

**TEXAS UNIFORM TRADE SECRETS ACT**

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# TEXAS UNIFORM TRADE SECRETS ACT

## I. INTRODUCTION

For more than 50 years, Texas courts have followed the definition of a “trade secret” set forth in comment b, Section 757 of the RESTATEMENT OF TORTS (1939). In 2013, Texas became the forty-eighth state to adopt the Uniform Trade Secrets Act, which is now codified in Chapter 134A of the Texas Civil Practice and Remedies Code.<sup>1</sup>

The Texas Uniform Trade Secrets Act (TUTSA) became effective on September 1, 2013,<sup>2</sup> displacing “conflicting tort, restitutionary, and other [Texas] laws providing civil remedies for misappropriation.”<sup>3</sup> Its provisions apply to the misappropriation of a trade secret that occurs on or after September 1, 2013.<sup>4</sup> A misappropriation that occurs before September 1, 2013—or one that began before that date and continues beyond the effective date—is governed by the common-law.<sup>5</sup> Thus, the common law will continue to apply in trade-secret misappropriation cases for some time to come.

Although the Act is to be “applied and construed to effectuate its general purpose to make uniform law with respect to other states,”<sup>6</sup> the common law may continue to supply the rule for determining issues falling within the interstices of the statute—what constitutes reasonable efforts to protect a trade secret, the circumstances in which a duty to protect a trade secret arises, and defenses to a statutory trade-secret misappropriation claims.

## II. DEFINITION OF A TRADE SECRET

The Texas Uniform Trade Secrets Act defines a trade secret somewhat more broadly than the common law: Under TUTSA, a “trade secrets” is “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, 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.”<sup>7</sup>

## III. REQUIREMENTS OF A TRADE SECRET UNDER TUTSA

### A. In General

The essential element of a trade secret is that it is secret. A trade secret is information that is not readily obtainable or easily discoverable by others except through the use of improper means.<sup>8</sup> Moreover, to protect information as a trade secret, the owner must have taken steps to protect the secret that are reasonable under the circumstances.<sup>9</sup> This is consistent with but not identical to the common-law requirement that to qualify as a trade secret information had to possess “a substantial element of secrecy.”<sup>10</sup>

For a trade secret to be protected under Texas law, it must have independent actual or potential economic value from not being generally known.<sup>11</sup> Therefore, matters of general knowledge in an industry cannot be appropriated as a trade secret. But even if general aspects of information are known, specific details that are not may still be entitled to trade-secret protection.<sup>12</sup>

If the ingredients of a particular product have been disclosed in scientific literature, for example, they will not qualify for trade-secret protection. Information that is readily ascertainable by independent investigation through proper means cannot be protected as a trade secret.<sup>13</sup> Likewise, the unrestricted sale of an article in which the trade secret is readily ascertainable by inspection destroys the secret, as does granting the public unrestricted access to the trade secret, unrestricted publication of the trade secret in an article, paper, or promotional material, or issuance of a patent, subject to the requirement that the person discovering the trade secret discovered it through proper means.

The timing of any disclosure of a trade secret is important in determining whether the requisite secrecy exists. Simply because information is later disclosed in a patent, or can otherwise be acquired by lawful means,

<sup>1</sup> TEX. CIV. PRAC. & REM. CODE ANN. §134A.001 *et seq.* (2013).

<sup>2</sup> TEX. CIV. PRAC. & REM. CODE ANN. §134A.008 (3) (2013).

<sup>3</sup> TEX. CIV. PRAC. & REM. CODE ANN. §134A.007(A) (2013).

<sup>4</sup> Acts of 2013, 83rd Leg. R.S., ch. 10, § 4 (eff. Sept. 1, 2013).

<sup>5</sup> Acts of 2013, 83rd Leg. R.S., ch. 10, § 8 (eff. Sept. 1, 2013).

<sup>6</sup> TEX. CIV. PRAC. & REM. CODE ANN. §134A.008 (2013).

<sup>7</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (2013).

<sup>8</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (2013).

<sup>9</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (2013).

<sup>10</sup> *Astoria Indus. of Iowa, Inc. v. SNF, Inc.*, 223 S.W.3d 616, 634 (Tex. App.—Fort Worth 2007, *pet. denied*).

<sup>11</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (2013).

<sup>12</sup> *See, e.g., Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1199 (5th Cir. 1986) (changes to zinc recovery process, general principles of which are known, may still be trade secret); *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 734-35 (5th Cir. 1982) (improvements in commercially available products can be a trade secret); *Ventura Mfg. Co. v. Locke*, 454 S.W.3d 431, 433 (Tex. Civ. App.—San Antonio 1970, no writ) (specific types and amounts of chemicals and temperatures for process for cleaning fasteners may constitute trade secrets even though general details of process are known).

<sup>13</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (2013).

does not excuse a misappropriation that occurred before disclosure through improper means.<sup>14</sup>

The limited disclosure of a trade secret to others—particularly under obligations of confidentiality—does not destroy its status as a trade secret if the owner imposes a duty to maintain secrecy, to limit use, or to prohibit discovery of the trade secret.<sup>15</sup>

TUTSA does not address the issue of what is required to impose a duty to maintain secrecy. But under Texas common law, a disclosure to others made to further the holder’s economic interests, may under appropriate circumstances, be considered a limited disclosure that does not destroy secrecy.<sup>16</sup> In *Metallurgical Industries, Inc. v. Fourtek, Inc.*, the Fifth Circuit held that the plaintiff’s disclosure of confidential information to two businesses with whom it was negotiating was a protected “limited disclosure,” as was its disclosure to a licensee under a license agreement.<sup>17</sup> Later, in *Phillips v. Frey*,<sup>18</sup> the Fifth Circuit held that “if a voluntary disclosure occurs in a context that would not ordinarily occasion public exposure and in a manner that does not carelessly exceed the imperatives of a beneficial transaction, then the disclosure is properly limited and the requisite secrecy retained.”<sup>19</sup> At common law “appropriate circumstances” might include a written confidentiality or non-disclosure agreement, disclosure under circumstances in which a confidential relationship would be found or implied<sup>20</sup> or, in some circumstances,

even in the filing of documents with governmental agencies.<sup>21</sup>

On the other hand, disclosure without appropriate protection—or without making the disclosee aware that secrecy is a condition of disclosure—may not extinguish trade secret protection because the owner has failed to take reasonable efforts under the circumstances to maintain secrecy.<sup>22</sup>

## B. Not Generally Known or Readily Ascertainable by Proper Means

Under TUTSA, information is secret only if it is not generally known or readily ascertainable through the use of proper means.<sup>23</sup> This is consistent with the common law. But simply because a trade secret *may be* lawfully acquired does not mean that one is exonerated from liability if he or she improperly acquires the trade secret through a breach a confidence, the violation of a contractual covenant, or other improper means.<sup>24</sup> The

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<sup>21</sup> See, e.g., *Taco Cabana Int’l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1124–25 (5th Cir. 1991), *aff’d on other grounds*, 505 U.S. 763 (1992) (fact that Taco Cabana was required to file plans to obtain building permit did not eviscerate its trade secret rights where defendant obtained copies of plans by false pretenses); *Grace v. Orkin Exterminating Co.*, 255 S.W.2d 279, 290 (Tex. Civ. App.—Beaumont 1953, writ ref’d n.r.e.) (although much of technical information appropriated by defendant was copyrighted and was on deposit in the U.S. Copyright Office, it was unlikely anyone would go there to read it and therefore information in plaintiff’s bulletins is still a “trade secret”).

<sup>22</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6)(B) (2013); see, e.g., *Sheets v. Yamaha Motors Corp., USA*, 849 F.2d 179, 183 (5th Cir. 1988) (inventor showed invention to manufacturer without taking any steps to maintain secrecy); *Smith v. Snap-On Tools Corp.*, 833 F.2d 578, 580 (5th Cir. 1987) (applying Wisconsin law, Fifth Circuit found inventor was not entitled to recover for misappropriation of trade secrets when disclosure was made at arm’s length without request for confidentiality or indication that compensation was expected); *Interox Am. v. PPG Indus., Inc.* 736 F.2d 194, 202 (5th Cir. 1984) (information voluntarily disclosed to third parties without restriction cannot be a trade secret). See also *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1008–09 (1984) (no reasonable expectation of confidentiality where data is submitted to federal government under circumstances where the government has no duty to protect and submitter has no protectable property right in such data); *Rx.com. v. Hruska*, No. H-05-4148, 2006 WL 2583434, at \*4–5, 2006 U.S. Dist. LEXIS 63953, at \*10–15 (S.D. Tex. Sept. 7, 2006) (former employee’s emails cannot be a trade secret because employer shared these emails with one, if not two, other companies on a non-confidential basis).

<sup>23</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6)(A) (2013). Information is generally unknown if individuals who would derive an economic benefit from it are unaware of it. See UNIFORM TRADE SECRETS ACT § 1 cmt (“The language ‘not being generally known to and not being readily ascertainable by proper means by other persons’ does not require that information be generally known to the public for trade secret rights to be lost. If the principal persons who can obtain economic benefit from information are aware of it, there is not trade secret.”).

<sup>24</sup> *In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003); *Global Water Group, Inc. v. Atchley*, 244 S.W.3d 924, 928 (Tex. App.—Dallas 2008, pet. denied); *Sharma v. Vinmar Int’l, Ltd.*, 231 S.W.3d 405, 426 (Tex. App.—Houston [14th Dist.] 2007, no pet.) (appellants did not obtain information by independent discovery but only after

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<sup>14</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.001(3) (2013).

<sup>15</sup> See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (2013) defining “improper means”; § 134A.002(3) (A) defining misappropriation; and §§ 134A.003 and 134A.004 making a person who misappropriates a trade secret subject to injunctive relief and damages.

<sup>16</sup> *Leonard v. State*, 767 S.W.2d 171, 175 (Tex. App.—Dallas 1988), *aff’d*, *Schalk v. State*, 823 S.W.2d 633 (Tex. Crim. App. 1991) (disclosure to appellant a “limited disclosure” since his job function required him to work with the data on a regular basis); *Grace v. Orkin Exterminating Co.*, 255 S.W.2d 279, 285 (Tex. Civ. App.—Beaumont 1953, writ ref’d n.r.e.) (defendant’s disclosure of confidential bulletins to secretary within business did not destroy trade secrets).

<sup>17</sup> 790 F.2d 1195, 1200 (5th Cir. 1986) (“[A] holder may divulge his information to a limited extent without destroying its status as a trade secret. To hold otherwise would greatly limit the holder’s ability to profit from his secret. If disclosure to others is made to further the holder’s economic interests, it should, in appropriate circumstances, be considered a limited disclosure that does not destroy the requisite secrecy.”).

<sup>18</sup> 20 F.3d 623 (5th Cir. 1994).

<sup>19</sup> *Phillips v. Frey*, 20 F.3d 623, 632 (5th Cir. 1994); see also *In re Ford Motor Co.*, 211 S.W.3d 295, 301–02 (Tex. 2006) (per curiam) (orig. proceeding) (mistaken production of documents covered by protective order by court employee does not constitute a voluntary waiver and does not waive trade-secret privilege no matter how many people eventually saw the materials).

<sup>20</sup> *Phillips v. Frey*, 20 F.3d 623, 629 (5th Cir. 1994) (manufacturing process was divulged in video tape and tours given to appellants during negotiations for purchase of business); *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1206–07 (5th Cir. 1986) (defendants were informed of confidentiality of process).

susceptibility of a trade secret to discovery by reverse engineering, experimentation, or discovery by other fair and lawful means does not deprive the owner of protection against acquisition by improper means. As at common law, the courts will condemn improper means to procure the secret even if could have been obtained through proper means.<sup>25</sup>

### C. Efforts Reasonable Under the Circumstances to Protect Trade Secrets

The owner of a trade secret must exert efforts that are reasonable under the circumstances to maintain secrecy.<sup>26</sup> As at common law, improper acquisition of information not subject to reasonable efforts by the trade-secret owner to maintain secrecy will not be actionable because the information will not qualify as a trade secret. TUTSA does not address what constitutes reasonable efforts under the circumstances. The statute does not provide any guidance for determining whether specific efforts to protect information are reasonable. Presumably, efforts to physically limit access to information, limiting disclosure to persons with need to know, and use of confidentiality and non-disclosure agreements will be among the things considered.<sup>27</sup>

### D. Used in Trade or Business to Give the Owner a Competitive Advantage

The RESTATEMENT required that a trade secret be something used in a trade or business.<sup>28</sup> Texas cases, often ignored this requirement, however,<sup>29</sup> and so, it

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litigation commenced and after being instructed to do so by counsel); *IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 198 (Tex. App.—Fort Worth 2005, no pet.); *Bancservices Group, Inc. v. Strunk & Assocs., L.P.*, No. 14-03-00797-CV, 2005 WL 2674985, at \*3-4, 2005 Tex. App. LEXIS 8749, at \*9 (Tex. App.—Houston [14th Dist.] Oct. 20, 2005, pet. denied) (mem. op.); *see also Nations AG II, L.L.C. v. Hide Co. L.L.C.*, No. 3:04-CV-0511-K, 2004 WL 1496312, at \*6, 2004 U.S. Dist. LEXIS 12205, at \*18–19 (N.D. Tex. June 30, 2004).

