

Court of Appeals, State of Michigan

ORDER

WHITESELL INTERNATIONAL CORP v WILLIAM WHITAKER

Docket No. 287569

LC No. 05-518716-CZ

William B. Murphy
Chief Judge

Kathleen Jansen

Brian K. Zahra
Judges

The Court orders that the motion for reconsideration is GRANTED, and this Court's majority opinion issued September 14, 2010, is hereby VACATED. New opinions are attached to this order.



A true copy entered and certified by Sandra Schultz Mengel, Chief Clerk, on

JAN 18 2011

Date

Sandra Schultz Mengel
Chief Clerk

STATE OF MICHIGAN
COURT OF APPEALS

WHITESSELL INTERNATIONAL CORP,

Plaintiff/Counter-
Defendant/Appellant,

v

WILLIAM WHITAKER,

Defendant/Counter-
Plaintiff/Appellee,

and

MRC INDUSTRIAL GROUP INC,

Defendant,

and

PIERCETEK INC,

Defendant/Counter-Plaintiff.

UNPUBLISHED

January 18, 2011

No. 287569

Wayne Circuit Court

LC No. 05-518716-CZ

ON RECONSIDERATION

Before: MURPHY, P.J., and JANSEN and ZAHRA, JJ.

PER CURIAM.

In this commercial litigation case, plaintiff/counter-defendant Whitesell International Corp (WIC), a successor of Whitesell Corporation appeals as of right a January 30, 2008 judgment in favor of defendant/counter-plaintiff William Whitaker (Whitaker). The judgment reflects the jury's finding in favor of Whitaker against WIC in the amount of \$6 million for tortious interference with business relationship or expectancy, and a \$500,000 award "as a result

of [WIC's] flagrant violation of [t]he Michigan Antitrust Reform Act – MCL 445.773 *et seq.*”¹ The judgment also reflects that the trial court ordered WIC to pay Whitaker \$1,862,671.37 in attorneys fees, \$205,440.61 in costs, \$36,600 in expert witness costs and \$661,972.88 in prejudgment interest. Initially, by a split decision, we affirmed the judgment of the lower court. WIC sought reconsideration.

On reconsideration, we affirm the September 5, 2006 order dismissing “Counts I, II, and IV of [WIC]’s complaint,” on the basis of *res judicata*/collateral estoppel. We also affirm trial court’s order denying WIC’s motion for summary disposition on the basis of the *Noerr-Pennington* doctrine. However, we reverse the verdict because we conclude the trial court committed error requiring reversal in directing a verdict on the question of trade secret. We affirm in part and reverse in part.

I. BRIEF INTRODUCTION

This case is the third lawsuit that an entity related to WIC has filed against Whitaker. WIC’s complaint was dismissed on the basis of *res judicata*, but Whitaker continued to pursue his counterclaim against WIC that generally alleges that WIC, through repeated sham litigation to preserve its monopoly, prevented Whitaker from manufacturing interconnected pierce nuts. In this case, WIC claimed that Whitaker had disclosed a trade secret relating to a process to manufacture interconnected pierce nuts. Whitaker maintained that the process had never been considered secret, and in any event, had been publicly disclosed by a patent that described the process. Whitaker later added a counterclaim alleging that WIC’s sham litigation tortiously interfered with his business relationships and expectancies.

II. BASIC FACTS AND PROCEEDINGS

In general, pierce nuts are a type of fastener that pierce directly into sheet metal and provide a threaded base on which to affix material to the sheet metal. In the 1970’s there were three manufacturers of pierce nuts, MacLean-Fogg, Kean Manufacturing (Kean) and Multifastener. At this time, Whitaker was working at Kean learning about pierce nuts and other fasteners. Early on in 1970’s, MacLean-Fogg intended to enter the pierce nut market by developing a new process to manufacture pierce nuts and differentiate itself from the competition. According to David Trendler, Whitaker’s former supervisor, an engineer of MacLean-Fogg, Bill Grube, invented a method to connect pierce nuts with a piece of wire. Grube “invented the notion of starting from a raw coil of raw material through a straightener, through a press, through a taper wound up on a reel ready to go to the customer, so it wasn’t five or ten steps in between to make a final product.” Grube obtained United States Patent 3,999,659 in 1973. In 1980, MacLean-Fogg created a subsidiary, Stamptech, and constructed a building in

¹ The jury also found that Whitaker had incurred damages of \$2,971,301 as a result of WIC’s antitrust violation but that determination was not referenced in the January 30, 2008 judgment. However, the trial court, in its August 14, 2008 opinion on WIC’s motion for reconsideration, indicated that “the parties stipulated that Whitaker would forego antitrust remedies since his tort award was higher.”

which Stamptech manufactured the interconnected pierce nuts according to the Grube patent. The term “Stamptech process” was used to describe the Grube inline pierce nut process.

Whitaker started working for Kean in 1967. He ran a pierce nut press and eventually learned to design, make and set dies. He was eventually promoted to general manager in 1985, and manager of operations in 1990. In 1993, Whitaker left Kean to open a business to manufacture pierce nuts. He and his longtime friend, Dennis Boerger, formed MIOH to make interconnected pierce nuts using the Stamptech process as the patent had expired. Whitaker and Boerger were aware of the Stamptech process from “experience in the pierce nut world.” The parties agree that Kean sued Whitaker alleging disclosure of trade secrets. Whitaker at least prevailed in part and was allowed to manufacture pierce nuts.

