

Trade Secrets 101: What Texas Businesses and Their Lawyers Need to Know

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Key Takeaways

First, if a business wants to preserve the ability to sue for misappropriation of trade secrets, it needs to take “reasonable measures” to maintain the confidentiality of the information that constitutes the alleged trade secrets.

This is only what businesses need to do from a *legal* perspective. There are many other *practical* things businesses can do, but that’s more a topic for security experts than legal experts.

To protect the “trade secret” status of their confidential information, most businesses should at least do the following:

- Require employees who are given access to confidential information to sign confidentiality agreements
- Use password protection on company computers and devices
- Not disclose confidential information outside the company (obviously)

In most cases, this will be enough to clear the relatively low legal bar of “reasonable measures” and to allow the company to argue that the information at issue is a trade secret.

Here are some additional measures that are a good idea:

- Limit digital and physical access to especially sensitive confidential information to employees who need it
- Have a written company policy restricting the disclosure of confidential information
- Conduct exit interviews with departing employees to inquire about confidential information and to remind them about their confidentiality obligations
- If feasible, sign non-disclosure agreements with customers and vendors who receive confidential information

Businesses that do one or more of these additional things should have little difficulty arguing they made the required “reasonable measures.”³ Businesses should also put a Defend Trade

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³ Leiza Dolgih, *5 Tips for Minimizing Trade Secrets Theft by Clients, Contractors and Vendors*, NORTH TEXAS LEGAL NEWS (Jan. 22, 2018), <https://northtexaslegalnews.com/2018/01/22/5-tips-for-minimizing-trade-secrets-theft-by-clients-contractors-and-vendors/>.

Secrets Act “whistleblower” notice in their employee agreements or handbooks (discussed below).

What are the sources of trade secrets law?

In the US, there are three sources of trade secrets law:

- The federal Defend Trade Secrets Act
- State statutes
- State common law

The vast majority of states, including Texas, have adopted some form of the Uniform Trade Secrets Act.⁴

Texas adopted the Texas Uniform Trade Secrets Act (TUTSA) in 2013.⁵ TUTSA is codified in Chapter 134A of the Texas Civil Practice and Remedies Code.⁶ Texas amended TUTSA in 2017, bringing it closer to the DTSA.⁷

Before TUTSA, Texas courts applied a common-law six-factor test from the Restatement of Torts to determine if information was a trade secret.⁸ TUTSA superseded the common law,⁹ but Texas courts sometimes still cite common law cases and the Restatement factors.¹⁰ This will usually be harmless, because in most cases application of the Restatement factors is unlikely to yield a different result than applying the TUTSA definition.¹¹

⁴ *HIS Co. v. Stover*, 202 F. Supp. 3d 685, 691 (S.D. Tex. 2016), vacated as moot, No. 4:15-CV-00842, 2016 WL 6134939 (S.D. Tex. Sept. 8, 2016).

⁵ Uniform Trade Secrets Act, 83rd Leg., R.S., ch. 10, §4, 2013; *Sisoian v. Int’l Bus. Machines Corp.*, No. A-14-CA-565-SS, 2014 WL 4161577, at *2 n.4 (W.D. Tex. Aug. 18, 2014).

⁶ *Corona*, *Bill Analysis*, S. Comm. on State Affairs, Tex. CSSB 953, 83rd Leg. RS (2013).

⁷ Uniform Trade Secrets Act, 85th Leg., R.S., ch. 37, 2017; *Elkins*, *Bill Analysis*, S. Comm. On Govt. Transparency and Operation, Tex. HB 1995, 85th Leg. RS (2017); *see also* *SPBS, Inc. v. Mobley*, No. 4:18-CV-00391, 2018 WL 4185522, at *3 (E.D. Tex. Aug. 31, 2018) (nothing that TUTSA has elements similar to DTSA); *RealPage, Inc. v. Enter. Risk Control, LLC*, No. 4:16-CV-00737, 2017 WL 3313729, at *9 (E.D. Tex. Aug. 3, 2017).

⁸ *In re Bass*, 113 S.W.3d 735, 739–40 (Tex. 2003). (“To determine whether a trade secret exists, this Court applies the Restatement of Torts’ six-factor test: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”)

⁹ *HIS Co.*, 202 F. Supp. 3d at 691; *Educ. Mgmt. Servs., LLC v. Tracey*, 102 F. Supp. 3d 906, 915 (W.D. Tex. 2015).

¹⁰ *HIS Co.*, 202 F. Supp. 3d at 693.