<sup>25</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.02(3)(B) (misappropriation means “(B) disclosure or use of a trade secret of another without express or implied consent by a person who (i) uses improper means to acquire knowledge of the trade secret . . .”).

<sup>26</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6)(B) (2013).

<sup>27</sup> These were some of the inquiries considered at common law in determining whether information was a trade secret. *See* In re Bass, 113 S.W.3d 735, 739-740 (Tex. 2003). *See also* UNIFORM TRADE SECRETS ACT § 1 cmt (“reasonable efforts to maintain secrecy have been held to include advising employees of the existence of a trade secret, limiting access to a trade secret on ‘need to know basis’, and controlling plant access”).

<sup>28</sup> *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 776 (1958) (“a trade secret is a process or device for continuous use in the operation of a business”).

<sup>29</sup> *See, e.g.,* *Ctr. for Econ. Justice v. Am. Ins. Ass’n*, 39 S.W.3d 337, 347 n.7 (Tex. App.—Austin 2001, no pet.) (fact that company not using information at present time does not prevent information from being a trade secret); *Bertotti v. C.E. Shepherd Co.*, 752 S.W.2d 648, 653 (Tex. App.—Houston [14th Dist.] 1998, no writ) (fact that Shepherd not presently producing the film pack is irrelevant and does not prevent it from being a trade secret);

was never clear to what extent the common law required proof that a secret be used by the owner and whether something that would otherwise qualify as a trade secret might not be held to be a trade secret simply because the owner did not yet use it. Under TUTSA, a trade secret need not be something that is used by the owner but merely something that “derives independent economic value, actual or potential.”<sup>30</sup> Hence, information that is potentially valuable may now qualify as a trade secret.

To qualify as a trade secret under common law, a secret had to give the owner a competitive advantage over those who do not know or use it.<sup>31</sup> Under TUTSA, a court need not even analyze whether a trade secret gives the owner any particular advantage. The information must merely have value by virtue of not being generally known to or being discoverable by others in the industry who could obtain value from its disclosure or use.<sup>32</sup>

## IV. SUBJECT MATTER OF TRADE SECRETS

### A. Introduction

TUTSA defines a trade secret broadly as any information that derives independent actual or potential economic value from not being generally known or readily discoverable by proper means, and provides non-limiting examples—such as formulas, patterns, compilations, programs, devices, methods, techniques, processes, financial data, or lists of actual or potential customers or suppliers.<sup>33</sup> The definition is broad enough to cover just about any subject matter.

### B. Compilations

TUTSA’s definition recites compilations as one example of information that may be protected as a trade secret. Can mere compilation of public domain information constitute a “trade secret” if considerable time and money were expended in its accumulation? At common law, the answer seemed to be no.<sup>34</sup> But under TUTSA, the pertinent inquiry is whether the *compilation* is generally known or whether the compilation is *readily* ascertainable through proper discovery. While specific information within a compilation may be known and ascertainable, TUTSA appears to allow compilations of publicly

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*Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 213 (Tex. Civ. App.—Dallas 1983, writ ref’d n.r.e.).

<sup>30</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6)(A) (2013); *see also* UNIFORM TRADE SECRETS ACT § 1, cmt (“The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use”).

<sup>31</sup> RESTATEMENT OF TORTS § 757 cmt. b (1939).

<sup>32</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6)(A) (2013).

<sup>33</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6)(A) (2013).

<sup>34</sup> *Brandon v. Cooper*, 591 S.W.2d 553, 554 (Tex. Civ. App.—Amarillo 1979, writ ref’d n.r.e.).

available information to be protected as trade secrets if the compilation *as a whole* is not generally known and is sufficiently extensive as to not be readily ascertainable.

### C. Negative Know-How

At common law, negative know-how—knowing what not to do or what does not work—was not clearly protectable as a trade secret.<sup>35</sup> Under TUTSA, negative know-how may be subject to trade-secret protection if one may derive independent value from it, it is not generally known, and it is not readily ascertainable by proper means.<sup>36</sup>

### D. Customer Lists

At common law, the question of whether customer lists were protectable (described by one court as “the trade secret quagmire”<sup>37</sup>) was complex. Over time, the courts developed a set of guidelines for application in specific cases. The result in customer-list cases often depended upon whether the custom list was written down or retained in the employee’s memory.<sup>38</sup>

Customer lists are specifically mentioned in the statute as one type of subject matter that can be protected as a trade secret.<sup>39</sup> Under TUTSA, the protectability of customer lists as trade secrets would appear to depend on whether the list is generally known to or readily ascertainable by proper means by those who can benefit from such information. The statute appears to sweep away common-law tests and guidelines.

## V. OWNERSHIP RIGHTS TO TRADE SECRETS RESULTING FROM EMPLOYMENT RELATIONSHIPS

TUTSA does not address issues of trade-secret ownership specifically. Accordingly, the common law should supply the rule as to when a company owns or acquires a trade secret.

In the circumstance where an employee is hired or employed specifically to invent, develop, or devise

improvements for the employer, any inventions and work product resulting from the employee’s work within his job responsibilities belongs to the employer.<sup>40</sup> Under the Copyright Act, the employer is considered the author and owner of the copyright in the employee’s work product, provided that the work was done by the employee within the scope of employment.<sup>41</sup> If a discovery is made by an employee outside the scope of his employment, however, it belongs to the employee unless the employee has agreed to assign such inventions to the employer.<sup>42</sup>

At common law, if a person is employed to do non-inventive work and there is no agreement to the contrary, the employee is entitled to ownership of inventions and any patents resulting from the employee’s invention created through knowledge learned on the job.<sup>43</sup> But if an employee hired to do non-inventive work uses the employer’s tools or time to develop an invention, the employer will have a non-exclusive, royalty free “shop right” to use the invention or discovery for business purposes. In such case, the inventor retains the rights to the invention or patent, and the employer acquires an implied license to use the invention or discovery in its business. The shop-right doctrine is an equitable defense to an action for patent infringement or trade-secret misappropriation. The doctrine permits an employer whose property is used in the development of an invention by an employee to practice the invention non-exclusively without payment of royalties or an express license from the inventor-employee.<sup>44</sup> The shop right also exists when an employee in one line of work devises an invention or improvement in another, using the property of the employer or the services of the other employees to develop and reduce the invention to practice.<sup>45</sup> The Texas Uniform Trade Secrets Act does not appear to alter these principles.

<sup>40</sup> *Standard Parts Co. v. Peck*, 264 U.S. 52, 59–60 (1924); *Atlas Brick Co. v. North*, 288 S.W. 146, 147 (Tex. Comm’n App. 1926, judgm’t adopted).

<sup>41</sup> *See* 17 U.S.C. §§ 101, 201 (2005).

<sup>42</sup> *Davis v. Alwac Int’l, Inc.*, 369 S.W.2d 797, 802–03 (Tex. Civ. App.—Beaumont 1963, writ ref’d n.r.e.); *Expo Chem. Co. v. Brooks*, 572 S.W.2d 8, 12 (Tex. Civ. App.—Houston [1st Dist.] 1978, writ ref’d n.r.e.), *rev’d on other grounds*, 576 S.W.2d 369 (Tex. 1979).

<sup>43</sup> *See Wommack v. Durham Pecan Co.*, 715 F.2d 962, 965–66 (5th Cir. 1983); *McClain v. State*, 269 S.W.3d 191, 198–99 (Tex. App.—Texarkana 2008, no pet.) (opinion designated for publication) (reversing conviction of trade-secret misappropriation because alleged improvements were made by defendant who was not hired to invent them); *RESTATEMENT (SECOND) OF AGENCY* § 397 (1958).

<sup>44</sup> *McClain v. State*, 269 S.W.3d 191, 198–99 (Tex. App.—Texarkana 2008, no pet.); *Am. Med. Elecs., Inc. v. Korn*, 819 S.W.2d 573, 575 (Tex. App.—Dallas 1990, writ denied).

<sup>45</sup> *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 191–92 (1933); *Wommack v. Durham Pecan Co.*, 715 F.2d 962, 965–66 (5th Cir. 1983); *Atlas Brick Co. v. North*, 288 S.W. 146, 147 (Tex. Comm’n App. 1926, judgm’t adopted).

<sup>35</sup> *See, e.g., Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1203 (5th Cir. 1986) (knowing what not to do leads automatically to conclusion of what to do; refusing to hold that negative know-how is always unprotectable). *Cf. Hurst v. Hughes Tool Co.*, 634 F.2d 895, 899 (5th Cir. 1981) (information supplied by plaintiff was not sole or even primary source of data used in making decision to treat journal bearing pins; plaintiff’s information, which was not disclosed in confidence, provided only negative input to defendant).

<sup>36</sup> *See* UNIFORM TRADE SECRETS ACT § 1 cmt. 1 (“The definition includes information that has commercial value from a negative viewpoint, for example, the results of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor”).

<sup>37</sup> *Crouch v. Swing Mach. Co., Inc.*, 468 S.W.2d 604, 606 (Tex. Civ. App.—San Antonio 1971, no writ).

<sup>38</sup> *See, e.g. Dannenbaum, Inc. v. Brummerhop*, 840 S.W.2d 624, 632–33 (Tex. App.—Houston [14th Dist.] 1992, writ denied).

<sup>39</sup> *TEX. CIV. PRAC. & REM. CODE ANN.* § 134A.002(6) (2013).

## VI. CAUSE OF ACTION FOR MISAPPROPRIATION OF TRADE SECRET

### A. Introduction

Under TUTSA, misappropriation of a trade secret occurs by either improper acquisition or disclosure of another's trade secret. Improper use of a trade secret is subsumed within the definition of disclosure.<sup>46</sup> The elements of a statutory trade-secret misappropriation claim are: (1) a trade secret exists;<sup>47</sup> (2) the trade secret was improperly acquired;<sup>48</sup> or (3) the trade secret was disclosed or used without the owner's permission.<sup>49</sup>

A plaintiff in a trade-secret case must also establish ownership of the trade secret.<sup>50</sup> Usually, ownership is subsumed into the question of whether a trade secret exists, because the information the plaintiff seeks to protect is normally information that the plaintiff has acquired or developed in the course of conducting its business. When the plaintiff acquires the trade secret from another, such as in an asset sale, merger, or other change in ownership, however, the plaintiff must prove that it owns the trade secret as it would any other intellectual property right.<sup>51</sup> A plaintiff does not have standing to sue for trade-secret misappropriation unless it can prove that it owned the trade secret at the time the suit was filed.<sup>52</sup>

### B. Existence of a Trade Secret

The threshold issue in any trade secret case is the existence of a trade secret. No matter how reprehensible the conduct, if information appropriated by the defendants is not a trade secret, there is no liability. This is reflected in the definition of misappropriation either by "acquisition" or "disclosure."<sup>53</sup> Bad faith acts or highly culpable conduct on the defendants' part does not convert

information not otherwise protectible into a trade secret.<sup>54</sup>

The question of whether a trade secret exists is a question of fact,<sup>55</sup> and the plaintiff bears the burden of proof. Once the plaintiff makes a prima facie case for the existence of a trade secret, the burden shifts to the defendant to prove the alleged trade secret does not qualify as such.<sup>56</sup> Whether something is a trade secret is determined by reference to when the defendant learned it and misused it, not when the suit was filed.<sup>57</sup> If the alleged trade secret was not secret at the time the defendant learned of it, no duty can arise to protect or not use the information.<sup>58</sup> But if the defendant breaches a confidential relationship or otherwise acts improperly *before* the secret becomes public, the fact that the trade secret later ceases to be a secret will not exonerate the misappropriator,<sup>59</sup> although it may affect injunctive relief.<sup>60</sup>

### C. Improper Acquisition

The statute defines actionable misappropriation as "acquisition of a trade secret by a person who knows or has reason to know that the trade secret was acquired by improper means."<sup>61</sup> "Improper means," defined by the statute, is discussed below.<sup>62</sup> Unlike the common law, where mere acquisition of a trade secret without use might not be actionable,<sup>63</sup> acquisition alone is

<sup>54</sup> See *Luccous v. J.C. Kinley Co.*, 376 S.W.2d 336, 338 (Tex. 1964).

