that he told Liu the design was "nothing new" and could not be patented. Defendant also referred to other design files as electronic scratch paper. The People offered no direct evidence that defendant believed the diagram was a trade secret; nor does the record contain any circumstantial evidence from which to infer defendant's appreciation that the information was a trade secret, apart from the general security measures in place at the company. We find the evidence of defendant's intent to misappropriate a trade secret insufficient to sustain his conviction.

b. Did the People prove defendant's "use" of the trade secret?

[26] In addition to establishing intent, the People must also prove the act of misappropriation beyond a reasonable doubt. The statute punishes one who "[s]teals, takes, carries away, or uses without authorization, a trade secret." (§ 499c, subd. (b)(1).) Here, defendant was accused of using the information in the diagram without authorization.

Again, as with intent, evidence that defendant used the information came in solely through his own testimony and that of investigator McMullen. The investigator testified to defendant's admission that he drew Exhibit 2A for a job presentation but conceded defendant's further statement that he had decided against using the diagram for that purpose. In his own trial testimony, defendant admitted that he drew the diagram to use during a job interview as an example of a simple circuit design. Viewing the record in the light most favorable to the prosecution, it further appears that defendant admitted to actually using the diagram during that job interview. [11] Defendant's job interview was with a company called Thermatrax, which is not Anritsu's competitor.

At most, then, the evidence shows that defendant used the diagram in an interview with a company that did not compete with his former employer. At trial, even the prosecutor conceded that the misappropriation at issue in this case was not the typical unfair competition violation. Nevertheless, he urged the trial court to adopt the broadest statutory interpretation of "use" of the trade secret.

[27] On appeal, the People do not directly urge a broad definition of misappropriation by use. Instead, they simply rely on defendant's testimony that he did use the diagram in a job interview. But we cannot ignore that under the unique facts of this case, defendant's conviction extends the reach of the penal statute beyond traditional notions of trade secret misappropriation. According to the Legislative Counsel, "[t]he following statement would be consistent with S.B. No. 69, which added this section [499c] in 1967: 'It is intended that the bill not apply to the mobile employee who retains in his mind information and knowledge acquired while in the employ of one employer and uses or gives it in service of a later employer. ***62** The intent is to promote the proper development of scientific and technical trade secrets while at the same time avoiding undue restrictions on the availability of information for which persons in the course of their personal experience have developed or acquired. Thus copies of articles representing trade secrets which are not made at the time that there is access to the article by reason of occupying a position of trust and confidence are not intended to be with the scope of the operation of S.B. No. 69.' (Op.Leg.Counsel, 1967 A.J.1997, 1967 S.J. 1328.)" (48A West's Ann. Pen.Code (1999 ed.) § 499c, p. 608.) The People argue that this opinion has no continuing vitality in light of subsequent statutory amendments, and they further contend that the result it suggests is absurd. We respectfully disagree, particularly as it applies here. In this case, there is only the most meager evidence that defendant used the information at all, and no suggestion whatsoever that he put the information into the hands of a competitor for personal gain. Even in civil cases, trade secret law is not designed to preclude an employee's "use of knowledge, a good deal of which certainly is his own or belongs to the public domain, gained by him through his own industry and intellectual faculties, independently of any association with [his employer], and inextricably interlaced with any knowledge he may have acquired through his employment...." (*Futurecraft Corp. v. Clary Corp., supra,* 205 Cal.App.2d at p. 281, fn. 1, 23 Cal.Rptr. 198, italics omitted. Compare, *Morlife, Inc. v. Perry* (1997) 56 Cal.App.4th 1514, 1523, 1525–1527, 66 Cal.Rptr.2d 731.) And "to constitute a criminal act the defendant's conduct must go beyond that required for civil liability.... [Citations.]" (*People v. Peabody, supra,* 46 Cal.App.3d at p. 47, 119 Cal.Rptr. 780 [criminal negligence statutes].)

For all of the foregoing reasons, we conclude that the record contains insufficient evidence to support defendant's criminal conviction for trade secret theft. [12]

DISPOSITION

The judgment of conviction is reversed. The trial court is directed to dismiss the information and to order that any fine or restitution paid by defendant be remitted to him.

PREMO, Acting P.J., and BAMATTRE–MANOUKIAN, J., concur.

All Citations

103 Cal.Rptr.2d 51, 2001 Daily Journal D.A.R. 613

Footnotes

* The Supreme Court ordered that the opinion be not officially published. (See California Rules of Court Rules 976 and 977.)

1 All further statutory references are to the Penal Code unless otherwise specified.

2 An IQ (interface/quadface) modulator produces a wave frequency, such as a microwave or a radio wave, which is used for testing communications devices. The IQ modulator for the 69000b was purchased from an outside vendor. Defendant's

job was to design additional circuits for the IQ modulator, including microwave mixers, doublers, and filters. He also worked on the circuit layout drawings, and was expected to assist in integrating the modified IQ modulator into the 69000b Synthesizer. In the creation of a circuit, design precedes layout, and layout precedes fabrication of a prototype. Once the prototype tests successfully, the individual circuit is ready for integration with other components.

3 Section 499c provides in pertinent part as follows: "(a)(9) 'Trade secret' means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: [¶] (A) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and [¶] (B) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. [¶] (b) Every person is guilty of theft who, with intent to deprive or withhold the control of a trade secret from its owner, or with an intent to appropriate a trade secret to his or her own use or to the use of another, does any of the following: [¶] (1) Steals, takes, carries away, or uses without authorization, a trade secret. [¶] (2) Fraudulently appropriates any article representing a trade secret entrusted to him or her. [¶] (3) Having unlawfully obtained access to the article, without authority makes or causes to be made a copy of any article representing a trade secret. [¶] (4) Having obtained access to the article through a relationship of trust and confidence, without authority and in breach of the obligations created by that relationship, makes or causes to be made, directly from and in the presence of the article, a copy of any article representing a trade secret."

4 Significantly, the Penal Code and Civil Code definitions of "trade secret" are identical. (§ 499c, subd. (a)(9); Civ.Code, § 3426.1, subd. (d).) Civil Code sections 3426–3426.1 codify California's adoption of the Uniform Trade Secrets Act ("UTSA"). (See, Legis. Counsel's Dig., Assem. Bill No. 2191, Stats.1996, ch. 121: "This bill would conform Penal Code definition of trade secret with that of the Uniform Trade Secrets Act.") For that reason, decisions interpreting the Civil Code definition of "trade secret" are relevant to our analysis here. We also observe that even cases predating California's adoption of UTSA are persuasive, since the Act codifies common law. (See Note, *The Secret's Out: California's Adoption of the Uniform Trade Secrets Act—Effects on the Employer–Employee Relationship* (1987) 20 Loyola L.A. L.Rev. 1167, 1198, fn. 155, 1212, fn. 226, 1215, fn. 235.)

5 The relevant portion of that book was admitted at trial as defendant's Exhibit F. To the extent that Exhibit F and defendant's testimony demonstrate that the information in the diagram may be freely obtained, they do not bear on the definitional issue. "[W]hether a fact is 'readily ascertainable' is not part of the definition of a trade secret in California." (*ABBA Rubber Co. v. Seaquist* (1991) 235 Cal.App.3d 1, 21, 286 Cal.Rptr. 518. Accord, (*Imax Corp. v. Cinema Technologies, Inc.* (9th Cir.1998) 152 F.3d 1161, 1168, fn. 10.) However, "the assertion that a matter is readily ascertainable by proper means remains available as a defense to a claim of misappropriation." (Legis. Com. com., 12A West's Ann. Civ.Code (1997 ed.) § 3426.1, p. 239.) Accord, *ABBA Rubber Co. v. Seaquist, supra,* 235 Cal.App.3d at p. 21, fn. 9, 286 Cal.Rptr. 518; *Imax Corp. v. Cinema Technologies, Inc., supra,* 152 F.3d at p. 1168, fn. 10. See generally, Note, *supra,* 20 Loyola L.A. Law Rev. at pp. 1200–1201, 1213–1214.) "Information is readily ascertainable if it is available in trade journals, reference books, or published materials." (Legis. Com. com., 12A West's Ann. Civ.Code, *supra,* § 3426.1, p. 239.)

