

**SUPERIOR COURT OF CALIFORNIA,
COUNTY OF VENTURA
VENTURA DIVISION**

TENTATIVE RULINGS

EVENT DATE: 06/15/2015 EVENT TIME: 08:20:00 AM DEPT.: 43
JUDICIAL OFFICER: Kevin DeNoce

CASE NUM: 56-2015-00465460-CU-BC-VTA
CASE TITLE: AEROVIRONMENT INC VS. TORRES

CASE CATEGORY: Civil - Unlimited CASE TYPE: Breach of Contract/Warranty

EVENT TYPE: Demurrer (CLM) - to Complaint
CAUSAL DOCUMENT/DATE FILED: Demurrer, 05/18/2015

With respect to the below scheduled tentative ruling, no notice of intent to appear is required. If you wish to submit on the tentative decision, you may submit a telefax to Judge DeNoce's secretary, Hellmi McIntyre at 805-662-6712, stating that you submit on the tentative. Do not call in lieu of sending a telefax, nor should you call to see if your telefax has been received. If you submit on the tentative without appearing and the opposing party appears, the hearing will be conducted in your absence. This case has been assigned to Judge DeNoce for all purposes.

Absent waiver of notice and in the event an order is not signed at the hearing, the prevailing party shall prepare a proposed order and comply with CRC 3.1312 subdivisions (a), (b), (d) and (e). The signed order shall be served on all parties and a proof of service filed with the court. A "notice of ruling" in lieu of this procedure is not authorized.

The court's tentative ruling is as follows:

Grant the requests for judicial notice. Overrule the Demurrer as to the first cause of action on the basis of *Bus. & Prof. Code* §16600. Overrule the Demurrer as to the 2nd – 7th causes of action on the ground of trade secret preemption. Sustain the demurrer as to the 5th cause of action, with leave to amend, because the Complaint does not include sufficient allegations regarding the basis of the Defendants Torres' fiduciary duty.

Discussion:

Plaintiff has not disputed the existence of the Agreements. There is disagreement regarding the meaning of the Agreements. The Agreements are all signed by the individual Defendants (and AV has countersigned the McCallister and Torres Agreements, but not the McBride Agreement). The Agreement is referenced, named, and quoted in ¶¶15 & 41 of the Complaint. The Court grants the unopposed request for judicial notice of the Agreements, but not for their truth or a particular interpretation of meaning. "Taking judicial notice of a document is not the same as accepting the truth of its contents or accepting a particular interpretation of its meaning. [citation]" (*Fremont Indem. Co. v. Fremont General Corp.* (2007) 148 Cal.App.4th 97, 113.) "When judicial notice is taken of a document ... the truthfulness and proper interpretation of the document are disputable. [Citation.]" (*StorMedia Inc. v. Superior Court* (1999) 20 Cal.4th 449, 457, fn. 9.)

1st c/a

Business and Professions Code section 6600 states: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." Defendants argue that the Agreements are void as a matter of law for violating section 16600 because inventions made after employment are assigned to AV. According to Plaintiff, however, the assigned "Inventions" are those made, conceived, or first reduced to practice during the period of employment only. Plaintiff states that "the Agreement does not require [employees] to assign inventions that were first conceived after employment (nor do they have any obligation to disclose such inventions)." P is completely disclaiming that idea that the Agreement requires assignment of an idea conceived post-termination.

The Invention Assignment Clause is enforceable regarding the inventions made, conceived, or first reduced to practice *during the period of employment*. (See, *Angelica Textile Services, Inc. v. Park* (2013) 220 Cal.App.4th 495, 509, holding that 16600 "does not affect limitations on an employee's conduct or duties *while* employed.") However, agreements requiring the assignment of intellectual property created post-employment, may violate section 16600. (See, *Armorlite Lens Co. v. Campbell* (S.D. Cal. 1972) 340 F.Supp. 273, 275, stating: "To require a former employee, who has developed a new idea or concept following the termination of his employment and which is not based upon the employer's secrets or confidential information, to turn over the fruits of his labors to his former employer constitutes, in the opinion of this Court, an unreasonable restraint of trade.")

The assignment of inventions clause in the Agreements are expressly made subject to Labor Code section 2870 which states:

"(a) Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply to an invention that the employee developed entirely on his or her own time without using the employer's equipment, supplies, facilities, or trade secret information except for those inventions that either:

- (1) Relate at the time of conception or reduction to practice of the invention to the employer's business, or actual or demonstrably anticipated research or development of the employer; or
- (2) Result from any work performed by the employee for the employer."

Given the reference to section 2870 in the Agreement, it does not appear that at the Agreement requires an employee to assign post-employment inventions to AV "even if the invention was the result of the independent research, development, and investment of the new employer." (Reply 2:15-16). The assignment clause does not seem unfairly broad, but is limited in time and scope. The definition of "Inventions" expressly provides that it includes only those "made, conceived, or first reduced to practice" "during the period of [] employment." For purposes of disclosure under ¶2, anything made, conceived or first reduced to practice outside of the employment period would not need to be disclosed.

