

# 2018 TRADE SECRETS UPDATE

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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 (2017))

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## 2018 TRADE SECRETS UPDATE

### I. OVERVIEW OF THE TEXAS UNIFORM TRADE SECRETS ACT

On September 1, 2013, Texas adopted the Texas Uniform Trade Secrets Act (TUTSA). Act of April 24, 2013, 83rd Leg., R.S., ch. 10, 2013 Tex. Gen. Laws. 12 (amended 2017) (current version at TEX. CIV. PRAC. & REM. CODE §§ 134A.001–.008). Before the enactment of TUTSA, Texas had no central law governing trade secrets. The law of trade-secret misappropriation in Texas first began solely as a common law claim based largely on the Restatement of Torts. *Phillips v. Frey*, 20 F.3d 623, 627 (5th Cir.1994); *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 770 (Tex. 1958). Later, the Texas Legislature enacted the Texas Theft Liability Act (TTLA), which provided an additional civil remedy to victims of trade secret theft as defined in the Texas Penal Code. *Beardmore v. Jacobsen*, 131 F. Supp. 3d 656, 659 (S.D. Tex. 2015). Consequently, before TUTSA’s enactment, Texas law on trade secrets was cobbled together from Texas common law, the Restatement of Torts, the Restatement (Third) of Unfair Competition, the Texas Theft Liability Act, and the Texas Penal Code. Much of this law was outdated (the Restatement of Torts was drafted in 1939) and was not designed for the technological developments of the modern era.

In an effort to bring Texas law in line with the “overwhelming majority of the United States” and “provid[e] a simple legislative framework for litigating trade secret issues in Texas,” the Texas Legislature enacted a modified version of the Uniform Trade Secrets Act. Texas Bill Analysis, S.B. 953, 2013 at 1. TUTSA became effective on September 1, 2013 and expressly states that it displaces both common law misappropriation and TTLA claims. Act of April 24, 2013, 83rd Leg., R.S., ch. 10, 2013 Tex. Gen. Laws. 12 (amended 2017) (current version at TEX. CIV. PRAC. & REM. CODE §§ 134A.001–.008); *In re Mandel*, 578 Fed. Appx. 376, 384 n.8 (5th Cir. 2014) (unpublished) (per curiam); *Educ. Mgmt. Servs., LLC v. Tracey*, 102 F. Supp. 3d 906, 915 (W.D. Tex. 2015).

The Texas Legislature amended TUTSA in 2017 after the United States Congress passed the Defend Trade Secret Act (DTSA), an amendment to the Economic Espionage Act of 1996, 18 U.S.C. §§ 1831-36. The objectives of the amendments were to incorporate into TUTSA improvements to trade secret law made by DTSA, codify the Texas Supreme Court’s holding on preserving trade secrets during legal proceedings and define certain terms left undefined when TUTSA was first enacted in 2013. Texas Bill Analysis, H.B. 1995, 2017 at 1. TUTSA, as amended, is now the most modern and comprehensive law on trade secrets in the nation.

#### A. Defining Trade Secrets

To qualify as a trade secret under TUTSA, the information must meet two requirements: (1) the owner of the trade secret must take reasonable measures under the circumstances to keep the information secret; and (2) the information must derive independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information. TEX. CIV. PRAC. & REM. CODE § 134A.002(6).

##### 1. Subject of Efforts That Are Reasonable Under the Circumstances to Maintain Its Secrecy

The first prong of TUTSA’s trade secret definition is the maintenance requirement. It is not enough for the information to be secret; the owner must also maintain that secrecy through efforts that are reasonable under the circumstances. *Id.* § 134A.006. Reasonableness will vary based on the size of the business and the importance of the trade secret. What is reasonable for a three-person startup will rarely be reasonable for a multi-national, publicly-traded corporation. Evidence of reasonable efforts to protect a trade secret can include:

- Restricting access to the information to specific employees on a need-to-know basis;
- Labeling the information as confidential;
- Requiring the employees, independent contractors, and customers to sign non-disclosure agreements before viewing protected information;
- Implementing company policies that require certain information be kept confidential;
- Maintaining access controls over the information such as passwords, encryption, or printing and copying restrictions;
- Storing the information in a separate protected server or file cabinet;
- Tracking who accesses the information; and
- Conducting exit interviews with departing employees to ensure all copies of the information have been returned.

*See generally Wellogix, Inc. v. Accenture, L.L.P.*, 716 F.3d 867 (5th Cir. 2013); *Guy Carpenter & Co., Inc. v. Provenzale*, 334 F.3d 459 (5th Cir. 2003); *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195 (5th Cir. 1986); *HIS Company, Inc. v. Stover*, 202 F.Supp.3d 685 (S.D. Tex. 2016) *vacated as moot*, 4:15-CV-00842, 2016 WL 6134939

(S.D. Tex. 2016); *In re Bass*, 113 S.W.3d 735 (Tex. 2003); *Baxter & Assocs., L.L.C. v. D & D Elevators, Inc.*, No. 05–16–00330–CV, 2017 WL 604043 (Tex. App.—Dallas 2017, no pet.); *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18 (Tex. App.—Houston [1st Dist.] 1998, pet. dismissed); *J.C. Kinley Co. v. Haynie Wire Line Serv., Inc.*, 705 S.W.2d 193 (Tex. App.—Houston [1st Dist.] 1985, writ refused n.r.e.); *360 Mortg. Grp., LLC v. Homebridge Fin. Servs., Inc.*, A-14-CA-00847-SS, 2016 WL 900577 (W.D. Tex. 2016); Cleveland, J., *Mum’s the Word: Protecting Company Information Under the Texas Uniform Trade Secrets Act*, 79 TEX. B.J. 86 (Feb. 2016).

## 2. Information Must Derive Independent Economic Value from Not Being Generally Known or Readily Ascertainable

The second prong of TUTSA’s trade-secret definition is the economic value requirement. There must be some value to the trade secret because it is unknown and not readily ascertainable to others. Perhaps the best-known example of a trade secret with such economic value is Coca-Cola’s secret recipe. The recipe itself has value because Coca-Cola’s competitors do not know its contents and therefore cannot offer the same product.

Typically, the economic value of a trade secret is established through the testimony of an expert or corporate representative. Furthermore, the value is not limited to intrinsic economic value (e.g., resources spent in the development of the trade secret or profits derived from the sale of the trade secret). TUTSA also protects “negative know-how,” i.e., “information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will not work could be of great value to a competitor.” UTSA § 1 cmt.

Of course, if the information is known or can be readily ascertained by proper means, the information will not qualify as a trade secret. Information that can be readily ascertained by proper means is information discovered by (1) independent development, (2) reverse engineering unless prohibited (such as by a license agreement), or (3) any other means that are not improper. TEX. CIV. PRAC. & REM. CODE § 134A.002(4). Improper means of discovery include “theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, to limit use, or to prohibit discovery of a trade secret, or espionage through electronic or other means.” *Id.* § 134A.002(2).

## B. **Claim for Misappropriation of Trade Secrets**

The elements of a TUTSA misappropriation claim are: (1) plaintiff was an owner of the trade secret; and (2) the trade secret was misappropriated. TEX. CIV. PRAC. & REM. CODE § 134A.002.

### 1. Plaintiff Was the Owner of the Trade Secret

Under TUTSA an “owner” is “the person or entity in whom or in which rightful, legal, or equitable title to, or the right to enforce rights in, the trade secret is reposed.” *Id.* § 134A.002 (3-a). This definition clarifies that certain non-owners, like licensees, may have the right to file a claim under TUTSA.

### 2. Defendant Misappropriated the Trade Secret

TUTSA’s definition of misappropriation is complicated, and it is frequently misinterpreted by both courts and litigants. *See His Co., Inc. v. Stover*, 202 F. Supp. 3d 685, 693 (S.D. Tex.) (collecting cases), *vacated as moot*, No. 4:15-CV-00842, 2016 WL 6134939 (S.D. Tex. Sept. 8, 2016). Under § 134A.002(3), there are six alternative paths to liability under TUTSA:

#### a. *Acquisition of a Trade Secret of Another by a Person Who Knows or Has Reason to Know That the Trade Secret Was Acquired by Improper Means. § 134a.002(3)(A).*

Under path one, the mere acquisition of another’s trade secret is a basis for liability so long as that person has reason to know that the trade secret was acquired by improper means. For example, if an employer hired a new employee who possessed trade-secret information from his former employer, the new employer could be liable for misappropriation if the new employer had reason to know that the information provided by the new employee was acquired by improper means. The employee could also be liable under this path. However, if that employee obtained the information through proper means—such as disclosure pursuant to the former employer’s confidentiality or non-disclosure agreement—neither the new employer nor the new employee would be liable. *See Educ. Mgmt. Servs., LLC v. Tracey*, 102 F. Supp. 3d 906, 913–15 (W.D. Tex. 2015) (analyzing liability where the plaintiff alleged that the defendant acquired its trade secrets through improper means).

