TRADE SECRET MISAPPROPRIATION IN TEXAS

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Many companies doing business in Texas often choose to protect certain business information as trade secrets rather than use other forms of intellectual property protection. Unfortunately, these companies must be constantly vigilant to ensure their trade secrets are not stolen. Surprisingly though, the greatest threat of theft appears to be from a company’s own business relations and employees.

If the company’s trade secrets are stolen, the business owner can file a legal claim for misappropriation of trade secrets under Texas law. However, the business owner should be aware that Texas law concerning misappropriation of trade secrets is currently in transition. Until recently Texas followed the common law approach through the Restatement of Torts to address trade secret misappropriation even though most states had adopted the Uniform Trade Secrets Act for this purpose. However, on September 1, 2013, a modified version of the Uniform Trade Secrets Act became effective in Texas.1 Unfortunately, with this enactment the Legislature specified that all acts of trade secret misappropriation that occurred before the effective date of the statute, as well as any continuing acts that arose before the date of the statute, will still follow the common law Restatement of Torts approach.2 Therefore, until the statute of limitations runs on all of these prior claims the business owner should be aware of both the old Restatement of Torts law and the new Texas Uniform Trade Secrets Act (TUTSA) in order to effectively protect his or her trade secret interests.3

Quite a number of articles have been written about what constitutes misappropriation of trade secrets under the Uniform Trade Secrets Act and related state statutes, which can be helpful to the business owner for new acts of misappropriation committed after the effective date of the TUTSA at least until Texas case law is developed in this area.4 But very little has been

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1 J.D., Assistant Professor of Legal Studies, Texas State University-San Marcos.
3 See TEX. CIV. PRAC. & REM. CODE ANN. § 16.010(a) (West 2013) (requiring a plaintiff to bring suit “not later than three years after the misappropriation is discovered or by exercise of reasonable diligence should have been discovered”).
written about what constitutes misappropriation of trade secrets under Texas common law. Therefore, this article looks at how Texas defines misappropriation of trade secrets under the common law Restatement of Torts approach. It is anticipated that this will help the business owner understand the requirements for a misappropriation claim in those instances where pre-TUTSA misappropriation may have occurred, but also provide guidance as to how Texas courts might interpret the TUTSA where it maintains similarities with the common law. Both Texas cases and federal cases applying Texas law are reviewed.

I. INTRODUCTION

Texas courts first recognized the Restatement of Torts’s definition of trade secret misappropriation in 1958 with the Texas Supreme Court’s decision in *Hyde Corp. v. Huffines*. The *Hyde Corp.* case arose from Huffines’s development of a garbage compression device. Huffines subsequently entered into a licensing agreement with Hyde Corp for the device’s manufacture in January 1954. As a result of the agreement between the parties, Hyde Corp. obtained full knowledge of Huffines’s device from its confidential pending patent application, scale models, blue prints, and actual construction. In May 1955, Hyde Corp. notified Huffines that it wanted to cancel the contract. However after canceling the contract, Hyde Corp. did not stop manufacturing the device.

Huffines sought an injunction against Hyde Corp. restraining Hyde Corp. from manufacturing or selling any device made substantially in accordance with any feature of the garbage compressor, along with damages and attorney’s fees. Huffines was granted relief at the trial court level.

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6 *Id.* at 766-67.
7 *Id.* at 766.
8 *Id.* at 768.
9 *Id.*
10 *Id.*
11 *Id.* at 765.
which was partially affirmed on appeal. Hyde Corp. petitioned to the Texas Supreme Court arguing, in part, that there was no support for Huffines’s claim that the company violated their confidential relationship and misappropriated his trade secrets.

It was as to this issue that the Court introduced the Restatement of Torts’s requirement for liability from Section 757 that “one who discloses or uses another’s trade secrets, without a privilege to do so, is liable to the other if (a) he discovers the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him.” The Court ultimately concluded that the injunction was supported.

This definition introduced in Hyde Corp. was later reworked into a four-part standard for determining trade secret misappropriation. Under this standard the business owner must show (1) the existence of a trade secret, (2) breach of a confidential relationship or improper discovery of the trade secret, (3) use or disclosure of the trade secret, and (4) resulting damages.

This article begins from the premise that the business owner has taken appropriate steps to protect the information as a trade secret. Therefore the first factor, existence of a trade secret, will not be discussed. However, the remaining factors under the Restatement of Torts will be discussed, beginning with the second factor, breach of a confidential relationship or improper discovery.

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12 Id.
13 Id. at 765-66.
14 Id. at 769; Restatement of Torts §757 is the predecessor to Sections 39-45 of the Restatement (Third) of Unfair Competition.
15 Hyde Corp. at 770.
16 The first reference to this four factor standard was found in Hurst v. Hughes Tool Co., 634 F.2d 895 (5th Cir. 1981). The Hyde Corp. definition from the Restatement as well as the four factor standard from Hurst have been used interchangeably throughout the years in trade secret misappropriation cases. However, the Texas Supreme Court has never expressly adopted the four factor test.
18 For further discussion of the first factor, existence of a trade secret, under the Restatement of Torts, see generally Michelle Evans, What Constitutes a Trade Secret in Texas?, 23 S. L.J. 99 (2013).
II. BREACH OF A CONFIDENTIAL RELATIONSHIP OR IMPROPER DISCOVERY

As long as the business owner has taken adequate steps to protect the business information as a trade secret, the business owner can establish the first factor under the Restatement of Torts—existence of a trade secret. For the second factor, the business owner should be prepared to show that there was a confidential relationship with the defendant or the defendant obtained the trade secret by improper means. Proof of a confidential relationship can be gathered in advance of any misappropriation; therefore, this relationship will be examined first.

A. Confidential Relationship

There are two situations where the business owner should be prepared to show that there was a confidential relationship. The first situation involves outside business relationships, and the second involves employment relationships. Business relationships will be addressed first.

1. Business Relations

There are several trade secret misappropriation cases in Texas that involve failed business relationships. Knowing this, the business owner can be better prepared for this situation. Generally, a business relationship between the business owner and the defendant which rises to the level of a confidential relationship can be used to support an action for misappropriation. The key is there must be some direct relationship between the parties. The confidentiality argument will fail if there is no direct relationship between the parties.

