

2020 Update: Best Practices and Strategies for Litigating Non-compete, Trade Secrets, and Fiduciary Duty Claims

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Mark J. Oberti
Ed Sullivan
Oberti Sullivan LLP
712 Main Street, Suite 900
Houston, Texas 77002
(713) 401-3555
mark@osattorneys.com
ed@osattorneys.com

Joseph Y. Ahmad
Ahmad Zavitsanos Anaipakos Alavi & Mensing
2500 One Houston Center
1221 McKinney Street
Houston, Texas 77010
(713) 655-1101
joeahmad@azalaw.com

Rachel Powitzky Steely
Foley & Lardner LLP
1000 Louisiana Street,
Suite 2000
Houston, Texas 77002
713-276-5605 Direct
rsteely@foley.com

I. Texas Non-Compete Update

To be enforceable, a noncompetition covenant must:

- (1) be ancillary to an otherwise enforceable agreement at the time that the agreement is made; and
- (2) contain limitations of time, geographic area, and scope of activity that are reasonable and that do not impose greater restraint than necessary to protect the company's goodwill or other business interests.

Tex. Bus. & Com. Code Ann. § 15.50.

I. Texas Non-Compete Update

- What does it mean to “be ancillary to an otherwise enforceable agreement at the time that the agreement is made”?
- In 2011, the Texas Supreme Court overruled a 1994 case (*Light v. Centel Cellular Co. of Texas*) and held that a covenant not to compete is “ancillary to or part of” an otherwise enforceable agreement at the time it was made if: (a) the consideration given by the employer in that agreement is “reasonably related to,” an “interest worthy of protection”; and (b) the covenant is designed to enforce the employee’s consideration or return promise in that agreement.

Marsh USA Inc. v. Cook, 354 S.W.3d 764, 774-76 (Tex. 2011).

I. Texas Non-Compete Update

- If the consideration is confidential information, when does it have to be given to the employee to be effective?
 - In *Alex Sheshunoff Mgmt Servs., L.P. v. Johnson*, 209 S.W.3d 644, 648-51 (Tex. 2006), the Texas Supreme Court held that non-compete covenants can be considered unilateral contracts, made at the time a non-compete is signed, that become binding once an employer provides the employee confidential information.
 - *Sheshunoff* overruled *Light* on this point, which had interpreted § 15.50 to require that the non-compete covenant must be supported by a valid promise and actual performance at the very time the agreement is made.

I. Texas Non-Compete Update

- Under *Sheshunoff*, employers may enforce non-compete agreements even if they do not provide the employee with the confidential information until days, weeks, months, or even years after the agreements are executed.
- If, however, such information is never provided, then the non-compete agreement is not enforceable. *See, e.g., Miner, Ltd. v. Anguiano*, 383 F. Supp. 3d 682, 698 (W.D. Tex. 2019) (denying employer's motion for a preliminary injunction based on a non-compete because the employer failed to identify any confidential information that it had provided to the employee, and failed to show that its business practices, pricing, or strategies were confidential); *Digital Generation, Inc. v. Boring*, NO. 3:12-CV-00329-L, 2012 WL 1413386, at *10 (N.D. Tex. Apr. 24, 2012) (finding non-compete unenforceable where employer did not prove that it gave employee confidential information after he signed the noncompetition agreement).

I. Texas Non-Compete Update

1a. Regarding first prong: An express or even an implied promise to provide confidential information is sufficient to uphold a non-compete. See *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, 289 S.W.3d 844 (Tex. 2009).

b. Also, a stock options grant is sufficient to uphold a non-compete. See *Marsh USA Inc. v. Cook*, 354 S.W.3d 764 (Tex. 2011).

Marsh likely extends to LTIPs, but how much further it goes is up for debate in yet to be decided cases. E.g., could a severance payment of cash or stock be sufficient under *Marsh*?

c. “Specialized training” also may support a noncompete. See *Neurodiagnostic Tex, L.L.C. v. Pierce*, 506 S.W.3d 153, 164-65 (Tex. App.—Tyler 2016, no pet.)



Texas Non-Compete Update

Heavy focus on “reasonableness” prong now (the second prong).

a. Time: Restrictions of two to even up to five years have been upheld.

b. Geography: a reasonable geographic scope is generally considered to be the territory in which the employee worked for the employer. *See Cobb v. Cate Publ’g Grp., Inc.*, 322 S.W.3d 780, 783–84 (Tex. App.—Fort Worth 2010, no pet.)

Restraint
of trade

Geography: but sometimes a broader area is justified. *See AmeriPath, Inc. v. Hebert*, 447 S.W.3d 319, 335 (Tex.App.—Dallas 2014, pet. denied) (upholding broad geographic restriction beyond area where the defendant had worked for the plaintiff, because the defendant had been a high level manager).

