

UTSA Preemption and the Public Domain: How Courts Have Overlooked Patent Preemption of State Law Claims Alleging Employee Wrongdoing

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Abstract

This article explores a blind spot in trade secret cases involving disputes between employers and departing employees – specifically, cases which take the minority position on Uniform Trade Secrets Act preemption of alternative state law tort claims and thereby permit litigants to proceed with such claims. In most states, the Uniform Trade Secret Act is applied to preempt inconsistent or duplicative tort claims. But a review of nationwide cases taking the minority position indicates that such courts do not consider whether the technical information at issue in many such disputes falls within the public domain, such that the alternative state law tort claim would conflict with – and therefore should be preempted by – the federal patent laws.

Whether the Uniform Trade Secrets Act preempts state law tort claims that seek to protect information deemed not to constitute a trade secret is now a widely litigated issue. There is a majority position and a minority position. The minority position holds that litigants may pursue state law tort claims to protect commercial information said to be “proprietary” or “confidential” in some undefined manner, but not a UTSA trade secret, and that the UTSA does not displace such claims. This creates a two-tier system of state-protected intellectual property, rather than the single-tier system the majority position envisions.

A separate body of law – federal preemption – provides that states may not grant intellectual property protection in unpatented, technical information that is in the public domain. The minority position on UTSA preemption and federal preemption therefore appear to be on a collision course: if courts hold that the UTSA does not foreclose litigants from pursuing alternative state law tort claims that may well encompass publicly available, technical information, then federal preemption could separately preclude such claims.

This article explores the complex but surprisingly common scenarios in which employers have been permitted to proceed with alternative state law tort claims against former employees accused of misappropriating potentially public information. State and federal courts generally do not address federal preemption in such cases, when perhaps they should. We then discuss the policy implications of allowing employers to cordon off such information from future use by their former employees.

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I. Introduction

In recent years, some state and federal courts interpreting the Uniform Trade Secret Act's terms governing preemption of overlapping tort claims have been permitting – and perhaps even creating for the first time – categories of intellectual property protected by state law that are distinct from trade secret law.² They have done so without attracting much attention, and they have done so largely in cases where a former employer sues a former employee.

We believe that many of these under-the-radar rulings – which represent the minority position on the question whether the UTSA preempts overlapping tort claims – may run afoul of a different type of preemption: federal patent preemption, which prohibits states from allowing tort claims that protect unpatented, technical information available in the public domain. As a result, courts may be creating constitutionally invalid categories of intellectual property. By permitting an ill-defined zone of information protectable under tort labels such as conversion or unjust enrichment, they may also be creating needless uncertainty for companies and for departing employees who seek to make plans, with reasonable predictability, about what information learned during a prior job a former employee may and may not re-use at a new job.

Most states that have adopted the UTSA do not permit plaintiffs to proceed with alternative tort claims – bearing common law labels such as conversion, unfair competition, or unjust enrichment – that seek state law protection of information in a manner similar to, but requiring less to establish than, UTSA trade secret law. In these jurisdictions – the majority position on UTSA preemption – the law does not conflict with federal patent preemption, and instead conforms to Supreme Court rulings on the reach of state power to regulate intellectual property. In these jurisdictions, there is no question that information in the public domain cannot be rendered off-limits through state tort law.

By contrast, courts in some jurisdictions have ruled that the UTSA does not preempt a litigant's alternative tort claims, and instead permit litigants to proceed with such claims even when an UTSA claim premised on the same information would fail. These rulings often use descriptive catch-phrases as “confidential but not secret.” Such rulings implicitly create a second tier of state-protected intellectual property, separate and distinct from the first tier protected by UTSA-based trade secret law.

Courts adopting the minority position on UTSA preemption invariably fail to assess whether claims based upon non-trade secret information are nevertheless preempted by the federal patent laws. But

² We use the term “UTSA preemption,” though some practitioners and scholars use synonymous terms such as “UTSA displacement” or “UTSA supersession.” Although using the term “preemption” risks confusion with federal patent preemption – not to mention federal copyright preemption – we follow what we believe to be majority practice with respect to nomenclature, both among trade secret practitioners and in state law rulings on statutory preemption under other Uniform Acts.

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well-established Supreme Court jurisprudence provides that states may not offer patent-like protection to unpatented, technical information in the public domain. Doing so undermines the careful balance federal patent law has struck between patent rights and the public domain.

We argue that courts taking the minority position on UTSA preemption have ignored federal preemption when they allow litigants to pursue tort claims over technical information that assertedly is not a trade secret.³ We believe that when litigants seek to plead around the UTSA in these minority jurisdictions by alleging overlapping tort claims, and when the information at issue is the type of technical information subject to federal patent preemption, courts should consider whether the information at issue falls within the public domain. If so, they should bar the litigant's tort claims because such claims are preempted by federal patent law. More fundamentally, we question whether the minority position on UTSA preemption is viable at all, in part because it violates the boundaries between the public domain and permissible state regulation of intellectual property set forth by the Supreme Court's 1989 decision in *Bonito Boats* and other federal preemption decisions.⁴

The failure of courts and litigants to make this inquiry is surprisingly common. We hypothesize that there is a simple reason why courts overlook federal patent preemption in trade secret cases. Because so many trade secret cases involve claims by employers against their former employees, courts focus on contractual obligations and duties of loyalty arising from the employment relationship, rather than the nature of the information at issue. We believe that the federal patent preemption jurisprudence applies in the employment context just as it does in disputes that do not involve employee mobility.

There are real policy consequences at stake. When minority jurisdictions permit litigants to base their claims on an amorphous category of intellectual property that does not qualify as a trade secret – and that may very well be in the public domain – they effectively allow employers to cordon off public information from use by former employees. This has collateral effects outside the confines of litigation that undermine the goals of intellectual property regulation. Departing employees and the companies which hire them cannot re-use information they should be able to re-use as a foundation for future innovation. Worse, employees who leave to found start-up enterprises may face a “chilling effect” where they must avoid public domain information first learned during a prior job in order to reduce the risk of anticompetitive litigation by a former employer.

³ The failure of courts to address patent preemption is largely the failure of litigants to raise the issue in their briefing. Although courts surely can raise the issue *sua sponte*, our practice experience suggests that trial courts rarely go beyond the manner in which litigants frame these issues during motion practice.

⁴ This article does not set out to provide a comprehensive answer about whether and to what degree UTSA preemption does nor does not apply in every given case in every UTSA jurisdiction. That is a question that involves, for each state, its history of different types of claims governing information protection before the UTSA was enacted, its general preference for statutory preemption, its approach to preemption under other Uniform Acts, and the legislative history of its own UTSA. Different jurisdictions may or may not have historically permitted tort claims for misuse of information that did not qualify as a trade secret during the period before the UTSA was enacted.

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We have not found – and we would not expect to find – cases in jurisdictions that take the minority position on UTSA preemption expressly holding that former employers may pursue tort claims against former employees based on technical information that is in the public domain. Rather, we believe that by not considering federal patent preemption when ruling that the UTSA does not preempt overlapping tort claims, courts create an environment in which public domain information potentially may be included in vague concepts such as information said to be “proprietary” or “confidential but not secret.”

In summary, we propose the following points:

- Federal patent preemption places an underappreciated limit on tort claims alleged under state law that seek to protect unpatented, technical information;
- Operating together, UTSA trade secret law and federal patent preemption create a single tier of state-protected intellectual property in commercial information – trade secrets;
- The explosion in UTSA preemption motion practice during trade secret lawsuits implicitly asks courts to determine whether states may regulate a second tier of non-secret, unpatented information;
- The majority position on UTSA preemption, which does not permit that second tier, conforms to Supreme Court precedent, poses no conflict between state and federal law, and defines a clear public domain from which all can benefit;
- The minority position on UTSA preemption, which permits that second tier, gives rise to tort claims that should be federally preempted to the extent they seek state law protection for unpatented, public domain technical information; and
- The reason courts and litigants neglect federal patent preemption in UTSA preemption debates is primarily because the presence of employer/employee disputes causes courts to focus on relationships and duties owed rather than the proper scope of intellectual property regulation.

Part II of this article provides an overview of UTSA preemption law, with a particular focus on states that have adopted the minority position. Part III describes Supreme Court jurisprudence articulating the scope of federal patent preemption, and the ways in which the UTSA minority position may conflict with that body of law. Part IV provides an overview of the policy implications at stake when courts expand the reach of state law intellectual property regulation in employment cases without considering federal patent preemption.⁵

⁵ There are two subjects we do not address in this article that are close cousins of the issues we raise. The first is whether the minority position on UTSA preemption gives rise to state law tort claims that might be preempted by the Copyright Act because they lack the necessary extra-element (such as confidentiality) to escape such preemption. As Michael Risch has noted, some types of information at issue in employee mobility disputes, such as source code or other works of expression, are copyrightable, and thus one might ask similar questions of copyright preemption during UTSA

II. Uniform Trade Secrets Act Preemption of State Tort Claims

To explain why rulings on whether or not the Uniform Trade Secrets Act preempts state law tort claims seeking to protect commercial information may pose a problem under the law of federal patent preemption, we first must explain two bodies of law that rarely, if ever, have been considered side by side. Indeed, we must consider two different types of preemption – preemption by a state statute (the UTSA) of state law tort claims, and federal patent preemption of state law tort claims – and their mutual effect on the same narrow area of state regulation of intellectual property of technical information.⁶ We begin with the UTSA.

The Uniform Trade Secrets Act is a model code drafted by the National Council of Commissioners of Uniform State Law in 1979 (with subsequent modifications) and intended to harmonize varying state approaches to trade secret misappropriation claims.⁷ Almost all of the states have enacted the UTSA, with variations; New Jersey is the most recent to do so.⁸ Notwithstanding its title, the UTSA has not resulted in uniform rulings when it comes to deciding whether the state UTSA preempts common law claims arising from the same conduct.

In recent years, there has been a proliferation of motions filed in the early stages of trade secret lawsuits on the question of UTSA preemption.⁹ Lawsuits alleging trade secret misappropriation

preemption disputes. Because the intersection of copyright law and state tort law has a history separate from the intersection of patent preemption and state tort law, addressing this issue would render this article unwieldy. The second is the degree to which employers can or cannot use employment contracts to forbid the post-employment use of information that is not a trade secret. That question too is worthy of full treatment. The community of scholars and practitioners interested in trade secret law would benefit from critical analysis of both subjects.

⁶ We use the phrase “technical information” as a shorthand phrase for the type of information about which one can examine potential patentability, and that thus falls within the scope of federal patent preemption. *See generally* 35 U.S.C. § 101 (“Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefore, subject to the conditions and requirements of this title.”); *see also Kewanee Oil. Co. v. Bicron Corp.*, 416 U.S. 470, 479-80 (1974) (dividing trade secrets into three categories – information that is validly patentable, that is of dubious patentability, and that cannot be patented – for its analysis of federal preemption). Other types of commercial information frequently at issue in trade secret cases, such as customer lists, fall outside this definition. Whether there are gray areas where federal patent preemption might also reach – for example, information that might be encompassed by so-called business method patents – is a question beyond the scope of this article. *See generally Fort Prop., Inc. v. American Master Lease LLC*, 671 F.3d 1317, ___ (Fed. Cir. 2012) (finding patents invalid which impermissibly claimed inventions in “abstract subject matter” regarding an investment strategy designed to permit real estate transactions without incurring tax liability).

⁷ *See* Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 *HAMLIN L. REV.* 493, 513 (2010).

⁸ *See* UNIF. TRADE SECRETS ACT Refs. & Annos. (Table of Jurisdictions Wherein Act has Been Adopted); N.J.S.A. 56:15-1-56:15-9 (2012).

⁹ Such motions are brought under the preemption clause that appears in most state versions of the UTSA. The wording of the clause varies from state to state based in part on different versions of the standard UTSA, but such

often allege a list of related causes of action arising from a common nucleus of facts.¹⁰ An employer suing a former employee and his or her new employer for misusing information gained in the course of employment commonly asserts a trade secret misappropriation claim, a breach of contract claim,¹¹ a breach of duty of loyalty claim,¹² as well as state tort claims with labels such as unfair competition, conversion, common law misappropriation, breach of trust, and unjust enrichment.¹³

differences do not appear to have decisively influenced whether a state takes a majority or minority position. There are almost too many UTSA preemption rulings to count in federal district courts reported on databases like Westlaw, and many more take place in state trial courts. Lists of UTSA preemption rulings can be found in James Pooley, TRADE SECRETS § 2.03[6] (2011); John T. Cross, *UTSA Displacement of Other State Law Claims*, 33 HAMLINE L. REV. 445, 480 (2010); Tait Graves, *Nonpublic Information and California Tort Law: A Proposal for Harmonizing California's Employee Mobility and Intellectual Property Regimes Under the Uniform Trade Secrets Act*, 2006 UCLA J. L. TECH. 1, n. 30-50 (2006). This article does not attempt to set forth a complete listing of all such cases (in any event, many rulings take place in state trial courts and are not reported in legal databases), but does endeavor to mention the most important rulings on both sides of the split.

¹⁰ See Cross, *supra* note 6 at 475 (noting the “shotgun approach” taken by plaintiffs in trade secret cases).

¹¹ A breach of contract claim would only be available where the employee has signed a confidentiality or non-disclosure agreement.

¹² A claim for breach of fiduciary duty or breach of the duty of loyalty addresses only pre-resignation activities. Such claims often are not about intellectual property, but rather focus on allegations about conflicts of interest: that an officer or employee engaged in business competition while still employed, withheld facts from a board of directors, and so forth. Such claims do not face UTSA preemption because they are not about information misuse. Thus, when discussing whether claims brought under the labels of breach of fiduciary duty or breach of a duty of loyalty are UTSA-preempted, it is important to distinguish claims about conflicts of interest from claims about information misuse. Where a tort claim labeled as breach of the duty of loyalty alleges that a former employee took information and used it at a new job, for example, courts have found the claim to be UTSA-preempted. For examples of both types of claims using these labels, see *ATS Prod., Inc. v. Giorso*, 2012 WL 253315, *2-3 (N.D. Cal. Jan. 26, 2012) (noting majority position on UTSA preemption; claim for breach of fiduciary duty not UTSA-preempted because it was based on allegations that the defendant breached a duty by failing to disclose a negotiation, rather than misappropriation of information); *Jano Justice Sys., Inc. v. Burton*, 2008 WL 5191765, *2 (C.D. Ill. Dec. 11, 2008) (where plaintiff alleged that major shareholder and current fiduciary set up a competing business and hired away its employees, the UTSA did not preempt the fiduciary duty cause of action because it was premised on acts that were independent of trade secret misappropriation); cf. *Wilcox v. Hansen*, 2012 WL 1600293, *7 (D.N.H. May 7, 2012) (UTSA preempted fiduciary duty claim premised on allegation that defendant misused “proprietary information” that plaintiff asserted was distinct from trade secret information); *Frantz v. Johnson*, 999 P.2d 351, 358 (Nevada 2000) (UTSA preempted fiduciary duty claim alleging that former manager misused secret business information for a competitor); *Thermodyne Food Serv. Prod., Inc. v. McDonald's Corp.*, 940 F. Supp. 1300, 1309 (N.D. Ill. 1996) (same; “The issue is whether [the claim] alleges that [the former officer] breached a duty – however that duty may have arisen – by misappropriating [plaintiff's] technology. If yes, the claim is preempted.”). As Michael Risch has noted, attorneys (including in-house counsel) face similar fiduciary obligations under professional rules of conduct that are based on conflicts of interest rather than intellectual property regulation.

¹³ See Cross, *supra* note 10 at 484-90 (discussing UTSA preemption treatment for various state common law claims, including use of confidential information, breach of fiduciary duty, breach of duty of loyalty, breach of good faith and fair dealing, breach of confidence, general misappropriation, conversion, unjust enrichment, fraud, conspiracy, tortious interference with contract, tortious interference with prospective advantage, and unfair competition).

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Defendants in such lawsuits often file a motion to dismiss the overlapping tort claims on the ground that they are preempted by the state’s Uniform Trade Secrets Act.¹⁴ Such motions generally argue that the UTSA’s preemption language bars the overlapping claims – for example, the Washington UTSA “displaces conflicting tort, restitutionary, and other law of this state pertaining to civil liability for misappropriation of a trade secret.”¹⁵ Because courts virtually always hold that the UTSA preempts a common law, non-statutory cause of action for trade secret misappropriation, the arguments usually focus on preemption of other causes of action, such as conversion or breach of confidence. Courts must inquire as to the particular state legislature’s intent in enacting the UTSA – whether the statute was intended to displace all torts arising from the misuse of commercial information, or whether the legislature wanted overlapping torts to coexist alongside the UTSA.