¹¹ *Kana Energy Servs., Inc. v. Jiangsu Jinshi Mach. Grp. Co.*, No. 14-17-00863-CV, 2018 WL 4868945, at *3 n.3 (Tex. App.—Austin Oct. 9, 2018) (error in failing to apply TUTSA is harmless when plaintiff cannot prevail under either TUTSA or common law); *BHL Boresight, Inc. v. Geo-Steering Sols., Inc.*, No. 4:15-CV-00627, 2017 WL 2730739, at *11 (S.D. Tex. June 26, 2017) (finding that plaintiff adequately pled elements of trade secrets claim under either TUTSA or common law).

The federal Defend Trade Secrets Act (DTSA) became effective in 2016. Its chief practical effect was to give plaintiffs the option to bring trade secrets suits in federal court rather than state court (provided there is some arguable connection to interstate or foreign commerce).¹²

What are the major legal issues in trade secrets cases?

The majority of legal issues in Texas trade secrets litigation will likely fall under one of these seven questions:

1. Is the information at issue a “trade secret”?
2. Did the defendant “misappropriate” the information?
3. Did the plaintiff take “reasonable measures” to keep the information secret?
4. Can the plaintiff prove causation and damages?
5. Is the plaintiff entitled to an injunction?
6. Can the defendant move to dismiss under the TCPA?
7. Is the plaintiff entitled to recover punitive damages and/or attorneys’ fees?

When is information a “trade secret”?

There were some minor differences before 2017, but TUTSA and the DTSA now have almost identical definitions of a “trade secret”.¹³

TUTSA

“Trade secret” means all forms and types of **information**, including business, scientific, technical, economic, or engineering information, and any formula, design, prototype, pattern, plan, compilation, program device, program, code, device, method, technique, process, procedure, financial data, or list of actual or potential customers or suppliers, whether tangible or intangible and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if:

(A) the owner of the trade secret has taken **reasonable measures** under the circumstances to keep the information secret; and

(B) the information derives **independent economic value**, actual or potential, from not being generally 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.

DTSA

[T]he term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering **information**, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques,

¹² Gordon v. Mathieson, No. H-18-1111, 2018 WL 3105115, at *5-6 (S.D. Tex. June 25, 2018) (state-law claim for misappropriation of trade secret was no basis for federal jurisdiction); Allstate Ins. Co. v. Hineman, No. CV H-17-1794, 2017 WL 7596917, at *2 (S.D. Tex. Oct. 11, 2017) (claim under DTSA is basis for federal jurisdiction).

¹³ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (West 2018); 18 U.S.C.A. § 1839 (West 2016); Primacy Eng’g, Inc. v. San Eng’g, No. 1:18-CV-129-RP, 2018 WL 3520143, at *2 (W.D. Tex. July 20, 2018).

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 generally 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

The Texas statute expressly refers to customer lists as potential trade secrets, while the DTSA does not. But this should make no substantive difference. Both statutes broadly apply to “information,” and a customer list obviously contains information.

Courts sometimes continue to cite the common-law definition of trade secrets when addressing claims under TUTSA. But to the extent of any conflict, the definition of “trade secrets” in TUTSA supersedes any common-law definition.¹⁴

In both statutes, the following essential elements stand out:

1. The information has “independent economic value”
2. The information is “not readily ascertainable” by competitors
3. The owner took “reasonable measures” to keep the information secret

What is “independent economic value”?

The first requirement for trade secret protection is independent economic value.

That means it’s not enough for information to be confidential. To be a trade secret, the information has to have value. For example, an employee’s personal health information may be highly confidential, but typically it wouldn’t have any economic value to a competitor. This distinction is easy to understand.

But why “independent” economic value, not just “economic value”? The rest of the definition helps explain this. The information must derive independent economic value 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.”¹⁵

¹⁴ *Baxter & Assocs., L.L.C. v. D & D Elevators, Inc.*, No. 05-16-00330-CV, 2017 WL 604043, at *9 (Tex. App.—Dallas, Feb. 15, 2017, no pet.); *HIS Co.*, 202 F. Supp. 3d at 693.

¹⁵ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6)(B) (West Supp. 2018).

That means it is not enough for the information to have economic value *to its owner*. Information has “independent” economic value when it would also provide value to a “person who can obtain economic value from its disclosure or use,” i.e. a competitor.¹⁶

When is information “not readily ascertainable”?

The second substantive element of the definition of trade secret is “not readily ascertainable.” Of course, “not generally known” will also satisfy this element, but that is obvious. So the fight will likely be over whether a competitor could “readily ascertain” the information.

At two ends of the spectrum, the “readily ascertainable” requirement is easy enough to apply. For example, a new kind of car engine could be a secret but could be “readily ascertainable” if a competitor could easily reverse engineer it. On the other hand, it’s safe to say the secret formula for Coke is not readily ascertainable, or it would have leaked out years ago.

It gets more difficult in the middle of the spectrum. Customer lists are the classic and recurring example. Let’s say I sell windows and I have a list of residential and commercial builder customers that it would take over 40 hours of research for a competitor to compile. Is that readily ascertainable? How readily is “readily”? In many cases it’s a matter of degree.

