

1 17200-17210, 17500, and 17508. Presently before the court is
2 defendants' motion to dismiss the FAC for failure to state a
3 claim under Federal Rule of Civil Procedure 12(b)(6).

4 I. Factual and Procedural Background

5 Ikon sells, leases, and services office equipment and
6 systems including copiers and printers, and provides services
7 including technical support, document outsourcing, equipment
8 maintenance, and network facilities management. (FAC ¶ 2.) Both
9 defendants are former employees of Ikon who worked in its
10 Sacramento, California, "Marketplace." (Id. ¶¶ 3, 7.) Rezente
11 was an Area Sales Manager who resigned on July 31, 2009, and
12 Friend was an Account Executive who resigned on July 13, 2009.
13 (Id.) Plaintiff alleges that defendants now both work for Delta
14 CopySystems, Inc. ("DCSI"), a direct competitor of plaintiff, and
15 that defendants have violated their post-employment obligations
16 to it by soliciting Ikon customers and employees and
17 misappropriating Ikon trade secrets and confidential information.
18 (Id. ¶¶ 5-6, 9-10.)

19 In its FAC, plaintiff brings claims for
20 misappropriation of trade secrets under CUTSA, interference with
21 prospective economic relations, breach of duty of loyalty and
22 fiduciary duty, and unfair competition under the UCL. Presently
23 before the court is defendants' motion to dismiss the FAC
24 pursuant to Federal Rule of Civil Procedure 12(b)(6) for failure
25 to state a claim upon which relief can be granted.

26 II. Discussion

27 On a motion to dismiss, the court must accept the
28 allegations in the complaint as true and draw all reasonable

1 inferences in favor of the plaintiff. Scheuer v. Rhodes, 416
2 U.S. 232, 236 (1974), overruled on other grounds by Davis v.
3 Scherer, 468 U.S. 183 (1984); Cruz v. Beto, 405 U.S. 319, 322
4 (1972). "To survive a motion to dismiss, a complaint must
5 contain sufficient factual matter, accepted as true, to 'state a
6 claim to relief that is plausible on its face.'" Ashcroft v.
7 Iqbal, --- U.S. ----, 129 S. Ct. 1937, 1949 (2009) (quoting Bell
8 Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007)). This
9 "plausibility standard," however, "asks for more than a sheer
10 possibility that a defendant has acted unlawfully," and where a
11 complaint pleads facts that are "merely consistent with" a
12 defendant's liability, it "stops short of the line between
13 possibility and plausibility." Iqbal, 129 S. Ct. at 1949
14 (quoting Twombly, 550 U.S. at 556-57).

15 A. CUTSA Misappropriation of Trade Secrets Claim

16 To state a claim for misappropriation of trade secrets
17 under CUTSA, a plaintiff must allege (1) the existence of a trade
18 secret and (2) misappropriation of the trade secret. Gabriel
19 Tech. Corp. v. Qualcomm Inc., No. 08 CV 1992, 2010 WL 3718848, at
20 *8 (S.D. Cal. Sept. 20, 2010). A trade secret is:

21 information, including a formula, pattern, compilation,
22 program, device, method, technique, or process, that:

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

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

27 Cal. Civ. Code § 3426.1(d). A plaintiff is required to "describe
28 the subject matter of the trade secret with sufficient

1 particularity to separate it from matters of general knowledge in
2 the trade or of special knowledge of those persons . . . skilled
3 in the trade." Imax Corp. v. Cinema Tech., Inc., 152 F.3d 1161,
4 1164-65 (9th Cir. 1998) (internal quotation mark omitted).

5 Plaintiff alleges that the trade secrets
6 misappropriated by defendants included:

7 the books and records of Ikon, the confidential customer
8 list and account information contained therein, including
9 the identity of Ikon customers, their names and
10 addresses, agents and account managers, business and
11 financial dealings, the transactions in their Ikon
12 accounts, purchase requirements, purchasing history and
13 patterns, servicing terms and conditions, lease agreement
14 lengths, expirations, and terms, equipment
15 configurations, customer plans, preferences, and
communicated needs, interconnectivity opportunities,
profitability considerations, Ikon's strengths and
weaknesses with its customers, and other business and
financial information concerning Ikon products, prices,
pricing schedules, profitability considerations,
marketing strategies, leasing terms, vendors, costs,
training techniques, distribution and delivery systems,
and/or other market considerations

