

**THE NEW LAW OF IDEAS**

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I. INTRODUCTION

Most businesses run on ideas — ideas for new products, new production methods, and new marketing strategies. Businesses own these ideas when they come from employees paid to produce them.<sup>1</sup> Valuable ideas can also come from outsiders or from employees

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1. 8 DONALD S. CHISUM, CHISUM ON PATENTS § 22.03[2] (Matthew Bender 2014) (“An employer will own rights to a patentable invention of an employee if the employee was either initially hired or later directed to solve a specific problem or to exercise his/her ‘inventive faculties’ in an area.”). The rule is similar for copyrights. “In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and . . . owns all of the rights comprised in the copyright.” 17 U.S.C. § 201(b) (2012); *see also* 1 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 5.03[A] (Matthew Bender, rev. ed. 2014).

working beyond the scope of their responsibilities.<sup>2</sup> Copyright does not protect ideas,<sup>3</sup> and patent law, with its circumscribed subject matter, demanding standards, and high cost, is often of little use to an idea creator.<sup>4</sup>

Since at least the middle of the last century, courts have analyzed rights in ideas under a body of law called “the law of ideas.”<sup>5</sup> That name persists.<sup>6</sup> Dominated by contract principles, the law of ideas has also encompassed an array of additional theories regularly invoked to protect idea merchants, including property-based causes of action such as conversion and misappropriation, quasi-contractual claims premised on unjust enrichment, and claims alleging breaches of confidence, fiduciary duty, and loyalty.<sup>7</sup>

As of 2014, forty-seven states have passed the Uniform Trade Secrets Act (“UTSA”).<sup>8</sup> As its name implies, the UTSA establishes uniform rules governing the protection of trade secrets — information that gives someone a competitive advantage over others who do not

2. In the case of patentable inventions, even if the employee was not hired to invent, the employer will have a nonexclusive, royalty-free, nontransferable license to use the invention (known as a “shop right”) if the employee has “use[d] his employer’s resources to conceive an invention or to reduce it to practice.” 8 CHISUM, *supra* note 1, § 22.03[3]. Copyright does not offer employers similar rights in works that are not made for hire. *See* 1 NIMMER & NIMMER, *supra* note 1, § 5.03[B][1][b][i].

3. “In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery . . . .” 17 U.S.C. § 102(b) (2012); *see also* 1 NIMMER & NIMMER, *supra* note 1, § 2.03[D] (“Copyright may be claimed only in the ‘expression’ of a work of authorship, and not in its ‘idea.’”).

4. *See* 1 CHISUM, *supra* note 1, § 1.01 (“Theoretical or abstract discoveries are excluded as are discoveries, however practical and useful, in nontechnological arts, such as the liberal arts, the social sciences, theoretical mathematics, and business and management methodology.”). Legal fees for preparing and filing a patent application may often exceed \$10,000, with further fees required for any necessary amendments and administrative appeals; *see also* AM. INTELL. PROP. LAW ASS’N, REPORT OF THE ECONOMIC SURVEY 2013, 29 (2013).

5. *See, e.g.*, *Desny v. Wilder*, 299 P.2d 257, 265 (Cal. 1956); *Bristol v. Equitable Life Assurance Soc’y*, 30 N.E. 506, 507 (N.Y. 1892). The phrase “the law of ideas” was used prominently by Melville Nimmer in an article by that name published in 1954. Melville B. Nimmer, *The Law of Ideas*, 27 S. CAL. L. REV. 119 (1954).

6. *See, e.g.*, 5 NIMMER & NIMMER, *supra* note 1, ch. 19D (titled “The Law of Ideas”); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. h (1995) (“Cases involving the submission of ideas by employees, customers, inventors, and others to businesses capable of reducing the idea to practice are sometimes analyzed under separate rules referred to as the ‘law of ideas.’”); Margreth Barrett, *The “Law of Ideas” Reconsidered*, 71 J. PAT. & TRADEMARK OFF. SOC’Y 691 (1989); Joseph J. Sipur, *Are Ideas Really Free As the Air? Recent Developments in the Law of Ideas*, 51 IDEA 111 (2011); Lionel S. Sobel, *The Law of Ideas, Revisited*, 1 UCLA ENT. L. REV. 9 (1994).

7. *See generally* 5 NIMMER & NIMMER, *supra* note 1, ch. 19D (explaining the various common-law legal theories that comprise the “law of ideas”); PAUL GOLDSTEIN, GOLDSTEIN ON COPYRIGHT §§ 17.7–8 (3d ed. 2014) (noting the various state law theories under which uncopyrightable material may be protected).

8. *See Trade Secrets Act*, UNIF. LAW COMMISSION, <http://www.uniformlaws.org/Act.aspx?title=Trade+Secrets+Act> (last visited Dec. 18, 2014). In 2014, Massachusetts introduced legislation based on the UTSA; only New York and North Carolina remain hold-outs. *See id.*

know it.<sup>9</sup> A handful of common-law cases had considered the possibility of protecting ideas as trade secrets prior to the advent of the UTSA,<sup>10</sup> but the common-law definition of a trade secret proved too narrow to provide adequate protection.<sup>11</sup> Although largely overlooked by commentators,<sup>12</sup> the UTSA has dramatically transformed the law of ideas. The UTSA consciously subsumes ideas within the scope of trade secrets, creating a statutory basis for idea protection. It also does much more. The UTSA displaces non-contractual remedies for the misappropriation of trade secrets, effectively eliminating the tort and restitutionary theories that have long been staples of the law of ideas. Treating ideas as trade secrets also offers new perspectives on contract-based idea claims and on the preemptive effect of federal patent and copyright law.

This Article explores the UTSA's increasingly important role in the changing law of ideas. Part II traces the recent transformation of idea protection from a distinct "law of ideas" to a component of trade secret law governed by the UTSA. Part III analyzes the UTSA's displacement of substantial portions of the old law of ideas. Part IV reviews the demise of "novelty" and "concreteness," two traditional prerequisites of common-law idea protection. Part V examines the relationship between idea protection under the UTSA and federal in-

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9. See UNIF. TRADE SECRETS ACT § 1(4) (1985).

10. See, e.g., *Stratienko v. Cordis Corp.*, 429 F.3d 592, 602 (6th Cir. 2005) (applying Tennessee law); *Smith v. Snap-On Tools Corp.*, 833 F.2d 578, 579–80 (5th Cir. 1987) (applying Wisconsin law); *Burten v. Milton Bradley Co.*, 763 F.2d 461, 462–63 (1st Cir. 1985) (applying Massachusetts law); *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 734 (5th Cir. 1982) (applying Texas law); *Mann v. Tatge Chem. Co.*, 440 P.2d 640, 646 (Kan. 1968) (applying Kansas law).

11. See, e.g., *Hudson Hotels Corp. v. Choice Hotels Int'l*, 995 F.2d 1173, 1177 (2d Cir. 1993) (under New York law, idea for small-sized hotel room could not be a trade secret because once the rooms were built, marketed, and occupied, the concept would no longer be secret); *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 297–98 (2d Cir. 1986) (under either California or New York law, information regarding possible corporate acquisition opportunity is not a trade secret since it was not "a process or device for continuous use in the operation of the business" (quoting RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939))); *Richter v. Westab, Inc.*, 529 F.2d 896, 900 (6th Cir. 1976) (under Ohio law, new product idea is not a trade secret since it did not yield continuing competitive advantage once disclosed).

12. 5 NIMMER & NIMMER, *supra* note 1, is the most frequently cited reference on the law of ideas, and this treatise fails to consider the possibility of protecting ideas as trade secrets. See *id.* ch. 19D. The same is true of GOLDSTEIN, *supra* note 7. See *id.* §§ 17.7–8. Sobel, *supra* note 6, makes only passing mention of trade secrets by noting their kinship with breach of confidence claims. See *id.* at 23. Arthur R. Miller, *Common Law Protection for Products of the Mind: An "Idea" Whose Time Has Come*, 119 HARV. L. REV. 705 (2006), briefly comments on the policy implications of recent developments in trade secret law but concludes that "trade secret law does not currently provide a satisfactory means of protecting ideas." *Id.* at 737. But see ROGER M. MILGRIM & ERIC E. BENSON, MILGRIM ON TRADE SECRETS § 9.05[4] (2014) ("The significance of the potential application of the UTSA to confidential disclosures of concepts or, as-yet untested, ideas for a new product or a new process cannot be prudently ignored."). Professor Margreth Barrett, writing twenty-five years ago before the ascendancy of the UTSA, was optimistic that trade secret law might eventually supersede much of the law of ideas. See Barrett, *supra* note 6, at 694.

lectual property law. Finally, Part VI considers the implications of the UTSA for the protection of ideas through contract.

## II. IDEAS AS TRADE SECRETS

### A. *Trade Secrets and Ideas*

Before the enactments of the Uniform Trade Secrets Act, trade secret law was common law. The generally accepted definition of a "trade secret" came from comment b to section 757 of the *Restatement (First) of Torts*: "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."<sup>13</sup>

Over the years, a few idea submitters had supplemented the usual array of contract, tort, and restitutionary claims with a claim for common-law trade secret misappropriation, finding occasional success.<sup>14</sup> In 1969, the Supreme Court of Kansas relied on the *Restatement* definition to hold that a model for an animal insecticide applicator was a trade secret, affirming a judgment of misappropriation against a manufacturer who used the idea in violation of a confidential disclosure.<sup>15</sup> The Fifth Circuit, applying Texas common law and invoking the *Restatement* definition, held that an idea for a new product was a trade secret and affirmed a jury verdict against a manufacturer who violated a non-disclosure agreement by marketing a weed trimmer.<sup>16</sup> The First Circuit invoked the same definition to reinstate a jury verdict under Massachusetts common law in favor of game inventors who had disclosed their idea for an electronic board game to a toy company.<sup>17</sup>

Ideas for new products, however, did not fit comfortably within the *Restatement's* definition of a "trade secret," which speaks of a secret "used in one's business."<sup>18</sup> The same *Restatement* comment amplifies this limitation: "A trade secret is a process or device for

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13. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939). The UTSA's prefatory note recognized section 757 as providing the "most widely accepted rules of trade secret law." UNIF. TRADE SECRETS ACT, prefatory note (1985).

14. *See, e.g., Snap-On Tools*, 833 F.2d at 580-81 (analyzing a product idea as a trade secret under Wisconsin common law but finding that the plaintiff had failed to create the necessary duty of confidentiality); *Sinclair v. Aquarius Elecs., Inc.*, 116 Cal. Rptr. 654, 658 (Ct. App. 1974) (idea for a medical device qualifies as a trade secret despite the fact that the owner did not use the idea in his own business); *cf. Thompson v. Cal. Brewing Co.*, 310 P.2d 436, 439 (Cal. Ct. App. 1957) (breach of confidence claim relating to an advertising idea described as "a good deal like some aspects of the law relating to trade secrets as expressed in the Restatement of the Law of Torts").

15. *Mann v. Tatge Chem. Co.*, 440 P.2d 640, 649 (Kan. 1968).

16. *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 733, 735-36 (5th Cir. 1982).

17. *Burten v. Milton Bradley Co.*, 763 F.2d 461, 463, 467 (1st Cir. 1985).

18. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b.

continuous use in the operation of the business.”<sup>19</sup> Arguably, idea creators did not “use” their ideas in business, and even a “buyer” of an idea who subsequently put it to use typically did not enjoy a “continuous” advantage over competitors because exploitation would often disclose the idea to the public. Several influential cases used these, and other, arguments to deny trade secret status to ideas for new products. The Sixth Circuit, for example, held that an idea for fashion-themed school supplies did not qualify for protection as a trade secret under Ohio common law because it could not provide a continuing competitive advantage.<sup>20</sup> Applying New York common law, the Second Circuit took a similar position, noting that an idea for a micro-hotel based on certain room features could not be “used secretly and continuously in commerce” because once the rooms were built and occupied, the features would necessarily be publicly disclosed.<sup>21</sup>

The rules of trade secret law began to change in 1981 with the initial state adoptions of the Uniform Trade Secrets Act,<sup>22</sup> which the Uniform Law Commission had approved in 1979.<sup>23</sup> In the years immediately prior to the drafting of the UTSA, businesses were increasingly relying on state trade secret protection, perhaps in reaction to the uncertainties of federal patent protection.<sup>24</sup> However, the development of trade secret law had remained rudimentary in many jurisdictions.<sup>25</sup> Even in commercial centers, courts often defined the scope of trade secret protection by the laundry list of protectable items in the *Restatement of Torts* rather than by general concepts.<sup>26</sup> The drafters of the UTSA sought not only uniformity, but also clarity and improvement through codification of what they viewed as better-reasoned results.<sup>27</sup>

Under UTSA section 1(4):

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19. *Id.*

20. *Richter v. Westab, Inc.*, 529 F.2d 896, 900 (6th Cir. 1976).

21. *Hudson Hotels Corp. v. Choice Hotels Int'l*, 995 F.2d 1173, 1177 (2d Cir. 1993); *see also, e.g.*, *Blank v. Pollack*, 916 F. Supp. 165, 175 (N.D.N.Y. 1996) (following the rule in *Hudson Hotels*); *Johnson v. Benjamin Moore & Co.*, 788 A.2d 906, 922 (N.J. 2002) (new product ideas do not fall within the definition of a trade secret under New Jersey common law).

22. Arkansas, Kansas, Louisiana, and Minnesota were the first adopters. *See Table of Jurisdictions Wherein the Act Has Been Adopted*, 14 U.L.A. 77 (Cumulative Annual Pocket Part 2013).

23. UNIF. TRADE SECRETS ACT, Prefatory Note (1985).

24. “In view of the substantial number of patents that are invalidated by the courts, many businesses now elect to protect commercially valuable information through reliance upon the state law of trade secret protection.” *Id.*

25. “Although there typically are a substantial number of reported decisions in states that are commercial centers, this is not the case in less populous and more agricultural jurisdictions.” *Id.*

26. *See supra* text accompanying notes 13–14.

27. *See* UNIF. TRADE SECRETS ACT, Prefatory Note (“The Uniform Act also codifies the results of the better reasoned cases concerning the remedies for trade secret misappropriation.”).

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

- (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.<sup>28</sup>

The UTSA’s definition incorporates at least one major innovation. According to the comment to section 1:

The definition of “trade secret” contains a reasonable departure from the Restatement of Torts (First) definition which required that a trade secret be “continuously used in one’s business.” The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use.<sup>29</sup>

The UTSA thus extends protection even to ideas that no one has yet put to use. To receive protection, however, an idea must have “independent economic value” derived from its secrecy.<sup>30</sup> Under the common law, the “continuous use” requirement barred protection for “information as to single or ephemeral events,”<sup>31</sup> in effect adding a durational dimension to the required economic value. The “continuous use” limitation, too, is inapplicable under the statutory definition,<sup>32</sup> thus permitting the inclusion of ideas that, although disclosed by use,

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28. *Id.* § 1(4).

29. *Id.* § 1 cmt.

30. *Id.* § 1(4)(i).

31. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

32. “The definition of ‘trade secret’ adopted in the Uniform Trade Secrets Act does not include any requirement relating to the duration of the information’s economic value.” RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d (1995); *see also, e.g.*, H&R Block E. Tax Servs., Inc. v. Enchura, 122 F. Supp. 2d 1067, 1074 (W.D. Mo. 2000) (information concerning marketing plans is a trade secret under the Missouri UTSA); Ovation Plumbing, Inc. v. Furton, 33 P.3d 1221, 1224 (Colo. App. 2001) (declining to read “a continuous use requirement” into the Colorado UTSA when the statute did not contain any language or indication of legislative intent); Ramon A. Klitzke, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277, 288 (1980) (The Uniform Act “extends protection to valuable information not continuously used in the trade or business. Thus, the Act would provide trade secret protection for ‘single event’ information, such as a current status report, and for information of future value, although not currently in use because of lack of capital or opportunity.”).

at least provide their possessor with a head start in the market. The consequences seem clear — there is no longer any legal distinction between new product, production, or marketing ideas and other potential trade secrets.<sup>33</sup>

### B. Idea Protection Under the UTSA

Idea submitters have gradually recognized the potential of the Uniform Trade Secrets Act. When a manufacturer breached an obligation of confidentiality arising from the disclosure of an idea for a device that triggered hazard lights on trailers, the inventor sued for misappropriation under Iowa's UTSA.<sup>34</sup> The Supreme Court of Iowa upheld the plaintiff's jury verdict,<sup>35</sup> specifically holding that the inventor's ability to sell or license the idea evidenced sufficient potential economic value to satisfy the statutory definition.<sup>36</sup> The Eleventh Circuit held that a marketing concept that a plaintiff disclosed to Coca-Cola constituted a trade secret under the Georgia UTSA,<sup>37</sup> although the claim for misappropriation failed when the plaintiff could not prove that Coca-Cola had used or disclosed the information.<sup>38</sup>

The Seventh Circuit's decision in *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*<sup>39</sup> has been influential in shaping the new UTSA-based idea protection regime. The plaintiffs had disclosed their idea for grooved wooden railroad tracks that produced a "clickety-clack" sound when used with toy trains to a toy manufacturer under a prom-

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33. "With the rejection under the Uniform Trade Secrets Act and under this Section of any requirement of use by the owner of a trade secret . . . there is no longer a formal distinction between trade secrets and the ideas that form the subject matter of the idea submission cases." RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. h. "[I]n fact the Uniform Trade Secrets Act . . . definition of a trade secret in some ways differs from the *Restatement* definition and is broad enough to encompass matter traditionally analyzed at the common law under 'submission-of-idea,' not trade secret principles." 2 MILGRIM & BENSON, *supra* note 12, § 9.05[4]. "Now instead of one set of rules for the protection of trade secrets, another for the protection of confidential information from business rivals, and yet a third applicable to idea submitters, all are handled under a single rubric: trade secrecy law." 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, 663 (1996). Writing prior to the dominance of the Uniform Act, Barrett concluded that the quasi-contract and breach of confidence theories of idea protection should be absorbed into trade secret law and noted the Uniform Act's portentous rejection of the "continuously used in one's business" requirement. Barrett, *supra* note 6, at 754–55.

