

BILL ANALYSIS

C.S.H.B. 1894
By: Elkins
Technology
Committee Report (Substituted)

BACKGROUND AND PURPOSE

Texas is currently one of only a few states that have not adopted the Uniform Trade Secrets Act. Interested parties contend that the act constitutes modern trade secrets law for the overwhelming majority of the United States. C.S.H.B. 1894 seeks to adopt a modified version of the Uniform Trade Secrets Act by providing a simple legislative framework for litigating trade secret issues in Texas.

RULEMAKING AUTHORITY

It is the committee's opinion that this bill does not expressly grant any additional rulemaking authority to a state officer, department, agency, or institution.

ANALYSIS

C.S.H.B. 1894 amends the Civil Practice and Remedies Code to authorize injunctive relief for actual or threatened misappropriation of trade secrets. The bill requires such an injunction to be terminated, on application to the court, when the trade secret has ceased to exist, but authorizes the injunction to be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation. The bill authorizes an injunction, in exceptional circumstances, to condition future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited and specifies that exceptional circumstances include a material and prejudicial change of position before acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable. The bill authorizes, in appropriate circumstances, affirmative acts to protect a trade secret to be compelled by court order.

C.S.H.B. 1894 defines "trade secret" as information, including a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers, that 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 by its disclosure or use, and that is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. The bill defines "proper means" as the discovery by independent development, reverse engineering unless prohibited, or any other means that is not improper.

C.S.H.B. 1894 establishes that a claimant is entitled to recover damages for misappropriation in addition to or in lieu of injunctive relief and that these damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. The bill authorizes, in lieu of damages measured by other methods, the damages caused by misappropriation to be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret. The bill authorizes the fact finder, if wilful and malicious misappropriation is proven by clear and convincing evidence, to award exemplary damages in an amount not exceeding twice that of any award made under the bill's provisions relating to damages for misappropriation. The

bill authorizes the court to award reasonable attorney's fees to the prevailing party if a claim of misappropriation is made in bad faith, if a motion to terminate an injunction is made or resisted in bad faith, or if wilful or malicious misappropriation exists.

C.S.H.B. 1894 requires the court to preserve the secrecy of an alleged trade secret by reasonable means and specifies that there is a presumption in favor of granting protective orders to preserve the secrecy of trade secrets. The bill authorizes protective orders to include provisions limiting access to confidential information to only the attorneys and their experts, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

C.S.H.B. 1894 specifies that its provisions displace conflicting tort, restitutionary, and other state law providing civil remedies for misappropriation of a trade secret, except that the bill's provisions do not affect contractual remedies, whether or not based upon misappropriation of a trade secret; other civil remedies that are not based upon misappropriation of a trade secret; or criminal remedies, whether or not based upon misappropriation of a trade secret. The bill clarifies that, to the extent that its provisions conflict with the Texas Rules of Civil Procedure, the bill's provisions control. The bill prohibits the supreme court from amending or adopting rules in conflict with its provisions. The bill requires its provisions to be applied and construed to effectuate its general purpose to make uniform the law with respect to trade secrets among the states enacting it. The bill clarifies that its provisions do not affect the disclosure of public information by a governmental body under public information law.

C.S.H.B. 1894 removes the offense of theft of trade secrets, as described by applicable Penal Code provisions, from the definition of "theft" for purposes of the Texas Theft Liability Act.

C.S.H.B. 1894 defines "misappropriation" as one of the following acts:

- acquisition of another's trade secret by a person who knows or has reason to know that the trade secret was acquired by improper means, including theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret, or espionage through electronic or other means;
- disclosure or use of a trade secret of another without express or implied consent by a person who used such improper means to acquire knowledge of the trade secret;
- disclosure or use of a trade secret of another without express or implied consent by a person who, at the time of disclosure or use, knew or had reason to know that the person's knowledge of the trade secret was derived from or through a person who had utilized such improper means to acquire it, was acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or was derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
- disclosure or use of a trade secret of another without express or implied consent by a person who, 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.

EFFECTIVE DATE

September 1, 2013.

COMPARISON OF ORIGINAL AND SUBSTITUTE

While C.S.H.B. 1894 may differ from the original in minor or nonsubstantive ways, the following comparison is organized and highlighted in a manner that indicates the substantial differences between the introduced and committee substitute versions of the bill.

INTRODUCED

SECTION 1. Title 6, Civil Practice and Remedies Code, is amended by adding Chapter 134A to read as follows:

CHAPTER 134A. TRADE SECRETS

Sec. 134A.001. SHORT TITLE.

Sec. 134A.002. DEFINITIONS.

Sec. 134A.003. INJUNCTIVE RELIEF.

Sec. 134A.004. DAMAGES. (a) In addition to or in lieu of injunctive relief, a claimant is entitled to recover damages for misappropriation. Damages can include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.

(b) If wilful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under Subsection (a).

Sec. 134A.005. ATTORNEY'S FEES.

Sec. 134A.006. PRESERVATION OF SECRECY.

Sec. 134A.007. EFFECT ON OTHER LAW. (a) Except as provided by Subsection (b), this chapter displaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret.

(b) This chapter does not affect:

(1) contractual remedies, whether or not based upon misappropriation of a trade secret;

(2) other civil remedies that are not based upon misappropriation of a trade secret; or

(3) criminal remedies, whether or not based upon misappropriation of a trade secret.

(c) To the extent that this chapter conflicts with the Texas Rules of Civil Procedure,

HOUSE COMMITTEE SUBSTITUTE

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(b) If wilful and malicious misappropriation is proven by clear and convincing evidence, the fact finder may award exemplary damages in an amount not exceeding twice any award made under Subsection (a).

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(3) criminal remedies, whether or not based upon misappropriation of a trade secret.

(c) To the extent that this chapter conflicts with the Texas Rules of Civil Procedure,

this chapter controls. Notwithstanding Section 22.004, Government Code, the supreme court may not amend or adopt rules in conflict with this chapter.

Sec. 134A.008. UNIFORMITY OF APPLICATION AND CONSTRUCTION.

SECTION 2. Section 134.002(2), Civil Practice and Remedies Code, is amended to read as follows:

(2) "Theft" means unlawfully appropriating property or unlawfully obtaining services as described by Section 31.03, 31.04, [~~31.05,~~] 31.06, 31.07, 31.11, 31.12, 31.13, or 31.14, Penal Code.

SECTION 3. The change in law made by this Act applies to the misappropriation of a trade secret made on or after the effective date of this Act. A misappropriation of a trade secret made before and a continuing misappropriation beginning before the effective date of this Act are governed by the law in effect immediately before the effective date of this Act, and that law is continued in effect for that purpose.

SECTION 4. This Act takes effect September 1, 2013.

this chapter controls. Notwithstanding Section 22.004, Government Code, the supreme court may not amend or adopt rules in conflict with this chapter.

(d) This chapter does not affect the disclosure of public information by a governmental body under Chapter 552, Government Code.

Sec. 134A.008. UNIFORMITY OF APPLICATION AND CONSTRUCTION.

SECTION 2. Same as introduced version.

SECTION 3. Same as introduced version.

SECTION 4. Same as introduced version.