

Texas Uniform Trade Secrets Act: Overview

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November 12, 2015

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Topics

- What is a trade secret?
- What does a trade secret case look like?
- What are the key differences between common law and the Texas Uniform Trade Secret Act?
- Recent updates.

What is a trade secret?

- Depends on when you ask:
 - Prior to (even if continuing after) September 1, 2013 → Common law definition
 - After September 1, 2013 → TUTSA definition

What is a trade secret?

Common law definition:

“[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.3rd 735, 739 (Tex. 2003).

What is a trade secret?

TUTSA Definition:

“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 § 134A.002(6).

What is trade secret misappropriation case?



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What is trade secret misappropriation case?

- Employer vs. Former Employee
- Business A vs. Business B
- Business A vs. Former Employee and Business B

What is trade secret misappropriation case?

- Typically, 3 phases:
 - Lawsuit Filed + Application for Temporary Restraining Order
 - Temporary Injunction
 - Trial

Key differences between common law and TUTSA

- Extends to “threatened” misappropriation
- Provisions on damages
- Provisions on injunctive relief
- Attorneys’ fees
- Confidentiality during litigation
- Definition of “improper” and “proper” means

No longer need to prove actual use

TUTSA provides that actual **or threatened** misappropriation may be enjoined. CPRC 134A.003(a) (emphasis added).

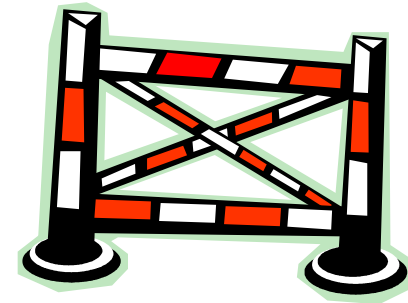
No longer need to prove actual use

Compare to the common law *inevitable disclosure doctrine*:

- Applies when a defendant has **access to trade secrets** and joins a competitor to perform duties so similar that those duties **cannot be performed without using the trade secrets**.
- See, e.g., *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.* 965 S.W.2d 18 (Tex. App.—Houston [1st Dist.] 1998, no pet) (upholding injunction where defendant possessed trade secret, could use it to compete directly, and where it was “likely” defendant would use the information to the trade secret owner’s detriment).

Injunctive relief

- Injunctive relief available in cases of **actual or threatened** misappropriation.
- TUTSA allows for **termination of injunction** “when the trade secret has ceased to exist, but the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.”
- “In exceptional circumstances, an injunction may **condition future use upon payment of a reasonable royalty** for no longer than the period of time for which use could have been prohibited.”



Damages

- “In addition to or in lieu of injunctive relief, a claimant is entitled to **recover damages** for misappropriation.”
- Measure of Damages:
 - **Actual loss** caused by misappropriation + **unjust enrichment** or
 - “**a reasonable royalty** for a misappropriator’s unauthorized disclosure or use of a trade secret.”
- **Exemplary damages** for willful and malicious misappropriation capped at 2x actual damages.



CPRC 134A.004(a).

Recovery of attorneys' fees

- TUTSA explicitly provides for recovery of fees if:
 - 1) Claim of misappropriation made in **bad faith**,
 - 2) Motion to terminate injunction made or resisted in **bad faith**, or
 - 3) **Willful and malicious** misappropriation exists.
- Fees not previously available under common law, except under other causes of action such as breach of contract or the Texas Theft Liability Act.



“Improper” and “Proper” Means

- Narrow and specific definition of “improper means”
- Proper means – “any other means that is not improper”
- Explicit protection for reverse-engineering



Presumption in favor of protective orders

- “[A] a court shall preserve the secrecy of an alleged trade secret by reasonable means. There is a presumption in favor of granting protective orders to preserve the secrecy of trade secrets.” CPRC 134A.006
- Previously, had to rely on TEX. R. CIV. P. 76a, with the presumption being on openness of records.



TUTSA update

“One is liable for disclosure of trade secrets if (a) he discovers the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in one who is in a confidential relationship with another who discloses protected information to him.”

