PROTECTING YOUR CLIENT'S INFORMATION AND CUSTOMER RELATIONSHIPS: THE INTERSECTION OF NON-COMPETES, TRADE SECRETS, AND EMPLOYEE CONFIDENTIALITY AGREEMENTS

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PUBLICATIONS

Cleveland, J., *Mum's the Word: Protecting Company Information Under the Texas Uniform Trade Secrets Act*, 79 TEX. B. J. 86 (Feb. 2016) (cited in the commentaries to the Texas Uniform Trade Secrets Act, Tex. Civ. Prac, & Rem. Code §134A.001-.008 (2013))

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Cleveland, J. and Coffman, J.H., *Protecting Trade Secrets Made Simple: How the Recently Enacted Texas Uniform Trade Secrets Act Provides a Legislative Framework for Litigating Cases*, 76 TEX. B. J. 751 (September 2013) (cited in the commentaries to the Texas Uniform Trade Secrets Act, Tex. Civ. Prac, & Rem. Code §134A.001-.008 (2013))

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In re Aircrash Disaster Nare Roselawn, Indiana on October 31, 1994 (1997)
3D animation/recreation utilized to secure $110 Million judgement for relatives of fatal airline crash (American Eagle flight 4184).

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PROTECTING YOUR CLIENT'S INFORMATION AND CUSTOMER RELATIONSHIPS: THE INTERSECTION OF NON-COMPETES, TRADE SECRETS, AND EMPLOYEE CONFIDENTIALITY AGREEMENTS

I. COVENANTS NOT TO COMPETE

Covenants that limit former employees' professional mobility or restrict their ability to solicit former customers or employees of the employer are restraints on trade and are governed by the Texas Covenants Not to Compete Act (the "Act"). Tex. Bus. & Com. Code Ann. §§ 15.50–.52 (West 2011); *DeSantis v. Wackenhut, Corp.*, 793 S.W.2d 670, 682 (Tex. 1990). Because covenants not to compete limit an employee's ability to work after termination of the employment relationship, they have traditionally been disfavored in Texas. However, over the last 20 years the Texas Supreme Court has increasingly looked upon covenants not to compete in a favorable light.

In its most recent shift away from a strict construction of the Act, the Texas Supreme Court looked to the purpose of the Act as articulated by the House Business and Commerce Committee:

> It is generally held that these covenants, in appropriate circumstances, encourage greater investment in the development of trade secrets and goodwill employee training, providing contracting parties with a means to effectively and efficiently allocate various risks, allow the freer transfer of property interests, and in certain circumstances, provide the only effective remedy for the protection of trade secrets and good will [sic].

Marsh USA Inc. v. Cook, 354 S.W.3d 764, 769 (Tex. 2011) (quoting House Comm. on Bus. & Commerce, Bill Analysis, Tex. S.B. 946, 71st Leg., R.S. (1989)). Preventing employees from disclosing trade secrets or confidential information is a valid business interest that is worthy of protection under Texas law. However, because the hallmark of enforcement is whether or not a covenant not to compete is reasonable, and reasonableness is necessarily a fact-intensive, case-by-case inquiry, covenants not to compete must be tailored to the employee's position and the business involved. Thus, a careful review of the cases interpreting the statutory requirements for covenants not to compete is required.

Under the Act, a covenant not to compete is enforceable if it is: (1) ancillary to or part of an otherwise enforceable agreement at the time the agreement is made; and (2) reasonable, not imposing a greater restraint than necessary to protect the goodwill or other business interest of the employer. *See* Tex. Bus. & Com. Code § 15.50(a).

A. Ancillary to or part of an otherwise enforceable agreement

For many years, based on the Texas Supreme Court's decision in *Light*, an employer had to prove that consideration for the otherwise enforceable agreement "gives rise" to the interest in restraining the employee from competing. *See Light v. Centel Cellular Co. of Texas,* 883 S.W.2d 642. However, in *Marsh USA*, the court retreated from this restrictive requirement, and found that by requiring a covenant to be "ancillary to or part of" an otherwise enforceable agreement, the Legislature intended that there only be "a nexus" between the covenant and the agreement. *See Marsh USA*, 354 S.W.3d at 775–76.

Courts often break this element down into two separate inquiries: (1) whether there is an "otherwise enforceable agreement;" and (2) whether the covenant not to compete is "ancillary to or part of" that agreement at the time the otherwise enforceable agreement was made. *See Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding,* 289 S.W.3d 844, 849 (Tex. 2009).

1. <u>"Otherwise enforceable agreement"</u>

To prove a breach of a covenant not to compete, the employer must establish there is an enforceable agreement between the parties that is separate from the covenant not to compete. *See* Tex. Bus. & Com. Code § 15.50(a). The otherwise enforceable agreement requirement is satisfied when the covenant is "part of an agreement that contain[s] mutual non-illusory promises." *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644, 648–49 (Tex. 2006).

Employment contracts that meaningfully limit an employer's right to terminate an employee, such as for "good cause" or in certain specified instances, are enforceable agreements sufficient to satisfy the "otherwise-enforceable agreement" requirement of a non-compete agreement. *See Curtis v. Ziff Energy Grp.*, 12 S.W.3d 114, 118 (Tex. App.—Houston [14th Dist.] 1999, no pet.). However, at-will employment agreements alone will not satisfy this requirement because either party retains the option of discontinuing employment for any reason. But the Texas Supreme Court has made clear that an at-will employment agreement can be enforced if it is a bilateral contract supported by mutual non-illusory promises. *See Marsh USA*, 354 S.W.3d at 773. In *Marsh USA*, the court found promises to be non-illusory where the employer promised to sell shares of the company at a discounted price to employees who exercised the stock option in return for the employees' promise not to solicit the employer's clients or employees or to disclose confidential information after termination. *Id.*

In *Sheshunoff*, the Texas Supreme Court held that an at-will employment agreement can satisfy the "otherwise-enforceable agreement" requirement if it is a unilateral contract that later becomes binding. 209 S.W.3d at 649–50. This marked a substantial shift in Texas covenant not to compete law. In *Sheshunoff*, the employer agreed to provide confidential information and specialized training in exchange for the employee's agreement to keep the information confidential and an agreement not to compete for 48 months. Relying on *Light*, the trial court found the employer's promises to be illusory at the time they were made because the employer could terminate the employee before providing the training or confidential information. However, the Texas Supreme Court held that "there is no sound reason why a unilateral contract made enforceable by performance should fail under the Act." *Id.* at 651. Because the employer later provided confidential information after the agreement, "the promise became non-illusory at that point." *Id.* Thus, "there is no requirement under Texas law that the employee receive consideration for the noncompete agreement prior to the time the employer's interest in protecting its goodwill arises." *Marsh USA*, 354 S.W.3d at 778.

