Trade Secret Misappropriation (UTSA)

- Trade – any type of *valuable information*, very broad
  - formula, pattern, compilation, program, device, method, technique, or process (UTSA §4[preamble])
- Secret – *held secret by reasonable precautions*
  - reasonable efforts under the circumstances to maintain secrecy (UTSA §4(ii))
  - has value from *not being generally known* or [*not* readily ascertainable] (UTSA §4(i))
- Misappropriation – take by . . .
  - take by *improper means* (taker knows or has reason to know (KorHRtoK) taken by improper means) (UTSA §1(2)(i))
    - improper means includes (UTSA §1(1))
      - various bad acts, or
      - *breach or inducement of a breach of duty*
        - express or implied duty? [See (UTSA §1(2)(ii)(B)(II))]
        - espionage (electronic or other means)
Trade Secret Misappropriation (UTSA)

- Misappropriation -
  - disclosure or use without express or implied consent by one who meets the following (USTA §1(2)(ii))
  - acquired knowledge of the trade secret (more than “took” it?) by improper means (USTA §1(2)(ii)(A))
  - KorHRtoK that her/his knowledge of the trade secret was at time of disclosure or use: (USTA §1(2)(ii)(B))
    - derived from one who took by improper means
    - acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use
    - derived from one under a duty to P to maintain its secrecy or limit its use
  - before a material change in obtainer’s position, KorHRtoK that (i) info is a TS, and (ii) obtained by accident or mistake. (USTA §1(2)(ii)(C))

Trade Secret Misappropriation (UTSA)

1. “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means;
2. “Misappropriation” means:
   - (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
   - (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
     - (A) used improper means to acquire knowledge of the trade secret; or
     - (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was
       - (I) derived from or through a person who had utilized improper means to acquire it; or
       - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
       - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
       - (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.
Trade Secret Definitions

| Restatement 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. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.
- [6 factors, pg. 45] |
| UTSA | (4) "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. |
| Restatement (3d) of Unfair Competition | A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others. |

Trade Secret Protection Justification

- Utilitarian
  - Protection of trade secrets creates incentive to develop technology
  - What, if any, disadvantages does trade secret protection have?

- Tort-based - deterrence of wrongful acts against commercial morality and good faith dealings
  - Tort-based theory merges with common law breach of contract when the duty underlying the trade secret claim is a duty arising from contract
**Metallurgical Indus. (MI) v. 4Tek**

- Recycling technology

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**Metallurgical Indus. (MI) v. 4Tek**

- “zinc recovery” is a better process than “cold stream” to recover high-value carbide
- Mr. Bielefeldt assisting to build zinc recovery furnaces
  - MI’s contract is with Therm-O-Vac (TOV)
  - Bielefeldt is a representative of TOV
- MI’s improvements because technology not working
  - Notices to Bielefeldt that processes is confidential and disclosures in confidence
Metallurgical Indus. v. 4Tek

- What types of information can be protected as a TS?
  - Improvements, implementations
  - “negative” know-how
- What makes information a TS?
- What degree of secrecy is required?
  - Evidence of a secrets existence?
  - Effect of disclosures?
    - When does a disclosure not defeat secrecy?
      - Sufficiently limited and in holder’s economic interest
    - Implications of the test for this?

Metallurgical Indus. v. 4Tek

- What about the misappropriation element?

- Hypothetical cases based on note 2, pg. 44, assuming that the process improvements are a valid TS
  - 4Tek never was involved with MI and learns of the process improvements from the other furnace company, and then uses it to try to sell it to Smith
    - What part of the UTSA would need analysis?
    - What else would we need to know?
Metallurgical Indus. v. 4Tek – select notes

- Six factors, note 5
  - extent known outside claimant’s business
  - extent known by employees and others involved in the business
  - measures taken to guard secrecy
  - value of the information for claimant / competitors
  - cost / effort to develop
  - ease of difficulty of independent acquisition or duplication
- Known or knowable debate, notes 7 & 8

Rockwell v. DEV

- Mr. Fleck & Peloso
- Piece Part Drawings (PPD)
- Rockwell’s engineers and vendors
- PPDs versus assembly drawings
Rockwell v. DEV

- What were Rockwell’s efforts to keep drawings secure?
  - Drawing legends?
  - Use of NDAs? Enforcement?
  - Copies of drawings?
  - What else could it have done?