Despite, or perhaps because of, the commonplace nature of motions asserting UTSA preemption, there has been surprisingly little scholarly attention to the issue.¹⁶ Judicial opinions on UTSA preemption often add to the sense that the issue is inconsequential. Many – if not most – courts issuing rulings on UTSA preemption do so without significant analysis, and without asking whether there are big-picture policy questions at stake. Some consist of a few paragraphs buried in the grant or denial of a shotgun Rule 12(b)(6) motion.

The reason for the lack of attention is not hard to divine. Litigants and courts rarely address (or even recognize) the policy issues that UTSA preemption rulings encompass. Courts issue rulings without examining their wider consequences; most UTSA preemption rulings are cursory and simplistic. This is, in short, an issue in intellectual property practice where parties and courts frequently fail to properly frame and debate the questions at stake. That failure, as we will discuss, is part of the reason why the question of federal patent preemption and its relationship to UTSA preemption rulings remains unaddressed.¹⁷

Almost all UTSA statutes contain some form of preemption language.¹⁸ Although worded differently in some states, the preemption clause generally expresses the idea that civil claims

¹⁴ Practitioner commentary in recent years reflects the trend. One such article advises attorneys representing trade secret defendants to apply the “Texas two step” - “first, use preemption to quickly sweep away all of the ancillary claims on motion to dismiss or demurrer. Second, methodically attack the remaining P claim on its own merits at the summary judgment stage.” See Scott Feldmann, *Preemption Defenses in IP Litigation*, 50 SEP ORANGE COUNTY LAW, 26, 27 (2008).

¹⁵ See RCW 19.108.900. The wording varies from state to state. California’s version, for example, is stated in the negative; it provides that the UTSA “does not affect . . . other civil remedies that are not based upon misappropriation of a trade secret. See Cal. Civ. Code § 3426.7(b).

¹⁶ We cite all the scholarly commentary about UTSA preemption we are aware of in this article – several law review articles and student notes, all told.

¹⁷ Apart from rulings in which we have taken part, we have not located any court decisions addressing both UTSA preemption and federal preemption at the same time.

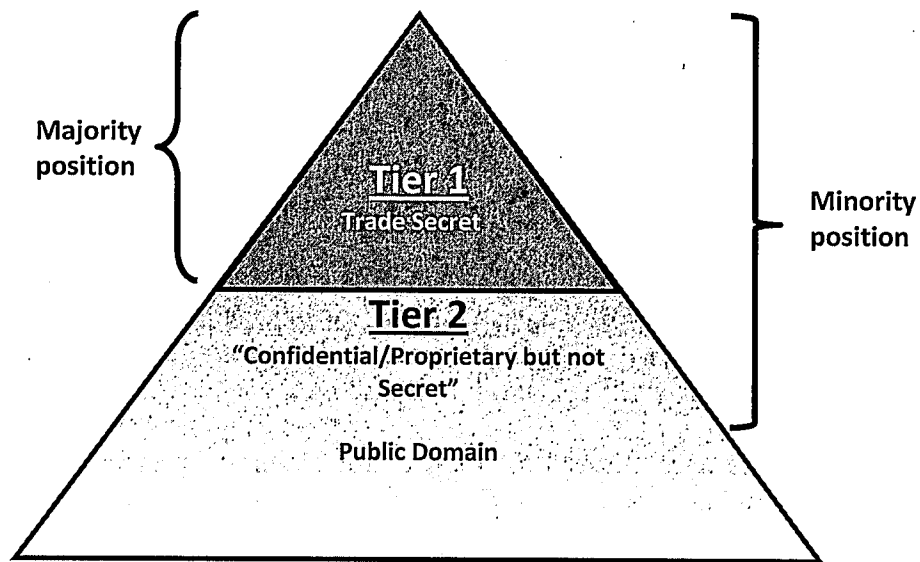
¹⁸ The wording in such clauses varies, but courts generally have not used the seemingly superficial differences to justify different approaches to the preemption question. See, e.g., 765 ILCS 10658 (Illinois); RCW § 19.108.800 (Washington); Ariz. Rev. Stat 44-407 (Arizona). We discuss alternative tort causes of action, and not breach of contract

premised on “misappropriation of a trade secret” are extinguished.¹⁹ On a UTSA preemption motion, the point where courts have split is whether the UTSA operates as a single vehicle by which unpatented commercial information can be protected by state law, or, by contrast, whether state law may extend intellectual property protection to information that does not meet the statutory tests for trade secrecy.²⁰ That is, does state tort law protect an in-between category of information that fails to qualify as a trade secret, but that is still deemed to be “confidential” or “proprietary” in some other manner? This conflict can be imagined as a contest between a one-tier system and a two-tier system of state-protected intellectual property:

claims, because the UTSA’s preemption clause expressly does not displace contract claims. It should be noted that some states, such as Iowa and New Mexico, do not have express preemption clauses in their versions of the UTSA. We do not address the question whether, in such states, common law interpretive rules about the effect of comprehensive statutory schemes would nonetheless bar overlapping tort claims.

¹⁹ In an excellent and thorough account of the development of the UTSA in the 1970s, Sharon Sandeen makes clear that the drafters were deeply aware of the pressures that federal preemption placed upon state-created theories of information protection – especially in light of the 1976 Copyright Act and the patent law-based preemption cases of the 1960s such as *Sears* and *Compco*. As a result, the UTSA’s displacement clause was not intended to allow an interstitial space for tort claims over a litigant’s self-proclaimed “confidential but not secret” information. See Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 *HAMLIN L. REV.* 493, 507-08, 529, 533-35 (2010) (“The drafters of the UTSA could have followed the language of the [Uniform Deceptive Trade Practices Act] and specifically allowed for the continued common law development of theories of liability related to business information not meeting the definition of a trade secret, but chose not to do so.”).

²⁰ Not every UTSA preemption motion squarely involves whether a state may protect a second tier of non-trade secret information through tort law. In some, simpler cases, courts must instead decide whether the UTSA preempts causes of action that are not based on use of commercial information previously shared in confidence. Such cases are not the focus of this article, do not pose federal preemption problems, and generally are not the subject of conflicts among the states. See, e.g., *Jones v. Haglin*, 2012 WL 135449, *3 (D.S.D. Jan. 17, 2012) (no preemption where defendant was accused of physically taking a register of customers, required by law to be posted on a state government website, and removing information from website in a manner that disrupted plaintiff’s contact with its customers); *Organ Recovery Sys., Inc. v. Preservation Sol., Inc.*, 2012 WL 116041, *6 (N.D. Ill. Jan. 16, 2012) (no preemption of claims based on alleged false statements about plaintiff’s product). *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co., Inc.*, 270 F. Supp. 2d 943, 949 (W.D. Mich. 2003) (no UTSA preemption of a trademark claim).



In a one-tier system, a litigant may pursue a UTSA cause of action against a defendant to allege the misappropriation of information that meets the fairly low threshold for trade secrecy, if the defendant has engaged in a use, disclosure, or acquisition of the information that the UTSA deems wrongful. If the defendant successfully shows that the information is not a trade secret, the claim fails, and the defendant may lawfully use the information.²¹ If the facts show that the plaintiff pursued a claim in “bad faith,” the prevailing defendant may collect attorneys’ fees. For example, in some UTSA cases the defendant has recovered fees after showing that the plaintiff knowingly pursued a trade secret claim over information that it had released in a marketed product or otherwise not treated as a trade secret.²²

In a two-tier system, by contrast, a defendant theoretically can defeat a UTSA trade secret claim by showing that the information is not secret, perhaps even on facts where an award of attorneys’ fees

²¹ Whether state contract law can or should enforce form employment contracts that bar using information that is not a trade secret after an employee leaves is a separate question. Given the proliferation of UTSA preemption rulings in recent years, the issue of the protectability of non-secret information has arisen largely in the context of state tort claims rather than contract law. Though we are aware of no empirical study, many if not most employment agreements we have reviewed in practice define protectable information in a manner that excludes publicly available information. Indeed, one reason litigants may attempt to use state tort law to protect non-secret information is that the employment agreement at issue is written in a manner that is largely or entirely co-extensive with the definition of trade secrecy. The question of the reach of contract law therefore appears less pressing than the question of the reach of state tort law.

²² See, e.g., *Computer Economics, Inc. v. Gartner Group, Inc.*, 1999 WL 331778020, *6-7 (S.D. Cal. 1999) (finding bad faith where trade secret plaintiff asserted trade secrets in publications available to the public); *Stillwell Dev., Inc. v. Chen*, 11 U.S.P.Q.2d 1328, 1331 (C.D. Cal. 1989) (same where trade secret plaintiff asserted trade secrets in products it had placed in the open market).

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for the plaintiff's "bad faith" conduct is warranted.²³ However, the plaintiff may nevertheless continue to sue the defendant under different, alternative tort claims for use of the same information, on the theory that the information is "confidential" or "proprietary" even though it is not a trade secret. This, at least, is the proposition offered by courts that have taken the minority position on UTSA preemption, though it is not clear how such a case would ultimately play out if it went all the way to trial.²⁴

Whether the UTSA in a given state prohibits litigants from using state tort law to protect information that is not a trade secret is a multilayered question. In any state with a UTSA preemption clause, answering the question might involve analyzing at least the following questions, before one reaches the questions of federal patent preemption central to this article:

- Whether the state ever allowed alternative tort claims to protect information where a trade secret claim based on the same information failed or, by contrast, whether historical cases in the state used words like "secret" and "confidential" as synonyms for the same, single standard of protection;
- Whether the specific type of claim the plaintiff seeks to advance has ever existed under state law (for example, a conversion cause of action to protect information learned by an employee on the job),²⁵

²³ The UTSA contains a clause allowing for a prevailing defendant to collect attorneys' fees (and costs in some jurisdictions) where a plaintiff has initiated or maintained a trade secret claim in "bad faith." See, e.g., RCW 19.108.040 (Washington); Cal. Civ. Code § 3426.4 (California). Many courts use a two-factor test to analyze whether there was "bad faith." See, e.g., *Best Med. Int'l, Inc. v. Spellman*, 2011 WL 6749036, *3-8 (W.D. Pa. Dec. 22, 2011) (awarding fees and costs to prevailing defendants where plaintiff failed to identify trade secrets and falsely claimed that information on computers constituted trade secrets); *FLIR Sys., Inc. v. Parrish*, 174 Cal. App. 4th 1270 (Cal. Ct. App. 2009) (same where plaintiffs made baseless claims against former executives seeking to start a new company); *Contract Materials Processing, Inc. v. Kataluna GmbH Catalysts*, 222 F. Supp. 2d 733, 744 (D. Md. 2002) (applying two-part test in awarding fees).

²⁴ We have not located a case in a court applying the UTSA minority position where a plaintiff pursued a defendant to trial (or summary judgment) over an alternative claim where the defendant previously had defeated the UTSA trade secret claim over the same information.

²⁵ Occasionally a court will delve into these issues instead of assuming that the plaintiff's purported cause of action is something that actually exists under state law. See *Reliant Mgmt. Co., Inc. v. Health Sys., Inc.*, 2011 WL 4369371, *2-3 (E.D. Mo. Sept. 19, 2011) (noting that there is no such thing as plaintiff's claim for "unfair head start" under Missouri law such that the claim would fail even apart from UTSA preemption); *Dental Health Prod., Inc. v. Ringo*, 2011 WL 3793961, *4-5 (E.D. Wisc. Aug. 25, 2011) (rejecting plaintiff's argument that it could pursue a tort claim for information deemed to be "confidential" but not a trade secret by pointing out that the litigant had failed to show that such a claim actually existed under Wisconsin law; the decision is notable because it arose in the only jurisdiction where a state supreme court has taken the minority position on UTSA preemption). Too often, however, litigants, courts, and commentators seem to assume that such claims have always existed, and are not being invented for the first time by litigants solely to plead around the UTSA.

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- Whether the state’s general canons of statutory interpretation call for broader or narrower preemption of pre-statute common law in the same subject area as that of a comprehensive statutory enactment;²⁶
- How the state has addressed preemption of alternative tort claims by other Uniform Acts containing displacement clauses also enacted by the same state;²⁷
- If the state included a preemption clause within its version of the UTSA, whether the state’s own legislative history for the UTSA provides clues regarding the scope of that clause,²⁸ and
- Whether the proposed alternative claim would directly undermine the UTSA by permitting liability against a defendant on facts that might render a plaintiff liable for UTSA sanctions for pursuing a “bad faith” claim.

And that is before we reach the federal preemption question that is the subject of this essay. Unfortunately, few if any courts have addressed UTSA preemption by systematically asking these foundational questions. Litigants, in turn, rarely brief these questions, and instead look for a quick, situational win based on citations that that may be incomplete or inapposite. Although a majority position and a minority position have emerged, rulings taking either side rarely are the product of sophisticated analysis.²⁹

²⁶ Again using California as an example, the state’s high court has held that comprehensive statutory enactments operate to displace prior inconsistent common law theories. *See Pacific Scene, Inc. v. Penasquitos, Inc.*, 46 Cal.3d 407, 411 (1988) (holding that Corporations Code enactments addressing corporate dissolution “precluded resort to dormant common law doctrines for the provision of extra-statutory relief.”); *I.E. Assoc. v. Safeco Title Ins. Co.*, 39 Cal.3d 281, 289 (1985) (holding that foreclosure statutes occupy the field and impliedly barred claim premised on non-statutory allegations against trustee).

²⁷ California and Louisiana are two examples of states where other Uniform Acts frequently have been applied to displace alternative tort claims within their scope. *See, e.g., Zengen, Inc. v. Comerica Bank*, 41 Cal.4th 239, 255 (2007) (UCC preemption); *Gil v. Bank of America, Nat’l Assn.*, 138 Cal. App. 4th 1371, 1376, 1380 (2006) (UCC preemption); *Bishop v. Hyundai Mtr. Am.*, 44 Cal. App. 4th 750, 757 (1996) (UCC preemption); *Briseno v. City of Santa Ana*, 6 Cal. App. 4th 1378, 1382 (1992) (Uniform Housing Code “has also impliedly preempted most local regulations”); *Joffe v. United Cal. Bank*, 141 Cal. App. 3d 541, 557-58 (Cal. Ct. App. 1983) (UCC preemption); *Innovative Hosp. Sys., L.L.C. v. Abe’s, Inc.*, 52 So.3d 313, 316 (La. Ct. App. 2010) (UCC preemption); *Groue v. Capital One*, 47 So.3d 1038, 1040 n.3 (La. Ct. App. 2010) (UCC preemption); *ASP Ent., Inc. v. Guillory*, 22 So.3d 964,973 (La. Ct. App. 2009) (UCC preemption).

²⁸ In California, for example, the UTSA’s legislative sponsor quoted the committee’s language about the preemptive effect of the statute in his letter sending the bill to the governor for signature. *See* September 1984 letter from Elihu Harris to Gov. Deukmajian for AB 501 (on file with authors) (“The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.”).

²⁹ Perhaps the most comprehensive scholarly discussion of UTSA preemption is John T. Cross’ 2010 article, *UTSA Displacement of Other State Law Claims*, *supra* n. 7. The focus of the article is an in-depth discussion of preemption of common law claims by state UTSA statutes. Cross mentions federal preemption as a potential yardstick to use in

1. The Majority Approach to UTSA Preemption

It appears that the majority of courts that have considered UTSA preemption – and certainly a substantial majority of state supreme courts to have addressed the question – have ruled that the UTSA displaces alternative state law tort claims that seek to hold the defendant liable for misusing the plaintiff's information.³⁰ Most such rulings are cursory, however, and only a few expressly recognize that the result of holding in favor of UTSA preemption is to hold that a second tier of state law-protected intellectual property does not exist. That said, UTSA preemption rulings from the majority position generally engage in more analysis than those taking the minority position.³¹

As of this writing in 2012, eight state supreme courts have taken the majority approach to UTSA preemption.³² One of the most recent, a decision from the Hawai'i Supreme Court, is perhaps the

assessing questions of UTSA preemption. *Id.* at 473 (discussing federal preemption principles as persuasive authority in guiding a state's own decisions as to whether its common law claims are preempted by its UTSA); *see also* Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 *HAMLIN L. REV.* 493, 508 (2010) (attributing the gradual adoption of the UTSA in part to combat the uncertainty presented by *Sears/Compco* and other cases on the question of federal patent preemption).

³⁰ *See* citations, *supra*, at n.6.