According to the Texas Supreme Court, in certain situations, there is no requirement that the employee receive an express promise form the employer in return for his promise under the employment agreement. *Mann Frankfort*, 289 S.W.3d at 850. In *Mann Frankfort*, the Court addressed "whether a covenant not to compete in an at-will employment agreement is enforceable when the employee expressly promises not to disclose confidential information, but the employer makes no express return promise to provide confidential information. *Id.* at 845. According to the Court, "[w]hen the nature of the work the employee is hired to perform requires confidential information to be provided for the work to be performed by the employee, the employer impliedly promises confidential information will be provided." *Id.* at 850. Thus, "if one party makes an express promise that cannot reasonably be performed absent some type of performance by the other party, courts may imply a return promise so the dealings of the parties can be construed to mean something rather than nothing." *Id.*

2. <u>"Ancillary to or part of" an otherwise enforceable agreement</u>

In order for a covenant not to compete to be "ancillary to or part of" an otherwise enforceable agreement, the employer must prove: (1) the consideration given by the employer in the agreement is reasonably related to an interest worthy of protection; and (2) the covenant not to compete is designed to enforce the employee's consideration or return promise in the agreement. *See Marsh USA*, 354 S.W.3d at 775.

The adoption of this "reasonably related" standard was a dramatic shift from the much more restrictive *Light* "give rise" requirement. Harrell, A., *Light Fades Farther: The Texas Supreme Court Changes Direction on Covenants Not to Compete*, 75 Tex. B.J. 438, 440–42 (June 2012). In *Marsh USA*, the employee received stock options as part of an employee incentive plan, and in return executed a non-solicitation agreement and a covenant not to compete. 354 S.W.3d at 767. The court concluded that stock options are reasonably related to the protection of business goodwill because the employee's ownership status gives him an incentive to foster goodwill between his employer and its clients. *Id.* at 776–77. Therefore, the court held the covenant not to compete was ancillary to an otherwise enforceable agreement.

Business goodwill, confidential or proprietary information, trade secrets, and customer information all constitute interests which are "worthy of protection." *See Marsh USA*, 354 S.W.3d at 777; *Sheshunoff*, 209 S.W.3d at 651; *Lazer Spot, Inc. v. Hiring Partners*, 387 S.W.3d 40, 46 (Tex. App.—Texarkana 2012, pet. denied); *Gallagher Healthcare Ins. v. Vogelsang*, 312 S.W.3d 640, 652 (Tex. App.—Houston [1st Dist.] 2009, pet. denied). Additionally, specialized training is an interest some courts have found to be worthy of protection. *See Neurodiagnostic Tex, L.L.C. v. Pierce*, No. 12-14-00254-CV, 2016 WL 3704807, at *7 (Tex. App.—Tyler July 12, 2016). In *Pierce*, the court found that paying for the employee's exam preparation courses and training to receive two additional board certifications was sufficiently specialized training to be worthy of protection. *Id.* at *6. Importantly, the court limited its holding to the facts of the case and did not determine generally what level of training is required to qualify as "specialized." *Id.* at *7. Recent case law affirms that the provision of confidential information and trade secrets to employees are adequate consideration for covenants not to compete. *Tranter, Inc. v. Liss*, No. 02-13-00167-CV, 2014 WL 1257278 (Tex. App.—Fort Worth Mar. 27, 2014, no pet.) (mem. op.) (holding the consideration requirement was met when [employer] gave [employee] confidential information in exchange for [employee's] implied promise to keep the information confidential).

The covenant must also be designed to enforce the employee's consideration in the separate agreement. *Mann Frankfort*, 289 S.W.3d at 852. This means that the effect of the covenant must be to prevent the employer from breaching the promise he gave as consideration in the separate agreement. *Id.* An example includes covenants not to compete which are designed to enforce an employee's promise not to disclose trade secrets or use confidential information to compete with the employer. *Id.*

B. Reasonable limitations

Any restrictions in the covenant not to compete as to time, geographic area, or scope of activity must be: (1) reasonable; and (2) no greater than necessary to protect the goodwill or other business interest the agreement is intended to protect. Tex. Bus. & Com. Code § 15.50(a); *Marsh USA*, 354 S.W.3d at 771. Although deciding the reasonableness of the covenant's limitations is necessarily fact-intensive, whether a covenant's limitations are reasonable is a question of law. *DeSantis*, 793 S.W.2d at 682. As the Texas Supreme Court stated in *Marsh USA,* "the hallmark of enforcement is whether or not the covenant is reasonable." *Id.* at 777. In determining reasonableness and "whether and to what extent a restraint on competition is justified," courts will consider the amount of information an employee has received, its importance, its true degree of confidentiality, and the time period over which it is received. *Sheshunoff*, 209 S.W.3d at 655–56.

1. <u>Reasonable duration</u>

In determining the reasonableness of time restrictions contained in the covenant, the court should consider: (1) whether the employer's interests need protection, and (2) whether these interests outweigh the hardship imposed on the employee by enforcing the restriction. *See Bob Pagan Ford, Inc. v. Smith*, 638 S.W.2d 176, 178 (Tex. App.—Houston [1st Dist.] 1982, no writ). Texas courts generally uphold time restrictions of between two and five years. *See Gallagher Healthcare*, 312 S.W.3d at 655. However, even if a covenant contains a time limitation within this range, the court will strike down the time limitation as being too long if it finds that the limitation is a greater restraint than necessary to protect the particular business interest at stake. *See Bob Pagan Ford*, 638 S.W.2d at 178.

Additionally, although the lack of a fixed time limitation generally will not render a covenant unreasonable in and of itself, courts may strike down the covenant if the time limitation can be construed as lasting too long. *See Oliver v. Rogers,* 976 S.W.2d 792 (Tex. App.—Houston [1st Dist.] 1998, pet. Denied); *Dale v. Hoschar*, No. 05-13-01135-CV, 2014 WL 3907997 (Tex. App.—Dallas Aug. 12, 2014, no pet.). In *Dale*, the employer argued that the phrase –"[a]gent agrees to take no action . . . to attempt to replace business with any policyholder by soliciting or offering competing policies of insurance"– limited the duration of the covenant to the duration of the current policy held by each insured client. The court of appeals disagreed and found the covenant not to compete unenforceable in part because the agreement did not exclude renewal coverage of policyholders "who could renew repeatedly for decades." *Id.* at *3.

