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Trade Secrets Update

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I.

INTRODUCTION

This paper is designed to provide: (1) practical advice for handling trade secret disputes at each significant phase of a litigation matter from the pre-filing stage to trial; and, in so doing, (2) an update of recent decisions involving trade secrets in federal and state courts.

II.

PRACTICAL ADVICE REGARDING TRADE SECRET CLAIMS FROM PRE-SUIT TO TRIAL

A. Pre-Suit Considerations

1. **Whether to Send Cease and Desist Letters**

Cease and desist letters can be an effective way to deter the misappropriation of trade secrets in some cases. For example, in the employment context, if a new employer has not been told the full story about how an employee acquired certain information, this could cause the employer to reconsider using it. Further, the new employer may not know how committed the company is to protecting the information at issue. A cease and desist letter that demonstrates a strong commitment to doing what is necessary to protect a trade secret should at a minimum cause the new employer to perform a cost benefit analysis of the cost and risk of litigation versus the benefit of being able to use the information at issue.

One risk of sending a cease and desist letter is that the putative defendant may decide to file a preemptive lawsuit for, among other things, a declaratory judgment. This would not prevent the owner of the trade secret from seeking injunctive relief; but, it could complicate matters including venue. On the other hand, a cease and desist letter does not necessarily create a case or controversy under the Declaratory Judgment Act. *Nationwide Indus., Inc. v. D & D Techs. (USA), Inc.*, 8:12-CV-2372-T-27EAJ, 2014 WL 12619228, at *3 (M.D. Fla. Jan. 30, 2014) (“That Defendants have filed prior lawsuits attempting to protect patent rights does not support Plaintiff’s contention that a substantial and immediate controversy exists at this time between Plaintiff and Defendants as a result of the cease and desist letter which alludes to the Lanham Act. Although some of the litigation between the parties (Case No. 00236) related to two of the same products mentioned in the cease and desist letter, the letter did not discuss patents or an intent by Defendants to protect any proprietary interest in those products. Rather, it made only a vague and generalized reference to false advertising and the Lanham Act.”)

Although some litigants have argued that sending a cease and desist letter into a forum could create evidence establishing personal jurisdiction, courts have rejected the notion that a cease and desist letter, by itself, is sufficient to do so. *Bandai Am. Inc. v. Brown*, CIV 00-13364 WMB, 2002 WL 31417189, at *7 (C.D. Cal. June 1, 2002) (“A recent decision of the Federal Circuit reinforces the conclusion that sending cease-and-desist letters into a state, without more, does not suffice to create personal jurisdiction over the sender in that state. In that case, a patentee sent three letters to a manufacturer that alleged infringement and offered to negotiate the

terms of a non-exclusive license. *See Red Wing Shoe Co., Inc. v. Hockerson–Halberstadt, Inc.*, 148 F.3d 1355, 1357–58 (Fed.Cir.1998). The court held that “the threat of an infringement suit, as communicated in a cease-and-desist letter,” without more, is “not sufficient to satisfy the requirements of Due Process in declaratory judgment actions.” *Id.* at 1360.”)

Another risk of a cease and desist letter is that it can constitute some evidence of tortious interference or defamation if sent to third parties. *See, e.g., Deuell v. Texas Right to Life Comm., Inc.*, 508 S.W.3d 679, 691 (Tex. App.—Houston [1st Dist.] 2016), *reh'g overruled* (Dec. 29, 2016) (“We conclude that TRLC's tortious interference claim is not protected by the absolute judicial privilege, because TRLC does not seek to recover reputational or defamation-type damages.³ To the contrary, TRLC seeks direct and consequential contract damages that allegedly flowed from Deuell's sending cease-and-desist letters to Cumulus and Salem.”).

2. Insurance Should Be Reviewed

The owner of the trade secret should analyze all potentially relevant insurance policies for coverage. There are many types of policies that may apply. *See, e.g., M. Skidmore*, 13 J. Tex. Ins. L. 27, 33 (2015) (general liability/errors and omissions, directors and officer's liability insurance, commercial property insurance, and crime/fidelity insurance should all be reviewed for potential coverage). It is also true that courts may deny coverage if there is a dispute depending, of course, on the language in the policy. *See, e.g., Nationwide Mut. Ins. Co. v. Gum Tree Prop. Mgmt., L.L.C.*, 597 Fed. Appx. 241, 248 (5th Cir. 2015). A detailed discussion of insurance for trade secrets is beyond the scope of this presentation; but, there are scores of reported decisions and secondary articles on this issue. *See, e.g., Cont'l Cas. Co. v. Consol. Graphics, Inc.*, 646 F.3d 210 (5th Cir. 2011) (Absent any evidence suggesting that insured printing company disseminated a competitor's trade secrets in a public manner, primary commercial general liability (CGL) insurer was not obligated, under Texas law, to indemnify its insured pursuant to policy's advertising injury coverage provision); *Rymal v. Woodcock*, 896 F. Supp. 637 (W.D. La. 1995) (liability insurer had duty to defend insureds against claims of patent infringement, unfair trade practices or misappropriation of trade secrets where there was possibility of coverage under advertising injury liability endorsement, which covered injuries arising out of offenses committed in course of named insured's advertising injuries, if injury arose out of piracy or unfair competition); *Mut. of Enumclaw Ins. Co. v. Jonas*, 35 Fed. Appx. 556, 557–58 (9th Cir. 2002) (“All the terms surrounding “unfair competition” involve intellectual property or the disparagement of one's name. They do not involve, and are not closely related to, the misuse of trade secrets. Accordingly, when considered in context, the common law definition offered by Mutual is the only plausible definition. Because the suit against Jonas does not fall within the only plausible definition offered by the parties, it was not covered and Mutual owed no duty to defend”); D. Peter Harvey, *Insurance for Intellectual Property Claims: The Growing Coverage Debate*, 6 *Intell. Prop. L. Bull.* 1 (2001) (“Coverage for claims of trade dress, copyright and patent infringement, unfair competition, and trade secret misappropriation, under similar policy provisions, is anything but clear.”); Todd M. Rowe, *Specialty Insurance for Intellectual Property: Additional Security for Owners of Intellectual Property Assets*, 19 *DePaul J. Art, Tech. & Intell. Prop. L.* 1, 6 (2008) (“Advertising injury provisions have been part of the standard form CGL insurance policy for many years, and a growing body of case law has developed around claims

that advertising injury provisions provide coverage for intellectual property lawsuits, including trademark and trade dress, patent, copyright, and trade secret cases.”).

The possibility of insurance coverage might affect, however, the manner in which the case is plead since Texas courts employ the eight corners rule and look at the language of the policy and the allegations in the pleadings to determine coverage. *Cont'l Cas. Co. v. Consol. Graphics, Inc.*, 646 F.3d 210, 213 (5th Cir. 2011); citing, *Gilbert Tex. Constr., L.P. v. Underwriters at Lloyd's London*, 327 S.W.3d 118, 132 (Tex. 2010).

3. Determining Where To File Suit (I.e., Venue Issues)

(a) Federal Versus State Court

Those seeking to enforce a trade secret should now always have a choice whether to file in federal or state court with the passage of the federal Defend Trade Secrets Act. The Texas Uniform Trade Secret Act is similar to the Federal Defend Trade Secrets Act in many respects. However, the Federal Act has a civil seizure provision, and may authorize a wider range of damages. *See, infra at 26-34.*

There are, of course, numerous strategic considerations. Harris County for example tends to be a very accelerated process—at least at the temporary restraining order and temporary injunction stage. There is always a judge on duty who is specifically assigned to handle ancillary matters, including claims for temporary restraining orders.

Despite this, filing for injunctive relief in a state court in Texas may be seen as less favorable than Federal Court if the owner of the trade secret is concerned about a state court potentially having less favorable views about restrictive covenants such as trade secrets. In Harris County, the party seeking injunctive relief will usually know who the ancillary judge is at the time of filing. Although this gives the party seeking injunctive relief a better sense of which judge will preside over a request for a temporary restraining order, the temporary injunction will be handled by the court where the case is randomly assigned.

In federal court, where judges have civil and criminal jurisdiction, things could move slower. Further, until the case is filed and randomly assigned to a judge, the litigant usually does not know which judge will preside.

(b) Texas' Mandatory Venue Statute On Injunctions

Texas has a mandatory venue statute in cases involving injunctive relief. *See Tex. Civ. Prac. & Rem. Code Ann. § 65.023.* This section provides for mandatory venue in cases where injunctive relief is sought:

(a) Except as provided by Subsection (b), a writ of injunction against a party who is a resident of this state shall be tried in a district or county court in the county in which the party is domiciled. If the writ is granted against more than one party, it may be tried in the proper court of the county in which either party is domiciled.

(b) A writ of injunction granted to stay proceedings in a suit or execution on a judgment must be tried in the court in which the suit is pending or the judgment was rendered.

The Texas Supreme Court has held that section 65.023 “applies only to suits in which the relief sought is purely or primarily injunctive.” *In re Cont’l Airlines*, 988 S.W.2d 733, 736 (Tex. 1998) (orig. proceeding). Stated otherwise, the injunction venue statute applies when “the petition discloses that the issuance of a perpetual injunction is the primary and principal relief sought[.]” *Brown v. Gulf Television Co.*, 157 Tex. 607, 611, 306 S.W.2d 706, 708 (1957) (analyzing preceding version of section 65.023). Accordingly, where the main purpose of suit is for something other than injunctive relief and the injunction is “ancillary, incidental, or adjunctive,” section 65.023(a) does not apply. *O’Quinn v. Hall*, 77 S.W.3d 452, 456 (Tex. App.—Corpus Christi 2002, orig. proceeding).

Employers often include forum and venue selection clauses in agreements with employees. The Texas Supreme Court, and numerous intermediate courts of appeal have held that a venue selection clause cannot be used to circumvent the mandatory venue clause regarding injunctions, or any other mandatory venue provision. *In re Great Lakes Dredge & Dock Co. L.L.C.*, 251 S.W.3d 68, 79 (Tex. App.—Corpus Christi 2008, no pet.) (“Texas law prohibits parties from contracting away mandatory venue.”).

On the other hand, at least one Texas court has held that a forum selection clause is effective to avoid the mandatory venue provision regarding injunctions. *In re Brown*, 441 S.W.3d 405, 408 (Tex. App.—Dallas 2013, no pet.) (“Here, it is undisputed that the employment agreement contains a forum-selection clause specifying Virginia as the forum for any disputes. Thus, because Texas is not the proper forum for the dispute, its mandatory venue statute is never triggered.”) The circumstances in *Brown* were somewhat unusual in that the employer had specified Virginia as the forum in its contract with the employee; yet, the employer sought injunctive relief in Texas. The employee successfully moved to dismiss the Texas case on the basis that the employer had specified Virginia as the venue in a contract it drafted.

Because there is authority for the proposition that a suit seeking injunctive relief is only subject to the mandatory venue provision if injunctive relief is the primary relief sought, one consideration for the practitioner is whether to plead and seek damages if an alternative venue is thought to be more favorable.

4. Potential Criminal Liability Should Be Considered

The Chamber of Commerce has estimated the total value of trade secrets in the United States to be worth \$5 trillion. Theft of trade secrets has substantially increased as computers have become more ubiquitous; therefore, criminal prosecution of trade secret theft has accelerated concomitantly. Federal and state governments are deploying more resources to prosecute trade secret theft. For example, the PRO IP Act of 2008 created dedicated federal positions in the executive branch and in embassies to combat violations of IP rights. Prioritizing Resources and Organization for Intellectual Property Act of 2008, Pub. L. No. 110-403, § 301, 122 Stat. 4256, 4264-66 (codified as amended at 15 U.S.C. § 8111 (2012)).

