

Trade Secrets Litigation Involving Departing Employees

**Thomas M. Morrow
YetterColeman, LLP
909 Fannin, Suite 3600
Houston, TX 77010
713.632.8070
tmorrow@yettercoleman.com**

**State Bar of Texas Annual Meeting
Houston, Texas, June 14-15, 2012**



THOMAS M. MORROW

tmorrow@yettercoleman.com | 713.632.8070

Tom focuses his practice on IP litigation, with an emphasis in patent and trade secret litigation. Prior to becoming a lawyer, Mr. Morrow worked for Amoco as a chemical manufacturing engineer and for Reichhold Chemicals as a senior plant engineer. By education, he is a chemical engineer.

Tom writes and speaks frequently on IP issues. His publications have addressed defending patent infringement suits, the practice of reverse engineering in compliance with the Digital Millennium Copyright Act, software and business method patents, patent reexamination, the rights of employee-inventors in the U.S. and abroad, fair use in copyright law, and other topics. He has spoken extensively on several areas of copyright and trade secrets law, as well as on IP litigation in the oil and gas industry.

Representative Experience

- *Illinois Tool Works v. Independent Ink*. Authored an amicus curiae brief for a case that involved IP and antitrust law on behalf of the Houston Intellectual Property Law Association in the U.S. Supreme Court.
- *Microsoft Corp v. AT&T Corp*. Co-authored a U.S. Supreme Court amicus brief involving the application of 35 U.S.C. § 271(f) to software components of patented products.
- Represented oilfield services companies in several patent infringement cases involving drilling technology, blowout preventers, and casing exit systems.
- Represented companies in several other industries, such as process control systems, internet telephony services, and gift card processing, in patent infringement cases.
- Argued at two *Markman* hearings.
- Obtained a pay-nothing dismissal with prejudice (pre-*Markman*) for an oilfield defendant in the Eastern District of Texas.

SENIOR COUNSEL

University of Houston
J.D., 2002
magna cum laude
Order of the Coif
Order of the Barons
Articles Editor,
Houston Law Review

University of Houston,
Clear Lake, M.B.A. 1999

University of Houston
B.S., 1993
cum laude
Tau Beta Pi
Omega Chi Epsilon

Admitted to Practice
Texas, 2003
U.S. Patent and
Trademark Office, 2004
All Texas federal courts;
Court of Appeals for the Federal
Circuit

Representative Experience, cont'd

- Drafted and prosecuted patent applications in a variety of technologies, including oil field drilling, cementing and stimulation; catalyst formulations used in manufacturing polyethylene, tissue-engineering scaffolds, bone-replacement materials and intraocular devices.
- Represented several companies in trade secret litigation.
- Representing a computer reseller in copyright and trademark litigation.
- Represented a magazine publisher in copyright litigation.
- Represented a national nonprofit organization in trademark litigation.

Professional Honors and Affiliations

- Texas Rising Star, 2010-2012, *Texas Monthly Magazine*
- Member, State Bar of Texas
- Member, Houston Intellectual Property Law Association

Presentations and Publications

- Written and spoken extensively on several areas of trade secret law and copyright law

TABLE OF CONTENTS

I. SCOPE OF ARTICLE	1
II. THE BASICS: TRADE SECRETS AND MISAPPROPRIATION	1
A. Does our proprietary information rise to the level of a trade secret?	1
B. Has our trade secret been misappropriated?	3
1. Breach of confidential relationship or discovery by improper means	3
2. “Use” of the trade secret without authorization	4
3. Discovery rule applies	5
4. What <i>isn’t</i> misappropriation.....	5
C. What if our information isn’t a trade secret? Other claims to assert	5
D. Tex. Penal Code 31.05: Criminalizing trade secret misappropriation	6
III. REMEDIES	6
A. Injunctive Relief	6
1. Temporary Restraining Order (TRO) standards	6
2. Temporary Injunction (TI) standards	7
3. Enjoining former employees from soliciting one’s clients.....	8
4. Enjoining former employees from joining one’s competitors.....	10
a. Texas and Fifth Circuit law.....	11
b. The “inevitable disclosure” doctrine	12
B. Damages	13
IV. FORENSIC EXAMINATION OF COMPUTERS ASSOCIATED WITH THE FORMER EMPLOYEE	14
V. COUNTERCLAIMS A DEPARTING EMPLOYEE MAY ASSERT	14
A. Defamation	15
B. Intentional Infliction of Mental Distress	17
C. Tortious Interference	18
D. Other Counterclaims	18
E. Strategies For Addressing A Former Employee’s Counterclaims	19
V. CONCLUSION	20

I. SCOPE OF ARTICLE

The scope of this article is to give the reader a good understanding of trade secrets law, and to focus particularly on issues commonly involved in trade secrets litigation involving companies and their former employees. The article opens with the central question in all trade secret disputes: whether a trade secret exists. It then addresses the elements a trade secret holder must establish to prevail on a trade secrets misappropriation claim. For cases where trade secret status may be in doubt, coverage is given to alternative claims that also may be asserted. The article then discusses the potential remedies available to a successful trade secret plaintiff, including the types of injunctive relief that the former employer could consider seeking. Forensic examination of computers associated with the former employee is briefly touched upon, as are various counterclaims that departing employees may assert against their former employer, and strategies for defending against such counterclaims.

II. THE BASICS: TRADE SECRETS AND MISAPPROPRIATION

A. Does our proprietary information rise to the level of a trade secret?

In Texas, a trade secret is “any formula, pattern, device or compilation of information which is used in one’s business and presents an opportunity to obtain an advantage over competitors who do not know or use it.”¹ It need not be novel or unique.² Whether or not a trade secret exists is a question for the finder of fact.³ To determine whether a trade secret exists, Texas courts apply a six-factor test that evaluates:

- the extent to which the information is known outside one’s business;
- the extent to which it is known by employees and others involved in one’s business;
- the extent of the measures one has taken to guard the secrecy of the information;
- the value of the information to one, and one’s competitors;
- the amount of effort or money one has expended in developing the information; and
- the ease or difficulty with which others could properly acquire or duplicate the information.⁴

A party arguing for trade secret status need not satisfy all six factors,⁵ and in some cases, additional factors may be pertinent.⁶

The Texas Supreme Court’s analysis of the six-factor test in *In re Bass* is instructive. There, seismic data asserted to constitute a trade secret satisfied five of the six factors:

- #1 (the extent to which the data was known outside Bass’s company): Bass satisfied this factor through an employee’s affidavit attesting that Bass always kept the data confidential. He also had a geophysicist testify that the data and data interpretations were never shown to anyone outside Bass’s company and Exxon, who actually performed the seismic survey.⁷
- #2 (the extent to which the data was known inside Bass’s company): Bass introduced testimony showing that only four of his employees had seen the data; one of them was the geophysicist whose job it was to analyze the data for Bass.⁸
- #3 (the measures Bass took to protect the data’s secrecy): Bass easily satisfied this factor, as he kept the data “in a secured, climate regulated vault

¹ *In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003).

² *Gonzalez v. Zamora*, 791 S.W.2d 258, 263-64 (Tex. App.--Corpus Christi 1990, no writ) (noting the distinction between the requirements for patentability (which include novelty) and the requirements for trade secret status, and approving jury instruction that novelty and uniqueness were not requirements for trade secret status). In the same vein, see *K&G Oil Tool & Serv. Co. v. G&G Fishing Tool Serv.*, 314 S.W.2d 782, 789 (Tex. 1958) (“A trade secret may be a device or process which is patentable, but it need not be that. It may be a device or process which is clearly anticipated in the prior art or one which is merely a mechanical improvement that a good mechanic can make.”).

³ *General Universal Sys., Inc. v. Lee*, 379 F.3d 131, 150 (5th Cir. 2004).

⁴ *In re Bass*, 113 S.W.3d at 739 (citing Restatement of Torts § 757 cmt. B (1939); Restatement (Third) of Unfair Competition § 39 cmt. D (1995)).

⁵ In *Bass*, the Texas Supreme Court resolved a conflict between the courts of appeal on this issue of whether all six factors must be satisfied. *In re Bass*, at 739-40 (recognizing the split and deciding that “the party claiming a trade secret should not be required to satisfy all six factors because trade secrets do not fit neatly into each factor every time”).

⁶ *Id.* at 740.

⁷ *In re Bass*, 113 S.W.3d at 741.

⁸ *Id.* at 741-42.

that was accessible only to those who knew the combination. An expert witness testified that, “[t]o be able to even enter onto the work area, you have to have a security card to get in.”⁹

- #4 (the value that Bass and competitors place on the data): Bass’s expert described the data as “vital” and the basis for all the valuations of the land in question, and valued the data between \$800,000 and \$2.2 million. The Supreme Court

⁹ *Id.* at 742. When determining the sufficiency of measures to protect trade secrets, courts have considered a variety of measures. For example, the Texas Court of Criminal Appeals has found sufficient a combination of employment agreements (containing nondisclosure obligations), strict plant/office security, restricted computer access, and admonitions against disclosure. *Schalk and Leonard v. State of Texas*, 823 S.W.2d 633, 643-44 (Tex. Crim. App. 1991). *Accord*, *Weightman v. State*, 975 S.W.2d 621 (Tex. Crim. App. 1998). And in *McClain v. State*, the Texarkana Court of Appeals declined to disturb a jury finding that sufficient measures were taken where (i) the owner kept the material in a building secured with an alarm and deadbolt locks, (ii) inside a filing cabinet that usually was locked, with the only keys being held by the owner and the defendant, and (iii) the owner testified he explained to the defendant the need for secrecy, though no formal nondisclosure agreement existed. 269 S.W.3d 191, 196 (Tex. App.--Texarkana 2008). The *McClain* decision is notable in view of the evidence to the contrary: the owner admitted that he shared certain materials with customers, and at least once shared one of the materials with a competitor. *Id.* Also, the materials most commonly used were kept in an unsecured binder. *Id.*

In *Sharma v. Vinmar Int’l, Ltd.*, the Fourteenth Court of Appeals found measures sufficient where the trade secret holder required controlled access cards to enter its offices, password-protected its computers, required all employees to execute confidentiality agreements, emphasized in its employee manuals the confidential nature of its business, and limited access to its secrets on such a need-to-know basis that its traders were not allowed to look at each other’s files. 231 S.W.3d 405, 425 (Tex. App.—Hous. [14th Dist.] 2007, no pet.).

For a case deciding that reasonable measures to protect secrecy existed solely due to (i) implementation of password-protected access to networks and individual computers, and (ii) requiring employees to execute a “Proprietary Information and Employee Inventions Agreement” and “Confidential Information Policy and Agreement,” see *TMX Funding, Inc. v. Impero Technologies, Inc.*, 2010 WL 1028254, *4-5 (N.D. Cal. 2010) (decided under the Uniform Trade Secrets Act as enacted in California).

found these to be “substantial figures highly favoring trade secret protection.”¹⁰

- #6 (the ease or difficulty with which others could properly acquire or duplicate the information): Bass showed that the cost to duplicate the seismic shoot had been established as between \$800,000 and \$2.2 million. Moreover, anyone trying to conduct the shoot would need Bass’s permission.¹¹

Bass failed to satisfy the fifth factor, which requires evidence as to the amount of money Bass spent in developing the data. Though Bass claimed the seismic shoot cost a considerable amount of money, was inconvenient, and required several months to complete, he introduced no evidence of the amount of money it cost him. Though industry information was available to suggest the great expense of seismic exploration, the Court found Bass did not satisfy this factor.¹²

The Court thus had no trouble finding Bass’s seismic data to be a trade secret.

