

**TUTSA vs. DTSA –
SHOULD I BRING MY TRADE-SECRET CASE
IN STATE OR FEDERAL COURT?**

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PUBLICATIONS

Cleveland, J., *Mum's the Word: Protecting Company Information Under the Texas Uniform Trade Secrets Act*, 79 Tex. B. J. 86 (Feb. 2016)

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- *Texas Intellectual Property Handbook*, (3d ed.) Juris 2015
- "Creating Value By Guarding Your Trade Secrets and Confidential Information," Thompson & Knight IP Roundtable, October 7, 2015
- "The Texas Uniform Trade Secrets Act and the Changing Landscape of Trade Secret Protection," State Bar of Texas TexasBarCLE, June 30, 2015
- "Evaluating Aereo: The Supreme Court and Thousands of Dime-sized Antennas," Panelist, 11th Annual Symposium on Emerging Intellectual Property Issues, SMU Dedman School of Law, October 3, 2014
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TUTSA vs. DTSA – Should I Bring My Trade-Secret Case in State or Federal Court?

This article is intended to aid practitioners in deciding whether to bring claims for trade-secret misappropriation under the Texas Uniform Trade Secrets Act (“TUTSA”), the Defend Trade Secrets Act (“DTSA”), or both, and whether to bring the action in state or federal court. This article: (i) highlights key differences between TUTSA and DTSA; (ii) discusses important differences between Texas and federal procedure that impact trade-secrets cases; and (iii) advises how each of these differences weighs in favor of or against bringing TUTSA and DTSA claims in state or federal court.

I. Introduction

In the last four years, both Texas and federal lawmakers have undertaken efforts to provide remedies for victims of trade-secret misappropriation. Before 2013, trade-secret misappropriation claims were governed by Texas common law beginning with the Texas Supreme Court’s adoption of RESTATEMENT OF TORTS § 757 in 1958. *See Hyde Corp. v. Huffines*, 314 S.W.2d 763 (Tex. 1958). On September 1, 2013, Texas adopted the Texas Uniform Trade Secrets Act (“TUTSA”), which is codified in the Texas Civil Practice and Remedies Code §§ 134A.001-008. Then, on May 11, 2016, Congress enacted the federal Defend Trade Secrets Act (“DTSA”) as an amendment to the Economic Espionage Act of 1996, and codified in 18 U.S.C. §§ 1831–36. Victims of trade-secret misappropriation now have legal recourse under both state and federal law, and can pursue these actions in state or federal court.

While TUTSA and DTSA have strikingly similar provisions, some key differences exist between the two Acts. As a result, there are strategic decisions that a plaintiff should take into consideration before deciding whether to file a TUTSA claim, a DTSA claim, or both. In addition, a plaintiff should consider various procedural issues in deciding whether to file suit in state or federal court. This article will highlight key considerations that will aid the plaintiff in making these decisions.

II. Five Key Differences Between TUTSA and DTSA

TUTSA and DTSA are both based on the Uniform Trade Secrets Act (“UTSA”) promulgated by the National Conference of Commissioners on Uniform Laws in 1985 and adopted by 47 states. Therefore, a substantial number of provisions are identical or very similar in many respects. There are, however, a handful of key differences.

1. TUTSA and DTSA have slightly different definitions of “trade secret”

Minor differences exist between the definition of “trade secret” under TUTSA and DTSA. Under TUTSA, a “trade secret” is defined as:

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

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

(B) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

TEX. CIV. PRAC. & REM. CODE § 134A.002(6). On the other hand, DTSA provides that the term “trade secret” means:

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

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

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

18 U.S.C. § 1839(3) (2016). As can be readily observed, both statutes require the trade secret derive economic value from not being generally known, and be the subject of reasonable efforts to protect secrecy of the trade secret. Unlike DTSA, however, TUTSA expressly includes within its definition a “list of actual or potential customers or suppliers.” TEX. CIV. PRAC. & REM. CODE § 134A.002(6). DTSA, on the other hand, provides that trade secret information can be “tangible or intangible” and “stored, compiled, or memorialized physically, electronically, graphically, [or] photographically.” 18 U.S.C. § 1839(3). TUTSA has no similar provision. These minor differences in the definition of “trade secret” between the two statutes should not be the cause of too much concern: The failure of DTSA to refer to customer lists does

not necessarily mean they would not be protected under DTSA, and the fact that TUTSA does not reference intangible information does not necessarily mean that intangible information cannot be protected under TUTSA if such information otherwise meets the definition of a trade secret.

