Presented:
HIPLA Annual Intellectual Property Law Institute
October 4, 2007
Galveston, Texas

Covenants Not to Compete and Effective Strategies to Prevent Unfair Competition

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TABLE OF CONTENTS

TABLE OF CONTENTS
(CONTINUED)

PAGE

TABLE OF CONTENTS
(CONTINUED)

PAGE

I. SECRETS LEAD TO ADVANTAGE

Every business and every individual employee seeks to establish and maintain a competitive advantage. With the ubiquity of the Internet, sophisticated notebook computing, handheld electronic storage devices, and telecommuting, valuable confidential information is transported out of every company each workday and most weekends. In today's business climate and culture, employees move from one company to another with unprecedented frequency. Employees are often confused about what knowledge and information belongs to the employer and what is within the realm of general knowledge, skill, and experience. The risk of misuse and improper disclosure of secrets is high.

Nevertheless, employers all too often fail to take steps to protect themselves—at least until someone takes advantage of them. The typical employer usually does not have appropriate policies, procedures, or agreements in place to demonstrate to a court and jury the true nature and extent of the employee's misconduct, or at least to do so in a cost-effective manner. This paper examines steps employers may take under the laws of Texas and California, two centers of high-tech industry, to prevent employees from disclosing and misappropriating trade secrets either during or after their employment.

Texas law is against employee dishonesty and provides some assistance for employers who fail to plan. But many times those damage control actions are expensive and achieve less than the employer would wish, especially when the employer looks backward and considers what might have been achieved if a comparatively modest amount of time and money had been invested in defensive policies, procedures, and agreements. Fortunately, the opportunity for a company to proactively protect its trade secrets has perhaps never been more promising, as a recent Texas Supreme Court decision[1] has removed much of the confusion that has plagued employers' enforcement of noncompete contracts for more than a decade.

California is not unlike Texas, in that its law does not protect employees who act dishonestly by compromising an employer's trade secrets either before or after employment ends. Importantly, however, California follows the Uniform Trade Secrets Act ("UTSA"), while Texas remains one of only four states that continues to depend on the common law as the primary vehicle for protecting employer secrets. Further unlike Texas, covenants not to compete are generally unenforceable in California. As shown below, the laws of Texas and California each present their own unique set of challenges and opportunities for employers seeking to keep their secrets secret.

II. WHAT ARE OUR SECRETS?

Whether in Texas or California, if the company does not have a thorough knowledge of its secrets, it will be impossible to convince anyone that the company actually has intellectual capital worthy of protection. As an initial matter, every employer must be able to answer four key questions. Although the questions appear simple, different representatives of the same employer sometimes have trouble giving consistent answers to these most basic questions.

A. We must know our secrets?

Defining trade secrets and confidential information is a common litigation problem. If the employer waits until key employees have left to compete before defining the information, the employer will inevitably make one of two errors—identify everything about their business as confidential, and thereby look silly during depositions, or fail to identify information that should have been protected.

The first and most important step to protecting the company's confidential information is identifying the things we know that our competitors do not. Only when we know what we have can we take steps to protect it. The departing employee will almost assuredly testify that whatever he took was not considered confidential. Conflicting testimony by company witnesses can be devastating.

Once we reach consensus regarding what is confidential, we can (1) educate employees through appropriate policies concerning use and disclosure of information, (2) adopt appropriate procedures to avoid inadvertent disclosure or theft of information, and (3) draft appropriate agreements concerning post-employment obligations.

- What are our secrets?
- Where are our secrets?
- Why do we care?
- How can we protect them?

We will consider each in turn. Only after we have answered these questions can we determine what policies, procedures, and agreements will provide the proper measure of protection. There is no standard policy, procedure, or employment agreement that will protect every employer. In fact, because courts uniformly want to impose upon employees as few post-employment restrictions as possible, all of these defensive measures must clearly and unambiguously identify precisely what belongs to the employer and be no more restrictive than necessary to protect the employer's legitimate interests.

1. The Definition of a Trade Secret

a. Texas

The generally accepted definition of a *trade secret* in Texas is set forth in the RESTATEMENT OF TORTS, as follows:

> A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know it or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or

> preserving materials, a pattern for a machine or other device, or a list of customers.[2]

In Texas, this can be almost anything, including:

> Any formula, pattern, device or compilation of information that is used in one's business, and which gives one an opportunity to obtain an advantage over competitors who do not know or use it. "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." When money and time are invested in the development of a procedure or device that is based upon an idea which is not new to a particular industry, and when that certain procedure or device is not generally known, trade secret protection will exist. Further, when an effort is made to keep material important to a particular business from competitors, trade secret protection is warranted. Items such as customer lists, pricing information, client information, customer preferences, buyer contacts, market strategies, blueprints and drawings have been shown to be trade secrets.[3]

Subjects as diverse as the kitchen equipment layout of a restaurant,[4] a business plan for helping indigents receive state funds to pay medical expenses,[5] and combinations of well-known parts for servicing oil wells,[6] have all been found to constitute trade secrets under Texas law. Almost anything may be claimed to be a trade secret, as it is not just the object or the idea itself that warrants protection. Rather, it is the circumstances surrounding the use of certain information by the owner, its disclosure by him to another, its acquisition without his knowledge, and the consequences of its unauthorized use that determine if protection is warranted.[7]

Generally, to obtain trade secret protection, the owner must show intent to keep the idea or fact secret.[8] If the owner/employer does not inform others, expressly or through its actions, that the information is confidential—or otherwise fails to take some significant precaution to maintain secrecy—the matter may not be a trade secret.[9] Texas courts consider the following common law factors in determining whether a trade secret exists:

> (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.[10]

In *Lamons Metal Gasket Co. v. Traylor*, an employer never warned the former employee that its machine designs were confidential, did not restrict persons from viewing them (they gave guided tours), and failed to screen or hide the component parts of its machines.[11] Thus, the court determined that the employer did not have the requisite intent to maintain secrecy. By contrast, in *Taco Cabana International, Inc. v. Two Pesos, Inc.*,[12] a Fifth Circuit appellate panel held that because steps were taken to control the dissemination and use of the information at issue, limited disclosure through controlled channels did not destroy the trade secret nature of the information.[13] Even information disclosed to a potential buyer may fall within the ambit of confidential trade secret information if the seller discloses the information solely for the purpose of allowing the potential buyer to appraise its value.[14]

An employer may also wish to protect information that is *confidential* or *proprietary*, but not necessarily considered a trade secret under the Texas definition. Some Texas courts are reluctant to recognize a cause of action for the misappropriation of business information that does not fall within the strict definition of a *trade secret*.[15] Other courts, however, appear either to lessen the requirement for secrecy or to recognize "confidential" or "proprietary information" as a separate category of protectable information.[16]

One important factor in determining if non-trade-secret information may be protected is the form in which it is held or compiled. An employer may reformat or compile publicly attainable information or documents in a more usable form, and in so doing, give the newly formatted information protected status.[17] A more usable compilation or technique is often developed only via unfruitful trial and error, at significant cost to the employer. If a competitor takes this information through some breach of confidence and does not expend the time or money necessary to go through the trial and error process, the competitor may have engaged in unfair competition.[18]

b. California

As stated above, California, unlike Texas, adheres to the Uniform Trade Secrets Act ("UTSA"). Under the UTSA, California Civil Code section 3426.1(d), a *trade secret* is defined as:

> [I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2) The subject of efforts that are reasonable under the circumstances to maintain its secrecy.

This definition covers economically valuable information that is not generally known to competitors. The statute protects not only *actual* secret valuable information, but also information that may be of *potential* value to the holder. The concept of a trade secret in California also includes information that has negative value (*e.g*., the results of research that prove that a certain process will not work).

It is important to remember that because the statute specifically defines what constitutes a trade secret, individuals and companies cannot expand the scope of trade secret protection by defining certain information as a trade secret in confidentiality agreements or in company policies. For information to be regarded as a trade secret, the employer must be able to demonstrate that the information is valuable because it is not known to competitors and is the subject of reasonable efforts to keep it confidential. In

California, like Texas, trade secrets may include not only formulas or other unpatented devices, but also customer lists, business plans, corporate minutes, spreadsheets, certain pricing information[19] or other information that could be damaging to a company if it fell into the wrong hands.

Based on precedent, some information is not likely to be considered a trade secret under the UTSA. Information that is generally known or utilized throughout the industry or that constitutes a form or procedure widely used throughout an industry does not constitute a trade. secret.[20] Matters that can be completely disclosed by marketed goods similarly cannot be considered a manufacturer's secret. This principle is demonstrated in *Futurecraft Corp. v. Clary Corp.*, where an employer sought to enjoin wrongful use and disclosure by a former employee of alleged trade secrets consisting of valve design features. The court found no breach of confidentiality since it appeared that the alleged trade secrets were completely disclosed in each valve that was sold.[21] Employee salary data has also been held not to be a trade secret, even when kept confidential, because it has no independent economic value to the employer. However, disclosure of other employees' confidential salary information may be a breach of fiduciary duty and an unfair business practice.[22]

The statute also requires that reasonable efforts be made to maintain the secrecy of the information. The company seeking to protect the trade secret may have to demonstrate that it had a program identifying the secret information, a plan for keeping it secret, and a procedure covering persons who may have access to the secret. The California Senate specifically commented that efforts needed to maintain secrecy include: advising employees of the existence of a trade secret, limiting access on a need-to-know basis, and controlling plant access.[23] The standard for secrecy is reasonableness; the statute does not require extreme and unduly expensive procedures to protect the secret. Moreover, controlled disclosures to employees will not destroy the protected status of the secret.

2. Customer Lists & Customer Information

a. Texas

Texas courts often struggle with how to protect proprietary or confidential information that the employer has developed at significant expense, such as customer lists or customer information. This struggle has caused much confusion and litigation in Texas. In *M. N. Dannenbaum, Inc. v. Brummerhop*,[24] two different lines of authority were identified. As stated in *Dannenbaum*, courts often distinguish between written customer information or lists (cannot use) and customer names retained in the former employee's memory (can use).[25] Other Texas courts analyze the difficulty in obtaining customer lists in determining whether such lists are confidential information.[26] Consequently, the court in *Numed, Inc. v. McNutt* held that if the list of customer information is readily accessible, the list itself may not constitute confidential information deserving of protection.[27] In fact, at least one other court has rejected classifying customer lists as confidential information if the information is accessible to employees who have not been required to sign nondisclosure agreements.[28]

Some Texas courts reject *Numed*'s focus on whether business data compiled by the employer was subject to discovery through independent investigation and look instead to *how* the former employee obtained the information. For example, in *Miller Paper Co*., the Amarillo Court of Appeals declined to focus on whether the information was "readily accessible," holding that it would be difficult to divorce the method of obtaining confidential information from the confidential relationship between employer and employee.[29] The court held that the employer's "book," which contained customer's names, addresses, special billing information, delivery sites, and other customer-specific information compiled over 52 years, was confidential although it contained information that could be discovered independently. The court relied on the fact that the defendant had not actually obtained the information in the public arena, but through his former employer[30] Likewise, in *Deaton v. United Mobile Networks, L.P.*,[31] the court noted that even if "customer information was readily accessible in the industry, liability was appropriate if the competitor actually gained information in usable form while working for the former employer."[32]

b. California

Where an employer's customers are known to the competitors as potential customers, the employer's customer list may not be a trade secret under California law.[33] For example, if a company sells a product or service that is widely used by an easily identifiable and finite set of consumers, then it is unlikely that a court would afford that information trade secret protection. Likewise, a customer's preference in working with a particular employee in a personal service industry may not be a trade secret belonging to the employer.[34] However, several cases have concluded that in some circumstances customer lists can be protected under the Uniform Trade Secrets Act. [35]

In an important case concerning customer lists, *Abba Rubber Co. v. Seaquist*,[36] a California court of appeal discussed the nature and characteristics of customer information that is not generally known by competitors. The court explained that a customer list has competitive value if the names on the list are not generally known to competitors to be purchasers of particular products. Under such circumstances, that information is valuable to competitors because it indicates who would purchase the product, a fact previously unknown to them. The court explained its reasoning by way of an illustration:

> [C]onsider a hypothetical market for widgets, supplied by five widget sellers. There are 100,000 businesses engaged in industries which have been known to use widgets in their operations; however, there is no way for the widget sellers to know for sure which of those individual businesses use widgets and which do not. Seller A has a list of 500 businesses to which he has sold widgets in the recent past. That list proves a fact which is unknown to his competitors: that those 500 businesses are consumers of widgets, the product they are trying to sell. Therefore, it has independent value to those competitors, because it would allow them to distinguish those proven customers, who are definitely part of the widget market, from the balance of the 100,000 potential customers, who may or may not be part of the market. With that list, they would know to target their

> sales efforts on those 500 businesses, rather than on 500 other businesses that might never use widgets.
>
> Now imagine the same facts, but assume that each of the other four sellers of widgets knows that the businesses on Seller A's customer list are proven widget customers (although they do not know that those businesses buy their widgets from Seller A). Under those circumstances, Seller A's customer list has no independent economic value, because the identities of those consumers are already known to his competitors.
>
> In both situations, the identities of the businesses which bought widgets from Seller A are unknown. The distinguishing factor is whether it is also unknown that those businesses bought widgets at all. Thus, the customer list in the first hypothetical would be a protectable trade secret, while the list in the second hypothetical would not be.[37]

In *Courtesy Temporary Service, Inc. v. Camacho*, another California court of appeals found that customer lists may have independent commercial value as a result of the employer's considerable efforts to develop the information.[38] Under such circumstances, the information developed by the employer may be considered to be a protectable trade secret. There, the court held that customer lists of a temporary help agency were protectable trade secrets under the California UTSA. The court did not hold that customer lists of temporary agencies were automatically trade secrets, but rather, that the agency must show that its work effort in compiling the customer list was a lengthy and expensive effort, which constituted a protectable trade secret. Generally speaking, the more time consuming and laborious it is to compile such information, the more likely a court will consider it to be a trade secret.

3. Employee Inventions & Ideas

a. Texas

Employees' ideas and inventions developed during the course and scope of employment may also constitute the property of the employer in Texas, although disputes commonly arise between employees and their employers in this context. For example, in *Elcor Chemical Corp. v. Agri-Sul, Inc.*,[39] the employer sought to enjoin former employees from utilizing trade secrets the employees had developed during the employment relationship. The former employees had developed a process for manufacturing sulfur fertilizer while employed and under express contractual obligations with their employer not to disclose such trade secrets. They secreted this development from their employer and, instead, started a competing corporation to exploit their new process. The court of appeals found ample evidence to uphold the trial court's finding that the employees' invention constituted a trade secret belonging to the employer.[40] The court rejected the employees' argument that the information they utilized could have been obtained from other sources, noting that it had not been so obtained.[41] The court enjoined all of the former employees from using the process and from imparting any information concerning the process to any person or company.[42]

In another case, *Davis v. Alwac International, Inc.*, an action by an employee for past due salary, the employer filed a counterclaim to recover certain improvements made to the company's equipment that were appropriated by the former employee.[43] The court held that if an employee is employed to invent or devise improvements, the resulting patents belong to the employer.[44] The court also observed that the employee who applied for a patent on his invention was an officer and director of the company. This gave rise to a fiduciary relationship in which he "should have exercised the utmost good faith in all transactions touching his duties to [the company]."[45] The fiduciary duty imposed on the officer and director created an obligation to assign any inventions developed during and relating to his relationship to the corporation for its benefit.[46]

b. California

In 1979, the California Legislature enacted Labor Code sections 2870 through 2872 to address the issues of intellectual property ownership in the workplace. Under California Labor Code section 2870 an employer can assign an employee's rights and interests in inventions to an employer. Intellectual property assignment agreements have specific requirements. Such an agreement must notify an employee that the agreement does not apply to inventions that qualify under Labor Code section 2870. In essence, that section provides that the employee is not required to assign any inventions:

- for which no property of the employer was used;
- that were developed entirely on the employee's own time;
- that do not relate to the business, research, or development of the employer; or
- that does not result from any work performed for the employer.

Employees should also be given a copy of California Labor Code sections 2870 through 2872 or notified of its existence.

An employer may also require an employee to disclose his or her inventions during his or her employment provided the employer keeps these disclosures in confidence pursuant to California Labor Code section 2871. An example of an assignment of inventions provision for an employment agreement follows:[47]

> <u>Disclosure and Assignment of Inventions</u>
>
> Employee hereby agrees promptly to disclose to the Company any and all inventions, discoveries, improvements, trade secrets, formulas, techniques, processes, and know-how, whether or not patentable and whether or not reduced to practice, made or conceived by the Employee, either solely or in conjunction with others, during the period of Employee's employment with Company, which relate to or result from the actual or demonstrably anticipated business, work or research in development of the Company, or which result, to any extent, from use of the Company's premises or property, or are suggested by any task assigned to the Employee or any work performed by the Employee for or on behalf of the Company.

> Employee acknowledges and agrees that all such inventions shall be the sole property of the Company, and the Employee hereby assigns to the Company the Employee's entire right and interest in all the inventions; provided, however, that such assignment does not apply to any invention which qualifies fully under the provision of section 2870 of the California Labor Code.

The effect of an improperly drafted intellectual property assignment in California remains unclear. If the assignment agreement does not have all of the requisite elements required by Labor Code section 2870, the employer may only have a nonexclusive license for the invention.

In *Sequoia Vacuum Systems v. Stransky*,[48] an officer and director of a corporation was held to have abused his position of trust and confidence when he gave the design and production of a vacuum system for which he had responsibility to a competing corporation which he had established secretly. The court held that the employee's primary duties of loyalty were to his employer and that, although many of the components of the design were matters of public knowledge and were otherwise available (inasmuch as the employee's particular contribution to the design related to certain custom-made components), by providing that particular information to the competitive entity he deprived his employer of the full benefit of the profit and skill of his ability as a designer. The court reasoned that the employee was required to make a full disclosure of acts undertaken in preparation for entering into competition.[49]

In *Rigging International Maintenance Co. v. Gwin*,[50] a former employee, was accused of unfair competition based on his development of an approved twist-interlock system used in the loading of shipping containers. Prior to his employment with the plaintiff, he had become aware of the inadequacies of interlock systems that were then being used in the industry. Soon after starting work, he approached the president of the company and told him that he had "a real slick idea . . . for a twist-lock control" and provided the president with some general details. The company president advised the defendant that the company was not in the business of manufacturing but rather providing service. Thereafter, the defendant made a drawing of his device and showed it to the company president who again rejected the proposal. At that point, the defendant decided he would complete the project on his own and went a long way towards doing so during his vacation. Shortly after his vacation, the company president became aware that another company was developing an improved twist-lock system. He asked the defendant about it and then urged him to try to develop his idea together with the company's manager.

The defendant and the manager ordered parts to build the model of the system, but shortly thereafter the defendant terminated his employment with the plaintiff. When he received the parts, he returned them to the plaintiff. He then perfected his system and sold it to a prospective customer of the plaintiff, a company for which the defendant had worked for approximately ten years prior to commencing his employment with the plaintiff corporation. The left his employment with the plaintiff thereafter.