Politically, it is more palatable to go after misappropriation, given the roots of trade secrecy in policing unethical commercial behavior. Prosecutions for trade secrets offenses are likely to rise even more over time. Derek E. Bambauer, *Secrecy Is Dead-Long Live Trade Secrets*, 93 Denv. L. Rev. 833, 851 (2016)

Congress expressly criminalized the theft of trade secrets with the passage of the Economic Espionage Act in 1996, which occurred “against a backdrop of increasing threats to corporate security and a rising tide of international and domestic economic espionage.” In confronting these rising threats, Congress intended the EEA “to provide a comprehensive tool for law enforcement personnel to use to fight theft of trade secrets.” Brian L. Levine & Timothy C. Flowers, *Your Secrets Are Safe with Us: How Prosecutors Protect Trade Secrets During Investigation and Prosecution*, 38 Am. J. Trial Advoc. 461, 465 (2015)

There are several federal and state criminal statutes that may apply when a trade secret is stolen. The National Stolen Property Act (NSPA), *see generally* 18 U.S.C. § 2314 (2012), and the Economic Espionage Act (EEA) 18 U.S.C. §§ 1831-1832, are two important federal criminal statutes used to protect against trade secret theft. The NSPA prohibits the transporting, transferring, or transmitting of any “goods, wares, merchandise, securities or money” with the knowledge that the same has been stolen. The EEA makes illegal the theft or copying of a trade secret that is “produced for or placed in interstate commerce” with the knowledge that the offense will harm the trade secret owner.

There is also the Computer Fraud and Abuse Act, 18 U.S.C., § 1030 *et seq.* (the “CFAA”). Courts and commentators have criticized the CFAA for being vague and overbroad, including without limitation, with respect to its potential for unfair criminal enforcement. *See, e.g.*, Andrea M. Matwyshyn, The Law of the Zebra, 28 Berkeley Tech. L.J. 155, 186–87 (2013). The CFAA overreaches not only by applying criminal liability for the defendants, but also by *187 imposing duplicative financial remedies in civil claims, and thereby threatening to derail contract law.

The Texas Penal Code makes trade secret theft a third degree felony. Section 31.05 of the Texas Penal Code provides:

(a) For purposes of this section:

- (1) “Article” means any object, material, device, or substance or any copy thereof, including a writing, recording, drawing, sample, specimen, prototype, model, photograph, microorganism, blueprint, or map.
- (2) “Copy” means a facsimile, replica, photograph, or other reproduction of an article or a note, drawing, or sketch made of or from an article.
- (3) “Representing” means describing, depicting, containing, constituting, reflecting, or recording.
- (4) “Trade secret” means the whole or any part of any scientific or technical information, design, process, procedure, formula, or improvement that has value and that the owner has taken measures to prevent from becoming

available to persons other than those selected by the owner to have access for limited purposes.

(b) A person commits an offense if, without the owner's effective consent, he knowingly:

(1) steals a trade secret;

(2) makes a copy of an article representing a trade secret; or

(3) communicates or transmits a trade secret.

(c) An offense under this section is a felony of the third degree.

Tex. Pen. Code Ann. § 31.05 (West).

Given the increasingly favorable climate for criminally prosecuting trade secret theft, consideration should be given as early as possible to obtaining the advice of criminal counsel.

B. Pleading Considerations

1. Federal Court

The owner of the trade secret must be careful to allege facts with sufficient specificity to survive a motion to dismiss under Fed. R. Civ. P. 12(b)(6). *Bayco Products, Inc. v. Lynch*, 3:10-CV-1820-D, 2011 WL 1602571, at *5 (N.D. Tex. Apr. 28, 2011) (“The allegation that Designers created a product with features similar to the Bayco Wand does not plead a plausible claim that Lynch or Designers used Bayco’s alleged trade secrets (i.e., its “know-how”) concerning the design and marketing of the Bayco Wand to create the Designers Wand. The fact that a former employee entered the employment of a competitor does not of itself support a plausible claim that the employee shared proprietary information that enabled the new employer to develop and sell a competing product. The complaint must contain sufficient factual allegations to permit the court to draw the reasonable inference that the former employee actually used the protected trade secret.”); *M-I, LLC v. Stelly*, 733 F. Supp. 2d 759, 773 (S.D. Tex. 2010) (“M–I has alleged that its designs and technologies related to fourteen tools constitute trade secrets, that Defendants took the information in violation of their confidentiality agreements, and have used it to build its own tools.”); *ABB Turbo Sys. AG v. Turbousa, Inc.*, 774 F.3d 979, 986 (Fed. Cir. 2014) (reversing District Court’s dismissal on basis that trade secret owner did not sufficiently allege facts showing that it reasonably protected its trade-secret information).

2. State Court

Special exceptions can be an effective way to limit the admission of claims and evidence that are not sufficiently pled. *See, e.g., Quinius v. Estrada*, 448 S.W.2d 552 (Tex. Civ. App.—Austin 1969, writ ref’d n.r.e.) (“Point complaining that trial court erred in sustaining special exceptions to appellant’s pleading would be overruled where appellant had not offered evidence to support pleading or objected to charge of trial judge, who rejected pleaded theory.”).

In the absence of special exceptions, pleadings regarding trade secret claims should be liberally construed. *Easley v. Portfolio Mgmt., Inc.*, 588 S.W.2d 643, 644 (Tex. Civ. App.—Houston [14th Dist.] 1979, writ ref'd n.r.e.) (“The allegations in his pleadings are directed toward the defendants as a group and do not single out one or the other as to each cause of action; therefore, it appears that each cause of action was alleged against each defendant. The defendants filed no special exception pursuant to Tex. R. Civ. P. 90 in order to clarify or refute this inference.”)

The question of what constitutes the trade secret, *i.e.*, what precisely is the plaintiff claiming was misappropriated, is a frequent and often major issue in litigation. When a party files special exceptions against a broadly pled trade secrets claim, this could force the trade secret owner to be more specific—and thus reveal more details about the trade secret. This of course becomes a problem if the trade secret owner does not want its trade secret broadcast in publicly-filed pleadings. Section 134A.006 of The Texas Uniform Trade Secrets Act One may offer a solution to this problem.

TUTSA requires trial courts to take reasonable measures to protect trade secrets and creates a presumption in favor of granting protective orders to preserve the secrecy of trade secrets, which may include provisions for, among other things, “holding in camera hearings” or sealing records. Tex. Civ. Prac. & Rem. Code § 134A.006. *In re M-I L.L.C.*, 505 S.W.3d 569, 578 (Tex. 2016).

C. Discovery Considerations

1. Pre-Discovery Identification of Trade Secret

Numerous courts have enacted procedures requiring that trade secrets be identified before discovery commences. *United Services Auto. Ass’n v. Mitek Sys., Inc.*, 289 F.R.D. 244, 248 (W.D. Tex. 2013), *aff’d*, CIV.A. SA-12-CA-282, 2013 WL 1867417 (W.D. Tex. Apr. 24, 2013); *see, e.g., MedioStream, Inc. v. Microsoft Corp.*, 749 F. Supp.2d 507, 517–8 (E.D. Tex. 2010); *Powerweb Energy, Inc. v. Hubbell Lighting, Inc.*, 2012 WL 3113162, *1–2 (D. Conn. July 31, 2012); *Switch Comm. Group v. Ballard*, 2012 WL 2342929, *4–5 (D. Nev. June 19, 2012); *Avaya Inc. v. Cisco Sys., Inc.*, 2011 WL 4962817, *2 (D.N.J. Oct. 18, 2011); *L-3 Comm. Corp. v. Jaxon Eng’g & Maint., Inc.*, No. 10–cv–02868–MSK–KMT (D. Colo. Oct. 12, 2011); *Ikon Office Sol., Inc. v. Konica Minolta Bus. Sol. USA, Inc.*, 2009 WL 4429156, *4 (W.D.N.C. 2009); *Giasson Aerospace Science, Inc. v. RCO Eng’g*, 2009 WL 1384179, *2 (E.D. Mich. 2009); *Storagecraft Tech. Corp. v. Symantec Corp.*, 2009 WL 361282, *2 (D. Utah Feb. 11, 2009); *DeRubeis v. Witten Tech., Inc.*, 244 F.R.D. 676, 682 (N.D. Ga. 2007); *AutoMed Tech., Inc. v. Eller*, 160 F. Supp.2d 915, 925–26 (N.D. Ill.2001); *Porous Media Corp. v. Midland Brake, Inc.*, 187 F.R.D. 598, 600 (D. Minn.1999); *Leucadia, Inc. v. Applied Extrusion Tech., Inc.*, 755 F. Supp. 635, 637 (D. Del. 1991); *see also L-3 Comm. Corp. v. Reveal Imaging Tech., Inc.*, 2004 WL 2915743, *13 (Mass.Sup.Ct. Dec. 2, 2004) (unpublished).

The purpose for this procedural rule is to “prevent trade secret related discovery from beginning before a particular trade secret has been identified.” *See MedioStream, Inc. v. Microsoft Corp.*, 749 F. Supp.2d 507, 517–8 (E.D. Tex.2010)(*citing Perlan Therapeutics, Inc. v. Superior Court*, 178 Cal.App.4th 1333, 101 Cal.Rptr.3d 211, 220 (Cal. Ct. App. 2009)). This allows “well-investigated claims” to proceed while discouraging meritless trade secret claims. *Perlan Therapeutics, Inc.*, 101 Cal. Rptr.3d at 220.

A related benefit of requiring pre-discovery identification is that it can prevent a party from acquiring trade secret information to which it is not entitled using by using meritless litigation.

(a) Fed. R. Civ. P. 16

Although neither Texas nor Fifth Circuit law explicitly requires Pre-Discovery Identification, the Federal Rules of Civil Procedure provide a mechanism for fostering the same goal of facilitating discovery in unique cases. *United Services Auto. Ass'n v. Mitek Sys., Inc.*, 289 F.R.D. 244, 248–49 (W.D. Tex. 2013), *aff'd*, CIV.A. SA-12-CA-282, 2013 WL 1867417 (W.D. Tex. Apr. 24, 2013). Rule 16(c)(2)(L) provides the district court with *broad discretion* to “adopt [] special procedures for managing potentially difficult or protracted actions that may involve complex issues, multiple parties, difficult legal questions, or unusual proof problems.” Fed. R. Civ. P. 16(c)(2)(L); *see also*, *Steering Comm. v. Exxon Mobil Corp.*, 461 F.3d 598, 604 (5th Cir.2006) (noting the use of a pre-discovery order in a mass tort litigation case in order to “streamline” case by facilitating disposition of plaintiffs’ claims); *Acuna v. Brown & Root Inc.*, 200 F.3d 335, 340 (5th Cir. 2000) (noting that “Lone Pine” orders, “designed to handle the complex issues and potential burdens on defendants and the courts in mass tort litigation,” “are issued under the wide discretion afforded district judges over the management of discovery under Fed. R. Civ. P. 16.”).