In *Guy Carpenter & Co. v. Provenzale*, 334 F.3d 459, 468 (5th Cir. 2003), a common-law case, the court held that a relatively short list of customers that the employee serviced at the company, which the employee could easily reconstitute, was “readily ascertainable” and therefore not a trade secret.¹⁷

When it’s a matter of degree, it is more likely to present a “fact issue.” In other words, the “readily ascertainable” issue is unlikely to be decided by the judge on a motion for summary judgment, meaning the question will have to go to trial.¹⁸

What is “misappropriation” of trade secrets?

TUTSA defines “misappropriation” of a trade secret as:

(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;

¹⁶ *E.g.* Emerald City Mgmt., LLC v. Kahn, No. 4:14-CV-358, 2016 WL 98751, at *19 (E.D. Tex. Jan. 8, 2016) (passwords have no “independent economic value”).

¹⁷ *See* 360 Mortg. Grp., LLC, v. HomeBridge Fin. Servs., Inc., No. A-14-CA-00847-SS, at *3 (W.D. Tex. Feb. 29, 2016) (citing *Guy Carpenter & Co.*, 334 F.3d at 467 in discussion of whether or not a customer list qualifies as a trade secret).

¹⁸ *See, e.g.*, 360 Mortg. Grp., LLC, No. A-14-CA-00847-SS, at 4 (holding that plaintiff raised a fact issue regarding a customer list qualifying as a trade secret).

(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 used improper means to acquire the trade secret;

(b) *acquired under circumstances giving rise to a duty to maintain the secrecy of or limit the use of the trade secret*; or

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

(iii) before a material change of the position of the person, knew or had reason to know that the trade secret was a trade secret and that knowledge of the trade secret had been acquired by accident or mistake.¹⁹

The definition of “misappropriation” in the DTSA is the same.²⁰

The definitions are long and complicated, but lawyers should not get too hung up on these definitions. As a practical rule of thumb, if a person’s acquisition or use of a trade secret seems wrong, it’s probably “misappropriation.”²¹

On the other hand, legal fights over the definition of misappropriation do happen. One recurring issue is whether misappropriation has occurred when the initial disclosure of the trade secrets to the defendant was authorized. The most common example is when an employee acquires confidential information lawfully in the course of employment, leaves the company, and then uses the information at a competing company.²²

Some courts have taken the view that there is no “misappropriation” when the owner voluntarily provided the trade secrets.²³

¹⁹ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3) (West Supp. 2018) (emphasis added).

²⁰ See 18 U.S.C.A. § 1839(5) (West 2016).

²¹ See, e.g., 360 Mortg. Grp., LLC, No. A-14-CA-00847-SS, at *3 (W.D. Tex. Feb. 29, 2016).

²² Compare Educ. Mgmt. Servs., LLC v. Tracey, 102 F. Supp. 3d 906, 914-15 (W.D. Tex. 2015) (court dismissed misappropriation claim because plaintiff failed to allege that defendant acquired the trade secrets through improper means) with Graduate Med. Educ. Dev., LLC v. St. George’s Univ., Ltd., No. H-15-2641, at *10-11 (S.D. Tex. Aug. 29, 2016) (court finds sufficient allegations to support claim of misappropriation by improper means).

²³ See, e.g., Educ. Mgmt. Servs., LLC, 102 F.Supp.3d at 914 (plaintiff failed to state a claim for misappropriation under TUTSA where plaintiff did not allege that defendant *acquired* the trade secrets through a breach of contractor agreements); Capstone Assoc. Servs., Ltd. v. Org. Strategies, Inc., No. H-15-3233, 2015 WL 9319239, at *2 (S.D. Tex. Dec. 23, 2015) (plaintiff failed to state a claim for misappropriation under TUTSA where defendants acquired the trade secrets in connection with a valid license).

But “acquisition” is not the only type of “misappropriation.” TUTSA defines “misappropriation” to include “disclosure or use” of a trade secret by a person who knows the trade secret was “acquired under circumstances giving rise to a duty to maintain the secrecy of or limit the use of the trade secret.”²⁴ Thus, some courts have held that unauthorized use of trade secrets by a former employee is misappropriation, regardless of the fact that the employee originally acquired the trade secrets lawfully.²⁵ The rationale is that in this situation the employee’s knowledge of the trade secrets was “acquired under circumstances giving rise to a duty to maintain its secrecy.”²⁶

What are “reasonable measures”?