Phillips v. Frey, 20 F.3d 623, 630 (5th Cir.1994)

TUTSA update

"Misappropriation" means:

(A) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(B) disclosure or use of a trade secret of another without express or implied consent by a person who:

(i) used **improper means to acquire** knowledge of the trade secret; ~~or~~

(ii) at the time of disclosure or use, knew or had reason to know that the person's knowledge of the trade secret was:

(a) derived from or through a person who had utilized improper means to acquire it;

(b) acquired under circumstances **giving rise to a duty to maintain its secrecy or limit its use**; or

(c) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(iii) before a material change of the person's position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

TUTSA update

“Plaintiff admits that it **willingly disclosed the secrets to the Defendant**. Therefore, the Plaintiff has failed to state a claim under TUTSA.”

Educ. Mgmt. Servs., LLC v. Cadero, (W.D. Tex. Dec. 23, 2014).

“[T]he fact that [d]efendant later allegedly breached the confidentiality provisions of the Agreements is **irrelevant to the method by which he obtained access** to the trade secrets in the first instance.”

Educ. Mgmt. Servs., LLC v. Tracey, (W.D. Tex. Apr. 9, 2015).

To file or not to file

(That is the question)



File	⊘ File
Protection	\$\$\$
Avoid Waiver / Loss of TS Rights	TS may be invalidated
Deter Future Theft	Risk of Losing
Preserve Secrecy	Counterclaim?
Monetary Damages	

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Trade Secrets Seminar Lessons Learned

Donald D. Jackson

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NON-DISCLOSURE AGREEMENT

This Agreement is made on DD/MM/YYYY

BETWEEN

[The Disclosing Party]

AND

[The Receiving Party]

Reference: Information related, but not limited to, development projects and assignments to be performed by the Recipient for the Company.

The Company possesses competitively valuable Confidential Information (as hereinafter defined) regarding its current products, future products, research and development, and general business operations. Recipient may enter or has entered into a business relationship with the Company and in connection therewith may need to review or use the Company's Confidential Information and Materials or to create new Confidential Information and Materials for the Company. In consideration of the promises and covenants contained in this Agreement and the disclosure of Confidential Information and Materials from the Company to the Recipient, the parties hereto agree as follows:

1. Confidential Information and Materials

(a) "Confidential Information" shall be written in different parts. Continue writing confidential information and relevant materials of this non disclosure agreement template. "Confidential Information" shall be written in different parts. Continue writing confidential information and relevant materials of this non disclosure agreement template. "Confidential Information" shall be written in different parts. Continue writing confidential information and relevant materials of this non disclosure agreement template.

The NDA

- Missing
- Unsigned
- Time Limited
- Scope Limited
- Post Disclosure



Efforts to Maintain Secrecy



Efforts to Maintain Secrecy



Efforts to Maintain Secrecy

- Translating Strategy into Action
- Next Steps

Text appears on all slides

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To

Subject

Dear Mr Brown,

With reference to our telephone conversation today, I am writing to confirm your order for: 120 x Cheddar. The order will be shipped within three days via UPS and should arrive at your store in about 10 days.