2. DTSA expressly allows for ex parte seizure orders

A unique feature of DTSA is its provision authorizing ex parte seizures of trade secret information. *See* 18 U.S.C. § 1836(b)(2). Specifically, DTSA provides that “the court may, upon ex parte application but only in extraordinary circumstances, issue an order providing for the seizure of property necessary to prevent the propagation or dissemination of the trade secret that is the subject of the action.” 18 U.S.C. § 1836(b)(2)(A)(i). This provision allows for the seizure of not only the trade secret itself, but any products that embody the trade secret as long as the seizure is “conducted in a manner that minimizes any interruption of the business operations of third parties” 18 U.S.C. § 1836(b)(2)(B)(ii).

Importantly, the court cannot grant an ex parte seizure application unless it finds, among other things, it “clearly appears from specific facts” that “an immediate and irreparable injury will occur if such seizure is not ordered,” and the “person against whom seizure would be ordered, . . . would destroy, move, hide, or otherwise make such matter inaccessible to the court, if the applicant were to proceed on notice to such person[.]” 18 U.S.C. § 1836(b)(2)(A)(ii)(II),(VII). The court must also set a date for a hearing at the earliest possible time, but not later than seven days after the order has issued. 18 U.S.C. § 1836(b)(2)(B)(v). However, “the party against whom the order has issued or any other person harmed by the order may move the court at any time to dissolve or modify the order” 18 U.S.C. § 1836(b)(2)(B)(v). The party obtaining an ex parte seizure order must post bond or other security for the payment of damages in the event of a wrongful or excessive seizure. 18 U.S.C. § 1836(b)(2)(B)(vi). A person who suffers damage by reason of a wrongful or excessive seizure under DTSA has a cause of action against the applicant and the security posted with the court does not limit the recovery of third parties for damages. 18 U.S.C. § 1836(b)(2)(G).

Thus, DTSA provides an extraordinary remedy allowing for ex parte seizures of trade secret information, but the statute also contains many safeguards to temper the potential for abuse.

Unlike DTSA, TUTSA does not provide for ex parte seizures in trade-secret cases. But TUTSA provides that “[i]n appropriate circumstances, affirmative acts to protect a trade secret may be compelled by court order.” TEX. CIV. PRAC. & REM. CODE § 134A.003(c). Thus, although not expressly provided for in the text of the statute, TUTSA’s injunctive-relief provisions appear to be broad enough for courts to authorize ex parte seizure orders in appropriate cases.

3. DTSA provides protection for whistleblowers and employees

DTSA contains a unique provision designed to protect whistleblowers. Specifically, it provides that an individual shall not be held criminally or civilly liable under any federal or state trade-secret law for the disclosure of a trade secret that: (i) is made in confidence and solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. *See* 18 U.S.C. § 1833(b)(1). A related section provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the individual’s attorney and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret except pursuant to court order. *See* 18 U.S.C. § 1833(b)(2).

Additionally, DTSA places an affirmative duty on employers to provide notice of these immunity provisions in “any contract or agreement with an employee that governs the use of a trade secret or other confidential information.” 18 U.S.C. § 1833(b)(3)(A). An employer will be in compliance with the notice requirement if the employer provides a cross-reference to a policy document provided to the employee that sets forth the employer’s reporting policy for a suspected violation of law. 18 U.S.C. § 1833(b)(3)(B). An employer who fails to comply with the notice requirement will be barred from recovering exemplary damages and attorneys’ fees against an employee who misappropriates trade secrets. 18 U.S.C. § 1833(b)(3)(C). The definition of “employee” is broad and includes contractors and consultants who perform work for an employer. 18 U.S.C. § 1833(b)(4)

DTSA’s notice provision applies prospectively to agreements entered into or updated after May 11, 2016 (the date DTSA was enacted). 18 U.S.C. § 1833(b)(3)(D). TUTSA does not contain whistleblower immunity provisions or impose duties on employers to notify employees of any specific protections that

may be available to them. Thus, if an employer has not complied with the DTSA's notice requirement, the employer may want to consider asserting a claim under TUTSA if it believes it can establish that the employee willfully and maliciously misappropriated the employer's trade secrets because it would be able to recover attorneys' fees and exemplary damages under TUTSA. TEX. CIV. PRAC. & REM. CODE §§ 134A.004(b), 134A.005.