³¹ Two recent majority position decisions that engage in a detailed analysis are *Mattel, Inc. v. MGA Ent't, Inc.*, 782 F. Supp. 2d 911, 986-87 (C.D. Cal. 2011) ("In an effort to align with the California courts that have addressed this issue, the Court concludes that UTSA supersedes claims based on the misappropriation of confidential information, whether or not that information meets the statutory definition of a trade secret."); *Firetrace USA, LLC v. Jesclard*, 800 F. Supp. 2d 1042, 1048-49 (D. Ariz. 2010) (surveying conflicting authorities and finding that majority approach best fits legislative goal of a uniform scheme for commercially valuable information that displaces "common law tort claims based on the misappropriation of information, whether or not that information meets the statutory definition of a trade secret.").

³² *See Georgia: Robbins v. Supermarket Sales, LLC v. Supermarket Equip. Sales, LLC*, 722 S.E.2d 55, 58 (Ga. 2012) (approving prior Georgia case law to hold that allowing injunctive relief for information that failed to qualify as a trade secret "undermined the exclusivity of the GTSA."; "The fact that the drawings were not ultimately found to be trade secrets under the act did not make the preemption clause inapplicable."); *Hawai'i: BlueEarth Biofuels, LLC v. Hawaiian Elec. Co., Inc.*, 235 P.3d 310 (Haw. 2010) (describing the current state of UTSA preemption law nationwide, and siding with several other state supreme courts in favoring the majority approach); *New Hampshire: Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 665 (N.H. 2006) (affirming pre-trial order dismissing alternative claims, ruling that UTSA is intended as sole claim for trade secret misuse; strongly criticizing Wisconsin ruling in *Burbank Grease*); *Arkansas: RK Ent., LLC v. Pro-Comp Management, Inc.*, 158 S.W.3d 685, 689-90 (Ark. 2004) (reversing trial court; finding broad preemption of alternative tort claim); *Delaware: Savor, Inc. v. FMR Corp.*, 812 A.2d 894, 898 (Del. 2002) (affirming preemption of unfair competition and conspiracy claims at the pleading stage); *Vermont: Dicks v. Jensen*, 768 A.2d 1279, 1285 (Vt. 2001) (holding that UTSA preemption applies to common law claims even if the information does not meet the statutory definition of a trade secret); *Nevada: Frantz v. Johnson*, 999 P.2d 351, 357-58 (Nevada 2000) (reversing trial court and holding in favor of broad preemption of various alternative tort claims); *South Dakota: Weins v. Sporleder*, 605 N.W.2d 488, 492 (South Dakota 2000) (reversing trial court and holding in favor of broad preemption; explaining that it would render the UTSA "meaningless" if a plaintiff's trade secret claim is dismissed and "plaintiffs can simply pursue the same claim in the name of a tort."); *cf. Burbank Grease Serv., LLC v. Sokolowski*, 717 N.W.2d 781, 798 (Wisc. 2006) (ruling, over passionate dissent, against preemption of alternative tort claims despite preemption clause in Wisconsin UTSA); *see also Wolfe Elec. Inc. v. Duckworth*, ___ P.3d ___, 293 Kan. 375 (Kan. 2011) (declining to reach question of UTSA preemption's scope in case where plaintiff sought tort recovery for trade secrets as well as

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most comprehensive. The court, faced with a list of questions certified by the federal district court, had to decide whether the scope and meaning of UTSA preemption.³³ The certification provided a platform for a thorough analysis, as the court consulted cases from around the country, law review articles, and a treatise for guidance.³⁴ Ultimately, the court held that “the HUTSA preempts non-contract, civil claims based on the improper acquisition, disclosure or use of confidential and/or commercially valuable information that does not rise to the level of a trade secret.”³⁵

Several state appellate courts³⁶ have ruled in favor of UTSA preemption of state tort claims arising from misuse of the plaintiff’s information. For example, a California appellate court in Silicon Valley held in favor of broad preemption, by noting that the California legislature intended to replace “the notoriously haphazard web of disparate laws governing trade secret liability” with a uniform regime, and that such “purpose would be grossly subverted by leaving alternative bases for liability intact.”³⁷ The court went further, by questioning the grounds on which a litigant might attempt to raise an alternative tort claim. In *Silvaco Data Systems v. Intel Corporation*, the court explained that the first question courts should ask is whether a plaintiff can point to a protectable

“confidential information”; court held that plaintiff could not include both categories in an UTSA jury instruction and also include both in a non-UTSA jury instruction, but remanded the ultimate question whether the Kansas UTSA displaces “other tort causes of action for recovery of damages for nontrade secrets” because parties did not first raise the issue in the trial court).

³³ See *BlueEarth Biofuels*, 235 P.2d at 311 (four certified questions from the federal District of Hawai’i).

³⁴ Courts rarely cite academic work, and may do so less often than in the past. See, e.g., Adam Liptak, *When Rendering Decisions, Judges are Finding Law Reviews Irrelevant*, NEW YORK TIMES, March 19, 2007, at A8. Here, happily, the court cited (and sometimes quoted at length from) an article by Mark Lemley, an article by a practitioner, three student notes, and a section from the Pooley treatise (in full disclosure, the latter was written by one of us). See *BlueEarth Biofuels*, 235 P.2d at 313, 321-23.

³⁵ See *id.* at 323.

³⁶ See *CDC Restoration & Const., LC v. Tradesmen Contractors, LLC*, __ P.3d __, 2012 876745, *12 (Utah Ct. App. 2012) (“we join the majority of courts that have addressed this issue and hold that the UTSA preempts claims based on unauthorized use of information, irrespective of whether that information meets the statutory definition of a trade secret.”); *Rogers Indus. Prod. v. HF Rubber Mach.*, 936 N.E.2d 122, 130 (Ohio Ct. App. 2010) (Ohio UTSA preempts claims “based solely on allegations of misappropriation of trade secrets or other confidential information”); *Thola v. Henschell*, 164 P.3d 524, 529-30 (Wash. Ct. App. 2007) (taking the majority position as articulated by the New Hampshire Supreme Court’s *Davey* decision, but deciding against preemption on facts where tortious interference claim “does not involve the acquisition or disclosure of confidential information.”).

³⁷ See *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 233-34 (2010), *overruled in part on unrelated ground, Kwikset v. Superior Court*, 51 Cal.4th 310, 337 (2011) (affirming UTSA preemption-based demurrer of alternative claims for conversion, intentional and negligent interference, unfair competition, and common count); see also *K.C. Multimedia, Inc. v. Bank of Am.Tech. & Operations, Inc.*, 171 Cal. App. 4th 939, 957-60 (2009) (affirming “broad” preemption of alternative claims for unfair competition, breach of confidence, and tortious interference with contract in pretrial trial court ruling based on the pleadings).

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property right other than trade secrecy in the information it seeks to protect, and reject an alternative tort claim if the plaintiff cannot show such an interest.³⁸

The decision also specifically rejected the logic of one of the leading minority position cases we will discuss in the section that follows, *Cenveo Corporation v. Slater*, because the federal court in that case assumed that state law protects non-secret information without engaging in an analysis of whether that is truly the case:

We emphatically reject the *Cenveo* court’s suggestion that the uniform act was not intended to preempt “common law conversion claims based on the taking of information that, though not a trade secret, was nonetheless of value to the claimant.” On the contrary, a prime purpose of the law was to sweep away the adopting states’ bewildering web of rules and rationales and replace it with a uniform set of principles for determining when one is – and is not – liable for acquiring, disclosing, or using “information . . . of value.” Central to the effort was the act’s definition of a trade secret. Information that does not fit this definition, and is not otherwise made property by some provision of positive law, belongs to no one, and cannot be converted or stolen. By permitting the conversion claim to proceed on a contrary rationale, the *Cenveo* court impliedly created a new category of intellectual property, far beyond the contemplation of the act, subsuming its definition of “trade secret” and effectively obliterating the uniform system it seeks to generate.³⁹

Likewise, a number of federal district⁴⁰ and circuit courts⁴¹ have taken the majority position. Two well-known decisions asked whether a party can legitimately claim state law intellectual property

³⁸ See *Silvaco*, 184 Cal. App. 4th at 238-39. The court did not provide examples of possible claims permitted by positive law apart from a UTSA claim. State-defined publicity or trademark-related rights may be examples, though none are substitutes or alternatives for UTSA claims.

³⁹ See *id.* at 239 n.22 (citations omitted).

⁴⁰ See, e.g., *Brigham Young Univ. v. Pfizer, Inc.*, 2012 WL 994305, *1-3 (D. Utah March 22, 2012) (following recent Utah appellate decision to find common law claims preempted); *Nexsales Corp. v. Salebuild, Inc.*, 2012 WL 216260, *3-4 (N.D. Cal. Jan. 24, 2012) (preempting claim for “common law misappropriation”); *Kendall Holdings, Ltd. v. Eden Cryogenics LLC*, 2012 WL 125177, *14 (S.D. Ohio Jan. 17, 2012) (taking majority “same operative facts” position to find alternative claim for unfair competition preempted where it was premised on “confidential information”); *Onesky Litigation Trust v. Sullivan*, 2012 WL 124739, *6-7 (D.N.H. Jan. 17, 2012) (finding fraud and other claims premised in information misuse preempted under majority approach); *Heller v. Cepia, LLC*, 2012 WL 13572, *7 (N.D. Cal. Jan. 4, 2012) (preempting alternative tort claims; following *Silvaco*); *Dana Ltd. v. American Axle and Mfg. Holdings, Inc.*, 2011 WL 4954061, *2-4 (W.D. Mich. Oct. 17, 2011) (preempting tort claims where “based on allegations that Defendants took information that may not constitute a trade secret, but that nonetheless could be used to their competitive advantage”); *ProductiveMD, LLC v. 4UMD, LLC*, _ F. Supp. 2d _, 2011 WL 4481123, *5-6 (M.D. Tenn. Sept. 27, 2011) (employing majority position “same proof” test to find claims preempted in part); *Office Depot, Inc. v. Impact Office Prod., LLC*, _ F. Supp. 2d _, 2011 WL 4452397, *7 (N.D. Ohio Sept. 26, 2011) (employing majority position “same operative facts” test to find claims preempted in part); *The B&F Sys., Inc. v. LeBlanc*, 2011 WL 4103576, *27 (M.D. Ga. Sept. 14, 2011) (finding conversion claim preempted under majority approach); *Jardin v. DataAllegro, Inc.*, 2011 WL 1375311, *4 (S.D. Cal. April 12, 2011) (preempting alternative claims); *Carpenter v. Aspen Search*

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rights in information that does not qualify as a trade secret. In one, *Hauck Manufacturing Company v. Aspect Industries, Inc.*, the Eastern District of Tennessee rejected the concept that any such rights could exist:

If the information is a trade secret, the plaintiff's claim is preempted; if not, the plaintiff has no legal interest upon which to base his claim. Either way, the claim is not cognizable.⁴²

Similarly, the Northern District of Georgia described how such alternative tort claims would undermine the UTSA by disrupting the balance between protected information and information in the public domain:

If a plaintiff could alternatively recover for misappropriation of non-proprietary information or misappropriation of unguarded proprietary information, the legislative judgment contained in the GTSA – that such information should otherwise flow freely in the public domain – would be subverted. And it would make little sense to go through the rigamarole of proving information was truly a trade secret if a plaintiff could alternatively plead claims with less burdensome requirements of proof.⁴³

Advisors, LLC, 2011 WL 1297733, *2 (N.D. Ill. April 5, 2011) (“Whether or not an ITSA claim is supported, the Act preempts related common law claims, such as this one.”); *XpertUniverse, Inc. v. Cisco Sys., Inc.*, 2011 WL 1226365, *4 (D. Del. March 28, 2011) (applying majority position under California law to preempt claims said to be premised on “other protectable confidential and proprietary information in addition to trade secrets.”); *National City Bank, N.A. v. Prime Lending, Inc.*, 737 F. Supp. 2d 1257, 1267-69 (E.D. Wash. 2010) (preempting breach of confidence claim that was “factually indistinguishable” from UTSA claim); *Ultimate Timing, LLC v. Simms*, 715 F. Supp. 2d 1195, 1208 (W.D. Wash. 2010) (finding duplicative conversion claim preempted because information at issue was same as subject matter of UTSA claim); *Secure Energy, Inc. v. Coal Synthetics, LLC*, 2010 WL 1691454, *3-5 (E.D. Mo. Apr. 27, 2010) (finding several claims preempted and describing information as “confidential”); *KCH Serv., Inc. v. Vanaire, Inc.*, 2009 WL 2020770, *2 (W.D. Ken. July 9, 2009) (finding negligence claim preempted).

⁴¹ See Seventh Circuit: *Composite Marine Propellers, Inc. v. Van Der Woude*, 962 F.2d 1263, 1265 (7th Cir. 1992) (noting that Illinois UTSA “abolished all common law theories of misuse of such [confidential] information [...] Unless defendants misappropriated a (statutory) trade secret, they did no legal wrong.”); Ninth Circuit: *Cacique, Inc. v. Robert Reiser & Co., Inc.*, 169 F.3d 619, 624 (9th Cir. 1999) (affirming ruling that party could not allege common law unfair competition to avoid California UTSA remedies; albeit without detailed analysis of UTSA preemption); Eleventh Circuit: *Penalty Kick Management, Ltd. v. Coca Cola Co.*, 318 F.3d 1284, 1298 (11th Cir. 2003) (preempting alternative conversion claim under Georgia UTSA); Federal Circuit: *Microstrategy Inc. v. Business Objects, S.A.*, 429 F.3d 1344, 1363-64 (Fed. Cir. 2005) (affirming UTSA preemption ruling under Virginia law, albeit without sustained analysis); *On-Line Tech., Inc. v. Bodenseewerk Perkin-Elmer GmbH*, 386 F.3d 1133, 1146 (Fed. Cir. 2004) (affirming UTSA preemption ruling under Connecticut law because “all of [plaintiff’s] allegations relate to the misappropriation of trade secrets.”); *C&F Packing Co. v. IBP, Inc.*, 224 F.3d 1296, 1307 (Fed. Cir. 2000) (affirming preemption ruling under Kansas law; fraud claim was “indistinguishable” from the trade secret claim).

⁴² See *Hauck Mfg. Co. v. Aspect Indus., Inc.*, 375 F. Supp. 2d 649, 657 (E.D. Tenn. 2004).

⁴³ See *Diamond Power Int’l, Inc. v. Davidson*, 540 F. Supp. 2d 1322, 1345 (N.D. Ga. 2007).

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As discussed in greater detail below, the majority approach to UTSA preemption does not conflict with federal patent preemption because it protects only trade secret information. By definition, information protected under the majority approach must be secret, ruling out the possibility that a plaintiff could bring a state tort claim based upon information in the public domain. Because state law – the UTSA – already preempts any claims that might conflict with federal patent policy, federal patent preemption is not an issue in jurisdictions taking the majority position on UTSA preemption.

2. The Minority Approach to UTSA Preemption

Courts taking the minority approach to UTSA preemption rule permit state tort claims based on information that fails to qualify as a UTSA trade secret. In doing so, the minority approach creates a second, alternative tier of intellectual property that may encroach on the public domain.

This logic, however, is rarely if ever articulated as such. Indeed, courts taking the minority position do not expressly rule in favor of a two-tier system, and generally do not analyze whether claims for information said to be “confidential” or “proprietary,” but not a UTSA trade secret, existed historically or could plausibly exist today.⁴⁴ So far as we are aware, none have analyzed whether the alternative claims they permit would be preempted by the federal patent laws to the extent such claims seek to protect technical information.

Courts taking the minority position do so in different ways, though they reach the same result.⁴⁵ One common line of reasoning focuses on the wording in the UTSA’s preemption clause, which states

⁴⁴ Rather than address whether a claim for “confidential but not secret” information existed before the UTSA was enacted in a given state, or still should exist after the UTSA’s enactment, most minority position courts appear to implicitly assume that such claims historically existed. The implied conclusion is troublesome, because it jumps over the research and analysis needed to reach that conclusion by assuming that some other court in the pre-UTSA past has already done the work to articulate and justify the concept that distinct tort claims for “trade secret” and for “confidential” information could exist side-by-side, encompassing the same information, and that such analysis would have rested on a sound analytical framework.

