SEYFARTH SHAW

Management Alert

Energy Employment Law Group: Texas Changes Law To Strengthen The Ability Of Companies To Protect Their Information

Until recently, Texas common law governed misappropriation of trade secrets lawsuits in Texas. That changed when he 2013 Texas legislature adopted a version of the Uniform Trade Secrets Act ("UTSA"). The new act is known as the Texas Uniform Trade Secrets Act ("TUTSA"). New York and Massachusetts are now the only two states to not adopt some form or variation of the UTSA.

Trade secret laws protect companies from having their confidential information stolen and used by competitors. The most common way information is taken by a competitor is when an employee leaves one company and takes significant information, either in hard-copy or saved electronically, to the competitor. The confidential information taken may include items like customer lists, financial data, proprietary information about new projects, sales and marketing strategies and the like. Trade secret laws generally protect any formula, pattern, device, or compilation of information used in the company's trade or business that gives the company a competitive advantage over those who do not know or use it and that is in fact a secret.

The Major Changes

- ***Customer Lists Protected*** - The new statutory language departs from the model UTSA and Texas common law by specifically including customer lists in the definition of a trade secret. Under Texas common law, some customer lists and other compilations of information are considered proprietary, but a fact intensive inquiry is involved to determine if a specific list is worthy of trade secret protection. Most customer lists should qualify for trade secret protection under the TUTSA so long as reasonable efforts are taken to maintain their secrecy and so long as the lists are not readily ascertainable by proper means.

- ***Recovery of Attorneys' Fees*** - The ability to obtain attorneys' fees in trade secrets cases is the change that will likely have the greatest impact on litigants. Prior to the TUTSA, there was no basis for recovery of attorneys' fees in Texas for the misappropriation of trade secrets, absent a separate cause of action authorizing an award of attorneys' fees (such as breach of a confidentiality agreement or recovery under the Texas Theft Liability Act ("TTLA")).

  The ability to recover attorneys' fees in trade secret cases is significant. First, these cases can easily involve attorneys' fees well into the six figure range for both the company trying to protect its trade secrets as well as the individual or company defending the lawsuit. Second, proof of actual damages can be problematic because it is difficult to put a value on a stolen trade secret or put a value on the benefit a competitor obtained from the trade secret. Some defendants successfully take the approach in litigation that, "Yes, we took it, but it did not help us [or hurt the owner or

the trade secret]." Therefore, a plaintiff many times ends up spending a large amount of money only to get no damages and an injunction telling the competitor not to use the trade secret. There is significant value in getting the injunction, but there is more value now that the plaintiff can also get its attorneys' fees.

It is not yet entirely clear how the attorneys' fees provisions of the TUTSA will be enforced in Texas. The new law allows only a "prevailing party" to recover under certain circumstances. It is unclear whether obtaining an injunction and no actual damages will be sufficient to allow someone to be a prevailing party, which it is not under the TTLA. In addition to being a prevailing party, one of the following must also be true: (1) a claim for misappropriation is made in bad faith; (2) a motion to terminate an injunction is made or resisted in bad faith; or (3) willful and malicious misappropriation exists.

- ***Protective Orders*** - There are a few other provisions in the new law that are worth highlighting. There is now a presumption that a protective order needs to be put in place by the trial court to protect the trade secrets at issue in the litigation. The new law provides for a presumption in favor of granting protective orders to preserve the secrecy of trade secrets during the pending litigation. This change should do away with occasional disputes over whether to enter a protective order, which many attorneys in trade secret litigation now agree to put in place without the need for court intervention.

- ***Reverse Engineering*** - The statutory language also provides that information obtained by reverse engineering does not meet the definition of a trade secret in certain circumstances, which was also true under Texas common law. Reverse engineering is defined under the statute as "the process of studying, analyzing, or disassembling a product or device to discover its design, structure, construction, or source code provided that the produce or device was acquired lawfully or from a person having the legal right to convey it." There are situations when reverse engineering is not allowed, such as when there is a patent or other protections for the product or information.

These changes provide increased protection for businesses because they allow businesses to protect their trade secrets at a lower cost (if they can recover their attorneys' fees) and keep the trade secrets from being divulged when they bring litigation.

When The New Law Applies

The TUTSA took effect during the Labor Day weekend on September 1, 2013. However, the TUTSA does not necessarily apply to all cases filed in Texas after September 1, 2013. The TUTSA applies only if the alleged misappropriation began on or after September 1, 2013. Any misappropriation or continuing misappropriation that began before September 1, 2013 will continue to be governed by Texas common law.

General Practices Regarding Trade Secrets

Practices to Consider To Protect Information

There are many ways to protect your confidential information. For example, a company can:

- Make all confidential information password protected.

- Make access to highly sensitive information restricted to only those specific employees in the company that need it to carry out their job functions.

- Have employees enter into agreements with the company such as confidentiality agreements, non-competition agreements and/or IP assignment and protection agreements.

There are many more practices and technological solutions available that can help a company protect the company's

confidential information. Seyfarth Shaw LLP regularly provides trade secrets audits of the confidential information policies and practices of companies in order to better assist them in protecting their information.

Practices to Consider When Hiring Employees

In addition to protecting the company's own information, companies want to make sure they do not end up being a defendant in a trade secrets lawsuit. These are a few general practices that should be considered:

- Make it clear to job candidates that the company is not interested in information from the competitor.
- Tell prospective employees that they are forbidden from bringing information from their prior employment and also forbidden from using a prior employer's confidential information.
- Make sure that prospective employees are not subject to a non-competition or non-solicitation agreement with a prior employer that inhibits their ability to work for the company.

There are many more practices relating to trade secrets that should be followed when hiring employees. Seyfarth Shaw LLP can provide more specific guidelines and suggestions based upon a company's particular employment needs and information the company is protecting.

By: *Randy J. Bruchmiller* and *John L. Collins*

Randy J. Bruchmiller and *John L. Collins* are located in Seyfarth Shaw's Houston office. If you would like further information please contact your Seyfarth Shaw attorney, Randy Bruchmiller at *rbruchmiller@seyfarth.com* or John Collins at *jcollins@seyfarth.com*.