Yours sincerely,

John Smith, VP Sales
Tel: +555 123 4325 | john@company.com

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Efforts to Maintain Secrecy



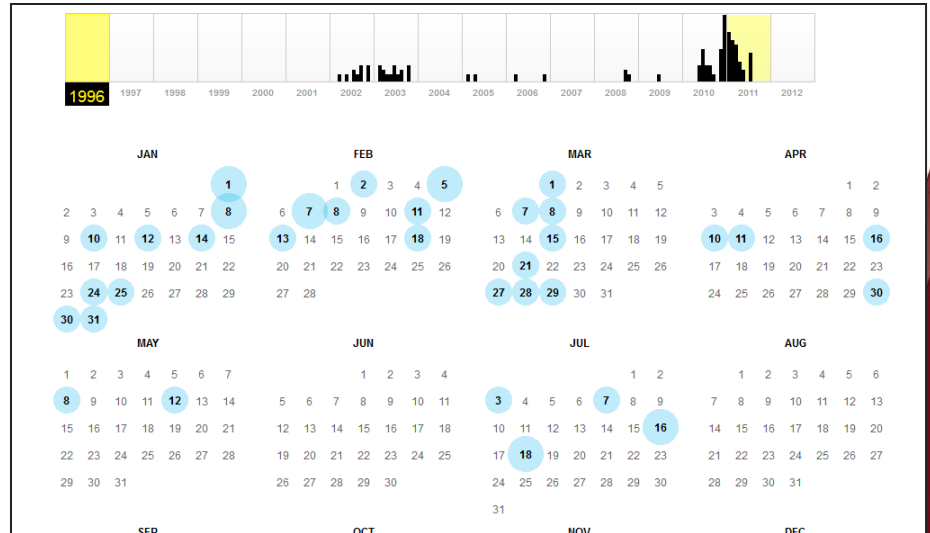
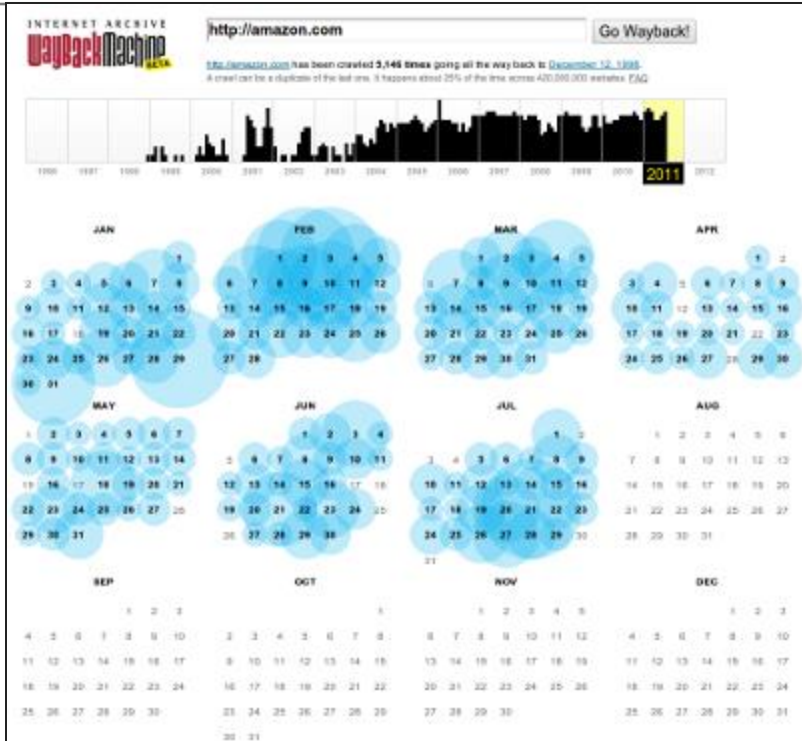
Encryption

Efforts to Maintain Secrecy



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Wayback Machine-Internet Archive



Internal Communications about the Competition



Internal Communications about Attacks on Competition

“Make it harder to raise money. _____ hired Credit Suisse First Boston, Inc. and Deutsche Bank AG for an initial share sale. The sale will take place early next year and the shares will be listed in both Hong Kong and New York. _____ claims it plans to go IPO in 2004. So activities to halt _____’s IPO plan may let customer to reconsider the risk of taking _____ as a partner.”

“I would think now is a good opportunity that we strike them first and let them bleed more when they really cannot afford to.”

Internal Communications about Espionage



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Internal Communications about Espionage

Using mole who works for opponent:

“I spoke with David and he has a source internal to _____.”

“Source reconfirms the max. capacity of _____ is 45K/month.”

Internal Communications with Competitor's Former Employee



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Internal Communications with Competitor's Former Employee

Assuming phone calls leave no evidence:

“Chicken. What about on the phone so it's not traceable.”

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Metadata Showing Document's Last Edits

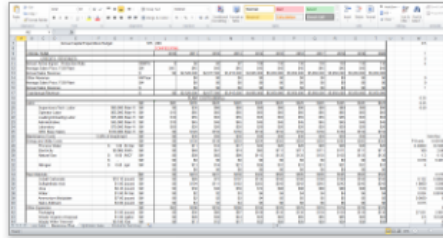
Plaintiff's Business Plan Spreadsheet:

Case 2 -- Business Plan Case - Catalyst Plant

5-Oct

INPUT DATA:		Total Capital Investment is	\$1,500,000.	Catalyst Active Ingr.: Product Capacity	80,000 #/yr	Annual Capital Expenditure Budget	\$75,000.								
FISCAL YEAR		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
CREDITS / REVENUES														1	
Annual Active Ingrid. Production Rate														2	
		000#/Yea	0	30	50	70	80	80	80	80	80	80	80	4	
		\$/#	\$90	\$90	\$90	\$90	\$90	\$90	\$90	\$90	\$90	\$90	\$90		
		\$	\$0	\$2,700,000	\$4,500,000	\$6,300,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000		
Other Revenue														0	
		M#/Year		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0	
		\$/#		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0	
		\$		\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	1	
Total Annual Revenue		\$	\$0	\$2,700,000	\$4,500,000	\$6,300,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000	\$7,200,000		
PLANT COSTS (\$000's)														0.25	
Labor		\$M	\$95	\$335	\$335	\$425	\$425	\$425	\$425	\$425	\$425	\$425	\$425	0.25	
	Supervisory/Tech. Labor	\$90,000 /Man-Yr. \$M	\$0	\$0	\$0	\$90	\$90	\$90	\$90	\$90	\$90	\$90	\$90	0.50	
	Operator Labor	\$65,000 /Man-Yr. \$M	\$20	\$65	\$65	\$65	\$65	\$65	\$65	\$65	\$65	\$65	\$65		
	Loading/Unloading Labor	\$55,000 /Man-Yr. \$M	\$15	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55	\$55		
	Administrative	\$45,000 /Man-Yr. \$M	\$10	\$45	\$45	\$45	\$45	\$45	\$45	\$45	\$45	\$45	\$45		
	Laboratory	\$70,000 /Man-Yr. \$M	\$50	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20	\$20		
	GED Base Salary	\$150,000 /Man-Yr \$M	\$0	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150	\$150		
Maintenance Costs		3.50% of Investment \$M	\$53	\$53	\$53	\$53	\$53	\$53	\$53	\$53	\$53	\$53	\$53		Solv Rec
Energy and Utility Costs		\$M	\$0	\$98	\$163	\$228	\$260	\$260	\$260	\$260	\$260	\$260	\$260		P-9 only
	Process Water	\$ 1.00 /M Gal. \$M	\$0	\$12	\$20	\$28	\$32	\$32	\$32	\$32	\$32	\$32	\$32	0.40000	63.586
	Electricity	\$0.085 /kWh \$M	\$0	\$38	\$64	\$89	\$102	\$102	\$102	\$102	\$102	\$102	\$102	150	2.69
	Natural Gas	\$ 7.00 /MCF \$M	\$0	\$42	\$70	\$98	\$112	\$112	\$112	\$112	\$112	\$112	\$112	2	0.12
		\$ - \$M	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	0.018	6.481
	Nitrogen	\$ 0.60 /gal \$M	\$0	\$5	\$9	\$13	\$14	\$14	\$14	\$14	\$14	\$14	\$14		
		\$M	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0		
Raw Materials		\$M	\$0	\$113	\$188	\$263	\$300	\$300	\$300	\$300	\$300	\$300	\$300		0.375
	Cobalt	\$9.00 /pound \$M	\$0	\$33	\$55	\$77	\$88	\$88	\$88	\$88	\$88	\$88	\$88	0.122	0.0895
	Hydrochloric Acid	\$1.00 /pound \$M	\$0	\$56	\$93	\$130	\$149	\$149	\$149	\$149	\$149	\$149	\$149	1.8600	0.299
	Urea	\$0.45 /pound \$M	\$0	\$20	\$34	\$48	\$54	\$54	\$54	\$54	\$54	\$54	\$54	1.510	0.034
	Water	\$1.00 /M Gal. \$M	\$0	\$1	\$2	\$2	\$3	\$3	\$3	\$3	\$3	\$3	\$3	0.034	0.0016
	Ammonium	\$7.00 /pound \$M	\$0	\$1	\$2	\$2	\$3	\$3	\$3	\$3	\$3	\$3	\$3	0.0050	0
	Nalco	\$3.00 /pound \$M	\$0	\$1	\$2	\$3	\$4	\$4	\$4	\$4	\$4	\$4	\$4	0.015	

