

Protecting Trade Secrets from Former Employees

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Most employers have trade secrets that they want to safeguard from exiting employees. A trade secret is “any formula, pattern, device or compilation of information which is used in one’s business and presents an opportunity to obtain an advantage over competitors who do not know it.” *In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003). For it to be a “trade secret,” it must be information that “is not generally known or readily ascertainable by independent investigation.” *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 552 (Tex. App. – Dallas 1993, no writ). Generally, “[w]hen an effort is made to keep material important to a particular business from competitors, trade secret protection will be available.” *Id.* Two common examples of trade secrets are customer and vendors lists.

If there is no written confidentiality or non-compete agreement, certain “default” rules apply. By default, an employee has a (1) continuing duty of confidentiality, even after the employment ends, regarding his employer’s trade secrets, even if the employee does not sign a confidentiality agreement; (2) right to go into competition, and may even plan and take active steps to go into competition while still employed, without disclosing his plans to the employer – provided he does not appropriate his employer’s trade secrets, solicit his employer’s customers while still working for the employer, or carry away confidential information, such as customer lists; and (3) right to use in subsequent employment the general talent, knowledge, skill, and experience he acquired during employment. *See Johnson v. Brewer & Pritchard, P.C.*, 73 S.W.3d 193, 201-202 (Tex. 2002); *Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168, 172 (Tex. 1987); *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 600-601 (Tex. App. - Amarillo 1995, no writ). However, as a general rule, in the absence of an enforceable agreement not to compete, a former employee – *after* he leaves his employment – may solicit the former employer's clients, provided that he does not use confidential information to do so. *See Sands v. Estate of Buys*, 160 S.W.3d 684, 687 (Tex. App. – Fort Worth 2005, no pet.); *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 551 (Tex. App.-Dallas 1993, no writ).

An employer can better protect itself by obtaining signed confidentiality and non-compete agreements from its employees, before they leave. *See Williams v. Wal-Mart Stores, Inc.*, 882 F. Supp. 612, 616 (S.D. Tex. 1995) (“Unsigned handbooks are generally regarded as insufficient memoranda of an employment contract and may not satisfy the Statute of Frauds.”). The confidentiality agreement should broadly define what the employer regards as confidential or proprietary information. The non-compete agreement should be carefully drafted to comply with the Texas Covenant Not to Compete Act’s criteria for enforceability. *See TEX. BUS. & COMM. CODE* §§ 15.50-15.52. To be enforceable, the restrictions set forth in a non-compete agreement must be reasonable with respect to time, geographical area, and scope, and must not

be greater than necessary to protect the goodwill or other legitimate business interest of the employer. Also, the non-compete agreement must be supported by consideration – for example, by furnishing the employee with trade secrets – and designed to enforce an “ancillary” obligation by the employee – such as the employee’s obligation not to misuse or disclose the employer’s trade secrets.

It is important that a non-compete agreement be tailored to the particular employee or job description. Non-compete restrictions that might be reasonable for a company’s salespersons may not be reasonable for the company’s accountants or engineers. If a court finds that a non-compete agreement is overreaching, the court will reform the agreement to make it reasonable and may award the employee his attorneys’ fees in defending the action to enforce the agreement. *See id.* § 15.51(c). In *Rimkus Consulting Group, Inc. v. Budinger*, 2001 Tex. App. LEXIS 5860 (Tex. App. – Houston [14th Dist.] Aug. 23, 2001, no pet.), the jury found that an ex-employee violated a covenant not to compete. But because the covenant was overreaching, the employer had to pay the ex-employee’s attorneys’ fees!

For more information, or assistance in drafting these agreements, employers should solicit the services of an experienced intellectual property attorney.