Courts have set the bar low for “reasonable measures” to protect trade secrets. As noted in the key takeaways at the beginning, it is probably sufficient to do the things almost every company does: have employees sign confidentiality agreements (or at least require confidentiality in the employee manual), use password protection on company computers, and don’t disclose the information outside the company.²⁷

A defendant in a trade secrets case may still want to question the plaintiff’s “reasonable measures,” especially when the defendant also contends that the information is “readily ascertainable” outside the company. For example, if prices are part of the alleged trade secrets, did the company require customers and vendors to sign NDAs keeping the prices secret? If not, the defendant can argue the company failed to take “reasonable measures.”

Can a readily ascertainable customer list be a trade secret?

The short answer is no. Under the plain meaning of TUTSA (as well as the DTSA), information that is readily ascertainable is, by definition, not a trade secret. But some Texas courts have caused confusion by continuing to cite the “*Brummerhop*” rule.

Prior to TUTSA, there was a split of authority on whether a readily ascertainable customer list could be a trade secret.²⁸ *Brummerhop* sided with the courts that said that a customer list that was wrongfully obtained could be a trade secret even if the information in it was readily ascertainable.²⁹ The rationale seemed to be some expression of moral disapproval of misappropriating a customer list, even if it was not really a secret.

One might question whether it ever made sense to say that a readily ascertainable customer list can be a trade secret. But the enactment of TUTSA should render that debate moot.

²⁴ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3).

²⁵ *E.g.*, 360 Mortg. Grp., LLC. Inc., No. A-14-CA-00847-SS, at *5 (W.D. Tex. Feb. 29, 2016); Emerald City Mgmt., LLC v. Kahn, No. 4:14-cv-358, 2016 WL 98751, at *19 (E.D. Tex. Jan. 8, 2016). Litigator Patrick Kealing addresses this conflict in a blog post at <http://pkeating.com/?p=528#more-528>.

²⁶ *E.g.*, Hughes v. Age Indus., Ltd., No. 04-16-00693-CV, 2017 WL 943423, at *4 (Tex. App.—San Antonio Mar. 8, 2017, no pet.) (mem. op.).

²⁷ *E.g.*, Protection Tech., Inc. v. Ribler, No. 3:17-cv-00144-LRH-WGC, 2017 WL 923912 (D. Nev. Mar. 8, 2017).

²⁸ *Danenbaum v. Brummerhop*, 840 S.W.2d 624, 632-33 (Tex. App.—Houston [14th Dist.] 1992, writ denied).

²⁹ *Id.*

TUTSA supersedes the common law, and TUTSA’s definition of trade secrets makes clear that a readily ascertainable customer list is not a trade secret.³⁰

Can prices be trade secrets?

In theory, information about prices can be a trade secret, provided the information meets the elements of the definition.³¹ And in practice, companies often claim that a departing employee took the company’s confidential pricing information and used it to “undercut” the company. If a sales person knows exactly what his old company is charging a customer, the argument goes, he has a competitive advantage because he can get the customer’s business by offering a slightly lower price. Thus, courts have recognized that confidential price information can be a trade secret.³² If the plaintiff can offer some evidence that the prices were kept confidential and would be valuable to a competitor, that may be sufficient to raise a fact issue.

But courts are likely to scrutinize the “price undercutting” theory, and it’s easy to see why. Price competition is at the core of the kind of legitimate competition the law encourages.³³ Treating prices as trade secrets without sufficient evidence could have a chilling effect on legitimate competition.

One question the plaintiff should be ready for: did you require your customers to sign non-disclosure agreements prohibiting them from disclosing your prices to third parties? The answer will usually be no, and that’s a potential problem for the plaintiff. The defendant can argue that the plaintiff failed to take “reasonable measures” to protect the confidentiality of the prices.³⁴ The plaintiff should also be prepared for the argument that pricing information is readily available through simply asking customers for it.

How hard is it to raise a fact issue on whether information is a trade secret?

Not that hard, especially in the temporary injunction context. Consider the *Hughes* case. The employer claimed the employee had access to typical “soft” trade secrets information, including:

- Customer lists
- Customer pricing
- Financial reports
- Vendor lists
- Business strategies

³⁰ *Baxter & Assoc.’s, LLC v. D&D Elevators, Inc.*, No. 05-16-00330-CV, 2017 WL 604043, at *9 (Tex. App.—Dallas 2017, no pet.) (mem. op.).

³¹ *See BCOWW Holdings, LLC v. Collins*, No. SA-17-CA-00379-FB, 2017 WL 3868184, at *15 (W.D. Tex. Sept. 5, 2017) (“Design and pricing information are certainly protected by TUTSA—if the information is, in fact, kept secret”).

³² *E.g.*, *Fox v. Tropical Warehouses, Inc.*, 121 S.W.3d 853, 859 (Tex. App.—Fort Worth 2003, no pet.).

³³ *E.g.*, TEX. BUS. & COM. CODE § 15.05(a) (declaring restraints of trade and commerce unlawful).

³⁴ *E.g.*, *BCOWW Holdings, LLC*, No. SA-17-CA-00379-FB, 2017 WL 3868184 (W.D. Tex. Sept. 5, 2017).