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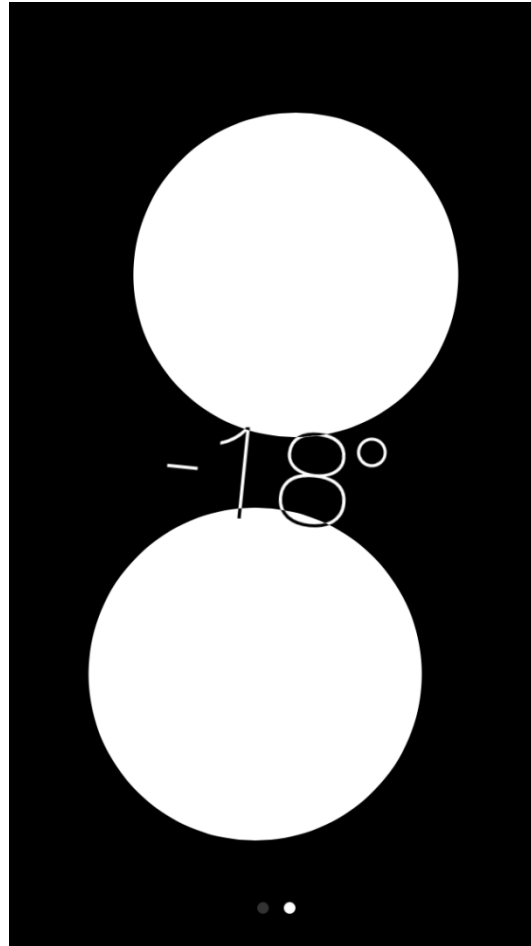
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Manager Specify the manager
Author Do [redacted]
Add an author

Last Modified by G. Da [redacted]

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Smart Phone Apps



Text Messages = Documents



Lessons Learned/Good Practices

- Insist on NDAs with reasonable terms
- Maintain NDA files
- Maintain physical security
- Consider file tracking software
- Retain visitor log books
- Examine your security policies
- Train employees regularly on security
- Mark confidential documents
- Use email footer stamps
- Examine your marketing materials and website
- Consider opting out of the Wayback Machine crawler
- Do not mix smart phones with testimony

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Protecting Trade Secrets

Felicity A. Fowler
Pierre Grosdidier

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Protecting Trade Secrets—and the Employer

- Policies, policies
 - Trade secrets
 - Employee
 - recruiting
 - hiring
 - terminating

Increasingly, a business's main asset is its intellectual property.

What are the secrets?

- Identify trade secrets
 - Important for TROs
- Develop policies
 - “reasonable efforts”



Les secrets de



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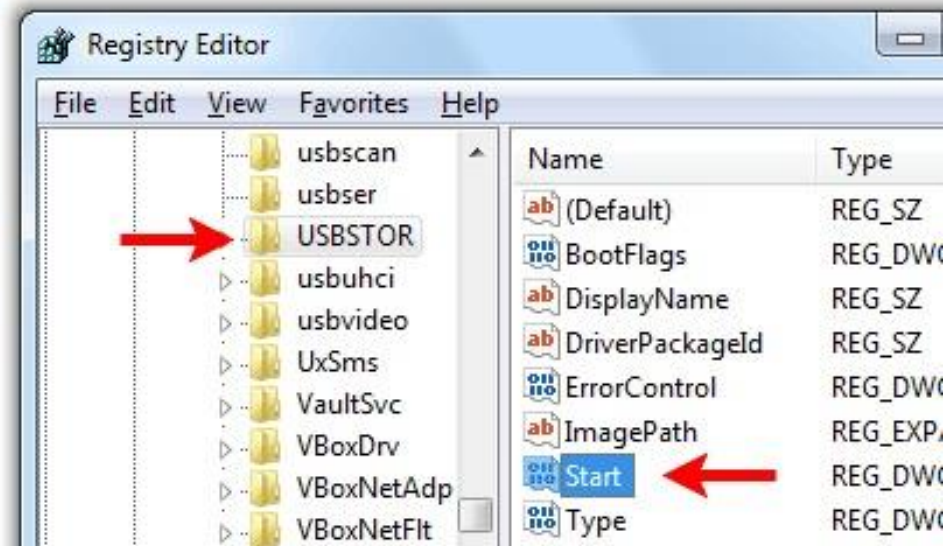
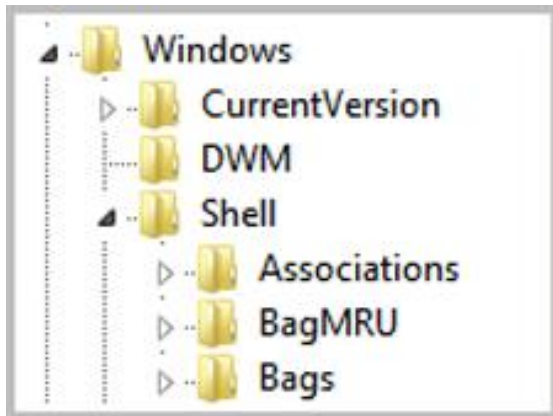
Trade Secrets Policies