The court found that none of the defendant's improvements could be classified as a trade secret owned by the plaintiff employer. According to the common law of California, an employer had a right to enjoin a former employee's use of information amounting to a trade secret only if the former employee acquired the information during the course of his employment. Because the defendant had been aware prior to his employment of the inadequacies of the interlock systems being used by the industry, the employer had rejected the defendant's previous attempts to get it to manufacture a system, and the defendant had all but completed his project during his own time while on vacation, the court found that none of the improvements of the interlock system came to the defendant within the course of his employment.[51]

4. Employee Patents & the Shop-Right Doctrine

The U.S. Congress has also adopted federal statutory provisions that allow for the patenting of inventions and discoveries.[52] Under these provisions, "whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement" to such information and things may receive a patent.[53] However, when an invention or discovery is made in the course of employment, the employer may have rights to the patent by agreement, or by virtue of the *shop-right* doctrine.

The shop-right doctrine is an equitable defense to an action for patent infringement on an invention or discovery and is recognized in both California and Texas. The doctrine "permits an employer whose property is used in the development of an invention to practice the invention nonexclusively without having to pay royalties or obtain an express license from the inventor-employee."[54] The elements of the *shop-right doctrine* have been defined as follows:

> Where an employee (1) during his hours of employment, (2) working with his employer's materials and appliances, (3) conceives and (4) perfects an invention for which he obtains a patent, he must accord his employer a nonexclusive right to practice the invention.[55]

In *Banner Metals*, the California court of appeals was careful to draw a distinction between employment "merely to design or to construct or to devise methods of manufacture" and an "employment to invent." The court defined the *employer's rights* as follows:

> While one who discovers a new principle or improvement in a machine or other device is not deprived of that discovery because he employs others to perfect the details, this is true so long as such improvements do not depart from the original principle and purpose of the employer.[56]

Thus, where the employee devised a completely new invention that had applications beyond those with respect to which the employer primarily was concerned, the court found no reason in equity to assign the rights to the patent to the employer. Shop rights were also found not to exist because the four-prong test set forth above had not been satisfied.

The shop-right doctrine appears to have independent vitality. Therefore, even if an employee is not employed specifically to invent, common law may create a shop right in an invention when the criteria are met. Even if an employee is hired to invent, the employer may not necessarily have rights to the invention for all time. "[A]n employer has no rights in an employee's invention when he rejects the same as impractical."[57]

5. Copyright Ownership & the Work for Hire Doctrine

Under the federal Copyright Act, copyright ownership vests initially in the author or authors of the work at issue.[58] Typically, the author is the party who actually creates the work.[59] However, the Copyright Act creates an exception to this general rule for ownership of "works made for hire."[60] This section of the Copyright Act provides:

> In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.[61]

Included in the definition of "work made for hire," is any "work prepared by an employee within the scope of his or her employment."[62] Accordingly, absent an agreement to the contrary, an employer will be deemed the author of its employees' works for purposes of the Copyright Act.[63] A determination of employee status is vital, as the Act states, absent an agreement to the contrary, works ordered or commissioned by an entity are not deemed authored by the entity unless the work is created by *employees* of the entity.[64] If there is any doubt as to whether an individual qualifies as an employee, it is important that the employer have an agreement that provides that the employer will be deemed the author of and own the rights to all products created by the individual.

III. WHERE ARE OUR SECRETS?

Confidential information can exist anywhere. It can exist in a laboratory, in a notebook, a file cabinet, a blackboard, or on a computer. It can exist in an executive's office, a secretary's desk, the mailroom, the manufacturing plant, the dumpster in the parking lot, and the salesman's apartment. In general, we must consider where our employees are likely to encounter or store confidential information. Who has access to our secrets? Are there certain employees who will always work with confidential information? Are there other employees who will never encounter confidential information? Does the difference in access justify different policies, procedures and agreements?

Is our confidential information difficult to obtain without entering our workplace but clearly visible once entry is gained, *e.g.,* the configuration of our assembly lines? Is our confidential information well-hidden and protected in the workplace but easily transmitted over the internet, *e.g.*, our confidential world-wide marketing plan? As we consider the appropriate policies, procedures, and agreements to adopt, we must anticipate all the places employees are likely to encounter confidential information.

IV. WHY DO WE CARE?

An employer must know which secrets are valuable and which are not. Which secrets give the employer its competitive advantage? To achieve maximum protection, employers should develop an idea as to what their secrets are worth to the company in both the short and long term. Employers should consider how the secrets might be misused and the likely harm to the company, both short and long term, if they are disseminated. How long will the company feel the effects? For instance, is the particular competitive advantage afforded by the secret likely to last 3 months (*e.g.*, the software industry), 3 years (*e.g.*, the automotive industry), or a lifetime (*e.g.*, the formula for Coca-Cola)? To receive protection, employers are usually required to articulate the nature and extent of the harm that has resulted from disclosure or that would likely result from a threatened disclosure. This is another area in which conflicting answers from company representatives may lead to unfavorable results in front of a judge or jury.

V. WHAT CAN WE DO TO PROTECT THEM?

Once we have considered these questions, the employer is ready to develop its defensive strategy. Appropriate policies, procedures, noncompetition agreements, and confidentiality agreements—specifically tailored to the employer's business—each play a part in preventing the unauthorized use, disclosure and dissemination of the company's secrets.

A. Policies

Identify what is considered confidential in employee handbooks or in a memorandum to employees. Avoid sweeping statements to the effect that all business information is confidential. Instead, tailor the policy to meet the needs of the business and to protect truly critical, confidential information. A blanket statement that employees are prohibited from disclosing confidential information has little value. On the other hand, a policy which expressly identifies specific information will likely be considered by the courts as evidence that (1) the information is truly confidential, and (2) some evidence that the employer truly takes steps to maintain the confidentiality of the information (for instance, by communicating to employees the expectation that certain information is considered confidential). Courts are much more likely to award favorable relief when the employer has taken the time to adopt and communicate a policy that explains exactly what is confidential.

Communicate to employees, by word and deed, (*e.g.*, policies, intranet, reminders when employees log on to computers) that access to confidential information is only on a need-to-know basis and, therefore, different employees can be expected to have access to different confidential information depending upon job responsibilities. Make it a violation of company policy to use confidential information for any purpose other than the furtherance of the employer's business. Make it a violation of company policy to disclose confidential information even to other employees if those employees have no need for the particular information.

B. Procedures

Confidential documents should be clearly and consistently marked and identified as "confidential" and should be kept in a secure place. Err on the side of being over-inclusive in marking information confidential. Actually circulate confidential information only on a need-to-know basis. Do not give employees, contractors, suppliers, or customers unlimited access to confidential information. Explain permissible uses and storage methods, *e.g.*, locked desks, file cabinets, and password protected company-supplied electronic storage devices. If the company allows electronic storage upon personal storage devices (*e.g.*, Palm Pilots, Blackberrys, flash drives, or home computers) require employees to sign an agreement that they will surrender the devices to the employer to inspect and delete company information upon termination of employment. Develop a procedure for disclosing information only to persons, employees and nonemployees (including customers) who have signed agreements to keep the information confidential. If access to third parties such as customers or suppliers is unavoidable, obtain the third party's agreement to refrain from unauthorized disclosure.

C. Noncompetition Agreements

1. Texas

The enforceability of noncompetition contracts is governed by statute in Texas.[65] Although appearing relatively simple on its face, Texas courts have subjected the Covenants Not to Compete Act ("the Act") to notoriously complex and often conflicting interpretations. The unfortunate result has been a particularly unsettled state of the law, which has rendered employer's attempts to enforce noncompete contracts a rather unpredictable endeavor for more than a decade.

Mercifully, in October 2006, the Texas Supreme Court resolved some of these uncertainties when it delivered its much anticipated decision in *Alex Sheshunoff Management Services, L.P. v. Johnson*.[66] As discussed further below, *Sheshunoff* dealt primarily with the contract formation process and clarified what the Act requires in terms of the adequacy and timing of consideration. *Sheshunoff* did not, however, eliminate any of the Act's statutory requirements. Beginning with a brief historical overview, the following subsections illuminate what, after *Sheshunoff*, an employer must know in order to draft an enforceable covenant not to compete in Texas. If the employer has shied away from implementing noncompete agreements in the past due to the quagmire of the law, now would a prudent time to reconsider the use of such agreements as *Sheshunoff* unquestionably made the road to enforcement a straighter and easier one to traverse.

a. Historical Development of Texas Noncompete Law

Texas law generally prohibits the enforcement of contracts that are in restraint of trade because this would contravene public policy favoring the free market. Covenants not to compete are generally considered restraints of trade. On the other hand, businesses have a recognized interest in preserving their goodwill as well as protecting their "investments" in their employees, such as specialized training and confidential information. Therefore, although Texas courts have historically viewed them with disfavor, covenants not to compete may be enforced under proper circumstances.

Prior to 1987, state courts in Texas developed common law principles concerning the enforceability of covenants not to compete that focused on the reasonableness of the restrictions. In 1987, however, a landmark decision by the Texas Supreme Court created an exception to the historical approach, which allowed for the judicial reformation of an otherwise unreasonable or overbroad covenant in order to narrow its scope and render it enforceable.[67] In *Hill v. Mobile Auto Trim, Inc.*, the court also adopted a new test known as the *common-calling* standard, and refused to enforce covenants not to compete for any employee in a common calling.[68] To complicate matters, the court did not define what "common calling" actually was. The result was a totally unpredictable test providing employers little meaningful protection.

b. The Texas Covenants Not to Compete Act

In response to the Texas Supreme Court's restrictive view of covenants not to compete in *Hill* and subsequent cases, the Texas legislature passed the Covenants Not to Compete Act in 1989.[69] Following the Act's passage, Texas courts issued conflicting opinions as to whether the Act supplanted or merely supplemented the restrictive common law principles previously established. The legislature responded by amending the Act in 1993, specifically providing that the Act's requirements preempted common law.[70] The amendments stated:

> A covenant not to compete is enforceable *if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made* to the extent that it contains limitations as to *time*, *geographical area*, and *scope of activity* to be restrained that are reasonable and do not impose a greater restraint than is *necessary to protect the goodwill or other business interests* of the promisee. (emphasis added)

Prior to the 1993 amendments, the Act had provided for the enforcement of a covenant not to compete supported by any valuable independent consideration. The legislature deleted this provision and added language apparently requiring that the covenant be ancillary to or "part of" an otherwise enforceable agreement. The amended statute also changed the description of the employer's burden of proof, suggesting that an "at-will" agreement could be the "agreement to which the covenant is ancillary" and, thereby, would be sufficient to support a covenant not to compete. The specific language reads as follows:

> *If the primary purpose of the agreement to which the covenant is ancillary* is to obligate the promisor to render personal services, *for a term or at-will*, the promisee has the burden of establishing that the covenant meets the criteria specified by section 15.50 of this code. (emphasis added)

The Texas Supreme Court has stated, however, that it considers this reference to "at-will" services meaningless.[71] A full discussion of the "ancillary agreement" requirement created by the change in the statute is provided below.

The Act specifically requires a court to reform, or "blue pencil," restrictions that are too broad if reformation is necessary to make the restrictions enforceable.[72] The Act penalizes employers if reformation is necessary by prohibiting the employer from recovering its actual damages.[73] Instead, the employer may only obtain injunctive relief.[74] The Act also provides that an *employee* may recover reasonable attorney's fees in defending against a restrictive covenant if the employee establishes that the employer knew at the time the agreement was executed that the agreement was overly broad and the employer seeks to enforce the agreement to a greater extent than is necessary to protect its goodwill or business interest.[75]

(1) The "Ancillary" & "Otherwise Enforceable Agreement" Test

When is a covenant not to compete *ancillary to* an *otherwise enforceable agreement*? The Texas Supreme Court first addressed the enforceability of a covenant not to compete under the "ancillary to an otherwise enforceable agreement" requirement in *Martin v. Credit Protection Association, Inc*.[76] The *Martin* court employed a two-step inquiry: (1) is the covenant ancillary to an agreement unrelated to the suppression of competition between the parties; and (2) is that agreement otherwise enforceable? In *Martin*, the agreement consisted solely of a covenant not to compete and contained none of the provisions normally associated with an employment contract, such as the term of employment, title, compensation, or duties.[77] Thus, the court held that the covenant was not ancillary to an enforceable employment agreement and refused to enforce it.

In its next major opinion dealing with noncompete agreements, the Texas Supreme Court specifically held that an agreement for at-will employment, without more, does not constitute an otherwise enforceable and ancillary agreement sufficient to support a covenant not to compete.[78] In *Travel Masters*, an employee executed a covenant not to compete at the inception of her at-will employment. Apparently, no other ancillary agreement was involved. The court reasoned that the employment-at-will relationship was not an otherwise enforceable agreement and held that the covenant not to compete, standing alone, was unenforceable.[79] The 1993 amendments to the Act were apparently intended to overrule *Travel Masters* and provide "that at-will personal service contracts are covered."[80] However, the Texas Supreme Court's first decision following the amendments, the footnote-heavy 1994 decision in *Light v. Centel Cellular*, created a new test not clearly contemplated by the statute, the amendments, or the bill analysis.

The *Light* court set forth the following two-part test to address whether an agreement not to compete was "ancillary to an otherwise enforceable agreement":

> (a) the consideration given by the employer in the otherwise enforceable agreement must give rise to the employer's interests in restraining the employee from competing; and
>
> (b) the covenant must be designed to enforce the employee's consideration or return promise in the otherwise enforceable agreement.[81]

This test appears to create a new requirement that the "ancillary agreement" and the covenant not to compete be linked in order to be adequate. Stated differently, the covenant must be designed to enforce some part of the ancillary agreement. As a result, unrelated agreements, such as a simple signing bonus, may not be sufficient to meet the Supreme Court's ancillary test because a signing bonus does not, in and of itself, give rise to the need to restrict an employee's ability to compete.[82] Rather, the employer must generally give (or, as discussed below, promise to give) the employee a protectable interest, such as confidential information, that may have the potential for exploitation by the employee if misappropriated and used in competition against his former employer.[83] Notably, the Act contains no such express limitation.

In addition to establishing this new two-part test, the *Light* court appeared to further opine that the "at the time the agreement is made" language of the Act required that the ancillary agreement had to *be instantly enforceable* when made.[84] Many lower courts interpreted this portion of *Light* to require the presence of an immediately enforceable return promise by the employer to provide confidential information (or some other interest justifying a competitive restriction) at the time the noncompete contract was made. In other words, *Light* strongly suggested that the "ancillary agreement" referred to in the Act could never be a unilateral contract—a contract that is accepted by the employer's performance of its end of the bargain after some period of continued employment. This was a highly impractical test for employers to comply with in the at-will employment context, as most employment relationships involve the gradual accumulation and sharing of confidential information and customer relationships over time.

The result was uncertainty for everyone, as two competing lines of authority developed in the wake of *Light*. Under one line of authority, courts held that, in exchange for the employee's promise not to compete, the employer was free to promise to provide the employee with something (*e.g.*, confidential information) which gave rise to the need for the noncompete agreement. Under this promise-for-promise interpretation of *Light*, so long as the employer actually performed its promise (*e.g.*, actually provided the promised confidential information) at or near the time the contract was formed, the "ancillary to an otherwise enforceable agreement" test would be satisfied.[85] Under the second line of authority, however, other courts held that there was no otherwise enforceable ancillary agreement if the exchange merely consisted of two mutually dependent promises between the employer and the employee. These courts reasoned that because either party could terminate the employment relationship the very next day, such a contractual exchange was illusory. Rather, the otherwise enforceable agreement had to take the form of an *immediately* binding agreement of some kind—either through the employer's instantaneous delivery to the employee of the interest justifying non-compete protection or through modification of its at-will termination rights into a term agreement.[86]

Well aware of the impractical effects engendered by this portion of its holding in *Light*, the Texas Supreme Court reversed course in *Alex Sheshunoff Management Services, L.P. v. Johnson* to expressly hold that executory contracts—contracts that can only be accepted by future performance—are sufficient to support a covenant not to compete even though the agreement depends on the perpetuation of the employment relationship.[87] The *Sheshunoff* decision essentially shifted the analytical focus away from the contract formation *process*, and back to the substantive *content* and *performance* of the contract.

In *Sheshunoff*, the employer, Alex Sheshunoff Management Services, L.P. ("ASM"), hired Kenneth Johnson ("Johnson") to work as a consultant to financial institutions. After five years, ASM promoted Johnson to a director position that required him to cultivate client relationships. In connection with Johnson's promotion, ASM required him to sign an employment agreement that included a noncompete clause. The contract was like an at-will relationship because ASM retained the right to terminate Johnson's employment without cause at any time. The noncompete clause stated that Johnson would not provide or assist in providing consulting services to ASM's clients and prospective clients for a period of one year after his termination. In return, ASM promised to provide Johnson with specialized training and access to ASM's confidential information, which Johnson later received.

Eventually, Johnson voluntarily terminated his employment with ASM and accepted a position with a competing company, Strunk & Associates, L.P. ("Strunk"). ASM filed a suit against Johnson and Strunk for breach of the covenant not to compete, requesting an injunction and monetary relief. After looking to the language in the Act which states that a "covenant not to compete is enforceable if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made," the trial court granted summary judgment in favor of Johnson.[88] The trial court concluded that ASM's promises to provide training and confidential information were illusory at the moment the agreement was made because ASM could have terminated the relationship before providing any confidential information or training to Johnson. This was the result that *Light* apparently required. Accordingly, the Austin Court of Appeals agreed with this reasoning, as had a number of other courts of appeal around the state.

Before the Texas Supreme Court, both parties argued that the Court's prior decision in *Light* controlled, but each gave it a different meaning. Approximately two years after having entertained oral arguments, the Texas Supreme Court sided with ASM and found that the Act's ancillary agreement requirement was met, electing to depart from the analysis in *Light*. Instead, the Court focused on the intent of the statute.[89] In adopting and later amending the Texas Covenants Not to Compete Act, the Legislature had actually intended to make covenants not to compete easier, rather than more difficult, to enforce. Prior versions of the Act, House and Senate bill analyses, and proposed amendments, led the Court to the conclusion that the Texas Legislature's intent in enacting the 1993 amendments was to ensure that "mid-stream" covenants were supported by new consideration—not to require immediately enforceable obligations on the part of the employer.[90] The Court concluded that a contrary interpretation would make it extremely difficult to create an enforceable noncompete in the at-will employment context, which would undermine the intent of the Act and the 1993 amendments to it.[91]

The Court's holding in *Sheshunoff* returns the law of noncompetition agreements in Texas to the Act's "core inquiry" of whether the covenant "contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promise."[92] A covenant not to compete that meets the reasonableness requirements set forth in the statute "becomes enforceable when the employer performs the promises it made in exchange for the covenant." Therefore, the key inquiries will now be: (a) what contractual promises did the employer make, (b) did the employer fulfill these contractual promises, and (c) do these promises and return obligations of the employee justify the noncompete restriction used. An example can be seen in *Sheshunoff* itself, where the Court held that the employee's covenant not to compete was enforceable because the employer actually provided the confidential information and specialized training it had promised in exchange for the employee's promise not to disclose the employer's confidential information.

(a) Agreement Signed After Employment Has Begun

As noted earlier, the 1993 amendments to the Act deleted the independent consideration requirement. This change had a significant impact on agreements signed after employment has begun. It is unlikely that the legislature intended to negate all covenants not to compete unless signed at the beginning of employment. Rather, the legislature likely intended to expand the scope of the ancillary requirement to allow existing contract terms to support a covenant not to compete. Support for this position can be found in the fact that the amendments added language to provide that a covenant not to compete is enforceable if it is "part of" the "otherwise enforceable" agreement. Moreover, the legislature added a specific provision stating that the 1993 version of the Act was intended to preempt common law.

