NON-COMPETE CASE UPDATE

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State Bar of Texas
ESSENTIALS OF BUSINESS LAW:
FOUR MODULES FOR A ROBUST PRACTICE
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CHAPTER 9

CARTER SCHOLER
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BOARD CERTIFIED Texas Board of Legal Specialization LABOR AND EMPLOYMENT LAW

Courtney Barksdale Perez is a partner at Carter Scholer Arnett Hamada & Mockler. Courtney has a vast array of civil litigation experience having tried cases to jury in state and federal court. She has represented plaintiffs and defendants in employment-related claims, civil disputes involving allegations of fraud, negligence, breach of contract, breach of fiduciary duty, breach of covenants not to compete, tortious interference with contracts, civil conspiracy, antitrust and in intellectual property disputes alleging misappropriation of trade secrets, trademark infringement, and patent infringement.

Board Certified in Labor & Employment Law, Courtney has specialized knowledge representing individuals, corporations, and government entities in all phases of commercial and employment-related litigation from the risk-management phase through trial and on appeal. Courtney regularly advises clients concerning compliance with employment-related statutes and has served as lead counsel in cases involving claims asserted under Title VII, the Americans with Disabilities Act, Age Discrimination in Employment Act, Family Medical Leave Act, Federal Labor Standards Act, the Pregnancy Discrimination Act, 42 U.S.C. § 1983, the Texas Whistleblower Act, the Texas Payday Act, the Texas Labor Code and employment agreements. She also conducts internal investigations, reviews and prepares policies and procedures, and provides training for employers. Courtney also has experience advising government contractors concerning their obligations under federal contract compliance laws, developing compliance programs, drafting Affirmative Action plans and representing government contractors in administrative proceedings.

In addition, Courtney is a trained mediator and uses her dispute resolution training and experience to assist litigants in resolving employment, business, commercial, consumer, personal injury and civil rights disputes.

Prior to joining Carter Scholer, Courtney was an associate at an international law firm and served as Law Clerk to the Honorable James A. Beaty, Jr., U.S. District Court for the Middle District of North Carolina.

Honors and Distinctions:

- Board Certified in Labor & Employment Law, Texas Board of Legal Specialization, 2013
- Selected for inclusion in Thomson Reuters' *Super Lawyers® Rising Stars* (Texas), 2013-2016
- Recipient of the Texas Young Lawyers Association Outstanding Director Award, 2015-2016
- Recipient of the Dallas Bar Association Outstanding Committee Chair Award, 2012

Professional Associations and Community Involvement:

- State Bar of Texas
  - Texas Young Lawyers Association Board of Directors
  - Leadership SBOT, 2011-2012
  - CLE Committee Member

- Dallas Bar Association
  - Board of Directors, 2013-2015
  - Business Litigation Section Council Member, 2012
  - Judiciary and Bench Bar Committee Member
  - Membership and Admissions Committee, Chair, 2014
  - Minority Participation Committee, Co-Chair, 2012
- Judge Patrick A. Higginbotham Inn of Court, Barrister, 2013-2016
- J.L. Turner Legal Association, Member
- Delta Sigma Theta Sorority, Inc., Member
- Dallas Children's Theater, Member, Board of Trustees, 2013-2015

Published Works and Speaking Engagements:

- "Procedural Rules You May Not Know, But Should" Dallas Bar Association Bench Bar Conference, September 2016
- "Responsible Third Parties and Settling Parties: Overview and Recent Cases" Texas Bar CLE Advanced Personal Injury Course, July 2015
- "Social Media and the Public Employer: Lessons from the Private Sector" Dallas City Attorney's Office In-House CLE, June 2015
- "What Employers Can Expect When Their Employees Are Expecting" Society for Human Resource Management National Employment Law & Legislative Conference, March 2015
- "What You Need to Know About *Young v. UPS* and the Rights of Pregnant Workers" Dallas Bar Association *Headnotes*, January 2015
- "Gender, Pregnancy and Caregiver Discrimination Law: You've Come a Long Way Baby!" *Advocate*, The Litigation Section of the State Bar of Texas, Winter 2014
- "Pregnancy, Maternity and Caregiver Litigation: Age Old Issues Birth New Claims" Texas Bar CLE Advanced Employment Law Course, January 2014
- "DOL Ramps Up Enforcement Concerning Employee Misclassification" Dallas Bar Association *Headnotes*, January 2014
- "Texas Supreme Court Update" 40th Annual Judicial Education Conference, September 2013
- "Fraud and Negligent Misrepresentation" Texas Bar CLE Business Disputes Course,

September 2013

- "Social Media and the Public Employer: Lessons from the Private Sector" Texas Bar CLE Suing and Defending Governmental Entities Course, July 2013
- "What Employers Can Expect When Their Employees Are Expecting" Texas Bar CLE Webcast, July 2013
- "Mediating Employment Disputes" Dispute Resolution Services of North Texas Basic Mediation Training, June 2013
- "Trending: Recent Developments in FLSA Litigation" Texas Bar CLE Webcast, May 2013
- "Fair Labor Standards Act: Introduction and Summary of Employer Obligations" Texas Bar CLE, Essentials of Business Law Course, March 2013
- "Social Media Policies" State Bar of Texas, Suing and Defending Governmental Entities Course, July 2013
- "Fair Labor Standards Act: Introduction and Summary of Employer Obligations" Texas Bar CLE, Essentials of Business Law Course, March 2013
- "What Employers Can Expect When Their Employees Are Expecting" Dallas Association of Young Lawyers *Dicta*, September 2012
- "Social Media and the Public Employer: Policies, Pitfalls and Proof" 2012 Dallas City Attorney's Office 13th Annual CLE Program, June 2012

Education:

- The University of Texas School of Law, 2007, Austin, Texas
  Juris Doctor
- Wake Forest University, 2004, Winston-Salem, North Carolina
  Bachelor of Arts, Political Science & Communication

Mediation Credentials:

- Dispute Resolution Services of North Texas, Inc. Basic Mediation Training (40 Hours)

Admissions:

- Texas, 2007
- U.S. Court of Appeals for the Fifth Circuit, 2010
- U.S. District Court for the Eastern District of Texas, 2011
- U.S. District Court for the Northern District of Texas, 2008
- U.S. District Court for the Southern District of Texas, 2008
- U.S. District Court for the Western District of Texas, 2008

Practice Areas:

- Alternative Dispute Resolution
- Business Litigation
- Employment and Civil Rights Litigation

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Janet Landry Smith is an associate at Carter Scholer Arnett & Mockler and practices in the Firm's litigation section. Janet's practice includes representing clients in trademark litigation, trade secrets litigation, employment litigation and business disputes. Janet served as a judicial intern to the Hon. Lee Yeakel in the U.S. District Court for the Western District of Texas. Janet was Chair of the SMU Board of Advocates, where she won three mock trial championships, received top brief awards, and was awarded the Best Advocate award. Janet received the prestigious John E. Kennedy Memorial Scholarship for service and dedication to SMU Dedman School of Law.

