



Texas Enacts Uniform Trade Secrets Act

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With Texas Gov. Rick Perry's recent signing of Senate Bill 953 -- the Texas Uniform Trade Secrets Act (TUTSA) -- Texas joins 47 other states in adopting a version of the Uniform Trade Secrets Act (UTSA). New York and Massachusetts remain as the only states that have not adopted some version of the UTSA.

Like the UTSA, which was intended to codify and harmonize standards and remedies regarding misappropriation of trade secrets that had emerged in various states' common law, the TUTSA provides welcome clarification and additional protections to business owners concerned about the protection of their proprietary information. In Texas, the misappropriation of trade secrets has previously been governed by common law, much of which has been codified by the TUTSA; however, the TUTSA provides several important revisions to Texas trade secret law.

Recovery of Attorneys' Fees

One of the most notable provisions in the TUTSA provides that attorneys' fees may be recoverable in certain circumstances. Previously, there was no basis for an award of attorneys' fees for misappropriation of trade secrets, absent some other related cause of action, such as breach of contract. Under the TUTSA, the court has discretion to award attorneys' fees to a "prevailing party" where willful and malicious misappropriation is shown or where misappropriation claims are made in bad faith. It is unclear whether obtaining an injunction while recovering no actual damages will be considered "prevailing."

The ability to recover attorneys' fees is a significant development because these types of cases generally involve the substantial expenditure of attorneys' fees for all parties involved. Companies may find relief in an injunction award that prevents the unlawful use of their proprietary information, but they often spend large sums of money seeking such relief with little or no monetary damages to offset their efforts. Should an injunction award suffice as "prevailing," there would be even greater value to companies in seeking and obtaining an injunction to prevent the misappropriation of trade secrets.

Because attorneys' fees are also available in circumstances where claims are made in bad faith, this provision may also temper the filing of baseless lawsuits by competitors clearly intended to hamper lawful competition.

Broad Definition of Trade Secret

The TUTSA broadly defines the term "trade secret" to include any information with independent economic value that is not generally known and that another person cannot easily ascertain in order to benefit from the information's use. Importantly, the TUTSA's definition departs from the UTSA in that it specifically includes a business' financial data and customer lists in the definition of trade secret. Although



this information is often protected under common law, financial data and customer lists were previously analyzed by Texas courts on a case-by-case basis in order to determine whether they achieved trade secret status. Provided the trade secret owner makes reasonable efforts to maintain the information's secrecy (which has always been a factor considered to be important), the Texas Legislature's broader definition of trade secret provides greater protection than previously provided to trade secret owners. However, the TUTSA does not change the well-settled concept in the UTSA and Texas common law that discovery by independent development or "reverse engineering" is not prohibited.

Clarification on Monetary and Punitive Damages

The TUTSA also expands the damages available to a successful party in trade secret litigation. In addition to injunctive relief, the TUTSA allows for the recovery of economic damages for misappropriation of a trade secret, which includes the actual economic loss and any unjust enrichment. Unjust enrichment could include a defendant's increased revenues and resulting profits, reduced production costs and resulting profits, and the avoided cost of development. Furthermore, a court has the power, in exceptional circumstances, to condition future use of the trade secrets upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. Exemplary damages in an amount up to twice the amount of actual damages are also available for a willful and malicious misappropriation proven by clear and convincing evidence.

Broadening Injunctive Relief

The TUTSA also authorizes courts to enjoin "actual or threatened" misappropriation of trade secrets. Because Texas courts have traditionally been reluctant to enjoin "threatened misappropriation," which is often alleged in connection with the doctrine of "inevitable disclosure," the TUTSA's express inclusion of "threatened misappropriation" would be particularly useful for a business seeking to enjoin a former employee or a competitor who hires a former employee because the injunction may be applied before any trade secret information has been used to the company's detriment. In addition, the TUTSA expressly permits courts, in "appropriate circumstances," to issue affirmative injunctions requiring parties to undertake specific acts to protect the secrecy of trade secret information. The Legislature left open what conditions will constitute "appropriate circumstances."

Preservation of Secrecy

The TUTSA also establishes a presumption in favor of granting protective orders to preserve the concealment of trade secrets, thus saving time and expense spent litigating the issue. Protective orders may include provisions that limit access to confidential information to only attorneys or their experts.

Conclusion

TUTSA is expected to provide more uniformity, certainty, and predictability in litigation pertaining to trade secret misappropriation. As such, businesses, especially out-of-state businesses, may consider choosing Texas law to govern their agreements, and businesses can now feel comfortable modifying their agreements to reflect the new statute.

TUTSA becomes effective on September 1, 2013, and applies to any act of misappropriation that occurs after that date. Acts of misappropriation that occurred, or started to occur, prior to September 1, 2013, will be governed by current law.

For more information on the matters discussed in this *Locke Lord QuickStudy*, please contact the author:

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