

**Texas Trade Secrets Law 101**

**What Texas Businesses and Their Lawyers Need to Know**

by Zach Wolfe

Version 3.0

## About the Author



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## Introduction

Is it possible to cover the key things Texas businesses and their lawyers need to know about trade secrets law in five thousand words or less?

There's only one way to find out.

### 1. Key Takeaways

First let's hit the key takeaways for businesses.

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

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

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

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

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

Here are some additional measures that are a good idea:

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

Businesses that do one or more of these additional things should have little difficulty arguing they made the required “reasonable efforts.”

Businesses should also put a Defend Trade Secrets Act “whistleblower” notice in their employee agreements or handbooks (discussed below).

## 2. What are the sources of trade secrets law?

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

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

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

Texas adopted the Texas Uniform Trade Secrets Act (TUTSA) in 2013.<sup>1</sup> TUTSA is codified in Chapter 134A of the Texas Civil Practice and Remedies Code. Texas amended TUTSA in 2017, bringing it closer to the DTSA.<sup>2</sup>

Before TUTSA, Texas courts applied a common-law six-factor test from the Restatement of Torts to determine if information was a trade secret.<sup>3</sup> TUTSA superseded the common law,<sup>4</sup> but Texas courts sometimes still cite common law cases and the Restatement factors.<sup>5</sup> This will usually be harmless, because in most cases application of the Restatement factors is unlikely to yield a different result than applying the TUTSA definition.

The federal Defend Trade Secrets Act (DTSA) became effective in 2016. Its chief practical effect was to give plaintiffs the option to bring trade secrets suits in

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<sup>1</sup> Tex. Acts 2013, 83rd Leg., RS, Chapter 10 eff. September 1, 2013.

<sup>2</sup> Tex. Acts 2017, 85<sup>th</sup> Leg., RS, Chapter 37 eff. September 1, 2017.

<sup>3</sup> *In re Bass*, 113 S.W.3d 735, 739-40 (Tex. 2003).

<sup>4</sup> *Educ. Mgmt. Services, LLC v. Tracey*, 102 F. Supp. 3d 906, 915 (W.D. Tex. 2015).

<sup>5</sup> See *HIS Co. v. Stover*, 202 F. Supp. 3d 685, 693 (S.D. Tex. 2016) (“In spite of TUTSA’s edict that it replaces common law, a number of opinions applying the TUTSA framework appear to conflate statutory and common law by grafting the common law elements . . . onto the statute”).

federal court rather than state court (provided there is some arguable connection to interstate or foreign commerce).

### 3. When is information a “trade secret”?

There were some minor differences before 2017, but TUTSA and the DTSA now have almost identical definitions of a “trade secret”:<sup>6</sup>

TUTSA	DTSA
<p>“Trade secret” means all forms and types of <b>information</b>, including business, scientific, technical, economic, or engineering information, and any formula, design, prototype, pattern, plan, compilation, program device, program, code, device, method, technique, process, procedure, financial data, or list of actual or potential customers or suppliers, whether tangible or intangible and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if:</p> <p>(A) the owner of the trade secret has taken <b>reasonable measures</b> under the circumstances to keep the information secret; and</p> <p>(B) the information derives <b>independent economic value</b>, actual or potential, from not being generally known to, and <b>not being readily ascertainable</b> through proper means by, another person who can obtain economic value from the disclosure or use of the information.</p>	<p>[T]he term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering <b>information</b>, 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—</p> <p>(A) the owner thereof has taken <b>reasonable measures</b> to keep such information secret; and</p> <p>(B) the information derives <b>independent economic value</b>, actual or potential, from not being generally known to, and <b>not being readily ascertainable</b> through proper means by, another person who can obtain economic value from the disclosure or use of the information</p>

The Texas statute expressly refers to customer lists as potential trade secrets, while the DTSA does not. But this should make no substantive difference. Both

<sup>6</sup> TEX. CIV. PRAC. & REM. CODE § 134A.002(6); 18 U.S.C.A. § 1839.

statutes broadly apply to “information,” and a customer list obviously contains information.

