

# WHAT CONSTITUTES A TRADE SECRET IN TEXAS?

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In many areas of the law Texans like to do things their own particular way. Trade secret law is no exception. While the majority of states have adopted the Uniform Trade Secrets Act into their legislation, Texas continues to follow the common law approach through the Restatement of Torts.<sup>1</sup> One key distinction between the two laws is the definition of a trade secret.<sup>2</sup> Quite a number of articles have been written about what constitutes a trade secret under the Uniform Trade Secrets Act and related state statutes, but very little has been written about what constitutes a trade secret under Texas law.<sup>3</sup> For a business owner contemplating protection of a trade secret in Texas, such information can be quite useful.<sup>4</sup> Therefore, this article will look at Texas' definition of a trade secret under the Restatement of Torts.<sup>5</sup>

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<sup>1</sup> For a list of statutory citations for states that have adopted the Uniform Trade Secrets Act, see Unif. Trade Secrets Act §1 (amended 1985), 14 U.L.A. 538 (2005).

<sup>2</sup> Under the Uniform Trade Secrets Act, a trade secret is defined as “information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” See *id.*

<sup>3</sup> For further discussion of specific state statutes incorporating the Uniform Trade Secrets Act, see generally Milton E. Babirak, Jr., *The Maryland Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law*, 31 U. BALT. L. REV. 181 (2002); Milton E. Babirak, Jr., *The Virginia Uniform Trade Secrets Act: A Critical Summary of the Act and Case Law*, 5 VA. J.L. & TECH. 15 (2000); Jeff Danley, *Cadence v. Avant!: The UTSA And California Trade Secret Law*, 19 BERKELEY TECH. L.J. 289 (2004); Douglas F. Halijan, *The Past, Present, And Future Of Trade Secrets Law in Tennessee: A Practitioner's Guide Following The Enactment of The Uniform Trade Secrets Act*, 32 U. MEM. L. REV. 1 (2001); C. Geoffrey Weirich & Daniel. P. Hart, *Protecting Trade Secrets and Confidential Information in Georgia*, 60 MERCER L. REV. 533 (2009); Michael Ahrens, Note, *Wisconsin Confidential: The Mystery of the Wisconsin Supreme Court's Decision in Burbank Grease Services v. Sokolowski and Its Effect Upon the Uniform Trade Secrets Act, Litigation, and Employee Mobility*, 2007 WIS. L. REV. 1271 (2007).

<sup>4</sup> For further discussion of company strategies used in managing trade secrets, see generally Thomas A. Hemphill, *The Strategic Management of Trade Secrets in Technology Based Firms*, 16 TECH. ANALYSIS & STRATEGIC MGMT 479 (2004).

<sup>5</sup> This article is also expected to be useful to instructors of business law courses in Texas. For a case study illustrating a hypothetical company's efforts to protect its secrets according to the Uniform Trade Secrets Act that can be used equally well to introduce students to Texas' definition of a trade secret, see generally Michelle Evans, *Trade Secrets in the Legal Studies Curriculum- A Case Study*, 29 J. LEGAL STUD. EDUC. 1 (2012).

Representative Texas cases and federal cases applying Texas law will be reviewed.

### I. *HYDE CORP. V. HUFFINES*

Texas courts first recognized the Restatement of Torts definition of trade secrets in 1958 with the Texas Supreme Court's decision in *Hyde Corp. v. Huffines*.<sup>6</sup> The *Hyde Corp.* case arose from Huffines's development of a garbage compression device for which he filed a patent application in December 1953.<sup>7</sup> Huffines subsequently entered into a licensing agreement with Hyde Corp in January 1954.<sup>8</sup> As a result of the agreement between the parties, Hyde Corp. obtained full knowledge of Huffines's device from the patent application, scale models, blue prints, and actual construction.<sup>9</sup> In May 1955, Hyde Corp. gave notice to Huffines that it wanted to cancel the contract.<sup>10</sup> However, Hyde Corp. did not stop manufacturing the device.<sup>11</sup> Unfortunately at that time the patent had not yet issued for Huffines's device so Huffines had no cause under the patent laws.<sup>12</sup>

Instead, Huffines sought an injunction against Hyde Corp. restraining Hyde Corp. from manufacturing or selling any device made substantially in accordance with any feature of a garbage compressor described in Huffines's patent application or the subsequently issued patent, along with damages and attorneys fees.<sup>13</sup> Huffines was granted relief at the trial court level, which was partially affirmed on appeal.<sup>14</sup> Hyde Corp. petitioned to the Texas Supreme Court arguing, in part, (1) that there was no support for Huffines's claim that the company violated their confidential relationship and misappropriated his trade secrets and (2) the injunction was wrongfully issued against Hyde Corp. because a patent was subsequently issued to Huffines.<sup>15</sup>

On the first issue, the Court introduced the Restatement of Torts's requirement for liability 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

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<sup>6</sup> *Hyde Corp. v. Huffines*, 314 S.W.2d 763 (Tex. 1958).

<sup>7</sup> *Id.* at 766-67.

<sup>8</sup> *Id.* at 766.

<sup>9</sup> *Id.* at 768.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

<sup>13</sup> *Id.* at 765.

<sup>14</sup> *Id.*

<sup>15</sup> *Id.* at 765-66.

of confidence reposed in him by the other in disclosing the secret to him.”<sup>16</sup> The Court determined that the parties were in the position of licensor and licensee which created a confidential relationship as a matter of law.<sup>17</sup> Therefore the court concluded that recovery was supported.<sup>18</sup>

Furthermore, as to the second issue the Court determined the Court of Appeals did not err in affirming the injunction against Hyde Corp.<sup>19</sup> The Court stated that an “injunction to prevent one person from damaging another through an abuse of confidence in wrongfully appropriating trade secrets is a separate remedy and incident to a different right than that secured by a patent.”<sup>20</sup> Therefore, even though the patent subsequently issued, Huffines could still prevent Hyde Corp. from damaging him through use of the confidential information.

Hyde Corp. subsequently filed a Motion for Rehearing objecting to the Court’s use of the phrase “trade secrets” throughout the case.<sup>21</sup> It was in response to this Motion that the Court adopted the Restatement of Torts definition of trade secrets from Section 757, comment b, which is still used by Texas courts today.<sup>22</sup> According to this definition,

[A] trade secret may consist of any formula, pattern, device or compilation of information which is used in one’s business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers... A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article.<sup>23</sup>

Hyde Corp.’s motion was ultimately overruled.<sup>24</sup>

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<sup>16</sup> *Id.* at 769.

<sup>17</sup> *Id.*

<sup>18</sup> *Id.* at 770.

<sup>19</sup> *Id.* at 776.

<sup>20</sup> *Id.* at 773.

<sup>21</sup> *Id.* at 776.

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at 781.

## II. DEVELOPMENT OF THE LAW POST-HYDE CORP.

Over the years Texas courts have continued to reiterate all or part of the Restatement of Torts definition introduced by the *Hyde Corp.* case. Federal courts applying Texas law have also followed suit. Unfortunately each of these cases has been decided on a case-by-case basis so several cases must be reviewed for a business owner to see a general pattern. Therefore, the ability to predict what is sufficient for trade secret status using these cases is difficult. As a result, there are approximately just as many cases in favor of the trade secret owner as against. But in each of these cases the courts have further refined the requirements for a trade secret.

First and foremost the trade secret must give the business owner a competitive advantage.<sup>25</sup> In order to maintain this competitive advantage, the information must be substantially secret.<sup>26</sup> But at least one court has held that proof of substantial secrecy is not required where the information was obtained in violation of a confidence between the parties.<sup>27</sup>

One issue that may arise in the context of secrecy is the business owner's disclosure of the trade secret to third parties. Third parties can include individuals outside the company, such as customers or consultants, other businesses, or employees. With businesses or others outside the company, the business owner must be careful when disclosing trade secrets. A business owner can protect its disclosure by requiring the third party to sign a confidentiality agreement. If the business owner voluntarily discloses the secret to a third party without some indication that the secret is being

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<sup>25</sup> See, e.g., *CQ, Inc. v. TXU Mining Co., L.P.*, 565 F.3d 268, 275 (5th Cir. 2009) (affirming summary judgment in favor of defendant mining company where plaintiff failed to show it had a protectable trade secret as plaintiff's strategic recommendation between two generally known alternatives did not offer the plaintiff an advantage over competitors).