Companies often have other proprietary information for which they might seek trade secret status. For example, customer lists,¹³ customer preferences,¹⁴ pricing information,¹⁵ client information,¹⁶ buyer

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ See, e.g., *Zoecon Indus. v. American Stockman Tag Co.*, 713 F.2d 1174, 1179-80 (5th Cir. 1983); *Rimkus Consulting Group, Inc. v. Cammarata*, 2008 WL 3833717, *24 (S.D. Tex. 2008) (customer database was trade secret); *Fox v. Tropical Warehouses, Inc.*, 121 S.W.3d 853, 858-59 (Tex. App.--Fort Worth 2004, no pet.); *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 22-23 (Tex. App.--Hous. [1st Dist.] 1998, pet. dism’d); *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 601-02 (Tex. App.--Amarillo 1995, no writ); *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 276-78 (Tex. App.--Hous. [1st Dist.] 1988, no writ) (upholding jury finding of trade secret status).

¹⁴ *T-N-T Motorsports*, 965 S.W.2d at 22-23 (awarding protection to a customer database that included not only customer contact information but also “instructions [from customers] not to tell their wives how much money was spent on the [high performance sports car] upgrades”).

¹⁵ *Rimkus Consulting Group*, 2008 WL 3833717, *24; *Tropical Warehouses*, 121 S.W.3d at 858-59. Cf. *Bertotti v. C.E. Shepherd Co.*, 752 S.W.2d 648, 653-54 (Tex. App.--Hous. [14th Dist.] 1988, no writ)

contacts,¹⁷ vendor lists,¹⁸ marketing strategies,¹⁹ annual business plans,²⁰ and blueprints and drawings²¹ have been held to be trade secrets. Business forms have received trade secret status in some cases, and been denied it in others.²²

(implicitly finding pricing formulae to be trade secrets).

¹⁶ *T-N-T Motorsports*, 965 S.W.2d at 22-23 (awarding protection to a customer database that included information such as customer “names, addresses and telephone numbers, the types of vehicles they own, whether other upgrades have been done on the vehicle, birthdays, and e-mail addresses” along with certain customer instructions or preferences); *Miller Paper Co.*, 901 S.W.2d at 601-02 (upholding temporary injunction barring ex-employees from using documents taken from former employer, including “the book,” which had been compiled over 52 years and contained customer names, addresses, special billing information, delivery sites, information on the need for purchase orders, C.O.D. data, and phone numbers, even though “the book” periodically was distributed to salesmen for updating).

¹⁷ *Rimkus Consulting Group*, 2008 WL 3833717, *24 (awarding trade secret status to customer database that included name of each client’s contact person).

¹⁸ *T-N-T Motorsports*, 965 S.W.2d at 22-23; *but see Zoecon Indus.*, 713 F.2d at 1178 (noting, while reciting procedural history, the trial court’s refusal of injunctive relief for a supplier list and another list “because these lists were not trade secrets”).

¹⁹ *Rimkus Consulting Group*, 2008 WL 3833717, *24 (awarding trade secret status to business plan that included marketing strategies).

²⁰ *Rimkus Consulting Group*, 2008 WL 3833717, *24.

²¹ *American Precision Vibrator Co.*, 764 S.W.2d at 276-78 (upholding finding of trade secret status).

²² *See Zamora*, 791 S.W.2d at 261, 265 (forms were trade secrets where owner spent between three and six months developing them, including meeting with state agencies to ensure forms met requirements, and in some cases forms required numerous, extensive revisions; fact that state agencies’ requirements could be derived from publicly-available information not dispositive; court focused on owner’s expenditure of time and money); *contra, Rimkus Consulting Group*, 2008 WL 3833717, *24 (denying trade secret status where reports were often used in litigation, were designed to comply with procedural rules for expert reports, were only trivially distinguishable from other reports, and where competitors used similar report formats; court emphasized plaintiff’s failure to show that its format was sufficiently unknown in the industry that competitors would have difficulty duplicating it or coming up with a similar format).

A good example of a case evaluating a business strategy, and finding it undeserving of trade secret status, is the decision by the Fifth Circuit Court of Appeals in *CQ, Inc. v. TXU Mining Co., L.P.*²³

B. Has our trade secret been misappropriated?

A claim for trade secret misappropriation under Texas law has three elements: (1) a trade secret exists; (2) the defendant acquired the trade secret by breach of a confidential relationship or other improper means; and (3) the defendant used it without authorization.²⁴

1. Breach of confidential relationship or discovery by improper means

Courts heavily weigh the means by which a trade secret is learned by a defendant. Though a trade secret might be learned by, say, analysis, observation or experimentation, that will be no defense for a defendant who eschews these methods in favor of an improper shortcut.²⁵ “[T]hat a trade secret is of such a nature that it can be discovered by experimentation or other fair and lawful means does not deprive its owner of the right to protection from those who would secure possession of it by unfair means.”²⁶ The Amarillo Court of Appeals explained that this derives from “the need to preserve the sanctity of the confidential relationship through which the information was obtained”:

Thus, the protection may well be lost against someone who discovered the data through independent research. Yet, that is not so against one who could have conducted his own investigation but rather abused a confidential relationship to obtain the desired knowledge without himself paying the price in labor, money, or machines expended by the discoverer.²⁷

Confidential relationships that impose a duty not to misuse a trade secret can include partnerships, joint ventures and principal-agent relationships.²⁸ Not

²³ 565 F.3d 268, 274-75 (5th Cir. 2009).

²⁴ *General Universal Sys., Inc. v. HAL, Inc.*, 500 F.3d 444, 449 (5th Cir. 2007).

²⁵ *Variable Annuity Life Ins. Co. v. Miller*, 2001 WL 1598331, *3 (Tex. App.--Amarillo Dec. 14, 2001, no pet.).

²⁶ *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 901 (Tex. App.--Hous. [1st Dist.] 1978, writ ref’d n.r.e.).

²⁷ *Miller Paper Co.*, 901 S.W.2d at 601 n. 3 (quotes omitted).

²⁸ *Lee*, 379 F.3d at 151 (noting that “[u]nder Texas law, a partnership can be considered a confidential

every employment relationship is a confidential one, but the Fifth Circuit has noted that “[w]hen an employee has an intimate knowledge of the employer’s business, a confidential relationship will be implied.”²⁹ This relationship imposes upon the employee a duty not to disclose the employer’s trade secrets, if the employee knows or should have known that the employer did not want them disclosed.³⁰

As for improper discovery, the Fifth Circuit’s decision in *E. I. du Pont de Nemours v. Christopher*, “a case of industrial espionage in which an airplane is the cloak and a camera the dagger,” is instructive.³¹ There, a competitor of DuPont’s hired photographers (the Christophers) to take aerial photos of a DuPont plant under construction. DuPont alleged that the photos would endanger the secrecy of its process for making methanol. The Christophers defended by asserting that they took the photos in public airspace and did not breach any confidential relationship.³² The Fifth Circuit rejected their defense:

We think, therefore, that the Texas rule is clear. One may use his competitor’s secret process if he discovers the process by reverse engineering applied to the finished product; one may use a competitor’s process if he discovers it by his own independent research; but one may not avoid these labors by taking the process from the discoverer without his permission at a time when he is taking reasonable precautions to maintain its secrecy. To obtain knowledge of a process without spending the time and money to discover it independently is improper unless the holder

voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy.³³

And in *Phillips v. Frey*, the Fifth Circuit upheld a jury verdict that a trade secret (how to make hunting tree stands) had been acquired by improper means where competitors induced the trade secret holder to disclose the secret by assuring him that they intended to buy his business and could easily finance the purchase, but never took any steps to secure financing or close the deal (and shortly thereafter, began making tree stands using identical parts and tools).³⁴

2. “Use” of the trade secret without authorization

Regarding the third prong of the test -- what constitutes a “use” of the trade secret -- *actual* use is required.³⁵ Texas courts of appeal have characterized it as “commercial use, by which a person seeks to profit from the use of the secret.”³⁶ The Restatement (Third) of Unfair Competition provides a general definition and some helpful illustrative examples:

As a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a “use” Thus, marketing goods that embody the trade secret, employing the trade secret in manufacturing or production, relying on the trade secret to assist or accelerate research or development, or soliciting customers through the use of information that is a trade secret . . . all constitute “use.”³⁷

relationship, and participants in a joint venture are often held to owe duties to one another.”); *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 769-70 (Tex. 1958) (noting that the Restatement’s primary example of a confidential relationship is the principal-agent relationship, and also acknowledging that “the relationship between partners or other joint adventurers” may suffice, and that other possibilities exist”).

²⁹ *Zoecon Indus.*, 713 F.2d at 1178.

³⁰ *Id.*; see also *Zamora*, 791 S.W.2d at 265 (“Protection is available even in the absence of an express agreement not to disclose materials; when a confidential relationship exists, the law will imply an agreement not to disclose trade secrets”).

³¹ *Christopher*, 431 F.2d 1012, 1013 (5th Cir. 1970).

³² *Id.* at 1014.

³³ *Id.* at 1015-16.

³⁴ 20 F.3d 623, 630 (5th Cir. 1994).

³⁵ *Computer Assocs. Int’l v. Altai, Inc.*, 918 S.W.2d 453, 455 (Tex. 1996); *Global Water Group, Inc. v. Atchley*, 244 S.W.3d 924, 930 (Tex. App.--Dallas 2008, pet. denied) (“Actual use or disclosure of the trade secret is a required element of the tort.”); see also *HAL*, 500 F.3d at 450-51 (declining to find “use” merely from refusal to return computer containing secret software program, but finding “use” from defendants’ continued reliance on program to accelerate development and marketing of their own program).

³⁶ *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 464 (Tex. App.--Austin 2004, pet. denied); *Atlantic Richfield Co. v. Misty Prods., Inc.*, 820 S.W.2d 414, 421 (Tex. App.--Hous. [14th Dist.] 1991, writ denied); accord, *Atchley*, 244 S.W.3d at 930.

³⁷ Restatement (Third) of Unfair Competition, §40, quoted in *HAL*, 500 F.3d at 450-51 (relying in part on

The Court of Appeals for the Fifth Circuit recently relied on the Restatement’s test for “use,” holding that it applied to a company’s decision to file a patent application on a device initially developed and brought to its attention by a nonemployee with whom it began negotiating for rights to the device:

It is common sense that when [defendant corporation] has obtained rights to obtain profits from the Pit Bull, [the corporation’s] competitors become significantly less interested in compensating [inventor] Bohnsack for the use of the Pit Bull. From these facts, a reasonable juror could infer that [corporation’s] act of filing a patent application to the Pit Bull was ‘likely to result in injury to the trade secret owner’ because it lowered the market value of Bohnsack’s invention. Further, by making it less likely that Bohnsack would sell his invention to [the corporation’s] competitors, its decision to pursue rights to the Pit Bull was ‘likely to result in . . . enrichment to the defendant by protecting [corporation] from competition to [certain other products it produced]. We therefore hold that a reasonable jury had sufficient evidence that [corporation’s] actions constituted a ‘use’ in this case.³⁸

3. Discovery rule applies

When does a cause of action for trade secret misappropriation accrue? The law on this question changed in 1997.