Indeed, the *Sheshunoff* court recently confirmed that the 1993 amendments to the Act were focused upon ensuring that "mid-stream" noncompetition covenants were supported by new consideration.[93] Therefore, past consideration, standing alone remains insufficient to support a covenant not to compete. At least one Texas court of appeals interpreting the Supreme Court's decision in *Light* has stated that new consideration, sufficient in character to give rise to the need for a non-compete agreement, may be necessary when asking current or former employees to sign noncompetition agreements. In *CRC-Evans Pipeline International v. Myers*[94] held that the employer must actually receive the promised *new* trade secrets or confidential information subsequent to signing the covenant, or the ancillary agreement will remain illusory and fail for lack of consideration. For example, a former CRC-Evans employee returned to the company after a hiatus and, upon returning, was asked to execute a noncompetition agreement. The employee, however, did not receive any new trade secrets or confidential information. The court found there was no consideration to support the noncompete, given the evidence which showed that the employee had already received the purportedly new trade secrets and confidential information prior to executing the agreement.

(2) Reasonable Geographic Area Restriction

Even under common law, the geographic area within which competition was to be restrained had to be narrowly drawn so as to not exceed what is necessary to protect the promisee's business interest.[95] This principle was adopted in the Act.[96]

Generally, a reasonable geographic area is considered to be the territory in which the employee worked.[97] An alternative approach is to limit the geographic restriction to the area of the employer's operations.[98] The type of geographic restriction to be applied, however, may depend on the type of business involved. For example, in *Peat Marwick Main & Co. v. Haass*,[99] the Texas Supreme Court suggested that a restrictive covenant covering all areas where the employer had operations would be too broad because the employer operated all over the nation.[100] By contrast, in *Webb v. Hartman Newspapers, Inc.*, a non-compete agreement was held to be reasonable where the restricted area of operations was limited to the circulation of a small, local newspaper.[101] It also may be reasonable to restrict competition in area or customers with whom the employee worked.[102]

(3) Reasonable Time Restriction

Under section 15.50 of the Act, a covenant not to compete must also contain reasonable time limitations. Texas courts have upheld restrictions ranging from two to five years.[103] For example, in *Staffeldt*, a two-year period following termination of employment was found reasonable.[104] One-year restrictions have been held reasonable in Texas as a matter of law.[105] For most employers, it is important to establish why a specific time period is necessary in light of the character of the employer's operations, because courts will often balance this interest against the hardship to the employee.

A time restriction that depends on an indefinite contingency is unenforceable as written. For example, a clause that prohibits an employee from calling on the former employer's customer *while the customer is under contract with the company* and for one year thereafter would have this problem. If the employer's relationship with the customer continued, the restriction could go on indefinitely.[106]

(4) Reasonable Restriction on Scope of Activity

A covenant not to compete may only place reasonable limitations on the scope of the employee's post-employment activities. As with the preceding requirements, this requirement is satisfied if the court finds that the restraint is tailored to match the beneficiary's (employer's) protectable interest. Most often this restriction should match the activities the former employee engaged in while with the employer.[107] Blanket restrictions on competition with a former employer "in any capacity" have routinely been held unenforceable.[108] For example, according to one court, a covenant not to compete that extends to clients with whom a salesman had no dealings during his employment is unenforceable.[109]

This requirement was a key factor in *Juliette Fowler Homes, Inc. v. Welch Assocs., Inc.*[110] There, the noncompetition agreement contained no limitation on the scope of the activity to be restrained. The restrained party was "prohibited from entering into any form of contract for services or employment in any capacity or position, directly or indirectly, with any past or present clients of [promisee]."[111] The court found this restraint did not have a reasonable limitation on the scope of prohibited activities.

(5) Not Greater than Necessary

The Act requires that the restraint created by the covenant not to compete be no greater than what is reasonably necessary to protect the employer's legitimate interest. Thus, the beneficiary of the covenant must have a legitimate interest worthy of protection.[112] Texas courts, for example, consider the following to be legitimate and protectable interests: business goodwill; trade secrets; exceptional and unique knowledge, skill, and ability; customer lists; actual solicitation of clients; and confidential or proprietary information.

c. Nonsolicitation of Customers

Traditionally, an agreement prohibiting solicitation of customers and employees by a former employee is enforceable if reasonable under the circumstances.[113] More recently, however, Texas courts have been less receptive to blanket restrictions of this nature. In *Travel Masters*, the employer, Star Tours, hired Donna Goldsmith as an office manager.[114] As a condition of her employment, Goldsmith was required to sign a noncompetition agreement whereby she agreed not to solicit any customers of Star Tours for a period of twenty-four months following termination of her employment. Later, Goldsmith left the employ of Star Tours and joined Travel Masters as its president. She then solicited Star Tours' customers for her new employer. The court of appeals determined that the limitations as to time, territory, and activity were reasonable because Goldsmith was free to pursue employment as a travel agent anywhere she desired. The only practical limitation was a prohibition on soliciting her former employer's customers for twenty-four months. The Texas Supreme Court reversed, however, on grounds that the covenant did not meet the "ancillary to an otherwise enforceable agreement" test and, thus, was not a valid covenant not to compete under the Act.[115] Consequently, it appears that even a restrictive covenant which focuses only on solicitation of customers must still meet the requirements of the Covenants Not to Compete Act, even though such a non-solicitation agreement focuses more on preventing diversion of clients than restricting competition in general.

d. Nonsolicitation of Employees

To be sure, there is a substantial difference between a contract that limits a former employee's competitive activity and an agreement to refrain from soliciting a former employer's employees.[116] In *Totino*, the Houston Court of Appeals held, for the first time under Texas law, that a nonrecruitment covenant is not a contract in restraint of trade or commerce.[117] Consequently, according to the *Totino* court, such an agreement is not subject to the strict requirements normally applied to a covenant not to compete.

e. Particular Occupations

(1) Lawyers

In Texas, the Rules of Professional Conduct address noncompetition covenants for lawyers. Rule 5.06 provides generally that "a lawyer shall not participate in offering or making . . . a partnership or employment agreement that restricts the rights of a lawyer to practice after termination of the relationship." Thus, a law firm may not require a lawyer to sign a covenant restricting the lawyer's right to practice law in the community for any period of time after he leaves the firm and, likewise, the employed lawyer may not agree to it. The public policy behind Rule 5.06 is to allow members of the public to select and repose confidence in lawyers of their own choosing without restrictions. An agreement restricting the rights of partners or associates to practice after leaving a firm not only limits their professional autonomy, but also limits the freedom of clients to choose a lawyer.

(2) Physicians & Surgeons

§ 15.50 of the Covenants Not to Compete Act was amended in 1999 to specifically address the limits of an enforceable noncompete agreement applicable to physicians. Under the Act, any covenant not to compete involving a physician must not deny the physician access to a list of patients whom he or she has seen or treated within one year of termination of employment, must provide access to medical records of the physician's patient upon the patient's authorization, and must provide for a buyout of the covenant by the physician at a reasonable price or a price to be determined by a third party.[118] Additionally, any covenant not to compete enforceable against a physician must not prohibit the physician from providing continuing care and treatment to a patient during the course of an acute illness.[119] This statute applies to any covenants entered into on or after September 1, 1999.[120] Prior to the adoption of the Act and its amendments, Texas courts sometimes found noncompete agreements involving physicians to be against public policy if they were not narrowly limited in scope.[121] Presumably, any covenant not to compete entered into with a physician must not only meet the requirements of the newest version of the Act, but must still be reasonably narrow.

(3) Sales People

Covenants not to compete involving sales personnel are subject to the ordinary tests of reasonableness under the previously discussed statute and common law. The Texas Supreme Court and the legislature both have rejected the "common calling" doctrine previously applied specifically to sales personnel. In *B.J. Software v. Osina*,[122] the Houston Court of Appeals held that a salesman's contract covering the scope of his agency, commission structure, and other matters was sufficient to support a covenant not to compete.

By contrast, in *Light v. Centel Cellular Co*.,[123] Light was employed as a salesperson under an employment contract that, among other things, provided for Light's employment to cover a specific service area and provided for specialized training. The agreement was terminable at will. It contained a covenant not to compete, limiting Light's ability to compete for a period of one year following termination in the designated service area or in any future geographic area covered by the employer's expansion of service during Light's employment. As noted earlier, the Texas Supreme Court found this covenant unenforceable because it was not ancillary to or part of an otherwise enforceable agreement. The Supreme Court did not specifically rule, however, on the reasonableness of the covenant's restrictions as to time, geographical area, and scope of activity.

(4) Key Executive Employees

Historically, restrictive covenants on key management employees and those with highly specialized and confidential roles are more easily enforced than others. Although results vary with the facts of each case, this has been particularly true where the executive had personal contact with customers.[124]

(5) Independent Contractors

The Texas noncompete statute does not make a distinction between employees and independent contractors, but rather addresses the rights and obligations of "promisors" and "promisees" to agreements "for personal services."[125] Courts addressing the issue have not found any meaningful distinction between employees and independent contractors for purposes of enforcing noncompete agreements.[126]

2. California

a. Noncompete Agreements Are Generally Unenforceable

California Business and Professions Code § 16600 states that: "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." This restriction applies to provisions that prohibit an employee from working for a particular time period, geographic area, or for a class of defined competitors. Furthermore, employment agreements that penalize former employees for working for competitors by depriving them of profit sharing or imposing other penalties are unenforceable in California pursuant to this statute.

This statute represents a strong public policy against post-employment covenants not to compete in employment contracts. In the absence of unfair competition, such post-employment noncompete agreements are unenforceable in California. This general rule is subject to two exceptions, involving the termination of ownership interests and/or the sale of the good will of a business.

In California, an employer may restrain, by contract, only that conduct of a former employee that could be restrained under the law of unfair competition.[127] California Business and Professions Code § 16600 has been held to invalidate employment contracts that prohibit employees from working for a competitor post-employment unless necessary to protect an employer's trade secrets.[128]

The scope of the prohibition against noncompetition agreements found in California Business and Professions Code § 16600 is currently being considered by the California Supreme Court in *Edwards v. Arthur Andersen, LLP.*[129] *Edwards* involves a former employee of the accounting firm who had signed a noncompetition and customer nonsolicitation clause while working for Arthur Andersen, LLP before it ceased its operations in 2002. The successor entity to Arthur Andersen, LLP sought to enforce the noncompetition and customer nonsolicitation clauses on the basis that they were only "narrow restraints" upon trade. The state appellate court in *Edwards* flatly rejected the so-called "narrow restraint doctrine," which is embraced by the federal Ninth Circuit Court of Appeals.[130] Due to the split of authority between the state and federal courts, the California Supreme Court granted review of *Edwards* on November 29, 2006. As of the time of this paper's drafting, the California Supreme Court had not yet issued a ruling in *Edwards*. Most commentators expect that the California Supreme Court will uphold the state appellate court's ruling in *Edwards* and reject the narrow restraint doctrine as violating California's long-standing prohibition on covenants not to compete found in Business & Professions Code § 16600.

Not only is a California employer unlikely to succeed in litigation against a former employee for competing against it in the absence of unfair competition, but a former employer can itself be sued if it threatens the former employee with litigation in bad faith. In *Herzog v. "A" Co.*,[131] the plaintiff-employee had signed an invention security agreement prohibiting the disclosure of certain confidential matters of the employer. Plaintiff then left his employment and was asked to be a consultant for a competitor. Upon learning of this possible future employment, the former employer advised the plaintiff by letter that any such future employment would result in legal proceedings against him and his new employer. The competitor, as well as other potential employers, decided not to hire plaintiff because of the former employer's threat. The court of appeals found that the threatening letter based merely upon the fact of employment, rather than on any potential use or disclosure of confidential information, served no legitimate purpose and, therefore, was in bad faith.

(1) Policy Considerations Underlying the Prohibition Against Agreements Not to Compete

The prohibition against covenants not to compete contained in Business and Professions Code § 16600 is based on the well-established policy that a person has a substantial interest in the unrestrained pursuit of his or her livelihood and must be allowed to change employers as well as compete with former employers. Judicial reluctance to restrict a person's right to earn a living was first voiced during the reign of Henry V in 1415, when a guild sought to enforce an agreement to restrain a dyer from working in a town for six months. The judge refused to uphold the agreement and found it so offensive that he threatened to fine the party seeking to enforce it.

These policy considerations have survived. In *KGB, Inc. v. Giannoulas*,[132] the defendant, a former employee, had made public appearances as a character called the "KGB Chicken," a costumed chicken performing comic routines. The former employer sought damages and an injunction preventing the former employee from appearing in a chicken suit. The appellate court found that preventing appearances in any chicken suit whatsoever invalidly restricted the former employee's right to earn a living and to express himself as an artist. The court explained that covenants not to compete contained in employment agreements are critically examined, strictly construed in favor of the employee and looked upon with disfavor by the courts. The court distinguished between the sometimes acceptable covenant not to compete in the sale of a business (discussed in the following section) with the unacceptable covenant not to compete in an employee/employer relationship:

> The average, individual employee has little but his labor to sell or to use to make a living. He is often in urgent need of selling it and in no position to object to boiler plate restrictive covenants placed before him to sign. To him, the right to work and support his family is the most important right he possesses. His individual bargaining power is seldom equal to that of his employer. Moreover, an employee ordinarily is not on the same plane with the seller of an established business. He is more apt than the seller to be coerced into an oppressive agreement. Under pressure of need and with little opportunity for choice, he is more likely than the seller to make a rash, improvident promise that, for the sake of present gain, may tend to impair his power to earn a living, impoverish him, render him a public charge or deprive the community of his skill and training. The seller has the proceeds of sale on which to live during his period of readjustment. . . . Usually the employee gets no increased compensation for agreeing to the abstention; it is usually based on no other consideration than the employment itself.[133]

(2) Potential Employer Liability for Requiring Unlawful Agreements Not to Compete

In addition to prohibiting the enforcement of unlawful agreements not to compete, Business and Professions Code § 16600 has been interpreted to permit employees to sue when terminated or denied employment for refusing to enter into an unlawful agreement. In *Latona v. Aetna United States Healthcare, Inc.*,[134] a federal trial court found that an employee had been fired for refusing to sign a noncompete agreement containing language violating Business and Professions Code §16600. Rejecting the employer's argument that § 16600 would not apply unless it attempted to enforce the agreement, the court found that the employee's termination violated the public policy contained in § 16600 and therefore supported an action under the Act.[135]

Such claims permit recovery of extensive tort-type damages such as lost pay, lost benefits, emotional distress, and punitive damages. Further, in *Playhut*, the court found that the entire employment agreement violated public policy despite language "severing" any unlawful terms. Employers are therefore advised to ensure that they do not condition employment on execution of an agreement not to compete unless they are certain that no part of the agreement violates California Business and Professions Code § 16600.

The holding in *Playhut, Inc*. was expanded in *Thompson v. Impaxx, Inc*.[136] The plaintiff in *Thompson* claimed that he had been wrongfully terminated in violation of California's public policy against covenants not to compete when he failed to sign a customer nonsolicitation clause.[137] The court in *Thompson* reiterated California's long-standing policy against covenants not to compete, and found that customer nonsolicitation clauses are void unless necessary to protect legitimate trade secrets.[138] In *Thompson*, the plaintiff's complaint actually admitted that the identities of its customers were not a trade secret, so the court reversed and remanded the trial court's ruling.[139] In doing so, the court in Thompson opened the door for the plaintiff's theory that he had been wrongfully terminated for declining to sign a customer nonsolicitation clause.

b. Statutory Exceptions to the Rule Prohibiting Noncompete Agreements

California Business and Professions Code § 16601 carves out an exception allowing for enforcement of covenants not to compete where the contracting party sells or disposes of stock, assets, or other interests in its business and transfers goodwill to the buyer. This statute is designed to prevent "such competition [that] would diminish the value of the business which had been purchased."[140] However, the number of shares transferred should constitute a substantial interest in a corporation such that the corporation's goodwill is clearly transferred.[141] In *Bosley Medical Group*, the court denied the enforcement of a noncompete provision that required employees to purchase a small number of shares and then resell them upon termination.[142]

A merger is a sale or disposal of stock that invokes § 16601. The covenant not to compete does not need to be in the merger agreement, but can be in a separate employment contract connected with the merger and referenced in the merger agreement.[143] In *Hilb*, an insurance company owned by two shareholders entered negotiations with a larger corporation to merge. After agreement was reached, the two shareholders signed two separate agreements: (1) an "Agreement of Merger"; and (2) an "Employment Agreement and Covenant Not to Compete." The defendant, Stanley R. Ross, signed both agreements and received $52,500 in consideration for his promise not to compete with his new employer. Two and one-half years later, Ross resigned and went to work for a competitor. Ross's former employer sought an injunction to keep Ross from misusing trade secrets and violating the covenant not to compete. Under this factual situation, the court turned to whether a merger invoked § 16601 and whether the covenant not to compete was required to be located in the merger agreement to be valid.

On the first question, the court determined that the merger between the two entities in this case was a sale and a disposal of stock that invoked § 16601. In the merger, Ross transferred all his shares to the new employer for valuable consideration. In return, the new employer received all the assets of Ross's business, including the goodwill. In this situation, § 16601 was invoked. On the second question, the court determined that the covenant not to compete does not have to be located in the merger agreement to be valid. The merger agreement entered into by Ross referred to the employment agreement and the covenant not to compete, stating that the covenant not to compete was a key element of the transaction. The two documents also cross-referenced each other. Because there was no doubt that the covenant not to compete was a necessary condition to the merger and because valuable consideration was paid for the covenant not to compete, the court concluded that the covenant not to compete was enforceable even though it was not located in the merger agreement.

An agreement not to compete also must be reasonably limited in time, scope, and geographical area. For example, the geographic scope of the noncompetition clause needs to be limited to the cities or counties in which the business being purchased is operated. In spite of an express term of duration, however, if the buyer or his or her successor ceases doing business, the covenant must terminate, thereby allowing the seller the opportunity to reenter the market competitively. § 16601 of the Business and Professions Code, permitting reasonable covenants not to compete in connection with the sale of a business, is not limited to state boundaries by federal regulation of interstate commerce. Nor does the statute's limitation of the scope of the covenants to counties and cities limit the scope to California.[144]

One court found that stock repurchases containing no additional compensation for goodwill are not covered by the express language of Business and Professions Code § 16601.[145] This interpretation may significantly limit an employer's ability to tie noncompetition language to relatively small employee stock repurchases as opposed to the purchase of all or much of an existing business.

