

MINUTES

MONTANA SENATE 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON BUSINESS & INDUSTRY

Call to Order: By **CHAIRMAN JOHN HERTEL**, on March 10, 1995, at
10:00 a.m.

ROLL CALL

Members Present:

Sen. John R. Hertel, Chairman (R)
Sen. William S. Crismore (R)
Sen. C.A. Casey Emerson (R)
Sen. Mike Sprague (R)
Sen. Gary Forrester (D)
Sen. Terry Klampe (D)
Sen. Bill Wilson (D)

Members Excused: Sen. Steve Benedict (R) and Sen. Ken Miller (R)

Members Absent: N/A

Staff Present: Bart Campbell, Legislative Council
Lynette Lavin, Committee Secretary

Please Note: These are summary minutes. Testimony and
discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: HB 454
Executive Action: HB 454 BE CONCURRED IN

HEARING ON HB 454

Opening Statement by Sponsor:

REP. HAL HARPER, HD 52, Helena, stated he had carried the bill in 1985, at the behest of local soft-ware developers and producers who wanted the same protection in the State of Montana that most the other states had. If a soft-ware program was developed in the state, before the Act was passed, someone could "rip it off", so they wanted to make sure that Montana was as safe a haven as other states for those high tech, high paid jobs that were coming into the state. Since that time, two of the most important bodies that dealt with those laws had decided that some amendments were necessary; the patent trademark and copyright section of the American Bar Association and the American Patent Law Association, both of which had identical resolutions urging amendments to that particular Act and what they did was take

their amendments verbatim and put them in the bills. That was suggested by the National Commission on Uniform State Laws, of which our **Attorney General, Joe Mazurek**, was a member. **Attorney General Mazurek** had intended to be at this hearing; however, he had another hearing to attend. He was the only proponent to testify before the House Committee on first reading and HB 454 passed unanimously at that hearing.

REP. HARPER explained this bill was revising and updating the Uniform Trade Secrets Act. Section 1, page 1, In exceptional circumstances (key words) and that phrase is complicated. There was a balance between public interest, or trade secrets, or misappropriated, but served a public interest function; not necessarily willfully misappropriated. **REP. HARPER** gave an example of a weapons design system which borrowed (stolen, or whatever it would be called) some trade secrets, but since that weapon system was necessary to protect American soldiers in Viet Nam, there were some mitigating circumstances. In other words, the court didn't go in and jerk that development of the weapons system out, saying it was misappropriated, because there was public interest served by that particular weapon system. That is one type of case "exceptional circumstances" applied to. Those were extremely technical terms.

REP. HARPER stated he was not an attorney, but he would try to do his best in the absence of **Attorney General Mazurek**. Further in that section, the intent of the underlined language was to limit the injunctive relief to the extent of the temporal advantage over good faith that competitors gain by misappropriation. Basically what that meant was if **SEN. CRISMORE** misappropriated an idea and was being penalized by the inventor or patentor of the idea, his liability would be limited because in a years time, he also could have discovered and been able to use that invention or that advantage. That was what the first section accomplished.

REP. HARPER stated the second section applied to damages and "misappropriation" was the key word. The affect of those amendments was to make the measurement of damages explicit; once again, very technical. On the second page, further on in section 2, the key phrase on line 3 was "reasonable royalty" and in that case they were talking about a measure of damages for prior misappropriation where greater actual loss or unjust enrichment could not be proved. Section 3 referred to remedies for breach of contract and stated they should not be displaced by that trade secrets law. Section 4 was an applicability date and the language there was necessary because that was a short term transitional problem and the affect of that section was to say prior laws govern any action that began before the effective date of that act.

Proponents' Testimony: None

Opponents' Testimony: None

Informational Testimony: None

Questions From Committee Members and Responses:

SEN. CASEY EMERSON stated he had been very closely connected with the patent idea and trademarks, etc, for years and in reading the language in this bill it really did not apply to patents. He asked REP. HARPER, it really applied just to trade secrets didn't it? REP. HARPER answered "yes". SEN. EMERSON stated there was another type of law that tied in with business trade secrets such as a situation in Dillon where a person was hired by an insurance company and he decided after about 3 years to go out and set up his own insurance company, so he took his Rol-O-Dex along and just started calling on customers that he had gotten from his training with the other insurance company. Does that bill deal with that type of scenario? REP. HARPER stated he did not believe this bill would help in that case. SEN. EMERSON stated he knows we have a law that was supposed to prevent that, but the law was very ineffectual. He had hoped that HB 454 would strengthen that law. REP. HARPER said he didn't think it dealt with any process, such as something one learned or gained from another corporation. That bill was intended mostly to deal with the trade secrets in terms of a product or an application, a program, something on that order. That law was implemented at the behest of soft-ware producers in the State of Montana.

SEN. GARY FORRESTER asked REP. HARPER, when he talked about soft-ware producers (this bill is mostly a computer bill) were the changes made for that purpose. On page 2, lines 1, 2 & 3, "In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty" when you have a Chinese manufacturer that had copied a Montana soft-ware program, how would any damage be imposed on that manufacturer? He isn't an American manufacturer that was infringing upon us in Montana, so how would this bill help with relief there? REP. HARPER said a tariff would have to be levied, or else go to war. He didn't know how else to help in that area.