6 Even accepting that the particular parameters were proprietary to Anritsu, it is not clear that trade secret protection follows, for "a valve manufacturer has no advantage over his competitor simply in having a unique configuration, a unique way in which he arranges and uses the commonly held or available knowledge, ideas and mechanical principles relating to the art." (*Futurecraft Corp. v. Clary Corp., supra,* 205 Cal.App.2d at p. 281, fn. 1, 23 Cal.Rptr. 198.)

7 The prior version of 499c defined a trade secret as information that "gives one who uses it an advantage over competitors who do not know of or use the trade secret...." (Former § 499c, subd. (a)(9); see Stats.1983, ch. 933, § 2, p. 3379. And see generally, Note, *supra,* 20 Loyola L.A. L.Rev. at p. 1200.) The statute was amended in 1996. (Stats.1996, ch. 121, § 1.) The current version of section 499c applies here.

8 In his closing argument at trial, the prosecutor argued that a competitor might be able to identify Anritsu's prospective customers from the information disclosed on Exhibit 2A. But there was no testimony to that effect at trial. Nor does the record contain any evidence from which such an inference could be drawn. (See, *People v. Pribich, supra,* 21 Cal.App.4th at p. 1851, 27 Cal.Rptr.2d 113.)

9 For general security, Anritsu restricted access to its building by requiring employees to use key badges. In addition, the company required defendant (and, presumably, other employees) to sign an agreement governing proprietary inventions. But Anritsu's design files were not subjected to such strict measures. For example, defendant sometimes worked on them at home. And even at the workplace, defendant did design work at his own computer instead of the company's common

workstation. Finally, there was no explicit company policy requiring engineers to retain or safeguard circuit design files, other than the constraints of good engineering practice.

10 McMullen also testified that defendant expressed his belief that the layout drawings, not the designs, were important to the company, and that he had turned those drawings over to Anritsu's mechanical engineer before leaving the company. The relative importance of the layout drawings as compared to circuit designs was confirmed by a defense expert witness and was uncontradicted.

11 We note, however, that defendant seemed confused in his testimony on this point, at least as to the time frame of the interview. The trial court also appeared to harbor some doubt as to whether defendant actually used the diagram, asking questions of counsel during argument about whether intent alone was a sufficient predicate for conviction.

12 Our decision in this case is not intended to affect any civil proceedings that may be pending between defendant and Anritsu.

End of Document

5 Cal.App.4th 34, 6 Cal.Rptr.2d 602

VACCO INDUSTRIES, INC., et al., Plaintiffs and Respondents,
v.
TONY VAN DEN BERG et al., Defendants and Appellants

No. B046336.
Court of Appeal, Second District, Division 3, California.
Apr 2, 1992.
As Modified April 14, 1992.

SUMMARY

Following jury trial, plaintiff electronics corporations received compensatory and punitive damages and injunctive relief for the misappropriation of plaintiffs' trade secrets by defendant individuals and corporation. In addition, plaintiffs received a posttrial award of attorney fees, including an award against one individual under the third party tortfeasor doctrine. One defendant individual had been a stockholder in one plaintiff corporation. He sold the stock and entered into an employment contract that included a noncompetition agreement. Plaintiff corporation wrongfully terminated him, and he used plaintiff's designs to produce competitive products. (Superior Court of Los Angeles County, No. C537257, Robert H. O'Brien, Judge.)

The Court of Appeal modified the judgment by striking the attorney fee award against the individual assessed fees under the third party tortfeasor doctrine, and as modified, affirmed. It held that the noncompetition agreement was enforceable under Bus. & Prof. Code, § 16601 (noncompetition agreement valid where promisor sells all shares of stock in corporation), and that the wrongful termination did not discharge defendant from the noncompetition clause, since the contractual obligations were not interdependent. The court held that substantial evidence supported the finding that defendants had misappropriated protected trade secrets. It also held that an attorney fee award based on a third party tortfeasor doctrine may not be awarded on posttrial motion, but rather constitutes damages subject to pleading and proof before the trier of fact. It further held that this action was essentially a two-party lawsuit, and thus an award of fees under the third party doctrine was not legally justified. (Opinion by Croskey, J., with Klein, P. J., and Hinz, J., concurring.)

HEADNOTES

Classified to California Digest of Official Reports

(1)
Damages § 22.4--Punitive Damages--Relation to Defendant's Wealth-- Burden of Proof.
An award of punitive damages must be supported by substantial evidence of the defendant's financial condition.

(2a, 2b)
Contracts § 11--Legality--Contracts in Restraint of Trade-- Party Selling All Shares of Stock in Company.
A party's noncompetition agreement with his employer corporation was enforceable, where the party had sold all his shares of stock in the employer prior to entering into the agreement. Bus. & Prof. Code, § 16601, provides an exception to the general rule that contracts restraining engagement in a lawful business are void (Bus. & Prof. Code, § 16600) in a circumstance where a party sells the goodwill of a business or all shares of stock in a corporation. The party had owned 3 percent of the corporation when all its stock was sold to a third party, and he received $500,000 of the total $23 million for the sale. Even if Bus. & Prof. Code, § 16601, only applies to a substantial shareholder, in the context of the transaction, the party was a substantial shareholder. He was the ninth largest shareholder in the corporation, he was one of its principal officers, and the purchase of his stock was essential to the purchaser's stated goal of acquiring all the corporation's stock.

(3)
Contracts § 11--Legality--Contracts in Restraint of Trade--Non-competition Agreement.
Bus. & Prof. Code, §§ 16600, 16601 (contracts restraining competition), are codifications of the common law and are to be construed and interpreted reasonably in light of the common law decisions on the same subject. At

common law, a restraint against competition was valid to the extent it reasonably provided protection for a valid interest of the party in whose favor the restraint ran. The purchaser of a business is entitled to negotiate and enforce an agreement by the seller of the business imposing a reasonable restriction on competition by the seller on the theory that such competition would diminish the value of the business which had been purchased. In order to protect the buyer from that type of unfair competition, a covenant not to compete will be enforced to the extent that it is reasonable and necessary in terms of time, activity, and territory to protect the buyer's interest.

(4)
Contracts § 11--Legality--Contracts in Restraint of Trade-- Noncompetition Agreement--Territorial Limits.
Bus. & Prof. Code § 16601, describes the permissible territory covering a valid noncompetition agreement as “a specified county or counties, city or cities, or part thereof, ...” However, it has not been so limited by case law. Covenants have been approved with defined territories extending beyond California and, indeed, to the entire country. Also, the area where a business is “carried on” is not limited to the locations of its buildings, plants, and warehouses, nor the area in which it actually makes sales. The territorial limits are coextensive with the entire area in which the parties conduct all phases of their business including production, promotional, and marketing activities as well as sales.

(5)
Employer and Employee § 5--Contracts of Employment--Mutual Duties and Rights--Employer's Wrongful Termination of Employment Contract--Subsequent Enforceability of Employee's Agreement Not to Compete.
An employee's noncompetition agreement with his employer was enforceable, notwithstanding the employer's wrongful termination of the employee. There was nothing to suggest that the employment agreement and the noncompetition agreement imposed dependent obligations or that the performance of the one was a condition of an obligation to perform the other. Indeed, the noncompetition agreement, as a practical matter, necessarily contemplated that the employee's employment would at some point be terminated. If the termination was wrongful, or in breach of the employment agreement, the employee would have a clear remedy in contract. Also, the agreement not to compete was given in exchange for the employee's sale of stock in the company, a matter quite apart from his employment. Finally, there was no reason to believe that any of the parties considered performance of the obligations under these two agreements to be dependent.

(6a, 6b, 6c, 6d)
Unfair Competition § 7--Use of Trade Secrets-- Using Product Designs.
In an unfair competition action, there was substantial evidence to support the jury's finding that defendants had misappropriated protected trade secrets to engage in competitive business. Thus, the trial court's enjoining defendants' further use and enjoyment of plaintiff's trade secrets was appropriate. The evidence demonstrated that plaintiff corporation's plans and designs for its products were protectible trade secrets both at common law and under the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.). It was also clear from the evidence that plaintiff treated them as secrets and took reasonable steps to protect them. Defendants, specifically plaintiff's former employee, obtained these secrets improperly. Their tortious acts resulted from a breach of confidence by the former employee in copying or stealing plans, designs, and other documents related to plaintiff's products, which defendants themselves wanted to produce in competition with plaintiff.

(7)
Unfair Competition § 7--Use of Trade Secrets--Protected Secrets.
Pursuant to the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.), a trade secret is protectible only so long as it is kept secret by the party creating it. If a purported trade secret is fully disclosed by the products produced by use of the secret, then the right to protection is lost.

