INDIANA JOINS THE EMERGING MAJORITY POSITION ON UNIFORM TRADE SECRETS ACT PREEMPTION OF STATE-LAW TORT CLAIMS

Last month, an Indiana appellate court became the latest court to adopt the majority position on the question of whether the Uniform Trade Secrets Act (UTSA) displaces state-law tort claims said to protect information that is described as confidential, but not a trade secret. The Indiana decision represents an accelerating trend among courts that have considered the question of UTSA preemption—one of the hottest topics in trade secret litigation in recent years. The outcomes of this decision and others like it directly affect the manner in which trade secret cases can be litigated, as well as the risks that employers take in hiring talent from other companies.

Most state enactments of the UTSA include a provision that preempts other civil claims that are based upon claims of trade secret misappropriation. By contrast, the UTSA does not preempt claims for breach of a non-disclosure contract or criminal actions brought by a prosecutor.

Especially during the past several years, courts have grappled with the issue of whether litigants in UTSA jurisdictions may proceed with civil claims, such as “conversion” or “unjust enrichment,” as a backup in order to add a second layer of state-law intellectual property protection for information that fails to meet the more stringent definition of a UTSA trade secret.

Two different positions have emerged. Under one view—the emerging majority view—the UTSA provides a single layer of state-law intellectual property protection for business information, and information that does not qualify for protection under the statute is not protected and essentially free for all to use. Under a second view, states may permit a second layer of protection under loosely defined civil tort claims for information that fails to qualify as a trade secret.

The Indiana Court of Appeals addressed this question in HDNet, LLC v. North American Boxing Council (August 10, 2012). In HDNet, the plaintiff alleged a trade secret violation under the Indiana UTSA, and it also sought to pursue additional, alternative civil tort claims (such as “idea misappropriation”) for information that did not qualify under the UTSA. The court of appeals, citing UTSA decisions from other jurisdictions, held that the Indiana UTSA displaces alternative civil claims and allows only one layer of intellectual property protection. The court noted that accepting the opposite position would “encourage piece meal litigation and would thus fail to implement the legislature’s intended goal of uniformity” with respect to adopting the UTSA in the first place.

Indiana now joins a number of states—including Georgia, where the state’s highest court ruled on the issue earlier this year, and California, where Wilson Sonsini Goodrich & Rosati contributed to the standard ultimately adopted by the California appellate courts through a 2005 win in Digital Envoy, Inc. v. Google Inc.—in barring alternative civil claims that seek to add a second layer of state-law intellectual property protection to information that is not a trade secret.

The emerging majority view on UTSA preemption affects how trade secret claims are litigated. In a state that does not permit a second layer of intellectual property protection, trade secret plaintiffs must take care to identify and prove the trade secrecy of the information at issue in a lawsuit without resorting to generalized, catch-all descriptions under backup tort labels such as “unjust enrichment.” This requires early planning and collaboration between attorneys and engineers. Likewise, trade secret defendants should raise UTSA preemption arguments early in a litigation to clarify the claims at issue in order to establish that the claims do not qualify as trade secrets.

The majority position on UTSA preemption may have the greatest effect outside the litigation context. When companies hire talent from one another and need to set ground rules regarding the information learned at prior jobs that employees can and cannot use at new jobs, the majority position on UTSA preemption provides a clearer rule for what is protectable, and thus makes hiring and lawsuit prevention more predictable.

Wilson Sonsini Goodrich & Rosati is actively following developments around the country with respect to all aspects of the Uniform Trade Secrets Act, and the firm is available to assist companies, employees, newly formed businesses, and investors with trade secret litigation and counseling. For more information, please contact Fred Alvarez, Rico Rosales, Marina Tsatalis, Laura Merritt, Charles Tait Graves, or another member of the firm’s employment and trade secrets litigation practice.

Continued on page 2...
Indiana Joins the Emerging Majority Position . . .

Continued from page 1...