Professional Memberships and Community Involvement:

- State Bar of Texas
- Dallas Bar Association
- Dallas Association of Young Lawyers
  - Board of Directors, 2016, 2017
  - DAYL "One to Watch" Recipient, July 2016
- Dallas Asian American Bar Association
  - DAABA Awards Night, Co-chair, 2015, 2016
  - Board of Directors, Student Advisory Director 2014
  - Law Student Scholarship Recipient, 2013
- National Asian Pacific American Bar Association
- SMU International Law Review
- SMU Barristers
  - Lord Chief Baron, 2015
  - Outstanding First Year Student, 2013
- Dallas Korean Women's Association
- Altrusa International of Dallas
  - Law Student Scholarship Recipient, 2013
- Alpha Delta Pi Dallas Alumnae Association

Published Works:

- "Classifying Workers in an Age of Internet Platform Companies—Is the Gig Up on Outdated Labor Laws?", Dallas Association of Young Lawyers *Dicta*, January 2017
- "Piercings, Tattoos, Make-Up and the Changing Face of Employment Law," co-authored with Michael R. Buchanan, Dallas Bar Association *Headnotes*, June 2015

Education:

- Southern Methodist University Dedman School of Law, 2015, Dallas, Texas
  Juris Doctor *cum laude*
  Order of Barristers
- The University of Texas, 2011, Austin, Texas
  Bachelor of Arts, Middle Eastern Studies, Government *with honors*

Languages:

- Korean (conversant)

Admissions:

- Texas, 2015
- U.S. District Court for the Northern District of Texas, 2016
- U.S. District Court for the Eastern District of Texas, 2016

Practice Areas:

- Business Litigation
- Complex Tort Litigation
- Employment Litigation
- Intellectual Property Litigation

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NON-COMPETE CASE UPDATE

1. *Wharton Physician Services, P.A. v. Signature Gulf Coast Hospital, L.P.*, No. 13-14-00437, 2016 WL 192069 (Tex. App.—Corpus Christi Jan. 14, 2016, no pet.)

In this case, the Corpus Christi Court of Appeals applied the standard non-competition analysis to a liquidated damages clause in a competition contract, to determine whether it was enforceable under the Texas non-competition statute. Based on the evidence, the Court concluded that there was a valid contract between the parties, but that the non-competition clause was "unenforceable as a matter of law due to the lack of consideration or information necessary to protect." *Id.* at *5. Further, even if the non-competition provision were enforceable, Wharton's motion for summary judgment nevertheless failed because the evidence did not raise a fact issue showing Inpatient Services was an "affiliated entity" of Gulf Coast, such that the provision should apply to a third-party. The Court overruled Wharton's two issues and affirmed the trial court's denial of Wharton's motion for summary judgment and grant of Gulf Coast's cross-motion.

Wharton entered into a contract with Gulf Coast to provide hospital services and coordinate the hiring of individual physicians for Gulf Coast. The contract had a two-year term, but included a termination clause whereby either party could terminate the contract for any reason prior to the end of the term, with sixty-day's notice to the other party. The contract also included a non-competition clause that allowed Wharton to seek liquidated damages should Gulf Coast violate the non-competition provision.

Before the end of the contract's term, Gulf Coast gave Wharton the required sixty-day's notice and terminated the contract. Shortly thereafter, Gulf Coast entered into another hospital services agreement with Inpatient Services of Texas, who then signed employment contracts with two physicians formerly employed by Wharton. After learning of this new employment arrangement, Wharton sent Gulf Coast a notice of intent to collect liquidated damages related to the physicians' new contracts. Gulf Coast refused to pay, and Wharton filed suit for breach of contract.

Wharton filed a motion for summary judgment, to which Gulf Coast filed a cross-motion for summary judgment. In its cross-motion, Gulf Coast argued the non-competition provision was unenforceable as a matter of law because it was not supported by independent consideration, was not ancillary to a legitimate business interest of Wharton, and, in the alternative, the agreement could not bind third parties who were not signatories. The trial court denied Wharton's motion for summary judgment, and granted Gulf Coast's cross-motion for summary judgment.

In order to make a proper determination of whether the trial court erred in denying Wharton's motion for summary judgment, the appellate court first had to determine if the non-competition clause was enforceable. The non-competition stated:

> If this Agreement is terminated by either party for any reason, then HOSPITAL [Gulf Coast] shall have the right to contract directly with all or some of the Hospitalist Physicians retained by GROUP [Wharton] to perform the services required by the terms of this Agreement to enable HOSPITAL to continue the HOSPITALIST Program in a manner consistent with how it is being operated at the time the Agreement is terminated. In the event that HOSPITAL, or any individual or entity otherwise affiliated with HOSPITAL, for work or services that would be provided at HOSPITAL, desires to contract directly with one of more of the Hospitalist Physicians previously recruited, retained, and presented to HOSPITAL by GROUP for hospitalist services at any time during the six (6) months period following the termination of this Agreement, HOSPITAL shall pay to GROUP as liquidated damages an amount of $100,000 per physician.

First, the Court found the contract itself was an enforceable agreement. However, based on the summary judgment evidence presented by both sides, the Court held there was no consideration given outside of the main contract for hospitalist services. The contract, submitted as evidence, did not show that the non-competition provision provided Gulf Coast with any new consideration by Wharton, aside from the fees paid for their services. The Court noted that there must be additional consideration given by Wharton in order for the non-competition clause to be enforceable, and it was not shown in the evidence before the trial court that any additional consideration was given.

Alternatively, the non-competition clause could be "ancillary or part of an otherwise enforceable agreement" designed to protect an interest worthy of protection. *Id.* at *2. But while "proprietary and confidential information" such as Wharton's "strategic and operational information, as well as its protocols, standards, policies, and procedures associated with implementing, operating, managing and supervising the in-patient services program," can be protected by a non-competition clause, the Court concluded that Wharton failed to create a genuine issue of material fact showing that the non-competition provision would keep this information protected. *Id.* at *4. Additionally, the non-competition clause was not accompanied by any provision requesting non-disclosure of this "confidential and proprietary information." *Id.*

The Court found that the non-competition clause was merely a way to limit competition to Wharton from another company providing similar services. And where "the object of both parties in making such a contract is merely to restrain competition, and enhance or maintain prices," there is no "primary and lawful purpose of the relationship 'to justify or excuse the restraint.'" *Id*. (internal citations omitted). And although there was a restriction as to time, there was no reasonable restriction as to geographical area or scope of activity to be restrained.

