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Fishing in the Right Pond: Careful Forum Selection May Keep Trade Secret Defendants on the Hook

By Ross Angus Williams of Bell Nunnally & Martin – (Oct. 11, 2017) – My father was a fisherman. The first time he took me out, he griped at me for "resetting the hook" by jerking the rod tip up again and again while reeling the fish in. He explained that this opened up the hole the hook made through the fish's mouth. If the hole gets wide enough, you lose the fish. So you have to trust the first hook-set and work within the space it gives you.

Ross Williams

Applying a law to a problem it was not intended to address is a lot like resetting the hook: It can lead to unintended—and unwanted—consequences.

There's been some recent resetting of the hook in state court that misapplies the Texas Citizens Participation Act—also known as the Texas anti-SLAPP statute or TCPA—to the private commercial speech and association employees might use to misappropriate employers' trade secrets. This misapplication could lead to costly delays or early dismissal proceedings that may let culpable former employees off the hook. But recent Fifth Circuit case law suggests that the solution might be to fish in a different pond by filing in federal court.

The TCPA's stated purpose is to serve "the constitutional rights of persons to petition, speak freely, associate freely, and otherwise participate in government." That's the space the law creates for us to work within. The TCPA's plain limitation to constitutional rights appears in a section titled "Purpose." That is about as straightforward an indicator as one can have that the purpose of the statute is limited to protecting constitutional rights.

Yet the TCPA has recently been interpreted to apply to private commercial speech and association—activities not protected constitutionally—because the definitions of those rights in the TCPA's "Definitions" section do not include the word "constitutional."

One could be forgiven for thinking the inclusion unnecessary in light of the "Purpose" section. Oh, and the "Construction" section of the TCPA mandates that the statute "shall be construed liberally to effectuate its purpose," which, again, is plainly stated and limited to constitutional rights.

Where the TCPA applies, it imposes a heavy burden on a plaintiff at the onset of a case. It provides an expedited dismissal mechanism tied to a burden-shifting analysis. Through that mechanism, at the onset of the case a defendant can force a plaintiff to establish by clear and specific evidence a prima facie case for each essential element of a claim if it is based on, relates to, or is in response to speech or association rights protected by the TCPA.

In other words, if you don't have your ducks in a row the minute you file your case—which can be impossible without expensive pre-suit discovery—the courthouse doors may be closed to your client where the TCPA applies, which is only supposed to be in the context of constitutional rights.

Yet courts have gone about re-setting the hook in this fish. On May 5, Texas' Third District Court of Appeals in Austin held in *Elite Auto Body v. Autocraft Bodywerks* that a district court ›

should have dismissed an employer's claim for trade secret misappropriation on TCPA grounds. The court reasoned that (1) the former employees' discussions about the alleged trade secrets at issue were "free speech" and (2) their work for the competitor was "free association" — both covered by the TCPA.

The employer claimed that the former employees took information and used it in a competing business—bread-and-butter misappropriation allegations. The employees filed a motion to dismiss under the TCPA. The trial court denied it, but the Austin Court of Appeals reversed and remanded for the trial court to determine how much the former employer would have to pay in attorneys' fees under the TCPA.

So the former employees alleged to have stolen trade secrets ended up getting the case dismissed and getting attorneys' fees because the TCPA was somehow held to apply to types of speech and association that are not constitutionally protected.

In my opinion, the Autocraft court incorrectly found that the Texas Supreme Court has read the TCPA as not being limited to constitutionally protected speech and association. The Autocraft court relied on the Supreme Court's decision in *ExxonMobil Pipeline Company v. Coleman,* which held that a pipeline company's private communications regarding whether an employee checked a gauge prior to an accident implicated health and safety concerns covered by the statute.

The Autocraft court reasoned that because the Supreme Court didn't discuss constitutional limitations on rights covered in the TCPA, those rights must not be limited to their constitutional context. That seems wrong on its face—see the "Purpose" section of the TCPA. It doesn't get much clearer than that.

So what do you do if you need to file a TRO application tomorrow morning to prevent your client's former employee from using stolen trade secrets to open a nascent competing business? If you're in Austin, and you aren't lucky enough to have great dirt on the former employee already, you calmly explain to your client that they need to file a Rule 202 application for pre-suit discovery, wait for it to be granted, let the bad guys get away, blah, blah, blah—and then hold the phone away from your ear while your client caterwauls. Or you can write your state representative and ask him or her to introduce a bill to amend the TCPA with a note expressly overruling Coleman to the extent it applies the TCPA beyond constitutional rights.

At least, those are your options if you are in Austin and you want to file in state court.

On August 15, 2017, the Fifth Circuit stated in *Block v. Tanenhaus* that the "applicability of state anti-SLAPP statutes in federal court is an important and unresolved issue in this circuit." And with those words, the Fifth Circuit created a potential forum-shopping incentive for trade secret misappropriation plaintiffs.

All four Texas federal districts had previously recognized the applicability of the TCPA in federal actions, though not yet in trade secret cases. Block puts the TCPA's applicability in federal actions in question without deciding the issue one way or another.

The upshot of Block is that a trade secret misappropriation plaintiff who wishes to avoid the TCPA might consider filing in federal court because you can now argue not only that Autocraft is wrong—which you could do before based on the statutory text—but that the TCPA doesn't even apply in federal actions. Also, because Autocraft has not been cited or followed by other Texas appellate courts, filing in state courts outside the Third District and arguing that Autocraft is wrong remains an option.

Whether or not the TCPA applies in a federal action may depend on the judge you happen to be in front of, at least until this open question ›

gets answered. The TCPA is both statutory and procedural in nature. So if you are in front of a proceduralist judge—you know who they are—the judge may well wince at the intrusion of state procedure onto federal turf and determine that the TCPA shouldn't apply, especially if you plead your claims solely under the Federal Defend Trade Secrets Act. Procedurally flexible judges may be more likely to allow the TCPA to apply, in which case you are stuck hoping you aren't in a part of a federal district overlapped by Texas's Third Appellate District.

If you are, then your fish might just get away.

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