

# Update on Employment Decisions of Interest to IP Lawyers



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# I. 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?

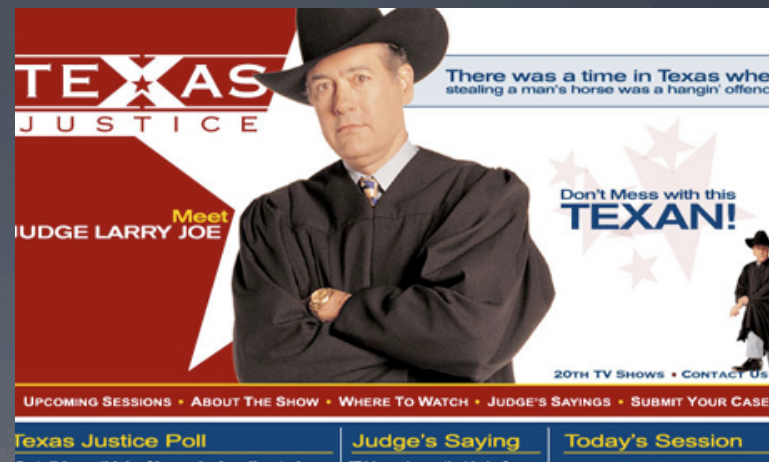


No Texas case expressly adopts the inevitable disclosure doctrine. *Cardinal Health Staffing Network, Inc*, 106 S.W.3d 242 (“We have found no Texas case expressly adopting the inevitable disclosure doctrine . . . .”).

# What about district courts?

Several Texas cases have applied 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 3-5.*



# What Facts Militate In Favor Of Applying 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 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 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 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 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.

## II. Texas Non-Compete Update

1. Regarding first prong: An implied promise to provide confidential information sufficient to uphold non-compete.

*See Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, 289 S.W.3d 844 (Tex. 2009).

2. Keep an eye on the *Marsh* case at the Texas Supreme Court, relating to stock options.



# Texas Non-Compete Update

Restraint  
of trade

3. Heavy focus on “reasonableness” prong now (the second prong). In the context of 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 [14 Dist.], 2010 no pet.).

*But see M-I LLC v. Stelly*, 2010 WL 3257972, at \*31 (S.D. Tex. Aug. 17, 2010) (enforcing such a restraint when employee wasn’t just a mere salesman).

# Texas Non-Compete Update

Money damages are not available based on breached 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).



# Non-Compete & Attorneys' Fees Issues



1. For prevailing employer. Perhaps never.
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*).

### III. At-Will Employee Fiduciary Duty Update

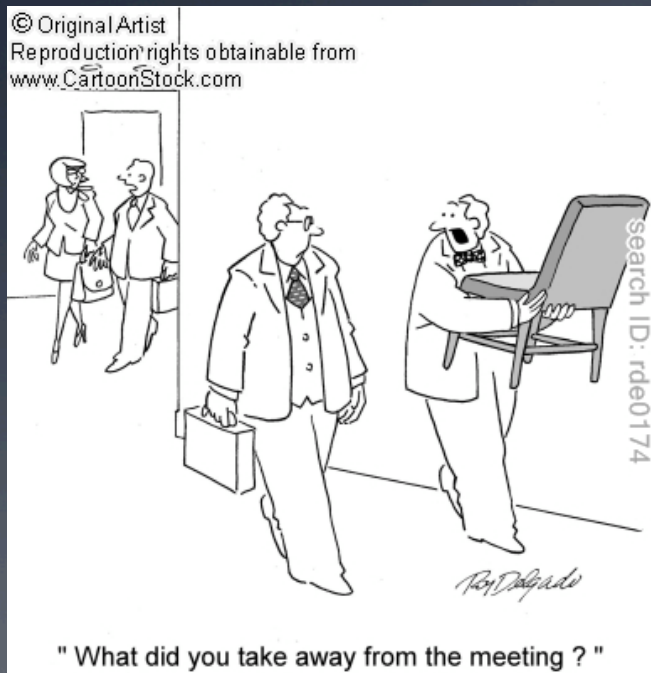
An at-will employee breaches their fiduciary duty to their employer if, during their employment, they: (1) misappropriate the company's trade secrets; (2) solicits the employer's customers while still working for their employer; (3) solicits the departure of other employees while still working for the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

- On May 17, 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).

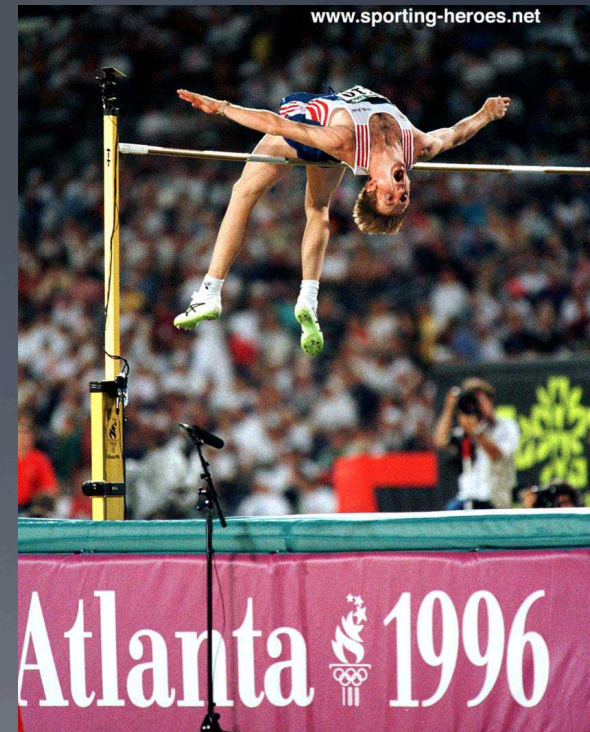
They had solicited many of their coworkers to leave and join their competitive venture before they resigned from plaintiff's employment.

## 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.] May 27, 2010, no pet.) (reversing trial court's order to produce trade secrets under a protective order under Rule 507).



## V. Some Recent Key Trade Secrets Cases

### 1. Damages issue.

*Calce v. Dorado Exploration, Inc.* 309 S.W.3d 719 (Tex. App.-Dallas 2010) (holding that the evidence was not legally sufficient to support jury's award of \$400,000 in reasonable royalty damages to exploration company on its claim for misappropriation of trade secrets).

# Some Recent Key Trade Secrets Cases

## 2. Temporary Injunctive Standard

*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).



# Some Recent Key Trade Secrets Cases

## 3. Whether Information Is Truly A “Trade Secret”



*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”).

# Questions?

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## THE END

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