Courts sometimes continue to cite the common-law definition of trade secrets when addressing claims under TUTSA. But to the extent of any conflict, the definition of “trade secrets” in TUTSA supersedes any common-law definition.<sup>7</sup>

In both statutes, the following essential elements stand out:

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

#### 4. What is “independent economic value”?

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

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

But why “independent” economic value, not just “economic value”? The rest of the definition helps explain this. The information must derive independent economic value from “not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.”<sup>8</sup>

That means it is not enough for the information to have economic value *to its owner*. Information has “independent” economic value when it would also provide value to a “person who can obtain economic value from its disclosure or use,” i.e. a competitor.<sup>9</sup>

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<sup>7</sup> *Baxter & Associates, LLC v. D&D Elevators, Inc.*, No. 05-16-00330-CV, 2017 WL 604043, at \*9 (Tex. App.—Dallas 2017, no pet.) (mem. op.); *HIS Co.*, 202 F. Supp. 3d at 693.

<sup>8</sup> TEX. CIV. PRAC. & REM. CODE § 134A.002(6)(B).

<sup>9</sup> See, e.g., *Emerald City Mgmt., LLC v. Kahn*, No. 4:14-CV-358, 2016 WL 98751, at \*19 (E.D. Tex. Jan. 8, 2016) (passwords have no “independent economic value”).

## 5. When is information “not readily ascertainable”?

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

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

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

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

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

## 6. What is “misappropriation” of trade secrets?

TUTSA defines “misappropriation” of a trade secret as:

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

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

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

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

(a) derived from or through a person who used improper means to acquire the trade secret;

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

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

(iii) before a material change of the position of the person, knew or had reason to know that the trade secret was a trade secret and that knowledge of the trade secret had been acquired by accident or mistake.<sup>10</sup>

The definition of “misappropriation” in the DTSA is the same.<sup>11</sup>

It’s a complicated definition, but you can sum it up like this: TUTSA “provides six theories under which a plaintiff can establish misappropriation of trade secrets.” *Six Dimensions, Inc. v. Perficient, Inc.*, 969 F.3d 219, 230 (5th Cir. 2020). These six theories can be grouped under two categories: (1) “acquisition of a trade secret” and (2) “disclosure or use of a trade secret.” *Id.*

That seems pretty simple, but courts still get confused. There seem to be two recurring issues where courts struggle, unnecessarily.

First, Texas courts sometimes get confused about whether “use” of the trade secret is an essential element of “misappropriation.” Judge Mazzant carefully surveyed Texas case law on this issue in *StoneCoat of Texas, LLC v. ProCal Stone Design, LLC*, 426 F. Supp. 3d 311 (E.D. Tex. 2019), and later in *Accresa Health LLC v. Hint Health Inc.*, No. 4:18-cv-00536, 2020 WL 3637801, at \*8-11 (E.D. Tex. July 6, 2020).

Surprisingly, some Texas courts have held that use is an essential element, where the plain language of the statute makes it clear that mere acquisition can be misappropriation. I suspect this confusion has two causes. First, if the plaintiff’s theory of misappropriation is that the defendant used the trade secret, then yes, in that situation use is an element of the plaintiff’s claim. Second, courts may be

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<sup>10</sup> TEX. CIV. PRAC. & REM. CODE § 134A.002(3) (emphasis added);

<sup>11</sup> See 18 U.S.C.A. § 1839(5).

confusing misappropriation with damages. The wrongful acquisition of a trade secret could be misappropriation, but without use of the trade secret, there may be no resulting damages.

Another recurring issue is whether misappropriation has occurred when the initial disclosure of the trade secrets to the defendant was authorized. The most common example is when an employee acquires confidential information lawfully in the course of employment, leaves the company, and then uses the information at a competing company.

Again, this seems to have caused unnecessary confusion. Some courts have said there is no “misappropriation” when the owner voluntarily provided the trade secrets.<sup>12</sup> That view seems to conflict with the plain language of the statute.