Since the Texas Supreme Court's ruling in *Marsh USA*, analyzing the reasonableness of the time restriction is more complicated. *See* Harrell, A., *Light Fades Further,* 75 Tex. B.J. at 443. Prior to *Marsh USA*, courts analyzed the reasonableness of the time limitation by determining at what point in time the consideration given by the employer could no longer be used to secure a competitive advantage. *See id.* Likely, this relatively simple analysis is still applicable post-*Marsh USA* to covenants supported by consideration in the form of disclosure of trade secrets or confidential information. But because *Marsh USA* expanded the types of consideration that may support a covenant beyond confidential information or trade secrets to consideration such as stock options, which are not susceptible to competitive use by the employee post-employment, analyzing the reasonableness of time limitations in such cases may become more complicated. *See id.*

2. <u>Reasonable geographic scope</u>

The geographic scope of a covenant not to compete refers to the specific locations in which the employee is prohibited from competing with the employer. "The breadth of enforcement of territorial restraints in covenants not to compete depends upon the nature and extent of the employer's business and degree of the employee's involvement." *Butler v. Arrow Mirror & Glass, Inc.*, 51 S.W.3d 787, 793 (Tex. App.—Houston [1st Dist.] 2001, no pet.). Thus, restraining an employee from competing in an area where the employer does not conduct business would be unreasonable. However, geographic limitations which cover only the area where the employee worked during his employment are reasonable. *Cobb v. Caye Publishing Grp., Inc.,* 322 S.W.3d 780, 784 (Tex. App.—Fort Worth 2010, no pet.); *Butler,* 51 S.W.3d at 793 (stating that "[g]enerally, a reasonable area for purposes of a covenant not to compete is considered to be the territory in which the employee worked while in the employment of his employer").

Geographic limitations which are indefinite or unlimited are unreasonable. *See Juliette Fowler*

Homes, Inc. v. Welch Assocs., 793 S.W.2d 660, 663 (Tex. 1990). Likewise, worldwide and nationwide restraints will generally be held to be overbroad. However, if an employer has substantial business nationwide or an employee was in charge of business across the country, a nationwide limitation might be upheld. *See Vais Arms, Inc. v. Vais,* 383 F.3d 287, 295–96 n.20 (5th Cir. 2004) (holding that a nationwide restraint was reasonable where business sold by restrained party was national in character); *Curtis v. Ziff Energy Grp., Ltd.,* 12 S.W.3d 114 (Tex. App.—Houston [14th Dist.] 1999, no writ) (holding a covenant preventing competition in competitive businesses in Canada or the United states was reasonable because the employee was the Vice President of Pipelines and Energy Marketing, responsible for developing business in the United States and Canada).

Covenants not to compete may limit competition state wide if the employee actually performed duties in such a large area. However, if the employee did not perform duties statewide, courts will find that a restriction covering the entire state of Texas too broad. *See Morrell Masonry Supply, Inc. v. Coddou*, No. 01-13-00446-CV, 2014 WL 1778285 (Tex. App.—Houston [1st Dist.] May 1, 2014, no pet. h.) (mem. op.) (holding that a covenant covering the entire State of Texas was unreasonable and overbroad because [employer's] business did not extend beyond San Antonio, Houston, and Beaumont); *Evan's World Travel v. Adams*, 978 S.W.2d 225, 232 (Tex. App.—Texarkana 1998, no writ) (striking down a statewide prohibition and reforming the covenant to restrict the employee form working in the county where she had worked previously).

A number of courts have held that a covenant not to compete limited to the employee's clients is a reasonable alternative to a geographical limit. *See Gallagher Healthcare,* 312 S.W.3d at 654 (citing cases and holding that an agreement which precluded employee from working with clients who she worked with in the past two years and from engaging in any activity with these clients for two years after termination was a reasonable alternative to a geographic limitation). Whether limitations against an employee's solicitation of "existing customers" is unreasonable turns on the level of contact the employee had with those customers. *EMS USA, Inc. v. Shary,* 309 S.W.3d 653, 660 (Tex. App.—Houston [14th Dist.] 2010, no pet.). Covenants which prohibit employees from dealing with clients with whom the employee had no contact during his employment are unreasonable. *See U.S. Risk Ins. Grp. v. Woods*, 399 S.W.3d 295, 301 (Tex. App.—Dallas 2013, no pet.).

When drafting a covenant that restricts an employee from engaging in certain activities with "clients" or "customers," these terms should be carefully defined in the agreement. *See Premier Polymers, LLC v. Wendt,* No. H-15-1812, 2015 WL 443451, at *4 (S.D. Tex. July 17, 2015). In *Wendt*, the parties disputed whether the term "customer" referred only to those businesses the employer actually sold product or whether it also included the targeted group of potential customers with whom sales representatives were instructed to meet, negotiate, and cultivate a relationship, even though no transactions had occurred. *Id.* Importantly, "customers" was not defined, and in the non-solicitation segment of the Agreement, the employee was limited from soliciting customers "with whom [employer] had transacted business." *Id.* Based on these facts, the court held the covenant only prevented the employee from dealing with customers that had transacted business with his employer, not potential customers. *Id.* Thus, where client development is a key aspect of an employee's job, the covenant not to compete should define "client" or "customer" to include potential customers with whom the employee has had contact.

3. <u>Reasonable scope of activity</u>

The Act requires that a covenant not to compete reasonably limit the scope of activity the employee is restricted from performing. Tex. Bus. & Com. Code § 15.50(a). "Scope of activity" refers to the specific business activity in which the employee cannot engage after he or she leaves employment with the employer. Generally, the scope of activities restricted should be narrowly drawn to apply only to activities related to the work the employee provided for the employer. *See Butler*, 51 S.W.3d at 794; *Peat Marwick Main & Co. v. Haass*, 818 S.W.2d 381, 387 (Tex. 1991) (holding industry-wide bar unenforceable).