Texas Non-Compete Update

Restraint
of trade

Geography: A reasonable restriction on scope of activity can substitute for a geographic restriction, even absent a geographic restriction – for example, limiting the employee from contacting customers he or she had contact with during a reasonable time frame before he or she left his or her employer is generally reasonable and enforceable. *See, e.g., Sheshunoff.*

- c. Scope of Activity: In the context of front line sales employees: “A restraint on client solicitation in a personal services contract is overbroad and unreasonable if it extends to clients with whom the employee had no dealings during his employment.” *EMS USA, Inc. v. Shary*, 309 S.W.3d 653, 660 (Tex. App.—Houston [14th Dist.], 2010 no pet.).

Texas Non-Compete Update

Scope of Activity: *But see M-I LLC v. Stelly*, 733 F. Supp. 2d 759 (S.D. Tex. 2010) (enforcing much broader restraint when employee wasn't just a mere salesman, but rather also a high level manager).

Restraint
of trade

Similar to *M-I LLC*, in *Accruent, LLC v. Short*, No. 1:17-CV-858-RP, 2018 WL 297614, at *6 (W.D. Tex. Jan. 4, 2018), *appeal filed* (applying Texas law), the court held a provision preventing an employee from soliciting customers with whom he had no personal involvement was reasonable because the employer's business interests included not only the employee's client base but also the employee's knowledge of proprietary information, which he might use to help a competitor. *Id.*

Texas Non-Compete Update

Scope of Activity: “The Texas Supreme Court has held that an industry-wide exclusion is unreasonable.” *John R. Ray & Sons, Inc. v. Stroman*, 923 S.W.2d 80, 85 (Tex. App.—Houston [14th Dist.] 2010, no pet.), citing *Peat Marwick Main & Co. v. Haass*, 818 S.W.2d 381, 386-88 (Tex. 1991); *McNeilus Companies, Inc. v. Sams*, 971 S.W.2d 507, 511 (Tex. App.—Dallas 1997, no writ) (holding covenant prohibition on former employee from working “in any capacity” for competitor of former employer was overbroad in scope).

See also *McKissock, LLC v. Martin*, No. EP–16–CV–400–PRM, 2016 WL 8138815, at *9 (W.D. Tex. Nov. 10, 2016) (finding a noncompete agreement unreasonable because it barred the employee from being “employed ... in any manner with any business or practice which is in competition with [the employer]”) (emphasis in original); *Merritt Hawkins & Assocs., LLC v. Gresham*, 79 F. Supp. 3d 625, 641 (N.D. Tex. Jan. 13, 2015) (“A non-competition covenant ‘must bear some relation to the activities of the employee.’”) (citation omitted).

- This is a common mistake in non-compete provisions.

Texas Non-Compete Update

Money damages are not available based on breach of overbroad non-compete prior to reformation.

Rimkus Consulting Group, Inc. v. Cammarata, 688 F. Supp. 2d 598, 673 (S.D. Tex. 2010) (granting summary judgment against employer's claim for monetary damages based on breach of non-compete because all of the conduct that caused the damages occurred prior to the court's reformation of the non-compete).



Texas Non-Compete Update

This rule can present a real problem because Texas state appellate courts have repeatedly held that reformation is a final remedy for a SJ ruling or trial, not an interim remedy to be granted at the Temporary Injunction stage. See also *Sentinel Integrity Solutions, Inc. v. Mistras Group, Inc.*, 414 S.W.3d 911, 920 (Tex. App.—Houston. [1st Dist.] 2013, pet. denied) (“Reformation pursuant to section 15.51 is a remedy to be granted at a final hearing, whether on the merits or by summary judgment, not as interim relief”)



Texas Non-Compete Update

On the other hand, federal district courts in Texas have been willing to reform overbroad noncompete agreements at the Temporary Injunction stage. *See TransPerfect Translations, Inc. v. Leslie*, 594 F. Supp. 2d 742, 756 (S.D. Tex. 2009) (“In light of this unsettled law, the Court will enter a limited injunction and reform the contract as necessary based on the current evidence, noting that any reformation or permanent injunction to be entered may differ from this temporary reformation based on arguments presented in the parties’ dispositive motions or at trial.”).



Non-Competes That Impose Monetary Penalties For Competing

- Subject to same analysis, per *Peat Marwick* case.
- But possible distinction recognized by Texas law between a monetary penalty provision and a provision that simply denies a wholly gratuitous benefit to the employee pursuant to a non-contributory profit sharing plan. In *Drennen* the Texas Supreme Court found such a provision enforceable under New York law, but reserved the question for now under Texas law.

Non-Competes That Impose Monetary Penalties For Competing

In *Rieves v. Buc-ee's Ltd.*, 532 S.W.3d 845 (Tex. App.-Houston [14th Dist.] 2017, rule 53.7(f) motion granted), Buc-ee's paid Rieves a weekly salary of \$862.75, and a monthly "retention payment," of 1.2652% of the store's monthly net profit. If she quit or was fired in less than four years, or if she did not give Buc-ee's written notice at least 6 months before quitting, she had to pay back all of the retention payments she received, plus interest and attorneys' fees. Rieves quit three years into her employment, and Buc-ee's sued her for return of a total of approximately \$67,000.00 in retention payments it had made to her. The trial court ruled for Buc-ee's, and Rieves appealed.

