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# Misappropriation of Trade Secrets

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### I. Overview

§4.1 The law of trade secret protection has developed primarily through common law and has been greatly influenced by other laws and statutes, including unfair competition, copyright, trademark infringement, and patent law. Consequently, before the creation of the Uniform Trade Secrets Act (UTSA), there was very little uniformity in the law governing trade secret protection, and even since the act's passage, courts still look to the preexisting common law for guidance.

## §4.1

## Michigan Business Torts

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In 1998, Michigan joined the majority of states that have adopted the Uniform Trade Secrets Act (MUTSA), MCL 445.1901 et seq. Under MUTSA, a court can enjoin actual or threatened misappropriation of trade secrets, compel affirmative acts necessary to protect a trade secret, and award damages for misappropriation. Misappropriation includes the disclosure or use of a trade secret without consent. MCL 445.1902(b)(ii). A party claiming trade secret protection under MUTSA must establish, at a minimum, that the information constitutes a “trade secret” and that the alleged violator had neither express nor implied consent to use the information. *Mike’s Train House, Inc v Lionel, LLC*, 472 F3d 398 (6th Cir 2006); *Sherman & Co v Salton Maxim Housewares, Inc*, 94 F Supp 2d 817, 821–822 (ED Mich 2000). The United States District Court for the Eastern District of Michigan, applying MUTSA, articulated the policies underlying trade secret protection:

Our legislatures have passed trade secret laws to encourage both business ethics and innovation. Such laws enable businesses to enter into good faith transactions, form stable relationships, and share confidential information, which in turn assists in product development. Also, trade secret laws encourage research and development by supplementing the patent system and supporting innovators who seek to retain the value of the discoveries. Further, trade secret laws punish industrial espionage and deny competitors an advantage they have obtained by unfair means.

*Ford Motor Co v Lane*, 67 F Supp 2d 745, 749 (ED Mich 1999) (citing *Kewanee Oil Co v Bicron Corp*, 416 US 470, 481–482 (1974)).

Michigan’s common law of trade secrets was well established before MUTSA’s adoption. While cases predating MUTSA’s adoption remain instructive in applying the general principles contained within MUTSA, it should be noted that section 8 of MUTSA specifically displaces conflicting tort or other state laws providing civil remedies for misappropriating trade secrets. MCL 445.1908; *Stromback v New Line Cinema*, 384 F3d 283 (6th Cir 2004); *Appalachian Railcar Servs v Boatright Enters*, 602 F Supp 2d 829, 852–854 (WD Mich 2008); *Wysong Corp v MI Indus*, 412 F Supp 2d 612, 622–623 (ED Mich 2005); *Bliss Clearing Niagara, Inc v Midwest Brake Bond Co*, 270 F Supp 2d 943, 946 (WD Mich 2003); *CMI Int’l, Inc v Internet Int’l Corp*, 251 Mich App 125, 132, 649 NW2d 808 (2002). The court in *Bliss* concluded that the disputed status of information as a trade secret does not preclude a court from determining whether a claim is displaced by MUTSA. See §4.4 for further discussion of *Bliss*.

MUTSA, however, does not preempt contractual or criminal remedies “whether or not based on misappropriation of a trade secret” or other “civil remedies that are not based upon misappropriation of a trade secret.” MCL 445.1908. It also does not displace claims that are based upon wrongful conduct that is independent of the alleged misappropriation of trade secrets. *Wysong Corp*, 412 F Supp 2d at 623 (palming off claim not displaced by MUTSA because it was not factually and legally based on misappropriation of trade secrets but instead related to allegation that defendants sold confusingly similar products). MUTSA does not affect confidentiality agreements (discussed in §4.4) or noncompetition agreements, which are governed by other law. See UTSA Commissioner’s Comment,

§7, 14 ULA 323 (1987). Such agreements can, of course, provide additional protection for a business's confidential information and trade secrets, but under both common law and MUTSA, Michigan law protects a business's proprietary rights in trade secret information even if the business has not obtained noncompetition or confidentiality agreements from its employees. *Superior Consultant Co v Bailey*, No 00-CV-73439, 2000 US Dist LEXIS 13051 (ED Mich Aug 22, 2000) (unpublished). Similarly, MUTSA does not displace a common-law unfair competition claim where the plaintiff alleges misconduct that could be deemed unethical or unfair irrespective of whether trade secrets are involved. *Dana Ltd v American Axle & Mfg Holdings*, No 1:10-CV-450, 2011 US Dist LEXIS 119469 (WD Mich Oct 17, 2011).

