

University of Dayton School of Law

FINAL EXAMINATION

**TRADE SECRET LAW**

Professor Julie Zink

Spring 2013

**INSTRUCTIONS**

1. Record your exam number HERE: \_\_\_\_\_.
2. Additionally, write your EXAM NUMBER in the appropriate place on Exam Soft or each bluebook you write in. Do not write your name anywhere on the exam materials.
3. You have **TWO (2) HOURS** to complete this examination, which is written on a total of **EIGHT (8) PAGES**. There are no attachments. For all questions, please presume that the Uniform Trade Secrets Act (UTSA) is the applicable law. Please check NOW to ensure you have all eight (8) pages of the exam before you begin.
4. This examination consists of ten (10) multiple choice questions (30%); four (4) short answer questions (20%); and one (1) essay (50%). Answer all questions in the ExamSoft document or in the Bluebook; there are no Scantron sheets.
5. IF YOU ARE HANDWRITING YOUR ANSWERS IN BLUEBOOKS: Please write legibly; please write only on the front of each page; and remember to write your exam number on EACH bluebook.
6. This is a **CLOSED BOOK/CLOSED COMPUTER** examination. You may not consult any materials outside of this exam document.
7. If you need additional facts, or need to make assumptions, state so. You should include different views of an issue if there is different treatment of the issue by different courts. You should refer to the appropriate sections of the Uniform Trade Secrets Act, where applicable.
8. At the end of the exam, you must turn in your bluebook(s) (if applicable) *and the exam itself*. **Failure to return your exam will result in not getting a grade for the course.** You may NOT discuss this exam with other students until all students have completed it. **Violation of this rule will result in a failing grade.**

**REMINDER:** For all questions, please presume that the Uniform Trade Secrets Act (UTSA), which we have been studying all semester, is the law in place.

**Multiple Choice** (worth 30 points; 3 points each) – Choose the best answer. The answer that is typed/written on your exam is the answer that will be graded.

- 1) Victoria owns an ancient Roman coin, which she purchased for One Million Dollars in 1976. There are no known pictures of the coin in existence. Victoria keeps the coin locked in a state-of-the-art vault within her mansion, which has its own security system. One evening, James breaks into Victoria's home, busts open the vault, and steals the coin. Victoria contends that James has misappropriated a trade secret. What should the result be?
  - a. Victoria should prevail because the coin qualifies as a trade secret, having independent economic value and being the subject of reasonable secrecy measures.
  - b. Victoria should prevail because James obtained the trade secret through improper means.
  - c. Victoria should lose because the coin is not information.
  - d. Victoria should lose because the coin was not protected by reasonable secrecy measures.
  
- 2) Eleanor is a researcher at an archeological reconstruction firm. Her brother, Ray, is an editor for the dental magazine, *Orthodontic Engineering*. One night, Eleanor leafs through Ray's latest issue of *Orthodontic Engineering*. She happens to run across a description of an obscure dental reconstruction process, which she realizes could be used in restoring antique ceramics. (No ceramics restorer would have thought to consult such a source for guidance.) She brings the article to work, and her firm begins using the process with great success. Because the process gives the firm an advantage over competitors, the firm maintains strict secrecy about the process. Is the process a trade secret?
  - a. No, because the process was published in *Orthodontic Engineering*, and is, therefore, no longer secret.
  - b. No, because Eleanor did not invent the process on her own.
  - c. No, because the use of the process was already known to those working in the field of dentistry.
  - d. Yes, because the process was not generally known to or reasonably ascertainable by people working in the field of archeological reconstruction.

- 3) Russell Corporation is about to enter a bid for a construction project. The bids are made in secret, with the contract going to the lowest bidder. If a Russell employee “leaks” information about the amount of Russell’s bid to a competitor, who then knowingly undercuts Russell and gets the contract, does Russell have any legal remedy?
- a. Yes, against both the employee and the competitor, because the bid is protected as a trade secret under the Uniform Trade Secrets Act (UTSA) as secret information that provides an advantage against competitors.
  - b. Yes, but only against the employee, because the bid is protected as a trade secret under the UTSA; the competitor, however, can freely make use of this information.
  - c. No, because the bid was leaked and, therefore, reasonable secrecy measures were not taken.
  - d. No, because the bid is a one-time event, which is not protected under the UTSA.
- 4) IGA grocery store purchases a secondhand computer. IGA is amused to find that the computer still contains all the files from its last owner, Dorothy Lane Market (DLM). IGA is thrilled to find copies of all of DLM’s recipes, which DLM has safeguarded with strict security. In fact, DLM had very carefully arranged for the files to be deleted before it sold the computer, but through an unforeseeable quirk in the process, the files survived. IGA makes some discrete inquiries and learns that DLM has always treated the recipes as trade secrets and that IGA is now the only other party to have access to the recipes. IGA starts using the recipes for its own products. DLM sues for trade secret misappropriation. What should the result be?
- a. IGA is not liable, as the information did not come through breach of a confidential relationship.
  - b. IGA is liable because the information was acquired through improper means.
  - c. IGA is not liable; the recipes are not protectable trade secrets because, despite all of DLM’s secrecy measures, the files were not deleted.
  - d. Even though the trade secrets were acquired by mistake, IGA is liable because it knew the recipes were trade secrets before using them.