4. DTSA is more sensitive to protecting departing employees' rights

The right to injunctive relief is similar under TUTSA and DTSA, but the federal statute provides additional protection for departing employees. Under both statutes, "actual or threatened" misappropriation may be enjoined. 18 U.S.C. § 1836(b)(3)(A)(i); TEX. CIV. PRAC. & REM. CODE § 134A.003(a). But injunctive relief under DTSA is subject to the following restrictions: (i) the injunction may not prevent a person from entering into an employment relationship; (ii) the injunction may not otherwise conflict with state law prohibiting restraints on the practice of a profession, trade, or business; and (iii) any conditions placed on a person's employment must be based on evidence of threatened misappropriation and not merely on information the person knows. 18 U.S.C. § 1836(b)(3)(A).

Under DTSA, a court cannot prevent a former employee from working for another company, but it can prevent that person from working in a particular position with a new company. Additionally, the limitation that any injunction must be based on actual evidence of threatened misappropriation suggests that an assertion of inevitable disclosure will not be sufficient to obtain an injunction under DTSA.

TUTSA, on the other hand, places no restrictions on a former employee's subsequent employment. Nevertheless, under Texas law, while an employer can prevent a former employee from using confidential information or trade secrets, the employer cannot prevent a former employee's use of general knowledge, skill, and experience acquired during the employment relationship. *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 22 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd); *Merritt Hawkins & Assocs., LLC v. Gresham*, 79 F. Supp. 3d 625, 637 (N.D. Tex. 2015).

5. TUTSA preempts common-law tort claims whereas DTSA does not

The final major difference between the TUTSA and DTSA relates to the preemptive effect of each statute. TUTSA preempts any "conflicting tort, restitutionary, and other law of [Texas] providing civil

remedies for misappropriation of a trade secret.” TEX. CIV. PRAC. & REM. CODE § 134A.007(a). Neither TUTSA nor DTSA preempt contract claims based on trade-secret misappropriation. *Id.* DTSA expressly provides that it does not preempt common-law claims, nor does it preempt claims under TUTSA. 18 U.S.C. § 1838. Thus, a plaintiff may assert claims under both TUTSA and DTSA in the same suit. Because DTSA does not preempt other state-law tort claims like TUTSA, common law tort claims like breach of fiduciary duty that involve trade-secret misappropriation may not be preempted under federal law, whereas they would be preempted under TUTSA. It should be noted, however, that DTSA’s immunity provisions protecting whistleblowers and employees preempt all state and local laws to the contrary. 18 U.S.C. § 1833(b).

III. Key Considerations That Should be Evaluated in Deciding Whether to Bring a Claim Under TUTSA, DTSA, or Both, and Whether to Bring These Claims in State or Federal Court

1. Timing of when the claim arose

Because TUTSA preempts certain common-law causes of action (DTSA does not), the causes of action available to a plaintiff will depend upon when the plaintiff’s claim arose. For claims arising before the effective date of TUTSA, September 1, 2013, all common-law theories of recovery for misappropriation of trade secrets are still available. *See ZeniMax Media, Inc. v. Oculus VR, LLC*, 166 F. Supp. 3d 697, 704 (N.D. Tex. 2015) (holding the Texas legislature intended that “[a] misappropriation of a trade secret made before and a continuing misappropriation beginning before the effective date of this Act are governed by the law in effect immediately before the effective date of this Act, and that law is continued in effect for that purpose”) (quoting 2013 Tex. Sess. Law Serv. Ch. 10 (S.B. 953) § 3). If a claim arose between that date and the effective date of DTSA, May 11, 2016, the plaintiff must bring its claim under TUTSA. For claims arising after May 11, 2016, a plaintiff may sue under either TUTSA, DTSA, or both.

2. Jurisdictional considerations

DTSA provides that the district courts of the United States have original jurisdiction over civil actions brought under DTSA. 18 U.S.C. § 1836(c). Importantly, under DTSA, the federal courts have original but not exclusive jurisdiction over DTSA claims. *Id.* Under the presumption of concurrency, a

plaintiff should be able to bring a DTSA claim in state court. *See Haywood v. Drown*, 556 U.S. 729, 729 (2009) (stating that the presumption of concurrency is so strong that “it is defeated only when Congress expressly ousts state courts of jurisdiction”). Plaintiffs should be aware, however, that when a DTSA claim is brought in state court, the defendant will be able to remove the action to federal court. 28 U.S.C. § 1441(a) (“any civil action brought in a State court of which the district courts of the United States have original jurisdiction, may be removed by the defendant . . .”).