§ 16602 of the Business and Professions Code allows the enforcement of covenants not to compete in agreements for dissolution of partnerships. In *South Bay Radiology Medical Associates v. Asher*,[146] the court considered the enforceability of a restrictive covenant in a partnership agreement when one of the partners was withdrawing. The court specifically held that the withdrawal from the partnership was a dissolution that brought the agreement within the exception of § 16602. Section 16602 has long been relied upon to enforce covenants not to compete in professional partnership agreements.[147]

D. Confidentiality Agreements

1. Texas

In Texas, confidentiality agreements are not subject to the extensive statutory restrictions governing the enforcement of noncompetition contracts, which have already been discussed above. Therefore, little, if any, reason exists for an employer to not reinforce its confidential information policy by entering into confidentiality agreements with employees. Texas courts have held that "[b]ecause nondisclosure covenants are not restraints on trade, reasonable time, geographical, and scope-of-activity limitations are not prerequisites to enforceability."[148]

Should a Texas employer seek to enforce a confidentiality agreement, the employer generally need only demonstrate that an agreement was entered, that the particular information is truly confidential (*e.g.,* it is not generally known to the public),[149] and that the employer actually takes reasonable steps to maintain the confidentiality of the information. This is where the employer's policies and procedures all work together with the confidentiality agreement to demonstrate which information is confidential and that the employer took steps to keep it so. If an employee has accepted the benefits of the agreement, the employee may be unable to later claim that the information identified in the agreement was not confidential.[150] If an employer is able to demonstrate that an employee signed a confidentiality agreement (or a noncompetition agreement for that matter) without the intent to perform or with the belief that it was unenforceable, the employee's fraud (entering the agreement without the intent to perform) may bar him from challenging the agreement or the employer may have an affirmative claim for fraud. Similarly, confidentiality agreements that describe the confidential information in terms of the six common law elements of a trade secret can surely give the employer an upper-hand in a potential misappropriation of trade secrets cause of action.

Confidentiality agreements can also provide several other important advantages. Unlike with non-competition agreements, continued employment suffices as consideration for the employee's promise not to disclose confidential information. Moreover, when an employee breaches a confidentiality agreement, an employer that successfully sues to enforce the agreement may recover the attorney's fees expended in doing so. Perhaps most importantly, however, actually drafting a confidentiality agreement compels the author to stop and identify exactly what information is considered confidential within the company—the first step to developing a comprehensive strategy to protect a company's trade secrets.

2. California

Although generally prohibiting noncompetition agreements, California Business and Professions Code § 16600 permits enforcement of an employee's agreement not to disclose his former employer's confidential customer lists or other trade secrets.[151] California courts have held that this statute does not necessarily affect an agreement delimiting how the employee can compete, and that a former employee's use of confidential information obtained from his former employer to compete with it is regarded as unfair competition. Such an agreement must be narrowly tailored, as courts will not "save" an overly broad agreement by limiting it only to unlawful conduct.[152]

A sample agreement prohibiting the use and disclosure of confidential information is provided below:[153]

> Agreement Not to Disclose or Use Confidential Information
>
> During the term of employment with the company, employees will have access to and become acquainted with information of a confidential, proprietary or secret nature which is or may be either applicable to, or related in any way to, the present or future business of the Company, the research and development or investigation of the Company, or the business of any customer of the Company. For example, confidential information includes, but is not limited to, devices, secret inventions, processes and compilations of information, records, specifications and information concerning customers or vendors. Employees shall not disclose any of the above-mentioned trade secrets, directly or indirectly, or use them in any way, either during the term of this agreement or at any time thereafter, except as required in the course of employment with Employer. Employees will abide by the Company's policies and regulations, as established from time to time for the protection of its trade secret information.

VI. EMPLOYER'S CLAIMS AGAINST EMPLOYEES

A. Breach of Contract & Tortious Interference with Contract

1. Texas

Depending upon the agreements in place (or likely to soon be in place), between the employer and the employee or the employer and its customers and prospective customers, each of these claims may be viable against an employee who misuses confidential information or violates a confidentiality agreement or a noncompetition agreement. With respect to claims for tortious interference, Texas law generally prohibits former employees from inducing a client to breach its existing contract with the former employer, inducing the severance of an ongoing informal business relationship with the former employer,[154] or preventing the formation of a prospective client's reasonably probable future business relationship with the former employer.[155]

The Texas Supreme Court held in *Sterner v. Marathon Oil* that interference with an at-will employment contract may be subject to a tortious interference claim.[156] The *Sterner* court reasoned that, "until terminated the [at-will] contract is valid and subsisting, and third parties are not free to tortiously interfere with it."[157] The Court, however, did not specifically address what monetary remedies might be available in such a circumstance. In *Blase Industries Corp.* v. *Anorad Corp.*, the Fifth Circuit Court of Appeals recently cast some doubt as to whether lost profits may be recoverable pursuant to a claim for interference with an at-will employment contract.[158]

The employee in *Blase* worked on an at-will basis for a consulting firm, which provided consulting services to corporations. The employee eventually resigned, stating a desire "to pursue more stable options" and to return to employment in "the corporate world."[159] One of the employee's corporate clients hired him shortly thereafter, allegedly in breach of a no-hire agreement between the firm and the corporate client. The employer claimed tortious interference and sought damages of $341,000 in lost profits, calculated by what the employee was expected to have earned for the firm in net consulting fees in the forthcoming year. The Fifth Circuit rejected this measure of damages as speculative because the at-will employee could have left his employment at any time prior to the end of the next year—the date used for the damages calculation.[160]

While *Sterner* steadfastly remains the law in Texas, it is unclear what true utility a claim for tortious interference with an at-will employment contract may have if lost profits would always be too speculative for recovery.

2. California

A unanimous California Supreme Court rendered its 2004 decision in *Reeves v. Hanlon* in a stated effort to promote and encourage fair and lawful competition.[161] The central issue in *Reeves* was whether inducing an at-will employee to breach an employment relationship could give rise to liability for the employee's new employer. *Reeves* concluded that an aggrieved former employer could "recover for intentional interference with an at-will employment relation" when the employee's new employer engaged in "independently wrongful acts" when inducing the new hire to join its ranks.[162] The court defined *independently wrongful acts* as "an act proscribed by constitutional, statutory, regulatory, common law, or other determinable legal standard."[163]

Recognizing the validity of lawful competition, the California Supreme Court acknowledged that "one commits no wrong merely by soliciting or hiring the at-will employee of another."[164] The California Supreme Court also found that "it is ordinarily not a tort to hire the employees of another for use in the hirer's business."[165] "However, if either the defecting employee or the competitor uses unfair or deceptive means to effectuate new employment, or either of them is guilty of some concomitant, unconscionable conduct, the injured former employer has a cause of action to recover for the detriment thereby suffered."[166]

To balance the competing interests of promoting fair competition, and protecting stable economic relationships, the California Supreme Court adopted its own standard from *Korea Supply Co. v. Lockheed Martin Corp.*,[167] which involved the intentional interference with contracts, and held that standard to be applied to at-will employment relationships, "[t]hat …is, to recover for a defendant's interference with an at-will employment relation, a plaintiff must plead and prove that the defendant engaged in an independently wrongful act — *i.e.*, an act 'proscribed by some constitutional, statutory, regulatory, common law, or other determinable legal standard.'"[168]

In the case before it, affirming the appellate court's ruling, the California Supreme Court found that defendants had unlawfully interfered with the former employer's at-will employment relationships. The court noted that at the time the former employer's at-will employees were being lured away, defendants also mounted "a campaign to deliberately disrupt plaintiff's business."[169] The defendants "unlawful and unethical conduct" included having employees abruptly resign without notice; leaving no status reports for pending matters or deadlines; deleting and destroying plaintiff's computer files and forms; the misappropriating of confidential information, and improperly soliciting plaintiff's clients.[170] By rendering its decision, the California Supreme Court recognized the new business tort of interference with at-will relationships. In light of the new tort of interference at-will relationships, employers should consider whether there is a need for contractual provisions not to solicit existing employees. Given that courts are only likely to enforce employee nonsolicitation provisions if the former employee engages in "unlawful means,"[171] and the new tort of interference with at-will relationships only becomes triggered when the former employee or a third party engages in "unlawful or unethical conduct,"[172] employers may be better served taking advantage of the new tort theory and not relying upon contractual provisions.

B. Misappropriation of a Trade Secret or Confidential Information

1. Texas

In Texas, even without a written contract, an employer may protect a trade secret and prohibit the former employee from disclosing or using it, based on the employee's common law duty not to do so. In *Texas Shop Towel v. Haire*, a Texas court expressly recognized for the first time that in the case of a trade secret, a contract does not create the right to protection, for the right exists by reason of the confidence.[173] A confidential relationship will give rise to an employee's implicit duty not to disclose or use the employer's protected information.[174] When such a confidential relationship has been established, the employer has a qualified right to secrecy, and the employee has a duty not to use or disclose the employer's trade secrets if he knows or should have known that the employer wanted secrecy. That duty continues after the employee is terminated or resigns.[175]

In Texas, liability for misappropriation of a trade secret may require proof: (1) that a trade secret exists; (2) that the trade secret was acquired through breach of a confidential relationship; (3) commercial use of the trade secret without the former employer's authorization; and (4) that the use of the trade secret caused damages to the employer.[176] It should be noted that even though some business information is considered confidential, it may still be obtained by observation, experimentation, or general inquiry. Some Texas courts have acknowledged that obtaining confidential information in this independent way is lawful and is not considered misappropriation.[177] An employer or trade secret owner may protect such information, however, if the competitor gains an unfair competitive advantage by obtaining the information from the former employee in a usable form that allows the competitor to circumvent the efforts of inspection, inquiry, or analysis through the employee's breach of confidence.[178]

Common law trade secret protections in Texas are important because a court may protect trade secrets and confidential information even if refusing to enforce a noncompetition agreement. For example, in *Rugen v. Interactive Business Systems*, a former employee who was subject to a noncompetition agreement resigned and started competing with her former employer.[179] Although the court found the noncompetition agreement unenforceable, the court nevertheless enjoined the former employee from contacting anyone on the employer's confidential customer list. It should be noted, however, that while trade secret protection exists under the common law, employers who want to ensure protection of trade secrets should still strongly consider implementing nondisclosure agreements as well as noncompetition agreements.

2. California

In contrast to Texas, the primary vehicle for a misappropriation of trade secrets claim is statutory in California. Under the California UTSA, there are two types of misappropriation: (1) improper acquisition; and (2) use or disclosure of a trade secret.

First, the acquisition of a trade secret by a person who knew or had reason to know that the trade secret was acquired by improper means can form the basis of liability under the UTSA.[180] *Improper means* includes theft, bribery, espionage, and the breach of a duty to maintain secrecy.[181] The UTSA seems to protect innocent employers who did not know or suspect that one of their employees had acquired a trade secret. A recent case found that "[a]n 'acquirer' is not liable under the UTSA unless he knew or had reason to know that the trade secret was improperly disclosed."[182]

Second, the definition of *misappropriation* includes “disclosure” or “use” of a trade secret without express or implied consent by one who:

1. used improper means to acquire the knowledge of the trade secret; or

2. knew or had reason to know that his or her knowledge of the secret was derived from a person who had utilized improper means to acquire it, acquired it under circumstances giving rise to a duty to maintain its secrecy or limit its use, or derived it from or through a person who owed a duty to the one seeking relief to maintain its secrecy or limit its use; or

3. before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.183

For use or disclosure claims, it is a common misperception that a wrongdoer must abscond with a physical document or somehow electronically transfer trade secret information for the statute to take effect. The UTSA certainly applies to documents and electronic information, but “to afford protection to the employer, the information need not be in writing but may be in the employee’s memory.”[184]

Although not specified under the UTSA, solicitation of customers through the use of a trade secret can constitute misappropriation. The most significant case to address this issue is *Morlife, Inc. v. Perry*.[185] In that case, a California appellate court affirmed a finding that former employees violated the UTSA and the California Business and Professions Code by misappropriating a collection of business cards that an employee had accumulated over six years of employment.

Morlife was in the business of inspecting, maintaining, and repairing roofs primarily for commercial properties. While nearly every business has a roof, not every business needed the types of services provided by Morlife and it was time-consuming and difficult for Morlife to identify potential customers. Two of Morlife’s employees began discussing the possibility of starting their own roofing company, and eventually both resigned during the same time period. Upon leaving, one of these former employees a collection of customer business cards that he had accumulated throughout his employment at Morlife that identified 75 to 80% of Morlife’s customer base. The two former employees used this information to contact former Morlife customers and to seek business for their new competing company. Morlife eventually filed suit alleging violation of the UTSA and unfair competition under California Business and Professions Code sections 17200 *et seq.*

At trial, the court found that Morlife’s customer list constituted a trade secret as defined by the Uniform Trade Secrets Act and that the former employees had jointly misappropriated Morlife’s proprietary information by using their knowledge of Morlife’s customers to solicit their own business. The court granted nearly $40,000 in damages to Morlife as a result of its former employees’ misappropriation.

On appeal, the court agreed that Morlife’s customer list, which had been collected directly from customers, was not "readily ascertainable" through public sources. The court also agreed that the customer list provided economic value to Morlife and had required considerable time and money to collect. Finally, the court agreed that Morlife had taken reasonable steps to protect the information from disclosure: Morlife's president stored the list on a computer with restricted access, required the former sales manager to sign an agreement promising to keep customer names and telephone numbers confidential, and published a handbook policy prohibiting the use or disclosure of confidential information including lists of present or future customers. Based on these findings, the court held that: (1) Morlife's customer list was a trade secret: and (2) by actively soliciting customers on the list (as opposed to merely sending a professional announcement) the former employees had misappropriated the information.

Courts make a significant distinction between merely announcing one's new business affiliation and "soliciting." In fact, the California Supreme Court recently commented that no liability may exist where a former employee merely sends a "professional announcement" identifying his or her new contact information, even where the identities of the customers may be protected as a trade secret under the Uniform Trade Secrets Act.[186]

C. The Inevitable Disclosure Doctrine

1. Texas

In certain situations a court may find that a former employee's disclosure of trade secrets or confidential information is inevitable in a new position of employment, and will issue an injunction to protect the information without a showing of actual disclosure of the trade secrets or confidential information.[187] While this concept is recognized in certain jurisdictions, no Texas court has ever explicitly adopted this doctrine.[188] At least three cases in Texas, however, have recognized that some positions with a competing company can make it so likely that a former employee will use confidential information for the benefit of his new employer or to the detriment of his former employer, that injunctive relief is appropriate.[189]

Typically, to prove inevitable disclosure, a plaintiff must show that the former employee had access to trade secrets or confidential information; the employee was hired by a competitor to whom the trade secrets or confidential information would give a competitive advantage; and the employee's position with the competitor makes disclosure probable because it is inconceivable that he or she can perform his or her duties without using the former employer's trade secrets or confidential information.[190]

2. California

A string of cases in California have held that the "inevitable disclosure doctrine" violates California public policy favoring employee mobility.[191] In *Whyte v. Schlage Lock Co.*,[192] the court held that California does not adopt the doctrine of inevitable disclosure because this doctrine is contrary to California law and policy in that it creates an after-the-fact covenant not to compete restricting employee mobility. Courts applying the doctrine have considered the degree of similarity between the employee's former and current positions, the degree of competition between the former and current employers, the current employer's efforts to safeguard the former employer's trade secrets, and the former employee's "lack of forthrightness both in his activities before accepting his job . . . and in his testimony." The doctrine permits an employer to enjoin the former employee without proof of the employee's actual or threatened use of trade secrets based upon an inference that the employee inevitably will use his or her knowledge of those trade secrets in the new employment. The result is an injunction against the use of trade secrets and an injunction restricting employment without a showing of an actual or threatened misappropriation.

The *Whyte* court found that the decisions rejecting the inevitable disclosure doctrine correctly balanced competing public policies of employee mobility and protection of trade secrets. The court noted that California public policy strongly favors employee mobility and that the doctrine of inevitable disclosure runs counter to that policy. However, the court found that the policy favoring employee mobility does not in and of itself require rejection of the inevitable disclosure doctrine. The court found that the "chief ill" in the covenant not to compete imposed by the inevitable disclosure doctrine is the "after-the-fact nature"—the covenant is imposed after the employment contract is made and therefore alters the employment relationship without the employee's consent. Thus, the doctrine rewrites the employment agreement and such alterations distort the terms of the employment relationship and upset the balance which courts have tried to achieve in construing noncompete agreements. As a result of the doctrine, the employer obtains the benefit of a contractual provision it did not pay for, while the employee is bound by a court-imposed contract provision with no opportunity to negotiate terms or consideration.

D. Other Causes of Action for Combating Unfair Competition

1. Texas

a. Breach of an Employee's Common Law Duties to Employer

Many states recognize a duty of loyalty that employees owe to their employers.[193] Texas employees owe a general *duty of loyalty* to their employers.[194] At least one Texas court has found that an employee violated the duty that he owed to his employer by taking steps to conduct a competing business while still employed by the employer.[195] The duty of loyalty concept in Texas has also been applied to prohibit an employee from performing any act that injures his employer's business,[196] and at least one case has stated the general rule in much broader terms, finding an implied obligation on the part of the employee to perform no act that would have a tendency to injure the employer's business or financial interest.[197] While these common law duties may provide an employer with a means to protect its business interests, carefully drafted agreements and policies will provide the most reliable and effective form of protection.

(1) Positions of Special Trust or Confidence

A confidential relationship is created when an employer grants an employee access to trade secrets or other confidential information.[198] The confidential relationship created by the granting of access to this type of information creates a duty on the employee's part not to misappropriate any of the trade secrets or any other confidential information.[199] The duty of loyalty that attaches in these situations prohibits an employee from disclosing trade secrets or confidential information to which he or she was given access during employment.[200] Texas' common law tort of misappropriation of trade secrets, discussed *supra*, overlaps with the duty of loyalty concept.

Additionally, when an employee is placed in a position of trust or confidence, some Texas courts have indicated that the employee may incur a standing fiduciary duty to the company to not divert corporate opportunities or actively undermine the employer's business.[201] This protection bear some similarities to the corporate opportunity doctrine, which is discussed below in the context of officers and directors. Ultimately, it is again important to recognize that although Texas law protects employers where an employee has been given a special position of trust or confidence, these protections should only be relied upon to supplement written agreements and policies.

(2) Forming a Competing Business

How far may an employee in Texas go, before he resigns, in forming a competing business? An employee's fiduciary duties do not preclude him from actively "making preparations for a future competing business venture," even if this involves secretly joining with other employees to do so.[202] The line between where mere preparations end and actual competition begins, however, is not a particularly bright one. In *Herider Farms-El Paso v. Criswell*,[203] an employee arranged for financing to purchase his employer's business. While still working for his employer, the employee interfered with his employer's lease agreement and convinced the employer to sell the business to him. The court held that the employee had tortiously interfered with the employer's business relationship with its lessor and the employer's lease agreement. In the court's view, this interference breached the employee's duty of loyalty and unfairly strengthened the employee's position as a competitor.[204]

Likewise, in *Learn2.Com v. Bell*,[205] the employer successfully restricted its employees from forming a competing business during their employment. Learn2, which develops and licenses computer-animation software, had provided Bell, one of its high-level employees, with significant exposure to its software technology. Subsequently, Bell and another employee decided to form a competing side business named Media Sync. While employed full time at Learn2, Bell developed computer-animation software for Media Sync and solicited business from Learn2's customers. After Learn2 discovered Bell's involvement with Media Sync, it sought an injunction in federal district court. After hearing evidence on the substantial threat of irreparable injury to Learn2 by Bell, the court granted the injunction and ordered the seizure of Media Sync's computers and computer files.