34. *Olson v. Nieman's, Ltd.*, 579 N.W.2d 299, 303–04 (Iowa 1998).

35. *Id.* at 317.

36. *Id.* at 314.

37. *Penalty Kick Mgmt. Ltd. v. Coca-Cola Co.*, 318 F.3d 1284, 1291 (11th Cir. 2003); *cf. Sarkissian Mason, Inc. v. Enter. Holdings, Inc.*, 955 F. Supp. 2d 247, 256 (S.D.N.Y. 2013) (automobile marketing idea "not sufficiently secret to merit legal protection" under the Missouri UTSA); *Wal-Mart Stores, Inc. v. P.O. Mkt., Inc.*, 66 S.W.3d 620, 35 (Ark. 2002) (retail financing idea fails as trade secret under the Arkansas UTSA because concept "was readily ascertainable").

38. *Penalty Kick*, 318 F.3d at 1294, 1296.

39. 342 F.3d 714 (7th Cir. 2003).

ise of confidentiality.<sup>40</sup> The toy maker stole the idea, and a jury awarded the plaintiffs a royalty of eight percent of the defendant's sales under the Illinois UTSA.<sup>41</sup> The district court, however, entered judgment for the defendant as a matter of law, finding insufficient evidence of the existence of a trade secret.<sup>42</sup> The Seventh Circuit reinstated the jury verdict on appeal.<sup>43</sup> That court held that there was sufficient evidence that the concept of a noise-producing railroad track was not generally known and that the plaintiffs had taken reasonable precautions to protect its secrecy, noting that “[i]t is irrelevant under Illinois law that [plaintiff] did not actually use the concept in its business.”<sup>44</sup> It was also irrelevant that, once marketed, others could easily duplicate the toy: “Until disclosed by sale the trade secret should be entitled to protection.”<sup>45</sup>

The appellate court's extensive analysis in *Learning Curve* has been widely cited. A federal district court invoked the case in denying defendant Sears' motion for summary judgment in a suit brought under the Illinois UTSA by a plaintiff who had disclosed an idea for a combination spiral saw and router tool.<sup>46</sup> The court held that a reasonable jury could find that the idea was sufficiently valuable and unknown to be a trade secret.<sup>47</sup> The Sixth Circuit, finding *Learning Curve* consistent with the Ohio UTSA, reversed a summary judgment against a plaintiff who had developed and confidentially disclosed a new manufacturing process for automobile stabilizer bars to a parts producer.<sup>48</sup> A federal district court described *Learning Curve* as “persuasive and instructive” in determining that a product idea had “potential” economic value sufficient for protection under the New Hampshire UTSA.<sup>49</sup> Another federal court, applying the California UTSA, cited *Learning Curve* to support its conclusion that an idea for a doll could be a trade secret.<sup>50</sup> The California Court of Appeal went further, holding that an idea for digital document authentication was a trade secret despite the fact that it was not yet sufficiently developed for commercialization: “A concept can have enough value to justify trade secret protection even if further refinement and development is

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40. *Id.* at 717–18.

41. *Id.* at 716.

42. *Id.* at 721.

43. *Id.* at 731.

44. *Id.* at 726–27.

45. *Id.* at 729 (quoting 1 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 1.05[4] (2002)).

46. RRK Holding Co. v. Sears, Roebuck and Co., No. 04 C 3944, 2007 WL 495254, at \*3, \*5 (N.D. Ill. Feb. 14, 2007).

47. *Id.* at \*5.

48. Niemi v. NHK Spring Co., 543 F.3d 294, 302 (6th Cir. 2008).

49. Contour Design, Inc. v. Chance Mold Steel Co., No. 09-CV-451-JL, 2010 WL 174315, at \*6 (D.N.H. Jan. 14, 2010).

50. Mattel, Inc. v. MGA Entm't, Inc., 782 F. Supp. 2d 911, 962 (C.D. Cal. 2011) (“Concepts can have value independent from the product they eventually inspire.”).



required before a product based on the concept can be brought to market.”<sup>51</sup> Other cases have also applied the UTSA to new product ideas, ruling against the idea submitter only after finding that the idea was generally known in the industry or that the submitter had not made reasonable efforts to maintain secrecy as required under the UTSA.<sup>52</sup>

The acceptance of product ideas as trade secrets under the Uniform Trade Secrets Act has not been universal. The most pointed rejection is probably *Stromback v. New Line Cinema*,<sup>53</sup> in which the plaintiff sought relief under Michigan’s UTSA against a movie studio that had allegedly misappropriated his screenplay.<sup>54</sup> Ignoring the screenplay’s potential value as a saleable asset, the Sixth Circuit held that the screenplay could not be a trade secret as a matter of law: “Stromback could not possibly argue that his poem and screenplay had ‘independent economic value’ because he kept them secret. Those works would have ‘independent economic value’ only if they were exploited publicly through broad dissemination.”<sup>55</sup> Interpreting *Stromback* as holding “that a product cannot constitute a trade secret when it provides its creator with economic value only when disseminated — or, as here, sold — to third parties,” a subsequent federal decision denied protection under the Pennsylvania UTSA to a software product disclosed in confidence to a prospective purchaser.<sup>56</sup> The Supreme Court of South Dakota, determining that the state’s UTSA did not encompass new product ideas, relied on prior common-law trade secret cases in denying protection to a baseball pitch speed indicator.<sup>57</sup> Nevertheless, there is an unmistakable trend toward recognizing new product ideas as protectable trade secrets under the UTSA.

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51. *Altavion, Inc. v. Konica Minolta Sys. Labs. Inc.*, 171 Cal. Rptr. 3d 714, 745 (Ct. App. 2014), *cert. denied*, 2014 Cal. LEXIS 6011 (Aug. 20, 2014).

52. *E.g.*, *Hill Holliday Connors Cosmopolos Inc. v. Greenfield*, 433 F. App’x. 207, 214 (4th Cir. 2011) (plaintiff failed to take reasonable efforts to maintain secrecy of marketing scheme idea under South Carolina UTSA); *McKay Consulting, Inc. v. Rockingham Mem’l Hosp.*, 665 F. Supp. 2d 626, 635 (W.D. Va. 2009) (idea to increase hospital reimbursement was generally known and readily ascertainable and therefore unprotected by Virginia UTSA); *Hawkins v. Flambeau, Inc.*, No. 4:05-CV-163-SEB-WGH, 2007 WL 2710947, at \*5 (S.D. Ind. June 5, 2007) (idea for foam turkey decoy held to be generally known and thus unprotected under Indiana UTSA); *Rogers v. Desa Int’l, Inc.*, 183 F. Supp. 2d 955, 958 (E.D. Mich. 2002) (idea for tree-trimming device unprotected under Kentucky UTSA because plaintiff made no effort to maintain secrecy); *Noah v. Enesco Corp.*, 911 F. Supp. 299, 305 (N.D. Ill. 1995) (plaintiff’s claim under Illinois UTSA failed because plaintiff had not made sufficient efforts to maintain secrecy of marketing concept for gift figurines).

53. 384 F.3d 283 (6th Cir. 2004).

54. *Id.* at 302.

55. *Id.* at 305.

56. *Mainardi v. Prudential Ins. Co.*, Civil Action No. 08-3605, 2009 WL 229757, at \*9 (E.D. Pa. Jan. 30, 2009).

57. *Daktronics, Inc. v. McAfee*, 599 N.W.2d 358, 361 (S.D. 1999).

### III. DISPLACEMENT UNDER THE UTSA

Bringing new product ideas within the scope of the UTSA does not simply add another count to the standard complaints filed by innovators against alleged appropriators. The drafters of the UTSA had broader ambitions.<sup>58</sup> The clarity and uniformity they sought required an end to the various alternative theories invoked by innovators to protect their ideas.<sup>59</sup> Section 7 of the UTSA effectively dismantles much of the pre-existing law of ideas:

Except as provided in subsection (b) [preserving contractual remedies, civil remedies “not based upon misappropriation of a trade secret,” and criminal remedies],<sup>60</sup> this [Act] displaces conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret.<sup>61</sup>

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58. See UNIF. TRADE SECRETS ACT, Prefatory Note (1985).

59. “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.” *Id.*

60. *Id.* § 7(b).

61. *Id.* § 7(a). Three states — Iowa, Nebraska, and New Mexico — did not include section 7 in their enacted versions of the UTSA. See IOWA CODE ANN. §§ 550.1–.8 (2013); NEB. REV. STAT. §§ 87-501–507 (2008); N.M. STAT. ANN. §§ 57-3A-1 to 57-3A-7 (West 2014); see also *Sioux Biochem., Inc. v. Cargill, Inc.*, 410 F. Supp. 2d 785, 804 (N.D. Iowa 2005) (“[T]he court also cannot find that the Iowa Uniform Trade Secrets Act ‘implicitly’ preempts a common-law misappropriation claim, where the legislature has declined to include a preemption provision, because it follows from the legislature’s omission of a preemption provision that the legislature intended to allow common-law claims to survive.”). California enacted a non-uniform version of the displacement provision:

(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. (b) This title 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.

CAL. CIVIL CODE § 3426.7 (West 2014). The section has been interpreted in a manner largely consistent with the uniform version. See, e.g., *Silvaco Data Sys. v. Intel Corp.*, 109 Cal. Rptr. 3d 27, 49 (Ct. App. 2010) (“Here, section 3426.7’s peculiar construction — the provision of two savings clauses with no affirmative supersession clause — is best understood as *assuming* that CUTSA would occupy the field of trade secrets liability, and as seeking to limit the Act’s suppressive effect only as it might impair the specified statutes and remedies.”); *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 90 Cal. Rptr. 3d 247, 258 (Ct. App. 2009) (stating that the California UTSA “preempts common law claims” based on misappropriation of trade secrets).

*A. Alternative Causes of Action To Protect Ideas*

Idea creators have invoked a dazzling array of legal theories in their attempts to stop unauthorized use, with varying degrees of success. Property-based claims such as conversion and misappropriation have been common, encouraged more by dicta than any real record of success.<sup>62</sup> Quasi-contractual claims seeking a remedy for “unjust enrichment” have also been popular,<sup>63</sup> along with claims for unfair competition.<sup>64</sup> Claims for breach of confidence are particularly prevalent, although at times plaintiffs fail to distinguish between claims for breach of a true confidential relationship and claims for breach of a duty arising solely from a confidential disclosure.<sup>65</sup> The former require proof of a preexisting relationship of trust and confidence,<sup>66</sup>

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62. “[V]irtually all of the decisions that have suggested the possibility of property protection for ideas have done so in dicta and have denied protection under the facts in suit . . . .” GOLDSTEIN, *supra* note 7, § 17.8.4. A series of cases recite that novel ideas can be protected as property against misappropriation under New York law. *See, e.g.*, *Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 380 (2d Cir. 2000) (“By contrast [with contract-based claims], misappropriation claims require that the idea at issue be original and novel in absolute terms. This is so because unoriginal, known ideas have no value as property and the law does not protect against the use of that which is free and available to all.”); *Murray v. Nat’l Broad. Co.*, 844 F.2d 988, 993–94 (2d Cir. 1988) (“New York law requires that an idea be original or novel in order for it to be protected as property.”); *Sellers v. Am. Broad. Co.*, 668 F.2d 1207, 1210 (11th Cir. 1982) (“New York courts will permit recovery for the misappropriation of an idea or theory if (1) the idea is novel; (2) the idea is in a concrete form; and (3) the defendant makes use of the idea.”); *see also, e.g.*, *Baer v. Chase*, 392 F.3d 609, 628 (3d Cir. 2004) (novelty is a prerequisite to a claim for misappropriation of an idea under New Jersey law); *John W. Shaw Adver., Inc. v. Ford Motor Co.*, 112 F. Supp. 121, 123 (N.D. Ill. 1953) (idea must be novel and concrete for protection as property). In California, a property theory of idea protection has been unavailable since the California Supreme Court’s decision in *Desny v. Wilder*, 299 P.2d 257, 265 (Cal. 1956) (“An idea is usually not regarded as property . . .”).

63. Quasi-contract claims against idea appropriators have been occasionally successful. *See, e.g.*, *Matarese v. Moore-McCormack Lines*, 158 F.2d 631, 634–35, 637 (2d Cir. 1947) (affirming jury verdict, under New York law, for unjust enrichment relating to cargo loading and unloading idea); *Werlin v. Reader’s Digest Ass’n*, 528 F. Supp. 451, 465 (S.D.N.Y. 1981) (concluding that defendant unfairly benefited from plaintiff’s idea for an article and therefore owed plaintiff under quasi-contract theory); *cf., e.g.*, *Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130, 1143–44 (Alaska 1996) (finding that ideas can support quasi-contract claims but rejecting plaintiff’s claim because idea for tourist center was not novel).

64. *See, e.g.*, *Smith v. Weinstein*, 578 F. Supp. 1297, 1306 (S.D.N.Y. 1984) (unfair competition claim based upon movie script idea preempted by federal copyright law); *Giangrasso v. CBS, Inc.*, 534 F. Supp. 472, 478 (E.D.N.Y. 1982) (plaintiff’s radio script idea cannot support unfair competition claim because it is preempted by federal copyright law).

65. *See, e.g.*, *Davies v. Krasna*, 535 P.2d 1161, 1166 (Cal. 1975) (“Plaintiff’s argument confuses a cause of action for breach of confidence with a cause of action for violation of a duty arising from a confidential relationship.”)

66. *Id.*; *see also* RESTATEMENT (SECOND) OF TRUSTS § 2 cmt. b (1959) (“A confidential relation exists between two persons when one has gained the confidence of the other and purports to act or advise with the other’s interest in mind.”); *Associated Indem. Co. v. CAT Contracting, Inc.*, 964 S.W.2d 276, 288 (Tex. 1998) (“To impose an informal fiduciary duty in a business transaction, the special relationship of trust and confidence must exist prior to, and apart from, the agreement made the basis of the suit.”).

while the latter typically require proof of an understanding between the parties that they will hold the disclosed information in confidence,<sup>67</sup> and hence lie close to contract. Contract itself, whether express or implied-in-fact, has been the primary vehicle for idea protection and the only one that is immune from displacement by the UTSA.<sup>68</sup>

Courts have approached the displacement provision of the UTSA from several perspectives.<sup>69</sup> Many cases, particularly in California, displace alternative claims that arise from the “same nucleus of facts.”<sup>70</sup> This standard can result in an overly broad scope of displacement. The same wrongful conduct can invade very different interests. If a defendant aims a gun at the plaintiff and demands that she open the safe and hand over the secret formula, the complying trade secret owner will have a claim under the Uniform Trade Secrets Act. The defendant has used “improper means” to acquire the trade secret

67. California law provides an example of this standard of proof:

“To prevail on their claim for breach of confidence, [plaintiffs] must show that: (1) they conveyed confidential and novel information; (2) [defendant] had knowledge that the information was being disclosed in confidence; (3) there was an understanding between [defendant] and [plaintiffs] that the confidence be maintained; and (4) there was disclosure or use in violation of the understanding.”

*Aliotti v. R. Dakin & Co.*, 831 F.2d 898, 903 (9th Cir. 1987) (applying California law); *see also, e.g., Tele-Count Eng'rs, Inc. v. Pac. Tel. & Tel. Co.*, 214 Cal. Rptr. 276, 279, 282 (Ct. App. 1985) (noting that the breach of confidence tort requires that the information be “confidential and novel” and that there exist “an understanding between the parties that the confidential nature of the information will be maintained”); *Faris v. Enberg*, 158 Cal. Rptr. 704, 712 (Ct. App. 1979) (“An actionable breach of confidence will arise when an idea . . . is offered to another in confidence and is voluntarily received by the offeree . . . with the understanding that it is not to be disclosed to others.”). True confidential relationships aside, New York law effectively merges breach of confidence and contract claims. “To establish a breach of confidence claim, [plaintiff] must show that the parties either stood in a relationship imposing a duty of trust or confidentiality, or that they made a promise to keep [plaintiff’s] ideas and materials confidential.” *Fischer v. Viacom Int’l, Inc.*, 115 F. Supp. 2d 535, 543 (D. Md. 2000) (applying New York law); *cf. 5 NIMMER & NIMMER, supra* note 1, § 19D.02[A][2][a] (“A count for breach of confidence either arises out of circumstances that give rise to breach of contract, in which case it is actionable in that guise, or else it does not, in which case it fails to state a claim on which relief can be granted.” (citations omitted)); *Sobel, supra* note 6, at 25 (“The evidence necessary to prove a breach of confidence cause of action is identical to that necessary to prove a breach of contract cause of action.”).

68. “[I]n virtually all cases, idea protection will be available as a matter of express or implied contract law . . .” *Sobel, supra* note 6, at 21; *see also infra* Part VI(A).

69. *See generally* John T. Cross, *UTSA Displacement of Other State Law Claims*, 33 *HAMLIN L. REV.* 445 (2010) (analyzing the various theories that courts have employed in defining the scope of displacement under section 7).

