

January 2014

Preemption of Other State Law by the Uniform Trade Secrets Act

Richard F. Dole Jr.

Recommended Citation

Richard F. Dole, *Preemption of Other State Law by the Uniform Trade Secrets Act*, 17 SMU SCI. & TECH. L. REV. 95 (2014)

This Article is brought to you for free and open access by the Law Journals at SMU Scholar. It has been accepted for inclusion in SMU Science and Technology Law Review by an authorized administrator of SMU Scholar. For more information, please visit <http://digitalrepository.smu.edu>.

Preemption of Other State Law by the Uniform Trade Secrets Act

*Richard F. Dole, Jr.**

TABLE OF CONTENTS

| | | |
|------|---|-----|
| I. | INTRODUCTION | 95 |
| II. | BACKGROUND | 97 |
| | A. The Uniform Trade Secrets Act | 97 |
| | B. Nonuniform Amendments | 99 |
| III. | THE SCOPE OF UNIFORM ACT PREEMPTION | 102 |
| | A. The Justification for Trade Secret Protection | 102 |
| | B. The Uniform Act Definition of Trade Secret | 103 |
| | C. The 1979 and 1985 Subsection 7(a) Preemption Provision | 106 |
| | D. Subsection 7(a) in the Courts | 108 |
| | E. Majority Approach Subsection 7(a) Preemption | 110 |
| | F. The 1979 and 1985 Subsection 7(b) Exceptions to Preemption | 112 |
| | G. The Necessity of Amending Section 7 | 116 |
| IV. | CONCLUSION | 123 |

I. INTRODUCTION

Trade secrets are important intellectual property.¹ The National Science Foundation and the U.S. Census Bureau recently conducted a pilot study for an expanded Business R&D and Innovation Survey of American businesses. In 2008, the pilot study indicated that trade secrets were considered important by more businesses than copyrights or patents.² Yet, the effectiveness of the Uniform Trade Secrets Act (the Uniform Act),³ which has been enacted

* B.W. Young Professor of Law, University of Houston Law Center. The author was a Member of the Uniform Law Conference Drafting Committee for the Uniform Trade Secrets Act.

1. See Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 353 (2008) (“Trade secrets are IP rights.”).

2. See John E. Jankowski, *Business Use of Intellectual Property Protection Documented in NSF Survey*, INFOBRIEF 1 (Feb. 2012), available at <http://www.nsf.gov/statistics/infobrief/nsf12307/nsf12307.pdf>. Trademarks also were viewed as important by more businesses than copyrights or patents. See *id.* See also *Economic Espionage*, FED. BUREAU OF INVESTIGATION, <http://www.fbi.gov/about-us/investigate/counterintelligence/economic-espionage> (last visited July 4, 2014) (“The Economic Espionage Unit is dedicated to countering the economic espionage threat . . .”).

3. See UNIF. TRADE SECRETS ACT §§ 1–12 (amended 1985), 14 U.L.A. 529 (2005 & Supp. 2013).

in forty-seven states,⁴ has been impaired by a conflict of authority with respect to its scope.⁵

Section 7 of the 1985 version of the Uniform Act,⁶ which has been widely enacted,⁷ provides:

- (a) Except as provided in subsection (b), this [Act] displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.
- (b) This [Act] does not affect:
 - (1) contractual remedies, whether or not based upon misappropriation of a trade secret;
 - (2) other civil remedies that are not based upon misappropriation of a trade secret; or
 - (3) criminal remedies, whether or not based upon misappropriation of a trade secret.⁸

4. Versions of the Uniform Act have been enacted in forty-seven states and the District of Columbia. See *Legislative Fact Sheet – Trade Secrets Act*, UNIF. LAW COMM’N, <http://uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act> (last visited July 4, 2014) (listing the jurisdictions which have enacted the Act).

5. See James Pooley, TRADE SECRETS § 2.03[6] (1997) (“[T]wo lines of authority have emerged.”).

6. The Uniform Act initially was approved in 1979. Official Amendments were adopted in 1985. Refer to *infra* notes 18–20 and accompanying text.

7. The 1985 version of section 7 has been most widely enacted. Refer to the authority in *supra* note 4.

8. See UNIF. TRADE SECRETS ACT § 7 (amended 1985), 14 U.L.A. 437 (1985). The 1979 version of § 7 provided:

- (a) This [Act] displaces conflicting tort, restitutionary, and other law of this State pertaining to civil liability for misappropriation of a trade secret.
- (b) This [Act] does not affect:
 - (1) contractual or other civil liability or relief that is not based upon misappropriation of a trade secret; or
 - (2) criminal liability for misappropriation of a trade secret.

UNIF. TRADE SECRETS ACT § 7, 14 U.L.A. 542 (1979).

Disputes over Uniform Act Subsection 7(a) “displacement”⁹ or preemption of other law of an enacting state are frequently litigated¹⁰ and impair the uniformity that the Act was intended to bring to state trade secret law.¹¹

This article analyzes court decisions under Section 7. It concludes that greater judicial attention to both the expansive Subsection 1(4)(i) substantive definition of trade secret and the Restatement (First) of Torts’ focus upon misappropriation of business information are the keys to the proper application of Subsection 7(a). Moreover, Subsection 7(b) is not a problem. Amendment of Section 7 is unnecessary.

II. BACKGROUND

A. The Uniform Trade Secrets Act

The 1939 Restatement (First) of Torts¹² was an influential partial formulation of the common-law protection of secret business information.¹³ But, due to its specialized nature, trade secret law was omitted from the 1979 Restatement (Second) of Torts.¹⁴ The Uniform Act¹⁵ was developed by the

9. The 1979 and 1985 revisions of § 7(a) use the term “displaces” in lieu of “preempts.” *See id.* Four states have replaced “displaces” with “supersedes.” Refer to *infra* note 40 and accompanying text.

10. Pooley, *supra* note 5, § 2.03[6] (“Disputes over UTSA preemption were relatively rare in the years after the UTSA was first promulgated. It has now become a frequently litigated issue.”).

11. The 1979 and 1985 Prefatory Note to the Uniform Act states in part:

Like traditional trade secret law, the Uniform Act contains general concepts. 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.

UNIF. TRADE SECRETS ACT, Prefatory Note, 14 U.L.A. 531 (2005).

12. RESTATEMENT (FIRST) OF TORTS §§ 757–59 (1939).

13. *See* RESTATEMENT (FIRST) OF TORTS § 757, cmt. b (“*Definition of trade secret.* A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”). The Restatement (First) focused upon liability with limited discussion of remedies and no treatment of the statute of limitations. *See also* Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 283 (1980) (“The second factor limiting the overall effectiveness of the *Restatement* is that it treated some areas of trade secrets law inadequately, and others not at all.”).

14. *See* RESTATEMENT (SECOND) OF TORTS, vol. 4, introductory cmt., at vii–viii (1979) (stating that trade secret law had become independent of tort law).

15. Refer to *supra* note 3 and accompanying text.

National Conference of Commissioners on Uniform State Laws¹⁶ to fill the gap left by the Restatement (Second) through elaboration of the common-law principles reflected in the 1939 Restatement.¹⁷

The Uniform Act initially was approved by the National Conference in 1979.¹⁸ Four Official Amendments were adopted 1985,¹⁹ one of which revised Section 7.²⁰ In the 1993 Restatement of Unfair Competition, the American Law Institute adopted a definition of common-law trade secret consistent with the Uniform Act definition.²¹ To date, six states retain the 1979 version of the Uniform Act,²² and over forty have enacted the 1985 version.²³

-
16. The National Conference was organized in 1892 to promote desirable and practicable uniformity in state laws. Commissioners are appointed by each state, the District of Columbia, and Puerto Rico. *See* 14 U.L.A. prefatory note at iii (2005).
 17. *See* UNIF. TRADE SECRETS ACT, Prefatory Note, 14 U.L.A. 531 (2005) (stating that the Uniform Act provides a unified theory of trade secret protection with a single statute of limitations and appropriate remedies). The Restatement (First) substantially omitted discussion of remedies and did not address the statute of limitations. *See* the authorities in *supra* notes 18 and 19.
 18. *See* UNIF. TRADE SECRETS ACT §§ 1-12 (amended 1985), 14 U.L.A. 529-659 (2005).
 19. *See id.* The four Amendments were adopted in response to issues raised by the American Bar Association Section of Patent, Trademark and Copyright Law. *See* Action on Resolutions, 1981 PROC. A.B.A. SEC. PAT., TRADEMARK, & COPYRIGHT L. 30-31. The A.B.A. Section recommended amending § 2(b) to limit injunctions allowing future use upon payment of a reasonable royalty to exceptional circumstances, amending § 3 to allow reasonable royalty damages if neither a plaintiff's actual loss nor a defendant's unjust enrichment were provable, amending § 7 to make clear that state remedies for breach of contract were not preempted by the Uniform Act, and amending § 11 to clarify that the Uniform Act does not apply to a continuing misappropriation that began prior to its effective date. *See id.* (Resolutions 206-3 to 206-6).
 20. Refer to *supra* note 8 and accompanying text for the wording of the 1979 and 1985 § 7.
 21. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995) states "[a] trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others." *See also id.* cmt. b. ("The concept of a trade secret as defined in this Section is intended to be consistent with the definition of 'trade secret' in § 1(4) of the Act.").
 22. Refer to *infra* note 25 and accompanying text.
 23. *See* UNIF. TRADE SECRETS ACT, Table of Jurisdictions, 14 U.L.A. 77, 78 (Supp. 2013) (listing the states which have adopted the Uniform Trade Secrets Act).