The Court further concluded that even assuming the non-competition was enforceable as written, there was no breach because the provision could not bind a non-signatory third party as an "affiliated" party. Wharton argued Inpatient Services should be considered an "affiliated" entity of Gulf Coast, as that term was used in the non-competition provision. However, the Court held that the term "affiliated" in the contract was not ambiguous, and it clearly meant a subsidiary component. Because Inpatient Services is not a subsidiary component of Gulf Coast, and has no relation to Gulf Coast whatsoever, the Court declined to interpret the non-competition clause as applying to any other corporation that signed a contract for services with Gulf Coast.

Accordingly, the trial court's grant of Gulf Coast's cross-motion for summary judgment, and denial of Wharton's motion for summary judgment was affirmed.

2. *360 Mortgage Group, LLC v. Homebridge Financial Services, Inc.*, No. A-14-00847, 2016 WL 900577 (W.D. Tex. Feb. 29, 2016)

In this trade secret misappropriation case, Plaintiff asserted that its former account executive misappropriated trade secrets, by either using or disclosing a confidential broker list to Defendant HomeBridge Financial Services, Inc., in violation of the Texas Uniform Trade Secrets Act ("TUTSA"). Plaintiff also alleged that its former account executive breached her employment agreement by accepting employment at HomeBridge while continuing to work for Plaintiff.

Defendant Truman was an account executive for Plaintiff, and in that capacity, was given a list of brokers ("Broker List") who had preexisting relationships with Plaintiff. Plaintiff argued the Broker List, which contained compensation rates and contact information for the brokers and their loan officers, was highly confidential because brokers capable of generating high-profit business are rare, and a competitor with access to this information "stands to make significant profits" within an accelerated time frame. *Id.* at *1.

Truman admitted that she began working for Defendant HomeBridge on July 21, 2014—a full month before she was terminated from Plaintiff 360 Mortgage. Plaintiff submitted evidence that during this overlap period, Truman accessed the Broker List eight times, and contacted forty loan officers and brokers found on the list. After her dual employment was discovered, Truman was notified her email access would soon be terminated. That same night she accessed Plaintiff's server and sent the Broker List to her personal email account. The next day, Plaintiff discovered that Truman had deleted all of her sent emails from the preceding 4-5-month period, as well as certain emails in her inbox.

On October 10, 2014, this Court entered a preliminary injunction prohibiting Truman from "doing business with any broker on the Broker List unless she or HomeBridge could demonstrate they had previously done business with that broker." *Id* at *2.

Subsequently, Truman and HomeBridge filed two separate motions for summary judgment: a no-evidence motion for summary judgment and a traditional motion for summary judgment. Defendants asserted: (1) the Broker List is not a trade secret; (2) Truman did not acquire the Broker list through improper means, nor did HomeBridge encourage her to do so; and (3) even if the Broker List constitutes a trade secret, Truman neither used nor disclosed the list to HomeBridge.

To establish a cause of action for trade secret misappropriation, a plaintiff must prove (1) the existence of a trade secret, (2) that the defendant acquired the trade secret by improper means, and (3) the defendant disclosed or used the trade secret without the plaintiff's consent.

First, the Court found that Plaintiff raised a fact issue as to whether the Broker List constitutes a protectable trade secret. Analyzing the facts under the *Guy Carpenter* trade secret factors, the Court held that (1) Plaintiff took steps to maintain the confidentiality of the list; (2) Truman acknowledged in her employment agreement that the Broker List was confidential; and (3) the content of the list is not readily ascertainable. *Guy Carpenter & Co. v. Provenzale*, 334 F.3d 459, 467 (5th Cir. 2003).

Next, the Court held there was a fact issue as to whether Truman disclosed or used the trade secrets without Plaintiff's consent. Truman admitted that a HomeBridge Manager instructed her to forward her "marketing database" to HomeBridge's marketing manager while she was still employed by Plaintiff. Just before emailing the marketing manager, Truman accessed Plaintiff's server and viewed the Broker List. Almost 65% of the names on her marketing list were found on the Broker List. Upon receiving Truman's marketing list, HomeBridge sent out a "marketing blast" email to all brokers Truman provided. Even if this blast did not constitute "commercial use," the Court found that there remained a fact issue as to whether the marketing database constituted "disclosure." *Id.*

Finally, the Court found there was a fact issue as to whether HomeBridge acquired the Broker List through improper means. Improper means includes, among other things: theft, bribery, misrepresentation, or breach or inducement of a breach of duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret. Truman owed Plaintiff a duty to maintain the secrecy or at least prohibit the discovery of trade secrets after her termination. But Plaintiff's evidence showed that Truman emailed the Broker List to her personal account soon after she was notified her email access would be terminated. Moreover, the law "imposes liability not only on those who wrongfully misappropriate trade secrets by breach of confidence, but also, in certain situations, on others who might benefit from the breach." *Id.* at *5.

Accordingly, the Court denied Defendants' motion for summary judgment on Plaintiff's trade secret misappropriation claim was denied.

In addition, Defendants argued Plaintiff's claims for breach of contract, tortious interference with a contract, interference with prospective economic advantage, breach of fiduciary duty, conversion, theft, conspiracy, aiding and abetting, respondeat superior, unjust enrichment, and constructive trust were preempted by TUTSA, which "specifically provides that it 'displaces conflicting tort . . . law of this state providing civil remedies for misappropriation of a trade secret.'" *Id.* at *6. The Court agreed the claims for conversion, unjust enrichment, and constructive trust are preempted by TUTSA, and granted Defendants summary judgment on those claims.

3. *Merritt, Hawkins & Associates, LLC v. Caporicci*, No. 05-15-00851-CV, 2016 WL 1757251 (Tex. App.—Dallas May 2, 2016, no pet.)

At issue in this case was whether Texas law or California law governed the enforceability of a non-competition clause entered into between two search consultants based in Orange County, California, and a company headquartered in Texas. The Court held that because (1) California had a more significant relationship with the parties, (2) California had a materially greater interest in determining whether the non-competition and non-solicitation provisions were enforceable, and (3) application of Texas law to the issue would violate a fundamental policy of California, that California law would apply.

Meritt, Hawkins & Associates ("MHA") is a search, placement, recruiting, and consulting firm for the healthcare industry with its principal place of business in Irving, Texas. MHA hired California residents Chris Caporicci and Matthew Cummins as search consultants based in Orange County, California. Both men signed employment agreements containing non-competition and non-competition clauses. The agreements also stated, in pertinent part:

> This Agreement shall be governed and construed in accordance with the substantive laws of the State of Texas. MHA is based in Irving, Texas. MHA is based in Irving, Texas, and this Agreement is to be partially performed in Irving, Texas. It is agreed that any and all disputes arising out of this Agreement will be heard and decided in the state or federal courts situated in Dallas County, Texas.

After working for MHA for some time, the men resigned on September 16, 2013, and founded a competing recruiting firm in Orange County. Ten days after their resignation, MHA sent a letter to the men advising them of their obligations under the non-competition and non-solicitation clauses and demanding return of any and all of MHA's property.

