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Management Alert

Texas Adopts the Uniform Trade Secrets Act

On May 2, 2013, Texas Governor Rick Perry signed into law the Texas Uniform Trade Secrets Act ("TUTSA"). Texas has now joined forty-seven other states that have adopted some variation of the Uniform Trade Secrets Act ("UTSA").

Common law has always governed misappropriation of trade secrets lawsuits in Texas. The common law of Texas is very similar to the UTSA in many ways. However, the new legislation will result in some noteworthy changes to trade secret law in Texas.

Recovery of Attorneys' Fees

The TUTSA's biggest impact will likely be felt in the recovery of attorneys' fees. 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 (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 a major change in Texas law. First, these cases generally involve significant attorneys' fees 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 may be 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 can end up spending a large amount of money only to get no damages and only an injunction telling the competitor not to use the trade secret. There is significant value in getting the injunction, but there may now be more value because the TUTSA provides a mechanism to recover attorneys' fees in certain circumstances.

It is not entirely clear how the attorneys' fees provisions of the TUTSA will be enforced. The legislation 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. In other words, a showing of willful and malicious misappropriation may result in an award of attorneys' fees for employers that have a departing employee take their trade secrets to a new employer. The award of attorneys' fees is discretionary and not mandatory.

Customer Lists

The statutory language of the TUTSA departs from the model UTSA by specifically including customer lists in the definition of a trade secret. Under Texas common law, some customer lists and other compilations of information have been held to be worthy of trade secret protection. The final language of the TUTSA captures much of the same requirements that had to be met under Texas common law for a customer list to be worthy of trade secret protection.

Other Provisions

There are a couple other provisions worth highlighting from the legislation. The TUTSA 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 have historically agreed to put in place without the need for court intervention. The TUTSA also provides that reverse engineering is allowed in certain circumstances, which is also true under Texas common law.

Effective Date

The law will take effect on September 1, 2013 and will apply to a misappropriation of trade secrets that takes place on or after that date.

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