

TRADE SECRETS

Outlining new amendments to the Texas Uniform Trade Secrets Act.

BY JOSEPH F. CLEVELAND JR. AND J. HEATH COFFMAN

Since 2013, the Texas Uniform Trade Secrets Act, or TUTSA, has governed trade secret law in Texas.¹ Two significant events occurred since the law's enactment. First, in May 2016, Congress passed the Defend Trade Secrets Act, or DTSA, which creates a federal civil cause of action for misappropriation of trade secrets.² Second, the Texas Supreme Court decided *In re M-I L.L.C.*³ In that case, the court held that under TUTSA, a trial court must balance certain factors in order to overcome the presumption that a party is allowed to participate and assist in the defense of a trade secret misappropriation case.

In the 85th Texas Legislature, House Bill 1995 was introduced to address these new developments. The bill passed unanimously in the House and Senate and was one of the earliest bills signed into law by Gov. Greg Abbott. HB 1995 amends TUTSA to make some of its provisions coextensive with the DTSA to eliminate confusion and avoid possible forum shopping between state and federal courts.⁴ The amendment also codifies the holding in *In re M-I L.L.C.*

TUTSA, as amended, is now the most modern and comprehensive law on trade secrets in the nation. The following are the highlights of the new amendments to the state law.

Trade Secret. The amendment modifies the definition of “trade secret” to align it with the DTSA:

(6) “Trade secret” means all forms and types of information, including business, scientific, technical, economic, or engineering information, and any [a] formula, design, prototype, pattern, plan, compilation, program device, program, code, device, method, technique, process, procedure, financial data, or list of actual or potential customers or suppliers, whether tangible or intangible and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if [that]:

- (A) the owner of the trade secret has taken reasonable measures under the circumstances to keep the information secret; and
- (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through [by] proper means by, another person [other persons] who can obtain economic value from the [its] disclosure or use of the information [; and (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy].

TUTSA's revised trade secret definition, however, has two important differences from the one found in the federal law. The DTSA limits a trade secret to “financial, business, scientific, technical, economic, or engineering information.”⁵

In contrast, TUTSA's revised definition provides that a trade secret can be any form or type of information and lists “business, scientific, technical, economic, or engineering information” as illustrative examples. In addition, TUTSA specifically includes a “list of actual or potential customers or suppliers” as an example of trade secret information.

The amendment also changes the hierarchical order of sections (A) and (B) to rank the taking of “reasonable measures under the circumstances to keep the information secret” as the first requirement for a trade secret. This non-substantive change mirrors the DTSA and emphasizes that if an owner fails to keep the information a secret, the trade secret is lost.⁶

Misappropriation. The amendment also makes minor changes to the definition of “misappropriation”:

(3) “Misappropriation” means:

- (A) 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; or
- (B) disclosure or use of a trade secret of another without express or implied consent by a person who:
 - (i) used improper means to acquire knowledge of the trade secret;
 - (ii) at the time of disclosure or use, knew or had reason to know that the person's knowledge of the trade secret was:
 - (a) derived from or through a person who used [had utilized] improper means to acquire the trade secret [it];
 - (b) acquired under circumstances giving rise to a duty to maintain the [its] secrecy of or limit the [its] use of the trade secret; or
 - (c) derived from or through a person who owed a duty to the person seeking relief to maintain the [its] secrecy of or limit the [its] use of the trade secret; or
 - (iii) before a material change of the position of the person [person's position], knew or had reason to know that the trade secret [it] was a trade secret and that knowledge of the trade secret [it] had been acquired by accident or mistake.

Ownership. TUTSA does not expressly require ownership of a trade secret for a person to have standing to bring a claim.⁷ At least one court, however, has concluded that ownership is an element of a trade secret claim.⁸ The amendment clarifies that certain non-owners, like licensees, may have the right to file a claim under the law. Relying on a modified definition of “owner” found in the DTSA, the amendment provides that: “Owner” means, with respect to a trade secret, the person or entity in whom or in which rightful, legal, or equitable title to, or the right to enforce rights in, the trade secret is reposed.

Clear and Convincing Evidence. Under TUTSA, “clear and convincing” evidence of willful and malicious misappropriation is required to support an award of exemplary damages.⁹ The law, however, never defined “clear and

convincing.” The recent amendment now defines that phrase by using the definition found in Texas Civil Practice and Remedies Code section 41.001(2):

“Clear and convincing” means the measure or degree of proof that will produce in the mind of the trier of fact a firm belief or conviction as to the truth of the allegations sought to be established.

Willful and Malicious. Under TUTSA, a trade secret owner must establish “willful and malicious” misappropriation to support an award of exemplary damages and attorneys’ fees.¹⁰ The amendment adds a new definition for “willful and malicious” adopted from the opinion of the U.S. Court of Appeals for the 7th Circuit in *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*¹¹ The amendment provides that: “Willful and malicious misappropriation” means intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret.