B. Nonuniform Amendments

James Pooley has commented that “[t]he major drawback of the Uniform Trade Secrets Act is that it is not uniform.”²⁴ Although the nonuniformity may not be significant in a particular case, there surely is nonuniformity. To begin with, 1985 Section 7 has not been adopted in six states that enacted the 1979 version of the Act.²⁵ Secondly, Iowa, Nebraska, and New Mexico have omitted Section 7.²⁶

A number of other states have made nonuniform amendments to Section 7. The more important of these states are California, Illinois, New Jersey, and Texas, which have significant trade secret litigation.

California enacted 1985 Subsection 7(b), substituting the following for 1985 Subsection 7(a): “Except as otherwise expressly provided, this title does not supersede any statute relating to misappropriation of a trade secret, or any statute otherwise regulating trade secrets.”²⁷

Illinois adopted the 1985 version of Section 7 with two pertinent nonuniform amendments: (1) “unfair competition” was added to the list of noncontractual legal claims displaced to the extent of conflict with the Uniform Act; and (2) the definition of trade secret in other Illinois statutes was declared to be unaffected.²⁸ One New Jersey nonuniform amendment moved

24. See Pooley, *supra* note 5, § 2.03[7][b].

25. Alaska, Arkansas, Louisiana, and Washington have the initial version of § 7. See ALASKA STAT. § 45.50.930 (2013); ARK. CODE ANN. § 4-75-602 (2013); LA. REV. STAT. ANN. § 51:1437 (2013); WASH. REV. CODE ANN. § 19.108.900 (West 2013). Connecticut added a nonuniform amendment permitting parties to agree to opt out of 1979 § 7, and Indiana condensed 1979 § 7. See CONN. GEN. STAT. ANN. § 35-57(a) (West 2005 & Supp. 2013) (“Unless otherwise agreed by the parties, the provisions of this Chapter supersede”); IND. CODE ANN. § 24-2-3-1(c) (LexisNexis 2006 & Supp. 2012) (“The chapter displaces all conflicting law of this state pertaining to the misappropriation of trade secrets, except contract law and criminal law.”).

26. See IOWA CODE ANN. §§ 550.1–550.8 (West 2011); NEB. REV. STAT. ANN. §§ 87-501 to 87-507 (West 2011 & Supp. 2012); N.M. STAT. ANN. §§ 57-3A-1 to 57-3A-7 (2011).

27. CAL. CIV. CODE § 3426.7(a)–(b) (West 2011). California also added nonuniform § 3426.7(c) stating that the Uniform Act does not affect the disclosure of records by a state or a local agency under the California Public Records Act. See *id.* § 3426.7(c), which is irrelevant to the noncontractual claim preemption issue.

28. See 765 ILL. COMP. STAT. ANN. 1065 / 8 (LexisNexis 2010 & Supp. 2013). An extraneous nonuniform amendment to the contractual exception stated that “a contractual or other duty to maintain secrecy or limit use of a trade secret shall not be deemed to be void or unenforceable solely for lack of durational or geographical limitation on the duty.” See *id.* Common-law unfair competition, which the Illinois nonuniform amendment added to the claims preempted to the extent of conflict with the Uniform Act, is often held to be preempted. See John

1985 Subsection 7(a) to Subsection (b), substituting “shall supersede” for “displaces.” Another New Jersey nonuniform amendment replaced the three 1985 Subsection 7(b) express exceptions for contractual remedies, unrelated civil remedies, and criminal remedies with a single express exception for actions against public entities and public employees under the New Jersey Tort Claims Act.²⁹ New Jersey also prefaced 1985 Subsection 7(a) with the following provision:

The rights, remedies and prohibitions provided under this act are in addition to and cumulative of any other right, remedy or prohibition provided under the common law or statutory law of this State and nothing contained herein shall be construed to deny, abrogate or impair any common law or statutory right, remedy or prohibition except as expressly provided in subsection b. of this section.³⁰

On the other hand, there were no material Texas nonuniform amendments.³¹

James Pooley predicted that the California nonuniform amendment to Subsection 7(a) would not result in lesser preemption,³² which has proved to be the case.³³ But the California substitute replaced the Uniform Act’s refer-

T. Cross, *UTSA Displacement of Other State Law Claims*, 33 HAMLINE L. REV. 445, 467 & n.82 (2010) (stating that there is no consensus, but citing numerous cases preempting unfair competition claims).

29. See N.J. STAT. ANN. § 56:15-9(b) to (c) (West 2012 & Supp. 2013).

30. See *id.* § 56:15-9(a).

31. See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007 (West Supp. 2013). Immaterial Texas nonuniform amendments stated that the Uniform Act controls the Texas Rules of Civil Procedure, that the Texas Supreme Court cannot adopt rules in conflict with the Uniform Act (*see id.* § 134A.007(c)) and that the Uniform Act does not affect the disclosure of public information by governmental bodies (*see id.* § 134A.007(d)).

32. See James H. Pooley, *The Uniform Trade Secrets Act: California Civil Code 3426*, 1 SANTA CLARA COMPUTER & HIGH TECH. L.J. 193, 208–09 (1985) (“Therefore, the somewhat different language used in the California version of the statute should be interpreted to indicate that nonstatutory theories for trade secret protection do not remain available, at least not where the result would be an evasion of the procedural protections and definitions provided by the Act.”).

33. See, e.g., *Sunpower Corp. v. Solarcity Corp.*, No. 12-CV-00694-LHK, 2012 WL 6160472 *1, *14–15 (N.D. Cal. Dec. 11, 2012) (dismissing claims for breach of confidence, conversion, trespass to chattels, tortious interference with prospective business advantage, common-law unfair competition and statutory unfair competition). See also *Ernest Paper Prods., Inc. v. Mobil Chem. Co.*, No. CV95-7918-LGB (AJWX), 1997 WL 33483520 *9 (C.D. Cal. Dec. 2, 1997) (stating that “the California legislature did not omit § 7 entirely, but rather rewrote it, compatibly with preemptive intent.”).

ence to “displacing” conflicting law with a reference to “not superseding” other California statutes dealing with trade secrets.³⁴ California cases accordingly analyze whether there has been “supersession” of noncontractual legal claims.³⁵ Finally, notwithstanding their other nonuniform amendments, Illinois and New Jersey accepted the Uniform Act policy of preempting conflicting noncontractual legal claims.³⁶

Arkansas excepted,³⁷ three of the states that retain the 1979 version of Section 7, plus Connecticut and Indiana, which modified 1979 Section 7, have enacted the Uniform Act uniformity clause,³⁸ stating that the Act “shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it.”³⁹ The uniformity clause should make well-reasoned decisions under 1985 Section 7 persuasive in these five states.⁴⁰

34. Refer to *supra* note 27 and accompanying text.

35. See, e.g., *Silvaco Data Sys. v. Intel Corp.*, 109 Cal. Rptr. 3d 27, 47–51 & n.14 (Cal. Ct. App. 2010), *disapproved of on other grounds*, *Kwikset Corp. v. Superior Court*, 246 P.3d 877, 895 (Cal. 2011). Connecticut, Georgia, and New Jersey nonuniform amendments also substituted “supersede” for “displaces.” See CONN. GEN. STAT. ANN. § 35-57(a) (West 2005 & Supp. 2013); GA. CODE ANN. tit. § 10-1-767(a) (2009 & Supp. 2012); N.J. STAT. ANN. § 56:15-9(b) (West 2012 & Supp. 2013). Courts applying the law of these states accordingly refer to “supersession.” See, e.g., *Diamond Power Int’l, Inc. v. Davidson*, 540 F. Supp. 2d 1322, 1345 (N.D. Ga. 2007) (“[T]he rule of supersession is guided by the purpose of the constraints imposed by the GTSA . . .”) (applying Georgia law).

36. See 765 ILL COMP. STAT. ANN. 1065 / 8(a) (LexisNexis 2010 & Supp. 2013); N.J. STAT. ANN. § 56-9(b) (West 2012 & Supp. 2013). On the other hand, New Jersey nonuniform § 7(b) omits the Uniform Act exclusion from preemption of contractual remedies, unrelated civil remedies, and criminal remedies. Compare UNIF. TRADE SECRETS ACT § 7(b), 14 U.L.A. 651 (2005) and *supra* note 3 accompanying text, with the New Jersey provisions referred to in *supra* notes 29 and 30 and accompanying text. Moreover, an unrelated New Jersey nonuniform amendment could be misapplied to undercut New Jersey’s acceptance of the Uniform Act policy on preemption. See *infra* notes 46–49 and accompanying text.

37. See ARK CODE ANN. §§ 4-75-601 through 4-75-607 (2011).

38. See ALASKA STAT. § 45.50.935 (2012); CONN. GEN. STAT. ANN. § 35-58 (West 2005 & Supp. 2013); IND. CODE ANN. § 24-2-3-1(b) (LexisNexis 2006 & Supp. 2012); LA. REV. STAT. ANN. § 51:1438 (2012 & Supp. 2013); WASH. REV. CODE ANN. § 19.108.910 (West 2013).

39. UNIF. TRADE SECRETS ACT § 8 (amended 1985), 14 U.L.A. 656 (2005).

40. Cf. *Silvaco*, 109 Cal. Rptr. 3d at 48–49 (stating that California’s enactment of the Uniform Act uniformity clause supported the conclusion that the Act was intended to occupy the field of trade secret liability).

