



Latest developments in trade secrets strategy and enforcement

## Sixth Circuit clarifies that breach-of-contract not preempted by Uniform Trade Secrets Act

Robert Manley and Kyle Ryman

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When a confidentiality or non-disclosure agreement is breached, can a trade-secret owner sue for both breach of contract and trade secret misappropriation under US state law? In a 20 August decision *Metron Nutraceuticals v Cook*, the US Court of Appeals for the Sixth Circuit answered that question: “Yes.”

As such, the *Metron* decision adds further clarity on what claims the Uniform Trade Secrets Act preempts.

First introduced in 1979, the Uniform Law Commission intended for the UTSA to bring uniformity to trade secret law across the several states. Up until then, trade secret law had developed unevenly. And to the extent it had developed, uncertainty abounded with respect to the scope of trade secret protection.

The UTSA has made great strides in solving those problems. It has been widely adopted. Since its introduction and subsequent amendment in 1985, every state but New York and North Carolina has adopted some version of the UTSA.

Central to the UTSA’s statutory scheme is Section 7, which is the UTSA’s preemption provision. The preemption provision is broad. As amended, Section 7 generally “displaces conflicting tort, restitutionary, and other law of [the] State providing civil remedies for misappropriation of a trade secret”.

So does UTSA’s preemption provision, Section 7, prevent parallel breach-of-contract claims?

No – according to the *Metron* court.

*Metron* presented a familiar fact pattern. A physician developed a novel process for creating certain nutritional supplements. The physician then formed Metron, a new company which was to monetise the nutritional supplements. Metron then explored contracting with other businesses to sell its nutritional supplements.

Before Metron divulged confidential information or trade secrets to prospective business associates, it had them execute “Mutual Confidentiality Agreements”. Cook was one such potential business associate. She executed Metron’s mutual confidentiality agreement prior to exposure to Metron’s confidential information and its trade secrets.

The business relationship went nowhere. Metron alleges that Cook developed a competing process using what she had learned from Metron's confidential information and trade secrets.

Metron sued Cook for (i) misappropriation of trade secrets under UTSA, and (ii) breach of the Mutual Confidentiality Agreement.

The Mutual Confidentiality Agreement's obligations were standard. As a condition of receiving Metron's confidential information and trade secrets, Cook agreed to use them "for the sole purpose of evaluating the possibility of future business relationships between the parties". She further agreed not to copy or reproduce the confidential information without the Metron's "prior written consent".

Cook moved for summary judgment arguing, in part, that Metron's breach-of-contract claim was preempted by UTSA's preemption provision. And she did so despite the UTSA's Section 7 expressly providing that "contractual remedies, whether or not based upon misappropriation of trade secrets", are not preempted.

The district court agreed that Metron's breach-of-contract claim was preempted by UTSA Section 7. The district court reasoned that because the UTSA exempts from preemption only contractual *remedies*, that only those "contractual remedies that differ from those available under" Ohio's version of the UTSA were not preempted.

The Sixth Circuit disagreed and reversed the ruling. Writing for a unanimous panel, Judge Helene White rejected the district court's reasoning because it "functionally" read the exception for contract claims "out of the statute".

The Court of Appeals held that the "district court did not explain how" Ohio's UTSA "can preserve contractual remedies while preempting contractual claims – the vehicle for establishing a party's right to the remedies".

Judge White also noted that reading Ohio's version of the UTSA to preempt contractual claims would be an "outlier" decision. The UTSA's Section 8 provides that it "shall be applied and construed" to make trade secret law "uniform".

White noted that the Ohio version of UTSA is no different than other states' versions, and that such an interpretation would render Ohio's trade secret law different from other states' trade secrets law without a textual distinction and thus without a basis. And "[o]ther than the district court's opinion in [*Metron*]", no other court applying the UTSA's preemption provision had found "core contract claims" preempted.

The *Metron* decision not only creates further uniformity in the trade secret law across states, it is also a win for trade secret owners.

Like in *Metron*, companies routinely use confidentiality or non-disclosure agreements to protect their trade secrets. Had the defendant's preemption argument prevailed, the utility of confidentiality agreements may have been cast into doubt.

Further, not all information qualifies as a trade secret under the UTSA. Section 1's "independent economic value" requirement often bars information from so qualifying. And if information is not a trade secret, then its owner has no claim for misappropriation under the UTSA.

Thus, companies routinely use confidentiality and/or non-disclosure agreements to protect confidential information that otherwise may not qualify as a trade secret under UTSA.

That said, owners of confidential information have had mixed results attempting to plead around the UTSA's requirements. For example, plaintiffs have tried bringing various state-law tort claims, such as conversion of confidential information, unjust enrichment, fraud, and unfair competition. The majority view is that the UTSA preempts such tort claims.

To the extent the plaintiff's claim is based on the misappropriation of information, UTSA applies and generally preempts tort claims

The exception is a core, breach-of-contract claim. The owner of the confidential information subject to a confidentiality agreement need not prove the existence of a trade secret. Rather, the owner need only make out a traditional claim for breach of contract – eg, the breach of a confidentiality or non-disclosure agreement.

For those reasons the owners of trade secrets and confidential information face a strategic decision before even filing suit: should I pursue a breach of contract claim, a misappropriation of trade secrets claim, or (as *Metron* illustrates) both?

Litigating disputes as a straight breach-of-contract case makes showing liability simpler. It can also allow for recovery whether or not the information qualifies as a trade secret. Pursuing a misappropriation of trade secrets claim opens the door to additional remedies, such as exemplary damages. But doing so comes at the cost of added case complexity.

Litigants will continue to debate the edges of UTSA preemption in the courts. But the *Metron* decision makes clear that the UTSA does not preempt core, breach-of-contract claims. Confidentiality or non-disclosure agreements remain an important tool in protecting companies' confidential information and trade secrets.

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## Robert Manley

Principal and a Trial Lawyer

McKool Smith

[rmanley@mckoolsmith.com](mailto:rmanley@mckoolsmith.com)

**Kyle Ryman**

Associate and IP Attorney

*McKool Smith*

[kryman@mckoolsmith.com](mailto:kryman@mckoolsmith.com)

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