16 (FAC ¶ 71.) While some of this information may fall into the
17 category of general knowledge in the trade or special knowledge
18 of persons skilled in the trade, plaintiff has sufficiently
19 alleged the existence of trade secrets. Specifically, a customer
20 list that an employer has expended time and effort to build is
21 protected as a trade secret. See, e.g., MAI Sys. Corp. v. Peak
22 Computer, Inc., 991 F.2d 511, 520-21 (9th Cir. 1993);
23 Hollingsworth Solderless Terminal Co. v. Turley, 622 F.2d 1324,
24 1333 (9th Cir. 1980); Reeves v. Hanlon, 33 Cal. 4th 1140, 1155-56
25 (2004); Morlife, Inc. v. Perry, 56 Cal. App. 4th 1514, 1520-23
26 (1st Dist. 1997); Courtesy Temp. Serv., Inc. v. Camacho, 222 Cal.
27 App. 3d 1278, 1287-88 (2d Dist. 1990); Am. Credit Indem. Co. v.
28 Sacks, 213 Cal. App. 3d 622, 630-32 (2d Dist. 1989).

1 Taking the description of the information as true,
2 plaintiff must have expended considerable time and effort to
3 acquire it. The amount of information itself is alleged to be
4 considerable, as Rezente was responsible for overseeing services
5 for "1,400-2,500 copiers" and "several hundred" customers, and
6 Friend was responsible for "275 Ikon customers." (FAC ¶¶ 18,
7 25.) Plaintiff has alleged that its customer information
8 provided plaintiff "with a significant advantage or 'head start'
9 over its competitors who do not have and could not readily, if
10 ever, obtain that amount or amalgam of information." (Id. ¶ 34.)
11 Plaintiff has also alleged that the customer information was not
12 generally known to the public and that plaintiff took appropriate
13 measures to protect the information. (See id. ¶¶ 37-40, 73-74.)
14 Thus, plaintiff has sufficiently alleged the existence of trade
15 secrets.¹

17 ¹ Defendants cite to Ikon Office Solutions, Inc. v. Am.
18 Office Prods., Inc., 178 F. Supp. 2d 1154 (D. Or. 2001), which
19 held that the defendant was entitled to summary judgment on a
20 claim for misappropriation of trade secrets because the plaintiff
21 had not established that certain customer information constituted
22 a trade secret. The information in that case included the
23 identity of the plaintiff's customers, names of contact persons
24 at those companies, information regarding each account, and
25 pricing information and marketing strategies of the plaintiff.
26 Id. at 1167-70. However, that information was not considered to
27 be a trade secret because Eugene, Oregon, was a "small market"
28 and "only a few dozen names" were at issue, so a competitor could
easily learn all the necessary information by doing its own
research, and there was no evidence that information regarding
pricing or marketing was actually taken. Id. This case, in
contrast, involves information that would take considerable time
and effort to obtain. Defendants Rezente and Friend were
themselves responsible for "several hundred" customers and "275
Ikon customers," respectively (FAC ¶¶ 18, 25), and Rezente is
alleged to have misappropriated information for "all or almost
all of the customers serviced by Ikon's entire Sacramento sales
force." (Id. ¶ 42.) These allegations are sufficient to allege
trade secrets for purposes of a motion to dismiss.

1 As to the second prong, plaintiff has alleged that
2 defendants misappropriated the alleged trade secrets.

3 "Misappropriation" means:

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

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

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

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

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

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

14 Cal. Civ. Code § 3426.1(b).² Misappropriation can occur when an
15 employee solicits customers using a former employer's customer
16 list. See MAI Sys., 991 F.2d at 521; Am. Credit, 213 Cal. App.
17 3d at 634. As the statute explains, even unlawful acquisition of
18 a trade secret can constitute misappropriation. See S.O.S., Inc.
19 v. Payday Inc., 886 F.2d 1081, 1090 (9th Cir. 1989).

20 Plaintiff alleges that Rezente accessed plaintiff's
21 customer information hours before his resignation, taking
22 "massive amounts of records showing Ikon's account information
23 for all or almost all of the customers serviced by Ikon's entire
24

25 ² To the extent that plaintiff relies on a theory of
26 inevitable disclosure, which is not recognized in California, the
misappropriation claim must fail. See FLIR Systems, Inc. v.
27 Parrish, 174 Cal. App. 4th 1270, 1277 (2d Dist. 2009). However,
28 plaintiff also alleges wrongful acquisition and actual use, which
are proper theories of misappropriation. (See, e.g., FAC ¶¶ 41-
43, 46-50, 60-61.)