⁴⁵ Indeed, courts applying the law of a given state are not always uniform in applying the majority and minority positions. As an example, a surprising number of federal district court and out-of-state opinions continue to apply the minority position, purportedly under California law, contrary to both California’s *K.C. Multimedia* ruling, and – for those coming later in time – the more explicit *Silvaco* decision discussed above. Those coming after *Silvaco* seem to have missed its express and vehement rejection of the minority position as articulated in the Eastern District of Pennsylvania’s *Cenveo* ruling, and none of them have engaged in any analysis of whether California law ever allowed such claims, even before the UTSA. Given the large number of trade secret cases filed in California, these surface-level rulings are disappointing. See, e.g., *Phoenix Tech. v. DeviceVM*, 2009 WL 4723400, *5 (Dec. 8, 2009) (narrowly construing *K.C. Multimedia* to allow alternative claim and following *Think Village-Kiwi*, discussed *infra* n. 129, without analyzing its logic); *Petroplast Petrofisa Plasticos S.A.*, 2009 WL 3465984, *11 (Del. Ch. Oct. 28, 2009) (following *Think Village-Kiwi* and other minority position cases from federal district courts instead of *K.C. Multimedia*). For post-*Silvaco* rulings in direct conflict with its holding, see *Strayfield Ltd. v. RF Biocidics, Inc.*, 2012 WL 170180, *1 (E.D. Cal. Jan. 19, 2012) (rejecting an UTSA preemption argument in one paragraph, with unconvincing citations to cases where the litigants did not address UTSA preemption); *Leatt Corp. v. Innovative Safety Tech., LLC*, 2010 WL 2803947, *6 &n.5 (S.D. Cal. July 15, 2010) (following minority position and purporting to engage in a “careful reading” of *Silvaco* – a reading that missed that decision’s footnote 22 explicitly rejecting the very theory the court then applied); *Bryant v. Mattel, Inc.*, 2010 WL

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that civil remedies not based on “misappropriation of a trade secret” are not preempted by the statute. Because the preemption language makes no reference to claims that use the words “confidential” or “proprietary” information, these courts reason that the UTSA only preempts state law tort claims that use the word “trade secret.”

The best-known example of this thinking is a ruling from the Wisconsin Supreme Court, *Burbank Grease Services, LLC v. Sokolowski*.⁴⁶ *Burbank Grease* was a case where the defendant was accused of taking a customer list when leaving his employer, taking it to his new job, and using it to solicit customers. The plaintiff alleged tort claims that included breach of the duty of loyalty and tortious interference. The lower court ruled that the information at issue was not a trade secret, and the plaintiff sought to proceed on its non-UTSA tort claims.⁴⁷

The high court ruling reversed an appellate-level decision that had ruled that claims over information said to be confidential, but not secret, could not proceed in the face of the UTSA’s preemption clause. Over a sharp dissent, the majority examined the text of the UTSA’s preemption clause in isolation, and focused on the wording that the statute does not preempt “any civil remedy not based upon misappropriation of a trade secret.”⁴⁸ The court implicitly assumed that tort claim for information that is “confidential but not secret” had historically existed in Wisconsin as a backup for a failed trade secret claim, but did not describe any pre-UTSA cases with such a holding. By assuming without discussion that the UTSA phrase “trade secret” is not synonymous with the word “confidential,” the court also implicitly assumed that “trade secret” business information and “confidential” business information are two different categories. Worse, the court examined the

3705668, *22 (C.D. Cal. Aug. 2, 2010) (following minority position of other federal district courts despite *Silvaco*, on the ground that a fact “analysis” would be necessary to determine whether a claim for non-secret information could exist); *Spring Design, Inc. v. Barnesandnoble.com, LLC*, 2010 WL 5422556, *10 (N.D. Cal. Dec. 27, 2010) (post-*Silvaco* decision employing the minority position to permit an unfair competition claim apparently premised on technical information to escape UTSA preemption based on concept that claim could encompass “confidential information” that is not a trade secret); see also *What 4 LLC v. Roman & Williams, Inc*, 2012 WL 1815629, *4 (N.D. Cal. May 17, 2012) (implying in cursory dicta that a claim for confidential information that is not a trade secret would not be preempted; no citation of *Silvaco*).

⁴⁶ 717 N.W.2d 781 (2006).

⁴⁷ See *id.* at 796-97 (describing claims and allegations).

⁴⁸ The court’s focus on the wording of the UTSA’s preemption clause seemed to rest on a number of unstated assumptions about the intentions of the UTSA drafters, as well as the state legislators in Wisconsin who later enacted the statute there, namely that the UTSA drafters (a) believed that there was a substantive difference between claims over “trade secret” information and claims over “confidential” or “proprietary” information; (b) believed that state common law historically had differentiated such claims; (c) actually anticipated that litigants would attempt to avoid the UTSA by pleading claims for “confidential” or “proprietary” information; (d) actually considered whether or not the preemption clause should preclude such efforts; (e) decided that the goal of the preemption clause in the UTSA was only to preempt common law claims that were premised on “trade secrets,” but not to preempt tort claims that operate as a backup to a failed trade secret claim; (f) decided that the UTSA was intended only to be one of many possible state law tort claims for misuse of commercial information, rather than a single scheme to promote uniformity; so that (g) the drafters’ planned and intended result of the UTSA was a two-tier system of protectable information under state law, where the second tier provides a backup remedy so that a plaintiff can prevail if a UTSA claim fails.

UTSA Commissioners' Comment, which explains that contract claims and claims "not dependent upon the existence of competitively significant secret information, like an agent's duty of loyalty" are not preempted, to reach a conclusion not stated in the commentary: that "the UTSA was not enacted to be the exclusive remedy for misappropriation of confidential information."⁴⁹ Nothing in that comment the court quoted makes a distinction between "trade secret" and "confidential" information, and the court did not examine other language in the UTSA drafters' commentary that cuts against its extra-textual reading.⁵⁰ Using this self-described "plain meaning" analysis, however, the court concluded that because the UTSA's text does not expressly bar claims said to be based on "confidential business information", the statute does not preempt tort claims seeking protection of that undefined category of information⁵¹

On that reasoning, the court held that the plaintiff's tort claims could proceed.⁵² The court did not define the "confidential" information it sought to protect or explain how it differed from trade secret information – or whether it could include information that is publicly available. Judging from the text of the opinion, it does not seem to have occurred to the court to ask whether "trade secret" and "confidential" have commonly been used by courts and litigants as synonyms rather than substantively distinct concepts, or to ask whether the plaintiff had simply relabeled the same claim with different words in order to avoid the UTSA. The decision does not address whether statutes in Wisconsin should occupy the field over inconsistent common law claims, does not examine the full text of the UTSA's drafters' commentary, does not address any policy ramifications of taking one side or the other, does not distinguish loyalty and tortious interference claims that are based on allegations of post-employment information misuse from other versions of such claims, and seems uninformed about how trade secret litigation all too often features exaggerated claims based on non-

⁴⁹ See *id.* at 791-92 (quoting UNIF. TRADE SECRETS ACT § 7, Comment). As discussed above, *supra* n.4, a claim for breach of a duty of loyalty is sometimes independent of a claim for misuse of business information, and in other cases it is functionally identical to a UTSA trade secret claim. This distinction is crucial when discussing UTSA preemption.

⁵⁰ See UNIF. TRADE SECRETS ACT, Prefatory Note ("The contribution of the Uniform Act is substitution of unitary definitions of trade secret and trade secret misappropriation, and a single statute of limitations for the various property, quasi-contractual, and violation of fiduciary relationship theories of noncontractual liability utilized at common law.").

⁵¹ See *id.* at 790-91. One problem with this type of textual approach to UTSA preemption is that it assumes that the UTSA drafters in the 1970s foresaw how litigants would seek to plead around the statute in future decades, made a considered decision that such efforts should be permitted, and therefore deliberately did not write the UTSA's preemption clause to expressly extinguish claims about information said to be "confidential" or "proprietary" but not secret. In that hypothetical, the drafters did not see the UTSA as a "uniform" statute, but rather just one of many potential remedies for similar fact patterns that could be litigated in parallel. Such a scenario seems unlikely. A more reasonable assumption might be that the drafters simply did not foresee how aggressively litigants would endeavor to avoid the statute in cases alleging information misuse. Projecting contemporary disputes into the minds of those who drafted decades-old statutory language means that too much rests on speculation, especially when too many inferences must be made that go against the overall purpose of the statute; this concern weighs in favor of a more comprehensive analysis.

⁵² See *id.* at 790-91, 798 ("To summarize, we conclude that Wisc. Stat. § 134.90(6)(a) does not preclude all other civil remedies based on the misappropriation of confidential information if the information is not defined as a trade secret under SEC. 134.90(1)(c).").

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secret information.⁵³ The decision was criticized by commentators⁵⁴ and two other state high courts to consider the preemption question.⁵⁵

Another common approach is to assert that a plaintiff deserves a remedy when a defendant re-uses information learned from the plaintiff (usually a former employer), thereby free-riding on the plaintiff's efforts.⁵⁶ In one often-cited 2007 ruling from the Eastern District of Pennsylvania – *Cenveo Corporation v. Slater* – the court held that the state legislature could not have intended to preempt alternative claims for “theft” of information that is not a trade secret.⁵⁷ A number of federal courts in Pennsylvania have followed the ruling.⁵⁸

⁵³ A strong dissent criticized the majority for deviating from UTSA preemption in other states, but largely did not address these issues. The result is that the majority and the dissent did not engage in analyzing whether the classification of information as “trade secret” or “confidential” is a matter of wordplay rather than substance.

⁵⁴ See James Pooley, TRADE SECRETS § 2.03[6] (at p. 2.30 n. 50.8) (2011) (criticizing court for engaging in a “cramped analysis of the statute”), Mark Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 346 n.153 (2008); Sarah Gettings, Note, *Burbank Grease Services, LLC v. Sokolowski: Frustrating Uniformity in Trade Secret Law*, 22 BERKELEY TECH. L.J. 423 (2007); Michael Ahrens, Note, *Wisconsin Confidential: The Mystery of the Wisconsin Supreme Court's Decision in Burbank Grease Services v. Sokolowski and its Effect Upon the Uniform Trade Secrets Act, Litigation, and Employee Mobility*, 2007 WISC. L. REV. 1271 (2007).

⁵⁵ See *BlueEarth Biofuels*, 235 P.3d 310; *Davey*, 904 A.2d 652, 665, discussed *supra*, n. 27-28.

⁵⁶ Ugly facts may drive some such decisions, by causing courts to look past the policy issues at play in order to punish defendants who have behaved badly, and whose preemption arguments may be seen as form over substance. The problem is perhaps best illustrated by a recent federal decision in southern California, *Amron Int'l Diving Supply, Inc. v. Hydrolinx Diving Comm., Inc.* The defendant former employee copied hundreds of thousands of files from his former employer, lied about it, and attempted to render the employer's own files inaccessible. See 2011 WL 5025178, *10 (S.D. Cal. Oct. 21, 2011). The plaintiff filed a long and repetitive list of alternative claims in addition to its UTSA cause of action: breach of confidence, conversion, trespass to chattels, tortious interference, unjust enrichment, unfair competition, “common law misappropriation,” and conspiracy. Without mentioning California appellate authority taking the majority position -- authority that should control a federal district court's ruling on a question of state law – the court held that UTSA preemption would only apply to information that proved to be a trade secret, and assumed that the plaintiff could allege other claims under California law premised on other information – information the court confusingly labeled as “confidential or non-confidential proprietary non-trade secret information.”

⁵⁷ See *Cenveo Corp. v. Slater*, 2007 WL 527720, *4 (E.D. Pa. Feb. 12, 2007). The court held that “it should not be assumed that the Pennsylvania legislature's enactment of the PTSA was intended to abrogate common law conversion claims based on the taking of information that, although not a trade secret, was nonetheless of value to the claimant.” Notably, *Cenveo* and other federal district court rulings applying the minority position on UTSA preemption under Pennsylvania law appear to have overlooked an important pre-UTSA Pennsylvania trade secret case which made clear that plaintiffs cannot pursue claims against former employees when the information at issue is in the public domain. See *Van Prod. Co. v. General Welding & Fab. Co.*, 213 A.2d 769, 780 (Penn. 1965) (“We feel that the authorities holding that public disclosures destroy plaintiff's right to maintain a cause of action to preserve his ‘trade secret’ as against a competing former employee who has violated a duty of confidence are more sound in theory and practice than those continuing to look to the relationship of the parties as a basis for the action.”). The *Cenveo* court's assumption about the intentions of the Pennsylvania legislature is highly questionable in light of this decision, which suggests that even before the UTSA was enacted, Pennsylvania defendants could not be held liable for using public domain, non-secret information.

⁵⁸ See *Partners Coffee Co., LLC v. Oceana Serv. & Prod. Co.*, 2009 WL 4572911, *11 (W.D. Penn. Dec. 4, 2009); *Bio-Tech. Corp. v. Thermax, Inc.*, 651 F. Supp. 2d 378, 418 (E.D. Penn. 2009); *Youtie v. Macy's Retail Holding, Inc.*,

Similarly, a Seventh Circuit ruling – though not altogether clear about its position on UTSA preemption – stated that “it is unimaginable that someone who steals property, business opportunities, and the labor of a firm’s staff would get a free pass just because none of what he filched is a trade secret.”⁵⁹ The court did not mention the more fundamental possibility that some information may not be anyone’s property, and instead might be in the public domain.

In another recent federal court case in Pennsylvania, the plaintiff asserted both UTSA and conversion claims for the alleged misuse of business information.⁶⁰ The court – like many others in the Pennsylvania federal courts – denied a motion to dismiss the conversion claim on UTSA preemption grounds. In doing so, the court explained that if the claim were preempted, the plaintiff might have no remedy if the information proved to be non-secret:

If Plaintiff’s conversion argument was solely based on misappropriation of trade secrets, PUTSA would preempt this claim. However, Plaintiff premises its conversion claim on misappropriation of both trade secrets and other confidential information. If we dismiss Plaintiff’s conversion claim, and later determine that Plaintiff’s confidential information does not constitute trade secrets, we risk leaving Plaintiff without a remedy.⁶¹

Other minority position rulings seem to assume that preventing free-riding through reuse of information learned on the job is a proper basis to reject UTSA preemption of alternative tort claims.⁶²

626 F. Supp. 2d 511, 522 & n.9 (E.D. Penn. June 5, 2009); *Ideal Aerosmith, Inc. v Acutronic USA, Inc.*, 2008 WL 1859811, *6 (W.D. Penn. Apr. 23, 2008); *Binary Semantics Ltd. v Mintab, Inc.*, 2008 WL 763575, *10 (M.D. Penn. March 20, 2008); *Weiss v. Fiber Optic Designs, Inc.*, 2007 WL 3342605, *1 (E.D. Penn. Nov. 9, 2007).

⁵⁹ See *Hecny Transportation, Inc. v. Chu*, 430 F.2d 402, 405 (7th Cir. 2005) (stating also that “An assertion of trade secret in a customer list does not wipe out claims of theft, fraud, and breach of the duty of loyalty that would be sound even if the list were public record.”). It is unclear whether the court simply meant that conduct that does not rest on misuse of information should survive UTSA preemption – such as working for a competitor while still employed, in breach of a duty of loyalty – or if state-protected “property” can still exist in some unarticulated form absent a trade secret.

⁶⁰ See *EXL Labs., LLC v. Egolf*, 2011 WL 880453, *8 (E.D. Pa. March 11, 2011).

⁶¹ See *id.*

⁶² See *Tradesmen Int’l, Inc. v. Black*, 2011 WL 5330589, *12-13 (C.D. Ill. Nov. 7, 2011) (on motion for summary judgment, permitting a claim for “misappropriation of confidential information” that was not a trade secret on a fiduciary duty theory; employees had emailed non-secret business information to the subsequent employer while still employed by the plaintiff; “Where there is a fiduciary relationship, arising from a restrictive covenant, an employer may be successful in a claim for disclosure of confidential information under a theory of breach of fiduciary duty, even if the information does not constitute a trade secret.”); *Fire ‘Em Up, Inc. v. Technocarb Equip. (2004) Ltd.*, 799 F. Supp. 2d 846, 852 (N.D. Ill. 2011) (in case involving claims for technical and other information, refusing to find fraud claim premised on misuse of such information preempted; reasoning that Illinois contracts can protect non-secret information, alleged fraud tort concerned the parties’ contract, and therefore “even if the alleged proprietary and confidential information do not constitute trade secrets, an action for fraud is still sound.”); *CTI Serv., LLC v. Haremza*, 797 F. Supp. 2d 1257, 1261-62

A third approach, also seen in *Cenveo* and many other rulings, holds the preemption question in abeyance by asserting that UTSA preemption only applies if the information ultimately proves to be a trade secret.⁶³ If the plaintiff establishes that the information at issue is a trade secret, the plaintiff's alternative tort claims are then preempted and the litigation continues under the UTSA. But if the defendant successfully shows that the information is not a trade secret, the defendant must then face the alternative tort claims instead of the UTSA claim, where the secrecy defense is no longer available. This approach seems to presume that the plaintiff should win the case, and that no defendant should be permitted to reuse information learned during a job or during a business partnership.

