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Management Alert

Texas Legislature Clarifies and Expands the Texas Uniform Trade Secrets Act

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On May 19, 2017, Texas Governor Greg Abbott signed into law several amendments to the Texas Uniform Trade Secrets Act ("TUTSA"), located in Chapter 134A of the Texas Civil Practice & Remedies Code. The amendments go into effect on September 1, 2017. In doing so, Texas has aligned its statute more closely with federal law and codified recent judicial interpretations of the law.

Two events precipitated the amendments, one legislative, one judicial. In the first, Congress passed the Defend Trade Secrets Act ("DTSA") in May 2016, which provides a federal cause of action for trade-secret misappropriation. In the second, the Texas Supreme Court announced in *In re M-I L.L.C.*, 505 S.W.3d 569 (Tex. 2016) that a presumption exists that a party is authorized to participate and assist in the defense of a trade-secret misappropriation claim under TUTSA, which presumption cannot be surmounted unless the trial court considers a seven-factor balancing test. These events resulted in the following key changes to the TUTSA:

Trade Secret

The amended TUTSA expands the definition of "trade secret" to more closely harmonize Texas law with the DTSA's definition. Specifically, the Texas Legislature added to the definition "all forms and types of information" including, by way of example, "business, scientific, technical, economic, or engineering information," design, prototype, plan, program device, code, or procedure, "whether tangible or intangible and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing." There remain, however, several important differences between the amended TUTSA and the DTSA. First, the revised TUTSA definition of trade secrets lists illustrative examples of the form or type of information that can constitute a trade secret, whereas § 1839(3) of the DTSA confines a trade secret as "financial, business, scientific, technical, economic, or engineering information." Second, in contrast to the DTSA, TUTSA includes a "list of actual or potential customers or suppliers" as an example of trade-secret information. Third, a trade secret under TUTSA, unlike the DTSA, need not be "related to a product or service used in, or intended for use in, interstate or foreign commerce."

Injunctive Relief

TUTSA generally allows for injunctive relief from actual or threatened misappropriation. The amendment, however, preserves and clarifies the common-law rule that an employee cannot be enjoined "from using the general knowledge, skill, and experience acquired during employment." *Sharma v. Vinmar Int'l, Ltd.*, 231 S.W.3d 405, 424 (Tex. App.—Houston [14th Dist.] 2007, pet. dism'd).

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Willful and Malicious Misappropriation

Under the pre-amendment TUTSA, a trade-secret owner must establish "willful and malicious" misappropriation as a precondition to an award of exemplary damages and attorney's fees. The amendments clarifies that "willful and malicious misappropriation," means "intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret," which definition is derived from the Seventh Circuit's definition in *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 730 (7th Cir. 2003) (applying the Illinois Uniform Trade Secret Act). The amended TUTSA also defines the phrase, previously undefined by TUTSA, that triggers an award of exemplary damages—"clear and convincing evidence"—by using the definition in section 41.001(2) of the Texas Civil Practice and Remedies Code.

Trade Secret "Owner"

The amendment, which relies on the modified definition of "owner" found in the DTSA, provides that an "owner" of a trade secret is a "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." Thus, the amendment clarifies that certain nonowners, such as licensees, may be entitled to file a claim for trade-secret misappropriation under TUTSA.

Seven-Factor Balancing Test

The amendment codifies the Texas Supreme Court's holding in *In re M-I L.L.C.*, which sets out a seven-factor balancing test that courts must consider before excluding a party or a party's representative at any stage of the proceedings, including discovery, pretrial, or trial. The revised TUTSA presumes that parties are allowed to participate and be present during proceedings and may not be excluded until after a court considers the following seven factors:

(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.

TUTSA, as amended, is now one of the most modern and comprehensive laws governing trade secrets in the United States.

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