Preemption Defenses in IP Litigation
by Scott Feldmann

A favorite tactic of the plaintiffs’ bar is to load up a complaint with many causes of action, even where the legal theories do not quite fit. Plaintiffs know that if they can survive summary judgment, the chances of a material settlement increase. This presents a challenge for defendants given motion page limits, and some courts’ informal view that only one summary judgment motion may be heard. In intellectual property (“IP”) cases with non-IP claims, an essential counter-stroke is to carefully scrutinize the complaint for available preemption defenses. Strategically, defense counsel should apply the “Texas two step.” First, use preemption to quickly sweep away all of the ancillary claims on motions to dismiss or a demurrer. Second, methodically attack the remaining IP claim on its own merits at the summary judgment stage. Summary judgment is more likely if the court has fewer causes of action to focus upon. This article discusses how to knock out preempted tag-along claims in an intellectual property case.

Conceptually, preemption defenses are available not just in conflicts between federal and state law, but also within federal law and within state law. Defense counsel should note that novel preemption arguments have been regularly unfolding over the past 15 years. It is a safe bet that creative defense counsel will continue to try to push the boundaries of preemption even further. Below is an overview of the major preemption opportunities.

Preemption Based Upon Conflicts between Federal and State Law

The Supremacy Clause of the United States Constitution resolves conflicts between federal and state law occupying the same area. Federal law reigns supreme and presents opportunities to sweep away state law claims within the federal ambit. (U.S. Const. Art. VI, cl. 2). State law that conflicts with federal law is without effect. (Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 168 (1989)).

Copyright versus State Torts

Plaintiffs asserting tort claims may escape copyright preemption by demonstrating that there is an “extra element” besides facts necessary to demonstrate copyright infringement. Section 301 of the 1976 Copyright Act (“Copyright Act”) provides that rights equivalent to an exclusive right found in copyright law, applied to copyright subject matter, are preempted. (17 U.S.C. § 301.) Assuming that one is dealing with a statutory work of authorship, such as a “literary work” or other protectable category, the focus then shifts to whether “equivalent rights” under Section 106 of the Copyright Act are pleaded under the state law claim. These exclusive rights include the right to reproduce, display, distribute and perform a copyrighted work. (17 U.S.C. § 106.) The key inquiry is whether there is an “extra element” present that changes the nature of the action from something more than a complaint that an exclusive right was infringed. (Del Madera Props. v. Rhodes & Gardner, 820 F.2d 973, 977 (9th Cir. 1987), overruled on other grounds; Fogerty v. Fantasy, Inc., 510 U.S. 517 (1994)). The Del Madera court found that an unfair competition claim was preempted, despite plaintiff’s argument that its claim was qualitatively different due to an alleged breach of fiduciary duty.

Creators of the “Yo Quiero, Taco Bell” talking Chihuahua fared better in Wrench LLC v. Taco Bell Corp., 256 F.3d 446 (6th Cir. 2001). An ad agency pitched the concept of a talking, “Psycho Chihuahua,” to Taco Bell. Taco Bell and the ad agency could not come to terms. Shortly thereafter, Taco Bell hired another ad agency who claimed that they independently created the idea of using a talking Chihuahua. Wrench sued, claiming breach of an implied-in-fact contract. Since the first agency had used copyrightable story boards, Taco Bell asserted that copyright law preempted Wrench’s claim. Taco Bell argued that the materials were copyrightable subject matter, and that the implied-in-fact contract claim was equivalent to the exclusive copyright reproduction right. Taco Bell lost. Why? Because the Sixth Circuit found an “extra element” in the implied promise to pay. The promise to pay was the “something more” needed to escape preemption. (Id. at 456.)

