

## IP Survey

- Module 2
- Trade Secrets

## Stenstrom Petroleum Svs. Grp, Inc. v. Mesch, 874 N.E.2d 959 (Ill. App. 2007)

- Who is Mesch?
  - What was his role at Stenstrom?
- Old PPI versus New PPI?
  - Comparative job scope?
- What information does Stenstrom assert as a trade secret?
- Result?

The screenshot shows the homepage of the Stenstrom Petroleum Services Group website. The header features the Stenstrom logo and a navigation menu with links for Home, About Us, Services, Case Studies, Safety, News, and Contact Us. The main content area is titled "PETROLEUM SERVICES" and "Petroleum Services Group". It includes a description of the company as a recognized leader in petroleum systems installation and services in the Midwest, a "View our Portfolio" link, and a list of "Affiliations" including PEI. A "Mission" section states the company's goal to establish a mutual relationship with customers, employees, and vendors.

<b>Trade Secret Definitions</b>	
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.
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<b>Stenstrom Petroleum Svs. Grp, Inc. v. Mesch</b>	
<ul style="list-style-type: none"> <li>● Six factors <ul style="list-style-type: none"> <li>● extent known outside claimant's business</li> <li>● extent known by employees and others involved in the business</li> <li>● measures taken to guard secrecy</li> <li>● value of the information for claimant / competitors</li> <li>● cost / effort to develop</li> <li>● ease of difficulty of independent acquisition or duplication</li> </ul> </li> </ul>	
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## 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** w/out 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, KorHRtK 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;

(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 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

**SI Handling Systems, Inc. v. Heisley, 753 F.2d 1244 (3rd Cir. 1985)**



- Defendants relationship to SI?
- How to differentiate between protectable “know-how” and “general knowledge and skill”?
  - ability and experience versus methods and techniques?
  - experience necessary to avoid past mistakes and failures (“negative know-how”)
- What information did the court treat as a trade secret? What escaped that classification?

**Problem** Admiral Motor Corporation produces automobiles. Over the years, the company has amassed a significant amount of useful data. Applying the UTSA definition, which of the following would qualify as a trade secret?

1. Admiral uses a metallurgical process that significantly lessens rust on all metal parts. Although this process is widely known in the shipbuilding industry, no other automobile manufacturer has thought to use it on automobiles.
2. All other automobile manufacturers use ultraviolet protection in their windows. Admiral does not. Admiral has learned that the tinting process makes windows far more likely to crack when hit by a foreign object. No other manufacturer knows that tinting has this effect.
3. Admiral's automobiles produce significantly lower levels of emissions than all others. Admiral's secret? Admiral has learned that if it inserts an ordinary household sponge into the tailpipe, it can reduce emissions by 40%. No other manufacturer currently knows this.
4. Admiral's marketing department has detailed plans to launch a major advertising campaign four months from now. This advertising campaign will stress its vehicles' low emissions and lack of rust, while shying away from any mention of the abysmally poor reliability record of most of Admiral's models.
5. Admiral keeps records of every person who has ever entered an Admiral dealership. This information is divided into four separate lists: those who currently own an Admiral, those who used to own an Admiral, but no longer own it, those who were interested in an Admiral but decided not to buy, and those who were merely asking for directions.
6. Admiral keeps a running database of its entire inventory of office supplies. Someone viewing this database would know, for example, how many paperclips Admiral has on hand today, as compared to how many it had on various dates in the past.

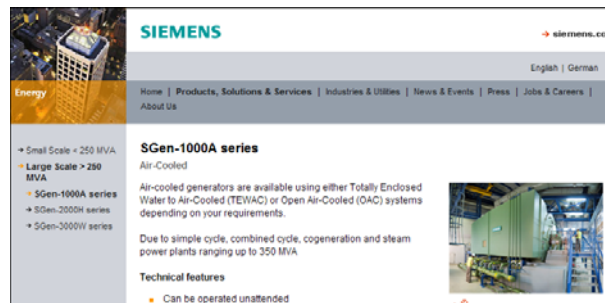
**UTSA** (4) “Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:  
 (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other 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.

## Ed Nowogroski Insurance, Inc. v. Rucker, 971 P.2d 936 (Wash. 1999)

- What are the trade secrets?
  - Where efforts to keep it secret reasonable?
- How was it “copied” by the departed employees?
- Can this mode of copying constitute misappropriation?



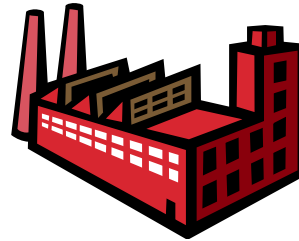
## BondPro Corp. v. Siemens Pwr Gen., Inc., 463 F.3d 702 (7th Cir. 2006)



- What was the interaction between BondPro's owner and Siemens?
- Did BondPro have a protectable trade secret?
- Did Siemens misappropriate it?

**Dupont v. Christopher 431 F.2d 1012 (5th Cir. 1970)**

- 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?