#### b. *Disclosure or Use of a Trade Secret of Another Without Express or Implied Consent by a Person Who Used Improper Means to Acquire Knowledge of the Trade Secret. § 134a.002(3)(B)(I).*

Under path two, any person who discloses or uses another’s trade secret and who acquired that trade secret through improper means could be liable for misappropriation. For example, an employee who steals a password to obtain

access to his employer's trade secret could be liable for misappropriation if that employee discloses or uses that trade secret. However, an employee who merely misuses or discloses trade secrets that were properly disclosed to him—such as through a confidentiality or non-disclosure agreement—would not be liable under this path.

*c. Disclosure or Use of a Trade Secret of Another Without Express or Implied Consent by a Person Who, at the Time of Disclosure or Use, Knew or Had Reason to Know That the Person's Knowledge of the Trade Secret Was Derived from or Through a Person Who Used Improper Means to Acquire It. § 134A.002(3)(B)(ii)(a).*

Path three is similar to path two, but it imposes liability on defendants who are further removed from the improper means of acquisition. Under path three, the employer who discloses or uses the new employee's information is liable if the employer knew or had reason to know that the new employee utilized improper means to obtain the trade secret.

*d. Disclosure or Use of a Trade Secret of Another Without Express or Implied Consent by a Person Who, at the Time of Disclosure or Use, Knew or Had Reason to Know That the Person's Knowledge of the Trade Secret Was Acquired Under Circumstances Giving Rise to a Duty to Maintain the Secrecy of or Limit the Use of the Trade Secret. § 134A.002(3)(B)(ii)(b).*

Path four relates to persons who misuse or improperly disclose trade secrets that were acquired under proper means. The plaintiff must show that the defendant permissibly acquired the information within a relationship of confidence and later disclosed or used the information in violation of that confidence. *Lifesize, Inc. v. Chimene*, No. 1:16-CV-1109, 2017 WL 1532609, at \*9 (W.D. Tex. Apr. 26, 2017). For example, if an employee received trade-secret information pursuant to a non-disclosure agreement and then disclosed that information to a competitor in violation of the non-disclosure agreement, the employee would be liable under path four. *His Co.*, 202 F. Supp. 3d at 695–96.

*e. Disclosure or Use of a Trade Secret of Another Without Express or Implied Consent by a Person Who, at the Time of Disclosure or Use, Knew or Had Reason to Know That the Person's Knowledge of the Trade Secret Was Derived from or Through a Person Who Owed a Duty to the Person Seeking Relief to Maintain the Secrecy of or Limit the Use of the Trade Secret. § 134A.002(3)(B)(ii)(c).*

Path five imposes liability on a person who discloses or uses trade-secret information obtained from the person in path four. For example, it imposes liability on the employer who discloses or uses the trade secrets obtained through the new employee who owed a duty to maintain the secrecy or limit the use of the former employer's trade secret.

*f. Disclosure or Use of a Trade Secret of Another Without Express or Implied Consent by a Person Who, Before a Material Change of the Position of the Person, Knew or Had Reason to Know That the Trade Secret Was a Trade Secret and That Knowledge of the Trade Secret Had Been Acquired by Accident or Mistake. § 134A.002(3)(B)(iii).*

Path six imposes liability on the person who obtained the trade secret through accident or mistake. For example, if the new employer did not know that its new employee had obtained the trade secret through improper means or pursuant to a duty to maintain its confidentiality or limit its use, the new employer may still be liable if it later had reason to discover the trade secret and had not materially changed its position. There is currently no Texas case law as to what constitutes a material change in position. A material change in position might be a company's investment in the production of a product that unknowingly contained another's trade secret. In that situation, even if the company was later put on notice of the trade secret, the company may not be liable for future production if it can prove that it materially changed its position.

### C. Injunctive Relief

TUTSA provides that “[a]ctual or threatened misappropriation may be enjoined if the order does not prohibit a person from using general knowledge, skill, and experience that person acquired during employment.” TEX. CIV. PRAC. & REM. CODE § 134A.003(a). TUTSA is unique from other states' enactments of the Uniform Trade Secrets Act because it expressly prohibits courts from issuing injunctions that “prohibit a person from using general knowledge, skill, and experience that person acquired during employment.” This language was added as a legislative check to ensure that a trade-secret owner's efforts to protect “intangible” trade secrets did not override the common-law rule that an employee cannot be enjoined “from using the general knowledge, skill, and experience acquired during employment.” *Sharma v. Vinmar Int'l, Ltd.*, 231 S.W.3d 405, 424 (Tex. App.—Houston [14th Dist.] 2007, pet. dismissed).

One issue that has arisen with TUTSA's injunctive-relief provision is whether it overrides the equitable requirements that an applicant for injunctive relief must establish: (1) a cause of action against the defendant, (2) a probable right to relief sought, and (3) a probable, imminent, and irreparable injury in the interim. *IAC, Ltd. v. Bell Helicopter Textron, Inc.*, 160 S.W.3d 191, 197 (Tex. App.—Fort Worth 2005, no pet.). Courts in other jurisdictions have generally interpreted this sentence to not overrule the equitable requirements for injunctive relief. *See, e.g., Allied*



*Erecting & Dismantling Co. v. Genesis Equip. & Mfg., Inc.*, 2010 WL 3370286, at \*3 (N.D. Ohio Aug. 26, 2010) (applying rules of equity when deciding to deny temporary injunction under the Uniform Trade Secrets Act); Richard F. Dole, Jr., *Permanent Injunctive Relief for Trade Secret Misappropriation Without an Express Limit Upon Its Duration: The Uniform Trade Secrets Act Reconsidered*, 17 B.U. J. SCI. & TECH. L. 173, 176–77 (2011) (“The first sentence of [the Uniform Trade Secrets Act’s injunctive relief subsection] is a bare bones authorization of discretionary equitable relief against actual and threatened misappropriation under general equitable principles which require that a complainant suffer irreparable harm if an injunction is not granted.”). Courts applying TUTSA have similarly required that applicants establish the elements for injunctive relief. *See generally First Command Fin. Planning, Inc. v. Velez*, No. 4:16-CV-01008-O, 2017 WL 2999405 (N.D. Tex. May 8, 2017); *Midstate Env'tl. Servs., L.P. v. Atkinson*, No. 13-17-00190-CV, 2017 WL 6379796 (Tex. App.—Corpus Christi 2017, no pet.). Indeed, it is no great task to establish irreparable harm in a trade-secret case since courts generally presume irreparable harm if the court believes that a defendant possesses trade secrets and is in a position to use them. *SPBS, Inc. v. Mobley*, No. 4:18-CV-00391, 2018 WL 4185522, at \*14 (E.D. Tex. Aug. 31, 2018) (establishing irreparable harm “by Defendants misappropriation of trade secrets because Defendants can benefit from SPBS’s trade secrets without first investing the time, expense, and labor necessary to research and compile the Proprietary Information”). However, there is an argument that TUTSA overrides the common-law requirement to prove irreparable harm. *See Butnaru v. Ford Motor Co.*, 84 S.W.3d 198, 210 (Tex. 2002) (“The general rule at equity is that before injunctive relief can be obtained, it must appear that there does not exist an adequate remedy at law. This limitation has no application where the right to relief is predicated on a statutory ground other than the principles of equity.”).

Another unresolved issue with TUTSA’s injunctive-relief provision is the standard for establishing whether a trade secret exists. Under pre-TUTSA case law, the court considering injunctive relief did “not decide whether the information sought to be protected is a trade secret; rather it determined whether the applicant had established that the information is entitled to trade secret protection until a trial on the merits.” *Fox v. Tropical Warehouses, Inc.*, 121 S.W.3d 853, 858 (Tex. App.—Fort Worth 2003, no pet.). A handful of courts have carried over that standard into post-TUTSA case law. *See In re M-I L.L.C.*, 505 S.W.3d 569, 576 n.3 (Tex. 2016); *Hughes v. Age Indus., Ltd.*, No. 04-16-00693-CV, 2017 WL 943423, at \*4 (Tex. App.—San Antonio Mar. 8, 2017, no pet.). However, the common-law standard of establishing that the “information is entitled to trade secret protection until a trial on the merits” is just another way of saying that the applicant must show a “probability of success in proving that its confidential information deserved trade secret protection.” *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 23 (Tex. App.—Houston [1st Dist.] 1998, pet. dism’d). Thus, it is unclear how the common-law standard varies with TUTSA’s requirement for establishing the existence of a trade secret. If anything, these cases seem to imply that courts should look to principles of equity to establish injunctive relief under TUTSA.