The Court of Appeals sided with Rieves, and held that the repayment requirement was an unenforceable restraint of trade under the Texas Supreme Court's decision in *Peat Marwick* that is mentioned above. It also found that the *Drennen* decision did not support enforcement of the agreement because, unlike the situation in *Drennen*: (1) Buc-ee's sought the repayment of monies the employee had already received; and (2) the provision at issue in this case did not reward Rieves for her loyalty.

Non-Compete & Attorneys' Fees Issues

1. For prevailing employer. Perhaps never (*see Ginn v. NCI Bldg. Sys., Inc.*).
2. For prevailing employees.
 - Some courts say only if employee satisfies section 15.51 (*see Perez*).
 - Other courts say prevailing employee may obtain fees even if they do not satisfy section 15.51 (*see Hardy*).
 - 750k fee award for employee out of Houston (*Sentinel Integrity Solutions, Inc.*). A cautionary tale for overzealous employers wielding overbroad non-competition agreements. That said, to get fees under section 15.51, the employee must satisfy a high standard. *See, e.g., GE Betz, Inc. v. Moffitt-Johnston*, 885 F.3d 318 (5th Cir. 2018) (even though the non-compete was unenforceable, it was not appropriate to award the ex-employee fees because she did not prove the employer knew the non-compete was unenforceable at the time she executed it).

Obtaining Injunctive Relief For Breach of a Non-Compete

- Do you still have to prove “irreparable harm?”
 - Majority of courts say “yes.”
See, e.g., Cardinal Health Staffing Network, Inc.
 - But the Fort Worth Court of Appeals said “no” based on Section 15.51(a). *See, e.g., Heritage Operating, L.P.*
- Proof that a highly trained employee is continuing to breach a non-competition agreement gives rise to a rebuttable presumption that the applicant is suffering irreparable harm. *Cardinal Health Staffing Network, Inc.*
- Irreparable harm issue often turns on equitable considerations and black hat / white hat facts.

Obtaining Injunctive Relief For Breach of a Non-Compete

- Successor companies' rights to seek injunctive relief enforcing a noncompetition agreement: they can, but the scope is limited to the business sold. *See M-I LLC v. Stelly* (S.D. Tex. 2010)
- The effect of contractual stipulations of irreparable harm – most cases hold that such stipulations are no proof of irreparable harm, but a couple cases hold that they are of some weight. *See Wright v. Sport Supply Group, Inc.*, 137 S.W.3d 289, 293-94 (Tex. App.–Beaumont 2004, no pet.)

Obtaining Injunctive Relief For Breach of a Non-Compete

- The effect of delay on a party's ability to obtain injunctive relief: a bigger issue in federal cases than state cases. *Rimkus Consulting Group, Inc. v. Cammarata*, 255 F.R.D. 417, 438-39 (S.D. Tex. 2008) ("Rimkus's delay in seeking injunctive relief in this court weighs heavily against a finding of irreparable injury.").
- Equitable extensions of the period of restraint – possible if violation has been "consistent and persistent." See *Farmer v. Holley*, 237 S.W.3d 758, 761 (Tex. App.—Waco 2007, review denied) (covenants not to compete can be equitably extended if the violations of the covenant were "continuous and persistent.").

Obtaining Injunctive Relief For Breach of a Non-Compete

The Unclean Hand Defense To a Non-compete: Usually a loser.

For example, in *Premier Polymers, LLC v. Wendt*, Civil Action No. H-15-1812, 2015 WL 4434551, at *5 (S.D. Tex. July 17, 2015), the defendant-employee claimed that his ex-employer had hired employees and then put them to work soliciting potential customers in violation of those employees' non-solicitation obligations to their former employers. Based on this, the employee alleged that under the unclean hands doctrine his ex-employer should be barred from enforcing its non-solicitation agreement against him.

The district court rejected the defendant-employee's unclean hands defense, stating, "[t]he evidence presented regarding former Premier employees and their non-solicitation agreements does not relate to Wendt's conduct or Agreement in this case. The court will not consider this defense."

Obtaining Injunctive Relief For Breach of a Non-Compete

Is the employee's new employer a necessary part to a Temporary Injunction action?

In *Down Time-South Texas, LLC v. Elps*, NO. 13-13-00495-CV, 2014 WL 1464320, at *7 (Tex. App.—Corpus Christi Mar. 20, 2014, no pet.) (unpublished), the Corpus Christi Court of Appeals held that the new employer is a necessary party to a case where the new employer's rights would be affected by entry of the requested injunction, and its absence precludes the granting of injunctive relief.

Whether other courts will follow this case remains to be seen.

Choice of Law and Forum Clauses

- For pure traditional noncompetes, choice of law of other state won't be enforced if the employee worked exclusively (or probably even primarily) in Texas. *See DeSantis*.
- Choice for Forum clauses requiring all litigation to occur in another state are, however, enforceable. *See In re AutoNation* (Tex. 2007).
- For forfeiture agreement in a non-contributory profit sharing plan, likely will be enforced, under 2014 *Drennen* case.