General Knowledge, Skill, and Experience. The amendment also preserves the common law rule that an employee cannot be enjoined “from using the general knowledge, skill, and experience acquired during employment.”¹² The amendment provides:

Actual or threatened misappropriation may be enjoined if the order does not prohibit a person from using general knowledge, skill, and experience that person acquired during employment.

This language was added as a legislative check to ensure that a trade secret owner’s efforts to protect “intangible” trade secrets as found in the revised definition of “trade secret” did not override this important common law rule.

Limiting a Party’s Access to Trade Secrets. The amendment now codifies the Texas Supreme Court’s holding in *In re M-I L.L.C.*:

(b) In an action under this chapter, a presumption exists that a party is allowed to participate and assist counsel in the presentation of the party’s case. At any stage of the action, the court may exclude a party and the party’s representative or limit a party’s access to the alleged trade secret of another party if other countervailing interests overcome the presumption. In making this determination, the court must conduct a balancing test that considers:

- (1) the value of an owner’s alleged trade secret;
- (2) the degree of competitive harm an owner would suffer from the dissemination of the owner’s alleged trade secret to the other party;
- (3) whether the owner is alleging that the other party is already in possession of the alleged trade secret;
- (4) whether a party’s representative acts as a competitive decision maker;
- (5) the degree to which a party’s defense would be impaired by limiting that party’s access to the alleged trade secret;
- (6) whether a party or a party’s representative possesses specialized expertise that would not be available to a party’s outside expert; and

(7) the stage of the action.

The amendment contemplates that a court must use this seven-factor balancing test to exclude a party or a party’s representative at any stage of the proceedings, including discovery, pretrial, or trial. The amendment adds an additional factor not found in the Supreme Court’s decision: “whether the owner is alleging that the other party is already in possession of the alleged trade secret.” This factor was added because if the trade secret owner alleges that the misappropriator already possesses the owner’s trade secret, there is little harm if that party participates in the proceeding. Conversely, potential harm could result if a party participates in the proceeding but has not yet accessed the trade secret information, e.g., where an employer hires a new employee who is in possession of another’s trade secret but the employee has yet to disclose that secret to his new employer.

Sealing Court Records. An earlier version of House Bill 1995 included an amendment to section 134A.006 of TUTSA, which provided that the court’s discretionary power to seal court records exists “[n]otwithstanding any other law, including Rule 76a, Texas Rules of Civil Procedure . . .” Section 134A.006, however, already granted trial courts the discretionary power to seal court records in order to preserve the secrecy of any alleged trade secrets. The court’s existing power to seal court records under TUTSA, combined with the fact that the law explicitly controls over conflicting Texas Rules of Civil Procedure—including Rule 76a—rendered the proposed amendment unnecessary.¹³ Therefore, this provision was removed from the legislation.

Effective Date. These amendments to TUTSA are effective September 1, 2017. **TBJ**

NOTES

1. Tex. Civ. Prac. & Rem. Code § 134A.001, *et seq.* (2013).
2. 18 U.S.C. §§ 1831-36 (2016).
3. 505 S.W.3d 569 (Tex. 2016).
4. An Act Relating to the Texas Uniform Trade Secrets Act, 85th Leg., R.S., H.B. 1995, available at *Texas Legislature Online*, <http://www.legis.state.tx.us/BillLookup/History.aspx?LegSess=85R&Bill=HB1995>.
5. 18 U.S.C. § 1839(3).
6. 18 U.S.C. § 1839(3) (2016).
7. Tex. Civ. Prac. & Rem. Code 134A.003; *LBDS Holding Co., LLC v. ISOL Tech. Inc.*, No. 6:11-CV-428, 2014 WL 892126, at *1 (E.D. Tex., Mar. 2, 2014).
8. *St. Jude Med. S.C., Inc. v. Janssen-Coumotte*, No. A-14-CA-877-SS, 2014 WL 7237411, at *14 (W.D. Tex. Dec. 17, 2014).
9. Tex. Civ. Prac. & Rem. Code § 134A.004(b).
10. *Id.*, 134A.005(a).
11. 342 F.3d 714, 730 (7th Cir. 2003) (applying the Illinois Uniform Trade Secrets Act).
12. *Sharma v. Vinmar Int’l, Ltd.*, 231 S.W.3d 405, 424 (Tex. App.—Houston [14th Dist.] 2007, pet. dismissed).
13. Tex. Civ. Prac. & Rem. Code § 134A.007(c) (“To the extent that this chapter conflicts with the Texas Rules of Civil Procedure, this chapter controls.”).



JOSEPH F. CLEVELAND JR. and J. HEATH COFFMAN practice in the areas of intellectual property and commercial litigation at Brackett & Ellis. Coffman is the chair and Cleveland is the past chair of the Trade Secrets Committee of the Intellectual Property Law Section of the State Bar of Texas. They were both members of the working group responsible for drafting TUTSA and its amendments and assisting in the preparation of the bill analysis for the Texas Senate and House committees.