A business owner expecting to share a trade secret with a third party should always use a confidentiality agreement. If an agreement exists

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19 For further discussion of trade secret disclosure pursuant to a business relationship, see generally Thomas J. Oppold, Top 10 Ways to Help Protect Your Franchise’s Trade Secrets, 35 FRANCHISING WORLD 57 (2003); Thomas J. Scott, Jr. & Eleanor M. Hynes, Reducing Your Risk as a Licens or Licensee in Patent and Technology Licensing-The Important Terms to Consider, 28 LICENSING J. 6 (2008).

20 See, e.g., Gaia Techs., Inc. v. Recycled Prods. Corp., 175 F.3d 365, 377 (5th Cir. 1999) (concluding that a company that acquires a debtor’s trade secrets out of bankruptcy has no direct relationship with the debtor’s new employer therefore there was insufficient evidence of a confidential relationship).

21 See, e.g., Wellogix, Inc. v. Accenture, L.L.P., 823 F. Supp. 2d 555, 565 (S.D. Tex. 2011) (concluding a confidential relationship existed between the parties where the parties had entered into six agreements, all containing confidentiality provisions); IAC, Ltd. v. Bell
between the parties, an additional legal claim can be made by the business owner for breach of contract when any confidences are violated. An agreement is not required to establish the duty of confidentiality, but establishing proof that this duty exists can be more difficult. For instance, the court may take into account the absence of such an agreement as well as the lack of other precautions.\textsuperscript{22} In addition, without an agreement the court will consider the actions of the parties and the nature of their relationship to determine whether a confidential relationship existed.\textsuperscript{23} The question in such a situation is whether the defendant knew or should have known the information was a trade secret and the disclosure was made in confidence.\textsuperscript{24} There are some business relationships that satisfy this requirement as a matter of law. For instance, a trade secret disclosed during negotiations for the sale of a business is disclosed under a duty of confidence as a matter of law.\textsuperscript{25} However, disclosures by a licensor to a licensee are not automatically

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Helicopter Textron, Inc., 160 S.W.3d 191, 199 (Tex. App. 2005) (noting evidence showed that the plaintiff disclosed trade secrets to the defendant so it could repair the plaintiff’s helicopters and a confidentiality agreement between the parties required the defendant to keep the information secret however the defendant made the information available in its library).

\textsuperscript{22} See, e.g., Hollomon v. O. Mustad & Sons (USA), Inc., 196 F. Supp. 2d 450, 460 (E.D. Tex. 2002) (finding the two license agreements between the parties failed to contain a confidentiality agreement and the licensor (1) failed to ask the licensee to keep his fish hook designs confidential, (2) failed to inform the licensee that he was submitting his fish hook designs in confidence, (3) did not believe he needed to keep his fish hook designs secret even though they could easily be knocked off, and (4) showed the fish hooks to others for testing purposes without nondisclosure agreements therefore there was no confidential relationship); Furr’s Inc. v. United Specialty Adver. Co., 385 S.W.2d 456, 460 (Tex. Civ. App. 1964) (concluding a confidential relationship did not exist in the absence of an agreement even though the plaintiff disclosed information to the defendant relying on the defendant’s integrity where the plaintiff did not make the defendant aware that the information was being disclosed in trust).

\textsuperscript{23} See, e.g., Gen. Universal Sys., Inc. v. Lee, 379 F.3d 131, 151 (5th Cir. 2004) (finding there was a genuine issue of material fact concerning a confidential relationship since the possible relationship of the parties appeared to be a partnership).

\textsuperscript{24} \textsc{Restatement of Torts § 757, cmt. J (1939)}; Phillips v. Frey, 20 F.3d 623, 632 (5th Cir. 1994).

\textsuperscript{25} See, e.g., Phillips, 20 F.3d at 632 (finding there was sufficient evidence for the jury to conclude the defendant knew or should have known the information disclosed during the sales negotiations was a trade secret and was made in confidence even though there was no express request to keep the information secret where the disclosure was made when the parties mutually came to negotiate for the sale of the business); H.E. Butt Grocery Co. v. Moody’s Quality Meats, Inc., 951 S.W.2d 33, 36 (Tex. App. 1997) (concluding there was sufficient evidence that the defendant knew or should have known the trade secret process was being provided in confidence even though there was no agreement or request for confidentiality where the disclosure was made pursuant to business sale negotiations, the defendant knew the plaintiff was proud of the product made by the trade secret process, the plaintiff had profited from sales of the product, and the plaintiff thought the product could provide a business advantage to the defendant).
considered confidential. Confidentiality in other relationships, such as between an employer and an employee, must also be considered.

2. Employment Relationships

The relationship between a business owner and his or her employees is generally treated as confidential. Again the best option for the business owner is to have a written confidentiality agreement with his or her employees. Just like with business relationships, the agreement can give the business owner an additional legal claim for breach of contract. But a confidentiality agreement is not necessary. An employee is still prohibited from using the trade secret information in a manner adverse to his or her

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26 See, e.g., Hyde Corp. v. Huffines, 314 S.W.2d 763, 777 (Tex. 1958) (concluding that the existence of a confidential relationship between a licensor and licensee is to be determined in each case and is not automatic); K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 314 S.W.2d 782, 790 (Tex. 1958) (affirming the trial court’s grant of an injunction for the plaintiff licensor where the defendant disassembled the owner’s device to obtain information about the internal specifications in violation of an agreement with the plaintiff licensor and the court determined the information could not be otherwise determined as the device was complex and not ascertainable at a glance); J.C. Kinley Co. v. Haynie Wire Line Serv., Inc., 705 S.W.2d 193, 196 (Tex. App. 1985) (concluding that the trial court did not err in determining a confidential relationship did not exist between the licensor and licensee where such a relationship is not implied as a matter of law to be confidential, the business owner took no precautions to maintain the secrecy of the internal parts, and there was no confidentiality agreement).


28 See, e.g., Picker Int’l, Inc. v. Blanton, 756 F. Supp. 971, 980 (N.D. Tex. 1990) (concluding a confidential relationship existed by virtue of a confidentiality agreement between the defendant former employee and the plaintiff former employer and the plaintiff’s information relating to servicing of MRI systems was used by the defendant without authorization).

