By GREG PORTER

New Statute Modernizes Trade Secret Protection and Litigation in Texas

Texas has now joined 47 other states that have some version of the model Uniform Trade Secrets Act.[1] The Texas Uniform Trade Secrets Act ("TUTSA") takes effect on September 1, 2013, and will govern lawsuits for any misappropriation of a trade secret that occurs on or after that date.[2] The act modernizes the law of trade secrets in Texas, and brings it into substantial harmony with the laws of most other states.

The Act Provides a Broader Definition of a Trade Secret

Before the act, Texas courts, relying upon the Restatement of Torts, defined a trade secret as "any formula, pattern, device or compilation of information which is used in one's business and presents an opportunity to obtain an advantage over competitors who do not know or use it."[3] While some Texas courts have held otherwise,[4] the Restatement's additional "continuous use" requirement excluded potentially valuable confidential information that is: (1) still in development and thus not in use, *e.g.*, research and development information; (2) used previously, *e.g.*, a sales bid; or (3) "negative know-how," *e.g.*, expensive research determining paths not to pursue.[5] In contrast, the act defines a trade secret as follows:

> information, including a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers, that: (A) 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; and (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[6]

The act's definition eliminates the Restatement's "continuous use" language, and includes information that has "potential" economic value, which broadens the type of information that may be claimed as a trade secret.[7] Moreover, even though the act was patterned after the UTSA, the act's trade secret definition differs from it by providing that "financial data" or a "list of actual or potential customers or suppliers" may constitute protectable trade secrets. This broader definition, which was borrowed from the Illiniois trade secret act,[8] will provide additional certainty as to what may be protected as a trade secret.

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The Act Should Streamline Trade Secret Litigation

The act should streamline trade secret litigation in several ways. Initially, the act includes the uniform act's express statement that its general purpose is to make the law uniform among the states adopting it.[9] The uniformity should eliminate many of the battles that frequently ensue in trade secret cases over which state's law controls the dispute.

The sealing of records is another way in which the act makes litigation more efficient. Currently, the parties in trade secret litigation in Texas state courts are required to use the procedure described in Texas Rule of Civil Procedure 76(a) to seal a court record. Unfortunately, this procedure is often burdensome because it requires notice to the public and an opportunity to be heard. Notably, the act authorizes protective orders to limit disclosure of alleged confidential information, and states that they may include provisions for in-camera hearings, sealing records, and other protective measures.[10] This should simplify how trade secrets are protected during the course of litigation.

The act also streamlines trade secret litigation by authorizing injunctions and awards for attorney's fees. Before the act, attorney's fees could not be awarded in a Texas trade secret misappropriation case. As a result, trade secrets plaintiffs would often bring additional claims under statutes such as the Texas Theft Liability Act that authorize awards for attorney's' fees, which in turn increased the complexity and associated costs of the cases. The act now authorizes awards for attorney's fees in cases involving either a willful and malicious misappropriation or bad faith misappropriation of a trade secret,[11] and that should protect legitimate trade secret holders from malicious actions while discouraging unwarranted trade secret claims.

The act also authorizes a court to issue an injunction to prevent "threatened misappropriation."[12] For example, an employer will be able to seek an injunction to prevent a former employee's threatened disclosure of key trade secrets to a new employer without having to resort to a potentially difficult to enforce noncompete agreement.

Conclusion

The act modernizes Texas trade secret law and harmonizes it with that of most other states. Over time this will likely provide more certainty and predictability to the scope of trade secret protection and litigation. As stated in the legislative committee hearings on the TUTSA bill, it is believed that certainty and predictability in Texas trade secret law will attract more businesses that rely on trade secret protection to Texas.

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Endnotes

1. Only New York and Massachusetts lack some version of the Uniform Trade Secrets Act.
2. The act will be codified as Title 6, Chapter 134A of the Texas Civil Practice and Remedies Code.
3. *Computer Assoc. Intern v. Altai*, 918 S.W.2d 453, 455 (Tex. 1994); *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 776 (1958) (quoting Restatement of Torts § 757 (1939)).
4. *Bertotti v. C.E. Shepherd Co.*, 752 S.W.2d 648, 653 (Tex. App. —Houston [14th Dist.] 1988, no writ) (holding that the mere fact that a company is not presently using information or producing a product does not prevent the information from being a trade secret); *Elcor Chemical Corp. v. Agri–Sul, Inc.*, 494 S.W.2d 204, 213 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.) (holding that the mere fact that a trade secret-owner is not presently using information does not allow others to appropriate the information).
5. The existing case law is less than clear on whether negative know-how is currently protectable in Texas. Negative know-how has been held in some cases to not rise to the level of a protectable trade secret. *See e.g., Hurst v. Hughes Tool Co.*, 634 F.2d 895, 899 (5th Cir. 1981). In at least one other case, a court has upheld a trade secret based on a company's competitive advantage from "trial and error of eliminating what did not work." *Mabrey v. Sandstream, Inc.*, 124 S.W.3d 302, 319 (Tex. App. —Fort Worth 2003, no pet.).
6. TEX. CIV. PRAC. & REM. CODE §134A.002(6).
7. In fact, the comments to the uniform act upon which the TUTSA is based specify: "The definition of 'trade secret' contains a reasonable departure from the Restatement of Torts (First) definition which required that a trade secret be 'continuously used in one's business.' The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use. The definition includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will not work could be of great value to a competitor."
8. 765 ILCS § 1065(2)(d) (2012).
9. TEX. CIV. PRAC. & REM. CODE § 134A.008.
10. TEX. CIV. PRAC. & REM. CODE § 134A.006.
11. TEX. CIV. PRAC. & REM. CODE § 134A.005.
12. TEX. CIV. PRAC. & REM. CODE § 134A.003.