<sup>26</sup> See, e.g., *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 552 (Tex. App. 1993) (affirming the trial court's issuance of a temporary injunction in favor of plaintiff former employer enjoining defendant former employee from using trade secrets where there was sufficient evidence it was secret since both parties stipulated that the employer's customer information, pricing information, identity of consultants, and pricing of consultants were confidential and defendant former employee testified she considered the identity of clients, prospective clients, potential projects, and pricing information to be very confidential); *Rimes v. Club Corp. of Am.*, 542 S.W.2d 909, 913 (Tex. Civ. App. 1976) (dissolving an injunction issued in favor of plaintiff former employer against defendant employees where the court concluded there was no trade secret status for the company's words and phrases it alleged to be trade secret since the information was frequently used to solicit clients and there was no effort made to maintain the secrecy).

<sup>27</sup> See, e.g., *Chandler v. Mastercraft Dental Corp. of Texas, Inc.*, 739 S.W.2d 460, 469 (Tex. App. 1987) (holding that the plaintiff seller did not need to prove a substantial element of secrecy, where evidence showed the defendant buyer hustled the plaintiff's former customers and began using the exact molds, match plates, and formulas in violation of the duty of confidence between the parties).

revealed in confidence or fails to take reasonable precautions to ensure its secrecy, the business owner may not be entitled to trade secret protection.<sup>28</sup> However, an exception exists during negotiations for the sale of a business or when the disclosure is to further the business owner's economic interests. During these situations, the third party should know that any trade secret disclosed is to be kept in confidence without the need for an express agreement and therefore trade secret protection will be maintained.<sup>29</sup>

A business owner should also use a confidentiality agreement with employees to protect trade secrets. With employees the duty of confidentiality can arise even without a written confidentiality agreement.<sup>30</sup> But this duty does not arise in all cases.<sup>31</sup> Where the business owner relies

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<sup>28</sup> See, e.g., *Hollomon v. O. Mustad & Sons (USA), Inc.*, 196 F. Supp. 2d 450, 459 (E.D. Tex. 2002) (granting a motion for summary judgment in favor of the defendant licensee where the court determined the plaintiff 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); *Lawfinders Assoc., Inc. v. Legal Research Ctr., Inc.*, 65 F. Supp. 2d 414, 422 (N.D. Tex. 1999) (denying the plaintiff company's motion for preliminary injunction where the court concluded the plaintiff's results based guarantee was not a trade secret because the plaintiff included the information in retainer letter agreements distributed to customers without a nondisclosure obligation or duty of confidentiality); *J.C. Kinley Co. v. Haynie Wire Line Serv., Inc.*, 705 S.W.2d 193, 198 (Tex. App. 1985) (affirming the grant of summary judgment to the defendant licensee where there was undisputed evidence showing a total lack of precautions taken by the plaintiff licensor to maintain the secrecy of its parts and there was no contractual provision establishing a duty of confidentiality on the licensee); *Furr's, Inc. v. United Specialty Adver. Co.*, 385 S.W.2d 456, 460 (Tex. Civ. App. 1964) (dissolving a permanent injunction issued by the trial court in favor of plaintiff promoter where the court found there was no confidential relationship between the parties because it simply involved a salesman for the plaintiff unilaterally attempting to make a sale by making disclosures to the defendant storekeepers without any requirement that the information remain confidential, and the relationship ended when the goods were delivered).

<sup>29</sup> See, e.g., *Phillips v. Frey*, 20 F.3d 623, 632 (5th Cir. 1994) (affirming the jury's verdict in favor of plaintiff business owner against former prospective purchasers of the business on the issue of confidentiality surrounding disclosure where the court concluded there was sufficient evidence for the jury to determine the defendant knew or should have known the information disclosed during sales negotiations was a trade secret and made in confidence); *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1200-1201 (5th Cir. 1986) (noting that even though the plaintiff business failed to present evidence of a confidential relationship with the defendant former employees of the plaintiff's manufacturer and their new company this failure did not defeat trade secret status where the plaintiff made limited disclosures of the information in order to profit and did not intend to reveal its secrets to the public).

<sup>30</sup> See, e.g., *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 26 (Tex. App. 1998); *Auto Wax Co., Inc. v. Byrd*, 599 S.W.2d 110, 112 (Tex. Civ. App. 1980); *Collins v. Ryon's Saddle & Ranch Supplies, Inc.*, 576 S.W.2d 914, 915 (Tex. Civ. App. 1979).

<sup>31</sup> See, e.g., *Mercer v. C.A. Roberts Co.*, 570 F.2d 1232, 1238 (5th Cir. 1978) (affirming the trial court's refusal to find a confidential relationship between the defendant employer and the plaintiff former employee where the employee was not informed that the information in

on this implied duty of confidentiality, it is important to note that this responsibility exists during the employment relationship as well as after termination.<sup>32</sup> 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.<sup>33</sup> Courts will enjoin employees from using information that was acquired in confidence from their employer, even without an agreement in place.<sup>34</sup> However, preventing a former employee from competing with the employer is an entirely different issue.<sup>35</sup> Courts will not enjoin competition by a former employee without an express written agreement.<sup>36</sup>

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question was to be kept secret and the employee had retained a number of contacts from the company's competitors so he could have assumed the current company's information was not confidential).

<sup>32</sup> See, e.g., *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 600 (Tex. App. 1995); *Numed, Inc. v. McNutt*, 724 S.W.2d 432, 434 (Tex. App. 1987); *Auto Wax Co., Inc.*, 599 S.W.2d at 111.

<sup>33</sup> See, e.g., *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); *Hallmark Pers. of Texas, Inc. v. Franks*, 562 S.W.2d 933, 936 (Tex. Civ. App. 1978) (affirming the trial court's refusal to issue a temporary injunction enjoining the defendant former employee from using the plaintiff's trade secret where the alleged trade secret required the subject skill of the employee which could be developed by any experienced employment counselor having knowledge of the general principles of the plaintiff's concept).

<sup>34</sup> See, e.g., *Picker Int'l, Inc. v. Blanton*, 756 F. Supp. 971, 980 (N.D. Tex. 1990) (ordering a preliminary injunction against defendant former employee's continued disclosure or use of the plaintiff's trade secret information acquired during the defendant's employment where the information was disclosed pursuant to a confidentiality agreement); *T-N-T Motorsports, Inc.*, 965 S.W.2d at 26 (modifying an overbroad temporary injunction issued by the trial court to enjoin defendant employees from using or disclosing the plaintiff former employer's trade secret even though there was no confidentiality agreement between the parties) *Collins*, 576 S.W.2d at 915 (affirming the trial court's grant of a temporary injunction enjoining the defendant former employee from using copies of plaintiff's customer orders she had taken while employed with plaintiff former employer even though no written confidentiality agreement existed between the parties); *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 as the former employees had an express contractual obligation not to reveal trade secrets).

<sup>35</sup> For further discussion of employee non-compete agreements, see generally Michael J. Garrison & John T. Wendt, *The Evolving Law of Employee Non-Compete Agreements: Recent Trends and an Alternative Policy Approach*, 45 AM. BUS. L.J. 107 (2008); Alix Valenti,

Related to this issue of disclosure to third parties is the issue of public disclosure by the business owner. Texas courts will enjoin use of a trade secret acquired as a result of a confidential relationship or by improper means that was secret at the time the owner disclosed it to the third party, but yet was made public at a later date.<sup>37</sup> Nevertheless, if the information was already made public before the owner disclosed it to a third party, Texas

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*Covenants Not to Compete: Texas Supreme Court Expands Employers' Ability to Enforce Executory Contracts*, 17 S. L.J. 99 (2007).