Under this logic, the UTSA is more or less superfluous, because the plaintiff can still pursue a state law intellectual property tort claim over the same information regardless whether the information is a trade secret. The plaintiff need only remember to label the information at issue “confidential” rather than “trade secret,” and the defendant loses its ability to raise a case-dispositive secrecy defense.⁶⁴

Overall, there is a common theme to the minority position rulings, and one is important for this article: cases taking this position never attempt to explain exactly what non-trade secret information they would allow state tort law to protect, and how far such protection should extend into material that is publicly available. They do not explain the difference between trade secret information and the “confidential” or “proprietary” information they seek to protect. Nor do they examine if and how the “confidential” or “proprietary” information differs from information in the public domain

(N.D. Ok. June 23, 2011) (on motion for summary judgment involving claims for misuse of information concerning a pipeline repair product, allowing claim for breach of fiduciary duty and conversion to survive preemption “to the extent the claim is based on breach of the alleged duties to keep other confidential business information secret,” and finding preemption only if the claim is based on information that is a trade secret).

⁶³ See *Trident Prod. & Serv., LLC v. Canadian Soiless Wholesale, Ltd.*, 2011 WL 2938483, *5 (E.D. Va. July 19, 2011) (finding question of UTSA preemption “premature” on motion to dismiss unjust enrichment claim based on formulation for soil additive product; reasoning that plaintiff alleged that both “trade secrets” and “proprietary” information were at issue, and that UTSA preemption only applies block alternative claims over information that is, in fact, a trade secret; relying on *Stone Castle Fin., Inc. v. Friedman, Billings, Ramsey & Co, Inc.*, 191 F. Supp.2d 652, 659 (E.D. Va. 2002); *Hadar v. Wilson*, 2011 WL 2600442, *19 (D. Or. June 28, 2011) (same on motion to dismiss in case apparently involving both business and technical website-based information; allowing a quantum meruit claim to proceed on the logic that “[i]f, for example, evidence offered at a later stage of these proceedings were to establish that the work-product allegedly misappropriated from the plaintiffs did not constitute a trade secret, causing the misappropriation claim to fail, the quantum meruit claim could still lie, depending on the state of the evidence then in the record.”).

⁶⁴ In jurisdictions that (so far) follow the minority position, the only time a plaintiff may find its causes of action preempted would be if it forgets to artfully plead that it has both trade secrets and other, “confidential” information in its complaint, and instead bases its alternative claims on material it expressly labels as trade secrets. See, e.g., *Power Contracting, Inc. v. Stirling Energy Sys., Inc.*, 2010 WL 4854072, *5 (W.D. Pa. Nov. 22, 2010) (in jurisdiction that generally follows the minority position as articulated by the *Cenveo* case, finding claim preempted because the plaintiff described the information as trade secrets within the alternative cause of action). Those who remember to re-label their claims with synonyms for secrecy will be rewarded in such jurisdictions.

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and, if so, what provision of existing statutory or tort law would provide for its protection. As we will explain below, we believe that there are important policy consequences that flow from allowing such free-floating claims, both to litigants and to those who must make real-world decisions about what information learned during a prior job may be reused, and what information is owned by a former employer.

In addition, and also important for this article, courts taking the minority position on UTSA preemption do so in cases that involve unpatented, technical information – including in situations where the facts indicate that the information may well be in the public domain.

In *Dow Corning Corp. v. Jie Xiao*, for example, the Eastern District of Michigan allowed a tort claim for interference with contract to survive a UTSA preemption challenge.⁶⁵ The information at issue related to the manufacture of polycrystalline silicon. Dow sued former employees for UTSA trade secret misappropriation as well as tortious interference. When the defendants moved to dismiss the interference claim on preemption grounds, the court held that the claim could proceed to provide a tort remedy for non-trade secret information:

To the extent Plaintiffs seek a remedy for the alleged misappropriation of a trade secret, they are limited to the remedies provided by the Uniform Trade Secrets Act. However, Plaintiffs are also entitled to seek a remedy for the disclosure of confidential information protected by the agreements that does not consist of trade secrets. In other words, to the extent [former employee] disclosed confidential information to Defendants and that information was not a “trade secret,” Plaintiffs are entitled to seek redress for Defendants’ tortious interference with [former employee’s] confidentiality contracts.⁶⁶

In a second such case, the Eastern District of California allowed an alternative conversion claim to proceed where, among other information, “software source codes” were at issue.⁶⁷ The plaintiff argued that UTSA preemption should not apply “because the conversion claim is broader in scope and relies on different remedies.”⁶⁸ The court found that it would be “premature” to preempt the claim because the information might subsequently prove not to be a trade secret.⁶⁹

⁶⁵ See *Dow Corning Corp. v. Jie Xiao*, 2011 WL 2015517, *14 (E.D. Mich. May 20, 2011).

⁶⁶ See *id.* For a similar example involving customer information, see *Pacific Scientific Energetic Materials Co. (Ariz.) LLC v. Ensign-Bickford Aerospace & Defense Co.*, 2011 WL 4434039, *12 n.8 (D. Ariz. Sept. 23, 2011) (refusing to find tortious interference claim preempted because “The plaintiffs are not alleging misappropriation of trade secrets. Rather, the plaintiffs alleged that [Defendants] contacted [Plaintiff’s] customers and induced them to violate their confidentiality agreements.”).

⁶⁷ See *Ali v. Fasteners for Retail*, 544 F. Supp. 2d 1064, 1072 (E.D. Cal. 2008). This ruling pre-dates California’s *K.C. Multimedia* and *Silvaco* decisions taking the majority position on UTSA preemption.

⁶⁸ See *id.*

⁶⁹ See *id.*

Similarly, in a recent Northern District of California case, the court declined to find a claim for “breach of confidence” preempted by the UTSA, in part because the information at issue – concepts and features visible when viewing the user interface of a social gaming application software product – were publicly available on the Internet.⁷⁰ In this case in particular, the information at issue appears clearly to have been in the public domain.

Ultimately, it is not clear whether decisions such as these intentionally seek to protect information under state law that would be considered part of the “public domain” under federal patent law, or simply do not consider the possibility. But despite the lack of clarity in these rulings, that indeed may be the intended result: courts taking the minority position may be reviving the so-called “confidence” or “relational” theory of trade secret law, under which a defendant can be liable for re-using information learned in confidence – and thus said to be “confidential” even if that same information is otherwise available from public sources. Trade secret cases that feature such holdings are generally decades old and predate the UTSA.⁷¹ If courts taking the minority position on UTSA preemption seek to resuscitate that largely forgotten theory using phrases such as “confidential but not secret,” however, their rulings may well be in direct conflict with the law of federal patent preemption.

III. Federal Patent Preemption of State Tort Claims

In an often-neglected series of cases stretching back some fifty years, federal and state courts have held that federal patent law preempts state law – tort claims as well as statutory law – that encroaches on the public domain by offering “patent-like” protection to unpatented, non-secret information.⁷² It is this body of jurisprudence that we believe poses a conflict with cases taking the minority position on UTSA preemption.

1. Court Decisions Applying Federal Patent Preemption of State Law Claims

The constitutional authority for federal patent legislation derives from the arts-and-sciences clause of the Constitution, which states that Congress may act “[t]o promote the Progress of Science and

⁷⁰ See *SocialApps, LLC v. Zynga, Inc.*, 2012 WL 381216, *3-4 (N.D. Cal. Feb. 6, 2012) (asserting that “While CUTSA might preempt any relief with respect to information that is a protectable trade secret, SA may still be entitled to recover on a breach of confidence theory for any non-trade secret information.”).

⁷¹ Some of the cases taking this approach – mostly very old – are summarized in Mark Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 342-46 (2008); Charles T. Graves, *Trade Secrets as Property: Theory and Consequences*, 15 J. INTELL. PROP. L. 39, 47-52 (2007).

⁷² *Sears, Roebuck & Co.*, 376 U.S. 225 (1964), *Compco Corp.*, 376 U.S. 234 (1964), *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989); cf. *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) (trade secret law not preemption by the federal patent laws); see also Michael Madison, *Beyond Invention: Patent as Knowledge Law*, 15 LEWIS & CLARK L. REV. 71, 99 (2007) (citing *Sears/Compco* and *Bonito Boats*); Mark J. Tindall, *How Much Is An Illegal Immigrant’s Life Worth?*, 89 TEX. L. REV. at n.104 (2011) (discussing *Bonito Boats*).

useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.”⁷³ The phrase “limited Times” implies that information will enter the public domain after a patent or copyright expires, and the concept that Congress may set rules for patent and copyright protection implies that information which fails to meet the standards for such protection will likewise exist in the public domain.⁷⁴

The Supreme Court decided the first federal patent preemption cases, the so-called “*Sears/Compco*” decisions, on the same day in 1964.⁷⁵ In both cases, litigants filed unfair competition claims under state law to block competitors from offering products that copied the unpatented design elements of the plaintiffs’ lighting and lamp products. In both cases, the defendants had inspected products sold on the open market and offered similar alternative products.⁷⁶ The court held that the federal patent laws preempted the state law unfair competition claims, because the plaintiffs sought to claim patent-like protection for unpatented information they had released into the public domain.

These principles were restated in a 9-0 Supreme Court decision in 1989, *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*⁷⁷ In that case, the court struck down a Florida statute which had granted state law intellectual property protection to unpatented boat hull designs. The designs were publicly available – they were visible parts of boats that anyone could see when docked – and thus were no different than the lamp designs in the *Sears/Compco* cases.⁷⁸

Bonito Boats is important because the Supreme Court emphasized that the federal patent laws operate to protect a robust public domain in unpatented information, upon which the states may not encroach. The court explained that the public domain is the default position for creative and technical information: “the ultimate goal of the patent system is to bring new designs and technologies into the public domain through disclosure.”⁷⁹ Thus, “[t]o a limited extent, the federal

⁷³ U.S. CONST. Article I, Section 8, Clause 8.

⁷⁴ Indeed, the Supreme Court in *Bonito Boats* made clear that “the ultimate goal” of the patent system is to bring information into the public domain. See 489 U.S. at 151.

⁷⁵ See *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964) (information about a marketed product not covered by a patent could not form basis for state law unfair competition claim); *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 228-32 (1964) (same).

⁷⁶ In both cases, the plaintiff claimed that the defendant caused source confusion; the court ruled in *Sears* that the “mere inability of the public to tell two identical articles apart is not enough to support an injunction against copying or an award of damages for copying that which the federal patent laws permit to be copied.” See *Sears*, 376 U.S. at 232. States today may regulate source confusion – the version of unfair competition that is sometimes known as “palming off” – without finding such claims preempted by federal law. See, e.g., *Cel-Tech Comm., Inc., et. al., v. Los Angeles Cellular Telephone Co.*, 20 Cal. 4th 163, 193 (1999) (Kenard, J. dissenting) (describing history of state law unfair competition tort claim, including claims for passing off). This article is not about source confusion or trade dress cases; it is about state regulation of ideas and information when re-used by former employees and former business partners.

⁷⁷ See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).

⁷⁸ See *id.* at 145-46.

⁷⁹ See *id.* at 151.

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patent laws must determine not only what is protected, but also what is free for all to use.”⁸⁰ The court noted that state trade secret law is permissible because, among other things, it does not protect publicly available information, and because members of the public can independently derive or reverse engineer the same information that another person or company has developed and guarded as a trade secret.⁸¹

On the other hand, *Bonito Boats* explained that state laws that attempt to protect unpatented ideas in the public domain are unconstitutional because they remove publicly available information from the public domain where anyone can use it, and undercuts the federal patent laws by not requiring that such information undergo “the careful protections of high standards of innovation and limited monopoly contained in the federal scheme” in order to receive intellectual property protection.⁸²

In the years since the *Sears/Compco* decisions, a number of federal and state courts have applied federal patent preemption to hold that litigants cannot allege state law tort claims (such as unjust enrichment or unfair competition) to seek protection of public domain, unpatented technical information. Some of these cases involve information, as in *Sears/Compco*, that was in the public domain and easily available to all.⁸³ Others, like *Bonito Boats*, involve information that was in the public domain, but that would require reverse engineering, or at least an examination of a product, to divine the information at issue.⁸⁴ Still others – perhaps the most pertinent for this article – involved information that the plaintiff had simply failed to protect when disclosing it to potential business partners or other third parties, such that it did not meet the requirements for trade secret protection.⁸⁵

⁸⁰ *See id.*

⁸¹ *See id.* at 155-56. The court also noted that state unfair competition laws may protect nonfunctional design elements that have secondary meaning without running afoul of the Supremacy Clause. *See id.* (“The ‘protection’ granted a particular design under the law of unfair competition is thus limited to one context where consumer confusion is likely to result; the design ‘idea’ itself may be freely exploited in all other contexts.”).

⁸² *See id.* at 159-60.

⁸³ *See Smith v. Healy*, 744 F. Supp. 2d 1112 (D. Or. 2010) (information available in patents and on the Internet); *Sammons & Sons v. Ladd-Fab, Inc.*, 138 Cal. App. 3d 306, 312-13 (1982) (information available in plaintiff’s catalog and products were for sale on the open market).

⁸⁴ *See Waner v. Ford Mtr. Co.*, 331 F.3d 851, 857 (Fed. Cir. 2003) (rejecting unjust enrichment claim over non-secret technology ideas based on automobile part that had been marketed; “Absent secrecy, state law cannot create a collateral set of rights available as an adjunct or expansion to patent rights.”); *Darling v. Standard Alaska Prod. Co.*, 818 P.2d 677, 680 (Alaska 1991) (same for linked concrete block product used to prevent shoreline erosion; “Whatever unfairness inheres in allowing the free exploitation of ideas must give way to the greater societal benefit of achieving the full potential of our inventive resources, unless the federal government has granted the protection of a patent.”).

⁸⁵ *See Auburn Univ. v. IBM Corp.*, 2009 WL 3757049, *2-3 (M.D. Ala. Nov. 9, 2009) (plaintiff university alleged that company filed patent applications based on research by a professor and graduate student, one of whom worked for IBM “during the summer of 2001 and while he continued to be a graduate student of Auburn.”; court found conversion and unjust enrichment allegations preempted by federal law because, among other things, there was “no allegation of any confidential disclosure, or other confidential relationship.”); *Studio & Partners, S.R.L., v. KI*, 2008 WL 426496, *14 (E.D. Wisc. Feb. 14, 2008) (after ruling in favor of defendants on unrelated grounds, court noted that on the merits, the plaintiff’s “smorgasbord of state law theories,” was preempted by federal law where it alleged that information it provided to defendant in the course of a business relationship – which was “based on publicly available documents” and

And a few courts have declined to find state law claims preempted by the federal patent laws because the plaintiff alleged a misuse of non-public commercial information – akin to, but without the formal label of, a trade secret claim.⁸⁶ Overall, the decisions focus on whether the information at issue is in the public domain, and do not use an “extra element” type of analysis seen in the law of copyright preemption.

A few other courts have found that a state law tort claim based on non-secret information is not tenable, without reaching federal patent preemption – albeit with the same tone and the same result as the federal preemption cases. Such cases typically involve plaintiffs who disclosed ideas to defendants in contexts where the idea was not secret and the plaintiff failed to disclose the idea in a protected, controlled manner.⁸⁷ Whether or not courts expressly address federal patent preemption,

apparently provided without confidentiality restrictions – was misused; “Essentially, the plaintiff wants trade secret protection for something that was not a trade secret, and patent protection for something that was not patented.”); *Confold Pacific, Inc. v. Polaris Indus., Inc.*, 433 F.3d 952, 959-60 (7th Cir. 2006) (unjust enrichment claim based on non-secret product design information that plaintiff had disclosed without protection preempted; “In general, if information is not a trade secret and is not protected by patent, copyright, or some other body of law that creates a broader intellectual property right than trade secrecy does, anyone is free to use the information without liability.”); *Ultra-Precision Mfg., Ltd. v. Ford Mtr. Co.*, 411 F.3d 1369, 1380 (Fed. Cir. 2005) (information contained in an automotive component disclosed without confidentiality contract); *Joyce v. GM Corp.*, 551 N.E.2d 172, 175 (Ohio 1990) (conversion claim based on non-secret technology ideas rejected at the pleading stage based on U.S. Supreme Court precedents where idea was submitted via an employee idea submission program; “Appellee’s ideas were not expressed in a legally protected manner. They were neither patented, copyrighted, trademarked or imparted pursuant to a fiduciary or confidential relationship. In fact, they were freely divulged to a third party. Public disclosure of the ideas makes them available to all and operates to deprive appellee of any further rights in them [citing *Bonito Boats*.] Since they ideas are not property, they are not capable of conversion or appropriation.”).