70. *E.g., Mattel, Inc. v. MGA Entm’t, Inc.*, 782 F. Supp. 2d 911, 985 (C.D. Cal. 2011) (quoting *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 90 Cal. Rptr. 3d 247, 264 (Ct. App. 2009)); *Digital Envoy, Inc. v. Google, Inc.*, 370 F. Supp. 2d 1025, 1035 (N.D. Cal. 2005); *cf., e.g., Int’l Paper Co. v. Goldschmidt*, 872 F. Supp. 2d 624, 635 (S.D. Ohio 2012) (displacement “[w]here the supporting facts are the same”); *Acrymed, Inc. v. Convatec*, 317 F. Supp. 2d 1204, 1217 (D. Or. 2004) (“same operative facts”); *R.K. Enter., LLC v. Pro-Comp Mgmt., Inc.*, 158 S.W.3d 685, 690 (Ark. 2004) (“stem from the same acts constituting a violation of the [Arkansas] Trade Secret Act”).

under section (2)(i) of the UTSA. However, courts should not bar a separate claim for assault raised to recover for emotional or physical harm since that claim seeks a remedy for the invasion of interests unrelated to the ownership of trade secrets. Similarly, if a defendant steals a laptop computer containing the owner's trade secrets, a conversion claim seeking recovery for the value of the laptop — as opposed to the value of secret information — should not be displaced by the UTSA.<sup>71</sup>

Another common approach to the displacement provision is the so-called “elements test,” which determines displacement through a comparison of the elements of the challenged claim with those of a claim under the UTSA.<sup>72</sup> Some cases ask whether the claim requires proof of extra elements beyond those required to establish misappropriation under the UTSA, and they find a claim displaced if it requires only proof of elements that are also necessary to prevail under the UTSA.<sup>73</sup> This approach bears a clear resemblance to the test commonly used to determine federal preemption of state law claims under section 301 of the Copyright Act. That section preempts the recognition of state rights that are “equivalent” to copyright for works within the subject matter of the Copyright Act.<sup>74</sup> The legislative history of the Copyright Act indicates an intent to preserve state rights “as long as the causes of action contain elements . . . that are different in kind from copyright infringement.”<sup>75</sup> This explains the frequent references in copyright preemption cases to “extra elements” in the state causes of action.<sup>76</sup> However, transplanting that analysis to the UTSA's dis-

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71. *Tronitec, Inc. v. Shealy*, 547 S.E.2d 749, 755 (Ga. Ct. App. 2001), *overruled on other grounds by Williams Gen. Co. v. Stone*, 614 S.E.2d 758 (Ga. 2005).

72. Cross, *supra* note 69, at 456 (referring to the elements approach as “[t]he leading test”).

73. *See, e.g., Am. Honda Motor Co. v. Motorcycle Info. Network, Inc.*, 390 F. Supp. 2d 1170, 1181 (M.D. Fla. 2005) (“That is to say that if the allegations of trade secret misappropriation *alone* comprise the underlying wrong, only the FUTSA claim will survive the motion to dismiss.”); *Powell Prods., Inc. v. Marks*, 948 F. Supp. 1469, 1474 (D. Colo. 1996) (“In addition, a plaintiff may also bring claims that, although involving a trade secret misappropriation issue, include additional elements not necessary for a misappropriation claim under the UTSA.”); *Micro Display Sys., Inc. v. Axtel, Inc.*, 699 F. Supp. 202, 205 (D. Minn. 1988) (“[T]he court will allow plaintiff to go forward and maintain its separate causes of action to the extent that the causes of action have ‘more’ to their factual allegations than the mere misuse or misappropriation of trade secrets.”); *Mortg. Specialists, Inc. v. Davey*, 904 A.2d 652, 665 (N.H. 2006) (“We also agree with courts that have concluded that a claim is not preempted where the elements of the claim require some allegation or factual showing in addition to that which forms the basis for a claim of misappropriation of a trade secret.”).

74. 17 U.S.C. § 301(a) (2012).

75. H.R. REP. NO. 94-1476, at 132 (1976).

76. *See, e.g., Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424, 431 (2d Cir. 2012) (claim must provide “extra elements beyond use or copying” to avoid copyright preemption); *Ritchie v. Williams*, 395 F.3d 283, 287 n.3 (6th Cir. 2005) (without “extra element,” claim is preempted (quoting *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 454 (6th Cir. 2001))); *Bowers v. Baystate Tech., Inc.*, 320 F.3d 1317, 1324 (Fed. Cir. 2003); *Berge v. Bd. of Trs. of Univ. of Ala.*, 104 F.3d 1453, 1464 n.4 (4th Cir. 1997).

placement provision seems inappropriate. The Copyright Act does not purport to preempt the recognition of *all* state rights in works within the subject matter of the federal statute — only state rights that are “equivalent” to copyright are barred. In that context, a search for “extra elements” can be useful in evaluating the equivalency of the federal and state rights.<sup>77</sup> The displacement provision of the UTSA, however, is more far-reaching than preemption under section 301. Contract remedies aside, section 7 of the UTSA displaces *all* civil remedies for the misappropriation of trade secrets, not merely ones that are “equivalent” to rights under the UTSA.<sup>78</sup> An “extra elements” approach can preserve too many claims — including ones that seek relief solely for harm resulting from the misuse of trade secrets.<sup>79</sup>

Other cases interpreting section 7 adopt a more qualitative approach, assessing whether the elements of the challenged claim make it different in some fundamental way from a claim for misappropriation of a trade secret.<sup>80</sup> To avoid displacement, the claim must rest on allegations that are separate or distinguishable from trade secret misappropriation.<sup>81</sup> “[A] claim will be preempted when it necessarily rises or falls based on whether the defendant is found to have ‘misappropriated’ a ‘trade secret’ as those two terms are defined in the UTSA.”<sup>82</sup> This qualitative comparison seems closer to the intent of

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77. Even under section 301, a qualitative assessment of the differing elements is appropriate. *See, e.g., Forest Park Pictures*, 683 F.3d at 431 (noting “several qualitative differences” between contract and copyright violation claims); *Bowers*, 320 F.3d at 1324 (recognizing that, under First Circuit law, state law claims may be preempted “whose extra elements are illusory”); *Dun & Bradstreet Software Servs., Inc. v. Grace Consulting, Inc.*, 307 F.3d 197, 218 (3d Cir. 2002) (“Not every extra element is sufficient to establish a qualitative variance between rights protected by federal copyright law and that by state law.”); *Wrench LLC*, 256 F.3d at 456 (noting that, for state claim to avoid preemption, extra element must “change[] the nature of the action so that it is qualitatively different from a copyright infringement claim”).

78. *See* UNIF. TRADE SECRETS ACT § 7 (1985).

79. *See* *Unisource Worldwide, Inc. v. Swope*, 964 F. Supp. 2d 1050, 1058 (D. Ariz. 2013) (“The narrower, ‘any act beyond misappropriation’ rule would allow many claims to survive, contravening the language of the statute, simply because they have at least one act in addition to misappropriation of a trade secret, even though the claims are still ‘based on’ that misappropriation.”); *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 235 P.3d 310, 316 (Haw. 2010) (“The ‘elements’ test . . . would allow a party to raise multiple different claims based on the same trade secret misappropriation injury.”); *id.* at 316 n.8 (“Some courts have employed the language of the ‘elements’ test, but have then gone on to analyze the underlying factual basis for each claim to determine whether it is based on misappropriation of a trade secret.”).

80. *See, e.g., Combined Ins. Co. v. Wiest*, 578 F. Supp. 2d 822, 834 (W.D. Va. 2008); *Allegiance Healthcare Corp. v. Coleman*, 232 F. Supp. 2d 1329, 1336 (S.D. Fla. 2002).

81. *See, e.g., Combined Ins. Co.*, 578 F. Supp. 2d at 834 (inquiring whether the claims “are supported by allegations separate and apart from the defendant’s alleged misappropriation of trade secrets”); *Allegiance Healthcare Corp.*, 232 F. Supp. 2d at 1336 (“[T]he Court must consider whether Plaintiff’s allegations of unfair competition are distinguishable from the allegations of trade secret misappropriation.”).

82. *Hauck Mfg. Co. v. Astec Indus., Inc.*, 375 F. Supp. 2d 649, 658 (E.D. Tenn. 2004). *Hauck* labeled this approach the “‘same proof’ standard,” specifically rejecting both the same elements and same facts tests: “For example, the standard for preemption cannot be

section 7, which preserves claims “that are not based upon misappropriation of a trade secret.”<sup>83</sup> Reliance on that statutory text is likely to provide the surest footing, and many cases specifically adopt a “based upon misappropriation of a trade secret” standard for displacement.<sup>84</sup>

The UTSA’s displacement provision, at least in its updated 1985 version, specifically refers to other laws “providing civil remedies for misappropriation of a trade secret.”<sup>85</sup> An emphasis on remedies can refine the displacement analysis by focusing on whether the alternative claim seeks a remedy for harm specifically resulting from the misuse of a trade secret. Courts should hold that any such claim is displaced. However, claims seeking a remedy solely for harm resulting from the invasion of other protected interests, even if arising from the same activities of the defendant, should survive. The UTSA should partially displace claims seeking remedies both for the misuse of commercial information and for harm to other interests, permitting relief only for the latter injuries.<sup>86</sup>

How do the alternative claims favored by idea submitters fare under a displacement analysis that asks whether the claim seeks a remedy for the misuse of a trade secret?<sup>87</sup> Some claims seem self-evidently displaced. A claim for “conversion” of information seeks a remedy for the same injury as trade secret misappropriation under the UTSA, and the UTSA clearly displaces it.<sup>88</sup> The same is true for a claim based on

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a . . . same elements test . . . . However, neither can the standard be a strict same facts test.” *Id.* at 657–58; *see also, e.g.*, *Cardinal Health 414, Inc. v. Adams*, 582 F. Supp. 2d 967, 984 (M.D. Tenn. 2008) (applying same proof standard set forth in *Hauck Mfg.* to civil conspiracy claim).

83. UNIF. TRADE SECRETS ACT § 7(b)(2).

84. *E.g.*, *BlueEarth Biofuels*, 235 P.3d at 313; *Wysong Corp. v. M.I. Indus.*, 412 F. Supp. 2d 612, 623 (E.D. Mich. 2005); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 971 (N.D. Ill. 2000); *Coulter Corp. v. Leinert*, 869 F. Supp. 732, 734 (E.D. Mo. 1994).

85. UNIF. TRADE SECRETS ACT § 7(a).

86. *See, e.g.*, *Wysong Corp.*, 412 F. Supp. 2d at 625 (“However, the [Michigan UTSA] displaces the portion of the unjust enrichment and conspiracy claims that allege enrichment from misappropriation.”); *Powell Prods., Inc. v. Marks*, 948 F. Supp. 1469, 1479 (D. Colo. 1996) (“[P]laintiff’s claim for conversion is preempted by the UTSA, except to the extent that plaintiff claims conversion of physical items such as the drawings and specifications for plaintiff’s machine.”); *BlueEarth Biofuels*, 235 P.3d at 324 (“However, a claim may survive to the extent it alleges wrongful conduct independent of the misappropriation of trade secrets.”).

87. It may well be true, as one court noted, that the precise articulation of the displacement test is typically not dispositive of the result. *Hauck Mfg.*, 375 F. Supp. 2d at 658 (“[I]n several instances courts have stated the law in divergent manners but proceeded to apply those seemingly contrary standards in similar, if not identical, fashion.”). Courts have emphasized that the displacement of particular causes of action turn on the facts underlying the claim rather than the label attached to the cause of action. *See Wilcox Indus. Corp. v. Hansen*, 870 F. Supp. 2d 296, 304 (D.N.H. 2012) (“[T]he facts alleged in support of a claim, rather than the label attached to it, determine whether that claim is preempted.”); *Mortg. Specialists, Inc. v. Davey*, 904 A.2d 652, 665 (N.H. 2006) (noting that courts generally “examine[] the facts underlying the claim” to determine displacement).

88. *E.g.*, *Mattel, Inc. v. MGA Entm’t, Inc.*, 782 F. Supp. 2d 911, 996 (C.D. Cal. 2011); *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp. 2d 943, 950–51

common-law “misappropriation” of confidential information.<sup>89</sup> Since disclosure or use of a trade secret by a person who is under a duty of secrecy constitutes misappropriation under the UTSA,<sup>90</sup> claims for “breach of confidence” should also be displaced, at least when the obligation of confidentiality arises solely from the defendant accepting a confidential disclosure and not from a pre-existing fiduciary relationship.<sup>91</sup> Claims based on quasi-contract (implied-in-law contract) seeking relief for “unjust enrichment” arising from benefits that accrued to a defendant through the misuse of a trade secret aim precisely at harm remediable under the UTSA, which specifically authorizes recovery of “the unjust enrichment caused by misappropriation.”<sup>92</sup> The UTSA also displaces these claims.<sup>93</sup>

Some claims are less susceptible to generalization; the viability of these claims depends more clearly on their precise allegations. Plaintiffs sometimes claim that appropriators of trade secrets have committed fraud. When a defendant has employed fraud to obtain access to trade secrets, the court should find the claim displaced. Acquiring a trade secret by “improper means” is actionable under the UTSA, and

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(W.D. Mich. 2003); *Thomas & Betts Corp.*, 108 F. Supp. 2d at 973; *Mortg. Specialists*, 904 A.2d at 666. However, if the conversion claim extends to physical property, it will to that extent avoid displacement. *See, e.g., Powell Prods.*, 948 F. Supp. at 1479 (finding claim not displaced to the extent that it is based upon “physical items”); *Angelica Textile Servs., Inc. v. Park*, 163 Cal. Rptr. 3d 192, 203 (Ct. App. 2013) (claim for conversion of “tangible property” not displaced).

89. *E.g., Bliss Clearing*, 270 F. Supp. 2d at 948–49; *AutoMed Tech., Inc. v. Eller*, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001); *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 790 (W.D. Ky. 2001).

90. UNIF. TRADE SECRETS ACT § 1(2)(ii)(B)(II) (1985).

91. *See Sobel*, *supra* note 6, at 24–25 (“In short, there is a difference between a cause of action for breach of confidence and one for violation of a duty arising from a confidential relationship.”); *see also, e.g., Penalty Kick Mgmt. Ltd. v. Coca-Cola Co.*, 318 F.3d 1284, 1298 (11th Cir. 2003) (holding that claim for breach of confidence arising from confidential idea submission was displaced by Georgia UTSA); *Appalachian Railcar Servs., Inc. v. Boatright Enter., Inc.*, 602 F. Supp. 2d 829, 861 (W.D. Mich. 2008) (claim for breach of common-law duty of confidentiality displaced); *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 90 Cal. Rptr. 3d 247, 262 (Ct. App. 2009) (finding displacement of breach of confidence claim under California UTSA). *But see Boeing Co. v. Sierracin Corp.*, 738 P.2d 665, 673 (Wash. 1987) (claim for breach of confidential relationship not displaced because court viewed claim as arising from contract and contract claims are not superseded by Act); *Editions Play Bac, S.A. v. W. Pub. Co.*, No. 92 Civ. 3652 (JSM), 1993 WL 541219, at \*9 (S.D.N.Y. Dec. 28, 1993) (breach of a duty of confidentiality not displaced, citing *Boeing*).

92. UNIF. TRADE SECRETS ACT § 3(a). The displacement provision of the Act specifically extends to “restitutionary” remedies. *Id.* § 7(a).

93. *See, e.g., Penalty Kick Mgmt.*, 318 F.3d at 1297–98 (finding unjust enrichment claim to be “based” upon a trade secret” and therefore displaced); *Wilcox Indus. Corp. v. Hansen*, 870 F. Supp. 2d 296, 303 (D.N.H. 2012) (unjust enrichment claim displaced because enrichment arose from the unauthorized use of information); *Thermodyn Corp. v. 3M Co.*, 593 F. Supp. 2d 972, 990 (N.D. Ohio 2008) (displacement exception for contractual claims does not extend to quasi-contract); *Wysong Corp. v. M.I. Indus.*, 412 F. Supp. 2d 612, 624 (E.D. Mich. 2005) (holding that unjust enrichment claim is based on “theft of secret information” and therefore is displaced); *Auto Channel*, 144 F. Supp. 2d at 790 (noting that quasi-contract claim is “restitutionary in nature” and therefore governed by Kentucky Trade Secrets Act).



the UTSA's definition of that term specifically includes "misrepresentation."<sup>94</sup> When the alleged fraud causes harm unrelated to the misuse of a trade secret, however, courts should allow the claim to proceed.<sup>95</sup> "Unfair competition" claims also arise in connection with trade secret misappropriation, but that label can subsume a variety of conduct. When the alleged unfair competition involves the improper acquisition or use of trade secrets, section 7 of the UTSA displaces the claim.<sup>96</sup> However, if the alleged unfair competition relates to different misconduct, it should not be displaced.<sup>97</sup> Courts have similarly analyzed civil conspiracy claims.<sup>98</sup>

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94. UNIF. TRADE SECRETS ACT §§ 1(1)–(2); *see also, e.g.*, *On-Line Tech., Inc. v. Bodenseewerk Perkin-Elmer*, 386 F.3d 1133, 1135 (Fed. Cir. 2004) (alleged injury from fraud was the misappropriation of trade secrets); *C&F Packing Co. v. IBP, Inc.*, 224 F.3d 1296, 1307 (Fed. Cir. 2000) (fraud claim displaced as indistinguishable from misappropriation under the Kansas UTSA); *Ethypharm S.A. Fr. v. Bentley Pharm., Inc.*, 388 F. Supp. 2d 426, 433 (D. Del. 2005) (fraud claim "clearly grounded in the same facts which support any misappropriation" held displaced); *Acrymed, Inc. v. Convatec*, 317 F. Supp. 2d 1204, 1218 (D. Or. 2004) (finding fraud claim displaced where "[t]he misappropriation of trade secrets is the essence of the fraud claim"); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 972 (N.D. Ill. 2000) (specifically noting that the Act covers acquisition of a trade secret through misrepresentation). *But see* *Craig Neon, Inc. v. McKenzie*, 25 F. App'x 750, 752 (10th Cir. 2001) (fraud claims not displaced although it related to promises not to use or reveal information).