<sup>55</sup> *Wellogix, Inc. v. Accenture, LLP.*, 716 F.3d 867, 874 (5th Cir. 2013); *Gen. Universal, Sys., Inc. v. Lee*, 379 F.3d 131, 150 (5th Cir. 2004); *Grand Time Corp. v. Watch Factory, Inc.*, No. 3:08-CV-1770-K, 2010 WL 92319, at \*4 (N.D. Tex. Jan. 6, 2010).

<sup>56</sup> *Wellogix, Inc. v. Accenture, LLP.*, 716 F.3d 867, 874 (5th Cir. 2013).

<sup>57</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(A)-(B) (2013).

<sup>58</sup> *Cataphote Corp. v. Hudson*, 444 F.2d 1313, 1315-17 (5th Cir. 1971); *Bluebonnet Petroleum, Inc. v. Kolkhorst Petroleum Co.*, No. 14-07-00380-CV, 2008 WL 4527709, at \*4, 2008 Tex. App. LEXIS 7724, at \*11 (Tex. App.—Houston [1st Dist.] Oct. 9, 2008, pet. denied); *S.P. Midtown, Ltd. V. Urban Storage, L.P.*, No. 14-07-00717-CV, 2008 WL 1991747, at \*5 n.5, 2008 Tex. App. LEXIS 3364, at \*14 n.5 (Tex. App.—Houston [14th Dist.] May 8, 2008, pet. denied) (mem. op.); *Stewart & Stevenson Servs., Inc.*, 879 S.W.2d 89, 99 Tex. App.—Houston [14th Dist.] 1994, writ dismissed; *Lawfinders Assocs. v. Legal Research Ctr.*, 65 F. Supp. 2d 414, 419-21 (N.D. Tex. 1998); *Adelphon, Inc. v. DiRico & Indus. Elec. & Elec., Inc.*, 23 U.S.P.Q.2d (BNA) 1798, 1800 (N.D. Tex. 1992).

<sup>59</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(A)-(B) does not depend on when a claim is asserted or a suit is filed. See also *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 778 (1958).

<sup>60</sup> See § IX.A. below

<sup>61</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(A) (2013).

<sup>62</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (2013).

<sup>63</sup> Activities short of direct use of a trade secret in competition with the trade secret owner were not actionable at common law. See e.g., *Metallurgical Indus., Inc. v. Fourtek*, 790 F.2d 1195, 1205 (5th Cir. 1986) (liability where party merely purchased a furnace

<sup>46</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(B)(i) (2013).

<sup>47</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(A)-(B) (2013). The definition of misappropriation presupposes the existence of a trade secret, which is defined in §134A.002(2).

<sup>48</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3) (A) (2013).

<sup>49</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(B) (2013). Damage or injury is not a necessary element. Indeed, TUTSA explicitly provides for injunctive relief to enjoin threatened misappropriation, *i.e.*, misappropriation that has not yet occurred and caused injury.

<sup>50</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6). To establish misappropriation, the plaintiff must establish that a trade secret was misappropriated. See also *Gaia Techs. Inc. v. Recycled Prods. Corp.*, 1753 F.3d 365, 376 (5th Cir. 1999).

<sup>51</sup> *Gaia Techs. Inc. v. Recycled Prods. Corp.* 175 F.3d 365, 376 (5th Cir. 1999).

<sup>52</sup> *Gai Techs., Inc. v. Reconversion Techs., Inc.*, 93 F.3d 774, 779-80 (Fed. Cir. 1996), *amended on reh'g in part* by 104, F.3d 1296 (Fed. Cir. 1996) (applying Texas law); *Triple Tee Golf, Inc. v. Nike, Inc.*, 511 F. Supp. 2d 676, 699 (N.D. Tex. 2007).

<sup>53</sup> TEX. CIV. PRAC. & REM. CODE ANN. §§ 134A.002(3)(A) & (B) (2013).

actionable under the Uniform Trade Secrets Act.<sup>64</sup> Liability extends not only to those who actually acquired another's trade secret improperly but also to those who knew or had reason to know it was improperly acquired.<sup>65</sup> This principle is particularly applicable to departing employees who possess and use trade secrets of their former employer in the business of their subsequent employers without that employer's knowledge.<sup>66</sup>

#### D. Unauthorized Disclosure and Use

The statute also defines actionable misappropriation as "disclosure or use of a trade secret . . . without express or implied consent."<sup>67</sup> A person is liable for disclosure or use of another's trade secret in any of three circumstances. First, and most obvious, a person is liable for misappropriation of a trade secret if he uses improper means to acquire knowledge of the secret.<sup>68</sup> Second, a person will be liable for disclosing or using another's trade secret if, *at the time the trade secret was disclosed or used*, he knew or had reason to know that the trade secret was derived by someone else who had (1) used improper means to acquire it; (2) acquired it under circumstances giving rise to a duty to maintain its secrecy; or (3) derived it from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use.<sup>69</sup> The third circumstance in which a person can be liable involves acquisition or use of another's trade secret by accident or mistake. In those circumstances, liability depends on whether, before he materially changed his position, he learned or had reason to know that information he acquired was a trade secret and that he had acquired it by accident or mistake.<sup>70</sup>

#### E. Discovery of Trade Secret by Improper Means

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that could be used to carry out alleged secret process because furnace never used); *Allen v. Radio One of Tex. II, LLC.*, No. H-09-4088, 2011 WL 2313210, at \*4, 2011 U.S. Dist. LEXIS 61794, at \*8-10 (S.D. Tex. June 20, 2011), *aff'd on other grounds*, 2013 WL 703832, 2013 U.S. App. LEXIS 4363 (5th Cir. Feb. 26, 2013) (refusing to grant injunctive relief because confidential information retained by former employee was inadvertent and never used).

<sup>64</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(A) (2013).

<sup>65</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3) (2013).

<sup>66</sup> An employer who knows or is placed on notice that an employee had access to trade secrets of a former employer may have heightened responsibility to make sure the new employee does not use the former employer's trade secrets.

<sup>67</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3) (2013).

<sup>68</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(B) (2013).

<sup>69</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(B)(i), (ii), (a), (b), (c) (2013).

<sup>70</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(B)(iii) (2013).

Discovery of another's trade secret by improper means is the key to liability under TUTSA.<sup>71</sup> The statute 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.<sup>72</sup> This is the same kind of conduct deemed to be improper discovery under the common law.<sup>73</sup> Reverse engineering, if prohibited, may likewise constitute discovery by "improper means."<sup>74</sup> Prior Texas decisions may inform the analysis of what constitutes "improper means" going forward, as may the law of other states enacting the Uniform Trade Secrets Act.<sup>75</sup>

## VII. CIVIL LIABILITY FOR TRADE-SECRET MISAPPROPRIATION

### A. Introduction

At common law, a cause of action for trade-secret misappropriation could be based on a number of theories—common-law trade-secret misappropriation, breach of a confidential or fiduciary relationship, breach of an implied contract, unfair competition, conspiracy, violation of the Texas Theft Liability Act, and conversion. Where applicable, TUTSA now replaces all common-law claims for trade-secret misappropriation, however cast, with a single, statutory claim.<sup>76</sup> The common-law tort of trade-secret misappropriation is no longer a viable cause of action if the conduct in question is governed by TUTSA. Likewise, the torts of breach of confidential or fiduciary relationship, or unfair competition are no longer viable causes of action to the extent they seek relief for trade-secret misappropriation,<sup>77</sup> but those causes of action continue to exist under Texas law to

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<sup>71</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(A)-(B) (2013).

<sup>72</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (2013). The statute also defines "proper means," the use of which would not be actionable. *See* § 134A.002(4).

<sup>73</sup> *See, e.g., Crutcher-Rolfs-Cummings, Inc. v. Ballard*, 540 S.W.2d 380, 385 (Tex. App.—Corpus Christi 1976, writ ref'd n.r.e.) (the transfer of assets and manufacturing facilities by a licensee to a subsidiary for the purpose of avoiding the payment of royalties); *Dannenbaum, Inc. v. Brummerhop*, 840 S.W.2d 624 (Tex. App.—Houston [14th Dist.] 1992, writ denied) (the use of memorized trade secret information before termination of employment); *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 533-34 (5th Cir. 1974) (commercial bribery); *Phillips v. Frey*, 20 F.3d 623, 630 (5th Cir. 1994) (inducing a trade secret owner to reveal his secret by feigning an interest in purchasing the business).

<sup>74</sup> In the absence of any prohibition, however, discovery by reverse engineering is perfectly proper. *See* §§ 134A.002(4) (defining "proper means") & 134A.002(5) ("provided that the product or device was acquired lawfully or from the person having the legal right to convey it").

<sup>75</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.008 (2013).

<sup>76</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(a) (2013).

<sup>77</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(b)(2) (2013).

the extent they address other tortious conduct. As for trade-secret claims sounding in contract, TUTSA expressly states that it “does not affect contractual remedies . . . based upon misappropriation of a trade secret.”<sup>78</sup> The statute likewise does not affect any criminal remedies based upon trade-secret misappropriation.<sup>79</sup>

The manner in which a trade-secret claim is pleaded may affect the proof required or the remedies available to the owner. Characterizing a trade-secret misappropriation claim as a breach-of-contract claim has different implications than characterizing the claim as a statutory TUTSA claim. Exemplary damages are recoverable under TUTSA but not in contract actions. Attorney’s fees are recoverable on a breach-of-contract claim and also under TUTSA, but different standards apply.<sup>80</sup> Where a plaintiff seeks recovery on both a statutory trade-secret claim and a breach-of-contract claim, damages may be recovered on either, but the plaintiff may not recover damages on both claims for the same conduct.<sup>81</sup>

## B. Breach of Confidential or Fiduciary Relationship

At common law, liability for misappropriation of trade secrets in Texas was often based on the tort of breach of confidential relationship.<sup>82</sup> If TUTSA applies, the tort of breach of confidential relationship or breach of fiduciary relationship will not provide a basis for recovery for acts of trade-secret misappropriation, although it may supply a basis for other tortious conduct.<sup>83</sup> That said, the specific violation of a duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret resulting from a confidential or fiduciary relationship will ordinarily qualify as “improper means” under the statute, triggering statutory trade-secret misappropriation liability.<sup>84</sup> In cases where the duty to maintain secrecy

is not contractual, but implied, the common law should supply the answer as to whether and when such a duty arises.

In legal relationships, such as partnerships, joint ventures, and relationships between corporations, their officers, directors, managers, and key employees, a confidential or fiduciary relationship may exist matter of law.<sup>85</sup> But in most other relationships, the existence of a confidential or fiduciary relationship is one of fact.<sup>86</sup>

The Texas Supreme Court has held that an express agreement to keep a matter confidential is not necessary when the actions of the parties, the nature of the arrangement, and the circumstances of the relationship viewed *as a whole* establish the existence of a confidential relationship.<sup>87</sup> However, the absence of a non-disclosure agreement or covenant is a factor that the court should consider in determining whether there is a confidential relationship and a duty to maintain, limit use, or prohibit discovery of a trade secret.<sup>88</sup>

Texas courts have refused to find confidential relationships as a matter of law in licensing transactions,<sup>89</sup> manufacturer-sales representative

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duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret . . .”).

<sup>85</sup> See RESTATEMENT OF TORTS § 757, cmt. b (1939) (partners or other joint venturers are in confidential relationship); Gen. Universal Sys., Inc. v. Lee, 379 F.3d 131, 151 (5th Cir. 2004); Zeecon Indus. v. Am. Stockman Tag Co., 713 F.2d 1174, 1178 (5th Cir. 1983) (key management personnel); Zinco-Sherman, Inc. v. Adept Food Solutions, Inc., No. H-06-1081, 2006 WL 1061917, at \*2, 2006 U.S. Dist. LEXIS 26615, at \*4–6 (S.D. Tex. Apr. 21, 2006); Int’l Bankers Life Ins. Co. v. Holloway, 368 S.W.2d 567, 576 (Tex. 1963) (officers and directors of corporation); Peckham v. Johnson, 98 S.W.2d 408, 412–13 (Tex. Civ. App.—Fort Worth 1936, no writ) (partners in a joint venture).