The presence of a license or contract may or may not satisfy the “extra element” test for avoiding copyright preemption. The Ninth Circuit found preemption of a right of publicity claim where a dispute was limited to the reproduction of an artist’s persona in copyrightable media. (Law v. Sony Music Entertainment, Inc., 448 F.3d 1134 (9th Cir. 2006)). This implicated one of the exclusive rights under federal copyright law, that of “reproduction” under 17 U.S.C. § 106, and thus the state law right of publicity claim was displaced. Since plaintiff sued the sub-licensee, the court found preemption. Depending upon the fact pattern, copyright preemption may not apply to a right of publicity claim. In two cases where “sound-alike” singers were used to imitate the voices of Bette Midler and Tom Waits, preemption did not apply. (Midler v. Ford Motor Co., 849 F.2d 460 (9th Cir. 1988); Waits v. Frito-Lay, Inc., 978 F.2d 1093 (9th Cir. 1992)).

Patent versus State Torts

To fully exploit the value of a patent, a patent holder needs to tell prospective licensees of the patent’s existence. Sometimes, a patent holder will try to up the pressure on potential licensees by sending letters alleging infringement to their customers. Does this constitute trade libel, unfair competition, or interference with contractual relations and prospective economic advantage under California law? Not unless the demands are “objectively baseless.” The Federal Circuit, the initial appellate court charged with resolving matters of patent law, recently affirmed summary judgment on the basis that federal patent law preempts such state tort law claims. (Dominant Semiconductors Sdn. Bhd. v. Osram GMBH, et al., 524 F.3d 1254, 2008 U.S. App. LEXIS 8727 (Fed. Cir. April 23, 2008)). To the extent that plaintiffs plead a federal unfair competition claim, that too is preempted. Plaintiffs asserting such claims must show “bad faith” to establish the “extra element” needed to escape preemption.

Similarly, a claim for unjust enrichment by alleged co-inventors of a patent was found preempted. (Ultra-Precision Manufacturing, Ltd. v. Ford Motor Co., 411 F.3d 1369 (Fed. Cir.June 15, 2005)). A patent holder has the exclusive rights to make, use, offer to sell, sell, and import. (35 U.S.C. § 271(a)). Ford successfully argued that plaintiffs were in essence seeking to recover damages for “making” and “using” the invention. That is squarely within the province of federal patent law, so the state law claim for unjust enrichment could not stand. The Ultra-
Preemption court noted that preemption comes in three flavors: “explicit,” “field,” or “conflict.” There was no explicit federal patent law on the subject of unjust enrichment, and Congress did not intend to exclusively occupy the field of unjust enrichment law. “Conflict preemption,” though, was apparent since an unjust enrichment claim stood “as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.” (Ultra Precision, 411 F.3d at 1377 (quoting Aronson v. Quick Point Pencil Co., 440 U.S. 257, 262 (1977))).

Preemption Based Upon Conflicts within Federal Law: Copyright versus Trademark

One colorful type of case arises from a “reverse passing off” claim involving intangible content. These cases are especially prevalent in Hollywood, publishing, and software industries. A typical plaintiff might claim that a producer stole his “treatment,” or outline for a script. By distributing a television show, the producer was “passing it off” as if the show were the producer’s own. This claim poses a direct conflict between copyright and trademark law. In the United States, only limited “moral rights” are available under copyright law, and then only for certain types of works. The moral right of “attribution” applies only to specified “work[s] of visual art” and not to literary works. (17 U.S.C. § 106(A).) On the other hand, it is well established that one cannot sell another’s goods under one’s own trademark. (Lanham Act § 43(a).) Suppose plaintiff brings a trademark claim that defendant, by selling a video copied from a movie in the public domain, was passing off the work of another as defendant’s own. How is this conflict reconciled?

Justice Scalia, writing for a unanimous Supreme Court, answered that question by striking the trademark claim. (Dastar Corp. v. Twentieth Century Fox Film Corp., 539 U.S. 23 (2003).) Justice Scalia opined that permitting such “reverse passing off” claims for intangible goods would lead to a “mutant form of copyright law.” Even the federal Lanham Act, which does not arise under the U.S. Constitution, had to give way to copyright law, which does. (U.S. Const. Art. I, § 8, Cl. 8.) Dastar held that once a work passed into the public domain, the exclusive period to exploit it had passed, and could not be impinged upon by trademark law. The constitutional right to copy, and to copy without attribution after the copyright expired, trumped rights under trademark law where intangible content is concerned.