In 1996, the Texas Supreme Court decided *Computer Assocs. Int’l, Inc. v. Altai*, and answered a certified question from the Second Circuit Court of Appeals by holding that a discovery rule exception *did not* apply to trade secret misappropriation, but rather, the statute of limitations begins running upon the occurrence of the misappropriation.³⁹ However, in 1997, the Texas Legislature legislatively overruled *Altai*, providing in TEX. CIV. PRAC. & REM. CODE 16.010 for a three-year limitations period and adding a discovery rule such

this definition to determine what conduct constituted “use” of a trade secret).

³⁸ *Bohnsack v. Varco, L.P.*, 668 F.3d 262, 279-80 (5th Cir. 2012).

³⁹ 918 S.W.2d 453 (Tex. 1996).

that a claim doesn’t accrue until the trade secret holder knew or should have known of the misappropriation.⁴⁰

4. What *isn’t* misappropriation

An important safe harbor of sorts exists: former employees are permitted to use “general knowledge, skill or experience that the employee acquired during the employment to compete with the employer.”⁴¹ In *Southwest Research Institute v. Keraplast Technologies, Ltd.*, the San Antonio Court of Appeals applied this maxim, and vacated an injunction preventing a researcher and his employer from conducting future research in a field in which they had done contract research for the plaintiff.⁴² Plaintiff Keraplast argued that “because Dr. Van Dyke and SWRI had no previous experience with keratin research prior to the Keraplast projects, all the knowledge they obtained is proprietary and confidential to Keraplast.”⁴³ The appellate court disagreed, citing the maxim above, and vacated the injunction in its entirety, deciding that Keraplast couldn’t prevent the scientist “from applying his own preexisting experience, skills and knowledge within the field of keratin-based research.”⁴⁴

C. What if our information isn’t a trade secret? Other claims to assert

A party intending to assert trade secret misappropriation claims also can consider the following claims as a fallback in case trade secret status cannot be established:

- **Breach of employment agreement:** If an employee who possessed confidential information departs, and the company suspects the information has been disclosed to the new employer, a claim

⁴⁰ TEX. CIV. PRAC. & REM. CODE 16.010; *see also HAL*, 500 F.3d at 449 n.2.

⁴¹ *Rimkus Consulting Group*, 2008 WL 3833717, *25; *see also American Precision Vibrator Co.*, 764 S.W.2d at 278-79 (so stating, but also admonishing that the employee “cannot use confidential information or trade secrets” acquired during employment).

⁴² 103 S.W.3d 478, 482-83 & n.3 (Tex. App.--San Antonio 2003, no pet.).

⁴³ *Id.* at 483.

⁴⁴ *Id.* at 483 n.3. The Court of Appeals held that it could not narrow the injunction (but could only vacate it in its entirety) because the plaintiff, having broadly argued that the defendants could not do any work in the keratin field at all, failed to identify any specific keratin trade secrets that the injunction could be narrowed to continue to protect. *Id.* at 483.

for breach of the employment agreement may be useful, if the employment agreement imposed nondisclosure obligations upon the employee.⁴⁵

- **Tortious interference:** Where an employee possessing confidential information that his/her employment agreement bars him from disclosing, and departs for a new employer under circumstances suggesting that the new employer hired the employee for his knowledge of such information, a claim for tortious interference with contract is a possibility.⁴⁶ Analogously, a claim for tortious interference with prospective business relations may be possible where the confidential information pertains to the company's current and prospective customers.
- **Misappropriation of confidential information:** Texas courts recognize a cause of action for misappropriation of confidential information that is at least substantially secret, even if not secret.⁴⁷
- **Breach of fiduciary duty:** Even apart from any contractual obligation to refrain from misappropriating an employer's confidential information or trade secrets, an employee owes his employer a fiduciary obligation to refrain from such actions, and this fiduciary duty survives termination of the employment.⁴⁸

D. Tex. Penal Code 31.05: Criminalizing trade secret misappropriation

The Texas Legislature has criminalized the theft of trade secrets. Texas Penal Code 31.05, enacted in 1973, makes it a third degree felony to knowingly, and

⁴⁵ See, e.g., *Guy Carpenter & Co. v. Provenzale*, 334 F.3d 459, 464-69 (5th Cir. 2003) (holding that plaintiff demonstrated a likelihood of success on its claims for breach of nondisclosure covenant in employment agreement, but did not make the requisite showing as to its claim of trade secret misappropriation).

⁴⁶ See *Nova Consulting Group, Inc. v. Engineering Consulting Servs., Ltd.*, 290 Fed. Appx. 727, 737-39 (5th Cir. 2008); *SP Midtown, Ltd. v. Urban Storage, L.P.*, 2008 WL 1991747, *8 (Tex. App.—Hous. [14th Dist.] 2008, pet. denied).

⁴⁷ See *Diabetes Centers of Am., Inc. v. Healthpia America, Inc.*, 2008 WL 656508, *9 (S.D. Tex. 2008), citing *Stewart & Stevenson Servs., Inc. v. Serv-Tech, Inc.*, 879 S.W.2d 89, 99 (Tex. App.—Hous. [14th Dist.] 1994, writ denied).

⁴⁸ See *Mabrey v. Sandstream, Inc.*, 124 S.W.3d 302, 316 (Tex. App.—Fort Worth 2003, no pet.); *T-N-T Motorsports*, 965 S.W.2d at 21-22; *Miller Paper Co.*, 901 S.W.2d at 600.

without consent of the trade secret owner, (i) steal a trade secret, (ii) make a copy of an article representing a trade secret, or (iii) communicate or transmit a trade secret.⁴⁹ In *Schalk and Leonard v. State of Texas*, each defendant convicted under the statute was sentenced to two years' imprisonment plus a \$5,000 fine.⁵⁰ The punishment was more severe in *Weightman v. State*, where each defendant received five years' imprisonment for each count of trade secret theft.⁵¹

McClain v. State received some notoriety in view of the fact that the defendant was convicted of trade secret theft when the alleged trade secrets were circuit diagrams that "had been floating around in public for - - some of them for forty years."⁵² The Texarkana Court of Appeals reversed and rendered a judgment of acquittal.⁵³

III. REMEDIES

A. Injunctive Relief

1. Temporary Restraining Order (TRO) standards

A plaintiff filing suit for trade secrets misappropriation may seek a temporary restraining order as well as a temporary injunction.⁵⁴

The TRO may be sought *ex parte* or with notice. (This is unlike a TI, which always requires that the adverse party receive notice and a hearing.)⁵⁵ The

⁴⁹ TEX. PENAL CODE § 31.05 (b), (c).

⁵⁰ 823 S.W.2d 633, 634 (Tex. Crim. App. 1991).

⁵¹ 975 S.W.2d 621, 622 (Tex. Crim. App. 1998).

⁵² 269 S.W.3d 191, 196-97 (Tex. App.—Texarkana 2008).

⁵³ *Id.* at 199.

⁵⁴ "A temporary restraining order is one entered as part of a motion for a temporary injunction, by which a party is restrained pending the hearing of the motion. A temporary injunction is one which operates until dissolved by an interlocutory order or until the final hearing." *In re Tex. Natural Resources Conserv. Comm'n*, 85 S.W.3d 201, 205 (Tex. 2002), citing *Del Valle Indep. Sch. Dist. v. Lopez*, 845 S.W.2d 808, 809 (Tex. 1992).

⁵⁵ TEX. R. CIV. P. 681 ("Temporary Injunctions: Notice")(stating "No temporary injunction shall be issued without notice to the adverse party."). See also *RRE VIP Borrower, LLC v. Leisure Life Senior Apt. Hous., Ltd.*, 2011 WL 1643275, *2-*3 (Tex. App.—Hous. [14th Dist.] 2011, no pet.) ("The notice requirements of Rule 681 impliedly require that the adverse party have the right to be heard. The opportunity to be heard and present evidence must

TRO may issue on no more evidence than a sworn petition.⁵⁶ (This again is unlike a TI, which may not issue without evidence.)⁵⁷ Where a TRO is sought *ex parte*, it will not issue “unless it clearly appears from specific facts shown by affidavit or by the verified complaint that immediate and irreparable injury, loss, or damage will result to the applicant before notice can be served and a hearing had thereon.”⁵⁸

The TRO must “describe in reasonable detail and not by reference to the complaint or other document, the act or acts sought to be restrained....”⁵⁹

The duration of a TRO is fourteen days after issuance, and may be extended one time for no longer than fourteen additional days, unless the adverse party agrees to a longer extension.⁶⁰ After a TRO has issued, the adverse party may move for dissolution or modification of the TRO, with two days’ notice to the

amount to more than the mere opportunity to cross-examine the other party’s witnesses.”) (holding that the trial court abused its discretion by granting an application for TI without allowing the adverse party to cross-examine the applicant’s expert witness and to also present its own case-in-chief, witnesses, and evidence).

⁵⁶ *In re Tex. Natural Resources Conserv. Comm’n*, 85 S.W.3d at 203, citing *Millwrights Local Union No. 2484 v. Rust Eng’g Co.*, 433 S.W.2d 683, 685-87 (Tex. 1968).

⁵⁷ *See, e.g., Millwrights Local Union No. 2484*, 433 S.W.2d at 685-87 (stating that in view of the length of time to trial on the merits, an applicant for TI “has, and in equity and in good conscience ought to have, the burden of offering some evidence which, under applicable rules of law, establishes a probably right of recovery”).

⁵⁸ TEX. R. CIV. P. 680 (“Temporary Restraining Order”). Notwithstanding Rule 680’s express authorization of *ex parte* TROs if all requirements are met, some courts have a strong preference for notice to be given to the adverse party, and a hearing to be held. Cf. Hon. Ravi K. Sandill and Howard Lynn Steele, Jr., “A Double Take on Unfair Competition: An Examination of TROs and TIs from Both Sides of the Bench,” 2010 Labor and Employment Law Conference, University of Texas School of Law, May 20-21, 2010, at 7 (describing the issuance of *ex parte* TROs as “typically not preferred”).

⁵⁹ TEX. R. CIV. P. 683 (“Form & Scope of Injunction or Restraining Order”).

⁶⁰ TEX. R. CIV. P. 680; *In re Tex. Natural Resources Conserv. Comm’n*, 85 S.W.3d at 204-05.

applicant (or on shorter notice, if permitted by the court).⁶¹

The applicant for TRO also is required to post a bond.⁶²

A TRO is generally not appealable.⁶³

2. Temporary Injunction (TI) standards

A temporary injunction is an extraordinary remedy that does not issue as a matter of right.⁶⁴ A party seeking a TI must plead and prove “(1) a cause of action against the defendant; (2) a probable right to the relief sought; and (3) a probable, imminent, and irreparable injury in the interim.”⁶⁵ Only a probable

⁶¹ TEX. R. CIV. P. 680.

