2019 TRADE SECRETS UPDATE

Presented & Written by:
J. HEATH COFFMAN, *Fort Worth*
Brackett & Ellis, PC

Co-authors:
JOSEPH F. CLEVELAND, JR.
KEVIN C. SMITH
Brackett & Ellis, PC
Fort Worth

State Bar of Texas
33RD ANNUAL
ADVANCED INTELLECTUAL PROPERTY LAW:
OVERVIEW OF IP
February 6, 2020
Houston

CHAPTER 3

J. HEATH COFFMAN

Brackett & Ellis, P.C.
100 Main Street
Fort Worth, Texas 76102-3090
Telephone: 817.339.2475
Facsimile: 817.870.2265

BIOGRAPHICAL INFORMATION

EDUCATION

B.A., Texas Christian University, 2004, *summa cum laude*, Phi Beta Kappa
J.D., Baylor University School of Law, 2007, *cum laude*

PROFESSIONAL ACTIVITIES

Shareholder, Brackett & Ellis, P.C.

Chair, Trade Secrets Committee, Intellectual Property Section, State Bar of Texas (2016–present)

Recognized as a Rising Star (2017) and Super Lawyer (2018-19) for Intellectual Property by Thompson Reuters, *Texas Monthly*

Member of Working Group that helped draft the Texas Uniform Trade Secrets Act

Author of *The Fort Worth Business & Employment Law Reporter*, a blog on commercial litigation and intellectual property law (www.fwlawreporter.com)

PUBLICATIONS

Coffman, J.H., Note, *A Look at the New Texas Courtroom Article I, Section 11B*, 59 BAYLOR L. REV. 241 (2007)

Cleveland, J. and Coffman, J.H., *The Texas Uniform Trade Secrets Act*, 46 TEX. J. OF BUS. L. 322 (Fall 2013)

Cleveland, J. and Coffman, J.H., *Protecting Trade Secrets Made Simple: How the Recently Enacted Texas Uniform Trade Secrets Act Provides a Legislative Framework for Litigating Cases*, 76 TEX. B. J. 751 (September 2013) (cited in the commentaries to the Texas Uniform Trade Secrets Act, Tex. Civ. Prac, & Rem. Code §134A.001-.008 (2013))

Cleveland, J. and Coffman, J.H., *Should Texas Adopt the Uniform Trade Secrets Act?* NEWS FOR THE BAR, State Bar of Texas, Litigation Section (Spring 2013)

Cleveland, J. and Coffman, J.H., *Outlining New Amendments to the Texas Uniform Trade Secrets Act*, 80 TEX. B.J. 526 (September 2017)

Cleveland, J., *et al*., *A Practitioner's Guide to the Texas Uniform Trade Secret Act*, 48-SPG TEX. J. BUS. L. 1 (Spring 2019)

JOSEPH F. CLEVELAND, JR.

Brackett & Ellis, P.C.
100 Main Street
Fort Worth, Texas 76102-3090
Telephone: 817.339.2454
Facsimile: 817-870-2265

BIOGRAPHICAL INFORMATION

EDUCATION

B.A., Texas Christian University, *cum laude* with honors
J.D., Mississippi College School of Law with high honors

PROFESSIONAL ACTIVITIES

Shareholder, Brackett & Ellis, P.C.

Board Certified in Civil Trial Law, Texas Board of Legal Specialization

Testified before Senate and House Committees of the 83rd and 85th Texas Legislatures in support of the Texas Uniform Trade Secrets Act and amendments thereto

Past Chair, Trade Secrets Committee, Intellectual Property Section, State Bar of Texas

Recognized in *The Best Lawyers in America* for Commercial and Intellectual Property Litigation

Listed Top 100 Dallas/Fort Worth Lawyers, 2016 *Texas Super Lawyers*

President, Federal Bar Association—Fort Worth Chapter

PUBLICATIONS

Cleveland, J. and Coffman, J.H., *Trade Secrets: Outlining New Amendments to the Texas Uniform Trade Secrets Act*, 80 Tex. B. J. 526 (Sept. 2017)

Cleveland, J., *Mum's the Word: Protecting Company Information Under the Texas Uniform Trade Secrets Act*, 79 Tex. B. J. 86 (Feb. 2016) (cited in the commentaries to the Texas Uniform Trade Secrets Act, Tex. Civ. Prac. & Rem. Code §§134A.001-.008 (2017))

Cleveland, J., *Preventing Trade Secret Theft Under the New Trade Secret Law*, The Computer and Internet Lawyer (September 2016)

Cleveland, J. and Coffman, J.H., *The Texas Uniform Trade Secrets Act*, 46 Tex. J. of Business Law 322 (Fall 2013)

Cleveland, J. and Coffman, J.H., *Protecting Trade Secrets Made Simple: How the Recently Enacted Texas Uniform Trade Secrets Act Provides a Legislative Framework for Litigating Cases*, 76 TEX. B. J. 751 (September 2013) (cited in the commentaries to the Texas Uniform Trade Secrets Act, Tex. Civ. Prac. & Rem. Code §§134A.001-.008 (2017))

Cleveland, J. and Coffman, J.H., *Should Texas Adopt the Uniform Trade Secrets Act?* NEWS FOR THE BAR, State Bar of Texas, Litigation Section (Spring 2013)

Cleveland, J. and Coffman, J.H., *Outlining New Amendments to the Texas Uniform Trade Secrets Act*, 80 TEX. B.J. 526 (September 2017)

Cleveland, J., *et al*., *A Practitioner's Guide to the Texas Uniform Trade Secret Act*, 48-SPG TEX. J. BUS. L. 1 (Spring 2019)

KEVIN C. SMITH

Brackett & Ellis, P.C.
100 Main Street
Fort Worth, Texas 76102-3090
Telephone: 817.339.2471
Facsimile: 817.870.2265

BIOGRAPHICAL INFORMATION

EDUCATION

B.A., Arizona State University, 2005, *summa cum laude*
J.D., Texas Tech University School of Law, 2016, *summa cum laude*, Order of the Coif, Phi Delta Phi

PROFESSIONAL ACTIVITIES

Associate, Brackett & Ellis, P.C.

Law Clerk for the Honorable Paul W. Green, Justice for the Supreme Court of Texas, 2016–2017.

Auto insurance claims adjuster from 2005–2013, handling complex coverage issues, serious injury accidents, and litigated cases in over twenty states.

PUBLICATIONS

Kevin C. Smith, Comment, *Unspooling the Furrowed Brow: How Eyebrow Threaders Will Protect Economic Freedom in Texas*, 48 TEX. TECH L. REV. ONLINE EDITION 71 (2016)

Cleveland, J., *et al*., *A Practitioner's Guide to the Texas Uniform Trade Secret Act*, 48-SPG TEX. J. BUS. L. 1 (Spring 2019)

TABLE OF CONTENTS

2019 TRADE SECRETS UPDATE

I. THE TEXAS UNIFORM TRADE SECRETS ACT

On September 1, 2013, Texas adopted the Texas Uniform Trade Secrets Act (TUTSA). Act of April 24, 2013, 83rd Leg., R.S., ch. 10, 2013 Tex. Gen. Laws. 12 (amended 2017) (current version at TEX. CIV. PRAC. & REM. CODE §§ 134A.001–.008). Before the enactment of TUTSA, Texas had no central law governing trade secrets. The law of trade secret misappropriation in Texas first began solely as a common law claim based largely on the Restatement of Torts. *Phillips v. Frey*, 20 F.3d 623, 627 (5th Cir.1994); *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 770 (Tex. 1958). Later, the Texas Legislature enacted the Texas Theft Liability Act (TTLA), which provided an additional civil remedy to victims of trade secret theft as defined in the Texas Penal Code. *Beardmore v. Jacobsen*, 131 F. Supp. 3d 656, 659 (S.D. Tex. 2015). Consequently, before TUTSA's enactment, Texas law on trade secrets was cobbled together from Texas common law, the Restatement of Torts, the Restatement (Third) of Unfair Competition, the Texas Theft Liability Act, and the Texas Penal Code. Much of this law was outdated (the Restatement of Torts was drafted in 1939) and was not designed for the technological developments of the modern era.

To bring Texas law in line with the "overwhelming majority of the United States" and "provid[e] a simple legislative framework for litigating trade secret issues in Texas," the Texas Legislature enacted a modified version of the Uniform Trade Secrets Act. Texas Bill Analysis, S.B. 953, 2013 at 1. TUTSA became effective on September 1, 2013 and expressly states that it displaces both common law misappropriation and TTLA claims. Act of April 24, 2013, 83rd Leg., R.S., ch. 10, 2013 Tex. Gen. Laws. 12 (amended 2017) (current version at TEX. CIV. PRAC. & REM. CODE §§ 134A.001–.008); *In re Mandel*, 578 Fed. Appx. 376, 384 n.8 (5th Cir. 2014) (unpublished) (per curiam); *Educ. Mgmt. Servs., LLC v. Tracey*, 102 F. Supp. 3d 906, 915 (W.D. Tex. 2015).

The Texas Legislature amended TUTSA in 2017 after the United States Congress passed the Defend Trade Secret Act (DTSA), an amendment to the Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-36. The objectives of the amendments were to incorporate into TUTSA improvements to trade secret law made by DTSA, codify the Texas Supreme Court's holding on preserving trade secrets during legal proceedings, and define certain terms left undefined when TUTSA was first enacted in 2013. Texas Bill Analysis, H.B. 1995, 2017 at 1. TUTSA, as amended, is now the most modern and comprehensive law on trade secrets in the nation.

A. Defining Trade Secrets

To qualify as a trade secret under TUTSA, the information must meet two requirements: (1) the owner of the trade secret must take reasonable measures under the circumstances to keep the information secret; and (2) the information must derive 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. TEX. CIV. PRAC. & REM. CODE § 134A.002(6).

1. Subject of Efforts That Are Reasonable Under the Circumstances to Maintain Its Secrecy

The first prong of TUTSA's trade secret definition is the maintenance requirement. It is not enough for the information to be secret; the owner must also maintain that secrecy through efforts that are reasonable under the circumstances. *Id.* § 134A.006. Reasonableness will vary based on the size of the business and the importance of the trade secret. What is reasonable for a three-person startup will rarely be reasonable for a multi-national, publicly traded corporation. Evidence of reasonable efforts to protect a trade secret can include:

- Restricting access to the information to specific employees on a need-to-know basis;
- Labeling the information as confidential;
- Requiring the employees, independent contractors, and customers to sign non-disclosure agreements before viewing protected information;
- Implementing company policies that require certain information be kept confidential;
- Maintaining access controls over the information such as passwords, encryption, or printing and copying restrictions;
- Storing the information in a separate protected server or file cabinet;
- Tracking who accesses the information; and
- Conducting exit interviews with departing employees to ensure all copies of the information have been returned.