As the definition makes clear, wrongful “acquisition” is not the only type of misappropriation. “Misappropriation” includes “disclosure or use” of a trade secret by a person who knows the trade secret was “acquired under circumstances giving rise to a duty to maintain the secrecy of or limit the use of the trade secret.”<sup>13</sup>

Thus, the unauthorized use of trade secrets by a former employee can be misappropriation, regardless of the fact that the employee originally acquired the trade secrets lawfully.<sup>14</sup> The rationale is that in this situation the employee’s knowledge of the trade secrets was “acquired under circumstances giving rise to a duty to maintain its secrecy.”<sup>15</sup>

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<sup>12</sup> See, e.g., *Educ. Mgmt. Servs., LLC v. Tracey*, 102 F. Supp. 3d 906, 914 (W.D. Tex. 2015) (plaintiff failed to state a claim for misappropriation under TUTSA where plaintiff did not allege that defendant *acquired* the trade secrets through a breach of contractor agreements); *Capstone Assoc. Servs., Ltd. v. Org. Strategies, Inc.*, No. H-15-3233, 2015 WL 9319239, at \*2 (S.D. Tex. Dec. 23, 2015) (plaintiff failed to state a claim for misappropriation under TUTSA where defendants acquired the trade secrets in connection with a valid license).

<sup>13</sup> TEX. CIV. PRAC. & REM. CODE § 134A.002(3).

<sup>14</sup> E.g., *360 Mortgage Group, LLC v. Homebridge Fin. Servs., Inc.*, No. A-14-CA-00847-SS, 2016 WL 900577, at \*5 (W.D. Tex. March 2, 2016); *Emerald City Mgmt., LLC v. Kahn*, No. 4:14-cv-358, 2016 WL 98751, at \*19 (E.D. Tex. Jan. 8, 2016).

<sup>15</sup> E.g., *Hughes v. Age Indus., Ltd.*, No. 04-16-00693-CV, 2017 WL 943423, at \*4 (Tex. App.—San Antonio March 8, 2017, no pet.) (mem. op.).

## 7. What are “reasonable measures” to protect trade secrets?

Both TUTSA and the DTSA require “reasonable measures” to keep the information secret. Thus, “absolute protection” is not required.<sup>16</sup>

Courts have set the bar low for “reasonable measures” to protect trade secrets. Courts usually find it sufficient to do the things almost every company does: have employees sign confidentiality agreements, have a confidentiality policy in the employee manual, use password protection on company computers, and don’t disclose the information outside the company.<sup>17</sup>

Still, the plaintiff needs *some* evidence of reasonable measures to support a trade secrets claim.<sup>18</sup> And if there is evidence the plaintiff provided the alleged trade secrets to customers or other third parties without requiring nondisclosure agreements, it could at least raise a fact issue regarding the “reasonable measures” element.<sup>19</sup>

## 8. Can a readily ascertainable customer list be a trade secret?

The short answer is no. Prior to TUTSA, there was a split of authority on whether a readily ascertainable customer list could be a trade secret.<sup>20</sup> But the enactment of TUTSA should render that debate moot. TUTSA supersedes the common law, and TUTSA’s definition of trade secrets makes clear that a readily ascertainable customer list is not a trade secret.<sup>21</sup>

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<sup>16</sup> *AHS Staffing, LLC v. Quest Staffing Group, Inc.*, 335 F. Supp. 3d 856, 864 (E.D. Tex. 2018).

<sup>17</sup> *See, e.g., AHS Staffing*, 335 F. Supp. 3d at 864 (applying TUTSA); *Protection Tech., Inc. v. Ribler*, No. 3:17-cv-00144-LRH-WGC, 2017 WL 923912 (D. Nev. Mar. 8, 2017) (applying the DTSA).

<sup>18</sup> *See Mesquite Servs., LLC v. Standard E&S, LLC*, 610 S.W.3d 548, 562 (Tex. App.—Amarillo 2020, pet. filed Nov. 30, 2020) (plaintiff wholly failed to establish that it took any efforts to protect its alleged trade secrets regarding who it employed and the identity of its customers).

<sup>19</sup> *DHI Group, Inc. v. Kent*, No. H-16-1670, 2019 WL 3754859, at \*8 (S.D. Tex. July 12, 2019).

<sup>20</sup> *See Danenbaum v. Brummerhop*, 840 S.W.2d 624, 632-33 (Tex. App.—Houston [14th Dist.] 1992, writ denied).

<sup>21</sup> *Baxter & Associates, LLC v. D&D Elevators, Inc.*, No. 05-16-00330-CV, 2017 WL 604043, at \*9 (Tex. App.—Dallas 2017, no pet.) (mem. op.).