(8)
Unfair Competition § 7--Use of Trade Secrets--Applicable Law.
In an action in which plaintiff corporation alleged defendants' misappropriation of trade secrets occurring both before and after the effective date of the Uniform

Trade Secrets Act (Civ. Code, § 3426 et seq.), both common law and statutory standards determining misappropriation of protected trade secrets applied. If the two schemes conflicted, the provisions of the act would control.

(9)

Unfair Competition § 8--Actions--Misappropriation of Trade Secrets-- Pretrial Notice Identifying Trade Secrets--Subsequent Amendment to Notice.

In an action for misappropriation of trade secrets, plaintiffs properly identified the trade secrets which they sought to protect as required by Code Civ. Proc., § 2019, subd. (d), prior to commencing discovery. The record reflected that plaintiffs filed a notice identifying trade secrets for which they sought protection. After discovery commenced, this notice was amended several times. There was no error in this procedure, and the trial court did not abuse its discretion in denying defendants' motion *in limine* in which defendants sought to limit plaintiffs to the trade secrets described in their original notice.

(10a, 10b, 10c)

Unfair Competition § 7--Use of Trade Secrets--By Wrongfully Terminated Employee.

A corporation's wrongful termination of an employee did not excuse the employee's tortious invasion of the corporation's common law and statutory (Civ. Code, § 3426 et seq.) right to protect its trade secets. Thus, the unclean hands doctrine did not operate to bar the corporation's action alleging misappropriation of trade secrets. Plaintiff corporation obtained compensatory and injunctive relief arising from defendants' tortious misappropriation of trade secrets and defendant employee's breach of a noncompetition agreement. Plaintiff's misconduct in terminating the employee did not implicate the equities between the parties. The termination of the employee implicated only his contract for a term of employment and had nothing to do with his obligation, or that of other defendants, to refrain from tortious invasion of plaintiff's proprietary rights.

(11)

Equity § 11--Principles and Maxims--Unclean Hands Doctrine-- Exception--Misconduct in Unrelated Transaction.

One who seeks equity must do equity. This is a principle which has application in a legal action as well as one in equity, and it is more than a mere banality. It is a self-imposed ordinance that closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he or she seeks relief, however improper may have been the behavior of the defendant. However, this rule is not without an important exception. It does not call for denial of relief for just any past improper conduct. The misconduct which brings the unclean hands doctrine into operation must relate directly to the transaction concerning which the complaint is made, i.e., it must pertain to the very subject matter involved and affect the equitable relations between the litigants.

(12)

Corporations § 39--Officers and Agents--Liability--Corporation's Misappropriation of Trade Secrets.

In a corporation's action for misappropriation of trade secrets, defendant individuals were not relieved of liability, even if the individuals simply acted as the officers of their corporate principal. As employees and agents of the misappropriating corporation, the individuals were jointly liable for torts committed in the corporate name.

(13)

Costs § 20--Attorney Fees--Statutory Authorization--Misappropriations of Trade Secrets.

In an action for misappropriation of trade secrets, there was statutory authorization for the trial court's posttrial assessment of attorney fees to be imposed jointly against three defendants. Civ. Code, § 3426.4, authorizes an award of attorney fees in misappropriation cases. In order to justify fees under § 3426.4, the court must find that a “willful and malicious misappropriation” occurred. That requirement was satisfied by the jury's determination, upon clear and convincing evidence, that defendants' acts of misappropriation were done with malice. This finding was necessary to the award of punitive damages made by the jury. However, it was also sufficient to justify the statutory portion of the fee award. Moreover, the court did not err in determining that plaintiffs were the prevailing party, notwithstanding adverse jury findings and assessment of damages against plaintiffs in defendants' cross-complaint, since plaintiffs received a net monetary recovery and received a substantial nonmonetary victory in the form of injunctive relief. Finally, attorney fees under § 3426.4 are fixed by the court in a posttrial noticed motion, and are not subject to determination by a jury.

(14)
Costs § 20--Attorney Fees--Statutory Authorization--Misappropriations of Trade Secrets--Allocation Pursuant to Effective Date of Governing Statute.
In an action for misappropriation of trade secrets that occurred both before and after the effective date of the Uniform Trade Secrets Act (Civ. Code, § 3426 et seq.), the trial court did not abuse its discretion in its allocation of attorney fees to be imposed among three defendants. While the provisions of Civ. Code, § 3426.10, clearly require an allocation of attorney fees so that no fees are awarded relative to any misappropriation which occurred prior to January 1, 1985 (effective date of the act), nothing further was required of the trial court in order to validate the award. There was an allocation of the total fees made in plaintiffs' application of their total requested fees. They only claimed that one-third were attributable to defendants' post-January 1, 1985, conduct. The trial court in making the requested award impliedly found such allocation to be reasonable. This implied finding was supported by substantial evidence of defendants' continuing use of plaintiffs' trade secrets after January 1, 1985. Further, the defendants made no objection to this allocation in the trial court, and thus waived the issue.

(15a, 15b)
Costs § 16--Attorney Fees--Third Party Tortfeasor Doctrine-- Individual Defendant in Misappropriation of Trade Secrets Action:Words, Phrases, and Maxims--Third Party Tortfeasor Doctrine.
In a misappropriation of trade secrets action against corporate and individual defendants, the trial court erred in its posttrial imposition of attorney fees against one individual under the third party tortfeasor doctrine. Under this doctrine, a party may seek attorney fees from a tortfeasor whose conduct caused the party to bring an action against a third party. Attorney fees under this doctrine are damages that must be pleaded and submitted to the trier of fact. Thus, any award required a jury finding, rather than a posttrial proceeding. Moreover, the misappropriation action was a two-party action. The individual, working together with another person and their corporate vehicle, jointly committed the tortious acts of which plaintiffs complained. There was no reason to single out the individual as the one whose conduct caused plaintiffs to prosecute a legal action against the other defendants. The third party tortfeasor doctrine was not intended to apply to one of several joint tortfeasors in order to justify additional attorney fees damages.

(16)
Appellate Review § 50--Presenting and Preserving Questions in Trial Court--Attorney Fees--Award Under Third Party Tortfeasor Doctrine.
In a misappropriation of trade secrets action in which the trial court imposed attorney fees jointly against all three defendants and additional attorney fees against one defendant under the third party tortfeasor doctrine, defendants' failure to object to the allocation of the joint award did not waive the issue of whether the fee award under the doctrine was proper.

COUNSEL
Limbach, Limbach & Sutton, John P. Sutton and Peter G. Carroll for Defendants and Appellants.
Browne & Woods, Allan Browne and Laura Seraso for Plaintiffs and Respondents.

CROSKEY, J.

Defendants and appellants Tony Van Den Berg ('Van Den Berg'), Thomas Eastlack ('Eastlack') and Kamer Solenoid, Inc., a California corporation ('Kamer'; collectively 'defendants') appeal from a judgment entered against them following a jury verdict in favor of the plaintiffs and respondents Vacco Industries, Inc., a California corporation ('Vacco') and ***41** Emerson Electric Co., a Missouri corporation ('Emerson'; collectively, 'plaintiffs '). Plaintiffs were awarded compensatory and punitive damages, as well as injunctive relief, for defendants' misappropriation of plaintiffs' trade secrets. In addition, plaintiffs received a post trial award of attorney's fees in the sum of $526,360. We affirm the judgment after striking the portion of the fee award which was based on the third party tortfeasor doctrine. The award of fees under that doctrine was both procedurally and substantively incorrect. Such fees may not be awarded by the court on a post trial motion, but rather are damages subject to pleading and proof before the trier of fact. As to the substantive issue, this is essentially a 'two- party' lawsuit and an award of fees under the third party doctrine is not legally justified.

Factual and Procedural Background [1]

Van Den Berg went to work for Vacco in November of 1961. During his tenure, which ended in February 1984, he held a number of positions, including truck driver, machinist, technician and engineer. By the early 1980's he had worked his way up to the position of operations manager and was an officer of the corporation. He also periodically purchased Vacco common stock and ultimately acquired approximately three percent (3%) of the outstanding shares.