95. *See, e.g.*, *Am. Honda Motor Co. v. Motorcycle Info. Network, Inc.*, 390 F. Supp. 2d 1170, 1181 (M.D. Fla. 2005) (fraud claim not displaced where some alleged misrepresentations caused harm sufficiently distinct from misappropriation to avoid dismissal); *Lucini Italia Co. v. Grappolini*, 231 F. Supp. 2d 764, 771 (N.D. Ill. 2002) (fraud claim alleged harm distinct from misappropriation and therefore avoided displacement).

96. *E.g.*, *On-Line Tech.*, 386 F.3d at 1146 (statutory unfair trade practices claim displaced); *Auto Channel*, 144 F. Supp. 2d at 790 (finding that unfair competition claim could only "arise from the misappropriation of trade secrets" and therefore is displaced); *Thomas & Betts Corp.*, 108 F. Supp. 2d at 973–74 (finding unfair competition claim to be mere "restatement of" misappropriation claim); *K.C. Multimedia*, 90 Cal. Rptr. 3d at 264 (displacing unfair competition claim that "rests squarely on" alleged misappropriation).

97. *See, e.g.*, *Wilcox Indus.*, 870 F. Supp. 2d at 305 (commercial disparagement allegation not displaced); *Wysong Corp.*, 412 F. Supp. 2d at 623 (palming off allegation not displaced); *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp. 2d 943, 950 (W.D. Mich. 2003) (claim not displaced with respect to allegation of trademark infringement).

98. When the conspiracy relates to the acquisition or use of trade secrets, the claim is displaced. *See, e.g.*, *MicroStrategy Inc. v. Bus. Objects, S.A.*, 429 F.3d 1344, 1362–63 (Fed. Cir. 2005) (finding that Virginia UTSA displaces conspiracy claim "predicated on a misappropriation of trade secrets"); *Cardinal Health 414, Inc. v. Adams*, 582 F. Supp. 2d 967, 985 (M.D. Tenn. 2008) (finding conspiracy claim displaced where "overarching allegation" involved conspiracy "to steal confidential and propriety [sic] information"); *Thomas & Betts Corp.*, 108 F. Supp. 2d at 971 (barring conspiracy allegations that are "redundant of" Illinois UTSA claims); *CDC Restoration & Constr., LC v. Tradesmen Contractors, LLC*, 274 P.3d 317, 328 (Utah Ct. App. 2012) (conspiracy claims "based on the same factual allegations" as misappropriation claims displaced). Claims alleging a conspiracy to engage in misconduct other than misappropriation are not displaced. *See, e.g.*, *Wysong Corp.*, 412 F. Supp. 2d at 623 (conspiracy to deceive consumers not displaced); *AutoMed Tech., Inc. v. Eller*, 160 F. Supp. 2d 915, 922 (N.D. Ill. 2001) (conspiracy to interfere with contractual relations not displaced despite the fact that the interference apparently involved use of confidential information).

Although typically less useful to idea submitters, claims for tortious interference with prospective business relations are also frequently appended to claims for trade secret misappropriation.<sup>99</sup> The essence of the claim is that the defendant's misconduct has "intentionally and improperly interfere[d]" with sales or other profitable business relationships between the plaintiff and potential customers.<sup>100</sup> In the case of business competitors, interference is improper only when accomplished through "wrongful means," since competitors are otherwise privileged to divert a rival's prospective business to themselves.<sup>101</sup> When the "wrongful means" alleged by the plaintiff involve only the misuse of trade secrets, the interference claim seeks a remedy for the same wrongful conduct covered by the UTSA and should be displaced.<sup>102</sup> Only claims for interference with prospective business relationships that allege "wrongful means" beyond the misuse of confidential information should survive under section 7.<sup>103</sup> Different rules may apply, however, when the relationship that the plaintiff seeks to protect takes the form of an existing contract. Improperly interfering with the performance of a contract is a tort,<sup>104</sup> and unlike prospective business relations, the law protects contract rights against interference by a competitor even without the use of "wrongful means."<sup>105</sup> A plaintiff's interest in the protection of its contract rights is thus independent of any harm that may result from the presence of other misconduct. Section 7 of the UTSA should not displace interference with contract claims,<sup>106</sup> although courts would presuma-

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99. *See, e.g., Patriot Homes, Inc. v. Forest River Hous., Inc.*, 489 F. Supp. 2d 865, 869 (N.D. Ill. 2007); *Thomas & Betts Corp.*, 108 F. Supp. 2d at 974.

100. RESTATEMENT (SECOND) TORTS § 766B (1979).

101. *Id.* § 768(1)(b).

102. *See, e.g., Patriot Homes*, 489 F. Supp. 2d at 873 (some tortious interference claims displaced as "depend[ing] solely" on misappropriation); *Thomas & Betts Corp.*, 108 F. Supp. 2d at 976 (tortious interference claims displaced under Illinois UTSA); *CDC Restoration*, 274 P.3d at 333 (finding that improper interference claim relies on misuse of confidential information and is therefore displaced by Utah UTSA). *But see Smithfield Ham and Prods. Co. v. Portion Pac, Inc.*, 905 F. Supp. 346, 349 (E.D. Va. 1995) (holding that interference claim is not displaced despite its reliance on allegations of trade secret misuse).

103. *See, e.g., Wilcox Indus. Corp. v. Hansen*, 870 F. Supp. 2d 296, 307 (D.N.H. 2012) (misrepresentations made to plaintiff's potential customers); *Bliss Clearing Niagara, Inc. v. Midwest Brake Bond Co.*, 270 F. Supp. 2d 943, 949–50 (W.D. Mich. 2003) (deception of customers); *Mortg. Specialists, Inc. v. Davey*, 904 A.2d 652, 664 (N.H. 2006) (disparagement and other conduct beyond the misuse of trade secrets).

104. RESTATEMENT (SECOND) OF TORTS § 766.

105. *Id.* § 768(2). "The rule that competition is not an improper interference with prospective contractual relations as stated in Subsection (1) does not apply to inducement of breach of contract." *Id.* § 768 cmt. h.

106. *See, e.g., Combined Ins. Co. v. Wiest*, 578 F. Supp. 2d 822, 834 (W.D. Va. 2008) (claim that former employee interfered with contractual relations between the plaintiff and other employees was not displaced by misappropriation of trade secrets claim); *Labor Ready, Inc. v. Williams Staffing, LLC*, 149 F. Supp. 2d 398, 415 (N.D. Ill. 2001) (claim that defendant induced former employees to breach contractual obligations against soliciting plaintiff's customers not displaced); *Smithfield Ham*, 905 F. Supp. at 349 (holding that, because "Smithfield could lose its misappropriation claim yet still recover for tortious inter-

bly bar a plaintiff from recovering for the same elements of loss under both a contract interference and trade secret theory.<sup>107</sup> However, the Uniform Trade Secrets Act does explicitly protect one form of contract from interference: “inducement of a breach of a duty to maintain secrecy” is actionable as an “improper means” of acquiring a trade secret.<sup>108</sup> Thus, courts should find a claim for tortious interference with a contractual duty of confidentiality displaced, since it seeks relief for conduct that is specifically actionable as misappropriation under the UTSA.<sup>109</sup>

Claims for breach of fiduciary duty do not appear to be displaced by the UTSA in theory, but they rarely survive. Since the legal obligation of a fiduciary to act in the best interests of the principal is not dependent on the existence of proprietary rights in information,<sup>110</sup> a claim for breach of fiduciary duty targets harm that seems independent of any injury to trade secrets. However, the cases generally permit such claims to survive under section 7 only when the breach of fiduciary duty does not involve the misuse of confidential information;<sup>111</sup>

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ference,” claim for interference with contracts between plaintiff and customers is not displaced even though the interference was allegedly accomplished by the misuse of trade secrets). *But see* *Frantz v. Johnson*, 999 P.2d 351, 357–58 (Nev. 2000) (holding that claim for interference with contractual relations between plaintiff and its customers was displaced since the interference was accomplished through the use of the plaintiff’s trade secrets).

107. *See Combined Ins.*, 578 F. Supp. 2d at 834 (noting that the defendant was seeking different damages in its interference and trade secret misappropriation claims).

108. UNIF. TRADE SECRETS ACT §§ 1(1)–(2)(i) (1985).

109. *See, e.g., Mattel, Inc. v. MGA Entm’t, Inc.*, 782 F. Supp. 2d 911, 994 (C.D. Cal. 2011) (intentional interference with contractual relations claim displaced to the extent that it is based on inducement to breach an obligation of confidentiality); *Greif, Inc. v. MacDonald*, No. 3:06-CV-312-H, 2007 WL 679040, at \*2 (W.D. Ky. Mar. 1, 2007) (finding displacement of claim that defendant engaged in tortious interference with employment contract in order to acquire trade secrets); *SL Montevideo Tech., Inc. v. Eaton Aerospace, LLC*, 292 F. Supp. 2d 1173, 1179 (D. Minn. 2003) (claim for tortious interference with nondisclosure agreement displaced); *Labor Ready*, 149 F. Supp. 2d at 409–10 (claim for tortious interference with employee nondisclosure agreement displaced); *Thomas & Betts Corp. v. Panduit Corp.*, 108 F. Supp. 2d 968, 976 (N.D. Ill. 2000) (claim for tortious interference with confidentiality agreement displaced); *K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc.*, 90 Cal. Rptr. 3d 247, 263 (Ct. App. 2009) (claim for interference with employee contract displaced). *But see IDX Sys. Corp. v. Epic Sys. Corp.*, 285 F.3d 581, 586 (7th Cir. 2002) (claim that defendant-induced breach of nondisclosure contract not displaced); *Cardiac Pacemakers, Inc. v. Aspen II Holding Co.*, 413 F. Supp. 2d 1016, 1024 (D. Minn. 2006) (claim for interference with confidentiality agreement not displaced, since claim does not require existence of trade secrets).

110. *See* RESTATEMENT (SECOND) OF AGENCY § 387 (1958) (duty extends to “all matters connected with his agency”).

111. *E.g., Jano Justice Sys., Inc. v. Burton*, No. 08-3209, 2008 WL 5191765, at \*2 (C.D. Ill. Dec. 11, 2008) (claim for breach of duty by co-owner not displaced since claim alleges more than stealing information); *Stafford Trading, Inc. v. Lovely*, No. 05 C 4868, 2007 WL 1512417, at \*8 (N.D. Ill. May 21, 2007) (claim for breach of duty by partner not displaced since claim was not based on misappropriation of trade secrets); *Lucini Italia Co. v. Grappolini*, 231 F. Supp. 2d 764, 770 (N.D. Ill. 2002) (claim for breach of fiduciary duty against consultant “states an independent cause of action without relying on the misappropriation of a trade secret”); *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 235 P.3d 310,

otherwise, claims for breach of fiduciary duty have been held to be displaced by the UTSA.<sup>112</sup>

Claims for breach of loyalty by a current employee arise less often but raise similar displacement issues. Current employees owe a general duty of loyalty to their employer.<sup>113</sup> A current employee who uses information obtained from the employer to compete with that employer breaches a legal duty that does not depend on the existence of any proprietary rights in that information.<sup>114</sup> As a comment to section 7 of the UTSA explains, “[t]he 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.”<sup>115</sup> Thus, courts should not hold claims against current employees for unauthorized competition displaced, even if the conduct also involves the misappropriation of trade secrets.<sup>116</sup> Nevertheless, some cases have concluded that UTSA displaces claims for breach of loyalty by current employees when the alleged disloyalty involves misuse of the employer’s confidential information.<sup>117</sup>

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318 (Haw. 2010) (claim for breach of fiduciary duties not displaced to the extent that it relies on misconduct other than misappropriation of trade secrets).

112. *E.g.*, *Int’l Paper Co. v. Goldschmidt*, 872 F. Supp. 2d 624, 635–36 (S.D. Ohio 2012) (claim against corporate officer for breach of fiduciary duty displaced insofar as it was premised on trade secret misappropriation); *Wilcox Indus. Corp. v. Hansen*, 870 F. Supp. 2d 296, 307–08 (D.N.H. 2012) (claim for breach of fiduciary duty against corporate officer displaced as based on misuse of proprietary information); *Thermodyne Food Serv. Prods., Inc. v. McDonald’s Corp.*, 940 F. Supp. 1300, 1309 (N.D. Ill. 1996) (claim against corporate officer displaced since alleged breach of fiduciary duty involved misuse of trade secrets).

113. RESTATEMENT (SECOND) OF AGENCY § 387 (1958).

114. *Id.* § 393.

115. UNIF. TRADE SECRETS ACT § 7 cmt. (1985).

116. *See, e.g.*, *Hecny Transp., Inc. v. Chu*, 430 F.3d 402, 405 (7th Cir. 2005) (“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 customer list were a public record.”); *SKF USA, Inc. v. Bjerkness*, 636 F. Supp. 2d 696, 718 (N.D. Ill. 2009) (“Here, even if some of what Defendants ‘filched’ constituted a trade secret, the court is satisfied that the alleged breach of the duty of loyalty aims at a different harm than does the trade secrets claim . . . .”); *Del Monte Fresh Produce, N.A., Inc. v. Chiquita Brands Int’l Inc.*, 616 F. Supp. 2d 805, 822–23 (N.D. Ill. 2009) (denying dismissal of claim of breach of fiduciary duty against employee and noting that “a fiduciary duty claim is not preempted by the [Illinois UTSA.]”); *RTC Indus., Inc. v. Haddon*, No. 06 C 5734, 2007 WL 2743583, at \*3 (N.D. Ill. Sept. 10, 2007) (noting that “the test is whether the plaintiff’s claim would lie if the information at issue were non-confidential” (citing *Hecny Transportation*, 430 F.3d at 405)); *Angelica Textile Servs., Inc. v. Park*, 163 Cal. Rptr. 3d 192, 203 (Ct. App. 2013) (claim for breach of duty of loyalty is independent of any trade secret claim).

117. *E.g.*, *ProductiveMD, LLC v. 4UMD, LLC*, 821 F. Supp. 2d 955, 964 (M.D. Tenn. 2011) (finding that Tennessee UTSA displaced claim that employee breached duty of loyalty by misappropriating trade secrets); *Diamond Power Int’l, Inc. v. Davidson*, 540 F. Supp. 2d 1322, 1346 (N.D. Ga. 2007) (dismissing breach of fiduciary duty claim as “wholly based on the same allegations” as misappropriation claim); *Thermodyne Food*, 940 F. Supp. at 1308 (holding breach of fiduciary duty claim displaced because it was “premiered on the misappropriation of [plaintiff’s] technology”); *Mortg. Specialists, Inc. v. Davey*, 904 A.2d 652, 664 (N.H. 2006) (because “[t]he only factual allegations supporting the breach of fiduciary duty claim” involve misappropriation of “customer information,” claim is displaced); *CDC Restoration & Constr., LC v. Tradesmen Contractors, LLC*, 274 P.3d 317, 331–32

*B. Ideas That Do Not Qualify as Trade Secrets*

Plaintiffs seeking to avoid the UTSA's displacement of alternative claims have sometimes argued that, since the UTSA displaces laws "providing civil remedies for misappropriation of a trade secret," it does not displace claims relating to information that does not qualify as a "trade secret."<sup>118</sup> However, interpreting the UTSA's displacement provision to allow the continuation of common-law protection for information that fails to qualify as a trade secret undermines the ultimate goal of the UTSA. As the Prefatory Note to the UTSA explains, the Act's "contribution" to the development of the law is its "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."<sup>119</sup> The continued recognition of rights in information that the UTSA refuses to protect threatens the clarity and uniformity sought by the Act's drafters.

The Wisconsin Supreme Court's decision in *Burbank Grease Services, LLC v. Sokolowski*<sup>120</sup> is a frequently cited example of the problem. The trial court in *Burbank Grease* dismissed on summary judgment an employer's claim that a former employee was liable under the Wisconsin UTSA for misappropriating customer information, holding that the information did not satisfy the UTSA's requirements for protection as a trade secret.<sup>121</sup> The employer's suit also included common-law counts for breach of the employee's duty of loyalty and interference with the employer's business relations.<sup>122</sup> The trial court held that the Wisconsin UTSA displaced these claims.<sup>123</sup> The Wisconsin Supreme Court reinstated the common-law claims, holding that "any civil tort claim not grounded in a trade secret, *as defined in the statute*, remains available."<sup>124</sup> Two judges dissented, noting that one of the purposes of the UTSA is to preclude protection for information that does not meet the statutory criteria of a trade secret.<sup>125</sup> Other decisions similarly have permitted plaintiffs to pursue alternative theo-

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(Utah Ct. App. 2012) (breach of fiduciary duty claim "based solely on theories of misappropriation or misuse of [plaintiff's] confidential information" held displaced).

118. *Miller UK Ltd. v. Caterpillar Inc.*, 859 F. Supp. 2d 941, 944 (N.D. Ill. 2012) (quoting 765 ILL. COMP. STAT. ANN. § 1065/8(a) (West 2014)); *see also, e.g.*, *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 235 P.3d 310, 319 (Haw. 2010).

119. UNIF. TRADE SECRETS ACT, Prefatory Note.

120. 717 N.W.2d 781 (Wis. 2006).

121. *Id.* at 787.

122. *Id.*

123. *Id.*

124. *Id.* at 793–94.