**Dupont v. Christopher 431 F.2d 1012 (5th Cir. 1970)**

- 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 431 F.2d 1012 (5th Cir. 1970)**

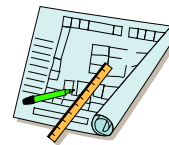
- HYPO – purchasing a satellite image from an internet web site?



**Rockwell Graphics Systems, Inc. v. DEV Industries, Inc.,  
925 F.2d 174, 178 (7th Cir. 1991) [note case; not assigned in full]**



- Mr. Fleck & Peloso
- Piece Part Drawings (PPD)



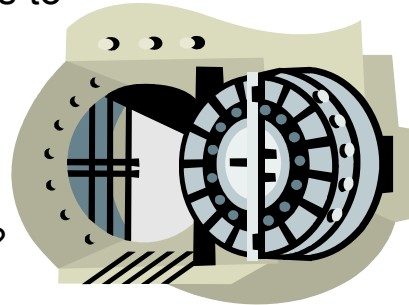
- Rockwell's engineers and vendors
- PPDs versus assembly drawings



**Rockwell Graphics Systems, Inc. v. DEV Industries, Inc.,  
925 F.2d 174, 178 (7th Cir. 1991) [note case; not assigned in full]**

- What were Rockwell's efforts to keep drawings secure?

- Drawing legends?
- Use of NDAs? Enforcement?
- Copies of drawings?
- What else could it have done?



**Problem** Admiral Motor Corporation w/ two TS: metallurgical rust-inhibiting process; sponge in tailpipe to lower emissions

1. Alpha—metallurgical process. The facts unequivocally demonstrate that Alpha obtained the knowledge by researching practices used in the shipbuilding industry. As the metallurgical process is widely known in that industry, Alpha did not have to expend much time or effort to obtain the knowledge.
2. Alpha—sponge. One of Alpha's engineers learned the secret of the sponge by examining an Admiral automobile. This Admiral automobile was owned by a private person not affiliated with Admiral, and was parked on a public street when the examination occurred.
3. Beta—metallurgical process. Every year, the automobile industry holds a swanky convention for all white-collar employees in the industry. At this year's conference, Beta sponsored a posh cocktail reception, with free liquor for all attendees. All of Beta's employees were told to be especially hospitable to any Admiral employees, and to compliment them on their success in reducing rust and emissions. However, the Beta employees were not told why they were to deal with the Admiral employees in this way. As so often happens, the liquor loosened tongues, and a bragging Admiral engineer, without any prompting, revealed the secret to his Beta counterpart.
4. Beta—sponge. Beta obtained the secret of the sponge by paying a sizable sum to an ex-officer of Admiral.

<b>Problem</b>	Admiral Motor Corporation w/ two TS: metallurgical rust-inhibiting process; sponge in tailpipe to lower emissions
5.	Gamma—metallurgical process. Like Beta and the sponge, Gamma obtained the secret of the metallurgical process by bribery. However, Gamma did not bribe an Admiral employee. Instead, after Beta obtained the secret at the cocktail party, Gamma bribed a Beta employee for the information.
6.	Gamma—sponge. Gamma learned of the sponge by sheer luck. A Gamma employee who lives near an Admiral plant happened to notice that trucks from a certain sponge supplier regularly made deliveries at the plant. Gamma asked the sponge supplier to tell it why it made so many deliveries. The sponge supplier, hoping for more business, told Gamma how Admiral used the sponges.
7.	Delta—metallurgical process. Delta learned of the metallurgical process by a twist of fate. As noted above, Beta learned of the process from an Admiral engineer at a cocktail party. The Beta engineer, however, thought that he could really impress his immediate superior if he claimed credit for coming up with the invention himself. This Beta engineer's superior was named "Peter Yew." Because Yew was also attending the convention, the engineer wrote Yew a note taking credit for the invention, and asked the hotel clerk to deliver it to "Mr. Yew's room." The unsigned note said only, "Peter: New tests from our engineering department show that use of the Vetter metallurgical process reduces rust by a third." As fate would have it, however, a high-level Delta employee named "Peter Yu" was also attending the convention. The hotel clerk, based on the Beta employee's oral directions, erroneously delivered the information to Yu rather than Yew. Yu thought the unsigned note came from one of his own engineers.
8.	Delta—sponge. A few months ago, Delta hired the Admiral engineer who had developed the idea of using the sponge to control emissions. However, Admiral has no proof that this engineer ever said anything about the sponge to anyone at Delta.
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<b>"Fencing Costs" Economic Rationale for TS Law</b>				
	Cost to Produce Information	Cost to Protect Information from Competitors ("fencing")	Sale Proceeds from Information	Profit
Produce & Sell Information w/ no Competitors	\$100	\$0	\$150	\$50
Produce & (try to) Sell Information w/ Competitors (no fencing)	\$100	\$0	\$100 or <\$100	\$0 or worse
Produce & Sell Information w/ Competitors (full fencing)	\$100	\$75	\$150	-\$25
Produce & Sell Information w/ Competitors (partial fencing + TS law)	\$100	\$25	\$150	\$25
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