<sup>86</sup> See, e.g., T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc., 965 S.W.2d 18, 24 (Tex. App.—Houston [1st Dist.] 1998, no pet.).

<sup>87</sup> Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, 777 (1958); EEMSO, Inc. v. Compex Techs., Inc., No. 3:05-CV-0897-P, 2006 WL 2583174, at \*7, 2006 U.S. Dist. LEXIS 67225, at \*19 (N.D. Tex. Aug. 31, 2006); Holloman v. O. Mustad & Sons (USA) Inc., 196 F. Supp. 2d 450, 459 (E.D. Tex. 2002).

<sup>88</sup> Hollomon v. O. Mustad & Sons (USA), Inc., 196 F. Supp. 2d 450, 459–460 (E.D. Tex. 2002); see Expansion Plus Inc. v. Brown-Forman Corp., 132 F.3d 1083, 1086 (5th Cir. 1998); J.C. Kinley Co. v. Haynie Wire Line Serv., 705 S.W.2d 193, 196 (Tex. App.—Houston [1st Dist.] 1985, writ ref’d n.r.e.); Varco LP v. Bohnsack, No. H-08-1481, 2010 WL 2900316, at \*5, 2010 U.S. Dist. LEXIS 72878, at \*15 & n.1 (S.D. Tex. July 20, 2010), *aff’d on other grounds*, 668 F.3d 262 (5th Cir. 2012) (McClung not a party to secrecy agreement between his employer and Bohnsack and therefore could not have breached a confidential relationship created thereunder); Globex Int’l, Inc. v. DiSabato, No. 3:05-CV-1814-N, 2008 WL 5586053, at \*1, 2008 U.S. Dist. LEXIS 107213, at \*4 (N.D. Tex. Aug. 19, 2008) (secrecy agreement between a party’s employer and another party does not create a confidential relationship between the employee and that party).

<sup>89</sup> Hollomon v. O. Mustad & Sons (USA), Inc., 196 F. Supp. 2d 450, 459 (E.D. Tex. 2002); J.C. Kinley Co. v. Haynie Wire Line Serv., 705 S.W.2d 193, 196 (Tex. App.—Houston [1st Dist.] 1985, writ ref’d n.r.e.).

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<sup>78</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(b)(1) (2013).

<sup>79</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(b)(3) (2013).

<sup>80</sup> Cf. TEX. CIV. PRAC. & REM. CODE ANN. § 38.001 (1985) and TEX. CIV. PRAC. & REM. CODE ANN. § 134A.005 (2013).

<sup>81</sup> See, e.g., Quest Med., Inc. v. April, 90 F.3d 1080, 1093–94 (5th Cir. 1996); Holland v. Hayden, 901 S.W.2d 763, 767 (Tex. App.—Houston [14th Dist.] 1995, writ denied); Calstar Props., L.L.C. v. City of Fort Worth, 139 S.W.3d 433, 439–40 (Tex. App.—Fort Worth 2004, no pet.).

<sup>82</sup> See, e.g., Trilogy Software, Inc. v. Callidus Software, Inc., 143 S.W.3d 452, 463 (Tex. App.—Austin 2004, pet. denied); Complete Pharmacy Res., Ltd. v. Feltman, No. H-04-3477, 2005 WL 1949540, at \*8 (S.D. Tex. Aug. 12, 2005); Crutcher-Rolfs-Cummings, Inc. v. Ballard, 540 S.W.2d 380, 387 (Tex. Civ. App.—Corpus Christi 1976, writ ref’d n.r.e.).

<sup>83</sup> The tort claims are pre-empted only to the extent they are based on trade-secret misappropriation. Section 134A.007(b) (“this chapter does not affect (b) other civil remedies, whether or not based on misappropriation of a trade secret”).

<sup>84</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (2013) (improper means includes “breach or inducement of a breach of a

relationships,<sup>90</sup> business-purchase relationships,<sup>91</sup> and inventor-manufacturer relationships.<sup>92</sup> Nevertheless, in many of these relationships, the circumstances often support the existence of a confidential relationship.<sup>93</sup>

Courts will likely find a confidential relationship in circumstances in which the disclosing party makes it clear that the disclosure is intended as part of a course of negotiations aimed at creating a business relationship even if nothing is specifically said about confidentiality.<sup>94</sup> The existence of a confidential or fiduciary relationship, according to common-law principles, gives rise to a duty to protect, not disclose or use trade secrets and confidential information, which, if breached, constitutes use of improper means.<sup>95</sup>

The courts sometimes find confidential relationships in the employment context when trade secrets have been disclosed without a written or oral agreement.<sup>96</sup> Thus, when an employee has an intimate knowledge of the employer's business, a confidential relationship may be implied even without an express agreement.<sup>97</sup> Courts will prohibit former employees from disclosing or using confidential information

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<sup>90</sup> *Micromanipulator Co., Inc. v. Bough*, 779 F.2d 255, 257 n.5 (5th Cir. 1985); *see also Frosty Bites, Inc. v. Dippin' Dots, Inc.*, No. 3-01-CV-1532-M, 2003 WL 21196427, at \*5, 2003 U.S. Dist. LEXIS 8472, at \*14–15 (N.D. Tex. May 19, 2003).

<sup>91</sup> *Phillips v. Frey*, 20 F.3d 623, 632 (5th Cir. 1994).

<sup>92</sup> *See, e.g., Smith v. Snap-On Tools Corp.*, 833 F.2d 578, 581 (5th Cir. 1987).

<sup>93</sup> *See, e.g., Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 777 (1958); *Phillips v. Frey*, 20 F.3d 623, 632 (5th Cir. 1994).

<sup>94</sup> *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 768 (1958); *Phillips v. Frey*, 20 F.3d 623, 631 (5th Cir. 1994).

<sup>95</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (“improper means includes . . . breach . . . of a duty to maintain secrecy to limit use, or to prohibit discovery of a trade secret. . .”).

<sup>96</sup> *Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1178 (5th Cir. 1983); *Mercer v. C. A. Roberts Co.*, 570 F.2d 1232, 1238 (5th Cir. 1978); *Zinco-Sherman, Inc. v. Adept Food Solutions, Inc.*, No. H-06-1081, 2006 WL 1061917, at \*2, 2006 U.S. Dist. LEXIS 26615, at \*4–6 (S.D. Tex. Apr. 21, 2006); *Safeway Transp., Inc. v. West Chambers Transportation, Inc.*, 100 F. Supp. 2d 442, 445 (S.D. Tex. 2000); *Thermotics, Inc. v. Bat-Jac Tool Co., Inc.*, 541 S.W.2d 255, 260 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ).

<sup>97</sup> *Molex Inc. v. Nolen*, 759 F.2d 474, 479 (5th Cir. 1985) (salesman had quasi-fiduciary duty to employer under Texas law); *Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1178 (5th Cir. 1983); *Courtroom Sciences, Inc. v. Andrews*, No. 3:09-CV-251-O, 2009 WL 1313274, at \*10-11; 2009 U.S. Dist. LEXIS 39917, at \*22 (N.D. Tex. May 11, 2009); *Propath Servs., L.L.P. v. Ameripath, Inc.*, No. 3:04-CV-1912-P, 2004 WL 2389214, at \*4, 2004 U.S. Dist. LEXIS 27846, at \*8 (N.D. Tex. Oct. 21, 2004); *Safeway Transp., Inc. v. West Chambers Transp., Inc.*, 100 F. Supp. 2d 442, 445 (S.D. Tex. 2000) (trusted employee who is not an officer or director may owe quasi-fiduciary duty toward employer under Texas law); *Kinzbach Tool Co. v. Corbett-Wallace Corp.*, 138 Tex. 565, 160 S.W.2d 509, 513 (1942) (7-year trusted employee owed employer quasi-fiduciary duty); *Herider Farms-El Paso, Inc. v. Criswell*, 519 S.W.2d 473, 476 (Tex. Civ. App.—El Paso 1975, writ ref'd n.r.e.) (manager occupied a position that would imply fiduciary duties).

obtained through a confidential relationship for personal benefit or to the detriment of their former employer.<sup>98</sup>

Although not all employment relationships involve confidential relationships, a confidential relationship will be found in an employment situation when confidential information is disclosed to an employee with the instruction that it be kept confidential,<sup>99</sup> under circumstances in which the employee knows or should know that confidentiality is expected,<sup>100</sup> or under other circumstances—such as when an employee acquires an intimate knowledge of the employer's business.<sup>101</sup> In these circumstances, the common law will likely continue to supply the rule as to when a duty to protect and not use trade secrets arises.

### C. Breach of Express Contractual Provision

The most effective way to protect a trade secret is by a written agreement.<sup>102</sup> Violation of a contractual covenant not to use or disclose a trade secret may constitute both a breach of contract and statutory trade-secret misappropriation.<sup>103</sup> Trade-secret misappropriation under TUTSA may be predicated on the breach of a duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret in a non-disclosure, license, employment, or other agreement<sup>104</sup> imposed by written agreement.

### D. Third Party Derivative Liability

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<sup>98</sup> *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 770 (1958); *Sharma v. Vinmar Int'l, Ltd.*, 231 S.W.3d 405, 424 (Tex. App.—Houston [14th Dist.] 2007, no pet.); *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 21–22 (Tex. App.—Houston [1st Dist.] 1998, no pet.); *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 600 (Tex. App.—Amarillo 1995, no writ); *Am. Derringer Corp. v. Bond*, 924 S.W.2d 773, 777 (Tex. App.—Waco, 1996, no writ).

<sup>99</sup> *See, e.g., Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1204 (5th Cir. 1986); *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 212 (Tex. App.—Dallas 1973, writ ref'd n.r.e.).

<sup>100</sup> *See, e.g., Gonzales v. Zamora*, 791 S.W.2d 258, 265 (Tex. App.—Corpus Christi 1990, no writ); *Lamons Metal Gasket Co. v. Traylor*, 361 S.W.2d 211, 213 (Tex. App.—Houston 1962, writ ref'd n.r.e.); *see also Joe N. Pratt Ins. v. Doane*, No. V-07-07, 2009 WL 3157337, at \*9, 2009 U.S. Dist. LEXIS 88314, at \*30; (S.D. Tex. Sept. 25, 2009).

<sup>101</sup> *See, e.g., Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1178 (5th Cir. 1983).

<sup>102</sup> *See, e.g., Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 734 (5th Cir. 1982); *Elec. Data Sys. Corp. v. Powell*, 524 S.W.2d 393, 395 (Tex. Civ. App.—Dallas 1975, writ ref'd n.r.e.).

<sup>103</sup> TUTSA does not preempt claim for breach of contract. Section 134A.007(b)(1) (“this chapter does not affect: (1) contractual remedies, whether or not based upon misappropriation of a trade secret. . .”).

<sup>104</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (2013) (“improper means includes . . . breach or inducement of a breach of a duty to maintain secrecy, to limit use, or to prohibit discover of a trade secret, . . .”).

Under TUTSA, a person may be liable for statutory trade-secret misappropriation if he or she acquired, used, or disclosed another's trade secret with knowledge that it was acquired by improper means or if he or she had reason to know the trade secret was (1) acquired by improper means, (2) derived from or through a person who used improper means to acquire it, or (3) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use.<sup>105</sup>

A person who acquires a trade secret by accident or mistake may also be liable for trade-secret misappropriation if he discloses or uses the trade secret after learning that it had been acquired by accident or mistake.<sup>106</sup> If a person who innocently acquires a trade secret has materially changed his position before learning of the mistake, a court may permit continued use conditioned on payment of a reasonable royalty.<sup>107</sup> This situation is most likely to arise in an employment relationship in which a company employs a former employee of a competitor and, unknown to the new employer, the former employee uses trade secrets of his former employer for the benefit of the new employer.