(3) Officers & Directors

Officers and directors owe fiduciary duties to the corporation; thus, Texas common law provides extra, non-contractual protection against "unfair competition" by these types of individuals. These extra protections consist of a duty of loyalty, a duty of obedience, and a duty of care.[206] As mentioned above, these duties require officers and directors to refrain from conduct that is harmful to their employers. Further, these duties specifically prohibit officers and directors from acting in their individual interest, separate and apart from the interests of their employer.[207] Texas courts recognize the corporate opportunity doctrine, which renders actionable any act by an officer, director, or major shareholder who is a fiduciary that diverts or usurps a corporate opportunity for his or her own benefit.[208] These standards of conduct for officers and directors are in addition to the common law duties they may owe their employers relating to trade secrets and confidential information which they acquire in the course and scope of their duties and in addition to any contractual duties, such as noncompetition and confidentiality.

(4) Pre-resignation Solicitation of Customers

Prior to resigning, an employee may not solicit customers or accounts on behalf of a competitor.[209] But short of outright solicitation of his employer's clients and accounts, what may an employee do prior to resignation? At least one Texas court has held that an employee may notify customers before he resigns that he is severing his business relationship with his employer to engage in a competing business.[210] Other cases, however, simply indicate that an employee is not allowed to solicit the customers before leaving his employment because of the fiduciary duty of loyalty that the employee owes to his existing employer.[211]

(5) Post-resignation Solicitation of Customers

Absent a covenant not to compete or other contractual limitations, an employee is generally free after resignation to solicit customers of his former employer. This principle is described in *Expo Chemical Co. v. Brooks*:

> A former employee may use general knowledge, skills, and experience acquired during his prior employment to compete with a former employer and even do business with the former employer's customers, provided that such competition is fairly and legally conducted.[212]

The question of whether the former employee is competing in a fair and legal manner is to be made on a case-by-case basis. For example, an employee may not solicit customers by using his former employer's trade secrets, by unfairly capitalizing on his former employer's goodwill, or by misappropriating confidential information. Likewise, these activities may not be undertaken in violation of post-termination contractual duties.

(6) Soliciting Employees of a Former Employer

Texas courts have struggled with the issue of whether an individual may solicit the employees of his or her former employer. Many Texas courts permit such solicitation as long as it is done fairly, legally, and after the employee resigns, provided there are no contracts and promises barring the activity.[213] However, the right to solicit employees of a former employer is a qualified right, as evidenced by the court of appeals' holding in *Yost v. Justin Belt Co.*:

> [E]ven in the absence of a contract, a person commits actionable wrong if he induces the servant of another to break his contract or employment with another, to such other's damage, in order for the one inducing the breach to enter into a new contract for his benefit or with the intent to injure the former employer.[214]

Thus, the focus is often on the intent or purpose of the solicitation by the former employee.

Further, a tortious interference claim may arise where the raiding of employees is designed to harm the former employer and its relationships with others. For example, in *Software Systems, Inc. v. Ajuria*,[215] Software Systems, Inc. ("SSI") hired four Mexican nationals to install computer software for its clients, including International Paper ("IP"). SSI's four employees were assigned to IP's headquarters in Memphis, Tennessee, pursuant to a contract between IP and SSI. One of SSI's competitors, Resource Support Associates, Inc. ("RSA") hired the four employees to work for it in Denver, Colorado. After learning of their decision to work for a competitor, SSI sued its former employees and RSA on several grounds, including tortious interference. The employees all testified that they were unhappy with SSI and that their reason for leaving SSI's employment was not because of interference by RSA.[216] Although the Court held that there was evidence that RSA's conduct caused the change in employment and, therefore, denied RSA's motion for summary judgment on the tortious interference claims, there is very little case law in Texas addressing these types of claims and defenses.[217]

Because the tort of unfair competition may "manifest itself in numerous acts or courses of conduct," many other forms of competition may be deemed unfair.[218] Arguably, any conduct that manifests an interest not only to further a competing business, but to injure a former employer's business, may constitute unfair competition.[219] Unfortunately, the Texas legislature has not yet provided a firm definition of unfair competition. Until it chooses to do so, contradictory court decisions will provide uncertain guidance through this murky area of the law.

b. Texas Statutory Causes of Action

In addition to the Texas contractual and tort causes of action discussed above, employers whose trade secrets have been compromised by departing employees should consider pursuing state (and federal) statutory claims. These statutes are important because they may provide for additional protections and remedies beyond those provided in other sources of law.

(1) Texas Theft Liability Act

In addition to the common law causes of action described in this section, the Texas Legislature has afforded trade secrets statutory protection. The Texas Theft Liability Act

("TTLA")[220] provides that a person who commits a theft under the Texas Penal Code[221] is liable for the damages resulting from the theft. Further, each person who prevails in a suit under the TTLA is entitled to court costs and reasonable and necessary attorneys' fees.[222] The Penal Code provides that:

> A person commits an offense if, without the owner's effective consent, he knowingly: (1) steals a trade secret; (2) makes a copy of an article representing a trade secret; or (3) communicates or transmits a trade secret.[223]

For purposes of this statute, *trade secret* means:

> The whole or any part of any scientific or technical information, design, process, procedure, formula, or improvement that has value and that the owner has taken measures to prevent from becoming available to persons other than those selected by the owner to have access for limited purposes.[224]

At the time of this paper's drafting, there appeared to be no reported cases addressing civil liability for the misappropriation of trade secrets under the TTLA.

(2) Harmful Access by Computer Act

As another layer of protection for employers, the Texas Legislature enacted the Harmful Access by Computer (HAC) Act.[225] This Act provides for both civil and criminal remedies.[226] Under the Act, a person who knowingly accesses a computer, computer network or computer system without the effective consent of the owner commits an offense which may be classified as a misdemeanor or felony, depending on whether the actor knowingly obtained a benefit, defrauded or harmed another and the amount of benefit obtained or the extent of the fraud or harm.[227] The HAC Act is broad in its purview and includes in the definition of *harm* "partial or total alteration, damage, or erasure of stored data, interruption of computer services, introduction of a computer virus, or any other loss, disadvantage, or injury that might reasonably be suffered as a result of the actor's conduct."[228] Decisions interpreting HAC are extremely limited, with only one recent case holding that a plaintiff need not plead an injury to maintain a claim under the Act; rather, the plaintiff need only allege that the defendant accessed the computer at issue without effective consent.[229]

2. California

a. Preemption by the UTSA

A federal district court concluded that California's version of the UTSA preempts or displaces certain common law theories.[230] This means that a party asserting a claim under the UTSA cannot simultaneously assert a common law or nonstatutory claim for misappropriation of trade secrets. However, whether information is properly considered to be a trade secret under the UTSA is determined by a jury at trial and is a question of fact. As such, another federal case, which applied California's UTSA, concluded that preemption issues cannot be determined until it is established that the information is properly entitled to trade secret protection.[231]

b. Breach of an Employee's Common Law Duties to Employer

(1) Forming a Competing Business

How far may a California employee go, before he resigns, in forming a competing business? In *Bancroft-Whitney Co. v. Glen*,[232] a corporate officer (Glen), while still employed by Bancroft-Whitney, orchestrated the creation of a western division for Bender Company, a competitor of Bancroft-Whitney. While still serving as an officer of Bancroft-Whitney, Glen signed a contract to become Bender's western division president, and arranged to employ numerous editors from Bancroft-Whitney at the new company. Glen misled Bancroft-Whitney into discounting the possibility of a raid by Bender on Bancroft-Whitney's editorial staff. He also convinced Bancroft-Whitney to postpone salary increases for its editors so that he could offer the same editors competitive salaries at Bender.

The court held that Glen breached his duties as an officer of Bancroft-Whitney, but it declined to establish a clear set of rules.

> The mere fact that the officer makes preparations to compete before he resigns his office is not sufficient to constitute a breach of duty. It is the nature of his preparations which is significant. No ironclad rules as to the type of conduct which is permissible can be stated, since the spectrum of activities in this regard is as broad as the ingenuity of man itself.[233]

In the court's view, an employee can properly purchase a rival business before the end of his employment and can compete immediately after he resigns. However, he is not entitled to solicit customers for his rival business before the end of his employment, nor can he properly engage in other similar acts in direct competition with the employer's business.[234] The significant inquiry is whether the agent's acts constitute a breach of duty under the particular circumstances of the case.[235]

Notwithstanding the breach of duty, an employer may terminate an employee who transfers loyalty to a competitor. Employees may seek outside employment and make preparations to compete while employed without transferring loyalty. However, an employer deserves the individual loyalty of employees during employment and loyalty may be compromised by outside employment. The determination of transferred loyalty sufficient to justify termination will be made on a case-by-case basis.[236]

(2) Pre-resignation Solicitation of Customers

It is settled in California that, even before an employee resigns, he may notify customers that he is severing his business relationship with his employer and engaging in business for himself.[237] However, an employee is not entitled to solicit the customers before leaving his employment because, as an agent, the employee owes his employer a duty of diligent and faithful service.[238] The *Aetna* court defined *solicitation* as a "personal petition and importunity addressed to a particular individual to do some particular thing."[239] The court concluded:

> Merely informing customers of one's former employer of a change of employment, without more, is not solicitation. Neither does the willingness to discuss business upon invitation of another party constitute solicitation on the part of the invitee. Equity will not enjoin a former employee from receiving business from the customers of his former employer, even though the circumstances be such that he should be prohibited from soliciting such business.[240]

Southern California Disinfecting Co. v. Lomkin,[241] illustrates the distinction between merely informing customers of an intent to compete, which is permitted, and actively soliciting their business, which is not. Lomkin was a route salesman for Southern California Disinfecting Company. In April 1958, he resigned and began working for Calar, a competing company. Within a short time, Lomkin diverted much of his former employer's business to Calar. Southern California Disinfecting sued Lomkin, Calar, and its president, Munnecke, for unfair competition. The court held that Lomkin had crossed the line between permissible advertising and impermissible preresignation solicitation.

(3) Post-resignation Solicitation of Customers

In 2004, the California Supreme Court offered significant guidance regarding the scope of an employee's lawful and unlawful solicitation efforts.[242] In *Reeves v. Hanlon*, the California Supreme Court commented that it would have "no quarrel" with a former employee who sent a "professional announcement" to customers, even to clients on a protected trade secret list. The California Supreme Court commented that "merely announcing a new business affiliation, without more, is not prohibited by the UTSA definition of misappropriation because such conduct is 'basic to an individual's right to engage in fair competition.'"[243] Thus, it appears that if a former employee merely sends an announcement to customers stating only his or her name, new address, and new telephone number, then there may be no actionable wrongdoing.

However, if an employee crosses the line, and solicits customers then courts may impose liability if the identities of customers are protected as trade secrets under the Uniform Trade Secrets Act.[244]

(4) Soliciting Employees of a Former Employer

The law of unfair competition has struggled with the recurrent problem of whether solicitation of another employer's employees gives rise to tort liability. The most complete statement of California law is set forth in *Diodes, Inc. v. Franzen*.[245]

> Even though the relationship between an employer and his employee is an advantageous one, no actionable wrong is committed by a competitor who solicits his competitor's employees or who hires away one or more of his competitor's employees who are not under contract, so long as the inducement to leave is not accompanied by unlawful action. In the employee situation, the courts are concerned not solely with the interests of the competing employers, but also with the employee's interests. The interests of the employee in his own mobility and betterment are deemed paramount to the competitive business

> interests of the employers, where neither the employee nor his new employer has committed any illegal act accompanying the employment change.
>
> However, if either the defecting employee or the competitor uses unfair or deceptive means to effectuate new employment, or either of them is guilty of some concomitant, unconscionable conduct, the injured former employer has a cause of action to recover for the detriment he has thereby suffered. Neither the wrongdoing employee nor his new employer will be heard to say that his conduct was justifiable as a part of competitive strife. Their interests under the circumstances are neither equal nor superior to those of the former employer.[246]

In *Diodes*, the court found no liability for solicitation of a competitor's employees where the only wrongdoing alleged was that the employees concealed from the employer that they were leaving to take positions with a competitor. In contrast, liability was found in *Bancroft-Whitney Co. v. Glen*,[247] where Glen not only solicited employees, but misused his position with Bancroft-Whitney to insure the success of the solicitation by persuading Bancroft-Whitney to withhold raises and by deflecting the company's concerns about a possible raid of its editorial staff by a competitor.[248] Thus, unless a company solicits its competitors' employees by using "unlawful means," courts are unlikely to find any actionable injury. "Unlawful means" may include taking a company directory of private telephone or electric mail addresses to solicit existing employees.

(5) Other Unfair Practices

The situations described above represent the most common types of unfair competition. However, since the tort may run the "gamut of human ingenuity and chicanery,"[249] many other forms of competition may be deemed unfair. Arguably, any conduct that manifests an intent not only to further a competing business, but to injure a former employer's business, constitutes unfair competition. An employee may be guilty of unfair competition for misrepresenting, or disparaging the products or services of his former employer; for secretly diverting business to a competitor; or for soliciting only the preferred or most profitable accounts of a former employer.[250] It has been said that a business rival's methods that are extraordinary may constitute unfair competition, though the courts have not defined which acts are sufficiently extraordinary.[251]

Actions for unfair competition are frequently brought in the form of, or in conjunction with, other more well defined torts (*e.g.*, fraud, interference with contract or economic relations, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, breach of confidential relationship, and conversion). Each of these torts has a distinct application, and not all of them are appropriate to every set of facts, but all of them should be considered in deciding whether to take legal action against a former employee.

3. Federal Computer Fraud & Abuse Act

The Computer Fraud and Abuse Act ("CFAA")[252] criminalizes various fraudulent or damaging activities related to the use of computers.[253] The CFAA also authorizes a civil action for some, but not all, violations of the substantive provisions of the statute.[254]

Federal courts have held that a CFAA civil cause of action requires these elements: "(1) defendant has accessed a protected computer; (2) has done so without authorization or by exceeding such authorization as was granted; (3) has done so knowingly and with intent to defraud; and (4) as a result has furthered the intended fraudulent conduct and obtained anything of value."[255] Whether access is unauthorized is the key initial inquiry. For example, where employees were authorized to access certain proprietary information of the employer and then disclosed that information to a third-party in violation of a confidentiality agreement, many federal courts hold that a CFAA claim cannot lie because the element of "unauthorized access" has not been satisfied.[256] On the other hand, where the employee was not permitted to access the information at issue, the "unauthorized access" element will not surprisingly be satisfied and the CFAA claim may go forward.[257]

Additionally, the plaintiff-employer must generally show that it suffered a "loss" of at least $5,000 in any one-year period.[258] It is critical to note that "loss" is defined somewhat narrowly under the statute, with at least some federal circuit courts and some district courts in both the Fifth and Ninth Circuits recently holding that an employer may not seek recovery of lost revenue or goodwill under the CFAA *unless* the loss of these items is "connected to an interruption of service."[259] Quite clearly, cases which involve an employee's absconding with or transmitting to a third-party trade secrets or confidential information from a former employer's database would generally fail to satisfy this limitation absent very unusual circumstances.[260] It remains to be seen whether all federal courts will embrace this view, which would significantly restrict the utility of the CFAA in the employee-employer context.

VII. AVAILABLE REMEDIES

A. Injunctive Relief

1. Texas

What remedies does an employer have to stop unfair competition? An injunction is the most common remedy.[261] The injunction may be directed at the former employee or at anyone engaging in unfair competition. It may restrain misappropriation, and it may order destruction of materials pertaining to the trade secret in order to prevent further use. It must be understood, however, that common law injunctions are not easily obtained. To be enforceable, the injunction must be specific in its terms and must set forth the reasons for its issuance.[262]

The 1993 amendment to the Covenants Not to Compete Act preempts the common law and provides for injunctive relief. Arguments persist regarding whether the plaintiff-employer need only meet the requirements of the statute for an injunction to issue, or whether the employer must also provide proof of the common law elements of a substantial likelihood of irreparable harm and lack of an adequate remedy at law.[263]

A line of cases has emerged to provide authority for the idea that the § 15.52 preemption provision of the Act applies only to permanent injunctive relief, thus requiring that the plaintiff must still prove the common law elements to obtain preliminary injunctive relief.[264] Yet, at least two Texas courts have suggested that a "rebuttable presumption" of irreparable harm exists when a highly trained employee breaches a non-competition agreement.[265] These latter decisions more closely resemble the prior line of cases that held irreparable harm need not be shown to obtain preliminary injunctive relief under § 15.51 of the Act.

Additionally, an employer must exercise some caution in dealing with an employee or former employee who may be subject to a covenant not to compete. For example, one court has recently enjoined an employer from asserting to customers and potential customers that a former employee was subject to, and in violation of a noncompete agreement, finding that the statements were "false and misleading."[266]

2. California

In California, a court may enjoin the actual or threatened misappropriation of a trade secret. Thus, under the California UTSA, an employer can legally enjoin an employee who takes or possesses a trade secret but has yet to use it. Although the injunction should be terminated when the trade secret ceases to exist, it may continue for an additional period to eliminate commercial advantage that otherwise would be derived from misappropriation.[267] In other words, if a showing is made that the early misappropriation of a trade secret would give an entity an unfair advantage, the court is empowered to continue, in effect, an injunction for the period of time necessary to eliminate any commercial advantage that might have occurred from the misappropriation. However, an injunction should terminate when what once might have been a trade secret becomes known to good faith competitors.

If a court determines that it is unreasonable to prohibit future use of the trade secret, it can issue an injunction conditioning future use upon payment of a reasonable royalty for the period of time that the use could have been prohibited.[268]

In appropriate circumstances, a court may compel affirmative acts to protect a trade secret. For example, it might direct an entity to return misappropriated materials or documents, or it may even direct that the product developed from the misappropriated information be destroyed.[269] One court prohibited an individual's new employer from accepting account transfers from any of the former employer's customers who received unlawful solicitation letters.[270]

B. Monetary Damages

1. Texas

Actual damages may be recovered if determinable with reasonable accuracy. For example, damages are in order if the disclosure or use of a misappropriated trade secret has operated to the detriment of the owner. The measure of damages is usually calculated as the owner's lost profits, determined by the difference between his position before and after the unfair competition, the employer's loss being a more significant measure than the wrongdoer's gain.[271] Punitive damages are also available if the defendant's actions are fraudulent or malicious.[272] The Texas legislature has imposed a specific criminal sanction for theft of trade secrets by making such acts punishable as a third-degree felony.[273]

2. California

The California UTSA provides for recovery of the actual loss caused by the misappropriation, as well as recovery for the unjust enrichment created by the misappropriation. Unjust enrichment includes profits realized by the taker of the secret.[274] If the court determines that neither damages nor unjust enrichment are provable, it may order payment of a reasonable royalty for the time during which the use could have been prohibited.[275] A reasonable royalty is not available whenever damages or unjust enrichment can be proven.[276] This is true even if such recovery would be inadequate.[277] Damages may also be sought from individuals who knew or had reason to know about tortious misappropriation but allowed it to occur.[278]

In *Cadence Design Systems Inc. v. Avant!*,[279] the court held that in a plaintiff's action against the same defendant, the continued improper use or disclosure of a trade secret after defendant's initial misappropriation is viewed under the California Uniform Trade Secrets Act as part of a single claim of "continuing misappropriation" accruing at the time of the initial misappropriation. Each new misuse or wrongful disclosure is viewed as augmenting a single claim or continuing misappropriation rather than as giving rise to a separate claim.