Iowa, Nebraska, and New Mexico, the three states that omitted Section 7 entirely, plus Arkansas, omitted the Section 8 uniformity clause.⁴¹ But, depending upon the reasons for omission of these clauses, the general adoption of the Uniform Act by these four states could make well-reasoned decisions under 1985 Section 7 persuasive in them. Nebraska, for example, omitted Section 7 because there were no existing Nebraska statutes or cases in conflict with the Uniform Act,⁴² a rationale that is consistent with Uniform Act preemption.⁴³

There are more nonuniform amendments than would exist in an ideal world. But, Iowa, New Mexico, and the states that have not enacted the Uniform Act excepted, the core Uniform Act preemption provisions apply throughout the country.

III. THE SCOPE OF UNIFORM ACT PREEMPTION

A. The Justification for Trade Secret Protection

Like patent and copyright law, trade secret law encourages the development and use of valuable business information. Trade secret law reduces the need to invest substantial amounts in physical security and protects the confidential disclosure of secret business information.⁴⁴ But, the secrecy of business information must be required for protection or trade secret law will exceed its justification and unduly restrict employee mobility.⁴⁵ The most

41. See IOWA CODE ANN. §§ 550.1 through 550.8 (West 2011); NEB. REV. STAT. ANN. §§ 87-501 through 87-507 (West 2008 & Supp. 2012); N.M. STAT. ANN. §§ 57-3A-1 through 57-3A-7 (2011).

42. See Gerald B. Buechler, Jr., *Revealing Nebraska's Trade Secret Act*, 23 CREIGHTON L. REV. 323, 328-29 & n.31 (1989) (stating that the absence of existing cases and statutes made § 7 "simply unnecessary" in Nebraska).

43. *But see* 205 Corp. v. Brandow, 517 N.W.2d 548, 551-52 (Iowa 1994) (stating that the Iowa enactment "has not preempted all tort theories involving trade secrets"). In *Brandow*, the plaintiff, a restaurant that claimed a competing restaurant had obtained its secret recipes from a former employee, had recovered a \$145,000 jury verdict upon a trade secret misappropriation claim and a \$195,000 jury verdict upon an inducement of breach of the duty of loyalty claim. If the Uniform Act had preempted the alternative noncontractual claim, the plaintiff's recovery would have been limited to the \$145,000 verdict upon the trade secret misappropriation claim. But the Iowa Supreme Court refused to allow preemption due to the Iowa legislature's failure to enact § 7. *See id.* Nevertheless, because the two claims were duplicative, the Court remanded the case for amendment of the judgment to allow a \$195,000 recovery upon the inducement of breach of loyalty claim alone. *See id.* at 551.

44. *See* Lemley, *supra* note 1, at 329-41 (arguing that trade secret rights, like patent and copyright rights, encourage inventive activity and disclosure of inventions).

45. *See id.* at 342-44 (Requiring proof of the secrecy of business information "is critical to ensuring that trade secret law does not interfere with robust competi-

potentially harmful nonuniform amendments consequently focus upon a defendant's conduct rather than upon the business information for which protection is sought. A New Jersey nonuniform amendment, for example, states that: "A person who misappropriates a trade secret shall not use as a defense to the misappropriation that proper means to acquire the trade secret existed at the time of the misappropriation."⁴⁶

This nonuniform amendment literally does not relieve a plaintiff of the necessity of proving the existence of a trade secret in order to obtain relief. But, the nonuniform amendment could be construed as deleting "not being readily ascertainable by proper means" from the Uniform Act definition of trade secret.⁴⁷ Should this unfortunate development occur, New Jersey trade secret law could protect business information that was not secret.⁴⁸ However, if New Jersey went so far as to protect nonsecret technical business information that was in the public domain, the misapplication of the New Jersey statute would be preempted by the federal patent laws.⁴⁹

B. The Uniform Act Definition of Trade Secret

The core of the Uniform Act is its definition of trade secret. Subsection 1(4) of both the 1979 and 1985 versions states:

"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

tion or with the dissemination of new ideas."); Edmund W. Kitch, *The Expansion of Trade Secrecy Protection and the Mobility of Management Employees: A New Problem for the Law*, 47 S.C. L. REV. 659, 664-67 (1996) (discussing the impact of increased trade secret rights upon employee mobility).

46. See N.J. STAT. ANN. § 56:15-5 (West 2012 & Supp. 2013).
47. Refer to *infra* note 50 and accompanying text for the Uniform Act definition of trade secret.
48. See *HDNet, LLC v. N. Am. Boxing Council*, 972 N.E.2d 920, 925 (Ind. Ct. App.), *transfer denied*, 980 N.E.2d 322 (Ind. 2012) (citing Professor Lemley's article for the proposition that allowing noncontractual legal claims to protect business information that is not secret would negate the secrecy requirement).
49. See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1979) ("We have held that a state may not forbid the copying of an idea in the public domain which does not meet the requirements for federal patent protection."). Cf. Charles Tait Graves & Elizabeth Tippet, *USTA Preemption and the Public Domain: How Courts Have Overlooked Patent Preemption of State Law Claims Alleging Employee Wrongdoing*, 65 RUTGERS L. REV. 59, 103-05, 108 (2012) (The majority approach to UTSA preemption is consistent with the federal patent laws but applications of the minority approach could conflict with those laws.). See also Sharon K. Sandeen, *Kewanee Revisited: Returning to First Principles of Intellectual Property Law To Determine the Issue of Federal Preemption*, 12 MARQ. INTELL. PROP. L. REV. 299, 346 (2008) (identifying factors that courts should consider in determining whether state law is preempted by the federal patent and copyright laws).

- i. derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
- ii. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁵⁰

The two aspects of the definition are not of equal significance. Sub (ii) deals with whether a particular plaintiff has standing to maintain an action for trade secret misappropriation.⁵¹ On the other hand, Sub (i) requires that business information derive actual or potential independent economic value from secrecy in order to be protected.⁵² The Restatement (First) requirement that a trade secret must be continuously used by a business,⁵³ however, is omitted. In 1993, the Restatement (Third) of Unfair Competition also removed a continuous business use requirement from common law trade secret misappropriation.⁵⁴

50. See UNIF. TRADE SECRETS ACT § 1(4) (amended 1985), 14 U.L.A. 538 (2005).
51. The existence of reasonable efforts to maintain secrecy also is some evidence that information is secret. See RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (stating that the factors to be considered in determining the existence of a trade secret include “the extent of measures taken . . . to guard the secrecy of the information”).
52. The drafting history of the Uniform Act indicates that the statutory reference to “economic value” is synonymous with “commercial value.” 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 HAMLINE L. REV. 493, 524–26 (2010). Compare RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (“Definition of trade secret (A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”)), with Klitzke, *supra* note 19, at 287 (“The Uniform Trade Secrets Act . . . [includes] ‘business information’ as defined in the *Restatement*, in its broad definition of a trade secret as information.”).
53. See RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (“A trade secret is a process or device for continuous use in the operation of the business.”).
54. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (1995) (stating that the Restatement definition is consistent with the Uniform Act definition); see also *id.* cmt. d (“The definition . . . in this Section . . . contains no requirement that the information afford a continuous or long-term advantage.”). The Restatement of Unfair Competition also recognizes that nonprofit entities, including charitable, educational, fraternal and religious organizations, can claim trade secret protection for “economically valuable information such as lists of prospective members or donors.” See *id.* at 429. This article refers to the subject matter of trade secrets as “business information,” but there is no intention to preclude application of the Uniform Act to valuable or potentially valuable secret information of nonprofit entities.

The broad Sub (i) definition of trade secret encompasses all business information with independent economic value and renders alternative non-contractual legal claims conflicting.⁵⁵ This is illustrated by the American Law Institute's treatment of the Uniform Act.

In addition to Section 757 on trade secrets, the Restatement (First) of Torts contained Section 759 dealing with procuring business information for a rival business purpose by improper means. Section 759 stated: "One who, for the purpose of advancing a rival business interest, procures by improper means information about another's business is liable to the other for the harm caused by his possession, disclosure or use of the information."⁵⁶ Comment b added: "[I]f the improper discovery of the information is to cause harm, the information must be of a secret or confidential character."⁵⁷

Professor Edmund Kitch summed up the differences between Restatement (First) Sections 757 and 759 as follows:

First, an injunction was available as remedy only against misappropriation of a trade secret, not against use of information procured by improper means. Second, remedies were available against third parties who acquired a trade secret with knowledge or reason to know that it was a trade secret, but not against third parties who came into possession of information improperly procured by someone else. Third, the protection against improper procurement of information only applied if the information was improperly procured "for the purpose of advancing a rival business interest."⁵⁸

Restatement (First) Section 759 was necessary because Restatement (First) trade secrets had to be in continuous use by a business.⁵⁹ In conjunction with dropping the continuous use requirement, the Restatement (Third) dropped Section 759. A Comment to Restatement (Third) Section 41 dealing with the duty of confidence explained:

Some courts have recognized liability in tort for the unauthorized disclosure of confidential business information found to be ineligi-

55. *See* *Mortgage Specialists, Inc. v. Davey*, 904 A.2d 652, 664 (N.H. 2006) (explaining that the statute "essentially creates a system in which information is classified only as a protected trade secret or unprotected general . . . knowledge" (internal quotations omitted)). *Accord* *Silvaco Data Sys. v. Intel Corp.*, 109 Cal. Rptr. 3d 27, n.22 (Cal. Ct. App. 2010) ("[I]nformation that does not fit this definition [of trade secret] and is not otherwise made property by some provision of positive law, belongs to no one, and cannot be converted or stolen.").

56. *See* RESTATEMENT (FIRST) OF TORTS § 759 (1939).

57. *See id.* cmt. b.

