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Trade Secret Update – 2023
(And Non-Compete Summary)

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I. INTRODUCTION

The Texas Uniform Trade Secret Act ("TUTSA") was enacted in 2013 to make uniform the law of Texas with the other 48 states that had already passed their versions of the Uniform Trade Secret Act. There are still some significant differences in trade secret law amongst the states since some include or exclude critical terms from the uniform act. For example, California does not exclude from trade secret protection information that is "readily ascertainable;" yet almost all other states including Texas hold that readily ascertainable information is NOT a trade secret.

Notwithstanding these occasional differences, however, the decisional laws of other states are relevant and should be persuasive authority to Texas courts insofar as these courts are interpreting the same statutory language.

Likewise, the definition of a trade secret under the Defend Trade Secrets Act ("DTSA") is identical in many respects to TUTSA. Therefore, Federal DTSA cases are discussed herein and should likewise be persuasive authority for Texas state and federal courts.[1]

Finally, some Texas Federal Courts have noted that pre-TUTSA cases are often cited in post-2013 cases where TUTSA's preemption clause should theoretically displace conflicting authority. See *Utex Indus., Inc. v. Wiegand*, No. CV H-18-1254, 2020 WL 873985, at *8 (S.D. Tex. Feb. 21, 2020)("To determine whether information is a trade secret under TUTSA courts typically apply the standards the Texas Supreme Court developed for older common law trade secret claims.")

Therefore, this paper will also discuss some pre-TUTSA cases to the extent their holdings have not been displaced. This is helpful because Texas had extensively developed its own common law regarding trade secrets many decades before passage of TUTSA. Accordingly, there are many pre-TUTSA cases that will be instructive on questions such as whether a specific product in a unique industry might be a trade secret.

It is important to remember that the drafters of the Uniform Trade Secret Act were attempting to update and modernize trade secret law. This makes sense given trends in rapid economic modernization and the highly specialized technological and scientific

[1] Under the Federal DTSA, a trade secret is defined as:

All forms and types of financial, business, scientific, technical, economic, or engineering information, including patters, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

A. The owner thereof has taken reasonable measures to keep such information secret; and

B. The information derives independent economic value, actual or potential, from not being known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information. 18 U.S.C. § 1839(3).

information that is now ubiquitous. The significant differences between what once constituted a trade secret under the common law as compared to the uniform act reflects an attempt to strike a balance between protecting an owner's right to hard-earned innovation while at the same time not unduly impairing competition and mobility.

One example of how the law has evolved involves the past focus by courts on the nature of how information is obtained as being outcome determinative in whether trade secret status applied. In 1958 the Texas Supreme Court declared that:

> The mere fact that knowledge of a trade secret may be acquired through lawful means, such as inspection or analysis, does not preclude protection as a trade secret from those who secure that knowledge through improper means. *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.,* 158 Tex. 594, 314 S.W.2d 782, 788 (1958)); *see also Sharma,* 231 S.W.3d at 424 (citing Here, "[t]he question is not "How could [Lamont and Carranco] have secured the knowledge?' but 'How did [they]?' " *Id.* (quoting *Am. Precision Vibrator Co.,* 764 S.W.2d at 277); *see also, Lamont v. Vaquillas Energy Lopeno Ltd., LLP*, 421 S.W.3d 198, 213 (Tex. App.—San Antonio 2013, pet. denied).

While improper acquisition is still a factor in determining whether a trade secret has been misappropriated, the trend amongst courts applying the uniform act is to decide whether the information is secret in the first instance and whether that secrecy enables the owner to derive an independent economic benefit. The manner of acquisition, while important, is no longer the threshold issue under the uniform act.

II. TYPES OF TRADE SECRETS

There are a wide variety of trade secret cases which has caused some courts to observe that defining the trade secret is perhaps the most difficult issue out of all the numerous legal questions they are forced to resolve. *StoneCoat of Tex., LLC v. ProCal Stone Design, LLC,* No. 4:17CV303, 2019 WL 5391178, at *57 (E.D. Tex. Aug. 12, 2019), report and recommendation adopted in part, rejected in part, 426 F. Supp. 3d 311 (E.D. Tex. 2019)("A trade secret 'is one of the most elusive and difficult concepts in the law to define.'); *Ultraflo Corp. v. Pelican Tank Parts, Inc.*, 926 F. Supp. 2d 935, 958 (S.D. Tex. 2013) (quoting *Tewari De–Ox Systems, Inc. v. Mountain States/Rosen, LLC,* 637 F.3d 604, 613 (5th Cir. 2011)) (*quoting Lear Siegler, Inc. v. Ark–Ell Springs, Inc.,* 569 F.2d 286, 288 (5th Cir. 1978))

Whether information, a formula, or some other product or item qualifies as a trade secret is usually decided based on resolving the following issues: a) secrecy—i.e., whether the alleged secret is truly secret or is generally known and/or readily ascertainable, b) whether the owner took sufficient steps to maintain secrecy, and c) whether the owner derives economic value from having developed and kept the trade secret protected from discovery. This can be shown by comparing and contrasting cases where courts either found a trade secret or refused to accept such a claim.

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