In other words, the employee had access to the same kind of information that almost every mid-level sales employee has access to.

To establish that such information constituted trade secrets, the company's Chief Operating Officer testified that the information was:

- "developed over the course of many years at great expense"
- "very valuable" to the company
- "unknown to third parties"
- addressed in an employee handbook that instructed employees to maintain its confidentiality³⁵

This is pretty generic stuff. An executive at just about any company could say these things. But combined with the employee's admission that the company's customer lists and price lists were not available to the general public, this was sufficient evidence to support a trade secrets claim, at least for the purpose of a temporary injunction.

So, if you represent the company making the trade secrets claim, *Hughes* gives you a pretty good starting script for the testimony need to support a trade secrets claim—*provided you confirm that the script is accurate.*

What is necessary to prove causation and damages in a trade secrets case?

TUTSA authorizes three types of damages for misappropriation of trade secrets:

- "actual loss caused by misappropriation"
- "the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss"
- in lieu of other damages: "a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret"³⁶

The DTSA authorizes the same types of damages.³⁷

Actual loss is usually measured by lost profits damages. In the most common scenario, a departing employee leaves a company to work for a competitor and uses the company's trade secrets to get business from customers. In that situation, the plaintiff can measure lost profits—often with the help of a CPA or other expert—by calculating the profits the company would have made on the sales that were misappropriated.

The amount of profits the defendant made off the use of the trade secrets can be relevant to the plaintiff's lost profits, but keep in mind there is a distinction between (a) using the defendant's profits as a measure of the plaintiff's actual lost profits and (b) seeking to recover the defendant's profits as unjust enrichment damages.

³⁵ *Hughes*, 2017 WL 943423 at *4.

³⁶ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (West 2017)

³⁷ 18 U.S.C.A. § 1836(b)(3)(B) (West 2016).

Usually, the most solid ground for the plaintiff will be actual damages based on lost profits. Unjust enrichment and reasonable royalty damages tend to generate more issues for the defense to attack.

Lost profits damages must be proven with “reasonable certainty.” Texas has a large body of case law—not limited to trade secrets claims—defining the reasonable certainty standard.³⁸

Lost profits must be measured by net profits, not gross revenue or gross profits. This means the calculation of lost profits should in some way take overhead expenses into account. In *Motion Medical Technologies, LLC v. Thermotek*, 875 F.3d 765 (5th Cir. 2017), the Fifth Circuit reversed a jury’s award of over \$1.5 million in fraud damages because the award was based on gross profits, not net profits.

Causation is another potentially tricky issue. The defendant will argue it is not enough to prove that trade secrets were used and sales were lost; the plaintiff must show that the misappropriation of the trade secrets *caused* the loss of the sales. Consider a typical customer list case. The employee takes a confidential customer list to a competitor and makes sales to customers on the list. But what if the employee testifies that he personally knows the customers and did not need the list? If the employee could have made the sales without the list, causation may be lacking.

Two recent Texas Supreme Court cases illustrate that proving lost profits damages in a trade secrets case can be difficult.

In *Southwestern Energy Production Co. v. Berry-Helfand*, the jury awarded over \$11 million in lost profits for the misappropriation of a confidential map of oil and gas sweet spots. The Texas Supreme Court held that the calculation of profits based on 3% of the defendant’s revenue was too oversimplified, where the expert could have done a more precise calculation based on a benchmark third-party agreement.³⁹

In *Horizon Healthcare v. Acadia Healthcare*, 520 S.W.3d 848, 860-65 (Tex. 2017), the court also reversed a lost profits award in a trade secrets case, finding that the damage expert’s assumptions that the first employer would have retained a key employee and would have won a particular contract were too speculative.

These cases show that a business and its lawyer must work carefully with their expert witness to construct a damage theory that is sufficiently precise and not too speculative. Even when expert damages testimony is admitted without objection, a judgment for lost profits damages can be reversed on appeal if the expert’s methodology was too unreliable.

What is necessary to get an injunction in a trade secrets case?

³⁸ See *Holt Atherton Indus., Inc. v. Heine*, 835 S.W.2d 80, 84 (Tex. 1992) (*citing* cases on reasonable certainty); see also *Morgan v. Clements Fluids S. Tex. Ltd.*, No. 12-18-00055-CV, 2018 WL 5796994, at *8-9 (Tex. App—Austin Nov. 5, 2018, no pet. h.) (plaintiff presented sufficient of damages to survive Texas Citizens Participation Act motion to dismiss).

³⁹ *Southwestern Energy Prod. Co. v. Berry-Helfand* 491 S.W.3d 699, 720-21 (Tex. 2016).