The third unresolved issue with TUTSA’s injunctive-relief provision is the phrase “threatened misappropriation.” A handful of courts have interpreted the phrase “threatened misappropriation” to allow injunctive relief not just when a trade secret is disclosed but also when a trade secret will be inevitably disclosed. *See, e.g., Bayer Corp. v. Roche Molecular Sys.*, 72 F. Supp. 2d 1111, 1117–20 (N.D. Cal. 1999) (collecting cases). Under the “inevitable disclosure” doctrine, a court can enjoin a former employee from using or disclosing the former employer’s trade secrets if the former employee performed duties that would necessarily cause that employee to use or disclose the former employer’s trade secrets. *Cardinal Health Staffing Network v. Bowen*, 106 S.W.3d 230, 242 n.12 (Tex. App.—Houston [1st Dist.] 2003, no pet.). One Texas court of appeals has noted that “no Texas case [has] expressly adopt[ed] the inevitable disclosure doctrine, and it is unclear to what extent Texas courts might adopt it . . .” *Id.* at 242. However, other Texas courts of appeals have adopted or applied modified tests with similar attributes to the inevitable-disclosure doctrine, holding that an employee could be enjoined from using a former employer’s confidential information “when it is *probable* that the former employee will use the confidential information for his benefit (or his new employer’s benefit) or to the detriment of his former employer.” *See, e.g., Conley v. DSC Commc’ns Corp.*, No. 05-98-01051-CV, 1999 WL 89955, at \*4 (Tex. App.—Dallas Feb. 24, 1999, no pet.) (emphasis in original); *see also T-N-T Motorsports*, 965 S.W.2d at 18; *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no writ); *Williams v. Compressor Eng’g Corp.*, 704 S.W.2d 469, 470–72 (Tex. App.—Houston [14th Dist.] 1986, writ ref’d n.r.e.). Neither TUTSA nor its case law have conclusively determined what “threatened” misappropriation means under the statute. *See St. Jude Med. S.C., Inc. v. Janssen-Counotte*, No. A-14-CA-00877-SS, 2015 WL 11438611, at \*3 (W.D. Tex. Oct. 30, 2015) (applying the common-law test from *Conley* and *Cardinal Health Staffing*); *see also Harrell, A., Is Anything Inevitable?*, 76 TEX. B.J. 757 (Sept. 2013).

Regardless of the standard used, injunctive relief under TUTSA may either be prohibitive—such as barring the use of a trade secret or even barring certain employment—or affirmative—such as returning the trade secret or destroying copies of the trade secret. TEX. CIV. PRAC. & REM. CODE § 134A.003(c); *UTSA* § 2 cmt. A court in exceptional circumstances can even order an injunction that conditions future use of the trade secret upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited. TEX. CIV. PRAC.

& REM. CODE § 134A.003(b). TUTSA defines exceptional circumstances as including “a material and prejudicial change of position before acquiring knowledge or reason to know of misappropriation that renders a prohibitive injunction inequitable.” *Id.* For example, if the defendant under path six already produced the product incorporating the trade secret before learning of the misappropriation, it might be more appropriate for the court to order the defendant to pay a reasonable royalty rather than enjoin the sale of the product.

An injunction granted under TUTSA will last only until the trade secret has ceased to exist or “for an additional reasonable period of time in order to eliminate commercial advantage that otherwise would be derived from the misappropriation.” *Id.* § 134A.003(a). For example, if good-faith competitors have caught up with the misappropriator by the time the case is decided, the injunction should be dissolved. UTSA § 2 cmt.

#### D. TUTSA Damages

Damages under TUTSA include the actual loss caused by the misappropriation and the unjust enrichment caused by the misappropriation that is not taken into account in computing actual loss. TEX. CIV. PRAC. & REM. CODE § 134A.004(a). Actual loss would include lost profits, and unjust enrichment would include the defendant’s profits. *Carbo Ceramics, Inc. v. Keefe*, 166 Fed. App’x 714, 722 (5th Cir. 2006) (unpublished). Unjust enrichment may also include an employee’s salary during the time he or she was misappropriating the trade secrets. *Orbison v. Ma-Tex Rope Co., Inc.*, 553 S.W.3d 17, 30 (Tex. App.—Texarkana 2018, pet. denied).

Alternatively, a plaintiff can seek a reasonable royalty for a misappropriator’s unauthorized disclosure or use of a trade secret. TEX. CIV. PRAC. & REM. CODE § 134A.004(a). A reasonable royalty consists of “what the parties would have agreed to as a fair price for licensing the defendant to put the trade secret to the use the defendant intended at the time the misappropriation took place.” *Southwestern Energy Production Co. v. Berry-Helfand*, 491 S.W.3d 699, 711 (Tex. 2016) (quoting *Mid-Michigan Computer Systems, Inc. v. Mark Glassman, Inc.*, 413 F.3d 505, 510-11 (6th Cir. 2005)); see *MGE UPS Systems, Inc. v. GE Consumer & Industrial, Inc.*, 622 F.3d 361, 367 n.2 (5th Cir. 2010). A reasonable royalty is calculated based on a “fictional negotiation of what a willing licensor and licensee would have settled on as the value of the trade secret at the beginning of the infringement.” *Southwestern Energy Production Co.*, 491 S.W.3d at 711 (citing *Metallurgical Industries Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1208 (5th Cir. 1986), and *Lykes-Youngstown Corp.*, 504 F.2d at 540)). In determining a reasonable royalty, the following factors may be considered: (1) the resulting and foreseeable changes in the parties’ competitive positions; (2) past prices that purchasers or licensees paid for the trade secret; (3) the total value of the secret to the plaintiff, including development costs and the importance of the secret to the plaintiff’s business; (4) the nature and extent of the defendant’s use of the trade secret; and (5) other factors, such as whether an alternative process exists. *Fourtek, Inc.*, 790 F.2d at 1208; *Lykes-Youngstown Corp.*, 504 F.2d at 540; *Calce v. Dorado Exploration Co.*, 309 S.W.3d 719, 738 (Tex. App.—Dallas 2010, no pet).

Exemplary damages are available if “willful and malicious misappropriation is proven by clear and convincing evidence.” TEX. CIV. PRAC. & REM. CODE § 134A.004(b). “Willful and malicious misappropriation” means intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret. *Id.* § 134A.002(7). One Texas court found a willful and malicious misappropriation where an employee was actively helping a competitor while still employed by his employer. *Orbison*, 553 S.W.3d at 30 n.9. Exemplary damages under TUTSA are limited to an amount not exceeding twice any award of actual damages. TEX. CIV. PRAC. & REM. CODE § 134A.004(b). Exemplary damages must be proved by clear and convincing evidence. *Id.*

The damages under TUTSA are “[i]n addition to or in lieu of injunctive relief,” making clear that an injunction under TUTSA does not foreclose the right to also recover damages. *Id.* § 134A.004(a).

#### E. Attorney’s Fees Under TUTSA

A prevailing plaintiff may recover attorney’s fees under TUTSA only if the plaintiff proves that (1) a motion to terminate an injunction was made in bad faith, or (2) willful and malicious misappropriation exists. *Id.* § 134A.005. In contrast, a prevailing defendant may recover attorney’s fees under TUTSA only if the defendant proves that (1) a claim of misappropriation was made in bad faith, or (2) a motion to terminate an injunction was resisted in bad faith. *Id.* TUTSA does not provide a definition of “prevailing.”

#### F. Miscellaneous TUTSA Provisions

##### 1. Preservation of Secrecy

Under TUTSA, the trial court must “preserve the secrecy of an alleged trade secret by reasonable means.” *Id.* § 134A.006. TUTSA establishes a “presumption in favor of granting protective orders to preserve the secrecy of trade secrets.” *Id.* TUTSA further provides that protective orders may include: (1) provisions limiting access to confidential information to only the attorneys and their experts; (2) holding in camera hearings; (3) sealing the records of the action; and (4) ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

*Id.* The intent of this provision was to eliminate the hurdles to protecting trade secret information to litigants, including eliminating Texas Rules of Civil Procedure 76(a)'s burdensome and outdated process for sealing court records. *See id.* § 134A.007(c) (“To the extent that this chapter conflicts with the Texas Rules of Civil Procedure, this chapter controls.”)