<sup>36</sup> 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); *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); *Gonzales v. Zamora*, 791 S.W.2d 258, 268 (Tex. App. 1990) (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); *Exec. Tele-Comm'ns Sys., Inc. v. Buchbaum*, 669 S.W.2d 400, 403 (Tex. App. 1984) (affirming the trial court's denial of an injunction to restrain the defendant former employee from forming or joining a competitive business where there no showing that a noncompetition agreement existed between the parties); *Gaal v. BASF Wyandotte Corp.*, 533 S.W.2d 152, 155 (Tex. Civ. App. 1976) (modifying an injunction to only limit competition by the defendant former employee for those customers of plaintiff former employer which defendant solicited while still employed for plaintiff).

<sup>37</sup> 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); *Garth v. Staktek Corp.*, 876 S.W.2d 545, 548 (Tex. App. 1994) (affirming the trial court's issuance of an injunction beyond the date the plaintiff's trade secret was disclosed by publication of its patent application, in an action for misappropriation of trade secrets brought against a company formed by two members of the plaintiff's prior joint venture, 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); *Atlas Bradford Co. v. Tuboscope Co.*, 378 S.W.2d 147, 149 (Tex. Civ. App. 1964) (affirming issuance of temporary injunction against defendant former employee from disclosing trade secrets he expressly agreed to keep confidential even though the trade secret information was late disclosed in issued patents, but reversing the injunction against a third party to whom the employee had disclosed the information where the information had already been publicly disclosed by a patent).

courts will deny injunctive relief.<sup>38</sup> To determine whether the owner made the trade secret public, such as through issuance of a patent, the details of both the trade secret and the disclosure should be reviewed. If the owner does not specifically make the trade secret information public, the court will still grant protection to the trade secret owner.<sup>39</sup>

Another issue that arises in the context of secrecy concerns information that is already known. If the putative trade secret information is public knowledge or generally known in the industry, the information will not be given trade secret status.<sup>40</sup> In addition courts will deny trade secret status

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<sup>38</sup>See, e.g., *Lawfinders Assoc., Inc. v. Legal Research Ctr., Inc.*, 65 F. Supp. 2d 414, 422 (N.D. Tex. 1999) (denying the plaintiff company's motion for preliminary injunction where the court concluded the plaintiff's fee financing program was not a trade secret because the plaintiff's president published an article on asset based financing which was substantially similar to the claimed trade secret and plaintiff's direct response market strategy was not a trade secret because it was publicly disclosed by the plaintiff since 1994); *Luccous v. J.C. Kinley Co.*, 376 S.W.2d 336, 338 (Tex. 1964) (dissolving an injunction to the plaintiff licensor which was granted against former shareholders of its licensee on the grounds there was no trade secret because the trade secret had been disclosed in an expired patent where the defendants received knowledge of the trade secret 16 years after the patent was granted and used the information after the patent's expiration); *Daily Int'l Sales Corp. v. Eastman Whipstock, Inc.*, 662 S.W.2d 60, 63 (Tex. App. 1983) (affirming the trial court's denial of an injunction to the plaintiff licensor where the subject matter of the trade secret was disclosed in a patent and the defendant received knowledge of the trade secret through its licensing arrangement with plaintiff after the patent issued).

<sup>39</sup>See, e.g., *Phillips v. Frey*, 20 F.3d 623, 629 (5th Cir. 1994) (finding the jury's verdict of misappropriation of the manufacturing process was supported by the evidence even though the product made by the manufacturing process was disclosed in a patent where the patent did not detail the manufacturing process or specifications); *Thermotics, Inc. v. Bat-Jac Tool Co., Inc.*, 541 S.W.2d 255, 261 (Tex. Civ. App. 1976) (reversing the trial court's denial of an injunction to plaintiff manufacturers and remanding to the trial court with instructions to issue the injunction where the court concluded the design changes made to improve a product's performance were trade secrets even though there was an expired patent on the original design).

<sup>40</sup>See, e.g., *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1124 (5th Cir. 1991) (concluding secrecy was maintained even though there was limited disclosure where the plaintiff had to file its trade secret architectural plans with the city to obtain a building permit and these plans were available to the public under the Texas Open Records Act); *Sw. Research Inst. v. Keraplast Tech., Ltd.*, 103 S.W.3d 478, 483 (Tex. App. 2003) (vacating the temporary injunction issued by the trial court that defined the technology in question as "any technology based on ... processed keratinous material or tissue wherein during the processing of the keratinous material the keratin is chemically modified" as the injunction was overly broad because the definition included technology that was already publicly known); *H.E. Butt Grocery Co. v. Moody's Quality Meats, Inc.*, 951 S.W.2d 33, 39 (Tex. App. 1997) (reversing the trial court's judgment in favor of the plaintiff inventor and remanding for a new trial where the court determined there was insufficient evidence to support the jury's finding of trade secret status since the plaintiff's fajita marinading process was commonly known in the industry i.e. it was shown that the recipe was distributed by a third party, the ingredients for the plaintiff's fajitas were displayed at the counter where the fajitas were sold, a representative from the USDA explained it was not unusual to combine the ingredients for use on fajitas, a

where the information is generally known or readily ascertainable by independent investigation.<sup>41</sup> It is also permissible for a third party to discover

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spice company representative testified he was aware of other companies that used the same process although it was not common, and the process was previously published); *Gonzales*, 791 S.W.2d at 268 (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 and removed any restriction on the use of materials from the state or other health care providers); *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); *Research Equip. Co., Inc. v. C.H. Galloway & Scientific Cages, Inc.*, 485 S.W.2d 953, 956 (Tex. Civ. App. 1972) (affirming the trial court's grant of an injunction to enjoin the defendants from using the trade secrets only for 90 days because the customer information in question was not of great significance); *Ventura Mfg. Co. v. Locke*, 454 S.W.2d 431, 433 (Tex. Civ. App. 1970) (reversing the trial court's denial of an injunction to the plaintiff former employer and remanding to the trial court, the court noted that although the plaintiff's use of production line techniques were matters of general knowledge, the details as to the types and amounts of chemicals to be used and times and temperatures for cleaning the fasteners were developed by the plaintiff through expensive trial and error and at considerable expense); *Lamons Metal Gasket Co. v. Traylor*, 361 S.W.2d 211, 213 (Tex. Civ. App. 1962) (affirming the trial court's judgment in favor of defendant former employee where the court found the mechanical means, ideas and functional operations of the plaintiff's machines were not trade secrets because they were fully revealed to the public by conducted tours and demonstrations made without any effort to hide or screen the component parts and the machines were generally known in the metal gasket industry).

<sup>41</sup> See, e.g., *Hogan Sys., Inc. v. Cybresource Int'l, Inc.*, 158 F.3d 319, 324 (5th Cir. 1998) (affirming the trial court's grant of summary judgment to the defendant independent contractor and the contractor's employees doing work on software for the plaintiff's licensee where the plaintiff licensor stipulated that many individuals in the field obtain comparable abilities and expertise without ever being employed by the plaintiff so the court concluded the information the plaintiff claimed was a trade secret was just general knowledge); *Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1179 (5th Cir. 1983) (affirming a permanent injunction issued by the trial court enjoining defendant former employees from using or disclosing the plaintiff's trade secrets where the court concluded that even if the names and addresses in the plaintiff's customer list were readily ascertainable through trade journals the additional information in the lists could only be compiled at considerable expense); *Mercer v. C.A. Roberts Co.*, 570 F.2d 1232, 1239 (5th Cir. 1978) (affirming the trial court's conclusion that the supplier analysis and needs and buying habits of customers were not trade secrets because the information could be obtained from other sources or would be known by anyone with experience in the field and no confidential employment relationship was found to exist between the parties in this instance); *Lance Roof Inspection Serv., Inc. v. Hardin*, 653 F. Supp. 1097, 1103 (S.D. Tex. 1986) (concluding the plaintiff employer was not entitled to a preliminary injunction against its former employee because the customer list in question was not a trade secret as it was commonly known within the industry or readily ascertainable); *Am. Precision Vibrator Co. v. Nat'l Air Vibrator Co.*, 764 S.W.2d 274, 277-278 (Tex. App. 1989) (concluding the evidence was factually sufficient to support the jury's finding in favor of the plaintiff former employer that the customer cards, blueprints and/or drawings qualified as trade secrets even though much of the information was readily available with a lot of work from other sources where there was evidence that the defendant did not use its own effort in

the trade secret through independent invention, accidental disclosure, or reverse engineering.<sup>42</sup> Nevertheless, it does not excuse acquisition of the information through a breach of confidence.<sup>43</sup>