Both TUTSA and the DTSA expressly authorize courts to issue injunctions against trade secrets misappropriation.⁴⁰ The temporary injunction hearing will often be the first major battle in a trade secrets lawsuit.

The common-law requirements for getting an injunction include probable right to recovery, imminent harm, and irreparable injury.⁴¹ Irreparable injury is often where the real fight is. It can be a difficult element to prove because it requires showing that damages would be an inadequate remedy.⁴²

Courts vary in how strictly they apply the irreparable injury requirement. As a practical matter, whether the plaintiff gets an injunction can turn on how wrongful the court thinks the defendant's conduct was; the more wrongful the conduct, the more loosely the court is likely to apply the irreparable injury requirement.

There is an argument for plaintiffs that proof of the common-law requirements is no longer required because the statutes expressly authorize injunctions and do not mention the common-law requirements. But most courts are likely to continue to consider the common-law requirements.⁴³

What is the “inevitable disclosure” doctrine?

The “inevitable disclosure” doctrine is the idea that a person who knows a company's trade secrets should be enjoined from working for a competitor on the theory that the person will inevitably use that knowledge.⁴⁴ For example, in *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*,⁴⁵ the court held that evidence that the defendants possessed the plaintiff's confidential information and were “in a position to use it to compete” showed an “inherent threat” sufficient to support an injunction.

TUTSA and the DTSA do not expressly refer to the inevitable disclosure doctrine. The “doctrine” can be seen as an application of the common-law “imminent harm” requirement for an injunction. The question is whether harm is imminent when a person with knowledge of the company's trade secrets is working for a competitor.

In many cases, resorting to the inevitable disclosure doctrine is unnecessary, because there is already evidence that the person has done—or is doing—something wrongful with the trade secrets. It is a harder question when the evidence is that the employee possesses or knows

⁴⁰ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.003 (West 2017); 18 U.S.C.A. § 1836(b)(3) (West 2016).

⁴¹ *Butnaru v. Ford Motor Co.*, 84 S.W.3d 198, 204 (Tex. 2002).

⁴² *See, e.g.,* *Midstate Environmental Services LP v. Atkinson*, No. 13-17-00190-CV, 2017 WL 6379796, at *4 (Tex. App.—Corpus Christi 2017, no pet.) (mem. op.) (no irreparable injury where damages could be calculated).

⁴³ *See, e.g.,* *Morgan*, 2018 WL 5796994, at *14-15; *see also* *Hughes*, 2017 WL 943423, at *5.

⁴⁴ *See The Inevitable Disclosure Doctrine: A Necessary and Precise Tool for Trade Secret Law*, FindLaw, <https://corporate.findlaw.com/intellectual-property/the-inevitable-disclosure-doctrine-a-necessary-and-precise-tool.html>

⁴⁵ 965 S.W.2d 18, 24 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd).

the trade secrets but has not done anything wrong with them—yet. Texas law is unsettled on whether and to what extent the inevitable disclosure doctrine applies.⁴⁶

The DTSA indirectly rejects—or at least constrains—application of the inevitable disclosure doctrine in two ways. First, it authorizes the court to grant an injunction “to prevent any actual or threatened misappropriation,” but with the important limitation that the court cannot “prevent a person from entering into an employment relationship.” The court can place *conditions* on such employment, provided the conditions are based on “evidence of threatened misappropriation and not merely on the information the person knows.” In other words, the court cannot limit a former employee’s work for a competitor based merely on the idea that the employee will inevitably disclose the employer’s trade secrets. Second, the injunction cannot conflict with an applicable state law “prohibiting restraints on the practice of a lawful profession, trade, or business.”⁴⁷

Similarly, TUTSA codifies the common-law principle that an injunction may not prohibit a person from using “general knowledge, skill, and experience” acquired during employment.⁴⁸ This limitation emphasizes that injunctions should be narrowly tailored to prevent disclosure of trade secrets, not to unreasonably restrict employee mobility.

How do you keep the other side from learning your trade secrets during the lawsuit?

The Catch-22 of trade secrets litigation is that filing suit to protect trade secrets can result in revealing your trade secrets, especially when the other party is a competitor. But there are procedures available to prevent this. The plaintiff’s pleading does not have to identify the alleged trade secrets so specifically that the secrets would be compromised.

The temporary injunction hearing is often the next point when disclosure of trade secrets to the opposing party becomes an issue. A party generally has the right to be present in the courtroom, but a company does not want a competitor to hear its evidence regarding its trade secrets. The same is true when it comes to depositions and document production.

TUTSA provides some help on this issue. It generally instructs the court to “preserve the secrecy of an alleged trade secret by reasonable means,” and it has two provisions that help the plaintiff avoid disclosure of trade secrets to the opposing party. First, TUTSA encourages trial courts to grant protective orders to protect trade secrets.⁴⁹ Second, TUTSA allows the court to exclude a party representative from hearing evidence of trade secrets in the courtroom, provided the court follows a seven-factor balancing test.⁵⁰ This was a codification of the procedure adopted by the Texas Supreme Court in *In re M-I LLC*, 505 S.W.3d 569 (Tex. 2016).