- 5) Frederick Foster alleged he invented a system that, for a fee, would allow users to present personal information documents to a local U.S. Post Office that would allow their identity to be verified so they could receive a virtual post. In May 2008, he mailed a description of the invention to the U.S. Post Office and filed a provisional patent application with the U.S. Patent & Trademark Office (USPTO). The post office directed him to consult further with Pitney Bowes; those negotiations fizzled. Foster failed to secure non-disclosure agreements with the U.S. post office or Pitney Bowes. In June 2010, the USPTO issued a final rejection of Foster's patent application. Because Foster mistakenly failed to check off the box in his application to make a non-publication request, the USPTO published the application on December 4, 2008. In early 2011, Pitney Bowes launched a website that Foster believed directly copied his invention and trade secrets. Foster sued Pitney Bowes. What should the result be?
- a. Pitney Bowes is liable for misappropriation because it used Foster's trade secret without his permission.
  - b. Pitney Bowes is liable for misappropriation because Foster's revelation of the trade secret came during negotiations for purchase of his invention, thereby creating a quasi contract.
  - c. Foster's claims should be dismissed because he did not secure non-disclosure agreements with the U.S. Post Office or Pitney Bowes before revealing his trade secret.
  - d. Foster's claims should be dismissed because his trade secrets were disclosed in a published patent application.
  - e. Both A and B are correct.
  - f. Both C and D are correct.

- 6) Meadowlark Restaurant offers take-out service. A chef at Bailey's Bistro purchases an order of Meadowlark's signature dish, takes it to a chemical laboratory, and has its composition analyzed. Based on this chemical analysis, the chef begins making and selling the same dish at Bailey's. Meadowlark, which has carefully guarded the dish's recipe, brings suit under trade secret law. What should the result be?
- Meadowlark should lose because food items cannot be protected as trade secrets.
  - Meadowlark should prevail because Bailey's obtained the trade secret through improper means.
  - Meadowlark should lose because Bailey's action constitutes lawful reverse engineering.
  - Meadowlark should prevail because the chef at Bailey's knew or should have known that the recipe was Meadowlark's trade secret.
- 7) Andrew, a chemist, works for Givaudan, a leader in creating fragrances and flavors. One afternoon, Andrew mistakenly heats a compound ten times the normal temperature used in standard industry procedure. Contrary to all research on the subject, the new setting causes the compound to produce an amazing new fragrance. Andrew bashfully informs the department chief, and soon Givaudan's new fragrance is in high demand. Givaudan maintains strict security about this new process, making sure that it is only disclosed to the few employees with a need to know (and who have all signed non-disclosure agreements). Competitors are dumbfounded at how Givaudan created the new scent, and spend years trying to independently match it without success. Two years later, a competitor hires a spy to infiltrate Givaudan and obtain the process. Does the process have independent economic value?
- No, it was discovered by accident. No time or resources were spent trying to create a new process and/or the new fragrance.
  - Yes, the resultant fragrance is in high demand, such that the process provides Givaudan with a commercial advantage over its competitors.
  - No, Givaudan's efforts to maintain secrecy have no bearing on whether the process has independent economic value.
  - Yes, Givaudan's competitors' inability to recreate the fragrance created by the process and the later theft of the process support a finding of value.
  - A and C are both correct.
  - B and D are both correct.

- 8) As the Arbor Club's head arborist, Lee's duties include planting trees, caring for them, ordering supplies, and dealing with suppliers. The Arbor Club's accounting department is in charge of developing the software that performs many of the inventory functions. Lee uses the software as part of his work and believes that it leaves much to be desired. He makes suggestions for improvement; however, he is repeatedly told that software is "not part of [his] job" and to "leave it to the specialists." Thereafter, Lee works for six months in his spare time at home writing a new software package. He does not use any Arbor Club equipment or materials. Once complete, Lee brings a copy of the software package to work and demonstrates how much better it is than the present software. Lee then offers to sell the software to the Arbor Club, but the Arbor Club claims that it is entitled to use the software written by Lee because he is an employee. The Arbor Club also threatens to sue Lee for trade secret misappropriation if he discloses the code to others. Assuming the software code qualifies as a trade secret, who owns the rights to the trade secret – the Arbor Club or Lee?
- The Arbor Club owns the rights.
  - Lee owns the rights.
  - Both parties have rights to the trade secret.
  - No one.
- 9) Over a ten-year period, DKB Industries compiles a large database of actual and potential customers. DKB representatives visit trade shows, study industry publications, visit businesses, and take hundreds of people out for lunch, coffee, etc. The customer list is central to DKB's business; its sales force relies on it. The customer list exists on the computers of the sales people and on many printed hard copies. When a sales person leaves DKB, the list is deleted from her computer. But DKB makes no effort to keep track of paper copies, to restrict their distribution, or to prevent their copying. Nor does DKB require its employees to sign agreements limiting use of the customer lists. After an employee leaves to work for a competitor, DKB sues for trade secret infringement. What is the most likely result?
- DKB will lose because customer lists do not qualify as protectable information.
  - DKB will lose because it did not take reasonable secrecy measures to protect the customer list.
  - DKB will win because its former employee took the list with her to a competitor.
  - DKB will win because the list is protectable information, has independent economic value, and is not being generally known or readily ascertainable.