- Under what conditions will disclosure impose a duty on the recipient?
  - Disclosure necessary to the exploitation of a TS

- Two roles of “reasonable efforts”
  - Remedial
  - Evidentiary

Precautions:

- Effect of greater precautions?
- Are these evidence of the value prong of a TS?

“Perfect security is not optimum security”

Map this case to the UTSA

- “not generally known” AND
- “subject to reasonable efforts”
- Information can’t be turned into a TS simply by treating it as a TS
Trade Secret – notes from Rockwell v. Dev

- Problem 2-5
  - Smith accidentally develops drink formula
    - Mixture of three common ingredients
    - Called “Mobile Mud”
  - Trying to keep it secret
    - Premix it in back
    - Tell bartenders not to disclose
  - Jimmy Dean copies it
    - An expert can determine formula by looking, smelling and tasting

Disclosure of a TS

- Publish
  - Yet, publishing occurs a lot. Inventors don’t think about protection or want the prestige. Example: an issued patent.
- Selling commercial product that embodies the secret
  - If fully disclosed by the products produced from its use, protection may be fully lost.
  - Recall Metallurgical Industries – court found that disclosure only for profit would weigh in favor of being a TS. Why should that be the case? Licensing is evidence of value, but selling information is evidence of attempts to profit from its disclosure.
- TS may be publicly disclosed by someone other than TS owner
  - Independent discoverer.
  - If taken from owner A, and published by B, can A still protect it as TS? What about C, who learns of it from publication and uses it?
- Inadvertent disclosure
  - Minimal caselaw, if accidental and not widespread, perhaps still a TS.
  - If widespread, unfair to hold third parties liable?
  - But, UTSA §1(2)(ii)(C), it is misappropriation to disclose TS if one knows or has reason to know TS acquired “by accident or mistake.”
- Government required disclosure
  - Labeling of foods, drugs. Hazardous materials labeling and disclosure.
**Dupont v. Christopher**

- Procedural posture?
  - Does Dupont state a claim?
  - TS is a method for producing methanol
  - Method is potentially discoverable during plant construction

- Anything illegal about the flight?
  - Trespass?
  - FAA?

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**Dupont v. Christopher**

- Outcome as analyzed by the court?
  - Is aerial photography an improper means?
  - How does this compare to inspecting and analyzing an openly sold product?

- Outcome under UTSA?
  - “Improper means” includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means

- Commercial privacy must be protected from espionage which could not have been reasonably anticipated or prevented
  - Cost to prevent another’s spying dampens the spirit of inventiveness
**Dupont v. Christopher**

- HYPO – purchasing a satellite image from an internet web site?

![Satellite Image](www.GlobeXplorer.com) 10/15/95

**Smith v. Dravo**

- What did Dravo want to buy from Smith’s company, Safeway containers?
- What disclosures occurred from Dravo and Smith’s discussions?
- When purchase negotiations broke down, what did Dravo do?
- What resulted for Smith’s business from Dravo’s actions?
Smith v. Dravo

- Importance of interchangeability between plaintiff and defendant’s containers?
- Was Dravo in a position of trust or confidence?
  - How did this arise?
  - Taking the “burden with the good”
- Role of access in misappropriation determination?
- Other arguments on Dravo’s behalf?
  - Problems with implied confidential relationships?

RS 3d of Unfair Competition – confidential relationship is established when:

- express promise of confidentiality prior to disclosure of TS
- TS disclosed under circumstances where relationship or other facts justify the conclusion that, at the time of disclosure:
  - person KorHRtoK that disclosure intended in confidence; AND
  - other party to disclosure (discloser) was reasonable in inferring that the receiver consented to confidentiality.
Problem 2-8

- Customer sends idea to ToolCo
- ToolCo manufactures tool
- Is Customer entitled to compensation? How might the following facts change the analysis?
  - ToolCo actively solicited?
  - Customer sent idea with letter saying he wanted to negotiate a licensing agreement?
  - ToolCo has an informal policy of compensating idea submitters?

Kadant v. Seely Machine

- Kadant’s product lines

- Corlew’s role at Kadant
  - Transition to Seely

- Activity at Seely
Warner-Lambert v. Reynolds

- What is basis for Warner-Lambert’s argument to limit payments?
- Problems with these arguments?
  - Source of law and policy differences among different types of IP?
  - Risk allocation via contract?
- Any issues with the original contract including a clause that payments stop if the formula loses trade secret status?
- Implications for licensing technology?