See generally Wellogix, Inc. v. Accenture, L.L.P., 716 F.3d 867 (5th Cir. 2013); *Guy Carpenter & Co., Inc. v. Provenzale*, 334 F.3d 459 (5th Cir. 2003); *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195 (5th Cir. 1986); *HIS Company, Inc. v. Stover*, 202 F.Supp.3d 685 (S.D. Tex. 2016) *vacated as moot*, 4:15-CV-00842, 2016 WL 6134939

(S.D. Tex. 2016); *In re Bass*, 113 S.W.3d 735 (Tex. 2003); *Baxter & Assocs., L.L.C. v. D & D Elevators, Inc.*, No. 05–16–00330–CV, 2017 WL 604043 (Tex. App.—Dallas 2017, no pet.); *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd); J.*C. Kinley Co. v. Haynie Wire Line Serv., Inc.*, 705 S.W.2d 193 (Tex. App.—Houston [1st Dist.] 1985, writ ref'd n.r.e.); Cleveland, J., *Mum's the Word: Protecting Company Information Under the Texas Uniform Trade Secrets Act*, 79 TEX. B.J. 86 (Feb. 2016).

2. Information Must Derive Independent Economic Value from Not Being Generally Known or Readily Ascertainable

The second prong of TUTSA's trade secret definition is the economic value requirement. There must be some value to the trade secret because it is unknown and not readily ascertainable to others. TEX. CIV. PRAC. & REM. CODE § 134A.002(6)(B). Perhaps the best-known example of a trade secret with such economic value is Coca-Cola's secret recipe. The recipe itself has value because Coca-Cola's competitors do not know its contents and therefore cannot offer the same product.

Typically, the economic value of a trade secret is established through the testimony of an expert or corporate representative. Furthermore, the value is not limited to intrinsic economic value (e.g., resources spent in the development of the trade secret or profits derived from the sale of the trade secret). TUTSA also protects "negative know-how," i.e., "information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will not work could be of great value to a competitor." UTSA § 1 cmt; *but see Miner, Ltd. v. Anguiano*, 383 F. Supp. 3d 682, 704–05 (W.D. Tex. 2019) (holding that "general know-how" is not a trade secret).

Of course, if the information is known or can be readily ascertained by proper means, the information will not qualify as a trade secret. Information that can be readily ascertained by proper means is information discovered by (1) independent development, (2) reverse engineering unless prohibited (such as by a license agreement), or (3) any other means that are not improper. TEX. CIV. PRAC. & REM. CODE § 134A.002(4). Improper means of discovery include "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." *Id.* § 134A.002(2).

B. Claim for Misappropriation of Trade Secrets

The elements of a TUTSA misappropriation claim are: (1) plaintiff was an owner of the trade secret; and (2) the trade secret was misappropriated. *Id.* § 134A.002.

1. Plaintiff Was the Owner of the Trade Secret

Under TUTSA an "owner" is "the person or entity in whom or in which rightful, legal, or equitable title to, or the right to enforce rights in, the trade secret is reposed." *Id.* § 134A.002 (3-a). This definition clarifies that certain non-owners, like licensees, may have the right to file a claim under TUTSA.

2. Defendant Misappropriated the Trade Secret

TUTSA's definition of misappropriation is complicated, and it is frequently misinterpreted by both courts and litigants. *See His Co., Inc. v. Stover*, 202 F. Supp. 3d 685, 693 (S.D. Tex.) (collecting cases), *vacated as moot*, No. 4:15-CV-00842, 2016 WL 6134939 (S.D. Tex. Sept. 8, 2016). Under § 134A.002(3), there are six alternative paths to liability under TUTSA:

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. § 134A.002(3)(A).

Under path one, the mere acquisition of another's trade secret is a basis for liability so long as that person has reason to know that the trade secret was acquired by improper means. For example, if an employer hired a new employee who possessed trade secret information from his former employer, the new employer could be liable for misappropriation if the new employer had reason to know that the information provided by the new employee was acquired by improper means. The employee could also be liable under this path. However, if that employee obtained the information through proper means—such as disclosure pursuant to the former employer's confidentiality or non-disclosure agreement—neither the new employer nor the new employee would be liable. *See Educ. Mgmt. Servs., LLC v. Tracey*, 102 F. Supp. 3d 906, 913–15 (W.D. Tex. 2015) (analyzing liability where the plaintiff alleged that the defendant acquired its trade secrets through improper means).

b. Disclosure or Use of a Trade Secret of Another Without Express or Implied Consent by a Person Who Used Improper Means to Acquire Knowledge of the Trade Secret. § 134A.002(3)(B)(i).

Under path two, any person who discloses or uses another's trade secret and who acquired that trade secret through improper means could be liable for misappropriation. For example, an employee who steals a password to obtain access to his employer's trade secret could be liable for misappropriation if that employee discloses or uses that trade secret. However, an employee who merely misuses or discloses trade secrets that were properly disclosed to him—such as through a confidentiality or non-disclosure agreement—would not be liable under this path.

c. 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 Used Improper Means to Acquire It. § 134A.002(3)(B)(ii)(a).

Path three is like path two, but it imposes liability on defendants who are further removed from the improper means of acquisition. Under path three, the employer who discloses or uses the new employee's information is liable if the employer knew or had reason to know that the new employee utilized improper means to obtain the trade secret.

d. 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 Acquired Under Circumstances Giving Rise to a Duty to Maintain the Secrecy of or Limit the Use of the Trade Secret. § 134A.002(3)(B)(ii)(b).

Path four relates to persons who misuse or improperly disclose trade secrets that were acquired under proper means. The plaintiff must show that the defendant permissibly acquired the information within a relationship of confidence and later disclosed or used the information in violation of that confidence. *Lifesize, Inc. v. Chimene*, No. 1:16-CV-1109, 2017 WL 1532609, at *9 (W.D. Tex. Apr. 26, 2017). For example, if an employee received trade secret information pursuant to a non-disclosure agreement and then disclosed that information to a competitor in violation of the non-disclosure agreement, the employee would be liable under path four. *His Co.*, 202 F. Supp. 3d at 695–96.

e. 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 Owed a Duty to the Person Seeking Relief to Maintain the Secrecy of or Limit the Use of the Trade Secret. § 134A.002(3)(B)(ii)(c).

Path five imposes liability on a person who discloses or uses tradesecret information obtained from the person in path four. For example, it imposes liability on the employer who discloses or uses the trade secrets obtained through the new employee who owed a duty to maintain the secrecy or limit the use of the former employer's trade secret.

f. Disclosure or Use of a Trade Secret of Another Without Express or Implied Consent by a Person Who, 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. § 134A.002(3)(B)(iii).

Path six imposes liability on the person who obtained the trade secret through accident or mistake. For example, if the new employer did not know that its new employee had obtained the trade secret through improper means or pursuant to a duty to maintain its confidentiality or limit its use, the new employer may still be liable if it later had reason to discover the trade secret and had not materially changed its position. There is currently no Texas case law as to what constitutes a material change in position. A material change in position might be a company's investment in the production of a product that unknowingly contained another's trade secret. In that situation, even if the company was later put on notice of the trade secret, the company may not be liable for future production if it can prove that it materially changed its position.

C. Injunctive Relief

TUTSA provides that "[a]ctual or threatened misappropriation may be enjoined if the order does not prohibit a person from using general knowledge, skill, and experience that person acquired during employment." TEX. CIV. PRAC. & REM. CODE § 134A.003(a). TUTSA is unique from other states' enactments of the Uniform Trade Secrets Act because it expressly prohibits courts from issuing injunctions that "prohibit a person from using general knowledge, skill, and experience that person acquired during employment." This language was added as a legislative check to ensure that a trade secret owner's efforts to protect "intangible" trade secrets did not override the common-law rule that an employee cannot be enjoined "from using the general knowledge, skill, and experience acquired during employment." *See Sharma v. Vinmar Int'l, Ltd.*, 231 S.W.3d 405, 424 (Tex. App.—Houston [14th Dist.] 2007, pet. dism'd).

One issue that has arisen with TUTSA's injunctive-relief provision is whether it overrides the equitable requirements that an applicant for injunctive relief must establish: (1) a cause of action against the defendant, (2) a probable right to relief sought, and (3) a probable, imminent, and irreparable injury in the interim. *IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 197 (Tex. App.—Fort Worth 2005, no pet.). Courts in other jurisdictions have generally interpreted this sentence to not overrule the equitable requirements for injunctive relief. *See, e.g.*, *Allied Erecting & Dismantling Co. v. Genesis Equip. & Mfg., Inc.*, 2010 WL 3370286, at *3 (N.D. Ohio Aug. 26, 2010) (applying rules of equity when deciding to deny temporary injunction under the Uniform Trade Secrets Act); Richard F. Dole, Jr., *Permanent Injunctive Relief for Trade Secret Misappropriation Without an Express Limit Upon Its Duration: The Uniform Trade Secrets Act Reconsidered*, 17 B.U. J. SCI. & TECH. L. 173, 176–77 (2011) ("The first sentence of [the Uniform Trade Secrets Act's injunctive relief subsection] is a bare bones authorization of discretionary equitable relief against actual and threatened misappropriation under general equitable principles which require that a complainant suffer irreparable harm if an injunction is not granted."). Courts applying TUTSA have similarly required that applicants establish the elements for injunctive relief. *See generally First Command Fin. Planning, Inc. v. Velez*, No. 4:16–CV–01008–O, 2017 WL 2999405 (N.D. Tex. May 8, 2017); *Midstate Envtl. Servs., L.P. v. Atkinson*, No. 13–17–00190–CV, 2017 WL 6379796 (Tex. App.—Corpus Christi 2017, no pet.). Indeed, it is no great task to establish irreparable harm in a trade secret case since courts generally presume irreparable harm if the court believes that a defendant possesses trade secrets and is in a position to use them. *SPBS, Inc. v. Mobley*, No. 4:18-CV-00391, 2018 WL 4185522, at *14 (E.D. Tex. Aug. 31, 2018) (establishing irreparable harm "by Defendants misappropriation of trade secrets because Defendants can benefit from SPBS's trade secrets without first investing the time, expense, and labor necessary to research and compile the Proprietary Information"). However, there is an argument that TUTSA overrides the common-law requirement to prove irreparable harm. *See Butnaru v. Ford Motor Co.*, 84 S.W.3d 198, 210 (Tex. 2002) ("The general rule at equity is that before injunctive relief can be obtained, it must appear that there does not exist an adequate remedy at law. This limitation has no application where the right to relief is predicated on a statutory ground other than the principles of equity.").

Another unresolved issue with TUTSA's injunctive-relief provision is the standard for establishing whether a trade secret exists. Under pre-TUTSA case law, the court considering injunctive relief did "not decide whether the information sought to be protected is a trade secret; rather it determined whether the applicant had established that the information is entitled to trade secret protection until a trial on the merits." *Fox v. Tropical Warehouses, Inc.*, 121 S.W.3d 853, 858 (Tex. App.—Fort Worth 2003, no pet.). A handful of courts have carried over that standard into post-TUTSA case law. *See In re M-I L.L.C.*, 505 S.W.3d 569, 576 n.3 (Tex. 2016); *Hughes v. Age Indus., Ltd.*, No. 04–16-00693–CV, 2017 WL 943423, at *4 (Tex. App.—San Antonio Mar. 8, 2017, no pet.). However, the common-law standard of establishing that the "information is entitled to trade secret protection until a trial on the merits" is just another way of saying that the applicant must show a "probability of success in proving that its confidential information deserved trade secret protection." *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 23 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd). Thus, it is unclear how the common-law standard varies with TUTSA's requirement for establishing the existence of a trade secret. If anything, these cases seem to imply that courts should look to principles of equity to establish injunctive relief under TUTSA.