For a plaintiff to bring a TUTSA claim in federal court, diversity jurisdiction must exist. Moreover, a federal court could exercise supplemental jurisdiction over the TUTSA claim pursuant to 28 U.S.C. § 1367 if the TUTSA claim is brought along with a DTSA claim over which the court could exercise federal-question jurisdiction under 28 U.S.C. § 1331. *See Henry Schein, Inc. v. Cook*, No. 16-CV-03166-JST, 2016 WL 3212457, at *2 (N.D. Cal. June 10, 2016) (holding that federal district court had jurisdiction over the “action pursuant to DTSA and 28 U.S.C. § 1331, and supplemental jurisdiction over Plaintiff’s remaining [state law and California Uniform Trade Secrets Act] claims pursuant to 28 U.S.C. § 1367”). And if the plaintiff asserts related claims over which the federal court has exclusive jurisdiction, such as patent- and copyright-infringement claims, those claims along with claims under TUTSA and DTSA must be brought in federal court.

In addition, even if a plaintiff files in state court and does not allege a claim under DTSA, if a defendant files a related patent or copyright counterclaim, the defendant will be able to remove the case to federal court. Leeron Morad, *New Sheriff in Town? What to Expect from the Defend Trade Secrets Act*, N. CAL. ASSOCIATION OF BUSINESS TRIAL LAWYERS REPORT, Spring 2016, Vol. 24, No. 3, at 3-5. While counterclaims do not normally create federal jurisdiction, a defendant may remove an action to federal court in such case because 28 U.S.C. § 1454 vests federal courts with jurisdiction to hear cases involving patent or copyright claims raised in a counterclaim. 28 U.S.C. § 1454(a) (stating that “[a] civil action in which *any party* asserts a claim for relief under any Act of Congress relating to patents, . . . or copyrights may be removed to the district court of the United States . . .”) (emphasis added). Therefore, if a defendant asserts a patent or copyright infringement counter-claim, the entire case may be removed to federal court.

Defendants may consider filing a declaratory judgment action in federal court seeking a declaration that the information allegedly misappropriated is not a trade secret as defined by DTSA. Under the Anti-Injunction Act, 28 U.S.C. § 2283, the federal court may not prevent the earlier-filed state court action from proceeding, but if the federal case is not stayed, it could reach judgment first. A federal declaratory judgment on a plaintiff's trade secrets claim would be res judicata on key aspects of the plaintiff's state court case due to the similarities in how TUTSA and DTSA define what constitutes a trade secret. Accordingly, the federal declaratory judgment suit under DTSA could swiftly dispose of the plaintiff's TUTSA suit in state court.

3. Jurisdictional differences between DTSA and TUTSA

One of the main justifications for the passage of DTSA is that courts will now be able to obtain personal jurisdiction over foreign nationals if they have minimum contacts with the nation as a whole. This allows courts to obtain personal jurisdiction over defendants who may have sufficient minimum contacts with the United States, but do not otherwise have sufficient minimum contacts with any particular state. As a result, courts have personal jurisdiction over a broader range of potential defendants under DTSA than under TUTSA.

Most DTSA cases will not involve foreign defendants but only domestic companies and individuals. For these cases, the personal jurisdiction analysis will remain the same under both DTSA and TUTSA.

DTSA also contains a minimum jurisdictional requirement that a civil action for misappropriation may be brought only if “the trade secret is related to a product or service used in, or intended for use in, interstate or foreign commerce.” 18 U.S.C. § 1836(b)(1). This minimum threshold should be rather easy to satisfy, in light of the realities of modern commerce. TUTSA, on the other hand, has no such jurisdictional requirement.

4. Venue considerations

The federal venue rules provide that venue will be proper in:

- (1) a judicial district in which any defendant resides, if all defendants are residents of the State in which the district is located;
- (2) a judicial district in which a substantial part of the events or omissions giving rise to the claim occurred, or a substantial part of property that is the subject of the action is situated; or

- (3) if there is no district in which an action may otherwise be brought as provided in this section, any judicial district in which any defendant is subject to the court's personal jurisdiction with respect to such action.

28 U.S.C. § 1391(b). Thus, as long as a court has personal jurisdiction over a defendant, venue will exist in some federal court. Texas' general venue rule provides that venue shall be proper:

- (1) in the county in which all or a substantial part of the events or omissions giving rise to the claim occurred;
- (2) in the county of defendant's residence at the time the cause of action accrued if defendant is a natural person;
- (3) in the county of the defendant's principal office in this state, if the defendant is not a natural person; or
- (4) if subdivisions (1), (2), and (3) do not apply, in the county in which the plaintiff resided at the time of the accrual of the cause of action.