2nd – 7th c/a re: CUTSA preemption grounds

Here, the Complaint does not contain a CUTSA claim or allegation. Nor is there an allegation that the information used by Defendant employees constituted "trade secrets." Instead the Complaint refers to "confidential information" and the taking of the Inventions. The issue of whether information constitutes a trade secret is a question of fact. (*In re Providian Credit Card Cases* (2002) 96 Cal.App.4th 292, 300). For each cause of action, the wrongdoing alleged includes actions

that are not based on the same set of facts. For example, the 2nd c/a, fraud, is based on misrepresentations about what Defendants were working on while employed by AV, what they would do after resigning, and whether they used their personal email accounts to discuss AV information during their employment. None of the allegations depend on the existence of a trade secret. There is no preemption. The allegations are based on facts distinct from those that would be required in a CUTSA claim.

The 3rd c/a alleges a violation of Labor Code §2860, which states: "Everything which an employee acquires by virtue of his employment, except the compensation which is due to him from his employer, belongs to the employer, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment." The tangible property allegedly taken by Defendants arguably exists outside of trade secret law. (See *Angelica Textile Services, Inc. v. Park* (2013) 220 Cal.App.4th 495, 508 (tangible property taken may be subject to a conversion claim). This c/a is not preempted since it is based on the allegation that the confidential information, i.e., the *documents* evidencing the Inventions and the Inventions *themselves*, taken by Defendants are distinct property interests created by the Agreement. The 4th c/a, breach of loyalty, is established when an employee takes action inimical to the best interests of the employer. In *Angelica Textile Services, Inc. v. Park* (2013) 220 Cal.App.4th 495, 508, the court held that plaintiff's claims based on defendant's wrongful conduct in violating the noncompetition agreement and violating his duty of loyalty to plaintiff, had a "theory of liability [that] was independent of any trade secret claim, [accordingly] they too are not displaced by UTSA." Here, Defendants allegedly breached their duty of loyalty by working on behalf of their new venture while employed by AV. They created a new company and products while employed by AV, and transferred their loyalty to MicaSense. This does not rely on any facts related to trade secret law. It is distinct and not preempted.

The 5th c/a, breach of fiduciary duty, is not based solely on misuse of trade secrets or confidential information. Torres owed AV fiduciary duty under the law (based on his position) and per his Agreement. The breach is based on engaging in improper competitive conduct during employment with AV, including: secretly researching developing and improving a competing product, launching a competing business, registering its domain name, stealing AV's corporate opportunity in agricultural drone payload market, and misrepresenting his reasons for resigning and what they were going to do after leaving AV. The question of trade secrets does not need to be adjudicated in order for AV to prevail.

The 6th c/a, unfair competition, is based on Defendant's disloyal and competitive activity during their employment with AV, breaching the P&C Agreement, and violating AV's property interest in its Inventions. While the allegation re: property interest in the Inventions may be preempted, there is sufficient independent basis for the c/a outside of potential trade secret allegation. Therefore, the 6th c/a is not preempted.

5th and 7th c/a re: failure to sufficiently plead fiduciary duty

Plaintiff is required to allege facts showing the existence of a fiduciary relationship between the parties, its breach, and damage caused by the breach. "[B]efore a person can be charged with a fiduciary obligation, he must either knowingly undertake to act on behalf and for the benefit of another, or must enter into a relationship which imposes that undertaking as a matter of law." (*Committee on Children's Television, Inc. v. General Foods Corp.* (1983) 35 Cal.3d 197, 221.) Regarding corporate fiduciaries, "We conclude an officer who participates in management of the corporation, exercising some discretionary authority, is a fiduciary of the corporation as a matter of law. Conversely, a "nominal" officer with no management authority is not a fiduciary. Whether a particular officer participates in management is a question of fact." (*GAB Business Services, Inc. v. Lindsey & Newsom Claim Services, Inc.* (2000) 83 Cal.App.4th 409, 420-21.)

Plaintiff argues that the breach of fiduciary relationship is not based on the confidentiality provision of the Agreement, but is based on (i) Torres' position as Director of Project Engineering and Chief Systems Engineer over the small unmanned aircraft systems product line, and (ii) the P&C Agreement provision to enter into a "relationship of confidence

and trust" with AV. The allegations of the Complaint do not include those included in the Opposition, e.g., that Torres "managed, oversaw, and approved all decisions made on all product lines that had engineers assigned to them. As Chief Systems Engineer, he had primary oversight over all SUAS products, including development of new products. He decided how products would be designed, what changes to make to resolve performance issues, and which engineers would work on them." (Oppo 14:2-6.) Plaintiff has not alleged that Torres had managerial and discretionary authority, was an officer, and/or entered into an Agreement to enter a fiduciary relationship. The Court sustains the demurrer as to the 5th cause of action with leave to amend. The Court overrules as to the 7th c/a as there is no basis to sustain the demurrer.