Vacco, during the period of Van Den Berg's employment, was engaged in the highly competitive business of developing, designing, producing and marketing technologically complex products for the military and the aerospace, petrochemical and nuclear power industries. Several of those products are specifically relevant to this action:

1. A so-called 'quiet manifold' which was utilized by the U.S. Navy on its nuclear submarines. Vacco developed this product utilizing its own technology and development money over a two and one-half year period;

2. A three-way bypass valve, used on board submarines and surface craft belonging to the U.S. Navy, which controlled the movement of high pressure steam essential to the Navy's propulsion systems; and

3. Filters (consisting of stacked metal discs) utilized by private and governmental customers to filter contaminants. ***42**

Each of these products was produced by the use of Vacco's manufacturing and engineering technology, engineering notes, initial, preliminary and final drawings, quality controls and testing procedures. [2] Vacco considered all of this information to be proprietary and confidential and it undertook reasonable efforts to keep it secret. These efforts included (1) extensive internal controls (e.g., visitor logs, sign-out sheets for proprietary documents and a document destruction policy), (2) availability and required use of locked storage cabinets in the engineering department and (3) strict security control measures with respect to documents which necessarily had to be made available to third party vendors or subcontractors. [3] Engineering notes were never made available to third parties nor were detailed plans or drawings which Vacco used in the manufacturing process.

Eastlack joined Vacco in January 1975 and remained with the company until early 1983. During this period of time he served as a contracts manager and monitored the cost and scheduled performance of contracts with Vacco customers. He thus gained substantial personal knowledge concerning a large number of Vacco products, including those which are particularly relevant here, and communicated directly with a number of Vacco customers regarding those products.

On August 2, 1983, Vacco entered into an agreement with Emerson in which Emerson agreed to purchase all of Vacco's stock at a price of $27.81 per share for a total purchase price of approximately $23 million for all of the outstanding shares. Apparently in anticipation of this sale, Vacco entered into employment contracts with a number of key employees, and separate non-competition agreements with twelve major shareholders. Van Den Berg's employment contract was signed on August 17, 1983. He entered into the non-competition agreement on September 23, 1983. Although these agreements were expressly motivated by and directly and integrally dependent ***43** upon the stock sale to Emerson, neither cross-referenced or referred to the other. [4]

Under the terms of the non-competition agreement Van Den Berg acknowledged that he was selling *all* of his shares of Vacco stock to Emerson and he agreed that he would not carry on any business competitive with the business of Vacco for the *lesser* of (1) 5 years from the date of the agreement or (2) 'so long as Vacco conducts the Business within the territory.' [5] Contemporaneously with his execution of this agreement, Van Den Berg sold all of his shares to Emerson and was paid the sum of $500,000.

In spite of the provisions of his employment agreement, Van Den Berg was terminated in February 1984. [6] While there was evidence at trial that he had misappropriated company funds for his own personal use and that was why Vacco had terminated him, that was disputed by Van Den Berg. The evidence which he produced showed that such reason by Vacco management was false or pretextual and that his termination was wrongful. As the jury accepted Van Den Berg's evidence as persuasive, and found for him on his cross-complaint (see, *infra*), we accept that he was wrongfully terminated from his job. [7]

Just prior to his termination, Van Den Berg and Eastlack, who had left Vacco earlier, acquired all of the stock of Kamer. [8] At the time, Kamer was engaged in the business of manufacturing solenoid products and had for a number of years been a subcontractor to Vacco, but had never sold products in competition with Vacco. The evidence at trial showed that prior to his termination Van Den Berg had also done the following: ***44**

(1) In the summer of 1983, received at his home from his brother Jacob Van Den Berg, who was then employed by Vacco (but later became an employee of Kamer), two boxes containing a complete set of *all* of Vacco's proprietary plans and drawings, including those for the quiet manifold;

(2) About six months prior to his termination, Van Den Berg instructed Vacco employees to break the welds on numerous 'quiet elements' (a critical part of the quiet manifold) and put each sub-part of each element on a labelled index card with a pertinent description so that a complete configuration of each different quiet element would be set forth on the card;

(3) In June or July of 1983, Van Den Berg told a fellow officer and shareholder that he had taken quiet manifold detailed plans and drawings so that he could go into the Vacco 'spare parts' business.

Following his termination and several weeks after he and Eastlack had acquired the stock of Kamer, Van Den Berg, on behalf of Kamer, began to directly solicit Vacco customers and to sell those customers products in competition with Vacco. For example:

(1) Contracts were entered into with the U.S. Navy to sell the same three-way bypass valve which Vacco was also selling;

(2) In 1984, 1985, and 1986 offers to the U.S. Navy were made to sell quiet manifolds and component parts therefore. In June of 1984, defendants offered to design and produce *all* of the parts of the quiet manifold *and* a complete set of drawings for all of the quiet manifolds in 180 days. Evidence at trial showed that (a) it took Vacco 300 days to produce the manifolds without regard to the time necessary to prepare the drawings and (b) it would be impossible to design and build a quiet manifold without using Vacco's drawings; and

(3) Sometime after he left Vacco's employ, Van Den Berg designed a drawing for a pilot-operated control device to meet a customer's specifications. The bid file maintained by Kamer for that customer contained, *at the time Van Den Berg prepared the drawing,* a preliminary Vacco drawing with engineer's notes for the same product. The Vacco drawing contained a proprietary legend (see fn. 3, *ante*) and substantial evidence reflected that Vacco had never authorized the transmission of this drawing to either Kamer or Van Den Berg.

On March 5, 1985, plaintiffs commenced this action seeking damages for (1) breach of Van Den Berg's non-competition agreement, (2) breach of the ***45** implied covenant of good faith and fair dealing, (3) unfair competition, (4) misappropriation of trade secrets, (5) breach of fiduciary duty, and (6) interference with business relations. Defendants filed an answer and a cross-complaint in which they sought damages for (1) interference with business relations, (2) breach of Van Den Berg's employment contract and (3) wrongful termination of Van Den Berg.

After completion of discovery and a spate of inconclusive law and motion proceedings the case went to trial on May 15, 1989, on the issues raised by these competing pleadings. The jury returned a verdict which resulted in a near standoff between the parties. [9]

(1) The jury concluded that Van Den Berg had breached his non-competition agreement and that the three defendants had misappropriated Vacco's trade secrets, engaged in unfair competition and breached their fiduciary duties. Compensatory damages totalling $15,442 were awarded. In addition, the jury found that punitive damages were appropriate and awarded the total sum of $17,500, payable $10,000 by Van Den Berg, $5,000 by Eastlack and $2,500 by Kamer.

(2) The jury also found that Van Den Berg had been wrongfully terminated and awarded him $24,500 in damages against Vacco on his cross-complaint.

Subsequent to the jury verdict, the trial court denied defendant's motion for judgment notwithstanding the verdict, but did grant plaintiffs' motion for (1) an injunction against defendants and (2) attorney's fees under the Uniform Trade Secrets Act (Civ. Code, §§ 3426-3426.10) as provided in Civil Code section 3426.4 [10] and under the third party tortfeasor doctrine. (*Prentice v. North Amer. Title Guar. Corp.* (1963) 59 Cal.2d 618, 30 Cal.Rptr. 821, 381 P.2d 645.) Defendants had opposed the request for injunction on the ground that Vacco's wrongful termination of Van Den Berg barred such relief under the doctrine of 'unclean hands.' The trial court rejected this argument on the principle that the doctrine does not apply to misconduct unconnected with the matter in litigation and that Van Den Berg's termination had no relevant connection with the grounds for injunction. ***46**

Defendants resisted the award of attorney's fees on the grounds that (1) Vacco was not the prevailing party and was not entitled to fees, (2) there was no statutory basis for fees and (3) fees under the *Prentice* rule were 'damages' which had to be pled and proven before the jury, not determined by the judge in a post-trial motion. Again, the trial court disagreed and concluded that the jury's determination to award punitive damages was sufficient to permit the court to conclude that the misappropriation was willful and malicious. Thus, an award of fees under Civil Code section 3426.4 was justified. The sum of $175,453.33 was awarded jointly against the three defendants. In addition, the court ordered the sum of $350,906.67 to be paid by Van Den Berg alone under the third party tortfeasor doctrine. However, the court's order provides no factual or legal justification for this award other than the introductory comment that 'no issue is taken with the apportionment between the claims under CC 3426.4 and the *Prentice* theory' (emphasis added). The court did not acknowledge or discuss the objections raised by Van Den Berg as to this portion of the fee award.

The trial court signed the final judgment on September 7, 1989 and defendants have prosecuted this timely appeal.