Recent decisions reinforce these principles regarding limitations on the scope of activity to be restrained. In *U.S. Risk Insurance Group, Inc. v. Woods*, the court concluded that the covenant contained unreasonable limitations on the scope of activity the employee could perform because it limited him from pursuing all "business currently engaged in by the Company" instead of limiting him from conducting the type of work that he actually performed for the company. 399 S.W.3d 295, 301 (Tex. App.—Dallas 2013, no pet.). Similarly, the Tyler Court of Appeals held that a covenant not to compete which restricted a cardiologist from practicing all medicine, not just cardiology, within 10 miles of the city limits was overbroad. *Nacogdoches Heart Clinic, P.A. v. Pokala*, 12-11-00133-CV, 2013 WL 451810, at *4 (Tex. App.—Tyler Feb. 6, 2013, pet. denied). The court also found the covenant violated public policy because imposing such restrictions on a small community with only a few cardiologists would adversely affect the medical care of the people. *Id.*

Courts have held that an employee who possesses trade secrets belonging to a former employer and accepts employment with one of its competitors, even if acting in good faith, will have difficulty preventing this knowledge from becoming a part of his work. *Daily Instruments Corp. v. Heidt*, 998 F. Supp. 2d 553, 566-67 (S.D. Tex. 2014). Thus, covenants which prohibit an employee with knowledge of its employer's trade secrets from working for the employer's direct competitors have been upheld as reasonable restraints. *See M-I LLC v. Stelly*, 733 F. Supp. 2d 759, 794–95 (S.D. Tex. 2010); *Daily Instruments*, 998 F. Supp. 2d at 567-68. In *Daily Instruments,* the employee was a high-level sales manager who had access to his former employer's confidential information regarding its clients and sales worldwide. *See id.* at 569–70. Because the covenant only prevented the employee from competing with his former employer by assisting any competitor through the provision of confidential information regarding the narrow field of reactor thermometry, the scope of the covenant was reasonable and not greater than necessary to protect the former employer's interests.

C. Remedies available for breach of a covenant not to compete

For any breach of the covenant not to compete, the Act permits the court to award the employer damages, injunctive relief, or both. Tex. Bus. & Com. Code § 15.51(a). Most employers seek injunctive relief for violations of covenants not to compete. Thus, few cases have discussed the proper measure of damages available for an employee's breach of the covenant. Damages are likely limited to compensatory damages for actual losses sustained as a proximate result of the employee's breach. *See Butts Retail, Inc. v. Diversifoods, Inc.*, 840 S.W.2d 770, 775 (Tex. App.—Beaumont 1992, writ denied) (upholding jury award of lost profits for breach of covenant not to compete).

Additionally, the employer may seek temporary or injunctive relief. *See* Tex. Bus. & Com. Code §§ 15.51, 15.52. Section 15.51 governs permanent injunctive relief. *EMSL Analytical, Inc. v. Younker*, 154 S.W.3d 693, 695 (Tex. App.—Houston [14th Dist.] 2004, no pet.) (Covenants not to Compete Act only governs final remedies and does not preempt the common law relating to temporary injunctive relief). To obtain a permanent injunction, the employer must show that the covenant meets the criteria for enforceability under Section 15.50 of the Act. *Butler,* 51 S.W.3d at 795. To obtain a temporary injunction, the employer must plead and prove that there is a probable, imminent, and irreparable injury for which there is no adequate legal remedy, and a probable right to recover for the injury. *Shary,* 309 S.W.3d at 657.

Also, the employer and employee can seek the equitable remedy of reformation. *See* Tex. Bus. & Com. Code § 15.51(c). If the court finds the covenant not to compete contains limitations on time, geographic area, or scope of activity which are not reasonable and impose a greater restraint than necessary, but it is ancillary to an otherwise enforceable agreement, the court must reform the covenant to make the restraints reasonable. *Id.*; *Sentinel Integrity Solutions, Inc. v. Mistras Group, Inc.,* 414 S.W.3d 911, 924 (Tex. App.—Houston [1st Dist.] 2013, pet. denied). According to the Act, the court is required to enforce the covenant as reformed. Tex. Bus. & Com. Code § 15.51(c). Importantly, the court may not award the employer damages for a breach that occurred before the reformation. *Id.*; *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230, 238–39 (Tex. App.—Houston [1st Dist.] 2003, no pet.). The employer is limited to injunctive relief. Tex. Bus. & Com. Code § 15.51(c).

Although employees may recover attorney's fees in certain situations, attorney's fees are not available under the Act to a prevailing employer. *See* Tex. Bus. & Com. Code §§ 15.51(a),(c). The employer is limited to damages and injunctive relief under the Act, and cannot recover attorney's fees incurred in prosecuting a suit against the employee for breach of a covenant not to compete. *See Franklin, Inc. v. GJMS Unlimited, Inc.*, 401 S.W.3d 705, 712 (Tex. App.—Houston [14th Dist.] 2013, pet. denied).

The court may award an employee costs and attorney's fees if it is proven that: (1) the employer knew at the time of the execution of the agreement that the covenant did not contain limitations as to time, geographical area, and scope of activity to be restrained that were reasonable and the limitations imposed a greater restraint than necessary to protect employer's goodwill or other business interest; and (2) the employer sought to enforce the covenant to a greater extent than was necessary to protect its goodwill or other business interest. *See* Tex. Bus. & Com. Code § 15.51(c); *Sentinel,* 414 S.W.3d at 924.

D. Choice of law provisions in covenants not to compete

Covenants not to compete often contain a choice-of-law provision. Unlike arbitration and forum selection clauses, which dictate where a dispute will be heard, choice-of-law provisions dictate the law that will decide the dispute, and thus create more tension with a state's power to regulate conduct within its borders. *See DeSantis,* 793 S.W.2d at 677; *see also In re Autonation, Inc.*, 228 S.W.3d 663, 669 (Tex. 2007) (distinguishing choice-of-law provisions from forum selection clauses because there is no "fundamental Texas policy requir[ing] that every employment dispute with a Texas resident must be litigated in Texas").

The Supreme Court of Texas recognizes that contractual choice of law provisions should generally be enforced, but the parties' freedom to choose what jurisdiction's law applies is not unlimited. *Barnett v. DynCorp Int'l, L.L.C.*, 15-10757, 2016 WL 4010440, at *6 (5th Cir. July 26, 2016) (citing *DeSantis*, 793 S.W.2d at 677). The "party autonomy rule," which allows parties to agree to be governed by the law of another state, is limited by Texas's adoption of section 187 of the Restatement. *See Exxon Mobil Corp. v. Drennen*, 452 S.W.3d 319, 329–31 (Tex. 2014). To render a choice-of-law provision unenforceable, a party must satisfy the standards in Section 187 of the Restatement (Second) of Conflict of Laws, which provides that:

> (2) The law of the state chosen by the parties to govern their contractual rights and duties will be applied . . . unless either:
>
> (a) the chosen state has no substantial relationship to the parties or the transaction and there is no other reasonable basis for the parties' choice, or
>
> (b) application of the law of the chosen state would be contrary to a fundamental policy of a state which has a materially greater interest than the chosen state in the determination of the particular issue and which, under the rule of § 188, would be the state of the applicable law in the absence of an effective choice of law by the parties.