Employee Non-recruitment Covenants Under Texas Law

Prior to *Marsh USA* in 2011, most courts said Section 15.50 does not apply to them – but see interesting *Marsh USA* dicta on that point. Since *Marsh USA*, several Texas courts have analyzed such an employee non-recruitment agreement under section 15.50(a) of the Texas Business and Commerce Code. *Smith v. Nerium Intern., LLC*, No. 05-18-00617-CV, 2019 WL 3543583, at *4 (Tex. App. – Dallas, Aug. 5, 2019, no pet.); *Everett Fin., Inc. v. Primary Residential Mortg., Inc.*, No. 3:14-CV-1028-D, 2016 WL 7378937, at *8 (N.D. Tex. Dec. 20, 2016); *Merritt Hawkins & Assocs., LLC v. Gresham*, 79 F. Supp. 3d 625, 639-40 (N.D. Tex. 2015), *aff'd*, 861 F.3d 143 (5th Cir. 2017).

But, typically much more difficult to obtain an injunction to halt such activity. *See Spicer* (S.D. Tex. 2006).

Employee Non-recruitment Covenants Under Texas Law

In *Ally Financial, Inc. v. Gutierrez*, No. 02-13-00108-CV, 2014 WL 261038 (Tex. App.—Fort Worth Jan. 23, 2014, no pet.) (mem. op.), Gutierrez was a supervisor in Ally's IT department, and she agreed not to solicit or employ any of Ally's employees for two years after leaving. 2014 WL 261038, at *1. She left Ally's employ and went to work for a competitor. Ally sued her for soliciting Ally's employees, and Gutierrez won summary judgment. *Id.* at *2, 4. The court of appeals affirmed, holding that the non-solicitation agreement was unenforceable because it was unreasonable in scope:

While it might be considered reasonable to limit Gutierrez's solicitation of Ally's employees located in the IT department, which was where Gutierrez worked, the non-solicitation covenant in the [contract] was not so limited.... This covenant goes beyond what was necessary to protect Ally's goodwill or other business interest of Ally.

Id. at *8.

Employee Non-recruitment Covenants Under Texas Law

In *Cooper Valves, LLC v. ValvTechnologies, Inc.*, 531 S.W.3d 254 (Tex. App.—Houston [14th Dist.] 2017, no pet.), a former employee agreed not to solicit any then-current employee of his former employer, VTI. 531 S.W.3d at 258. VTI sued the former employee and obtained a temporary injunction barring him from soliciting any then-current VTI employee. *Id.* at 262. The court of appeals reversed, holding that the non-solicitation provision was unenforceable because it contained no restrictions as to time, geography, or types of employees that were off-limits. *Id.* at 265.

Employee Non-recruitment Covenants Under Texas Law

On the other hand, some courts have held that a non-solicitation clause extending to all current employees is a reasonable protection of the employer's interest in maintaining its employees and thus is not overbroad. *Everett Fin., Inc. v. Primary Residential Mortg., Inc.*, No. 3:14-CV-1028-D, 2016 WL 7378937, at *8 (N.D. Tex. Dec. 20, 2016); *Merritt Hawkins & Assocs., LLC v. Gresham*, 79 F. Supp. 3d 625, 639–40 (N.D. Tex. 2015), *aff'd*, 861 F.3d 143 (5th Cir. 2017).

And, in *Smith v. Nerium Intern., LLC*, No. 05-18-00617-CV, 2019 WL 3543583, at *4 (Tex. App. – Dallas, Aug. 5, 2019, no pet.), the court upheld an employee non-solicitation clause that prohibited solicitation not of the former employer's entire workforce, but only its salesforce).

II. At-Will Employee Fiduciary Duty Update

An at-will employee breaches their fiduciary duty to their employer if, during their employment, they: (1) misappropriate the company's trade secrets; (2) solicit the employer's customers while still working for their employer; (3) solicit the departure of other employees while still working for their employer; or (4) carry away confidential information.

Johnson v. Brewer & Pritchard, P.C., 73 S.W.3d 193, 202 (Tex. 2002).

At-Will Employee Fiduciary Duty Update

Aside from those limitations, taking preparatory steps to compete with an employer while still working for that employer is not actionable.

Navigant Consulting, Inc. v. Wilkinson, 508 F.3d 277, 284 (5th Cir. 2007) (under Texas law, an at-will employee may properly plan to go into competition with his employer and may take active steps to do so while still employed).

At-Will Employee Fiduciary Duty Update

The employee has no general duty to disclose his plans and may secretly join with other employees in the endeavor without violating any duty to the employer. Further, an employee may use his general knowledge, skill, and experience acquired in the former employment to compete. *Abetter Trucking Co.*, 113 S.W.3d at 512.

* But, there are fact specific exceptions. See *Navigant Consulting, Inc.* (failure to disclose plans to form competitive business while simultaneously signing long term lease for employer in order to put employer in vulnerable position was a breach of fiduciary duty).



