

PRESENTED AT

29th Annual Labor and Employment Law Conference
June 2023
Austin, TX

**Trade Secret Update – 2023
(And Non-Compete Summary)**

Ken Hughes

Author Contact Information:

Ken Hughes PLLC
Campanile Bldg., Suite 360
Houston, TX 77006
(713) 588-0890
khughes@khughesplc.com

TABLE OF CONTENTS

- I. INTRODUCTION 1
- II. TYPES OF TRADE SECRETS 2
 - A. Customer List Cases 3
 - 1. Customer Information that is Readily Available or Accessible Is Not A Trade Secret Even If It Is Misappropriated” By Former Employees 3
 - 2. Customer Information That Was Held To Be A Trade Secret 5
 - B. Marketing Strategies 7
 - C. Products In Development 7
 - D. Pricing 8
 - 1. Current Pricing Information That Is Not Generally Known Or Readily Ascertainable Can Be A Trade Secret 8
 - 2. Pricing That Is Old, Generally Known Or Readily Ascertainable Is Not a Trade Secret 8
 - E. Key Employee Lists 9
 - F. Know How 11
 - 1. An Employee May Use General Skills Even When Developed While Working For Employer 11
 - G. Bid Calculators 12
 - H. Sales Quote Sheets 13
 - I. Patented Products 13
- III. STEPS EMPLOYERS MUST TAKE TO PROTECT TRADE SECRETS 14
 - A. When Disclosure Destroys Trade Secret Status 14
 - B. Cases Holding That Limited Disclosure Does Not Destroy Trade Secret Status 18

IV.	A TRADE SECRET CANNOT BE GENERALLY KNOWN OR READILY ASCERTAINABLE	19
	A. Generally Known Cases	20
	B. Readily Ascertainable Cases	20
V.	DAMAGES IN TRADE SECRET CASES	21
VI.	INJUNCTIVE RELIEF IN TRADE SECRET CASES.....	25
	A. General Requirements For Injunctive Relief	25
	B. Defenses To Injunctive Relief	25
	1. Failure to Show Imminent Risk Of Injury	25
	2. Failure To Show Irreparable Injury (i.e., Inadequate Remedy At Law).....	26
	3. Laches	27
	C. Scope of Injunction	27
	D. Effect Of A Temporary Injunction	28
	E. Interlocutory Accelerated Appeal Of Injunctive Relief	28
	F. Motions To Dissolve Temporary Injunction	28
	G. Enforcement Motions/Contempt	28
	H. Are Damages Available When Injunctive Relief Has Been Granted?	29
	1. Cases Where Damages Are Available	29
	2. Cases Where Damages Are Not Available	29
VII.	TUTSA PREEMPTION	30
VIII.	CLAIMS COMMONLY ASSERTED AGAINST EMPLOYEES	32
	A. Fiduciary Duty Claims	32
	1. Employees Owe Some Fiduciary Duties To Employers	32

2.	Employee’s Fiduciary Duty May Extend Beyond Termination	33
3.	The Burden Of Proof Shifts So That Employees Must Prove They Did Not Breach Their Duty	33
4.	An Employee Who Breaches His Fiduciary Duty May Be Required To Forfeit Salary And Other Benefits.....	33
B.	Computer Fraud and Abuse Act	34
1.	Employers and Employees Have A Private Right of Action.....	34
2.	Employees Can Be Liable for Exceeding Authorized Access To A Company Computer	35
3.	Two Year Statute of Limitations	35
4.	The Interstate Commerce Requirement	35
5.	The “Damage” or “Loss” Requirement	35
C.	The Electronic Communications Privacy/Stored Communications Act.....	36
D.	Fraud Claims Against Employees.....	37
IX.	LITIGATING A NON-COMPETE CASE AFTER THE TEMPORARY INJUNCTION HEARING	37
A.	Are Damages Available For Breaching the Non-compete?.....	37
1.	Not If The Court Reforms The Non-Compete.....	37
2.	Damages for Breach of Non-Compete	38
B.	Recovery of Damages Under Theories Other Than The Non-compete Agreement.....	38
X.	MISCELLANEOUS ISSUES	39
A.	Protecting Confidential Information by Protective Orders and Sealing of Courtrooms	39
B.	Effect of Removal To Federal Court.....	39
C.	Pitfalls with Using Rule 202 Proceedings in Employment Cases	40
XI.	TEXAS COVENANT NOT TO COMPETE SUMMARY	43

A.	The Texas Covenant Not to Compete Act	43
B.	The Effect of the Preemption Clause In The Act.....	44
C.	Cases Holding That The Act Does Not Preempt the Common Law or Other Statutes	44
1.	Cases Involving Temporary Injunctive Relief	44
2.	Cases Involving Declaratory Judgments	45
D.	Can Another State’s Law Regarding Non-competes Apply to a Texas Employee?	46
E.	The Basic Requirements For A Non-Compete Under Texas Law.....	47
F.	When Is A Covenant Not To Compete Ancillary To An Otherwise Enforceable Agreement?.....	48
1.	The Requirement That The Non-Compete Be Ancillary To An Enforceable Agreement	48
2.	Types Of Consideration That Courts Have Found To Be Sufficient For A Non-Compete Agreement	50
3.	The Reasonability Requirement.....	51
G.	Geographic Scope	51
H.	Duration of Non-Compete	52
I.	Scope Of Activity Restrained	53
J.	Evidence Required To Establish A Violation Of A Covenant Not To Compete Sufficient For Temporary Injunctive Relief.....	53
K.	Attorneys’ Fees In Non-Compete Cases.....	54
1.	Employers Cannot Recover Attorneys’ Fees In Cases Involving Covenants Not To Compete	54
2.	An Employee May Recover Attorney Fees Under The Act; However, The Burden Is High Under the Statute	55
L.	Injunction Orders and Bonds	56
1.	Tex. R. Civ. P. 683: Form and Scope of Injunction Order	56
2.	Rule 684: The Bond Requirement.....	56

I. INTRODUCTION

The Texas Uniform Trade Secret Act (“TUTSA”) was enacted in 2013 to make uniform the law of Texas with the other 48 states that had already passed their versions of the Uniform Trade Secret Act. There are still some significant differences in trade secret law amongst the states since some include or exclude critical terms from the uniform act. For example, California does not exclude from trade secret protection information that is “readily ascertainable;” yet almost all other states including Texas hold that readily ascertainable information is NOT a trade secret.