58. Kitch, *supra* note 45, at 661–62.

59. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. b.

ble for protection as a trade secret. In some cases the claim is designated as one for "breach of confidence," while in others it is described as one for "unfair competition." Many of these cases rest on a narrow definition of "trade secret" that excludes non-technical information such as customer identities or information that is not subject to continuous, long-term use. Such information is now subsumed under the broader definition of "trade secret" adopted in § 39.⁶⁰

The Restatement (Third)'s merger of the Restatement (First)'s concept of protectable confidential information into the Restatement (Third)'s definition of trade secret illustrates the scope of the Uniform Act preemption provisions. Under both the Restatement (Third) and the Uniform Act, a tort claim for misuse of confidential information no longer exists with respect to business information that is not a trade secret.⁶¹

C. The 1979 and 1985 Subsection 7(a) Preemption Provisions

1979 subsection 7(a) provides: "(a) This [Act] displaces conflicting tort, restitutionary, and other law of this State pertaining to civil liability for misappropriation of a trade secret."⁶² There is no statutory definition of "conflicting law," but it is inherently conflicting for a noncontractual legal claim to treat business information differently than the Uniform Act.⁶³ There are two principal types of conflicting noncontractual legal claims: claims protecting business information that does not qualify as a Uniform Act trade secret, and claims providing different remedies for business information that is a Uniform Act trade secret.

Both types of noncontractual legal claims would enable parties to circumvent the Uniform Act. Protecting business information that does not qualify as a Uniform Act trade secret would make the Uniform Act definition

60. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. c. See also Pooley, *supra* note 5, § 3.04[5] at 3-47 (If the information to be protected cannot be characterized under the extremely broad definition of modern trade secret law, then there is arguably little social utility in permitting the claim.).

61. With respect to the Restatement (Third), see Pooley, *supra* note 5, § 3.04[5] at 2-35 (By defining a duty of confidence only in terms of trade secrets, the *Restatement (Third) of Unfair Competition* implicitly rejects the suggestion by the *Restatement of Torts* that a separate claim exists for "breach of confidence" as to matter that does not qualify as a trade secret.). With respect to the Uniform Act, see the Uniform Act definition of "trade secret," *supra* notes 50-55 and accompanying text.

62. See UNIF. TRADE SECRETS ACT § 7(a) (amended 1985), 14 U.L.A. 651 (2005).

63. See Cross, *supra* note 28, at 471 ("First, and most obviously, that state law might conflict by generating an outcome different than that which the party would obtain under the UTSA.").

of trade secret irrelevant.⁶⁴ Providing different remedies for Uniform Act trade secrets would make the Uniform Act remedies irrelevant. James Pooley, for example, has commented: “If . . . a party could obtain fivefold punitive damages without having to establish trade secrecy by pleading an alternative claim, there might be little incentive to assert statutory misappropriation.”⁶⁵

Both types of conflicting noncontractual legal claims “pertain to” misappropriation of Uniform Act trade secrets and are displaced by the 1979 Official Text of Subsection 7(a).⁶⁶

1985 Subsection 7(a) states: “Except as provided in subsection (b), this [Act] displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.”⁶⁷ The 1985 Amendment replacing “pertaining to” with “providing for” in the sense of “dealing with” was not a substantive change. *Burbank Grease Services, LLC v. Sokolowski*,⁶⁸ a Wisconsin decision,⁶⁹ for example, acknowledged that this “plain language” “. . . appears to have the effect of making . . . [the Wisconsin enactment] the exclusive remedy for civil claims based on the misappropriation of a statutorily defined trade secret.”⁷⁰

-
64. See *Diamond Power Int’l, Inc. v. Davidson*, 540 F. Supp. 2d 1322, 1345 (N.D. Ga. 2007) (“And it would make little sense to go through the rigmarole of proving that information was truly a trade secret if a plaintiff could alternatively plead claims with less burdensome requirements of proof. Since such an attempt to circumvent those requirements would be ‘in conflict’ with the mandates of the GTSA, the GTSA renders such claims superseded.”).
 65. See UNIF. TRADE SECRETS ACT § 3(b) (amended 1985), 14 U.L.A. 634 (2005). See Pooley, *supra* note 5, § 2.03[6] at 2.30.1. The Uniform Act limits punitive damages to two times compensatory damages.
 66. But see 1 ROGER M. MILGRIM & ERIC E. BENSON, MILGRIM ON TRADE SECRETS § 1.01[3][a] at 1-240.14(78) (2012) (stating that interpreting the Uniform Act to preempt alternative remedies for misappropriation of business information that does not satisfy the Uniform Act definition of trade secret may bar relief that is required by “principles of commercial morality.”). However, the principal justification for trade secret law is encouragement of invention and dissemination of valuable business information, not promoting commercial morality. Refer to *supra* note 44 and accompanying text.
 67. See UNIF. TRADE SECRETS ACT § 7(a) (amended 1985), 14 U.L.A. 651 (2005). It is submitted that the two versions are substantially the same with the exception of the replacement of “pertaining to” by “providing for.” Compare *id.* and accompanying text with *supra* note 62.
 68. *Burbank Grease Servs., LLC v. Sokolowski*, 717 N.W.2d 781 (Wis. 2006).
 69. See Cross, *supra* note 28, at 451 (*Burbank Grease* is “[p]erhaps the most-discussed” minority approach case.).
 70. *Burbank Grease*, 717 N.W.2d at 789.

Indeed, because Uniform Act trade secrets include all business information with independent value derived from secrecy,⁷¹ its “plain language” makes the Uniform Act the exclusive remedy for misappropriation of all valuable nonpublic business information.⁷²

D. Subsection 7(a) in the Courts

There is a conflict of authority under Subsection 7(a).⁷³ Under the “minority approach,” Uniform Act preemption exists only if business information is a Uniform Act trade secret.⁷⁴ If there is no Uniform Act trade secret, there is no preemption.⁷⁵ Because the existence of a Uniform Act trade secret ordinarily is a question of fact,⁷⁶ minority approach preemption typically cannot be decided upon the pleadings.⁷⁷ More importantly, the minority approach, which can be summarized as the No Uniform Act Trade Secret, No Preemption View,⁷⁸ conflicts with the Uniform Act by allowing noncontrac-

71. Refer to *supra* note 55 and accompanying text.

72. See *id.* The *Burbank Grease* majority opinion disagreed. See *Burbank Grease*, 717 N.W.2d at 798 (The Wisconsin enactment does not preclude a civil remedy for misappropriation of confidential information that is not a trade secret.). But the majority failed to realize that all confidential information with actual or potential commercial value is a trade secret. See *Graves & Tippet*, *supra* note 49, at 101 (“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.”). Refer also to *supra* note 55 and accompanying text.

73. See *Pooley*, *supra* note 5, § 2.03[6] at 2-30 (“[T]wo lines of authority have emerged.”).

74. See *id.* at § 2.03[6] at 2-30 (stating that, under the minority approach, preemption exists only if the information at issue is a UTSA trade secret).

75. See, e.g., *Burbank Grease*, 717 N.W.2d at 788, 796, 798 (stating that the plaintiff corporation not having a Uniform Act trade secret, its alternative non-contractual legal claims for breach of the duty of loyalty, aiding and abetting breach of the duty of loyalty, interference with business relationships, and conspiring to interfere with business relationships were not preempted). The *Burbank Grease* majority opinion was influenced by a Wisconsin nonuniform amendment to Uniform Act § 7(b)(2) that excepted “any civil remedy not based upon misappropriation of a trade secret.” See *id.* at 788–90.

76. See, e.g., *CDC Restoration & Constr., LC. v. Tradesmen Contractors, LLC*, 274 P.3d 317, 323 (Utah Ct. App. 2012) (“What constitutes a trade secret is a question of fact.”).

77. See, e.g., *Stone Castle Fin., Inc. v. Friedman, Billings, Ramsey & Co.*, 191 F. Supp. 2d 652, 658–59 (E.D. Va. 2002) (stating that, “unless it can be clearly discerned that the information in question constitutes a trade secret, the Court cannot dismiss alternative theories of relief as preempted by the VUTSA”).

78. The minority approach also has been called the Trade Secret Only view. See *Cross*, *supra* note 28, at 451.

tual legal claims to protect business information that is not a Uniform Act trade secret.⁷⁹ The minority approach is preempted by 1979 and 1985 Subsection 7(a).⁸⁰ Applications of the minority approach that protect public technical business information also conflict with the federal patent laws.⁸¹

The majority approach preempts noncontractual legal claims protecting business information, whether or not the business information is a Uniform Act trade secret.⁸² The majority approach, which can be summarized as the Exclusive Remedy for Misappropriation of Business Information View,⁸³ permits but does not require preemption to be resolved upon the pleadings.⁸⁴

In order to determine whether a noncontractual legal claim protects business information, a court must parse the factual allegations in the pleadings with respect to a motion to dismiss or a motion for judgment on the pleadings. With respect to a motion for summary judgment, a court must parse the record evidence as well. In *BlueEarth Biofuels, LLC. v. Hawaiian Elec. Co.*,⁸⁵ the Hawaii Supreme Court stated “The majority of courts . . . have rejected the ‘elements’ test and have instead examined the factual allegations underlying each claim to determine whether a claim, whatever its label, is

79. Refer to *supra* note 64 and accompanying text.

80. See UNIF. TRADE SECRETS ACT § 7(a) (amended 1985), 14 U.L.A. 651 (2005); UNIF. TRADE SECRETS ACT § 7(a), 14 U.L.A. 542 (1979).

81. See Graves & Tippet, *supra* note 49, at 102–05 (Enjoining a former employee and his or her new employer from use of public technical information is plainly inconsistent with federal patent law.). See also Sandeen, *supra* note 49, at 354–57) (identifying factors that courts should consider in determining whether state law is preempted by the federal patent and copyright laws).