- Control key docs
 - Limit MS Word file access
 - Circulate .pdf stamped “Confidential”
- NDA policy
 - No information sharing without NDA
 - Place NDA list on-line
 - Automatic email footer
 - Document disclosed subject to NDA
- Confidentiality policy
 - Shred box
 - Complex passwords



Enable system logs

- Windows
 - USBSTOR log
 - ShellBag information
 - Jump list (Link list)
- Database tracking functions
- Adjust log size as needed



Employee Digital Systems Use Policy

- No tampering with system
 - Logs
 - Configurations
 - Services
- No “scrubbing” software allowed
- Violation means breach of contract.



“Full NSA” with “Endpoint security”?

- Deploy activity tracking software?
 - ActivTrak; intapp; InterGuard
 - “Surveillance camera . . . slow motion replay”
- Not “one size fits all”
- Disclose to employees
- Check the reports

Powerful TRO
evidence?



Endpoint security



I KNOW PASTEUR DIDN'T WORK UNDER THESE CONDITIONS, BUT PASTEUR DIDN'T HAVE FIFTY COMPANIES TRYING TO STEAL HIS RADE SECRETS."

Unauthorized access by hackers: *In re Adobe*

- Hackers stole and decrypted credit card nos.; code
- “Adobe’s security practices were deeply flawed”
- “did not conform to industry standards”
- “encryption scheme was poorly implemented”
- “Adobe . . . failed to [do anything right].”

In re Adobe Systems Inc. Privacy Litigation, No 13-cv-05226-LHK,
2014 WL 4379916 (N.D. Cal. Sept. 4, 2014)

Unauthorized access: Don't rest on your laurels



F.T.C. test: “reasonable and appropriate” measures

Audit your system security

Trade secret theft can cut both ways

- Potential claims against new employer
 - Misappropriation of trade secrets
 - Tortious interference with contract
 - Tortious interference with business relations
 - Unfair competition
 - Unjust enrichment
 - Theft
 - Conspiracy
 - Breach of fiduciary duty



Employee recruiting

- Anticipate conflicts
 - Worked on competing technologies?
- Agreements with prior employer?
- Authority to contact prior employer?
- Document your investigation!



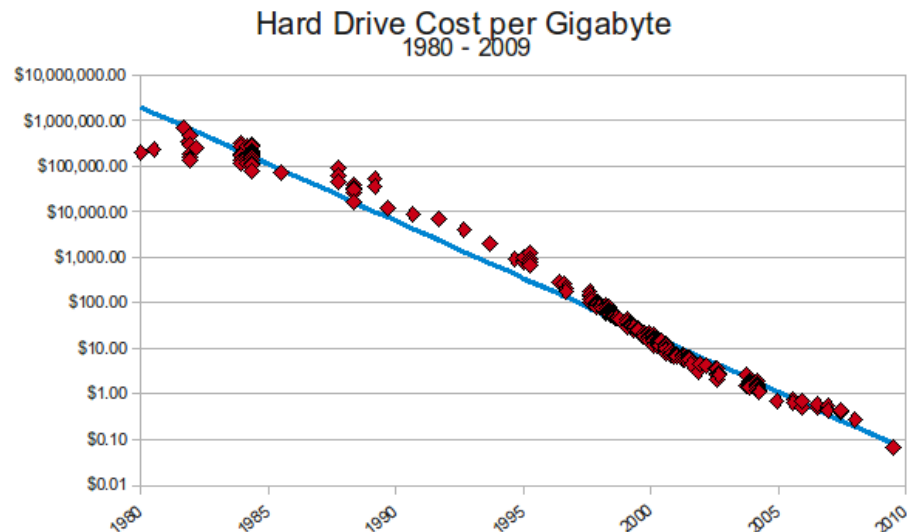
Employee hiring

- Employment offer letter conditions
 - All prior employment “conditions” disclosed
 - No imported third-party information, e.g., trade secrets
 - Employee agreements:
 - Non-disclosure
 - Non-compete
 - Non-solicitation
 - Confidentiality
 - Digital systems use
 - Social media
 - BYOD



