



November 1, 2017

**Recent Developments in the Law Governing Trade Secrets and Non-Competes
Austin Bar Association Labor and Employment Section - November 1, 2017**

DTSA vs. TUTSA

Defend Trade Secrets Act of 2016 (“DTSA”) 18 U.S.C. 1831, et seq.

- effective 5/11/16

Texas Uniform Trade Secrets Act (“TUTSA”) - Chapter 134A of the Texas Civil Practice & Remedies Code as amended by House Bill 1995 (signed by the Governor May 19, 2017).

- effective 9/1/13 for misappropriation which began on or after 9/1/13
- amendments effective 9/1/2017 for actions commencing on or after 9/1/17
 - TUTSA now more aligned with DTSA
 - codifies recent judicial interpretation of law regarding preservation of secrecy

TUTSA Amendments

1. **Trade Secrets Definition** – 134A.002(6)

- Pre-Amendment: “information, including a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers.
- Post-Amendment: expands definition:

all forms and types of information, including business, scientific, technical, economic, or engineering information, and any [a] formula, design, prototype, plan, compilation, program device, program, code, device, method, technique, process, procedure, financial data, or list of actual or potential customers or suppliers, whether tangible or intangible and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if [that]: (A) the owner of the trade secret has taken reasonable measures under the circumstances to keep the information

secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through [by] proper means by, another person [~~other persons~~] who can obtain economic value from the [~~its~~] disclosure or use of the information [~~; and (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy~~].

- Highlighted terms are borrowed from DTSA
- “Efforts” now. “measures”

2. Injunctive Relief – Clarification – 134A.003

- Pre-Amendment: Allows for injunctive relief from actual or *threatened* misappropriation.
- Post Amendment: adds clarification that an injunction order should “not prohibit a person from using general knowledge, skill, and experience that person acquired during employment.”

3. Willful and Malicious Misappropriation – 134A.003(7)

- Adds definitions:
 - “Willful and malicious misappropriation” means “intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret.”
 - “Clear and convincing”
 - same definition used in section 41.001(2) of the Texas Civil Practice and Remedies Code.
 - to establish degree of proof required for exemplary damages (and one of bases for attorney’s fees recovery)

4. Trade Secret “Owner” - 134A.002(3-a)

- Adds definition: “owner” means 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.”
 - clarifies that certain nonowners may be entitled to file a claim under TUTSA
 - Relies on DTSA definition (though not verbatim)

5. Preservation of Secrecy/ Seven-Factor Balancing Test - 134A.006(b)

- Presumption in favor of protective orders remains, but
- Presumption added: “presumption exists that a party is allowed to participate and assist counsel in the presentation of the party’s case,” but

- a party and party's representatives may be excluded or have access to trade secret limited at any stage of proceeding, to protect the trade secret(s) of the other party, after court considers 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.

This codifies test in *In re M-I L.L.C.*, 505 S.W.3d 569 (Tex. 2016)

Some Similarities DTSA vs. TUTSA

1. Trade secret definition (more similar post-TUTSA amendment but still different)
2. Protective orders
3. Remedies: Injunctive relief (for actual or *threatened* misappropriation), damages (actual, unjust enrichment, reasonable royalty) exemplary damages, attorney's fees
4. Defendants can recover damages and attorney's fees for bad faith claim
5. Statute of limitations: 3 years for DTSA and probably for TUTSA, too

Some Key Differences DTSA vs. TUTSA.

1. DTSA does not preempt state law trade secrets claims, including TUTSA; TUTSA preempts Texas Theft Liability Act and other common law trade secrets misappropriation claims (but not contractual or criminal claims)
2. DTSA claims can be brought in state or federal court and are subject to removal to federal court without diversity; TUTSA requires diversity (or as a claim with supplemental jurisdiction) to bring in federal court.
3. "Trade secret" definitions in TUTSA, is broader and more inclusive than in DTSA.
 - TUTSA trade secrets can be "all forms and types of information" while DTSA trade secrets is limited to "all forms and types of financial, business, scientific, technical, economic, or engineering information"

- TUTSA definition includes “list of actual or potential customers or suppliers” as an example of protected information; DTSA does not specifically call out, but appropriately categorized under “business” information
- 4. DTSA trade secrets must to be “related to a product or service used in, or intended for use in, interstate or foreign commerce”; TUTSA trade secrets do not.
- 5. Under TUTSA, a presumption exists to allow parties access to trade secrets for participation in defense; no such presumption under DTSA or in federal court. Under TUTSA, presumption can be rebutted with 7-factor balancing test, under DTSA/in federal court, can restrict access upon a showing of “good cause.”
- 6. DTSA gives immunity for whistleblowers and in some anti-retaliation lawsuits; TUTSA does not.
- 7. DTSA requires whistleblower immunity notice in contracts as a prerequisite to recovery of exemplary damages and attorney’s fee; TUTSA does not.
- 8. DTSA contains an *ex parte* seizure provision; TUTSA does not.
- 9. Inevitable Disclosure Doctrine? Under DTSA, injunction cannot prevent a person from entering into an employment relationship, and conditions on employment relationship have to be based on *threatened* misappropriation and not what a person knows; under TUTSA, viable theory?

Some Pros (and Cons)

Pros – DTSA/Federal Court

1. Federal courts may be more sophisticated regarding technology issues and likely have more resources (i.e. law clerks) than some (all) state courts
2. No presumption that parties get to participate in defense like TUTSA
3. Federal preliminary injunction briefing may be required, drawing out Defendant’s evidence and argument
4. Stricter federal Rule 12(b) standards for dismissal
5. *Ex parte* seizure available under extraordinary circumstances
6. Federal Rule 26 initial disclosures

Pros – TUTSA/State Court

1. Might be easier/quicker to get TRO/preliminary injunction in state court
2. No requirement that trade secrets relate to interstate/foreign commerce
3. Trade secrets more broadly defined and “list of actual or potential customer or suppliers” specifically called out in statute
4. No whistleblower immunity notice required to recover attorney’s fees
5. The element of surprise
6. Less expensive through injunctive relief phase?