⁶² TEX. R. CIV. P. 684 (“Applicant’s Bond”); *see also In re Office of the Attorney General*, 257 S.W.3d 695, 697 (Tex. 2008).

⁶³ *In re Tex. Natural Resources Conserv. Comm’n*, 85 S.W.3d at 204, citing *Del Valle Indep. Sch. Dist. v. Lopez*, 845 S.W.2d at 809.

⁶⁴ *Butnaru v. Ford Motor Co.*, 84 S.W.3d 198, 204 (Tex. 2002).

⁶⁵ *Id.* Regarding the “irreparable injury” prong, Texas courts have held that “[w]hen a defendant possesses trade secrets and is in a position to use them, harm to the trade secret owner may be presumed.” *See, e.g., IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 197 (Tex. App.—Fort Worth 2005, no pet.), *citing, inter alia, T-N-T Motorsports, Inc.*, 965 S.W.2d at 24. Moreover, “[t]he threatened disclosure of trade secrets constitutes irreparable injury as a matter of law.” *Id.*, *citing Williams v. Compressor Eng’g Corp.*, 704 S.W.2d 469, 471 (Tex. App.—Hous. [14th Dist.] 1986, writ ref’d n.r.e.).

Some other jurisdictions also presume irreparable harm in the manner Texas does in the trade secret misappropriation context. *See, e.g., TMX Funding, Inc. v. Impero Technologies, Inc.*, 2010 WL 1028254, *4-5 (N.D. Cal. 2010) (“California courts have presumed irreparable harm when proprietary information is misappropriated.”); *accord, Wyndham Resort Development Corp. v. Bingham*, 2010 WL 2720920, *6 (E.D. Cal. 2010) (collecting cases).

But other jurisdictions are unwilling to undertake such presumption. *See, e.g., Calence, LLC v. Dimension Data Holdings, PLC*, 2007 WL 582689, *2 (9th Cir. 2007) (affirming Washington federal district court’s decision under state law to decline to presume irreparable harm arising from alleged trade secret misappropriation). And a panel of the Court of Appeals for the Second Circuit had this to say a few years ago regarding the extent it recognized a

right and probable injury need be shown because the purpose of a TI is to preserve the status quo of the subject matter of the litigation until trial.⁶⁶ Because a TI hearing is not a hearing on the merits,⁶⁷ the trial court need not finally decide whether trade secret status or its misappropriation have been proven. As such, an appellate court reviewing a trial court's decision on a TI application only decides whether the trial court abused its discretion;⁶⁸ it does not address the merits of the case.⁶⁹ Moreover, where trade secrets are involved, the TI must be narrowly tailored to address only the improper use of the trade secrets.⁷⁰

Before a court can grant injunctive relief, the pleadings and prayer must state the particular form of injunction sought, and the prayer must specify the type of judgment sought.⁷¹ Courts cannot grant

presumption of irreparable harm in the trade secrets context:

We have previously observed that 'the loss of trade secrets cannot be measured in money damages' where that secret, once lost, is 'lost forever.' *FMC Corp. v. Taiwan Tainan Giant Indus. Ltd.*, 730 F.2d 761 (2d Cir. 1984)(*per curiam*). Some courts in this Circuit have read this passing observation to mean that a presumption of irreparable harm automatically arises upon the determination that a trade secret has been misappropriated. That reading is not correct. A rebuttable presumption of irreparable harm might be warranted in cases where there is a danger that, unless enjoined, a misappropriator of trade secrets will disseminate those secrets to a wider audience or otherwise irreparably impair the value of those secrets. Where a misappropriator seeks only to use those secrets—without further dissemination or irreparable impairment of value—in pursuit of profit, no such presumption is warranted because an award of damages will often provide a complete remedy for such an injury. Indeed, once a trade secret is misappropriated, the misappropriator will often have the same incentive as the originator to maintain the confidentiality of the secret in order to profit from the proprietary knowledge.

Faiveley Transport Malmo AB v. Wabtec Corp., 559 F.3d 110, 118-19 (2d Cir. 2009) (some cites omitted).

⁶⁶ *Bertotti*, 752 S.W.2d at 651.

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ *Keraplast Technologies*, 103 S.W.3d at 481.

⁷⁰ *Id.* at 482.

⁷¹ *American Precision Vibrator*, 764 S.W.2d at 279.

injunctive relief beyond that specifically pleaded and prayed for.⁷²

3. Enjoining former employees from soliciting one's clients

Although, "[a]s a general rule, in the absence of an enforceable agreement not to compete, an employer is not entitled to an injunction preventing a former employee from soliciting the employer's clients," the balance is altered when the case involves trade secrets or other confidential information learned by the ex-employee while employed.⁷³ The Dallas Court of Appeals twice has upheld injunctions barring ex-employees from contacting or soliciting clients of their former employer; the First (Houston) and Seventh (Amarillo) Courts of Appeals have been reluctant to go as far, and have upheld injunctions against the *use* of the prior employer's information when soliciting former clients.

In *Rugen v. Interactive Bus. Sys., Inc.*, the trial court temporarily enjoined an ex-employee from contacting or soliciting her former employer's customers and consultants, whose identities were confidential information she learned while employed. The Dallas Court of Appeals affirmed:

The temporary injunction does not prevent Rugen from competing with IBS. Instead, the injunction prohibits her from soliciting or transacting business with IBS's consultants and customers, whose identities she was able to obtain through confidential information. The injunction does not prevent Rugen from organizing a competing firm and developing her own clients and consultants.⁷⁴

Ms. Rugen argued that she should not be enjoined because she had not wrongfully used any confidential information. However, the Court of Appeals focused on her possession of confidential information and direct competition with her former employer. "Under these circumstances, it is probable that Rugen will use the information for her benefit and to the detriment of IBS. At times, an injunction is the only effective

⁷² *Id.* at 280.

⁷³ *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 551 (Tex. App.--Dallas 1993, no writ).

⁷⁴ *Id.* (noting that the trial court found unenforceable a non-competition agreement that also would have barred Rugen from making these contacts, but holding that this finding didn't bar the trial court from entering the injunction, nor did the injunction impermissibly restrain competition).

relief an employer has when a former employee possesses confidential information.”⁷⁵

Two years later, the Amarillo Court of Appeals declined to go quite that far. Deciding *Miller Paper Co. v. Roberts Paper Co.*, the court considered a group of departing employees who took with them “the book,” Mr. Roberts’s 52-year compilation of customer names, addresses, special billing information, delivery sites, information on the need for purchase orders, cash on delivery data, and phone numbers.⁷⁶ The appellate court first struck down non-competition agreements purporting to bar solicitation of Roberts’s customers.⁷⁷ It then upheld a temporary injunction barring the ex-employees from using “the book” and a customer list taken from Roberts. “Thus, the [ex-employees] are free to compete, but not with the materials developed by or on behalf of Roberts.”⁷⁸ The mere solicitation by the ex-employees was not unfair competition, particularly where a customer’s identity was publicly available, but any attempt by the ex-employees to use Roberts’s confidential information in connection with such solicitation would be unfair competition. “To the extent [Roberts] demanded injunction halting the *use* of its confidential information, such as its customer list, in soliciting those customers, it received, and still enjoys, the desired relief.”⁷⁹ The *Miller Paper* court deemed its decision consistent with the Dallas Court of Appeals’ decision in *Rugen*, which it described as prohibiting the use of confidential information belonging to a prior employer; it made no mention of *Rugen*’s injunction against soliciting clients of the prior employer.

In 1999, the Dallas Court of Appeals further explicated *Rugen* when it decided *Conley v. DSC*

*Communications Corp.*⁸⁰ There, the parties asserted that *Rugen* set forth a “doctrine of inevitable disclosure” applicable to determining the scope of injunctive relief in the ex-employee context. The appellate court disagreed, feeling that *Rugen* only “recognized that enjoining an employee from using an employer’s confidential information is appropriate when it is *probable* that the former employee will use the confidential information for his benefit (or his new employer’s benefit) or to the detriment of his former employer.”⁸¹ Factors supporting injunctive relief on the “probable disclosure” theory included:

- Employee misconduct in taking or threatening to use the confidential information (but the absence of this factor does not bar injunctive relief);
- Evidence that the employee possessed confidential information and was in a position to use it against the employer (as stated in *Rugen*);
- Evidence of the new employer’s ability to use the trade secret to its benefit or to the former employer’s detriment (this shows whether the employee is in a position to use the confidential information); and
- The similarity between the old and new jobs, to the extent it shows whether the employee will be in a position to use the confidential information.⁸²

Applying those factors, the *Conley* court reached a result similar to *Rugen*’s. Emphasizing that ex-employee Conley “was in a position to use DSC’s confidential information for his or [new employer’s] benefit or to DSC’s detriment,” the court upheld a temporary injunction that prevented him from “working in any capacity to sell, market or support . . . or aiding anyone else to sell, market or support [certain products to a potential customer bidding a job to both his old and new employers],” among other things.⁸³

⁷⁵ *Id.* at 552 (finding no abuse of discretion in award of injunctive relief), citing *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 902 (Tex. App.--Hous. [1st Dist.] 1978, writ ref’d n.r.e.). *Accord, Tropical Warehouses*, 121 S.W.3d at 860-61 (rejecting argument that ex-employee Fox had not been shown to be using trade secrets to compete against employer, holding “TWI is not required to prove that Fox is actually using the information; it need only prove that he is in possession of the information and is in a position to use it,” and upholding injunction prohibiting Fox from selling to employer’s sole remaining customer).

⁷⁶ *Miller Paper Co.*, 901 S.W.2d at 601-04.

⁷⁷ *Id.* at 598-600.

⁷⁸ *Id.* at 601-02.

⁷⁹ *Id.* at 603-04.

⁸⁰ *Conley v. DSC Comm’ns, Inc.*, 1999 WL 89955 (Tex. App.--Dallas 1999, no pet.). This was a 2-1 panel decision; the dissent argued that the injunction should have been framed more narrowly to avoid covering the ex-employee’s general knowledge about the ex-employer’s operations. *Id.* at *11 (James, J., dissenting). The dissent purported to be premised on a rejection of “the concept or doctrine of inevitable disclosure,” *id.*, despite the fact that the majority took care to avoid embracing that doctrine, *see id.* at *3-*4.

⁸¹ *Id.* at *3-*4.

⁸² *Id.* at *5.

⁸³ *Id.* at *1, *8.

