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Misappropriation of Trade Secrets

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Misappropriation of Trade Secrets

Leonard M. Niehoff

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- 42.1 Complaint for Misappropriation of Trade Secrets

I. Cause of Action

§42.1 Statutory action under the Michigan Uniform Trade Secrets Act (MUTSA) for injunctive relief, damages, or both arising out of the misappropriation of trade secrets. MCL 445.1901 et seq.

II. What Law Controls

§42.2 MUTSA displaces other civil remedies for misappropriation of trade secrets. *See* MCL 445.1908. For a discussion of the federal right of action for trade secret theft under the Defend Trade Secrets Act of 2016, Pub L No 114-153, 130 Stat 376 (2016), see Edward H. Pappas et al, *Michigan Business Torts* §4.1 (ICLE 2d ed).

III. Elements

§42.3

- The defendant misappropriated or knowingly participated in the misappropriation of information from the plaintiff.
- The misappropriated information comprises trade secrets.

- The plaintiff has been or will be damaged by the defendant's use or disclosure of the trade secrets.

IV. Relevant Model Civil Jury Instructions

§42.4 None.

V. Statute of Limitations

§42.5 Three years. MCL 445.1907.

VI. Parties

§42.6

Proper plaintiff: One who has a trade secret that the defendant has misappropriated.

Proper defendant: One who has misappropriated or knowingly participated in the misappropriation of the plaintiff's trade secrets.

VII. Special Considerations

§42.7

Statutory Considerations

1. "Misappropriation' means either of the following: (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. (ii) Disclosure or use of a trade secret of another without express or implied consent by a person who did 1 or more of the following: (A) Used improper means to acquire knowledge of the trade secret. (B) 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 utilized 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, or derived from or through a person who owed a duty to the person to maintain its secrecy or limit its use. (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." MCL 445.1902(b).
2. "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).
3. A party that wishes to make a claim of threatened misappropriation under MCL 445.1903 by a former employee, whether under a theory of inevitable disclosure or otherwise, must establish more than the existence of general-

ized trade secrets and a competitor's employment of the party's former employee who has knowledge of trade secrets. *CMI Int'l Inc v Intermet Int'l Corp*, 251 Mich App 125, 649 NW2d 808 (2002). Moreover, even assuming that the threatened misappropriation of trade secrets encompasses inevitable disclosure, that concept must not compromise the right of employees to change jobs. *Id.* (noting that MCL 445.1906 specifically provides several means by which a court can preserve the secrecy of alleged trade secrets, including protective orders, in camera hearings, and closed records).

4. Federal decisions applying MUTSA have noted the following:
 - Requests for injunctions under MUTSA in federal court are subject to federally defined standards: “(1) Whether the movant has shown a strong or substantial likelihood of success on the merits; (2) whether the movant has demonstrated irreparable injury; (3) whether the issuance of a preliminary injunction would cause substantial harm to others; and (4) whether the public interest is served by the issuance of an injunction.” *Ford Motor Co v Lane*, 67 F Supp 2d 745, 749 (ED Mich 1999) (quoting *Rock & Roll Hall of Fame & Museum v Gentile Prods*, 134 F3d 749, 753 (6th Cir 1998)).
 - “In the absence of a confidentiality agreement or fiduciary duty between the parties,” issuance of an injunction under MUTSA against a party that has disclosed, or is seeking to disclose, a plaintiff's trade secrets constitutes a prior restraint on speech in violation of the First Amendment. *Ford Motor Co*, 67 F Supp 2d at 753.
 - “Even a threatened misappropriation ... is subject to a reasonable injunction under the MUTSA.” *Superior Consultant Co v Bailey*, No 00-CV-73439, 2000 US Dist LEXIS 13051, *31 (ED Mich Aug 22, 2000).
 - Customer information is entitled to trade secret protection. *Merrill Lynch, Pierce, Fenner & Smith Inc v Ran*, 67 F Supp 2d 764 (ED Mich 1999).
 - Although the individual defendants may have had knowledge of plaintiff's alleged trade secrets and may have performed the same type of work at a successor employer that was a strong competitor with plaintiff, the mere *existence* of trade secrets and defendant's employment of the individual defendants were insufficient to allege a threatened misappropriation claim. *MSC Software, Inc v Altair Eng'g, Inc*, No 07-12807, 2009 US Dist LEXIS 53839 (ED Mich June 25, 2009).

Common-Law Considerations

1. *What is misappropriation?* A defendant misappropriates information by (1) obtaining it pursuant to an employment or fiduciary relationship or an agreement of confidentiality or noncompetition and using or disclosing the information in breach of the duties of that relationship or the obligations of that agreement or (2) initially obtaining the information wrongfully. *See Dutch Cookie Machine Co v Vande Vrede*, 289 Mich 272, 279–280, 286 NW 612 (1939).

2. *What is a trade secret?*

- “A trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives [the business] an opportunity to obtain an advantage over competitors who do not know or use it.” *Hayes-Albion v Kuberski*, 421 Mich 170, 181, 364 NW2d 609 (1984) (quoting Restatement (Second) of Torts §757 comment b).
- The following are some factors to consider in determining whether information constitutes a trade secret: (1) the extent to which the information is known outside the business, (2) the extent to which the information is known by employees and others involved in the plaintiff’s business, (3) the extent of measures the plaintiff takes to guard the secrecy of the information, (4) the value of the information to the plaintiff and its competitors, (5) the amount of effort or money the plaintiff expends in developing the information, and (6) the ease or difficulty with which others could properly acquire or duplicate the information. *Id.* at 182 (citing the Restatement); *see also Compuware Corp v Serena Software Int’l, Inc*, 77 F Supp 2d 816, 821 (ED Mich 1999).
- Information that falls within the categories of general skills, knowledge, and expertise does not qualify as a trade secret. *Hayes-Albion; Follmer, Rudzewicz & Co, PC v Kosco*, 420 Mich 394, 362 NW2d 676 (1984); *Russell v Wall Wire Prod Co*, 346 Mich 581, 78 NW2d 149 (1956). Also, a business may lose its trade secret rights by disclosing the information without taking adequate steps to preserve its confidentiality.