Caporicci and Cummins filed a lawsuit in Orange County against MHA alleging unfair competition, breach of contract, and quantum meruit and seeking a declaratory judgment that any contractual restraints in their employment contracts were unenforceable and violated California law. MHA then sued the men in Texas for breach of contract, theft, misappropriation, and inevitable disclosure of trade secrets and confidential and proprietary information, breach of fiduciary duty and entitlement to constructive trust, conversion, violation of the Texas Theft Liability Act, unfair competition, and unjust enrichment, asserting the defendants misappropriated MHA's trade secrets and solicited MHA's customers. Caporicci and Cummins asserted counterclaims mirroring their California claims, and filed a motion in the Texas suit asking the court to take judicial notice and apply California law, despite the choice-of-law clause in their employment contracts providing that Texas law would apply. The trial court granted their motion. MHA sought permission to and subsequently filed an interlocutory appeal.

On appeal, MHA contended the trial court erred because Caporicci and Cummins did not overcome the presumption in favor of enforcing the choice-of-law provision in the employment contracts, and that Texas law should apply to MHA's statutory and tort claims.

Which state's law governs in such a case is a question of law for the court to decide. And determining the particular state's contacts to be considered in making this legal determination involves a factual inquiry. In making this determination, the Court considered whether application of Texas law would be inconsistent with §182(2)(b) of the Restatement (Second) of Conflict of Laws, which provides the parties' choice of Texas law is effective unless: (1) California has a more significant relationship than Texas to the transaction and the parties under the rule set out in section 188 and California law and would have applied in the absence of an effective election of law by the parties, (2) California has a materially greater interest than Texas in the determination of the particular issue, and (3) application of Texas law is "contrary to a fundamental policy" of California. *Exxon Mobil Corp. v. Drennen*, 452 S.W.3d 319 (Tex. 2014).

As to the first question, the Court found that while the transactions and parties bore relations to both states. The relationship to California was more significant than the relationship to Texas. Both men interviewed, completed their employment agreements, and performed their jobs in California. While MHA was headquartered and maintained support divisions in Texas, Caporicci and Cummins lived in California and traveled infrequently to Texas. Therefore, this factor weighed in favor of California.

On the second issue, the Court noted that the majority of the services the men performed were in California, and MHA no longer had a California office or California-based employees with which Caporicci and Cummins would compete. Thus, while Texas shared a general interest in "protecting the justifiable expectation of entities," that did not outweigh California's interests in this case. *Id.* at *3. Thus, this factor also weighed in favor of California.

Finally, in determining whether the application of Texas law would be contrary to or violate a fundamental policy of California law, the Court observed that Section 16600 of the California Business Professions Code states that "every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." In contrast, Texas law allows the enforcement of non-competition clauses to the extent they are reasonable, ancillary to an otherwise enforceable agreement, restraints are not greater than necessary to protect legitimate interests, and "the promise's need for the protection afforded by the agreement not to compete must not be outweighed by either the hardship to the promisor or any injury likely to the public." *Id.* at *4. Therefore, the Court concluded that applying Texas law would contravene a fundamental policy of California law.

4. *In re M-I, LLC*, No. 14-1045, 2016 WL 2981342 (Tex. May 20, 2016)

In this case, the Texas Supreme Court held that the due process right of a party to have a designated representative present at an injunction hearing involving alleged trade secrets is not absolute, and the trial court abused its discretion when it summarily concluded—without first balancing the competing interests at stake—that excluding the defendant's corporate witness from portions of the injunction hearing involving trade secrets would violate due process.

Jeff Russo signed a non-competition and confidentiality agreement with M-I, LLC when he first joined the company. M-I alleged that in his role as business development manager, Russo developed an in-depth knowledge of M-I's solid-control business. In March of 2014, a month after Russo left M-I and accepted a position at National Oilwell Varco (NOV), M-I sent Russo a letter stating he was in possession of "trade secrets and confidential information," it believed would inevitably be disclosed to NOV, that Russo was in breach of his non-competition, and demanding that Russo remove himself from employment at NOV. *Id.* at *1.

In response to the letter, Russo filed suit, requesting his non-competition be declared unenforceable. M-I counterclaimed for breach of the non-competition, trade secret misappropriation, and sought injunctive relief against both Russo and NOV.

At a hearing on M-I's application for temporary injunction, M-I sought to establish its trade secrets through the oral testimony of their global business line manager. Relying on §134A.006 of the Texas Uniform Trade Secrets Act, M-I requested that everyone, except the parties' counsel, experts, and Russo, be excluded from the courtroom, but the trial court denied the request. Finding that the exclusion of NOV's designated representative would be a "total violation of due process," the trial court allowed NOV's representative to remain in the room, on the condition that he not "disclose or use any trade secrets" he heard. *Id.* at *1.

Concerned about disclosing testimony regarding its trade secrets to NOV, and placing the secrecy of those trade secrets at risk, M-I postponed the injunction hearing to file a mandamus request. The appellate court denied the mandamus request, and M-I filed a new mandamus request to the Texas Supreme Court.

On appeal, NOV first argued the trial court did not abuse its discretion because exclusion of its representative would be inconsistent with the open-courts provision of the Texas Constitution. The Court, however, noted that this right is not absolute, and is subject to reasonable limitations.

NOV next asserted that the exclusion of its representative would violate "the Rule," which provides that trial courts shall exclude witnesses upon the request of a party, ***except for*** "an officer or employee of a party that is not a natural person and who is designated as its representative by its attorney." *Id.* at *6. But M-I did not seek to exclude NOV's representative under the Rule, and instead relied on the Texas Uniform Trade Secrets Act, which requires courts take reasonable measures to protect trade secrets and, among other things, "hold[] in camera hearings."

NOV also argued exclusion of its representative would be inconsistent with Tex. R. Civ. P. 76a, but the Court quickly pointed out that Rule 76a by its express terms "only governs the sealing of 'court records.'" *Id.* at *7. Rule 76a does not implicate oral testimony, and thus is inapplicable.

Finally, NOV asserted that M-I forfeited its right to use the trade secret privilege as a "shield" to exclude its representative while using those same secrets as a "sword" in pursuing its misappropriation claim. *Id.* at *7. But M-I conceded its trade secrets were discoverable—it simply disputed whether NOV's designated representative was entitled to learn the trade secrets during a temporary injunction hearing. Thus, the offensive-use doctrine would not decide the question, and rather balancing competing interests would.

Ultimately, the Texas Supreme Court held that the trial court abused its discretion "when it concluded that the exclusion of NOV's designated representative from portions of the preliminary injunction hearing involving trade secrets would violate due process ***without balancing the competing interests at stake***." *Id.* at *8. While court's have discretion to exclude parties in limited circumstances, when "countervailing interests overcome [the] presumption" in favor of participation, the trial court was required, at a minimum, to balance the parties' competing interests. *Id.* at *3.

Notably, the Court stated that "[i]f the trial court conducted the required balancing, it may have been within its discretion to decide that due process required NOV's designated representative to be present." *Id.* at *5. The trial court's error, then, was in failing to conduct any balancing analysis.