While most trade secrets issues will be litigated under state law, there are examples of analogous civil actions brought under federal statutes. For example, in *Fiber Sys Int'l, Inc v Roehrs*, 470 F3d 1150 (5th Cir 2006), the court held that plaintiff had standing to pursue a civil claim under the Computer Fraud and Abuse Act (CFAA), 18 USC 1030. That case involved subsection 4 of the statute, which prohibits knowingly accessing a protected computer without authorization, with intent to defraud, if such conduct furthers intended fraud and the violator obtains anything of value. This is another potential avenue for relief where computer information has been misappropriated.

## II. Elements of Trade Secret Misappropriation

### A. In General

§4.2 A claim of misappropriation of trade secrets has three elements: “(1) the existence of a trade secret, (2) the defendant's acquisition of the trade secret in confidence, and (3) the defendant's unauthorized use of it.” *Dice Corp v Bold Techs*, No 11-13578, 2012 US Dist LEXIS 153234, at \*\*36–37 (ED Mich Oct 25, 2012) (quoting *Stromback v New Line Cinema*, 384 F3d 283, 302 (6th Cir 2004)). As detailed below, each element has nuances developed through the case-law and based on the precise statutory language. MUTSA provides specific remedies for misappropriation of a trade secret, including injunctive relief, compensatory damages, and attorney fees. For a detailed discussion of the remedies available for trade secret misappropriation, see chapter 13.

### B. Definition of Trade Secret

§4.3 MUTSA contains a concise but broad definition of *trade secret*:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that is both of the following:

- (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.
- (ii) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

MCL 445.1902(d).

### §4.3

### Michigan Business Torts

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In a pre-MUTSA case, *Hayes-Albion v Kuberski*, 421 Mich 170, 364 NW2d 609 (1984), the Michigan Supreme Court adopted the definition contained in the Restatement of Torts as a guideline:

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.

*Hayes-Albion*, 421 Mich 181 (quoting Restatement of Torts §757 comment b).

The court listed the following factors enumerated by the Restatement for consideration in determining whether information qualifies as a trade secret:

(1) the extent to which the information is known outside of [the] business; (2) the extent to which it is known by employees and others involved in [the company's] business; (3) the extent of measures taken by [the business] to guard the secrecy of the information; (4) the value of the information to [the business] and [its] competitors; (5) the amount of effort or money expended by [the business] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

421 Mich at 182; *see also Manos v Melton*, 358 Mich 500, 508, 100 NW2d 235 (1960).

A close parsing of MUTSA and pre-MUTSA caselaw yields what might appear to be differences in the scope of the *trade secret* definition. For example, unlike the Restatement definition adopted in *Hayes-Albion*, MUTSA does not include a specific reference to customer lists. Even under MUTSA, however, Michigan courts still look to Michigan's common law for guidance when applying MUTSA to a specific set of facts, including misappropriation of customer lists that qualify as trade secrets. *See, e.g., Kelly Servs v Noretto*, 495 F Supp 2d 645, 658 (ED Mich 2007) (citing *Raymond James & Assocs v Leonard & Co*, 411 F Supp 2d 689, 695 (ED Mich 2006), and *Hayes-Albion* to hold that customer list may be defined as trade secret under MUTSA); *Raymond James* (relying on *Hayes-Albion* because statutes must be read in light of the common law and *Hayes-Albion* definition of a trade secret was congruent to MUTSA's definition); *Merrill Lynch, Pierce, Fenner & Smith, Inc v Ran*, 67 F Supp 2d 764, 775 (ED Mich 1999) (citing *Hayes-Albion* in support of holding that customer lists are entitled to trade secret protection under MUTSA). Other courts have held that the UTSA "codifies the basic principles of common law trade secret protection," and that the Restatement was "the basic source of the UTSA's definition of 'trade secret.'" *See MAI Sys Corp v Peak Computer*, 991 F2d 511, 520 (9th Cir 1993); *New England Ins Agency v Miller*, No CV-89-0285030-S, 1991 Conn Super LEXIS 817, at \*21 (Apr 16, 1991) (citing *Minutemen, Inc v Alexander*, 147 Wis 2d 842, 851, 434 NW2d 773, 777 (1989)). In Michigan, the House Bill Analysis (HB 5312, 2nd Analysis, June 10, 1998) similarly states, in the "Arguments For" section, that "[t]he bill would codify the basic principles of common law trade secret protection." Notably, courts applying MUTSA continue to look to pre-MUTSA cases to help define the