In 1993, MacLean-Fogg and MIOH merged. Trendler explained that, “[MacLean-Fogg] had the machinery. Whitaker had 25 or 30 years business experience in the pierce nut business.” MIOH was dissolved in the merger and Whitaker went to work for Stamptech. Whitaker owned 21 percent of Stamptech and was president and general manager, but reported to MacLean-Fogg. Stamptech manufactured interconnected pierce nuts from 1993 to 1998 using the same machinery built in 1971. There was no evidence that any Stamptech employee signed a confidentiality agreement.

In the late 1990’s, Whitesell Corporation was a large supplier of cold-headed threaded fasteners (screws, bolts, etc) to major-appliance makers, but had no presence in the automotive industry. Its owner, Neil Whitesell, sought entry to the automotive industry and Trendler suggested he purchase Stamptech, as MacLean-Fogg’s owner no longer wanted to compete in the pierce nut business. In 1998, Whitesell Corporation formed Whitesell of Michigan (WOM) and began negotiations to purchase Stamptech.

On August 31, 1998, Whitaker, on behalf of himself, Stamptech and MIOH² executed an “Assignment of Manufacturing Rights” which assigned rights to WOM “in any manufacturing processes, designs, products, or systems related to Pierce Nuts, Insert Nuts, Application Tooling and related products previously produced by Stamptech.” The document assigned “all right and title to all processes in order to encourage [WOM] to purchase Stamptech assets and assume its operation.” The document did not mention intellectual property or trade secrets. Neil Whitesell testified that Whitaker represented to him that the Stamptech process, which previously was called the Grube process, was confidential. He also testified that Tim Taylor of MacLean-Fogg also represented to him that the Stamptech process was confidential, and a rudimentary drawing of the Stamptech process was attached to the “Assignment of Manufacturing Rights.” The purchase price was \$850,000. Whitaker was retained as general manager at WOM. He executed a confidentiality agreement and non-competition agreement.

Whitaker’s tenure at WOM was relatively short. On July 23, 1999, Whitaker either was fired or resigned. According to WIC, Whitaker abruptly quit, leading an employee walkout while WOM was trying to fill critical orders for General Motors. WIC claims GM was required

² Whitaker signed the agreement on behalf of MIOH, though MIOH was dissolved in 1993.

to dispatch an emergency-response specialist to avoid a supply disruption. In its brief on appeal, WIC notes that “GM’s only other source of pierce nuts, Fabristeel, was having its own delivery and quality problems.” According to Whitaker, Bob Wiese, WOM’s secretary-treasurer, fired him following an ongoing dispute over reductions in his and WOM employees promised health care coverage and benefits.

Whitesell Corporation and WOM sued Whitaker in Washtenaw circuit court (Washtenaw action) alleging breach of fiduciary duties, tortious interference with business relationships/expectancies, and conspiracy. The complaint mentioned that Whitaker had signed a confidentiality agreement and alleged Whitaker was “wrongfully retaining possession of company property and information.” Whitaker counterclaimed seeking to null and void his non-competition agreement. The parties accepted a mediation agreement and a \$10,000 judgment was entered against Whitaker in October 2000. Whitaker notes that his mediation summary expressly provided that Whitaker “has now commenced operations making pierce nuts for a company known as the ‘Pierce Nut Company’ [(PNC)] located in Livonia, Michigan. This company manufactures the same product and sells it to the same customer base as does Stamptech.” Whitaker also notes that counsel for Whitesell Corporation and WOM signed a satisfaction of judgment dated August 23, 2001, which reflected that PNC was a garnishee of Whitaker.

Whitaker and Richard Brodie formed the PNC. The PNC built machines to produce interconnected pierce nuts according to the Stamptech process. The PNC manufactured interconnected pierce nuts, but there was testimony that the PNC could not secure enough sales and had quality problems.

In July 2001, WOM filed suit against the PNC, Whitaker and Brodie in Alabama state court alleging Whitaker was violating the non-competition agreement at the PNC. Whitaker had never worked in Alabama but WIC was headquartered there. The case was removed to Alabama federal court and then transferred to the federal court in the eastern district of Michigan (federal action). Whitaker moved to dismiss on the basis of res judicata. Counsel for WOM filed a response that was almost three weeks late. In an October 25, 2001, opinion, the federal district court noted that under Michigan law, “[a] settlement arising from the acceptance of a mediation award disposes of all claims in the action as it subsumes the underlying claims by merging and barring all the included claims and preexisting causes of actions.” The federal court agreed with Whitaker that “Whitaker’s alleged violation of a non-compete agreement could have been raised and resolved in the prior action.” Further, the federal court noted that the Washtenaw county mediation panel report stated that the “[c]ounterclaim is resolved with the main claim.” The federal court further observed that one of “Whitaker’s counterclaims alleged that the non-competition agreement was invalid.” The federal court concluded that “the mediation award encompasses this claim, which means that Plaintiff is barred from asserting it against Defendant Whitaker.” The federal court, however, determined that because “[the PNC] and Brodie were not parties to the non-competition agreement and were not involved in the lawsuit that resulted in the mediation agreement[,] . . . the doctrine of claim preclusion does not apply to Plaintiff’s action against Defendants [the PNC] and Brodie.”