5. *Neurodiagnostic Tex., LLC v. Pierce, et al.*, No. 12-14-00254, 2016 WL 6426830 (Tex. App.—Tyler Oct. 31, 2016, no pet.)

This case considered the enforceability of a non-competition agreement which was based on the promise to provide the employee with specialized training, rather than confidential information. The defendants argued that the training was not an interest worthy of protection because, among other reasons, there was nothing confidential or proprietary about the training.

On Dec. 13, 2005, Neurodiagnostic Tex. ("Neuro Tex") and Robert Pierce entered into an employment agreement. Pursuant to the agreement, Neuro Tex agreed to employ Pierce primarily to provide intraoperative testing/monitoring services on its behalf. Neuro Tex promised to train Pierce and provide him training both in-house and externally through board certification exam preparatory courses. The agreement described circumstances under which Neuro Tex could terminate Pierce's employment for cause. Moreover, the agreement contained a non-competition agreement, which stated, in pertinent part, as follows:

> Employee acknowledges that Company is agreeing to spend **financial resources to train Employee** pursuant to the Training Agreement below and share proprietary and confidential information with Employee so that Employee will be capable of satisfying Employee's duties under this Agreement. Further, Company agrees to provide Employee with a fourteen (14) day notice of termination of Employment, unless Employee is terminated for cause as described earlier in this Agreement....
>
> Employee agrees that the covenants and restrictions set forth below are intended only as a reasonable protection of the Company. For a period of five (5) years after the expiration or termination of this Agreement, Employee shall not, either directly or indirectly, become engaged in any business or activity in the Texas counties surrounding the Dallas/Fort Worth Metroplex, which are Collin, Dallas, Denton, Ellis, Hood, Johnson, Kaufman, Parker, Rockwall, Tarrant, and Wise counties located in the State of Texas, which directly or indirectly competes with the Company's business owned or operated by Company or any of Company's subsidiaries, partners, associates, or affiliates, unless approved by Company in writing before Employee's acceptance of such employment or opportunity.
>
> Employee shall not have any contact with any of Company's current customers or contacts or solicit potential customers if such potential customers are or were identified through leads developed during the course of Employee's rendering of services and duties under this Agreement.
>
> Employee shall not, either during the term of this Agreement or for a period of two (2) years thereafter, divert or attempt to divert any existing or future business of Company. Employee shall not, either during the term of this Agreement or for a period of two (2) years thereafter, either directly or indirectly, for himself or any third party, solicit, induce, recruit, or cause another person in the employ of any business owned or operated by Company to terminate his/her employment for the purpose of joining, associating, or becoming employed with any business which is either in competition with Company or that conducts or performs intraoperative testing/monitoring (IOM) services.

Id. at *1-*2. After entering into this employment agreement, Neuro Tex paid for Pierce's training, both in-house and by third parties. By May 2006, Pierce had received two additional board certifications. But on or about Oct. 15, 2013, Pierce tendered his resignation to

Neuro Tex, and subsequently began working for the Defendant's company—Synergy—as an IOM technician.

On Dec. 23, 2013, Neuro Tex filed the instant suit against Pierce for breach of the covenant not to compete and breach of fiduciary duty, and against Synergy for tortious interference with a contract. Neuro Tex sought and was granted a temporary injunction against Pierce. Pierce and Synergy in turn filed both no evidence and traditional motions for summary judgment, in which they argued the covenant not to compete was unenforceable. Ultimately the trial court granted Synergy's and Pierce's respective motions for summary judgment, ordering that Neuro Tex take nothing.

To determine whether the covenant not to compete was enforceable, the Court on appeal first analyzed whether the employment agreement qualified as an otherwise enforceable agreement. Under the agreement, Neuro Tex agreed to employ Pierce as an IOM technician, and each agreed to provide fourteen days' advance notice of intent to terminate the agreement. Neuro Tex also promised to provide certain training for Pierce, and Pierce, in return, promised to work for Neuro Tex for forty-eight months following his becoming board certified, or else reimburse Neuro Tex the sum of $5,000.

The record showed that Pierce in fact worked for Neuro Tex for more than seven years after becoming triple board certified. Based on the record, the Court determined that the employment agreement qualified as an otherwise enforceable agreement.

Next, the Court analyzed whether the covenant not to compete was "ancillary to or part of" an otherwise enforceable agreement. To be "ancillary to or part of" an otherwise enforceable agreement, (i) the consideration given by the employer in the agreement must be reasonably related to an interest worthy of protection; and (ii) the covenant not to compete must be designed to enforce the employee's consideration or return promise in the agreement.

Construing the evidence in the light most favorable to Neuro Tex, the Court concluded that the training Neuro Tex provided to Pierce was "specialized training," thereby qualifying as an interest worthy of protection. Summary judgment evidence demonstrated that Neuro Tex expended well in excess of Pierce's stated reimbursement amount in conjunction with his training. Thus, it was reasonable to conclude that Neuro Tex had an interest in realizing the value of its time and money spent to train Pierce. Therefore, the Court concluded that the covenant not to compete was designed to enforce Pierce's consideration or return promise in the agreement.

Accordingly, the Court held that the covenant not to compete was enforceable, and the trial court erred in granting summary judgment for Pierce.

As to the issue of reasonable restraint, the Court noted that it was "apparent from the grounds raised in the summary judgment proceedings and the trial court's order granting summary judgment" that the court did not consider the issue of whether the restraints in the covenant not to compete were reasonable. *Id.* at *9. It therefore remanded the case and directed the trial court to determine whether any particular provision in the covenant was overbroad and reform it accordingly.

6. *C&J Energy Services, Ltd. v. McCoy*, No. 201657016 (190th Dist. Ct., Harris County, Tex., Aug. 26, 2016)

This case is noteworthy for its implication of Texas' non-competition statute and the Texas Uniform Trade Secrets Act ("TUTSA"). It demonstrates that Texas courts will enforce a reasonable non-competition agreement, especially when necessary to protect a threatened misappropriation of trade secrets.

Here, the Court determined that TUTSA adopts the "inevitable disclosure" doctrine. Under this doctrine, employers can seek relief when it is inevitable that a former employee possessing trade secrets will *access* that information—even unintentionally. Some commentators view the language of TUTSA permitting "actual or threatened misappropriation [to] be enjoined" as an adoption of the inevitable doctrine. But for now, the Texas Supreme Court has not yet ruled, and lower courts and courts in other states have been divided on this issue.

In this case, C&J Energy's former senior vice president and general manager resigned, followed shortly thereafter by six managers and engineers in C&J's coiled tubing operation. McCoy allegedly assured C&J Energy that he had no intention to join a competitor, but was then hired to lead the Keane Group's competing coiled tubing business.