A third issue that arises in this area of secrecy is the extent of trade secret protection for a combination of information when at least some of the components are known. If there are at least some unknown components, the courts will find support for a trade secret in the combination.<sup>44</sup> And even if

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preparing the information but instead acquired the plaintiff's list by unfair means); *Numed, Inc. v. McNutt*, 724 S.W.2d 432, 435 (Tex. App. 1987) (affirming the trial court's denial of an injunction against the defendant former vice president of plaintiff where the court determined the plaintiff's pricing structure, marketing research, customer lists, and renewal dates were not trade secrets as the information was contained in contracts distributed to the plaintiff's customers which could be discovered by anyone, there was no effort to keep information secret prior to 1985, and there was no evidence that the defendant took or copied the plaintiff's information when he left the company); *Allan J. Richardson & Assoc., Inc. v. Andrews*, 718 S.W.2d 833, 837 (Tex. App. 1986) (affirming the trial court's denial of a temporary injunction to restrain defendant former employee from disclosing confidential information where the court found no trade secret status for plaintiff's customer lists since the information was readily ascertainable by asking potential customers with which company they had previously done business, the names of potential clients of structured settlement companies were readily available to the general public through directories, and most structured settlement companies used the same markets); *SCM Corp. v. Triplett Co.*, 399 S.W.2d 583, 586 (Tex. Civ. App. 1966) (affirming the trial court's denial of a temporary injunction to the plaintiff former employer even though a confidential relationship existed between the parties where the trade secret in question was a customer list that could readily be obtained from a Chamber of Commerce list and telephone directory).

<sup>42</sup> See, e.g., *Phillips*, 20 F.3d at 629; *Thermotics, Inc.*, 541 S.W.2d at 261.

<sup>43</sup> See, e.g., *Phillips v. Frey*, 20 F.3d 623, 629 (5th Cir. 1994) (finding there was no evidence that the defendants used reverse engineering to acquire the plaintiff's trade secret, even though they may have, when they were given the manufacturing process information during negotiations for the purchase of the plaintiff's business); *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 602 (Tex. App. 1995) (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); *Jeter v. Associated Rack Corp.*, 607 S.W.2d 272, 275 (Tex. Civ. App. 1980) (affirming the trial court's judgment for a permanent injunction, actual damages, and punitive damages in favor of the plaintiff former employer in an action for civil conspiracy to misappropriate confidential business information even though the information was available on the open market where the evidence showed the defendant former employees accumulated the plaintiff's customer lists, pricing cards, and rack designs both during and immediately after their employment); *Thermotics, Inc.*, 541 S.W.2d at 261 (concluding the defendants could have duplicated the plaintiff's information using other legal methods, but instead they took the information as part of their employment relationship).

<sup>44</sup> See, e.g., *Sikes v. McGraw-Edison Co.*, 665 F.2d 731, 736 (5th Cir. 1982) (affirming the trial court's judgment on a jury verdict in favor of plaintiff developer where the court concluded that even though a number of components of the plaintiff's device were generally

all of the components are known it may not preclude trade secret protection for the combination.<sup>45</sup>

### III. SIX ADDITIONAL FACTORS FOR THE TRADE SECRET ANALYSIS

Texas law post-*Hyde Corp.* was useful for further clarifying the Restatement of Torts definition of a trade secret, but since each case was decided on a case-by-case basis one had to read quite a number of cases to recognize a pattern. While these cases are still good law they are somewhat difficult for business owners to follow in planning the appropriate protection for their trade secrets. After approximately thirty years, however, case law in the trade secret area started to become more predictable with *Chapa v. Garcia*.

In 1992, another component to the Restatement of Torts was mentioned by Justice Doggett's concurrence in the Texas Supreme Court case of *Chapa v. Garcia*. Citing *Hyde Corp.*, Justice Doggett introduced six factors from the Restatement of Torts that can be used to determine if a trade secret exists.<sup>46</sup> These factors include (1) the extent to which the information is known outside of the business, (2) the extent to which it is known by employees and others involved in the business, (3) the extent of measures taken to guard the secrecy of the information, (4) the value of the information to the business and to its competitors, (5) the amount of effort or money expended in developing the information, and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>47</sup> Fortunately, the business owner does not need to satisfy all six factors to establish that a trade secret exists.<sup>48</sup>

Two appellate court decisions followed that discussed these factors in their trade secret analysis.<sup>49</sup> But it was not until the Texas Supreme Court

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known there was evidence that the jury could have seen the device as the first successful lightweight grass cutting flail of its kind and therefore it was a protectable trade secret).

<sup>45</sup> See, e.g., *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1202 (5th Cir. 1986) (reversing the directed verdict issued by the trial court in favor of the defendant noting a jury question existed on the issue of whether the plaintiff's modification process as a whole was a trade secret even though all of the steps and technologies were public knowledge); *Lawfinders Assoc., Inc. v. Legal Research Ctr., Inc.*, 65 F. Supp. 2d 414, 423 (N.D. Tex. 1999) (concluding the combination of elements the plaintiff alleged was a trade secret did not qualify for trade secret status where all of the components were publicly known).

<sup>46</sup> See *Chapa v. Garcia*, 848 S.W.2d 667, 670 (Tex. 1992) (Doggett, J., concurring).

<sup>47</sup> RESTATEMENT OF TORTS § 757, cmt. B (1939).

<sup>48</sup> See, e.g., *In re Bass*, 113 S.W.3d 735, 740 (Tex. 2003); *Sharma v. Vinmar Int'l, Ltd.*, 231 S.W.3d 405, 425 (Tex. App. 2007); *Astoria Indus. of Iowa, Inc. v. SNF, Inc.*, 223 S.W.3d 616, 635 (Tex. App. 2007).

<sup>49</sup> See, e.g., *Ctr. for Econ. Justice v. Am. Ins. Ass'n*, 39 S.W.3d 337, 344-345 (Tex. App. 2001) (concluding the parties stipulated to four of the factors and the remaining factors were

used these factors in its 2003 opinion of *In re Bass* that the factors began to be regularly used by the courts in their trade secret discussions.<sup>50</sup> With their use the analysis by the courts has become more predictable. To date, the majority of Texas courts that have discussed the factors in their analysis have found in favor of the business owner and protection of the information in question as a trade secret.<sup>51</sup> Only a handful of federal cases applying Texas

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found in favor of the trade secret owner); *John Paul Mitchell Sys. v. Randalls Food Mkts, Inc.*, 17 S.W.3d 721, 738 (Tex. App. 2000) (finding all six factors had been met to establish trade secret status for the plaintiff's list of suppliers in that there were a restricted number of individuals with access to the list, the list took time and money to develop, the list had value to the company because it enabled the company to obtain products to sell to retail outlets and many of the plaintiff's competitors would be eager to compete, and the information could not be readily obtained or duplicated).

<sup>50</sup> *In re Bass*, 113 S.W.3d 735.