1 Sacramento sales force.”³ (FAC ¶ 42.) Plaintiff also alleges
2 that Friend took two customers of another Ikon employee to DCSI
3 and also completed a transaction at DCSI for a customer that she
4 had been working with at Ikon. (Id. ¶¶ 42, 47, 50.) Friend
5 allegedly made six sales for DCSI in the four to six weeks
6 following her resignation from Ikon and did \$100,000 worth of
7 business, in contrast to having made no sales in her last twelve
8 weeks at Ikon. (Id.) While these allegations may not be the
9 strongest evidence of misappropriation of the customer lists,
10 they are sufficient for plaintiff to survive dismissal.
11 Plaintiff should be allowed to conduct discovery and determine
12 the actual use to which its customer lists were put.
13 Accordingly, the court will deny defendants’ motion to dismiss
14 the CUTSA claim.⁴

15 B. Interference with Prospective Economic Relations Claim

16 CUTSA provides the exclusive remedy for trade secret
17 misappropriation under California law. See Silvaco Data Sys. v.
18 Intel Corp., 184 Cal. App. 4th 210, 236 (6th Dist. 2010) (“We
19 thus reaffirm that CUTSA provides the exclusive civil remedy for
20 conduct falling within its terms, so as to supersede other civil
21

22 ³ The fact that Rezente was still an employee at the time
23 is not dispositive. See Courtesy Temp. Serv., Inc. v. Camacho,
24 222 Cal. App. 3d 1278, 1287-91 (2d Dist. 1990) (granting
25 preliminary injunction for misappropriation of customer
26 information that former employee allegedly acquired while still
27 employed by former employer). Plaintiff has clearly alleged the
28 precautions it took to keep the information within the company.
(See FAC ¶¶ 37-40.)

26 ⁴ Defendants’ contention that plaintiff must show that
27 public policy weighs in favor of the protection is incorrect.
28 Such a showing was required under the common law, but is not
required under CUTSA. See O’Very v. Spectratek Techs., Inc., No.
CV 03-00540, 2004 WL 5642004, at *5 (C.D. Cal. July 26, 2004).

1 remedies 'based upon misappropriation of a trade secret.'")
2 (quoting Cal. Civ. Code § 3426.7); see also Gabriel Techs. Corp.,
3 2009 WL 3326631, at *11. CUTSA therefore preempts all claims
4 that are "based on the same nucleus of facts as the
5 misappropriation of trade secrets claim for relief." K.C.
6 Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc., 171
7 Cal. App. 4th 939, 958 (6th Dist. 2009) (quoting Digital Envoy,
8 Inc. v. Google, Inc., 370 F. Supp. 2d 1025, 1035 (N.D. Cal.
9 2005)) (internal quotation marks omitted). In other words,
10 preemption generally applies where "there is no material
11 distinction" between the wrongdoing underlying the CUTSA claim
12 and the non-CUTSA claim. See Phoenix Techs. Ltd. v. DeviceVM,
13 No. C 09-04697, 2009 WL 4723400, at *4 (N.D. Cal. Dec. 8, 2009).
14 "[O]ther civil remedies that are not based upon misappropriation
15 of a trade secret" and contractual or criminal remedies are not
16 preempted. Cal. Civ. Code § 3426.7(b).

17 Plaintiff's claim for interference with prospective
18 economic relations is based on defendants' use of confidential
19 customer lists and other information, diversion of plaintiff's
20 goodwill with respect to those customers, and violations of
21 plaintiff's statutory trade secret rights. (FAC ¶ 79.) The only
22 allegation that is distinct from plaintiff's CUTSA claim is the
23 diversion of plaintiff's goodwill. Because this allegation
24 arises from facts different from the claim of misappropriation of
25 trade secrets, the claim is not preempted by CUTSA.⁵

27 ⁵ Defendants argue that plaintiff's non-CUTSA claims are
28 also barred by Cal. Bus. & Prof. Code § 16600, which states that
"[e]xcept as provided in this chapter, every contract by which

1 However, plaintiff has failed to allege facts
2 sufficient to state a claim. The elements of a claim of
3 intentional interference with prospective economic relations are:
4 (1) an economic relationship between the plaintiff and a third
5 party containing the probability of future economic benefit; (2)
6 knowledge by the defendant of the relationship; (3) acts by
7 defendant designed to disrupt the relationship; (4) actual
8 disruption of the relationship; and (5) economic harm proximately
9 caused by the acts of the defendant. Korea Supply Co. v.
10 Lockheed Martin Corp., 29 Cal. 4th 1134, 1153 (2003). The
11 plaintiff "must plead and prove as part of its case-in-chief that
12 the defendant not only knowingly interfered with the plaintiff's
13 expectancy, but engaged in conduct that was wrongful by some
14 legal measure other than the fact of interference itself." Della
15 Penna v. Toyota Motor Sales, U.S.A., Inc., 11 Cal. 4th 376, 393
16 (1995).