If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made for: (1) actual loss and unjust enrichment; or (2) loss of royalties.[280] It appears that punitive damages imposed by a jury are not available in such an action. Rather, if there has been a willful and malicious misappropriation, it is left to the discretion of the court to award the double damages.[281]

C. Reformation of Noncompete Agreement

One issue that frequently arises in litigation over restrictive covenants is whether an agreement that is overbroad on its face may be enforced only to the extent it is lawful. This limitation of the enforcement actually constitutes a modification of the language of the written agreement. Such modifications can be sensible where the employee is engaging in conduct that could lawfully be prohibited but the full scope of potential enforcement would be overbroad.

This issue is important to the multistate employer attempting to use one agreement for each of the states in which it does business. If the states allow for modifications and partial enforcement of an agreement as opposed to complete invalidation of an overly broad agreement, this could be beneficial to a multistate employer using one agreement in several states. The states follow one of three rules in determining whether an agreement may be modified by the court: (1) the *blue-pencil* rule; (2) the *reasonableness* rule; and (3) the *all-or-nothing* rule. Texas generally follows the blue-pencil rule and California follows the all-or-nothing rule.

In Texas, courts follow the "blue pencil" rule and are required to modify the terms of a covenant not to compete to make overbroad terms enforceable if the agreement is otherwise enforceable.[282] As noted earlier, the court may not award the former employer damages for breach of a covenant that requires reformation under the Act. The relief granted in such instances is limited to injunctive relief. The court also may not reform the covenant solely for purposes of assessing damages.[283]

California's courts have "blue penciled" noncompetition covenants with overbroad provisions, but will not strike a new bargain for the parties for the purposes of saving an illegal contract.[284] Under the generally followed approach of the all-or-nothing rule, however, the entire noncompetition agreement will fail if any part of the agreement is overbroad or unacceptable in its restraints.

In summary, a multistate employer has two available options. The employer may choose to use a single noncompetition agreement in all the states in which it does business and include a choice-of-law clause, thereby stipulating in the contract which state law is to govern the agreement. Alternatively, an employer could opt to use one prototype agreement modified pursuant to each individual state's law to insure its enforceability in each of the states in which the employer does business. Because of the complexity of the law in this area, multistate employers should obtain counsel to assist in the drafting of the noncompetition agreements; regardless of which alternative is chosen.

D. Attorney's Fees

1. Texas

Common law tort causes of action, such as misappropriation of trade secrets or breach of fiduciary duty, do not allow for the recovery of attorney's fees. However, an employer whose trade secrets have been stolen by a dishonest employee may be able to obtain attorney's fees through alternative avenues. First, if the employee's misappropriation constitutes "theft" as defined by the Texas Penal Code, the Texas Theft Liability Act provides for the recovery of court costs and attorney's fees, as well as the actual damages resulting from the theft.[285] Additionally, if the defendant-employee was bound by either a noncompetition or a confidentiality agreement, his breach may provide the employer with an avenue to recover attorney's fees under Texas law which generally allows the recovery of attorney's fees on contract claims.[286]

2. California

If a California court finds that willful and malicious misappropriation exists, the court may award reasonable attorneys' fees to the prevailing party. However, if a claim of misappropriation is brought in bad faith, the court is also empowered to award attorneys' fees to a prevailing defendant-former employee.[287]

VIII. SPECIAL LITIGATION CONSIDERATIONS

A. Texas

An employer who contemplates filing suit to protect trade secrets or confidential information should consider the risk that it may be required to disclose the information during litigation. At least one court of appeals has held that the employer need not make confidential information a public exhibit during trial to prove its case.[288] However, this does not necessarily defeat the opposing party's right to pretrial discovery of the information. The Texas Supreme Court has subscribed to the view that:

> Trade secrets . . . are not, *per se*, exempt from discovery. The trial court is obligated to weigh the need for discovery against the interests of secrecy . . .. The need to protect the confidentiality of documents does not constitute an absolute bar to discovery.[289]

Therefore, even if a claim of trade secret is valid, the courts must weigh the need of discovery against the danger of unnecessary public disclosure.[290] The party seeking protection from discovery also must show that a confidentiality order from the court does not sufficiently protect the party's right against the unauthorized or harmful disclosure of such information.[291]

On the other hand, the Texas Supreme Court has held that it is not sufficient for a party seeking confidential information to compel discovery by merely asserting unfairness if the discovery is denied.[292] Rather, a party must "demonstrate with specificity exactly how the lack of information will impair the presentation of the case on the merits to the point that an unjust result is a real, rather than a possible threat."[293]

B. California

After filing a lawsuit under the Uniform Trade Secrets Act, a plaintiff who claims its trade secrets were misappropriated commences the discovery process. To prevent abuses in the discovery process, the California Legislature also enacted specific provisions of the California Code of Civil Procedure regarding trade secrets. Before a party asserting a violation of the UTSA can proceed with discovery, it must identify with reasonable particularity those trade secrets it contends were misappropriated.[294] In a recent case, the court commented upon the level of particularity required. It concluded that there are no hard-and-fast rules, but the plaintiff "must make some showing that is reasonable, *i.e.*, fair, proper, just, and rational."[295]

On a related note, if an employer suspects that an existing or former employee has misappropriated trade secrets, it is imperative to preserve the evidence. Quite often, employees who know they will be departing will attempt to use the company's electronic data from its computer network. When such activities are detected, it is common for companies to use their own Information Technology (IT) departments to try to conduct a forensic assessment of the network, e-mail server or other devices. Although they may provide a valuable service to a company, in most instances, its IT professionals are ill-equipped to handle any forensic work. As a result, the evidence may become contaminated and unusable in a court or for a criminal prosecution. If a company suspects that its confidential information or trade secrets have been misappropriated, it should immediately consult with a lawyer qualified to handle such emergencies.

Litigation in trade secrets disputes typically occurs under protective orders. Protective orders limit the manner in which documents or materials produced in discovery can be used, filed with the court, or handled by the lawyers or witnesses. Changes to the California Rules of Court have made it more burdensome and time-consuming to lodge materials conditionally under seal with a California court.[296] While this may improve public access to court files, it also drives up the expense of litigation.

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[1] *Alex Sheshunoff Mgmt. Servs., Inc. v. Johnson*, 209 S.W.3d 644 (Tex. 2006).

[2] RESTATEMENT OF TORTS § 757 cmt. b (1939); *see In re Bass*, 113 S.W.2d 735, 739 (Tex. 2003); *Hyde Corp. v. Huffines*, 314 S.W.2d 763 (Tex. 1958); *T-N-T Motorsports, Inc.*, 965 S.W.2d at 22-23.

[3] *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 21-22 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd).

[4] *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1123 (5th Cir. 1991).

[5] *Gonzalez v. Zamora*, 791 S.W.2d 258, 265 (Tex. App.—Corpus Christi 1990, no pet.).

[6] *E.g.*, *E.I. Du Pont de Nemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970); *K & G Oil Tool & Serv. Co. v. G &G Fishing Tool Serv.*, 314 S.W.2d 782, 790 (Tex. 1958).

[7] *T-N-T Motorsports, Inc.*, 965 S.W.2d at 22-23.

[8] *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no writ); *Lamons Metal Gasket Co. v. Traylor*, 361 S.W.2d 211 (Tex. Civ. App.— Houston 1962, writ ref'd n.r.e.).

[9] *See, e.g., Sands v. Estate of Buys*, 160 S.W.3d 684, 688-90 (Tex. App.—Fort Worth 2005, no pet.) (holding no trade secret existed where the only measures used to keep the information secret were the use of computer passwords and firewall protection—"precautionary measures that are virtually universal on office and home computers").

[10] *Bass*, 113 S.W.2d at 739 (quoting RESTATEMENT OF TORTS § 757, cmt. b, at 6).

[11] *Lamons Metal Gasket Co.*, 361 S.W.2d at 212-13..

[12] 932 F.2d 1113 (5th Cir. 1991), *aff'd*, 505 U.S. 763 (1992).

[13] *Id.* at 1124; *see also T-N-T Motorsports*, 965 S.W.2d at 22-23 (holding that employer manifested sufficient intent to keep information secret by indicating at the time of disclosure that the information was proprietary).

[14] *H.E. Butt Grocery Co. v. Moody's Quality Meats*, 951 S.W.2d 33, 36 (Tex. App.—Corpus Christi 1997, writ denied).

[15] *See, e.g.*, *Stewart & Stevenson Servs., Inc. v. Serv-Tech, Inc.*, 879 S.W.2d 89, 99 (Tex. App.—Houston [14th Dist.] 1994, no writ) (concluding that "there is no cause of action for misappropriation of confidential information that is not secret or substantially secret").

[16] *See, e.g.*, *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 461 (Tex. App.—Austin 2004, pet. denied) (holding contractual nondisclosure obligations are "not limited solely to protection of trade secrets"); *Simplified Telesys v. Live Oak Telecom*, 68 S.W.2d 688, 693 (Tex. App.—Austin 2000, pet.

denied) (holding that an employer must demonstrate "a breach of the confidentiality agreements by misappropriation of a 'trade secret' *or* the use of any *other* information coming within the prohibition contained in the agreements"); *T-N-T Motorsports*, 965 S.W.2d at 21; *DeSantis v. Wackenhut Corp.*, 732 S.W.2d 29, 38 (Tex. App.—Houston [14th Dist.] 1987), *aff'd in part*, *rev'd in part*, 793 S.W.2d 670 (Tex. 1990) ("[E]xamples of legitimate, protectable interests include business goodwill, trade secrets, and other confidential or proprietary information."); *K & G Oil Tool & Serv. Co. v. G&G Fishing Tool Serv. Co.*, 314 S.W.2d 782 (Tex. 1985) (information concerning product did not have to be completely secret to be protectable); *Hyde Corp. v. Huffines*, 314 S.W.2d at 777 (stating that "it matters not whether the suit be designated as a 'trade secret' case or as a suit for breach of confidence;" the employer is entitled to seek protection either way); *Jeter v. Associated Rack Corp.*, 607 S.W.2d 272 (Tex. Civ. App.—Texarkana 1980, writ ref'd n.r.e.) (recognizing cause of action for misappropriation of business information).

[17] *See Gonzales v. Zamora*, 791 S.W.2d 258 (Tex. App.—Corpus Christi 1990, no writ); *Orkin Exterminating Co., Inc. v. Wilson*, 501 S.W.2d 408 (Tex. Civ. App.—Tyler 1973, writ dism'd); *see also Deaton v. United Mobile Networks, L.P.*, 926 S.W.2d 756, 763 (Tex. App.—Texarkana 1996, no writ), *aff'd in part, rev'd in part*, 939 S.W.2d 146 (Tex. 1997) (holding that even if "customer information was readily accessible in the industry, liability was appropriate if the competitor actually gained information in usable form while working for the former employer").

[18] *See K & G Oil Tool & Serv. Co.*, 314 S.W.2d at 788.

[19] *See Lumex*, *Inc. v. Highsmith*, 919 F. Supp. 624, 628-30 (E.D.N.Y. 1996); *Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443, 1455 (2002); *Courtesy Temp. Serv*., *Inc. v. Camacho*, 222 Cal. App. 3d 1278, 1288 (1990).

[20] *Scott v. Snelling & Snelling*, *Inc*., 732 F. Supp. 1034, 1045 (N.D. Cal. 1990).

[21] *Futurecraft Corp. v. Clary Corp.*, 205 Cal. App. 2d 279 (1962).

[22] *GAB Bus. Servs. v. Lindsey & Newsom Claim Servs*., 83 Cal. App. 4th 409 (2000).

[23] LEGISLATIVE COMM. CMT., 84 Cal. Sen. J. 13883, 13885 (1984).

[24] 840 S.W.2d 624 (Tex. App.—Houston [14th Dist.] 1992, writ denied).

[25] *Id*. at 632; *see also Oxford Global Res., Inc. v. Weekley-Cessnun*, No. 3:04-CV-0330-N, 2005 U.S. Dist. LEXIS 1934 (N.D. Tex. Feb. 8, 2005) (denying injunction for alleged breach of nondisclosure agreement with regard to confidential information, such as customer contact data, that the employee had committed to memory).

[26] *See Murrco Agency, Inc. v. Ryan*, 800 S.W.2d, 600, 604-605 (Tex. App.— Dallas 1990, writ ref'd n.r.e.).

[27] *See* 724 S.W.2d 432, 434-35 (Tex. App.—Fort Worth 1987, no writ).

[28] *See Bandit Messenger of Austin, Inc. v. Contreras*, No. 03-00-00359-CV, 2000 Tex. App. LEXIS 7166 (Tex. App.—Austin Oct. 26, 2000, no writ) (unpublished opinion); *see also Sands v. Estate of Buys*, 160 S.W.3d 684, 688-89 (Tex. App.—Fort Worth 2005, no pet.) (relying substantially on absence of confidentiality agreements protecting client information to hold that employer did not consider its list of clients confidential).

[29] *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593 (Tex. App.—Amarillo 1995, no writ).

[30] *Id*. at 600-02 (*citing Hyde Corp.*, 314 S.W.2d at 776); *K & G Oil Tool & Serv. Co.*, 314 S.W.2d at 788; *Goldome Credit Corp. v. Univ. Square Apartments*, 828 S.W.2d 505 (Tex. App.—Amarillo 1992, no writ); *Seaborg Jackson Partners v. Beverly Hills Sav.*, 753 S.W.2d 242, 245 (Tex. App.—Dallas 1988, no writ).

[31] 926 S.W.2d 756 (Tex. App.—Texarkana 1996, no writ), *aff'd in part*, *rev'd in part*, 939 S.W.2d 146 (Tex. 1997).

[32] *Id*. at 763; *see also Jeter v. Associated Rack Corp*., 607 S.W.2d 272, 276 (Tex. Civ. App.—Texarkana 1980, writ ref'd n.r.e.), *cert. denied*, 454 U.S. 965 (1982); *M.N. Dannenbaum, Inc.*, 840 S.W.2d at 624.

[33] *American Credit Indem. Co. v. Sacks*, 213 Cal. App. 3d 622 (1989).

[34] *Metro Traffic Control*, *Inc. v. Shadow Traffic Network*, 22 Cal. App. 4th 853 (1994).

[35] *See Morlife*, *Inc. v. Perry*, 56 Cal. App. 4th 1514, 1521-22 (1997); *Abba Rubber v. Seaquist*, 235 Cal. App. 3d 1, 19 (1991); *Courtesy Temp. Serv*., *Inc. v. Camacho*, 222 Cal. App. 3d 1278, 1286 (1990); *see also MAI Sys. Corp. v. Peak Computer*, *Inc*., 991 F.2d 511, 521 (9th Cir. 1993) (customer database had potential economic value because it allowed defendant to direct its sales to customers already using MAI products and was therefore a trade secret).

[36] 235 Cal. App. 3d 1 (1991).

[37] *Id.* at 19.

[38] *Courtesy Temp. Serv*., *Inc.* 222 Cal. App. 3d 1278.

[39] 494 S.W.2d 204 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.).

[40] *Id*. at 211.

[41] *Id*. at 212.

[42] *Id*. at 214.

[43] *Davis v. Alwac Int'l, Inc.*, 369 S.W.2d 797, 802 (Tex. Civ. App.—Beaumont 1963, writ ref'd n.r.e.).

[44] *Id*. at 802.

[45] *Id*.

[46] *Id*.

[47] *Caution*: Any sample contract provisions contained in this paper are not intended to constitute a comprehensive employment agreement and should not be used without the advice of legal counsel. There are other general contract and employment considerations to be included in any agreement to restrict competitive activities of former or current employees. For example, without the appropriate disclaimers, an agreement might be construed as constituting a promise of continued employment, thereby giving rise to a claim that an employee is not terminable at will. It also may be necessary to include a provision for additional consideration if current employees, rather than new employees, are requested to execute agreements containing any of the sample contract restrictions.

[48] 229 Cal. App. 2d 281 (1964).

[49] *See also Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App. 2d 791 (1962) (where a person is employed to design improvements to a product of his employer or to design new products for his employer and he does so, he may not use the results of his work for his own use and benefit and certainly not to the detriment of the employer).

[50] 128 Cal. App. 3d 594 (1982).

[51] Other cases dealing with inventions made by an employee include *Self-Realization Fellowship Church v. Ananda Church of Self-Realization*, 206 F.3d 1322 (9th Cir. 2000); *Grove v. Grove Valve & Regulator Co*., 4 Cal. App. 3d 299 (1970); *Stevens v. National Broad. Co.*, 270 Cal. App. 2d 886 (1969); *Treu v. Garrett Corp.*, 264 Cal. App. 2d 432 (1968); *Aero Bolt & Screw Co. v. Iaia*, 180 Cal. App. 2d 728 (1960); *Zahler v. Columbia Pictures Corp*., 180 Cal. App. 2d 582 (1960).

[52] *See* 35 U.S.C. § 1 *et seq*.

[53] *Id.* § 101.

[54] *AME, Inc. v. Korn*, 819 S.W.2d 573, 575 n.1 (Tex. App—Dallas 1991, writ denied).

[55] *Banner Metals*, *Inc. v. Lockwood*, 178 Cal. App. 2d 643, 661 (1960).

[56] *Id.* at 659-60.

[57] *Id.* at 660-61.

[58] 17 U.S.C. § 201(a).

[59] *Cmty. for Creative Non-Violence v. Reid*, 490 U.S. 730, 737 (1989).

[60] 17 U.S.C. § 201(b).

[61] *Id*.

[62] *Id*. § 101(1).

[63] *Quintanilla v. Tex. Television, Inc.*, 139 F.3d 494, 497 (5th Cir. 1998).

[64] 17 U.S.C. § 101(2).

[65] TEX. BUS. & COM. CODE §§ 15.50 *et seq*. (Vernon 2006).

[66] *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644 (Tex. 2006).

[67] *Hill v. Mobile Auto Trim, Inc*., 725 S.W.2d 168 (Tex. 1987).

[68] *Id.* at 172.

[69] TEX. BUS. & COM. CODE §§ 15.50, 15.51.

[70] TEX. BUS. & COM. CODE § 15.52.

[71] *Light v. Centel Cellular Co*., 883 S.W.2d 642, 644-45 (Tex. 1994).

[72] TEX. BUS. & COM. CODE § 15.51(c).

[73] *Id*.

[74] *Id*.

[75] *Id*.

[76] 793 S.W.2d 667 (Tex. 1990).

[77] *Id*. at 668-69.

[78] *Travel Masters, Inc. v. Star Tours, Inc.*, 827 S.W.2d 830 (Tex. 1991).

[79] *Id*.

[80] House Committee on Bus. & Indus., Bill Analysis, Tex. H.B. 7, 73d Leg., RS (1993 House Bill Analysis).

[81] *Light*, 883 S.W.2d at 642.

[82] Indeed, courts applying the *Light* ancillary test have ruled that some unrelated agreements are insufficient. *See, e.g.*, *Strickland v. Medtronic, Inc.*, 97 S.W.3d 835, 838-39 (Tex. App.—Dallas 2003, pet. dism'd w.o.j.) (holding that employer's promise to give 90 days notice prior to termination of employee was insufficient interest to justify non-compete agreement); *Anderson Chem. Co., Inc. v. Greer*, 66 S.W.3d 434, 439 (Tex. App.—Amarillo 2001, no pet.) (employer's promise to give ten days notice prior to termination of employee's employment does not give rise to any interest in restricting the employee from competing); *Olander v. Compass Bank*, 172 F. Supp. 2d 846, 855 (S.D. Tex. 2001) (employer's grant of stock options to at-will employee does not give rise to its interest in restricting employee from competing; however, the court added that it was not ruling "that a stock option agreement can never give rise to an interest in restraining competition"); *Am. Fracmaster, Ltd. v. Richardson*, 71 S.W.3d 381, 388-89 (Tex. App.—Tyler 2001, vacated) (company's promise to pay severance benefits and employee's promise to be bound by noncompetition covenants, although an otherwise enforceable agreement, fail to satisfy the *Light* ancillary test because company's promise does not give rise to its interest in restricting employee from competing) (note, the *American Fracmaster* opinion has limited precedential value because the ruling was vacated when the parties settled).