<sup>51</sup> *See, e.g.*, *In re Union Pac. R.R. Co.*, 294 S.W.3d 589, 592 (Tex. 2009) (granting a petition for mandamus relief to defendant railroad company as the railroad's rate structures sought to be produced in action for personal injury were trade secrets since there was evidence that the Restatement factors were established); *In re Bass*, 113 S.W.3d at 739 (finding evidence for five of the six factors); *In re Cooper Tire & Rubber Co.*, 313 S.W.3d 910, 915 (Tex. App. 2010) (concluding the company satisfied five of the six factors for trade secret status); *INEOS Grp. Ltd. v. Chevron Phillips Chem. Co., L.P.*, 312 S.W.3d 843, 848-849 (Tex. App. 2009) (affirming the trial court's issuance of a temporary injunction in favor of the plaintiff licensor, the court considered the first and third factors on appeal); *Texas Integrated Conveyor Sys., Inc. v. Innovative Conveyor Concepts, Inc.*, 300 S.W.3d 348, 370 (Tex. App. 2009) (concluding the trial court erred in granting summary judgment to the former employees and their competing company in an action brought by the former employer for misappropriation of trade secrets where the employee handbook and affidavit testimony by the former employer provided evidence that raised a genuine issue of material fact concerning trade secret status for the former employer's customer lists); *In re XTO Res. I, LP*, 248 S.W.3d 898, 901 (Tex. App. 2008) (granting a writ of mandamus to defendant energy company as information sought to be produced in action for breach of contract was trade secret since there was evidence of all six factors for trade secret status); *Global Water Grp., Inc. v. Atchley*, 244 S.W.3d 924, 928 (Tex. App. 2008) (affirming the trial court's grant of a motion j.n.o.v. to the defendant former president and his new company in an action for misappropriation of trade secrets brought by the former employer on the issue of whether a trade secret existed where the alleged trade secret formula involved an approximate 10:90 mixture of two well known substances commonly used together and there was no evidence presented of the value of the formula to the business, whether the formula was known outside the business, or the effort or money it took to develop the formula even though there was some evidence presented that the former employer guarded its formula, provided limited access to the formula, and required employees to sign confidentiality agreements); *Sharma*, 231 S.W.3d at 424 (affirming the trial court's issuance of a temporary injunction against defendant former employees where the plaintiff former employer provided evidence of all six factors for determining trade secret status); *Astoria Indus. of Iowa, Inc.*, 223 S.W.3d at 634-635 (concluding a genuine issue of material fact existed as to trade secret status for the design drawings in question where the plaintiff manufacturer showed evidence of four of the six factors); *Sands v. Estate of Buys*, 160 S.W.3d 684, 688 (Tex. App. 2005) (reversing the temporary injunction issued to plaintiff estate of deceased owner of an accounting firm and rendering judgment denying the injunction where the plaintiff failed to establish a probability of success in proving that its' information deserves

law have discussed the factors, but the majority that have found in favor of the business owner.<sup>52</sup> A review of cases touching upon each factor is provided in the sections that follow.

### A. *Known Outside the Business*

For a business owner contemplating protection of trade secrets in Texas today, it is important to be aware of evidence Texas courts consider sufficient for each of the Restatement factors. The first factor to review to ensure creation of a trade secret is the extent the information is known outside the business.<sup>53</sup> Where the information is kept entirely in-house, Texas courts have determined this first factor is satisfied.<sup>54</sup> Even with limited disclosure,

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trade secret protection); *IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 197-198 (Tex. App. 2005) (affirming the trial court's issuance of a temporary injunction in favor of plaintiff manufacturer against its former repair contractor as the plaintiff presented evidence that the information in question was entitled to trade secret protection until the trial on the merits); *Mabrey v. Sandstream, Inc.*, 124 S.W.3d 302, 310 (Tex. App. 2003) (affirming the trial court's issuance of a temporary injunction in favor of plaintiff company the court noted the plaintiff had several security measures in place, i.e., plaintiff required nondisclosure agreements from all persons interviewed and hired, all vendors and all potential investors; physical security included industry standard mechanisms such as locks, badge readers, cameras, equipment cages, and fenced in vital infrastructure; plaintiff used secure servers, networks with firewalls, access lists for computers and coded card keys for access based on employee job function; plaintiff issued mandatory instructions for clearing cubicles and putting away sensitive information prior to visitor tours and visitors were kept out of restricted areas); *Fox v. Tropical Warehouses, Inc.*, 121 S.W.3d 853, 858 (Tex. App. 2003) (affirming the trial court's issuance of a temporary injunction in favor of plaintiff former employer where the court determined the plaintiff's price lists, customer lists, and additional information were entitled to trade secret protection until trial).

<sup>52</sup>See, e.g., *Gen. Universal Sys., Inc. v. Lee*, 379 F.3d 131, 150 (5th Cir. 2004); *Alliantgroup, L.P. v. Feingold*, 803 F. Supp. 2d 610, 624 (S.D. Tex. 2011); *Rimkus Consulting Grp., Inc. v. Cammarata*, 688 F. Supp. 2d 598, 661 (S.D. Tex. 2010).

<sup>53</sup>For further discussion of disclosures to outsiders, 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 Licensor or Licensee in Patent and Technology Licensing-The Important Terms to Consider*, 28 LICENSING J. 6 (2008).

<sup>54</sup>See, e.g., *In re Union Pac. R.R. Co.*, 294 S.W.3d at 592 (granting a petition for mandamus relief to defendant railroad company as the railroad's rate structures sought to be produced in action for personal injury were trade secrets since there was evidence that the information was not generally known or readily available to the defendant's competitors, its customers or other businesses); *In re Bass*, 113 S.W.3d at 741 (granting a writ of mandamus to defendant mineral estate owner as data sought to be produced in action for breach of implied duty to develop land were trade secrets since there was evidence that the defendant had not provided outside access to the data which satisfied the first factor of the Restatement); *In re Cooper Tire & Rubber Co.*, 313 S.W.3d at 916 (granting a writ of mandamus to manufacturer as documents sought to be produced were trade secrets, i.e., the company information was not known generally known or ascertainable by its competitors because it was kept in the company's history, product change notifications, experimental mold design, and adjustment follow-up

the courts have determined trade secret status is maintained as long as the trade secret owner takes steps to protect confidentiality.<sup>55</sup> But where there is no evidence on the issue of whether the information was known outside the business or there is substantial evidence that it is known, trade secret protection will be denied.<sup>56</sup> Therefore as a general matter, the more people who know the information outside the company, the less likely the information is a trade secret.

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reports); *Texas Integrated Conveyor Sys., Inc.*, 300 S.W.3d at 372 (concluding the trial court erred in granting summary judgment to the defendant former employees and competing company as there was a genuine issue of material fact as to the existence of a trade secret, i.e., there was affidavit evidence that the plaintiff former employer was not aware of anyone outside the company who had knowledge of the contents of the customer list other than the defendants, the plaintiff had never produced the customer list to anyone outside the company, and the customer list was not available to the public and could not be obtained from any public or private sources); *Sharma*, 231 S.W.3d at 425 (affirming the trial court's issuance of a temporary injunction against defendant former employees where the court concluded the plaintiff's evidence of sale and purchase histories and trend information with customer demands and supplier product inventories showed the information was not known outside the business); *Astoria Indus. of Iowa, Inc.*, 223 S.W.3d at 635 (concluding a genuine issue of material fact existed as to trade secret status for the design drawings in question where the plaintiff presented evidence that the plaintiff was the only source of the drawings).

<sup>55</sup> See, e.g., *Rimkus Consulting Grp., Inc.*, 688 F. Supp. 2d at 668 (denying defendant former employee's motion for summary judgment as a fact issue existed as to whether the plaintiff's pricing information was a trade secret where the plaintiff did not publicly announce the information but only disclosed the information to prospective or actual clients and took steps to prevent competitors from learning it); *INEOS Grp. Ltd.*, 312 S.W.3d at 849 (affirming the trial court's issuance of a temporary injunction in favor of the plaintiff licensor against the defendant licensee even though the trade secret had been disclosed to others under expired secrecy agreements where there was evidence to show that the secrecy remained intact despite the expiration); *In re XTO Res. I, LP*, 248 S.W.3d at 903 (granting a writ of mandamus to defendant energy company as information sought to be produced in action for breach of contract was trade secret since there was evidence of the first factor, i.e., forecasts and conclusions of the company and its consultants were not publicly available although some information was required by the SEC to be disclosed and on occasion the information was given to working interest owners on a need to know basis).