(b) Texas Rules Regarding Discovery

Parties frequently seek, and trial courts order, expedited discovery in the course of proceedings pertaining to temporary restraining orders. *In re Nat'l Lloyds Ins. Co.*, 13-15-00390-CV, 2015 WL 6759153, at *4–5 (Tex. App.—Corpus Christi Nov. 3, 2015, no pet.); *see also*, *e.g.*, *In re Tex. Health Res.*, No. 05–15–00813–CV, 2015 WL 5029272, at *2 (Tex.App.—Dallas Aug. 26, 2015, orig. proceeding) (“The trial court ordered that the discovery take place before the expiration of the temporary restraining order.”); *In re PCS Commc'ns, Inc.*, 391 S.W.3d 329, 332 (Tex.App.—Dallas 2013, orig. proceeding) (“On November 5, 2012, Golovoy filed a ‘Motion for a Temporary Restraining Order and an Order Compelling Expedited Discovery.’”); *see also In re Meyer*, No. 14–14–00833–CV, 2014 WL 5465621, at *1 (Tex.App.—Houston [14th Dist.] Oct. 24, 2014, orig. proceeding) (mem. op. per curiam) (“On October 14, 2014, Gulfstream filed an original petition, application for temporary restraining order, application for temporary injunction, and motion for expedited discovery against relators in the trial court.”); *Miga v. Jensen*, No. 02–11–00074–CV, 2012 WL 745329, at *2 (Tex.App.—Fort Worth Mar. 8, 2012, no pet.) (mem. op.) (“Ten days later, Jensen filed with the trial court an application for a temporary restraining order, injunction, and expedited discovery.”).

The Texas Supreme Court has recognized that a trial court has discretion to schedule discovery and may shorten or lengthen the time for making a response for good cause. *In re Colonial Pipeline Co.*, 968 S.W.2d 938, 943 (Tex. 1998) (orig. proceeding); *In re Exmark Mfg. Co., Inc.*, 299 S.W.3d 519, 532–33 (Tex.App.—Corpus Christi 2009, orig. proceeding); *see, e.g.*, Tex. R. Civ. P. 190.5, 191.1. Therefore, the ability of a trial court to authorize expedited discovery in an injunction case is fairly well-settled.

Tex. R. Civ. P. 202 provides another mechanism for obtaining discovery about potential trade secret misappropriation prior to filing a lawsuit for damages or injunctive relief. *See, e.g.*, *In re Cauley*, 437 S.W.3d 650, 656 (Tex. App.—Tyler 2014, no pet.)

2. Protecting The Trade Secret During The Discovery Process

There are numerous ways a litigant can protect its client's trade secrets during the discovery process including the use of confidentiality or protective orders, sealing court records, and limiting access to trade secrets to specified individuals. The most important Texas statute in this regard is the Texas Uniform Trade Secret Act ("TUTSA"). TUTSA creates a presumption in favor of granting protective orders to preserve trade secrets which gives courts the power to seal filings and records without following the burdensome requirements of Rule 76a. It also provides courts the power to limit disclosure of information to only attorneys and experts and also order parties not to disclose alleged trade secrets.

Rule 507 of the Texas Rules of Civil Evidence also creates a privilege for trade secret information. That rule provides:

(a) General Rule. A person has a privilege to refuse to disclose and to prevent other persons from disclosing a trade secret owned by the person, unless the court finds that nondisclosure will tend to conceal fraud or otherwise work injustice.

(b) Who May Claim. The privilege may be claimed by the person who owns the trade secret or the person's agent or employee.

(c) Protective Measure. If a court orders a person to disclose a trade secret, it must take any protective measure required by the interests of the privilege holder and the parties and to further justice.

The Federal Rules of Civil Procedure also have provisions allowing a party to protect trade secrets. *See, e.g.,* James R. Jarrow, *Industrial Espionage? Discovery Within the Rules of Civil Procedure and the Battle for Protective Orders Governing Trade Secrets and Confidential Information*, 32 Washburn L.J. 318, 319 (1993) ("Rule 26(c) of the Federal Rules of Civil Procedure provides that: Upon motion by a party or by the person from whom discovery is sought, and for good cause shown, the court in which the action is pending . . . may make any order which justice requires to protect a party or person from annoyance, embarrassment, oppression, or undue burden or expense, including one or more of the following: . . . (7) that a trade secret or other information not be disclosed or be disclosed only in a designated way. . . . Rule 26(c)(7)").

3. Accelerated Discovery

Because trade secret cases typically involve requests for injunctive relief, it is very common for one party to seek expedited discovery. As a practical matter, expedited discovery can be extremely helpful due to the nature of preliminary injunction hearings. The entire process from filing to the initial evidentiary hearing is very short. By engaging in information exchange through the discovery process, the parties can streamline and organize the case that most judges will appreciate.

There are a significant number of cases that discuss when expedited discovery is appropriate, and whether the rules of procedure authorize such discovery. In general, litigants should be prepared for an expedited discovery process, although this is not always the case.

Additionally, discovery disputes that involve orders requiring the production of trade secrets are ripe for mandamus review because “no adequate appellate remedy exists for an erroneous order to disclose a trade secret. *See In Re, M-I, LLC* 505 S.W.3d 569 (Tex. 2016); *In Re Colonial Pipeline, Co.*, 968 S.W.2d 938, 941 (Tex. 1998)(orig. proceeding).

(a) Federal Court

The Federal Rules of Civil Procedure generally require that discovery be deferred until the Rule 26(a) conference amongst the parties occurs:

A party may not seek discovery from any source before the parties have conferred as required by Rule 26(f), except in a proceeding exempted from initial disclosure under Rule 26(a)(1)(B), or when authorized by these rules, by stipulation, or by court order.

Fed. R. Civ. P. 26. *See, e.g., St. Louis Group, Inc. v. Metals & Additives Corp., Inc.*, 275 F.R.D. 236, 239 (S.D. Tex. 2011) (“Pursuant to Federal Rule of Civil Procedure 30(a)(2)(A)(iii), “[a] party must obtain leave of court ... if the parties have not stipulated to the deposition and ... the party seeks to take the deposition before the time specified in Rule 26(d)...” Rule 26(d)(1) provides that “[a] party may not seek discovery from any source before the parties have conferred as required by Rule 26(f), except ... when authorized ... by court order.”).

It is nevertheless generally recognized that expedited discovery can occur whenever the parties agree, or in certain types of cases including those for injunctive relief. However, the Federal Rules do not provide a standard for the court to use in exercising its authority to order expedited discovery. *St. Louis Group, Inc. v. Metals & Additives Corp., Inc.*, 275 F.R.D. 236, 239 (S.D. Tex. 2011).

A party will often seek to obtain depositions prior to the preliminary injunction hearing. Attempting to obtain a deposition prior to pursuant to Federal Rule of Civil Procedure 30(a)(2)(A)(iii), “[a] party must obtain leave of court ... if the parties have not stipulated to the deposition and ... the party seeks to take the deposition before the time specified in Rule 26(d)...” Rule 26(d)(1) provides that “[a] party may not seek discovery from any source before the parties have conferred as required by Rule 26(f), except ... when authorized ... by court order.” Although the Federal Rules do not provide a standard for the court to use in exercising its authority to

order expedited discovery, it is generally accepted that courts use one of the following two standards to determine whether a party is entitled to conduct such discovery: (1) the preliminary-injunction-style analysis set out in *Notaro v. Koch*, 95 F.R.D. 403 (S.D.N.Y. 1982); or (2) the “good cause” standard. See *Edgenet, Inc. v. Home Depot U.S.A., Inc.*, 259 F.R.D. 385, 386 (E.D. Wis. 2009); see also Moore’s Federal Practice § 26.121; *St. Louis Group, Inc. v. Metals & Additives Corp., Inc.*, 275 F.R.D. 236, 239 (S.D. Tex. 2011).

An increasing majority of district courts have adopted a “good cause” standard to determine whether to authorize expedited discovery. See, e.g., *Merrill Lynch, Pierce, Fenner, & Smith, Inc. v. O’Connor*, 194 F.R.D. 618, 624 (N.D. Ill. 2000); *Semitool, Inc. v. Tokyo Electron Am., Inc.*, 208 F.R.D. 273, 275 (N.D. Cal. 2002); *Ayyash v. Bank Al-Madina*, 233 F.R.D. 325, 327 (S.D.N.Y. 2005); *Dimension Data*, 226 F.R.D. at 530–532; *St. Louis Group, Inc. v. Metals & Additives Corp., Inc.*, 275 F.R.D. 236, 239 (S.D. Tex. 2011).

The Fifth Circuit has not adopted either standard. Several district courts within the Fifth Circuit, however, have expressly utilized the “good cause” standard when addressing this issue. See *El Pollo Loco, S.A. de C.V. v. El Pollo Loco, Inc.*, 344 F. Supp.2d 986, 991 (S.D. Tex. 2004); *Energy Prod. Corp.*, 2010 WL 3184232, at *3; *Paul v. Aviva Life and Annuity Co.*, 2009 WL 3815949, at *1 (N.D. Tex. Nov. 12, 2009); *Rodale, Inc. v. U.S. Preventive Med., Inc.*, 2008 WL 4682043, at *1 (E.D. Tex. Oct. 21, 2008); *U.S. Commodity Futures Trading Comm’n v. M25 Inv., Inc.*, 2009 WL 3740627, at *1 (N.D. Tex. Sept. 29, 2009); *Philip Morris USA, Inc. v. Tin’s, Inc.*, 2003 WL 22331256, at *1 (M.D. La. Apr. 23, 2003).

In a “good cause” analysis, a court must examine the discovery request “on the entirety of the record to date and the reasonableness of the request in light of all the surrounding circumstances.” *Ayyash*, 233 F.R.D. at 327 (quoting *Merrill Lynch*, 194 F.R.D. at 624) (emphasis in original). Good cause may be found “where the need for expedited discovery in consideration of the administration of justice, outweighs the prejudice to the responding party.” See *Energy Prod. Corp. v. Northfield Ins. Co.*, 2010 WL 3184232, at *3 (E.D. La. Aug. 6, 2010) (quoting *Semitool*, 208 F.R.D. at 276); *St. Louis Group, Inc. v. Metals & Additives Corp., Inc.*, 275 F.R.D. 236, 239 (S.D. Tex. 2011).

The burden of showing good cause is on the party seeking the expedited discovery. See *Qwest Commc’ns Int’l, Inc. v. WorldQuest Networks, Inc.*, 213 F.R.D. 418, 419 (D. Colo. 2003). Moreover, the subject matter related to requests for expedited discovery should be narrowly tailored in scope. See *Semitool*, 208 F.R.D. at 277 (discovery requests held to be narrowly tailored where Defendants’ representative is not subjected to a free-ranging deposition); *Dimension Data*, 226 F.R.D. at 532 (E.D.N.C. 2005) (considering that the discovery request was not narrowly tailored in denying plaintiffs’ motion for expedited discovery); see also *Monsanto Co. v. Woods*, 250 F.R.D. 411, 413 (E.D. Mo. 2008) (citing *Irish Lesbian & Gay Org. v. Giuliani*, 918 F. Supp. 728, 730–31 (S.D.N.Y. 1996)) (“[C]ourts generally deny motions for expedited discovery when the movant’s discovery requests are overly broad.”).

Irrespective of the standard applied, “[e]xpedited discovery is not the norm.” *Merrill Lynch*, 194 F.R.D. at 623. District courts, however, have allowed expedited discovery under a variety of circumstances. For example, courts have granted expedited discovery requests when there is some showing of irreparable harm that can be addressed by limited, expedited discovery.