Derivative liability may be easier to establish if the trade secret owner notifies the new employer that the former employee had access to trade secrets. Such notice, if sufficiently specific, may give the new employer "reason to know" that its new employee may be using his former employer's trade secrets. At a minimum, it may trigger a duty on the part of the new employer to conduct some investigation to ensure his new employee is not using the former employer's trade secrets. Notification is privileged as long as the trade secret owner has a good faith belief that its trade secrets are entitled to legal protection—and as long as it is motivated not by malice but by the belief that the owner could lose its trade secrets.<sup>108</sup> In *Metallurgical Industries, Inc. v. Fourtek, Inc.*,<sup>109</sup> a pre-TUTSA case, the Fifth Circuit suggested that a third party might be liable for use of another person's trade secrets if it knew there was pending trade-secret litigation but did nothing to independently investigate the possibility that the party from whom it acquired the product had wrongfully misappropriated trade secrets from a former employer.<sup>110</sup>

In addition to liability for acquiring a trade secret from a person under circumstances in which the third

party is on notice that the secret has been misappropriated, there are other situations in which third parties, particularly employers, may have liability to the trade secret owner. A person who knowingly induces another to breach a duty to maintain secrecy, limit use, or prohibit disclosure of another's trade secret will also be liable under TUTSA.<sup>111</sup>

#### E. Texas Theft Liability Act

The Texas Theft Liability Act<sup>112</sup> also provided a civil action for damages against an individual, partnership, corporation, association, or other group for theft, including theft of trade secrets as defined by Section 31.05 of the Texas Penal Code.<sup>113</sup> While the Texas Theft Liability Act did not provide injunctive relief for trade-secret misappropriation, suits for common-law trade-secret misappropriation often included parallel claims under the Theft Liability Act because the Act provided for the possibility of recovering statutory damages and attorney's fees.<sup>114</sup>

The legislature has endeavored to eliminate future trade-secret misappropriation claims under the Theft Liability Act by amending the definition of "theft" to eliminate reference to Section 31.05 of the Texas Penal Code.<sup>115</sup>

### VIII. EFFECT OF TUTSA ON CRIMINAL LIABILITY FOR TRADE-SECRET MISAPPROPRIATION

TUTSA seeks to displace conflicting tort, restitutionary and other laws that provide civil remedies for trade-secret misappropriation.<sup>116</sup> It is not intended to displace or limit criminal remedies for theft of a trade secret under state or federal law,<sup>117</sup> including

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<sup>111</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (2013) ("Improper means" includes "inducement of a breach of a duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret. . .").

<sup>112</sup> See TEX. CIV. PRAC. & REM. CODE ANN. § 134.001 *et seq* (2005).

<sup>113</sup> Under § 31.05(b) of the Texas Penal Code, a person commits a "theft of trade secrets," if he knowingly without the owner's effective consent (1) steals a trade secret; (2) makes a copy of an article representing a trade secret; or (3) "communicates or transmits a trade secret. A trade secret is defined as "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."

<sup>114</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134.005 (2013).

<sup>115</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134.002(2) was simultaneously amended to delete reference to § 31.05 of the Texas Penal Code. Acts of 2013, 83rd Leg., R.S., ch. 10, § 2 (eff. Sept. 1, 2013). This change applies to misappropriation of a trade secret made on or after September 1, 2013. Acts of 2013, 83rd Leg., R.S., ch. 10, § 3 (eff. Sept. 1, 2013).

<sup>116</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(a) (2013).

<sup>117</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(B)(3) (2013).

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<sup>105</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(A)-(B) (2013).

<sup>106</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(3)(B)(iii) (2013).

<sup>107</sup> TEX. CIV. PRAC. & REM. CODE ANN. §§134A.002(3)(B)(iii) and 134A.003(b) (2013).

<sup>108</sup> See, e.g., *Hahn & Clay v. A.O. Smith Corp.*, 320 F.2d 166, 169 (5th Cir. 1963).

<sup>109</sup> 790 F.2d 1195, 1204 (5th Cir. 1986).

<sup>110</sup> *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1204 (5th Cir. 1986).

prosecution for theft of trade secrets under Section 31.05 of the Texas Penal Code, prosecution for theft under the general theft provisions of the Penal Code,<sup>118</sup> or prosecution under federal criminal statutes, such as the Interstate Transportation of Stolen Property Act,<sup>119</sup> the wire-fraud statute,<sup>120</sup> or the Economic Espionage Act of 1996.<sup>121</sup>

## IX. REMEDIES FOR STATUTORY TRADE-SECRET MISAPPROPRIATION

### A. Injunctive Relief

Section 134A.003 provides for injunctive relief to enjoin both actual and threatened trade-secret misappropriation.<sup>122</sup>

Although the Texas courts never formally adopted “the inevitable disclosure doctrine,”<sup>123</sup> at common law, Texas courts sometimes restrained employees from working for a competitor in the same position or field in which the employee worked for his or her former employer if the former employee in his new employment would likely use confidential information of the former employer.<sup>124</sup> TUTSA does not make

reference to the inevitable disclosure doctrine, as such, but, by expressly recognizing that threatened misappropriation may be enjoined, the statute certainly makes it easier to obtain injunctive relief in situations where one can make a showing that a misappropriation is threatened based on the nature and circumstances of a former employee’s new employment relationship.

Generally speaking, a court cannot restrain the disclosure or use of information that is not a trade secret. Under TUTSA when a party is enjoined from using another’s trade secret and the trade secret ceases to be secret, the enjoined party can apply to the court to dissolve the injunction, and the court should dissolve it.<sup>125</sup> But this rule is not absolute and is subject to equitable adjustment to ensure that the period of any injunction is sufficient to erase any commercial advantage a defendant may have obtained from wrongful misappropriation. Moreover, if a party misappropriates another’s trade secret and that trade secret ceases to be secret before trial, a court may still enjoin the defendant for a limited time to erase any commercial advantage he or she otherwise might have derived from misappropriation.<sup>126</sup> This constitutes a major departure from the common-law rule, articulated in *Hyde Corp. v. Huffines*, in which the Texas Supreme Court held that when a person wrongfully obtains information concerning a trade secret, a court may permanently enjoin the person from using that information even if it is later disclosed to the public in a patent, thus depriving the person of a right available to every other member of the public.<sup>127</sup>

Moreover, § 134A.003(b) allows the court discretion, in exceptional circumstances, to decline to

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<sup>118</sup> TEX. PEN. CODE ANN § 31.03; *See, e.g., Schalk v. State*, 823 S.W.2d 633, 636 (Tex. Crim. App. 1991).

<sup>119</sup> 18 U.S.C. § 2314, 2315; *see U.S. v. Riggs*, 739 F. Supp. 414, 418 (N.D. Ill. 1990), *criticized by U.S. v. Brown*, 925 F.2d 1301, 1308-09 (10th Cir. 1991).

<sup>120</sup> 18 U.S.C. § 1343; *see Carpenter v. United States*, 484 U.S. 19 (1987).

<sup>121</sup> 18 U.S.C. § 1831 *et seq.*

<sup>122</sup> TEX. CIV. PRAC. & REM. CODE ANN (2013) § 134A.003(a).

<sup>123</sup> *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230, 241-42 (Tex. App.—Houston [1st Dist.] 2003, no pet.) (declining to adopt inevitable-disclosure doctrine on the facts); *see also M-I, L.L.C. v. Stelly*, No. H-09-cv-01552, 2009 WL 2355498, at \*5-6, 2009 U.S. Dist. LEXIS 65866, at \*20-21 (S.D. Tex. July 30, 2009) (implicitly acknowledging potential applicability of “inevitable disclosure” doctrine).

<sup>124</sup> *See, e.g., Union Carbide Corp. v. UGI Corp.*, 731 F.2d 1186, 1188-92 (5th Cir. 1984) (affirming trial court that had restrained Sutton from disclosing or revealing Carbide’s trade secrets or confidential information in 14 different areas and that had enjoined UGI and Amerigas from allowing Sutton to participate in situations where Carbide would be a competitor in bidding for industrial gas business); *FMC Corp. v. Varco Int’l, Inc.*, 677 F.2d 500, 504-05 (5th Cir. 1982) (enjoining Witt from divulging any information constituting a trade secret that he acquired during his work as an employee of the FMC Corporation, and enjoining Best Industries from placing or maintaining Witt in a position that poses an inherent threat of disclosure or use of FMC’s trade secrets); *Baker Petrolite Corp. v. Spicer*, No. 06-1749, 2006 WL 1751786, at \*9, 2006 U.S. Dist. LEXIS 41535, at \*26-28 (S.D. Tex. June 20, 2006) (likelihood of success for preliminary injunction established where salesman will have difficulty preventing his knowledge of former employer’s products and processes relating to specific locations and customers from infiltrating his work if he works with those specific customers in those specific locations; court enjoins salesman from working for competitor with any customers with whom he had contact when employed by prior employer); *Conley v. DSC Comm’n’s Corp.*, No. 05-98-01051-CV, 1999 WL 89955, at \*8, 1999 Tex. App. LEXIS 1321, at \*19 (Tex. App.—Dallas Feb. 24, 1999, no pet.) (former employee enjoined from working in any position where he would sell, market, or support digital-loop carrier products);

*Bertotti v. C.E. Shepherd Co., Inc.*, 752 S.W.2d 648, 650 (Tex. App.—Houston [14th Dist.] 1988, no writ) (even in best of good faith employee could hardly prevent his knowledge of former employer’s confidential methods from showing up in his work); *Williams v. Compressor Eng’g Corp.*, 704 S.W.2d 469, 472-73 (Tex. App.—Houston [14th Dist.] 1986, writ ref’d n.r.e.) (affirming trial court finding that irreparable harm will occur if former employee goes to work for new employer in same field because, even if employee acted in good faith, he could hardly refrain from using his knowledge of former employer’s confidential information in working for new employer); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 902 (Tex. App.—Houston [1st Dist.] 1978, writ ref’d n.r.e.) (trial court’s failure to enjoin defendant from employment of Hawaiian Motor Company an abuse of discretion because duties included research and development on products similar to former employer’s); *Elec. Data Sys. v. Powell*, 524 S.W.2d 393, 398-99 (Tex. App.—Dallas 1975, writ ref’d n.r.e.) (former EDS employee restrained from working in health-care field of data processing based on non-compete and non-disclosure agreement). *See also Hill v. McLane Co., Inc.*, No. 03—10-00293-CV, 2011 WL 5606, at \*5, 2011 Tex. App. LEXIS 169, at \*15-16 (Tex. App.—Austin Jan. 5, 2011, no writ) (finding threatened misappropriation would result in a probable, imminent, irreparable injury to plaintiff if defendants, former auditors, would now be working as an auditor for a distributor in determining if plaintiff was charging distributor correctly).

<sup>125</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.003(a) (2013).

<sup>126</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.003(a) (2013).

<sup>127</sup> 158 Tex. 566, 314 S.W.2d 763 (1958).

issue an injunction conditioned on payment of a reasonable royalty for the period during which use could be prohibited.<sup>128</sup> One circumstance recognized by the statute is where a person innocently acquires another's trade secret before learning or being put on notice that it was improperly acquired.<sup>129</sup> It would seem unfair to prohibit a company that has made a substantial investment in a technology from using that technology if the company innocently or accidentally used another's trade secrets in the developing the technology. By the same token, it would be unfair to permit that company to compete with the trade secret owner on equal footing using the trade-secret owner's technology. Section 134A.003(b) allows the court to adjust the equities of both parties in this unusual situation, giving the court discretion to decline to grant an injunction if the innocent misappropriator is willing to pay a royalty for the use of the technology for a limited time.

Section 134A.003(c) also authorizes the issuance of mandatory injunctions to protect a trade secret.<sup>130</sup> Such affirmative injunctive relief might be appropriate, for example, to prohibit publication of a trade secret, to require the return of trade-secret information, or to require the deletion or destruction of trade-secret information improperly retained or acquired.

The Texas Uniform Trade Secret Act does not modify the procedural rules for obtaining injunctive relief.<sup>131</sup> In Texas courts, orders granting injunctions must comply with Civil Procedure Rule 683, which requires that the injunction (1) set forth the reasons for its issuance, (2) be specific in its terms, and (3) describe in reasonable detail the act or acts restrained.<sup>132</sup> An injunction may not be framed so broadly that it prohibits the enjoyment of legal rights.<sup>133</sup> A Texas state court cannot grant injunctive relief beyond that requested in the petition.<sup>134</sup> While

the injunction must be specific as to the activity restrained, it need not be so specific that it will publicly disclose the trade secrets.<sup>135</sup> Similar requirements are imposed by Federal Rule of Civil Procedure 65(c).