In *Cardinal Health Staffing Network, Inc. v. Bowen*, the *en banc* First Court of Appeals declined to decide whether it should adopt the *Rugen / Conley* doctrine.⁸⁴ There, a former employer sought to enjoin its ex-employee from working in the same field or from soliciting its clients with whom the ex-employee had worked while with the plaintiff.⁸⁵ The *Cardinal Health* court decided that even if it did decide to adopt the *Rugen / Conley* doctrine, the facts of the case would render it inapplicable: among other things, the ex-employee did not take any confidential materials with him upon departing, the former and new employer had few clients and customers in common, the ex-employee did not solicit any of those clients and customers, and the ex-employee would not need to use the former employer's confidential information because publicly available information would be all he needed in his new position.⁸⁶

In *Variable Annuity Life Ins. Co. v. Miller*, the Amarillo Court of Appeals considered former employer VALIC's unsuccessful attempt to enjoin ex-employee Miller from soliciting or accepting business from clients he had serviced while at VALIC; the trial court only enjoined Miller from using or disclosing VALIC's trade secrets or confidential information.⁸⁷ The real dispute was "the information contained in Miller's memory Miller asserts that this information is not protected because it is either part of his general knowledge or equally available to competitors of VALIC while VALIC claims the information is proprietary."⁸⁸ The Court of Appeals affirmed, likening the case to *Miller Paper*—in each case, the ex-employee was free to compete, but not with the former employer's materials.⁸⁹ It rejected VALIC's argument that the distinction between written and memorized information was irrelevant:

The evidence in the record that much of Miller's client base was established through

⁸⁴ 106 S.W.3d 230 (Tex. App.--Hous. [1st Dist.] 2003, no pet.) (*en banc*).

⁸⁵ *Id.* at 234.

⁸⁶ *Id.* at 242-43 (stating that this and other "evidence raises a reasonable inference that Bowen did not need to and would not use Cardinal's confidential information, *i.e.*, that disclosure and use was not probable").

⁸⁷ 2001 WL 1598331, *1-2 (Tex. App.--Amarillo 2001, no pet.).

⁸⁸ *Id.* at *4.

⁸⁹ *Id.* at *5 (noting also that *Miller Paper* did not involve any allegation whether the ex-employees retained in their memory any proprietary information).

friendships and relationships existing prior to his employment with VALIC and through human resources personnel and directories available to other competitors reasonably supports the trial court's decision in this regard. To issue the sort of injunction requested by VALIC would bar Miller from selling products even to former clients who initiate contact with him and whose needs and financial status may have changed since he last sold them any products. We find no abuse of discretion on the part of the trial court with respect to the temporary injunction.⁹⁰

In a 2009 decision, a Texas federal court declined to apply *Conley*'s reasoning, on the grounds that the plaintiff had failed to show that the former employees took any confidential information with them or were using such information at their new employer.⁹¹

4. Enjoining former employees from joining one's competitors

When an employee jumping to a competitor possesses significant knowledge of important trade secrets, counsel may be asked what can be done to stop the jump, or alternatively to restrict the assignments on which the employee might be work for the new employer so as to minimize the likelihood that the trade secrets will be exploited. Outside Texas and the Fifth Circuit, some courts have adopted the "inevitable disclosure" doctrine, which in some cases has been used to forcibly delay the jump. Courts in Texas and the Fifth Circuit have not officially adopted the inevitable disclosure doctrine,⁹² but have on

⁹⁰ *Id.* at *6.

⁹¹ *M-I, L.L.C. v. Stelly*, 2009 WL 2355498, *5-*7 (S.D. Tex. 2009) (stating that "the Court will therefore not apply the inevitable disclosure doctrine").

⁹² *See Cardinal Health*, 106 S.W.3d at 242 ("We have found no Texas case expressly adopting the inevitable disclosure doctrine, and it is unclear to what extent Texas courts might adopt it. . . ."); *Conley*, 1999 WL 89955,*3 ("We found no Texas case referring to a doctrine of inevitable disclosure," but noting that the court's *Rugen* decision "recognized that a former employee may be enjoined from using or disclosing the former employer's confidential or proprietary information if the employee is in a situation where use or disclosure is *probable*.").

In a 1999 case, the District Court for the Southern District of Texas applied the inevitable disclosure doctrine to trade secret claims governed by California law, making the *Erie* guess that the California Supreme Court would adopt the doctrine. *Maxxim Medical, Inc.*

occasion granted relief by limiting the positions the new employee can assume with the new employer.

a. Texas and Fifth Circuit law

In 1978, the First Court of Appeals decided *Weed Eater, Inc. v. Dowling*, where it held that the trial court abused its discretion by failing to enjoin Weed Eater's former manufacturing vice president (Dowling) from continuing to work for a competitor in any capacity relating to the competitor's manufacture of a trimming device that it formerly bought from Weed Eater.⁹³ Though the trial court had enjoined Dowling from disclosing any of Weed Eater's confidential information, it declined to enforce a covenant not to compete and did not enjoin Dowling from using confidential information in his new job as manufacturing director for the competitor.⁹⁴ The Court of Appeals found this to be error:

[e]ven in the best of good faith, Dowling can hardly prevent his knowledge of his former employer's confidential methods from showing up in his work. The only effective relief for Weed Eater is to restrain Dowling from working for [competitor] in any capacity related to the manufacture by [competitor] of a flexible line trimming device.⁹⁵

Four years later, in *FMC Corp. v. Varco Int'l, Inc.*, the Fifth Circuit considered a former employer (FMC)'s application for a TI to prevent ex-employee Witt from taking a position with a competitor that would "create the inherent threat of disclosure and use of FMC's secrets."⁹⁶ Witt had been the engineering manager at the FMC facility that produced its most successful product, the "Longsweep" swivel joint; he was recruited by the competitor to supervise the project

manager developing a Longsweep-style product.⁹⁷ FMC won a TRO with its desired scope, but was denied a preliminary injunction, having failed to persuade the trial court "that [Witt] actually has sufficient trade secrets that there would be any irreparable injury or even that he had such things."⁹⁸ On appeal, the Fifth Circuit found this analysis problematic, reasoning "even if only one FMC trade secret was disclosed by Witt or used by [new employer], it would still constitute an unlawful taking of FMC's property. It is not the number of trade secrets taken that determines whether the threat of irreparable harm exists. The fact that a single trade secret may be disclosed is enough."⁹⁹ The Fifth Circuit found that Witt did know FMC's trade secrets and that FMC was substantially likely to ultimately prevail on the merits.¹⁰⁰

Importantly, the Fifth Circuit then found FMC had shown irreparable injury absent injunctive relief, because Witt was to work on the competitor's Longsweep-style product, and the competitor's president declined to in any way restrict Witt's use of FMC information:

Since [competitor] does not intend to limit Witt and since Witt himself indicated that he does not know exactly what constitutes a trade secret, it appears very possible that a trade secret will be revealed in violation of Witt's agreement with FMC. Witt is employed by [competitor] in a position where he will be constantly called upon to decide what he believes he can and cannot properly disclose to [competitor]. . . .¹⁰¹

The court then paraphrased the First Court of Appeals in *Weedeater*: "Even assuming the best of good faith, Witt will have difficulty preventing his knowledge of FMC's 'Longsweep' manufacturing techniques from infiltrating his work."¹⁰² The Fifth Circuit ultimately granted FMC's requested injunction, not only barring Witt from disclosing any trade secrets he learned while at FMC, but also enjoining the competitor "from placing or maintaining Witt in a position that poses an

v. Michelson, 51 F.Supp.2d 773, 784-87 (S.D. Tex. 1999). The court granted the former employer's request for an injunction, and barred the ex-employee for one year from "working as or for a direct competitor . . . in any of the product lines he was associated with . . . during the last two years." *Id.* at 788. However, the Fifth Circuit reversed, vacating and dissolving the injunction, ruling that the district court lacked personal jurisdiction over the defendant. *Maxxim Medical, Inc. v. Michelson*, 182 F.3d 915, 1999 WL 423112, *3 (5th Cir. 1999).

⁹³ 562 S.W.2d 898, 902 (Tex. App.--Hous. [1st Dist.] 1978, writ ref'd n.r.e.).

⁹⁴ *Id.* at 901-02.

⁹⁵ *Id.* at 902.

⁹⁶ 677 F.2d 500, 501 (5th Cir. 1982).

⁹⁷ *Id.*

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ *Id.* at 503-04.

¹⁰¹ *Id.* at 504.

¹⁰² *Id.*

inherent threat of disclosure or use of FMC's trade secrets."¹⁰³

Two years later, in *Union Carbide Corp. v. UGI Corp.*, the Fifth Circuit considered an injunction entered by a district court restraining a new employer (UGI) from allowing an employee Sutton to participate in certain situations where he would compete with his former employer.¹⁰⁴ Before Sutton left his vice-presidency at Union Carbide to become president of a UGI subsidiary, he learned key Carbide pricing information pertinent to a potential business opportunity (the Nucor situation) for which UGI and Carbide would compete.¹⁰⁵

Despite this knowledge, after going over to [new employer], Sutton participated in meetings and plans directed at the Nucor situation. The district court found a substantial likelihood of disclosure because [new employer] took no precautions to insulate Sutton from the strategy meetings with obvious potential for conflict. Although [defendants] claim that Sutton stood mute during the pricing decision, which they claim was determined by others, the district court found that he disclosed Carbide's disinterest price, either directly or by subtle influence. Notes from an earlier [new employer] meeting wherein the Nucor situation was discussed reveal an exact quotation of [certain critical efficiency and capacity parameters of Carbide]. Sutton, who was present at the meeting, had been exposed to this information while at Carbide.¹⁰⁶

Carbide's showing that Sutton disclosed its pricing information, and UGI's failure to exclude Sutton from "a situation where disclosure of confidential information would be difficult to avoid," persuaded the district court to issue the injunction, which the Fifth Circuit affirmed.¹⁰⁷

b. The "inevitable disclosure" doctrine

A well-known Seventh Circuit decision from 1995, *PepsiCo, Inc. v. Redmond*,¹⁰⁸ is often credited with creating the "inevitable disclosure" doctrine. There,

¹⁰³ *Id.* at 505.

¹⁰⁴ 731 F.2d 1186, 1188-89 (5th Cir. 1984).

¹⁰⁵ *Id.* at 1187, 1191.

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* at 1191-1192.

¹⁰⁸ 54 F.3d 1262 (7th Cir. 1995).

the general manager (Redmond) of a Pepsi business unit that averaged over \$500 million in annual revenues left the company to become a Vice President of competitor Quaker's Gatorade unit.¹⁰⁹ Pepsi alleged that he possessed several categories of trade secrets: Pepsi's "strategic plan," its "annual operating plan," its "attack plans" for specific markets, and certain innovations in its selling and delivery systems.¹¹⁰ Moreover, it contended in his new position, Redmond would provide input on Quaker's strategic plans, which input inevitably would be provided with Pepsi's strategic and annual plans in mind.¹¹¹ A week after Redmond gave notice that he was leaving, Pepsi sued for a temporary restraining order to enjoin him from starting work with Quaker and to bar him from disclosing its trade secrets or confidential information.¹¹² After a preliminary injunction hearing, the district court enjoined Redmond from joining Quaker for almost six months, and permanently enjoined him from disclosing Pepsi's secrets.¹¹³ The trial court found that his new position posed a clear threat of misappropriation, and emphasized his lack of candor in his activities before accepting the new job, as well as in his testimony.¹¹⁴

The Seventh Circuit affirmed. It held that the Illinois Trade Secrets Act permitted a plaintiff to prove trade secret misappropriation by showing that a defendant's

¹⁰⁹ *Id.* at 1264-65.

¹¹⁰ *Id.* at 1265-66.

¹¹¹ *Id.* at 1266.

¹¹² *Id.* at 1265.

¹¹³ *Id.* at 1267.