The third unresolved issue with TUTSA's injunctive-relief provision is the phrase "threatened misappropriation." A handful of courts have interpreted the phrase "threatened misappropriation" to allow injunctive relief not just when a trade secret is disclosed but also when a trade secret will be inevitably disclosed. *See, e.g.*, *Bayer Corp. v. Roche Molecular Sys.*, 72 F. Supp. 2d 1111, 1117–20 (N.D. Cal. 1999) (collecting cases). Under the "inevitable disclosure" doctrine, a court can enjoin a former employee from using or disclosing the former employer's trade secrets if the former employee performed duties that would necessarily cause that employee to use or disclose the former employer's trade secrets. *Cardinal Health Staffing Network v. Bowen*, 106 S.W.3d 230, 242 n.12 (Tex. App.—Houston [1st Dist.] 2003, no pet.). One Texas court of appeals has noted that "no Texas case [has] expressly adopt[ed] the inevitable disclosure doctrine, and it is unclear to what extent Texas courts might adopt it . . . ." *Id.* at 242; *see also Global Supply Chain Solutions, LLC v. Riverwood Solutions., Inc.*, No. 05-18-00188-CV, 2019 WL 3852661, at *8 (Tex. App.—Dallas Aug. 16, 2019, no pet.) (holding that a party could not rely on the inevitable disclosure doctrine—without more—to survive a motion for summary judgment). However, other Texas courts of appeals have adopted or applied modified tests with similar attributes to the inevitable disclosure doctrine, holding that an employee could be enjoined from using a former employer's confidential information "when it is *probable* that the former employee will use the confidential information for his benefit (or his new employer's benefit) or to the detriment of his former employer." *See, e.g.*, *Conley v. DSC Commc'ns Corp.*, No. 05-98-01051-CV, 1999 WL 89955, at *4 (Tex. App.—Dallas Feb. 24, 1999, no pet.) (emphasis in original); *see also T-N-T Motorsports*, 965 S.W.2d at 18; *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no writ); *Williams v. Compressor Eng'g Corp.*, 704 S.W.2d 469, 470–72 (Tex. App.—Houston [14th Dist.] 1986, writ ref'd n.r.e.). Neither TUTSA nor its case law have conclusively determined what "threatened" misappropriation means under the statute. *See St. Jude Med. S.C., Inc. v. Janssen–*

Counotte, No. A-14-CA-00877-SS, 2015 WL 11438611, at *3 (W.D. Tex. Oct. 30, 2015) (applying the common-law test from *Conley* and *Cardinal Health Staffing*); *see also* Harrell, A., *Is Anything Inevitable?*, 76 TEX. B.J. 757 (Sept. 2013).

Regardless of the standard used, injunctive relief under TUTSA may either be prohibitive—such as barring the use of a trade secret or even barring certain employment—or affirmative—such as returning the trade secret or destroying copies of the trade secret. TEX. CIV. PRAC. & REM. CODE § 134A.003(c); UNIF. TRADE SECRETS ACT § 2 cmt. A court in exceptional circumstances can even order an injunction that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the perifor which use could have been prohibited. TEX. CIV. PRAC. & REM. CODE § 134A.003(b). TUTSA defines exceptional circumstances as including "a material and prejudicial change of position before acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable." *Id.* For example, if the defendant under path six already produced the product incorporating the trade secret before learning of the misappropriation, it might be more appropriate for the court to order the defendant to pay a reasonable royalty rather than enjoin the sale of the product.

An injunction granted under TUTSA will last only until the trade secret has ceased to exist or "for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation." *Id.* § 134A.003(a). For example, if good-faith competitors have caught up with the misappropriator by the time the case is decided, the injunction should be dissolved. UNIF. TRADE SECRETS ACT § 2 cmt.

D. TUTSA Damages

Damages under TUTSA include the actual loss caused by the misappropriation and the unjust enrichment caused by the misappropriation that is not taken into account in computing actual loss. TEX. CIV. PRAC. & REM. CODE § 134A.004(a). Actual loss would include lost profits, and unjust enrichment would include the defendant's profits. *Carbo Ceramics, Inc. v. Keefe*, 166 Fed. App'x 714, 722 (5th Cir. 2006). Unjust enrichment may also include an employee's salary during the time he or she was misappropriating the trade secrets. *Orbison v. Ma-Tex Rope Co., Inc.*, 553 S.W.3d 17, 30 (Tex. App.—Texarkana 2018, pet. denied).

Alternatively, a plaintiff can seek a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret. TEX. CIV. PRAC. & REM. CODE § 134A.004(a). A reasonable royalty consists of "'what the parties would have agreed to as a fair price for licensing the defendant to put the trade secret to the use the defendant intended at the time the misappropriation took place.'" *Southwestern Energy Production Co. v. Berry-Helfand*, 491 S.W.3d 699, 711 (Tex. 2016) (quoting *Mid-Michigan Computer Systems, Inc. v. Mark Glassman, Inc.*,413 F.3d 505, 510-11 (6th Cir. 2005)); *see MGE UPS Systems, Inc. v. GE Consumer & Industrial, Inc.*, 622 F.3d 361, 367 n.2 (5th Cir. 2010). A reasonable royalty is calculated based on a "fictional negotiation of what a willing licensor and licensee would have settled on as the value of the trade secret at the beginning of the infringement." *Southwestern Energy Production Co.*, 491 S.W.3d at 711 (citing *Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1208 (5th Cir. 1986), and *Lykes-Youngstown Corp.*, 504 F.2d at 540)). In determining a reasonable royalty, the following factors may be considered: (1) the resulting and foreseeable changes in the parties' competitive positions; (2) past prices that purchasers or licensees paid for the trade secret; (3) the total value of the secret to the plaintiff, including development costs and the importance of the secret to the plaintiff's business; (4) the nature and extent of the defendant's use of the trade secret; and (5) other factors, such as whether an alternative process exists. *Fourtek, Inc.*, 790 F.2d at 1208; *Lykes-Youngstown Corp.*, 504 F.2d at 540; *Calce v. Dorado Exploration Co.*, 309 S.W.3d 719, 738 (Tex. App.—Dallas 2010, no pet).

Exemplary damages are available if "willful and malicious misappropriation is proven by clear and convincing evidence." TEX. CIV. PRAC. & REM. CODE § 134A.004(b). "Willful and malicious misappropriation" means intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret. *Id.* § 134A.002(7). One Texas court found a willful and malicious misappropriation where an employee was actively helping a competitor while still employed by his employer. *Orbison*, 553 S.W.3d at 30 n.9. Exemplary damages under TUTSA are limited to an amount not exceeding twice any award of actual damages. TEX. CIV. PRAC. & REM. CODE § 134A.004(b). Exemplary damages must be proved by clear and convincing evidence. *Id.*

The damages under TUTSA are "[i]n addition to or in lieu of injunctive relief," making clear that an injunction under TUTSA does not foreclose the right to also recover damages. *Id.* § 134A.004(a).

E. Attorney's Fees Under TUTSA

A prevailing plaintiff may recover attorney's fees under TUTSA only if the plaintiff proves that (1) a motion to terminate an injunction was made in bad faith, or (2) willful and malicious misappropriation exists. *Id.* § 134A.005. In contrast, a prevailing defendant may recover attorney's fees under TUTSA only if the defendant proves that (1) a claim of misappropriation was made in bad faith, or (2) a motion to terminate an injunction was resisted in bad faith. *Id.* TUTSA does not provide a definition of "prevailing."

F. Miscellaneous TUTSA Provisions

1. Preservation of Secrecy

Under TUTSA, the trial court must "preserve the secrecy of an alleged trade secret by reasonable means." *Id.* § 134A.006. TUTSA establishes a "presumption in favor of granting protective orders to preserve the secrecy of trade secrets." *Id.* TUTSA further provides that protective orders may include: (1) provisions limiting access to confidential information to only the attorneys and their experts; (2) holding in camera hearings; (3) sealing the records of the action; and (4) ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval. *Id.* The intent of this provision was to eliminate the hurdles to protecting trade secret information to litigants, including eliminating Texas Rules of Civil Procedure 76(a)'s burdensome and outdated process for sealing court records. *See id.* § 134A.007(c) ("To the extent that this chapter conflicts with the Texas Rules of Civil Procedure, this chapter controls."). However, it is still an open question whether TUTSA overrides Rule 76a's sealing requirements. *See Title Source, Inc. v. Housecanary, Inc.*, No. 04-18-00509-CV, 2019 WL 2996974, *5 (Tex. App.—San Antonio July 10, 2019, no pet.) (holding that TUTSA "does not entirely conflict with Rule 76a").

In 2016, the Texas Supreme Court case, *In re M-I L.L.C.*, addressed whether due process required a defendant's representative to be present at a hearing or trial where evidence of the plaintiff's trade secrets would be introduced. 505 S.W.3d at 575–76. In 2017, the Texas Legislature adopted the Court's analysis and added certain provisions to TUTSA. Under both standards, a trial court is required to balance the due-process presumption in favor of the defendant's participation at trial against the degree of competitive harm the plaintiff would suffer from disseminating the trade secret. *See id.* To make that determination, a trial court must consider the following factors:

- **The relative value of the plaintiff's trade secrets.** The higher the value of the trade secret, the more competitive harm would come from the trade secret's dissemination.
- **Whether the defendant's representative acts as a competitive decision-maker for the defendant.** According to the Texas Supreme Court, if the representative acted as a competitive decision-maker, then the disclosure of the plaintiff's trade secrets to him "would necessarily entail greater competitive harm because, even when acting in good faith, [the representative] could not resist acting on what he may learn." *Id.* at 576.
- **The degree to which the defendant's claims would be impaired by the representative's exclusion.** To make this determination, the trial court may consider the representative's role in the organization and whether, by virtue of that role, the representative possessed specialized expertise that would not be available to the defendant's outside experts.
- **The stage of the proceedings.**
- **Whether the owner is alleging that the other party is already in possession of the alleged trade secret.**

TEX. CIV. PRAC. & REM. CODE § 134A.006(b).

TUTSA's seven-factor test includes an additional factor not found in *In re M-I L.L.C.*: "whether the owner is alleging that the other party is already in possession of the alleged trade secret." This factor was added because if the trade secret owner alleges that the misappropriator already possesses the owner's trade secret, there is little harm if that party participates in the proceeding. Conversely, potential harm could result if a party participates in the proceeding but has not yet accessed the trade secret information (e.g., where an employer hires a new employee who is in possession of another's trade secret, but the employee has not yet disclosed that secret to his new employer).

2. Statute of Limitations

A trade secret claim is governed by a three-year statute of limitations. TEX. CIV. PRAC. & REM. CODE § 16.010(a). Suit must be brought not later than three years "after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered." *Id.* A misappropriation that continues over time is a single cause of action and the limitations period begins running without regard to whether the misappropriation is a single or continuing act. *Id.* at § 16.010(b).