Can you get punitive damages for trade secrets misappropriation?

⁴⁶ *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230, 241-42 (Tex. App.—Houston [1st Dist.] April 3, 2003, no pet.); *DGM Services, Inc. v. Figueroa*, No. 01-16-00186-CV, 2016 WL 7473947, at *5 (Tex. App.—Houston [1st Dist.] Dec. 29, 2016, no pet.) (memo op.).

⁴⁷ 18 U.S.C. § 1836(b)(3) (West 2018).

⁴⁸ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.003 (West 2017).

⁴⁹ *Id.* at § 134A.006(a).

⁵⁰ *Id.* at § 134A.006(b).

Yes, if the misappropriation is “willful and malicious.” The limit is two times the amount of actual damages.⁵¹ “Willful and malicious misappropriation” means “intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret.”⁵²

What is necessary to get attorneys’ fees in a trade secrets case?

Under TUTSA, the plaintiff can get attorneys’ fees for “willful and malicious misappropriation,” and the defendant can get attorneys’ fees if the plaintiff’s claim of misappropriation is made in “bad faith.”⁵³ The DTSA has substantially the same provisions.⁵⁴

Can you file a motion to dismiss a trade secrets case under the Texas Citizens Participation Act (TCPA)?

If you are in state court, the answer is “yes.” And if you are in federal court, “maybe.”

The Texas Citizens Participation Act (TCPA) significantly changed Texas litigation practice by authorizing defendants in applicable cases to file a motion to dismiss that requires the plaintiff to offer prima facie evidence supporting all of the elements of its cause of action prior to any discovery.⁵⁵

The TCPA is an “anti-SLAPP” statute, a law intended to prevent litigants from using groundless lawsuits to bully or silence critics who exercise their free speech rights.⁵⁶ But the Texas Supreme Court has applied the language of the statute more broadly under a “plain meaning” approach.⁵⁷

As a result, some Texas courts have held that the TCPA can apply to a suit for misappropriation of trade secrets, regardless of whether the suit implicates the kind of free speech concerns that motivated passage of the statute, while others have pushed back against what they see as overly literal application of the TCPA to such claims.⁵⁸

⁵¹ See *id.* at 134A.004 (West 2017); 18 U.S.C.A. § 1836(b)(3)(C) (West 2016) (both statutes call them “exemplary” damages).

⁵² TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(7) (West 2017).

⁵³ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.005 (West 2017).

⁵⁴ See 18 U.S.C.A. § 1836(b)(3)(D) (West 2018).

⁵⁵ TEX. CIV. PRAC. & REM. CODE ANN. §§ 27.001-27.011 (West 2017).

⁵⁶ See Laura Lee Prather, *A Primer on the Texas Anti-SLAPP Statute*, HAYNESBOONE BLOG (March 3, 2019 9:50 PM), <http://www.haynesboone.com/Publications/texas-antislapp-primer>.

⁵⁷ See *ExxonMobil Pipeline Co. v. Coleman*, 512 S.W.3d 895, 900-02 (Tex. 2017).

⁵⁸ See *Dyer v. Medoc Health Servs., LLC*, No. 05-18-00472-CV, 2019 WL 1090733, at *5-7 (Tex. App.—Dallas Mar. 8, 2019, no pet. h.) (holding that applying the TCPA to an alleged scheme to misappropriate confidential information would be illogical and even absurd); *Kawcak v. Antero Resources Corp.*, No. 02-18-00301-CV, 2019 WL 761480, at *1 (Tex. App.—Fort Worth Feb. 21, 2019, no pet. h.) (holding that the TCPA’s broad definition of “right of association” does not include a conspiracy between a departing employee and a single alleged co-conspirator); *Morgan*, 2018 WL 5796994, at *1 (TCPA applied to employer’s claim that employees who joined competitor misappropriated trade secrets); *Craig v. Tejas Promotions, LLC*, 550 S.W.3d 287 (Tex. App.—Austin May 3, 2018, pet. filed) (TCPA applied to claim for conspiracy to misappropriate trade secrets); *Elite*

The plaintiff may try to “plead around” the TCPA by avoiding allegations of *communicating* the trade secrets. But the TCPA covers “a communication between individuals who join together to collectively express, promote, pursue, or defend common interests.”⁵⁹ So the defendant can argue that there is necessarily going to be communication between the employee and the new employer to “collectively pursue common interests.”

Another way a trade secrets plaintiff can attempt to avoid the TCPA is suing in federal court under the DTSA. It is an open question whether the TCPA applies in federal court.⁶⁰ The Fifth Circuit may soon resolve this issue.⁶¹ It is also an open question whether TUTSA preempts application of the TCPA.