Notwithstanding these occasional differences, however, the decisional laws of other states are relevant and should be persuasive authority to Texas courts insofar as these courts are interpreting the same statutory language.

Likewise, the definition of a trade secret under the Defend Trade Secrets Act (“DTSA”) is identical in many respects to TUTSA. Therefore, Federal DTSA cases are discussed herein and should likewise be persuasive authority for Texas state and federal courts.¹

Finally, some Texas Federal Courts have noted that pre-TUTSA cases are often cited in post-2013 cases where TUTSA’s preemption clause should theoretically displace conflicting authority. See *Utex Indus., Inc. v. Wiegand*, No. CV H-18-1254, 2020 WL 873985, at *8 (S.D. Tex. Feb. 21, 2020)(“To determine whether information is a trade secret under TUTSA courts typically apply the standards the Texas Supreme Court developed for older common law trade secret claims.”)

Therefore, this paper will also discuss some pre-TUTSA cases to the extent their holdings have not been displaced. This is helpful because Texas had extensively developed its own common law regarding trade secrets many decades before passage of TUTSA. Accordingly, there are many pre-TUTSA cases that will be instructive on questions such as whether a specific product in a unique industry might be a trade secret.

It is important to remember that the drafters of the Uniform Trade Secret Act were attempting to update and modernize trade secret law. This makes sense given trends in rapid economic modernization and the highly specialized technological and scientific

¹ Under the Federal DTSA, a trade secret is defined as:

All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if—

A. The owner thereof has taken reasonable measures to keep such information secret; and

B. The information derives independent economic value, actual or potential, from not being known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information. 18 U.S.C. § 1839(3).

information that is now ubiquitous. The significant differences between what once constituted a trade secret under the common law as compared to the uniform act reflects an attempt to strike a balance between protecting an owner's right to hard-earned innovation while at the same time not unduly impairing competition and mobility.

One example of how the law has evolved involves the past focus by courts on the nature of how information is obtained as being outcome determinative in whether trade secret status applied. In 1958 the Texas Supreme Court declared that:

The mere fact that knowledge of a trade secret may be acquired through lawful means, such as inspection or analysis, does not preclude protection as a trade secret from those who secure that knowledge through improper means. *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 314 S.W.2d 782, 788 (1958)); *see also Sharma*, 231 S.W.3d at 424 (citing Here, "[t]he question is not 'How could [Lamont and Carranco] have secured the knowledge?' but 'How did [they]?' " *Id.* (quoting *Am. Precision Vibrator Co.*, 764 S.W.2d at 277); *see also, Lamont v. Vaquillas Energy Lopeno Ltd., LLP*, 421 S.W.3d 198, 213 (Tex. App.—San Antonio 2013, pet. denied).

While improper acquisition is still a factor in determining whether a trade secret has been misappropriated, the trend amongst courts applying the uniform act is to decide whether the information is secret in the first instance and whether that secrecy enables the owner to derive an independent economic benefit. The manner of acquisition, while important, is no longer the threshold issue under the uniform act.

II. TYPES OF TRADE SECRETS

There are a wide variety of trade secret cases which has caused some courts to observe that defining the trade secret is perhaps the most difficult issue out of all the numerous legal questions they are forced to resolve. *StoneCoat of Tex., LLC v. ProCal Stone Design, LLC*, No. 4:17CV303, 2019 WL 5391178, at *57 (E.D. Tex. Aug. 12, 2019), report and recommendation adopted in part, rejected in part, 426 F. Supp. 3d 311 (E.D. Tex. 2019) ("A trade secret 'is one of the most elusive and difficult concepts in the law to define.');" *Ultraflo Corp. v. Pelican Tank Parts, Inc.*, 926 F. Supp. 2d 935, 958 (S.D. Tex. 2013) (quoting *Tewari De-Ox Systems, Inc. v. Mountain States/Rosen, LLC*, 637 F.3d 604, 613 (5th Cir. 2011)) (quoting *Lear Siegler, Inc. v. Ark-Ell Springs, Inc.*, 569 F.2d 286, 288 (5th Cir. 1978))

Whether information, a formula, or some other product or item qualifies as a trade secret is usually decided based on resolving the following issues: a) secrecy—i.e., whether the alleged secret is truly secret or is generally known and/or readily ascertainable, b) whether the owner took sufficient steps to maintain secrecy, and c) whether the owner derives economic value from having developed and kept the trade secret protected from discovery. This can be shown by comparing and contrasting cases where courts either found a trade secret or refused to accept such a claim.

Find the full text of this and thousands of other resources from leading experts in dozens of legal practice areas in the [UT Law CLE eLibrary \(utcle.org/elibrary\)](https://utcle.org/elibrary)

Title search: Trade Secret Update

Also available as part of the eCourse

[2023 Labor and Employment Law eConference](#)

First appeared as part of the conference materials for the 30th Annual Labor and Employment Law Conference session "Trade Secret Update"