## B. Damages

### 1. In General

Under TUTSA, damages are defined as "both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss."<sup>136</sup> As at common law, the statute also provides for an award of a reasonable royalty in lieu of damages measured by any other method.<sup>137</sup> In proving damages, the plaintiff must show that the defendant either caused a loss to the plaintiff or obtained a tangible benefit from using the information.<sup>138</sup>

Damages are available when the misappropriator has disclosed or used another's trade secret. But the mere acquisition of another's trade secret without more will not support a claim for damages, although acquisition of a trade secret without more may be a basis for injunctive relief.<sup>139</sup>

### 2. Plaintiff's Actual Loss

Damages can be awarded based on the plaintiff's actual loss, which is usually, but not necessarily,

<sup>128</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.003(b) (2013).

<sup>129</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.003(b) (2013).

<sup>130</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.003(b)(c) (2013).

<sup>131</sup> Section 134A.003(a) authorizes a court to enjoin actual or threatened misappropriation, but an injunction is not mandatory. An aggrieved trade-secret owner must still satisfy the procedural requirements for an injunction.

<sup>132</sup> TEX. R. CIV. P. 683; *Comutek Computer & Office Supplies, Inc. v. Walton*, 156 S.W.3d 217, 222–23 (Tex. App.—Dallas 2005, no pet.) (permanent injunction lacked specificity because it did not specifically identify clients defendant was enjoined from contacting); *West v. Pennyrich Int'l, Inc.*, 447 S.W.2d 771, 773 (Tex. Civ. App.—Waco 1969, no writ).

<sup>133</sup> *Comutek Computer & Office Supplies, Inc. v. Walton*, 156 S.W.3d 217, 223 (Tex. App.—Dallas 2005, no pet.) (permanent injunction that enjoins activities Comutek has right to perform is too broad); *Sw. Research Inst. v. Keraplast Techs., Ltd.*, 103 S.W.3d 478, 482–83 (Tex. App.—San Antonio 2003, no pet.) (temporary injunction that effectively prohibited defendant from carrying on or discussing research in public domain or from using information he previously knew was overly broad and vacated).

<sup>134</sup> *Gonzales v. Zamora*, 791 S.W.2d 258, 267 (Tex. App.—Corpus Christi 1990, no writ).

<sup>135</sup> *Lockhart v. McCurley*, No. 10-09-00240-CV, 2010 WL 966029, at \*4, 2010 Tex. App. LEXIS 1909, at \*11-12 (Tex. App.—Waco Mar. 10, 2010, no pet.) (injunction barring client solicitation need not identify clients by name where identity of clients is secret and known to defendant); *Brad Vaughan & E. Coast Directional Drilling, Inc. v. Intrepid Directional Drilling Specialists, Ltd.*, 288 S.W.3d 931, 939 (Tex. App.—Eastland 2009, no pet.) (injunction did not require identification of specific customers because defendant demonstrated that he knew or could easily determine identity of customers); *Rollins v. Universal Coin & Bullion, Ltd.*, No. 09-06-150 CV, 2006 WL 2883122, at \*5, 2006 Tex. App. LEXIS 8764, at \*16–17 (Tex. App.—Beaumont Oct. 12, 2006, no pet.) (mem. op.); *Safeguard Bus. Sys., Inc. v. Schaffer*, 822 S.W.2d 640, 644 (Tex. App.—Dallas 1991, no writ); *Bertotti v. C.E. Shepherd Co.*, 752 S.W.2d 648, 656 (Tex. App.—Houston [14th Dist.] 1988, no writ).

<sup>136</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (2013); *see also* UNIFORM TRADE SECRETS ACT § 3 cmt. ("As long as there is no double counting, Section 3(a) adopts the principle of the recent cases allowing recovery of both a complainant's actual losses and a misappropriator's unjust benefit that are caused by misappropriation. Because certain cases may have sanctioned double counting in a combined award of losses and unjust benefit, . . . the Act adopts an express prohibition upon the counting of the same item as both a loss to a complainant and an unjust benefit to a misappropriator.")

<sup>137</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (2013).

<sup>138</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) ("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.") (emphasis supplied); *see also* *Taylor Pub. Co. v. Jostens, Inc.*, 216 F.3d 465, 487 (5th Cir. 2000).

<sup>139</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (2013). The statute does not recognize recovery of damages based on mere acquisition of another's trade secret.

measured by lost profits.<sup>140</sup> Lost profits are damages for the loss of net income to a business. Accordingly, they represent income from lost-business activity less the expenses attributable to that activity.<sup>141</sup>

The Texas Supreme Court has acknowledged that an award of lost profits may be appropriate in trade-secret cases, but in one case reversed the award of damages because the jury was given no guidelines for determining a loss of net profits.<sup>142</sup> When adequate guidance is provided to the fact-finder, damages for lost profits may be awarded if the damages are supported by evidence that shows the extent of the damages as a matter of just and reasonable inference, even if the result is only approximate.<sup>143</sup> But Texas law requires that lost profits be established with reasonable certainty based on objective facts.<sup>144</sup> In the case of a new or speculative business venture, evidence must be produced to establish that the venture had a good chance of succeeding.<sup>145</sup>

### 3. Unjust Enrichment

In addition to an award of damages for actual loss, the plaintiff may recover for unjust enrichment caused by misappropriation to the extent those damages are not taken into account in determining actual loss.<sup>146</sup> If the plaintiff cannot prove any actual damages, he may be entitled to recover the value of the benefits, profits, or advantages gained by the defendant in the use of the secret. Often, this translates into a recovery of the defendants' profits.

### 4. Reasonable Royalty

As at common law, damages under TUTSA can also be measured by a reasonable royalty in lieu of

other methods of calculating damages.<sup>147</sup> The statute provides no guidance as to how a reasonable royalty is to be calculated, but the Fifth Circuit in *University Computing Co. v. Lykes-Youngstown Corp.*,<sup>148</sup> an influential case decided in 1974, held that the proper way to calculate a reasonable royalty was to determine 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. The court offered the following guidance on how to arrive at that price:<sup>149</sup>

In calculating what a fair licensing price would have been had the parties agreed, the trier of fact should consider such factors as the resulting and foreseeable changes in the parties' competitive posture; the prices past purchasers or licensees may have paid; the total value of the secret to the plaintiff, including the plaintiff's development costs and the importance of the secret to the plaintiff's business; the nature and extent of the use the defendant intended for the secret; and finally whatever other unique factors in the particular case which might have affected the parties' agreement, such as the ready availability of alternative processes.

### 5. Exemplary Damages

At common law, exemplary damages were available for willful and fraudulent conduct in connection with trade-secret misappropriation under Chapter 41 of the Texas Civil Practice and Remedies Code.<sup>150</sup> TUTSA provides for an award of exemplary damages where willful and malicious misappropriation is proven by clear and convincing evidence.<sup>151</sup> This provision supplants the previously applicable exemplary damages provisions in Chapter 41 of the Civil Practice and Remedies Code and limits exemplary damages in statutory TUTSA claims to an amount not exceeding twice any actual damages

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<sup>140</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (2013).

<sup>141</sup> *Miga v. Jensen*, 96 S.W.3d 207, 213 (Tex. 2002); *Kellmann v. Workstation Integrations, Inc.*, 332 S.W.3d 679, 684 (Tex. App.—Houston [14th Dist. 2010, no pet.]).

<sup>142</sup> *Jackson v. Fontaine's Clinics, Inc.*, 499 S.W.2d 87, 89–90 (Tex. 1973); *see also Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1208 (5th Cir. 1986).

<sup>143</sup> *DSC Commc'ns Corp. v. Next Level Commc'ns*, 107 F.3d 322, 330 (5th Cir. 1997); *Rusty's Weigh Scales & Servs., Inc. v. N. Tex. Scales*, 314 S.W.3d 105, 110 (Tex. App.—El Paso 2010, no pet.).

<sup>144</sup> *Burkhart Grob Luft und Raumfahrt GmbH & Co., K.G. v. E-Systems, Inc.*, 257 F.3d 461, 467 (5th Cir. 2001); *Kellmann v. Workstation Integrations, Inc.*, 332 S.W.3d 679, 685–86 (Tex. App.—Houston [14th Dist. 2010, no pet.]) (lost profit calculation must be based on net profits, not gross revenue or gross profits); *Rusty's Weigh Scales & Servs., Inc. v. N. Tex. Scales, Inc.*, 314 S.W.3d 105, 110–11 (Tex. App.—El Paso 2010, no pet.) (rejecting claim for lost profits based on mere fact that plaintiff lost certain customers without further proof); *Carter and Piper-Morgan Assocs. v. Steverson & Co., Inc.*, 106 S.W.3d 161, 164–67 (Tex. App.—Houston [1st Dist.] 2003, pet. denied).

<sup>145</sup> *Burkhart Grob Luft und Raumfahrt GmbH & Co., K.G. v. E-Systems, Inc.*, 257 F.3d 461, 467 (5th Cir. 2001); *DSC Commc'ns Corp. v. Next Level Commc'ns*, 107 F.3d 322, 329 (5th Cir. 1997).

<sup>146</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (2013).

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<sup>147</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (2013).

<sup>148</sup> *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539 (5th Cir. 1974)

<sup>149</sup> *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539 (5th Cir. 1974), *quoted* in *Calce v. Dorado Exploration, Inc.*, 309 S.W.3d 719, 738 (Tex. App.—Dallas 2010, no pet.). *See also* *Rorie v. Edwards*, No. 01-40907, 2002 WL 31016457, at \*3 (5th Cir. 2002) (affirming reasonable royalty based on testimony as to amount spent on research and development, lost gross profits, and the effect the loss of profits had on competitive research and development).

<sup>150</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 41.001 *et seq.* Under this statute, exemplary damages were capped at (1) two times the amount of economic damages plus an amount equal to any noneconomic damages found by the jury, not to exceed \$750,000 or (2) \$200,000, whichever is greater.

<sup>151</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(b).

awarded.<sup>152</sup> As to any parallel, breach-of-contract claims based on non-disclosure agreements, exemplary damages are not recoverable, even if the breach is malicious and oppressive.<sup>153</sup> When a trade secret action is based on both a TUTSA statutory claim and breach of contract, the owner may recover exemplary damages on the tort claim even if the tort and the contract claims arise out of the same transactions.<sup>154</sup> Breach of a nondisclosure agreement may also constitute a breach of confidential relationship or duty to limit use or disclosure of a trade secret and thus support an award of exemplary damages on a TUTSA claim.<sup>155</sup>

### C. Attorney's Fees

At common law, attorney's fees could only be awarded if the trade-secret misappropriation claim was pleaded as a breach-of-contract claim<sup>156</sup> or as a violation of the Texas Theft Liability Act.<sup>157</sup> As explained, if TUTSA is applicable, parallel claims under the Texas Theft Liability Act will no longer lie, and it will not be possible to recover attorney's fees for a trade-secret misappropriation claim brought under the Theft Liability Act. TUTSA, however, has its own provisions that permit recovery of attorney's fees by the prevailing party.

Under TUTSA, the party prevailing on a statutory trade-secret misappropriation claim may recover reasonable attorney's fees in limited circumstances.<sup>158</sup> A party sued for misappropriation may recover fees if it can show the claim was asserted in bad faith.<sup>159</sup> The trade-secret owner may recover attorney's fees in two instances: (1) if a defendant moves to terminate an injunction or resists an injunction in bad faith or (2) if a defendant engages in willful and malicious misappropriation.<sup>160</sup> Unlike the exemplary damages provision in TUTSA, which requires proof of willful or malicious misappropriation by *clear an convincing evidence*, the attorney's fees provision does not impose

<sup>152</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(b). It is not clear whether § 41.009 TEX. CIV. PRAC. & REM. CODE ANN., providing for a bifurcated trial with liability and actual damages determined in the first phase and exemplary damages in the second phase applies. Presumably, a bifurcated trial is available in statutory trade-secret cases.

<sup>153</sup> *Crutcher-Rolfs-Cummings v. Ballard*, 540 S.W.2d 380, 388 (Tex. Civ. App.—Corpus Christi 1976, writ ref'd n.r.e.).

<sup>154</sup> *See, e.g., Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1180 (5th Cir. 1983).

<sup>155</sup> *See, e.g., Crutcher-Rolfs-Cummings v. Ballard*, 540 S.W.2d 380, 388 (Tex. Civ. App.—Corpus Christi 1976, writ ref'd n.r.e.).

<sup>156</sup> *See, e.g., Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1177 (5th Cir. 1983); *The Murrco Agency, Inc. v. Ryan*, 800 S.W.2d 600, 606 (Tex. App.—Dallas 1990, no writ).