At-Will Employee Fiduciary Duty Update

- In 2010, the Fifth Circuit U.S. Court of Appeals affirmed a \$1.43 million award against a company's two former employees and the new company they formed to compete against their ex-employer.

Meaux Surface Protection, Inc. v. Fogleman, 607 F.3d 161 (5th Cir. 2010).

They had solicited many of their coworkers to leave and join their competitive venture before they resigned from plaintiff's employment.

At-Will Employee Fiduciary Update

PAS, Inc. v. Engel, 350 S.W.3d 602, 612 (Tex. App.—Houston [14th Dist.] 2011, no pet.) (holding that if a fiduciary employee obtains a release from a non-compete agreement under fraudulent and falsified circumstances a jury could find that the employee committed a breach of fiduciary duty, and fraud); *see also AmeriPath, Inc. v. Hebert*, 447 S.W.3d 319 (Tex. App.—Dallas 2014, pet. denied) (similar holding and reversing summary judgment that had been granted in the ex-employee's favor).

At-Will Employee Fiduciary Update

The case of *Eurecat US, Inc. v. Marklund*, 527 S.W.3d 367 Tex. App.-Houston [14th Dist.] 2017, no pet.) addressed several significant issues in the context of a breach of fiduciary duty claim against two at-will ex-employees who resigned and began a competing company. In that case, the employer lost at trial and appealed. On appeal, the court held:

One employee's mere suggestion to another unhappy employee for them to jointly leave the company did not constitute "solicitation" in breach of his fiduciary duty, because to "solicit" is to "make petition to: ENTREAT, IMPORTUNE, CONCERN"; 'to approach with a request or a plea (as in selling or begging)'; 'to move to action; serve as an urge or incentive: INCITE; 'to strongly urge (as one's cause or point): insist upon'; 'to endeavor to obtain by asking or pleading'; and 'to seek eagerly or actively.' ". . . Put another way, "the commonly understood meaning of 'solicit' includes more than merely to ask."

III. Trade Secret/UTSA Litigation

- Took effect September 1, 2013.
- Wipes away common law, although the UTSA is not vastly different from the common law of Texas.
- Defines trade secret as “Information, including a formula, pattern, compilation, program, device, method, technique, process, financial data, or list of potential customers or suppliers.”
- Texas added the financial data and customer list part (a Texas twist).
- Remedies include:
 - Injunction
 - Damages (unjust enrichment or reasonable royalty damages)
 - Punitive damages if malice is proven
 - Attorneys’ fees in some instances (big change here)
 - Encourages protective orders in trade secrets cases

Trade Secret/UTSA Litigation

1. Damages issue.

Wellogix, Inc. v. Accenture, L.L.P., 716 F.3d 867 (5th Cir. 2013), the court, applying Texas law, affirmed a verdict of more than \$40 million in compensatory and punitive damages in a trade secrets misappropriation case, based on actual harm to the plaintiff.

Bohnsack v. Varco, L.P., 668 F.3d 262 (5th Cir. 2012) (affirming \$600,000 award in trade secrets case based on what a reasonable investor would have paid, and emphasizing the flexible nature of the damages inquiry).

Trade Secret/UTSA Litigation

1. Damages issue.

Southwestern Energy Production Co. v. Berry–Helfand, 491 S.W.3d 699 (Tex. 2016):

- Reversed an \$11.445 million award in actual damages in a trade secrets misappropriation case because the plaintiff's expert's simple use of a fixed 3% overriding royalty was in error.
- But also reversed the court of appeal's dismissal of the trial court's \$23.89 million award in equitable disgorgement of profits on the grounds that no fiduciary relationship existed between the parties, stating that "we have not expressly limited the remedy to fiduciary relationships nor foreclosed equitable relief for breach of trust in other types of confidential relationships."

Trade Secret/UTSA Litigation

1. Damages issue.

In GlobeRanger Corp. v. Software AG United States of Am., Inc., 836 F.3d 477 (5th Cir. 2016), the developer of a passive radio frequency identification (RFID) system for commercial use brought action against competitor in state court, alleging trade secret misappropriation. The developer recovered \$15 million at trial in Dallas. The Fifth Circuit affirmed.

The Court endorsed a broad meaning of the word “use” in determining if a defendant “used” a trade secret that had been misappropriated.

Trade Secret/UTSA Litigation

1. Damages issue.

The *GlobeRanger Corp* court also found that the \$15 million award was not excessive, even though Software AG only earned \$860,000 from its project with the Navy it obtained through its misappropriation, and only could have obtained \$140,000 in cost savings as a result of any misappropriation. The court noted that Texas takes a “flexible and imaginative’ approach” to damages calculation in trade secret misappropriation cases that allows calculation of damages based on defendant’s avoided costs.”

The evidence supported the jury’s conclusion that Software AG avoided \$15 million in costs through its misappropriation.