In August 2002, the PNC was declared bankrupt. On August 1, 2003, Fabristeel purchased the assets of the PNC. Until that point, Fabristeel made pierce nuts using a “batch” process, in which the pierce nuts were not interconnected. Pierce nuts made using the “batch”

process are later interconnected by crimping wire to the back of the pierce nut, a process known as “knurling.” Although interconnected, the process of manufacturing knurled pierce nuts requires more steps than required by the Stamptech process. There was testimony that, before the sale, Fabristeel knew that the PNC had manufactured pierce nuts, but did not know the manner of production. Fabristeel only knew the process was different from their own. There was testimony by an employee of Fabristeel, Jorge Gonzales, that he was not allowed into the PNC building until after the sale. He testified that after the sale he entered the building and the PNC employees appeared busy moving items. Gonzales testified that there were five interconnected pierce nut lines and that he “thought it was a very interesting and unique process.” He testified that Fabristeel was unable to effectively operate the PNC pierce nut machines and offered Whitaker a job. Whitaker declined.

In 2003 Whitaker began negotiations with defendant Michigan Rivet Company (MRC) and eventually signed an employment contract in September 2004. Whitaker executed a confidentiality agreement and non-competition agreement with MRC, and assigned MRC his rights to the pierce anchor plate.³ MRC established a subsidiary company, defendant Piercetec, to manufacture pierce nuts. MRC invested \$1 million to allow Whitaker to create an interconnected pierce nut line. Whitaker began building the machine but production delays and costs slowed the process.

In 2004, the Whitesell Corporation purchased Fabristeel and became WIC. The WOM pierce nut machines were sent to Taylor, Michigan. Gonzales testified that he recognized that the WOM pierce nut machines and the PNC pierce nut machines used the same process.

WIC learned that Whitaker was working with MRC and its subsidiary, Piercetec. In June 23, 2005, WIC filed the instant action against Whitaker, MRC and Piercetec. The complaint alleged defendants misappropriated trade secrets, tortiously interfered with WIC’s business relationships/expectancies and misappropriated a patented design for a pierce anchor plate. On July 5, 2005, Piercetec filed a counterclaim seeking relief under the Michigan Antitrust Reform Act (MARA), MCL 445.773. Piercetec alleged that WIC controlled the interconnected pierce nut market and had a monopoly.

WIC obtained an ex parte temporary restraining order (TRO), and sought to turn it into a preliminary injunction against Whitaker, MRC and Piercetec, restraining them from manufacturing pierce nuts, and compelling the withdrawal of Whitaker’s pierce anchor plate patent application. At the July 6, 2005 hearing, WIC argued that it had purchased intellectual property rights from Whitaker in the sale of Stamptech. However, Robert Wiese, treasurer/secretary of WIC, admitted that nowhere in the Stamptech sale documents was there a representation that the process was confidential. Further, Wiese admitted that he “did not require [Stamptech] to rep or warrant that the public did not view that this was really a trade secret.” Wiese admitted that he did not “review whether any of the Stamp Tech [sic] employees had signed confidential agreements.” He also admitted that did not know whether technical

³ The jury rejected Whitaker’s claims relating to the pierce anchor plate.

personnel were allowed to view the pierce nut machines. He also admitted that Whitaker's non-competition agreement had long since expired. The trial court concluded that WIC had failed establish a likelihood of prevailing on the merits, and dissolved the TRO.

WIC then obtained a second ex parte order, and filed a motion for injunction to prevent the sale of the MRC pierce nut machines. The trial court denied WIC's motion for preliminary injunction. The court noted that the Grube patent seems "to describe the very item, the process for making the very item that was handed this Court as an exemplar, if you will." The court also noted WIC had not produced any confidentiality agreements from Stamptech employees. The court indicated that "the companies that existed before [WIC]; that is Stamptech and MIOH, apparently did not maintain the confidentiality of the Stamptech process; and if that is the case there can be no trade secret." The court, however, specifically indicated that "I am not finding that there was or was not a trade secret."

On November 4, 2005, creditors of MRC filed an involuntary petition for bankruptcy. Piercetec, a wholly owned subsidiary of MRC, was included in the bankruptcy proceedings. There was testimony that NES, a Taiwanese company, had been interested in purchasing the machinery from MRC and Piercetec to manufacture interconnected pierce nuts. Attorney Gordon Eng testified that Stephen Ling, an attorney for NES, asked him to help draft an asset purchase agreement that would be submitted to Steven Engleman, president of MRC. Under the agreement, NES offered \$1.3 million for the assets of Piercetec. The agreement also provided that Whitaker would be 20% owner and president of a company that NES would form, Pierce Fastener Products (PFP), along with \$150,000 salary and a car allowance. The agreement also provided that Whitaker would receive an incentive if PFP grossed more than \$10 million in yearly sales and that NES would provide Whitaker a \$200,000 litigation loan. Eng testified that Ling raised concerns about WIC's litigation against Whitaker, MRC and Piercetec. Eng testified that NES would not buy MRC property that was subject to litigation.

NES reduced its offer to purchase Piercetec assets to \$1.1 million. The reduced price reflected that MRC was in bankruptcy and that there was no need to obtain a non-competition agreement. However, Eng testified that an attorney for WIC, Chris Royce, left him a voice mail indicating WIC was claiming "trade secrets in the assets of Piercetec. He noted that they were in litigation, which involved Bill Whitaker and MRC and he threatened to sue NES if NES went forward and purchased the Piercetec assets." There was evidence that MRC's bankruptcy lawyers and lawyers for MRC's debtors felt that WIC was interfering with the bankruptcy proceedings.