29 See generally Jeffrey S. Klein et al., Drafting Employment Related Agreements, 762 PLI/LIT 143 (2007) (discussing the enforceability of employee confidentiality agreements); Gerald Sobel, Preserving Trade Secret Protection, 269 PLI/PAT 205 (1989) (same). For a separate legal claim for breach of fiduciary duty when the employee was an officer or director of the company, see generally Byron F. Egan, Fiduciary Duties of Corporate Directors and Officers in Texas, 43 TEX. J. BUS. L. 45 (2009).
employer.30 This responsibility exists during the employment relationship as well as after termination.31

While this duty prevents the employee from using trade secrets obtained during the course of employment, it does not prevent the employee from using general knowledge, skill, and experience gained during the employment.32 Nor does it prevent a former employee from soliciting his or her former employer’s clients in the absence of an enforceable agreement not to compete.33 But even though a lawful means for determining the trade secret may be available, the employee is still liable if he or she acquires the information through a breach of confidence.34

32 See, e.g., Hahn & Clay v. A. O. Smith Corp., 320 F.2d 166, 171 (5th Cir. 1963) (concluding the trial judge did not err in holding that there was no misappropriation of trade secrets where the alleged disclosure simply involved the employees using a skill they developed while working for the plaintiff); Trilogy Software, Inc. v. Callidus Software, Inc., 143 S.W.3d 452, 467 (Tex. App. 2004) (concluding the former employee’s knowledge of a solution that could be applied to resolve a problem of its current employer was not protectable as a trade secret); Reading & Bates Constr. Co. v. O’Donnell, 627 S.W.2d 239, 243 (Tex. App. 1982) (affirming the trial court’s issuance of a temporary injunction in favor of plaintiff former employer restraining former employees from engaging in the practice or dissemination of plaintiff’s trade secret information without restricting those matters of common knowledge and in use in the industry); Auto Wax Co., Inc., 599 S.W.2d at 112 (affirming the trial court’s judgment in favor of the defendant former employees where there was sufficient evidence that the chemical formulas developed by the defendants were not identical to the plaintiff’s, the chemicals used for defendants’ formulas were matters of common knowledge and general use within the cleaning agent products industry, the defendants did not copy nor remove copies of the plaintiff’s formula, and the defendants developed their own formulas through trial and error even though they acquired knowledge of chemical mixing while employed for plaintiff).
33 See, e.g., Miller Paper Co., 901 S.W.2d at 602 (affirming the issuance of an injunction which enjoined defendant former employees from using the plaintiff’s materials to compete with plaintiff, but did not bar defendants from competing with their former employer in other respects); Gonzales, 791 S.W.2d at 268 (concluding the defendant former employees did not sign a noncompetition agreement with the plaintiff employer therefore the defendants could not be enjoined from soliciting the plaintiff’s customers or legally interfering with the plaintiff’s customers in order to obtain their business).
34 See, e.g., Miller Paper Co., 901 S.W.2d at 602 (affirming the trial court’s grant of an injunction preventing the defendant former employees from using the plaintiff’s customer list as well as its order pads, actual orders, computers lists with customer names, addresses, and buying preferences, product lists, and manufacturer catalogues even though some information contained therein could have been located through independent investigation of public material where there was no evidence that the defendants actually gathered that information from those sources); ForScan Corp. v. Dresser Indus., Inc., 789 S.W.2d 389, 394 (Tex. App.
Unfortunately however, where the business owner cannot establish a confidential relationship, the business owner must be prepared to show that the defendant used improper means to discover the information.

**B. Improper Means of Discovery**

When a confidential relationship does not exist between the parties the business owner must be prepared to show that the defendant used improper means to discover the trade secret. The defendant in this situation is typically a competitor of the business owner.

Comment f to Section 757 of the Restatement of Torts has been used to define what constitutes improper means of discovery. Specifically this comment provides:

The discovery of another’s trade secret by improper means subjects the actor to liability independently of the harm to the interest in the secret. Thus, if one uses physical force to take a secret formula from another’s pocket, or breaks into another’s office to steal the formula, his conduct is wrongful and subjects him to liability apart from the rule stated in this Section. Such conduct is also an improper means of procuring the secret under this rule. But means may be improper under this rule even though they do not cause any other harm than that to the interest in the trade secret. Examples of such means are fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage. A complete catalogue of improper means is not possible. In general they are means which fall below the generally accepted standards of commercial morality and reasonable conduct.

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1990) (affirming the trial court’s grant of a permanent injunction where there was evidence that the defendant’s tool was similar to that of the business owner and that there were too many similarities for it to be a coincidence; defendant hired several of plaintiff’s employees to work on development of the tool; and the defendant had solicited confidential information from other individuals); Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204, 213 (Tex. Civ. App. 1973) (concluding employees breached confidences of their employer by developing a trade secret process in secret, with full knowledge of its value and without disclosure to their employer, and set up a company using the trade secret, all while still employed by employer).  

35 See, e.g., Phillips v. Frey, 20 F.3d 623, 630 (5th Cir. 1994) (finding there was sufficient evidence for the jury to determine the defendant used improper means to acquire the plaintiff’s trade secret where the facts showed that the defendant induced the plaintiff to reveal information so he could obtain a business loan but the defendant never applied for a loan).  

36 See RESTATEMENT OF TORTS § 757, cmt. F (1939); E.I duPont de Nemours & Co. v. Christopher, 431 F.2d 1012, 1016 (5th Cir. 1970) (concluding that aerial photography of plant construction is an improper means of obtaining another’s trade secret according to comment F).
This definition was later simplified by the Restatement (Third) of Unfair Competition to include “theft, fraud, unauthorized interception of communications, inducement of or knowing participation in a breach of confidence, and other means either wrongful in themselves or wrongful under the circumstances.” In essence, it is permissible for a company to gain possession of its competitor’s trade secret product through lawful means and then inspect, analyze, and create a duplicate of the product. However, going beyond these steps to acquire or duplicate the competitor’s product can be considered improper.

Under the TUTSA, the definition of “improper means” presents a new laundry list of improper methods that includes breach of a confidential relationship as “breach of a duty to maintain secrecy.” The essence of the remaining factors is similar to both the Restatement of Torts and Restatement (Third) of Unfair Competition definitions for “improper means” discussed

37 See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 (1995); Wellogix, Inc. v. Accenture, L.L.P., 788 F. Supp. 2d 523, 542 (S.D. Tex. 2011) (concluding there was sufficient evidence for the jury to determine that the defendant used improper means to obtain the plaintiff’s trade secrets by accessing information from the plaintiff’s shared site, pushing a third party to represent that the defendant’s product would provide a better solution than the plaintiff’s product, and possessing information created by the plaintiff for other projects); Terra Nova Sciences, LLC v. Joa Oil and Gas Houston, LLC, 738 F. Supp. 2d 689, 696 (S.D. Tex. 2010) (concluding the plaintiff sufficiently alleged the trade secrets were acquired by improper means by demonstrating the defendant committed fraud, that is, the defendant told plaintiff it wanted to demonstrate the plaintiff’s software at a conference and if it went well the defendant would invest in the software, the defendant’s representations were made with the intent of obtaining the software algorithms which would have to be disclosed for development of the demonstration, and the defendant knew these statements were false because it had no intention of entering into any arrangement with the plaintiff); Astoria Indus. of Iowa, Inc. v. SNF, Inc., 223 S.W.3d 616, 636 (Tex. App. 2007) (concluding there was sufficient evidence to raise a genuine issue of material fact concerning misappropriation by the defendant competitor’s use of improper means, specifically coaxing a third party to secure the plaintiff manufacturer’s trade secret design drawings).