## 9. Can prices be trade secrets?

Companies often claim that a departing employee took the company's confidential pricing information and used it to "undercut" the company. And courts have recognized that confidential price information can be a trade secret if the elements of the definition are met.<sup>22</sup>

But evidence that prices are available online or disclosed to customers without requiring NDAs can establish a lack of reasonable measures.<sup>23</sup> Plus, even if the prices are trade secrets, the plaintiff must show the use of the confidential prices caused damages.<sup>24</sup>

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

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

- "actual loss caused by misappropriation"
- "the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss"
- in lieu of other damages: "a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret"<sup>25</sup>

The DTSA authorizes the same types of damages.<sup>26</sup>

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<sup>22</sup> See, e.g., *Fox v. Tropical Warehouses, Inc.*, 121 S.W.3d 853, 859 (Tex. App.—Fort Worth 2003, no pet.); *SP Midtown, Ltd. v. Urban Storage, L.P.*, No. 14-07-00717-CV, 2008 WL 1991747, at \*6 (Tex. App.—Houston [14th Dist.] 2008, pet. denied) (mem. op.); *BCOWW Holdings, LLC v. Collins*, No. SA-17-CA-00379-FB, 2017 WL 3868184, at \*15 (W.D. Tex. Sept. 5, 2017).

<sup>23</sup> *Citizens, Inc. v. Riley*, No. 03-19-00560-CV, 2020 WL 5507281, at \*6-7 (Tex. App.—Austin Aug. 31, 2020, no pet.) (mem. op.).

<sup>24</sup> *eCommission Solutions, LLC v. CTS Holdings Inc.*, No. 18-1672-cv, 2019 WL 2261457, at \*2 (2d Cir. May 28, 2019) (no evidence that use of pricing and customer list caused loss of business).

<sup>25</sup> TEX. CIV. PRAC. & REM. CODE § 134A.004(a).

<sup>26</sup> 18 U.S.C.A. § 1836(b)(3)(B).

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

There is a distinction between (a) using the defendant's profits as a measure of the plaintiff's actual lost profits and (b) seeking to recover the defendant's profits as unjust enrichment damages.

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

Lost profits damages must be proven with "reasonable certainty." Texas has a large body of case law—not limited to trade secrets claims—defining the reasonable certainty standard.<sup>27</sup>

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

Causation is another potentially tricky issue. The defendant will argue it is not enough to prove that trade secrets were used and sales were lost; the plaintiff must show that the misappropriation of the trade secrets *caused* the loss of the sales.

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

In *Southwestern Energy Production Co. v. Berry-Helfand*, 491 S.W.3d 699, 720-21 (Tex. 2016), the jury awarded over \$11 million in lost profits for the misappropriation of a confidential map of oil and gas sweet spots. The Texas Supreme Court held that the calculation of profits based on 3% of the defendant's revenue was too oversimplified, where the expert could have done a more precise calculation based on a benchmark third-party agreement.

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<sup>27</sup> See *Holt Atherton Indus., Inc. v. Heine*, 835 S.W.2d 80, 84 (Tex. 1992) (citing cases on reasonable certainty).

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

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

Both TUTSA and the DTSA expressly authorize courts to issue injunctions against trade secrets misappropriation.<sup>28</sup> The common-law requirements for obtaining a temporary injunction include probable right to recovery, imminent harm, irreparable injury, and no adequate remedy at law.<sup>29</sup> The elements for a permanent injunction are essentially the same, except “wrongful act” takes the place of probable right to recovery.<sup>30</sup>

“Irreparable injury” and “no adequate remedy at law” are sometimes stated as distinct elements, but they are essentially the same thing. Generally, if damages can be calculated and would be adequate, there is no irreparable injury.<sup>31</sup>

There is an argument for plaintiffs that proof of the common-law requirements is no longer required because the statutes expressly authorize injunctions and do not mention the common-law requirements. But most courts are likely to continue to consider the common-law requirements.<sup>32</sup>

## 12. Is “inevitable disclosure” sufficient to obtain an injunction?

The “inevitable disclosure” doctrine is the idea that a person who knows a company’s trade secrets should be enjoined from working for a competitor on the theory that the person will inevitably use that knowledge. For example, in *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 24 (Tex. App.—Houston [1st Dist.] 1998, pet. dism’d), the court held that evidence that the defendants possessed the plaintiff’s confidential information and were “in a position to use it to compete” showed an “inherent threat” sufficient to support an injunction.