In 2016, the Texas Supreme Court case, *In re M-I L.L.C.*, addressed whether due process required a defendant's representative to be present at a hearing or trial where evidence of the plaintiff's trade secrets would be introduced. 505 S.W.3d at 575–76. In 2017, the Texas Legislature adopted the Court's analysis and added certain provisions to TUTSA. Under both standards, a trial court is required to balance the due-process presumption in favor of the defendant's participation at trial against the degree of competitive harm the plaintiff would suffer from disseminating the trade secret. *See id.* To make that determination, a trial court must consider the following factors:

- **The relative value of the plaintiff's trade secrets.** The higher the value of the trade secret, the more competitive harm would come from the trade secret's dissemination.
- **Whether the defendant's representative acts as a competitive decision-maker for the defendant.** According to the Texas Supreme Court, if the representative acted as a competitive decision-maker, then the disclosure of the plaintiff's trade secrets to him “would necessarily entail greater competitive harm because, even when acting in good faith, [the representative] could not resist acting on what he may learn.” *Id.* at 576.
- **The degree to which the defendant's claims would be impaired by the representative's exclusion.** To make this determination, the trial court may consider the representative's role in the organization and whether, by virtue of that role, the representative possessed specialized expertise that would not be available to the defendant's outside experts.
- **The stage of the proceedings.**
- **Whether the owner is alleging that the other party is already in possession of the alleged trade secret.**

TEX. CIV. PRAC. & REM. CODE § 134A.006(b).

TUTSA's seven-factor test includes an additional factor not found in *In re M-I L.L.C.*: “whether the owner is alleging that the other party is already in possession of the alleged trade secret.” This factor was added because if the trade-secret owner alleges that the misappropriator already possesses the owner's trade secret, there is little harm if that party participates in the proceeding. Conversely, potential harm could result if a party participates in the proceeding but has not yet accessed the trade-secret information (e.g., where an employer hires a new employee who is in possession of another's trade secret, but the employee has not yet disclosed that secret to his new employer).

## 2. Statute of Limitations

A trade-secret claim is governed by a three-year statute of limitations. TEX. CIV. PRAC. & REM. CODE § 16.010(a). Suit must be brought not later than three years “after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered.” *Id.* A misappropriation that continues over time is a single cause of action and the limitations period begins running without regard to whether the misappropriation is a single or continuing act. *Id.* at § 16.010(b).

## 3. Effect on Other Law

TUTSA displaces conflicting tort, restitutionary, and other Texas law providing civil remedies for trade-secret misappropriation. TEX. CIV. PRAC. & REM. CODE § 134A.007(a). TUTSA, however, does not affect: (1) contractual remedies, whether or not based upon trade-secret misappropriation; (2) other civil remedies that are not based upon trade-secret misappropriation; or (3) criminal remedies, whether or not based upon trade-secret misappropriation. *Id.* § 134A.007(b).

TUTSA eliminated civil liability under the Texas Theft Liability Act. *His Co.*, 202 F. Supp. 3d at 691. However, at least one case suggests in dicta that common-law misappropriation may not have been eliminated by TUTSA. *See Raybourne & Dean Consulting, Ltd. v. Metrica, Inc. & Metrica Relocations Plus, Inc.*, No. SA-14-CA-918-OLG, 2015 WL 12866214, at \*10 (W.D. Tex. Apr. 10, 2015). The language in this case is in direct conflict with TUTSA.

TUTSA also eliminated breach of fiduciary duty claims based on misappropriation of trade secrets. *Super Starr Int'l, LLC v. Fresh Tex Produce, LLC*, 531 S.W.3d 829, 843 (Tex. App.—Corpus Christi-Edinburg 2017, no pet.).

## 4. Uniformity of Application and Construction

TUTSA is to “be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this chapter among states enacting it.” TEX. CIV. PRAC. & REM. CODE § 134A.008. Therefore, Texas courts may look to other jurisdictions interpreting the UTSA for guidance on TUTSA's provisions.

## II. TUTSA AND THE TEXAS CITIZENS PARTICIPATION ACT

The Texas Citizens Participation Act (TCPA)—also known as the Texas anti-SLAPP statute—exists to “encourage and safeguard the constitutional rights of persons to petition, speak freely, and associate freely and, at the same time, protect the rights of a person to file meritorious lawsuits for demonstrable injury.” TEX. CIV. PRAC. & REM. CODE § 27.002; *see In re Lipsky*, 460 S.W.3d 579, 584 (Tex. 2015) (recognizing that the TCPA is designed to thwart “retaliatory lawsuits that seek to intimidate or silence”). To prevent “Strategic Lawsuits Against Public Participation” from achieving their intended purpose of stifling free speech and free association rights, the TCPA permits early dismissal after little or no discovery. TEX. CIV. PRAC. & REM. CODE §§ 27.003(c), 27.006(b); *In re Elliott*, 504 S.W.3d 455, 467 (Tex. App.—Austin 2016, no pet.) (“[T]he TCPA stays all discovery until the trial court rules on a motion to dismiss filed under the Act.”).

Originally, the TCPA was thought to apply only to cases involving constitutional rights of free speech, petition, and association. However, the TCPA’s plain language contains no such limitation. *See e.g., Beving v. Beadles*, No. 02-17-00223-CV, 2018 WL 5074765, at \*4 (Tex. App.—Fort Worth Oct. 18, 2018, pet. filed) (“[D]espite the TCPA’s express purpose to protect constitutional rights, the TCPA’s definition of ‘the right to petition’ is far broader.”). Consequently, the TCPA has been applied to all manner of commercial-litigation claims, including claims under TUTSA. *See, e.g., Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, 520 S.W.3d 191, 204 (Tex. App.—Austin 2017, pet. denied).

When reading the TCPA’s plain language, it is not hard to see why the TCPA would apply to TUTSA. The TCPA applies to any “legal action” that is “based on, relates to, or is in response to” a movant’s rights of free speech, to petition, or of association. TEX. CIV. PRAC. & REM. CODE § 27.005(b). Almost all TUTSA claims are going to be based on, relate to, or in response to a movant’s rights of free speech and association under the TCPA’s broad definitions for these terms.

Regarding free speech rights, the “exercise of the right of free speech” under the TCPA means a “communication” made in connection with a “matter of public concern.” TEX. CIV. PRAC. & REM. CODE § 27.001(3). A “communication” means “the making or submitting of a statement or document in any form or medium, including oral, visual, written, audiovisual, or electronic.” *Id.* § 27.001(1). Courts have interpreted communications to include disclosing trade secrets. *See Elite Auto Body*, 520 S.W.3d at 205 (holding that disclosure of a competitor’s information was a communication under the TCPA). In fact, it is hard to imagine how one could disclose a trade secret without some sort of communication under the Act.

Because disclosure of trade secrets necessarily involves a communication, the next issue is whether the communication involves a “matter of public concern.” As defined by the TCPA, a “matter of public concern” includes any issue related to:

- (A) health or safety;
- (B) environmental, economic, or community well-being;
- (C) the government;
- (D) a public official or public figure; or
- (E) a good, product, or service in the marketplace.

*Id.* § 27.001(7). This definition means that free-speech rights under the statute can be implicated in almost any private business situation. *See Adams v. Starside Custom Builders, LLC*, 547 S.W.3d 890, 894 (Tex. 2018) (noting that the definition of a “matter of public concern” covers “[a]lmost every imaginable form of communication, in any medium”). Currently, however, only one TCPA/TUTSA case has cited free speech rights, and that case provided no helpful analysis of that issue. *Morgan v. Clements Fluids S. Tex., LTD.*, No. 12-18-00055-CV, 2018 WL 5796994 (Tex. App.—Tyler Nov. 5, 2018, no pet.).

Instead, most TCPA/TUTSA cases invoke the right of association. Under the TCPA, “[e]xercise of the right of association” means “a communication between individuals who join together to collectively express, promote, pursue, or defend common interests.” TEX. CIV. PRAC. & REM. CODE § 27.001(2). The term “common interests” is understood by its plain meaning. *See ExxonMobile Pipeline Co. v. Coleman*, 512 S.W.3d 895, 899 (Tex. 2017) (per curiam) (applying longstanding rules of statutory construction when interpreting provisions of the TCPA). Communications between and among members of an organization or business relate to a “common purpose” if they pertain to the purpose of the business or organization. *Combined Law Enf’t Ass’ns of Tex. v. Sheffield*, No. 03–13–00105–CV, 2014 WL 411672, at \*12 (Tex. App.—Austin Jan. 31, 2014, pet. denied).