Restatement § 187(2) (1971); *see DeSantis*, 793 S.W.2d at 677–78. Thus, although Texas courts permit choice-of-law agreements and the default position is that they are enforceable, it is not uncommon for a party to overcome them. *Cardoni v. Prosperity Bank*, 805 F.3d 573, 582 (5th Cir. 2015) (citing *DeSantis*, 793 S.W.2d at 681).

1. <u>Substantial relationship to the parties or the transaction</u>

With respect to section 187(2)(a), "parties will be held to their choice when the state of the chosen law [has] a sufficiently close relationship to the parties and the contract to make the parties' choice reasonable." *Drennen*, 452 S.W.3d at 325. For example, a reasonable basis exists if: (i) the employer is headquartered in the state, (ii) the choice of the state provides consistency in administration of contracts with employees located in many states and countries, or (iii) the employee visits the state often for training, meetings, and other events for the employer. *See Cardoni*, 805 F.3d at 581; *Drennen*, 452 S.W.3d at 325; *Merritt, Hawkins & Associates, LLC v. Caporicci*, 05-15-00851-CV, 2016 WL 1757251, at *2–3 (Tex. App.—Dallas May 2, 2016, no pet.).

Even when a reasonable basis exists for selecting a state as the source of law governing a transaction, the parties' selection does not control if another state: (1) has a more significant relationship with the parties and the transaction at issue than the chosen state does under Restatement § 188; (2) has a materially greater interest than the chosen state does in the enforceability of a given provision; and (3) has a fundamental policy that would be contravened by the application of the chosen state's law. *Cardoni*, 805 F.3d at 582 (citing *Drennen*, 452 S.W.3d at 325).

2. <u>More significant relationship than the chosen state</u>

The "more significant relationship" determination is made by examining various contacts, in light of basic choice-of-law principles. *DeSantis*, 793 S.W.2d at 678. These contacts include: (a) the place of contracting, (b) the place of negotiation of the contract, (c) the place of performance, (d) the location of the subject matter of the contract, and (e) the domicile, residence, nationality, place of incorporation and place of business of the parties. Restatement § 188(2); *see also Minn. Mining & Mfg. Co. v. Nishika Ltd.*, 955 S.W.2d 853, 856 n.6 (Tex.1996). These contacts are weighed "not by their number, but by their quality." *Minn. Mining*, 955 S.W.2d at 856. The choice-of-law agreement is not taken into account when determining the most significant contacts. *Drennen*, 452 S.W.3d at 325–326. In a contract for the performance of services, the main place for performance is "[a]s a general rule . . . conclusive in determining what state's law is to apply." *DeSantis*, 793 S.W.2d at 679.

In *Drennen*, the court had to determine whether ExxonMobil and Drennen's choice of New York law was enforceable. The court observed that both parties were located in Texas because ExxonMobil was headquartered in Irving and Drennen was a resident of Houston. *Drennen*, 452 S.W.3d at 326. Additionally, the negotiations and execution of the employee agreement took place in Texas, as did the performance of the contract. On the other hand, the court noted that ExxonMobil had a presence in New York and Drennen spent three years working for ExxonMobil in New York. Noting that the transaction and parties had relations with both states, the court concluded that Texas had a more significant relationship than New York.

In *Caporicci*, the court had to determine whether to enforce the parties' choice of Texas law or apply

California law. 2016 WL 1757251, at *2. Under the first factor, the court considered whether the relationship of the transaction and parties to California was clearly more significant than their relationship to the chosen state of Texas. *Id.* The court concluded that the relationship to California was more significant because the employee interviewed for the job, completed the employment agreement, and performed his job in California. *Id.* at 3. Moreover, the employee lived in California and infrequently travelled to Texas. Thus, despite the company being headquartered in Texas, the court found California to have the more significant relationship to the dispute and its law would govern absent the choice-of-law provision. *Id.*

3. Materially greater interest than the chosen state

According to the Restatement, the forum state must also have a materially greater interest than the chosen state in the determination of the particular issue in the case. *Drennen,* 452 S.W.3d at 326 (citing *DeSantis*, 793 S.W.2d at 679). In *DeSantis,* the Texas Supreme Court considered both the specific facts of the case and the agreement's potential impact on the employee to determine whether Texas had a materially greater interest than did Florida, the chosen state. 793 S.W.2d at 675. The employer was headquartered in Florida, and the parties chose Florida law to govern the covenant not to compete. *Id.* The court noted that Florida shared an interest with Texas in protecting the justifiable expectations of entities doing business in several states, and that Florida had a direct interest in the enforcement of the agreement in protecting a national business headquartered in Florida. *Id.* at 679. On the other hand, "Texas was directly interested in: (1) DeSantis—as an employee in Texas; (2) Wackenhut—as a national employer doing business in Texas; (3) the new business DeSantis formed in Texas in violation of the non-compete; and (4) consumers of the services in Texas." *Id.* Therefore, the court held that "Texas clearly had a materially greater interest in whether the agreement should be enforced." *Id.*

In *Drennen,* both the employee and the employer were Texas residents, which gave Texas an even stronger interest than in *DeSantis* in the issue affecting actors located within its borders, and left as the only countervailing consideration the uniformity and predictability that choice-of-law provisions promote. 452 S.W.3d at 326. Thus, the court concluded that Texas had a materially greater interest in the enforcement of the covenant not to compete.

4. Contrary to fundamental policy of the state

Lastly, Texas courts determine whether the application of another state's law would be contrary to the fundamental policy of the state that has the more significant relationship to the transaction and materially greater interest in enforcing the covenant. *Drennen,* 452 S.W.3d at 325. The Restatement does not give a general definition of "fundamental policy," and the Texas Supreme Court has not expressly provided a definition either. *See id.* at 327. However, the Texas Supreme Court noted that the application of foreign law "is not contrary to the fundamental policy of the forum merely because it leads to a different result," or "is materially different." *DeSantis*, 793 S.W.2d at 680. Rather, "the focus is on whether the law in question is a part of state policy so fundamental that the courts of the state will refuse to enforce an agreement contrary to that law, despite the parties' original intentions, and even though the agreement would be enforceable in another state connected with the transaction." *Id.*

The Texas Supreme Court made clear in *DeSantis* that the enforcement of covenants not to compete is a fundamental policy in Texas. In *DeSantis*, the Texas Supreme Court determined that applying the Florida choice-of-law provision would contravene fundamental policy in Texas because the law governing enforcement of non-competes is a fundamental policy in Texas, and that "to apply the law of another state to determine the enforceability of such an agreement in the circumstances of a case like this would be contrary to that policy." *Id.* at 681. Recent cases reaffirm that the enforcement of covenants not to compete is a fundamental policy of Texas.