38 See, e.g., Ameristar Jet Charter, Inc. v. Cobbs, 184 S.W.3d 369, 374-375 (Tex. App. 2006) (finding the defendant former employee did not improperly obtain the former employer’s trade secrets by using the internet and trade publications to solicit business).

39 See, e.g., Alcatel USA, Inc. v. DGI Techs., Inc., 166 F.3d 772, 785 (5th Cir. 1999) (concluding the defendant used improper means to obtain the plaintiff’s trade secret where the defendant used the plaintiff’s relationship with a third party to improperly misappropriate the plaintiff’s operating software trade secrets by tricking an employee of the third party who also worked as a consultant for the defendant into revealing the operating software trade secrets); K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 314 S.W.2d 782, 790 (Tex. 1958) (affirming the trial court’s issuance of an injunction to enjoin use of the plaintiff’s trade secret device by the defendant licensee where the defendant disassembled the device to obtain information about the internal specifications in violation of an agreement with the plaintiff licensor and the court determined the information could not be otherwise determined as the device was complex and not ascertainable at a glance).

40 See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(2) (West 2013).
herein; therefore, it is anticipated that interpretation under the TUTSA will be consistent with the prior common law.

The same in-house security precautions used to protect business information as a trade secret should be sufficient to prevent a defendant from gaining direct access to the company’s computer system and building improperly.41 But the business owner should take extra precautions with individuals who already know the trade secrets, particularly employees, to prevent disclosure to third parties.42 One way to accomplish this is to limit the number of employees who are permitted to access the information from the company’s computer system or on site. On site restrictions can be accomplished simply by installing limited access security doors. Limiting access to the company’s computer system on the other hand can be accomplished at the administrative level by limiting network access. Furthermore, the employer can install monitoring software to track employee access habits.43

If the defendant is still able to obtain the trade secret information by improper means, the business owner should be prepared with the trade secret misappropriation claim. The same evidence may also be used by the business owner to support a separate legal claim against the defendant for tortious interference with contract, specifically with an existing employee’s contract, where the defendant attempts to attract the business owner’s employees to its own company.44 The business owner may also have a separate claim for tortious interference with prospective business relations

42 For further discussion of trade secret protection with employees, see generally David R. Hannah, *Should I Keep a Secret? The Effects of Trade Secret Protection Procedures on Employees’ Obligations to Protect Trade Secrets*, 16 ORG. SCI. 71 (2005); Elizabeth Rowe, *Trade Secrets, Data Security and Employees*, 84 CHI.-KENT L. REV. 749 (2010).
where the defendant attempts to pursue the business owner’s existing or prospective clients.45

III. USE OR DISCLOSURE

In addition to showing that the information was a trade secret and that it was obtained as a result of a confidential relationship or by improper means under the Restatement of Torts, the business owner must be prepared to show that the information was used or disclosed.46 For this requirement, the business owner must show either actual use or disclosure of the trade secret.47 The term disclosure is typically given its ordinary dictionary

46 See, e.g., Triple Tee Golf, Inc. v. Nike, Inc., 485 F.3d 253, 264 (5th Cir. 2007) (concluding a material fact issue existed on the issue of use in an action for misappropriation brought by a company against a design consultant and the design consultant’s new employer even though the design consultant developed a permanently weighted golf club instead of the adjustable club designed by the company where the defendants would need to use fundamental elements of the company’s design to produce the permanent adjustability); Sikes v. McGraw-Edison Co., 665 F.2d 731, 735 (5th Cir. 1982) (affirming the trial court’s judgment on the jury verdict in favor of plaintiff developer where it was shown the defendant’s device was the start of the defendant’s development of their own product, the plaintiff’s tool was used by the defendant in the field for testing, and the defendant took its parts and tried to develop a product from the plaintiff’s tool); Rimkus Consulting Grp., Inc. v. Cammarata, 688 F. Supp. 2d 598, 669 (S.D. Tex. 2010) (concluding a fact question existed as to use of the plaintiff’s information where the evidence showed one defendant emailed himself the plaintiff’s confidential information and downloaded plaintiff’s financial information from plaintiff’s server to his work group laptop on the day he resigned; and a second defendant emailed himself plaintiff’s reports, obtained a PowerPoint presentation from a former client of the plaintiff and used it for his work at his new company, and retained boxes of plaintiff’s documents); but see Trilogy Software, Inc. v. Callidus Software, Inc., 143 S.W.3d 452, 465 (Tex. App. 2004) (concluding that the former employee’s receipt of an email to “take a look” at information from its former employer obtained by an outside consultant did not raise a genuine issue of material fact that the former employee actually used the former employer’s trade secrets in the initial work on a project for a successive employer).
47 See, e.g., Twister B.V. v. Newton Research Partners, L.P., 364 S.W.3d 428, 438 (Tex. App. 2012) (finding that the trial court did not err in denying special appearance since there was evidence the defendant used or disclosed the trade secret through marketing and sales in Texas); IAC, Ltd. v. Bell Helicopter Textron, Inc., 160 S.W.3d 191, 199 (Tex. App. 2005) (noting the defendant used contour and twist data as well as primer and adhesive specifications from the plaintiff’s information and the confidentiality agreement between the parties expressly prohibited use of the data); H. E. Butt Grocery Co. v. Moody’s Quality Meats, Inc., 951 S.W.2d 33, 38 (Tex. App. 1997) (concluding there was sufficient evidence to establish use without authorization where the defendant was using the same five step process as plaintiff, defendant started using the process almost immediately after visiting with the plaintiff, and the defendant began using a vacuum tumbler to pre-marinate similar to the plaintiff’s process).
This disclosure can include everything from face to face disclosure to electronic mail to social networking. A great concern with business owners is inevitable disclosure of trade secrets by former employees to new employers. However, Texas courts have not yet expressly adopted this inevitable disclosure doctrine for liability purposes because some additional action is required by the defendant other than simply possessing the trade secret. Although Texas courts have adopted a similar doctrine of “possible use” for purposes of granting a temporary injunction against former employees, this is not expected to change under the TUTSA, which permits injunctions for “threatened misappropriation.”