125. *Id.* at 802–03 (Bradley, J., dissenting); *see also* Sarah Gettings, Note, *Burbank Grease Services, LLC v. Sokolowski: Frustrating Uniformity in Trade Secret Law*, 22 BERKELEY TECH. L.J. 423, 423 (2007) (criticizing the majority decision).

ries of protection for information that the court determined was ineligible for protection as a trade secret under the UTSA.<sup>126</sup> Following similar logic, some courts have refused to dismiss alternative claims pending a determination of the protectable status of the information under the UTSA.<sup>127</sup>

Courts cannot achieve the uniformity sought by the UTSA's drafters if the protection of some commercial information remains subject to the vagaries of the common law. The decisions limiting displacement to trade secrets that the UTSA protects create a policy anomaly by permitting more varied and encompassing protection for information that *fails* to meet the statutory criteria for protection as a trade secret.<sup>128</sup> Fortunately, there is abundant authority to the contrary.

Numerous decisions give section 7 a broader reading, applying it to displace common-law protection for information that the court has found ineligible for protection as a trade secret under the UTSA.<sup>129</sup>

126. *E.g.*, *Miller UK Ltd. v. Caterpillar Inc.*, 859 F. Supp. 2d 941, 946 (N.D. Ill. 2012) (finding that “[c]laims based on common law theories . . . as to non-trade-secrets remain untouched”); *Vigoro Indus., Inc. v. Cleveland Chem. Co.*, 866 F. Supp. 1150, 1161 (E.D. Ark. 1994) (considering alternative theories to protect information generally known and hence not a trade secret under the Act), *aff’d*, 82 F.3d 785 (8th Cir. 1996); *Defcon, Inc. v. Webb*, 687 So. 2d 639, 643 (La. Ct. App. 1997) (holding that a “breach of fiduciary duty claim based upon the misappropriation of confidential information” survives displacement with respect to information that is “not technically a trade secret”).

127. *E.g.*, *Motorola, Inc. v. Lemko Corp.*, 609 F. Supp. 2d 760, 771 (N.D. Ill. 2009) (breach of fiduciary duty claim survives because claim would not be displaced if “Motorola ultimately is unable to prove the existence of a trade secret as defined by the ITSA”); *Combined Ins. Co. v. Wiest*, 578 F. Supp. 2d 822 (W.D. Va. 2008) (allowing conversion claim to survive summary judgment because “whether such information qualifies as a trade secret presents a question of fact” and claim will not be displaced if information is not a trade secret); *Cenveo Corp. v. Slater*, No. 06-CV-2632, 2007 WL 527720, at \*4 (E.D. Pa. Feb. 12, 2007) (unwilling to “assume that the Pennsylvania legislature’s enactment of the PTSA was intended to abrogate common law conversion claims” based on theft of non-trade secrets); *Stone Castle Fin., Inc. v. Friedman, Billings, Ramsey & Co.*, 191 F. Supp. 2d 652, 659 (E.D. Va. 2002) (finding that “a plain reading” of the Virginia UTSA supports non-displacement of common-law claims based on non-secret information); *Combined Metals Ltd. P’ship v. Airtek, Inc.*, 985 F. Supp. 827, 830 (N.D. Ill. 1997) (finding that Illinois UTSA “has no effect on a claim that is not based on” a trade secret).

128. “Plaintiff argues . . . certain of its non-UTSA claims against [defendant] are not preempted because they do not depend on the information at issue qualifying as a ‘trade secret’ . . . . It is a legal *non sequitor* [sic] to suggest general tort causes may be employed to protect legal rights which otherwise do not exist.” *Hauck Mfg. Co. v. Astec Indus., Inc.*, 375 F. Supp. 2d 649, 656 (E.D. Tenn. 2004) (citation omitted); *see also* Charles T. Graves, *Trade Secrets as Property: Theory and Consequences*, 15 J. INTELL. PROP. 39, 57 (2007) (“The paradoxical result of such UTSA preemption rulings is that a plaintiff who cannot prove trade secrecy has more claims, and stronger claims, than a plaintiff who succeeds in establishing trade secrecy.”).

129. *E.g.*, *Spitz v. Proven Winners N. Am., LLC*, 759 F.3d 724, 733 (7th Cir. 2014); *Auto Channel, Inc. v. Speedvision Network, LLC*, 144 F. Supp. 2d 784, 789 (W.D. Ky. 2001); *Web Commc’ns Grp., Inc. v. Gateway 2000, Inc.*, 889 F. Supp. 316, 321 (N.D. Ill. 1995); *Robbins v. Supermkt. Equip. Sales, LLC*, 722 S.E.2d 55, 58 (Ga. 2012); *Mortg. Specialists, Inc. v. Davey*, 904 A.2d 652, 664 (N.H., 2006); *CDC Restoration & Const., LC v. Tradesmen Contractors, LLC*, 274 P.3d 317, 329 (Utah Ct. App. 2012); *Dicks v. Jensen*, 768 A.2d 1279, 1285 (Vt. 2001).

That outcome is often justified as necessary to effectuate the UTSA's goal of uniformity.<sup>130</sup> Other cases adopt the same interpretation of section 7 and displace alternative claims without deciding whether the information qualifies as a trade secret under the UTSA.<sup>131</sup> The view that the UTSA displaces alternative claims for protection even when the information does not qualify for protection as a trade secret under the UTSA is now well established as the majority position.<sup>132</sup> Commentators appear unanimous in supporting that position.<sup>133</sup>

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130. "The effort to imbue the contours of trade-secret protection with some certainty would be undermined if the [Arizona Trade Secrets Act] preemption clause only applied when actual trade secrets, and not information falling short of that standard, were involved." *Unisource Worldwide, Inc. v. Swope*, 964 F. Supp. 2d 1050, 1056 (D. Ariz. 2013); *see also CDC Restoration & Const.*, 274 P.3d at 329 ("[P]ermitting a cause of action for the use of information that does not meet the statutory definition of trade secret 'would undermine the uniformity and clarity that motivated the creation and passage of the [UTSA].'" (quoting *Auto Channel*, 144 F. Supp. 2d at 789)); *Mortgage Specialists*, 904 A.2d at 664 (holding that the displacement provision, "construed in a manner that effectuates the purpose of making uniform the law among States that have adopted the UTSA, . . . preempts claims that are based upon the unauthorized use of information, regardless of whether that information meets the statutory definition of a trade secret"). *But see Orca Comm'ns Unlimited, LLC v. Noder*, No. CV-13-0351-PR, 2014 WL 6462438, at ¶ 9, 17–19 (Ariz. Nov. 19, 2014) (limiting displacement to claims related to information qualifying as a trade secret under the Arizona UTSA and specifically rejecting a policy argument based on uniformity).

131. *E.g.*, *SunPower Corp. v. SolarCity Corp.*, No. 12-CV-00694-LKH, 2012 WL 6160472, at \*13 (N.D. Cal. Dec. 11, 2012); *Miami Valley Mobile Health Serv., Inc. v. ExamOne Worldwide, Inc.*, 852 F. Supp. 2d 925, 941 (S.D. Ohio 2012); *Mattel, Inc. v. MGA Entm't, Inc.*, 782 F. Supp. 2d 911, 987 (C.D. Cal. 2011); *Firetrace USA, LLC v. Jesclard*, 800 F. Supp. 2d 1042, 1049 (D. Ariz. 2010); *Hauck Mfg.*, 375 F. Supp. 2d at 657; *Silvaco Data Sys. v. Intel Corp.*, 109 Cal. Rptr. 3d 27, 51 (Ct. App. 2010); *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 235 P.3d 310, 324 (Haw. 2010); *HDNet LLC v. N. Am. Boxing Council*, 972 N.E.2d 920, 925 (Ind. Ct. App. 2012).

132. "Based upon those cases in which the court's view is clear or can be gleaned from the context, it appears a significant majority follows the All Confidential Information view." Cross, *supra* note 69, at 453–54; *see also* Charles T. Graves & Elizabeth Tippet, *UTSA Preemption and the Public Domain: How Courts Have Overlooked Patent Preemption of State Law Claims Alleging Employee Wrongdoing*, 65 RUTGERS L. REV. 59, 72 (2012) ("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.").

133. *See* Graves, *supra* note 128, at 54–57; Graves & Tippet, *supra* note 132, at 77–85; Julie Piper, *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, 380 (2008) ("[T]he most efficient and fair interpretation of the current version of the UTSA is that it does, or should, abrogate all other civil remedies for the misappropriation of confidential information deemed not to be a trade secret."); Robert Unikel, *Bridging the "Trade Secret" Gap: Protecting "Confidential Information" Not Rising to the Level of Trade Secrets*, 29 LOY. U. CHI. L.J. 841, 888 (1998) ("Permitting litigants in UTSA states to assert common-law claims for the misappropriation or misuse of confidential data would reduce the UTSA to just another basis for recovery and leave prior law effectively untouched."); Michael Ahrens, Note, *Wisconsin Confidential: The Mystery of the Wisconsin Supreme Court's Decision in Burbank Grease Servs. v. Sokolowski and Its Effect upon the Uniform Trade Secrets Act, Litigation, and Employee Mobility*, 2007 WIS. L. REV. 1271, 1276 (critical of *Burbank Grease*); Gettings, *supra* note 125, at 423.

A broad interpretation of the section 7 displacement provision is also consistent with the prevailing interpretation of section 301 of the federal copyright statute, which preempts equivalent state protection for works that “come within the subject matter of copyright as specified by sections 102 and 103.”<sup>134</sup> Several early decisions held that the preemptive effect of section 301 did not extend to state protection of subject matter that the Copyright Act bars from protection.<sup>135</sup> Subsequent opinions have interpreted section 301 more broadly to preempt state protection for subject matter that the Copyright Act expressly excludes.<sup>136</sup> Like the Copyright Act’s drafters, the UTSA’s drafters intended to specify both the subject matter that is and the subject matter that is not eligible for protection. Respect for that legislative decision — and for the goal of uniformity — should preclude alternative common-law protection for information that fails to meet the statutory criteria for protection as a trade secret.

#### IV. SUBSTANTIVE STANDARDS FOR IDEA PROTECTION

Relocating ideas cases within the statutory framework of the UTSA significantly improves the substantive law governing idea protection. Idea submitters pursuing common-law claims against alleged appropriators have typically been required to establish that their idea is “novel,” and often also “concrete,” especially when the plaintiff has invoked a property-based claim such as conversion or misappropriation.<sup>137</sup> Novelty and concreteness requirements have also made appearances as part of other non-contractual idea claims, such as breach of confidence and quasi-contract.<sup>138</sup> A “novelty” requirement might

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134. 17 U.S.C. § 301 (2012).

135. *E.g.*, *Vermont Castings, Inc. v. Evans Prod. Co.*, Nos. 79-265 and 80-162, 1981 WL 48560, at \*5 (D. Vt. July 28, 1981) (finding no preemption under the copyright statute “[b]ecause copyright protection would not extend to” plaintiff’s designs); *Bromhall v. Rorvik*, 478 F. Supp. 361, 367 (E.D. Pa. 1979); *H2O Swimwear, Ltd. v. Lomas*, 560 N.Y.S.2d 19, 21 (App. Div. 1990).

136. *E.g.*, *Barclays Capital Inc. v. Theflyonthewall.com, Inc.* 650 F.3d 876, 878 (2d Cir. 2011); *Berge v. Bd. of Trs. of Univ. of Ala.*, 104 F.3d 1453, 1463 (4th Cir. 1997); *ProCD, Inc. v. Zeidenberg*, 86 F.3d 1447, 1453 (7th Cir. 1996). *But see Dunlap v. G&L Holding Grp., Inc.*, 381 F.3d 1285, 1295 (11th Cir. 2004) (adopting a narrower view of the “subject matter” requirement).

137. *See, e.g.*, *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 460 (6th Cir. 2001) (noting in dicta that novelty and concreteness are required for conversion under Michigan law); *Murray v. Nat’l Broad. Co.*, 844 F.2d 988, 991 (2d Cir. 1988) (novelty required for misappropriation and conversion under New York law); *Duffy v. Charles Schwab & Co.*, 123 F. Supp. 2d 802, 808 (D.N.J. 2000) (novelty required for misappropriation under New Jersey law); *John W. Shaw Adver., Inc. v. Ford Motor Co.*, 112 F. Supp. 121, 123 (N.D. Ill. 1953) (concreteness and novelty required for misappropriation under Illinois law); *Garrido v. Burger King Corp.*, 558 So.2d 79, 83 (Fla. Dist. Ct. App. 1990) (novelty required for conversion and misappropriation under Florida law).

138. *See, e.g.*, *Entm’t Research Grp., Inc. v. Genesis Creative Grp., Inc.*, 122 F.3d 1211, 1227 (9th Cir. 1997) (novelty required for a breach of confidence claim under California law); *Murray*, 844 F.2d at 994 (novelty required for New York unjust enrichment claim);



be justified as a necessary predicate to ownership rights in an idea.<sup>139</sup> It can also serve an evidentiary function in support of allegations that a defendant has used an idea obtained from the plaintiff.<sup>140</sup> “Concreteness” can ensure that an idea is sufficiently well-defined to support a proprietary claim.<sup>141</sup> Like novelty, concreteness can also render a plaintiff’s idea distinctive and thus facilitate proof of use by a defendant.<sup>142</sup>

Treating ideas as trade secrets substitutes the criteria for protection under the UTSA for common-law standards like “novelty” and “concreteness.” The UTSA’s nuanced focus on whether an idea is “generally known” or “readily ascertainable”<sup>143</sup> offers a more stable basis for determining proprietary rights compared to a general inquiry

*Duffy*, 123 F. Supp. 2d at 815 (novelty required for unjust enrichment claim under New Jersey law); *Kleck v. Bausch & Lomb, Inc.*, 145 F. Supp. 2d 819, 827 (W.D. Tex. 2000) (holding that breach of confidence claim fails for lack of novelty because of “great weight of authority” in support of such requirement); *Werlin v. Reader’s Digest Ass’n, Inc.*, 528 F. Supp. 451, 465 (S.D.N.Y. 1981) (novelty and concreteness required for New York quasi-contract claim); *Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130, 1143 (Alaska 1996) (novelty required for unjust enrichment claim under Alaska law); *Tele-Count Eng’rs, Inc. v. Pac. Tel. & Tel. Co.*, 214 Cal. Rptr. 276, 279 (Ct. App. 1985) (same). For contract claims, there are deep divisions on the necessity of proving novelty. *Compare, e.g., Benay v. Warner Bros. Entm’t, Inc.*, 607 F.3d 620, 629 (9th Cir. 2010) (novelty not required for implied-in-fact contract claim under California law); *Wrench*, 256 F.3d at 462–63 (novelty not required for implied-in-fact contract claim under Michigan law); *and Reeves*, 926 P.2d at 1141 (novelty not required for implied-in-fact contract claim under Alaska law); *with, e.g., Murray*, 844 F.2d at 994 (novelty required for implied-in-fact contract claim under New York law); *Garrido*, 558 So.2d at 83–84 (novelty required for implied-in-fact contract claim under Florida law); *and Burgess v. Coca-Cola Co.*, 536 S.E.2d 764, 769 (Ga. Ct. App. 2000) (novelty required for contract claims under Georgia law). *See generally* Mary LaFrance, *Something Borrowed, Something New: The Changing Role of Novelty in Idea Protection*, 34 SETON HALL L. REV. 485 (2004) (exploring the changing role played by novelty concerns in New York and New Jersey idea law).

139. *See, e.g., Murray*, 844 F.2d at 993 (“But those ideas that are not novel ‘are in the public domain and may freely be used by anyone with impunity.’ Since such non-novel ideas are not protectable as property, they cannot be stolen.” (quoting *Ed Graham Prods., Inc. v. Nat’l Broad. Co.*, 347 N.Y.S.2d 766, 769 (Sup. Ct. 1973)) (citation omitted)); *see also* *Miller, supra* note 12, at 728 (“Thus, novelty functions to ferret out private property from the common domain.”).

140. *See, e.g., Flemming v. Ronson Corp.*, 258 A.2d 153, 157 (N.J. Super. Ct. Law Div. 1969) (“[A] lack of novelty or the existence of many dissimilar features will support a denial that the idea was used by the recipient.”); *see also* 5 NIMMER & NIMMER, *supra* note 1, § 19D.06[B][3]; *Miller, supra* note 12, at 728–29.

141. *See, e.g., John W. Shaw*, 112 F. Supp. at 123 (“Since courts could not define and enforce a right in an abstraction, it is uniformly held that an idea must be reduced to concrete form in order to qualify as the subject of a protectable property interest.”).

142. *See Miller, supra* note 12, at 722–23.

143. UNIF. TRADE SECRETS ACT § 1(4) (1985); *see, e.g., Wal-Mart Stores, Inc. v. P.O. Mkt., Inc.*, 66 S.W.3d 620, 633 (Ark. 2002) (“The question then that confronts this court is whether the O’Banion concept is indeed unique information or whether it is, at its core, a variation of other economic models already in the public domain and readily ascertainable.”); *Pope v. Alberto-Culver Co.*, 694 N.E.2d 615, 619 (Ill. App. Ct. 1998) (“We further find plaintiff has failed to demonstrate the alleged trade secrets were not within the general skills and knowledge of the industry or were not readily ascertainable without involving considerable time, effort or expense.”).

into “novelty,” which in some cases has been interpreted to require that the idea be absolutely novel and in others to require only that it be novel to the recipient.<sup>144</sup> Similarly, the definiteness required to establish an idea’s “independent economic value, actual or potential” under the UTSA<sup>145</sup> seems preferable to a standard of “concreteness,” which courts have variously interpreted as requiring fixation in a tangible form, specificity, and/or immediate usability.<sup>146</sup> Uniformity may be the greatest benefit of the shift. “Novelty” and “concreteness” have been applied erratically.<sup>147</sup> A trade secret perspective replaces these vague and inconsistently applied common-law concepts with the standardized criteria of the UTSA.<sup>148</sup>

#### V. FEDERAL PREEMPTION OF NON-CONTRACTUAL IDEA CLAIMS

Locating idea protection within the structure of the UTSA yields benefits beyond substantive clarity and uniformity. The statutory requirements of the UTSA allow states to provide protection to idea creators while maintaining an appropriate division between state and federal law. By emphasizing secrecy, the UTSA ensures compatibility with federal patent law. Likewise, the UTSA’s requirement of improper acquisition or breach of duty ensures that state idea protection will not intrude on federal copyright law.