17 Plaintiff does not allege any specific instances in
18 which defendants diverted its goodwill, but provides one example

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20 anyone is restrained from engaging in a lawful profession, trade,
21 or business of any kind is to that extent void." Cal. Bus. &
22 Prof. Code § 16600. It is unclear why this statute, which bars
23 restrictive covenants in employment contracts, would apply to
24 tort claims not based on any contract. See Edwards v. Arthur
25 Andersen LLP, 44 Cal. 4th 937, 941 (2008) (holding that non-
26 competition agreements between employers and employees are
27 invalid under section 16600); Retirement Grp. v. Galante, 176
28 Cal. App. 4th 1226, 1238 (4th Dist. 2009) ("section 16600 bars a
court from specifically enforcing (by way of injunctive relief) a
contractual clause purporting to ban a former employee from
soliciting former customers to transfer their business away from
the former employer to the employee's new business, but a court
may enjoin tortious conduct (as violative of either the Uniform
Trade Secrets Act and/or the Unfair Competition Law) by banning
the former employee from using trade secret information . . .
.").

1 where Friend interfered with a prospective relationship. Friend
2 had been preparing a sale for Ikon with a school district before
3 resigning from Ikon, but then closed the sale on behalf of DCSI,
4 not Ikon, shortly after leaving Ikon. (FAC ¶ 50.) While this
5 perhaps satisfies most of the elements for intentional
6 interference, it falls short of stating a claim. In particular,
7 plaintiff has not alleged that defendants engaged in any conduct
8 that was wrongful beyond interference itself. A former employee
9 may freely use general knowledge, skills, and experience acquired
10 under a former employer so long as the employee does not use or
11 disclose trade secrets or other confidential information. See
12 Morlife, 56 Cal. App. 4th at 1519. It is unclear, then, what the
13 wrongful conduct could have been except defendants' alleged
14 misappropriation of trade secrets, which is preempted. The court
15 will dismiss the claim, giving plaintiff leave to amend if it is
16 able to identify defendants' wrongful conduct apart from
17 violations of CUTSA.

18 C. Breach of Duty of Loyalty and Fiduciary Duty Claim

19 Plaintiff alleges that defendants breached their duty
20 of loyalty and/or fiduciary duty by recruiting others to leave
21 Ikon, scheming with others to remove or destroy records and use
22 confidential information, scheming with others to misappropriate
23 trade secrets and confidential business information, and failing
24 to inform plaintiff of the threat to its interests. (FAC ¶ 83.)
25 While most of the claims are based on the same nucleus of facts
26 as the misappropriation of trade secrets claim, recruiting others
27 to leave Ikon is a distinct fact. Thus, the claim is not
28 entirely preempted by CUTSA.

1 The elements of a cause of action for breach of a duty
2 of loyalty are: "(1) the existence of a relationship giving rise
3 to a duty of loyalty; (2) one or more breaches of that duty; and
4 (3) damage proximately caused by that breach." Huong Que, Inc.
5 v. Luu, 150 Cal. App. 4th 400, 410 (6th Dist. 2007). The duty of
6 loyalty requires an agent "to act loyally for the principal's
7 benefit in all matters connected with the agency relationship."
8 Id. at 411.

9 Employees owe a duty of loyalty to their employers.
10 See Stokes v. Dole Nut Co., 41 Cal. App. 4th 285, 295 (3d Dist.
11 1995) ("[D]uring the term of employment, an employer is entitled
12 to its employees' undivided loyalty. . . . The duty of loyalty
13 is breached . . . when the employee takes action which is
14 inimical to the best interests of the employer.").⁶

15 Plaintiff alleges that defendants breached their duty
16 of loyalty by recruiting others to leave Ikon. However, the only
17 alleged recruitment that occurred before their employment ended
18 was Rezente's recruitment of Friend; the other alleged
19 recruitment attempts took place post-termination. (See FAC ¶¶
20 48, 65, 68.) While Rezente's recruitment of Friend may
21 constitute a breach, plaintiff has not alleged any damage
22 proximately caused by that breach. Plaintiff's alleged damages
23

24 ⁶ Whether or not defendants were fiduciaries of
25 plaintiff, they would still owe a duty of loyalty as employees.
26 See Otsuka v. Polo Ralph Lauren Corp., No. C 07-02780, 2007 WL
27 3342721, at *2-3 (N.D. Cal. Nov. 9, 2007) (denying motion to
28 dismiss breach of fiduciary duty claim and construing it as a
breach of duty of loyalty claim); James v. Childtime Childcare,
Inc., No. Civ. S-06-2676, 2007 WL 1589543, at *3 (E.D. Cal. June
1, 2007) (denying motion to dismiss breach of fiduciary duty
claim because all employees owe a "fiduciary-like" duty).

