



JONES DAY
COMMENTARY

TEXAS ENACTS UNIFORM TRADE SECRETS ACT

The Texas Uniform Trade Secrets Act (“TUTSA”) was recently signed into law and will take effect on September 1, 2013. TUTSA primarily codifies Texas’s current trade secret law, while strengthening trade secret protections and providing greater certainty to misappropriation claims. Significant changes TUTSA makes to Texas common law include the following:

- Arguably eliminating a “continuous use” requirement for information deemed a “trade secret”;
- Providing for injunctive relief for threatened trade secret misappropriation; and
- Granting courts discretion to award attorneys’ fees to the prevailing party in certain cases.

EXPANSION OF THE DEFINITION OF A “TRADE SECRET”

A “trade secret” is defined by TUTSA as information that derives independent economic value from not being generally known or readily ascertainable

and for which reasonable efforts are made to maintain its secrecy. Such “information” includes “a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers.”

Under current Texas law, there is some question as to whether information must be in “continuous use” in the operation of a business to enjoy trade secret protection. The omission of “continuous use” language in TUTSA’s definition of a “trade secret” suggests that there is no longer any such requirement for a trade secret to be protectable. It will be far easier for trade secret owners to seek protection for information related to a single event, such as a bid for a contract, or information about a business idea or product not currently in development, even if not in continuous use by the business.

Modifying the model act’s definition of a “trade secret,” TUTSA adds “financial data” and a “list of actual or potential customers or suppliers” to types of trade secret information. Although this information is typically protected under common law, the specific

inclusion of these examples in TUTSA clarifies the types of information protectable as trade secrets and eliminates the need for courts to evaluate such information on a case-by-case basis to determine whether it is protectable.

BROADENING OF INJUNCTIVE RELIEF

Pursuant to TUTSA, actual and threatened misappropriation may be enjoined. Texas courts have traditionally been reluctant to expressly recognize the idea of “threatened misappropriation,” which is often linked to the “inevitable disclosure” doctrine. The inclusion of the “threatened misappropriation” language in TUTSA should be particularly useful for a company seeking to enjoin the activities of a former employee who joins a competitor or starts a competing business because the injunction may be applied before any trade secret information has been used to the company’s detriment.

Moreover, TUTSA allows the continuation of an injunction for additional time to eliminate any commercial advantage derived from misappropriation, rather than termination of the injunction once the protected information is no longer secret. TUTSA also gives courts the power to compel “affirmative acts to protect a trade secret” under appropriate circumstances.

PROVISION FOR ATTORNEYS’ FEES AWARD

The ability to recover attorneys’ fees is a new form of relief available under TUTSA. Texas courts will now have discretion to award the prevailing party its reasonable attorneys’ fees where willful and malicious misappropriation is shown. Further, attorneys’ fees may be awarded for misappropriation claims made in bad faith. Previously, any claim for attorneys’ fees relied on a separate cause of action.

With respect to monetary damages, TUTSA provides for the actual loss caused by the misappropriation, as well as any unjust enrichment not included in the actual loss computation. Alternatively, damages may be calculated by a reasonable royalty for the unauthorized use or disclosure of a trade secret. TUTSA also makes exemplary damages available for willful and malicious misappropriation proven by clear and convincing evidence. However, unlike current common law, such an exemplary damages award is limited by TUTSA to no more than twice the amount of actual damages.

ENHANCEMENT OF PROTECTIONS FOR TRADE SECRETS

In addition to the trade secret protections discussed above, TUTSA tasks courts with preserving the secrecy of an alleged trade secret, and it provides “a presumption in favor of granting protective orders to preserve the secrecy of trade secrets.” Among the means of protecting trade secrets through protective orders, TUTSA specifically includes “provisions limiting access to confidential information to only the attorneys and their experts” and ordering parties not to disclose alleged trade secrets.

TUTSA also provides examples of activities that are not considered improper means of acquiring a trade secret. Expanding on the model act, TUTSA specifically excludes discovery by independent development and reverse engineering from acts that qualify as trade secret misappropriation.

Although TUTSA takes effect September 1, 2013, it does not apply to any misappropriation, including continuing misappropriation, occurring prior to that time. Texas is the 48th state to enact a version of the model statute, and the adoption of substantially similar language to the uniform statute will make Texas’s trade secrets law more consistent with the laws of other states.

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