See, e.g., JP Morgan Chase Bank, N.A. v. Reijtenbagh, 615 F. Supp.2d 278, 282–83 (S.D.N.Y. 2009) (granting expedited discovery to plaintiffs to determine the location of missing art pledged as collateral for \$50 million *241 promissory note); *Monsanto*, 250 F.R.D. at 413 (allowing limited discovery to minimize the risk of loss or destruction of the physical evidence of infringement); *Stern v. Cosby*, 246 F.R.D. 453, 457–57 (S.D.N.Y. 2007) (allowing expedited discovery to determine whether defendant was interfering with fact witnesses and attempting to obstruct justice in that case); *Ayyash*, 233 F.R.D. at 326–27 (allowing expedited discovery on third-parties to locate assets in the United States relating to foreign defendants who had the incentive to hide those assets); *Pod-Ners, LLC v. N. Feed & Bean of Lucerne Ltd. Liab. Co.*, 204 F.R.D. 675, 676 (D. Colo. 2002) (allowing limited discovery in infringement action where bean plant variety at issue is a commodity subject to sale and consumption and might not be available for inspection at a later date); *McMann v. Doe*, 460 F. Supp.2d 259, 265–66 (D. Mass. 2006) (allowing expedited discovery on basis that showing of irreparable harm had been made because plaintiff could receive no remedy without knowing defendant John Doe’s true name).

Some Federal District Courts have denied discovery such as depositions when it appears that the party seeking the deposition does not intend to narrow the issues to those related to the injunction, but, rather intend to take a free-ranging deposition on all issues in the case. *St. Louis Group, Inc. v. Metals & Additives Corp., Inc.*, 275 F.R.D. 236, 241 (S.D. Tex. 2011) (“The Court is hesitant to grant such a request because it is unclear if Defendants are seeking free-ranging depositions of these witnesses or whether they are simply seeking to depose the witnesses about the [infringement issues]”).

(b) Texas Courts Are Authorized And Frequently Order Expedited Discovery In Cases Involving Injunctive Relief

Numerous trial courts have ordered expedited discovery in the course of proceedings pertaining to temporary restraining orders. *In re Nat’l Lloyds Ins. Co.*, 13-15-00390-CV, 2015 WL 6759153, at *4–5 (Tex. App.—Corpus Christi Nov. 3, 2015, no pet.); *see, also e.g., In re Tex. Health Res.*, No. 05–15–00813–CV, 2015 WL 5029272, at *2 (Tex.App.—Dallas Aug. 26, 2015, orig. proceeding) (“The trial court ordered that the discovery take place before the expiration of the temporary restraining order.”); *In re MetroPCS Commc’ns, Inc.*, 391 S.W.3d 329, 332 (Tex.App.—Dallas 2013, orig. proceeding) (“On November 5, 2012, Golovoy filed a ‘Motion for a Temporary Restraining Order and an Order Compelling Expedited Discovery.’”); *see also In re Meyer*, No. 14–14–00833–CV, 2014 WL 5465621, at *1 (Tex.App.—Houston [14th Dist.] Oct. 24, 2014, orig. proceeding) (mem. op. per curiam) (“On October 14, 2014, Gulfstream filed an original petition, application for temporary restraining order, application for temporary injunction, and motion for expedited discovery against relators in the trial court.”); *Miga v. Jensen*, No. 02–11–00074–CV, 2012 WL 745329, at *2 (Tex.App.—Fort Worth Mar. 8, 2012, no pet.) (mem. op.) (“Ten days later, Jensen filed with the trial court an application for a temporary restraining order, injunction, and expedited discovery.”).

The Texas Supreme Court has held that trial courts have discretion to schedule discovery and may shorten or lengthen the time for making a response for good cause. *In re Colonial Pipeline Co.*, 968 S.W.2d 938, 943 (Tex. 1998) (orig. proceeding); *see also, In re Exmark Mfg. Co., Inc.*, 299 S.W.3d 519, 532–33 (Tex. App.—Corpus Christi 2009, orig. proceeding); *see, e.g., Tex. R. Civ. P. 190.5* (“The court may modify a discovery control plan at any time and must do so when

the interest of justice requires.”); Tex. R. Civ. P. 191.1. (“Except where specifically prohibited, the procedures and limitations set forth in the rules pertaining to discovery may be modified in any suit by the agreement of the parties or by court order for good cause.”).

D. Trial Considerations

1. Injunction Proceedings

(a) When Should An Ex Parte TRO Be Sought?

The Texas and Federal Civil Rules of Procedure both contemplate the possibility of an ex parte temporary restraining order. However, many courts are reluctant to grant *ex parte* TROs except in the most extreme circumstances. Hon. Randy Wilson, *From My Side of the Bench Restraining Orders*, 62 *The Advoc.* (Texas) 13, 13 (2013) (“While the rules envision ex parte TROs, most courts are reluctant to grant ex parte applications. Judges want to hear from both sides. There are some situations, however, where it is essential to hear an application ex parte. For example, if the defendant has embezzled money and the plaintiff is trying to freeze bank accounts, you have to proceed ex parte. If you give notice, the defendant will undoubtedly commit the very act you are trying to prohibit. Absent such dire circumstances, however, notice is almost always required.”).

(b) The Bond Requirement

The Texas Rules of Civil Procedure require that an order granting a temporary injunction set the cause for trial on the merits and fix the amount of security to be given by the applicant. *Sargeant v. Al Saleh*, 512 S.W.3d 399, 409 (Tex. App.—Corpus Christi 2016, no pet.); *See* Tex. R. Civ. P. 683, 684. These procedural requirements are mandatory, and an order granting a temporary injunction that does not meet them is subject to being declared void and dissolved. *See Qwest Commc’ns Corp. v. AT & T Corp.*, 24 S.W.3d 334, 337 (Tex. 2000); *InterFirst Bank San Felipe, N.A. v. Paz Constr. Co.*, 715 S.W.2d 640, 641 (Tex. 1986); *Yardeni v. Torres*, 418 S.W.3d 914, 918 (Tex.App.—El Paso 2013, no pet.).

Further, since bond is intended to compensate the enjoined party from the damages of a wrongfully issued injunction, the amount of the bond should bear a reasonable relationship to the potential harm that could be suffered as a result of the injunction. If the injunction is later found to have been wrongfully granted, the defendant is generally limited to recovering on the bond, unless they can establish a separate case for malicious prosecution. *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 686 (Tex. 1990) (“The damages recoverable in an action on an injunction bond are, of course, limited to the amount of the bond. In an action for malicious prosecution, all actual damages may be recovered.”)

In short, if the bond is only \$100, the defendant’s recovery for wrongful injunction is usually capped at \$100, regardless of the extent of harm caused by the restraining order. As a result, a party seeking injunctive relief should be prepared to post a reasonable bond. The bond requirement can be a significant factor in determining whether to seek injunctive relief in some cases.

In Harris County, there was a plaintiff seeking injunctive relief because the City of Houston had wrongfully deprived plaintiff of a kiosk at Houston Intercontinental Airport. The plaintiff sought a restraining order shutting down the airport until plaintiff received his kiosk. When the judge advised the plaintiff that the bond would probably have to be a billion dollars, the plaintiff rapidly lost interest in the TRO. Hon. Randy Wilson, *From My Side of the Bench Restraining Orders*, 62 *The Advoc.* (Texas) 13, 13 (2013).

2. Methods To Protect Trade Secrets During Trial

(a) Methods for Preventing The Disclosure of Trade Secrets To The Opposing Party

Prior to the enactment of TUTSA, litigants had to rely on the Court's, or an opposing counsel's willingness to enter into a protective order to protect trade secrets during litigation. Although Tex. R. Civ. P. 76a contains a mechanism for sealing court records, its public notice and other requirements were viewed as cumbersome and ineffective with respect to protecting trade secrets. See Jennifer S. Sickler & Michael F. Heim, *The Impact of Rule 76a: Trade Secrets Crash and Burn in Texas*, 1 *Tex. Intell. Prop. L.J.* 95, 97 (1993).

In short, prior to the enactment of TUTSA, it was generally considered difficult to prevent the disclosure of the trade secrets during proceedings in court. See C. Smith, *Finding A Balance Between Securing Confidentiality and Preserving Court Transparency: A Re-Visit of Rule 76a and Its Application to Unfiled Discovery*, 69 *SMU L. Rev.* 309, 347 (2016). Yet, courts and commentators have long-recognized that the compelled disclosure of trade secrets during litigation can have constitutional implications. S. Shawn Stephens, *Is the "Good Cause" Standard Inadequate to Protect Trade Secrets in Discovery Disputes?*, *Hous. Law.* 20, 21 (2015) ("A failure to protect trade secrets adequately may, therefore, be more than an abuse of discretion—it may result in an unconstitutional taking of private property without just compensation."); U.S. CONST. amend. V ("[N]or shall private property be taken for public use without just compensation..."). The Fifth Amendment applies to the states through the Fourteenth Amendment. *Chicago B. & O.R.R. v. City of Chicago*, 166 U.S. 226, 239 (1897); *Seattle Times Co. v. Rhinehart*, 467 U.S. 20, 32 (1984); *Ruckelshaus*, 467 U.S. at 1003-04; cf. *Carpenter v. United States*, 484 U.S. 19, 26 (1987) (finding a "property" interest in a newspaper's confidential information); accord *Leonard v. State*, 767 S.W.2d 171, 175 (Tex. App.—Dallas 1988), *aff'd sub nom.*, *Schalk v. State*, 823 S.W.2d 633 (Tex. Crim. App. 1991); *Trade Secrets in Discovery*, 104 *HARV. L. REV.* at 1337-1344; see generally Pamela Samuelson, *Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?* 38 *CATH. U. L. REV.* 365 (1989).

TUTSA has specific rules that are designed to enable litigants to protect the trade secrets they are trying to protect at trial. Section 134A.006 of TUTSA provides a new rule governing the disclosure of trade secrets during a court proceeding:

In an action under this chapter, a court shall preserve the secrecy of an alleged trade secret by reasonable means. There is a presumption in favor of granting protective orders to preserve the secrecy of trade secrets. Protective orders 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. Texas Uniform Trade Secrets Act, § 134.006(a) (2013).

Notwithstanding TUTSA's presumption in favor of protecting trade secrets during litigation, some trial courts are struggling with how to apply its provisions. *In Re M-I, LLC*, 505 S.W.3d 569 (Tex. 2016) is a recent example. *M-I* sought injunctive relief to protect trade secrets from a former employee who had taken a job with National Oilwell Varco, a competitor. The issues in *M-I v. National Oilwell Varco* were: (1) whether the trial court abused its discretion by summarily refusing the plaintiff's request to conduct portions of a temporary injunction hearing involving alleged trade secret outside the presence of the defendant's designated representative; and (2) whether the trial court abused its discretion by ordering the production of an affidavit purportedly involving these alleged trade secret without conducting an *in camera* review of the affidavit. The Texas Supreme Court held that the trial court abused its discretion in both instances and granted mandamus relief.

At the temporary injunction hearing, M-I moved to exclude NOV's corporate representative to avoid disclosing its trade secrets. The Trial Court denied the motion as a violation of due process.