[83] *See Light*, 883 S.W.2d at 647 n.14; *see, e.g., Ireland, D.C. v. Franklin, D.C.*, 950 S.W.2d 155, 157-59 (Tex. App.—San Antonio 1997, no writ) (holding that conditioning immediate disclosure of trade secrets to

employee on employee's agreement to noncompete contract followed the *Light* blueprint, and the noncompete contract was, therefore, enforceable); *see also Rimkus Consulting Group v. Budinger*, No. 14-98-01101-CV, 2001 Tex. App. LEXIS 3753 (Tex. App.—Houston [14th Dist.] Aug. 23, 2001, no pet.).

[84] *See Light*, 883 S.W.2d at 645 n.6.

[85] *See, e.g.*, *Guy Carpenter*, 334 F.3d at 466 (refusing "to pin the enforceability of nonsolicitation agreements on whether an employer discloses confidential information at the time the employee signs an employment contract"); *Wright*, 137 S.W.3d at 297.

[86] *TMC Worldwide, L.P. v. Gray*, 178 S.W.3d 29, 37-38 (Tex. App.—Houston [1st Dist.] 2005, no pet.); *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 461 (Tex. App.—Austin 2004, pet. filed); *see also Pearson v. Visual Innovations Co.*, No. 03-04-00563-CV, 2006 Tex. App. LEXIS 2795, **18-21 (Tex. App.—Austin Apr. 6, 2006) (holding that contract providing for a fixed term during which confidential information would be provided and during which employer could only terminate employee for genuine dissatisfaction satisfied *Light*'s ancillary agreement test).

[87] *Alex Sheshunoff Mgmt Servs., Inc.*, 209 S.W.3d at 655.

[88] *See id.* at 647; *see also* TEX. BUS & COM. CODE § 15.52)

[89] *Id.* at 654-55.

[90] *Id.* at 654.

[91] *Id.* at 655.

[92] *Id.* (citing TEX. BUS. & COM. CODE § 15.50(a)).

[93] *Id.* at 654.

[94] *CRC-Evans Pipeline, Inc. v. Myers*, , 927 S.W.2d 259 (Tex. App.—Houston [1st Dist.] 2001, no pet.).

[95] *See* RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. d (1981); *see also Weatherford Oil Tool Co. v. Campbell*, 340 S.W.2d 950, 951-52 (Tex. 1960) (holding geographic restrictions described as "any area where [plaintiff-employer] may be operating or carrying on business" as impermissibly overbroad)

[96] *DeSantis v. Wackenhut Corp.*, 732 S.W.2d 29, 38 (Tex. App.— Houston [14th Dist.] 1987).

[97] *Butler v. Arrow Mirror & Glass, Inc.*, 51 S.W.3d 787, 793-94 (Tex. App.—Houston [1st Dist.] 2001, no pet.); *Evan's World Travel, Inc. v. Adams*, 978 S.W.2d 225, 232 (Tex. App.—Texarkana 1998, dism'd by agr.); *Diversified Human Resources Group, Inc. v. Levinson-Polakoff*, 752 S.W.2d 8, 12 (Tex. App.—Dallas 1998, no writ); *Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654, 661 (Tex. App.— Dallas 1992, no writ).

[98] *See Webb v. Hartman Newspapers, Inc.*, 793 S.W.2d 302 (Tex. App.— Houston [14th Dist] 1990, no writ).

[99] 818 S.W.2d 381, 387 (Tex. 1991).

[100] *But see Vais Arms, Inc. v. Vais*, 383 F.3d 287, 295-96 (5th Cir. 2004) (upholding seller's covenant not to compete in "all U.S. states and countries which are included in the current customer bases in context of nationally-marketed business").

[101] 793 S.W.2d at 305.

[102] *Stone*, 53 S.W.3d at 696; *Prop. Tax Assocs., Inc. v. Staffeldt*, 800 S.W.2d 349 (Tex. App.— El Paso 1990, writ denied); *Picker Int'l, Inc. v. Blanton*, 756 F. Supp. 971, 982 (N.D. Tex. 1990).

[103] *Prop. Tax Assocs., Inc.*, 800 S.W.2d at 350 (Tex. App.—El Paso 1990, writ denied); *Travel Masters, Inc. v. Star Tours, Inc.*, 742 S.W.2d 837, 840 (Tex. App.—Dallas 1987, writ dism'dd w.o.j.) (two year restriction is "not unreasonable").

[104] *Id*.

[105] *Meineke Discount Muffler v. Jaynes*, 999 F.2d 120, 123 (5th Cir. 1993) (holding that on-year restriction is "not unreasonable as a matter of law"); *Ruscitto v. Merrill Lynch, Pierce, Fenner & Smith, Inc.*, 777 F. Supp. 1349, 1354 (N.D. Tex. 1991) (holding that one-year restriction on competition is "plainly reasonable under Texas law"); *Investors Diversified Servs., Inc. v. McElroy*, 645 S.W.2d 338, 339 (Tex. App.—Corpus Christi 1982, no writ) (holding restriction for one year is "certainly reasonable").

[106] *See Gen. Devices, Inc. v. Bacon*, 888 S.W.2d 497 (Tex. App.—Dallas 1994, writ denied); *Emergicare Sys. Corp. v. Bourdon*, 942 S.W.2d 201 (Tex. App.—Eastland 1997, no writ).

[107] *Peat Marwick Main & Co. v. Haass*, 818 S.W.2d 381, 387 (Tex. 1991).

[108] *McNeilus Cos., Inc. v. Sams*, 971 S.W.2d 507 (Tex. App.—Dallas 1997, no writ); *see also APRM, Inc. v. Hartnett*, 2002 Tex. App. LEXIS 4779, *13 (Tex. App.—Houston [1st Dist.] July 3, 2002, no pet.) (finding covenant overbroad and unreasonable where "covenant prohibited [defendant-employee] from being involved in any manner with any business that competed" with the plaintiff-employer).

[109] *Wright v. Sport Supply Group, Inc.*, 137 S.W.3d 289, 298 (Tex. App.—Beaumont 2004, no pet.).

[110] 793 S.W.2d 660 (Tex. 1990).

[111] *Id*. at 663.

[112] *DeSantis*, 793 S.W.2d at 682.

[113] *See Ramey v. Combined Am. Ins. Co.*, 359 S.W.2d 523 (Tex. Civ. App.—San Antonio 1962, no writ).

[114] 827 S.W.2d at 830.

[115] *Id*.

[116] *Totino v. Alexander & Assocs., Inc.*, No. 01-97-01204-CV, 1998 Tex. App. LEXIS 5295 (Tex. App.—Houston [1st Dist.] Aug. 20, 1998, n.w.h.).

[117] *Id.* at *32; *see also Beasley v. Hub City Tex., L.P.*, No. 01-03-00287-CV, 2003 Tex. App. LEXIS 8550, *9 (Tex. App.—Houston [1st Dist.] Sept. 23, 2003, no pet.) ("Of course, the standard for enforcing a non-competition covenant differs from that for enforcing a covenant not to solicit employees.")

[118] TEX. BUS. & COM. CODE § 15.50(b).

[119] *Id*.

[120] *Id*.

[121] *See Emergicare Sys. Corp. v. Bourdon*, 942 S.W.2d 201, 202 (Tex. App—Eastland 1997, no writ); *Isuani v. Manske-Sheffield Radiology Group*, 798 S.W.2d 345, 351-352 (Tex. App—Beaumont 1990), rev'd on other grounds, 802 S.W.2d 235 (Tex. 1991).

[122] 827 S.W.2d 543 (Tex. App.— Houston [1st Dist.] 1992, no writ).

[123] 883 S.W.2d 642 (Tex. 1994).

[124] *Williams v. Compressor Eng'g Corp.*, 704 S.W.2d 469 (Tex. App.—Houston [14th Dist.] 1986, writ ref'd n.r.e.).

[125] *See* TEX. BUS. & COM. CODE §§ 15.50, 15.51.

[126] *Am. Express Fin. Advisors, Inc. v. Scott*, 955 F. Supp. 688, 691 n.2 (N.D. Tex. 1996); *Keystone Life Ins. Co. v. Marketing Mgmt., Inc.*, 687 S.W.2d 89 (Tex. App—Dallas 1985, no writ).

[127] *Metro Traffic Control*, *Inc. v. Shadow Traffic Network*, 22 Cal. App. 4th 853 (1994).

[128] *Muggill v. Reuben H. Donnelley Corp*., 62 Cal. 2d 239, 242 (1965).

[129] *Edwards v. Arthur Andersen*, *L.L.P*., 142 Cal. App. 4th 603 *review granted*, *depublished by* 2006 Cal. LEXIS 14181 (Nov. 29, 2006).

[130] 142 Cal. App. 4th at 619 (rejecting the reasoning of *International Bus. Machs. Corp. v. Bajorek* 191 F.3d 1033 (9th Cir. 1999).

[131] 138 Cal. App. 3d 656 (1982).

[132] 104 Cal. App. 3d 844 (1980).

[133] *Id.* at 849 (quoting *Arthur Murray Dance Studios v. Witter*, 105 N.E.2d 685, 703-04 (Ohio 1952) (citations omitted).

[134] 82 F. Supp. 2d 1089 (C.D. Cal. 1999).

[135] *See also D'Sa v. Playhut, Inc.*, 85 Cal. App. 4th 927 (2000) (employer could not terminate an employee for refusing to sign an employment agreement containing an unenforceable covenant not to compete, because Business and Professions Code section 16600 embodies a broad public policy, termination for refusing to sign an unlawful noncompetition agreement supported a common-law action for wrongful termination).

[136] 113 Cal. App. 4th 1425 (2003).

[137] *Id.* at 1428.

[138] *Id*.

[139] *Id*.

[140] *Vacco Indus., Inc. v. Van Den Berg*, 5 Cal. App. 4th 34, 48 (1992).

[141] *See Bosley Med. Group v. Abramson*, 161 Cal. App. 3d 284, 288 (1984).

[142] *Id.* at 288.

[143] *Hilb, Rogal & Hamilton Ins. Servs. v. Robb*, 33 Cal. App. 4th 1812 (1995).

[144] *Fleming v. Ray-Suzuki, Inc.*, 225 Cal. App. 3d 574 (1990).

[145] *Hill Med. Corp. v. Wycoff*, 86 Cal. App. 4th 895 (2001).

[146] 220 Cal. App. 3d 1074 (1990).

[147] *Howard v. Babcock*, 6 Cal. 4th 409 (1993) (attorneys); *Swenson v. File*, 3 Cal. 3d 389 (1970) (accountants); *Farthing v. San Mateo Clinic*, 143 Cal. App. 2d 385 (1956) (physicians).

[148] *Zep Mfg Co. v. Harthcock*, 824 S.W.2d 654, 663 (Tex. App.—Dallas 1992, no writ); *see also Oxford Global Res., Inc.*, 2005 U.S. Dist. LEXIS 1934, at **7-8 (opining that employee nondisclosure agreements are not subject to the more onerous requirements of non-competition agreements).

[149] *Zep Mfg. Co.*, 824 S.W.2d at 663 (warning that non-disclosure agreement will be treated as a restraint on trade if the agreement practically "prohibits the former employee from using, *in competition with the former employer*, the *general* knowledge, skill and experience acquired in former employment") (emphasis added).

[150] *See, e.g.*, *Weightman v. State*, No. 14-93-01095-CR, 1996 Tex. App. LEXIS 5472, **10-11 (Tex. App.—Houston [14th Dist.] Dec. 12, 1996) (holding that employee's signing of a confidentiality agreement was evidence that the material at issue was considered to be confidential).

[151] *John F. Matull & Assocs., Inc. v. Cloutier*, 194 Cal. App. 3d 1049 (1987).

[152] *Kolani v. Gluska*, 64 Cal. App. 4th 402, 406-07 (1998).

[153] *Caution*: The sample contract provisions contained in this chapter are not intended to constitute a comprehensive employment agreement and should not be used without the advice of legal counsel. There are other general contract and employment considerations to be included in any agreement to restrict competitive activities of former or current employees. For example, without the appropriate disclaimers, an agreement might be construed as constituting a promise of continued employment, thereby giving rise to a claim that an employee is not terminable at will. It also may be necessary to include a provision for

additional consideration if current employees, rather than new employees, are requested to execute agreements containing any of the sample contract restrictions.

[154] *Baty v. ProTech Ins. Agency*, 63 S.W.3d 841, 856-57 (Tex. App.—Houston [14th Dist.] 2001, no pet.) (stating elements of claim for tortious interference with a contract as: (1) existence of contract; (2) the occurrence of an intentional act of interference; (3) the act proximately caused plaintiff's damage; and (4) plaintiff suffered actual loss or damage).

[155] *RenewData Corp. v. Strickler*, 2006 Tex. App. LEXIS 1689, **26-31 (Tex. App.—Austin Mar. 3, 2006, no pet.) (affirming liability of former employee for interfering with "reasonably probable" future business relationship where plaintiff had provided bid to prospective customer, and customers only chose another vendor 10-15% of the time after receiving a bid from plaintiff); *Id.* (stating elements of tortious interference with prospective contract as: (1) reasonably probable business relationship; (2) tortious act of interference that prevented the contract from occurring; (3) defendant acted knowingly or intentionally to interfere with the prospective business relationship; and (4) plaintiff suffered actual damage or harm).

[156] 767 S.W.2d. 686, 689 (Tex. 1989).

[157] *Id.* at 689.

[158] 442 F.3d 235, 238-39 (5th Cir. 2006).

[159] *Id.* at 237.

[160] *Id.* at 238-39.

[161] 33 Cal. 4th 1140 (2004).

[162] *Id.* at 1153.

[163] *Id.*

[164] *Id*. at 1145.

[165] *Id*. at 1149.

[166] *Id*. at 1150.

[167] 29 Cal. 4th 1134, 1159 (2003).

[168] *Id*. at 1145.

[169] *Id*. at 1146.

[170] *Id*.

[171] *Metro Traffic Control*, *Inc.*, 22 Cal. App. 4th at 860.

[172] *Reeves v. Hanlon*, 33 Cal. 4th 1140, 1155 (2004).

[173] 246 S.W.2d 482, 485 (Tex. Civ. App.—San Antonio 1952, no writ).

[174] *Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654 (Tex. App.—Dallas, 1992, no writ); *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 600 (Tex. App.—Amarillo 1995, no writ).

[175] *See Am. Derringer Corp. v.* Bond, 924 S.W.2d 773, 777 (Tex. App.—Waco 1996, no writ); *see also, e.g., Mercer v. C.A. Roberts Co.*, 570 F.2d 1232, 1238 (5th Cir. 1978).

[176] *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 463 (Tex. App.—Austin 2004, pet. filed); *see also Bancservices Group, Inc. v. Strunk & Assocs.*, No. 14-03-00797-CV, 2005 Tex. App. LEXIS 8749, *10 (Tex. App.—Houston [14th Dist.] Oct. 20, 2005, pet. denied); *Avera v. Clark Moulding*, 791 S.W.2d 144, 145 (Tex. App.—Dallas 1990, no writ); *Plains Cotton Coop. Assoc. v. Goodpasture Computer Serv.*, 807 F.2d 1256, 1262 (5th Cir. 1987), *cert denied*, 484 U.S. 821 (1987).

[177] *K & G Oil Tool & Serv. Co. v. G&G Fishing Tool Serv.*, 314 S.W.2d 782, 788 (Tex. 1985); *Bancservices Group, Inc.*, 2005 Tex. App. LEXIS 8749, at *9.

[178] *K & G Oil Tool & Serv. Co.*, 314 S.W.3d at 788.

[179] 864 S.W.2d 548 (Tex. App.—Dallas 1993, no writ).

[180] CAL. CIV. CODE § 3426.1(b)(1).

[181] *Id.* § 3426.1(a). However, reverse engineering or independent derivation alone should not be considered improper means. Reverse engineering is the dismantling and examination of a publicly available product in order to understand how the product is put together and operates. Similarly, if the particular thing that is claimed as a trade secret may be observed in public use or obtained from published literature, then certain misappropriation claims based on improper means are unlikely to succeed. However, to the extent that former employee uses or discloses a trade secret in an effort to derive independently certain facts, an employer may have a viable action under the statute.

[182] *Ajaxo Inc. v. E*Trade Group, Inc.*, 2005 Cal. App. LEXIS 1950 (Dec. 21, 2005). The court in *Ajaxo* proceeded to impose punitive damages where a company's management had the opportunity to know, actually approved, or "turned a blind eye to what was happening."

[183] CAL. CIV. CODE § 3426.1.

[184] *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514, 1522 (1997) (employees signed confidentiality agreement); *Nowogrowski v. Rucker*, 971 P.2d 936, 946 (Wash. Sup. Ct. 1999) ("The form of the information whether written or memorized is immaterial under the trade secrets statute; the Uniform Trade Secrets Act makes no distinction about the form of trade secrets.").

[185] 56 Cal. App. 4th 1514 (1997).

[186] *Reeves v. Hanlon*, 33 Cal. 4th 1140, 1156 (2004).

[187] *See, e.g.*, *Conley v. DSC Commc'ns Corp.*, No. 05-98-01051-CV, 1999 Tex. App. LEXIS 1321 (Tex. App.—Dallas, Feb. 24, 1999, no writ).

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

[189] *Conley*, 1999 Tex. App. LEXIS, at **8-10; *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 900-02 (Tex. App.— Houston [1st Dist.] 1978, writ ref. n.r.e.); *EDS v. Powell*, 524 S.W.2d 393, 397-99; *see also Rugen*, 864 S.W.2d at 552.

[190] *PepsiCo v. Redmond*, 54 F.3d 1262 (7th Cir. 1995); *FMC Corp. v. Varco Int'l, Inc.*, 677 F.2d 500 (5th Cir. 1982); *see also Cardinal Health Staffing Network, Inc.*, 106 S.W.3d at 242 n.12 ("[G]enerally speaking, the doctrine applies when a defendant has had access to trade secrets and then . . . defects to the competition to perform duties so similar that the court believes that those duties cannot be performed without making use of [the] trade secrets.").

[191] *Bayer Corp. v. Roche Molecular Sys.*, 72 F. Supp. 2d 1111 (N.D. Cal. 1999); *Danjaq L.L.C. v. Sony Corp.*, 1999 U.S. Dist. LEXIS 22486 (C.D. Cal. Mar. 12, 1999), *aff'd*, 263 F.3d 942 (9th Cir. 2001); *Computer Sciences Corp. v. Computer Assocs. Int'l, Inc.*, 1999 U.S. Dist. LEXIS 21803 (C.D. Cal. Aug. 12, 1999).

[192] 101 Cal. App. 4th 1443 (2002).

[193] *See generally* BRIAN M. MALSBERGER, EMPLOYEE DUTY OF LOYALTY—A STATE-BY-STATE SURVEY (BNA, 3d. ed. 2005).