Issues Presented

As we have already noted, there seems little dispute that substantial evidence supports the conclusions reached by the jury. Indeed, neither party makes any serious argument to the contrary. The issues that are presented to us are purely legal and we characterize them, although somewhat differently than the articulation by the parties, in the following manner:

1. Is Van Den Berg's non-competition agreement enforceable? This necessarily involves a consideration of the impact of Vacco's wrongful termination of Van Den Berg's employment and the applicability of Business and Professions Code section 16601.

2. Did Vacco have protectible trade secrets?

3. What impact did Vacco's wrongful termination of Van Den Berg have on defendants' liability?

([1]) **(See fn. 11.)** 4. Is there a proper basis for the award of attorney's fees? [11]

Discussion

As we have already noted, defendants essentially concede that substantial evidence was presented to support the trial court's factual determinations. ***47** The principal position they take here, as they did in the trial court, is that, *as a matter of law,* plaintiffs had no trade secrets to be misappropriated and they had no obligation not to compete. They contend that the non-competition agreement was void and that the products which they sought to sell were not subject to trade secret protection. They also argue that Vacco's wrongful termination of Van Den Berg bars any relief and that there is no legal basis for the award of any attorney's fees. We discuss each of these contentions.

1. *The Noncompetition Agreement Is Enforceable*

([2a]) Business and Professions Code section 16600 provides that, subject to certain exceptions, ‘every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void.‘ Based on this statutory proscription, Van Den Berg argues that his agreement not to compete with Vacco for a period of five years after the sale of his stock is invalid and unenforceable.

However, one of the statutory exceptions to this rule is set forth in section 16601. [12] That section permits agreements not to compete made by a party selling the goodwill of a business or *all* of the shares of stock in a corporation. That, of course, is just what Van Den Berg did here. He sold all of his stock in Vacco and was paid $500,000.

([3]) Sections 16600 and 16601 are codifications of the common law and are to be construed and interpreted reasonably in light of the common law decisions on the same subject. (*Centeno v. Roseville Community Hospital* (1979) 107 Cal.App.3d 62, 68 - 6,9 167 Cal.Rptr. 183.) At common law, a restraint against competition was valid to the extent it reasonably provided protection for a valid interest of the ***48** party in whose favor the restraint ran. (*Monogram Industries, Inc. v. Sar Industries, Inc.* (1976) 64 Cal.App.3d 692, 698, 134 Cal.Rptr. 714.)

The purchaser of a business is entitled to negotiate and enforce an agreement by the seller(s) of the business imposing a reasonable restriction on competition by the seller(s) on the theory that such competition would diminish the value of the business which had been purchased. ‘In order to protect the buyer from that type of 'unfair' competition, a covenant not to compete will be enforced to the extent that it is reasonable and necessary in terms of time, activity and territory to protect the buyer's interest. [Citation.]‘ (*Monogram Industries, Inc. v. Sar Industries, Inc.,* 64 Cal.App.3d at p. 698, 134 Cal.Rprtr 714; see also *Fleming v. Ray-Suzuki, Inc.* (1990) 225 Cal.App.3d 574, 581 - 582, 275 Cal.Rptr. 150.) [13]

([2b]) Van Den Berg argues that this exception to the general rule should not apply to him because he was not a ‘substantial shareholder.‘ He stresses that he owned less than 3 percent of Vacco's stock and received only $500,000 of the $23,000,000 purchase price. He relies on *Bosley Medical Group v. Abramson* (1984) 161 Cal.App.3d 284, 207 Cal. Rptr. 477, where the court held that the exception of section 16601 was intended to apply only to the sale of such a substantial portion of the stock as would permit the conclusion that the corporation's good will had also been transferred. (*Bosley, supra,* 161 Cal.App.3d at pp. 289 - 290, 207 Cal.Rprtr 477.) However, that rule must be read in light of the factual context in which *Bosley* announced it. A Dr. Abramson was hired by the Bosley Medical Group and was required to purchase about nine percent (9%) of the corporation's shares. His employment agreement required him, upon termination, to resell his stock and as part of such resale he would agree not to compete for three years. The court found that this agreement was a transparent sham designed to get around the statutory proscription in section 16600 and refused to enforce it. The purpose of this agreement made little sense except as a device to prevent Dr. Abramson from competing with Bosley.

Bosley has no application here. First, there was nothing sham about the purchase of Van Den Berg's stock. The purchase was not a device to impose ***49** an otherwise illegal restraint upon his future commercial activities. Second, Van Den Berg was, in the context of this transaction, a substantial shareholder. He was the ninth largest shareholder in the corporation and was one of its principal officers. The purchase of his stock was essential to Emerson's stated goal of acquiring *all* of Vacco's stock. Even assuming *Bosley* correctly imposes a substantiality test, it was clearly satisfied here.

([5]) Van Den Berg next argues that Vacco's wrongful termination of his employment, in violation of the August 17, 1983, Employment Agreement, discharged his contractual obligations to Vacco and Emerson under the non-competition agreement of September 23, 1983. We disagree. There is nothing in this record to suggest that these two separate agreements imposed dependent obligations or that the performance of the one was a condition of an obligation to perform the other. Indeed, the non-competition agreement, as a practical matter, necessarily contemplated that Van Den Berg's employment would at some point be terminated. If such termination was wrongful, or in breach of the employment agreement, Van Den Berg would have a clear remedy in contract. [14] There is no justification for also excusing him from performing his promise not to compete with Vacco for a reasonable period following the sale of his stock which was given in exchange for the purchase of that stock, a matter quite apart from his employment. Finally, there is no reason to believe that any of the parties considered performance of the obligations under these two agreements as dependent. (See generally, 1 Witkin, Summary of Cal. Law (9th ed. 1987) Contracts, § 756, pp. 687-688.) The damage award Van Den Berg received for the wrongful termination fully compensated him.

We therefore conclude that the non-competition agreement is not prohibited by Business and Professions Code section 16600 and is fully enforceable in spite of Vacco's prior wrongful termination of Van Den Berg.

2. *Vacco Had Protectible Trade Secrets Which Were Misappropriated by Defendants*

([6a]) Defendants apparently do not dispute that they utilized Vacco's product designs in order to engage in a competitive business. They do contend, however, that Vacco did not have any protectible trade secrets.

Prior to the enactment of the Uniform Trade Secrets Act in 1984 (Civ. Code, § 3426 et seq.), California had followed the broad approach of the Restatement of Torts in defining a trade secret. ‘ 'A trade secret may consist ***50** of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.’ ‘ (*Ungar Electric Tools, Inc. v. Sid Ungar Co., Inc.* (1961) 192 Cal.App.2d 398, 403, 13 Cal.Rptr. 268 (quoting from Rest. Torts, Vol. 4 § 757, com. b, p. 5), disapproved on another point in *Nichols v. Hast* (1965) 62 Cal.2d 598, 601, 43 Cal.Rptr. 641, 400 P.2d 753.) By its adoption of the Uniform Trade Secrets Act, California effectively adopted the common law definition. Civil Code section 3426.1, subdivision (d), provides: ‘ 'Trade Secret’ means information, including a formula, pattern, compilation, program, device, method, technique or process, that: [¶] (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and [¶] (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.‘

([7]) Such definitions necessarily compel the conclusion that a trade secret is protectible only so long as it is kept secret by the party creating it. (*Ungar Electric Tools, Inc. v. Sid Ungar Co., Inc., supra,* 192 Cal.App.2d at p. 403, 13 Cal.Rprtr 268.) If a so-called trade secret is fully disclosed by the products produced by use of the secret then the right to protection is lost. (*Futurecraft Corp. v. Clary Corp.* (1962) 205 Cal.App.2d 279, 289, 23 Cal.Rptr. 198.)

([6b]) Defendants rely on this latter point to defeat plaintiffs' claim. They contend that the products produced by Vacco fully disclosed the ‘trade secrets‘ used to produce them. This was a disputed factual issue at trial as to which both parties introduced evidence. In finding for the plaintiffs, the jury necessarily resolved this issue in plaintiffs' favor and we will not revisit it here. It is sufficient to note that there was substantial evidence to support the conclusion that Vacco's plans and designs for its products were trade secrets at both common law and under the Uniform Trade Secrets Act. It is also clear that Vacco treated them as secrets and took reasonable steps to protect them.