For example, in *Drennen*, ExxonMobil attempted to enforce a New York choice-of-law provision contained in its employee incentive agreement. 452 S.W.3d at 329. The Texas Supreme Court "easily distinguish[ed] the current case" from its holding in *DeSantis*, "first and most importantly" because "ExxonMobil's Incentive Programs do not involve covenants not to compete." *Id.* Therefore, the court enforced the parties' choice-of-law provision and applied New York law because the enforcement of New York law did not contravene any fundamental policy of Texas. However, the court qualified its holding that applying New York law would not contravene any fundamental Texas policy by stating:

> We recognize that other jurisdictions have held, as we did in *DeSantis*, that the application of another state's law which results in the enforcement of a noncompetition agreement contravenes the forum state's fundamental public policy. *However, once again, it should be noted that this case does not involve a covenant not to compete.*

ADP, LLC v. Capote, A-15-CA-714-SS, 2016 WL 3742319, at *5 (W.D. Tex. July 7, 2016) (quoting *Drennen,* 452 S.W.3d at 331 n.7).

In *ADP*, the New Jersey choice-of-law provision at issue was part of a covenant not to compete. *Id.* In holding that Texas law should apply to determine the enforceability of the covenant, the court stated that it "could not agree with ADP's implication that *Drennen* signaled a sea change in Texas's policy concerning non-compete provisions, as *Drennen* dealt with forfeiture provisions, not covenants not to compete." *Id.* Additionally, the court observed that "ADP fails to cite to, and the Court's research has not uncovered, any case finding application of a foreign state's law to a non-compete provision does not offend a fundamental Texas policy." *Id.* Lastly, the court noted that "virtually every court that has addressed the question of whether enforcement of noncompetition agreements is a matter of fundamental or important state policy [has] answer[ed] affirmatively." *Id.* Thus, the court declined to enforce the New Jersey choice-of-law provision and instead applied Texas law to determine the enforceability of the covenant not to compete. *Id.* at *6.

Texas law is clear that the enforcement of covenants not to compete is a matter of fundamental Texas policy. Therefore, the third factor of the § 187 analysis will always favor the application of Texas law for claims relating to covenants not to compete despite a choice-of-law provision to the contrary.

Texas courts favor the enforcement of choice-of-law provisions, and will enforce them in most cases. However, the governing law chosen by the parties to the agreement will be set aside if a party can prove that another state's law should apply. Thus, every covenant not to compete should contain a choice-of-law provision, and the jurisdiction chosen to govern the parties' agreement should have a substantial relationship to the parties or the transaction.

E. Practical considerations for protecting confidential information and preserving customer relationships with a covenant not to compete

- Because the hallmark of enforcing a covenant not to compete is whether the covenant is reasonable, all covenants should be carefully drafted to address the particular circumstances of the employer/employee relationship.
- Include the covenant not to compete in the same document as the "otherwise enforceable agreement."
- Specifically state the legitimate business interest the company seeks to protect within the covenant not to compete, (i.e. trade secrets, confidential information, identities of customers, etc.).
- If the company is entering into a covenant not to compete with an existing employee, the company should provide additional consideration to support the agreement.
- Define the duration of the noncompete agreement in terms of a readily ascertainable period. Tailor the duration of the covenant to the value of the particular interest the company seeks to protect. If certain confidential information or trade secrets have a point at which they will no longer provide a competitive edge, the time limitation should correspond to that period.
- Consider including a tolling provision which suspends or extends the term of the covenant not to compete during any period that the employee is in breach of the covenant. Without such a provision, courts are reluctant to "equitably extend" the term of the covenant unless the breach is continuous and persistent.
- Because the geographic scope is based on the employee's activities, not the employer's, the limitation should be narrowly tailored to the area in which the employee worked. For supervisors or employees in management, the court may enforce broader restrictions covering the area the employee oversaw. Specifically list which cities, counties, states, etc. the employee is not allowed to compete.
- Define the scope of the activity to be restrained as narrowly as possible. Restrict the employee from performing the same or similar work he performed while working for the employer. Describe in detail the employee's position and job duties.
- If a non-solicitation clause is included, it should be tailored to include only customers or prospective customers that the employee had contact with or received confidential information from.
- Consider including a notification provision which requires a departing employee to disclose the identity of his new employer and the nature of his new position.
- Include a provision which requires the employee to return all company property, including confidential information and trade secrets upon termination of the employment relationship.
- Include a choice-of-law provision. The jurisdiction whose law is chosen to govern the parties' agreement should bear a substantial relationship to the parties or the transaction.

F. Conclusion

In its last word on the enforceability of covenants not to compete, the Texas Supreme Court observed that reasonable noncompetes may increase efficiency in industry by encouraging employers to entrust confidential information and important customer relationships to key employees. *Marsh USA*, 354 S.W.3d at 769. Under current Texas law, it is clear that protection of confidential information and trade secrets are legitimate business interests, and reasonable covenants not to compete designed to protect those interests are enforceable. As such, a valid covenant not to compete is a powerful tool that can be used to protect a business's confidential information and to preserve customer relationships, and all employees who will be exposed to this information should be required to sign one.

II. CONFIDENTIALITY AGREEMENTS

Confidentiality agreements often serve as the "otherwise enforceable agreement" to which a covenant not to compete is attached. A confidentiality agreement or non-disclosure agreement allows the company to impose contractual liability for any disclosure or misappropriation of the company's trade secrets. Unlike covenants not to compete, confidentiality agreements are not viewed as restraints on trade and therefore are not presumptively against public policy. Thus, they are not subject to reasonable time, geographic, and scope of activity limitations that apply to covenants not to compete.