Trade Secret/UTSA Litigation

1. Damages issue.

In *TMRJ Holdings, Inc. v. Inhance Technologies*, 540 S.W.3d 202 (Tex. App. – Houston [1st Dist.] 2018, no pet.), the jury found that two former executives misappropriated trade secrets from their employer, and then used those secrets to start a competing business. The jury awarded the former employer \$4 million in reasonable-royalty damages and \$10,500 in lost profits. The trial court added permanent injunctive relief. The defendant argued that to permit both reasonable-royalty damages and a permanent injunction was a duplicative remedy that violated the “one-satisfaction rule,” because the reasonable-royalty damages were predicated on the assumption that the defendant would use the trade secrets in the future, but the permanent injunction barred such future use.

The appeals court rejected defendant’s argument for a number of nuanced reasons – thus, the court found that under TUTSA, the award of both reasonable-royalty damages and a permanent injunction was permissible.

Trade Secret/UTSA Litigation

2. Temporary Injunction Standard

* *St. Jude Medical S.C., Inc. v. Janssen-Counotte*, No. A-14-CA-877-SS, 2014 WL 7237411, at *14 (W.D. Tex. Dec. 17, 2014), a post-TUTSA case, the district court judge denied the plaintiff's motion for a preliminary injunction under TUTSA, stating that "there are still far too many open questions and disputed issues of fact to conclude at this juncture St. Jude S.C. has a substantial likelihood of success on the merits of its misappropriation claim." The court also objected to the plaintiff's request for a broad, non-compete like injunction in a trade secrets case.

* *INEOS Group Ltd. v. Chevron Phillips Chemical Co., LP*, 312 S.W.3d 843 (Tex. App.—Houston [1st Dist.] Dec. 17, 2009, no pet.) (holding that the trial court did not abuse its discretion by finding that manufacturer was sufficiently vigilant in guarding its polyethylene manufacturing technology such that manufacturer was entitled to trade secret protection by a temporary injunction pending trial on the merits).



Trade Secret/UTSA Litigation

3. Whether Information Is Truly A “Trade Secret”



Sssssshhhh...

**Salaries are
secret around
here.**

Texas Integrated Conveyor Systems, Inc. v. Innovative Conveyor, 300 S.W.3d 348 (Tex. App.–Dallas 2009, pet. denied) (holding that genuine issues of material fact existed as whether former employer’s customer information constituted a “trade secret”).

Trade Secret/UTSA Litigation

3. Whether Information Is Truly A “Trade Secret”



Sssssshhhh...

**Salaries are
secret around
here.**

In *GlobeRanger Corp. v. Software AG United States of Am., Inc.*, 836 F.3d 477 (5th Cir. 2016), GlobeRanger produced sufficient evidence for a jury to reasonably conclude that at least some portion of its system constituted a trade secret.

There was testimony explaining how GlobeRanger’s “filtering” technology was unique and its ability to filter large amounts of information in real time added value compared to traditional inventory management systems. In addition, both the value and the difficulty in reproducing the technology were also shown through emails and testimony from Software AG employees.

Trade Secret/TUTSA Litigation

4. To have a misappropriation claim under TUTSA, must have the defendant “acquired” the trade secrets in the first place through improper means?

One case says, “yes,” which would seem to gut TUTSA cases against employees who obtained the trade secrets properly during their employment, but then took them off and used them. *Educ. Mgmt. Servs., LLC v. Tracey*, 102 F. Supp. 3d 906, 914 (W.D. Tex. 2015).

Trade Secret/TUTSA Litigation

- The district court stated that, “[t]he plain language of § 134A.002(3)(B)(i) requires that a defendant “acquire” knowledge of the trade secrets at issue through “improper means.”” *Id.*
- Although, under common law, acquisition of the trade secret through improper means was not a requirement (if, for example, the trade secret was acquired during the existence of confidential relationship), the district court noted that, “TUTSA specifically provides that it “displaces conflicting tort ... law of this state providing civil remedies for misappropriation of a trade secret.”” Tex. Civ. Prac. & Rem.Code § 134A.007. *Educ. Mgmt. Servs., LLC*, 102 F. Supp. 3d at 915.

Trade Secret/TUTSA Litigation

5. Preemption.

- TUTSA preempts “conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret.” TEX. CIV. PRAC. & REM. CODE § 134A.007(a). Contractual remedies and “other civil remedies that are not based upon misappropriation of a trade secret” are exempt from the provision. *Id.* § 134A.007(b)(1), (2).
- The purpose of TUTSA preemption is to “prevent inconsistent theories of relief for the same underlying harm by eliminating alternative theories of common law recovery which are premised on the misappropriation of a trade secret.” *Embarcadero Techs., Inc. v. Redgate Software, Inc.*, Case No. 1:17-cv-444-RP, 2018 WL 315753, at *3 (W.D. Tex. Jan. 5, 2018).
- Thus, for example, in *Texas Transland, LLC v. Davidson, Inc.*, Civil Action No. 7:19-cv-00129-O, 2020 WL 1275883, at *3 (N.D. Tex. Mar. 17, 2020), the district court dismissed the plaintiff’s breach of fiduciary duty and unfair competition claims because they were based on allegations of misappropriation of trade secrets.