The TCPA’s applicability to misappropriation of trade secrets remains in flux, with a seemingly constant flow of appellate decisions on the TCPA. And at press time the legislature was considering several bills that would narrow the scope of the TCPA, including proposals that would exempt trade secrets claims. Practitioners should check the latest case law and legislative developments before filing or responding to a TCPA motion in a trade secrets case.

Why all the hype about “ex parte seizure” under the federal trade secrets statute?

The DTSA includes provisions allowing a court to issue an ex parte order to seize material from the defendant containing the alleged trade secrets. In other words, the statute raises the possibility that a judge could authorize a federal marshal to show up at a defendant’s door without notice and seize a laptop or smartphone.

There have been very few ex parte seizure orders, for two reasons. First, the DTSA imposes a long list of stringent requirements that must be met to obtain such an order.⁶² Second, in the vast majority of cases, the court can adequately prevent the use or disclosure of trade secrets through an “ordinary” temporary restraining order (TRO), which itself is an “extraordinary” remedy.” A plaintiff asking for an ex parte seizure order should expect the judge’s first question to be “Why isn’t a TRO adequate?”

Still, in certain extreme cases, the availability of an ex parte seizure order under the DTSA will be an option for business owners and their counsel to consider.

What does the federal trade secrets statute say about whistleblowers?

The DTSA has specific provisions protecting whistleblowers who disclose trade secrets. The important point for employers who want to preserve all remedies is to include a notification

Auto Body LLC v. Autocraft Bodywerks, Inc., 520 S.W.3d 191, 204-5 (Tex. App.—Austin 2017, pet. dismiss’d) (TCPA applied to alleged disclosure of trade secrets).

⁵⁹ TEX. CIV. PRAC. & REM. CODE ANN. § 27.001(2) (West 2017).

⁶⁰ See *Thoroughbred Ventures, LLC v. Disman*, No. 4:18-CV-00318, 2018 WL 3472717, at *3 (E.D. Tex. July 19, 2018).

⁶¹ See generally *Klocke v. Watson*, No. 17-11320 (5th Cir.). See also April Farris and Matthew Zorn, *State Anti-SLAPP in Federal Court: An Update from Texas* LAW 360 (Nov. 1, 2018), <http://www.yettercoleman.com/wp-content/uploads/2018/11/State-Anti-SLAPP-In-Federal-Court.pdf>.

⁶² 18 U.S.C.A. §§ 1833(b)(1)–(2) (West 2016).

regarding these whistleblower rights in their employment agreements or employee handbooks. That is because failure to provide this notice prevents the employer from obtaining punitive damages or attorneys' fees on a federal trade secrets claim.⁶³

Is taking trade secrets also a breach of fiduciary duty by an employee?

Under Texas law, an employee owes the employer a limited form of fiduciary duty (sometimes referred to as “Fiduciary Duty Lite”). It includes a duty not to use the employer’s confidential information to compete with the employer.⁶⁴ Thus, any misappropriation of trade secrets by an employee is probably also a breach of fiduciary duty.

And there are benefits to pleading the claim as breach of fiduciary duty, including disgorgement damages (i.e. forfeiture of the benefits the employee received) and a cause of action against the deeper pocket for “knowing participation” in breach of fiduciary duty. For these reasons, litigants often include claims for breach of fiduciary duty with claims for trade secret misappropriation.

But TUTSA may make the fiduciary duty claim unavailable. TUTSA expressly states that it displaces conflicting common-law precedent providing civil remedies for misappropriation of a trade secret.⁶⁵ Thus, some courts have held that when the claim for breach of fiduciary duty is based on misappropriation of alleged trade secrets, the claim is preempted by TUTSA.⁶⁶ This means the plaintiff must plead something in addition to misappropriation of confidential information to state a valid breach of fiduciary duty claim.

Conclusion

Of course, we have only scratched the surface. Each section above could be expanded to a full article. But this is “Trade Secrets 101,” not “Advanced Trade Secrets.” The authors hope this overview will be helpful to Texas businesses and the lawyers who represent them.

⁶³ *Id.* at § 1833(b)(3).

⁶⁴ *See generally* *Abetter Trucking Co. v. Arizpe*, 113 S.W.3d 503, 510-12 (Tex. App.—Houston [1st Dist.] 2003, no pet.).

⁶⁵ TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(a) (West 2013).

⁶⁶ *See Embarcadero Tech., Inc. v. Redgate Software, Inc.*, No. 1:17-cv-444-RP, 2018 WL 315753, at *2-4 (W.D. Tex. Jan. 5, 2018) (discussing cases and agreeing that TUTSA preempts fiduciary duty claims based on taking confidential business information).