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**STATE OF MINNESOTA
IN COURT OF APPEALS
A11-1598**

C.G.H., Inc.,
d/b/a Refrigerator Media Advertising,
Appellant,

vs.

Nash Finch, Inc.,
Respondent.

**Filed April 2, 2012
Affirmed
Cleary, Judge**

Hennepin County District Court
File No. 27-CV-10-23898

William J. George, Minnetonka, Minnesota; and

Richard O. Bartz, Douglas C. Mezera, Bartz & Bartz, P.A., Edina, Minnesota (for
appellant)

David M. Wilk, Larson King, LLP, St. Paul, Minnesota (for respondent)

Considered and decided by Stoneburner, Presiding Judge; Klaphake, Judge; and
Cleary, Judge.

UNPUBLISHED OPINION

CLEARY, Judge

Appellant C.G.H., Inc. challenges the district court's dismissal of its complaint for
failure to state a claim upon which relief can be granted. Appellant argues that the

district court erred in ruling that appellant's breach-of-contract and violation-of-Minnesota's-Uniform-Trade-Secrets-Act claims are preempted by federal patent law. Because we hold that appellant's claims are preempted by federal patent law and the district court therefore properly dismissed the complaint, we affirm.

FACTS

Appellant provides magnetic coupon advertising cards (advertising cards), which are purchased by segments of the food industry and are intended to attach to consumers' refrigerators. Appellant holds a United States patent on the advertising cards. Respondent Nash Finch, Inc. is a wholesale food distributor.

In anticipation of future distribution and sale of advertising cards, the parties executed a Confidentiality Agreement and Non-Compete Agreement (confidentiality agreement) in February 2008. Under the confidentiality agreement, appellant agreed to furnish confidential information regarding the advertising cards to respondent under certain conditions. The confidentiality agreement contains the following relevant conditions:

1. [Respondent] agrees to hold all confidential or proprietary information or trade secrets ("information") in trust and confidence and agrees that it shall be used only for the contemplated purpose, and shall not be used for any other purpose or disclosed to any third party. Confidential or proprietary information for the purpose of this agreement shall include but not be limited to marketing materials and sales statistics involving the use of card(s), the card, and/or the "Refrigerator Savings" Mailer Template CD or files.

....

6. [Respondent] acknowledges the information disclosed herein is proprietary or trade secrets and in the event of any breach, [appellant] shall be entitled to injunctive relief as a cumulative and not necessarily successive remedy[.]

7. That [respondent] is prohibited from distributing or duplicating the RMA Refrigerator Savings four or eight week advertising card or derivative works unless it is authorized through the company.

8. That [respondent] fully understands that the RMA Refrigerator Savings Card is copy right protected, trademarked, and patent pending[.]

In October 2010, appellant filed a complaint against respondent for breach of contract and violation of Minnesota's Uniform Trade Secrets Act. The complaint states that the advertising card product "is proprietary and is protected under United States patent number 7,543,853 B1." The complaint alleges, "Notwithstanding the existence and validity of the confidentiality agreement, in late summer of 2010 [respondent] began to produce its own advertising cards which were virtually identical to [appellant's] proprietary product." Appellant sought a monetary judgment, a prohibitory injunction, costs, and attorney fees.

Respondent moved to dismiss the complaint under Minn. R. Civ. P. 12.02(e) for failure to state a claim upon which relief can be granted. Respondent argued that appellant's breach-of-contract and violation-of-Uniform-Trade-Secrets-Act claims are preempted by federal patent law. Following a motion hearing, the district court issued an order granting respondent's motion and dismissing the complaint. The district court determined that the only factual basis for appellant's claims "is the production of a

patented product,” that “the cause of action and the damages sought are the equivalent of a patent claim,” and that the claims are preempted by federal patent law. This appeal followed.

D E C I S I O N

I. Appellant’s breach-of-contract claim is preempted by federal patent law.

The district court determined that federal patent law preempts appellant’s claims, and therefore dismissed the complaint for failure to state a claim upon which relief can be granted. “When reviewing a case dismissed pursuant to Minn. R. Civ. P. 12.02(e) for failure to state a claim on which relief can be granted, the question before this court is whether the complaint sets forth a legally sufficient claim for relief.” *Hebert v. City of Fifty Lakes*, 744 N.W.2d 226, 229 (Minn. 2008). As this is a legal issue, the standard of review is de novo. *Bodah v. Lakeville Motor Express, Inc.*, 663 N.W.2d 550, 553 (Minn. 2003). “The reviewing court must consider only the facts alleged in the complaint, accepting those facts as true and must construe all reasonable inferences in favor of the nonmoving party.” *Id.* “When federal preemption bars relief under any set of facts consistent with the pleadings, the complaint fails to state a claim and must be dismissed.” *Leonard v. Nw. Airlines, Inc.*, 605 N.W.2d 425, 428 (Minn. App. 2000).

Under the Supremacy Clause of the United States Constitution, federal laws preempt contrary state laws, and any state law that conflicts with federal law is without effect. U.S. Const. art VI, cl. 2; *Maryland v. Louisiana*, 451 U.S. 725, 746, 101 S. Ct. 2114, 2128–29 (1981). Conflict preemption arises when state law “stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.”

Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 479, 94 S. Ct. 1879, 1885 (1974) (quotation omitted).