Defendants, and specifically Van Den Berg, obtained these secrets improperly. Their tortious acts resulted from a breach of confidence by Van Den Berg in copying or stealing plans, designs and other documents related to Vacco's products which defendants themselves wanted to produce in competition with Vacco. The protection which is extended to trade secrets fundamentally rests upon the theory that they are improperly acquired by a defendant, usually through theft or a breach of confidence. [15] (See generally, 11 Witkin, Summary of Cal. Law (9th ed. 1990) Equity, §§ 103 - 105, pp. 784 - 787.) ***51**

([8], [9])([6c]) We have no trouble whatever concluding that the defendants misappropriated protectible trade secrets belonging to Vacco, [16] whether common law or statutory standards are applied. [17] As the evidence reflects that defendants' acts of misappropriation occurred both before and after the effective date of the Uniform Trade Secrets Act (January 1, 1985), both standards are respectively applied. [18] With respect to the post-January 1, 1985 conduct of the defendants, we emphasize that the term ‘misappropriation‘ is defined to include the ‘use of a trade secret.‘ (Civ. Code, § 3426.1, subd. (b)(2).) [19]

3. *Defendants Can Not Avoid Liability by Virtue of Vacco's Wrongful Termination of Van Den Berg*

([10a]) We have already discussed our conclusion that Vacco's wrongful termination of Van Den Berg did not excuse his obligation to comply with the terms of the non-competition agreement. Similarly, and for the same ***52** essential reason, we conclude that Vacco's wrongful act can not justify Van Den Berg's tortious invasion of Vacco's common law and statutory right to protect its trade secrets.

However, defendants add another layer to this argument. They contend that Vacco's conduct was such as to bar its claim for compensatory and injunctive relief under the doctrine of ‘unclean hands.‘

([11]) It is settled law that one who seeks equity must do equity. This is a principle which has application in a legal action as well as one in equity (*Fibreboard Paper Products Corp. v. East Bay Union of Machinists* (1964) 227 Cal.App.2d 675, 728, 39 Cal.Rptr. 64) and it is more than a mere banality. ‘It is a self-imposed ordinance that closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, however improper may have been the behavior of the defendant.‘ (*Precision Co. v. Automotive Co.* (1945) 324 U.S. 806, 814, 65 S.Ct. 993, 997, 89 L.Ed. 1381.)

This rule is, however, not without an important exception. It does not call for denial of relief for just *any* past improper conduct. ‘The misconduct which brings the clean hands doctrine into operation must relate directly to the transaction concerning which the complaint is made, i.e., it must pertain to the very subject matter involved and affect the equitable relations between the litigants.‘ (*Fibreboard Paper Products Corp. v. East Bay Union of Machinists, supra,* 227 Cal.App.2d at p. 728, 39 Cal.Rptr. 64; see also *Smoketree-Lake Murray, Ltd. v. Mills Concrete Construction Co.* (1991) 234 Cal.App.3d 1724, 1742 - 1743, 286 Cal.Rptr. 435; *California Satellite Systems, Inc. v. Nichols* (1985) 170 Cal.App.3d 56, 70, 216 Cal.Rptr. 180.) For example, in *Germo Mfg. Co. v. McClellan* (1930) 107 Cal.App. 532, 290 P. 534 [a case involving a suit to enjoin former employees from using trade secrets where it was claimed that plaintiff had engaged in unfair practices with others], the court rejected as immaterial the application of the doctrine, saying ‘to constitute such a defense the inequitable conduct charged must pertain to the very subject matter involved in the action before the court and must affect the equitable relations between the parties litigant; otherwise it is wholly irrelevant and has no place in the trial.‘ (*Id.* at p. 541, 290 P. 534.)

While in *Germo* the inequitable conduct was directed at third parties, it does not follow that the rationale of the decision must be so narrowly applied. It can also support rejection of an ‘unclean hands‘ defense where the questioned conduct involved only the other party to the action. The critical issues are (1) the nature of the conduct, not the party at whom it is directed, and (2) the impact that such conduct has on the *equitable relations* between the parties. ***53**

([10b]) The wrongful termination of Van Den Berg's employment can not justify application of the ‘unclean hands‘ doctrine anymore than it can excuse Van Den Berg's breach of the non-competition agreement. Plaintiffs obtained compensatory and injunctive relief arising from defendants' tortious misappropriation of trade secrets and Van Den Berg's breach of his agreement. Vacco's misconduct in terminating Van Den Berg's employment for a pretextual reason does not implicate the equities between the parties arising out of the wilful and malicious tortious misconduct alleged in plaintiffs' complaint and found by the jury to be true. The termination of Van Den Berg implicated only his contract for a term of employment and had nothing to do with his obligation, and that of Kamer and Eastlack, to refrain from a tortious invasion of the proprietary rights of Vacco and Emerson. If the conclusion were otherwise, every terminated employee could justify and defend charges of theft and misappropriation of his former employer's proprietary interests by establishing breach or wrongful termination of an express or implied employment contract. Indeed, under defendants' argument the disgruntled employee's joint tortfeasors would also be allowed the benefit of such defense. Such a result finds no support in law or common sense.

([12]) We therefore conclude that plaintiffs are not barred from recovering compensatory and injunctive relief for (1) the misappropriation of their trade secrets and (2) Van Den Berg's breach of his non-competition agreement, because of Vacco's wrongful pretextual termination of Van Den Berg. [20]

([10c]) We emphasize that to hold otherwise would be to encourage unfair competition and theft of trade secrets by every discharged employee who felt wronged by an employer's act.

The injunctive relief which was obtained by plaintiffs is authorized by Civil Code section 3426.2. [21]

([6d]) The jury expressly found that defendants had misappropriated plaintiffs' trade secrets and had done so with ***54** malice. The court's act of enjoining defendants' further use and enjoyment of Vacco's trade secrets was entirely appropriate. Given our conclusion as to the enforceability of Van Den Berg's non-competition agreement and the substantial evidence of his violation thereof, the court also properly restrained his further breach of that covenant. (*Monogram Industries, Inc. v. Sar Industries, Inc., supra,* 64 Cal.App.3d at p. 703, 134 Cal.Rptr. 714.)

4. *The Award of Attorney's Fees Was Proper Under the Uniform Trade Secrets Act But Improper Under the Third Party Tortfeasor Doctrine*

Following the conclusion of the trial, the court, upon application of the plaintiffs, awarded them $526,360 in attorney's fees. This was apportioned by the court so that $175,453.33, or one-third of the total fees claimed, was awarded under Civil Code section 3426.4 and imposed jointly against all three defendants. An additional sum of $350,906.67 was imposed against Van Den Berg alone under the third party tortfeasor doctrine. (*Prentice v. North American Title Guar. Corp., supra,* 59 Cal.2d 618, 30 Cal.Rptr. 821, 381 P.2d 645.)

The record reflects that defendants made no specific objection as to this apportionment of the fees by the trial court.

([13]) However, they do raise a strong objection here as to the legal authority for the imposition of either award. Clearly, defendants did not consent to the award by the trial court, but vigorously opposed it on both procedural and substantive grounds. Plaintiffs' contention that defendants have waived their right to object to the fee awards is without merit.

In order to justify fees under Civil Code section 3426.4, [22] the court must find that a “willful and malicious misappropriation” occurred. That requirement is satisfied, in our view, by the jury's determination, upon clear and convincing evidence, that defendants' acts of misappropriation were done with malice. This finding was necessary to the award of punitive damages which was made by the jury. However, it is also sufficient to justify the statutory portion of the fee award. This also disposes of defendants' argument that there was no statutory basis for the award.

Defendants now argue on appeal that the issue of attorney's fees, including the amount thereof, was never submitted to the jury for its determination. ***55** With respect to the award made under section 3426.4, this argument overlooks the provisions of Code of Civil Procedure section 1033.5, subdivision (a)(10), which provides that allowable costs under Code of Civil Procedure section 1032 include attorney fees whenever they are authorized by contract *or statute.* Such authorized fees are properly fixed by the court in a post-trial noticed motion. (Code Civ. Proc., § 1033.5, subd. (c)(5).) [23]

Our review of this extensive record, including a clerk's transcript of over 4,000 pages and a trial transcript of nearly 1,200 pages demonstrates no abuse of discretion on the part of the trial court in making this award. That the compensatory damages from defendants' willful and malicious misappropriation were not substantial may only reflect that they had not yet been successful in financially injuring the plaintiffs and that the injunctive relief, interposed to prevent such harm, was the most significant relief which the plaintiffs sought or obtained. The trial court had this case for a substantial portion of the pretrial proceedings as well as the trial. It was in the best position to determine the proper amount to award. [24]

([14]) While the provisions of Civil Code section 3426.10 (see fn. 18, *ante*) clearly require an allocation of attorney's fees so that no fees are awarded relative to any misappropriation which occurred prior to January 1, 1985, nothing further was required of the trial court here in order to validate this award. First, there *was* an allocation of the total fees made in the plaintiffs' application of their total requested fees. They only claimed that one-third were attributable to defendants' post-January 1, 1985 conduct. The trial court in making the requested award impliedly found such allocation to be reasonable. Such implied finding is supported by substantial evidence of defendants' continuing *use* of plaintiffs' trade secrets after January 1, 1985. Secondly, the defendants made no objection to this allocation in the trial ***56** court. Not having raised an objection there, they may not do so here for the first time.