⁸⁶ See *Massachusetts Eye and Ear Infirmary v. QLT Phototherapeutics, Inc.*, See 559 F.3d 1, 2 (1st Cir. 2009). The plaintiff’s case was brought under Massachusetts law. Massachusetts has not enacted the UTSA, and that may explain why the plaintiff styled its cause of action as one for unjust enrichment. See also *University of Col. Foundation, Inc. v. American Cyanamid Co.*, 342 F.3d 1298, 1306-07 (Fed. Cir. 2003) (allowing a state law implied contract claim to proceed over a preemption objection where the plaintiff alleged that the defendant had misused unpublished, “confidential” scientific research). It is unclear why the plaintiffs did not bring an UTSA trade secret claim – which likely would have short-circuited the federal preemption discussion – but in any event, the information at issue in both cases appears to have been the type that would qualify for trade secret protection. Another such case is *Novelaire Tech., LLC v. Harrison*, 50 So.3d 913, 920-21 (La. Ct. App. 2010) (finding that state law claims for unfair trade practices and breach of fiduciary duty were not federally preempted where the defendant breached an invention assignment contract requiring him to disclose an invention and “breached his contractual and fiduciary duties not to disclose Novelaire’s confidential information.”). All of these decisions fit within the conception of a one-tier system of state-protected commercial information and are consistent with the other federal preemption rulings.

⁸⁷ See *Fail-Safe LLC v. A.O. Smith Corp.*, 762 F. Supp. 2d 1126, 1130-35 (E.D. Wisc. 2011) (plaintiff disclosed idea for pump motion to defendant and court had previously rejected its trade secret claim; court rejected unjust enrichment claim for non-secret information); *Daktronics, Inc. v. McAfee*, 599 N.W.2d 358, 364 (S. Dakota 1999) (conversion claim based on non-secret concept for baseball pitch speed indicator rejected where plaintiff had disclosed concepts to defendants without a contract, and where trade secret claim failed; “Since there was no property interest, there could be no conversion.”); *Sarver v. Detroit Edison Co.*, 571 N.W. 759, 763 (Mich. Ct. App. 1997) (plaintiff, an employee, disclosed an idea that was “neither novel nor unique” to employer through employee suggestion program; court rejected a conversion claim because there was no property right in the idea). Interestingly, the *Fail-Safe* decision applied Wisconsin law, but did not cite the *Burbank Grease* decision discussed *supra*. This may be circumstantial

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when UTSA preemption and employee mobility issues are not at stake, courts readily find that state law cannot protect non-secret commercial information.⁸⁸ As we will discuss, we do not believe that courts should address similar fact patterns differently simply because one defendant is a former employee accused of misusing information learned on a job and another defendant is a former business partner accused of misusing information learned during business discussions.

2. The Reach and the Limits of Federal Patent Preemption

The federal patent laws embodying this concept do not explicitly set forth the extent to which they displace state law.⁸⁹ Absent explicit statutory direction, courts apply either field or conflict preemption.⁹⁰ Field preemption is expansive, applicable when the federal interest is so dominant or regulation is so “pervasive as to make reasonable the inference that Congress left no room for the States to supplement it.” Courts are generally reluctant to find field preemption in areas traditionally regulated by the states unless the “intent to supersede state laws [is] clear and manifest.”⁹¹ Conflict preemption displaces state law only “to the extent that it actually conflicts with federal law”, for example, where “it is impossible for a private party to comply with both state and federal

evidence supporting our thesis that courts approach similar problems differently when faced with employment-based fact patterns.

⁸⁸ There is an important exception, though it is not relevant for this article because it does not involve employment disputes. Under the so-called “hot news” doctrine – a state law remnant of a United States Supreme Court case from 1918 decided under federal common law – news reporting companies have a narrow cause of action against those who copy their time-sensitive newsgathering efforts for self-gain. The theory essentially operates to protect an industry in a context where free-riding would undermine any reason to invest in newsgathering. *See generally* Jeena Moon, Note, *The “Hot News” Doctrine, The Crumbling Newspaper Industry, and Fair Use as Friend and Foe: What is Necessary to Preserve “Hot News”?*, 28 CARDOZO ARTS & ENT’L L.J. 631, 637-38, 643-44 (2011) (explaining history of doctrine); *Barclay’s Capital Inc. v. Theflyonthewall.com, Inc.*, 650 F.3d 876 (2nd Cir. 2011) (narrowing the doctrine under the law of copyright preemption; holding that an entity which itself makes reportable news cannot sue another company for quickly reporting such news).

⁸⁹ *See Kewanee* at 480; *Ultra Precision*, 411 F.3d at 1377, 35 U.S.C. §§ 1-376 (2000). There are three types of federal preemption of state law: explicit, field or conflict preemption. *See Ultra Precision*, 411 F.3d at 1377. Explicit preemption applies where Congress expressly states “the extent to which its enactments preempt state law.” *English v. General Elec. Co.*, 496 U.S. 72, 78 (1990). On one hand, conflict preemption seems like a surprising result given the express reference to patent-like legislation in the Constitution. Any argument in favor of field preemption is undermined by the long history of state regulation of property rights – including intellectual property rights – through contract and state tort claims, such as unjust enrichment, conversion, unfair competition and trade secret misappropriation. *See Aronson.*, 440 U.S. at 262 (“Commercial agreements traditionally are the domain of state law. State law is not displaced merely because the contract relates to intellectual property which may or may not be patentable; the states are free to regulate the use of such intellectual property in any manner not inconsistent with federal law.”); *Kewanee*, 416 U.S. at 494 (Marshall, J., concurring) (“State trade secret laws and the federal patent laws have co-existed for many, many years. During this time, Congress has repeatedly demonstrated its full awareness of the existence of the trade secret system, without any indication of disapproval. Indeed, Congress has in a number of instances given explicit federal protection to trade secret information provided to federal agencies.”).

⁹⁰ *See* Mark J. Tindall, *How Much Is An Illegal Immigrant’s Life Worth?*, 89 TEX. L. REV., 729, 733-35 (2011) (generally discussing federal preemption principles).

⁹¹ *See English*, 496 U.S. at 79.

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requirements, or where state law “stands as an obstacle to the accomplishment and execution of the full purposes and objective of Congress”.⁹²

To address federal patent preemption of state law, courts have followed a middle road between field and conflict preemption. Although conflict preemption technically applies,⁹³ federal courts have framed the conflict broadly. They tend to identify a conflict anytime state statutes or common law obstructs the constitutionally enshrined *purpose* of federal patent law – to reward inventors with a limited monopoly on the invention while also protecting information in the public domain.⁹⁴ As the Supreme Court stated in *Aronson v. Quick Point Pencil Co.*, “[f]irst, patent law seeks to foster and reward invention; second, it promotes disclosure of inventions, to stimulate further innovation and to permit the public to practice the invention once the patent expires; third, the stringent requirements for patent protection seek to assure that ideas in the public domain remain there for the free use of the public.”⁹⁵

The primary respect in which states intrude on the public domain has been by granting patent-like protection to unpatented (and uncopyrighted) information that is public.⁹⁶ This standard is simpler to state in the abstract than it is to recognize in practice, however.

In general, breach of contract claims are not considered “patent-like” protection because they do not restrain the public at large but only the particular parties who agreed to the contract.⁹⁷ For example,

⁹² See *id.* at 79; see also Tindall, *supra* note 8 at 740-47 (examining case law involving conflict preemption arguments).

⁹³ See *Kewanee*, 416 U.S. at 479; *Aronson* at 262; *Sears*, 376 U.S. at 231 (“Just as a state cannot encroach upon the federal patent laws directly, it cannot, under some other law . . . give protection of a kind that clashes with the objectives of the federal patent laws.”); *Ultra Precision*, 818 P.2d 677 (citing *Aronson*, 440 U.S. at 262); *Darling*, 818 P.2d at 680; see also Cross, *supra* note 10, at n.101 (characterizing *Bonito Boats* as applying conflict preemption). *Kewanee*’s reasons for distinguishing state trade secret law from federal patent law were not entirely convincing. Among the questionable points in the decision, the court asserted that “privacy” was one basis for trade secret law, and assumed that entities with valuable, patentable ideas would almost always seek patent protection rather than continue treating the information as a trade secret. For a good overview of *Kewanee* and its relationship to contemporary intellectual property law, see Sharon K. Sandeen, *Kewanee Revisited: Returning to First Principles of Intellectual Property Law to Determine the Issue of Federal Preemption*, 12 MARQUETTE INTELL. PROP. L. REV. 299 (2008).

⁹⁴ See *Compco*, 376 U.S. at 237 (“[W]hen an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, s8 cl. 8 of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.”); *Darling*, 818 P.2d at 681.

⁹⁵ See 440 U.S. at 263.

⁹⁶ See *Sammons & Sons v. Ladd-Fab, Inc.*, 138 Cal. App. 3d 306, 309 (Cal. Ct. App. 1982) (“federal law has completely preempted state law relating to the copying of unpatented and uncopyrighted matter coming within the ambit of the patent and copyright laws.”); *Aronson*, 440 U.S. at 264 (1979) (“a state may not forbid the copying of an idea in the public domain which does not meet the requirements for federal patent protection.”)

⁹⁷ See *Aronson*, 440 U.S. at 262-63 (1979). A related question, discussed in Section III, is whether employment contracts or confidentiality contracts between businesses prohibit a party from using information that is publicly available, when a contracting party learned the information from the other party rather than from public sources. In

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patent law does not restrict an agreement between two parties for a royalty fee in exchange for exclusive distribution rights for a keyholder product that was never patented or whose patent was rejected.⁹⁸ Such an agreement cannot serve to bind third parties from freely copying the keyholder based upon its plainly observed characteristics once sold to the public.⁹⁹ Patent law's interest in protecting the public domain from restriction is therefore unaffected.¹⁰⁰

The Supreme Court has also deemed trade secret law consistent with patent law, because the information is, by definition, secret, as opposed to part of the public domain.¹⁰¹ Although trade secret law tends to discourage disclosure,¹⁰² it does not seek to restrict copying of that which is already in the public domain, such as through “independent invention, accidental disclosure or reverse engineering.”¹⁰³ The Supreme Court also reasoned that information protected by trade secret laws is generally non-patentable material – such that the public has a lesser interest in such information ultimately being disclosed to the public.¹⁰⁴ Finally, the Court concluded that trade secret

California, courts have used a statute that prohibits trade restraints to limit the reach of employee contracts such that only future use of trade secret information may be restricted. *See, e.g., Dowell v. Biosense Webster*, 179 Cal. App. 4th 564, 578 (2009) (voiding contract terms that restricted activity beyond narrow misuse of trade secrets); *Thompson v. Impaxx, Inc.*, 113 Cal. App. 4th 1425, 1429-32 (2003) (contract barring solicitation of customers void to the extent customers were not trade secrets). Elsewhere, the question appears to be less clear, and ripe for a full scholarly exploration. *See, e.g., Hawkins v. Flambeau, Inc.*, 2007 WL 2710947, *6 (S.D. Ind. June 5, 2007) (noting “two divergent lines of case law regarding the requisite degree of novelty” an idea must have in order to serve as consideration for a contract). Notably, *Aronson* did not involve an employment contract, and the parties knew exactly what technology was the subject of the contract. The same is generally not true of employment contracts that refer to confidential information in only general terms.

⁹⁸ *See id.* (patent application for keyholder rejected by patent office, but Supreme Court nevertheless upheld royalty contract).

⁹⁹ *See id.* (noting that third parties had begun making copycat products, but that contracting party had benefited from being the first to market)

¹⁰⁰ *See id.* (licensing agreement consistent with the purpose of federal patent law because “[p]ermitting inventors to make enforceable agreements licensing the use of their inventions in return for royalties provides an additional incentive to invention. Similarly, encouraging Mrs. Aronson to make arrangements for the manufacture of her keyholder furthers the federal policy of disclosure of inventions; these simple devices display the novel idea which they embody wherever they are seen.”)

¹⁰¹ *See id.* at 266; *Kewanee*, 416 U.S. 470 at 485.

¹⁰² *See Aronson*, 440 U.S. at 266.

¹⁰³ *See Kewanee*, 416 U.S. at 476.

¹⁰⁴ *See Kewanee*, 416 U.S. at 483-84. As the dissent observed, this argument is at odds with reality, including the very facts in the case: “the product involved in this suit, sodium iodide synthetic crystals, was a product that could be patented but was not.... Rater, [the plaintiff] sought to protect its trade secrets by contracts with its employees.” The dissent also observed that the injunction obtained in the case extended far longer than patent protection would have provided, since the Court ordered a permanent injunction into perpetuity. The dissent argues that the majority should have held that a trade secret “has no property dimension” and the Court was instead protecting the contract between the employer and employee, to prevent the employee from breaching his duty of trust to the employer. *Id.* at 498.

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law ultimately encourages investment in valuable innovations left unprotected by patent law, by offering a legal remedy to preserve the secrecy of such innovations.¹⁰⁵

With contract and trade secret claims excluded from the universe of claims subject to federal patent preemption, what remains? This is the area where federal patent preemption collides with the minority position on UTSA preemption. On one hand, state law may recognize tort claims that arise during the same chain of events as a trade secret claim, but do not seek to regulate use of information. Examples include claims for breach of fiduciary duty where a corporate officer solicits co-workers before leaving a job,¹⁰⁶ and where a business engages in mass employee hiring for the specific purpose of crippling a rival.¹⁰⁷ These types of claims are not about regulating the use of information learned during a job after an employee leaves the job. On the other hand, a litigant may seek to proceed with a state law tort claim that expressly is aimed at protecting information that fails to meet the UTSA's standards for trade secrecy, and that seeks to punish a former employee for using such information at a subsequent job. Such claims may have the very same labels as claims that are not about regulating intellectual property – such as unfair competition or breach of fiduciary duty. As a result, courts generally cannot make determinations about federal preemption (or UTSA preemption) by looking at the label attached to a cause of action. Rather, they must instead look to the particular facts of the case to determine whether permitting that claim to proceed would conflict with the federal patent laws.

Neither federal nor state courts approach the federal preemption issue in a systematic manner. However, the common theme in this jurisprudence is to ask whether the unpatented information has become part of the public domain through means other than trade secret misappropriation or breach of contract.¹⁰⁸

Information can become part of the public domain in various ways. The attributes of a product become part of the public domain as soon as the product is sold on the market. These attributes can be determined through technical or non-technical means. For example, the properties of a keyholder

¹⁰⁵ See *Kewanee*, 416 U.S. at 485.

¹⁰⁶ See, e.g., *Bancroft-Whitney v. Glen*, 64 Cal.2d 327 (1964) (fiduciary solicited co-workers and undermined their salary increases before leaving job).

¹⁰⁷ See, e.g., *Boyce v. Smith-Edwards-Dunlap Co. v. Franklin Printing Co., Inc.*, 580 A.2d 1382, 1390 (Pa. Super. Ct. 1990) (“systemically inducing employees to leave their present employment is actionable ‘when the purpose of such enticement is to cripple and destroy an integral part of a competitive business organization rather than to obtain the services of particularly gifted or skilled employees.’” (citations omitted)).

¹⁰⁸ Lawsuits arising from information that is public but entered the public domain as a result of trade secret misappropriation or a breach of contract are not preempted for the reasons described above – assuming the defendant in the lawsuit is the wrongdoer who breached the contract or misappropriated trade secret information. See generally *Copy Control Ass'n, Inc. v. Bunner*, 116 Cal. App. 4th 241 (2004) (defendant not liable for trade secret misappropriation where information had been rendered public by a third party's act of releasing it on the Internet and by subsequent widespread distribution).