The Texas Supreme Court held that the Trial Court had abused its discretion by refusing to exclude NOV corporate representative from the hearing. The Court first noted that due process required a balancing of the interests of the party excluded from the hearing against the business interests of the movant in protecting its trade secrets from disclosure to a competitor. As the Court noted, this balancing required the trial court to determine the degree of competitive harm M-I would have suffered from the dissemination of its alleged trade secrets to NOV. *Garcia v. Peeples*, 734 S.W.2d 343, 348 (Tex. 1987) (orig. proceeding) (requiring court to consider harm to party's proprietary interest before restricting dissemination of trade secrets). To make this determination, the trial court needed to consider the relative value of M-I's alleged trade secrets, as well as whether the corporate representative acted as a competitive decision-maker at NOV. *See id.* at 348, n. 4 (recognizing a trade secret is "valuable only because [competitors] lack access to it"). The Court essentially acknowledged a presumption that disclosure of trade secrets to a decision-maker would necessarily entail greater competitive harm because, even when acting in good faith, a competitor could not resist acting on what he may learn. *See id.*; *see also FTC v. Exxon Corp.*, 636 F.2d 1336, 1350 (D.C. Cir. 1980) ("[I]t is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well-intentioned the effort may be to do so.").

Once the interests of the party resisting trade secret disclosure is analyzed, then the Court must turn to the interests of the opposing party and whether by excluding them from the hearing, they are being deprived of a fair opportunity to defend against the allegations. This balancing also required the trial court to determine the degree to which NOV's defense of M-I's claims would be impaired by the exclusion of NOV's corporate representative. *See Garcia*, 734 S.W.2d at 348 (requiring court to consider whether trade secret allowed party "to more effectively prepare for trial" before restricting dissemination). To make this determination, the trial court again needed to consider the representative's role at NOV, and particularly whether, by virtue of that role, he possessed specialized expertise that would not have been available to NOV's outside experts. *M-I*, 505 S.W.3d at 576.

The Texas Supreme Court held that the Trial Court clearly abused its discretion because the record showed that it failed to conduct any balancing test whatsoever. 505 S.W.3d at 576-77 (“Without even hearing Moore’s testimony identifying M–I’s alleged trade secrets, the trial court concluded: “You sued them. They stay, period.”). The Supreme Court explained that the Trial Court’s summary conclusion that a litigant has an absolute right to be present at a temporary injunction hearing was clearly erroneous:

The trial court apparently believed NOV had an absolute due process right to have its designated representative present at the temporary injunction much less the right of a party to have a designated representative present at a temporary–injunction hearing—is not absolute. *See Air Prods. & Chems., Inc. v. Johnson*, 296 Pa. Super. 405, 442 A.2d 1114, 1116, 1129 (1982) (affirming exclusion of the defendant from hearing involving alleged trade secret over due process objection); *see also Helminski*, 766 F.2d at 213. Instead, the right is qualified and appropriately analyzed under the due–process balancing discussed above. *See Helminski*, 766 F.2d at 213 *577 (“We believe that the extent of a civil litigant’s right to be present at trial is appropriately analyzed under the due process clause....”).

(b) Expert Witnesses

It is probably more the rule than the exception to retain experts on the existence and misappropriation of trade secrets, at least insofar as the misappropriation involves a product or alleged theft of data from a computer. The retention of experts in trade secrets cases also creates the possibility of disclosure of trade secret information that inadvertently winds up in the hands of a competitor. William Lynch Schaller, *Secrets of the Trade: Tactical and Legal Considerations from the Trade Secret Plaintiff’s Perspective*, 29 Rev. Litig. 729, 791–92 (2010) (“An additional problem concerns experts. Not surprisingly, in technical fields the choice of available experts often consists of a limited pool of ex-employees, consultants, or academics—a fact of life driven by inevitable Daubert challenges over expert qualifications and opinions. Such experts may have difficulty down the road separating what they have learned in the litigation from what they have embedded in their general skill and knowledge.”) It is sometimes difficult for trade secret owners to restrict opposing experts from using what they consider to be confidential information beyond the litigation. *See, e.g., Nellson Northern Operating, Inc. v. Elan Nutrition, LLC*, 238 F.R.D. 544, 545 (D. Vt. 2006) (allowing expert to obtain confidential trade secret information on nutrition bars despite her involvement with provider in the industry).

E. Considerations Regarding the Form Of Order of Judgment

Because a temporary restraining order is an extraordinary remedy in which a court sitting in equity is compelling a person or entity to do or not do a particular act(s), procedural rules require that the judgment or order be specific so that the enjoined party will know precisely what they must do to comply. For example, Tex. R. Civ. P. 683 requires that an injunction order be “specific in terms;” the order “must be as definite, clear and precise as possible and when practicable it should inform the defendant of the acts he is restrained from doing....” *San Antonio Bar Ass’n v. Guardian Abstract & Title Co.*, 291 S.W.2d 697, 702 (Tex. 1956); *see also* Tex. R. Civ. P. 683.

On the other hand, courts will sometimes allow the use of generic or broader terms in an injunction order to ensure that every potential violation or wrongful act is deterred. The Dallas Court of Appeals noted recently that “[a] temporary injunction does not [need to] specifically define every item comprising a trade secret or [item] of confidential information...[T]his level of detail is not required.” *Miller v. Talley Dunn Gallery, LLC*, 05-15-00444-CV, 2016 WL 836775, at *14 (Tex. App.—Dallas Mar. 3, 2016, no pet.).

Instead, the need for specificity is balanced with the practicality that an injunction “must be in broad enough terms to prevent repetition of the evil sought to be stopped.” *San Antonio Bar Ass’n*, 291 S.W.2d at 702. Hence the *Miller* Court upheld a temporary injunction that prohibited the use of “client lists, clients’ purchase history and pricing information, and the general ledgers.” The specific examples of the items comprising “trade secrets” and “confidential information,” when read in the context of the suit, provided the defendant with adequate notice of the information that he was prohibited from using or disclosing. *See Lockhart*, 2010 WL 966029, at *4; *IAC, Ltd.*, 160 S.W.3d at 201–02 (concluding order which prohibited defendant from using “Bell trade secrets and confidential information” was sufficiently specific because injunction as a whole made it clear that this phrase meant “information pertaining to Bell’s 206B and OH–58 helicopter blades”).

III.

ANALYSIS OF THE NEW FEDERAL AND STATE TRADE SECRETS STATUTES

A. Texas Uniform Trade Secrets Act

The Texas Uniform Trade Secrets Act (“TUTSA”) became effective September 1, 2013. Tex. Civ. Prac. & Rem. Code §134.001-008 (West 2013). TUTSA states that it displaces “conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret. Tex. Civ. Prac. & Rem. Code Ann. § 134A.007.

B. Recent Cases Interpreting TUTSA

1. What is a trade secret under TUTSA?

For the most part, TUTSA contains provisions similar to those found in the Uniform Trade Secrets Act. One commentator has noted that “while significant, [TUTSA] adopts many of the rules that had already been developed under the Texas common law. It, however, was intended to enhance Texas’ uniformity with other states. It also enhances the ability to get a protective order to protect trade secrets involved in litigation.” Patrick J. Maher, *Noncompetes and Trade Secrets: A Continuing Evolution*, 35 Corp. Couns. Rev. 73, 102 (2016).

One example of how TUTSA might expand the scope of trade secret protection involves the definition of a trade secret under the statute. That is, TUTSA’s definition of trade secrets clarifies and may expand the scope of what types of information qualify as a protectable trade secret. In the distant past, Texas courts had defined a trade secret as any formula, pattern, device, or compilation of information which is used in one’s business and presents an opportunity to obtain an advantage over competitors who do not know or use it. *Hyde Corp. v. Huffines*, 314 S.W.2d

763, 776 (Tex. 1958), *cert. denied*, 358 U.S. 898 (1958) (quoting RESTATEMENT OF TORTS § 757 (1939)).

Over time, this definition evolved under Texas law, *viz.*, “a trade secret ‘may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives one an opportunity to obtain an advantage over competitors who do not know or use it. It may be ... a list of customers.’” *Rugen v. Interactive Business Systems, Inc.*, 864 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no writ). Before information can be termed a “trade secret,” there must be a substantial element of secrecy. *Id.* The word “secret” implies that the information is not generally known or readily ascertainable by independent investigation. *Id.*

Although Texas recognized customer lists as potentially trade secrets, such status did not automatically attach to such things as customer lists. *Numed, Inc. v. McNutt*, 724 S.W.2d 432, 435 (Tex. App.—Fort Worth 1987), citing *Allan J. Richardson v. Andrews*, 718 S.W.2d 833 (Tex. App.—Houston [14th Dist.] 1986, no writ).

TUTSA defines a trade secret as follows:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers, that:

(A) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use; and

(B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Tex. Civ. Prac. & Rem. Code Ann. § 134A.002(6) (West 2013).

TUTSA’s inclusion of “financial data” and “customer lists” in the definition of trade secrets makes it broader than the Uniform Act. Irene Kosturakis, *Intellectual Property 101*, Tex. J. Bus. L., Fall 2014, at 37, 63.

Nevertheless, the Dallas Court of Appeals recently held that a customer list was not a trade secret because it did not fall within the new definition of a trade secret under TUTSA. *Baxter & Associates, L.L.C. v. D & D Elevators, Inc.*, 05-16-00330-CV, 2017 WL 604043, at *9 (Tex. App.—Dallas Feb. 15, 2017, no. pet. h.) (“We conclude the evidence is legally and factually sufficient to support an implied finding that the information in question was not within the definition of “trade secret” in subsection 134A.002(6)(A) because it did not “derive[] independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.”) *See id.* § 134A.002(6)(A)).

In *Baxter*, two employees started a business that competed with their current employer who installed and maintained residential elevators. The employees made plans for the competing business while still employed, and took certain jobs they had learned about while working for their employer. The employer argued that the information regarding its potential customers and jobs

was a protected customer list. On the other hand, the employees had evidence that: 1) information about potential elevator jobs was available by driving around neighborhoods to inspect homes that might be suitable, and 2) that publicly available building permits also provided knowledge about potential jobs.

The *Baxter* opinion is interesting, in part, because the Court rejected an argument that case law defining a trade secret prior to TUTSA was relevant. The court relied on the preemption provision in TUTSA which “displaces conflicting tort, restitutionary, and other law” regarding trade secrets. *Baxter*, 05-16-00330-CV, 2017 WL 604043, at *9.

The court noted a conflict between prior case law that extends trade secret protection to information acquired through breach of a relationship or other improper means, even if the information might be accessible through public means. On the other hand, TUTSA’s definition of trade secrets excludes “derived from information generally known to, and is readily ascertainable by, members of the public.” See Tex. Civ. Prac. & Rem. Code Ann. § 134A.002(6)(A).

The Court noted that the proponent of trade secret protection had argued: (1) “[e]ven if the names of the customers and particular builders could be somehow ascertained by private inquiry even though none of the information was public, Texas courts still find liability if the actual manner in which the trade secrets were obtained was as a result of the Defendants’ position of trust and confidence at the former employer,” and (2) that rule applies here because Shaw “admitted under oath” that D & D Elevators did not obtain the information concerning the four residences in question and several others by “accessing public information,” “canvassing neighborhoods,” or “looking at building permits,” but rather “he admitted that he got the information by virtue of his confidential relationship of trust as the office manager of Baxter and Associates.” In support of that contention, the party seeking trade secret protection cited a Texas common law rule described in a case pre-dating the 2013 enactment of TUTSA, *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 601 (Tex. App.–Amarillo 1995, no writ).