<sup>56</sup> See, e.g., *Global Water Grp., Inc.*, 244 S.W.3d at 929 (affirming the trial court's grant of a motion j.n.o.v. to the defendant former president and his new company even though the plaintiff former employer presented evidence that it guarded its formula, limited access, and required employees to sign confidentiality agreements where there was no evidence that these steps were successful and that the information was not otherwise known outside the business); *Sands*, 160 S.W.3d at 688 (reversing the temporary injunction issued to plaintiff estate of deceased owner of an accounting firm and rendering judgment denying the injunction where the identities of "alot" of the plaintiff's clients were known outside the plaintiff's business because many of the clients knew each other).

## B. Known by Employees

Another factor a business owner should consider when protecting an asset as a trade secret is the extent the information is known by employees.<sup>57</sup> Companies should take steps to protect its trade secrets from employees from the time they are hired until they leave the company.<sup>58</sup> Generally the more people in the company who know the information, the less likely the information is a trade secret.<sup>59</sup> Therefore trade secrets should only be disclosed to those employees who need to know.<sup>60</sup> This is especially useful with companies doing business in different states particularly with states that have incorporated the Uniform Trade Secrets Act into their legislation. This

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<sup>57</sup> 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. STUD. 465 (2007).

<sup>58</sup> For further discussion of protecting trade secrets from employees, *see generally* Douglas E. Dexter & Jessica Beckett-McWalter, *Protecting Trade Secrets: Best Practices from Hiring to Terminating and Everything in Between*, 26 LICENSING J. 1 (2006); Kenneth A. Kovach et al., *Protecting Trade Secrets During Employee Migration: What You Don't Know Can Hurt You*, 55 LAB. L.J. 69 (2004).

<sup>59</sup> *See, e.g., Sands*, 160 S.W.3d at 688 (reversing the temporary injunction issued to plaintiff estate of deceased owner of an accounting firm and rendering judgment denying the injunction where the clients' identities and addresses were available to all employees and part time independent contractors for the company and the information was shared via computer between office sites).

<sup>60</sup> *See, e.g., In re Union Pac. R.R. Co.*, 294 S.W.3d 589, 592 (Tex. 2009) (granting a petition for mandamus relief to defendant railroad company as the railroad's rate structures sought to be produced in personal injury action were trade secrets since there was evidence that the information was only available to a limited number of employees and certain managers); *In re Bass*, 113 S.W.3d 735, 742 (Tex. 2003) (granting a writ of mandamus to defendant mineral estate owner as data sought to be produced in action for breach of implied duty to develop land were trade secrets as there was evidence that only four employees had seen the data which satisfied the second factor of the Restatement); *Texas Integrated Conveyor Sys., Inc. v. Innovative Conveyor Concepts, Inc.*, 300 S.W.3d 348, 372 (Tex. App. 2009) (concluding the trial court erred in granting summary judgment to the defendant former employees and competing company as there was a genuine issue of material fact as to the existence of a trade secret, i.e., as there was affidavit evidence that employees were only allowed access to the customer list to perform their respective jobs, the customer list was kept on a computer with access restricted to those who needed the list for their job and any hard copy of the list was kept in a file cabinet with restricted access to those employees who needed it for their job); *In re XTO Res. I, LP*, 248 S.W.3d at 903 (granting a writ of mandamus to defendant energy company as information sought to be produced in action for breach of contract was trade secret since there was evidence that the information was disclosed to personnel on a need to know basis); *Fox*, 121 S.W.3d at 859 (affirming the trial court's issuance of a temporary injunction in favor of plaintiff former employer even though several employees had access to the trade secret information and the employees did not sign noncompetition or nondisclosure agreements where the plaintiff's computers were networked, the warehouse employees did not have access to the computers, and the computers were in offices which were locked after hours).

is also helpful for multinational employers because trade secrets are treated differently in different countries.<sup>61</sup> Restricting employee access to key information can also prevent inadvertent disclosure of the information through email, blogs, or social networking.<sup>62</sup> In addition, companies often monitor electronic communications by employees to ensure trade secret information is not inadvertently disclosed.<sup>63</sup> Requiring employees to sign confidentiality agreements as independent agreements or as part of an employee handbook also supports trade secret status for this factor.<sup>64</sup>

### C. Measures Taken to Guard Secrecy

A business owner attempting to protect information as a trade secret should also make sure the information is appropriately guarded as courts will

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<sup>61</sup> For further discussion of trade secret protection for multinational employers, *see generally* Kevin Cranman, *Where in the World are Your Employees? Institutions as Global Employers: Employment Law Considerations in the Age of International Programs*, 36 J.C. & U.L. 565, 606-608 (2010); Elizabeth Rowe, *Trade Secrets, Data Security and Employees*, 84 CHI.-KENT L. REV. 749 (2010).

<sup>62</sup> For further discussion of blogs and social networking in the workplace, *see generally* Brian Van Wyk, Note, *We're Friends, Right? Client List Misappropriation and Online Social Networking in the Workplace*, 11 VAND. J. ENT. & TECH. L. 743 (2009).

<sup>63</sup> For further discussion of electronic surveillance of employees, *see generally* Matthew A. Chivvis, *Consent to Monitoring of Electronic Communications of Employees as an Aspect of Liberty and Dignity: Looking to Europe*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 799 (2009); Corey A. Ciochetti, *The Eavesdropping Employer: A Twenty-First Century Framework for Employee Monitoring*, 48 AM. BUS. L.J. 285 (2011); David Halpern et al., *Management and Legal Issues regarding Electronic Surveillance of Employees in the Workplace*, 80 J. BUS. ETHICS 175 (2008); Michael L. Rustad & Sandra R. Paulsson, *Monitoring Employee E-Mail and Internet Usage: Avoiding the Omniscient Electronic Sweatshop: Insights from Europe*, 7 U. PA. J. LAB. & EMP. L. 829 (2005).

<sup>64</sup> *See, e.g.,* Picker Int'l, Inc. v. Blanton, 756 F. Supp. 971, 980 (N.D. Tex. 1990) (ordering a preliminary injunction against defendant former employee's continued disclosure or use of the plaintiff's trade secret information acquired during the defendant's employment where the court determined the plaintiff had a protectable trade secret i.e. it required its employees to execute confidentiality agreements, the plaintiff had expended millions of dollars and expended man years of research and development, and the information was clearly valuable because without the information the ability to efficiently diagnose and service the systems in question would be reduced); *In re Cooper Tire & Rubber Co.*, 313 S.W.3d 910, 916 (Tex. App. 2010) (granting a writ of mandamus to manufacturer as documents sought to be produced satisfied the second factor for trade secret status because the nondisclosure agreement with the employees included the employees understanding that the company's internal information and documentation such as research, drawings, formulae, methods, processes, know-how, and facilities were trade secrets and the information was to be treated as such and the company's policy statement on business ethics and standards of conduct emphasized the importance of appropriately safeguarding the company's trade secrets, including without limitation, planned new products, the ways the company manufactured its products, and test data, and both the agreement and the policy prohibited disclosure of the trade secret information without proper authorization).

look at the measures the company has taken to guard the secrecy of its trade secret.<sup>65</sup> As a general matter, the greater number of measures used to guard the secrecy of company information, the greater likelihood it will be treated as a trade secret.<sup>66</sup> Where the company does not provide sufficient security

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<sup>65</sup> For further discussion of security measures used by companies, see generally Alice Goldmann, *Strategies for Protecting Your Company's Confidential Information*, J. INTERNET BANKING & COM., April 2011, at 1; John M. Halan, *Protecting Trade Secrets: Steps Every Trade Secret Owner Should Know*, 30 EMP. REL. L.J. 22 (2004); 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).

