

What You Need to Know:
The New Texas Uniform Trade Secrets Act
By Nick Brown

In May 2017, the Texas Legislature unanimously passed H.B. 1995,¹ which amended the Texas Uniform Trade Secrets Act (commonly called “TUTSA”).² The amendments take effect September 1, 2017, and apply to cases filed on or after that time.³ While the amendments largely codified existing law, practitioners routinely involved in trade secret cases should be aware of potential changes that may impact future litigation.

Perhaps the most significant substantive change is to the section of TUTSA providing for an award of exemplary damages. TUTSA previously allowed an award of exemplary damages and attorney’s fees if the jury found clear and convincing evidence of “willful and malicious misappropriation” by the defendant.⁴ However, the statute left that phrase undefined, creating uncertainty both as to what constitutes sufficient evidence to award exemplary damages, and how courts should instruct juries on the issue.⁵

The amendments contain an important—if seemingly unremarkable—new definition of “willful and malicious misappropriation.” With the passage of H.B. 1995, those terms now mean “intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret.”⁶ Practitioners should expect jury instructions to reflect this new definition, and should frame any challenges to evidentiary sufficiency keeping it in mind.

Of course, viewed in isolation, the new definition may not add much clarity. But the apparent origin of the amendment provides greater context—and a potential source of persuasive authority—for Texas practitioners in need of guidance. The Texas Legislature evidently adapted the new definition from language in *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714 (7th Cir. 2003), which discussed the same issue under Illinois law. In that case, the Seventh Circuit found the

¹ H.B. 1995 (85th Legislature, 2017). A link to the text of the bill is available at the following link: ftp://ftp.legis.state.tx.us/bills/85R/billtext/html/house_bills/HB01900_HB01999/HB01995S.htm.

² See Tex. Civ. Prac. & Rem. Code § 134A.001 *et seq.*

³ H.B. 1995, Sections 6 and 7.

⁴ Tex. Civ. Prac. & Rem. Code § 134A.004(b).

⁵ Compare Tex. Civ. Prac. & Rem. Code § 134A.001 (omitting a definition of willful and malicious misappropriation), with H.B. 1995, Section 1(7) (“‘Willful and malicious misappropriation’ means intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret.”).

⁶ *Id.*

defendant had consciously disregarded the plaintiff's rights by taking the trade secret, in hopes of starting a competing business, and then attempting to cover it up by creating false evidence of prior independent development. If presented with a novel question of how the new definition of "willful and malicious" ought to apply in a given situation, Texas practitioners should consider looking to the PlayWood decision and subsequent authority for direction.

While the new definition of "willful and malicious misappropriation" may be the most important substantive amendment, perhaps the most interesting change is the new statutory presumption that a party may access the alleged trade secret at issue to assist in preparing and defending the case.⁷ An order restricting any party's access to the trade secret during the course of the litigation—a common provision of protective orders that include the ability to designate documents Attorney's Eyes Only—can only issue after the court analyzes seven factors listed in the statute. These factors include the value of the alleged trade secret; the degree of competitive harm from dissemination to the other party; whether the other party already possesses the trade secret; whether the party's representative acts as a competitive decision maker; the degree to which the defense would be impaired by the absence of access to the trade secret; whether the party has special expertise not available to an outside expert; and the stage of the action.⁸

This amendment largely codified the Texas Supreme Court's decision of *In re M-I, L.L.C.*, 505 S.W.3d 569 (Tex. 2016). Nonetheless, the amendment is an important one. The balancing test reflects the Legislature's desire to protect a party's right to participate in a trade secret case, at the same time it recognizes the need to protect trade secrets. Practitioners on both sides of the bar should be aware of this potential obstacle to obtaining what many attorneys likely consider routine protections from the disclosure of trade secrets during the course of litigation.

Finally, it is also worthwhile to note what the Texas Legislature elected not to amend. According to the Texas Legislature's own Bill Analysis, "H.B. 1995 seeks to update provisions of the act to eliminate forum shopping between state and federal courts and ensure uniformity and clarity between state and federal laws."⁹ This is a reference to the recently-passed federal Defend Trade Secrets Act (DTSA).¹⁰ To this end, H.B. 1995 expanded the definition of a trade secret under TUTSA to explicitly list business, scientific, technical, economic, or engineering information, designs, prototypes, plans, program devices, code, and procedures, as examples of trade secret information—all of which are listed in the DTSA's own definition of "trade secret."¹¹

Despite the Legislature's hope to bring the TUTSA and DTSA into alignment, it is not clear H.B. 1995 accomplishes that purpose. The expanded definition in TUTSA is certainly helpful in defining the scope of a trade secret under TUTSA. But practitioners should not assume that TUTSA and

⁷ H.B. 1995, Section 5(b).

⁸ *Id.*

⁹ See H.B. 1995 Bill Analysis, which is available at the following link:

ftp://ftp.legis.state.tx.us/bills/85R/analysis/html/house_bills/HB01900_HB01999/HB01995H.htm.

¹⁰ 18 USC § 1836.

¹¹ Compare H.B. 1995, Section 1(6), with 18 USC § 1839(3).

DTSA are identical. For example, whereas TUTSA defines trade secret to include “all forms and types of information,” and then lists examples, the DTSA limits a trade secret only to “financial, business, scientific, technical, economic, or engineering information.” Whether the disparity in definitions has a significant practical impact or will encourage forum shopping in trade secret litigation remains to be seen.

H.B. 1995 also did not amend Texas’s criminal statute for theft of trade secrets, which continues to have a narrower definition of “trade secret” than the one set forth in TUTSA.¹² The Texas Legislature preserved the section of TUTSA that expressly states it “does not affect” criminal remedies,¹³ and the Legislature’s Bill Analysis confirms that was an intentional choice.¹⁴

In sum, the Texas Legislature’s amendments to TUTSA make it one of the most comprehensive in the nation. H.B. 1995 could have an impact of the nuances of trade secret litigation in Texas, and practitioners should be sure to consult the new statute when it goes into effect this September.

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¹² Tex. Pen. Code § 31.05.

¹³ Tex. Civ. Prac. & Rem. Code § 134A.007(b)(3).

¹⁴ H.B. 1995’s Bill Analysis, *supra* note 5, states: “[T]his bill does not expressly create a criminal offense, increase the punishment for an existing criminal offense or category of offenses, or change the eligibility of a person for community supervision, parole, or mandatory supervision.”