([15a]) However, with respect to the award made against Van Den Berg under the *Prentice* case, we reach an entirely different result. That award appears to be improper both procedurally and substantively. First, the award of attorney's fees under the third party tortfeasor doctrine necessarily involves a damage issue which should have been submitted to the jury. (*Brandt v. Superior Court* (1985) 37 Cal.3d 813, 819, 210 Cal.Rptr. 211, 693 P.2d 796.)

([16]) In *Brandt,* the Supreme Court noted that '[where] the attorney's fees are recoverable as damages, the determination of the recoverable fees must be made by the trier of fact unless the parties stipulate otherwise. [Citation.]' (*Brandt,* 37 Cal.3d at p. 819, 210 Cal.Rptr. 211, 693 P.2d 796.) [25]

([15b]) The trial court treated the award of *Prentice* fees here as though they were costs. This is appropriate where the award of fees is authorized by either contract or statute (Code Civ. Proc., § 1033.5, subd. (a)(10)), but not where the fees are claimed as part of the damages flowing from a tortfeasor's misconduct.

Secondly, the award is also substantively incorrect. Therefore, this is not a matter which can be resolved by returning it to the trial court for application of the proper procedure. In Prentice v. North Amer. Title Guar. Corp., supra, 59 Cal.2d 618, 30 Cal.Rptr. 821, 381 P.2d 645, a paid escrow holder had made it necessary for a vendor of land to file a quiet title action against a third person. The court found that the attorney's fees incurred by the vendor in prosecuting that action were part of the damages sustained by the vendor and were recoverable in the negligence action against the escrow holder. The court held that this circumstance created an exception to the rule of Code of Civil Procedure section 1021. [26] That section 'undoubtedly prohibits the allowance of attorney fees against a defendant in an ordinary two-party lawsuit. [Citations.] ... [ ] [However,], the section is not applicable to cases where a defendant has wrongfully made it necessary for a plaintiff to sue a third person. [Citations.] In this case we are not dealing with 'the measure and mode of compensation of attorneys' but with damages wrongfully caused by defendant's improper actions.' (Prentice, supra, 59 Cal.2d at pp. 620-621, 30 Cal.Rptr. 821, 381 P.2d 645.)

This rationale has been used, for example, to award fees (1) against a broker in favor of a prospective purchaser of real estate who had been ***57** induced to file an action for specific performance against the sellers by the fraudulent misrepresentations made by the broker (Gray v. Don Miller & Associates, Inc. (1984) 35 Cal.3d 498, 505–507, 198 Cal.Rptr. 551, 674 P.2d 253) and (2) against an insurance company for its bad faith failure to pay benefits due under a policy of disability insurance (Brandt v. Superior Court, supra, 37 Cal.3d 813, 817, 210 Cal.Rptr. 211, 693 P.2d 796.)

The pleadings and the evidence demonstrated that Van Den Berg and Eastlack, working together with their newly acquired corporate vehicle, Kamer, jointly committed the tortious acts of which Vacco complained. There is nothing about their relationship or their conduct that justifies singling out Van Den Berg as the one whose conduct caused Vacco to have to prosecute a legal action against the other two. Yet, this is the justification which Vacco offers for the imposition of *Prentice* fees against Van Den Berg. The rule of *Prentice* was not intended to apply to one of several joint tortfeasors in order to justify additional attorney's fee damages. If that were the rule there is no reason why it could not be applied in every multiple tortfeasor case with the plaintiff simply choosing the one with the deepest pocket as the 'Prentice' target. Such a result would be a total emasculation of Code of Civil Procedure section 1021 in tort cases.

As *Prentice* originally emphasized, there is no basis for awarding attorney's fees to a successful party in what is essentially a 'two-party' lawsuit. That is precisely what is presented here. Van Den Berg and his two co-defendants jointly engaged in tortious misconduct for which they were sued by plaintiffs. There is no justification for the application of the third party tortfeasor doctrine as a basis for awarding attorney's fees to plaintiffs. Thus, quite apart from the procedural infirmity, this is not a proper case for an award of fees as damages.

CONCLUSION

For all of the foregoing reasons, we conclude that the judgment of the trial court determining the respective compensatory and punitive damages to be awarded to the parties under the complaint and cross-complaint, as well as the injunctive relief and post-trial award of attorney's fees in the sum of $175,453.33 jointly against the defendants was proper. However, the non-statutory award of attorney's fees against Van Den Berg ($350,906.67) was without a legal basis and cannot stand. ***58**

DISPOSITION

The award of attorney's fees against Van Den Berg in the sum of $350,906.67 is stricken. Except as so modified, the judgment is affirmed. Each of the parties shall bear their own costs on appeal.

Klein, P. J., and Hinz, J., concurred.

Appellants' petition for review by the Supreme Court was denied June 25, 1992.

Footnotes

1 Quite apart from our obligation to review the evidence presented in a jury trial in the light most favorable to the successful party (9 Witkin, Cal. Procedure (3d ed. 1985) Appeal, § 278, p. 289), there is essentially no dispute as to the underlying facts. Defendants, in their reply brief, concede the facts, as outlined in the plaintiffs' brief, are correct and that the claimed errors made by the trial court are errors of law.

2 For example, for the 'quiet manifold' product, Vacco had literally hundreds of drawings including (1) top assembly drawings (which reflect *all* of the component parts but do not show *how* to make them), (2) subassembly drawings (which show *some* of the component parts but not *how* to make them) and (3) detailed manufacturing prints or drawings (which are used to manufacture each of the quiet manifold's component parts). These detailed drawings are essential to the manufacturing process.

3 For example, such documents as were temporarily released to outside third parties contained the following restrictive legend: 'THIS DRAWING, PRINT OR DOCUMENT AND SUBJECT MATTER DISCUSSED HEREIN ARE PROPRIETARY ITEMS TO WHICH VACCO INDUSTRIES RETAINS THE EXCLUSIVE RIGHT OF DISSEMINATION, REPRODUCTION, MANUFACTURE, USE AND SALE. THIS DRAWING, PRINT OR DOCUMENT IS SUBMITTED IN CONFIDENCE FOR CONSIDERATION BY THE RECIPIENT ALONE UNLESS PERMISSION FOR FURTHER DISCLOSURE IS EXPRESSLY GRANTED IN WRITING BY VACCO INDUSTRIES.'

4 An examination of the employment agreement reflects that it also contained a 'non competition' commitment in the event of employment termination. However, we do not consider that agreement here. First, it was signed by Van Den Berg as *an employee* and differs in significant ways from the subsequent and clearly relevant non-competition agreement signed by

him *as a selling shareholder,* second, it is of questionable validity under Business and Professions Code section 16600; and finally, it was not argued by the parties and apparently was not considered by the trial court.

5 The term ‘territory‘ was defined as the territorial limits of the United States of America.

6 Under the terms of his employment agreement, which was only to be effective if the stock sale to Emerson were concluded, Van Den Berg was to be employed for a period of three years at a salary of $80,000 per year. He could only be terminated for specified causes. One of those causes was relied upon by Vacco, but was found by the jury to have been pretextual.

7 However, the jury did not find that Vacco had breached the employment agreement in terminating Van Den Berg before the expiration of the specified three-year term. They simply found that Vacco was guilty of ‘wrongful termination.‘ In effect, the jury found a breach of the implied covenant of good faith and fair dealing. Under *Foley v. Interactive Data Corp.* (1988) 47 Cal.3d 654, 697 - 700, 254 Cal.Rptr. 211, 765 P.2d 373, this would entitle Van Den Berg to the same relief to which he would have been entitled if a breach of contract had been found, to wit, contract damages. Presumably, the amount awarded to him constituted the jury's valuation of such damages.