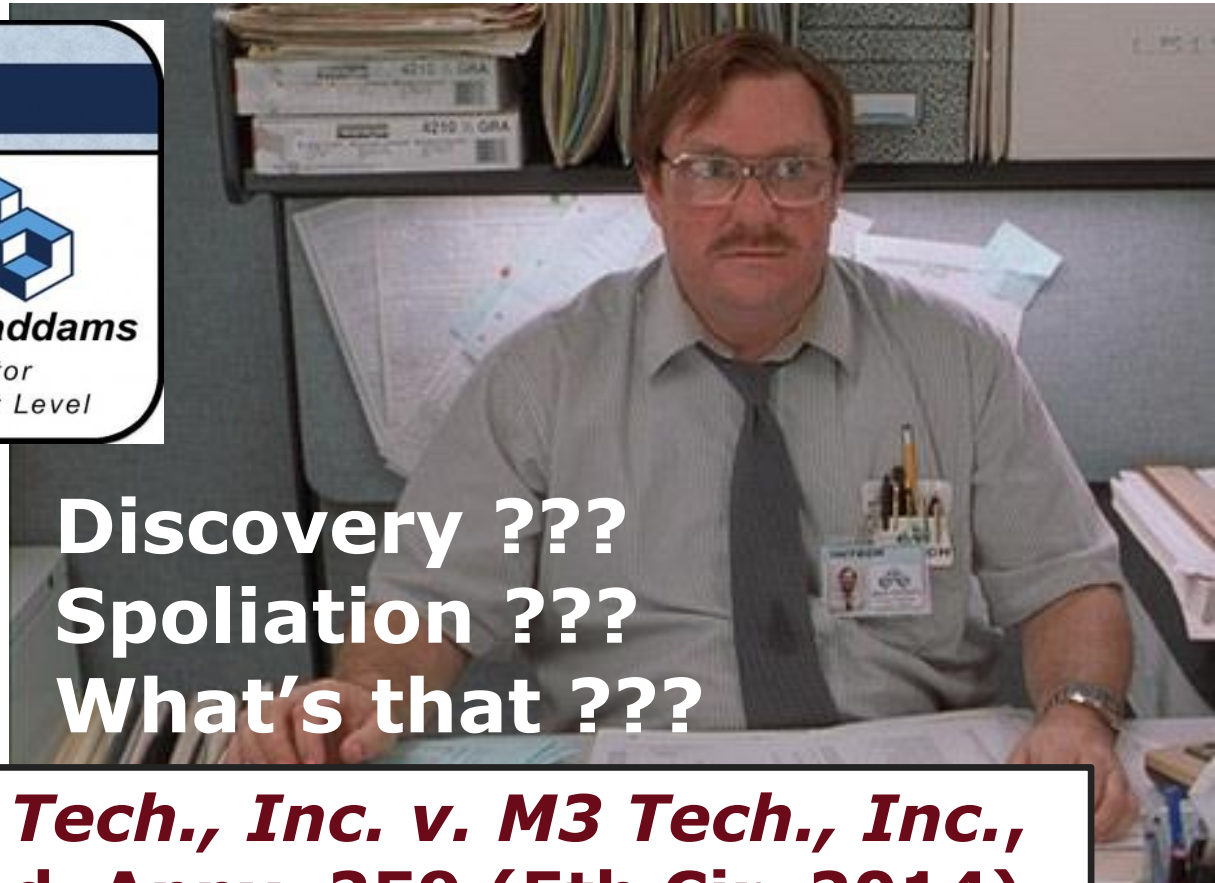
Employee terminating

- Preserve hard drive
- Audit recent activity
- Condition severance pay with commitment that employee
 - Complied with agreements
 - Is not taking any information
- Forfeiture clause?