3. Effect on Other Law

TUTSA displaces conflicting tort, restitutionary, and other Texas law providing civil remedies for trade secret misappropriation. TEX. CIV. PRAC. & REM. CODE § 134A.007(a). TUTSA, however, does not affect: (1) contractual remedies, whether or not based upon trade secret misappropriation; (2) other civil remedies that are not based upon trade secret misappropriation; or (3) criminal remedies, whether or not based upon trade secret misappropriation. *Id.* § 134A.007(b). Additionally, the Economic Loss Rule does not prohibit a party from asserting both a TUTSA claim and breach of contract claim. *Eagle Oil & Gas Co. v. Shale Expl., LLC,* 549 S.W.3d 256 (Tex. App.—Houston [1st Dist.] 2018, pet. dism'd).

TUTSA eliminated civil liability under the Texas Theft Liability Act. *His Co.*, 202 F. Supp. 3d at 691. However, at least one case suggests in dicta that common-law misappropriation may not have been eliminated by TUTSA. *See Raybourne & Dean Consulting, Ltd. v. Metrica, Inc. & Metrica Relocations Plus, Inc.*, No. SA-14-CA-918-OLG, 2015 WL 12866214, at *10 (W.D. Tex. Apr. 10, 2015). The language in this case is in direct conflict with TUTSA.

TUTSA also eliminated breach of fiduciary duty claims based on misappropriation of trade secrets. *Super Starr Int'l, LLC v. Fresh Tex Produce, LLC*, 531 S.W.3d 829, 843 (Tex. App.—Corpus Christi-Edinburg 2017, no pet.).

4. Uniformity of Application and Construction

TUTSA is to "be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this chapter among states enacting it." TEX. CIV. PRAC. & REM. CODE § 134A.008. Therefore, Texas courts may look to other jurisdictions interpreting the UTSA for guidance on TUTSA's provisions.

II. TUTSA AND THE TEXAS CITIZENS PARTICIPATION ACT

The Texas Citizens Participation Act (TCPA)—also known as the Texas anti-SLAPP statute—exists to "encourage and safeguard the constitutional rights of persons to petition, speak freely, and associate freely and, at the same time, protect the rights of a person to file meritorious lawsuits for demonstrable injury." TEX. CIV. PRAC. & REM. CODE § 27.002; *see In re Lipsky*, 460 S.W.3d 579, 584 (Tex. 2015) (recognizing that the TCPA is designed to thwart "retaliatory lawsuits that seek to intimidate or silence"). To prevent "Strategic Lawsuits Against Public Participation" from achieving their intended purpose of stifling free speech and free association rights, the TCPA permits early dismissal after little or no discovery. TEX. CIV. PRAC. & REM. CODE §§ 27.003(c), 27.006(b); *In re Elliott*, 504 S.W.3d 455, 467 (Tex. App.—Austin 2016, no pet.) ("[T]he TCPA stays all discovery until the trial court rules on a motion to dismiss filed under the Act.").

Originally, the TCPA was thought to apply only to cases involving constitutional rights of free speech, petition, and association. However, the TCPA, as originally enacted, contained no such limitation. *See e.g., Kawcak v. Antero Res. Corp.*, 582 S.W.3d 566, 575 (Tex. App.—Fort Worth, pet. denied) ("[T]he definitions of the rights set out in the TCPA are not drafted to mimic the boundaries of constitutional rights established by the First Amendment."); *Beving v. Beadles*, 563 S.W.3d 399, 405 (Tex. App.—Fort Worth Oct. 18, 2018, pet. denied) ("[D]espite the TCPA's express purpose to protect constitutional rights, the TCPA's definition of 'the right to petition' is far broader."). Consequently, the TCPA has been applied to all manner of commercial-litigation claims, including claims under TUTSA. *See, e.g., Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, 520 S.W.3d 191, 204 (Tex. App.—Austin 2017, pet. denied).

When reading the TCPA's original language, it is not hard to see why the TCPA would apply to TUTSA. The original version of the TCPA applied to any "legal action" that was "based on, relates to, or is in response to" a movant's rights of free speech, to petition, or of association. TEX. CIV. PRAC. & REM. CODE § 27.005(b). Almost all TUTSA claims are going to be based on, relate to, or in response to a movant's rights of free speech and association under the TCPA's broad definitions for these terms.

Regarding free speech rights, the "exercise of the right of free speech" under the original version of the TCPA meant a "communication" made in connection with a "matter of public concern." TEX. CIV. PRAC. & REM. CODE § 27.001(3). A "communication" meant "the making or submitting of a statement or document in any form or medium, including oral, visual, written, audiovisual, or electronic." *Id.* § 27.001(1). Courts interpreted communications to include disclosing trade secrets. *See Elite Auto Body*, 520 S.W.3d at 205 (holding that disclosure of a competitor's information was a communication under the TCPA). In fact, it is hard to imagine how one could disclose a trade secret without some sort of communication under the Act. *See Callison v. C&C Personnel, LLC,* No. 09-19-00014-CV, 2019 WL 3022548 (Tex. App.—Beaumont July 11, 2019, pet. denied) (holding that use or disclosure of trade secrets constitutes a communication under the TCPA); *but see Goldberg v. EMR (USA Holdings) Inc.*, -- S.W.3d --, No. 05-18-00261-CV, 2019 WL 3955771, at *12 (Tex. App.—Dallas Aug. 22, 2019, no pet.) ("The act of e-mailing a document to oneself or electronically saving a document to a drive or data-storage website without disclosing the document to anyone is not a 'communication' as defined by section 27.001(1) because it does not 'make' or 'submit' the document.").

Because disclosure of trade secrets likely involves a communication, the next issue was whether the communication involves a "matter of public concern." As defined by the original version of TCPA, a "matter of public concern" included any issue related to:

(A) health or safety;
(B) environmental, economic, or community well-being;
(C) the government;

(D) a public official or public figure; or
(E) a good, product, or service in the marketplace.

Id. § 27.001(7). This definition meant that free-speech rights under the statute could be implicated in almost any private business situation. *See Adams v. Starside Custom Builders, LLC*, 547 S.W.3d 890, 894 (Tex. 2018) (noting that the definition of a "matter of public concern" covers "[a]lmost every imaginable form of communication, in any medium"); *Morgan v. Clements Fluids S. Texas, LTD.*, -- S.W.3d --, No. 12-18-00055-CV, 2018 WL 5796994, at *3 (Tex. App.—Tyler Nov. 5, 2018, no pet.) (holding that free speech rights were implicated by claims of misappropriation of trade secrets).

Many TCPA/TUTSA cases also invoked the TCPA's right of association. Under the TCPA, the "[e]xercise of the right of association" meant "a communication between individuals who join together to collectively express, promote, pursue, or defend common interests." TEX. CIV. PRAC. & REM. CODE § 27.001(2). The term "common interests" is understood by its plain meaning. *See ExxonMobile Pipeline Co. v. Coleman*, 512 S.W.3d 895, 899 (Tex. 2017) (per curiam) (applying longstanding rules of statutory construction when interpreting provisions of the TCPA). Communications between and among members of an organization or business relate to a "common purpose" if they pertain to the purpose of the business or organization. *Combined Law Enf't Ass'ns of Tex. v. Sheffield*, No. 03–13–00105–CV, 2014 WL 411672, at *12 (Tex. App.—Austin Jan. 31, 2014, pet. denied); *see also Craig v. Tejas Promotions, LLC*, 550 S.W.3d 287, 296 (Tex. App.—Austin 2018, pet. filed) (holding that conspirators' alleged "course of action to use . . . Confidential Information to steal [competitor's] business" met the definition of "common interests" under the TCPA).

In *Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, the Austin Court of Appeals explained the broad scope of the TCPA's right of association in the context of a trade secret case. The plaintiff, Autocraft Bodywerks, sued Precision (Elite) Auto Body and several former Autocraft employees alleging that the employees provided Precision with Autocraft's trade secrets. 520 S.W.3d at 191, 193. Autocraft accused the former employees of providing Precision with Autocraft's confidential, proprietary, and trade secret information, and it alleged that the defendants were unlawfully using Autocraft's confidential information and improperly soliciting current Autocraft employees despite the defendants having no operative noncompetition and non-solicitation agreements. *Id.* Based on these allegations, Autocraft sought injunctive relief to restrain the defendants' ongoing use or disclosure of Autocraft's confidential and proprietary information. *Id.* The court determined that under these circumstances, Autocraft's claims were based on the defendants' alleged "communications" for a common interest within the meaning of the TCPA, implicating the defendants' association rights under the Act. *Id.* at 205.

In early 2019, the Fort Worth Court of Appeals took a different approach in *Kawcak v. Antero Resources Corporation*, interpreting "common interests" as a matter of first impression. 582 S.W.3d 566, 573 (Tex. App.—Fort Worth, pet. denied). Although not a trade secret misappropriation case, the court of appeals specifically noted the holding it announced was in direct conflict with *Elite Auto Body LLC*, among other decisions from its sister districts. *Id.* at 586. The plaintiff, Antero Resources Corporation, sued a "rogue" employee that was allegedly accepting bribes in exchange for contracts and confidential pricing information. *Id.* at 570. In response, the employee filed a motion to dismiss under the TCPA. *Id.* at 571. The employee argued that the plaintiff's allegations that he was engaged in a conspiracy meant he was communicating with others for a "common interest," neatly fitting into the definition of the right of association under the TCPA. *Id.*

The Fort Worth Court of Appeals disagreed. *Id.* at 574–85. Relying on multiple dictionary definitions that define "common" as "of or relating to the community at large," as well as the TCPA's stated purpose "to encourage and safeguard the constitutional rights of persons to petition, speak freely, associate freely, and otherwise participate in government to the maximum extent permitted by law and, at the same time, protect the rights of a person to file meritorious lawsuits for demonstrable injury," the court of appeals determined that "common interest" under the TCPA requires interests that are "shared by the public or at least a group." *Id.* at 576 The defendant employee's interests, on the other hand, were limited to the interests of only two conspirators joined together to commit a tort, which was not sufficient to invoke the TCPA. *Id.* Thus, the court of appeals affirmed the trial court's denial of the employee's motion to dismiss under the TCPA. *Id.* at 588.

Following *Kawcak*, the Dallas Court of Appeals applied its reasoning to cases involving trade secret misappropriation and the TCPA's free speech prong. *See Pinghua Lei v. Nat. Polymer Int'l Corp.*, 578 S.W.3d 706, 714 (Tex. App.—Dallas, no pet.); *Dyer v. Medoc Health Servs., LLC*, 573 S.W.3d 418, 427–28 (Tex. App.—Dallas, pet. denied). Other cases have held that the TCPA does not apply to trade secret claims because the TCPA's commercial speech exemption applied. *See, e.g.*, *Goldberg v. EMR (USA Holdings) Inc.*, -- S.W.3d --, No. 05-18-00261-CV, 2019 WL 3955771, at *9 (Tex. App.—Dallas Aug. 22, 2019, no pet.); *Callison v. C&C Personnel, LLC*, No. 09-19-00014-CV, 2019 WL 3022548, at *7 (Tex. App.—Beaumont July 11, 2019, pet. denied).