In *Elite Auto Body LLC v. Autocraft Bodywerks, Inc.*, the Austin Court of Appeals explained the broad scope of the TCPA’s right of association in the context of a trade-secret case. The plaintiff, Autocraft Bodywerks, sued Precision (Elite) Auto Body and several former Autocraft employees alleging that the employees provided Precision with Autocraft’s trade secrets. 520 S.W.3d at 191, 193. Autocraft accused the former employees of providing Precision

with Autocraft’s confidential, proprietary, and trade-secret information, and it alleged that the defendants were unlawfully using Autocraft’s confidential information and improperly soliciting current Autocraft employees despite the defendants having no operative noncompetition and non-solicitation agreements. *Id.* Based on these allegations, Autocraft sought injunctive relief to restrain the defendants’ ongoing use or disclosure of Autocraft’s confidential and proprietary information. *Id.* The court determined that under these circumstances, Autocraft’s claims were based on the defendants’ alleged “communications” for a common interest within the meaning of the TCPA, implicating the defendants’ association rights under the Act. *Id.* at 205.

Based on the reasoning of *Elite Auto Body*, the TCPA will likely apply in any situation where a former employee is accused of providing trade secrets to his new employer—which includes almost every trade-secret case. Thus, any plaintiff or defendant in a TUTSA case needs to be prepared for a TCPA motion to dismiss. If you are a plaintiff, you must consider the following before filing suit:

- **Should you file a federal Defend Trade Secrets Act (DTSA) claim or a TUTSA claim?** The TCPA does not apply to DTSA claims. *Cf. Mathiew v. Subsea 7 (US) LLC*, No. 4:17–CV–3140, 2018 WL 1515264, at \*8 (S.D. Tex. Mar. 9, 2018) (holding that the TCPA does not apply to federal causes of action).
- **If you file a DTSA claim, should you also include a TUTSA claim?** Currently, the Fifth Circuit has yet to decide whether the TCPA applies to TUTSA claims filed in federal court. *See Block v. Tanenhaus*, 867 F.3d 585, 589 (5th Cir. 2017) (observing that “[t]he applicability of state anti-SLAPP statutes in federal court is an important and unresolved issue in [the Fifth] Circuit”); *Cuba v. Pylant*, 814 F.3d 701, 706 n.6 (5th Cir. 2016) (stating that “we assume, without deciding, that the state procedural rules . . . do in fact apply in federal court”). The district courts are split on this issue. *See Thoroughbred Ventures, LLC v. Disman*, No. 4:18–CV–00318, 2018 WL 3472717, at \*2 (E.D. Tex. July 19, 2018) (refusing to apply the TCPA because it was a procedural statute that conflicted with the Federal Rules of Civil Procedure); *La’Tiejira v. Facebook, Inc.*, 272 F. Supp. 3d 981, 985 (S.D. Tex. 2017) (holding that “[a]lthough the TCPA is a state law, it applies to Texas law claims in a federal court sitting in diversity”).
- **If you file a TUTSA claim in state court, should you proceed with a temporary injunction with a TCPA motion pending?** The TCPA “does not prohibit a trial court from considering and granting a temporary restraining order or a temporary injunction before deciding a motion to dismiss brought under the TCPA.” *In re SPEX Grp. US LLC*, No. 05–18–00208–CV, 2018 WL 1312407, at \*4 (Tex. App.—Dallas Mar. 14, 2018, no pet.). But a pending TCPA motion will put a stop to any expedited discovery needed specifically to prepare for the temporary injunction hearing. *Id.* Thus, if a plaintiff files a TUTSA claim in state court, it needs to either have the proof ready for its temporary-injunction hearing before filing suit or not seek a temporary injunction until after the parties have had an opportunity to conduct specified and limited discovery necessary to respond to the TCPA motion to dismiss. *See* TEX. CIV. PRAC. & REM. CODE § 27.006(b). If a plaintiff chooses the latter option, he or she must be aware that the TCPA motion to dismiss generally does not have to be heard until sixty days after service, which means that discovery will not be conducted on an expedited basis. *Id.* § 27.004(a). Consequently, if a plaintiff wants discovery before the temporary-injunction hearing, it must be prepared to not have a temporary-injunction hearing until much later than the typical fourteen days after a lawsuit is filed.
- **Is there a way to plead around the TCPA?** The TCPA only applies to “communications.” It may be possible to plead a TUTSA claim that does not implicate the TCPA if the plaintiff can limit its claims to improper use of the trade secret—versus *disclosure* of the trade secret. *Elite Auto Body*, 520 S.W.3d at 207 (affirming the denial of motions to dismiss certain trade-secret claims that were not based on communications). A claim for conspiracy, however, will virtually guarantee that the TCPA applies. *Craig v. Tejas Promotions, LLC*, 550 S.W.3d 287, 294 (Tex. App.—Austin 2018, pet. filed) (holding that a conspiracy claim establishes the legal action is based on—or at least related to or in response to—the exercise of the right of association).

If, after analyzing these issues, a plaintiff still chooses to proceed with a TUTSA claim in state court, the plaintiff must, at a minimum, be prepared to respond to a TCPA motion. Therefore, the plaintiff must be prepared to provide “clear and specific” evidence to establish a prima facie case for each essential element of the claims in question. *Id.* § 27.005(c). To meet this burden, the plaintiff must know (1) what its trade secrets are, (2) why they are trade secrets, and (3) how they have been improperly disclosed or used. This likely requires conducting a thorough forensic investigation before filing suit. It also requires carefully choosing the causes of action that will accompany the TUTSA claim. Claims for misappropriation of trade secrets based on breach of the Texas Theft Liability Act or breach of a fiduciary duty cannot survive a motion to dismiss because those causes of action have been preempted by TUTSA. TEX. CIV. PRAC. & REM. CODE ANN. § 134A.007(a). Such claims will easily subject a plaintiff to attorneys’ fees liability, which is mandatory if the defendant prevails on a TCPA motion to dismiss. *Id.* § 27.009(a)(1). Additionally,

if the moving party prevails, the court must award sanctions sufficient to deter the non-moving party from bringing similar actions. *Id.* § 27.009(a)(2).

### III. RECENT DEVELOPMENTS IN TEXAS CASE LAW ON TRADE SECRETS

#### A. The Award of a Reasonable Royalty and a Permanent Injunction Does Not Violate the One-Satisfaction Rule

Under Texas law, the one-satisfaction rule states that a plaintiff is entitled to only one recovery for any damages suffered because of a particular injury. In the trade-secrets misappropriation case *TMRJ Holdings, Inc. v. Inhance Technologies, LLC*, 540 S.W.3d 202 (Tex. App.—Houston [1st Dist] 2018, no pet.), the defendant argued that the plaintiff’s judgment for a \$4 million reasonable royalty and a permanent injunction violated the one-satisfaction rule because the calculation of a reasonable royalty contemplated the future use of the misappropriated technology. *Id.* at 208. The First Court of Appeals disagreed.

First, although the future use of a technology is a factor in calculating the reasonable royalty, the defendant went out of business long before trial, and therefore, the reasonable royalty damages were not based on the actual future use of the trade secret. Rather, the reasonable royalty compensated “purely for the misappropriation of the technology, which has a present value based in part on potential for future use, regardless of whether that use came to fruition.” *Id.* at 210.

Second, the testimony at trial established that the trade-secret owner never intended for the trade secrets to be commercially available. *Id.* at 211. Therefore, limiting the recovery to a reasonable royalty would not fully compensate the plaintiff for its damages because it would give the misappropriator what the market denied—a license. Given this reasoning, an award of both reasonable royalty damages and a permanent injunction did not violate the one-satisfaction rule. *See id.* at 212.

#### B. The TCPA Strikes Again

Since the Austin Court of Appeal’s decision in *Elite Auto Body*, defendants have increased the use of the TCPA as a defense to trade-secret misappropriation claims. *Craig v. Tejas Promotions, LLC* provides a recent example. In *Craig*, Tejas Promotions shared trade secrets with potential purchaser Craig. Craig and his son then allegedly used those secrets to form a competing venture Tejas Vending. Tejas Promotions sued Craig for breach of a non-disclosure agreement and sued Craig, his son, and the new company for breach of the TUTSA, conspiracy to misappropriate trade secrets, and declaratory judgment.

The defendants responded by filing a motion to dismiss under the TCPA for the conspiracy and declaratory-judgment claims. (It is not clear why Craig did not file the TCPA motion for the TUTSA claims.) Tejas Promotions did not present a prima facie case in reply, arguing instead that the TCPA did not apply. The Austin Court of Appeals, relying on its reasoning in *Elite Auto Body*, rejected this argument. Under the TCPA’s plain language, the defendants were exercising their right of association—even if that association was to allegedly misappropriate Tejas Promotions’s trade secrets and steal its business.