TEX. CIV. PRAC. & REM. CODE § 15.002 (West 2015).

Regardless of whether a plaintiff sues in state or federal court, a defendant can seek to have the action dismissed so that it can be filed in a more convenient forum under the common law doctrine of forum non conveniens. *See generally Sinochem Int'l Co. v. Malaysia Int'l Shipping Corp.*, 549 U.S. 422 (2007); *Quixtar Inc. v. Signature Mgmt. Team, LLC*, 315 S.W.3d 28 (Tex. 2010). However, federal courts also have the power to transfer a case to any other federal court in the United States if that court is a more convenient venue. *See* 28 U.S.C. § 1404(a). As a result, federal-court defendants can seek to have venue transferred anywhere in the United States. A defendant in federal court will need to file a motion to dismiss for forum non conveniens when the more convenient forum is a foreign court or U.S. state court. *See Quackenbush v. Allstate Ins.*, 517 U.S. 706, 722 (1996).

Texas state courts, on the other hand, only have the power to transfer a case to a more convenient state court within Texas. *See GeoChem Tech Corp. v. Verseckes*, 962 S.W.2d 541, 543 (Tex. 1998). Texas state court defendants, therefore, can only seek to have venue transferred to another county within Texas.

5. Ability to obtain a protective order under TUTSA and DTSA

Prior to TUTSA's enactment, obtaining a protective order in Texas state court was difficult because parties had to satisfy Texas Rule of Civil Procedure 76a. Under Rule 76a, court records are presumed to be

open to the public and a party wishing to have court records sealed had to show a “specific, serious and substantial interest” which clearly outweighed this presumption. TEX. R. CIV. P. 76a(1). Moreover, Rule 76a required public notice that a hearing would be held to seal court records in a specific case, and the mandatory hearing was open to the public. Tex. R. Civ. P. 76a(3), (4). TUTSA overrides Rule 76a, allowing protective orders to be routinely granted. *See* TEX. CIV. PRAC. & REM. CODE § 134.007(c).

Under TUTSA, there is “a presumption in favor of granting protective orders to preserve the secrecy of the trade secrets.” TEX. CIV. PRAC. & REM. CODE § 134A.006; *In re M-I L.L.C.*, 14-405, 2016 WL 1981342, at *6 (Tex. May 20, 2016). Protective orders under TUTSA may include “provisions limiting access to confidential information to only the attorneys and their experts, holding in camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.” TEX. CIV. PRAC. & REM. CODE § 134A.006. The Texas Supreme Court has interpreted “in camera hearings” as it is used in TUTSA to mean a hearing in which “a party or its representatives (but not its attorneys) are excluded[.]” and does not simply mean a hearing which is closed to the public. *In re M-I L.L.C.*, 2016 WL 1981342, at *6.

Although DTSA does not provide that a presumption in favor of granting protective orders exists, the statute does provide that the court shall take such action “as may be necessary and appropriate to preserve the confidentiality of trade secrets,” so long as the court’s action is consistent with Federal Rules of Procedure, Federal Rules of Evidence, and all other applicable laws. 18 U.S.C. § 1835(a). Federal Rule of Civil Procedure 26(c)(1)(G) provides that a court may issue a protective order “requiring that a trade secret or other confidential research, development, or commercial information not be revealed or revealed only in a specified way[.]”

DTSA offers additional protection by preventing courts from authorizing or directing “the disclosure of any information the owner asserts to be a trade secret unless the court allows the owner the opportunity to file a submission under seal that describes the interest of the owner in keeping the information confidential.” 18 U.S.C. § 1835(b). Additionally, DTSA provides that a party may file an interlocutory appeal from any decision or order that authorizes or directs the disclosure of any trade secret. 18 U.S.C. § 1835(a).

6. Other procedural considerations for filing in state vs. federal court

i. Service issues

Because service in federal court can be waived, accomplishing service in federal court may potentially be easier than serving a defendant in Texas state court. If the defendant agrees to waive service, it will not have to file an answer to the complaint until 60 days after the request for waiver was sent. FED. R. CIV. P. 4(d)(3). If the defendant refuses to waive service, the plaintiff who requested the waiver must still serve the defendant, but the plaintiff can recover the costs incurred in serving the defendant with process.