C&J Energy sought an injunction against McCoy that would prohibit him working in Keane Group's coiled tubing business. In support of its request, C&J Energy pointed to the fact that McCoy had executed six separate two-year non-competition agreements when he received stock and stock options. Citing a concern that McCoy would inevitably disclose trade secrets, C&J Energy asked not only for a temporary restraining order that would prohibit McCoy from working for Keane Group, but also barring McCoy from soliciting C&J employees for positions at Keane Group.

The trial court granted the temporary restraining order, but struck from C&J's proposed order the language that would have prohibited McCoy's solicitation of C&J employees. The parties quickly settled the suit thereafter.

7. *OrchestrateHR Inc. v. Trombetta*, No. 3:13-CV-2110-KS-BH, 2016 WL 4563348 (N.D. Tex. Sept. 1, 2016)

In this case, the Court rejected the employee's argument that the non-competition agreement was not ancillary to an otherwise enforceable agreement based on two facts: (1) the language of the agreement; and (2) the employee's admission that the information was confidential. It ultimately denied his motion for summary judgment, and granted that of his former employer.

Plaintiff OrchestrateHR filed this action in 2013, asserting multiple claims against the defendants stemming from Defendant Trombetta's former employment with OrchestrateHR and from business arrangements that Plaintiffs previously had with Defendant Borden-Perlman Insurance Agency, Inc. ("BP").

Specifically, the plaintiffs claimed that Trombetta violated the non-competition agreement in which he agreed not to attempt to solicit their current clients in the sports medicine insurance industry for three years after the termination of his employment. The plaintiffs also claimed that Trombetta and BP breached their confidentiality agreements entered into with OrchestrateHR, and that all Defendants conspired together to defame OrchestrateHR and Vivature in the sports medicine insurance industry in order to interfere with their business.

In his motion for summary judgment, Trombetta argued that the non-competition covenant in the Employment Agreement was unenforceable as a matter of law. Trombetta argued that the non-competition was neither (1) ancillary to or part of an otherwise enforceable agreement at the time the agreement was made; or (2) limited as to time, geographic area, and scope of activity to be restrained, so as not to impose a greater restraint than necessary to protect the goodwill or other business interest.

First, Trombetta asserted that the Employee Confidentiality Agreement is not an otherwise enforceable agreement. He argued that the consideration given for the Employee Confidentiality Agreement was an implied promise of making available confidential information, and by *not giving* any actual confidential information, Plaintiffs failed to provide this consideration. He maintained that the information disclosed to him, such as client lists, loss runs, plan designs, and sport censuses, were not confidential information.

The plaintiffs, however, pointed to the agreement itself, which defined confidential information very broadly, as "an information of any kind, nature, or description concerning any matters affecting or relating to Employee's services for COMPANY, the business or operations of COMPANY, and/or the products, plans, pricing models, customer lists, marketing plans, processes, or other data of COMPANY." *Id.* at *3. In fact, in Trombetta's own deposition testimony, he stated that he did "kn[o]w for a fact the client list was confidential." *Id.* The Court therefore found that a reasonable jury, when viewing the information in the light most favorable to the plaintiffs as nonmovants, could find the agreement was adequately supported by consideration and was an enforceable agreement.

But Trombetta also argued that the non-competition clause did not contain reasonable limitations as to time, geographical area, and scope of activity to be restrained. The covenant in Trombetta's agreement stated that Plaintiff's clients "shall not be considered as a potential prospect or pursued as a client" for three years after Trombetta's employment is terminated, and specifically prohibited "a direct or indirect attempt to change agreement between the client, agency and any insurer by the agent." *Id.* at *3.

The Court noted that "[t]wo to five years has repeatedly been held as a reasonable time in a noncompetition agreement." *Gallagher Healthcare Ins., Servs. v. Voelsang*, 312 S.W.3d 640, 655 (Tex. App.—2009). While Trombetta tried to argue that the restraint is unreasonable because insurance policies are subject to renewal every year, the Court, viewing the facts in the light most favorable to Plaintiffs as nonmovants, accepted as true their testimony that their "contracts are usually five years, a few are three years, and just a couple" are one year. *Id.* at *4. Moreover, in *Gallagher*, the court held a two-year restraint was reasonable even when the insurance contracts did only last one year.

The Court further found that the Parties did not dispute that the non-competition lacked any geographic limit. However, as the Court noted, Texas Courts have held that "[t]he use of a customer list as an alternative to setting a specific geographical limit is a reasonable means of enforcing a covenant not to compete." *Stocks v. Banner Am. Corp.*, 599 S.W.2d 665, 668 (Tex. Civ. App.—1990). Therefore, because the non-competition agreement was explicitly limited to Plaintiffs' current customers, this limitation served as a substitute for a geographical limit. The Court also found that the scope of the activities restrained was reasonable. The Employee Agreement specifically prohibited Trombetta from attempting to directly or indirectly interfere with the relationship between the Plaintiffs and their current clients.

Finally, while Trombetta attempted to argue that the non-competition covenant was overbroad because it prevented him from soliciting clients he had no contact with, he introduced no evidence that there is any client with which he has had no contact. The court therefore found the non-competition agreement was enforceable. Because all of Trombetta's other arguments were based on the unenforceability of the agreement, the Court denied his Motion for Summary Judgment in its entirety.

8. *Henry F. Coffeen III Mgmt., Inc. v. Musgrave*, No. 02-16-00070-CV, 2016 WL 6277375 (Tex. App.—Fort Worth Oct. 27, 2016, no. pet. h.)

The Fort Worth Court of Appeals affirmed a lower court's order denying an application for temporary injunction seeking to enjoin Thomas Musgrave, the former president of Plaintiff corporation Henry F. Coffeen III Management, Inc., d/b/a Coffeen Management Company ("CMC"), from competing with and soliciting business away from the company. The case serves as a reminder of the importance of ensuring post-termination activities remain subject to restrictive covenants in non-competition and antisolicitation provisions of employment agreements.

Appellant sold insurance products to banks, credit unions, and auto, boat, and recreational vehicle dealerships. Musgrave joined CMC in 2011, and the following year signed a "Non–Compete Agreement" in which he agreed not to disclose such confidential information without written consent. The agreement also contained non-competition and antisolicitation provisions, which allegedly prohibited Musgrave from competing with CMC or soliciting CMC's clients or customers for a period of two years following the termination of Musgrave's employment with CMC.

In 2015, Musgrave resigned from his role at CMC, but continued to advise a former CMC client, with whom he had worked during his employment with CMC. Musgrave and the former client had general discussions about employing Musgrave for continued work on acquisitions and to oversee the operations at TBA's automobile dealerships. Shortly thereafter, CMC sued Musgrave for several claims, including breach of contract, based on the non-competition and antisolicitation provisions. CMC also sought a temporary restraining order, temporary and permanent injunctions, and attorney's fees.