On the other hand, the employees seeking to defeat trade secret protection relied on TUTSA’s exclusion of information readily ascertainable from public means. Tex. Civ. Prac. & Rem. Code § 134A.002(6)(A). The Court ultimately concluded that because the information at issue was readily ascertainable from public sources, it was irrelevant whether the employees might have learned about it by virtue of making plans to form a competing business.

2. Distinction Between Proper and Improper Means Used To Acquire Trade Secret Under TUTSA

TUTSA specifically defines “Improper Means” and “Proper Means” used to acquire a trade secret. TUTSA defines improper means to 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.” Tex. Civ. Prac. & Rem. Code § 134A.002(2).

Proper means to acquire a trade secret under TUTSA include “discovery by independent development, reverse engineering unless prohibited, or any other means that is not improper.” Tex. Civ. Prac. & Rem. Code § 134A.002(2).

Based on this distinction, some litigants have attempted to argue that TUTSA only creates liability for the acquisition of a trade secret through improper means. *His Co., Inc. v. Stover*, 202 F. Supp. 3d 685, 693 (S.D. Tex. 2016), *vacated as moot*, 4:15-CV-00842, 2016 WL 6134939 (S.D. Tex. Sept. 8, 2016) (“It is not surprising that Stover seeks to exploit this confusion to his advantage, arguing that acquiring a trade secret through improper means is the sole path to liability under TUTSA.”)

At least one court has held that there are six paths to liability under TUTSA, at least one of which does not require the acquisition of the secret through improper means:

1. 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 [§ 134A.002 (3)(A)];
2. 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)];
3. 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:
 - a. derived from or through a person who had utilized improper means to acquire it; [§ 134A.002 (3)(B)(ii)(a)];
 - b. acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; [§ 134A.002 (3)(B)(ii)(b)];
 - c. derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or [§ 134A.002 (3)(B)(ii)(c)];
4. before a material change of the person’s position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake. [§ 134A.002 (3)(B)(iii)].

As indicated by the construction of § 134A.002 (3)(B)(ii), there are three ways a party can be liable when they knowingly disclose or use a trade secret without consent, including when he gained knowledge of the trade secret “under circumstances giving rise to a duty to maintain its secrecy or limit its use.” § 134A.002 (3)(B)(ii)(b) *His Co., Inc. v. Stover*, 202 F. Supp.3d 685, 694–95 (S.D. Tex. 2016), *vacated as moot*, 4:15-CV-00842, 2016 WL 6134939 (S.D. Tex. Sept. 8, 2016).

The result in *Stover* seems correct since the alternative would be to allow employees who legally obtain information about trade secrets while employed to misappropriate them. *His Co., Inc. v. Stover*, 202 F. Supp.3d 685, 695 (S.D. Tex. 2016), *vacated as moot*, 4:15-CV-00842, 2016 WL 6134939 (S.D. Tex. Sept. 8, 2016) (“[P]olicy favors the Court’s reading. As Hisco correctly notes, Stover’s arguments essentially boil down to the proposition that, under TUTSA, a former employee may “simply do as he wishes with his former employer’s trade secrets following the

employment relationship,” so long as those trade secrets were not acquired improperly. Such a reading of TUTSA flies in the face of well recognized notions of the purpose of trade secret law. Indeed, Stover’s proposed reading would eviscerate trade secret law, destroying the value of confidentiality agreements and allowing former employees to run amok with information that employers have invested great sums of money and manpower to develop and keep confidential.”).

There are still appellate courts that are not citing TUTSA, even though it would seemingly apply. For example, the Dallas Court of Appeals recently rejected an argument that a trade secret expires simultaneous with the expiration of a confidentiality order that applied to the transfer of the information. *Miller v. Talley Dunn Gallery, LLC*, 05-15-00444-CV, 2016 WL 836775, at *13 (Tex. App.—Dallas Mar. 3, 2016, no pet.). Miller involved a husband and wife who owned an art gallery. The wife had most of the contacts with artists and buyers; whereas the husband handled the business operations. When the couple divorced, the valuation of the business in the divorce estate became a hotly contested issue. In the divorce proceedings, the wife produced detailed information about artists, prices paid for the art, pricing and discounts to customers. The information was produced pursuant to a confidentiality and protective order because it constituted a “recipe” for running the business. The husband argued that, after the confidentiality order was vacated, he was under no duty to keep the information secret.

The Dallas Court of Appeals disagreed:

However, Miller received the General Ledger knowing it was being produced pursuant to a confidentiality order. There was also evidence Miller performed work for the Gallery, had access to the Gallery’s general ledger when he was working there, and knew it contained information that was not publicly available and that the Gallery viewed as confidential. An employee has a duty to not use trade secret information acquired during the employment relationship in a manner adverse to the employer. *Reliant Hosp. Partners, LLC*, 374 S.W.3d at 499; *Fox*, 121 S.W.3d at 858. This obligation survives the termination of the employment. *Reliant Hosp. Partners, LLC*, 374 S.W.3d at 499. Although the General Ledger contained information from a time period when Miller was not employed by the Gallery, he had the requisite relationship with the Gallery that prohibited him from disclosing or using information that he knew was a trade secret of the Gallery. We conclude there was sufficient evidence Miller acquired the General Ledger under circumstances which gave rise to a duty to maintain its secrecy or limit its use, and disclosed that information without appellees’ consent, to support the trial court’s determination Miller misappropriated the Gallery’s trade secrets or confidential information.

TUTSA is not mentioned in this opinion even though the conduct at issue occurred after its effective date of September 2013.

3. TUTSA's Injunction Provision

TUTSA's injunction provision comes from the Uniform Act. While TUTSA is still a relatively new statute, there is one section of the statute that has been discussed in a potentially significant decision.

Under TUTSA, “actual or threatened misappropriation may be enjoined.” Tex. Civ. Prac. & Rem. Code § 134A.003(a). Additionally, a party can move to terminate the injunction “when the trade secret has ceased to exist.” *Id.* Like the Uniform Act, TUTSA also provides that “the injunction may be continued for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation. Tex. Civ. Prac. & Rem. Code Ann. § 134A.003.

The Dallas Court of Appeals recently held that a permanent injunction—rather than an injunction for a limited time period—was required to protect certain oil and gas exploration equipment including wellbore plugging devices that had been misappropriated by former employees. *Halliburton Energy Servs., Inc. v. Axis Technologies, LLC*, 444 S.W.3d 251, 264 (Tex. App.—Dallas 2014, no pet.).

The Court discussed when injunctions of a limited duration are appropriate in trade secrets cases as opposed to permanent injunctions. *Halliburton Energy*, 444 S.W.3d at 259 (“In some cases, a product incorporating trade secrets may be a “simple device, widely circulated, the construction of which [is] ascertainable at a glance.” In such cases, a limited duration or “lead time” injunction may be sufficient to remove the competitive advantage gained by the misappropriation.”).

Ultimately, the Court held that a permanent injunction, rather than a limited or lead time injunction was required:

the evidence shows that extensive time and resources would be required to develop products similar to those being sold by Halliburton. Based on the instructions in the jury charge, the jury necessarily found that Halliburton's trade secrets did not involve matters of public knowledge, readily available, or of general knowledge in the industry; the trade secrets were not available to the public; and the incorporation of the trade secrets into the plugs made by appellees was more than slight and not derived from other sources. Appellees cannot be allowed to bypass the expense of research and development that would be required of every other competitor by simply waiting out the injunction period. 444 S.W.3d at 259-60.

4. TUTSA's Presumption Favoring Protective Orders

TUTSA contains fairly strong language instructing courts to issue protective orders to protect trade secrets by reasonable means. While other states that have adopted the Uniform Act have similar provisions, it is unclear how conflicts with other rules or statutes might be resolved.

TUTSA states in relevant part that:

In an action under this chapter, a court shall preserve the secrecy of an alleged trade secret by reasonable means. There is a presumption in favor of granting protective orders to preserve the secrecy of trade secrets. Protective orders 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. Tex. Civ. Prac. & Rem. Code Ann. § 134A.006.

In a separate section of the statute, TUTSA also contains a provision that it controls over conflicting Texas Rules of Civil Procedure. Tex. Civ. Prac. & Rem. Code Ann. § 134A.007. Because the statute was only recently enacted, there are no reported decisions discussing how TUTSA's provisions might be harmonized with other Texas Rules of Civil Procedure. For example, while TUTSA authorizes courts to seal records containing trade secrets, it does not address whether this authorization is limited by Rule 76a which governs sealing court records.

5. TUTSA's Attorney's Fee Provision

TUTSA's attorney's fees provision has not yet been the subject of decisional analysis; however, it creates the potential to change outcomes in a significant way. Under Texas common law, there was no right to recover attorneys' fees for misappropriation of trade secrets. Parties, however, often sought their fees by filing a claim under the Texas Theft Liability Act, which provides for the recovery of attorneys' fees to the prevailing party. Tex. Civ. Prac. & Rem. Code Ann. § 134.005 (West 2017) (“(b) Each person who prevails in a suit under this chapter shall be awarded court costs and reasonable and necessary attorney’s fees.”); Joseph F. Cleveland Jr., J. Heath Coffman, *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, 755 (2013).

More important, both plaintiffs and defendants could recover attorneys' fees without a showing of bad faith, or other degree of scienter. A prevailing defendant is entitled to attorney's fees “without any prerequisite that the claim is found to be groundless, frivolous, or brought in bad faith.” *Arrow Marble, LLC v. Estate of Killion*, 441 S.W.3d 702, 706 (Tex. App.—Houston [1st Dist.] 2014, no pet.); *Air Routing Int'l Corp. (Canada) v. Britannia Airways, Ltd.*, 150 S.W.3d 682, 686 (Tex.App.—Houston [14th Dist.] 2004, no pet.).

In contrast to the Texas Theft Liability Statute, TUTSA provides for an award of attorney's fees as follows:

The court may award reasonable attorney's fees to the prevailing party if:

- (1) a claim of misappropriation is made in bad faith;
- (2) a motion to terminate an injunction is made or resisted in bad faith; or
- (3) wilful and malicious misappropriation exists. Tex. Civ. Prac. & Rem. Code Ann. § 134A.005.

Because of TUTSA’s preemption provision, this raises the question whether a higher degree of culpability may now be required to recover attorneys fees in trade secret cases. Further, subsection 134A.007(a) states that, subject to limited exceptions, “this chapter displaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret.” *Id.* § 134A.007(a). Specifically, chapter 134A “does not affect: (1) contractual remedies, whether or not based upon misappropriation of a trade secret; (2) other civil remedies that are not based upon misappropriation of a trade secret; or (3) criminal remedies, whether or not based upon misappropriation of a trade secret.” *Id.* § 134A.007(b); *Baxter & Associates, L.L.C. v. D & D Elevators, Inc.*, 05-16-00330-CV, 2017 WL 604043, at *6 (Tex. App.—Dallas Feb. 15, 2017, no. pet. h.).

When an employee or company misappropriates a trade secret, this constitutes a theft of property subject to liability under the Texas Theft Liability Act. One of the civil remedies for this theft of trade secrets is attorneys fees. Hence, TUTSA would seem to “displace” this conflicting civil remedy.

6. Actual and Exemplary Damages

Like the Uniform Act, and Texas common law, TUTSA authorizes actual and exemplary damages for misappropriation of trade secrets:

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

(b) If wilful and malicious misappropriation is proven by clear and convincing evidence, the fact finder may award exemplary damages in an amount not exceeding twice any award made under Subsection (a). Tex. Civ. Prac. & Rem. Code Ann. § 134A.004.