After the first failure to purchase Piercetec's assets, Eng continued to negotiate an agreement that would exclude the "trade secret" so that NES and PFP could acquire the Piercetec assets without the threat of a lawsuit. Eng, however, "never got a response that [NES] could put their hands around and say, okay, this is the part or the piece of the process that we can carve out and not have to worry about litigation." Further, Eng offered specific purchase prices, but WIC "wouldn't tell [Eng] if that was enough to keep them from suing us." In addition, a letter from counsel for WIC to Eng indicated that:

Mr. Whitaker has signed an employment agreement with MRC Associates having a two-year non compete provision. Mr. Whitaker has not been released from his

obligation. WIC Corporation intends to assert the rights it acquired under the agreement pursuant to its acquisition of the Piercetек assets.

Eng testified “basically they’re saying don’t employ Mr. Whitaker because they have this employment agreement.”

Eng testified that he attempted to purchase portions of MRC, and WIC attempted to condition the purchase on NES not hiring Whitaker. NES would not proceed without Whitaker. Eng also testified that WIC was negotiating to purchase the Piercetек assets and sought to elicit statements from MRC for use in the current litigation. Whitaker’s brief on appeal cites the April 12, 2006 “consent judgment” as the primary example of statements WIC elicited from MRC and Piercetек. It states,

Defendant MRC is liable to Plaintiff [WIC] for its misappropriation of trade secrets relating to the automated in-line process for the manufacture of pierce nuts and its tortious interference [sic] [WIC]’s contract and business relationships;

Defendant Piercetек is liable to Plaintiff [WIC] for its misappropriation of trade secrets relating to the automated in-line process for the manufacture of pierce nuts and its tortious interference [sic] [WIC]’s contract and business relationships;

MRC and Piercetек shall assign any and all claims they have, or may have, against third parties, including but not limited to Defendant Bill Whitaker, arising in connection with the transaction and occurrences set forth in [WIC]’s Verified Complaint.

WIC offered \$1,025,000 for the Piercetек assets. The offer included language allowing them to sue Whitaker for any breach of any employment or license agreement with MRC. WIC also provided \$50,000 to Engleman and other individuals not to compete, even though MRC would not likely be able to compete and Engleman did not have knowledge of pierce nuts to compete. The bankruptcy trustee approved the sale to WIC.

In June 23, 2006, Whitaker filed in the instant litigation a motion for summary disposition against WIC on the basis of *res judicata*. Whitaker argued that WIC’s suit raised issues that were or could have been raised in the earlier Washtenaw action or the federal action. At the August 17, 2006 hearing, the trial court granted the motion. The court held that in either the Washtenaw action or the federal action, “simple discovery devices could have revealed not only what Mr. Whitaker’s involvement with [the PNC] was, but whether or not he was using the so-called Stamptech [p]rocess”

WIC also sought summary disposition based on the *Noerr-Pennington* doctrine and lack of standing. The *Noerr-Pennington* doctrine is derived from two United States Supreme Court cases pertaining to the Petition Clause⁴ and antitrust laws: *Eastern Railroad Presidents*

⁴ The Petition Clause is found in the last line of the First Amendment: “Congress shall make no
(continued...)

Conference v Noerr Motor Freight, Inc, 365 US 127; 81 S Ct 523; 5 LEd2d 464 (1961), and *United Mine Workers of America v Pennington*, 381 US 657; 85 S Ct 1585; 14 L Ed 2d 626 (1965). *J & J Const Co v Bricklayers and Allied Craftsmen, Local 1*, 468 Mich 722, 727 n 5; 664 NW2d 728 (2003), citing *McDougall v Schanz*, 461 Mich 15, 24; 597 NW2d 148 (1999). Whitaker sought summary disposition arguing that WIC's claim was a sham because it knew the Grube patent disclosed the Stamptech process. The trial court denied both motions, finding a factual dispute in regard to whether WIC sued in bad faith. On August 20, 2007, Whitaker amended his counter-claim to add a count of tortious interference with business relationship or expectancy.

Over 25 days of trial, there was extensive testimony relating to whether the Stamptech process was secret and whether WIC had a monopoly over interconnected pierce nuts. At the end of trial, Whitaker moved for directed verdict, arguing the Stamptech process was not a trade secret. Whitaker argued that testimony at trial revealed that a patent previously filed by attorney Raymond Scott of the law firm that currently represented WIC (though not at the time he filed the patent) indicated that "prior patents describe a number of methods" of making interconnected pierce nuts. On cross-examination, Harold Woods, WIC's vice-president of sales, admitted that, at the time the above patent was filed, 2002, "there were two known methods of putting pierce nuts on wire, Stamptech and batch knurling." From this admission, Whitaker claimed that Scott, a patent attorney for WIC, had represented to the patent office that the Stamptech process had been described in a previous patent. In other words, WIC filed the instant suit with imputed knowledge that the Stamptech process had been described in prior patents. The court accepted the above argument as indicating Woods admitted that the Stamptech process had been publicly disclosed. The court also relied on evidence from Jorge Gonzales, in which he admitted that language in the Grube patent described a characteristic of a product made by the Stamptech process. The court concluded that the Stamptech process was not a trade secret. However, the court made clear that "I am not ruling as to whether or not [WIC] reasonably believed it to be a trade secret."

The parties presented closing arguments, and written summaries of their respective theories were also presented during the jury instructions. Whitaker's factual theory at trial was that he was a guru of the interconnected pierce nut business. He claimed that WIC by and through its lawyers has systematically and wrongfully used the court system, threats and acquisitions to attempt to monopolize the interconnected pierce nut marketplace. He claimed that WIC has been successful in this attempt because it controls one hundred percent of the North American interconnected pierce nut market. Whitaker highlighted the previous litigation and argued that WIC knew or should have known interconnected pierce nuts were not trade secrets and maintained that the instant lawsuit was solely filed to prevent competition.