By the end of 2019, the question of whether the TCPA applies to trade secrets cases was more complicated than ever. *See* Laura Lee Prather & Robert T. Sherwin, *The Changing Landscape of the Texas Citizens Participation Act*, 52 TEX. TECH L. REV. ONLINE ED. 1, 12–14 (2019). During the last legislative session, though, numerous bills were filed to amend the TCPA and remove its possible application to trade secret claims. Specifically, these bills stated that they were designed "to curtail abuses and ensure the law is used as intended to protect Texans in the exercise of their constitutionally protected speech, petition, and association rights." Senate Research Center, Bill Analysis, Tex. H.B. 2730, 86th Leg., R.S. (2019). Supporters of these bills also noted that the TCPA's overly broad wording, combined with its right to interlocutory appeal, resulted in an increased workload for Texas appellate courts. *Id.* The bills were supported by a variety of groups, including Texans for Lawsuit Reform and the Texas Trial Lawyers Association. *Id.*

On June 2, 2019, Governor Abbott signed HB 2730, which amended the TCPA to realign it with its original purpose to protect *constitutional* rights of free speech and association. Tex. H.B. 2730, 86th Leg., R.S. (2019). Among other things, HB 2730 limited the TCPA's definition of "matter of public concern"—which is the key term in the definition of the exercise of the right of free speech—to a statement or activity regarding:

(A) a public official, public figure, or other person who has drawn substantial public attention due to the person's official acts, fame, notoriety, or celebrity;
(B) a matter of political, social, or other interest to the community; or
(C) a subject of concern to the public.

Additionally, HB 2730 limited the definition of the "exercise of the right of association," defining it as "to join together to collectively express, promote, pursue, or defend common interests *relating to a governmental proceeding or a matter of public concern*" (emphasis added).

Both changes ensure that the TCPA does not apply in trade secrets and other commercial litigation cases. Nevertheless, the Legislature also added several cause of action-specific exemptions to the TCPA. For instance, HB 2730 specifically exempts from the TCPA a legal action arising from an officer-director, employee-employer, or independent contractor relationship that:

(A) seeks recovery for misappropriation of trade secrets or corporate opportunities; or
(B) seeks to enforce a non-disparagement agreement or a covenant not to compete.

HB 2730 also contains numerous other exemptions for the Texas Deceptive Trade Practices Act, eviction suits, lawyer disciplinary proceedings, and common law fraud, among others. HB 2730's changes should put an end to the explosion of TCPA motions to dismiss filed in response to trade secrets and other commercial litigation claims.

III. THE DEFEND TRADE SECRETS ACT

In 2016, Congress passed the Defend Trade Secrets Act of 2016 (DTSA), an amendment to the Economic Espionage Act of 1996. Defend Trade Secrets Act of 2016, Pub. L. 114-153, 130 Stat. 376 (2016) (codified at 18 U.S.C. §§ 1831–36). Under DTSA, a person is prohibited from misappropriating a trade secret used, or intended for use, by the trade secret owner in interstate or foreign commerce. 18 U.S.C. § 1836(b) ("An owner of a trade secret that is misappropriated may bring a civil action under this subsection if the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.").

To prevail on a DTSA claim, a plaintiff must prove that (1) plaintiff is the owner of a trade secret; (2) defendant misappropriated that trade secret; and (3) defendant's misappropriation caused damages to plaintiff. An "owner" means "the person or entity in whom or in which rightful legal or equitable title to, or license in, the trade secret is reposed." 18 U.S.C. § 1839(4).

The 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, 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—

(1) the owner has taken reasonable measures to keep such information secret; and
(2) 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. 18 U.S.C. § 1839(3).

A. Differences Between DTSA and TUTSA

To eliminate confusion and possible forum shopping, the Texas Legislature in 2017 amended TUTSA to incorporate many of the key definitions in DTSA. Cleveland, J. and Coffman, J. H., *Outlining New Amendments to* *the Texas Uniform Trade Secrets Act*, 80 TEX. B.J. 526 (2017). Consequently, TUTSA has more overlap with DTSA than other states' enactments of the Uniform Trade Secret Act. Nevertheless, there are several key differences between the statutes.

1. DTSA Allows for Ex Parte Seizure Order

Unlike TUTSA, DTSA has a provision authorizing ex parte seizures of trade secret information. *See* 18 U.S.C. § 1836(b)(2). Specifically, DTSA provides that "the court may, upon ex parte application but only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action." 18 U.S.C. § 1836(b)(2)(A)(i). This provision allows for the seizure of not only the trade secret itself, but any products that embody the trade secret, as long as the seizure is "conducted in a manner that minimizes any interruption of the business operations of third parties . . . ." 18 U.S.C. § 1836(b)(2)(B)(ii).

Importantly, the court cannot grant an ex parte seizure application unless it finds, among other things, it "clearly appears from specific facts" that "an immediate and irreparable injury will occur if such seizure is not ordered," and the "person against whom seizure would be ordered, . . . would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person[.]" 18 U.S.C. § 1836(b)(2)(A)(ii)(II),(VII). The court must also set a date for a hearing at the earliest possible time, but not later than 7 days after the order has issued. 18 U.S.C. § 1836(b)(2)(B)(v). However, "the party against whom the order has issued or any other person harmed by the order may move the court at any time to dissolve or modify the order . . . ." 18 U.S.C. § 1836(b)(2)(B)(v). The party obtaining an ex parte seizure order must post bond or other security for the payment of damages in the event of a wrongful or excessive seizure. 18 U.S.C. § 1836(b)(2)(B)(vi). A person who suffers damage by reason of a wrongful or excessive seizure under DTSA has a cause of action against the applicant and the security posted with the court does not limit the recovery of third parties for damages. 18 U.S.C. § 1836(b)(2)(G).

2. DTSA Provides Protection for Whistleblowers and Employees

DTSA also contains a unique provision designed to protect whistleblowers. Specifically, it provides that an individual shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that: (i) is made in confidence and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. *See* 18 U.S.C. § 1833(b)(1). Similarly, a related provision states that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual's attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order. *See* 18 U.S.C. § 1833(b)(2).

Additionally, DTSA places an affirmative duty on employers to provide notice of these immunity provisions in "any contract or agreement with an employee that governs the use of a trade secret or other confidential information." 18 U.S.C. § 1833(b)(3)(A). An employer complies with the notice requirement if the employer provides a cross-reference to a policy document provided to the employee that sets forth the employer's reporting policy for a suspected violation of law. 18 U.S.C. § 1833(b)(3)(B). Should an employer not comply with the notice requirement, the employer may not recover exemplary damages or attorneys' fees under DTSA in an action against an employee who misappropriates trade secrets. 18 U.S.C. § 1833(b)(3)(C).

Importantly, DTSA's definition of "employee" is broad and includes contractors and consultants who perform work for an employer. 18 U.S.C. § 1833(b)(4). This notice provision, however, only applies to agreements entered into or updated after May 11, 2016, the date of enactment of DTSA. 18 U.S.C. § 1833(b)(3)(D). Should an employer not comply with the notice requirement, the employer may not recover exemplary damages or attorneys' fees under DTSA in an action against a contractor or consultant who misappropriates trade secrets. 18 U.S.C. § 1833(b)(3)(C).

3. DTSA is More Sensitive to Protecting Departing Employees' Rights

The right to injunctive relief is similar under TUTSA and DTSA, but the federal statute has unique restrictions that provide additional protections for departing employees. Under both statutes, "actual or threatened" misappropriation may be enjoined. 18 U.S.C. § 1836(b)(3)(A)(i); TEX. CIV. PRAC. & REM. CODE § 134A.003. However, injunctive relief under DTSA is subject to the following restrictions: (i) the injunction may not prevent a person from entering into an employment relationship; (ii) the injunction may not otherwise conflict with state law prohibiting restraints on the practice of a profession, trade, or business; and (iii) any conditions placed on a person's employment must be based on evidence of threatened misappropriation and not merely on information the person knows. 18 U.S.C. § 1836(b)(3)(A).

Under DTSA, a court cannot prevent a former employee from working for another company, but it can prevent that person from working in a particular position with a new company. Additionally, the limitation that any injunction must be based on actual evidence of threatened misappropriation indicates that an argument of inevitable disclosure will not be sufficient to obtain an injunction under DTSA.

4. TUTSA Preempts Common Law Tort Claims and DTSA Does Not

TUTSA preempts any "conflicting tort, restitutionary, and other law of [Texas] providing civil remedies for misappropriation of a trade secret." TEX. CIV. PRAC. & REM. CODE § 134A.007. Neither TUTSA nor DTSA preempt contract claims based on trade secret misappropriation. *Id.* DTSA expressly provides that it does not preempt common law claims, nor does it preempt claims under TUTSA. 18 U.S.C. § 1838. Thus, a plaintiff may assert claims under TUTSA and DTSA in the same suit. Because DTSA does not preempt other state-law tort claims like TUTSA, common law tort claims like breach of fiduciary duty that involve trade secret misappropriation may not be preempted under federal law, whereas they would be preempted under TUTSA. It should be noted, however, that DTSA's immunity provisions protecting whistleblowers and employees preempt all state and local laws to the contrary. 18 U.S.C. § 1833(b).

B. Considerations for Bringing a DTSA Claim

There are many factors a litigant must consider before deciding whether to file a DTSA claim, a TUTSA claim, or both.

1. Jurisdiction

DTSA expressly provides that the district courts of the United States have original jurisdiction over civil actions brought under DTSA. 18 U.S.C. § 1836(c). Importantly, under DTSA, the federal courts have original but not exclusive jurisdiction over DTSA claims. *Id.* According to the presumption of concurrency, a plaintiff will be able to bring its DTSA claim in state court. *See Haywood v. Drown*, 556 U.S. 729, 729 (2009) (stating that the presumption of concurrency is so strong that "it is defeated only when Congress expressly ousts state courts of jurisdiction"). Plaintiffs should be aware that when a DTSA claim is brought in state court, the defendant will be able to remove the action to federal court. 28 U.S.C. § 1441(a) ("any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant . . .").

For a plaintiff to bring a TUTSA claim in federal court, diversity of citizenship jurisdiction under 28 U.S.C. § 1332 must exist. A federal court, however, could exercise supplemental jurisdiction over the TUTSA claim pursuant to 28 U.S.C. § 1367 if the TUTSA claim is brought with a DTSA claim over which the court could exercise federal question jurisdiction under 28 U.S.C. § 1331. *See Henry Schein, Inc. v. Cook*, No. 16-CV-03166-JST, 2016 WL 3212457, at *2 (N.D. Cal. June 10, 2016) (holding that federal district court had jurisdiction over the "action pursuant to DTSA and 28 U.S.C. § 1331, and supplemental jurisdiction over Plaintiff's remaining [state law and California Uniform Trade Secrets Act] claims pursuant to 28 U.S.C. § 1367").

If the plaintiff asserts related claims over which the federal court has exclusive jurisdiction, such as patent and copyright claims, those claims along with claims under TUTSA and DTSA must be brought in federal court.

Additionally, even if a plaintiff files in state court and does not allege a claim under DTSA, if a defendant files a related counterclaim under the patent or copyright acts that grant exclusive jurisdiction to the federal courts, the defendant will be able to remove the case to federal court. Leeron Morad, *New Sheriff in Town? What to Expect from the Defend Trade Secrets Act*, N. CAL. ASSOCIATION OF BUSINESS TRIAL LAWYERS REPORT, Spring 2016, Vol. 24, No. 3, at 3–5. Counterclaims do not generally create federal jurisdiction. However, a defendant may remove an action to federal court under these circumstances because 28 U.S.C. § 1454 vests federal courts with jurisdiction to hear cases involving patent or copyright claims raised in a counterclaim. 28 U.S.C. § 1454(a) (stating that "[a] civil action in which *any party* asserts a claim for relief under any Act of Congress relating to patents, . . . or copyrights may be removed to the district court of the United States . . .") (emphasis added). Therefore, if a defendant asserts a patent or copyright infringement counterclaim, the entire case may be removed to federal court.