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<sup>28</sup> TEX. CIV. PRAC. & REM. CODE § 134A.003; 18 U.S.C.A. § 1836(b)(3).

<sup>29</sup> *Butnaru v. Ford Motor Co.*, 84 S.W.3d 198, 204 (Tex. 2002).

<sup>30</sup> *Pike v. Texas EMC Mgm’t, LLC*, 610 S.W.3d 763, 792 (Tex. 2020).

<sup>31</sup> *See, e.g., Pike*, 610 S.W.3d at 793 (damages would be adequate where plaintiffs themselves presented expert testimony calculating damages); *Midstate Envir. Servs. LP v. Atkinson*, No. 13-17-00190-CV, 2017 WL 6379796, at \*4 (Tex. App.—Corpus Christi 2017, no pet.) (mem. op.) (no irreparable injury where damages could be calculated).

<sup>32</sup> *See, e.g., Hughes*, 2017 WL 943423, at \*5.

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

In many cases, resorting to the inevitable disclosure doctrine is unnecessary, because there is already evidence that the person has done—or is doing—something wrongful with the trade secrets. It is a harder question when the evidence is that the employee possesses or knows the trade secrets but has not done anything wrong with them—yet. Texas law is unsettled on whether and to what extent the inevitable disclosure doctrine applies.<sup>33</sup>

The DTSA indirectly rejects—or at least constrains—application of the inevitable disclosure doctrine. First, it authorizes the court to grant an injunction “to prevent any actual or threatened misappropriation,” but with the important limitation that the court cannot “prevent a person from entering into an employment relationship.” The court can place *conditions* on such employment, provided the conditions are based on “evidence of threatened misappropriation and not merely on the information the person knows.” In other words, the court cannot limit a former employee’s work for a competitor based merely on the idea that the employee will inevitably disclose the employer’s trade secrets. Second, the injunction cannot conflict with an applicable state law “prohibiting restraints on the practice of a lawful profession, trade, or business.” 18 U.S.C. § 1836(b)(3).

Similarly, TUTSA codifies the common-law principle that an injunction may not prohibit a person from using “general knowledge, skill, and experience” acquired during employment.<sup>34</sup> This limitation emphasizes that injunctions should be narrowly tailored to prevent disclosure of trade secrets, not to unreasonably restrict employee mobility.

### **13. How do you keep the other side from learning your trade secrets during the lawsuit?**

The Catch-22 of trade secrets litigation is that filing suit to protect trade secrets can result in revealing your trade secrets, especially when the other party is a competitor. But there are procedures available to prevent this. The plaintiff’s

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<sup>33</sup> *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230, 241-42 (Tex. App.—Houston [1st Dist.] 2003, no pet.); *DGM Services, Inc. v. Figueroa*, No. 01-16-00186-CV, 2016 WL 7473947, at \*5 (Tex. App.—Houston [1st Dist.] 2016, no pet.) (mem. op.).

<sup>34</sup> TEX. CIV. PRAC. & REM. CODE § 134A.003.

pleading does not have to identify the alleged trade secrets so specifically that the secrets would be compromised.

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

TUTSA provides some help on this issue. It generally instructs the court to “preserve the secrecy of an alleged trade secret by reasonable means,” and it has two provisions that help the plaintiff avoid disclosure of trade secrets to the opposing party. First, TUTSA encourages trial courts to grant protective orders to protect trade secrets.<sup>35</sup> Second, TUTSA allows the court to exclude a party representative from hearing evidence of trade secrets in the courtroom, provided the court follows a seven-factor balancing test.<sup>36</sup> This was a codification of the procedure adopted by the Texas Supreme Court in *In re M-I LLC*, 505 S.W.3d 569 (Tex. 2016).

#### **14. Can you get punitive damages for trade secrets misappropriation?**

Yes, if the misappropriation is “willful and malicious.” The limit is two times the amount of actual damages.<sup>37</sup> “Willful and malicious misappropriation” means “intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret.”<sup>38</sup>

#### **15. What is necessary to get attorneys’ fees in a trade secrets case?**

Under TUTSA, the plaintiff can get attorneys’ fees for “willful and malicious misappropriation,” and the defendant can get attorneys’ fees if the plaintiff’s claim of misappropriation is made in “bad faith.”<sup>39</sup> The DTSA has substantially the same provisions.<sup>40</sup>

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<sup>35</sup> TEX. CIV. PRAC. & REM. CODE § 134A.006(a).