<sup>157</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134.005(b) (2005); *see Glattly v. Air Starter Components, Inc.*, 332 S.W.3d 620, 641 (Tex. App.—Houston [1st Dist.] 2010, pet. denied).

<sup>158</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.005 (2013).

<sup>159</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.005(1) (2013).

<sup>160</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.005(1)-(2) (2013).

a heightened burden of proof but still requires a heavy burden.<sup>161</sup>

TUTSA does not provide any definition of what constitutes “bad faith” or a “prevailing party.” Presumably, the courts will look to Texas law to determine what constitutes bringing an action in “bad faith”<sup>162</sup> or who is a “prevailing party” under other attorney-fees recovery statutes.<sup>163</sup>

Attorney's fees may be recovered in trade-secret cases in which a trade secret owner prevails on a claim based on breach of contract. Attorney's fees may be recoverable even if damages are not, as long as injunctive relief is awarded on the contract claim.<sup>164</sup> Civil Practice and Remedies Code § 38.001 provides for the recovery of reasonable attorney's fees from an individual or corporation, in addition to the amount of a valid claim and costs, if the claim is one for an oral or written contract. To be considered reasonable, attorney's fees must bear a reasonable relationship to the amount in controversy or the amount of actual damages awarded.<sup>165</sup>

## X. DEFENSES TO STATUTORY TRADE-SECRET CLAIMS

### A. Limitations

TUTSA does not address the issue of limitations, but it does alter the limitations period for trade-secret misappropriation claims set forth in Civil Practice and Remedies Code § 16.010.<sup>166</sup> Under § 16.010, a cause of action for trade secret misappropriation accrues when the trade secret is actually acquired, disclosed, or

<sup>161</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.005(3) (2013). The Texas Theft Liability Act required only a showing that conduct was done “knowingly.” *See* TEX. CIV. PRAC. & REM. CODE ANN. § 134.005(b)

<sup>162</sup> *See, e.g., TEX. R. CIV. P. 13* and cases decided under Rule 13, which define “bad faith”; *Parker v. Walton*, 233 S.W.3d 535, 539-40 (Tex. App.—Houston [14th Dist.] 2007, no pet) (“bad faith is not simply bad judgment or negligence; rather, it is the conscious doing of wrong for dishonest, discriminatory, or malicious purposes”); *Elkins v. Stotts-Brown*, 103 S.W.3d 664, 669 (Tex. App.—Dallas 2003, no pet.) (“A party acts in bad faith when discovery puts him on notice that his understanding of the facts may be incorrect, and he does not make reasonable inquiry into the facts before filing the pleading. . . . Improper motive is an essential element of bad faith”); *Wallace v. Inv. Advisors, Inc.*, 960 S.W.2d 885, 889 (Tex. App.—Texarkana 1997, pet. denied); *Campos v. Ysleta Gen. Hosp., Inc.*, 879 S.W.2d 67, 71 (Tex. App.—El Paso 1994, writ denied).

<sup>163</sup> *See, e.g., Intercontinental Grp. P'ship v. KB Home Lone Star L.P.*, 295 S.W.3d 650, 655-56 (Tex. 2009) (to qualify as a “prevailing party,” a plaintiff must obtain at least some affirmative judicial relief (damages or injunctive) on the merits of his claim).

<sup>164</sup> *RenewData Corp. v. Strickler*, No. 03-05-00273-CV, 2006 WL 504998, at \*16, 2006 Tex. App. LEXIS 1689, at \*46 (Tex. App.—Austin 2006, no pet.); *Butler v. Arrow Mirror & Glass, Inc.*, 51 S.W.3d 787, 796-97 (Tex. App.—Houston [1st Dist.] 2001, no pet.).

<sup>165</sup> *The Murrco Agency, Inc. v. Ryan*, 800 S.W.2d 600, 606 (Tex. App.—Dallas 1990, no writ); *Traveler's Ins. Co. v. Brown*, 750 S.W.2d 916, 918-19 (Tex. App.—Amarillo 1988, writ denied).

<sup>166</sup> TEX. CIV. PRAC. & REM. CODE ANN § 16.010.

used.<sup>167</sup> Under § 16.010, a trade-secret misappropriation claim must be brought no later than three years after the misappropriation is discovered or, by the exercise of reasonable diligence, should have been discovered.<sup>168</sup> If the claim is based on breach of contract, however, the limitations period is four years.<sup>169</sup> A misappropriation that continues over time is a single cause of action and the limitations period begins running regardless of whether the misappropriation is a single or continuing act.<sup>170</sup>

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<sup>167</sup> Computer Assocs. Int'l. v. Altai, 918 S.W.2d 453, 455 (Tex. 1996); Pressure Sys. Int'l, Inc. v. Sw. Research Institute, 350 S.W.3d 212, 216 (Tex. App.—San Antonio 2011, pet. denied) (limitations period begins to run when a wrongful act causes a legal injury); Target Strike, Inc. v. Marston & Marston, Inc., No. SA-10-CV-0188-OLG (NN), 2011 WL 3606982, at \*2, 2011 U.S. Dist. LEXIS 90506, at \*13-14 & n.8 (W.D. Tex. Aug. 15, 2011) (cause of action accrues for purposes of limitations when a wrongful act causes a legal injury, regardless of when the plaintiff learns of that injury); Tavana v. GTE Sw. Inc., No. 05-97-00664CV, 1999 WL 512624, at 3-4, 1999 Tex. App. Lexis 5365, at \* 10 (Tex. App.—Dallas July 21, 199, pet. denied); Gen. Universal Sys., Inc. v. HAL, Inc., 500 F.3d 444,450 (5th Cir. 2007); Seatrax, Inc. v. Sonbeck Int'l, Inc., 200 F.3d 358, 365 (5th Cir. 2000); Computer Assocs. Int'l v. Altai, 918 S.W.2d 453, 455 (Tex. 1996); Gen. Universal Sys., Inc. v. HAL, Inc., 500 F.3d 444, 450 (5th Cir. 2007); R. Ready Prods., Inc. v. Cantrell, 85 F. Supp. 2d 672, 693 (S.D. Tex. 2000).

<sup>168</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 16.010(b) (2002); Gillig v. Nike, 602 F.3d 1354, 1358 (5th Cir. 2010) (rejecting argument that limitations was tolled because plaintiff was allegedly prevented from exercising his legal remedies by pendency of another legal proceeding); Pressure Sys. Int'l, Inc. v. Sw. Research Institute, 350 S.W.3d 212, 216-17 (Tex. App.—San Antonio 2011, pet. denied) (limitations did not begin to run when patent was issued to a competitor because plaintiff was not aware at the time that his injury was caused by wrongful conduct on the part of someone); Retractable Techs, Inc. v. Occupational & Medical Innovations, Ltd., No. 6:08 CV 120, 2010 WL 3199624 at \*3, 2010 U.S. Dist. LEXIS 82069, at \*8-9 (E.D. Tex. Aug. 11, 2010); Rolls-Royce Corp. v. Heros, Inc., No. 3:07-CV-0739-D, 2010 U.S. Dist. LEXIS 119381, at \*29-30 (N.D. Tex. July 29, 2010) (the reasonable diligence requirement means Rolls-Royce is charged with the knowledge it would have obtained through a reasonable investigation from the time it was on notice that a reasonable investigation was necessary; knowledge that some companies were misappropriating its trade secrets did not require it to investigate further defendants' possible misappropriation; limitations commences to run when the wrongful act occurs resulting in some damage to the plaintiff); Gen. Universal Sys., Inc. v. HAL, Inc., No. H-95-1582, 2005 WL 1828565, at \*8 (S.D. Tex. July 29, 2005), *aff'd*, 500 F.3d 444 (5th Cir. 2007).

<sup>169</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 16.051 (1997). See Target Strike, Inc. v. Marston & Marston, Inc., No. SA-10-CV-0188-OLG (NN), 2011 WL 3606982, at \*2, 2011 U.S. Dist. LEXIS 90506, at \*10-12 & n.8 (W.D. Tex. Aug. 15, 2011).

<sup>170</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 16.010(b) (2002); Seatrax, Inc. v. Sonbeck Int'l, Inc., 200 F.3d 358, 365 (5th Cir. 2000); Gen. Universal Sys., Inc. v. HAL, Inc., 500 F.3d 444, 450-52 (5th Cir. 2007) (rejecting claim that trade secret theft can be considered as a continuing tort for limitations purposes). Raytheon Co. v. Indigo Sys. Corp., 653 F. Supp. 2d 677, 683 (E.D. Tex. 2009); see also Computer Assocs. Int'l v. Altai, Inc., 61 F.3d 6, 7-8 (2d Cir. 1995) (treating Texas trade-secret misappropriation claim as time-barred based on initial breach rather than last date of last use).

Fraudulent concealment tolls or suspends the statute of limitations until the plaintiff either learns or in the exercise of reasonable diligence should have learned of facts supporting the cause of action.<sup>171</sup> But concealment of facts giving rise to a cause of action for trade secret misappropriation alone is not sufficient to trigger the fraudulent-concealment exception to the statute of limitations.<sup>172</sup> The party asserting fraudulent concealment bears the burden of showing that the defendant was under a duty to make disclosure but fraudulently concealed the claim.<sup>173</sup>

## B. Independent Development and Discovery by Proper Means

Proof of independent development or discovery of another's secret by *proper means* is a defense to a trade-secret misappropriation claim,<sup>174</sup> although technically, it is the trade-secret owner's burden to prove that improper means were used to discover the secret, not the defendant's burden to show that proper means were used. Nevertheless, a defendant wrongly accused of trade-secret misappropriation may want to come forward with evidence that he properly discovered the trade secret by independent development, by reverse engineering, or by some other proper means. TUTSA defines *proper means* as "discovery by independent development, reverse engineering unless prohibited, or any other means that is not improper."<sup>175</sup> The defense of independent development or use of proper means can be established by showing that the defendant did not rely on the plaintiff's alleged trade secret and that the independently developed product is demonstrably different from the product embodying the alleged trade secret.<sup>176</sup>

But the mere possibility that a trade secret may be discovered independently by fair means does not deprive the owner of the right to protection from a person who, in fact, secures the secret by improper means.<sup>177</sup> Liability under TUTSA turns on the use of *improper means*.<sup>178</sup>

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<sup>171</sup> Seatrax, Inc. v. Sonbeck Int'l, Inc., 200 F.3d 358, 366 (5th Cir. 2000); Pressure Sys. Int'l, Inc. v. Sw. Research Institute, 350 S.W.3d 212, 216 (Tex. App.—San Antonio 2011, pet. denied); Arabian Shield Dev. Co. v. Hunt, 808 S.W.2d 577, 584 (Tex. App.—Dallas 1991, writ denied); Retractable Techs, Inc. v. Occupational & Medical Innovations, Ltd., No. 6:08 CV 120, 2010 WL 3199624, at \*3, 2010 U.S. Dist. LEXIS 82069, at \*9 (E.D. Tex. Aug. 11, 2010).

<sup>172</sup> Seatrax, Inc. v. Sonbeck Int'l, Inc., 200 F.3d 358, 366 (5th Cir. 2000).

<sup>173</sup> Seatrax, Inc. v. Sonbeck Int'l, Inc., 200 F.3d 358, 366 (5th Cir. 2000).

<sup>174</sup> Misappropriation is predicated on the use of *improper means*. See TEX. CIV. PRAC. & REM. CODE ANN § 134A.002(3)(A)-(B) (2013).

<sup>175</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134A.002(4) (2013).

<sup>176</sup> See Hunter v. Fisons Corp., 776 F.2d 1 (5th Cir. 1985).

<sup>177</sup> See, e.g., K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 158 Tex. 594, 314 S.W.2d 782, 788 (1958); Gonzales v.