In contrast to the disclosure requirement, actual use has been defined by the courts as commercial use rather than just any type of use. Specifically,

48 Disclosure is the “act of disclosing”, “revelation”, or “the impartation of that which is secret or not fully understood”. BLACK’S LAW DICTIONARY 464 (6th ed. 1990).
50 For further discussion of factors that influence employee disclosure, see generally David R. Hannah, An Examination of the Factors that Influence Whether Newcomers Protect or Share Secrets of Their Former Employers, 44 J. MGMT. STD. 465 (2007); Margo E.K. Reder, Managing the Risk of Trade Secret Loss Due to Job Mobility in an Innovation Economy with the Theory of Inevitable Disclosure, 12 J. HIGH TECH. L. 373 (2012).
51 See generally Randy Burton et al., The Sound of Inevitability: The Doctrine of Inevitable Disclosure of Trade Secrets Comes to Texas, 44 TEX. J. BUS. L. 103 (2011) (discussing a doctrine similar to inevitable disclosure in Texas under the Restatement of Torts); Ryan Wiesner, A State-By-State Analysis of Inevitable Disclosure: A Need for Uniformity and a Workable Standard, 16 MARQ. INTELL. PROP. L. REV. 211 (2012) (discussing the inevitable disclosure doctrine in states that have adopted the Uniform Trade Secrets Act).
52 See, e.g., T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc., 965 S.W.2d 18, 24 (Tex. App. 1998) (determining that former employees possessed former employer’s confidential information and were in a position to use it to directly compete with the former employer therefore possession of the information was an “inherent threat” to the disclosure or use of the trade secrets); Rugen v. Interactive Bus. Sys., Inc., 864 S.W.2d 548, 552 (Tex. App. 1993) (concluding the trial court did not err in issuing injunction against the former employee where the former employee possessed confidential information of the former employer, operated a firm in direct competition with her former employer, and was in a position to use the confidential information such that it was probable the former employee would ultimately use the information to the detriment of the former employer).
53 See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.003 (West 2013).
54 See, e.g., Metallurgical Indus. Inc. v. Fourtek, Inc., 790 F.2d 1195, 1205 (5th Cir. 1986) (concluding that since the trade secret had not been put into commercial operation to produce a product that could be used, no commercial use had occurred); Atl. Richfield Co. v. Misty Prods., Inc., 820 S.W.2d 414, 422 (Tex. App. 1992) (concluding the evidence was insufficient to support the jury’s findings that the defendants used or disclosed the plaintiff’s trade secret formula even though it was shared in house, where the information was disclosed under the
commercial use is the use by which a person seeks to profit. But there also appears to be varying levels of use that are sufficient for liability. For example, intended commercial use may be sufficient proof where it appears commercialization is the next step. Probable use by former employees, at least for purposes of issuing an injunction can be sufficient. In addition, evidence presented by the business owner that the alleged misappropriator has a similar product may also give rise to an inference of actual use under certain circumstances, but proof can be difficult.

The Fifth Circuit recently started using the Restatement (Third) of Unfair Competition to expand the definition of use beyond “commercial use” to almost any use that harms the business owner or benefits the defendant. The Restatement provides:

Any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a “use” under this Section. Thus, marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or

request of confidentiality, the formula was undecipherable, and the defendant product was only commercially available soap diluted with water).

See, e.g., Wellogix, Inc. v. Accenture, LLP, 823 F. Supp. 2d 555, 566 (S.D. Tex. 2011) (denying a motion for judgment as a matter of law where there was sufficient evidence that the defendant used the plaintiff’s trade secret information in its own software programs); IBP, Inc. v. Klumpe, 101 S.W.3d 461, 476 (Tex. App. 2001) (affirming summary judgment for the defendant on the issue of use where there was insufficient evidence of commercial use or nonprivileged disclosure).

See, e.g., ForScan Corp. v. Dresser Indus., Inc., 789 S.W.2d 389, 395 (Tex. App. 1990) (affirming the trial court’s issuance of an injunction in favor of the plaintiff former employer where there was evidence of intended commercial use by the defendant former employee i.e. the defendant admitted that in 1981 he was in the process of testing the tool and attempting to market it and he had employed a marketing director to conduct a market survey and contact prospective customers).

See, e.g., T-N-T Motorsports, Inc., 965 S.W.2d at 24 (finding that former employees possessed former employer’s confidential information and were in a position to use it to directly compete with the former employer therefore possession of the information was an “inherent threat” to the disclosure or use of the trade secrets); Rugen, 864 S.W.2d at 552 (concluding the trial court did not err in issuing injunction against the former employee where the former employee possessed confidential information of the former employer, operated a firm in direct competition with her former employer, and was in a position to use the confidential information such that it was probable the former employee would ultimately use the information to the detriment of the former employer).

See, e.g., Propulsion Techs., Inc. v. Attwood Corp., 369 F.3d 896, 905 (5th Cir. 2004) (finding testimony by plaintiff’s witness that the plaintiff’s production of its propellers “kind of gave [the defendant] the ability to learn how to make them” was insufficient to infer use by the defendant); Global Water Grp., Inc. v. Atchley, 244 S.W.3d 924, 930 (Tex. App. 2008) (concluding that two products need not be identical for an inference of use to arise, but the similarities in this case did not rise to a level sufficient to show the trade secret was used).
development, or soliciting customers through the use of information that is a trade secret... all constitute “use.”

However, the Texas Supreme Court has not expressly adopted this liberal definition. This liberal construction by federal courts can be useful for those business owners that may lack proof of traditional commercial use preferred by Texas courts. However, the business owner must have grounds for jurisdiction in federal court in order to pursue this option.

In comparison, the TUTSA permits a misappropriation claim for both use and disclosure as well, but there is no guidance on which definition of “use” is more appropriate. Therefore, it is anticipated that each jurisdiction will continue to interpret “use” as each had previously under the common law.