#### C. The Economic-Loss Rule Does Not Prohibit a Plaintiff from Asserting Both Breach of Contract and Common-Law Misappropriation of Trade-Secrets Claims

*Eagle Oil & Gas Co. v. Shale Expl., LLC*, 549 S.W.3d 256 (Tex. App.—Houston [1st Dist.] 2018, no pet.) involved the familiar situation where a plaintiff sues for both breach of a confidentiality agreement and for trade-secret misappropriation. *Id.* at 265. The defendant asserted that the plaintiff was limited to a breach of contract claim because the misappropriation claim was barred by the economic-loss rule, which bars a recovery in tort for economic losses caused by a breach of contract if the losses are due to the failure to fulfill a contractual obligation. *Id.* at 268. The economic loss rule, however, does not apply if the duty breached stands independent from the contractual undertaking, and the alleged damages are not solely the result of a bargained-for contractual benefit. The court determined such was the case here because the duty not to misappropriate trade secrets stands independently from a party’s contractual obligations, even when the contract requires confidentiality. *Id.* at 269. Thus, the Houston Court of Appeals held that the economic-loss rule does not apply to a trade-secret misappropriation claim. *Id.*

#### D. Profit Disgorgement is a Matter Exclusively for the Court—Not the Jury

Generally, there are three primary types of damages of damages in a trade-secrets case: (1) lost profits; (2) the defendant’s profits; and (3) a reasonable royalty. The Federal Circuit in *Tex. Advanced Optoelectronic Sols., Inc. v. Renesas Elecs. Am., Inc.*, 895 F.3d 1304 (Fed. Cir. 2018) explored who—the judge or the jury—can award a defendant’s profits. *Id.* at 1318–21. In *Texas Advanced Optoelectronic*, the defendant argued the court erred in relying on the jury’s verdict on profit disgorgement because profit disgorgement was an equitable remedy for the court, not the jury, to award. *Id.* at 1318. The Federal Circuit, which had already vacated the trial court’s disgorgement award

on different grounds, decided to take the issue before remand. In doing so, the court undertook a lengthy analysis of the Seventh Amendment and determined that when the Seventh Amendment was enacted in 1791, there was no profit-disgorgement remedy. *Id.* at 1319–21. Therefore, the plaintiff had no right to a jury determination on its disgorgement request of the defendant’s profits as a remedy for trade-secret misappropriation. *Id.* Such determinations are a matter for the court only.

#### **E. Employer Not Entitled to an Injunction Prohibiting Former Employee from Using Customer Information Committed to Memory**

In *Thoroughbred Ventures, LLC v. Disman*, No. 4:18-CV-00318, 2018 WL 3752852 (E.D. Tex. Aug. 8, 2018), Thoroughbred sued its former manager Disman for breaching his employment agreement. *Id.* at \*1. Thoroughbred alleged that the agreement provided that all client contact and background information belonged to Thoroughbred, constituted “Confidential Information,” and also constituted trade secrets. *Id.* Thoroughbred sought an injunction preventing Disman from using such information, but there was no evidence that Disman took a customer list, and the court did not issue an injunction prohibiting Disman from using information Disman committed to memory. *Id.* at \*5. The court noted that such an injunction would be proper for a non-competition agreement but not a non-disclosure agreement:

In the employment context presently under consideration, the Court considers the network of acquaintances one comes to know through employment to be an aspect of the “general knowledge . . . and experience acquired in former employment” that one could utilize in competition with one’s former employer. An agreement prohibiting a former employee in this field from disclosing his acquaintances would therefore be a noncompetition agreement in disguise, and would be unenforceable as such.

*Id.* at \*4 (quoting *Oxford Glob. Res., Inc. v. Weekley-Cessnun*, No. Civ.A. 3:04-CV-0330, 2005 WL 350580, at \*2 (N.D. Tex. Feb. 8, 2005)).

The court rejected injunctive relief for Thoroughbred’s DTSA and TUTSA claims on the same basis. It did not matter that Disman learned certain customer information through his position at Thoroughbred. It also did not matter that Thoroughbred invested time and money to cultivate its customer relationships. Rather, the key issue—and the only issue—was whether the information was a secret. Here, the customer information at issue was all readily ascertainable through public sources. Therefore, the information was not a trade-secret. *Id.* at \*6.

#### **F. The TCPA Does Not Apply to TUTSA Cases Filed in Federal Court According to the Eastern District of Texas**

After deciding the issue of injunctive relief, the Eastern District of Texas issued a second opinion in *Thoroughbred Ventures* that took up the issue of whether the TCPA applies to TUTSA (or other claims) filed in federal court. The court decided it did not. *Thoroughbred Ventures*, 2018 WL 3472717, at \*2. The court held that the TCPA was a procedural statute that conflicted with the Federal Rules of Civil Procedure. Therefore, the Eastern District of Texas district court denied the defendants’ motion to dismiss under the TCPA.

#### **G. The Eastern District of Texas Explores the Meaning of “Threatened Disclosure” under TUTSA**

As previously discussed, TUTSA allows for injunctive relief based on both “actual” and “threatened” disclosure of trade secrets. One the major unresolved issues of TUTSA, however, is the meaning of “threatened” disclosure. The Eastern District of Texas briefly addressed this meaning in *AHS Staffing, LLC v. Quest Staffing Grp., Inc.*, No. 4:18-CV-00402, 2018 WL 3870067, at \*8 (E.D. Tex. Aug. 15, 2018). *AHS Staffing* involved the familiar situation of departing employees allegedly taking and using their former employer’s trade secrets. The court explained that “threatened disclosure” requires a plaintiff to show that the disclosure of specific trade secrets would benefit an employee’s new employer. *Id.* In other words, it must be “probable that the former employee will use the confidential information for his benefit (or his new employer’s benefit) or the detriment of his former employer.” *Id.* (quoting *Conley v. DSC Commc’ns Corp.*, No. 05-98-01051-CV, 1999 WL 89955, at \*4 (Tex. App.—Dallas 1999, no pet.)). The district court reasoned that the two employers were direct competitors and the confidential information in the former employer’s database would be helpful to the new employer. Therefore, the former employer established its case for injunctive relief for threatened misappropriation. *Id.*

*AHS Staffing*, however, should not be viewed as establishing the meaning for “threatened disclosure” under TUTSA. Instead, *AHS Staffing* affirmed the common-law probability standard enunciated by the Dallas Court of Appeals in *Conley v. DSC Communications Corp.* *Id.* Also, it should be noted that there was ample evidence in *AHS Staffing* that the employees had taken, and were using, their former employer’s trade secrets. Thus, it is unclear why the court chose to analyze the case under the “threatened” disclosure prong instead of the “actual” disclosure prong.

## H. The Western District of Texas Denies Injunctive Relief Based, in part, on a Plaintiff's Vaguely-Defined Trade Secrets

One of the most difficult tasks in prosecuting a trade-secret case is determining how to define the trade secrets that have been misappropriated. If a plaintiff defines the trade secrets too narrowly, the plaintiff runs the risk of failing to stop the misappropriation. However, if a plaintiff uses a definition of trade secrets that is based on broad or generic terms, then the plaintiff runs the risk that its requested injunctive relief will be denied.

*Finite State Mach. Labs, Inc. v. Spectracom Corp.*, No. A-17-CV-01040-SS, 2018 WL 4171503 (W.D. Tex. Aug. 30, 2018) provides a good example of the latter. In *Spectracom*, FSM Labs sued Orolia, alleging that Orolia's software incorporated FSM Labs's trade secrets acquired through the parties' failed joint-development arrangement. *Id.* at \*1–\*2. FSM Labs argued that Orolia's software incorporated its trade secrets as its “components, information, parts, process, testing, training, and deficiencies.” *Id.* at \*4. The district court, however, found that such a non-specific list of trade secrets was insufficient as a basis for issuing a temporary injunction. *Id.* at \*4–\*5. Moreover, many of the items on the list were readily ascertainable through proper means, and there was no evidence that any of these items were used in Orolia's product. *Id.* at \*5. Therefore, the court denied FSM Labs request for injunctive relief. *Id.*

## I. Employees Should Not Lie about Their New Employers

Over the course of several cases, Judge Mazzant from the Eastern District of Texas has emphasized the circumstantial nature of the evidence used to establish misappropriation of trade secrets. *SPBS, Inc. v. Mobley*, No. 4:18-CV-00391, 2018 WL 4185522 (E.D. Tex. Aug. 31, 2018) is a good example of the court relying on circumstantial evidence to issue an injunction against a former employee accused of taking trade secrets. *Id.* at \*15. In *SPBS*, SPBS's former national sales director left SPBS to take a similar position with a competitor. *Id.* at \*2. Before leaving, however, the employee: (1) deleted several email messages and e-folders; (2) lied about where he was going to work after leaving the company; (3) claimed not to know that he had signed a non-competition agreement; (4) sent work emails to his personal email address; and (5) failed to return a thumb drive that was believed to contain a back-up of his SPBS computer. *Id.* at \*6. Given these facts and given that the employee had access to SPBS's trade secrets, the court believed that it was likely the employee took SPBS's trade secrets to his new employer. *Id.*

SPBS is a good reminder that honesty is the best policy when leaving an employer. A departing employee should identify his new employer—even if that employer is a direct competitor. Additionally, employees should never remove personal items from work computers without a witness. Instead, the departing employee should contact the former employer's IT staff to assist with any document removal. Otherwise, it will likely be presumed that sensitive work files were removed and not files of a personal nature.