The Texas Supreme Court, applying TUTSA’s damage provision recently in a case involving the alleged misappropriation of information related to oil and gas properties, has held that “a flexible and imaginative approach is applied to the calculation of damages in misappropriation-of-trade-secrets cases. *Sw. Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d 699, 710–11 (Tex. 2016) (citing *Univ. Computing Co. v. Lykes–Youngstown Corp.*, 504 F.2d 518, 538 (5th Cir. 1974)). Damages in misappropriation cases can therefore take several forms, including the value of the plaintiff’s lost profits, the defendant’s actual profits from the use of the secret, the

value a reasonably prudent investor would have paid for the trade secret, the development costs the defendant avoided by the misappropriation, and a reasonable royalty. *Bohnsack v. Varco, L.P.*, 668 F.3d 262, 280 (5th Cir. 2012). “[E]ach case is controlled by its own peculiar facts and circumstances.” *Univ. Computing*, 504 F.2d at 538 (quoting *Enter. Mfg. Co. v. Shakespeare Co.*, 141 F.2d 916, 920 (6th Cir. 1944)).

Lost profits are typically sought in trade secrets cases. In addition to the plaintiff proving lost profits by providing its own objective financial data from which lost profits can be calculated, the Texas Supreme Court has indicated that the actual profits of the defendant may be a reasonable alternative. *Sw. Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d 699, 711 (Tex. 2016) (“Value to the defendant may be measured by the defendant’s actual profits resulting from the use or disclosure of the trade secret (unjust enrichment), the value a reasonably prudent investor would have paid for the trade secret, or development costs that were saved. *Univ. Computing*, 504 F.2d at 536, 538–39; *Precision Plating & Metal Finishing Inc. v. Martin Marietta Corp.*, 435 F.2d 1262, 1263–64 (5th Cir. 1970); *Elcor Chem. Corp.*, 494 S.W.2d at 214.”)

The Texas Supreme Court has also held that as an alternative to lost profits, a trade secret plaintiff is to seek trade secret damages based on a reasonable royalty. *Sw. Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d 699, 711 (Tex. 2016) (“Absent proof of a specific injury, the plaintiff can seek damages measured by a “reasonable royalty.” *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1208 (5th Cir. 1986); *Univ. Computing*, 504 F.2d at 536–39. “[B]ecause the precise value of a trade secret may be difficult to determine, ‘the proper measure is to calculate 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.’” *Mid-Michigan Comput. Sys., Inc. v. Marc Glassman, Inc.*, 416 F.3d 505, 510–11 (6th Cir. 2005). The 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. *Metallurgical Indus.*, 790 F.2d at 1208; *Univ. Computing*, 504 F.2d at 540. A reasonable royalty is, in essence, a proxy for the value of what the defendant appropriated, but it is not simply a percentage of the defendant’s actual profits. *See Metallurgical Indus.*, 790 F.2d at 1208; *Univ. Computing*, 504 F.2d at 537.”).

Interestingly, the Texas Supreme Court has held that uncertainty, (but something more than speculation), does not preclude recovery. *Sw. Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d 699, 711–12 (Tex. 2016) (“In some cases, damages may be ascertained with precision, either because the parties previously agreed on the value or an industry standard provides a clear measure.”) *Univ. Computing*, 504 F.2d at 538–39. But lack of certainty does not preclude recovery. *Id.* at 539 (“Where the damages are uncertain, however, we do not feel that the uncertainty should preclude recovery; the plaintiff should be afforded every opportunity to prove damages once the misappropriation is shown.”). The fact finder must have sufficient evidence to determine the value a reasonably prudent investor would pay for the trade secret, *Bohnsack*, 668 F.3d at 280, and to meet that standard, the plaintiff need only demonstrate “the extent of damages as a matter of just and reasonable inference,” even if the extent is only an approximation, *DSC Comm’s Corp. v. Next Level Comm’s*, 107 F.3d 322, 330 (5th Cir. 1997”).

On the other hand, damages are unavailable when they are calculated based on speculative information. *SW. Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d 699, 712 (Tex. 2016) (“Damage estimates, however, cannot be based on sheer speculation. *Metallurgical Indus.*, 790 F.2d at 1208.)

“If too few facts exist to permit the trier of fact to calculate proper damages, then a reasonable remedy in law is unavailable.” *Id.*; *cf. Burbage v. Burbage*, 447 S.W.3d 249, 260 (Tex. 2014) (“We require *some* concrete basis for an estimate.”).

7. TUTSA’s Preemption Provision

TUTSA’s preemption provision provides;

- (a) Except as provided by Subsection (b), this chapter displaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret.
- (b) This chapter does not affect:
 - (1) contractual remedies, whether or not based upon misappropriation of a trade secret;
 - (2) other civil remedies that are not based upon misappropriation of a trade secret; or
 - (3) criminal remedies, whether or not based upon misappropriation of a trade secret.
- (c) To the extent that this chapter conflicts with the Texas Rules of Civil Procedure, this chapter controls. Notwithstanding Section 22.004, Government Code, the supreme court may not amend or adopt rules in conflict with this chapter.
- (d) This chapter does not affect the disclosure of public information by a governmental body under Chapter 552, Government Code. Tex. Civ. Prac. & Rem. Code Ann. § 134A.007 (West 2017).

TUTSA preempts much of Texas common law regarding trade secrets. On the other hand, when it comes to whether other causes of action are preempted courts have held that where the facts supporting a common law claim are different from the facts supporting a TUTSA claim, there is no preemption. *AMID, Inc. v. Medic Alert Found. United States, Inc.*, CV H-16-1137, 2017 WL 1021685, at *27 (S.D. Tex. Mar. 16, 2017).

AMID argues that because its claim for unfair competition by misappropriation has different legal elements than its TUTSA claim, the unfair-competition claim is preempted. “Preemption, however, is not avoided simply because a claim requires different elements of proof than a [Uniform Trade Secrets Act] claim.” *Secure Energy, Inc. v. Coal Synthetics, LLC*, Civ. No. 4:08-cv-1719, 2010 WL 1691454, at *3 (E.D. Mo. Apr. 27, 2010). The focus is on whether the facts relied on to support the unfair-competition claim differ from those supporting the TUTSA claim. *Id.* (citing *On-Line Techs., Inc. v. Bodenseewerk Perkin-Elmer GmbH*, 386 F.3d 1133, 1146 (Fed. Cir. 2004) (whether Connecticut’s Uniform Trade Secret Act preempted a fraud claim depended on whether different facts supported the misappropriation claim)).

In *Baxter*, the Court applied TUTSA’s preemption provision and held that it effectively changes what constitutes a trade secret. Under Texas common law, prior to TUTSA, if an employee acquired information by virtue of the employment relationship, that information is a trade secret because it was acquired in the course of a confidential relationship. After TUTSA, according to *Baxter*, the same information is not a trade secret. *Baxter & Associates, L.L.C. v. D & D Elevators, Inc.*, 05-16-00330-CV, 2017 WL 604043, at *9 (Tex. App.—Dallas Feb. 15, 2017, no. pet. h.) (“We conclude the evidence is legally and factually sufficient to support an implied finding that the information in question was not within the definition of “trade secret” in subsection 134A.002(6)(A) because it did not “derive[] independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use.”) See *id.* § 134A.002(6)(A).

C. The Defend Trade Secrets Act

The Defend Trade Secrets Act of 2016, which President Obama signed into law on May 11, 2016, amends the Economic Espionage Act (a criminal statute empowering the Attorney General to bring criminal charges for trade-secret theft) and expands the body of trade-secret misappropriation law that has been traditionally reserved to the states. The federal act essentially codifies the Uniform Trade Secrets Act, a model rule that has been adopted by forty-eight states. Sandra L. Rierison, *Toward A More Coherent Doctrine of Trademark Genericism and Functionality: Focusing on Fair Competition*, 27 *Fordham Intell. Prop. Media & Ent. L.J.* 691, 760 (2017). However, the DTSA does have some additional provisions that are not found in other uniform trade secret acts amongst the states.

Most notably, the DTSA includes an *ex parte* seizure remedy akin to that found in federal trademark law. John Balitis & Cameron Johnson, *The Defend Trade Secrets Act of 2016 What Are Trade Secrets and Why Are They Important?*, *Ariz. Att’y 22*, 23 (2017).

The DTSA was enacted with broad bipartisan support in the wake of a consensus in the business community that trade secret theft damages the United States economy by hundreds of billions of dollars annually. John Balitis & Cameron Johnson, *The Defend Trade Secrets Act of 2016 What Are Trade Secrets and Why Are They Important?*, *Ariz. Att’y 22*, 23 (2017). (“[Reports] from the Commission on the Theft of American Intellectual Property and the other from the Center for Responsible Enterprise and Trade and PricewaterhouseCoopers LLP—claimed that the financial impact of trade-secret misappropriation has reached unprecedented levels and is costing the U.S. economy approximately \$300 billion to \$480 billion annually.”).

The Defend Trade Secrets Act’s core provisions are located throughout 18 U.S.C. §§ 1836-39. Although the DTSA was largely modeled after and therefore mirrors many aspects of state trade-secret statutes, the DTSA does *not* displace or preempt state law. Thus, in counseling a client on matters pertaining to trade secret misappropriation, it is critical for attorneys to understand the key differences and similarities between the DTSA and the trade-secret statute of the state in which the alleged misappropriation occurs. John Balitis & Cameron Johnson, *The Defend Trade Secrets Act of 2016 What Are Trade Secrets and Why Are They Important?*, *Ariz. Att’y 22*, 23–24 (2017).

As of May 10, 2017, one hundred twenty-nine DTSA cases had been filed in federal court, according to one law firm’s informal survey reported in Law360. Twenty-five of those cases have

been resolved. Consequently, while it appears that litigants are taking advantage of the DTSA, it is too early to determine the manner and extent to which the DTSA may affect the decisional law regarding trade secrets.

1. Notable Provisions of the DTSA

(a) Right of Private Action

18 U.S.C.A. § 1836(b)(1) and 18 U.S.C.A. § 1836(c) authorize parties to file claims for trade secrets in federal court:

Private civil actions.—

In general.—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.

Jurisdiction.—The district courts of the United States shall have original jurisdiction of civil actions brought under this section.

(b) Three Year Statute of Limitations

18 U.S.C.A. § 1836(d) establishes a three year statute of limitations for DTSA claims:

Period of limitations—A civil action under subsection (b) may not be commenced later than 3 years after the date on which the misappropriation with respect to which the action would relate is discovered or by the exercise of reasonable diligence should have been discovered. For purposes of this subsection, a continuing misappropriation constitutes a single claim of misappropriation.

(c) DTSA’s Civil Seizure Provision

18 U.S.C.A. § 1836(b) contains DTSA’s civil seizure provision. This provision of the DTSA allows courts to order the seizure of trade-secret materials by law enforcement upon an *ex parte* application. 18 U.S.C. § 1836(b)(2). The DTSA’s seizure remedy is available in “extraordinary” circumstances in which it is “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).

The court must find, among other things, that “it clearly appears from specific facts that” a preliminary injunction or temporary restraining order would be inadequate “because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order.”

The court also must find that the material to be seized is indeed a trade secret that was misappropriated by the person against whom seizure would be ordered and that such person “would destroy, move, hide, or otherwise make such matter inaccessible to the court.” 18 U.S.C.