1 occurred as a result of the alleged misappropriation of trade
2 secrets, rather than from the loss of one employee. (See FAC ¶¶
3 83-84.) Since plaintiff has failed to allege damages resulting
4 from any breach of the duty of loyalty, and the rest of the claim
5 is preempted by CUTSA, the court will dismiss plaintiff's claim
6 for breach of duty.

7 D. UCL Claim

8 California's UCL prohibits "any unlawful, unfair or
9 fraudulent business act or practice" Cal. Bus. & Prof.
10 Code § 17200. This cause of action is generally derivative of
11 some other illegal conduct or fraud committed by a defendant, and
12 a plaintiff "must state with reasonable particularity the facts
13 supporting the statutory elements of the violation." Khoury v.
14 Maly's of Cal., Inc., 14 Cal. App. 4th 612, 619 (2d Dist. 1993).
15 Plaintiff alleges violations of the "unlawful" and "unfair"
16 prongs of the UCL. (Opp'n to Defs.' Mot. to Dismiss the FAC at
17 20:12-14 (Docket No. 79).)

18 "Under its 'unlawful' prong, 'the UCL borrows
19 violations of other laws . . . and makes those unlawful practices
20 actionable under the UCL.'" Berryman v. Merit Prop. Mgmt., Inc.,
21 152 Cal. App. 4th 1544, 1554 (4th Dist. 2007) (quoting Lazar v.
22 Hertz Corp., 69 Cal. App. 4th 1494, 1505 (1st Dist. 1999)).
23 "Thus, a violation of another law is a predicate for stating a
24 cause of action under the UCL's unlawful prong." Id.

25 When used in a claim against a competitor, the "unfair"
26 prong of the UCL "means conduct that threatens an incipient
27 violation of an antitrust law, or violates the policy or spirit
28 of one of those laws because its effects are comparable to or the

1 same as a violation of the law, or otherwise significantly
2 threatens or harms competition." Cel-Tech Commc'ns, Inc. v. L.A.
3 Cellular Tel. Co., 20 Cal. 4th 163, 187 (1999).

4 To the extent that plaintiff's UCL claim is based on
5 defendants' conduct in violation of CUTSA, it is preempted.
6 Boland, Inc. v. Rolf C. Hagen (USA) Corp., 685 F. Supp. 2d 1094,
7 1111 (E.D. Cal. 2010). Plaintiff's only other allegation that
8 could be used to support a UCL claim is that defendants
9 disseminated false statements about plaintiff. (FAC ¶ 87
10 ("Defendants . . . have disseminated false statements,
11 misrepresentations, and disparaging comments about Ikon's
12 business, products, and services to unfairly divert to DCSI the
13 goodwill Ikon has spent significant time, effort, and expense
14 building up with customers.")) However, the only statement
15 alleged with reasonable particularity as required by the UCL is
16 that Friend stated that "'the grass is greener' at DCSI." (Id. ¶
17 48.) It is unclear how this statement could be construed as
18 unlawful or a threat to competition. Accordingly, the court will
19 dismiss plaintiff's UCL claim.

20 IT IS THEREFORE ORDERED that defendants' motion to
21 dismiss plaintiff's First Amended Complaint be, and the same
22 hereby is, GRANTED as to plaintiff's claims for interference with
23 prospective economic relations, breach of duty of loyalty and
24 fiduciary duty, and violations of the UCL, and DENIED in all
25 other respects.

26 Plaintiff may therefore proceed under the First Amended
27 Complaint on its CUTSA claim for misappropriation of trade
28 secrets. If plaintiff wishes to amend the complaint to cure the

1 defects explained above, it may do so within twenty days from the
2 date of this Order. Otherwise, the case will proceed only on the
3 misappropriation of trade secrets claim in the First Amended
4 Complaint.

5 DATED: December 8, 2010

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8 WILLIAM B. SHUBB
9 UNITED STATES DISTRICT JUDGE
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