2. Jurisdiction over Foreign Nationals

One of the main justifications for the passage of DTSA is that courts will now be able to obtain personal jurisdiction over foreign nationals so long as they have minimum contacts with the nation as a whole. This allows courts to obtain personal jurisdiction over defendants who may have sufficient minimum contacts with the United States but do not otherwise have sufficient minimum contacts with any one state in particular. As a result, courts have personal jurisdiction over a broader range of potential defendants under DTSA than under TUTSA.

3. <u>Commerce Requirement</u>

DTSA also contains a minimum jurisdictional requirement that a civil action for misappropriation may be brought only if "the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce." 18 U.S.C. § 1836(b)(1). This minimum threshold should be rather easy to satisfy, especially with the realities of modern commerce. *But see DLMC, Inc. v. Flores*, No. CV 18-00352 DKW-RT, 2019 WL 985275, at *1 (D. Haw. Feb. 27, 2019) (holding that plaintiff failed to allege sufficient nexus between misappropriated customer lists and interstate commerce). TUTSA, on the other hand, has no such jurisdictional commerce requirement.

4. <u>Venue</u>

The federal venue rules provide that venue will be proper in:

(1) a judicial district in which any defendant resides, if all defendants are residents of the State in which the district is located;
(2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated; or
(3) if there is no district in which an action may otherwise be brought as provided in this section, any judicial district in which any defendant is subject to the court's personal jurisdiction with respect to such action.

28 U.S.C. § 1391(b). Thus, if a court has personal jurisdiction over a defendant, venue will always exist in some federal court.

Regardless of where a plaintiff sues, a defendant can have the action dismissed so that it can be filed in a more convenient forum under the common law doctrine of forum non conveniens. *See generally Sinochem Int'l Co. v. Malaysia Int'l Shipping Corp.*, 549 U.S. 422 (2007). Unlike state courts, however, federal courts also have the power to transfer a case to any other federal court in the United States if that court is a more convenient venue. *See* 28 U.S.C. § 1404(a). As a result, federal court defendants can seek to have venue transferred anywhere in the United States. A defendant in federal court will need to file a motion to dismiss for forum non conveniens when the more convenient forum is a foreign court or U.S. state court. *See Quackenbush v. Allstate Ins.*, 517 U.S. 706, 722 (1996).

State courts, on the other hand, only have the power to transfer a case to a more convenient state court within that state.

5. <u>Ability to Obtain a Protective Order under TUTSA and DTSA</u>

Under TUTSA, a court must "preserve the secrecy of an alleged trade secret by reasonable means." TEX. CIV. PRAC. & REM CODE § 134A.006. These reasonable measure may 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." *Id.* As discussed, it is unclear whether litigants must comply with Texas Rule of Civil Procedure 76a to seal court records.

DTSA provides that the court shall take such action "as may be necessary and appropriate to preserve the confidentiality of trade secrets" so long as the court's action is consistent with federal rules of procedure, rules of evidence, and all other applicable laws. 18 U.S.C. § 1835(a). Federal Rule of Civil Procedure 26(c)(1)(G) provides that a court may issue a protective order "requiring that a trade secret or other confidential research, development, or commercial information not be revealed or revealed only in a specified way[.]"

DTSA offers additional protection by preventing courts from authorizing or directing "the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential." 18 U.S.C. § 1835(b). Additionally, DTSA provides that a party may file an interlocutory appeal from any decision or order that authorizes or directs the disclosure of any trade secret. 18 U.S.C. § 1835(a).

6. <u>Service</u>

Due to the availability of waiver of service in federal court, accomplishing service on a defendant is potentially an easier task than serving a defendant in Texas state court actions. If the defendant agrees to waive service, it will not have to file an answer to the complaint until 60 days after the request for waiver was sent. FED. R. CIV. P. 4(d)(3). If the defendant refuses to waive service, the plaintiff who requested the waiver must still serve the defendant, but the plaintiff can recover the costs incurred in serving the defendant with process.

7. <u>Federal Pleading Standards</u>

Federal courts require a complaint to contain sufficient factual matter, accepted as true, to "state a claim to relief that is plausible on its face." *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007). Due to the heightened pleading standards for claims brought in federal court, defendants may consider filing a motion to dismiss arguing that in order to plausibly allege trade secret misappropriation, the plaintiff must provide some detail about the alleged trade secrets. *See Quintel Tech. Ltd. v. Huawei Techs. USA, Inc.*, 4-15-CV-00307, 2016 WL 5423178, at *13 (E.D. Tex. Sept. 27, 2016). The defendant could also serve interrogatories on the plaintiff requesting that it describe the alleged trade secrets with particularity.

8. Amending Pleadings

In trade secrets cases, the ability to amend pleadings could be an important consideration. If an employer knows that an employee has accessed and copied information but is not sure exactly what the employee took, the employer may need to conduct discovery before it has full knowledge of all the facts necessary to support its misappropriation claim.

In federal court, a party may amend its pleading once as "a matter of course" early in the litigation. *See* FED. R. CIV. P. 15(a)(1). Rule 15 provides that a pleading may be amended as a matter of course within: (i) 21 days after serving it, or (ii) if the pleading is one to which a responsive pleading is required, 21 days after service of a responsive pleading or 21 days after service of a motion under Rule 12(b), (e), or (f), whichever is earlier. FED. R. CIV. P. 15(a)(1)(A), (B). In all other cases, a party may amend its pleading before trial only with the opposing party's written consent or the court's leave, but the court should freely give leave when justice so requires. FED. R. CIV. P. 15(a)(2).

9. Subpoena Power

Compelling testimony or the production of documents is more difficult in state court than federal court. Federal Rule of Civil Procedure 45(b)(2) specifically provides that "[a] subpoena may be served at any place within the United States." According to the 2013 advisory committee notes to FRCP 45(b)(2), Rule 45 was amended to provide that a subpoena may be served anywhere in the United States to "remov[e] the complexities prescribed in prior versions."

Thus, filing in federal court provides a streamlined and uniform process for obtaining deposition testimony nationwide whereas filing in state court requires knowledge of, and compliance with, the discovery rules of Texas and the state in which the party to be deposed resides.

10. Injunction Enforcement

An additional reason a party may wish to sue in federal court rather than state court is that injunctions issued by federal courts can be enforced nationwide. FED. R. CIV. P. 65; *Califano v. Yamasaki*, 442 U.S. 682, 702 (1979) (observing that "the scope of injunctive relief is dictated by the extent of the violation established, not by the geographical extent of the class."). Although Texas state court judgments are enforceable in other states pursuant to the Full Faith and Credit Clause of the United States Constitution and under the Uniform Enforcement of Foreign Judgments Act (which has been adopted by 47 states), an injunction granted by a Texas state court will not have automatic nationwide effect like an injunction granted in federal court.

IV. RECENT DEVELOPMENTS IN TEXAS CASE LAW ON TRADE SECRETS

A. TUTSA Cases

1. Corpus Christi Court of Appeals Issues Opinion on the Specificity of Injunctive Orders in Trade Secrets Case

Almost every trade secrets case involves some sort of request for injunctive relief prohibiting the alleged infringer from using the trade secrets at issue. If the court grants the request for injunctive relief and your client is the party accused of misappropriating the trade secret, you want to have some specificity in the court's order so you can know the specific trade secrets your client is prohibiting from using.

Often, though, you don't get that specificity. Instead, Texas courts will uphold an order with only "specific examples of the items" constituting trade secrets—and not the specific trade secrets themselves—so long as the party can determine what the specific trade secrets are from the "context of the suit." That was the case in *Super Starr International v. Fresh Texas Produce, LLC*, No. 13-18-00233-CV, 2019 WL 2385564 (Tex. App.—Corpus Christi June 6, 2019, no pet.), where the court upheld a temporary injunction order that defined "confidential information" as "membership agreements, membership lists, intellectual property, finances, methods of operation and competition, pricing, marketing plan and strategies, equipment and operational requirements, and information concerning personnel, clients, customers, independent contractors, suppliers and growers of [the LLC]." According the court, the list of examples, when read in the context of the lawsuit, was specific enough to meet the requirements of a temporary injunction order under Texas Rule of Civil Procedure 683.

The reminder here is that a defendant in a trade secret case often won't get the benefit of a specific identification of the trade secret in the injunction order. Instead, the defendant will have to determine the enjoined trade secrets from the "context of the suit."

2. San Antonio Court of Appeals Addresses (But Does Not Decide) the Conflict between TUTSA and Rule 76a

One of the most difficult things about litigating a trade secrets case is how to handle the introduction of evidence containing the trade secret. The party obviously does not want this information divulged in open court or filed as a public record. Thus, to get around this problem, the party must file a motion to seal the records with the trial court.

Many litigators believe that TUTSA's provision on sealing court records provides an efficient means to obtain such an order. Others, however, believe that court records may only be sealed according to the standards and procedures of Texas Rule of Civil Procedure 76a. Rule 76a provides a more difficult process for sealing exhibits, which includes (1) a public notice and hearing, (2) a presumption that courts are open to the general public, and (3) a showing of (a) a specific, serious, and substantial interest that clearly outweighs the presumption of openness and any probable adverse effect that sealing will have upon the general public health or safety and (b) no less restrictive adverse effect that sealing will have upon the general public health or safety.

The San Antonio Court of Appeal's case *Title Source, Inc. v. Housecanary, Inc.*, No. 04-18-00509-CV, 2019 WL 2996974 (Tex. App.—San Antonio July 10, 2019, no pet.) refused to wade into this debate. In *Title Source*, the trial court sealed several trial exhibits under the court's authority in TUTSA and not according to the procedures outlined in Texas Rule of Civil Procedure 76a. But the debate was not specifically whether Rule 76a overruled or conflicted with TUTSA. (The court did hold that Rule 76a's immediate appeal procedure did not conflict with TUTSA, but it took no position on the other matters.) Instead, the parties agreed under their Stipulated Protective Order (SPO) that Rule 76a applied. Therefore, the trial court abused its discretion by not following Rule 76a in sealing the Court's records.

The lesson here is that if the parties agree in their protective orders that Rule 76a applies, they will have to follow Rule 76a's requirements. Because it is more difficult to seal court records under Rule 76a, the parties should consider expressly agreeing that Rule 76a does not apply to any sealing procedure. Then, they could avoid having to follow Rule 76a—at least until some court specifically addresses whether Rule 76a conflicts with TUTSA.

3. Dallas Court of Appeals Holds that the Inevitable Disclosure Doctrine Cannot Be Used to Create a Fact Issue on Misappropriation of Trade Secrets

Under trade secrets law, the inevitable disclosure doctrine is the idea that a defendant's new employment will lead to the inevitable disclosure of a former employer's trade secrets. Texas courts have issued mixed holdings on the subject. After TUTSA was enacted in 2013, some speculated that its language permitting injunctive relief for "threatened misappropriation" was an implicit adoption of the inevitable disclosure doctrine. In a recent decision, the Dallas Court of Appeals seemed to reject that speculation.