<sup>66</sup> See, e.g., *In re Bass*, 113 S.W.3d 735, 742 (Tex. 2003) (granting a writ of mandamus to defendant mineral estate owner as data sought to be produced in action for breach of implied duty to develop land were trade secrets since there was evidence that the data were kept in a secured climate regulated vault accessible only to those with the combination and a security card was required to enter the work area); *In re Cooper Tire & Rubber Co.*, 313 S.W.3d at 916 (granting a writ of mandamus to manufacturer as documents sought to be produced satisfied the third factor for trade secret status because the company maintained limited access with tight controls on vendors, business partners, contractors, and non-employees; controlled access to the technical center and corporate headquarters through special computerized coded access cards and/or coded keypad access 24 hours a day; and controlled access to the manufacturing plant through 24 hour guarded entrances); *INEOS Grp. Ltd. v. Chevron Phillips Chem. Co., L.P.*, 312 S.W.3d 843, 854 (Tex. App. 2009) (affirming the trial court's issuance of a temporary injunction in favor of the plaintiff licensor where there was evidence of strict security measures implemented and maintained over the years to keep its technology confidential); *Texas Integrated Conveyor Sys., Inc. v. Innovative Conveyor Concepts, Inc.*, 300 S.W.3d 348, 372 (Tex. App. 2009) (concluding the trial court erred in granting summary judgment to the defendant former employees and competing company as there was a genuine issue of material fact as to the existence of a trade secret, i.e., as there was affidavit evidence that along with restricting access to the customer list to those employees with a need to know, the computers and file cabinets that contained the customer list were kept in an office that was locked at the end of the business day); *In re XTO Res. I, LP*, 248 S.W.3d 898, 903 (Tex. App. 2008) (granting a writ of mandamus to defendant energy company as information sought to be produced in action for breach of contract was trade secret since there was evidence that the information was carefully guarded, maintained in a secure area above the company's third floor which could only be accessed with a card key, and offsite storage used strict security measures); *Sharma v. Vinmar Int'l, Ltd.*, 231 S.W.3d 405, 425 (Tex. App. 2007) (affirming the trial court's issuance of a temporary injunction against defendant former employees where, for the third factor, there was evidence that sufficient security measures were in place, e.g., controlled access cards, password protection of computers, requiring all employees to execute confidentiality agreements as a condition of employment, employee manuals that emphasize the confidential nature of the business, and limiting access to trade secret information on a need to know basis); *IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 198 (Tex. App. 2005) (affirming the trial court's issuance of a temporary injunction in favor of the plaintiff manufacturer to enjoin use of its trade secrets by a former contractor where the plaintiff showed it used sufficient security measures for its trade secrets as it stored the originals of its drawings and specifications in a vault, posted security guards at all plants, required persons entering the plant to identify themselves and wear identification badges, checked material going in and out of the plant, limited access to data on its internal computer system to persons with appropriate system identification and passwords, and used confidentiality agreements with its vendors to whom it supplied proprietary information);

measures, the information will not be given trade secret status.<sup>67</sup> Requiring confidentiality as a condition of disclosure is useful.<sup>68</sup> But evidence that the third party disclosed the information with a requirement of confidence is not evidence that the business owner treated the information as confidential.<sup>69</sup>

#### D. *Value to the Business*

When a business owner is attempting to protect information as a trade secret, it is important for the owner to have some indication of the

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Gen.I Universal Sys., Inc. v. Lee, 379 F.3d 131, 150 (5th Cir. 2004) (concluding a genuine issue of material fact existed as to whether plaintiff software developer had a trade secret even though the plaintiff allowed the defendant to copy the software in question onto a personal computer and take it to Arizona where there was evidence that the parties were engaged in a joint venture to exploit the software, the plaintiff secured the system from those other than the joint venture, and the plaintiff took reasonable precautions to protect the software from those other than those requested by the other joint venturers).

<sup>67</sup> See, e.g., Sands v. Estate of Buys, 160 S.W.3d 684, 688-689 (Tex. App. 2005) (reversing the temporary injunction issued to plaintiff's estate of deceased owner of an accounting firm and rendering judgment denying the injunction where very few, if any, security precautions were taken to guard the clients' identities as the company gave complete access to both employees and independent contractors without confidentiality or nondisclosure agreements to the employees and with a limited non-compete agreement with the defendant; the computers were left on 24 hours a day and the information was accessible from other office sites; and each computer had its own password and firewall protection but the passwords were generally known to everyone in the office and the entire database was available to anyone with a password); Auto Wax Co., Inc. v. Byrd, 599 S.W.2d 110, 112-113 (Tex. Civ. App. 1980) (affirming the trial court's judgment in favor of the defendant former employees where the evidence showed the plaintiff made no effort to keep its formulas secret i.e. the information was kept in an unlocked file cabinet where anyone during office hours had access to them and the chemical formulas were regularly copied onto production sheets from which an employee would prepare the mixture but no attempt was made to keep the production sheet secret).

<sup>68</sup> See, e.g., Astoria Indus. of Iowa, Inc. v. SNF, Inc., 223 S.W.3d 616, 635 (Tex. App. 2007) (concluding a genuine issue of material fact existed as to trade secret status for the design drawings in question where the plaintiff presented evidence that all disclosures outside the company were only made upon agreement of confidentiality); Ctr. for Econ. Justice v. Am. Ins. Ass'n, 39 S.W.3d 337, 346 (Tex. App. 2001) (modifying the temporary injunction issued by the trial court in favor of the plaintiff insurance companies against the Department of Insurance to remove the court's holding that the reports were trade secrets even though there was sufficient evidence that the plaintiffs were entitled to trade secret protection in the interim before trial, i.e., the company used sufficient measures to guard the secrecy of its information even though its reports were filed with the Department of Insurance which by rule was required to make certain information available by open records request where the information within the reports was not subject to that rule).

<sup>69</sup> See, e.g., Sands, 160 S.W.3d at 689 (reversing the temporary injunction issued to plaintiff estate of deceased owner of an accounting firm and rendering judgment denying the injunction where the court noted that evidence that the defendant treated his clients' identities as confidential during while negotiating the sale of his business is not evidence that the plaintiff treated its clients' identities as confidential).

information's value.<sup>70</sup> This is the value of the information to both the business and its competitors. Texas courts have approved a number of ways that companies can value their trade secrets. First, a company can show evidence that the information is valuable to both itself and its competitors.<sup>71</sup> Furthermore, a monetary amount can be used to establish a direct value for the information.<sup>72</sup> Or an indirect monetary value can be used to estimate the value of the information. This may be in the form of company profit derived from the information, salary and contract dollars paid for development of the information, or value of the company's market.<sup>73</sup> However, where the

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<sup>70</sup> See generally R. Mark Halligan & Richard F. Weyand, *The Economic Valuation of Trade Secret Assets*, J. INTERNET L., Feb. 2006, at 19 (discussing property valuation methods).

<sup>71</sup> See, e.g., *In re Cooper Tire & Rubber Co.*, 313 S.W.3d at 917 (granting a writ of mandamus to manufacturer as documents sought to be produced were valuable to both the company and its competitors thereby satisfying the fourth factor for trade secret status); *Texas Integrated Conveyor Sys., Inc.*, 300 S.W.3d at 372 (concluding the trial court erred in granting summary judgment to the defendant former employees and competing company as there was a genuine issue of material fact as to the existence of a trade secret, i.e., there was affidavit evidence that if competitors obtained the customer list the plaintiff would be severely harmed); *Astoria Indus. of Iowa, Inc.*, 223 S.W.3d at 636 (concluding a genuine issue of material fact existed as to trade secret status for the design drawings in question where the plaintiff presented evidence that the drawings were valuable both to the plaintiff and the defendant in that the defendant wanted to develop a product to compete with the plaintiff, the defendant rejected other designs that didn't look like the plaintiff's design, and the defendant's engineer relied on the plaintiff's drawings to make sure the desired characteristics were incorporated); *Ctr. for Econ. Justice*, 39 S.W.3d at 345-346 (concluding the trial court did not abuse its discretion in finding the reports in question were valuable to the competitor even though the court found the evidence conclusory and witness testimony admitted that precise data could not be derived from the reports).