- 10) Flora Nuveau, a florist, employed Michael as her store's manager and master florist. In light of Michael's important position and the confidential business information he had obtained over the years, Flora asked Michael to sign a covenant not to compete. The proposed covenant prohibited Michael from engaging in the floral business within 30 miles of Flora's shop for six months after the termination of his employment with Flora. Michael refused to sign the agreement, yet Flora continued to employ him. With his knowledge of the business, Michael set up a competing florist. While still employed by Flora, Michael told a number of Flora's customers that he was going to enter the floral business for himself, and he began soliciting orders from them. Several weeks later, Michael terminated his employment with Flora and officially opened a competing florist. Flora sued Michael for misappropriation of trade secrets and breaches of the duties of loyalty and confidence. What is the court likely to decide?
- a. Michael has a right to start his own business and can legally solicit business from Flora's customers.
  - b. Michael's action was in direct competition with his employer and was contrary to her interest. It was a betrayal of the employer's trust and confidence in the defendant.
  - c. If Flora wanted to protect her confidential information and trade secrets, then she should have obtained an express agreement from Michael before employing him or, alternatively, have terminated his employment upon his refusal to sign the agreement.
  - d. The non-competition agreement was reasonable in nature and scope. Thus, Michael should have signed it.

**Short Answer (worth 20 points; 5 points each)**

- 11) Identify the policies in favor of and against protection of trade secrets.
- 12) List the six Restatement factors that courts often consider when determining whether the UTSA's trade secret elements have been met.
- 13) What things should be considered when determining whether to patent an invention or to hold it as a trade secret?
- 14) What types of damages are available under the UTSA and under what circumstances?

### **Essay (worth 50 points)**

On April 12, your client, Charles Dierkers, quit his job as World-Wide Marketing Manager at Pfizer Inc., and informed Pfizer's CEO that he intended to begin work with Pfizer's main competitor, Johnson & Johnson Company (J&J), on May 6. (J&J and Pfizer each earn over \$60 Billion on pharmaceutical sales annually.) Mr. Dierkers had been employed by Pfizer since 2004, having held his current position since January 2009. His new position at J&J will be International Marketing Manager. Both positions have essentially the same job duties: managing and coordinating all marketing and advertising efforts; conducting and analyzing research on customers, competitors, and market conditions; developing and implementing annual marketing plans; determining and managing the marketing budget; developing pricing strategies; and collaborating with the sales department. In taking the new position at J&J, Mr. Dierkers' annual salary will increase from \$350,000 to \$500,000.

When he began working for Pfizer, Mr. Dierkers signed an agreement not to disclose or use confidential information owned by the company. During his exit interview, Mr. Dierkers again agreed, in writing, that "I will not use or disclose any confidential or proprietary information of Pfizer in the performance of my position as the International Marketing Manager at J&J." Pfizer has taken several additional steps to maintain the secrecy of its trade secrets and confidential information, including limiting physical and electronic access to those few employees with a need to know the information; using passwords and identification badges to restrict such access; marking confidential documents as such; and providing employees with additional notice regarding the importance of trade secrets via a policy manual and quarterly trainings.

Despite assurances from Mr. Dierkers and J&J that Pfizer's trade secrets – namely, its pricing strategies, marketing plans, and market research – would not be used or disclosed, Pfizer sued Mr. Dierkers on April 16, claiming "actual or threatened use or disclosure of Pfizer's trade secrets" in violation of Ohio's Uniform Trade Secrets Act (which, for purposes of this exam, should be considered identical to the UTSA). Pfizer's Complaint did not include any examples of actual misappropriation. Rather, it essentially claims that the disclosure of its trade secrets is unavoidable because Mr. Dierkers will inevitably use them in his new position at J&J. In light of the diversity of citizenship and the amount in controversy, the Complaint was filed in the United States District Court for the Southern District of Ohio. (Jurisdiction and venue are not disputed.) In conjunction with the filing of the Complaint, J&J moved for a preliminary injunction to enjoin Mr. Dierkers from assuming his duties as International Marketing Manager at J&J. Mr. Dierkers hired our firm to represent him in this litigation.

Based on the undisputed facts provided above, please explain how you expect the Court to rule in response to Plaintiff's Motion for Preliminary Injunctive Relief. In other words, please provide an objective analysis of the law and relevant facts, in addition to the likely outcome.

***END OF EXAMINATION***