It is not the continued existence of secrecy that is controlling, or even the fact that the trade secret is difficult or labor intensive to discover. Rather, it is the existence and breach of a confidential relationship or a violation of a non-disclosure agreement that is key.<sup>179</sup> It is no defense that each individual element of the trade secret *could* have been obtained from public domain sources. A compilation of information or a unique combination of features in the public domain may still be protected as a trade secret, even though individual features are known or discernible.<sup>180</sup>

Legitimate reverse engineering is another proper means of discovering another's trade secret. The statute defines "reverse engineering" as "the process of studying, analyzing, or disassembling of a product or device to discover its design, structure, construction, or source code, provided that the product or device was acquired lawfully or from a person having the legal right to convey it."<sup>181</sup> Thus, an agreement not to reverse engineer a product, if violated, will subject the actor to liability,<sup>182</sup> as will reverse engineering by other improper means, such as acquiring access to the reverse-engineered product by bribery or theft.<sup>183</sup>

## C. Equitable Defenses

### 1. Unclean Hands

The protection of trade secrets is based on equitable considerations. Therefore, the defendant in a trade secret-case may assert equitable defenses.<sup>184</sup> If the plaintiff or the plaintiff's agent has acted unfairly or wrongfully, the plaintiff may be denied injunctive relief sought under the equitable doctrine of "unclean hands." Although "equity does not demand that its suitors shall have led blameless lives as to other matters," the U.S. Supreme Court has said, "it does require that they shall have acted fairly and without

fraud or deceit as to the controversy in issue."<sup>185</sup> Under the unclean-hands doctrine, a trade-secret owner may be denied equitable relief if he or she has breached a contract, violated a legal duty owed, or engaged in other wrongful conduct toward the defendant.<sup>186</sup>

### 2. Laches

A defendant may raise the defense of laches, asserting that the plaintiff unreasonably delayed bringing the claim. However, Texas courts have been less receptive to the defense of laches than to unclean hands. Rejecting such an argument, the Texas Supreme Court has said:<sup>187</sup>

As a rule, equity follows the law and generally in the absence of some element of estoppel or something akin thereto, the doctrine of laches will not bar a suit *short of the period set forth in the limitation statutes.*

The Austin Court of Appeals, in a case decided before the enactment of TUTSA, rejected a laches claim in a suit in which the plaintiff waited only nine months to file suit after learning that the defendant may have been using its trade secrets.<sup>188</sup>

## XI. PROTECTING TRADE SECRETS DURING LITIGATION

### A. Protective Orders

Discovery in business litigation often involves efforts to discover, and demands to disclose, trade secrets or confidential information. In federal courts, and in many state courts, this problem is addressed by a protective order, which permits the parties to disclose to one another and to the court information that may be a trade secret, under a duty of nondisclosure, thereby preventing the information from becoming publicly available and losing its trade-secret status. Federal Rule of Civil Procedure 26(c)(7) provides that the court may issue an order that a trade secret or other confidential research, development, or commercial information not be revealed, or that it be revealed only in a designated way.<sup>189</sup>

Texas has taken a different approach toward public access to court records than most states. Until the enactment of TUTSA, a trial court could grant a protective order sealing discovery to protect a trade secret under Texas Civil Procedure Rule 166b(c), but such protective orders were subject to Texas Civil Procedure Rule 76a, which set forth strict standards

Zamora, 791 S.W.2d 258, 265 (Tex. App.—Corpus Christi 1990, no writ).

<sup>178</sup> TEX. CIV. PRAC. & REM. CODE ANN § 134.002(3)(A)-(B).

<sup>179</sup> Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1124 & n.16 (5th Cir. 1991), *aff'd on other grounds*, 505 U.S. 763 (1992); Cataphote Corp. v. Hudson, 422 F.2d 1290, 1293 (5th Cir. 1970); Thermotics, Inc. v. Bat-Jac Tool Co., Inc., 541 S.W.2d 255, 261 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ).

<sup>180</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(6) (2013) (a trade secret may include a compilation of information that has independent economic value, is not generally known, or readily ascertainable by proper means); *see also* Tewari De-Ox Sys. v. Mountain States/Rosen, 637 F.3d 604, 612-14 (5th Cir. 2011); Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195, 1202 (5th Cir. 1986); EEMSO, Inc. v. Compex Techs., Inc., No. 3:05-CV-0897-P, 2006 WL 2583174, at \*6, 2006 U.S. Dist. LEXIS 67225, at \*16-17 (N.D. Tex. Aug. 31, 2006).

<sup>181</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(5).

<sup>182</sup> TEX. CIV. PRAC. & REM. CODE § 134A.002(4) (2013).

<sup>183</sup> TEX. CIV. PRAC. & REM. CODE § 134A.002(4) and § 134A.002(2) (defining "bribery" and "theft" as improper means).

<sup>184</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(b)(3) provides that "actual or threatened misappropriation *may be* enjoined." TUTSA does not purport to limit any equitable defenses available at common law.

<sup>185</sup> Precision Inst. Mfg. Co. v. Automotive Maint. Mach. Co., 324 U.S. 806, 814 (1945).

<sup>186</sup> Orkin Exterminating Co., Inc. v. Wilson, 501 S.W.2d 408, 412 (Tex. Civ. App.—Tyler 1973, writ *dism'd w.o.j.*).

<sup>187</sup> K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 158 Tex. 594, 314 S.W.2d 782, 790-91 (1958).

<sup>188</sup> Garth v. Staktek Corp., 876 S.W.2d 545, 550-51 (Tex. App.—Austin 1994, writ *dism'd w.o.j.*).

<sup>189</sup> FED. R. CIV. P. 26(c)(7).

and special procedures for sealing court records. Since court records in Texas are presumptively open to the public, a trial court could only seal court records if, after a public hearing, the movant had established the following:<sup>190</sup>

1. A specific, serious, and substantial interest exists that clearly outweighs the presumption of openness; and any probable adverse effect that sealing will have on the general public health or safety; and
2. No less restrictive means will adequately and effectively protect the specific interest asserted.

This has caused would-be plaintiffs in trade-secret cases a considerable amount of anxiety. TUTSA directly addressed this problem by providing that in any action under Chapter 134A, a court “shall preserve the secrecy of an alleged trade secret by reasonable means”<sup>191</sup> and that there is a *presumption* in favor of granting protective orders to preserve the secrecy of trade secrets in litigation,<sup>192</sup> limiting access to 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 court approval.<sup>193</sup> Section 134A.007 of the Act provides that to the extent the Act conflicts with the Texas Rules of Civil Procedure, such as TEX. R. CIV. P. 76a, TUTSA controls, and further provides that the Texas Supreme Court, which is responsible for promulgating the Texas Rules of Civil Procedures, may not amend or adopt rules in conflict with this or any other Texas TUTSA provision.<sup>194</sup>

## B. Qualified Privilege for Trade Secrets

The Texas Rules of Evidence, Rule 507, provide a qualified privilege for trade secrets that may be asserted by any person who receives a litigation discovery request.<sup>195</sup> The privilege permits a person to refuse to disclose and prevent others from disclosing a trade secret, if assertion of the privilege will not conceal fraud or otherwise work injustice. If disclosure

is directed, the court is required to take appropriate protective measures to protect the trade-secret owner.<sup>196</sup>

The privilege for confidential information or trade-secret information is not absolute under state or federal law, however.<sup>197</sup> In both state and federal court, a party resisting discovery under Rule 507 must establish that the information it seeks to withhold qualifies as a trade secret. Before the enactment of TUTSA, Texas courts applied the criteria set forth in the RESTATEMENT OF TORTS as applied by the Texas Supreme Court in *In re Bass* in determining whether something was a trade secret.<sup>198</sup> Presumably, in assessing privilege claims arising after September 1, 2013, courts will apply the definition of a trade secret set forth in TUTSA § 134A.002(6).

## XII. SOURCE MATERIALS

### A. Statutes

Criminal liability, TEX. PEN. CODE ANN. § 31.05.

Limitations, Statute for trade secrets, TEX. CIV. PRAC. & REM. CODE ANN. § 16.010.

Texas Uniform Trade Secrets Act, TEX. CIV. PRAC. & REM. CODE ANN. § 134A.001 *et seq.*

### B. Rules

Injunction, Tex. R. Civ. P.680; Fed. R. Civ. P.65.

### C. Law Review Articles

Chris Carr, Jack Morton & Jerry Furniss, *The Economic Espionage Act: Bear Trap or Mousetrap?*, 8 TEX. INTELL. PROP. L. J. 159 (2000).

Joseph F. Cleveland Jr. and 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. 752 (2013).

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<sup>196</sup> TEX. R. EVID. 507.

<sup>197</sup> *Education Logistics, Inc. v. Laidlaw Transit, Inc.*, No. 3-11-MC-036-L-BD, 2011 WL 1348401, at \*2, 2011 U.S. Dist. LEXIS 38442, at \*5 (N.D. Tex. April 8, 2011); *Cmedia, LLC v. LifeKey Healthcare, LLC*, 2216 F.R.D. 387, 390 (N.D. Tex. 2003); *Exxon Chem. Patents, Inc. v. Lubrizol Corp.*, 131 F.R.D. 668, 671 (S.D. Tex. 1990).

<sup>198</sup> *See, e.g.*, *In re Bass*, 113 S.W.3d 735, 739–42 (Tex. 2003); *In re Goodyear Tire & Rubber Co.*, No. 05-10-00485-CV, 2010 WL 2510371, at \*3 (Tex. App.—Dallas June 23, 2010, no pet.); *In re Cooper Tire & Rubber Co.*, 313 S.W.3d 910, 915 (Tex. App.—Houston [14th Dist.] 2010, no pet.); *In re XTO Res. I, LP*, 248 S.W.3d 898, 901 (Tex. App.—Fort Worth, 2008, no pet.); *In re Lowe’s Cos., Inc.*, 134 S.W.3d 876, 878 (Tex. App.—Houston [14th Dist.] 2004, orig. proceeding); *In re Desa Heating, L.L.C.*, No. 2-06-088-CV, 2006 WL 1713489, at \*1–2, 2006 Tex. App. LEXIS 5353, at \*3–5 (Tex. App.—Fort Worth June 22, 2006, orig. proceeding) (mem. op); *Education Logistics, Inc. v. Laidlaw Transit, Inc.*, No. 3-11-MC-036-L-BD, 2011 WL 1348401, at \*2, 2011 U.S. Dist. LEXIS 38442, at \*5 (N.D. Tex. April 8, 2011); *Cmedia, LLC v. LifeKey Healthcare, LLC*, 216 F.R.D. 387, 391 (N.D. Tex. 2003).

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<sup>190</sup> TEX. R. CIV. P. 76a(1).

<sup>191</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134.006.

<sup>192</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134.006. A controversial aspect of Civil Procedure Rule 76a was its application to unfiled discovery. Generally, unfiled discovery was not considered a “court record.” But, if unfiled discovery concerned matters that have a probable adverse effect on the general public health or safety, the unfiled discovery would be considered a court record. Therefore, in many cases, even unfiled discovery was presumptively open to the public under Rule 76a.

<sup>193</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134.006.

<sup>194</sup> TEX. CIV. PRAC. & REM. CODE ANN. § 134.007(c).

<sup>195</sup> *In re Goodyear Tire & Rubber Co.*, No. 05-10-00485-CV, 2010 WL 2510371, at \*3 (Tex. App.—Dallas June 23, 2010, no pet.); *Recursion Software, Inc. v. Interactive Intelligence, Inc.*, No. 3:03-CV-2711-B, 2010 U.S. Dist. LEXIS 113827, at \*25 (N.D. Tex. Oct. 19, 2010); *Exxon Chem. Patents, Inc. v. Lubrizol Corp.*, 131 F.R.D. 668, 671 (S.D. Tex. 1990).

Alex Harrell, *Is Anything Inevitable?*, 76 Tex. B. J. 757 (2013).

Sherrad B. Hayes, Julie A. Springer, Sara E. Janes, & Chad Pinson, *The Civil Litigation Guide to Misappropriation of Trade Secrets and Unfair Competition Claims*, Advanced Civil Trial Course, State Bar of Texas CLE, ch. 5 (2013).

Irene Kosturakis, *Uniform Trade Secrets Act*, State Bar of Texas Business Law Section Newsletter September 2013.

John A. Thomas, Who Owns the Invention? The Rights of Employers, Employees, and Contractors, 62 TEX. B. J. 996 (1999).

#### **D. Legislative History**

House Committee on Technology Bill Analysis, Tex. S.B. 953, 83<sup>rd</sup> Leg., R.S. (2013).

March 21, 2013 Bill Analysis of SB 973 by Senator Carona.

March 25, 2013 Bill Analysis of SB 973 by Senator Carona.

July 11, 2013 Bill Analysis of SB 973 by Senator Carona.

#### **E. Treatises and Texts**

Michele O'Connor, TEXAS CAUSES OF ACTION (2014), ch. 28A *Trade Secret Misappropriation — Statutory Misappropriation* (2014).

14 Uniform Laws Annotated, Uniform Trade Secrets Act (2005).