WIC claimed that that the Stamptech process was a trade secret and that WIC did not have a monopoly on the inter-connected pierce nut business. WIC maintained in any event that

(...continued)

law. . .abridging the right of the people . . . to petition the Government for redress of grievances." The protections provided by the First Amendment, including the Petition Clause, have been extended to the states by the Fourteenth Amendment. *J & J Const Co*, 468 Mich at 729, citing *Whitehill v Elkins*, 389 US 54, 57; 88 S Ct 184; 19 L Ed 2d 228 (1967).

it was immunized from suit under the *Noerr-Pennington* doctrine because it had a reasonable belief that there was a chance of prevailing in the instant case to protect its legal rights.

The jury retired and returned its verdict in favor of Whitaker. This appeal followed.

III. THE *NOERR-PENNINGTON* DOCTRINE

A. STANDARD OF REVIEW

This Court reviews de novo a trial court's decision to grant or deny summary disposition. *Maiden v Rozwood*, 461 Mich 109, 118; 597 NW2d 817 (1999).

A motion under MCR 2.116(C)(10) tests the factual support for a claim. When reviewing a motion under MCR 2.116(C)(10), a court must examine the documentary evidence presented and, drawing all reasonable inferences in favor of the nonmoving party, determine whether a genuine issue of material fact exists. *Quinto v Cross & Peters Co*, 451 Mich 358, 362; 547 NW2d 314 (1996). The nonmoving party has the burden of establishing through affidavits, depositions, admissions, or other documentary evidence that a genuine issue of disputed fact exists. *Id.* A question of fact exists when reasonable minds can differ on the conclusions to be drawn from the evidence. *Glittenberg v Doughboy Recreational Industries (On Rehearing)*, 441 Mich 379, 398-399; 491 NW2d 208 (1992). Only "the substantively admissible evidence actually proffered" may be considered. *Maiden*, 461 Mich at 121; see also MCR 2.116(G)(6). Summary disposition is properly granted when there are no genuine issues of material fact and the moving party is entitled to judgment as a matter of law. *Maiden*, 461 Mich at 120.

We review de novo issues of constitutional law. *J & J Const Co*, 468 Mich at 729, citing *McDougall* 461 Mich at 24.

B. ANALYSIS

We conclude that while the facts presented by WIC could support a legal argument that the *Noerr-Pennington* doctrine generally immunizes WIC from suit against it as a result of its attempt to protect its alleged trade secret, there was evidence supporting the conclusion that WIC engaged in sham litigation, which is an exception to the *Noerr-Pennington* doctrine. Thus, summary disposition was properly denied.

The *Noerr-Pennington* doctrine is derived from two United States Supreme Court cases pertaining to the Petition Clause and antitrust laws: *Eastern Railroad Presidents Conference*, 365 US 127; *United Mine Workers of America*, 381 US 657; *J & J Const Co*, 468 Mich at 727, n 5. The *Noerr-Pennington* doctrine is "a principle of constitutional law that bars litigation arising from injuries received as a consequence of First Amendment petitioning activity, regardless of the underlying cause of action." *Azzar v Primebank, FSB*, 198 Mich App 512, 517; 499 NW2d 793 (1993). Thus, "parties who petition the government for governmental action favorable to them cannot be prosecuted under the antitrust laws even though their petitions are motivated by anticompetitive intent." *Arim v General Motors Corp*, 206 Mich App 178, 190-191; 520 NW2d 695 (1994), citing *Video Int'l Production, Inc v Warner-Amex Cable Communications, Inc*, 858 F2d 1075, 1082 (CA 5, 1988). Although the doctrine was initially limited to actions in regard to the Legislative process, that "the protection of the *Noerr-Pennington* doctrine [extends] to efforts

to influence administrative agencies and the courts.” *Id.*, at 190, quoting *Potters*, 800 F2d at 578, citing *California Motor Transport Co v Trucking Unlimited*, 404 US 508, 510; 92 S Ct 609, 611; 30 L Ed 2d 642 (1972).

The action allegedly protected by the *Noerr-Pennington* doctrine is the instant WIC lawsuit seeking the court’s influence to protect alleged trade secrets. However, even assuming that WIC is generally immunized from being prosecuted under the antitrust laws under the *Noerr-Pennington* doctrine, we conclude there is evidence to conclude that Whitaker established at least one accepted exception to the *Noerr-Pennington* doctrine—the sham exception:

The “sham” exception comes into play when the party petitioning the government is not at all serious about the object of that petition, but engages in the petitioning activity merely to inconvenience its competitor. Thus, the sham exception is said to apply when one party has begun litigation not to win that litigation, but rather to force its competitor to waste time and money in defending itself. Similarly, a party that “petitions” the government by engaging in administrative processes only to preclude or delay its competitor’s access to those processes may be liable for antitrust damages under the “sham” exception. [*Video Int’l Production, Inc*, 858 F2d at 1082.]