VIII. Remedies—Special Issues

§42.8 Damages may include both the plaintiff’s lost profits and the defendant’s unjust enrichment. MCL 445.1904. “[T]he damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret.” *Id.* Injunctive relief is available to prevent continued misappropriation. MCL 445.1903. Attorney fees are available to prevailing parties when (1) a claim of misappropriation is made in bad faith or (2) “willful and malicious misappropriation exists.” MCL 445.1905.

IX. Checklist for Complaint

§42.9

- jurisdictional facts
- venue
- the plaintiff’s interest and investment in particular information
- a statement that this particular information comprises trade secrets
- the defendant’s misappropriation or participation in misappropriation of the trade secrets

- the plaintiff's injury
- facts supporting injunctive relief (if applicable)
- request for relief

X. Related Actions

§42.10

- In some cases the trade secret will have been provided to the defendant pursuant to a confidentiality agreement, employment agreement, or covenant not to compete. In such cases, a claim for breach of contract may be available.
- Under some factual scenarios, a claim for unfair competition or infringement of a trademark or service mark may also be available. There is limited Michigan law, but extensive federal law, dealing with such claims. Also, copyright or patent law claims may exist under certain factual scenarios, usually resulting in the handling of the entire matter in the federal court system.

Form 42.1
Complaint for Misappropriation of Trade Secrets

[Caption/Statement regarding other action.]

COMPLAINT

Plaintiff states:

1. This is an action for injunctive and monetary relief brought by Plaintiff pursuant to the Michigan Uniform Trade Secrets Act of 1998, MCL 445.1901 et seq. Specifically, Plaintiff alleges that Defendant *[corporation / individual]*, in violation of state law, has *[acquired Plaintiff's trade secrets knowing, or having reason to know, that the trade secrets were acquired by improper means / disclosed or used Plaintiff's trade secrets without Plaintiff's consent]*.
2. Plaintiff is a Michigan corporation with its principal place of business in _____ County, Michigan.
3. Defendant is *[describe]* with its principal place of business in _____ County, Michigan.
4. The events giving rise to this action took place in _____ County, Michigan.
5. The controversy is within the jurisdiction of this court because Plaintiff claims damages in excess of \$25,000 *[and / or]* requests equitable relief.
6. Plaintiff and Defendant are *[describe relationship]*.
7. Plaintiff has trade secrets in *[describe]*.
8. These trade secrets have given Plaintiff an opportunity to obtain an advantage over competitors who did not know or use them.
9. These trade secrets are not known to Plaintiff's competitors or others outside Plaintiff's own business.
10. These trade secrets are known only by Plaintiff's employees who have a need to know the information.
11. Plaintiff takes the following measures to guard the secrecy of this information: *[describe]*.
12. This information is of great value to Plaintiff because *[describe]*. Plaintiff's competitors would find this information of great value because *[describe]*.
13. Plaintiff has devoted substantial resources to the development of this information, spending \$_____ over *[time period]*.
14. Plaintiff has devoted substantial effort and energy to the development of this information, including *[describe efforts, hours, and other items expended in developing the information]*.

- 15. These trade secrets could only be properly acquired or duplicated by others through extraordinary efforts, including *[describe]*.
[Either]
- 16. Defendant misappropriated Plaintiff's trade secrets by obtaining, or threatening to obtain, those trade secrets through *[describe how Defendant obtained the information wrongfully]*.
[Or]
- 16. Defendant misappropriated Plaintiff's trade secrets by disclosing or threatening to disclose Plaintiff's trade secrets. *[Describe how Defendant (1) used improper means to acquire knowledge of the trade secret, (2) knew or had reason to know that Defendant's knowledge of the trade secret was derived from a person who used improper means to acquire it or violated a duty to maintain its secrecy, or (3) knew or had reason to know that knowledge of the trade secret was acquired by accident or mistake.]*
- 17. Defendant's misappropriation *[occurred / began]* after October 1, 1998.
- 18. Defendant's misappropriation of Plaintiff's trade secrets has injured Plaintiff by *[describe Plaintiff's lost profits, Plaintiff's costs incurred in developing the misappropriated secrets, Plaintiff's costs incurred in preventing or curing the misappropriation, and the reduced value of Plaintiff's business due to the misappropriation]*, causing Plaintiff damages in the amount of \$_____.
- 19. Defendant's misappropriation of Plaintiff's trade secrets has unjustly enriched Defendant by *[describe]*.
- 20. Defendant's ongoing or threatened *[use / disclosure]* of Plaintiff's trade secrets is a continuous violation of Plaintiff's rights, has irreparably harmed Plaintiff, and will continue irreparably to harm Plaintiff unless enjoined.

PLAINTIFF REQUESTS that this court enter a judgment in its favor against Defendant as follows:

- 1. order that Defendant be enjoined from *[using / disclosing]* Plaintiff's trade secrets
- 2. award damages against Defendant in whatever amount Plaintiff is found to be entitled in excess of \$25,000, plus interest, costs, and attorney fees

[Firm name]

Dated: _____

By: /s/ _____

[Typed name of attorney]

(P _____)

Attorney for Plaintiff

[Address, telephone]

[Optional jury demand.]