[194]*See Murrco Agency, Inc. v. Ryan*, 800 S.W.2d 600, 605 (Tex. App.—Dallas, no writ) (defendant employee breached duty to employer not to use or disclose trade secret); *Gaal v. BASFWyandotte Corp.*, 533 S.W.2d 152, 154 (Tex. Civ. App.—1970, no writ) (employer had a contractual and common law right to require employee to act in good faith with respect to employer's customer while employee was still employed); *Gonzales v. Zamora*, 791 S.W.2d 258, 266 (Tex. Civ. App.—Corpus Christi 1991, no writ) (employee stole system for processing medical claims).

[195] *See, e.g.*, *Kinzbach Tool Co. v. Corbett-Wallace Corp.*, 160 S.W.2d 509, 512-13 (Tex. 1949); *Molex, Inc. v. Nolen*, 759 F.2d 474, 479 (5th Cir. 1985).

[196] *Molex, Inc. v. Nolen*, 759 F.2d at 475; *see also Gaal v. BASFWyandotte Corp.*, 533 S.W.2d at 154; *Murrco Agency*, 800 S.W.2d at 605-606; *Gonzales v. Zamora*, 791 S.W.2d 258, 264-65 (Tex. Civ. App.—Corpus Christi 1991, no writ); *Zoecon Indus. v. Am. Stockmen Tag Co.*, 713 F.2d 1174, 1178-1179 (5th Cir. 1983); *Sw. Livestock & Trucking Co. v. Dooley*, 884 S.W.2d 805, 809 (Tex. App.—San Antonio 1994, writ denied).

[197] *Advance Ross Elecs. Corp. v. Green*, 624 S.W.2d 316, 318 (Tex. App.—Tyler 1981, writ ref'd n.r.e.), *cert. denied*, 458 U.S. 1108 (1982) ("[T]here is an implied obligation on the part of the employee to do no act which has a tendency to injure the employer's business or financial interest.").

[198] *See, e.g.*, *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 901 (Tex. App.—Houston 1978, writ ref'd n.r.e.) (discussing employee's fiduciary "duty or allegiance"); *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 770-771 (1958); *see also United Teachers Assocs. Ins. Co. v. MacKeen & Bailey, Inc.*, 99 F.3d 645, 650 (5th Cir. 1996) (holding that although an actuary was not a corporate fiduciary as a matter of law, the employee "may become a fiduciary through a confidential relationship").

[199] *See, e.g.*, *Zoecon Indus*., 713 F.2d at 1178; *Gonzales*, 791 S.W.2d at 264-266.

[200] *Zoecon Indus.*, 713 F.2d at 1178*; Murrco Agency*, 800 S.W.2d at 604-605; *Gonzales*, 791 S.W.2d at 266; *Lamons Metal Gasket Co. v. Traylor*, 361 S.W.2d 211, 213 (Tex. Civ. App.—Houston 1962, writ ref'd n.r.e.); *Mercer v. C.A. Roberts Co.*, 570 F.2d 1232, 1238-1239 (5th Cir. 1978) (*citing Thermotics, Inc. v. Bat-Jac Tool Co.*, 541 S.W.2d 255 (Tex. Civ. App. 1976, no writ)); *Orkin Exterminating Co. v. Wilson*, 501 S.W.2d 408, 411 (Tex. Civ. App.—Tyler 1973, writ dismissed).

[201] *Herider Farms-El Paso, Inc. v. Criswell*, 519 S.W.2d 473, 476 (Tex. Civ. App.—El Paso 1975, writ ref'd n.r.e.) (discussing employee's fiduciary "duty or allegiance"); *see also Bray v. Squires*, 702 S.W.2d 266, 270 (Tex. App.—Houston 1985, no writ) (associates employed by a law firm have a fiduciary duty to deal openly and to make full disclosure to other members of the firm about matters affecting the firm's business) (*citing Cook v. Brundidge, Fountain, Elliot & Churchill*, 533 S.W.2d 751) (Tex. 1976)); *Kinzbach Tool Co. v. Corbett-Wallace Corp.*, 138 Tex. 565, 160 S.W.2d 509 (1942)).

[202] *Abetter Trucking Co., Inc. v. Arizpe*, 113 S.W.3d 503, 510 (Tex. App.—Houston [1st Dist.] 2003, no pet.). *But see Navigant Consulting v. Williamson*, No. 3:02-CV-2186-B, 2006 U.S. Dist. LEXIS 59110, **6-9 (N.D. Tex. Aug. 22, 2006) (opining that the Texas Court of Appeals may have overstated the law in *Arizpe*, and approving of the qualifying phrase "but not always" to the principle that an employee "may" secretly engage with other employees to prepare to compete with their employer).

[203] 519 S.W.2d 473 (Tex. Civ. App.—El Paso 1975, writ ref'd n.r.e.).

[204] *Id*. at 476.

[205] 2000 U.S. Dist. LEXIS 14283 (N.D. Tex. Jul. 20, 2000).

[206] *Loy v. Harter*, 128 S.W.3d 397, 407-08 (Tex. App.—Texarkana 2004); *see also FDIC v. Harrington*, 844 F. Supp. 300, 306 (N.D. Tex. 1994).

[207] *Harrington*, 844 F. Supp. at 306 (*citing Gearhart Indus., Inc. v. Smith Int'l, Inc.*, 741 F.2d 707, 719 (5th Cir. 1984)); *FDIC v. Henderson*, 849 F. Supp. 495, 498 (E.D. Tex. 1994); *Landon v. S & H Mktg. Group, Inc.*, 82 S.W.3d 666, 673 (Tex. App.—Eastland 2002, no pet.).

[208] *See DSC Commc'ns v. Next Level Commc'ns*, 107 F.3d 322, 326 (5th Cir. 1997); *Loy*, 128 S.W.3d at 408.

[209] *Gaal v. BASF Wyandotte Corp.*, 533 S.W.2d 152, 154 (Tex. Civ. App.—1970, no writ).

[210] *See Peat Marwick Main v. Haass*, 775 S.W.2d 698, 706-07 (Tex. App.—San Antonio 1989), *rev'd on other grounds*, 818 S.W.2d 381 (Tex. 1991).

[211] *See, e.g., Bray v. Squires*, 702 S.W.2d 266 (Tex. App.—Houston 1985, no writ); *Gaal*, 533 S.W.2d at 154.

[212] 572 S.W.2d 8, 10 (Tex. Civ. App.—Houston [1st Dist.] 1978), *rev'd on other grounds*, 576 S.W.2d 369 (Tex. 1979); *see also Gaal*, 533 S.W.2d at 154.

[213] *See Herider Farms-El Paso, Inc.*, 519 S.W.2d at 476.

[214] 488 S.W.2d 850, 857 (Tex. Civ. App.—Fort Worth 1972), *rev'd on other grounds*, 502 S.W.2d 681 (Tex. 1973).

[215] 2000 Tex. App. LEXIS 5277 (Tex. App.—Dallas Aug. 9, 2000, no pet.).

[216] *See id.* at **22-25.

[217] *See id.* at *21.

[218] *Numed, Inc. v. McNutt*, 724 S.W.2d 432, 434 (Tex. App.—Fort Worth 1987, no writ).

[219] *See generally K & G Oil Tool & Serv. Co. v. G&G Fishing Tool Serv.*, 314 S.W.2d 782 (Tex. 1958); *Marshall Mfg. Co. v. Verhalen*, 163 S.W.2d 665 (Tex. Civ. App.—Dallas 1942, writ ref'd w.o.m.).

[220] TEX. CIV. PRAC. & REM. CODE §§ 134.001-134.005 (Vernon 2006).

[221] TEX. PEN. CODE §§ 31.01-31.15 (Vernon 2006).

[222] TEX. CIV. PRAC. & REM. CODE § 134.005(b).

[223] TEX. PEN. CODE § 31.05(b).

[224] *Id*. § 31.05(a)(4).

[225] TEX. CIV. PRAC. & REM. CODE §§ 143.001-143.002 (Vernon 2006).

[226] *Id*.; TEX. PEN. CODE § 33.02 (Vernon 2006).

[227] TEX. PEN. CODE § 33.02.

[228] *Id*. § 33.01(14).

[229] *See Southwest Airlines Co. v. Farechase, Inc.*, 318 F. Supp. 2d 435, 442-43 (N.D. Tex. 2004).

[230] *Acuimmage Diagnostic Corp. v. Tereracon*, *Inc*., 260 F. Supp. 2d 941, 953 (N.D. Cal. 2003).

[231] *Callaway Golf Co. v. Dunlop Slazenger Group Americas*, *Inc*., 295 F. Supp. 2d 430, 435 (D. Del. 2003).

[232] 64 Cal. 2d 327 (1966).

[233] *Id.* at 346 (footnote omitted).

[234] *Id.* at 346 n.10 (quoting RESTATEMENT (SECOND) OF AGENCY § 393, cmt. e).

[235] *See also GAB Bus. Servs. Inc. v. Lindsey & Newsom Claim Servs*., *Inc.* 83 Cal. App. 4th 409 (2000).

[236] *Stokes v. Dole Nut Co.*, 41 Cal. App. 4th 285 (1995).

[237] *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 113 (1944); *Aetna Bldg. Maint. Co. v. West*, 39 Cal. 2d 198, 203 (1952).

[238] CAL. GOV'T CODE § 2322; CAL. LAB. CODE § 2859; RESTATEMENT (SECOND) OF AGENCY § 387.

[239] *Aetna*, 39 Cal. 2d at 203 (emphasis in original) (quoting *Golden & Co. v. Justice*'*s Court of Woodland Township*, 23 Cal. App. 778, 798 (1914)).

[240] *Id.* at 204 (citations omitted).

[241] 183 Cal. App. 2d 431 (1960).

[242] *Reeves v. Hanlon*, 33 Cal. 4th 1140, 1156 (2004).

[243] 33 Cal. 4th at 1156.

[244] *Morlife*, *Inc. v. Perry*, 56 Cal. App. 4th 1514, 1525 (1997) ("'Solicit' means '[t]o appeal to (for something) to apply to for obtaining something; to ask earnestly; to ask for the purpose of receiving.'"); *Thompson v. Impaxx*, *Inc*., 113 Cal. App. 4th 1425, 1429 (2003) (customer nonsolicitation covenants are not enforceable unless necessary to protect legitimate trade secrets).

[245] 260 Cal. App. 2d 244 (1968).

[246] *Diodes*, *Inc.*, 260 Cal. App. 2d at 255.

[247] 64 Cal. 2d 327 (1966).

[248] *See also Metro Traffic Control*, *Inc. v. Shadow Traffic Network*, 22 Cal. App. 4th 853 (1994) (defendant had not engaged in unfair competition when it contacted and interviewed plaintiff's employees).

[249] *Motors*, *Inc. v. Times Mirror Co.*, 102 Cal. App. 3d 735, 740 (1980).

[250] *See*, *e.g*., *Scavengers Protective Assoc. v. Serv-U-Garbage Co.*, 218 Cal. 568, 573 (1933).

[251] *See*, *e.g*., *Rigging Int'l Maint. Co. v. Gwin*, 128 Cal. App. 3d 594, 608 (1982).

[252] 18 U.S.C. §1030.

[253] *Fiber Sys. Int'l, Inc. v. Roehrs*, 470 F.3d 1150, 1156 (5th Cir. 2006); *see also* 18 U.S.C. § 1030(a)(1)-(7).

[254] *See Fiber Sys. Int'l, Inc.*, 470 F.3d at 1156-57 (citing 18 U.S.C. § 1030(g)).

[255] *P.C. Yonkers, Inc. v. Celebrations*, *L.L.C.*, 428 F.3d 504, 508 (3d. Cir. 2005) (internal quotations omitted) (citing 18 U.S.C. § 1030(a)(4)); *see also Pac. Aerospace & Elecs., Inc. v. Taylor*, 295 F. Supp. 2d 1188, 1195 (E.D. Wash. 2003).

[256] *See, e.g., Lockheed Martin Corp. v. Speed*, 6:05-CV-1580-Orl-31KRS, 2006 U.S. Dist. LEXIS 53108, at *12, **16-25 (M.D. Fla. Aug. 1, 2006); *Int'l Ass'n of Machinists & Aerospace Workers v. Werner-Matsuda*, 390 F. Supp. 2d 479, 499 (D. Md. 2005); *Secureinfo Corp v. Telos Corp.*, 387 F. Supp. 2d 593, 609-10 (E.D. Va. 2005).

[257] *See Hewlett-Packard Co.*, No. 6:05-CV-456, 2007 U.S. Dist. LEXI 5323, **38-40 (E.D. Tex. Jan. 25, 2007)

[258] 18 U.S.C. § 1030(a)(5)(A)-(B).

[259] *Nexans Wires S.A. v Sark-USA., Inc.*, 166 F. App'x 559, 562-63 (2d. Cir. 2006) (internal citations omitted) (analyzing the plain language of 18 U.S.C. § 130(e)(11)).

[260] *See L-3 Commc'ns. Westwood Corp. v. Robicharux*, No. 06-0279, 2007 U.S. Dist. LEXIS 16789, **11-12 (E.D. La. Mar. 8, 2007) ("[Plaintiff's] allegations of loss of trade secrets and lost profits are not contemplated by CFAA" because they are not losses resulting from "damage to a computer system or the inoperability of the accessed system."); *Pac. Aerospace & Elecs., Inc.*, 295 F. Supp. 2d at 1195; *see also Nexans Wires, S.A.*, 166 F. App'x at 562-63 (holding that CFAA does not allow for the recovery of lost revenues unless related to unavailability or interruption in computer service and collecting cases holding the same).

[261] *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 551 (Tex. App.—Dallas 1993, no writ); *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204 (Tex. Civ. App.— Dallas 1973, writ ref'd n.r.e).

[262] TEX. R. CIV. P. 683; *IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 200-01 (Tex. App.—Fort Worth 2005, no pet.); *West v. Pennyrich Int'l, Inc.*, 447 S.W.2d 771 (Tex. Civ. App.— Waco 1969, no writ).

[263] *See, e.g., Reach Group, L.L.C. v. Angelina Group*, 173 S.W.3d 834 (Tex. App.—Houston [14th Dist.] 2005, no pet.); *Green v. Unauthorized Practice of Law Comm.*, 883 S.W.2d 293 (Tex. App.—Dallas 1994,

no writ); *Recon Exploration, Inc. v. Hodges*, 798 S.W.2d 848, 852 (Tex. App.—Dallas 1990, no writ); *Ballinger v. Ballinger*, 694 S.W.2d 72, 75 (Tex. App.—Corpus Christi 1985, no writ).

[264] *See, e.g., Butler v. Arrow Mirror & Glass,* 51 S.W.3d 787, 795 (Tex. App.—Houston [1st Dist.] 2001, no pet.); *Cardinal Health Staffing Network, Inc.*, 106 S.W.3d 230, 235-41 (Tex. App.—Houston [1st Dist.] 2003, no pet.); *see also Guy Carpenter & Co., Inc. v. Provenzale*, 334 F.3d 459 (5th Cir. 2003);

[265] *Wright v. Sport Supply Group, Inc.*, 137 S.W.3d 289, 294 (Tex. App.—Beaumont 2004, no pet.); *Beasley v. Hub City Tex., L.P.*, No. 01-03-00287-CV, 2003 Tex. App. LEXIS 8550, **7-8 (Tex. App.—Houston [1st Dist.] Sept. 23, 2003, no pet.).

[266] *Amalgamated Acme Affiliates, Inc. v. Mintex*, 33 S.W.3d 387 (Tex. App.—Austin 2000, no writ).

[267] CAL. CIV. CODE § 3426.2(a).

[268] *Id.* § 3426.2(b).

[269] *Id.* § 3426.2(c).

[270] *Merrill Lynch*, *Pierce*, *Fenner & Smith Inc. v. Garcia*, 127 F. Supp. 2d 1305 (C.D. Cal. 2000); *see also Morlife*, *Inc. v. Perry*, 56 Cal. App. 4th 1514, 1528 (1997); *George v. Burdusis*, 21 Cal. 2d 153, 160 (1942).

[271] *United Mobile Networks, L.P. v. Deaton*, 939 S.W.2d 146 (Tex. 1997) (reversing a lower court's imposition of damages where the employer offered no evidence of lost customers or lost income); *see also Hyde Corp. v. Huffines*, 303 S.W.2d 865 (Tex. Civ. App.—Fort Worth 1957), *aff'd*, 314 S.W.2d 763 (Tex. 1958); *Gen. Devices, Inc. v. Bacon*, 888 S.W.2d 497 (Tex. App.—Dallas 1994, writ denied).

[272] *See Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174 (5th Cir. 1983).

[273] TEX. PEN. CODE § 31.05(b) (Vernon 2006).

[274] CAL. CIV. CODE § 3426.3(a).

[275] *Id.* § 3426.3(b).

[276] *Robert L. Cloud & Assocs*., *Inc. v. Mikesell*, 69 Cal. App. 4th 1141, 1149-50 (1999).

[277] *Cacique*, *Inc. v. Robert Reiser & Co.*, 169 F.3d 619 (9th Cir. 1999) (reasonable royalty not available even where damages caused not by the misappropriating company's sales but by the increased sales of its customers).

[278] *PMC*, *Inc. v. Kadisha*, 78 Cal. App. 4th 1368, 1389 (2000).

[279] 29 Cal. 4th 215 (2002).

[280] CAL. CIV. CODE § 3426.3(c).

[281] *Ajaxo*, *Inc.* v. *E*Trade Group*, *Inc.*, 2005 Cal. App. LEXIS 1950 (Dec. 21, 2005), recently addressed the type of conduct sufficient to obtain an award of punitive damages.

[282] TEX. BUS. & COM. CODE § 15.51 (Vernon 2006); *cf. McNeilus Cos., Inc.*, 971 S.W.2d at 509-10 (holding that a trial court's refusal to reform an agreement is not appealable at the interlocutory stage).

[283] *Weatherford Oil Tool Co. v. Campbell*, 340 S.W.2d 950, 953 (Tex. 1960).

[284] *Strategix*, *LTD v. Infocrossing West*, *Inc*., 142 Cal. App. 4th 1068, 1074 (2006).

[285] TEX. CIV. PRAC. & REM. CODE § 134.005(b) (Vernon 2006).

[286] *See Murrco Agency, Inc. v. Ryan*, 800 S.W.2d 600, 606 (Tex. App.—Dallas 1990, no writ).

[287] CAL. CIV. CODE § 3426.4.

[288] *See Rugen*, 864 S.W.2d at 553.

[289] *Walker v. Packer*, 827 S.W.2d 833 (Tex. 1992).

[290] *Automatic Drilling Mach., Inc. v. Miller*, 515 S.W.2d 256 (Tex. 1974).

[291] *Firestone Photographs, Inc. v. Lamaster*, 567 S.W.2d 273 (Tex. Civ. App.—Texarkana 1978, no writ).

[292] *In re Bridgestone/Firestone, Inc.*, 106 S.W.3d 730, 732-33 (Tex. 2003).

[293] *Id.* at 733.

[294] CAL. CIV. PROC. CODE § 2019.210. On July 1, 2005, former section 2109(d) was relabeled as section 2019.210, without substantive change.

[295] *Advanced Modular Sputtering*, *Inc. v. Superior Court*, 132 Cal. App. 4th 826, 836 (2005).

[296] CAL. R. OF CT. 243.2.