SEN. FORRESTER stated that this bill would not provide injunctive relief. If a program was desired by a group of manufacturers and was available in Montana, but also available from a supplier in Canada (who had purchased it from a Canadian-Chinese supplier), how would that bill help that individual in Montana? SEN. EMERSON stated he would like to answer that question. If it was patented, which those things can be, patent infringement not only includes the manufacture, but also the distribution and sale, so the Chinese guy could steal the idea and he could sell it all over the rest of the world, but if he tried to sell it in the U.S. (if you can find that he is doing this) you could stop him because he had a distributor that can be nailed; he had someone selling it and likewise, that person could be nailed. That was the only protection from companies who do not recognize U.S. patents.

SEN. FORRESTER asked **REP. HARPER**, where satellite dish decoders were advertised (and that could be found in just about any magazine that would sell decoder chips for installation by a local authorized dealer), would a person be violating U.S. law that states you could not receive TV signals? Those were readily available and apparently 60% of the people were using that type of technology. Would this bill affect those people? **REP. HARPER** stated he believed it would, because that would be a trade secret. He looked at that language and saw in lieu of being able to measure damages in any other way, a reasonable royalty could be imposed under this Act. He assumed a royalty somehow could be imposed upon that and then a person could receive it if they were the actual holder of that invention. How that works legally, he was not sure. He assumed it would be through an inquisition of the tariff, because Montana did not have a sales tax and Montana didn't impose taxes on wholesalers. He was unsure of the mechanics, but this language was to give another way to be able to recover from misappropriations other than those that were currently in the law. That is why those amendments were added to at least broaden their power to be able to recover.

SEN. FORRESTER in Section 4, "With respect to a continuing misappropriation that began prior to this effective date, this Act did not apply to the continuing misappropriation that occurred after the effective date" did that mean if you were cheating before this Act, you can continue cheating after this Act and you couldn't get caught? **REP. HARPER** stated it meant there would undoubtedly be some actions that started before this Act was passed and if that act of misappropriations began before this Act was passed, and if the misappropriation continued after the Act was passed, the misappropriation would be governed by the laws existing at the time the misappropriation started. It would eventually sort itself out when all those cases were gone; however, this was just to make clear which Act was going to govern.

Closing by Sponsor:

REP. HARPER thought it was necessary to pass the bill to clean it up, make Montana on an equal par for protection of Montanans' secrets that sometimes have entire fortunes wrapped up and he expressed those were the types of jobs that Montana wanted to attract and wanted to hold as they were high paying, high tech jobs. He would ask the Committee to concur in HB 454. Also, **REP. HARPER** asked if the Committee saw favorably on this bill, would **SEN. EMERSON** carry the bill on the Senate floor.

EXECUTIVE ACTION ON HB 454

Motion: **SEN. EMERSON** made the motion HB 454 BE CONCURRED IN.

Discussion: SEN. FORRESTER stated he understood what the intent of the bill was, but he maintained, especially with computer secrets, China and several other southeast Asian countries seem to be bent on copying everything we had here and with the international market we were involved in, he was unsure this bill would be very effective.

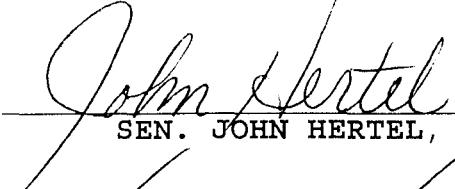
SEN. MIKE SPRAGUE stated that nationally that had been addressed and there had been an embargo against Japanese products and the Clinton administration succeeded in out-bluffing them. They were attempting, as best they could with international relations, and "yes, this was an intent bill".

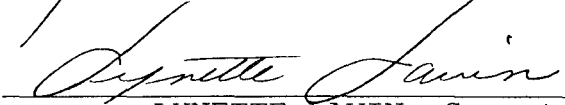
SEN. EMERSON declared he agreed with SEN. FORRESTER and he didn't think HB 454 was going to do much good, but if it did any good, we may as well pass it since it had come this far. It was true that around the world, they are trying to get a handle on the problem, but in order to do so, they must convince the individual countries and many countries were not cooperating at all.

Vote: The motion HB 454 BE CONCURRED IN CARRIED unanimously on oral vote.

ADJOURNMENT

Adjournment: The meeting adjourned at 10:25 a.m.


SEN. JOHN HERTEL, Chairman


LYNETTE LAVIN, Secretary

JH/11

ROLL CALL

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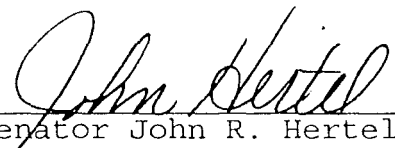
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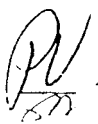
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MR. PRESIDENT:

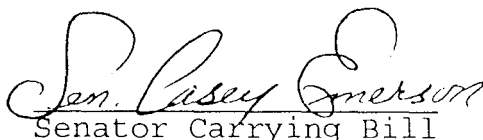
We, your committee on Business and Industry having had under consideration HB 454 (third reading copy -- blue), respectfully report that HB 454 be concurred in.

Signed: 

Senator John R. Hertel, Chair


PN

Amd. Coord.
Sec. of Senate


Senator Carrying Bill

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DATE March 10, 1995
 SENATE COMMITTEE ON HB 454
 BILLS BEING HEARD TODAY: Rep. Harper

< ■ > PLEASE PRINT < ■ >

Check One

Name	Representing	Bill No.	Support	Oppose

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY