PRESENTED AT

39th Annual Corporate Counsel Institute

May 11-12, 2017
Houston, Texas

Practical Considerations for Protecting Trade Secrets in Texas

Jason S. Boulette
Michael D. Marin

Author Contact Information:
Jason S. Boulette
Michael D. Marin
Steven H. Garrett
Boulette Golden & Marin LLP
Austin, TX

jason@boulettegolden.com
512-732-8901
mmarin@boulettegolden.com
512-732-8924
steven@boulettegolden.com
512-732-9933

TABLE OF CONTENTS

INTRODUCTION

In recent years, Texas law on trade secrets has seen two major development that are still in their nascent stages. This paper presents an overview of the Texas Trade Secrets Act (the "TUTSA"), enacted in 2013, and the more recently enacted federal Defend Trade Secrets Act (the "DTSA") that became law in 2016. Prior to 2013, trade secret misappropriation claims in Texas were the subject of state common law.

I. THE TEXAS UNIFORM TRADE SECRETS ACT

The Texas Uniform Trade Secrets Act went into effect on September 1, 2013, making Texas the 47th state to adopt some version of the model law.[1] Notably, the TUTSA "shall be applied… to make uniform the law … among the states enacting it." TEX. CIV. PRAC. & REM. CODE Ann. § 134A.008. Accordingly, although many areas of the TUTSA have yet to be interpreted, general conclusions may be drawn by looking at the structure of and how the Uniform Trade Secret Act ("UTSA") and other state variants have been interpreted.

A. Definitions

The TUTSA relies heavily on defined terms, and understanding those definitions is key to understanding what the statute does.

1. Trade Secret

The TUTSA defines "trade secret" by statute, displacing all common law definitions of same:

> "Trade secret" means 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.

TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6).

Interestingly, the TUTSA's definition of "trade secret" under Subsection (A) is broader than the definition adopted in some other states and arguably creates standing for a broader range of potential plaintiffs. Prior to the adoption of the TUTSA, the Houston Court of Appeals for the First District ruled that a plaintiff who holds a license to a trade secret but is not the owner of the trade secret had no standing to sue under Colorado's version of the Uniform Trade Secret Act. *RMS Software Dev., Inc. v. LCS, Inc.*, 1998 WL 74245, at *4 (Tex. App.—Houston [1st Dist.]

[1] Uniform Law Commission Enactment Status Map http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets%20Act (last visited March 12, 2015).

Feb. 19, 1998, no pet.). In reaching this conclusion, the *RMS* court focused on the fact that the Colorado UTSA explicitly defines "trade secret" in relation to the owner of the alleged trade secret:

> "Trade secret" means the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, improvement, confidential business or financial information, listing of names, addresses, or telephone numbers or other information relating to any business or profession which is secret and of value. To be a "trade secret" ***the owner*** thereof must have taken measures to prevent the secret from becoming available to persons ***other than those selected by the owner*** to have access thereto for limited purposes.

RMS Software Dev., 1998 WL 74245 at *4) (quoting COLO. REV. STAT. ANN. § 7-74-102(4) (West 1986)) (emphasis by court).

The *RMS* court also noted that the Colorado Court of Appeals had previously held, "[I]f a trade secret is divulged under an express or implied restriction of non-disclosure or non-use, a party who engaged in unauthorized use of the information will be liable in damages ***to the owner*** of the trade secret." *RMS Software Dev.*, 1998 WL 74245 at *4 (quoting *Mineral Deposits Ltd. v. Zigan*, 773 P.2d 606, 608 (Col. Ct. App. 1988) (emphasis by *RMS* court). Based on its reading of *Zigan* and the Colorado UTSA's definition of "trade secret," the *RMS* court ultimately held that only the owner of the trade secret has standing to sue under the Colorado UTSA:

> While we found no case that specifically addresses the issue of standing, the plain language of the act contemplates that the "owner" of a trade secret is responsible for preventing its unauthorized disclosure. RMS is not the owner of the trade secret involved in this lawsuit, thus it has no standing to sue for misappropriation of that secret.

RMS Software Dev., 1998 WL 74245 at *4.

Significantly, a federal court in Wisconsin rejected attempts to apply *RMS* (and several other standing cases) to the Wisconsin version of the Uniform Trade Secret Act, which does not have the same "owner" language found in the Colorado version. *Metso Minerals Indus. v. FLSmidth-Excel LLC*, 733 F. Supp. 2d 969, 975 (E.D. Wis. 2010). Indeed, the *Metso* court specifically held *RMS* was inapposite, because nothing in the Wisconsin statutory language "indicates that only the 'owner' of a trade secret may be responsible or preventing the secrets unauthorized disclosure." *Metso*, 733 F. Supp. 2d at 975. The *Metso* court also pointed to the comments to the UTSA as strongly suggesting individuals other than the owner of a trade secret have standing to sue:

> [T]he legislature adopted the language of NCCUSL's Uniform Trade Secrets Act ("UTSA"). Such language appears not to be designed to limit standing to "owners" as evidenced by a comment to the UTSA which states: "Where more than one person is entitled to trade secret protection with respect to the same information, only that one from whom misappropriation occurred is entitled to a remedy." This comment is certainly not dispositive to the instant issue because

Title search: Practical Considerations for Protecting Trade Secrets in Texas

Also available as part of the eCourse
2017 Corporate Counsel eConference

First appeared as part of the conference materials for the
39th Annual Corporate Counsel Institute session
"Trade Secrets: A Practical Guide to Protecting Information In and Out of Court"