Under the sham exception, “[o]nly if challenged litigation is objectively meritless may a court examine the litigant’s subjective motivation.” *Professional Real Estate Investors, Inc v Columbia Pictures Industries, Inc*, 508 US 49, 60; 113 S Ct 1920; 123 LEd2d 611 (1993). The sham litigation exception requires that the suit be “objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.” *Id.* “[T]he evidentiary burden [is] on the antitrust plaintiff to prove that the action of the defendant comes within the sham exception to *Noerr-Pennington* in this kind of case.” *Id.*; *Gene Cope & Associates, Inc v Aura Promotions, Ltd*, 692 F Supp 724 (ED Mich 1988). The “sham exception” has been narrowly construed by courts. See *Westmac, Inc v Smith*, 797 F 2d 313 (CA 6, 1986); *Razorback Ready Mix Concrete Co v Weaver*, 761 F 2d 484 (CA 8, 1985).

There was sufficient evidence to support the conclusion that WIC’s instant complaint is “objectively baseless in the sense that no reasonable litigant could realistically expect success on the merits.” The evidence admitted in regard to the federal action indicates that the instant case was barred by res judicata/collateral estoppel, discussed, *infra* Section IV. The federal action alleged Whitaker violated his confidentiality agreement by disclosing the Stamptech process. Issues raised by the confidentiality agreement implicate any trade secret that Whitaker would have disclosed in violation of the confidentiality agreement. Further, the Washtenaw action that had been settled included a counterclaim by Whitaker to null his non-competition agreement. Issues raised in regard to Whitaker’s ability to compete against WOM would clearly indicate that Whitaker intended to return to making pierce nuts, interconnected or otherwise. Given Whitaker’s previous employment with WIC, a persuasive argument can be made that any trade secret claim could and should have been brought at that time.

Further, there is also evidence that WIC did not reasonably believe the Stamptech process was a trade secret, and thus WIC filed the instant suit only to harass Whitaker or force him to stop competing. There was evidence that hundreds of people had seen the Stamptech process. There was evidence suggesting no company ever associated with the Stamptech process,

including Stamptech, MIOH, or MacLean-Fogg, required any employee to sign a confidentiality agreement. There was evidence suggesting a lack of due diligence to discover whether the Stamptech process had been kept secret before WOM purchased Stamptech. There was also evidence that the Grube patent described the Stamptech process, suggesting a likely reason that MacLean-Fogg and Stamptech may not have not considered it confidential. While Neil Whitesell and other executives of WIC maintain that Whitaker had orally assured them that the inline interconnected pierce nut process was confidential, there is no document indicating that it had been kept confidential. Further, there was no evidence of any security of the Stamptech process. We conclude there is evidence from which a rational jury could conclude that WIC did not reasonably believe that the Stamptech process was a trade secret and merely filed the instant suit to harass Whitaker or prevent him from competing. WIC's motion for summary disposition was properly denied.

IV. RES JUDICATA

A. STANDARD OF REVIEW

This Court reviews the question whether res judicata bars a subsequent action de novo. *Adair v State*, 470 Mich 105, 119; 680 NW2d 386 (2004), citing *Pierson Sand & Gravel, Inc v Keeler Brass Co*, 460 Mich 372, 379; 596 NW2d 153 (1999).

B. ANALYSIS

We conclude the trial court properly determined that principles of res judicata arising from both the Washtenaw County action and the federal action bar the instant lawsuit.

Res judicata bars a subsequent action between the same parties when the facts or evidence essential to the action are identical to those essential to a prior action. *Sewell v Clean Cut Mgt, Inc*, 463 Mich 569, 575; 621 NW2d 222 (2001). The purposes of res judicata are to relieve parties of the cost and vexation of multiple lawsuits, conserve judicial resources, and encourage reliance on adjudication. *Pierson Sand & Gravel, Inc*, 460 Mich at 380.

Under Michigan law, res judicata requires that: (1) the prior action was decided on the merits; (2) the decree in the prior action was a final decision; (3) the matter contested in the second case was or could have been resolved in the first; and (4) both actions involved the same parties or their privies. *Washington v Sinai Hosp of Greater Detroit*, 478 Mich 412, 418; 733 NW2d 755 (2007); *Richards v Tibaldi*, 272 Mich App 522, 531; 726 NW2d 770 (2006). The burden of establishing the applicability of res judicata is on the party asserting it. *Baraga County v State Tax Comm*, 466 Mich 264, 269; 645 NW2d 13 (2002).

WIC only challenges the third element in which our Supreme Court “has taken a broad approach to the doctrine of res judicata, holding that it bars not only claims already litigated, but also every claim arising from the same transaction that the parties, exercising reasonable diligence, could have raised but did not.” *Adair*, 470 Mich at 121, citing *Dart v Dart*, 460 Mich 573, 586; 597 NW2d 82 (1999). “Whether a factual grouping constitutes a transaction for purposes of res judicata is to be determined pragmatically, by considering whether the facts are related in time, space, origin or motivation, [and] whether they form a convenient trial unit” *Id.*, at 125 quoting 46 Am Jur 2d, Judgments 533, at 801.

WIC specifically argues that the instant case arises from a different transaction than that underlying the Washtenaw case and the federal case. In the Washtenaw action, Whitesell Corporation and WOM sued Whitaker for breach of fiduciary duties, tortious interference with business relationships/expectancies, and conspiracy. The complaint mentioned that Whitaker had signed a confidentiality agreement and alleged Whitaker was “wrongfully retaining possession of company property and information.” Whitaker counterclaimed seeking to null and void his non-competition agreement. The parties accepted a mediation agreement and a \$10,000 judgment was entered against Whitaker in October 2000.