¹¹⁴ *Id.* After accepting the job offer, Redmond told several colleagues at Pepsi that he was still making up his mind as to whether or not to take the offer; he also overstated the position as being a COO position, when it was not. *Id.* at 1264. Additionally, his testimony at the hearing conflicted with that of the head of Quaker's Gatorade division. *Id.* at 1266-67. As the trial court saw it:

Redmond's lack of forthrightness on some occasions, and out and out lies on others, in the period between the time he accepted the position with defendant Quaker and when he informed plaintiff that he had accepted that position leads the court to conclude that defendant Redmond could not be trusted to act with the necessary sensitivity and good faith under the circumstances in which the only practical verification that he was not using plaintiff's secrets would be defendant Redmond's word to that effect.

Id. at 1270.

new job “will inevitably lead him to rely on the plaintiff’s trade secrets,” and that such “inevitable disclosure” could be enjoined.¹¹⁵ Citing *FMC*, it accepted Pepsi’s claim that “Redmond cannot help but rely on [Pepsi’s] trade secrets as he helps plot out Gatorade and Snapple’s new course, and . . . these secrets will enable Quaker to achieve a substantial advantage by knowing exactly how [Pepsi] will price, distribute, and market its . . . drinks and being able to respond strategically.”¹¹⁶ Memorably, the Seventh Circuit likened Pepsi to “a coach, one of whose players has left, playbook in hand, to join the opposing team before the big game.”¹¹⁷ Agreeing with the district court that Redmond’s new job made it inevitable that he would rely on Pepsi trade secrets, and noting the district court’s reluctance to believe Redmond’s promises that he would avoid disclosing Pepsi’s secrets, the court of appeals agreed that Pepsi had shown a likelihood of success on its Illinois Trade Secrets Act claim.¹¹⁸ Finding that the five-and-a-half-month injunction was not excessive, it affirmed the district court.¹¹⁹

B. Damages

Damages for misappropriation of trade secrets may be measured in a variety of ways, including actual damages based on either the value of what the plaintiff has lost or the defendant has gained, as well as damages based on a reasonable royalty.¹²⁰

The value of the plaintiff’s loss is commonly measured by its lost profits.¹²¹ Of course, as the Fifth Circuit has recognized, “in most cases the defendant has utilized the secret to his advantage with no obvious effect on the plaintiff save for the relative differences in their subsequent competitive

positions.”¹²² As a result, “normally the value of the secret to the plaintiff is an appropriate measure of damages only when the defendant has in some way destroyed the value of the secret [such as] . . . through publication, so that no secret remains.”¹²³ “Where the plaintiff retains the use of the secret . . . and where there has been no effective disclosure of the secret through publication, the total value of the secret to the plaintiff is an *inappropriate* measure.”¹²⁴

The second measure -- the value of the defendant’s gain from the use or disclosure of the trade secret -- again can be measured in several ways, including by (i) the defendant’s actual profits from the use or disclosure of the trade secret, i.e., unjust enrichment damages, (ii) damages that a reasonably prudent person would have paid for the trade secret, or (iii) damages measured by the defendant’s cost savings.¹²⁵

Where damages are to be measured by a reasonable royalty, it is based on the value that a willing buyer and willing seller would arrive at when valuing the trade secret.¹²⁶ The Fifth Circuit has identified five factors to consider when calculating a reasonable royalty:

- “resulting and foreseeable changes in the parties’ competitive posture”;
- prices paid by past licensees of the trade secret;
- the total value of the secret to the plaintiff, including its development cost and the importance of the secret to its business;
- the nature and extent of the use planned by the defendant for the secret; and
- any other factors in the case that might have been affected by an agreement between the parties, such as whether an alternate process was readily available.¹²⁷

In *Zoecon Indus. v. American Stockman Tag Co.*, the Fifth Circuit noted that “[p]unitive damages are available as well if the defendant’s actions are fraudulent or malicious,” and upheld a trial court’s

¹¹⁵ *Id.* at 1269.

¹¹⁶ *Id.* at 1270.

¹¹⁷ *Id.*

¹¹⁸ *Id.* at 1271.

¹¹⁹ *Id.* at 1272.

¹²⁰ *Carbo Ceramics, Inc. v. Keefe*, 166 Fed. Appx. 714, 722-23, 2006 WL 197340 (5th Cir. 2006), citing *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 535-36 (5th Cir. 1974)(applying Georgia law). The Fifth Circuit recently reaffirmed its approval of *University Computing*’s “flexible” approach to calculating damages for trade secret misappropriation under Texas law. *Bohnsack v. Varco, L.P.*, 668 F.3d 262, 280 (5th Cir. 2012).

¹²¹ *Carbo Ceramics*, at 722.

¹²² *University Computing Co.*, 504 F.2d at 535.

¹²³ *Id.*

¹²⁴ *Id.* (emph. added); see also *id.* at 536 (“Further, unless some specific injury to the plaintiff can be established - such as lost sales - the loss to the plaintiff is not a particularly helpful approach in assessing damages.”).

¹²⁵ *Carbo Ceramics*, at 723.

¹²⁶ *Id.*

¹²⁷ *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1208 (5th Cir. 1986).

decision to impose exemplary damages, reasoning that “the defendants were key employees who violated the employer’s trust.”¹²⁸

IV. FORENSIC EXAMINATION OF COMPUTERS ASSOCIATED WITH THE FORMER EMPLOYEE

Given the increasing prevalence and ease of digital storage and transmission of confidential and trade secret information, plaintiffs in misappropriation cases increasingly seek forensic examination of a former employee’s computers, network shares, and data storage devices (sometimes referred to as portable hard drives, USB drives, flash / jump / thumb drives, memory sticks and the like). A detailed discussion of issues pertaining to such forensic examination is beyond the scope of this article, and has been treated well elsewhere.¹²⁹

A plaintiff’s request for forensic examination often is made early in the case, and sometimes as part of a motion for expedited discovery filed along with the complaint and application for injunctive relief. Often, the defendant will resist turning over the computers and other data storage devices, citing privacy grounds, along with the risk that privileged communications between the defendant and its counsel could appear as “hits” resulting from the forensic examination, and be disclosed to the plaintiff by the forensic examiner.

The trade secret holder should neither shy away from seeking forensic examination that may be termed “aggressive,”¹³⁰ nor, on the other hand, assume that the privacy concerns will be dismissed as merely a smoke screen to conceal evidence of

misappropriation. Rather, the trade secret plaintiff is best served by carefully considering, very early in the case and, if possible, before filing suit:

- the scope of forensic examination to be requested (and thus the degree to which the former employee will be able to argue that his/her privacy is being invaded),
- the degree to which it can be justified as reasonably calculated to lead to the discovery of admissible evidence, and
- the specific precautions that can be built into the forensic examination protocol to protect aspects of the defendant’s privacy (and the privacy of members of the defendant’s family) that are especially sensitive and that are least likely to lead to relevant evidence.

Reported decisions offer example protocols that have been adopted by some trial courts.¹³¹

V. COUNTERCLAIMS A DEPARTING EMPLOYEE MAY ASSERT

Another important consideration for a trade secret plaintiff is the potential counterclaims a departing employee may assert in response to the suit. Cases certainly arise where such counterclaims have merit. At least as often, however, the counterclaims are asserted because the former employee believes they will create leverage to pressure the plaintiff to dismiss or settle the case. A plaintiff thus should target such counterclaims early in the suit, to determine their scope and validity, and to uncover evidence and grounds to defeat such claims as early as possible (and certainly before mediation), to dissipate a defendant’s hopes of having leveled the playing field.

Before examining the mostly frequently asserted counterclaims, one point should be made. Frequently, a defendant will assert counterclaims premised on the filing of the lawsuit itself, and statements made in court papers. For example, the defendant may claim that he lost his job with a new employer after the new employer learned of the suit, or that his reputation has been sullied by the allegations in the complaint, which he asserts are untrue. However, it is well established that the filing of a lawsuit and any statements made in court papers cannot serve as the basis for any tort,

¹²⁸ 713 F.2d 1174, 1180 (5th Cir. 1983) (noting that the awards of punitive damages, attorney’s fees and costs were awarded “solely on the theory of the breach of confidential relationship”).

¹²⁹ See, e.g., John Reed Stark, “The 21st Century Genesis of the Bad Leaver,” BNA Privacy & Security Law Report, 10 PVL R 1348, 9/19/2011. Its author is the managing director and deputy general counsel in charge of the Washington, D.C. office of a digital forensics and e-discovery consulting firm.

¹³⁰ See, e.g., *Frees, Inc. v. McMillan*, 2007 WL 1308388, *1 (W.D. La. 2007) (granting plaintiff’s request for production of two computers, which the defendant asserted it had required two years after the alleged misappropriation was said to have occurred, on the grounds that this did not foreclose the possibility that the allegedly misappropriated trade secret data, or information related to the data, could have been placed on defendant’s computers and still exist there).

¹³¹ See, e.g., *Playboy Enterprises, Inc. v. Welles*, 60 F.Supp.2d 1050, 1054-55 (S.D. Cal. 1999); *Coburn v. PN II, Inc.*, 2008 WL 879746, *2-*3 (D. Nev. 2008) (adopting protocol based on the protocol applied in *Welles*).

including defamation, tortious interference with prospective business relations, intentional infliction of emotional distress, negligence, and other torts.¹³² Where such counterclaims allege that the sole actions by plaintiff causing harm to the former employee are the filing of the suit and statements made in the course of legal proceedings, the counterclaims premised thereon are untenable and can be defeated at summary judgment. If, however, the claims are based on extrajudicial acts, they may have more vitality.

A. Defamation

To establish a defamation claim, the counterclaimant must prove:

- (1) The counterdefendant published a statement;
- (2) That was defamatory concerning the counterclaimant;
- (3) While acting with negligence regarding the truth of the statement.¹³³

Defamation claims are subdivided into two categories: defamation *per se*, for which “[t]he words are so obviously hurtful that they require no proof that they caused injury in order for them to be actionable,”¹³⁴

¹³² See, e.g., *DeMino v. Sheridan*, 2006 WL 1026933, *2 (Tex. App.—Hous. [14th Dist.] 2006, review denied) (statements made in the course of legal proceedings, including pleadings, “cannot serve as the basis of a civil action for defamation . . . [and] also cannot form the basis of liability for other torts . . . when the essence of the claim is that injury occurred as the result of allegedly false statements made during a judicial proceeding”); *Laub v. Pesikoff*, 979 S.W.2d 686, 689-692 (Tex. App.—Hous. [1st Dist.] 1998, pet. denied) (dismissing defamation claims as well as claims for tortious interference, negligence, and intentional infliction of emotional distress, all of which were based on “the communication of allegedly false statements during a judicial proceeding”); *Morales v. Murphey*, 908 S.W.2d 504, 507 (Tex. App.—San Antonio 1995, writ denied) (dismissing intentional infliction of emotional distress claims and other claims based on statements made in connection with legal proceedings).

¹³³ See *WFAA-TV, Inc. v. McLemore*, 978 S.W.2d 568, 571 (Tex. 1998). The Court of Appeals for the Fifth Circuit has articulated the test in this fashion: “Defamation is a false statement about a person, published to a third party, without legal excuse, which damages the person’s reputation.” *Fiber Systems Int’l, Inc. v. Roehrs*, 470 F.3d 1150, 1161 (5th Cir. 2006).