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or a lamp may be obvious from a visual inspection.¹⁰⁹ The examination can be somewhat technical but commonly known industry – such as making a mold of a competitor’s boat hull and using the cast to reproduce the design.¹¹⁰ Or the examination can be highly technical – such as information that is obtained from reverse engineering a competitor’s products.¹¹¹

Any state claims based upon knowledge available through examination of a publicly distributed unpatented product is very likely to be preempted by federal patent law.¹¹² As the Supreme Court articulated in *Compco Corp. v. Day-Brite Lighting, Inc.*, “when a article is unprotected by a patent or copyright, state law may not forbid others to copy that article... Here, Day-Brite’s [light] fixture has been held not to be entitled to a design or mechanical patent. . . it is, therefore, in the public domain and can be copied in every detail by whoever pleases.”¹¹³

As described above, another fact pattern common to cases addressing federal patent preemption involve voluntary disclosure of information to a third party not formally bound by contract or a fiduciary duty to keep the information secret.¹¹⁴ This sometimes occurs when one party discloses its product to another while a patent application is pending. Rather than enter into a non-disclosure contract, the disclosing party relies only on the potential future threat of patent litigation to protect its interests.¹¹⁵ However, if the patent application is later denied, courts have interpreted such denial as a federal determination that the information is unworthy of protection. State attempts to fill the gap through torts such as quasi-contract upset the policy balance struck by federal patent law between inventors and the public.¹¹⁶ Where a third party has exploited information subject to a

¹⁰⁹ See *Aronson*, 440 U.S. at 259; *Sears* 376 U.S. 225 (1964); see also *Sammons & Sons*, 138 Cal.App.3d (exact replicas of metal and storage components, as well as accompanying catalog).

¹¹⁰ See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 416 U.S. 470 (1989).

¹¹¹ See *Kewanee*, 416 U.S. at 476.

¹¹² See *Bonito Boats*, 489 U.S. at 157-58; see also *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 405 (9th Cir. 1982) (reversing ruling against party that had engaged in reverse engineering and noting that to do hold otherwise would “in effect, convert the Company’s trade secret into a state-conferred monopoly akin to the absolute protection that a federal patent affords. Such an extension of California trade secret law would certainly be preempted by the federal scheme of patent regulation.”) (citing *Kewanee and Sears/Compco*).

¹¹³ See 376 U.S. at 237-38 (1964); see also *Sammons & Sons*, 138 Cal. App. 3d at 313 (distinguishing lawful nature of distributor’s mere copying of supplier’s products from copying carried out in violation of a fiduciary duty).

¹¹⁴ See *Darling*, 818 P.2d at 683 (plaintiff disclosed design subject to pending patent application without any contract in place); *Joyce v. General Motors Corp.* 49 Ohio St.3d 93, 94 (Ohio 1990), (employee disclosed suggestion to supervisors, who submitted the idea to employee suggestion plan and obtained a reward. In ruling in favor of the supervisor, noted that the employee had not conveyed his ideas in “a legally protected manner” as “they were neither patented, copyrighted, trademarked nor imparted pursuant to a fiduciary or contractual relationship”); *Ultra-Precision Manufacturing Ltd. v. Ford Motor Co.*, 411 F.3d 1369 (Fed. Cir. 2005).

¹¹⁵ See *Darling*, 818 P.2d at 682; *Ultra-Precision*, 411 F.3d at 1380 (unrelated company made improvement to Ford’s compressor, which were disclosed by the company in an unrelated patent. Company brought unjust enrichment claim against Ford for use of the technology. Court held unjust enrichment claim preempted by federal patent law).

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failed patent, courts readily step in to protect the public domain through preemption of the conflicting state law.¹¹⁷

Information can also reach the public domain through an issued patent, or through a patent application.¹¹⁸ Once such information is published by the USPTO, it cannot be removed from the public domain. This principle – and the degree to which courts outside the UTSA preemption and employment law context will apply the principles of federal patent preemption – was starkly illustrated in *Evans Cooling Systems, Inc. v. General Motors Corp.*¹¹⁹ Evans presented its product to General Motors under a “black box” agreement. General Motors violated the agreement by identifying the trade secret information underlying the product and incorporating it into its own product. Evans later was awarded a patent for the invention, but the patent was found invalid because the product had been on sale by General Motors for more than one year.¹²⁰

Evans alleged a trade secret claim extending back to the date General Motors violated the “black box” agreement. The Court addressed whether the trade secret claim could extend for the entire limitations period, or whether federal patent preemption precluded any remedy for the period following the issuance of the patent, when the information was made public. The Court noted that, as a matter of patent law, the information was deemed public once the patent was issued – whether later invalidated or not – and therefore, affording a trade secret remedy following that date would be contrary to federal patent policy forbidding the removal of information from the public domain.¹²¹ Evans’ trade secret claim was therefore limited to the period it was first misused by General Motors through the date of the patent’s issuance. In this manner, the Court hewed strictly to its obligations to protect the general public interest in the public domain. This type of strict application of federal patent preemptions, however, is not seen in cases involving questions of UTSA preemption of state law tort claims.

¹¹⁶ See *Darling* at 682 (“Federal policy both encourages disclosure of ideas and innovation and demands ‘substantially free trade in publically known, unpatented products...federal policy discourages monopoly pricing unless a valid patent is in force.’”); *Sears*, 376 U.S. 225, 231 (1964) (“To allow a State by use of its law of unfair competition to prevent the copying of an article which represents to slight an advantage to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public.”); *Ultra-Precision* at 1380-81 (the plaintiff’s unjust enrichment claim, as pled, also frustrates Congress’ objective of creating an incentive to develop inventions that meet the rigorous requirements of patentability. If *Ultra-Precision*’s unjust enrichment claims were available, a wood-be inventor need not satisfy any of the rigorous standards of patentability to secure a perpetual patent-like royalty under state law based upon the use of an unpatented idea.”)

¹¹⁷ See, e.g., *Darling*, 818 P.2d at 682-83.

¹¹⁸ Patent applications are published 18 months from the date they are first filed. See 35 U.S.C. § 122. As a result, information within them is in the public domain, with a number of important results for trade secret law. For an example, see *Raza v. Siemens Med. Sol. USA, Inc.*, 607 F. Supp. 2d 689, 692-93 (D. Del. 2009) (applying statute of limitations to bar trade secret claim where plaintiff, a resident of Pakistan, failed to use reasonable diligence to notice published patent application and other facts relevant to his claim).

¹¹⁹ See 976 A.2d 84 (Conn. Sup. Ct. 2007).

¹²⁰ See *id.* at 88.

¹²¹ See *id.* at 96 (quoting *Kewanee*).

IV. The Potential Conflict Between The UTSA Minority Position and Federal Patent Law

Having reviewed the federal preemption jurisprudence and the conflicting positions courts take when ruling on UTSA preemption of overlapping state law tort claims, we must now ask whether the minority position on UTSA preemption potentially gives rise to a conflict between state law and federal patent preemption. We believe that the answer is “yes,” because courts that follow the minority position on UTSA preemption are allowing state law tort claims to proceed even where the information at issue is not a trade secret – without analyzing whether such information falls within the public domain. To be sure, we have not found – and would not expect to find – decisions explicitly holding that non-secret, public domain information can constitute protectable information under state tort law when a trade secret claim fails. That said, the danger is courts are implicitly allowing such a result by issuing rulings that do not require trade secrecy as a basis to protect information under state tort law, and then leaving the litigants (and others in the jurisdiction who might be subject to similar claims in future litigation) in a situation where non-secret information has been weaponized and UTSA defenses no longer apply.

Why haven’t defendants asserted the federal preemption argument more frequently in UTSA preemption cases? And why haven’t courts raised the question *sua sponte*? We believe that the answer may be attributable to two erroneous assumptions about the UTSA and federal patent law:

- First, that the UTSA definition of “trade secret” is very stringent and the public domain is limited, leaving room for an intermediate category of information protectable under state tort law; and
- Second, that claims arising from an employer/employee relationship do not give rise to federal preemption questions, or even that such claims cannot be preempted by the federal patent laws.

We believe that both assumptions are mistaken.

1. Questionable Assumption: Trade Secrets are Narrow and the Public Domain is Limited, Leaving an Intermediate Category of Protectable Information.

Courts adopting the UTSA minority position protect information that is said to be “confidential but not secret” or “proprietary but not secret.” They do not, however, explain what they mean by this. It may be that such courts are reviving the pre-UTSA “confidence” theory of information protection, where how an employee learns information is more important than whether the information is publicly available.¹²² They seem to envision a scheme like the diagram above, where trade secrets

¹²² See discussion, *supra*, at X. In contrast to a “confidence” approach, a “property” approach reflected by the UTSA focuses on whether the information is publicly available, rather than focusing on whether the defendant learned the information from the plaintiff. See, e.g., *Ultimax Cement Mfg. Corp. v. CTS Cement Mfg. Corp.*, 587 F.3d 1339,

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exist at the top of a pyramid of protectable information. They presume secrecy of the information at issue exists on a continuum, permitting some form of reasonable line-drawing between “secret” and “public.”

In fact, the UTSA definition of trade secrecy is very broad.¹²³ If we consider the Washington UTSA, to take one example, a “trade secret” is defined as “information” – such as “a formula, pattern, compilation, program, device, method, technique, or process” – that (1) has independent economic value as a result of (2) not being generally known, and (3) not being readily ascertainable to those who could gain value from the information, and (4) has been protected by reasonable security measures.¹²⁴ This formulation does not have a minimum value requirement, and does not restrict the types of information that can constitute trade secrets. Thus, even commercial information of relatively low value can qualify as a trade secret.¹²⁵

Information that does not meet the first element – independent economic value – presumably would not be worth the time or expense of litigation.¹²⁶ Under the UTSA there is no floor on the value

1355 (Fed. Cir. 2009) (applying California UTSA; no liability if information is non-secret event if defendant first obtained it from plaintiff).

¹²³ Two commentators have advocated that the UTSA be altered to recognize and protect information that is said to be “confidential but not secret.” One argues that this category might include at least information that is known, but only known to a minority of persons in a given field or industry. Another argues, along similar lines, that the new concept would “fill the theoretical and practical gap between ‘trade secrets’ and ‘general skill and knowledge.’” See Julie Piper, Note, *I Have a Secret?: Applying the Uniform Trade Secrets Act to Confidential Information that Does Not Rise to the Level of Trade Secret Status*, 12 MARQ. INTELL. PROP. L. REV. 359, 367 (2008); Robert Unikel, *Bridging the “Trade Secret” Gap: Protecting “Confidential Information” Not Rising to the Level of Trade Secrets*, 29 LOY. U. CH. L.J. 841, 842 (1998). The proposals would narrow the public domain and render protectable information that is currently free for use under the UTSA. Neither article addresses federal patent preemption, both seem to assume that courts that historically have mentioned “confidential” information fully intended a two-tier scheme of state information protection, and both seem to assume the wisdom of altering the UTSA to encompass publicly available information without exploring the effects of such a change on employee mobility, venture-backed start-up formation, and other economic questions. Both start with the premise that information is valuable, and therefore, ipso facto, it must be protected – not unlike many of the courts which have taken the minority position on UTSA preemption. Finally, neither explains how, practically, courts would empirically determine what items of publicly-available information are known to a majority of persons in a trade, or only a minority. Would market participants be compelled to testify? Would the defendant be forced to shoulder that burden and cost, or risk losing a case involving publicly available information?

In any event, these commentaries are useful, because they shed light on what courts may be thinking or assuming when they take the minority position on UTSA preemption.

¹²⁴ See Wash. Rev. Code § 19.108.010. Richard Dole, *The Uniform Trade Secrets Act – Trends and Prospects*, 33 HAMLINE L. REV. 409, 418-419 (2010) (noting the presence of a “not being readily ascertainable requirement” in certain state versions of the UTSA).

¹²⁵ One of us previously noted this concern in a discussion centered on California law. See Graves, *Nonpublic Information and California Tort Law*, *supra* note 6, at ¶ 75 (noting that under the California UTSA, trade secrecy can encompass such “thin” information such as customer lists, such that it is difficult to envision what separate category of information a “confidential” category would cover).

¹²⁶ We are aware of no published decision where a plaintiff sought to litigate over information that it admitted was worthless. In the abstract, and in a more general policy sense, it is possible that the law might recognize a place for

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requirement; anything above zero value satisfies the condition precedent for trade secrecy.¹²⁷ In the abstract, perhaps a state law tort claim for “confidential but not secret” information could exist for secret information that is absolutely worthless to competitors, but it is hard to imagine that a real-world court (much less a litigation plaintiff) would seek to advance such a claim under that theory.¹²⁸

The second element is also forgiving – that the information not be generally known in the relevant industry. Information that is generally known surely encompasses information that is publicly available. But at the same time, small differences among competing market competitors that are not publicly available are protectable under the UTSA’s statutory text. Vast amounts of information held by companies meets this standard.

Generally known information does not fit within common sense notions of “confidential” or “proprietary,” unless one labels publically-available information with such words on the basis that

scientific failures. In an intriguing article, Sean B. Seymore proposed that patent law recognize “null patents” – or nonexclusionary patent filings to record failed experiments – as a means to improve overall patent quality. *See generally The Null Patent*, _ WILLIAM & MARY L. REV. __ (forthcoming 2012). Permitting litigants to use valueless information in an offensive manner against a departing employee or business partner is another thing altogether. For a criticism of so-called “negative know how” in trade secret law, *see Graves, The Law of Negative Knowledge: A Critique*, 15 TEX. INTELL. PROP. L.J. 387 (2007).

¹²⁷ Perhaps for this reason, it is difficult to find published cases where a court found that a UTSA plaintiff did not satisfy the value element of a trade secret claim. One example is *Yield Dynamics, Inc. v. TEA Sys., Inc.*, 154 Cal. App. 4th 547, 566-59 (Cal Ct. App. 2007), where the court ruled that software code had no value to competitors because, in part, the plaintiff did not establish that other software engineers could not easily write their own, similar information.

¹²⁸ At least one commentator believes that such a claim could be valid in certain circumstances, but we respectfully have doubts. In considering how a breach of fiduciary duty claim could or should escape UTSA preemption if the information that serves as the basis for the claim is not commercially valuable and thus is not a UTSA trade secret, John Cross suggests that a claim might exist for information that lacks economic value in the UTSA sense of value to competitors.. *See John T. Cross, UTSA Displacement of Other State Law Claims*, 33 HAMLINE L. REV. 445, 480 (2010) (“But if the information was purely private information that lacked commercial value, the UTSA would not displace the breach of fiduciary duty claim, and the owner might well recover.”). There are at least two ways such claims could be viable, though we do not believe that either undercuts the thesis of this article. First, if a defendant takes non-commercial information from a company and the information is governed by laws protecting personal privacy, a claim brought under privacy laws would not be preempted by the UTSA because the UTSA does not purport to cover non-commercial information. That said, it is possible that information might fall outside the scope of both privacy law and intellectual property law – such as information that makes a company look foolish, but that has no potential economic value to competitors. *See Michael Risch, Trade Secret Law and Information Development Incentives*, in THE LAW AND THEORY OF TRADE SECRECY 180 & n.109 (Rochelle C. Dreyfuss & Katherine J. Standburg, eds. 2011) (noting that privacy law might not afford full protection to information that also is not covered by trade secret law). We are unaware of any cases involving this hypothetical situation. Second, if a defendant had not yet resigned from a company at the time of the alleged wrongdoing but competed against the company while he or she still remained a current employee or current fiduciary, he or she could violate a duty of loyalty whether or not any commercially valuable information is involved. The UTSA does not speak to claims that govern competitive conflicts of interest with a current employer, and such claims are not about intellectual property regulation. Absent such facts, however, it is difficult to imagine a claim brought by a former employer against a former employee alleging misuse of business information that the plaintiff concedes has no economic value at all, and we are aware of no historical state law tort claim that permitted such litigation where the plaintiff disclaimed any economic value to the information at issue.

someone learned the information from an employer with whom he or she had a confidentiality contract rather than from a public source. In turn, it is hard to imagine that UTSA minority courts mean “not generally known” when they use terms such as “confidential but not secret” in their rulings, because that would simply be a synonym for that which is already covered by the UTSA. Such phrases thus are difficult to understand, and courts have not explained what is meant when they use such phrases. Perhaps courts are simply assuming there is some in-between category of protectable information because litigants say so, the concept sounds clever, and they assume that the arguments of counsel have some foundation in law. Nevertheless, the low threshold for secrecy under the UTSA means that trade secrets to occupy a much larger portion of the pyramid than UTSA minority courts seem to assume.

The third element – that the information not be readily ascertainable – is also a forgiving one because it excludes very little from that which is otherwise UTSA-protected.¹²⁹ If information is readily ascertainable, through compilation of third party sources or *de minimis* effort of one’s own,¹³⁰ that would seemingly render it either very close to public domain information or competitively worthless. To the extent courts following the minority position on UTSA preemption are attempting eliminate the concept that trade secrets cannot be readily ascertainable in order to prohibit reverse engineering or copying of product attributes – such as a boat hull or a lampshade - they are in direct conflict with federal patent law.¹³¹

As a final possibility, perhaps courts mean to imagine alternative claims where the information is not widely known in the industry, and is valuable, but the owner fails to satisfy the UTSA’s fourth requirement that the owner use reasonable security measures to protect the information. This too, however, conflicts with federal patent law. Federal patent jurisprudence has been utterly unsympathetic to claims based on information disclosed to a third party outside the context of a non-disclosure agreement or a fiduciary relationship. As far as federal patent law is concerned, disclosing unpatented information to a third party without those protections gives that person license to use the information however he or she pleases.¹³²

Inasmuch as courts following the minority position on UTSA preemption seek to wedge state tort claims interstitially between the statute’s definition and federal patent law’s defined public domain, we find no space for doing so. Federal patent law dictates that the public domain is broad, not

¹²⁹ Some commentators have argued that this element “establishes too low a threshold for trade secret protection.” *Dole*, supra note 124 (summarizing literature on this point).