We conclude that claims in which Whitaker sought to disclose trade secrets should have been raised in relation to a claim to null and void a non-competition agreement. How Whitaker would attempt to compete with WOM, especially considering his former experience, would clearly form a convenient trial unit. Further, little diligence would need be exercised to discover any potential trade secret disclosure, given pleadings indicating that, Whitaker “has now commenced operations making pierce nuts for a company known as the [PNC] located in Livonia, Michigan. This company manufactures the same product and sells it to the same customer base as does Stamptech.”

Further, for the same reasons, the instant case is barred by res judicata because of the resolution of the federal action. In that case, there was no question that Whitaker was competing against WOM and his method of competition would have been highly relevant. The trial court correctly granted Whitaker’s motion for summary disposition.

We are not persuaded that application of res judicata was improper because MRC and Piercetec had not yet been formed. This position ignores that the federal court essentially held that WIC could no longer assert claims arising from Whitaker’s employment with WOM because those claims should have previously been resolved. “Unless it is set aside by a court, a default judgment is absolute and is fully binding, under the doctrines of estoppel and merger of judgment, and res judicata, as one after appearance and contest.” 7 Michigan Pleading and Practice (2d ed), § 44.17. Further, we recognize that the instant case involves overlap between the doctrines of res judicata and collateral estoppel. This is likely the case whenever there are multiple lawsuits that are all based on the ending of a single employment relationship. And while collateral estoppel does not apply to consent judgments (the Washtenaw action), collateral estoppel certainly applies to default judgments (the federal action). See *Rohe Scientific Corp v National Bank of Detroit*, 133 Mich App 462, 467; 350 NW2d 280 (1984). We must give some meaning to the language contained with the judgment of the federal court.⁵

⁵ We disagree with the dissent that it is “impossible to conclude that WIC could have brought a claim or cause of action in the two earlier suits pertaining to Whitaker’s use and disclosure of the Stamptech [p]rocess” Whitaker’s breach of the non-competition agreement and confidentiality agreement could have only related to his use and disclosure of the Stamptech process. The dissent even attempts to narrow its analysis by noting that res judicata or collateral estoppel do not apply “relative to . . . [Whitaker’s] association with MRC and Piercetec.” This is a telling distinction, suggesting that res judicata or collateral estoppel would be applicable if Whitaker, on his own behalf, disclosed the Stamptech process to others after the two earlier suits (continued...)

V. TRADE SECRET

A. STANDARD OF REVIEW

The trial court's decision on a motion for a directed verdict is reviewed de novo. *Sniecinski v BCBSM*, 469 Mich 124, 131; 666 NW2d 186 (2003); *Silberstein v Pro-Golf of America, Inc*, 278 Mich App 446, 455; 750 NW2d 615 (2008). The appellate court reviews all the evidence presented up to the time of the motion to determine whether a question of fact existed. The trial court must view the testimony and all legitimate inferences from the testimony in the light most favorable to the nonmoving party to determine whether a prima facie case was established. *Locke v Pachtman*, 446 Mich 216, 223; 521 NW2d 786 (1994). When the evidence could lead reasonable jurors to disagree, the court may not substitute its judgment for that of the jury. *Moore v Detroit Entertainment, LLC*, 279 Mich App 195, 202; 755 NW2d 686 (2008). Directed verdicts are viewed with disfavor, particularly in negligence cases. *Berryman v K Mart Corp*, 193 Mich App 88, 91; 483 NW2d 642 (1992). But if no factual question exists, the trial court may grant a directed verdict. *Mich Mut Ins Co v CNA Ins Cos*, 181 Mich App 376, 380; 448 NW2d 854 (1989). A directed verdict is appropriate only when no factual question exists upon which reasonable minds could differ. *Smith v Foerster-Bolser Constr, Inc*, 269 Mich App 424, 427-428; 711 NW2d 421 (2006).

B. ANALYSIS

WIC argues that the trial court erred in granting Whitaker's motion for directed verdict on the issue whether the Stamptech process was a trade secret, and that this error requires reversal.

We agree that the trial court erred in granting Whitaker's motion for directed verdict. As mentioned, there were over 25 days of trial and extensive testimony was presented relating to whether the Stamptech process was secret. Whitaker moved for directed verdict at the end of trial. In granting Whitaker's motion, the trial court relied on the testimony of WIC's vice president Harold Woods. At trial, Woods was shown a patent application indicating, "prior patents describe a number of methods of making interconnected pierce nuts using 'a wire or a plurality of wires.'" Woods was asked about the meaning of the patent, and testified that in 2002 he knew of only two methods for making interconnected pierce nuts, the "batch knurling" process and the "Stamptech process." From this admission, Whitaker argued that the Stamptech process must have been described in a prior patent.

An objective view of Woods' testimony indicates that he only knew of two processes, and he clearly did not know whether there existed more processes. Further, Woods is not a patent lawyer and his opinion as to an ambiguous phrase in a patent application is not probative of whether the Stamptech process was described in an earlier patent. Thus, we conclude that the trial court erroneously relied on Woods' testimony to conclude there was no trade secret.

(...continued)

had been resolved. Here, the operative facts upon which every claim an entity of WIC has brought against Whitaker include that he disclosed the Stamptech process to those that did not know the Stamptech process.

Further, we conclude that Jorge Gonzales' testimony does not support the circuit court's grant of directed verdict. The court held that, "[i]f [WIC] claims that the [exhibit] 260C was the Stamptech process and Mr. Gonzales says that the process was described in paragraph four of the Grube patent, then the Stamptech process is the Grube patent, it's in the public domain, it's not a trade secret." However, the record clearly reflects that exhibit 260C is an example of a product made by the Stamptech process, not a description of the Stamptech process itself. Thus, the court's decision is unsupported in this regard.