82. See, e.g., Penalty Kick Mgmt. Ltd. v. Coca Cola Co., 318 F.3d 1284, 1296–98 (11th Cir. 2003) (stating that noncontractual claims were preempted because the plaintiff had a Uniform Act trade secret); Auto Channel, Inc. v. Speedvision Network, LLC, 144 F. Supp. 2d 784, 788–89 (W.D. Ky. 2001) (holding that the UTSA preempts alternative noncontractual legal claims protecting business information that is not a UTSA trade secret). Under the majority view, preemption applies even though a plaintiff pleads only noncontractual legal claims and omits a claim for trade secret misappropriation. See, e.g., PHA Lighting Design, Inc. v. Kosheluk, No. 1:08–CV–01208–JOF, 2010 WL 1328754 at *10–11 (N.D. Ga. Mar. 30, 2010) (preempting unjust enrichment and conversion claims even though there was no claim of trade secret misappropriation).

83. The majority approach also has been called the All Confidential Information view. See Cross, *supra* note 28, at 452.

84. See, e.g., *BlueEarth Biofuels, LLC. v. Hawaiian Elec. Co.*, 235 P.3d 310, 324 (Haw. 2010) (holding that preemption is appropriate at the motion to dismiss stage); *CDC Restoration & Constr., LC. v. Tradesmen Contractors, LLC*, 274 P.3d 317, 322, 330 (Utah Ct. App. 2012) (adopting the Exclusive Remedy for Misappropriation of Business Information View at the summary judgment stage).

85. *BlueEarth Biofuels*, 235 P.3d at 310.

based upon misappropriation of a trade secret.”⁸⁶ The *BlueEarth* court was right about the necessity for factual analysis but misdescribed the precise factual inquiry, which is whether a noncontractual legal claim protects business information from misappropriation, whether or not the business information is a Uniform Act trade secret.⁸⁷

E. Majority Approach Subsection 7(a) Preemption

Majority approach preemption must be invoked with precision. Noncontractual legal claims protecting business information from misappropriation alone are preempted. Allegations and proof of other wrongdoing are not. For example, in *Mortgage Specialists, Inc. v. Davey*,⁸⁸ the trial court had dismissed all a former employer’s claims except trade secret misappropriation and the jury had found for the former employees and their new employer on that claim.⁸⁹ Upon appeal, the New Hampshire Supreme Court affirmed the trial judge’s decision not to set aside the jury verdict in favor of the defendants on the trade secret misappropriation claim.⁹⁰ The supreme court then parsed the allegations in the former employer’s pleadings with respect to claims for conversion, breach of fiduciary duty, tortious interference with advantageous relations, and violation of the New Hampshire Consumer Protection Act. The conversion and breach of fiduciary duty claims were based solely upon the misappropriation of customer information. Their dismissal

86. *See id.* at 316–17.

87. *See, e.g.,* *Diamond Power Int’l Inc. v. Davidson*, 540 F. Supp. 2d 1322, 1343–48 (N.D. Ga. 2007) (preempting the plaintiff’s claims for conversion, unjust enrichment, breach of fiduciary duty, breach of the duty of loyalty, tortious interference with business relations, and tortious interference with contractual relations even though some of the information claimed to be a trade secret was not and a fact issue existed as to whether the plaintiff had any trade secrets on motion for summary judgment); *Madison Oslin, Inc. v. Interstate Res., Inc.*, No. 2:11–CV–01343–SLB, 2012 WL 4730877 at *7–10 (N.D. Ala. Sept. 30, 2012) (preempting claims for conversion, unjust enrichment, breach of fiduciary duty, misrepresentation, and suppression on motion to dismiss); *BlueEarth Biofuels*, 235 P.3d at 323 (answering a certified question, holding “that the HUTSA preempts noncontract 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 statutorily-defined trade secret”); *CDC Restoration*, 274 P.3d at 330 (affirming summary judgment for the defendants and holding that the Uniform Act preempts claims based upon the unauthorized use of information, whether or not the information meets the statutory definition of a trade secret). Refer also to *supra* note 55 and accompanying text.

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

89. *See id.* at 767–68.

90. *See id.* at 772.

was affirmed.⁹¹ However, the claims for tortious interference with advantageous relations and violation of the New Hampshire Consumer Protection Act contained additional allegations with respect to contacting the former employer's customers and persuading them to do business with the defendants. The defendants, for example, were alleged to have asserted that their former employer was not properly licensed in New Hampshire. The defendants also were alleged to have solicited their former employer's employees. The dismissal of the claims for tortious interference with advantageous relations and violation of the New Hampshire Consumer Protection Act was reversed and the claims remanded to the trial court for further proceedings.⁹²

Hecny Transportation, Inc. v. Chu,⁹³ a Seventh Circuit case, illustrates what is not preempted by the majority approach. Hecny, the U.S. subsidiary of a Hong Kong corporation, sued Chu, a former manager in its Chicago office, Chu's wife, and a second Hecny employee. Judge Easterbrook described the U.S. subsidiary's complaint as follows:

Hecny's complaint charges Chu with diverting its assets (its physical plant, its employees' time, and its information such as customer lists) to competing businesses, which Chu allowed to operate from Hecny's premises. These activities may be classified as the diversion of corporate opportunities, as fiduciary defalcations, and as outright theft. (Hecny adds that when Chu left he took files, computers, software, and other office equipment with him, adding theft of physical assets to theft of business.)⁹⁴

-
91. *See id.* at 780–82. *Accord Diamond Power*, 540 F. Supp. 2d at 1343–48 (granting summary judgment of preemption with respect to claims for conversion, unjust enrichment, breach of fiduciary duty, breach of the duty of loyalty, tortious interference with business relations, and tortious interference with contractual relations); *BlueEarth Biofuels*, 235 P.3d at 324 (“For those claims found to conflict with the HUTSA, the scope of displacement is complete. However, a claim may survive to the extent that it alleges wrongful conduct independent of the misappropriation of trade secrets.”); *CDC Restoration*, 274 P.3d at 331–33 (affirming summary judgment of preemption with respect to claims for breach of fiduciary duty, intentional interference with economic relations, and civil conspiracy).
 92. *See Mortgage Specialists*, 904 A.2d at 666–68. To the extent that the tortious interference and violation of the New Hampshire Consumer Protection Act claims were based upon the misappropriation of customer information, their dismissal was affirmed. *See id. Accord Prof'l Energy Mgmt., Inc. v. Necaise*, 684 S.E.2d 374, 377–80 (Ga. Ct. App. 2009) (reversing dismissal of a former employer's breach of fiduciary duty by a former employee, tortious interference with contractual relations, conversion, unjust enrichment, and constructive trust claims to the extent that the claims were based upon conduct other than misuse of business information).
 93. *Hecny Transp., Inc. v. Chu*, 430 F.3d 402 (7th Cir. 2005).
 94. *See id.* at 403–04.

The trial judge ruled that Hecny had no protectable trade secrets and that Hecny's other claims were preempted by the Illinois enactment.⁹⁵ The Seventh Circuit reversed. According to Judge Easterbrook:

If Hecny had put its customer list on its website for the world to ogle, that would not have permitted its managers to go into covert competition using Hecny's own depot and staff, or to walk off with computers and fax machines, as Hecny alleges Chu did. Trade secrets just have nothing to do with Hecny's principal claims.⁹⁶

An Illinois federal district court described the *Hecny* test for preemption as "whether the plaintiff's claim would lie if the information at issue were nonconfidential,"⁹⁷ i.e., not a trade secret. But this misinterprets the *Hecny* case. Judge Easterbrook held that Hecny's noncontractual legal claims could be maintained because they were not being used to protect business information from misappropriation.⁹⁸

F. The 1979 and 1985 Subsection 7(b) Exceptions to Preemption

1985 Subsection 7(b) provides:

- (b) This [Act] does not affect:
 - (1) contractual remedies, whether or not based upon misappropriation of a trade secret;
 - (2) other civil remedies that are not based upon misappropriation of a trade secret; or

95. *See Hecny Transp., Inc. v. Chu*, 98 C 7335, 2004 WL 725466 at *2-3 (N.D. Ill. Mar. 31, 2004), *aff'd in part, vacated in part, remanded*, 430 F.3d 402 (7th Cir. 2005).

96. *See Hecny*, 430 F.3d at 404. *Rubloff Dev. Group, Inc. v. SuperValu, Inc.*, 863 F. Supp. 2d 732,751 (N.D. Ill. 2012) explained this passage in *Hecny* as follows:

The court's language of "trade secrets just have nothing to do with Hecny's principal claims" indicates that the court was assailing the notion that just because one is not guilty of trade secret violations, he is not granted immunity for *unrelated* torts, which was essentially what the District Court had ruled.

97. *See, e.g., RTC Indus., Inc. v. Haddon*, 06 C 5734, 2007 WL 2743583 at *2-3 (N.D. Ill. Sept. 10, 2007).

98. *See Hecny*, 430 F.3d at 404 ("Trade secrets just have nothing to do with Hecny's principal claims."). *Accord Fast Food Gourmet, Inc. v. Little Lady Foods, Inc.*, 05 C 6022, 2006 WL 1460461 at *2 (N.D. Ill. Apr. 6, 2006) (holding that unjust enrichment claim for unauthorized use of the plaintiff's equipment had nothing to do with the misuse of business information).