The trial court granted the temporary restraining order, prohibiting Musgrave from "directly or indirectly calling upon, meeting with, communicating with, or soliciting for the purpose of selling or marketing any products or services that comprise any part of CMC's business to specified CMC clients," including the former CMC client; "using or disclosing CMC's confidential information and trade secrets"; and "altering, deleting, destroying, hiding, and secreting any document, record, disc, or other written or electronic media containing or describing CMC's confidential information and trade secrets." *Id.* at *2.

At the hearing on CMC's application for temporary injunction, however, the trial court found (1) the Non–Compete Agreement was not supported by consideration; (2) there were no geographical boundaries in the Non–Compete Agreement; (3) Musgrave had not caused any current irreparable harm to CMC; (4) any future irreparable harm to CMC caused by Musgrave's activities was speculative; and (5) there was no collateral agreement in connection with restrictions sought to be enforced under the Non–Compete Agreement. Accordingly, the trial court denied CMC's application.

On interlocutory appeal, CMC argued the trial court abused its discretion because (1) the Non–Compete Agreement was supported by consideration, (2) the lack of geographic restriction did not render the Non–Compete Agreement unenforceable, and alternatively, the trial court should have reformed the agreement to apply to the clients with whom Musgrave is familiar, and (3) CMC established a likelihood of success on the merits of its claims and that Musgrave's conduct threatened to cause CMC imminent and irreparable injury.

The Court of Appeals noted that the non-competition and antisolicitation provisions "do not restrict Musgrave's post-termination activities." *Id.* at *3. The provisions at issue in this case were as follows:

> (b) Competitive Activities—Voluntary Termination, Termination with Cause. ***During the Term of this Agreement and for a period of two (2) years after the "CMC Account Development Sub Agent Agreement" is terminated***, regardless of cause, Representative shall not, directly or indirectly (whether for compensation or otherwise), alone or as an officer, director, shareholder (excepting not more than five percent (5%) stockholdings for investment purposes in securities of publicly-held and traded companies), partner, associate, creditor, employee, agent, principal, trustee, beneficiary of a trust, salesman, consultant, co-venturer, owner, representative, advisor or in any other capacity whatsoever, **take *any action in or participate with or become interested in or associated with*** any person, firm, partnership, corporation or other entity whatsoever that is engaged, or plans to engage in any manner in the business of the solicitation, negotiation, sale, installation and servicing of automobile warranties, finance reserve products, aftermarket, computer training products, credit life insurance and management consulting with automobile dealers, banks, credit unions, and/or affiliated or associated companies ***at any time during the Term*** (or which is in development to be manufactured and/or marketed by the Corporation or any affiliate upon termination of this Agreement) or any other related business in which the Corporation and its subsidiaries and affiliates may engage during the Term of this Agreement, in any market served, in any state, either currently or at any

time during the Term, by the Corporation and/or any of such subsidiaries and affiliates.

(c) Antisolicitation. Representative agrees that ***during the Term of the CMC Account Development Sub Agent Agreement, and for a period of two (2) years after termination of the Agreement***, he will not influence or attempt to influence clients/customers of the Corporation (regardless of geographic region) or any of its present or future subsidiaries or affiliates, either directly or indirectly, to divert their business to any other individual, partnership, firm, corporation or other entity.

Id. at *3-4. [Emphasis added.]

While CMC claimed the restrictions in these provisions continue for two years following the termination of Musgrave's ***employment***, the Court interpreted the restrictions as expiring two years after the termination of the ***"CMC Account Development Sub Agent Agreement."*** *Id.* at *4 [emphasis added]. Both Henry Coffeen, the owner of CMC, and Musgrave testified at the hearing that Musgrave was not a "Sub Agent" for CMC therefore did not have a "CMC Account Development Sub Agent Agreement." *Id.* Thus, the Court concluded, the non-competition and non-competition provisions did not restrict his post-termination activities whatsoever. CMC therefore could not show a probable right to recovery on its claim that Musgrave breached the Non–Compete Agreement, and the Court affirmed the trial court's order denying CMC's application for temporary injunction.

It is noteworthy that the trial court's order did not rely on a finding that the non-competition period was inapplicable. Nevertheless, because "the trial court's stated reasons for denying CMC's application for temporary injunction do not meet the requirements of civil procedure Rule 299a (requiring that findings of fact be separately filed from the judgment or order) and do not control the outcome of this case," the Court was free to uphold the trial court's decision on any legal theory supported by the record. *Id.* at *3 n.3

9. *E. Texas Copy Sys., Inc. v. Player*, No. 06-16-00035-CV, 2016 WL 6638865 (Tex. App.—Texarkana Nov. 10, 2016, no. pet. h.)

This case is a good illustration that conditions subsequent in such non-competition clauses must be carefully drafted to avoid the risk that the former employee may avoid performance of restrictive covenants upon fulfilling such conditions.

The case stems from Player's sale of his business operation to East Texas Copy Systems, Inc. (Copy Systems), and the accompanying Asset Purchase Agreement (APA) which contained a prohibition against him engaging in a competing business. The parties also entered into a separate Non-Competition Agreement (NCA). Pursuant to the APA, Player would be hired on with Copy System as an information technology manager, and the parties entered into an employment agreement to that effect. Thereafter, in the summer of 2015, Player resigned from his position with Copy Systems and immediately resumed business—this time in competition with it.

The APA stated in pertinent part that "[u]pon finalizing this transaction, the Seller will not directly or indirectly engage in any business competitive with the type of business Jason Player is engaged in prior to this Agreement other than his employment with Buyer for a period of two years." *Id.* at *1. The geographical area was limited to "the area within a 60 miles-mile [sic] radius of Longview, Texas." *Id.* The agreement also stated that "*[i]f Jason Player's employment with Buyer is terminated prior to two year* [sic] *from the date of this Agreement for any* reason other than a for cause termination, this Non–Compete clause will no longer be binding." *Id.*

On April 29, 2015, Player gave Copy Systems written notice that he was terminating his employment with them no later than June 30, 2015. Player also stated that under the terms of the NCA and APA, the non-competition agreement would not be binding on him and that after his resignation was effective, he would be free to engage in an IT-related business once again.

On July 8, 2015, Copy Systems sent Player a letter, pursuant to the APA, demanding that he cease from engaging in any activities that are competitive with Copy Systems within a sixty-mile radius of the City of Longview for a period of one year from the date of his termination of employment. Player subsequently brought this suit, and the parties each filed competing motions for summary judgment. The trial court granted Player's motion, denied Copy Systems' motion, and entered a final judgment declaring that the NCA and the non-competition clause in the APA no longer bound Player. The judgment also dismissed all of Copy Systems' claims against Player and awarded Player his requested attorney fees and costs of court.