Although waiver of process is useful, plaintiffs should be careful about the time periods in the waiver procedure if the statute of limitations is about to run on the plaintiff's claims. In federal court, the plaintiff has only 90 days after filing the complaint to serve the defendant before its claims are dismissed without prejudice. *See* Fed. R. Civ. P. 4(m). When a plaintiff asks the defendant to waive service, a U.S. defendant is allowed at least 30 days to return the waiver. FED. R. CIV. P. 4(d)(1)(F). If the plaintiff waits the full 30 days anticipating that the defendant will waive service, but the defendant ultimately does not waive service, the plaintiff will have lost at least a third of its time allowed to effect service. Even though dismissal of the plaintiff's claims is without prejudice, if limitations have run on certain claims in the interim, the plaintiff will be unable to re-file these claims. *See Cruz v. Louisiana*, 528 F.3d 375, 379 (5th Cir. 2008) (holding that dismissal under Fed. R. Civ. P. 4(m) constitutes abandonment of the claim and does not toll the statute of limitations).

The Texas Rules of Civil Procedure also authorize a defendant to waive service in writing. Tex. R. Civ. P. 119. However, Rule 119 does not offer a defendant any incentive to do so nor does it punish a defendant for failing to waive service like the federal rule does. Thus, in most cases a plaintiff will need to effect service on the defendant. The Texas rules, however, simply require that service generally must be effected within the limitations period. Service outside the limitations period is valid if the petition was filed within the limitations period and the plaintiff exercised diligence in serving the defendant. *Ashley v. Hawkins*, 293 S.W.3d 175, 179 (Tex. 2009). The test for diligence is whether the plaintiff: (i) acted as an

ordinary, prudent person would act under the same circumstances, and (ii) was diligent up until the time the defendant was served. *Id.* Texas does not have a strict time requirement in which a plaintiff must effect service after filing its lawsuit.

As a result, plaintiffs who are not concerned with the limitations period expiring may wish to take advantage of the federal court waiver of process procedures. Conversely, plaintiffs who have limitations concerns will likely want to file in federal court and serve the defendant without requesting a waiver, or file in Texas state court to avoid having to comply with strict 90-day time requirement for effectuating service on the defendant.

ii. Texas follows the “fair notice” pleading standard

Texas follows a “fair notice” standard for pleading. Under that standard, courts assess the sufficiency of pleadings by determining whether an opposing party can ascertain from the pleading the nature of the case, basic issues, and the type of evidence that might be relevant to the controversy. *See Tex. Dep’t of Parks & Wildlife v. Miranda*, 133 S.W.3d 217, 230 (Tex. 2004); Tex. R. Civ. P. 47(a). Federal courts, on the other hand, require a complaint to contain sufficient factual matter, accepted as true, to “state a claim to relief that is plausible on its face.” *Bell Atl. Corp. v. Twombly*, 550 U.S. 544, 570 (2007).

Because of the heightened pleading standard in federal court, defendants may consider filing a motion to dismiss based on a failure to identify the alleged trade secrets with particularity or failure to identify the specific acts alleged to constitute misappropriation *See Quintel Tech. Ltd. v. Huawei Techs. USA, Inc.*, 4-15-CV-00307, 2016 WL 5423178, at *13 (E.D. Tex. Sept. 27, 2016). However, in both Texas state court and federal court, the defendant can serve interrogatories on the plaintiff requesting that it describe the alleged trade secrets with particularity.

iii. Amending pleadings is much easier in Texas state court

In trade-secrets cases, the ability to amend pleadings could be an important consideration. If an employer knows that an employee has accessed and copied information but is not sure exactly what the employee took, the employer may need to conduct discovery before it has knowledge of all the facts necessary to support its misappropriation claim. In such cases, an employer may wish to bring its claims in Texas state court to take advantage of Texas’ liberal rules related to the amendment of pleadings.

In federal court, a party may amend its pleading once as “a matter of course” early in the litigation.

See FED. R. CIV. P. 15(a)(1). Rule 15 provides that a pleading may be amended as a matter of course within: (i) 21 days after serving it, or (ii) if the pleading is one to which a responsive pleading is required, 21 days after service of a responsive pleading or 21 days after service of a motion under Rule 12(b), (e), or (f), whichever is earlier. FED. R. CIV. P. 15(a)(1)(A), (B). Most federal courts issue scheduling order that contain a date by which pleadings can be amended. In all other cases, a party may amend its pleading before trial only with the opposing party’s written consent or the court’s leave, but the court should freely give leave when justice so requires. FED. R. CIV. P. 15(a)(2).