- (3) criminal remedies, whether or not based upon misappropriation of a trade secret.⁹⁹

The principal difference between the two versions is that 1985 Subsection 7(b)(1) expressly excepts from preemption “contractual remedies, whether or not based upon misappropriation of a trade secret;”¹⁰⁰ whereas 1979 Subsection 7(b)(1) is less explicit.¹⁰¹ Both versions emphasize that the broad Uniform Act definition of trade secret¹⁰² does not limit the contractual and criminal remedies exceptions to preemption.¹⁰³ Both versions also are accompanied by a Commissioners’ Comment explaining that the Uniform Act does not apply to voluntarily-assumed contractual duties pertaining to trade secrets, including covenants not to disclose and covenants not to compete.¹⁰⁴

On the other hand, neither 1979 nor 1985 Subsection 7(b)(1) allows parties to create Uniform Act trade secrets by contractual fiat. For example, in *Sun Media Systems, Inc. v. KDSM, LLC*,¹⁰⁵ decided by a federal district court under the Iowa enactment, the plaintiff cited the following confidentiality clause in its contract with the defendant as evidence of the existence of trade secrets:

[KDSM] hereby acknowledge[s] that any marketing, sales, promotional or production information, manuals, customer lists, artwork, methods of operation or material it may acquire from [Sun

99. UNIF. TRADE SECRETS ACT § 7(b) (amended 1985), 14 U.L.A. 651 (2005).

100. The 1979 version of § 7(b) stated:

(b) This [Act] does not affect:

(1) contractual or other civil liability or relief that is not based upon misappropriation of a trade secret; or
(2) criminal liability for misappropriation of a trade secret.

UNIF. TRADE SECRETS ACT § 7(b), 14 U.L.A. 542 (1979).

101. *See id.* But see Pooley, *supra* note 5, § 2.03[6] at 2-26 and 2-27 (1985 § 7 has a “narrower preemption clause.”).

102. *See supra* note 50 and accompanying text.

103. *See supra* note 100 and accompanying text.

104. The Commissioners’ Comment provides in part:

This Act does not apply to ~~duties~~ a duty voluntarily assumed through an express or an implied-in-fact contract. The enforceability of covenants not to disclose trade secrets and covenants not to compete that are intended to protect trade secrets, for example, ~~are~~ is governed by other law.

See UNIF. TRADE SECRETS ACT § 7 cmt. (amended 1985), 14 U.L.A. 651 (2005) (showing 1985 insertions underlined and 1985 deletions struck through).

105. *Sun Media Sys., Inc. v. KDSM, LLC*, 564 F. Supp. 2d 946 (S.D. Iowa 2008), *recons. den.*, 576 F. Supp. 2d 1018 (S.D. Iowa 2008).

Media] in the performance of or in connection with or as a result of this Agreement are [Sun Media's] trade secrets.¹⁰⁶

The federal district judge responded: "Plaintiff cannot . . . use the confidentiality clause in the KDSM contract to turn items into trade secrets that simply are not trade secrets under applicable law."¹⁰⁷

A second issue with respect to the contractual exception from preemption is whether a tort action for intentional interference with a nondisclosure contract is preempted. At least four cases so hold this proposition. The rationale of *Hauck Manufacturing v. Astec Industries, Inc.*,¹⁰⁸ a federal district court case applying the Tennessee enactment, is typical:

Count IV of Plaintiff's amended complaint charges Astec with the common law tort of tortious interference with contract . . . while Count V charges Astec with the statutory tort of unlawful procurement of breach of contract. FalseThe specific contractual provisions at issue (and, for that matter, the contracts as a whole), the nature and manner of the alleged breach, and the alleged harm to Plaintiff all relate exclusively to the disclosure of secret, confidential, and/or proprietary information to Astec. As such, it would appear Plaintiff's tortious interference and unlawful procurement claims are preempted, at least to the extent they rely on the confidentiality agreements.¹⁰⁹

Mobile Mark, Inc. v. Pakosz,¹¹⁰ a federal district court case under the Illinois enactment, used a similar rationale to preempt a tort claim for conspiracy to breach a trade secret agreement.¹¹¹

106. *See id.* at 965.

107. *See id.*; Pooley, *supra* note 5, § 2.03[6] at 2-28 ("[E]ven though the Uniform Act expressly preserves contractual remedies, this does not mean that one may protect through contract that which does not qualify as a trade secret."); MILGRIM & BENSON, *supra* note 66, § 4.02[1][b] at 4-21 ("The mere presence of a confidentiality agreement does not elevate nontrade secret matter to trade secret status."). On the other hand, a nondisclosure agreement is evidence that a plaintiff has taken reasonable steps to maintain secrecy. *See* RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. g, at 435 (stating that a nondisclosure agreement can emphasize the confidential nature of information).

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

109. *See id.* at 659. *Accord* *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 976 (N.D. Ill. 2000); *Mattel, Inc. v. MGA Entm't, Inc.*, 782 F. Supp. 2d 911, 993-94 (C.D. Cal. 2011); *BlueEarth Biofuels, LLC. v. Hawaiian Elec. Co.*, 780 F. Supp. 2d 1061, 1076-77 (D. Haw. 2011).

110. *Mobil Mark, Inc. v. Pakosz*, No. 11 C 2983, 2011 WL 3898032 (N.D. Ill. Sept. 6, 2011).

111. *See id.* at *4-5.

A Wisconsin variation of the 1985 Subsection 7(b)(2) exception was a stated justification for a Wisconsin Supreme Court majority's 2006 adoption of the minority No Uniform Act Trade Secret, No Preemption View in the *Burbank Grease* case.¹¹² The Wisconsin enactment had replaced the 1985 exception of "other civil remedies that are not based upon misappropriation of a trade secret" with the exception of "any civil remedy not based upon misappropriation of a trade secret."¹¹³ The Wisconsin Supreme Court majority commented "'Any' is a very broad term. Accordingly, we conclude that its use evinces a broad range of civil remedies that are not precluded"¹¹⁴ The majority held that Wisconsin Section 7 did not preempt a tort remedy for the misappropriation of confidential business information that did not qualify as a Uniform Act trade secret.¹¹⁵ This conclusion was not justified by the minor Wisconsin nonuniform amendment emphasized by the majority. Moreover, the conclusion was contradicted by the majority's acknowledgement that the Wisconsin enactment was the exclusive remedy for the misappropriation of Uniform Act trade secrets.¹¹⁶ The majority failed to realize that the expansive Uniform Act definition of trade secret had superseded prior Wisconsin cases treating protection of confidential business information as distinct from trade secret misappropriation.¹¹⁷

1985 Subsection 7(b)(3) states that the Uniform Act does not displace criminal remedies, whether or not based upon misappropriation of a trade secret.¹¹⁸ Over half the states and the federal government have enacted criminal penalties for trade secret theft.¹¹⁹ Subsection 7(b)(3) applies to the criminal statutes in an enacting state.

There have been no significant issues with respect to the exception from preemption of state criminal statutes. However, under the Indiana nonuniform version of 1979 Subsection 7(b),¹²⁰ the Indiana Court of Appeals has rendered two decisions with respect to the preemption of state civil remedies for criminal conduct. *AGS Capital Corp. v. Product Action Interna-*

112. The *Burbank Grease* interpretation of 1985 § 7(a) is discussed at *supra* notes 68–72 and accompanying text.

113. Compare the 1985 Uniform Act exception at *supra* note 99 and accompanying text, with the Wisconsin statute referred to in *Burbank Grease Servs., LLC v. Sokolowski*, 717 N.W.2d 781, 788 (Wis. 2006).

114. *Id.* at 789.

115. See *id.* at 798.

116. Refer to *supra* note 69–72 and accompanying text.

117. Refer to *supra* notes 71–72 and accompanying text.

118. See *supra* note 99 and accompanying text for the text of 1985 subsection 7(b)(3).

119. See Pooley, *supra* note 5, §§ 13.02, 13.03. The principal federal statute is the Economic Espionage Act of 1996. See *id.* at § 13.03.

120. Refer to the authority in *supra* note 25.

*tional, LLC*¹²¹ involved the Indiana civil RICO statute, which had been enacted by the same public law as the Indiana criminal RICO statute.¹²² The public law had contained both a criminal penalty and a civil remedy with mandatory treble damages, mandatory reasonable attorney's fees, plus discretionary punitive damages, for committing two predicate criminal acts.¹²³ The Court of Appeals concluded that the RICO civil remedy was "derivative of the criminal law" and not preempted by the Uniform Act.¹²⁴ On the other hand, *HDNET, LLC v. North American Boxing Council*¹²⁵ involved the civil conversion action given to victims of theft by the Indiana Crime Victim's Relief Act. The civil conversion statute did not create a mandatory civil remedy and had been enacted separately from the various criminal statutes with which it interfaced.¹²⁶ The Indiana Court of Appeals held that the civil conversion statute was not derivative of the criminal statutes to which it referred. With respect to idea misappropriation, a civil conversion remedy was preempted by the Indiana enactment.¹²⁷ Similar results can be expected under the uniform versions of 1979 and 1985 subsection 7(b).

G. The Necessity of Amending Section 7

Professor John Cross has described Subsection 7(a) as containing "irreconcilable ambiguity."¹²⁸ He recommended amendment to more clearly and accurately identify the law that was displaced.¹²⁹ Professor Cross considered that the language of Subsection 7(a) was broad enough to accommodate both the No Uniform Act Trade Secret, No Preemption View or the Exclusive

121. *AGS Capital Corp., Inc. v. Prod. Action Int'l, LLC*, 884 N.E.2d 294 (Ind. Ct. App. 2008).

122. *See HDNet LLC v. N. Am. Boxing Council*, 972 N.E.2d 920, 926 (Ind. Ct. App.), *transfer den.*, 980 N.E.2d 322 (Ind. 2012).

123. *See AGS Capital*, 884 N.E.2d at 308.