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144. See, e.g., *Nadel v. Play By Play Toys & Novelties, Inc.*, 208 F.3d 368, 380 (2d Cir. 2000) (“Contract-based claims require only a showing that the disclosed idea was novel to the buyer in order to find consideration . . . . By contrast, misappropriation claims require that the idea at issue be original and novel in absolute terms.”).

145. UNIF. TRADE SECRETS ACT § 1(4)(i); see, e.g., *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 726–27 (7th Cir. 2003) (relying on market-oriented evidence to determine an idea’s potential economic value under the UTSA); *Penalty Kick Mgmt. Ltd. v. Coca-Cola Co.*, 318 F.3d 1284, 1291 (11th Cir. 2003) (same); *Olson v. Nieman’s, Ltd.*, 579 N.W.2d 299, 314 (Iowa 1998) (same).

146. See 5 NIMMER & NIMMER, *supra* note 1, § 19D.06[A][1] (“The requirement that ideas be concrete has been criticized on the grounds that ‘concreteness’ is an inherently vague and uncertain concept. Contradictory and inconsistent application of the concreteness requirement in actual cases bears out that criticism.”); Barrett, *supra* note 6, at 710, 712 (“A surprisingly large number of court opinions make findings regarding novelty without attempting to define ‘novelty’ or explain why they do or do not find it present . . . . ‘[C]oncreteness’ has proved even more uncertain than novelty in its definition.”); see also Miller, *supra* note 12, at 723–26.

147. See GOLDSTEIN, *supra* note 7, § 17.7 (“[C]ourts apply the novelty and concreteness requirements differently depending on the theory of action in issue. Courts apply the requirements least rigorously when the cause of action is for breach of an express contract, somewhat more rigorously in implied in fact contract actions, and more rigorously still in quasi-contract actions.”).

148. See Barrett, *supra* note 6, at 751 (finding the standards of trade secret law preferable to novelty and concreteness); cf. Miller, *supra* note 12, at 730–32 (recommending abandonment of the novelty and concreteness criteria).

## A. Preemption by Federal Patent Law

The United States Supreme Court, in a pair of 1964 decisions,<sup>149</sup> emphasized that federal patent law determines not only what is protected from copying, but also what is in the public domain and hence available for copying by anyone.<sup>150</sup> “An unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so.”<sup>151</sup> The Court invoked the Supremacy Clause to ensure that the States do not intrude on the public’s freedom to copy: “[B]ecause of the federal patent laws a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article or award damages for such copying.”<sup>152</sup>

The Supreme Court specifically addressed the boundaries between state trade secret law and federal patent law in *Kewanee Oil Co. v. Bicron Corp.*<sup>153</sup> The question in that case was whether the Ohio common law of trade secrets was void under the Supremacy Clause.<sup>154</sup> The Supreme Court began by noting that trade secret protection for creations that fall outside the subject matter of the federal patent statute,<sup>155</sup> such as ideas for movies or television programming, presents no preemption issue.<sup>156</sup> The Court then held that, even when extended to ideas that are within the subject matter of the patent statute, state trade secret protection did not clash with the objectives of federal patent law.<sup>157</sup> After re-expressing the policy that matter “which is in the public domain cannot be removed therefrom by action of the States,” the Court concluded that “the existence of trade secret protection” was “not incompatible” with that policy, because “[b]y definition a trade secret has not been placed in the public domain.”<sup>158</sup> It is the *secrecy* of trade secrets that permits state protection of unpatented subject matter.<sup>159</sup> Thus, protection for information un-

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149. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

150. *Stiffel Co.*, 376 U.S. at 229–30; *Compco Corp.*, 376 U.S. at 237.

151. *Sears*, 376 U.S. at 231.

152. *Id.* at 233.

153. 416 U.S. 470, 474 (1974).

154. *Id.* at 479.

155. See 35 U.S.C. § 101 (2012) (“process, machine, manufacture, or composition of matter”).

156. *Kewanee*, 416 U.S. at 482–83 (“[T]rade secret law protects items which would not be proper subjects for consideration for patent protection under 35 U.S.C. § 101 . . . Congress, with respect to nonpatentable subject matter, ‘has drawn no balance; rather, it has left the area unattended, and no reason exists why the State should not be free to act.’” (quoting *Goldstein v. California*, 412 U.S. 566, 570 (1973) (footnote omitted))).

157. *Id.* at 490.

158. *Id.* at 484.

159. See generally *Graves & Tippet*, *supra* note 132 (noting potential conflict between state-law claims based on non-secret information and federal patent law).

der the Uniform Trade Secrets Act, with its requirements that the information not be “generally known” nor “readily ascertainable by proper means” and be subject to “reasonable” efforts to maintain its secrecy,<sup>160</sup> is not preempted by federal patent law.<sup>161</sup> On the other hand, protection under state tort law for information that is within the subject matter of the patent statute and *not* secret is preempted under the Supremacy Clause,<sup>162</sup> even if the loss of secrecy results from the plaintiff’s own unprotected disclosure to the defendant.<sup>163</sup>

The majority interpretation of the UTSA’s displacement provision that applies section 7 to displace non-contractual protection even for information that does not qualify as a trade secret ensures that state protection of ideas remains within constitutional bounds. Under this view, information that is not sufficiently secret to qualify for protection as a trade secret is simply ineligible for other non-contractual forms of state protection,<sup>164</sup> thus limiting state protection to trade secrets in compliance with the Supreme Court’s analysis in *Kewanee*. Decisions following the minority interpretation of the scope of displacement under section 7 invite outcomes exceeding the limits of state authority. Under that approach, information that is generally known or readily ascertainable and hence unprotectable under the UTSA remains eligible for protection under alternative theories.<sup>165</sup> However, protection for information that fails to qualify as a trade secret can contravene the limits on state power established in *Kewanee*. Several decisions illustrate the risk. In one case, a federal appellate court upheld a summary judgment that “know-how” relating to a training course for the unemployed, consisting of standard techniques such as drafting thank-you notes and conducting mock job interviews, was common knowledge and not protectable as a trade

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160. UNIF. TRADE SECRETS ACT § 7 (1985).

161. *See, e.g., Russo v. Ballard Med. Prods.*, 550 F.3d 1004, 1015–16 (10th Cir. 2008) (claims under Utah UTSA not preempted by federal patent law).

162. *See, e.g., ConFold Pac., Inc. v. Polaris Indus., Inc.*, 433 F.3d 952, 959 (7th Cir. 2006) (“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 Motor Co.*, 411 F.3d 1369, 1382 (Fed. Cir. 2005) (“Ultra-Precision seeks a patent-like remedy for Ford’s conduct in making, using, and selling products embodying information Ultra-Precision was not successful in protecting under the federal patent laws and which is free for all the world to enjoy.”); *Waner v. Ford Motor Co.*, 331 F.3d 851, 856 (Fed. Cir. 2003) (“Absent secrecy, state law cannot create a collateral set of rights available as an adjunct or expansion to patent rights.”).

163. *See Darling v. Standard Alaska Prod. Co.*, 818 P.2d 677, 682 (Alaska 1991) (dismissing unjust enrichment claim where plaintiff “voluntarily disclosed his idea without obtaining an agreement for compensation”); *Joyce v. Gen. Motors Corp.*, 551 N.E.2d 172, 175 (Ohio 1990) (information “freely divulged to a third party” not protected because “[p]ublic disclosure of ideas makes them available to all”).

164. *See supra* text accompanying notes 129–33.

165. *See supra* text accompanying notes 118–27.

secret under the UTSA.<sup>166</sup> However, the court remanded for consideration of breach of confidence and misappropriation claims directed at the same public domain information.<sup>167</sup> In another case, a claim of trade secret protection under the UTSA for features of a farming game was dismissed because the game was already available on the Internet, but the court declined to dismiss a breach of confidence claim covering the same information.<sup>168</sup> Cases that permit alternative forms of protection for information too well-known to qualify as a trade secret under the UTSA resurrect the constitutionally suspect outcomes sometimes reached under prior law.<sup>169</sup> Thus, the requirements for protection under the UTSA and the majority interpretation of the Act's displacement provision ensure compatibility with federal patent law.

### *B. Preemption by Federal Copyright Law*

The preemptive effect of federal copyright law also constrains states' efforts to protect ideas. Here, too, a trade secret perspective on ideas can help define the appropriate boundaries of state protection. Under section 301 of the Copyright Act, state rights that are "equivalent" to the exclusive rights of copyright in works "that come within the subject matter" of the statute are preempted.<sup>170</sup> Ideas are expressly excluded from copyright by section 102(b),<sup>171</sup> and hence an idea submitter has no claim for copyright infringement if a recipient appropriates the idea, apart from any protectable "expression" such as the language or detailed structure of a screenplay.<sup>172</sup> A literal reading might conclude that, since ideas are not protected by the Copyright

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166. *Self Directed Placement Corp. v. Control Data Corp.*, 908 F.2d 462, 465–66 (9th Cir. 1990).

167. *Id.* at 467.

168. *SocialApps, LLC v. Zynga, Inc.*, No. 4:11-CV-04910 YGR, 2012 WL 381216, at \*3–4 (N.D. Cal. Feb. 6, 2012). *See also* *Defcon, Inc. v. Webb*, 687 So.2d 639 (La. Ct. App. 1997), which involved a claim under the Louisiana Trade Secrets Act that had been rejected by the trial court because the information consisted of mere refinements of generally known techniques. *Id.* at 641. Although the trial court's decision on the trade secret claim was not appealed, the appellate court held that the information was nevertheless protectable under a breach of fiduciary duty claim, although it ultimately upheld the trial court's finding that there was insufficient evidence of an improper disclosure by the defendant. *Id.* at 646–47.

169. *See, e.g., Roboserve, Ltd. v. Tom's Foods, Inc.*, 940 F.2d 1441, 1455–56 (11th Cir. 1991) (holding that there were no protectable trade secrets once the plaintiff's machines had been sold to a customer, but nevertheless upholding a jury verdict against the customer for breach of a confidential relationship when it transferred the machine to a competing manufacturer); *USM Corp. v. Marson Fastener Corp.*, 393 N.E.2d 895, 903 (Mass. 1979) ("A plaintiff who may not claim trade secret protection either because it failed to take reasonable steps to preserve its secrecy or because the information, while confidential, is only 'business information,' may still be entitled to some relief against one who improperly procures such information.") (dictum).

170. 17 U.S.C. § 301(a) (2012).

171. *Id.* § 102(b) ("In no case does copyright protection for an original work of authorship extend to any idea . . . embodied in such work.")

172. *See, e.g., Stromback v. New Line Cinema*, 384 F.3d 283, 296 (6th Cir. 2004).

Act, it exerts no preemptive effect on state protection. Such an interpretation, however, leads to the perverse result that subject matter that Congress has explicitly barred from protection remains open to a contrary decision on the part of the States. A significant majority of cases wisely conclude that “the subject matter” of the Copyright Act includes not only matter that Congress has chosen to protect, but also matter such as ideas that Congress has excluded from protection.<sup>173</sup>

State protection of ideas will nevertheless escape preemption under section 301 if the protection is not equivalent to any of the exclusive rights of copyright, principally the exclusive right of reproduction.<sup>174</sup> Because the UTSA requires that the defendant engage in improper means of acquisition or breach a duty to maintain secrecy, claims under the UTSA will survive preemption because the idea creator’s rights are not equivalent to copyright’s unqualified right to prevent unauthorized reproduction.<sup>175</sup> However, many of the traditional alternative claims for relief against idea appropriators raise serious questions under section 301. Claims for conversion of an idea are

173. *E.g.*, *Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424, 430 (2d Cir. 2012) (arguing that section 301’s preemption scheme should “include[] all works of a type covered by sections 102 and 103, even if federal law does not afford protection to them.” (quoting *Nat’l Basketball Ass’n v. Motorola, Inc.*, 105 F.3d 841, 850 (2d Cir. 1997)) (internal quotation marks omitted)); *Montz v. Pilgrim Films & Television, Inc.*, 649 F.3d 975, 979 (9th Cir. 2011) (noting that the scope of copyright includes “ideas and concepts that are fixed in a tangible medium,” even if those ideas are excluded from protection); *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 455 (6th Cir. 2001) (holding that the Copyright Act’s scope “is broader than the scope of [its] protections”); *Berge v. Bd. of Trs. of Univ. of Ala.*, 104 F.3d 1453, 1463 (4th Cir. 1997) (“[T]he shadow actually cast by the Act’s preemption is notably broader than the wing of its protection.”); *Garrido v. Burger King Corp.*, 558 So.2d 79, 82 (Fla. Dist. Ct. App. 1990); 5 NIMMER & NIMMER, *supra* note 1, § 19D.03[A][2][b] (concluding that the “better view” is that “ideas fall within the scope of copyright for preemption purposes”). *But see* *Dunlap v. G&L Holding Grp., Inc.*, 381 F.3d 1285, 1295 (11th Cir. 2004) (“[B]ecause ideas are substantively excluded from the protection of the Copyright Act, they do not fall within the subject matter of copyright . . .” (footnote omitted)).

174. *See* 17 U.S.C. § 106(1).

175. *See, e.g.*, *Dun & Bradstreet Software Servs., Inc. v. Grace Consulting, Inc.*, 307 F.3d 197, 218 (3d Cir. 2002) (agreeing with plaintiff that, “if their misappropriation of trade secrets claim was based on such breach of duty of trust and confidentiality, it would survive preemption in this case”) (New Jersey common law); *Data Gen. Corp. v. Grumman Sys. Support Corp.*, 36 F.3d 1147, 1165 (1st Cir. 1994) (Massachusetts common law); *Gates Rubber Co. v. Bando Chem. Indus., Ltd.*, 9 F.3d 823, 847 (10th Cir. 1993) (requirement of a breach of trust or confidence distinguishes an action under the Uniform Trade Secrets Act from copyright infringement); *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 660 (4th Cir. 1993) (holding that, because “breach of a duty of trust or confidentiality comprises the core of actions for trade secret misappropriation,” copyright law does not preempt trade secret claim); *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 982 F.2d 693, 716 (2d Cir. 1992) (wrongful acquisition of a trade secret is qualitatively different from copyright infringement) (Texas common law); *see also* H.R. Rep. No. 94-1476, at 132 (1976) (“The evolving common-law rights of ‘privacy,’ ‘publicity,’ and trade secrets, and the general laws of defamation and fraud, would remain unaffected as long as the causes of action contain elements, such as an invasion of personal rights or a breach of trust or confidentiality, that are different in kind from copyright infringement.”).

“clearly preempted” by section 301,<sup>176</sup> as are claims for idea misappropriation.<sup>177</sup> The Copyright Act also preempts claims for unfair competition that rest solely on allegations that the defendant’s use competes with the plaintiff’s own exploitation of the idea.<sup>178</sup> Similarly, section 301 preempts claims that the defendant’s use interferes with the plaintiff’s prospective economic or contractual relations.<sup>179</sup> Claims seeking relief for alleged unjust enrichment resulting from unauthorized use are preempted as well.<sup>180</sup> Reliance instead on the statutory requirements of the UTSA ensures that protection for idea creators remains compatible with the preemptive reach of federal copyright law.

## VI. CONTRACTUAL PROTECTION OF IDEAS

For many ideas creators, especially ones who work in the entertainment industry, contract law rather than trade secret law remains the primary source of protection for their ideas.<sup>181</sup> Claims for breach of express or implied-in-fact contracts dominate much of the litigation between submitters and recipients of ideas. Submitters sometimes allege that an idea recipient made an express written or oral promise to pay for use of an idea. Complaints also frequently include allegations that a promise to pay by an idea recipient is fairly inferred from their conduct and other circumstances surrounding disclosure, resulting in a contract implied-in-fact. Whether express or implied-in-fact,

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176. *Berge*, 104 F.3d at 1463; *see also, e.g.*, *Worth v. Universal Pictures, Inc.*, 5 F. Supp. 2d 816, 823 (C.D. Cal. 1997); *Garrido*, 558 So.2d at 82 (conversion and theft claims preempted).

177. *E.g.*, *Stromback*, 384 F.3d at 301; *Hartman v. Hallmark Cards, Inc.*, 833 F.2d 117, 121 (8th Cir. 1987); *Ehat v. Tanner*, 780 F.2d 876, 878 (10th Cir. 1985); *Keane v. Fox Television Stations, Inc.*, 297 F. Supp. 2d 921, 941 (S.D. Tex. 2004); *G.D. Searle & Co. v. Philips-Miller & Assoc., Inc.*, 836 F. Supp. 520, 526 (N.D. Ill. 1993). On the preemption of claims for misappropriation under section 301, *see* Robert Denicola, *News on the Internet*, 23 *FORDHAM INTELL. PROP. MEDIA & ENT. L.J.* 68, 122–29 (2012).