§ 1836(b)(2)(A)(ii); *see also* John Balitis & Cameron Johnson, *The Defend Trade Secrets Act of 2016 What Are Trade Secrets and Why Are They Important?*, Ariz. Att’y 22, 25 (2017).

At least three Federal District Courts have analyzed the DTSA’s seizure provisions in cases where a party moved to seize assets to preserve evidence. In each of these cases, the courts held that Fed. R. Civ. P. 65 allowed seizure without compliance with the DTSA’s unique procedural requirements. *Magnesita Refractories Co. v. Mishra*, 2:16-CV-524-PPS-JEM, 2017 WL 365619, at *2 (N.D. Ind. Jan. 25, 2017) (“although the DTSA only has been in effect since May 11, 2016, at least two other courts presiding over cases involving DTSA claims have issued temporary restraining orders under Rule 65 ordering the seizure of property without so much as a mention of Rule 64.”) *See Earthbound Corporation v. MiTek USA, Inc.*, C16-1150 RSM, 2016 WL 4418013, at *11 (W.D. Wash. Aug. 19, 2016) (granting a TRO requiring defendants to turn over to a neutral third-party expert all flash drives, SD cards, cell phones, and other external devices for forensic imaging); *Panera, LLC v. Nettles*, 4:16cv1181-JAR, 2016 WL 4124114, at *2-4 (E.D. Mo. Aug. 3, 2016) (granting a TRO requiring defendant to turn over his personal laptop and any other materials that may have housed plaintiff’s materials for review and inspection). In other words, these courts had no problem relying on a Rule 65 temporary restraining order, rather than the DTSA, to accomplish the seizure.”).

The full text of the civil seizure provision of the DTSA provides that:

(2) Civil seizure.—

(A) In general.—

(i) Application.—Based on an affidavit or verified complaint satisfying the requirements of this paragraph, 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.

(ii) Requirements for issuing order.—The court may not grant an application under clause (i) unless the court finds that it clearly appears from specific facts that—

(I) an order issued pursuant to Rule 65 of the Federal Rules of Civil Procedure or another form of equitable relief would be inadequate to achieve the purpose of this paragraph because the party to which the order would be issued would evade, avoid, or otherwise not comply with such an order;

(II) an immediate and irreparable injury will occur if such seizure is not ordered;

(III) the harm to the applicant of denying the application outweighs the harm to the legitimate interests of the person against whom seizure would be ordered of granting the application and substantially outweighs the harm to any third parties who may be harmed by such seizure;

(IV) the applicant is likely to succeed in showing that—

(aa) the information is a trade secret; and

(bb) the person against whom seizure would be ordered—

(AA) misappropriated the trade secret of the applicant by improper means;

or

(BB) conspired to use improper means to misappropriate the trade secret of the applicant;

(V) the person against whom seizure would be ordered has actual possession of—

(aa) the trade secret; and

(bb) any property to be seized;

(VI) the application describes with reasonable particularity the matter to be seized and, to the extent reasonable under the circumstances, identifies the location where the matter is to be seized;

(VII) the person against whom seizure would be ordered, or persons acting in concert with such person, would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person; and

(VIII) the applicant has not publicized the requested seizure.

(B) Elements of order.—If an order is issued under subparagraph (A), it shall—

(i) set forth findings of fact and conclusions of law required for the order;

(ii) provide for the narrowest seizure of property necessary to achieve the purpose of this paragraph and direct that the seizure be conducted in a manner that minimizes any interruption of the business operations of third parties and, to the extent possible, does not interrupt the legitimate business operations of the person accused of misappropriating the trade secret;

(iii) **(I)** be accompanied by an order protecting the seized property from disclosure by prohibiting access by the applicant or the person against whom the order is directed, and prohibiting any copies, in whole or in part, of the seized property, to prevent undue damage to the party against whom the order has issued or others, until such parties have an opportunity to be heard in court; and

(II) provide that if access is granted by the court to the applicant or the person against whom the order is directed, the access shall be consistent with subparagraph (D);

(iv) provide guidance to the law enforcement officials executing the seizure that clearly delineates the scope of the authority of the officials, including—

(I) the hours during which the seizure may be executed; and

(II) whether force may be used to access locked areas;

(v) set a date for a hearing described in subparagraph (F) at the earliest possible time, and not later than 7 days after the order has issued, unless the party against whom the order is directed and others harmed by the order consent to another date for the hearing, except that a party against whom the order has issued or any person harmed by the order may move the court at any time to dissolve or modify the order after giving notice to the applicant who obtained the order; and

(vi) require the person obtaining the order to provide the security determined adequate by the court for the payment of the damages that any person may be entitled to recover as a result of a wrongful or excessive seizure or wrongful or excessive attempted seizure under this paragraph. (emphasis added)

While the civil seizure remedy is clearly a powerful tool, it comes with a long list of requirements and potentially substantial risks. For example, unless an agreement can be obtained from the party subject to seizure, the applicant is required to set a hearing “at the earliest possible time, and not later than 7 days after the order has issued” to determine whether the order should be modified or dissolved. 18 U.S.C.A. § 1836(b)(2)(B)(v), (h)(2)(F).

There are a number of other procedural safeguard to prevent abuse of the civil seizure remedy. Richard F. Dole, Jr., *Identifying the Trade Secrets at Issue in Litigation Under the Uniform Trade Secrets Act and the Federal Defend Trade Secrets Act*, 33 Santa Clara High Tech. L.J. 470, 501–02 (2017) (“Among the statutory safeguards against abuse of this extraordinary remedy are the requirement of an affidavit or a verified complaint and court findings that it clearly appears from specific facts that: (1) equitable relief would be inadequate because the party against whom seizure is ordered would evade, avoid, or otherwise not comply with it; (2) immediate and irreparable injury would occur if seizure is not ordered; (3) the harm to the applicant from denying the application would outweigh the harm to the legitimate interests of the person against whom seizure is ordered and substantially outweigh the harm to third parties; (4) the applicant is likely to succeed in showing that the information at issue is a trade secret that the person against whom seizure is ordered either misappropriated by improper means or conspired to use improper means to misappropriate; (5) the person against whom seizure is ordered has actual possession of the trade secret and the other property to be seized; (6) the application describes with reasonable particularity the matter to be seized, and, to the extent reasonable, its location; (7) if prior notice were given, the person against whom seizure is ordered or confederates would destroy, move, hide, or otherwise make inaccessible the property to be seized; and (8) the applicant has not publicized the requested seizure, as publication could signify improper motivation.”).

More important, in the event of a wrongful or excessive seizure, the opposing party can file a claim for damages, attorneys fees, and other remedies provided for in the federal Trademark Act. (18 U.S.C. § 1836(b)(2)(G). (“[a] person who suffers damage by reason of a wrongful or excessive seizure ... has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to the same relief as is provided under section 34(d)(11) of the Trademark Act of 1946 (15 U.S.C § 1116(d)(11))”). The applicable damage provision of the Federal Trademark Act provides:

A person who suffers damage by reason of a wrongful seizure under this subsection has a cause of action against the applicant for the order under which such seizure was made, and shall be entitled to recover such relief as may be appropriate, including damages for lost profits, cost of materials, loss of good will, and punitive damages in instances where the seizure was sought in bad faith, and, unless the court finds extenuating circumstances, to recover a reasonable attorney's fee. The court in its discretion may award prejudgment interest on relief recovered under this paragraph, at an annual interest rate established under section 6621(a)(2) of Title 26, commencing on the date of service of the claimant's pleading setting forth the claim under this paragraph and ending on the date such recovery is granted, or for such shorter time as the court deems appropriate. 15 U.S.C.A. § 1116(d)(11).

(d) DTSA’s Injunction Provision

Although the DTSA authorizes injunctions, it does not authorize an applicant to prevent a person from working for a competitor, and it must be based on evidence of actual or threatened misappropriation. The DTSA’s injunction provision provides that:

In a civil action brought under this subsection with respect to the misappropriation of a trade secret, a court may--

(A) grant an injunction--

(i) to prevent any actual or threatened misappropriation described in paragraph (1) on such terms as the court deems reasonable, provided the order does not—

(I) prevent a person from entering into an employment relationship, and that conditions placed on such employment shall be based on evidence of threatened misappropriation and not merely on the information the person knows; or

(II) otherwise 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)(A)(i)(I).

Some commentators have noted that this might prevent an applicant from obtaining injunctive relief under the DTSA using the “inevitable disclosure doctrine.” Alex Harrell & Michael Yim, *The Defend Trade Secrets Act Comparing the New Federal Statute with the Utsa*, 80 Tex. B.J. 232, 233 (2017) (“The DTSA limits the scope of any injunction, however, by ostensibly restricting the application of the “inevitable disclosure doctrine,” a theory applied in a

handful of UTSA states under which a court may enjoin “threatened” misappropriation by prohibiting a company's former employee from competing with the company or accepting employment with one of its competitors if doing so would inevitably compromise any of the company's trade secrets that the former employee knows.”).

2. DTSA Provisions That Are The Same or Similar to TUTSA and Other Uniform Act State Trade Secret Statutes

(a) Definition of Trade Secret Under DTSA

18 U.S.C. § 1839 defines a trade secret under the DTSA similar to the definition found in the Uniform Trade Secrets Act:

[T]he term “trade secret” means all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

(A) the owner thereof has taken reasonable measures to keep such information secret; and

(B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.

Some commentators, however, have suggested that the federal law defines “trade secret” more broadly than the TUTSA. *See, Alex Harrell & Michael Yim, The Defend Trade Secrets Act Comparing the New Federal Statute with the UTSA*, 80 Tex. Bar. J. 232, 232–33 (2017). (“Notably, TUTSA provides that information may constitute a trade secret only if it comprises “a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of actual or potential customers or suppliers” The DTSA, on the other hand, does not limit the types of information that may constitute a trade secret, providing instead that: “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”).

The DTSA further clarifies that a trade secret may consist of “tangible or intangible” information and that it is irrelevant whether or how the information is “stored, compiled or memorialized.” Thus, the DTSA arguably allows for a finding that information existing only in an employee's mind constitutes an employer's trade secret. *See, Alex Harrell & Michael Yim,*

(b) Definition of Misappropriation Under DTSA

18 U.S.C.A. §§ 1839(b)(5-6) provide:

5) the term “misappropriation” means—

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

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

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

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

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

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

(III) derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret 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—

(I) the trade secret was a trade secret; and

(II) knowledge of the trade secret had been acquired by accident or mistake;

(6) the term “improper means”—

(A) includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means; and

(B) does not include reverse engineering, independent derivation, or any other lawful means of acquisition.

DTSA’s definition of misappropriation is not identical with the UTSA’s definition. For example, TUTSA defines “proper means” to acquire trade secrets as including “discovery by independent development, reverse engineering unless prohibited, or any other means that is not

improper. Tex. Civ. Prac. & Rem. Code § 134A.002(4). The DTSA definition of misappropriation includes a definition of “improper means” which—although stated differently from TUTSA—appears not to be different in any material respect. *See, e.g., Lifesize, Inc. v. Chimene*, 1:16-CV-1109-RP, 2017 WL 1532609, at *8 (W.D. Tex. Apr. 26, 2017) (“The definitions of misappropriation and improper means under the federal Defend Trade Secrets Act are identical to those under TUTSA in all respects material to the analysis here. *See* 18 U.S.C. § 1839. Accordingly, the Court’s discussion of TUTSA is equally applicable to Plaintiff’s DTSA claims.”).