IV. REMEDIES FOR MISAPPROPRIATION

A. Injunction

Damages are the last requirement the business owner must be able to prove in a misappropriation of trade secrets action under the Restatement of Torts. Until trial however, business owners are more concerned about the damage that immediate release of the trade secret can cause in the marketplace. Injunctive relief may therefore be sought to prevent someone who has actually misappropriated the business owner’s trade secrets from

59 See Restatement (Third) of Unfair Competition § 40, cmt. C (1995); Bohnsack v. Varco, L.P., 668 F.3d 262, 279-80 (5th Cir. 2012) (concluding that there was sufficient evidence for the jury to find use by the defendant where the defendant’s act of filing a patent application to the plaintiff’s trade secret information disclosed to the defendant in confidence was likely to result in injury to the plaintiff trade secret owner under the Restatement definition); Gen. Universal Sys., Inc. v. HAL, Inc., 500 F.3d 444, 451 (5th Cir. 2007) (concluding the continued reliance on the plaintiff’s information to accelerate the development and marketing of the defendant’s product represented an exploitation of the information that was likely to result in injury to the plaintiff and enrichment to the defendants; however, the action for misappropriation was barred by the statute of limitations); Terra Nova Scis., LLC v. Joa Oil and Gas Houston, LLC, 738 F. Supp. 2d 689, 696 (S.D. Tex. 2010) (concluding the plaintiffs sufficiently alleged use of the trade secret since plaintiffs alleged the defendant incorporated the plaintiffs’ software algorithms into its own software, from which it derived profits).

60 Federal jurisdiction can be obtained by showing diversity or a federal question. Diversity jurisdiction requires that the business owner and the defendant be citizens of different states with an amount in controversy in excess of $75,000. See 28 U.S.C. § 1332 (2012). Federal question jurisdiction requires that the business owner allege a federal question, such as patent infringement, federal unfair competition, or violation of the Computer Fraud and Abuse Act, along with the state trade secret misappropriation claim. See 28 U.S.C. § 1331 (2012).

gaining an unfair market advantage. In most cases, a temporary injunction will be granted until trial. The injunction should be very specific. If the injunction is considered overly broad the appellate court can modify it. But

62 See, e.g., IAC, Ltd. v. Bell Helicopter Textron, Inc., 160 S.W.3d 191, 200 (Tex. App. 2005) (concluding there was sufficient evidence for issuance of an injunction where the defendants had data entitled to trade secret protection and were using it to compete with the plaintiff, were prepared to price the product lower than the plaintiff, and the lower priced product would lead to an incalculable loss to the plaintiff’s business goodwill); Garth v. Staktek Corp., 876 S.W.2d 545, 548 (Tex. App. 1994) (concluding that the trial court did not err in imposing an injunction beyond the date the plaintiff’s trade secret was disclosed by publication of its patent application where the misappropriation occurred before the publication and the extended date was the only way the court could protect the plaintiff from concurrent marketing by the defendant company).

63 See, e.g., K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 314 S.W.2d 782, 790 (Tex. 1958) (affirming the trial court’s issuance of an injunction to enjoin use of the plaintiff’s trade secret device by the defendant licensee which extended beyond the date of issuance of a patent that disclosed the device where the defendant disassembled the device to obtain information about the internal specifications in violation of an agreement with the plaintiff licensor and the court determined the information could not be otherwise determined as the device was complex and not ascertainable at a glance); INEOS Grp. Ltd. v. Chevron Phillips Chem. Co., LP, 312 S.W.3d 843, 848 (Tex. App. 2009) (affirming the trial court’s grant of a temporary injunction against a licensee where the licensor established trade secret status until trial); Sharma v. Vinmar Int’l, Ltd., 231 S.W.3d 405, 427 (Tex. App. 2007) (affirming the trial court’s grant of an injunction where the potential damage caused by the loss of the former employer’s isoprene and caprolactum business by the former employee’s misappropriation of trade secrets could not be easily calculated and therefore a legal remedy was inadequate); Mabrey v. Sandstream, Inc., 124 S.W.3d 302, 309 (Tex. App. 2003) (affirming the trial court’s grant of a temporary injunction for misappropriation of trade secrets); Rugen v. Interactive Bus. Sys., Inc., 864 S.W.2d 548, 551 (Tex. App. 1993) (concluding the injunction granted by the trial court was appropriate to prohibit the defendant former employee from using the plaintiff’s confidential information to solicit or transact business with the plaintiff’s consultants or customers even though the court found the noncompetition agreement between the parties was unenforceable where the injunction did not prohibit the defendant from organizing a competing firm nor developing her own clients or consultants); Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204, 214 (Tex. Civ. App. 1973) (reversing the trial court’s denial of an injunction and rendering judgment that former employees and their new corporation were permanently enjoined from using or continuing to use the secret process the former employees developed for their former employer where the employees breached their confidence to the employer by developing a trade secret process in secret, with full knowledge of its value and without disclosure to their employer, and set up a company using the trade secret, all while still employed by their employer).

64 See, e.g., T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc., 965 S.W.2d 18, 25-26 (Tex. App. 1998) (modifying the injunction from “any information” to “any Hennessey trade secret information” and “any types of services” to “any types of services using Hennessey trade secret information”); Gonzales v. Zamora, 791 S.W.2d 258, 268 (Tex. App. 1990) (modifying an injunction to enjoin defendant former employees from disclosing or using trade secrets that were acquired during the time the defendants were employed by plaintiff while removing any restriction on the use of materials from the state or other health care providers).
the court can also vacate an injunction where there is insufficient information to modify it.65

In contrast, the TUTSA appears to offer greater relief than the common law approach as it extends injunctive relief to “threatened misappropriation” as well and permits the extension of an injunction to “eliminate commercial advantage.”66 Procedural requirements for the injunction are not expected to change from the common law.