178. *E.g.*, *Kodadek v. MTV Networks, Inc.*, 152 F.3d 1209, 1213 (9th Cir. 1998); *Durham Indus., Inc. v. Tomy Corp.*, 630 F.2d 905, 919 (2d Cir. 1980); *Smith v. Weinstein*, 578 F. Supp. 1297, 1307 (S.D.N.Y. 1984), *aff’d without op.*, 738 F.2d 419 (2d Cir. 1984); *Giangrasso v. CBS, Inc.*, 534 F. Supp. 472, 478 (E.D.N.Y. 1982).

179. *E.g.*, *Stromback*, 384 F.3d at 306–07; *Harper & Row Publishers, Inc. v. Nation Enters.*, 723 F.2d 195, 200 (2d Cir. 1983), *rev’d on other grounds*, 471 U.S. 539 (1985); *Worth*, 5 F. Supp. 2d at 822; *Long v. Quality Computers & Applications, Inc.*, 860 F. Supp. 191, 197 (M.D. Pa. 1994).

180. *E.g.*, *Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 306–07 (2d Cir. 2004); *Ehat*, 780 F.2d at 877; *Nobel v. Bangor Hydro-Elec. Co.*, 584 A.2d 57, 59 (Me. 1990); *cf. Schucart & Associates, Prof’l Eng’rs, Inc. v. Solo Serve Corp.*, 540 F. Supp. 928, 948 (W.D. Tex. 1982) (holding that claim for unjust enrichment relating to the sale of architectural drawings was not preempted since it sought to recover value of services specifically rendered to and accepted by defendant).

181. *See, e.g.*, *Benay v. Warner Bros. Entm’t, Inc.*, 607 F.3d 620, 629 (9th Cir. 2010) (“Contract law, whether through express or implied-in-fact contracts, is the most significant remaining state-law protection for literary or artistic ideas.”).

such claims based on contract are unaffected by the UTSA. Section 7(b) is explicit: “This Act does not affect: (1) contractual remedies, whether or not based upon misappropriation of a trade secret . . . .”<sup>182</sup>

The recognition that ideas can qualify as trade secrets under the UTSA thus does not undermine traditional protection by contract. It does, however, offer new insight into several troublesome issues that frequently arise in contractual disputes involving ideas, including whether an implied-in-fact contract exists and whether federal law preempts a contract claim restricting the use of an idea.

#### A. Express and Implied-in-Fact Contracts

The existence of an express contract is often uncontroversial, although questions of interpretation frequently lurk. The existence of an implied-in-fact contract is a different matter. What conduct and circumstances justify the implication of a promise to pay an idea submitter if the recipient uses the submitted idea?<sup>183</sup> In California at least, the analysis usually begins with a reference to *Desny v. Wilder*.<sup>184</sup> In sorting out a contract claim brought against movie producer Billy Wilder by a writer who had disclosed his idea for a movie and submitted a brief synopsis of the story, the Supreme Court of California described the necessary predicates for an implied-in-fact contract:

[I]f the idea purveyor has clearly conditioned his offer to convey the idea upon an obligation to pay for it if it is used by the offeree and the offeree, knowing the condition before he knows the idea, voluntarily accepts its disclosure (necessarily on the specified basis) and finds it valuable and uses it, . . . the law it-

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182. UNIF. TRADE SECRETS ACT § 7(b) (1985).

183. There also is the equally difficult question of the nature of the “use” on which an implied obligation to pay is conditioned. The Ninth Circuit in *Benay* offered this analysis of the “use” issue:

“In breach of contract claims, the level of similarity that permits an inference of actionable use depends on the nature of the agreement between the parties. In cases of explicit contracts where the terms of the agreement are spelled out, the level of similarity required depends on those terms . . . . Where the contract is implied-in-fact rather than explicit, the parties have not specified any standard. In such cases, ‘the weight of California authority is that there must be “substantial similarity” between plaintiff’s idea and defendant’s production to render defendant liable.’ . . . [B]ecause the claim is based in contract, unauthorized use can be shown by substantially similar elements that are not protected under copyright law.”

607 F.3d at 630–31 (quoting 4 MELVILLE B. NIMMER & DAVID NIMMER, NIMMER ON COPYRIGHT § 19D.02 (Matthew Bender, rev. ed. 2009) (citations omitted)).

184. 299 P.2d 257 (Cal. 1956).



self, to prevent fraud and unjust enrichment, will imply a promise to compensate.<sup>185</sup>

On the other hand, because “[t]he idea man who blurts out his idea without having first made his bargain has no one but himself to blame for the loss of his bargaining power,” no promise to pay will be implied where the plaintiff disclosed an idea unprompted.<sup>186</sup> The court held that no implied-in-fact promise arose from the initial disclosure of the general story idea by the plaintiff in response to a request from Wilder’s secretary to explain the purpose of his telephone call.<sup>187</sup> However, when he read the synopsis to the secretary during a subsequent telephone call two days later, the writer explained that he expected compensation if the story was used and the secretary responded that naturally he would be paid.<sup>188</sup> As to the synopsis, therefore, the court reversed a summary judgment in favor of the defendants.<sup>189</sup> The standards articulated in *Desny* remain influential,<sup>190</sup> but they are hardly self-executing. What circumstances or conduct by an idea submitter, for example, will “clearly condition[]” a disclosure on payment, and what circumstances or conduct by an idea recipient is sufficient to show that it “voluntarily accepts” such a submission?<sup>191</sup> A subsequent California case held that “an express oral or written representation” of the expectation of compensation was not necessary to establish that a submission was conditioned on an obligation to pay, overturning a jury verdict against a toy designer who had been invited to present his ideas to the defendant.<sup>192</sup>

A trade secret perspective invites consideration of all of the circumstances surrounding a disclosure in assessing whether it was conditioned on payment for use. In actions under the UTSA, a recipient’s statutory obligations turn on whether the information was “acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use.”<sup>193</sup> If the recipient of a trade secret understands that the secret was disclosed for a limited purpose, the statute will impose obligations consistent with that limitation.<sup>194</sup> A similar approach seems

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185. *Id.* at 270.

186. *Id.*

187. *Id.*

188. *Id.* at 262.

189. *Id.* at 278–79.

190. *See, e.g.,* *Grosso v. Miramax Film Corp.*, 383 F.3d 965, 967 (9th Cir. 2004) (calling a claim for breach of implied-in-fact contract “a *Desny* claim”).

191. *Desny*, 299 P.2d at 270.

192. *Gunther-Wahl Prods., Inc. v. Mattel, Inc.*, 128 Cal. Rptr. 2d 50, 63 (Ct. App. 2002).

193. UNIF. TRADE SECRETS ACT § 1(2)(ii)(B)(II) (1985).

194. *See, e.g.,* *Burten v. Milton Bradley Co.*, 763 F.2d 461, 467 (1st Cir. 1985) (disclosure of trade secret to prospective buyer creates obligation of confidentiality); *Heyman v. AR. Winarick, Inc.*, 325 F.2d 584, 586–87 (2d Cir. 1963) (disclosure to prospective buyer of business creates reasonable expectation of confidentiality); *Macquarie Bank Ltd. v. Knickel*, 723 F. Supp. 2d 1161, 1186 (D.N.D. 2010) (relationship between bank and loan applicant

appropriate in assessing the conditional nature of a disclosure for the purpose of justifying the implication of a promise to pay.<sup>195</sup> Disclosure of the idea through a professional agent,<sup>196</sup> for example, or other circumstances indicating that the idea is being offered for sale, should be relevant in determining whether the disclosure was conditioned on an obligation to pay for its use.<sup>197</sup> Under trade secret law, industry custom can assist in defining the obligations of a party who has obtained a trade secret.<sup>198</sup> Although the issue remains unsettled, industry custom should play an analogous role in determining whether under the *Desny* rule the disclosure of an idea has created an implied-in-fact contract. The *Nimmer* treatise to the contrary,<sup>199</sup> an impressive array

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creates obligation of confidentiality under North Dakota UTSA); *Elm City Cheese Co. v. Federico*, 752 A.2d 1037, 1052 (Conn. 1999) (accountant-client relationship implies duty of confidentiality); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b (1993) (“If the owner of a trade secret discloses information for a limited purpose that is known to the recipient at the time of the disclosure, the recipient is ordinarily bound by the limitation unless the recipient has indicated an unwillingness to accept the disclosure on such terms.”).

195. See *Landsberg v. Scrabble Crossword Game Players, Inc.*, 802 F.2d 1193, 1196–97 (9th Cir. 1986) (disclosure of manuscript for limited purpose of obtaining permission to use a trademark gave rise under California law to an implied promise by the recipient not to use the material without payment).

196. See *Benay v. Warner Bros. Entm’t, Inc.*, 607 F.3d 620, 631 (9th Cir. 2010); see also *Donahue v. Ziv Television Programs, Inc.*, 54 Cal. Rptr. 130, 138 (Dist. Ct. App. 1966) (noting that, because an agent set up the first meeting between defendants and plaintiffs, defendant should have understood “that the persons whom the agent brought together with him were not social callers”); Julie A. Byren, *When the Million-Dollar Pitch Doesn’t Pay a Dime: Why Idea Submission Claims Should Survive Copyright Preemption*, 28 BERKELEY TECH. L.J. 1037, 1046 (2013) (“In today’s post-*Desny* world, screenwriters interested in submitting their work to producers must seek representation with an agent or manager who can facilitate the submission.”).

197. *Desny v. Wilder*, 299 P.2d 257, 270 (Cal. 1956) (recognizing that “the circumstances preceding and attending disclosure” are relevant in establishing an implied promise).

198. See, e.g., *Flotec, Inc. v. S. Research, Inc.*, 16 F. Supp.2d 992, 1007 (S.D. Ind. 1998) (“The evidence does not support, however, a uniform custom of keeping such information confidential when it concerns components of a product already on the market and where the customer does not ask for any promise of confidentiality.”) (applying Indiana UTSA); *Vantage Point, Inc. v. Parker Bros., Inc.*, 529 F. Supp. 1204, 1218 (E.D.N.Y. 1981), *aff’d*, 697 F.2d 301 (2d Cir. 1982) (board game industry custom potentially relevant in determining whether implied-in-fact contract exists); see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b (1993) (“In some cases the customs of the particular business or industry may be sufficient to indicate to the recipient whether a particular disclosure is in confidence.”).

199. See 5 NIMMER & NIMMER, *supra* note 1, § 19D.05[A][2][c] (“It is doubtful that there actually exists, today, any industry custom to pay for *ideas* . . . . In sum, insofar as creating an implied contract from whole cloth is concerned, the better view is that industry custom does not do it.”). The chapter on *The Law of Ideas* in the *Nimmer* treatise was written by Professor Lionel Sobel, who in an earlier article had criticized the prior version of the chapter that had offered support for the use of custom. See Sobel, *supra* note 6, at 44–47. Professor Sobel maintains that there is no industry custom to pay for ideas (as opposed to protected expression), offering as evidence “the widespread use of releases and limited liability agreements” that absolve idea recipients of the obligation to pay. *Id.* at 45. But the issue is not whether recipients customarily limit their liability by contract, but instead whether they customarily expect to pay in the absence of such contracts. The prevalence of contractual limitations actually cuts in the opposite direction, supporting rather than under-

of cases recognizes the relevance of industry custom in supporting a *Desny* claim.<sup>200</sup>

Conditioning disclosure on payment for use is not itself sufficient to justify the implication of a promise to pay under the rule in *Desny*. The recipient must voluntarily accept the disclosure knowing the condition on which it is offered.<sup>201</sup> In cases like *Desny* — where the recipient expressly acknowledges an obligation to pay upon use — this second element is clearly satisfied. At the opposite extreme, as described in *Desny*, are the cases involving an “idea man who blurts out his idea without having first made his bargain . . . .”<sup>202</sup> The law of trade secrets does not permit a trade secret owner to unilaterally create an obligation of confidentiality without the consent of the party who has received the disclosure.<sup>203</sup> Similarly, an idea submitter who discloses an idea before the recipient has engaged in any conduct from which a promise might be inferred does not have a valid implied-in-fact contract claim.<sup>204</sup> A more difficult case is presented when the recipient, knowing in advance that an idea submitter intends to make a

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mining the understanding that payment may be owed in the absence of contractual precautions. Professor Sobel ultimately concludes that, “[e]ven if ideas are customarily paid for in the entertainment industry, the role of such custom in creating an implied contract has never been explained persuasively.” *Id.* at 45–46.

200. *E.g.*, *Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424, 435 (2d Cir. 2012) (“Industry custom may establish an implied promise by the offeree to pay the offeror if the idea is used under the circumstances of a particular transaction.”) (applying California law); *Montz v. Pilgrim Films & Television, Inc.*, 649 F.3d 975, 978 (9th Cir. 2011) (allegations that compensation was expected under industry practice sufficient to state a claim for breach of implied contract) (applying California law); *Nadel v. Play-By-Play Toys & Novelties, Inc.*, 208 F.3d 368, 371–72 (2d Cir. 2000) (“To facilitate the exchange of ideas, [industry custom] calls for companies to treat the submission of an idea as confidential. If the company subsequently uses the disclosed idea, industry custom provides that the company shall compensate the inventor, unless, of course, the disclosed idea was already known to the company.”) (applying New York law); *Whitfield v. Lear*, 751 F.2d 90, 95 (2d Cir. 1984) (material issue of fact as to customs of the television industry sufficient to prevent summary judgment against the plaintiff) (applying California law); *McGhan v. Ebersol*, 608 F. Supp. 277, 285 (S.D.N.Y. 1985) (“An implied-in-fact contract may be based upon industry custom or usage regarding submission and use of ideas.”) (applying New York law); *see also* GOLDSTEIN, *supra* note 7, § 17.8.2 (“Trade custom may also support an implied contract.”).

201. *Desny*, 299 P.2d at 270.

202. *Id.*

203. *See, e.g.*, *Smith v. Snap-On Tools Corp.*, 833 F.2d 578, 580 (5th Cir. 1987); *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 898 (5th Cir. 1981).

204. *See, e.g.*, *Keane v. Fox Television Stations, Inc.*, 297 F. Supp. 2d 921, 942 (S.D. Tex. 2004), *aff’d*, 129 F. App’x 874 (5th Cir. 2005) (“Neither the act of mass-mailing a ‘sales packet’ to a stranger, wherein an idea is described, nor the act of advertising an unprotected idea for sale on the Internet is an act likely to create an implied contract between the idea man and those who read of his idea as a result.”); *Reeves v. Alyeska Pipeline Serv. Co.*, 926 P.2d 1130, 1140 (Alaska 1996) (“The idea is submitted without warning; it is transmitted before the recipient has taken any action which would indicate a promise to pay for the submission. Under this scenario, a contract will not be implied.” (citation omitted)); *Glane v. Gen. Mills, Inc.*, 298 P.2d 626, 630 (Cal. Dist. Ct. App. 1956); *Smith v. Recrion Corp.*, 541 P.2d 663, 665 (Nev. 1975).

disclosure with use conditioned on payment, accepts the disclosure without objection. Some cases have interpreted *Desny* to permit an implied-in-fact contract claim based on the recipient's failure to stop the impending disclosure.<sup>205</sup> Other courts are more reluctant to base an implied promise on mere inaction by the recipient.<sup>206</sup> Here too, however, the customary practices in the industry can assist in defining the reasonable expectations of the parties.<sup>207</sup> A promise is more easily implied when the recipient has solicited or invited the conditional disclosure.<sup>208</sup> Such affirmative conduct can indicate the recipient's willingness to accept the disclosure on the offered terms.<sup>209</sup>

### B. Federal Preemption of Contractual Idea Protection

Recognizing ideas as potential trade secrets also clarifies the relationship between state contractual protection of ideas and the preemptive effect of federal intellectual property law. The United States Supreme Court has attempted to harmonize federal patent law and state contractual protection of trade secrets, and the Court's legal and

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205. See, e.g., *Whitfield*, 751 F.2d at 92 ("Thus, if a producer accepts a submitted idea with full knowledge that the offeror expects payment in the event of use, California courts impose liability under a theory of implied-in-fact contract."); *Donahue v. Ziv Television Programs, Inc.*, 54 Cal. Rptr. 130, 138 (Dist. Ct. App. 1966) (interpreting *Desny* to require that the recipient "must have an opportunity to reject disclosure on the terms offered.").

206. See *Reeves*, 926 P.2d at 1141 (disagreeing with the proposition of California law that "inaction may be seen as consent to a contract" and holding that "[o]nly under exceptional circumstances would inaction demonstrate an intent to enter a contract") (applying Alaska law).

207. See *Whitfield*, 751 F.2d at 93 (holding that facts of case, along with "the allegation of custom in the industry," sufficed to preclude summary judgment on implied-in-fact claim relating to television script) (applying California law); *Reeves*, 926 P.2d at 1141 n.14 ("We recognize the possibility of a rare case in which inaction could express intent to form a contract. For example, a contract would be implied if the parties' history of dealings demonstrated that they had entered into similar contracts in the past, or if it were proven in a particular field or industry that a recipient's silence constitutes agreement to pay for an idea upon use.").

208. 5 NIMMER & NIMMER, *supra* note 1, § 19D.05[A][2][a][ii].

209. In *Gunther-Wahl Products, Inc. v. Mattel, Inc.*, 128 Cal. Rptr. 2d 50 (Ct. App. 2002), the trial court gave jury instructions that included the following: "A request for a submission or the absence of a request for a submission is a factor that *may* be considered in deciding whether there is an implied-in-fact contract." *Id.* at 63. The appellate court held that the permissive nature of the instruction was incorrect: "A request for submission under the particular facts in the case at bench *must* be part of the consideration in deciding whether there is an implied-in-fact contract." *Id.*; see also *Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424, 435 (2d Cir. 2012) (holding that complaint stated a claim on which relief could be granted, based on alleged industry custom to pay for television ideas accepted from outside submissions) (applying California law); *Reeves*, 926 P.2d at 1141 ("[A] request by the recipient for disclosure of the idea usually implies a promise to pay for the idea if the recipient uses it."). A similar approach has been adopted with respect to an implied obligation of confidentiality applicable to trade secrets. See *Smith v. Snap-On Tools Corp.*, 833 F.2d 578, 580 (5th Cir. 1987) ("When a manufacturer has actively solicited disclosure from an inventor, then made use of the disclosed material, the manufacturer may be liable for use or disclosure of the secret in the absence of any expressed understanding as to confidentiality.").

policy analysis is also useful in understanding the relationship between contracts involving trade secrets and federal copyright law.