The United States Constitution grants to Congress the power to “promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries” U.S. Const. art I, § 8, cl. 8. Under this power, Congress has passed laws regarding the issuance of patents and protection of patent rights. The purposes of the federal patent system are to foster and reward invention; promote disclosure of inventions to stimulate further innovation and permit the public to practice the invention once the patent expires; and assure that ideas in the public domain remain there for the free use of the public. *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 262, 99 S. Ct. 1096, 1099 (1979). The federal patent system also seeks to promote national uniformity in the realm of intellectual property. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 162, 109 S. Ct. 971, 983 (1989). The patent system seeks to balance promotion of innovation against preservation of free competition. *Bonito Boats*, 489 U.S. at 146, 109 S. Ct. at 975; *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230–31, 84 S. Ct. 784, 788 (1964).

“Commercial agreements traditionally are the domain of state law.” *Aronson*, 440 U.S. at 262, 99 S. Ct. at 1099. “State 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.” *Id.* However, in regulating the area of patents, states may not conflict with the

operation of the laws passed by Congress. *Kewanee Oil*, 416 U.S. at 479, 94 S. Ct. at 1885. A state cause of action that frustrates the purposes of the federal patent system is preempted. *Ultra-Precision Mfg., Ltd. v. Ford Motor Co.*, 411 F.3d 1369, 1378 (Fed. Cir. 2005). “[S]tate law cannot create a collateral set of rights available as an adjunct or expansion to patent rights.” *Waner v. Ford Motor Co.*, 331 F.3d 851, 856 (Fed. Cir. 2003).

In this case, the only wrongdoing alleged in the complaint is that respondent “began to produce its own advertising cards which were virtually identical to [appellant’s] proprietary product.” Proof of this would likely require comparison of the advertising cards that respondent allegedly produced to the patent and to the advertising cards appellant produces. This is equivalent to a patent-infringement claim. *See* 35 U.S.C. § 271(a) (2006) (“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.”). Allowing a breach-of-contract claim brought under state law would give appellant additional rights and an additional remedy for the alleged conduct, and such a claim is preempted by federal patent law. The remedies that appellant seeks are available through a patent-infringement claim. *See* 35 U.S.C. § 283 (2006) (“The several courts having jurisdiction of cases under this title may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent, on such terms as the court deems reasonable.”); 35 U.S.C. § 284, cl. 1 (2006) (“Upon finding for the claimant the court shall award the claimant damages adequate to compensate for the

infringement, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court.”). If parties are allowed to pursue state contract claims, which give them the same rights and remedies as patent claims, they may be less inclined to go through the federal patent-claims process, which would undermine the process.

On appeal, appellant argues for the first time that the complaint actually alleges breach of contract due to respondent’s distribution of advertising cards without payment or authorization; that respondent breached the confidentiality agreement by using appellant’s statistical analysis in the arrangement of advertising cards; and that the complaint alleges, in effect, a breach of a license agreement. However, these arguments are not contained in the complaint and were not presented to the district court. As such, they are not to be considered on appeal. *See Thiele v. Stich*, 425 N.W.2d 580, 582 (Minn. 1988) (“A reviewing court must generally consider only those issues that the record shows were presented and considered by the trial court in deciding the matter before it.”) (quotation omitted). Appellant’s breach-of-contract claim, as pleaded, is preempted by federal patent law.

II. Appellant’s violation-of-Uniform-Trade-Secrets-Act claim is preempted by federal patent law.

The district court determined that federal patent law preempts appellant’s violation-of-Uniform-Trade-Secrets-Act claim. Under Minnesota’s Uniform Trade Secrets Act, a party may seek damages and/or an injunction for misappropriation of trade secrets. Minn. Stat. §§ 325C.02, .03 (2010). A trade secret is information that “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 that “is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” Minn. Stat. § 325C.01, subd. 5 (2010). Misappropriation may take place when a trade secret is either acquired “by a person who knows or has reason to know that the trade secret was acquired by improper means” or disclosed or used “without express or implied consent.” *Id.*, subd. 3 (2010).

State trade secret laws are not preempted by federal patent law. *Kewanee Oil*, 416 U.S. at 492, 94 S. Ct. at 1891. State protection of trade secrets does not frustrate the objectives of the federal patent system to encourage invention and promote disclosure of inventions because the public remains free to independently discover and exploit a trade secret. *Bonito Boats*, 489 U.S. at 155, 109 S. Ct. at 979–80 (citing *Kewanee Oil*, 416 U.S. at 490, 94 S. Ct. at 1890).

Here, however, the complaint does not allege that respondent either acquired a trade secret by improper means or disclosed or used a trade secret without consent. The only assertion in regard to violation of the Uniform Trade Secrets Act is that respondent’s alleged actions (that is, beginning to produce its own advertising cards which were virtually identical to appellant’s proprietary product) “constitute misappropriation and trade secret violation.” No new facts are alleged. As already discussed, these alleged actions amount to a patent-infringement claim. Although appellant now claims that there was disclosure of confidential information that was unrelated to the production of

advertising cards, that claim was not alleged in the complaint. Appellant's misappropriation-of-trade-secrets claim, as pleaded, is preempted by federal patent law.

As a final note, the parties disagree over whether the district court's dismissal of the complaint was with or without prejudice. Although there was some discussion of this issue at the motion hearing, the district court's dismissal order does not address it. Therefore, this court declines to speculate as to the intent of the district court and directs the parties to seek guidance from the district court.

Affirmed.