

Uniform Trade Secrets Act



By: Irene Kosturakis, Chief Intellectual Property Counsel, BMC Software, Inc.

On September 1, 2013, the Uniform Trade Secrets Act (UTSA) will become effective in the State of Texas as Chapter 134A of the Civil Practice and Remedies Code. When the Business Law Section took up the effort to have this law enacted, Texas was one of only 4 states that had not adopted the UTSA. The other three states are Massachusetts, New York, and North Carolina. The new UTSA replaces current Texas trade secrets law, whose framework has been Texas case law undergirded by the Restatement of Torts, the Restatement (Third) of Unfair Competition, and the Texas Theft Liability Act.

With its clear definition of trade secrets, a simplified means for injunctive relief and sealing court records, and an attorneys' fees provision for recovering fees from those parties who engage in willful and malicious activity, the UTSA provides a simple, clear, and predictable way of enforcing trade secret rights. While the law facilitates trade secret enforcement litigation of valid claims, the clarity of the legislation could have the effect of reducing unnecessary trade secret lawsuits based on questionable rights.

One important provision is the new law's definition of a "trade secret" defined as information, including a formula, pattern, device, compilation of information, program, method, technique, process, financial data, or list of actual or potential customers or suppliers that:

1. derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
2. is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

This definition eliminates the uncertainty in existing law by eliminating existing law's "continuous use" requirement and thus extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use. The UTSA therefore widens the class of protected trade secrets to include trade secrets not yet put to use and trade secrets that were used but were later abandoned.

Under the new definition for trade secrets, information about "what not to do" is also covered, recognizing that research that proves an approach does not work has economic value from not being generally known by competitors. This changes current Texas law shaped by at least one federal court, which held that a defendant does not misappropriate a trade secret by misappropriating "what not to do" information. *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 899 (5th Cir. 1981). The new law also provides a more lenient standard for the level of secrecy required of the owner of the trade secret. i.e., "efforts that are reasonable under the circumstances to maintain its secrecy" as opposed to the current requirement that there must be a substantial element of secrecy.

Among other important provisions, the new law provides that damages for misappropriation can include both actual loss and unjust enrichment, or alternatively can include the imposition of a reasonable royalty, plus exemplary damages, not exceeding twice any damage award.

The full text of the Texas Uniform Trade Secrets Act may be found at <http://www.capitol.state.tx.us/BillLookup/Text.aspx?LegSess=83R&Bill=SB953>.