In addition, the record reflects that the trial court likely committed additional error in relying on the testimony from Woods and Gonzales in granting the motion for directed verdict. As addressed in *MGA, Inc v LaSalle Mach Tool Inc*, 148 Mich App 350, 384 NW2d 159 (1986), a Michigan trial court, only after carefully consideration whether the patent issues "arise under" federal law, "must define the scope of the claims." *Id.*, at 355-356. Here, it is unclear the trial court did so. Further, even if the scope of the patent was clear, "the trier of fact must decide whether the claims, as construed in law, cover the accused machine." *Id.*, at 356. Thus, testimony from Woods and Gonzales in regard to whether the Stamptech process was covered by the Grube patent is merely evidence presented for the jury's consideration, not the basis of a motion for directed verdict.

Although the circuit court offered additional reasons to support its decision that the Stamptech process was not a trade secret, we conclude those reasons merely raised questions of fact. A court may not substitute its judgment for that of the jury. *Moore v Detroit Entertainment, LLC*, 279 Mich App 195, 202; 755 NW2d 686 (2008). This was an extensive trial with sharply divided testimony in regard to whether the Stamptech process was secret. Directed verdicts are viewed with disfavor, *Berryman*, 193 Mich App at 91, and the court should have deferred to the jury.

Whitaker alternately argues "even if the trial court had erred in directing a verdict on this point, [WIC] was still free to argue, and did argue, that it believed or had reason to believe it had a viable trade secret claim." Although WIC was technically able to make this argument to the jury, we nonetheless conclude that the trial court's decision was not harmless.⁶ The central issue in this case is whether WIC "reasonably believed the Stamptech process was a trade secret, not whether the circuit court reasonably believed the Stamptech process was a trade secret.

On the eve of jury deliberations, the trial court granted a directed verdict and communicated to the jury that the Stamptech process was not a trade secret. The judicial determination that there existed no trade secret undermined WIC's ability to argue that it reasonably believed the Stamptech process was a trade secret. This decision effectively required the jury to accept that the Stamptech process was not a trade secret, and telegraphed to the jury that WIC's trade secret claim was objectively baseless. Thus, we conclude that, given this

⁶ We reach this decision independent of any conclusion in regard to res judicata/collateral estoppel. The res judicata/collateral estoppel issue is decidedly a legal question and the import of such a ruling should not form the basis of a decision whether WIC "reasonably believed" that the Stamptech process was a trade secret.

ruling, it became a foregone conclusion how the jury would decide the sham exception. In addition, even though the jury was also required to conclude that WIC's primary objective in bringing the trade secret claim was to hurt Whitaker, this conclusion was facilitated when the trial court informed the jury that WIC's lawsuit was meritless. Therefore, we conclude that the trial court committed error in granting Whitaker's motion for directed verdict, and that this error requires reversal.

Affirmed in part, reversed in part, and remanded for further proceedings consistent with this opinion. We do not retain jurisdiction.

/s/ Kathleen Jansen

/s/ Brian K. Zahra

STATE OF MICHIGAN
COURT OF APPEALS

WHITESELL INTERNATIONAL
CORPORATION,

Plaintiff-Counterdefendant-
Appellant,

v

WILLIAM WHITAKER,

Defendant-Counterplaintiff-
Appellee,

and

MRC INDUSTRIAL GROUP, INC.,

Defendant,

and

PIERCETEK, INC.,

Defendant/Counter-Plaintiff.

UNPUBLISHED
January 18, 2011

No. 287569
Wayne Circuit Court
LC No. 05-518716-CZ

ON RECONSIDERATION

Before: MURPHY, C.J., and JANSEN and ZAHRA, JJ.

MURPHY, C.J. (*dissenting in part and concurring in part*).

On the basis of the reasoning and analysis set forth in my original dissenting opinion, which I adopt and incorporate by reference for purposes of this opinion on reconsideration, I continue to find that the doctrines of res judicata and collateral estoppel are inapplicable and that the trial court erred in summarily dismissing the complaint filed by Whitesell International Corporation (WIC). For purposes of res judicata, it is simply impossible to conclude that WIC could have brought a claim or cause of action in the two earlier suits pertaining to defendant-counterplaintiff William Whitaker's use and disclosure of the Stamptech Process relative to his

association with defendants MRC Industrial Group, Inc., and Piercetec, Inc., given that said use and disclosure had not yet transpired when those previous suits were litigated and closed. Further, for purposes of collateral estoppel, the issues concerning the enforceability of the confidentiality agreement and assignment and whether the Stamptech Process constituted a trade secret that had been assigned were not tried, conceded, or determined; therefore, collateral estoppel cannot be invoked to dismiss WIC's action against Whitaker. Accordingly, I continue to respectfully dissent as to the dismissal of WIC's lawsuit.

In my original dissenting opinion, and in regard to Whitaker's counterclaim, I concluded that the trial court prejudicially erred in directing a verdict on the issue of whether the Stamptech Process constituted a "trade secret." My colleagues, on reconsideration, have now adopted this view, and I concur with their conclusion and analysis and would add, as further support, the reasoning set forth in my earlier opinion, which I adopt and incorporate here by reference.

I respectfully dissent in part and concur in part.

/s/ William B. Murphy