Preemption Based Upon Conflicts within California Law: Trade Secret versus Common-Law, 17200 Claims

There is some confusion among the relatively few cases so far applying preemption of California’s Uniform Trade Secrets Act (“UTSA”) to common law causes of action. The test for preemption is whether the conduct pleaded is equivalent to facts that could support a misappropriation of trade secrets claim. (Convolve v. Compag Corp., 2006 WL 839022, *6 (S.D.N.Y. 2006) (applying California law.).) Consequently, there is no ‘material distinction’ between the wrongdoing alleged in a UTSA claim and that alleged in a different claim, the UTSA preempts the other claim.” (Id.) Nor is preemption limited to common law claims for which misappropriation of trade secrets is an element. It does not matter “what label the plaintiff puts on their claims. Rather, the court is to look beyond the label to the facts being asserted in support of the claims.” (Id.) Claims that are “based on the identical nucleus of facts as those alleged in the misappropriation of trade secrets claim” are likewise preempted. (Digital Envy, Inc. v. Google, Inc., 370 F.Supp.2d 1025, 1034 (N.D. Cal. 2005).) The rationale is that the CUTSA is the exclusive remedy, supplanting all common law claims. Thus, not just common law misappropriation claims are preempted.

Even other statutory claims may be preempted. While an unpublished decision, the Convolve court found that a California Business & Professions Code Section 17200 claim was preempted. A second unpublished opinion from the U.S. District Court of the Central District of California similarly granted summary judgment on a 17200 claim on the grounds of preemption. (Ernest Paper Products, Inc. v. Mobil Chemical Co., Inc., 1997 WL 33483520 (C.D. Cal. 1997).) In California, breach of contract, criminal remedies, and other claims not based on trade secret misappropriation are exempted from preemption. (Digital Envy, 370 F.Supp.2d at 1055 (applying Civil Code § 3426.7(bb))). CUTSA, though, is an exclusive statutory remedy for torts based upon misappropriation of trade secrets. (Callaway Golf Co. v. Dunlop Slazenger Group Americas, Inc., 318 F. Supp. 2d 216, 219 (D. Del. 2004) (construing California law.).) Preempting a common law misappropriation claim is conceptually straightforward. (Cacique, Inc. v. Robert Reiser & Co., Inc., 169 F.3d 619, 624 (9th Cir. 1999); Acumen Diagnostics Corp. v. Teracor, Inc., 260 F. Supp. 2d 941, 954 (N.D. Cal. 2003)). But defense counsel should take a close look at conversion, unfair competition and misrepresentation-based torts, including fraud, i.e., “defendant misrepresented that he would keep our trade secrets secret, and not use or disclose them.” While there are fewer reported state decisions, federal courts have regularly applied CUTSA to dismiss non-trade secret claims. The Digital Envy court swept aside common law and 17200 unfair competition and unjust enrichment claims because they pleaded the same common nucleus of facts as the statutory trade secrets claim. (Digital Envy, 370 F.Supp.2d at 1035.) Similarly, a conversion claim was found preempted by CUTSA by the U.S. District Court of Delaware. (Callaway Golf, 318 F. Supp. 2d at 219.)

In analyzing the complaint, the key focus is to look for synonyms to essential terms defined in CUTSA. For example, particular attention should be paid to any equivalents to “using” or “disclosing” either “trade secrets” or “confidential information,” as well as alleged “improper means,” including misrepresentations or breach of a duty to maintain secrecy. (See Cal. Civ. Code §§ 3426.1(a), (d).) Do not permit claims to slide by through creative use of synonyms trying to hide the fact that they are equivalent to a trade secrets claim.

Conclusion

Preemption is a fantastic weapon to clear away the underbrush of an over-pleaded complaint. Proper application can dramatically whittle a case down and save the litigants and the court from wasting resources on claims that were never intended for the available facts. Plaintiff’s counsel should avoid tacking on every claim that has a tenuous connection to their IP claim. Including them will only undercut the court’s confidence in the merits of the complaint as these claims are carved away. Defense counsel owes it to their clients to figure out the contours of their case up front, so that they can minimize the size of the battlefield. Preemption is a powerful tool for doing just that.

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