UT LAW CLE THE UNIVERSITY OF TEXAS SCHOOL OF LAW

PRESENTED AT

38th Annual Corporate Counsel Institute

April 8, 2016
Houston, Texas
May 6, 2016
Dallas, Texas

Shh! It's a Trade Secret!

M. Scott McDonald
Allan H. Neighbors
Littler Mendelson, P.C.

M. Scott McDonald
Littler Mendelson, P.C.
2001 Ross Avenue, Suite 1500
Dallas, Tx 75201
smcdonald@littler.com
214.880.8107

Allan H. Neighbors
Littler Mendelson, P.C.
1301 McKinney, Suite 1900
Houston, TX 77010
aneighbors@littler.com
713.652.4770

Shh! It's a Trade Secret![1]

(Presentation Outline)

The Texas Uniform Trade Secret Act ("TUTSA " or the "Act") is taking shape in the courts and judicial scrutiny of confidentiality agreements is on the rise—are you prepared? Are you ready for new defensive theories, such as copyright preemption, and their related complications? Are you up-to-date on how the law is changing and the new landmines? Get the latest developments in this rapidly-evolving field and hear practical solutions to emerging common problems.

1. Why Be Concerned?

The theft of trade secrets is big business, costing companies as much as $300 billion per year.

Trade secret litigation in federal courts is growing exponentially. The data shows that trade secret cases doubled in the seven years from 1988 to 1995, and doubled again in the nine years from 1995 to 2004. At the projected rate, trade secret cases will double again by 2017.

D. Almeling, D Snyder, *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, Gonzaga Law Review (3/17/2010).

2. How is TUTSA Different?

TUTSA "displaces *conflicting* tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret." (emphasis added). Tex. Civ. Prac. & Rem. Code § 134A.007.

The "trade secret" definition under TUTSA is generally broader than the definition under the Restatement (the old TX test / *In re Bass*).

Before September 1, 2013, defined by common law:

> "[A]ny formula, pattern, device, or compilation of information which is used in one's business and presents an opportunity to obtain an advantage over competitors who do not know or use it."
> *In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003).

[1] Presented by M. Scott McDonald and Allan Neighbors of Littler Mendelson, P.C.. www.littler.com.

After September 1, 2013, defined by TUTSA (§134A.002):

> (6) "Information, including a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers, that:
>
> (A) 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
>
> (B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

TUTSA removed the "continuous use" requirement. Id.

It accepts negative know-how, "information that has commercial value from a negative viewpoint" (what doesn't work), as a form of trade secret by adopting the Uniform Act's definition. National Conference of Commissioners on Uniform State Laws, Uniform Trade Secrets Act with 1985 Amendments § 1, cmt. (1985) (hereinafter "Uniform Act").

The old element of "there must be a substantial element of secrecy" becomes "is the subject of efforts that are reasonable under the circumstances to maintain its secrecy." §134A.002(6)(B).

"Proper means" includes discovery through reverse engineering "unless prohibited." §134A.002(4)

Liability will sometimes be intent oriented and based on knowing or having reason to know that misappropriation has occurred. §134A.002(3)(B)(iii)

- For example, the new employer needs to be placed on notice or have reason to know before use triggers damages liability.

"Threatened" misappropriation is clearly subject to injunction. §134A.003(a).

Misappropriation occurs through (A) acquisition through improper means, or (B) unauthorized disclosure or use (with a variety of different scenarios described that includes known accidental or mistaken acquisition). §134A.002(3).

An injunction should only run for as long as needed to eliminate commercial advantage derived from misappropriation, rather than for as long as the information remains secret. §134A.003(a).

Courts can compel "affirmative acts to protect a trade secret". §134A.003(c).

TUTSA clearly says damages may be "in addition to or in lieu of injunctive relief" which makes it clear this is not an "either / or" choice. §134A.004(a).

Title search: Shh! It's a Trade Secret!

Also available as part of the eCourse
2016 Corporate Counsel eConference

First appeared as part of the conference materials for the
38th Annual Corporate Counsel Institute session
"Shh! It's a Trade Secret!"