B. Damages

1. Actual Damages

The first type of damages the business owner can seek in a trade secret misappropriation action under the Restatement of Torts is actual damages.67 Actual damages for misappropriation of trade secrets are based on the actual value of the secrets appropriated.68 Actual damages can take several forms. If the business value has been completely or almost completely destroyed, then the business owner can seek damages based on lost business value.69 If the business value has not been destroyed, the business owner may seek the value a reasonably prudent investor would have paid for the trade secret.70

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65 See, e.g., Sw. Research Inst. v. Keraplast Techs., Ltd., 103 S.W.3d 478, 483 (Tex. App. 2003) (concluding the injunction issued by the trial court that defined the technology as any technology based on … processed keratinous material or tissue wherein during the processing of the keratinous material the keratin is chemically modified was overly broad because the definition included technology that was already publicly known).
66 See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.003(a) (West 2013).
67 In 2000, it was estimated that trade secret misappropriation cost companies approximately 100 million dollars annually. Scott D. Marrs, Inside Story on Trade Secrets: Protective Measures are Necessary to Preserve a Company’s Vital Information, ABA J. 77 (Oct. 2000).
69 See, e.g., Wellogix, Inc. v. Accenture, LLP, 823 F. Supp. 2d 555, 569 (S.D. Tex. 2011) (concluding there was sufficient evidence of business value both before and after destruction to determine compensatory damages).
70 See, e.g., Bohnsack v. Varco, L.P., 668 F.3d 262, 280 (5th Cir. 2012) (concluding there was sufficient evidence to support the $600,000 damages award for misappropriation of trade secrets where the plaintiff and defendant initially negotiated a contract whereby the defendant, a reasonably prudent investor, was willing to pay $600,000 for the trade secret); Precision Plating & Metal Finishing, Inc. v. Martin-Marietta Corp., 435 F.2d 1262, 1263 (5th Cir. 1970) (concluding there was sufficient evidence to support the trial court’s decision that a reasonably prudent investor would have paid $27,500 for the trade secret).
Another way to determine actual value is to calculate a reasonable royalty.\textsuperscript{71} The reasonable royalty is based on a fair licensing price that the parties would have agreed upon for the secrets.\textsuperscript{72} Factors to consider include (1) the resulting and foreseeable changes in the parties' competitive posture; (2) prices past purchasers or licensees may have paid; (3) 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; (4) the nature and extent of the use the defendant intended for the secret; and (5) whatever other unique factors in the particular case might have been affected by the parties' agreement, such as the ready availability of alternative processes.\textsuperscript{73}

In addition to a reasonable royalty, lost profits can also be used as measure of damages for misappropriation of trade secrets. Lost profits are damages for the loss of net income to a business and reflect income from lost business activity, less expenses attributable to that activity.\textsuperscript{74} It is important that the calculation be based on net profits rather than gross revenue or gross profits.\textsuperscript{75} The party attempting to establish lost profits must show more than that they suffered lost profits, but the loss does not need to be exactly calculable.\textsuperscript{76} The specific test requires that the amount be shown by

\textsuperscript{71} See, e.g., Molex, Inc. v. Nolen, 759 F.2d 474, 479 (5th Cir. 1985) (finding a reasonable royalty for plaintiff trade secret owner as 7.5% of defendant's $1.5 million in total sales).

\textsuperscript{72} See, e.g., Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 1128 (5th Cir. 1991) (concluding the evidence showed sales in the millions and significant profits so the jury's award of $150,000 was not unreasonable); Sikes v. McGraw-Edison Co., 665 F.2d 731, 737 (5th Cir. 1982) (concluding a reasonable royalty of $0.59 per unit was appropriate for the plaintiff developer against the defendant manufacturer for misappropriation of trade secrets after failed negotiations where the parties initially agreed that $0.50 was "about right" and expert testimony showed a range of possible royalties between $0.10 and over $1.00); Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204, 214 (Tex. Civ. App. 1973) (reversing the trial court's award of $15,000 to the trade secret owner where there was insufficient evidence to support the reasonable royalty determined by the court and insufficient evidence to justify the request by the trade secret owner of at least $500,000).

\textsuperscript{73} See, e.g., Calce v. Dorado Exploration, Inc., 309 S.W.3d 719, 738 (Tex. App. 2010) (concluding that evidence was insufficient to support the jury's finding of $400,000 in damages based on a reasonable royalty for misappropriation of trade secrets where there was no evidence that the parties would have agreed to the amount as a fair licensing price nor any evidence to support a calculation for the amount).

\textsuperscript{74} See, e.g., Kellmann v. Workstation Integrations, Inc., 332 S.W.3d 679, 684 (Tex. App. 2010) (reversing and rendering judgment that the trade secret owner take nothing where the trade secret owner's expert failed to take expense into account in calculating lost profits, used gross sales figures from tax returns, and failed to provide an estimate regarding equipment sales).

\textsuperscript{75} Id.

“competent evidence with reasonable certainty.” 77 At a minimum the court requires that opinions or estimates on lost profits be based on “objective facts, figures, or data.” 78 Speculation will not support a claim for lost profits. 79

Actual damages can also be sought under the new TUTSA. These damages include “actual loss caused by misappropriation” as well as “unjust enrichment… not taken into account in computing actual loss.” 80 Reasonable royalty can be used as an alternative. 81 It is anticipated that damages under the new statute will be applied in the same manner as the Restatement of Torts cases.

2. Exemplary Damages

In addition to actual damages under the Restatement of Torts, exemplary damages are also recoverable for misappropriation of trade secrets in certain circumstances as long as actual damages are awarded. 82 These damages are intended to punish the defendant for his or her conduct. 83 In order to recover exemplary damages, the business owner must prove by clear and convincing evidence that the defendant’s actions involved fraud, malice, or gross negligence. 84 It is insufficient for the business owner to merely show that the action by the defendant was wrong or unlawful. 85 The most common

77 See, e.g., Kellmann, 332 S.W.3d at 684; Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 110.
78 Id.
79 See, e.g., Glattly v. Air Starter Components, Inc., 332 S.W.3d 620, 633 (Tex. App. 2010) (reversing the trial court’s damages award where the expert’s opinion on lost profits assumed that 100 percent of the current employer’s sales would have been made by the former employer without some independent basis, some evidence showed that at least some of the sales by the current employer would not have been made by the former employer, and the expert used an average profit margin for all of the former employer’s sales rather than a profit margin associated with specific products); Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 111 (affirming the trial court’s denial of $2 million in lost profits where the plaintiff’s representative testified he did not know how he determined the amount and the company’s claim for lost profits was based on its assumption without more that it lost customers based on the defendant’s alleged use of the software).
80 See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(a) (West 2013).
81 Id.
82 See TEX. CIV. PRAC. & REM. CODE ANN. §§ 41.002(a), 41.004(a) (West 2012).
83 See TEX. CIV. PRAC. & REM. CODE ANN. § 41.001(5) (West 2012); Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 112.
84 See TEX. CIV. PRAC. & REM. CODE ANN. § 41.003(a) (West 2012); Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 112.
85 See, e.g., Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 112.
argument for exemplary damages in Texas appears to be that the defendant acted with malice.86