124. *See id. But see Food Servs. of Am. Inc. v. Carrington*, CV-12-175-PHX-GMS, 2013 WL 424507 at *2 (D. Ariz. Feb. 4, 2013) (stating that an ordinary civil anti-racketeering claim does not fall under the exception for "criminal remedies"), *adhered to on denial of reconsideration*, CV-12-00175-PHX-GMS, 2013 WL 3199691 at *1-2 (D. Ariz. June 24, 2013).

125. *See HDNet*, 972 N.E.2d at 920.

126. *See id.* at 926-27.

127. *See id.* On the other hand, the court noted that a contractual idea misappropriation claim would fall within the contractual exception to preemption. *See id.* at 925 ("[W]e emphasize that our statute does not preempt claims for misappropriation of information or ideas that are protected by contract.").

128. *See Cross, supra* note 28, at 469.

129. *See id.* at 481.

Remedy For Misappropriation of Business Information View.¹³⁰ But he believed that the statute itself provided no clue as to the appropriate test.¹³¹ He regarded the following 1985 Commissioners' Comment as the key to understanding 1985 Section 7:

This Act does not deal with criminal remedies for trade secret misappropriation and is not a comprehensive statement of civil remedies. It applies to a duty to protect competitively significant secret information that is imposed by law. It does not apply to a duty voluntarily assumed through an express or an implied-in-fact contract. The enforceability of covenants not to disclose trade secrets and covenants not to compete that are intended to protect trade secrets, for example, is governed by other law. The Act also does not apply to a duty imposed by law that is not dependent upon the existence of competitively significant secret information, like an agent's duty of loyalty to his or her principal.¹³²

Professor Cross argued that this Comment implicitly rejected both the No Uniform Act Trade Secret, No Preemption View and the Exclusive Remedy For Misappropriation of Business Information View.¹³³ The Comment, for example, contained no hint of the limitations inherent in the No Uniform Act Trade Secret, No Preemption View.¹³⁴ On the other hand, Professor Cross considered that the Exclusive Remedy for Misappropriation of Business Information View, which he called the All Confidential Information view,¹³⁵ was too broad. He portrayed the View as "regulating any information that a person might want to keep private. Even embarrassing, but purely private, facts would, under this view, fall within the domain of the UTSA."¹³⁶ He concluded that, under the Comment, a duty that was imposed by law without regard to whether a trade secret existed would apply to Uniform Act trade secrets.¹³⁷

130. *See id.* at 470.

131. *See id.* at 475.

132. *See* UNIF. TRADE SECRETS ACT § 7 cmt. (amended 1985), 14 U.L.A. 651 (2005). The 1979 Commissioners' Comment is essentially the same. *See id.*

133. *See* Cross, *supra* note 28, at 476–77.

134. *See id.* at 476 ("The Comment strongly suggests that the Commissioners did not intend anything remotely resembling the Trade Secrets Only view."). The Trade Secrets Only view is Professor Cross' term for the No Uniform Act Trade Secret, No Preemption View. *See id.* at 451–52.

135. *See id.* at 452.

136. *See id.* at 479.

137. *See id.* at 477 ("If the duty exists regardless of whether the information is secret, the Comment indicates the state law is not displaced, even if the information in question is a trade secret."). If valid, Professor Cross' conclusion would mean that noncontractual legal claims providing different remedies for Uniform Act trade secrets would not conflict with the Uniform Act. Refer to *supra*

But the cases that Professor Cross cited as illustrative of the All Confidential Information View involved business information.¹³⁸ Indeed, when described as the Exclusive Remedy for Misappropriation of Business Information View, this view is consistent with both the Uniform Act and the Uniform Act's Restatement (First) roots.¹³⁹ Under this View, a majority of courts consider that the Uniform Act preempts noncontractual legal claims protecting business information from misappropriation, whether or not the business information is a Uniform Act trade secret.¹⁴⁰ Insofar as the 1985 Commissioners' Comment to 1985 Section 7 is concerned, the Comment does not state that a noncontractual legal claim can protect business information from misappropriation.¹⁴¹ The Commissioners' Comment is consistent

notes 63–64 and accompanying text. But his conclusion is not valid. *See infra* note 141 and accompanying text.

138. None of the All Confidential Information View cases that Professor Cross cited involved private, noncommercial information. *Compare id.* at 452 n.32, with *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 787, 794–97 (W.D. Ky. 2001) (Plaintiff businessmen sought protection for the concept of a cable channel devoted to automobiles, including their business plan, demonstrative videotape, and a list of potential sources for taped programming.); *Thermodyn Corp. v. 3M Co.*, 593 F. Supp. 2d 972, 985 (N.D. Ohio 2008) (Plaintiff, a manufacturer, sought protection for two formulas, a process, customer lists, pricing information and marketing information.); *Cardinal Health 414, Inc. v. Adams*, 582 F. Supp. 2d 967, 969–74 (M.D. Tenn. 2008) (Former employees secretly accessed the business e-mail account of their former employer's manager for over a year.); *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp. 2d 943, 944–45 (W.D. Mich. 2003) (Plaintiff, a manufacturer, had disclosed in confidence drawings of a wet-type industrial clutch to a parts supplier that was a secret competitor.). *See also* 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*, UCLA J.L. & TECH 1, 72 (2006) (stating that “the development of tort law regarding personal information has nothing to do with the policy interests raised by trade secret-type claims”).

139. Refer to *supra* note 50–52 and accompanying text.

140. *See, e.g., CDC Restoration & Constr., LC. v. Tradesmen Contractors, LLC*, 274 P.3d 317, 330 (Utah Ct. App. 2012) (“[W]e join the majority of courts that have addressed this issue and hold that the UTSA preempts claims based on the unauthorized use of information, irrespective of whether that information meets the statutory definition of a trade secret.”).

141. *See* 1 MILGRIM & BENSON, *supra* note 66, §1.01[3][a] at 1-240.14(78) (interpreting the same Commissioners' Comment as implying that the Uniform Act preempts all noncontractual legal claims protecting business information, whether or not a Uniform Act trade secret is involved). Professor Cross' contrary view may have been influenced by the concluding sentence of the 1985 Commissioners' Comment which provides that “[t]he Act also does not apply to a duty imposed by law that is not dependent upon the existence of competi-

with the approach of the New Hampshire Supreme Court in the *Mortgage Specialists* case.¹⁴² A court must ensure that noncontractual legal claims are not used to protect business information.¹⁴³

Based upon his conviction that Section 7 was flawed, Professor Cross proposed the following revision:

- (a) Except as provided in subsection (b), this [Act] displaces ~~conflicting~~ tort, restitutionary, and other law of this State providing civil remedies ~~for misappropriation of a trade secret~~
 - (2) for the acquisition, disclosure, or use of confidential information that satisfies the requirements of Section 1(4)(i) of this [Act], and
 - (3) for violation of a duty imposed by law based on the confidential nature of the information.
- (b) This [Act] does not affect:
 - (1) contractual remedies, whether or not based on ~~misappropriation of a trade secret~~ the acquisition, disclosure, or use of confidential information,
 - (2) other civil remedies that are ~~not based on misappropriation of a trade secret~~ based on a duty that would exist regardless of whether the information was confidential,
 - (3) secondary liability for any civil remedy that is not displaced by this section, or
 - (3) (4) criminal remedies, whether or not based upon ~~misappropriation of a trade secret~~ the acquisition, disclosure, or use of confidential information.¹⁴⁴

It is questionable whether amendments intended to provide greater clarity and accuracy should introduce the undefined terms “confidential” and

tively significant secret information, like an agent’s duty of loyalty to his or her principal.” UNIFORM TRADE SECRETS ACT § 7 cmt. (amended 1985), 14 U.L.A. 651 (2005). However, read carefully, this sentence merely indicates that the Uniform Act does not prevent arising of duties imposed by law that are not dependent upon secret business information. The sentence does not add that these imposed duties can protect business information. Indeed, if the sentence did indicate this, the sentence would conflict with 1979 and 1985 § 7(a) (see *supra* notes 62–72 and accompanying text), and would be invalid in states that did not enact the Commissioners’ Comments. See *Halifax Corp. v. First Union Nat. Bank*, 546 S.E.2d 696, 703 (Va. 2001) (Commissioners’ Comments “should not become devices for expanding the scope of . . . sections.”). Moreover, most states do not enact the Commissioners’ Comments. See *Pride Hyundai, Inc. v. Chrysler Fin. Co., LLC*, 369 F.3d 603, 614 (1st Cir. 2004) (“Most states . . . choose not to enact the Official Commentary . . .”).

142. Refer to *supra* notes 88–92 and accompanying text.

143. See *id.*

144. See Cross, *supra* note 28, at 481.

“confidential information” into Section 7. Uncertainty as to the meaning of these terms is compounded by the American Law Institute’s abandonment of continued protection for “confidential information” following the expansion of its definition of trade secret.¹⁴⁵ Professor Cross also rejected what he called the judicial All Confidential Information View of Section 7 as “overly broad.”¹⁴⁶ In any event, the heart of the matter is the interplay between proposed Subsection 7(a)(2) and proposed Subsection 7(b)(2).

Proposed Subsection 7(a)(2) displaces noncontractual legal claims imposed by law due to the confidential nature of information. On the other hand, proposed Subsection 7(b)(2) excepts from displacement noncontractual claims arising from legal obligations imposed without regard to confidential information.¹⁴⁷ In explaining his proposal, Professor Cross indicated that quantum meruit/unjust enrichment, tortious interference with contract, conspiracy, and fraud claims would not be displaced. Breach of fiduciary duty claims rarely would be displaced.