8 The name of Kamer was subsequently changed to Velk Industries, Inc.

9 There were three other defendants against whom plaintiffs also sought relief: Smooth-Pore Filtration Systems, Inc., Robert Lucas and Jacob Van Den Berg. However, the jury found in favor of these defendants on all counts and they were awarded judgment and costs. They are not parties to this appeal.

10 Civil Code section 3426.4 provides: ‘If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or *willful and malicious misappropriation exists,* the court may award reasonable attorney's fees to the prevailing party.‘ (Emphasis added.)

11 In their reply brief, defendants also raise the issue that the $17,500 awarded in punitive damages was not supported by substantial evidence of their financial condition. Such evidence is now required by the recent decision of our Supreme Court in *Adams v. Murakami* (1991) 54 Cal.3d 105, 116, 123, 284 Cal.Rptr. 318, 813 P.2d 1348. We raised this question at oral argument and invited the parties to submit post-argument supplemental briefs which we have received and considered. Assuming, arguendo, that *Adams* has retrospective application (*Douglas v. Ostermeier* (1991) 1 Cal.App.4th 729, 740 - 745, 2 Cal.Rptr.2d 594), we are satisfied that sufficient evidence of the financial condition of each of the defendants was presented during the trial so as to justify and support the relatively small award of punitive damages which was made in this case. As the only issue raised by defendants with respect to punitive damages went to this limited question, we conclude that their objection to the award is without merit.

12 Business and Professions Code section 16601 provides in pertinent part: “Any person who sells the goodwill of a business, or any shareholder of a corporation selling or otherwise disposing of all his shares in said corporation, or any shareholder of a corporation which sells (a) all or substantially all of its operating assets together with the goodwill of the corporation, (b) all or substantially all of the operating assets of a division or a subsidiary of the corporation together with the goodwill of such division or subsidiary, or (c) all of the shares of any subsidiary, *may agree with the buyer to refrain from carrying on a similar business within a specified county or counties, city or cities, or a part thereof, in which the business so sold, or that of said corporation, division, or subsidiary has been carried on, so long as the buyer, or any person deriving title to the goodwill or shares from him, carries on a like business therein.* ...” (Emphasis added.)

13 Business and Professions Code section 16601 describes the permissible territory as ‘a specified county or counties, city or cities, or part thereof, ...‘ However, it has not been so limited by case law. Covenants have been approved with defined territories extending beyond California and, indeed, to the entire country. (*Monogram Industries, Inc. v. Sar Industries, Inc., supra,* 64 Cal.App.3d at pp. 698, 702, 134 Cal.Rprtr 714; *Fleming v. Ray-Suzuki, Inc., supra,* 225 Cal.App.3d 574, 582, 275 Cal.Rprtr 150.) As the *Monogram* court put it, ‘We hold that in the provisions of Business and Professions Code section 16601 the area where a business is 'carried on’ is not limited to the locations of its buildings, plants and warehouses, nor the area in which it actually made sales. The territorial limits are coextensive with the entire area in which the parties conducted all phases of their business including production, promotional and marketing activities as well as sales.‘ (*Monogram, supra,* 64 Cal.App.3d at p. 702, 134 Cal.Rprtr 714.)

14 Van Den Berg successfully pursued that remedy in this action and received a damage award for the wrongful termination of his employment.

15 Under the Uniform Trade Secrets Act, the terms ‘improper means‘ and ‘misappropriation‘ are expressly defined. Civil Code section 3426.1 provides in pertinent part: ‘(a) 'Improper means' includes theft, bribery, misrepresentation, breach

of inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Reverse engineering or independent derivation alone shall not be considered improper means. [¶] (b) 'Misappropriation' means: [¶] (1) Acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or [¶] (2) Disclosure or use of a trade secret of another without express or implied consent by a person who: [¶] (A) Used improper means to acquire knowledge of the trade secret; or [¶] (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was: [¶] (i) Derived from or through a person who had utilized improper means to acquire it; [¶] (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or [¶] (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or [¶] (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.'

16 Defendants complain that plaintiffs failed to properly identify the trade secrets which they sought to protect as required by Code of Civil Procedure section 2019, subdivision (d), prior to commencing discovery. The record reflects that plaintiffs did file a notice identifying trade secrets for which they sought protection. After discovery commenced, this notice was amended several times. We find no error in this procedure and the trial court did not abuse its discretion in denying defendants' motion *in limine* which sought to limit plaintiffs to the trade secrets described in their original notice.

17 Although no conflict exists in this case, we note that if there were any, the provisions of the Uniform Trade Secrets Act would control. (*American Credit Indemnity Co. v. Sacks* (1989) 213 Cal.App.3d 622, 630, 262 Cal.Rptr. 92.)

18 Civil Code section 3426.10 provides: 'This title does not apply to misappropriation occurring prior to January 1, 1985. If a continuing misappropriation otherwise covered by this title began before January 1, 1985, this title does not apply to the part of the misappropriation occurring before that date. This title does apply to the part of the misappropriation occurring on or after that date unless the appropriation was not a misappropriation under the law in effect before the operative date of this title.'

19 As the trial court put it, '... since defendants used the trade secret [*sic*] of plaintiffs after 1/1/85, the Uniform Trade Secrets Act (CC 3426-3426.10) is applicable to this case. See CC 3426.10.'

20 Van Den Berg and Eastlack argue that whatever the liability of Kamer, they can have no liability as individuals for the misappropriation of plaintiffs' trade secrets. They claim that they simply acted as the officers of their corporate principal. However, this argument confuses the concept of alter ego, which imposes liability of a sham corporation on its controlling or managing shareholders, with the principle which is applicable here. Van Den Berg and Eastlack, as employees and agents of Kamer, are jointly liable for torts committed in the corporate name. (2 Witkin, Summary of Cal. Law (9th ed. 1987) Agency and Employment, § 149, pp. 144 - 145.) Thus, even assuming that they acted only as agents, they would still have individual liability; and, of course, Van Den Berg has personal liability for his breach of the non-competition agreement.

21 Civil Code section 3426.2 provides: '(a) Actual or threatened misappropriation may be enjoined. Upon application to the court, an injunction shall be terminated when the trade secret has ceased to exist, but the injunction may be continued for an additional period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation. [¶] (b) If the court determines that it would be unreasonable to prohibit future use, an injunction may condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited. [¶] (c) In appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.'

22 Civil Code section 3426.4 provides in pertinent part: 'If a ... willful and malicious misappropriation exists, the court may award reasonable attorneys fees to the prevailing party.'

23 Such an award, of course, requires that plaintiffs be properly determined to be the 'prevailing parties', but we have no trouble concluding that plaintiffs were the prevailing parties at trial and thus legally entitled to recover their costs. While the monetary awards were a near offset, plaintiffs did receive a net monetary recovery, albeit slight. More significantly, they received a substantial non-monetary victory. Code of Civil Procedure section 1032, subdivision (a)(4), defines prevailing party as follows: ' 'Prevailing party' includes the party with a net monetary recovery, a defendant in whose favor a dismissal is entered, a defendant where neither plaintiff nor defendant obtains any relief, and a defendant as against those plaintiffs who do not recover any relief against that defendant. *When any party recovers other than monetary relief and in situations other than as specified, the 'prevailing party' shall be as determined by the court,* and under those circumstances, the court, in its discretion, may allow costs or not and, if allowed may apportion costs between the parties on the same or adverse sides pursuant to rules adopted under Section 1034.' (Emphasis added.)

24 The evidence offered by plaintiffs, and which was not contradicted by the defendants, demonstrated that a total fee award of $526,000 was reasonable. For a general discussion of the factors which courts may consider in making such an award, see *Fed-Mart Corp. v. Pell Enterprises, Inc.* (1980) 111 Cal.App.3d 215, 225 - 226, 168 Cal.Rptr. 525.

25 There was, of course, no stipulation here which would have permitted the trial judge to make this factual determination. We reject out of hand the plaintiffs' argument that the defendants' failure to object to the allocation of one-third of the total fees to the post-January 1, 1985, statutory award constituted a consent to the making of an award under *Prentice.*

26 Code of Civil Procedure section 1021 provides in pertinent part: ‘Except as attorney's fees are specifically provided for by statute, the measure and mode of compensation of attorneys ... is left to the agreement ... of the parties.‘

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