

PUBLICATION

Texas Joins 47 Other States to Adopt the Uniform Trade Secrets Act

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May 30, 2013

On May 2, 2013, Governor Rick Perry signed the Texas Uniform Trade Secrets Act (TUTSA), a substantially similar law to the Uniform Trade Secrets Act (UTSA). The adoption of UTSA goes into effect on September 1, 2013, and brings Texas into line with the 47 other states that have adopted the uniform act. The only states that have not adopted UTSA are New York and Massachusetts. The new law updates and clarifies many important issues regarding the protection of trade secrets that have been developed by common law in court decisions without legislative guidance.

What Has Changed?

Broader Definition of "Trade Secrets"

Financial data and customer lists are now specifically included in the definition of trade secrets and no longer subject to a case-by-case analysis. Under TUTSA, a trade secret is any information with independent economic value that another person cannot easily ascertain in order to benefit from the information's use. The trade secret owner has to take reasonable efforts to maintain the information's secrecy in order to qualify. TUTSA specifically includes a formula, pattern, compilation, program, device, method, technique, process, *financial data*, or *list of actual or potential customers*.

By clarifying that financial data and customer lists are trade secrets, the Texas Legislature has provided more protection for trade secret owners in Texas than previously existed. The definition of "trade secrets" is also broader under TUTSA than UTSA.

Attorneys' Fees Now Recoverable

Under TUTSA, attorneys' fees are now recoverable in specific situations. An award of attorneys' fees is only available to a "prevailing party" (this is likely to include parties that successfully enjoin another party from using trade secrets) and if the misappropriation is made in bad faith, is willful or malicious or a motion to terminate an injunction is made or resisted in bad faith.

The potential recovery of attorneys' fees allows a trade secret owner to seek non-monetary relief without absorbing all of the potentially prohibitive costs of bringing the action, particularly if damages would be difficult to prove or quantify.

Injunctive Relief Gains Some Teeth

In addition to allowing the court to issue injunctive relief as has been the case under the common law, TUTSA allows a court to compel affirmative action of a party in order to protect trade secrets as long as there are "appropriate circumstances."

Whether this additional relief is granted is a matter of discretion for the court and what constitutes "appropriate circumstances" is a question that must still be answered.

What is the Same?

Strong Protective Measures to Avoid Disclosure

The Texas Legislature has continued to provide a significant amount of protection to parties engaged in trade secret litigation that is consistent with Texas Rule of Evidence 507. Under TUTSA, "there is a presumption in favor of granting protective orders to preserve the secrecy of trade secrets." Therefore, unless a showing of injustice can be made, a court should provide a protective order to maintain the secrecy of the trade secret throughout litigation. Other measures will also be applicable such as in-camera review, sealing court records and limiting access to confidential information to the attorneys and their experts.

Law Adopts Common Law View of Reverse Engineering

TUTSA continues to protect those who have been able to "reverse engineer" a trade secret as a proper use. Someone who is able to study, analyze or disassemble a product or device to discover its design, structure, construction or source code, as long as the product was lawfully obtained, has not misappropriated a trade secret under TUTSA.

Why is this Law Important?

By adopting a version of UTSA, the Texas Legislature has cleared up a body of common law that was unclear for trade secret owners and will allow companies to protect their interests more effectively through the use of equitable remedies.

This new law will also benefit employers that operate in Texas and other states that have adopted a version of UTSA by unifying trade secret law across 48 jurisdictions.

Should you have any questions about how TUTSA will affect your business or trade secrets, or questions about trade secret enforcement in general, please contact the author of this alert, Bradley E. Chambers, or a member of the Firm's Trade Secret Litigation team.