Malice involves acting with ill will, spite, evil motive, or purpose to injure or harm.87 For the business owner to show that the defendant acted with malice, the business owner must prove a specific intent by the defendant to cause substantial injury or harm to the business owner.88 In addition, the business owner must show that the defendant’s conduct involved an objective extreme risk of harm and that the defendant had a subjective “actual awareness” of an extreme risk created by his or her conduct.89 That harm for the business owner must be extraordinary such as financial ruin.90 Factors that are considered include: (1) the nature of the wrong; (2) the character of the conduct involved; (3) the degree of culpability of the wrongdoer; (4) the situation and sensibilities of the parties concerned; (5) the extent to which such conduct offends a public sense of justice and propriety; and (6) the net worth of the defendant.91

By statute there is a cap on the amount of exemplary damages that can be recovered. Specifically, the amount of damages cannot exceed the greater of (1) twice the economic damages plus noneconomic damages not to exceed $750,000 or (2) $200,000.92 However, this statutory cap does not apply to causes of action where the business owner seeks recovery of exemplary damages for conduct that constitutes a third degree felony or higher under Chapter 31 of the Texas Penal Code.93 This exemption applies to misappropriation of trade secret actions because theft of trade secrets, found in Section 31.05 of the Texas Penal Code, is a third degree felony.94 Even

86 See, e.g., Zoecon Indus., a Div. of Zoecon Corp. v. Am. Stockman Tag Co., 713 F.2d 1174, 1180 (5th Cir. 1983) (concluding that defendants were key employees who violated their employer’s trust and therefore exemplary damages were proper).
87 See, e.g., Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 112.
88 See TEX. CIV. PRAC. & REM. CODE ANN. § 41.001(7) (West 2012); Wellogix, Inc. v. Accenture, LLP, 823 F. Supp. 2d 555, 570 (S.D. Tex. 2011) (concluding there was sufficient evidence to support the jury’s verdict for exemplary damages based on malice where the plaintiff presented evidence that the defendant intended to misappropriate the trade secrets and intended to cause the plaintiff substantial business harm); Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 112 (concluding that the intent by the former employee was to repair or service the equipment incorporating the former employer’s software and while accessing the backdoor information to the software was unethical there was no evidence of specific intent to injure the former employer and therefore no evidence to support exemplary damages).
89 See, e.g., Rusty’s Weigh Scales and Serv., Inc., 314 S.W.3d at 112.
90 Id.
91 See TEX. CIV. PRAC. & REM. CODE ANN. § 41.011 (West 2012); Molex, Inc. v. Nolen, 759 F.2d 474, 480 (5th Cir. 1985) (affirming the trial court’s judgment of exemplary damages in an amount of twice the actual damages).
92 See TEX. CIV. PRAC. & REM. CODE ANN. § 41.008(b) (West 2012).
93 See TEX. CIV. PRAC. & REM. CODE ANN. § 41.008(c)(13) (West 2012).
94 See TEX. PENAL CODE ANN. § 31.05 (West 2012).
with this exemption however, an award of exemplary damages above the statutory cap will also need to survive constitutional scrutiny. But as long as the amount does not exceed four times the actual damages, constitutional scrutiny can be avoided.\textsuperscript{95}

By comparison, the TUTSA still requires the “clear and convincing” burden of proof, but limits the amount of exemplary damages to twice the damages award for “willful and malicious conduct”.\textsuperscript{96} It is anticipated that exemplary damages under the new statute will be applied in the same manner as the malice cases under the Restatement of Torts, but with the reduced cap.

3. Attorney’s Fees

Unfortunately Texas law under the Restatement of Torts does not provide for attorney’s fees in trade secret misappropriation cases, but additional claims such as breach of contract can be pursued that do permit the recovery of attorney’s fees. This is in contrast to the new TUTSA. Section 134A.005 of the TUTSA provides that attorney’s fees may be awarded to the prevailing party if “a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful and malicious misappropriation exists.”\textsuperscript{97} This additional recovery will make up for the reduction in the exemplary damages cap.

4. Judgment and Recovery

No discussion of damages is complete without a discussion of recovery. While significant civil remedies exist under the common law doctrine of trade secret misappropriation and related causes, a favorable judgment does not always result in monetary recovery. The reason for this is because most individuals in Texas are judgment proof.\textsuperscript{98} The Texas homestead law renders most individuals judgment proof because of the large amount of property identified in the law as exempt from forced sale by general creditors.\textsuperscript{99}

So while a civil action may result in both a judgment and recovery against a defendant business that holds an insurance policy, monetary

\textsuperscript{96} See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.004(b) (West 2013).
\textsuperscript{97} See TEX. CIV. PRAC. & REM. CODE ANN. § 134A.005 (West 2013).
\textsuperscript{99} See TEX. CONST. art. XVI, § 50 (West through Nov. 2011 amendments); TEX. PROP. CODE ANN. §§ 41.001, 42.001, 42.002 (West 2012).
recovery against an individual may be nearly impossible. Texas law does permit the judgment to be abstracted in the county deed records to put third parties on notice of the claim. However, recovery using this method may take years and the judgment abstract must be renewed every ten years. Another option business owners can consider against potentially judgment proof defendants is to pursue criminal charges under state or federal law, such as under Section 31.05 of the Texas Penal Code, the Economic Espionage Act, or the Computer Fraud and Abuse Act.\textsuperscript{100}

\textbf{V. CONCLUSION}

In conclusion, for the business owner seeking a remedy for misappropriation of trade secrets that occurred before the effective date of the new TUTSA, he or she should be aware of what Texas law requires under the Restatement of Torts. Starting from the premise that a trade secret already exists, the business owner must be able to show a confidential relationship with the defendant or that the defendant obtained the trade secret by improper means. Here the business owner must show proof of an existing business or employment relationship to establish the confidential relationship, ideally with a written agreement, or wrongful acquisition of the trade secret by the defendant. Next, the business owner must be able to show that the defendant disclosed or used the trade secret. Texas and federal courts differ on their interpretation of use therefore the level of proof provided by the business owner may dictate the required forum. Finally, the business owner must be able to show clear, non-speculative damages. Both actual and exemplary damages are recoverable, but actual recovery may be limited based on the type of defendant. The new TUTSA is not expected to be a significant departure from existing Texas law under the Restatement of Torts. While the possibility of recovering attorney’s fees certainly ups the ante, the reduction in the exemplary damages cap will likely keep the overall judgment in the same monetary range.