In *Global Supply Chain Solutions, LLC v. Riverwood Solutions., Inc.*, No. 05-18-00188-CV, 2019 WL 3852661 (Tex. App.—Dallas Aug. 16, 2019, no pet.), the Dallas Court of Appeals explored whether a party could rely on the inevitable disclosure—without more—to survive a motion for summary judgment. Specifically, the Court held that a threatened misappropriation for purposes of a temporary injunction is not a substitute for evidence of the "actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss" to raise a fact issue on damages in response to a motion for summary judgment. The Court also noted that TUTSA does not prohibit the "use of the general, knowledge, skill, and experience a person acquired during employment." The only evidence plaintiff provided for misappropriation of trade secrets was one of its representative's "speculative testimony that [defendant employee] must have disclosed [plaintiff's] confidential or proprietary information in order to do her job at [new employer]." The Court held that such evidence, standing alone, is insufficient to raise a fact issue for a motion for summary judgment.

4. Failure to Specify How Trade Secrets Are Allegedly Being Used Results in Summary Judgment Dismissal of Claims

Morrison v. Profanchik, No. 05-17-01281-CV, 2019 WL 3798182 (Tex. App.—Dallas Aug. 13, 2019), *supplemented*, No. 05-17-01281-CV, 2019 WL 5112268 (Tex. App.—Dallas Oct. 10, 2019, no pet.) is a case involving the summary judgment dismissal of counterclaims for breach of non-disclosure/non-compete agreement and misappropriation of trade secrets. In *Morrison*, plaintiff Profanchik approached Stonecoat of Texas about purchasing one of its franchises. The parties entered into a nondisclosure/noncompete agreement with the understanding that the competitor would be divulging confidential and trade secret information as part of the due diligence process. Profanchik, however, later walked away from the deal, started a competing limestone veneer company, and sued Stonecoat and its owners for tort causes of action arising from the parties' negotiations.

Stonecoat and its owners filed a counterclaim alleging Profanchik breached the nondisclosure/noncompete agreement and violated TUTSA, among other things. Profanchik filed a motion for summary judgment, which was granted by the trial court, and the Dallas Court of Appeals affirmed. On appeal, the Court of Appeals noted that the only evidence arguably cited was a conclusory affidavit of Stonecoat's owner, which stated, among other things, that

Profanchik "received delivery and access to privileged and confidential information, intellectual property and trade secrets of Stonecoat" and that Profanchik "inevitably disclosed" this information to his competing company. The Dallas Court of Appeals held that this affidavit was insufficient evidence to support Stonecoat's breach of non-disclosure/noncompete agreement because it failed to identify the special material that Profanchik allegedly used, demonstrate the secret or proprietary nature of the material, or describe how use of the alleged material breached the nondisclosure/noncompete agreement.

Stonecoat also did not do itself any favors by omitting records cites in its appellate brief, which was the basis of affirming the TUTSA claim.

The lesson here is that bare-bones assertions of misappropriation of trade secrets or violations of TUTSA will be insufficient to survive summary judgment. Instead, a claimant must specify, at minimum, (1) why the information was a trade secret and (2) how the information was used by the other party.

5. El Paso Court of Appeals Affirms Judgment in Trade Secret Case

In *EJ Madison, LLC v. Pro-Tech Diesel, Inc.*, No. 08-17-00229-CV, 2019 WL 6242301 (Tex. App.--El Paso Nov. 22, 2019, no pet. h.), plaintiff Madison operated a trucking company and defendant Pro-Tech provided maintenance services to the trucks. The parties entered into a Non-Disclosure Agreement so they could work together on diesel to natural gas conversion kits for the trucks. Additionally, Pro-Tech continued to provide general maintenance work for the trucks.

Madison eventually entered into an agreement with EL Hollingsworth for EL Hollingsworth to operate its trucks. After the agreement, Pro-Tech continued to do the general maintenance work for EL Hollingsworth. Meanwhile, Madison formed a separate entity to work with Pro-Tech on the conversion kits and conversion kit maintenance.

Eventually, the business relationship between Madison and Pro-Tech soured, and Madison sued Pro-Tech for breach of contract, breach of fiduciary, and violations of TUTSA. Madison argued that Pro-Tech used its confidential information to enter into a business relationship with EL Hollingsworth.

The trial court disagreed, and the El Paso Court of Appeals affirmed. Specifically, the court held that the parties' non-disclosure agreement did not include the general maintenance work Pro-Tech had always performed. Additionally, there was no TUTSA violation because Madison never kept the existence of EL Hollingsworth a secret from Pro-Tech, and Pro-Tech could have easily discovered EL Hollingsworth through trade journals. Also, the court held that Madison's evidence of damages—that it did not make introductions "for free"—was insufficient because there was no evidence that either EL Hollingsworth or Pro-Tech would have paid for the introduction.

B. TCPA Cases (Applying the pre-September 1, 2019 Version of the Law)

1. Fifth Circuit Holds that the TCPA Does Not Apply in Federal Diversity Cases

One of the open questions for the Texas Citizens Participation Act was whether it applied in federal diversity cases. This August, the Fifth Circuit finally answered that question in *Klocke v. Watson*, 936 F.3d 240, 246 (5th Cir. 2019).

In *Klocke*, plaintiff Klocke, the administrator of his son Thomas's estate, sued Watson for defamation and defamation of per se after Watson accused Thomas of homophobic harassment, resulting in Thomas being denied permission to graduate from the University of Texas at Arlington. Thomas subsequently committed suicide. Klocke also sued UTA for Title IX violations.

In response to the lawsuit, Watson filed a motion to dismiss under the TCPA. Klocke responded to the TCPA motion by objecting to the TCPA's applicability. The trial court overruled the objection, but the Fifth Circuit reversed the decision, determining that the TCPA was a procedural and not a substantive rule and therefore inapplicable to federal court. The court reasoned that the TCPA was procedural because it answered the same question as Federal Rules of Civil Procedure 12 and 56, which govern dismissal and summary judgment motions, respectively. Moreover, the TCPA's burden-shifting framework imposed additional requirements beyond those found in Rules 12 and 56. Therefore, the TCPA does not apply in federal court.

2. Texas Supreme Court Addresses Standard for Damages Evidence under the TCPA

In late December 2018, the Texas Supreme Court issued its opinion in *S & S Emergency Training Solutions, Inc. v. Elliot*, 564 S.W.3d 843 (Tex. 2018), which involves an employer suing its former employee for breach of her NDA. The employee responded to the lawsuit by filing a motion to dismiss pursuant to the TCPA. The employer submitted its response to the motion and included affidavits seeking to establish the elements of breach of the NDA. On appeal, the only issue before the Texas Supreme Court was whether the employer had established evidence "sufficient to allow a rational inference that some damages naturally flowed from the defendant's conduct."

The Texas Supreme Court held that the employer had met this burden. Noting that the employer was not required to provide evidence sufficient to allow exact calculation of its lost profits, the Court found that the employer's affidavits supported a rational inference that plaintiff's actions "caused it to lose some specific, demonstrable profits." Specifically, the affidavit provided evidence that (1) its paramedic courses were profitable before the employee's alleged disclosure of confidential information and (2) the disclosure of confidential information was a cause of the termination of employer's contract to provide profitable paramedic courses. The Court also noted that the record provided information—the revenues from the classes, the number of classes, number of students enrolled, and evidence that the classes were profitable—that made the employer's evidence more than a general averment of a loss of revenue. Therefore, the employer met its burden.

3. Fort Worth Court of Appeals Issues Opinion Restricting Application of the TCPA

In cases such as *Craig v. Tejas Promotions, LLC*, 550 S.W.3d 287 (Tex. App.—Austin 2018, pet. denied) and *Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, 520 S.W.3d 191 (Tex. App.–Austin 2017, pet. denied), the Austin Court of Appeals held that a petition alleging that two conspirators are working together to misappropriate a competitor's trade secrets implicates the right of association prong of the TCPA. In a surprising new opinion, though, the Fort Worth Court of Appeals indicated that it is not going to follow these holdings.

In *Kawcak v. Antero Resources Corporation*, 582 S.W.3d 566 (Tex. App.—Fort Worth, February 21, 2019, pet. denied), plaintiff sued a "rogue" employee that was allegedly accepting bribes in exchange for contracts and confidential pricing information. Plaintiff sued the employee for breach of fiduciary duty, money had and received, and declaratory judgment. In response, the employee filed a motion to dismiss under the TCPA. The employee argued that plaintiff's allegation that he was engaged in a conspiracy meant that he was communicating with others for a "common interest," which is the definition of the right of association under the TCPA.

The Fort Worth Court of Appeals disagreed, focusing on the plain meaning of the word "common." Relying on multiple dictionary definitions that define "common" as "of or relating to the community at large," as well as the TCPA's stated purpose "to encourage and safeguard the constitutional rights of persons to petition, speak freely, associate freely, and otherwise participate in government to the maximum extent permitted by law and, at the same time, protect the rights of a person to file meritorious lawsuits for demonstrable injury," the Court determined that "common interest" under the TCPA requires interests that are "shared by the public or at least a group." The defendant employee's interest, on the other hand, was limited to the interests of two conspirators who joined together to commit a tort, which was not sufficient to invoke the TCPA. Thus, the trial court correctly denied the defendant employee's motion to dismiss under the TCPA.

The Court additionally noted that its opinion was in conflict with the holdings from the Austin Court of Appeal, but it distinguished its opinion by noting that none of those cases analyzed the meaning of the word "common" under the TCPA.

4. Dallas Court of Appeals Follows Fort Worth's Lead in Restricting the Scope of the TCPA

In *Dyer v. Medoc Health Services, LLC*, 573 S.W.3d 418 (Tex. App.—Dallas 2019, pet. denied), the Dallas Court of Appeals determined that text messages between two individuals allegedly pertaining the misappropriation of proprietary software and confidential business information had no "element of public participation." Therefore, the defendants in that case failed to establish that the plaintiffs' claims were based on, related to, or in response to defendants' exercise of the right of association as defined by the TCPA.

The Court further held that defendants failed to establish the TCPA applied under its free speech prong, reasoning that defendants' text messages were not a matter of public concern under the TCPA's definition of free speech "simply because the proprietary and confidential information that was to be misappropriated belonged to a company in the healthcare industry or because the alleged tortfeasors hoped to profit from their conduct."

5. Beaumont Court of Appeals Holds the Commercial Speech Exemption Applies to TCPA Trade Secret Case

The Beaumont Court of Appeals case *Callison v. C&C Personnel, LLC*, No. 09-19-00014-CV, 2019 WL 3022548 (Tex. App.—Beaumont July 11, 2019, pet. denied) involves the familiar fact pattern of an employee accused of acquiring her former employee's trade secrets and then using those trade secrets to solicit her former customers. In defense to those claims, the employee filed a motion to dismiss under the TCPA. The trial court denied employee's motion by operation of law. The Beaumont Court of Appeals affirmed.

First, the Court held that the employee was correct that the TCPA applied to her claims because the lawsuit was based on, relates to, or in response to her free speech rights. Despite the employers' purposeful effort to characterize her misappropriation as only "use" or "conduct," any use of a trade secret requires a disclosure, and a disclosure is a "communication" under the TCPA. Furthermore, because the complained communication involved acquiring customer for her business, the communications met the definition of "matter of public concern" because they "related to a good, product, or service in the marketplace."