<sup>36</sup> TEX. CIV. PRAC. & REM. CODE § 134A.006(b).

<sup>37</sup> See TEX. CIV. PRAC. & REM. CODE § 134A.004; 18 U.S.C.A. § 1836(b)(3)(C) (both statutes call them “exemplary” damages).

<sup>38</sup> TEX. CIV. PRAC. & REM. CODE § 134A.002(7).

<sup>39</sup> TEX. CIV. PRAC. & REM. CODE § 134A.005.

<sup>40</sup> See 18 U.S.C.A. § 1836(b)(3)(D).

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

The short answer is no. For one thing, the TCPA does not apply in federal court.<sup>41</sup>

In state court, there was a time when you might succeed arguing that the TCPA, because of its extremely broad definitions, applies to a trade secrets claim.<sup>42</sup> But in 2019 the legislature amended the TCPA to carve out claims “arising from an officer-director, employee-employer, or independent contractor relationship that . . . seeks recover for misappropriation of trade secrets.”<sup>43</sup>

And even if the trade secrets claim doesn’t fall under that exemption, it may not implicate a “matter of public concern” under the new definition in the amended TCPA or the Texas Supreme Court’s narrowed interpretation of matter of public concern.<sup>44</sup>

**17. What does the federal trade secrets statute say about whistleblowers?**

The DTSA has specific provisions protecting whistleblowers who disclose trade secrets. The important point for employers who want to preserve all remedies is to include a notification regarding these whistleblower rights in their employment agreements or employee handbooks. That is because failure to provide this notice prevents the employer from obtaining punitive damages or attorneys’ fees on a federal trade secrets claim.<sup>45</sup>

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<sup>41</sup> *Klocke v. Watson*, 936 F.3d 240, 245-46 (5th Cir. 2019).

<sup>42</sup> *See Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, 520 S.W.3d 191, 205 (Tex. App.—Austin 2017, pet dism’d).

<sup>43</sup> TEX. CIV. PRAC. & REM. CODE § 27.010(a)(5)(A).

<sup>44</sup> *See* TEX. CIV. PRAC. & REM. CODE § 27.001(7) (new definition of “matter of public concern”); *Creative Oil & Gas, LLC v. Lona Hills Ranch, LLC*, 591 S.W.3d 127, 135-36 (Tex. 2019) (private business communications were not “matter of public concern” under old definition).

<sup>45</sup> 18 U.S.C.A. § 1833(b)(3).

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

Under Texas law, an employee owes an employer a limited form of fiduciary duty that includes a duty not to use the employer's confidential information to compete with the employer.<sup>46</sup>

But TUTSA may make the fiduciary duty claim unavailable. TUTSA expressly states that it displaces conflicting common-law precedent providing civil remedies for misappropriation of a trade secret.<sup>47</sup> Thus, some courts have held that when the claim for breach of fiduciary duty is based on misappropriation of alleged trade secrets, the claim is preempted by TUTSA.<sup>48</sup> This means the plaintiff must plead something in addition to misappropriation of confidential information to state a valid breach of fiduciary duty claim.

### Conclusion

Of course, I have only scratched the surface. Each section above could be expanded to a full article. But this is “Trade Secrets 101,” not “Advanced Trade Secrets.” And I’ve already used up my five thousand words.

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<sup>46</sup> See generally *Abetter Trucking Co. v. Arizpe*, 113 S.W.3d 503, 510-12 (Tex. App.—Houston [1st Dist.] 2003, no pet.).

<sup>47</sup> TEX. CIV. PRAC. & REM. CODE § 134A.007(a).

<sup>48</sup> See *Embarcadero Tech., Inc. v. Redgate Software, Inc.*, No. 1:17-cv-444-RP, 2018 WL 315753, at \*2-4 (W.D. Tex. Jan. 5, 2018) (discussing cases and agreeing that TUTSA preempts fiduciary duty claims based on taking confidential business information).