Finally, in most cases, duty of loyalty and tortious interference with prospective advantage claims would not be displaced. On the other hand, *International News Service* misappropriation,¹⁴⁸ conversion, and unfair competition claims would be more frequently displaced and confidential information, and breach of confidence claims ordinarily would be displaced. Common law trade secret misappropriation alone always would be displaced.¹⁴⁹ In summing up his proposal, Professor Cross added “As should be apparent from the foregoing discussion, application of proposed Section 7 means that a significantly higher percentage of state law claims would likely survive displacement than do under current case law.”¹⁵⁰

145. Refer to *supra* note 60 and accompanying text.

146. See Cross, *supra* note 28, at 479 (“[T]he All Confidential Information view is overly broad.”).

147. See *supra* note 144 and accompanying text.

148. In *Int’l News Serv. v. Associated Press*, 248 U.S. 215 (1918), INS had copied information from AP east coast newspapers and transmitted news stories based upon the copied information to INS-affiliated west coast newspapers in competition with western affiliates of AP. A Supreme Court majority held that the appropriation of news by a competitor for use in direct competition with the originator was actionable unfair competition under federal common law. See *id.* at 238–40. After *Erie R. Co. v. Tomkins*, 304 U.S. 64, 78 (1938) declared that there was no general federal common law, the INS doctrine has endured only to the extent that it has been incorporated into state law. In most of the few state cases in which the INS misappropriation doctrine has been followed, a defendant’s appropriation has resulted in direct competition in a plaintiff’s primary market. See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. c. at 413 (“Appeals to the misappropriation doctrine are almost always rejected when the appropriation does not intrude upon the plaintiff’s primary market.”).

149. See Cross, *supra* note 28, at 483–90.

150. See *id.* at 490.

Both proposed Subsection 7(a)(2) and proposed Subsection 7(b)(2) present difficulties. Insofar as proposed Subsection 7(a)(2) is concerned, the Uniform Act does not impose a legal duty solely because of the secret nature of information. Actionable trade secret misappropriation requires the existence of a protectable trade secret, an act of misappropriation, and entitlement to an injunction, a monetary recovery, or both.¹⁵¹ If, as it appears to, proposed Subsection 7(a)(2) requires that an imposed duty be based upon the confidential nature of information alone,¹⁵² even common law trade secret misappropriation would not be displaced.¹⁵³ With respect to proposed Subsection 7(b)(2), as long as a legal duty was imposed for a reason other than protecting confidential business information from misappropriation, for example, a manager's fiduciary duty or an employee's duty of loyalty, proposed Subsection 7(b)(2) permits the legal duty to protect confidential business information from misappropriation.¹⁵⁴

For example, in *Thermodyn Corp. v. 3M Company*,¹⁵⁵ a federal district court case under the Ohio enactment, the former president of a division of his former employer and two companies that the former president formed were sued upon several counts, including trade secret misappropriation and unjust enrichment.¹⁵⁶ The allegations supporting the unjust enrichment claim were "[d]efendants have received the financial and competitive benefit of Thermodyne's information and Thermodyne has lost its financial expectation in developing and capitalizing upon its trade secret information."¹⁵⁷ The federal district judge applied the majority Exclusive Remedy for Misappropriation of Business Information View and held that the unjust enrichment claim was preempted by the Ohio enactment.¹⁵⁸ Because unjust enrichment dam-

151. See UNIF. TRADE SECRETS ACT §§ 1(2), (4), 2, 3 (amended 1985), 14 U.L.A. 537–634 (2005).

152. See Cross, *supra* note 28, at 487 (stating that proposed § 7(a)(2) would not displace quantum meruit/unjust enrichment claims because "the duty does not arise out of the fact of secrecy itself").

153. See *id.* at 481 (detailing the proposed statute providing that displacement requires satisfaction of both proposed subsection 7(a)(1) and proposed subsection 7(a)(2)). Like the Uniform Act, actionable common-law trade secret misappropriation requires an act of misappropriation and entitlement to a remedy in addition to the secrecy of the business information involved. See Klitzke, *supra* note 13, at 277–78 (stating that common-law trade secret misappropriation requires a trade secret, misappropriation, and an available remedy).

154. Refer to *supra* note 137 and accompanying text.

155. *Thermodyn Corp. v. 3M Co.*, 593 F. Supp. 2d 972 (N.D. Ohio 2008).

156. See *id.* at 977–78, 985, 990.

157. See *id.* at 990.

158. See *id.*

ages are recoverable for Uniform Act trade secret misappropriation,¹⁵⁹ majority approach courts frequently have found noncontractual legal claims for unjust enrichment preempted.¹⁶⁰ However, under Professor Cross' proposed revision of Section 7, the unjust enrichment claim in *Thermodyne Corp.* would not be preempted. According to Professor Cross, the duty involved in an unjust enrichment claim arises from unfairness and not from the secrecy of information.¹⁶¹

Professor Cross recommended a number of changes in the wording of 1985 subsection 7(b).¹⁶² His major substantive recommendation was proposed subsection 7(b)(2), which has been discussed.¹⁶³ He also recommended adding a new subsection 7(b)(3) stating that the Uniform Act does not affect "secondary liability for any civil remedy that is not displaced by this section."¹⁶⁴ His rationale was:

[N]ew § 7(b)(3) explicitly deals with secondary liability. A few courts have struggled to determine if § 7 has any bearing on claims for secondary liability. Under the proposal, displacement of a secondary liability claim would go hand-in-hand with displacement of the primary claim. If the primary claim is displaced, there is no secondary liability as a matter of law. But the proposed section provides that if the primary claim is not displaced, secondary liability will always remain available. This explicit term is included for practical reasons; namely to save the courts the trouble of divining whether the true nature of secondary liability is an independent tort or an appendage to the primary tort.¹⁶⁵

Professor Cross cited as illustrative of "secondary liability" *Thola v. Henschell*,¹⁶⁶ a Washington state appellate court case dealing with a new employer's vicarious liability for trade secret misappropriation by a former em-

159. See UNIF. TRADE SECRETS ACT § 3(a) (amended 1985), 14 U.L.A. 633-34 (2005); UNIF. TRADE SECRETS ACT § 7(a), 14 U.L.A. 542 (1979) (providing that damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss).

160. See Cross, *supra* note 28, at 461 (stating that "most courts" displace non-contractual claims for quantum meruit and unjust enrichment).

161. See *id.* at 487.

162. Refer to *supra* note 144 and accompanying text. For example, he recommended substituting "the acquisition, disclosure, or use of confidential information," a paraphrase of the definition of "misappropriation," for "misappropriation of a trade secret." See *id.*

163. Refer to *supra* notes 147-61 and accompanying text.

164. See Cross, *supra* note 28, at 481.

165. See *id.* at 482-83.

166. See *id.* at 482 n.120.

ployee of the plaintiff. This signaled that by “secondary liability” Professor Cross primarily meant “vicarious liability.”¹⁶⁷ Yet, *Thola* suggests that the proposed amendment is unnecessary. *Thola* followed the trend of authority holding that vicarious liability is not displaced by the Uniform Act.¹⁶⁸

From a broader perspective, the present majority approach preempting non-contractual legal claims to the extent that they are used to protect business information from misappropriation¹⁶⁹ assures more uniform treatment of business information. Focusing upon a defendant’s breach of fiduciary duty or breach of the duty of loyalty, as Professor Cross recommended, could lead courts to punish defendants for having revealed or used information regardless of its secrecy.¹⁷⁰ A compelling case for amending Section 7 has not been made.¹⁷¹

IV. CONCLUSION

Amendment of Section 7 is not required. The trend of the case law is positive. Future difficulty can be avoided and proper preemption achieved if the courts focus upon the heart of the Uniform Act, the Subsection 1(4)(i) definition of “trade secret.”¹⁷² Like the Restatement (First) of Torts from which it was derived,¹⁷³ this definition makes business information with actual or potential value derived from secrecy the *sine qua non* for protection from misappropriation.

The function of Section 7 is to prevent noncontractual legal claims from protecting business information. Preemption of these noncontractual legal claims is necessary for the Uniform Act to substitute its “unitary definitions

167. *See id.*

168. *See Thola v. Henschell*, 164 P.3d 524, 527–29 (Wash. Ct. App. 2007) and Richard F. Dole, Jr., *The Uniform Trade Secrets Act—Trends and Prospects*, 33 HAMLINE L. REV. 409, 428–32 (2010) (reconciling the doctrine of *respondeat superior* with the Uniform Act). The principal contrary authority is an Indiana Supreme Court decision holding that vicarious liability doctrine is displaced by the Uniform Act. *See Infinity Prods., Inc. v. Quandt*, 810 N.E.2d 1028, 1034 (Ind. 2004).

169. *See, e.g., supra* note 82 and accompanying text.

170. *See Lemley, supra* note 1, at 343–44 (stating that courts that ignore the secrecy requirement “undermine the purpose of trade secret law”).

171. *See Ashley Dillon, An Immodest Proposal: How the Kansas Supreme Court Can Unify the Uniform Trade Secret Act’s Preemption of Common Law Claims*, 60 U. KAN. L. REV. 1147, 1168–71, 1178 (2012) (arguing that judicial recognition that the Uniform Act establishes standards for the protection from misappropriation of all business information, whether or not the information qualifies as a Uniform Act trade secret, will produce uniformity).

172. Refer to *supra* notes 50–55 and accompanying text.

173. Refer to *supra* note 52 and accompanying text.

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.”¹⁷⁴

◊

174. *See* UNIF. TRADE SECRETS ACT, Prefatory Note (amended 1985), 14 U.L.A. 531 (2005).