¹³⁴ *Fiber Systems Int’l*, 470 F.3d at 1161. “For a defamatory oral statement to constitute slander *per se*, it must fall within one of four categories: (1) imputation of a crime, (2) imputation of a loathsome

and defamation *per quod*, which require the claimant to prove both that the statement was defamatory and the amount of damages caused by publication of the statement.¹³⁵ “Because the decision whether an allegedly defamatory statement is defamatory *per se* or *per quod* affects the level of proof required, that question is initially determined by the trial court as a matter of law.”¹³⁶

As discussed above, for a defamatory statement to be actionable, it cannot be contained within a court paper or made in the course of legal proceedings, such as a deposition or court hearing. To amount to actionable defamation, the allegedly defamatory statement must have been communicated so that it is understood by a third party in a defamatory sense, and there must be evidence that at least one recipient of the alleged defamatory communication understood the words as defamatory.¹³⁷ “When there is no evidence that at least one person understood the words as defamatory, the required element of publication is absent,”¹³⁸ thereby providing grounds for dismissal of the counterclaim at summary judgment.

When others are around to hear the allegedly defamatory communication, “a qualified privilege to make a statement exists when ‘the person making the statement . . . make[s] it in good faith on a subject matter in which the speaker has a common interest with the other person, or with reference to which the speaker has a duty to communicate to the other.’”¹³⁹

disease, (3) injury to a person’s office, business, profession, or calling, and (4) imputation of sexual misconduct.” *Id.*

¹³⁵ See *Hancock v. Variyam*, 345 S.W.3d 157, 163 (Tex. App.—Amarillo 2011).

¹³⁶ *Hancock*, 345 S.W.3d at 164, citing *Turner v. KTRK TV, Inc.*, 38 S.W.3d 103, 114 (Tex. 2000).

¹³⁷ *Rodriguez v. Printone Color Corp.*, 982 S.W.2d 69, 73 (Tex. App.—Hous. [1st dist.] 1998, pet. denied).

¹³⁸ *Odem v. Deloitte & Touche, LLP*, 2011 WL 381721, *6 (Tex. App.—San Antonio 2011) (affirming grant of no-evidence motion for summary judgment based on lack of evidence that any person who received statement understood it to be defamatory); *AccuBanc Mortg. Corp. v. Drummonds*, 938 S.W.2d 135, 147 (Tex. App.—Fort Worth 1996, writ denied).

¹³⁹ *Saudi v. Brieven*, 176 S.W.3d 108, 118 (Tex. App.—Hous. [1st Dist.] 2004, pet. denied) (finding a common interest from proof of an “interlocking business relationship” between the speaker and his listeners), quoting *Grant v. Stop-N-Go Mkt. of Tex., Inc.*, 994 S.W.2d 867, 874 (Tex. App.—Hous. [1st Dist.] 1999, no pet.).

The privilege does not apply to statements made to others not sharing the common interest.¹⁴⁰

The most interesting cases in this area involve (i) communications made during a workplace investigation concerning the departing employee; (ii) unauthorized gossip among co-workers relating to the departure of the former employee, and unrelated to the investigation; and (iii) indiscreet, extrajudicial statements by company management about its belief of wrongdoing by the former employee.

Workplace investigations: “[U]nder Texas law, an employer has a conditional or qualified privilege that attaches to communications made in the course of an investigation following a report of employee wrongdoing.”¹⁴¹ It is not uncommon for the accused employee to subsequently claim defamation, and allege that the accusations against the employee were “excessively published” so as to defeat the qualified privilege.¹⁴² However, mere “unauthorized gossip” does not destroy the privilege.¹⁴³ The logic of the Fifth Circuit Court of Appeals is particularly compelling here:

¹⁴⁰ *Saudi v. Brieven*, 176 S.W.3d at 118.

¹⁴¹ *Crouch v. JC Penney Corp.*, 337 Fed. Appx. 399, 2009 WL 1885875, *3 (5th Cir. 2009), quoting *Randall’s Food Markets, Inc. v. Johnson*, 891 S.W.2d 640, 646 (Tex. 1995).

¹⁴² *Crouch*, 2009 WL 1885875 at *3; *Randall’s*, 891 S.W.2d at 646.

¹⁴³ *Crouch*, 2009 WL 1885875 at *3 (evidence that another employee testified that accusations were common knowledge “is exactly the kind of unauthorized gossip that does not qualify as excessive publication”); *Danawala v. HL&P*, 14 F.3d 251, 254-255 (5th Cir. 1993) (evidence that former coworkers no longer with the company learned of workplace accusations against plaintiff “within hours of his termination” held to be “unauthorized gossip” that did not destroy the privilege, where (i) one former coworker learned of accusations from unidentified current coworker, and (ii) another ex-coworker learned of them “during a social, non-business-related conversation with one of the HL&P contract workers”); *Marshall Fields Stores, Inc. v. Gardiner*, 859 S.W.2d 391, 397, 399-400 (Tex. App.—Hous. [1st Dist.] 1993) (despite extensive evidence of publication of allegations of theft leading to employee’s termination, there was no evidence that any supervisor made a defamatory statement about terminated employee, and “a circulation of rumors and gossip among store employees probably triggered by [plaintiff]’s removal by [supervisor] and his continued absence from the selling floor” was not actionable against employer).

There is no evidence that [supervisor] Wellborn or any other HL&P supervisor communicated the accusation to persons not reasonably interested in the subject matter. The unauthorized gossip spread by unidentified co-workers of [departed employee] Danawala does not take the defendants outside the scope of their qualified privilege.¹⁴⁴

Unauthorized gossip, not related to the workplace investigation, after the employee’s departure: Care should be taken after an investigation has concluded, and an employee has departed, to train remaining personnel in how to handle communications with third parties regarding the departed employee. If the departed employee, now the subject of a trade secret suit, should learn of accusatory statements made about him or her to third parties, a defamation claim may result. In this scenario, with the workplace investigation having concluded, the corporation no longer can claim the qualified privilege for statements made in furtherance of the investigation. The corporation may, however, be able to show that any gossip by its remaining personnel following the employee’s departure was unauthorized, made outside the scope of employment, and thus the sole responsibility of the gossiping employee and not the corporation. In the defamation context, showing that an employee was acting in the course and scope of her employment, so as to hold the employer liable for any defamation committed by the employee, requires evidence that the employee’s statements were made in furtherance of the employer’s business and to accomplish the objective for which the employee was employed.¹⁴⁵ In *Minyard Food Stores v. Goodman*, the Texas Supreme Court rendered judgment that a defamed employee take nothing from her employer, holding that no evidence showed that manager’s defamatory statements about employee “were in furtherance of [employer]’s benefit, and for the accomplishment of the object for which the [manager] was hired,” thus no evidence showed manager “was acting in the course and scope of his employment with [employer].”¹⁴⁶

A company may find it helpful to prepare and circulate a written statement to remaining personnel that instructs them as to how to conduct themselves

¹⁴⁴ *Danawala*, 14 F.3d 251 at 255.

¹⁴⁵ *Minyard Food Stores, Inc. v. Goodman*, 80 S.W.3d 573, 578 (Tex. 2002).

¹⁴⁶ *Id.* at 579.

when communicating with third parties about the departed employee.

Extrajudicial statements by management: As shown above, management must take particular care with regard to any statements they make to third parties about a former employee. As the Fifth Circuit Court of Appeals held in *Fiber Systems Int'l, Inc. v. Roehrs*, “Texas case law firmly establishes that falsely accusing someone of stealing or calling someone a ‘thief’ constitutes defamation *per se*.”¹⁴⁷ The defendants in that case, former officers and directors of Fiber Systems, were accused of having misappropriated the company’s trade secrets, and having used them without authorization in their new companies.¹⁴⁸ The defendants filed a defamation counterclaim, asserting that Fiber Systems made statements to third parties accusing the defendants of being thieves and having stolen the company’s intellectual property.¹⁴⁹ At trial, the jury awarded the five individual defendants \$100,000 each in compensatory damages and \$1,000,000 each in punitive damages (which latter amount was reduced by the district court to \$200,000 in punitive damages for each defendant, pursuant to Texas’s cap on punitive damages awards).¹⁵⁰ The Fifth Circuit affirmed the trial court’s denial of Fiber Systems’ motion for judgment as a matter of law, or for new trial, on the individual defendants’ defamation counterclaim.¹⁵¹

B. Intentional Infliction of Mental Distress

Seldom a winner, but almost omnipresent among counterclaims filed by departing employees, is a claim for intentional infliction of mental distress. To establish this claim, the counterclaimant must prove:

- (1) the counterdefendant acted intentionally or recklessly;
- (2) its conduct was extreme and outrageous;

¹⁴⁷ *Fiber Systems Int'l*, 470 F.3d at 1162.

¹⁴⁸ *Id.* at 1155-56.

¹⁴⁹ *Id.* at 1156. As the Fifth Circuit emphasized, the company’s principal had admitted in deposition testimony that he personally had told a third party that “the defendants [are] thieves or have stolen property,” and also admitted that a Fiber Systems employee had told a third party that the defendants had misappropriated intellectual property, and was “absolutely” authorized by Fiber Systems to make that statement. *Id.* at 1161-62.

¹⁵⁰ *Id.* at 1155-56.

¹⁵¹ *Id.* at 1171.

(3) its actions caused the counterclaimant emotional distress; and

(4) the emotional distress was severe.¹⁵²

“Meritorious claims for intentional infliction of emotional distress are relatively rare precisely because most human conduct, even that which causes injury to others, cannot be fairly characterized as extreme and outrageous.”¹⁵³ The element of “extreme and outrageous conduct” is satisfied only by conduct “so outrageous in character, and so extreme in degree, as to go beyond all possible bounds of decency, and to be regarded as atrocious, and utterly intolerable in a civilized community.”¹⁵⁴

The Texas Supreme Court has described this tort as “first and foremost, a gap-filler tort, judicially created for the limited purpose of allowing recover in those rare instances in which a [party] intentionally inflicts severe emotional distress in a manner so unusual that the victim has no other recognized theory of redress.”¹⁵⁵ As such, recovery cannot be had on this claim where the risk of emotional distress “is merely incidental to the commission of some other tort.”¹⁵⁶

Generally, a claim of mental anguish damages must be supported by direct evidence that the nature, duration, and severity of mental anguish was sufficient to cause, and causes, either a substantial disruption in the plaintiff’s daily routine or a high degree of mental pain and distress.¹⁵⁷ To prove an action for severe emotional distress, the claimant must establish his distress was severe.¹⁵⁸ Emotional distress includes painful emotional and mental reactions, such as embarrassment, fright, horror, grief, shame, humiliation, and worry.¹⁵⁹ Severe emotional distress is emotional distress that no reasonable person could

¹⁵² *Kroger Texas Limited Partnership v. Suberu*, 216 S.W.3d 788, 795-96 (Tex. 2006).

¹⁵³ *Id.*

¹⁵⁴ *Kroger Texas Limited Partnership*, 216 S.W.3d at 796.

¹⁵⁵ *Hoffman-LaRoche, Inc. v. Zeltwanger*, 144 S.W.438, 445 (Tex. 2004).