### 1. Federal Patent Law

In general, patent law does not impede the enforcement of contracts that restrict the use of trade secrets, even when the ideas fall within the subject matter of the patent statute.<sup>210</sup> In *Aronson v. Quick Point Pencil Co.*,<sup>211</sup> the Supreme Court held that federal patent law did not preempt continued enforcement of a licensing agreement covering a trade secret that had ceased to be confidential when the product embodying the idea was offered for sale to the public by the licensee.<sup>212</sup> The parties had entered the licensing agreement while an application for a patent was pending.<sup>213</sup> The license provided for a royalty of five percent on sales but reduced the rate by half if no patent was issued within five years.<sup>214</sup> The patent application eventually was rejected.<sup>215</sup> The licensee, faced with competition from copiers who owed no duty to pay royalties to the inventor, sought a declaratory judgment that continued enforcement of the licensing agreement would conflict with the federal policy protecting access to ideas in the public domain.<sup>216</sup> The Supreme Court disagreed, noting that “[s]tate 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.”<sup>217</sup> The Court emphasized that the agreement did not withdraw the idea from the public domain: “Enforcement of [licensee’s] agreement, however, does not prevent anyone from copying the keyholder. It merely requires [licensee] to pay the consideration which it promised in return for the use of a novel device which enabled it to pre-empt the market.”<sup>218</sup> Unlike potential tort liability for the use of an idea, enforcement of contractual obligations affects only the promisor, not the general public.<sup>219</sup>

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210. “[B]reach of contract claims are generally deemed consistent with the federal patent laws and thus do not give rise to federal patent preemption.” Graves & Tippet, *supra* note 132, at 102.

211. 440 U.S. 257 (1979).

212. *Id.* at 266.

213. *Id.* at 259.

214. *Id.*

215. *Id.* at 260.

216. *Id.*

217. *Id.* at 262.

218. *Id.* at 264.

219. “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.” Graves & Tippet, *supra* note 132, at 92.

The Supreme Court distinguished its earlier decision in *Brulotte v. Thys Company*,<sup>220</sup> which held that a contractual obligation to pay royalties for use of a patented device could not be enforced beyond the life of the patent.<sup>221</sup> That decision rests on the principle that patent holders should not be permitted to use the leverage of a patent monopoly to extend protection beyond the statutory term.<sup>222</sup> In *Aronson*, the Court viewed the existence of an alternative royalty rate in the event that no patent was issued as evidence that there had been no improper leveraging of the potential patent monopoly.<sup>223</sup> The Court in *Aronson* also distinguished *Lear, Inc. v. Adkins*,<sup>224</sup> which held that a patent license could not preclude the licensee from challenging the validity of the licensed patent in order to avoid the obligation to pay accrued royalties.<sup>225</sup> That decision was based on a federal policy of encouraging challenges to issued patents, a policy not implicated by the agreement in *Aronson*.<sup>226</sup>

Thus, outside the narrow confines of decisions like *Brulotte* and *Lear*, federal patent law should not restrict the enforcement of contracts regulating rights in ideas. In one famous case predating the Supreme Court's preemption jurisprudence, *Warner-Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*,<sup>227</sup> a federal district court refused to declare that the licensee of the formula for Listerine was no longer obligated to pay royalties on sales as required under a trade secret license after the secret formula became a matter of public knowledge.<sup>228</sup> Anticipating the Supreme Court's subsequent analysis, the court in *Warner-Lambert* distinguished patent and copyright licenses made against the background of a fixed statutory term from agreements relating to trade secrets.<sup>229</sup> The fixed statutory terms embody a Congressional policy judgment "designed to preserve exclusivity in the grantee during the statutory term and to release the patented or copyrighted material to the general public for general use thereafter."<sup>230</sup> With respect to trade secrets, on the other hand, "there is no such public policy. The parties are free to contract with respect to a secret formula or trade secret in any manner which they determine for their own best interests."<sup>231</sup> Since they bind only the parties,

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220. 379 U.S. 29 (1964).

221. *Id.* at 32.

222. *Id.*

223. *Aronson*, 440 U.S. at 265.

224. 395 U.S. 653 (1969).

225. *Id.* at 670-71.

226. *See Aronson*, 440 U.S. at 264.

227. 178 F. Supp. 655, (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960).

228. *Id.* at 659.

229. *Id.* at 665.

230. *Id.*

231. *Id.* So-called "hybrid" licenses, which "encompass[] inseparable patent and non-patent rights," remain subject to the limitations established in *Brulotte*. *Kimble v. Marvel*

contractual restrictions on the use of ideas already in the public domain should fall outside the preemptive shadow of federal patent law,<sup>232</sup> although they may sometimes be unenforceable under state law as an unreasonable restraint of trade.<sup>233</sup>

## 2. Federal Copyright Law

Some courts have extended section 301's preemption of state rights that are equivalent to copyright for works within the subject matter of the statute to bar the enforcement of contracts.<sup>234</sup> Ideas, although not copyrightable, are within the subject matter of the Copyright Act;<sup>235</sup> thus, the issue is whether contracts provide state rights that are "equivalent" to the exclusive rights of copyright specified in section 106.<sup>236</sup> A trade secret perspective on ideas and the Supreme Court's analysis of trade secret contracts in *Aronson* offer helpful insights.

The preemption analysis is identical for express and implied-in-fact contracts.<sup>237</sup> Both are "real" contracts premised on mutual assent, as opposed to contracts implied-in-law, which represent non-consensual obligations imposed by the law to remedy unjust enrichment.<sup>238</sup> Many courts have held that federal copyright law never

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Entm't Inc., 727 F.3d 856, 857 (9th Cir. 2013) (royalty obligation under a settlement agreement subsuming patent and non-patent rights could not be enforced following expiration of the patent).

232. See, e.g., *Universal Gym Equip., Inc. v. ERWA Exercise Equip. Ltd.*, 827 F.2d 1542, 1550 (Fed. Cir. 1987) (distinguishing state tort protection from contracts by noting that "[p]arties to a contract may limit their right to take action they previously had been free to take" so long as the contract did not "conflict with the patent law").

233. See generally MELVIN JAGER, *TRADE SECRETS LAW* § 13:3 (2013) (analyzing the rules applicable to the enforcement of agreements that restrain trade); *RESTATEMENT (SECOND) OF CONTRACTS* § 188 (1981) (setting forth standard for enforceability of "promise[s] to refrain from competition").

234. See, e.g., *Canal+ Image UK Ltd. v. Lutvak*, 773 F. Supp. 2d 419, 446 (S.D.N.Y. 2011) (holding that claim for breach of contract related to musical adaptation of film is preempted because "the claim merely alleges that Defendants have committed 'an act that would, by itself, infringe one of the exclusive rights provided by federal copyright law'" (quoting *Briarpatch Ltd., L.P. v. Phoenix Pictures, Inc.*, 373 F.3d 296, 305 (2d Cir. 2004))).

235. See *supra* text accompanying notes 170–73.

236. 17 U.S.C. § 106 (2012) (granting exclusive rights of reproduction, creation of derivative works, public distribution, performance, and display).

237. *Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424, 432 (2d Cir. 2012) ("As long as the elements of a contract are properly pleaded, there is no difference for preemption purposes between an express contract and an implied-in-fact contract."); see also 5 *NIMMER & NIMMER*, *supra* note 1, § 19D.03[C][2].

238. Although a few lower court decisions have failed to adequately distinguish implied-in-fact and implied-in-law contracts in their preemption analysis, see, e.g., *Worth v. Universal Pictures, Inc.*, 5 F. Supp. 2d 816, 821–22 (C.D. Cal. 1997), appellate courts have specifically emphasized the distinction, see, e.g., *Forest Park Pictures*, 683 F.3d at 432 ("There is, however, a significant difference for preemption purposes between contracts implied-in-fact and contracts implied-in-law."); *Wrench LLC v. Taco Bell Corp.*, 256 F.3d 446, 458–59 (6th Cir. 2001).

preempts the enforcement of contracts, whether express or implied-in-fact. Judge Easterbrook forcefully articulated that position in *ProCD, Inc. v. Zeidenberg*,<sup>239</sup> in which a database compiler sought to enforce an end user license against a purchaser of its electronic compilation: “A copyright is a right against the world. Contracts, by contrast, generally affect only their parties; strangers may do as they please, so contracts do not create ‘exclusive rights.’”<sup>240</sup> Citing *ProCD*, the Eleventh Circuit took the same position on the preemption of contract claims;<sup>241</sup> the Federal Circuit, applying First Circuit law, also embraced the *ProCD* rationale.<sup>242</sup> The Fifth Circuit, adopting the opinion of the district court, had previously reached a similar conclusion.<sup>243</sup> The legislative history of section 301 supports this approach. Commenting on the preemption provision, the influential House Report states, “[n]othing in the bill derogates from the rights of parties to contract with each other and to sue for breaches of contract.”<sup>244</sup>

A trade secret perspective on ideas reinforces this approach. In upholding a trade secret license against a claim that it was preempted by federal patent law, the Supreme Court in *Aronson* emphasized that enforcement of the contract would not contravene federal patent policy by withdrawing the subject matter from the public domain.<sup>245</sup> The public remained free to copy the product; enforcing the contract merely required the licensee to pay the promised consideration.<sup>246</sup> That rationale also supports the unimpeded enforcement of contracts that deal with the subject matter of federal copyright law, since unlike copyright protection, contracts offer protection only against the contracting parties.<sup>247</sup> The Court in *Aronson* also emphasized that the en-

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239. 86 F.3d 1447 (7th Cir. 1996).

240. *Id.* at 1454.

241. *Lipscher v. LRP Publ'ns, Inc.*, 266 F.3d 1305, 1318 (11th Cir. 2001) (“As the Seventh Circuit has stated, claims involving two-party contracts are not preempted because contracts do not create exclusive rights, but rather affect only their parties.”).

242. *Bowers v. Baystate Techs., Inc.*, 320 F.3d 1317, 1324–25 (Fed. Cir. 2003); *see also* GOLDSTEIN, *supra* note 7, § 17.2.1.2 (“Contract law is a good example of a state law that will be immune from preemption under the extra element test . . . [I]n addition to [unauthorized use], contract law requires the plaintiff to prove the existence of a bargained-for exchange — something it need not prove in a cause of action for copyright infringement.”); Miller, *supra* note 12, at 768–73 (supporting the *ProCD* position).

243. *Taquino v. Teledyne Monarch Rubber*, 893 F.2d 1488, 1501 (5th Cir. 1990) (“This action for breach of contract involves an element in addition to mere reproduction, distribution or display: the contract promise made by Taquino, therefore, it is not preempted.” (citations omitted)).

244. H.R. REP. NO. 94-1476, at 5748 (1976). At one point an earlier version of section 301 contained a list of state rights that were not equivalent to any of the exclusive rights of copyright, including breaches of contract. *Id.* The examples were deleted as a result of a disagreement over the inclusion of “misappropriation” on the list of non-preempted rights. *See* 122 CONG. REC. 32,015 (daily ed. Sept. 22, 1976).

245. 440 U.S. 257, 262 (1979).

246. *Id.* at 264.

247. An exception might be shrink-wrap, click-on, and similar contractual devices that purport to bind everyone with access to the protected work. *See* Miller, *supra* note 12, at



forcement of contracts furthers the federal patent policies fostering invention and promoting disclosure to the public,<sup>248</sup> policies that are also furthered by protecting contracts from preemption under section 301 of the Copyright Act. Preserving contract rights in ideas from federal preemption also complements the broad preservation of contract claims under section 7 of the UTSA.

Some courts have disputed the view that contract rights are not equivalent to the exclusive rights of copyright. The Sixth Circuit in *Wrench LLC v. Taco Bell Corp.*<sup>249</sup> said flatly, “we do not embrace the proposition that all state law contract claims survive preemption simply because they involve the additional element of promise.”<sup>250</sup> According to the court’s analysis, the nature of the promise is determinative: “If the promise amounts only to a promise to refrain from reproducing, performing, distributing or displaying the work, then the contract claim is preempted.”<sup>251</sup> This approach is well-represented in the district court case law.<sup>252</sup> In addition, at least two circuits have declined to decide whether the required proof of a promise is sufficient in itself to render contractual claims not equivalent to copyright protection.<sup>253</sup>

Regardless of whether all contract claims are safe from preemption under section 301, or only those that do not overlap with one of

770–72. *But see* Davidson & Assocs. v. Jung, 422 F.3d 630, 639 (8th Cir. 2005) (right to reverse-engineer forfeited by acceptance of end user licensing agreement); *Bowers*, 320 F.3d at 1325.

248. *Aronson*, 440 U.S. at 262–63 (“Permitting 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 . . .”).

249. 256 F.3d 446 (6th Cir. 2001).

250. *Id.* at 457.

251. *Id.*

252. *E.g.*, *Canal+ Image UK Ltd. v. Lutvak*, 773 F. Supp.2d 419, 446 (S.D.N.Y. 2011) (determining, on facts of case, that breach of contract claim relating to licensing agreement is preempted); *Madison River Mgmt. Co. v. Bus. Mgmt. Software Corp.*, 351 F. Supp.2d 436, 443–44 (M.D.N.C. 2005) (holding that alleged unauthorized copying at center of breach of contract claim was “nothing more than distribution” protected by Copyright Act); *Entous v. Viacom Int’l, Inc.*, 151 F. Supp.2d 1150, 1159 (C.D. Cal. 2001) (finding that breach of contract claim was “based solely on the Defendant’s unauthorized use of [plaintiff’s] ideas without compensation” and therefore was preempted); *Selby v. New Line Cinema Corp.*, 96 F. Supp.2d 1053, 1059–60 (C.D. Cal. 2000); *Tavormina v. Evening Star Prods., Inc.*, 10 F. Supp.2d 729, 734 (S.D. Tex. 1998); *Am. Movie Classics Co. v. Turner Entm’t Co.*, 922 F. Supp. 926, 931–32 (S.D.N.Y. 1996); *see also* *Kabehie v. Zoland*, 125 Cal. Rptr.2d 721, 732–35 (Ct. App. 2002); 1 NIMMER & NIMMER, *supra* note 1, § 1.01[B][1][a][i].

253. *Forest Park Pictures v. Universal Television Network, Inc.*, 683 F.3d 424, 432 (2d Cir. 2012) (“In this case, we need not address whether preemption is precluded whenever there is a contract claim, or only when the contract claim includes a promise to pay.”); *Nat’l Car Rental Sys., Inc. v. Computer Assoc. Int’l, Inc.*, 991 F.2d 426, 434 n.6 (8th Cir. 1993) (“Because we decide that the specific contract right CA seeks to enforce is not equivalent to any of the copyright rights, we do not need to decide whether a breach of contract claim based on a wrongful exercise of one of the exclusive copyright rights is preempted.”).

the exclusive rights in section 106, the typical contract claims that arise in the idea submission context should remain viable. Federal appellate courts seem agreed that promises to pay compensation for the use of an idea, whether express or implied-in-fact, are not equivalent to any of the exclusive rights of copyright in section 106 and hence are not preempted under section 301.<sup>254</sup> Thus, neither federal copyright nor patent law should threaten the contractual protection of ideas that is preserved by the UTSA.

## VII. CONCLUSION

The ascendancy of the Uniform Trade Secrets Act brings with it a new law of ideas. Unburdened of any “use” requirement, ideas can now be trade secrets. With little notice or analysis from commentators, courts have begun to replace traditional mainstays of idea protection like “novelty” and “concreteness” with the more precise criteria of the UTSA. The new regime does more than offer a statutory mechanism for idea protection. It also displaces much of the old law of ideas. Even for portions of the old law that survive — mainly contract claims — this new trade secret perspective on ideas clarifies several troublesome issues. It also ensures an appropriate accommodation with federal patent and copyright law. This new law of ideas will doubtlessly generate its own difficult questions, but it is an improvement over the previous regime.

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254. *Forest Park Pictures*, 683 F.3d at 432–33; *Montz v. Pilgrim Films & Television, Inc.*, 649 F.3d 975, 980 (9th Cir. 2011); *Wrench LLC*, 256 F.3d at 457; *Acorn Structures, Inc. v. Swantz*, 846 F.2d 923, 926 (4th Cir. 1988) (per curiam). Circuits in which all promises are viewed as non-equivalent to copyright would obviously reach the same result. See cases cited *supra* notes 239–43; see also 1 NIMMER & NIMMER, *supra* note 1, § 1.01[B][1][a][i] (“[A] publication contract for a work may be conditioned on the publisher’s acts of reproduction and distribution of copies of the work, [but] there is another crucial act that stands as a condition to the publisher’s liability: the publisher’s promise to pay the stated royalty. The publishing contract therefore is not pre-empted.”). Nevertheless, lower court decisions have sometimes resisted enforcement of implied-in-fact promises of compensation for uses that are within the scope of copyright, holding that the promises are equivalent to copyright. See, e.g., *Madison River Mgmt.*, 351 F. Supp. 2d at 444; *Entousf*, 151 F. Supp. 2d at 1159–61; *Fischer v. Viacom Int’l, Inc.*, 115 F. Supp. 2d 535, 542 (D. Md. 2000).