Unfortunately for the employee, though, the employers established the commercial speech exemption to the TCPA. The Court held that using confidential or proprietary information from a previous employer to target and secure the same customers satisfies all the elements of the commercial speech test under Texas law.

6. Dallas Court of Appeals Restricts Application of the TCPA to Trade Secrets Cases

The Dallas Court of Appeals opinion in *Damonte v. Hallmark Financial Services, Inc.*, No. 05-18-00874-CV, 2019 WL 3059884 (Tex. App.—Dallas July 12, 2019) is another in a string of cases restricting the application of the TCPA in Dallas. In this case, Hallmark sued Damonte, its former employee, for breach of fiduciary duty, breach of contract, and violations of TUTSA after employees were found to be emailing themselves proprietary information in the weeks immediately before his departure. In response, Damonte filed a motion to dismiss under the TCPA, alleging that Hallmark's lawsuit was based on, relates to, or in response to his rights of free speech and association.

The Dallas Court of Appeals disagreed. Regarding the free speech prong, Damonte cited allegations in the petition that he and other employees communicated a scheme to misappropriate Hallmark's trade secrets, but the Court held that communications among alleged tortfeasors to misappropriate confidential information are not within the scope of the TCPA's free speech prong. This was true despite Damonte's strenuous denials that he was involved in the scheme and despite his attempt to recharacterize the communications as being based on complaints about company morale.

The Court also rejected Damonte's association argument for the same reasons and held that "communications . . . related to a scheme to misappropriate and wrongfully disclose and/or use the company's confidential information" are "not protected by the right of association under the TCPA."

7. Dallas Court of Appeals Affirms Denial of TCPA in Trade Secrets Case

In *Pearl Energy Inv. Mgmt., LLC v. Gravitas Res. Corp.*, No. 05-18-01012-CV, 2019 WL 3729501 (Tex. App.—Dallas Aug. 7, 2019, no pet.), Gravitas, an oil and gas production company, alleged that it spent years researching and evaluating the purchase of certain natural gas assets in Utah from Anadarko. In 2016, Gravitas approached Anadarko about purchasing the assets. Gravitas eventually won the bid for the assets and began negotiating a purchase and sale agreement for the assets.

At the same time, Gravitas began seeking additional funding for the purchase. Gravitas approached Pearl Management, a private equity firm, about the investment. Pearl Management received (but did not sign) a non-disclosure agreement, and Gravitas shared its confidential and sensitive information with Pearl Management. Pearl Management, however, declined the investment.

By April 2017, Gravitas still did not have financing for the purchase. When Gravitas was finally ready to move forward with the transaction in May 2017, Anadarko informed Gravitas that it signed a purchase and sale agreement for the assets with AVAD, which was a Pearl Management portfolio company.

Believing that AVAD purchased the property because of the confidential information Gravitas provided to Pearl Management, Gravitas sued Pearl Management, AVAD, and others for breach of the non-disclosure agreement, violations of TUTSA, unfair competition by misappropriation, tortious interference, common law fraud, aiding and abetting common law fraud, and unjust enrichment.

In response, Pearl Management and AVAD filed a motion to dismiss under the TCPA, alleging that Gravitas's suit was based on, relates to, or in response to their free speech and association rights. The trial court denied the motion, and the Dallas Court of Appeals affirmed. As it did with other recent TCPA cases, the Dallas Court of Appeals reasoned that the right of association was not implicated merely because "there are communications between parties with a shared interest in a private business transaction." Likewise, the court held that the parties' free speech rights were not implicated, reasoning that "simply because the proprietary and confidential information disclosed to AVAD belonged to a company in the business of oil and gas production or because appellants hoped to profit from their conduct" does not make the communications "tangentially related to a matter of public concern."

8. Dallas Court of Appeals Explores Multiple TCPA Arguments

In cases like *Dyer, Damonte,* and *Pearl Energy*, the Dallas Court of Appeals has refused to apply the TCPA to trade secrets and other commercial litigation claims. *Goldberg v. EMR (USA Holdings) Inc.*, No. 05-18-00261-CV, 2019 WL 3955771 (Tex. App.—Dallas Aug. 22, 2019, no pet. h.) reversed that trend and held that the TCPA did apply to some claims. *Goldberg* is too complex of a case to summarize here. Therefore, I'll hit the highlights:

- The TCPA does not violate a party's right to a jury trial;
- The TCPA does not violate the Open Courts or Due Course provisions of the Texas Constitution or the Due Process Clause of the US Constitution;

- For the commercial speech exemption, a company is "primarily engaged in the business of selling or leasing goods or services" even if the majority of its time or resources is not utilized in the selling of the goods or services as opposed to their acquisition, manufacture, or performance. Even defendants who are not salespeople can be primarily engaged in the business of selling or leasing goods and services if the defendants; labors assisted in the commercial enterprise leading to the sale or lease of the goods or services;
- The commercial speech exemption can apply to certain communications even if other communications do not fall under the exemption;
- The commercial speech exemption does not apply to communications with a company's suppliers;
- In considering whether Plaintiffs presented a prima facie case, the court considers only the pleadings and evidence in favor of Plaintiffs' case. The court does not consider whether Defendants presented evidence rebutting Plaintiffs' case;
- The act of e-mailing a document to oneself or electronically saving a document to a drive or data-storage website without disclosing the document to anyone is not a "communication" under the TCPA because it does not "make" or "submit" the document;
- Defendants' acts of taking the computer, tablet, and cell phones with the information saved on those devices were not communications under the TCPA because these actions did not make or submit a document;
- Allegations of destruction of data on a cell phone is not a communication under the TCPA because it does not involve the making or submitting of a document;
- The mere fact that defendants contacted the same companies that they worked with at their former employer is not evidence that they used trade secrets or confidential or proprietary information to do so;
- A defendant's communications with a plaintiff's employees to hire them does not generally involve public or citizen participation and therefore the TCPA's right of association is not implicated.

9. <u>Austin Court of Appeals Issues Opinion on the TCPA and Conspiracy</u>

Most cases that have evaluated the TCPA have focused on whether the TCPA applied to the claims. This isn't the issue in *Neurodiagnostic Consultants, LLC v. v. Nallia*, No. 03-18-00609-CV, 2019 WL 4231232 (Tex. App.—Austin Sept. 6, 2019, no pet. h.). Instead, Nalia focuses on whether the non-movant offered sufficient proof to defeat a TCPA motion to dismiss.

Nalia involves the familiar fact pattern of managerial-level employees leaving employment to work for a competitor. The employees' former employer sued them for breach of contract, misappropriation of trade secrets, breach of fiduciary duty, and conspiracy. Regarding the trade secrets claim, there was evidence in the record that defendant Nalia had provided alleged trade secret information to a competitor while she was still employed with plaintiff. However, the same evidence did not exist with respect to defendant Villalobos. Nevertheless, there was evidence that Villalobos was involved in the civil conspiracy to misappropriate trade secrets with Nalia—he was planning to launch a competing business with Nalia and Nalia had disclosed trade secrets. Therefore, there was sufficient evidence to support plaintiffs' trade secrets claims as to both Nalia and Villalobos.

Interestingly, the Court also found that there was sufficient evidence that Nalia and Villalobos breached their fiduciary duties to their employer by providing confidential information to a competitor. Such a holding directly conflicts with TUTSA's preemption provision.

C. DTSA Cases

Given the relatively recent enactment of DTSA, there are few cases interpreting the statute beyond the Rule 12(b)(6) stage. Here are a few examples of the DTSA cases released in 2019.

1. <u>The District Court of Hawaii Dismisses DTSA Lawsuit for Failing to Allege Nexus with Interstate Commerce</u>

In *DLMC, Inc. v. Flores*, a provider of health care services for the elderly and infirm sued its former employee and her new employer for violations DTSA and the Hawaii Uniform Trade Secret Act. No. CV 18-00352 DKW-RT, 2019 WL 985275, at *1 (D. Haw. Feb. 27, 2019). Defendants filed a Motion to Dismiss, arguing that Plaintiff failed to allege a nexus between the allegedly misappropriated client lists and interstate commerce. *Id.* at 2. The plaintiff former employer argued that the nexus was satisfied by the fact that the clients had federal patient id numbers and the employer's services were subject to federal law relating to receipt of federal funds. *Id.* The District of Hawaii rejected that argument, holding that the employer needed to present an argument articulating how the client lists that defendant allegedly stole relate to the provision of interstate commerce. *Id.* Plaintiff was given the opportunity to amend its pleading, but it never did, and the court dismissed the case. *DLMC, Inc. v. Flores*, No. CV 18-00352 DKW-RT, 2019 WL 985275, at *1 (D. Haw. Feb. 27, 2019).

2. The Eastern District of Texas Denies Motion for Preliminary Injunction

McAfee, LLC v. Kinney involves the familiar fact pattern of an employer suing its former employees for misappropriation of trade secrets. No. 4:19-CV-463, 2019 WL 4101199, at *2 (E.D. Tex. Aug. 29, 2019). Forensic analysis indicated that the employees accessed confidential information on their last day of work. *Id.* However, there was no evidence that the employees retained or used this information post-employment. *Id.* at 6. Thus, the Eastern District of Texas held that employer failed to meet its burden that the employees had misappropriated any trade secrets. *Id.* Moreover, the Court rejected the use of the probable or inevitable disclosure doctrine to establish misappropriation, noting, in part, that the employer waited several months after the employees started their new jobs to seek injunctive relief. *Id.* at 7.

3. The Northern District of Texas Rejects Request for Temporary Restraining Order

In *Marek Brother Sys., Inc. v. Enriquez*, an employer sued its former employer who started a competing business. No. 3:19-CV-01082, 2019 WL 3322162, at *1 (N.D. Tex. July 24, 2019). Before leaving his employment, the employee allegedly sent an email to his personal email address that included confidential contact information for the employer's clients, vendors, manufacturers and subcontractors. *Id.* But this email was never introduced into the evidence. *Id.* at 4. The Northern District of Texas, in evaluating whether to issue a temporary restraining order, was unpersuaded that the contact information was a trade secret, reasoning that the information could have been readily compiled through an independent investigation. *Id.* Moreover, there was no substantial threat of irreparable harm because the defendant employee had only done work with one of employer's clients, and that client continued to provide work to the employer. *Id.* Therefore, the Court held that there was insufficient evidence to grant a temporary restraining order. *Id.* at 5.

Joseph F. Cleveland, Jr., J. Heath Coffman, and Kevin C. Smith practice in the areas of intellectual property and commercial litigation at Brackett & Ellis, P.C. Mr. Coffman is the chair—and Mr. Cleveland is the past chair—of the Trade Secrets Committee of the Intellectual Property Section of the State Bar of Texas. Mr. Cleveland and Mr. Coffman were both members of the working group responsible for drafting TUTSA and its amendments and assisting in the preparation of the bill analysis for the Senate and House committees. As chair of the Trade Secrets Committee, Mr. Cleveland also led the effort to draft the Texas Pattern Jury Charges for Misappropriation of Trade Secrets, published in the Texas Pattern Jury Charges and used by state and federal courts throughout Texas. Mr. Coffman frequently blogs about trade secrets and other intellectual property and commercial litigation matters at fwlawreporter.com.