Trade Secret/TUTSA Litigation

- Many, but not all, Texas federal courts have held that TUTSA preempts claims regarding the misappropriation of information, even if the information is not a trade secret. See *Embarcadero Techs., Inc.*, 2018 WL 315753, at *3 (“ . . . the Court finds that TUTSA’s preemption provision encompasses all claims based on the alleged improper taking of confidential business information.”); *Mortg. Grp., LLC v. Homebridge Fin. Servs., Inc.*, Case No. A-14-CA-00847-SS, 2016 WL 900577, at *8 (W.D. Tex. Mar. 2, 2016) (finding that TUTSA preemption applies to information that is not a trade secret and noting “[m]ost courts considering this question have determined UTSA was intended to preempt all claims based upon the unauthorized use of information”).
- *But see DHI Grp., Inc. v. Kent*, 397 F. Supp. 3d 904, 922–23 (S.D. Tex. 2019) (holding that TUTSA’s preemption provision cannot be read to preempt civil remedies for misappropriation of information that is not a trade secret).

IV. Trade Secrets In Discovery

Rule 507 of TRE.

High standard to meet to obtain trade secrets in state court discovery.

In re Cooper Tire & Rubber Co., 313 S.W. 910 (Tex. App.—Houston [14th Dist.] 2010, no pet.) (reversing trial court's order to produce trade secrets under a protective order under Rule 507).

* TUTSA addresses this point. See Section 134A.006.

IV. Trade Secrets In Discovery

in 2016, the Texas Supreme Court ruled that Section 134A.006 of TUTSA authorized a trial court, in an action involving claims for breach of a non-compete agreement and misappropriation of trade secrets, to conduct portions of a temporary injunction hearing involving alleged trade secrets outside the presence of the designated representative of a party defendant to which the secret had not yet been disclosed. *See In re M-I L.L.C.*, 505 S.W.3d 569 (Tex. 2016) (orig. proceeding).

V. Federal Defend Trade Secrets Act

- Took effect May 11, 2016.
- 3 year SOLs.
- Provides a mechanism for seizing trade secrets where traditional injunctive relief would be insufficient.
- Allows for injunctive relief and damages, including the possibility of a reasonable royalty.
- Provides for whistleblower immunity.
- Allows for punitive damages twice the amount of other damages awarded if the trade secrets were “willfully and maliciously misappropriated,” plus attorneys fees, but only if the employer has advised its employees of the existence of the law’s whistleblower immunity.

VI. Inevitable Disclosure Doctrine

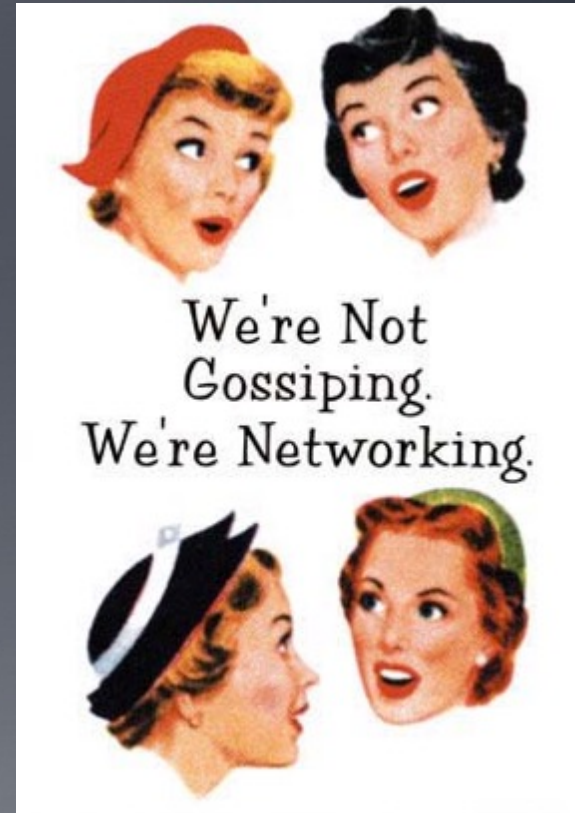
What is the “inevitable disclosure” doctrine?



It's going to happen ...

“[T]here are circumstances in which trade secrets inevitably will be used or disclosed, even if the defendant swears that he or she will keep the information confidential.”

Cardinal Health Staffing Network, Inc. v. Bowen, 106 S.W.3d 230, 242 (Tex. App.—Houston [1st Dist.] 2003, no pet.).



When does it apply?

When a defendant has had access to trade secrets and then defects to the trade secret owner's competition to perform duties so similar that the court believes that those duties cannot be performed without making use of trade secrets relating to the previous affiliation.

Cardinal Health Staffing Network, Inc. v. Bowen, 106 S.W.3d at 242.



Have Texas Appellate Courts Adopted The Doctrine?



No Texas case expressly adopts the inevitable disclosure doctrine. *Cardinal Health Staffing Network, Inc*, 106 S.W.3d 242 (“We have found no Texas case expressly adopting the inevitable disclosure doctrine”); *Cardoni v. Prosperity Bank*, 805 F.3d 573, 589–90 (5th Cir. 2015) (same).