<sup>72</sup> See, e.g., *In re Bass*, 113 S.W.3d 735, 742 (Tex. 2003) (granting a writ of mandamus to defendant mineral estate owner as data sought to be produced in action for breach of implied duty to develop land were trade secrets since there was evidence that put the data's monetary value between \$800,000 and \$2,200,000, which satisfied the fourth factor of the Restatement).

<sup>73</sup> See, e.g., *In re XTO Res. I, LP*, 248 S.W.3d 898, 903 (Tex. App. 2008) (granting a writ of mandamus to defendant energy company as information sought to be produced in action for breach of contract was trade secret since there was evidence that the information gives the company a competitive advantage, thirty-one people in the department had a collective annual salary of two million dollars, and the company paid hundreds of thousands of dollars to consultants to develop the information); *Sharma v. Vinmar Int'l, Ltd.*, 231 S.W.3d 405, 425 (Tex. App. 2007) (affirming the trial court's issuance of a temporary injunction against defendant former employees where, for the fourth factor, there was evidence that the market developed by the plaintiff earned the plaintiff a \$5.5 million profit in the first five months of 2005); *IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 198 (Tex. App. 2005) (affirming the trial court's issuance of a temporary injunction in favor of the plaintiff manufacturer to enjoin use of its trade secrets by its former contractor where the plaintiff showed the replacement blade market of which the plaintiff was a part was worth approximately twelve million dollars a year).

company is unable to produce any evidence of value, trade secret protection will be denied on this factor.<sup>74</sup>

### E. Effort in Development

It is also necessary for the business owner to keep records of the effort and/or money spent in development of the trade secret to satisfy the fifth Restatement factor. The amount of time spent on development is important evidence to be able to present.<sup>75</sup> Placing a value on the effort is also useful evidence.<sup>76</sup> The business owner will fail this factor, however, if no evidence is introduced.<sup>77</sup>

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<sup>74</sup> See, e.g., *Global Water Grp., Inc. v. Atchley*, 244 S.W.3d 924, 929 (Tex. App. 2008) (affirming the trial court's grant of a motion j.n.o.v. to the defendant former president and his new company where the plaintiff failed to present evidence of the value of its formula to the company).

<sup>75</sup> See, e.g., *In re Union Pac. R.R. Co.*, 294 S.W.3d 589, 592 (Tex. 2009) (granting a petition for mandamus relief to defendant railroad company as the railroad's rate structures sought to be produced in personal injury action were trade secrets since there was evidence the time, expense, and manpower expended on setting the rates made it extremely difficult to replicate the information); *Texas Integrated Conveyor Sys., Inc.*, 300 S.W.3d at 372 (concluding the trial court erred in granting summary judgment to the defendant former employees and competing company as there was a genuine issue of material fact as to the existence of a trade secret, i.e., there was affidavit evidence that the customer list was created over several years and cost tens if not hundreds of thousands of dollars over those years to create); *Sharma*, 231 S.W.3d at 425 (affirming the trial court's issuance of a temporary injunction against defendant former employees noting it took the plaintiff a year to develop the market and four years for the market to become profitable which was sufficient to support trade secret status); *IAC, Ltd.*, 160 S.W.3d at 198 (affirming the trial court's issuance of a temporary injunction in favor of the plaintiff manufacturer to enjoin use of its trade secret by its former contractor where the plaintiff showed it used sufficient efforts to develop the trade secret information as the evidence showed that thirty to forty thousand hours were required to develop the plaintiff's blade design and another thirty to forty thousand hours were needed to develop techniques for its production); *Fox v. Tropical Warehouses, Inc.*, 121 S.W.3d 853, 859 (Tex. App. 2004) (affirming the trial court's issuance of a temporary injunction in favor of plaintiff former employer where the confidential information had been acquired and achieved over at thirty year period).

<sup>76</sup> See, e.g., *Texas Integrated Conveyor Sys., Inc.*, 300 S.W.3d at 372 (concluding the trial court erred in granting summary judgment to the defendant former employees and competing company as there was a genuine issue of material fact as to the existence of a trade secret, i.e., there was affidavit evidence that the customer list was created over several years and cost tens if not hundreds of thousands of dollars over those years to create); *Astoria Indus. of Iowa, Inc.*, 223 S.W.3d at 636 (concluding a genuine issue of material fact existed as to trade secret status for the design drawings in question where the plaintiff invested considerable resources to develop the drawings, including purchasing a company with a desired design).

<sup>77</sup> See, e.g., *In re Bass*, 113 S.W.3d 735, 742 (Tex. 2003) (granting writ of mandamus to defendant mineral estate owner as data sought to be produced in action for breach of implied duty to develop land were trade secrets even though there was no evidence to support the fifth factor of the Restatement); *In re Cooper Tire & Rubber Co.*, 313 S.W.3d 910, 918 (Tex. App.

## F. Ease of Acquisition

The last factor a business owner should consider to ensure a trade secret is created is the ease or difficulty with which the information could be properly acquired or duplicated. If the information is difficult to acquire or duplicate, there is a greater likelihood the information is a trade secret.<sup>78</sup>

## IV. CONCLUSION

In conclusion, for a business owner contemplating protecting trade secrets in Texas, it is useful to know how Texas defines a trade secret. After Texas adopted the Restatement of Torts definition in 1958 the courts dealt with the question of trade secret status on a case-by-case basis. While these cases are still good law they are somewhat difficult for business owners to follow in planning the appropriate protection for their trade secrets because they are so fact specific. However, with the incorporation of the Restatement's six factors into more recent decisions the business owner now

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2010) (granting a writ of mandamus to manufacturer so manufacturer would not be compelled to produce documents alleged to be trade secrets even though the manufacturer failed to place a dollar amount on developing the information which weighed against a finding of trade secret status where the other five factors were satisfied); *Global Water Grp., Inc.*, 244 S.W.3d at 929 (affirming the trial court's grant of a motion j.n.o.v. to the defendant former president and his new company where the plaintiff failed to present evidence of the effort or money it used to create the formula in question).

<sup>78</sup> See, e.g., *In re Bass*, 113 S.W.3d at 742 (granting a writ of mandamus to defendant mineral estate owner as data sought to be produced in action for breach of implied duty to develop land were trade secrets since there was evidence that the cost of duplication would be between \$800,000 and \$2.2 million, to conduct another shoot to acquire the information the party would need the defendant's permission, and to acquire the information another party would have to go through the defendant); *In re Cooper Tire & Rubber Co.*, 313 S.W.3d at 918 (granting a writ of mandamus to manufacturer as documents sought to be produced were generated from unpublished information gathered by the company and could not be easily duplicated); *In re XTO Res. I, LP*, 248 S.W.3d at 904 (granting a writ of mandamus to defendant energy company as information sought to be produced in action for breach of contract was trade secret since there was evidence that even though the underlying data was publicly available the plaintiff's process of transforming the data into reserve estimates along with the reserve estimates themselves gave the plaintiff a competitive advantage); *Sharma*, 231 S.W.3d at 425 (affirming the trial court's issuance of a temporary injunction against defendant former employees where, for the last factor, there was evidence that it would be difficult to duplicate the information, i.e., one of the former employees tried and failed to access the isoprene market on his own and another company had been trying, unsuccessfully for a long time to access the Russian isoprene market); *IAC, Ltd.*, 160 S.W.3d at 198 (affirming the trial court's issuance of a temporary injunction in favor of the plaintiff manufacturer to enjoin use of its trade secrets by its former contractor where testimony showed that it would be impossible to duplicate the specifications of the plaintiff's blade with the necessary degree of precision through reverse engineering).

has a list that he or she can use as a guide to ensure protection of the trade secret in Texas.