In Texas state court, if a pretrial order establishes deadlines to amend, a party must file amendments according to the deadlines prescribed by the order. *G.R.A.V.I.T.Y. Enters. v. Reece Sup.*, 177 S.W.3d 537, 542–43 (Tex. App.—Dallas 2005, no pet.) (holding that Tex. R. Civ. P. 166, the rule governing pretrial orders, prevails over Tex. R. Civ. P. 63, the rule governing pretrial amendments). A party must obtain leave of court to amend its pleadings after the deadline in a pretrial order. See *Roskey v. Continental Cas. Co.*, 190 S.W.3d 875, 881 (Tex. App.—Dallas 2006, pet. denied). When no pretrial order establishes deadlines to amend pleadings, a party has the right to amend pleadings at least seven days before trial, as long as the amendment does not operate as a surprise to the opposing party. TEX. R. CIV. P. 63; *Sosa v. Central Power & Light*, 909 S.W.2d 893, 895 (Tex. 1995). The court has discretion to strike an amendment filed seven days or more before trial if the party opposing the amendment shows the amendment was a surprise. See *Flo Trend Sys. v. All-waste, Inc.*, 948 S.W.2d 4, 7 (Tex. App.—Houston [14th Dist.] 1997, no writ). Thus, if an amendment is filed at least seven days before trial, there is a presumption that the amendment is timely. Within seven days of trial, a party can only amend its pleadings with leave of court, which the court must grant unless the party resisting the amendment objects and shows surprise. TEX. R. CIV. P. 63; *Burrow v. Arce*, 997 S.W.2d 229, 246 (Tex. 1999).

iv. Suing in federal court provides nationwide subpoena power

Compelling testimony or the production of documents is more difficult in state court than federal court. Federal Rule of Civil Procedure 45(b)(2) specifically provides that “[a] subpoena may be served at any place within the United States.” According to the 2013 Advisory Committee notes, Rule 45 was

amended to provide that a subpoena may be served anywhere in the United States to “remov[e] the complexities prescribed in prior versions.” Thus, the federal rules expressly contemplate a streamlined process by providing for nationwide subpoena power.

Securing the testimony of witnesses in another state is a much more cumbersome process in Texas state courts. Texas Rule of Civil Procedure 201.1 provides that a party may take a deposition on oral or written questions of a person or entity located in another state by: (i) notice (in jurisdictions that permit such depositions to be taken); (ii) letter rogatory, letter of request, or other such device; (iii) agreement of the parties; or (iv) court order. TEX. R. CIV. P. 201.1(a). Attempting to secure the testimony of a witness through letters rogatory requires the party to file a motion with the proper authority located in another state and request that authority to summon the witness for examination on oral or written questions. TEX. R. CIV. P. 201.1(c). Additionally, according to the 1999 editors’ notes to Rule 201.1, the rule sets forth the procedures for obtaining deposition testimony of a witness in another state or foreign jurisdiction for use in Texas proceedings, but the rule “does not, however, address whether any of the procedures listed are, in fact, permitted or recognized by the law of the state or foreign jurisdiction where the witness is located.” Thus, filing suit in federal court provides a streamlined and uniform process for obtaining deposition testimony nationwide whereas filing in state court requires knowledge of, and compliance with, the discovery rules of Texas and the state in which the party to be deposed resides.

v. Nationwide enforcement of injunctions

An additional reason a party may wish to sue in federal rather than state court is that injunctions issued by federal courts can be enforced nationwide. FED. R. CIV. P. 65; *Califano v. Yamasaki*, 442 U.S. 682, 702 (1979) (observing that “the scope of injunctive relief is dictated by the extent of the violation established, not by the geographical extent of the class.”). Although Texas state court judgments are enforceable in other states under the Full Faith and Credit Clause of the United States Constitution and under the Uniform Enforcement of Foreign Judgments Act (which has been adopted by 47 states), an injunction granted by a Texas state court will not have the automatic nationwide effect of a federal-court injunction.

vi. Federal courts more closely monitor ESI cost/burden issues with express proportionality considerations

The 2015 amendments to FRCP 26(b) added certain proportionality considerations to discovery conducted in federal court. FED. R. CIV. P. 26(b)(1). The federal rules now expressly provide that for information to be discoverable, it must be both relevant and proportional to the needs of the case. *See* FED. R. CIV. P. 26(b)(1). According to the recently amended rule, the parties and the court should consider the following factors in determining proportionality: (i) the importance of the issues at stake in the action; (ii) the amount in controversy; (iii) the parties' relative access to relevant information; (iv) the parties' resources; (v) the importance of the discovery in resolving the issues; and (vi) whether the burden or expense of the proposed discovery outweighs its likely benefit. FED. R. CIV. P. 26(b)(1). The 2015 Advisory Committee notes explain that the court and the parties have always been obligated to consider proportionality and the amendment "does not place on the party seeking discovery the burden of addressing all proportionality considerations." FED. R. CIV. P. 26 advisory committee's note ¶9.