BUT . . .

Several Texas cases have applied some variant of the doctrine to grant injunctive relief.

See 36 A.L.R.6th 537, *Applicability of Inevitable Disclosure Doctrine Barring Employment of Competitor's Former Employee* (2008); *see also* Paper at pages 7-16.

What Facts Militate In Favor Of Applying Some Variant of The Inevitable Disclosure Doctrine?

1. An employer targets specialized employees for hire specifically because they are weak in the technology areas and needed to obtain talent from competitors to catch up. (*FMC Corp.*).
2. The new employer has rejected requests to describe the employee's duties or to ensure the ex-employer's confidential information will not be utilized. (*Spicer*). (Not all courts require this proof. *See Conley*, 1999 WL 89955, at *6 (noting that “the richer the henhouse, the less wise it is to trust even the most responsible and reliable of foxes”)).

What Facts Militate In Favor Of Applying Some Variant of The Inevitable Disclosure Doctrine?

3. The employee's duties are significantly the same at the new employer as they were at their former employer.
*Conley, 1999 WL 89955, at *5.*

What Facts Militate In Favor Of Applying Some Variant of The Inevitable Disclosure Doctrine?

4. The case involves research and product development employees – the key employees a company relies on to develop and refine highly valued new technologies and give it a competitive edge.

See FMC Corp., 677 F.2d at 505 (applying doctrine because plaintiff company had clearly superior product that it invested \$85 million dollars in and took extraordinary steps to protect its secrecy).

What Facts Militate In Favor Of Applying Some Variant Of The Inevitable Disclosure Doctrine?

5. The employee could easily memorize his ex-employer's confidential information and trade secrets.

See Spicer, 2006 WL 1751786 at *9-11; *Williams*, 704 S.W.2d at 471 (plaintiff's ex-employee testified that he "had a photographic memory and is able to observe the way something is made and then copy it").

What Facts Militate In Favor Of Applying Some Variant Of The Inevitable Disclosure Doctrine?



6. The new employer refuses to acknowledge that the information is a trade secret.

See FMC Corp., 677 F.2d at 505.

Practical Pointers For Departing Employees:

1. Give 2 weeks or more of notice in writing.
2. Offer to help transition in writing, and follow through.
3. Don't take anything, and put that you did not in writing.
4. Don't destroy electronic information. Even if you are just "cleaning up."
5. Be honest about where you are going to work.
6. Don't solicit customers or coworkers before you leave. Don't even tell customers or coworkers you are leaving before you do.
7. Don't start showing up to the office at odd, off-hours, or accessing the server at odd hours.
8. Provide a carefully worded resignation letter that truthfully reveals where you are going to work, and the name of your new job title.
9. Respond to any post-termination threatening letters honestly after visiting with legal counsel. Don't "blow off" the letters.
10. Work to the end - closing a big sale for your employer before leaving pays huge dividends if they come after you.
11. Tell the new potential employer about your restrictions in advance – before you accept the offer, and have a joint plan. Otherwise, you may end up without any job after you quit and your ex-employer sends a nasty letter to your new employer.

Practical Pointers For New Employers:

1. Do due diligence on agreement and other issues before hiring.
2. Have employee sign agreement representing they took nothing from former employer and will not use or disclose any of former employer's confidential information or trade secrets, and no one can order them to do otherwise.
3. Include in agreement that employee can and will do job without using or disclosing any of ex-employer's confidential information or trade secrets.
4. Have a plan on a response before hiring, if it is a "hairy" hire (employee has non-compete, history of litigation with company, *etc.*)
5. Have employee sign off on job description that does not violate an enforceable non-compete agreement during its term.

Practical Pointers For Ex-Employers:

1. Forensics dig asap, with expert report to reflect results and present to court if need be.
2. Don't always walk employee out the door. Rather, consider shutting off all access, and then have them answer critical questions in a signed writing on the spot. This can provide *awesome* evidence to use in court.
3. Put ex-employee and new employer on notice with a strong letter, and demand for information. Often, this will lead to an acceptable resolution, especially when sophisticated counsel represent all the parties.
4. Act fast in going to court, but not too fast (before you have evidence locked down).
5. Before you sue, ask: Does the employee have claims against us that our suit may stimulate them to bring? (*e.g.*, FLSA class action example).

2020 Update: Best Practices and Strategies for Litigating Non-compete, Trade Secrets, and Fiduciary Duty Claims

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Mark J. Oberti
Ed Sullivan
Oberti Sullivan LLP
712 Main Street, Suite 900
Houston, Texas 77002
(713) 401-3555
mark@osattorneys.com
ed@osattorneys.com

Joseph Y. Ahmad
Ahmad Zavitsanos Anaipakos Alavi & Mensing
2500 One Houston Center
1221 McKinney Street
Houston, Texas 77010
(713) 655-1101
joeahmad@azalaw.com

Rachel Powitzky Steely
Foley & Lardner LLP
1000 Louisiana Street,
Suite 2000
Houston, Texas 77002
713-276-5605 Direct
rsteely@foley.com