On appeal, Copy Systems argued that the trial court misinterpreted the non-competition clauses, and that a proper interpretation of the parties' agreement showed Player was still bound by the parties' agreement. Specifically, the parties focused on the proper interpretation of one, almost identical, clause contained in both. In the NCA, the clause provided, "[i]f ... Player's employment with [Copy Systems] is terminated prior to two years from the date of this Agreement for any reason other than a for cause termination, this non-competition Agreement will no longer be binding" (the Disputed Clause). *Id.* at *2. Copy Systems argued that this clause should be interpreted so that the non-competition would remain effective post-termination if Player resigned. In other words, Player would be excused from the non-competition only if he were fired by Copy Systems without cause. Player, however, argued that the clause allowed for termination by either party. The Court agreed with Player.

The Court began by noting that that this is a condition subsequent clause. Under a condition subsequent clause, the fulfillment of a condition excuses performance of an otherwise binding agreement. The Disputed Clause provided that the fulfillment of the condition (Player's employment being terminated prior to July 1, 2015, for any reason other than a for cause termination) would render the non-competition agreement no longer binding.

While Copy Systems argued that the Disputed Clause should be interpreted to only be effective if *Copy Systems* terminated Player's employment less than two years from July 1, 2013, under the plain and ordinary meaning of the terms used in the parties' agreement, the Court held that the Disputed Clause was effective if *either* party terminated Player's employment. Noting that, pursuant to the employment contract, both parties had the right to terminate Players' employment upon sixty days' written notice to the other party, the Court presumed that the parties intended that either could initiate termination and render unenforceable the non-competition agreement. Further, the Court held that Copy System's interpretation would ignore the plain language of the agreement and require the inclusion of additional language.

The parties' agreement, according to the Court of Appeals, "shows that they contractually allocated the risks of, and benefits sought from, entering this relationship." *Id.* at *5. The Court emphasized that its "role is not to redistribute these risks and benefits but to enforce the allocation that the parties previously agreed upon." *Id.* For these reasons, it found that the parties' agreement and the Disputed Clause unambiguously provided that if either party terminated Player's employment with Copy Systems prior to two years from July 1, 2013, other than for cause, the non-competition agreement would no longer be effective. Therefore, the trial court did not err in granting Player's motion for summary judgment and entering final judgment for Player.

10. *In re Flowcrete North America, Inc.*, No. 09-16-00382-CV, 2016 WL 7177677 (Tex. App.—Beaumont, Dec. 8, 2016, no pet. h.)

This mandamus proceeding involved the protection of trade secrets in discovery in civil litigation. Flowcrete North America, Inc. ("Flowcrete") asserted that the trial court abused its discretion by (1) consolidating two cases for discovery, (2) allowing a competitor's CEO to act as an expert witness, and (3) refusing to protect Flowcrete's trade secrets by further limiting those with access to certain discovery materials and permitting re-designation of trade secret information.

The genesis of the case lies in Flowcrete's suit against its former president and three former employees, as well as their newly-formed company, Verdia, Inc. (collectively, the "Verdia parties.") Flowcrete asserted claims for misappropriation of trade secrets and breach of the employees' duty not to disclose Flowcrete's confidential information.

Then, one month after Flowcrete filed suit, its competitor Ulfcar Production ApS ("Ulfcar"), filed a petition in intervention and third-party petition alleging that Flowcrete, entities affiliated with Flowcrete, and two individuals employed by the affiliated entities, misappropriated Ulfcar's confidential and proprietary formula. Ulfcar alleged that it had licensed the exclusive right to use this formula to Verdia, but Flowcrete used Ulfcar's confidential formula to create Flowcrete's products.

The trial court severed Ulfcar's misappropriation claims into a separate case, but ordered shared discovery between the new Ulfcar case and original Flowcrete case.

Because its competitor would be directly participating in the discovery process, Flowcrete requested that the trial court amend the previously entered protective order to account for Ulfcar. But the trial court denied this motion, and ordered the parties to return to the mediator and agree on any additional language "to allow for appropriate protections through case specific marking/designations of documents and to clarify definitions and terms including independent experts and consultants and designated party representatives." *Id.* at *1.

On mandamus, Flowcrete sought protection from Ulfcar pertaining to the formulas and production methods that Flowcrete alleged "(a) derive independent economic value from not being readily known or ascertainable through proper means by others who can obtain economic value from its disclosure or use; and (b) is the subject of reasonable efforts to maintain its secrecy." *Id.* at 2. The Court noted that "at this stage of the proceedings, it is undisputed that the information is proprietary and confidential, and is a trade secret that is claimed by Flowcrete." *Id.* at *2.

The Verdia parties tried to argue that the substantial overlap between the Ulfcar and Flowcrete suits justified combining the discovery in two cases. Flowcrete's suit sought, at least in part, to enjoin the Verdia parties' misappropriation of Flowcrete's formulas, mixing instructions, prices, pricing policies, customer lists and identities, and other proprietary information.

But, as the Court pointed out, it was undisputed that, through their employment with Flowcrete, the Verdia parties "have already obtained the information that Flowcrete developed after 2008 and that Ulfcar does not possess that information." *Id.* Thus, sharing discovery in the two cases would result only in Flowcrete surrendering its trade secrets to Ulfcar *before* Ulfcar established its right to possess that information. Therefore, the Court found that the trial court's order consolidating the suits for purpose of discovery failed to preserve the secrecy of Flowcrete's alleged trade secret by reasonable means," as required by the Texas Uniform Trade Secrets Act ("TUTSA"). *Id.*

Flowcrete also argued on appeal that, due to Ulfcar's designation of its CEO as an independent expert, the existing protective order permitted its competitor to review all of the competitive commercial information, confidential material, and trade secrets that Flowcrete would produce to the Verdia parties. While Flowcrete moved to strike the expert designation, arguing the CEO is fully interested in the outcome of the litigation, the trial court denied the motion to strike. Flowcrete then moved for protection of its alleged trade secrets from disclosure to its competitor's designated expert, but the trial court did not grant the motion. Instead, the trial court again ordered the parties to return to the mediator and agree on additional protective language for the existing protective order through case specific marking/designations of documents.

The Verdia parties, however, argued that Ulfcar's CEO was a "Counsel-Designated Representative" rather than an "independent expert," and therefore Flowcrete could protect its proprietary information by simply designating it for "Attorneys' Eyes Only." *Id.* at *2. Both Flowcrete and the Court of Appeals disagreed, noting that the protective order states a qualified person for "Attorneys Only" includes "actual or potential independent experts." *Id.*

The Court therefore agreed with Flowcrete, that the trial court's mediation order did not protect its alleged trade secrets by reasonable means. However, the Court noted that the trial court's order to that effect was "an incidental ruling that does not merit mandamus review in light of the trial court's decision to stay discovery pending mandamus review," and the Court's ruling that the trial court must either protect Flowcrete's alleged trade secrets pending trial on the merits, or else determine that Flowcrete is not entitled to trade secret protection. *Id.* at *3. Confident that the trial court would amend its orders to remove provisions allowing for shared discovery, and protect the alleged trade secret information from disclosure to Ulfcar, the Court held that writ shall issue only if the trial court fails to comply.