A typical confidentiality agreement requires the employee to keep trade secrets in the strictest confidence, prohibits the employee from disclosing the information outside the company without prior written consent, and warns that the employee cannot make use of the trade secret for the employee's benefit or the benefit of anyone else outside the company. Cleveland, J., *Mum's the Word: Protecting company information under the Texas Uniform Trade Secrets Act*, 79 Tex. B.J. 86, 87 (Feb. 2016). The confidentiality agreement should also make clear that the duty to maintain confidentiality remains even after termination of employment. *Id.* The confidentiality agreement should mirror the language from the company's trade secrets policies and inform the employee of consequences for noncompliance. *Id.* Subcontractors, vendors, licensees, and any other temporary workers who may be exposed to the company's trade secrets should be required to sign a confidentiality agreement at the outset of the relationship. *Id.*

Additionally, the confidentiality agreement should be narrow in scope, specifically defining or identifying the information considered to be confidential or a trade secret. An overly broad scope could lead to inadvertent disclosures by the employee. The agreement should also define the class of people within the company who can receive and use the protected information. Many confidentiality agreements contain recitals wherein the parties agree that a breach of the agreement will result in irreparable harm and injunctive relief is proper because money damages would not be sufficient.

A. TUTSA warnings

The company may consider advising employees that under the Texas Uniform Trade Secrets Act ("TUTSA"), it is authorized to obtain a court order to stop any actual or threatened misappropriation of its trade secrets and has the right to recover damages for any misappropriation, to seek an award of exemplary damages for willful and malicious misappropriation, and to seek reasonable attorneys' fees for any misappropriation. Tex. Civ. Prac. & Rem. Code §§ 134A.003(a), 134A.004(a), 134A.004(b), and 134A.005(3). TUTSA specifically provides that it does not affect contractual remedies. *Id.* § 134A.007(b)(1). Therefore, any employee who will be exposed to the company's trade secrets should be required to sign a confidentiality agreement. Any breach of a duty to maintain secrecy under the confidentiality agreement will not only result in contractual liability but will also constitute a violation of TUTSA. *Id.* § 134A.002(2). In addition, unlike TUTSA, attorneys' fees are recoverable for a breach of contract without a finding of willfulness. Tex. Civ. Prac. & Rem. Code § 38.001 *et seq.*

B. New notice requirements regarding whistleblowers under DTSA

The federal Defend Trade Secrets Act ("DTSA") became effective on May 12, 2016. The DTSA provides a federal cause of action for the misappropriation of trade secrets. 18 U.S.C. § 1832. In addition to providing protections and remedies for trade secret owners, the DTSA also grants immunity for certain disclosures of trade secrets and requires employers to provide notice of these immunities to their employees. *Id.* § 1833. The immunity provision applies when an employee, contractor, or consultant: (1) discloses a trade secret in confidence to a federal, state, or local official for the purpose of reporting or investigating a suspected violation of law, or (2) discloses a trade secret in a complaint or other document filed in a lawsuit under seal. *Id.* § 1833(a). The immunity applies under the DTSA as well as under state trade secret law. *Id.* § 1833(b).

The notice of immunity requirement applies to all employee agreements governing the use of trade secrets or other confidential information and entered into or amended after May 11, 2016. *Id.* § 1833(b)(3). The definition of "employee" under this section includes "any individual performing work as a contractor or consultant for an employer." *Id.* § 1833(b)(4). Failure to comply with the notice requirement forecloses the employer's right to recover exemplary damages or attorneys' fees in subsequent suits against individuals who did not receive the notice. *Id.* § 1833(b)(3). Thus, companies should include a notification clause in their confidentiality agreements regarding whistleblower protections and immunities.

III. PROTECTING TRADE SECRETS UNDER THE DEFEND TRADE SECRETS ACT & THE TEXAS UNIFORM TRADE SECRETS ACT

The Defend Trade Secrets Act of 2016 (DTSA), enacted earlier this year, creates a body of federal trade secret law that compliments and largely mirrors the Uniform Trade Secrets Act (UTSA), adopted in 48 states. Combined, the DTSA and UTSA now govern trade secret protection in almost every jurisdiction in the United States. Texas adopted its form of the UTSA—called the Texas Uniform Trade Secrets Act (or TUTSA) on September 1, 2013. Because neither DTSA nor TUTSA preempt the application of either act, misappropriation of trade secrets is now governed by both state and federal law.

Broadly speaking, a trade secret is any information not publically known, which provides a company a competitive edge. Under both the DTSA and TUTSA, trade secrets can consist of any information, including a formula, pattern, compilation, program, device, method, technique, or process. DTSA expands this list to include all forms and types of financial, business, scientific, technical, economic, or engineering information, whether tangible or intangible, and wherever stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing.

Unlike a patent or copyright, trade secret protection can last forever. But it is an unforgiving form of protection and can be easily lost if the secret is publicly disclosed. Therefore, from the moment a trade secret is created, the owner must guard its secrecy 24 hours a day, 365 days a year. Here are some relatively simple steps that a company can take to protect its trade secrets under both DTSA and TUTSA.

STEP ONE: Identify the trade secret

A company should first identify the trade secrets that are crucial to the economic success of the business. Under both DTSA and TUTSA, a trade secret must be information possessing some economic value from not being generally known or readily ascertainable by others outside the company. It includes information having "actual or potential" economic value and thus includes those trade secrets that have not yet been put to use or that have been used or later abandoned. Similarly, trade secrets may include "negative know-how," which is information resulting from lengthy and expensive research proving that a certain formula, method, or process will not work.

Despite this expansive list of trade secrets protected under DTSA and TUTSA, a company should not simply designate every piece of technology or business information as a trade secret. When everything is a trade secret, it's just another way of saying that nothing is. A company should therefore thoughtfully consider what is worth spending the time and effort to protect.

STEP TWO: Maintain secrecy

To be entitled to trade secret protection under DTSA and TUTSA, the owner must take steps that are reasonable under the circumstances to maintain the secrecy of the trade secret. Although there are a variety of actions a company can take, they should be customized to the individual business requirements of each company.

Employee guidelines. Protecting a company's trade secrets starts with its employees. A company should provide employees with specific guidelines on the kinds of information considered to be trade secrets, inform them that this information should not be disclosed outside the company under any circumstances without written permission, explain how the company expects its trade secrets to be handled internally, and warn of serious consequences for any failure to comply. The company should periodically brief employees on these rules and require them to sign an acknowledgement that they received and understood the company's trade secret polices.