## J. Forfeiture and Disgorgement of Departing Employee's Salary May Constitute Damages for Misappropriation of Trade Secrets

Damages for misappropriation of trade secrets, which are traditionally sought against a competitor are generally understood as: (1) lost profits; (2) defendant's profits; or (3) a reasonable royalty. But that does not mean that a departing employee who takes trade secrets to a competitor is immune from a damage award.

In *Orbison v. Ma-Tex Rope Co., Inc.*, the Texarkana Court of Appeals provided a good example of how a departing employee can be assessed damages for providing trade secrets to a competitor. In *Orbison*, the employee left his position at Ma-Tex for the same position at a competitor, API. 553 S.W.3d at 25. While at API, the employee began soliciting work from Ma-Tex's customers in violation of his non-competition, non-disclosure, and non-solicitation agreements. *Id.* After a bench trial, the trial court entered a judgment against the employee and API for lost profits, lost good will, fee forfeiture, profit disgorgement, and attorney's fees. The court also entered a permanent injunction. *Id.*

The Texarkana Court of Appeals reversed the trial court's judgment for Ma-Tex's lost profits and lost good will, finding that Ma-Tex offered insufficient evidence of both amounts. *Id.* The court, however, upheld the trial court's damage award of fee forfeiture (calculated as the employee's salary for time spent at Ma-Tex when he was assisting API with work) and profit disgorgement (calculated as the employee's salary at API before the temporary injunction was entered). *Id.* at 30–31. The court held that a forfeiture of the employee's Ma-Tex salary was appropriate to compensate Ma-Tex for the time that the employee was actively competing with Ma-Tex using Ma-Tex's confidential information to solicit its customers. *Id.* at 31. It did not matter that the salary was not technically a “fee.” Furthermore, the disgorgement of the employee's API salary was appropriate because there was no “distinction between disgorging a fee paid to, or the profit made by, an agent who usurps his principal's business opportunity and disgorging an amount equal to the salary paid to a former employee by his new employer when the former employee uses confidential information and trade secrets to solicit the customers of his former employer.” *Id.* And although the court analyzed these damages under breach of fiduciary duty, the court did note that such damages were also damages resulting from Ma-Tex's unjust enrichment resulting from its misappropriation of trade secrets claim. *Id.* Therefore, any employee



contemplating taking trade secrets to a competitor should think twice because that employee may have to forfeit his salary for the duration of time that he or she was improperly using the trade secrets.

### **K. The Eastern District of Virginia Explores Damages Under DTSA and TUTSA**

In *Steves & Sons, Inc. v. JELD-WEN, Inc.*, No. 3:16-CV-545, 2018 WL 2172502 (E.D. Va. May 10, 2018), the Eastern District of Virginia provided an in-depth look at unjust enrichment and reasonable-royalty damages under both the DTSA and TUTSA. In *Steves & Sons*, JELD-WEN alleged that Steves & Sons used JELD-WEN's trade secrets to assess the feasibility of developing a door-skin manufacturing operation. *Id.* at \*3. Steves & Sons filed a motion for summary judgment based on JELD-WEN's damage models: (1) Steves & Sons' gains—through increased profitability per doorskin—that Steves & Sons would realize in the event that the doorskin-manufacturing plant was built; (2) Steves & Sons' benefits—through avoided expenditures—that Steves & Sons realized as a result of the misappropriation even if Steves & Sons never builds a plant; and (3) a reasonable royalty. *Id.* Regarding models (1) and (2), the court noted the damages seemed speculative because they were based on multiple predictions—like the production capability of the plan and Steves and Sons' operating profits. *Id.* at \*6–\*7. However, the court denied summary judgment because the models were based on a business model mostly replicated from JELD-WEN's operations. *Id.* at \*7. Thus, a jury could rely on this evidence to conclude that Steves & Sons is reasonably likely to build a plant, and that it would save certain costs in running that plant because of JELD-WEN's trade secrets.

Regarding the third model—the reasonable royalty—the court also denied summary judgment. Among other things, the court noted that it was appropriate to incorporate Steves & Sons' future earnings and JELD-WEN's loss of revenue in the reasonable-royalty factors. *Id.* at \*10.

Finally, the court rejected Steves & Sons' argument that injunctive relief would preclude JELD-WEN from seeking damages that incorporate harm from Steves & Sons' future uses of trade secrets. *Id.* at \*10. The court reasoned that this JELD-WEN's damages compensated it for the misappropriation of the information, which has a present value based in part on future use regardless of whether that use comes to fruition. Plus, JELD-WEN never intended its trade secrets to be licensed, sold, or used by a third party. Thus, injunctive relief was not duplicative of the damages sought. *Id.*

### **L. Employee Sues Former Employer for Trade Secret Misappropriation**

The typical trade-secret case arises when a departing employee is sued by his or her former employer for taking company-proprietary information to his or her new employer. *Berge v. Republic Nat'l, Inc.*, No. 3:17-CV-1367-D, 2018 WL 2267095 (N.D. Tex. May 17, 2018) turns that fact pattern on its head. Here, the employee sued her *new employer* for misappropriating her trade secrets. *Id.* at \*1.

Berge worked for Old Republic National Title Insurance. In 2016, she began discussions about coming to work for Republic National, Inc., a land surveying company and an Old Republic vendor. *Id.* Berge eventually took the job with Republic National and provided it with a customer list that originated during Berge's time at Old Republic. Twenty-five days after Republic National hired Berge, Republic fired her because they could not afford her. *Id.*

Berge sued Republic National, alleging, among other things, that Republic National misappropriated her trade secrets. *Id.* The Northern District of Texas, however, dismissed the claims because Berge could not produce any evidence that Republic National was using the list after she was terminated. *Id.* at \*4–\*6.

Interestingly, the district court did not address the issue of whether Berge owned the customer list, which presumably would have been the property of her former employer, Old Republic.

### **M. The Southern District of Texas Holds that the TUTSA Does Not Raise a Federal Question**

Under 18 U.S.C. § 1331, federal courts have jurisdiction over civil actions arising under the Constitution, laws, or treaties of the United States. Typically, determining if a court has “federal question” jurisdiction is a simple analysis: the plaintiff sues the defendant for violating a federal statute. The defendants in *Gordon v. Mathieson*, No. CV H-18-1111, 2018 WL 3105115 (S.D. Tex. June 25, 2018), however, argued that TUTSA—a Texas statute—established federal question jurisdiction. *Id.* at \*1.

In *Gordon*, the plaintiff, a former Baker Hughes employee, sued several Baker Hughes employees alleging that the defendants breached TUTSA by misappropriating the plaintiff's independently-developed thesis for forecasting oil prices, and the employees then used that information to engage in insider trading. The employees removed the case to federal court on the basis that the plaintiff's allegations included insider trading, which implicated a federal statute and established federal question jurisdiction. *Id.*

The Southern District of Texas disagreed. The court noted that the alleged insider trading was irrelevant to its analysis of the plaintiff's claims; the analysis hinged on whether the defendants violated TUTSA, *not* whether they committed insider trading. *Id.* at \*5. Because TUTSA is a state statute and does not require the court to decide any

federal questions, the Southern District of Texas found that it lacked jurisdiction, remanding the case to state court. *Id.* at \*6.

#### **N. Non-Disclosure Agreements Are Not Always Required to Share a Trade Secret with a Third Party**

Although generally a best practice, non-disclosure agreements are not always required to share a trade secret with a third party. Instead, a trade secret may be protected if it is disclosed within the confines of a “confidential relationship” between the parties. A “confidential relationship” may exist when the disclosing party reveals a trade secret to allow the recipient of the information to assess a proposed business arrangement or transaction, and the recipient either expressly promises to keep the information confidential, or the recipient receives the information under circumstances that justify the conclusion that the recipient knew or had reason to know that the disclosure was intended to be in confidence, and the disclosing party reasonably inferred that the recipient had consented to keep the information confidential.