¹³⁰ See James Pooley, TRADE SECRETS § 4.04[4], 4-41-45 (2011) (describing ready ascertainability concept with “Ascertainability Spectrum” chart).

¹³¹ See, e.g., *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 405 (9th Cir. 1982) (holding that to extend trade secret protection over information that had been reverse engineered absent express confidentiality restrictions “would, in effect, convert the Company’s trade secret into a state-conferred monopoly akin to the absolute protection that a federal patent affords. Such an extension of California trade secrets law would certainly be preempted by the federal scheme of patent regulation.”).

¹³² See citations, supra, at n.76.

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narrow, swallowing any technical information that is reverse engineerable, readily ascertainable, known to the public (even if not really known widely), or even simply disclosed without reasonable security measures. Federal patent jurisprudence would therefore seem to preclude claims based on unpatented, technical information left unprotected by the UTSA's expansive definition of "trade secret."

2. Questionable Assumption: Claims Arising From an Employment Relationship Can Never Be Preempted by Federal Patent Law.

Courts adopting the minority UTSA position may also be overlooking the potential federal patent preemption issue on the assumption that claims arising from an employer/employee relationship are excluded from the preemption analysis. In simple terms, when courts think "employment dispute," they may not also think "dispute about the scope of state intellectual property regulation," when, by contrast, a patent-related litigation between two companies might automatically and intuitively give rise to thoughts about federal preemption.

Almost all of the cases that have adopted the minority position on UTSA preemption involved a former employee who allegedly misused information gained in the course of employment. In addition to a trade secret misappropriation claim, such conduct could give rise to a breach of contract claim (if the employee signed a confidentiality or non-disclosure agreement), and related misconduct might be litigated under a claim for breach of the duty of loyalty or breach of fiduciary duty (if the wrongdoing occurred during the defendant's employment with the plaintiff, rather than afterwards).

As discussed above, breach of contract claims are generally deemed consistent with the federal patent laws and thus do not give rise to federal patent preemption. Likewise, duty of loyalty or fiduciary duty claims arising from an employment relationship that are not based on allegations of information misuse should not give rise to federal preemption concerns, because they do not attempt to create state law intellectual property regulation.

But the principles of federal preemption discussed above seemingly leave no room for tort claims against former employees that are based on post-employment use of unpatented, technical information that is not a trade secret. We see no principled reason why federal preemption should not apply to tort claims aimed at post-employment use of information, just as it applies to business disputes unrelated to employee mobility. If the information at issue is in the public domain (which, again, courts taking the minority position on UTSA preemption do not appear to analyze), the former employee seemingly stands in the same position as a former business partner. Allowing state tort claims to encompass such information would give rise to the concerns the Supreme Court described in *Bonito Boats* about states protecting information that might not meet the standards for a federal issued patent.

Moreover, the exception to federal patent preemption for contract law is not absolute – state contract law is still subject to the larger principle articulated by the Supreme Court in *Kewanee* that

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information “which is in the public domain cannot be removed therefrom by action of the States.”¹³³ Where information has made its way into the public domain independently of the employee’s breach of contract (express or implied), federal patent preemption should protect the use of such information thereafter, even by an employee accused of wrongfully using the information.

Courts have deemed breach of contract cases preempted by federal patent law if they place restrictions on the use of information properly within the public domain. For example, in *Brulotte v. Thys Co.*, the court invalidated a license agreement that provided for royalties after the expiration of the patent at issue.¹³⁴ In *Lear v. Adkins*, the Supreme Court also rendered unenforceable a royalty agreement premised on a patent later declared invalid.¹³⁵

It can, however, be somewhat difficult to determine the line between impermissible regulation of the public domain and lawful contracting. Notwithstanding *Brulotte v. Thys* and *Lear v. Adkins*, the Supreme Court in *Aronson* upheld a royalty contract on design information disclosed while a patent was pending, before any of the design information had been publicly disclosed. The agreement contemplated different royalty payments depending upon whether the patent was approved or denied. The Court distinguished *Aronson* from the other cases on the basis that the contract was entered into prior to, and as a condition for, placing the information in the public domain.

Does *Aronson* stand for the proposition that non-public information disclosed to an employee in the course of his employment or subject to a non-disclosure agreement is beyond the reach of federal patent law? Not absolutely, because the information may later reach the public domain through lawful means.¹³⁶ The ruling in *Evans Cooling Systems Inc. v. General Motors*, discussed above, offers analogous reasoning. Although trade secret misappropriation cases are generally beyond the purview of federal patent law, they can be preempted if they ultimately implicate information lawfully in the public domain. When the allegedly misappropriated information in that decision was included in a published patent, federal patent law placed an outer temporal limit on the viability of the misappropriation claim.¹³⁷

The same would be true of a breach of contract claim based on information disclosed in the course of employment that was either already public when disclosed or independently became public

¹³³ 416 US 470, 481 (1974).

¹³⁴ 379 U.S. 29.

¹³⁵ *Lear v. Adkins*, 395 U.S. 653.

¹³⁶ We are unable to identify any case law exactly on point beyond a recent Louisiana state decision holding the opposite. See *Novelair Technologies v. Harrison*, 50 So.3d 913, 916 (La. App. 4th Cir. 2010) (enjoining a former employee from making use of dehumidifier technology on an expired patent, given his misappropriation of trade secret improvements on that technology that he failed to disclose to his employer).

¹³⁷ See *Evans*, 976 A.2d at 96-99.

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following the confidential disclosure.¹³⁸ Federal patent law protects use of information within the public domain by any member of the public. For example, an employee who uses information from his employer that the employer has also placed on the internet has committed no wrong. The information becomes part of the public domain and federal patent law prohibits states from placing limitations on the use of that information through statutes or common law.

While this principle may seem obvious, courts applying the UTSA minority position do not raise or explore these questions when ruling that a litigant may proceed with non-UTSA tort claims based on allegations of information misuse. Worse, when defendants protest that the information at issue is public, some courts taking the minority position on UTSA preemption affect an air of superior logic, by accusing the defendant of hypocrisy – because the defendant argues that the information is not secret, and thus should not also argue that the UTSA preempts the claim, on the assumption that the UTSA only applies when the plaintiff has established that a trade secret exists.¹³⁹

Indeed, courts taking the minority position on UTSA preemption sometimes dismiss defense arguments that UTSA preemption should apply and that the information at issue is not secret out of hand.¹⁴⁰ Allegations of outrageous conduct by a defendant may drive some such decisions, by causing courts to look past the policy issues at play in order to punish defendants who have behaved badly, and whose preemption arguments may be seen as form over substance.

Courts facing a question of UTSA preemption should instead be doing the opposite – ignoring even explosive allegations about the defendant’s conduct in order to make a clear-eyed assessment of whether the information at issue is in the public domain. Rather than ignoring claims based upon employees subject to non-disclosure agreements, courts should be subjecting these cases to particular scrutiny as to potential federal patent preemption. Unlike the contracts at issue in *Aronson*, *Lear* or *Brulotte*, enforcement of the contract will not simply consist of requiring the defendant to pay an agreed-upon royalty. Rather, enforcement routinely consists of an injunction barring the employee – and often his or her new employer – from making use of the information. If the information at issue is public, such an injunction represents a much greater encroachment upon the public domain plainly inconsistent with federal patent law.

¹³⁸ Of course, an employee’s breach of a confidentiality contract involving trade secrets poses no federal preemption issues.

¹³⁹ A district court case in California, for example, criticized a defendant as playing fast and loose by arguing that information was not a trade secret and also seeking preemption of the plaintiff’s alternative claims for “common law misappropriation” and “breach of confidence.” See *Think Village-Kiwi LLC v. Adobe Sys., Inc.*, 2009 WL 902337, *2 (N.D. Cal. Apr. 1, 2009); see also *First Advantage Background Servs. Corp. v. PrivateEyes, Inc.*, 569 F. Supp. 2d 929, 942 (N.D. Cal. 2008) (allowing a plaintiff to pursue an alternative tort claim for information alleged to be “confidential and proprietary” but not a trade secret, without asking whether California law permits such claims).

¹⁴⁰ See *Stove Builder Int’l, Inc. v. GHP Group, Inc.*, 2011 WL 2183160, *1 (N.D. Ill. June 3, 2011) (on motion to dismiss, refusing to find a claim for tortious interference with prospective economic advantage preempted; noting that defendant’s “proposed legal arsenal” was that the plaintiff “does not have protectable trade secrets, and whether the defendant “is right on that score,” determines whether the claim is preempted; court found parties’ arguments “somewhat amusing” in flippant language).

V. Policy Problems Posed by Questionable State Law Intellectual Property Claims

For all of the reasons set forth above, we believe that the minority position on UTSA preemption is at odds with federal patent preemption. We also believe that this conflict poses important policy concerns.

One purpose of the article is to highlight the bigger picture at play in UTSA preemption debates – the structure of state law intellectual property regulation and the balance between the constitutionally protected public domain and the limits of such state regulation. Whether or not courts and litigants recognize the problem, UTSA preemption rulings speak directly to that structure – and indeed sometimes blur and confuse it.

Every debate about the reach of intellectual property protection is necessarily also a debate about the degree to which a robust public domain is necessary to accomplish the goals of intellectual property law – whether to incentivize innovation, to produce an ecosystem friendly to the formation of innovative technology enterprises, or simply to balance the legitimate interests of both technology companies and their creative employees. Indeed, the cases that address federal patent preemption – from *Bonito Boats* down to state and federal district court rulings grappling with preemption issues – expressly address the balance carefully struck between federal patent protection and the public domain. The grand bargain patent law assumes is that the public makes patents available to encourage innovation but leaves the public domain squarely available for use. As state law encroaches on the public domain, it disrupts the balance that federal patent law assumes.

Both trade secret protection and a robust public domain play important roles in innovation policy. Without the former, companies may have less incentive to pay for and promote the development of unpatented but important technical information. Without the latter, companies and departing employees lack an open technical foundation from which their own new ideas can freely grow.

For this reason alone, there is a simple, intuitive appeal to ensuring that state law protection of intellectual property does not permit claims premised upon public domain information. The majority position on UTSA preemption (which does not permit alternative state law tort claims for information said to be “confidential but not secret”) achieves this goal: it is uncomplicated, does not require states to wrestle with the boundaries of state law information protection, and harmonizes perfectly with federal patent preemption and the Supreme Court’s recognition that state law protection of trade secrets is constitutionally permissible.

By contrast, the minority approach to UTSA preemption (which allows alternative state law tort claims to protect a gray area of non-trade secret information) not only undermines the very uniformity the UTSA seeks, but undermines *Kewanee* and seeks to inflate the boundaries of state law intellectual property protection – without analyzing whether the information at issue is in the public domain and thus preempted by the federal patent laws. In a manner forbidden by *Bonito Boats*, *Kewanee*, and other cases, courts applying the minority position on UTSA preemption lower

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the bar for protection of technical information, give protection with no time limits, and give protection even where such information may not be novel, and where it may be found in the prior art. This directly subverts the patent system.

As a result, courts may be creating constitutionally invalid categories of intellectual property, and also creating needless uncertainty for companies and mobile employees who seek to make plans with reasonable predictability regarding what information they may and may not use.

What this means in practical, everyday terms for the employment relationship is not always well understood. Upsetting the simple, binary opposition between trade secrecy and the public domain may reduce incentives to innovation, and certainly makes the creation of a new venture or changing jobs to join a competitor less predictable. Specifically, if UTSA preemption rulings create an undefined second tier of protected information, the public domain of freely available information may be shrunk, and parties have less predictability and certainty in choosing what information they safely may use without facing costly litigation.

Parties need to have a clear understanding of what information learned from a former employer or former business partner may be re-used in order to effectively plan for new technology development. Outside of litigation, start-up companies often have to determine what can and cannot be used from prior jobs. This type of assessment is routine – it is a staple of IP counseling provided by practitioners in regions such as Silicon Valley – and it is necessarily influenced by the trade secret and related laws in place in given jurisdiction. Such companies often use public domain searches to provide guidance on these questions. But if – in a minority UTSA preemption jurisdiction – the courts permit ill-defined and malleable alternative tort claims, would-be company founders cannot assume that finding material in the public domain will allow them to fend off litigation threats. The practical result of such UTSA preemption rulings, in other words, may be a chilling effect on mobile employees and new companies who stay away from publicly available information in order to avoid litigation filed by a former employer known to be litigious. We have not located a single published court decision that takes account of these everyday realities.¹⁴¹

¹⁴¹ We are unaware of a thorough defense of the minority position on UTSA preemption, much less a defense that accounts for the policy problems we have identified. Separately, and more generally, one commentator argues in favor of common law courts engaging in “incremental rule development,” and thus believes that courts should favor amorphous state law tort claims to protect intellectual property over uniform categories of intellectual property defined by statutes. The argument, however, does not address real-world issues such as innovation policy, employee interests, IP planning for new ventures, and how litigants can (and do) exploit loose, common law regimes to bring lawsuits for ulterior purposes. See Shyamkrishna Balganesh, *The Pragmatic Incrementalism of Common Law Intellectual Property*, 63 VAN. L. REV. 1543, 1556 & n.43 (asserting in general terms that the UTSA “seems to have done little to curtail common law development in this area, both under and independent of the statute”, and seemingly approving of the minority position on UTSA preemption), 1571 & n.125 (asserting that trade secret law is based on a “relational” concept, citing dicta from a 1917 case that has been widely criticized and that does not reflect the UTSA’s property-based conception of trade secret law), 1604-05 (suggesting, in somewhat sarcastic language, that “A few scholars and practicing lawyers no doubt continue to advance the claim that uniformity and consistency in interpretation demand the federalization of trade secret law, and as a result almost completely ignore the virtues of the common law processes.”) (2010). The confusing manner in which courts have allowed non-statutory claims in jurisdictions following the minority

Understanding the connections between UTSA preemption and federal patent preemption also assists companies that hire experienced employees: such companies too benefit when their employees can clearly predict what technical information learned from prior jobs they can and cannot use. In the heat of litigation against a former employee, companies may forget the benefits they too receive from well-defined and uniform rules about protectable information, but their advisors would do well to remind them that aggressive pursuit of alternative state law tort claims may backfire in the future.

If courts better understand the important role federal patent preemption plays in promoting a robust public domain, and if courts understand that clear boundaries between what state law does and does not protect are necessary for companies as well as mobile employees, this might lead to better-reasoned and more fully articulated rulings on the question of UTSA preemption. It also might lead to decisions that recognize the policy consequences of their rulings on this issue. As *Bonito Boats* explained, the public domain is the default position for scientific and technical information. Intellectual property protection is the exception. Too often – and when faced with questionable behavior by departing employees – courts forget this default position and strain to expand the reach of intellectual property law.¹⁴²

VI. Conclusion

We believe that courts taking the minority position on UTSA preemption – and thus permitting a second tier of state-protected intellectual property – have overlooked the possibility, in cases involving technical information, that federal patent preemption prohibits such tort claims.

Courts can avoid this conflict entirely by taking the majority position on UTSA preemption, which is in full harmony with constitutional rules about the public domain and the reach of state-protected intellectual property. But even when faced with a court that takes the minority position on UTSA preemption, we believe that litigants can and should raise federal patent preemption to remind courts applying state law of a crucial limitation on their powers.

position on UTSA preemption and the negative policy consequences that flow from such rulings provide at least some basis to be cautious about Balganesch's position regarding statutory uniformity.

¹⁴² As Elizabeth Rowe has noted, the *de facto* burden often falls on a trade secret defendant to prove that no trade secret exists, even though the plaintiff is supposed to bear the burden of establishing that there is a valid trade secret. See Elizabeth Rowe, *Trade Secret Litigation and Free Speech: Is it Time to Restrain the Plaintiffs?*, 50 B.C. LAW. REV. 1425, 1447 (2009) (“Too often, the burden effectively shifts to the defendant to prove that the information is *not* a trade secret[.]”) (emphasis in original).