Non-disclosure agreements. A non-disclosure agreement (NDA) allows the company to impose contractual liability for any disclosure or misappropriation of the company's trade secrets. A typical NDA requires the employee to keep trade secrets in the strictest confidence, prohibits the employee from disclosing the information outside the company without prior written consent, and warns that the employee cannot make any use of the trade secret for the employee's benefit or the benefit of anyone else outside the company. The NDA should also make clear that the duty to maintain confidentiality remains even after termination of employment. The NDA should mirror the language from the company's trade secrets policies and inform the employee of consequences for noncompliance.

The company may consider advising employees that under DTSA and TUTSA, the company is authorized to obtain a court order to stop any actual or threatened misappropriation of its trade secrets. In addition, the company could appropriately inform its employees that the company has the right to recover damages for any misappropriation, to seek an award of exemplary damages for willful and malicious misappropriation, and to recover its reasonable attorneys' fees. Because neither DTSA nor the TUTSA affect criminal remedies, the company may also consider informing employees that theft of trade secrets constitutes a crime.

DTSA requires employers to notify its employees that they are immune from civil or criminal liability if the employee (i) discloses the company's trade secrets in confidence to a government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law or (ii) files the trade secret under seal in a court proceeding. If the company does not comply with the notice requirement, the company cannot recover exemplary damages or attorney's fees against that employee to whom notice was not provided. TUTSA has no such notice requirement.

DTSA and TUTSA specifically provide that they do not preempt contractual or other civil remedies. Therefore, any employee who will be exposed to the company's trade secrets should be required to sign a NDA. Any breach of a duty to maintain secrecy under the NDA will not only result in contractual liability but will also constitute a violation of DTSA and TUTSA. In addition, a contract may provide for the recovery of attorneys' fees for breach of contract without a finding of willfulness, which is required under both DTSA and TUTSA.

Sub-Contractors, vendors, and licensees. Sub-contractors or vendors who may be exposed to the company's trade secrets should be required to sign an NDA at the outset of the relationship. The NDA should specifically describe the trade secrets that are being disclosed, describe the purpose for the disclosure, define the scope of permitted use, and warn against any disclosure without the company's prior written consent. When temporary workers are hired, make certain they sign the company's NDA. If a formal written agreement cannot be signed, the company should at least notify the subcontractor or vendor of the company's expectations regarding its trade secret information.

Those who will obtain a license to use a company's trade secrets should also be required to sign a license agreement that contains provisions similar to the NDA. A license agreement may also prohibit reverse engineering of the trade secret.

Trade secret notifications. A company should notify employees and others about what information the company considers a trade secret by marking the information with a conspicuous warning. If the trade secret consists of a document, each page should be tagged or stamped. If possible, computer files containing trade secrets should be segregated and marked. Any software containing trade secrets should have a notice appearing on the logon screen. Emails or correspondence transmitting trade secret information should conspicuously state that trade secret information is enclosed. If customer or vendor information constitutes a trade secret, it should be maintained in a separate database and marked as a trade secret.

Trade secret controls. A company should exercise a reasonable degree of control over its trade secret information. In addition to previously mentioned efforts, access control measures could include any of the following, depending on circumstances:

- Limiting access to trade secrets to selected employees on a need-to-know basis;
- Implementing internal and external computer access controls, such as password protection, for any trade secrets that are electronically stored;
- Restricting the copying or transmitting of any trade secret information;
- Prohibiting the off-site removal of or access to trade secrets;
- Encrypting documents and emails;
- Prohibiting employees from working on sensitive company materials on their personal devices;
- Maintaining electronically stored trade secrets in read-only files;
- Tracking who accesses trade secret information and when it was returned;
- Monitoring employee computers for access to unauthorized materials;
- Installing access control measures in areas where trade secrets are stored;
- Prohibiting, limiting, or controlling employees' use of smartphones, laptops, thumb drives, external hard drives, or other storage devices in areas where trade secrets are stored;
- Shredding documents and wiping files or hard drives before disposal;
- Issuing periodic reminders to employees about the company's trade secrets policy;
- Establishing a protocol for departing employees that includes conducting formal employee exit interviews; prohibiting the deletion of any electronically stored information unless authorized in writing; requiring the documentation, return, or disposal of any trade secret information found in the employee's office or on the employee's devices; forensically examining computers to determine if the employee copied or transmitted any trade secret information, accessed any unauthorized materials, or engaged in any other questionable activities; and notifying the former employee's new

employer that the employee signed an NDA and that the company is serious about enforcing it;

- Controlling visitor access with sign-in and sign-out lists, visitor badges, and escorts;
- Instituting a formal process for having a signed NDA in place before any meetings with outsiders where trade secrets may be disclosed;
- Screening employee speeches, presentations, and marketing materials for inadvertent disclosure of trade secret information;
- Putting someone in charge of the company's trade secret program.

STEP THREE: Take action against misappropriation

When a misappropriation of a company's trade secrets has occurred, it is important for a company to take immediate and decisive action to prevent further dissemination of the trade secret.

Cease and desist letter. A cease and desist letter is designed to put the misappropriator of the trade secrets on notice that the company is aware of the misappropriation, that the company expects the trade secrets to be immediately returned and not disclosed, and that there will be serious consequences if the information is not returned. If there is an NDA, it should be enclosed and the person should be reminded of contractual obligations. If the misappropriator is a former employee, sub-contractor or vendor, a copy of the letter should be sent to the highest-ranking official at that person's current employer. Finally, the cease and desist letter should inform the accused that misappropriation of a trade secret is a crime.

File suit and seek an injunction. Both DTSA and TUTSA allow for the filing of a lawsuit against the person who (i) acquired the trade secret by improper means, (ii) disclosed or used the trade secret by improper means, or (iii) disclosed or used the trade secret if the person knew or had reason to know that the trade secret was derived from or through a person who utilized improper means to acquire it or who was under a duty to maintain its secrecy or limit its use. DTSA contains specific provisions for obtaining *ex parte* seizure orders in extraordinary circumstances to allow for law enforcement officials to seize the trade secret information without notice in order to prevent its dissemination. DTSA and TUTSA contain specific provisions for obtaining a court order for actual or threatened misappropriation of trade secrets. In addition, DTSA and TUTSA authorize a court to order misappropriated trade secrets to be returned to the aggrieved party.

IV. CONCLUSION

Although a variety of steps can be taken to protect trade secrets, the primary objectives of a trade secret program is to (1) identify the company's valuable trade secrets and (2) prevent their public disclosure by making reasonable efforts under the circumstances to maintain their secrecy. Each company has its own unique needs and requirements. Thus, whatever trade secret program is adopted and implemented must be tailored and should complement the company's existing methods of operation, employment structure, and third party relationships.