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SFA**BILL ANALYSIS**

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House Bill 5312 (Substitute H-2 as passed by the House)

Sponsor: Representative Andrew Richner

House Committee: Commerce

Senate Committee: Economic Development, International Trade and Regulatory Affairs

Date Completed: 11-18-98

CONTENT

The bill would enact the “Uniform Trade Secrets Act” to provide for injunctive and monetary relief, including the payment of a royalty, for the misappropriation of trade secrets. The proposed Act would displace conflicting State law providing civil remedies for misappropriation of a trade secret, and would repeal an act providing a criminal penalty for the theft or embezzlement of an item in order to withhold the control of a trade secret.

Definitions

The bill would define “trade secret” as information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- Derived independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who could obtain economic value from its disclosure or use; and
- Was the subject of efforts that were reasonable under the circumstances to maintain its secrecy.

“Misappropriation” would mean acquisition of a trade secret of another by a person who knew or had reason to know that the trade secret was acquired by “improper means” (which would include theft, bribery, misrepresentation, breach, or inducement of a breach of a duty to maintain secrecy or espionage through electronic or any other means). “Misappropriation” also would mean disclosure or use of a trade secret of another without express or implied consent by a person who did one or more of the following:

- Used improper means to acquire knowledge of the trade secret.
- At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was derived from or through a person who had used improper means to acquire it, acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or derived from or through a person who owed a duty to the person to maintain its secrecy or limit its use.
- 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.

Misappropriation Actions

Injunction. The bill provides that actual or threatened misappropriation could be enjoined. Upon application to the court of competent jurisdiction, an injunction could be terminated when the trade

secret had ceased to exist, but the injunction could be continued for an additional reasonable time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.

If a court determined that it would be unreasonable to prohibit future use of a trade secret, an injunction could condition future use upon payment of a reasonable royalty for no longer than the period of time the use could have been prohibited.

In appropriate circumstances, affirmative acts to protect a trade secret could be compelled by court order.

Monetary Recovery. A complainant would be entitled to recover damages for misappropriation, except to the extent that a monetary recovery was inequitable due to a material and prejudicial change of position prior to acquiring knowledge or reason to know of misappropriation. Damages could include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that was not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation could be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

Attorney's Fees. If a claim of misappropriation were made in bad faith, a motion to terminate an injunction were made or resisted in bad faith, or willful and malicious misappropriation existed, the court could award reasonable attorney's fees to the prevailing party.

Preservation of Secrecy. In a misappropriation action, a court would have to preserve the secrecy of an alleged trade secret by reasonable means, which could include granting protective orders in connection with discovery proceedings, holding in camera (private) hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

Period of Limitations. A misappropriation action would have to be brought within three years after the misappropriation was discovered or, by the exercise of reasonable diligence, should have been discovered. For purposes of this provision, a continuing misrepresentation would constitute a single claim.

Conflicting Law/Repealer

The proposed Act would displace conflicting tort, restitutionary, and other law of this State providing civil remedies for misappropriation of a trade secret. The Act, however, would not affect any of the following:

- Contractual remedies, whether or not based upon misappropriation of a trade secret.
- Other civil remedies not based upon misappropriation of a trade secret.
- Criminal remedies, whether or not based upon misappropriation of a trade secret.

The Act would repeal Public Act 329 of 1968, which makes it a misdemeanor, punishable by a fine of up to \$1,000 and/or imprisonment for up to one year, for a person to steal or embezzle an article (an object, material, device, or substance) representing a trade secret or without authority to make a copy of an article representing a trade secret, with intent to deprive or withhold from the article's owner control of the trade secret, or with an intent to appropriate the trade secret to the person's own use or to the use of another (MCL 752.771-752.773).

Application

The bill states that the proposed Act would have to be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of the Act among states enacting it.

The bill provides that it would take effect October 1, 1998, and would not apply to misappropriation occurring before the effective date. With respect to a continuing misappropriation that began before the effective date, the Act would not apply to the continuing misappropriation occurring after that date.

Legislative Analyst: S. Lowe

FISCAL IMPACT

The bill would have no fiscal impact on State or local government.

Fiscal Analyst: B. Bowerman

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This analysis was prepared by nonpartisan Senate staff for use by the Senate in its deliberations and does not constitute an official statement of legislative intent.