¹⁵⁶ *Standard Fruit & Vegetable Co. v. Johnson*, 985 S.W.2d 62, 68 (Tex. 1998).

¹⁵⁷ *Bentley v. Bunton*, 94 S.W.3d 561, 606 (Tex. 2002).

¹⁵⁸ *Texas Farm Bur. Mut. Ins. Cos. v. Sears*, 84 S.W.3d 604, 610 (Tex. 2002); *Bradford v. Vento*, 48 S.W.3d 749, 758 (Tex. 2001); *Morgan v. Anthony*, 27 S.W.3d 928, 929 (Tex. 2000).

¹⁵⁹ *GTE Southwest, Inc. v. Bruce*, 998 S.W.2d 605, 612-13 (Tex. 1999).

expect to endure without undergoing unreasonable suffering.¹⁶⁰

In defending against this counterclaim, it is helpful to pin down the counterclaimant during discovery on exactly what actions are asserted as the basis for the claim; often, the challenged action is simply the decision to terminate the counterclaimant's employment, which falls far short of rising to the level of "extreme and outrageous" conduct. It also is helpful to get the counterclaimant to describe every way in which the challenged action(s) caused severe emotional distress. Have the former employee describe a typical day in his or her life, and explain how it differs from life before the challenged action(s). Learn who the former employee has spoken with about the impact of the challenged actions, and demand a copy of his or her medical history. Taking these steps early in the case will help build a strong defense before mediation or settlement talks get far down the road, and often will support a strong motion for summary judgment.

C. Tortious Interference

To prevail on a claim for tortious interference with prospective business relations, a party must prove:

- (1) a reasonable probability that the counterclaimant and a third party would have entered into a contractual relationship;
- (2) that an independently tortious or wrongful act by the counter-defendant prevented the relationship from occurring;
- (3) that the counter-defendant did the act with the conscious desire to prevent the relationship from occurring or knew the interference was certain or substantially certain to occur as a result of the conduct; and
- (4) that the counterclaimant incurred actual harm or damage as a result of the interference by the counter-defendant.¹⁶¹

Not infrequently, the underlying basis for this claim is asserted to be that the corporation, through its remaining personnel, has prevented the former

¹⁶⁰ *Id.*; *Blanche v. First Nationwide Mortg. Corp.*, 74 S.W.3d 444, 454 (Tex. App. – Dallas 2002, no pet.).

¹⁶¹ *Astoria Indus. of Iowa, Inc. v. SNF, Inc.*, 223 S.W.3d 616, 632-33 (Tex. App.—Fort Worth 2007, pet. denied).

employee from finding subsequent employment either (i) due to the filing of the lawsuit itself (not actionable, as discussed earlier), or (ii) by false statements by company personnel to the prospective employers. The corporation will find it helpful during discovery to commit the former employee as to the specific prospective business opportunities alleged to have been interfered with, and to gather a complete history from the former employee—and from each alleged prospective employer—of their prior dealings and the basis on which either would assert that a contractual relationship had been reasonably likely to occur. The corporation also will find it helpful to fully explore the former employee's basis for claiming actual harm or damage from the alleged interference—particularly if the former employee ultimately succeeded in securing permanent employment with another employer; this may involve, among other things, comparing the salary and benefits with the new employer against those reportedly offered by the prospective employer.

D. Other Counterclaims

Other counterclaims a departing employee may assert include bad faith litigation, malicious prosecution, negligence, and, occasionally, assault and battery. The standards for each will be addressed briefly.

Bad faith litigation. Courts presume lawsuits to have been brought in good faith, and to pursue a claim of bad faith litigation, the claimant must introduce evidence to disprove this presumption.¹⁶² That is, the claimant must produce evidence of the subjective state of mind of the party filing the litigation.¹⁶³ "Bad faith does not exist when a party merely exercises bad judgment or is negligent; rather bad faith is the conscious doing of a wrong for dishonest, discriminatory, or malicious purposes."¹⁶⁴

Malicious prosecution. To prevail on a claim of malicious prosecution of a civil suit, a claimant must establish: (1) the institution or continuation of civil proceedings against the claimant; (2) by or at the insistence of the other party (i.e., the plaintiff/counter-defendant); (3) which proceeding was begun with

¹⁶² *Daves v. Daniels*, 319 S.W.3d 938, 940 (Tex.App.-Austin 2010, pet. denied); *Appleton v. Appleton*, 76 S.W.3d 78, 86 (Tex.App.—Hous. [14th Dist.] 2002, no pet.).

¹⁶³ *Mattly v. Spiegel, Inc.*, 19 S.W.3d 890, 896 (Tex. App.—Hous. [14th Dist.] 2002, no pet.).

¹⁶⁴ *Elkins v. Stotts-Brown*, 103 S.W. 3d 664, 669 (Tex. App.—Dallas 2003, no pet.).

malice; (4) lack of probable cause for the proceedings; (5) termination of the proceedings in favor of the claimant; and (6) special damages.¹⁶⁵ Thus, the filing of the trade secret suit itself cannot form the basis for a malicious prosecution *counterclaim* brought in the same suit. Additionally, special damages require proof of something more than “ordinary losses incident to defending a civil suit, such as inconvenience, embarrassment, discovery costs, and attorney’s fees. The mere *filing* of a lawsuit cannot satisfy the special injury requirement.”¹⁶⁶

Negligence. To prevail on this claim, the counterclaiming defendant must show a legal duty owed to them by plaintiff/counter-defendant; (2) a breach of that duty; and (3) damages proximately caused by the breach.¹⁶⁷

Assault and battery. The tort of civil assault requires proof of the same elements required for criminal assault.¹⁶⁸ “Under Texas Penal Code section 22.01(a)(3), an assault occurs when a person intentionally or knowingly causes physical contact with another when the person knows or should reasonably believe that the other will regard the contact as offensive or provocative.”¹⁶⁹

False imprisonment. The elements of a false imprisonment claim are (1) willful detention, (2) without consent, and (3) without authority of law.¹⁷⁰ Where, for example, a former employee contends that he or she was momentarily impeded from leaving an exit interview or supervisor’s office, it may amount to no evidence of detention. Reported decisions exist in which a complainant alleged a specific length of time of detention, ranging from 5 minutes to 45 minutes; nonetheless, each was held not to have been falsely imprisoned.¹⁷¹ Here again, it is helpful to force the

counterclaimant to commit during discovery to a narrative of the alleged false imprisonment, and to then interview any witnesses to the event.

E. Strategies For Addressing A Former Employee’s Counterclaims

From the beginning, the counterclaims must be taken seriously, and counsel should discuss with the client the possible basis for the counterclaims, interview potential witnesses still in the client’s employ, and think about preserving these witnesses’ testimony. Before the initial deposition of the former employee—which could occur very early, if expedited discovery is sought and granted—counsel must know the pertinent case law for each possible counterclaim. The former employee should be deposed on the basis and underlying facts for each counterclaim and admissions should be sought for each element. Counsel should ask the former employee to disclose the name and contact information for all persons with knowledge of each counterclaim and the expected substance of their testimony. Counsel then should reach out to these third parties, try to informally discuss the person’s knowledge of the facts, and try to secure an affidavit; failing that, consider deposing the third party. Counsel should be well aware of the summary judgment deadline and consider an early summary judgment motion¹⁷² on the counterclaims, possibly before mediation.

demanding [complainant] permit his bags to be searched,” inspired in complainant a fear of injury, during a “confrontation [that] lasted less than five minutes” was held insufficient to raise a fact issue as to false imprisonment); *see also Safeway Stores v. Amburn*, 388 S.W.2d 443, 446 (Tex. App.—Fort Worth 1965, no writ) (deciding that complainant was not falsely imprisoned during confrontation that lasted “thirty to forty minutes”); *Ameen v. Merck & Co., Inc.*, 226 Fed. Appx. 363, 374-375 (5th Cir. 2007) (no false imprisonment where female employee was questioned “about violations of company policy for about 45 minutes, in a hotel room, during which she cried ‘pretty hysterically,’” then “was moved to another hotel room, where she was instructed that she should not leave, use her cell phone, or talk to anyone,” where she remained for another “30-45 minutes,” and “was under the watch of a security guard, whom she believed would prevent her from leaving even though the door to the hotel room was open”).

¹⁶⁵ *Texas Beef Cattle Co. v. Green*, 921 S.W.2d 203, 207 (Tex. 1996).

¹⁶⁶ *Id.* at 208-09 (orig. emph.).

¹⁶⁷ *D. Houston, Inc. v. Love*, 92 S.W.3d 450, 454 (Tex. 2002).

¹⁶⁸ *Johnson v. Davis*, 178 S.W.3d 230, 240 (Tex. App.—Hous. [14th Dist.] 2005, pet. denied).

¹⁶⁹ *Id.*

¹⁷⁰ *Wal-Mart Stores, Inc. v. Rodriguez*, 92 S.W.3d 502, 506 (Tex. 2002).

¹⁷¹ *See, e.g., Broadnax v. Kroger Texas, L.P.*, 2005 WL 2031783, *9-11 (Tex. App.—Dallas 2005, no pet.) (detention by a security guard who stood in front of complainant, “had the ‘specific intent’ to confine him,” “restricted my movement without my consent,” “made it clear to me that I was not free to leave,” “yelled,

¹⁷² It is not uncommon for the former employee’s response in opposition to such summary judgment motion to contain an affidavit, filed by the former employee, striving to create a fact issue to keep alive as many of the counterclaims as possible. Rule 166a(f) of the Texas Rules of Civil Procedure requires summary

V. CONCLUSION

The analysis of whether or not to launch a trade secrets suit against a former employee should begin with a rigorous analysis of the facts in view of the *In re Bass* factors to decide whether trade secret status can be established. If the *Bass* factors suggest that trade secret status may be difficult to establish, counsel should continue to analyze the facts of the case to see whether they support another cause of action that courts have recognized in similar situations, such as those discussed in Section II.C.

Before filing suit, care should be taken to scope out possible computer forensic examination of the former employee's computers, network shares, and data storage devices. This may be the subject of an expedited discovery motion, and thus the scope of the examination as well as the possible privacy related counterarguments that will be raised by the former employee, should be considered in detail. It will be helpful to have consulted with a computer forensic specialist, and to have prepared a proposed examination protocol, by the time such discovery is sought.

From the outset, evaluate potential counterclaims that the former employee could bring, and plan to address such counterclaims early in the case, to limit the potential risk to the client as well as the potential leverage to the other side that they may provide.

And it is well to bear in mind the human aspects of the case, and the potential stress that the former employee and his/her family may be facing. Care can be taken to pursue the case while always maintaining respect for the individual and his or her particular circumstances.

judgment affidavits to be “made on personal knowledge [and to] set forth such facts as would be admissible in evidence.” Tex. R. Civ. P. 166a(f). As such, hearsay is not permitted, nor are conclusory statements sufficient to raise a fact issue. *Paselk v. Rabun*, 293 S.W.3d 600, 610-11 (Tex. App.—Texarkana 2009, pet. denied) (“Conclusions of the affiant that have no factual support are insufficient to raise an issue of fact, and hearsay statements contained in affidavits are not competent to serve as summary judgment evidence.”)