The Texas rules do not expressly require Texas state courts to consider proportionality to the needs of the case. Texas Rule of Civil Procedure 192.4, however, contains limitations on the scope of discovery, which are similar to the federal proportionality considerations. Rule 192.4 provides that the scope of discovery should be limited by the court if it determines the burden or expense of the proposed discovery outweighs its likely benefit, taking into account: (i) the needs of the case; (ii) the amount in controversy; (iii) the parties' resources; (iv) the importance of the issues at stake in the litigation; and (v) the importance of the proposed discovery in resolving the issues. TEX. R. CIV. P. 192.4(b). Although the federal and Texas rules have similar proportionality considerations for determining the proper scope of discovery, federal courts will likely monitor proportionality more closely due to the 2015 amendments to FRCP 26.

vii. Drafts of expert reports are more easily discoverable under the Texas Rules of Civil Procedure

Until 2010, federal courts interpreted the expert disclosure provisions in Federal Rule of Civil Procedure 26 to authorize discovery of all communications between counsel and expert witnesses along with all drafts of the expert's report. However, the rule was amended in 2010 to extend work-product protection to drafts of expert reports. FED. R. CIV. P. 26(b)(4)(B). Conversely, under current Texas law,

drafts of expert reports are discoverable absent a contrary agreement between the parties. TEX. R. CIV. P.

192.3(e)(6) (providing that a party may discover “all documents . . . prepared by . . . the expert in anticipation of a testifying expert’s testimony”).

viii. Waiver of attorney-client privilege due to inadvertent disclosure

The Texas and Federal Rules of Evidence have similar provisions regarding the inadvertent disclosure of communications or information protected by attorney-client privilege. In federal court, the disclosure does not operate as a waiver of privilege if: (i) the disclosure is inadvertent; (ii) the holder of the privilege or protection took reasonable steps to prevent disclosure; and (3) the holder promptly took reasonable steps to rectify the error, including (if applicable) following Fed. R. Civ. P. 26(b)(5)(B). FED. R. EVID. 502(b). Similarly, in Texas state court, an inadvertent disclosure of information protected by the attorney-client privilege will not operate as a waiver if the holder followed the procedures outlined in Texas Rule of Civil Procedure 193.3(d). Under TRCP 193.3(d), in order to not waive a claim of privilege, the party who inadvertently produced privileged information must amend its discovery responses within ten days of discovering that privileged information may have been produced. The federal rules simply require the producing party notify any party that received the information. FED. R. CIV. P. 26(b)(5)(B). The federal rule does not specifically require the producing party to amend its responses and does not specify a time period in which the producing party must notify the parties that received the inadvertently produced information. *Id.* Additionally, a federal court may enter an order providing that a privilege or protection is not waived by a disclosure connected with the litigation pending before the court, “in which event the disclosure is also not a waiver in any other federal or state proceeding.” FED. R. EVID. 502(d). Texas state courts lack the authority to issue a similar order that would bind state as well as federal courts. TEX. R. EVID. 511(b)(3) (providing that an order providing that a privilege or protection is not waived “is also not a waiver in a Texas state proceeding).

ix. Jury verdicts

A final consideration in determining whether to file in federal court or Texas state court relates to the number of jurors who must concur in order to render a verdict. In federal district court, the court must seat at least six but no more than twelve jurors. FED. R. CIV. P. 48(a). And unless the parties stipulate

otherwise, the verdict must be unanimous. FED. R. CIV. P. 48(b). In Texas district court, on the other hand, a verdict may be rendered on the concurrence of the same ten or more members of an original jury of twelve. TEX. R. CIV. P. 292(a). Although some defendants may wish to remain in state court for various reasons, if the defendant has strong defenses or good grounds for summary judgment, the unanimous jury verdict requirement may weigh in favor of the defendant removing the case to federal court.

IV. Conclusion

A plaintiff who is the victim of trade secret misappropriation has a great deal of strategic decisions to make in deciding what claims to file and whether to file them in state or federal court. Often, no single factor will be determinative on what course of action a plaintiff will want to pursue. This article will serve as a checklist for deciding the most appropriate and strategic course of action.