Communicate policies to employees

- Explain the issues, stakes, consequences



**Discovery ???
Spoliation ???
What's that ???**

***Aspen Tech., Inc. v. M3 Tech., Inc.,
569 Fed. Appx. 259 (5th Cir. 2014).***

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Bringing in the Authorities? When Trade Secret Theft Becomes a Criminal Matter

Steve Corso

November 12, 2015

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Law Enforcement Involvement



IP Theft is a DOJ Priority

- National Security Implications
 - Economy
 - Risk to Infrastructure
- Criminal Prosecution
 - United States Attorney's Offices
 - Computer Hacking and Intellectual Property Coordinators (CHIP)
 - CHIP Units
 - DOJ Criminal Division
 - Computer Crime and Intellectual Property Section (CCIPS)

Criminal Theft of Trade Secrets

- 18 U.S.C. § 1832 (Economic Espionage Act)
 - Knowingly take a trade secret or knowingly receive a stolen trade secret
 - Includes attempt
 - Related to product or service used or intended for use in interstate or foreign commerce
 - Intent to economically benefit someone other than the trade secret's owner
 - Intending or knowing that the action will injure the trade secret's owner
 - Trade secret
 - All forms and types of information
 - However stored
 - The owner has taken reasonable measures to keep secret
 - Information derives independent economic value from not being generally known or accessible through proper means by the public

When Referrals Make Sense

- Deterrence
- Additional Investigative Tools
- Wrongdoer is Judgment Proof
- Civic Duty
- When Law Enforcement Will Be Interested

Downsides to Referrals

- Lack of Control
- Civil Injunctive Relief More Immediate
- May Waive Privilege Over Investigation
- Risk of Trade Secret Disclosure
- Negative Publicity
- Risk of Defense Fees Advancement

If You're the Accused

- Develop effective onboarding procedures before the government calls
- Immediately retain legal counsel
- Investigate

Preserving the E-mail Trail

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Use of Email in Trade Secret Theft

- Current and former employees who steal trade secrets often use email to carry out the thefts
- But they generally do not use ***company*** email; they use ***personal*** email
- Personal email accounts are often provided by major ISPs (Internet Service Providers)
 - Service is available to the public

The First Problem: How Do You Preserve the Emails?

- Litigation hold notices to defendants or suspected wrongdoers (and their counsel)
- Communicate with the ISPs
 - Request preservation of emails

**ISP Policies
Regarding
Preservation
of Subscriber
E-mails**



A person in a dark suit is holding a tablet computer. The background is a blurred server room with blue lighting. Several light blue envelope icons are floating in the air around the tablet. The text 'ISP POLICIES REGARDING PRODUCTION OF SUBSCRIBER EMAILS' is overlaid on the right side of the image.

**ISP POLICIES
REGARDING
PRODUCTION
OF SUBSCRIBER
EMAILS**

Stored Communications Act (SCA)

- Under the Stored Communications Act (SCA), neither an “**electronic communication service**” nor a “**remote computing service**” may disclose the contents of any communication stored on its network to any person.
18 U.S.C. § 2702(a) (2010) (emphasis added)
 - Distinguishes content from non-content information

Non-Content Information

- ISPs may produce non-content information in response to a subpoena after allowing time period for subscriber to object
- Examples of information that may be treated as non-content:
 - Basic subscriber information
 - ***Name, address, length of service***
 - Additional non-content information
 - Email “***headers***” that include to and from lines and time and date (but not subject lines)
 - ***Login history*** for the account

Content Information

- SCA prohibits ISPs from producing content information in response to a civil litigation subpoena
- Examples of content information:
 - Email ***subject lines, body, and attachments***
 - ***Chat*** or ***message history***
 - ***Photos*** and other files associated with the subscriber's account
- But:
 - ISPs typically allow ***subscribers themselves*** to request information

The Path to Production

- ISPs typically require both a **subpoena** and a **detailed signed consent** form from the subscriber before producing content information
- It may be possible to obtain an order compelling the subscriber to give consent to the production of the preserved information
 - *Flagg v. City of Detroit*, 2008 U.S. Dist. LEXIS 64735 (E.D. Mich. Aug. 22, 2008) (suggesting routing the discovery request directly through the producing party by **compelling** the party to give its consent to the disclosure of the communications)

The Path to Production

- ISPs will not filter data, will produce documents only between specific date ranges, and will typically ***produce only to subscriber***
- It will likely be necessary to negotiate procedure for search terms, and to allow opposing counsel to review for privilege and responsiveness before production

Discovery from Third-Party ISPs: Principles to Govern Counsel's Efforts

- Fairness
- Transparency
- Recognition of legitimate need to prevent spoliation

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