The Houston Court of Appeals explored confidential relationships in *Kana Energy Servs. Inc. v. Jiangsu Jinshi Mach. Grp. Co.*, No. 14-17-00863-CV, 2018 WL 4868945, at \*4 (Tex. App.—Houston [14th Dist.] Oct. 9, 2018, no pet.). In *Kana Energy*, plaintiff Kana Energy disclosed a marketing plan and other confidential information to defendant Jiangsu Jinshi Machinery as part of a proposed plan for a joint venture. *Id.* at \*1. As part of the negotiations, Kana Energy informed participants that the information disclosed was intended to be confidential. *Id.* at \*5. The court thus assumed that there was evidence of a confidential relationship. *Id.* at \*6. However, the court ultimately denied Kana Energy’s request for a temporary injunction because it did not believe that Kana had established that the information shared were trade secrets or were being used by Jiangsu Jinshi Machinery. *Id.*

#### **O. Signing a Non-Disclosure Agreement Does Not Override the TCPA**

*Morgan v. Clements Fluids South Texas, LTD.*, is another trade-secret misappropriation case where defendants invoked the TCPA. In *Morgan*, the defendants, former employees of the plaintiff, argued that they did not use the plaintiff’s trade secrets related to the salt systems for oil and gas wells. No. 12-18-00055-CV, 2018 WL 5796994, at \*7 (Tex. App.—Tyler November 5, 2018, no pet.). The defendant moved to dismiss under the TCPA, arguing that the plaintiff’s claims were based on, related to, or in response to the defendants’ free association rights and free speech with their new employers. The plaintiff, in response, argued that the TCPA did not apply because the defendants had signed non-disclosure agreements when working for the plaintiff and thus had waived their rights under the TCPA. The Tyler Court of Appeals rejected that argument, noting that waiver was not part of the court’s consideration when determining if the TCPA applies. *Id.* at \*4. Ultimately, the court determined that the TCPA applied, relying on the defendants’ association rights. The plaintiff, however, defeated the TCPA motion to dismiss for all defendants but one by providing clear and specific evidence of the elements of its TUTSA claim. *Id.* at \*11–\*12.

### **IV. TUTSA BUSINESS FORMS**

Because it is important that trade-secret owners take reasonable precautions to prevent the disclosure of their trade secrets, the authors have included an appendix with forms that can serve as guidelines to be used in drafting provisions aimed at protecting your client’s valuable trade-secret information. In particular, your clients’ forms should be updated to reflect mandatory disclosure requirements found in the federal Defend Trade Secrets Act. With the enactment of DTSA, “any contract or agreement with an employee that governs the use of trade secret or other confidential information” is expected to provide notice of certain trade secret disclosure immunities to employees, contractors, or consultants. 18 U.S.C. § 1833. This 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.* The provision also applies in certain situations in anti-retaliation lawsuits. *Id.* If an employer fails to include this notice in its trade-secret agreements, the employer will lose the right to recover exemplary damages or attorney’s fees in subsequent DTSA suits against individuals who did not receive the notice. *Id.* Thus, companies who are considering using the DTSA as a possible weapon against misappropriation should include a DTSA notification clause in their non-disclosure agreements.

**Joseph F. Cleveland, Jr., J. Heath Coffman, and Kevin C. Smith** practice in the areas of intellectual property and commercial litigation at Brackett & Ellis, P.C. Mr. Coffman is the chair—and Mr. Cleveland is the past chair—of the Trade Secrets Committee of the Intellectual Property Section of the State Bar of Texas. Mr. Cleveland and Mr. Coffman were both members of the working group responsible for drafting TUTSA and its amendments and assisting in the preparation of the bill analysis for the Senate and House committees. Mr. Coffman frequently blogs about trade secrets and other intellectual property and commercial litigation matters at [fwlawreporter.com](http://fwlawreporter.com).

**APPENDIX**

<b>Tab</b>	<b>Description</b>
A	Employee Termination Return of Property Checklist
B	“Confidential Information and Company Property” Employee Handbook Provision
C	Cease and Desist Letter
D	Non-Disclosure, Non-Solicitation and Non-Competition Agreement

# TAB A

## Termination Return of Property Checklist

I, [name of Employee], represent that I have returned **all** property belonging to my former employer, [name of Employer], to the custody of Employer’s President [or other Company Representative], effective [date].

1. I acknowledge that I received, read, and signed [employee manual] at the commencement of my employment with [Employer].

2. I acknowledge that while employed at [Employer] I had access to [Employer’s] confidential information and I will not disclose that confidential information to others.

3. I understand that “property belonging to Employer” includes, but is not limited to, the following specific items. I have placed a check-mark beside each item that I have returned to [name of Employer]: [include all applicable items]

- Building keys \_\_\_\_\_
- Desk keys \_\_\_\_\_
- Mailbox keys \_\_\_\_\_
- Card keys \_\_\_\_\_
- Electronic access keys or other devices \_\_\_\_\_
- Computer discs \_\_\_\_\_
- Electronic data stored in any medium (e.g., discs, hard drive memory, thumb drive, cds, tapes, cards, etc.) \_\_\_\_\_
- Company credit cards \_\_\_\_\_
- Company cell phone \_\_\_\_\_
- Company computer equipment \_\_\_\_\_
- Customer lists any other customer information \_\_\_\_\_
- Designs or formulas \_\_\_\_\_
- Price lists \_\_\_\_\_
- All company files \_\_\_\_\_
- Company financial information \_\_\_\_\_
- Company manuals \_\_\_\_\_
- Other Company property (specify any additional applicable property) \_\_\_\_\_

4. I have not made and/or kept a copy or copies of any documents, printed material, electronic data however stored (e.g, discs, hard drive memory, thumb drive, cd, tape, etc.) or other company information made available to me, provided to me or to which I had access, while an employee of [name of Employer].

5. I have not retained and/or not made a copy or copies of any customer job orders, files, lists, information concerning the company's operational methods, sales techniques, billing rates, price lists, cost data, order guides, customer preferences and buying patterns or any other statistical data, forms, files, records, documents or any similar items of information relating to [Employer's business].

6. I acknowledge that I executed [name any non-competition, non-solicitation, or non-disclosure agreements] at the commencement of my employment with [Employer], and that I have continuing duties under such [name agreement(s)] subsequent to my departure from [Employer].

7. I acknowledge that [Employer] expects full compliance with, and will enforce, all contractual and common law duties owed to [Employer].

I declare under penalty of perjury that the foregoing statements are true and correct.

Name of Employee	Signature	Date
Name of Employee	Signature	Date

TAB  
B

## Confidential Information and Company Property

During your employment by [Employer], you may have access to confidential and proprietary data which is not known generally by competitors within the [describe industry]. This information (hereinafter referred to as “Confidential Information”) includes, but is not limited to, [specifically list Company’s confidential information. Determine what type of information and communication Company intends to prohibit the disclosure and use of, and draft the provision that specifically identifies items without using broad and ambiguous descriptions or categories of information. Additionally, do not over-designate what Company considers to be confidential information.] [Items could include: data relating to the company’s marketing and servicing programs, procedures and techniques; the criteria and formulae used by the company in pricing its products and services; the structure and pricing of special packages that the company has negotiated; lists of customers and prospects; the identity, authority, and responsibilities of key contacts at company accounts; the composition and organization of accounts’ businesses; the peculiar risks inherent in their operations; sensitive details concerning the structure, conditions, and extent of their existing products and services; contract expiration dates; commission rates; service arrangements; computers/hardware, proprietary software, web applications and analysis tools; and other data showing the particularized requirements and preferences of the accounts.] This Confidential Information constitutes a valuable asset of the Company, developed over a long period of time and at substantial expense. All Confidential Information should be safeguarded and any release duplication, distribution, transmittal, disclosure, or discussion (“release”) of such information that is not required by law or by the duties of the employees involved is strictly prohibited.

Unauthorized access to, and unauthorized release of, Confidential Information will violate this policy and may result in appropriate disciplinary action against the employee(s) involved, up to and potentially including termination of employment, depending on the severity and/or repeat nature of the offense.

To protect the Company’s interest in this valuable asset, you must (a) not use any such Confidential Information for your personal benefit or for the benefit of any person or entity other than the Company, (b) not disclose any such Confidential Information to any person or entity outside the Company under any circumstances without written permission, and (c) use your best efforts to limit access to such Confidential Information to those who have a need to know it for the business purposes of the Company.

In addition, you should minimize those occasions on which you take Company laptops, electronic equipment, documents, hard drives, flash drives or any other electronic medium containing Confidential Information outside the office. On those occasions where it is necessary, consistent with the best interests of the Company and doing your job effectively, to take any of these items containing Confidential Information outside the office, all appropriate precautionary and security measures should be taken to protect the confidentiality of the information.

During the course of your employment with the Company, you will be provided and/or will generate correspondence, memoranda, literature, reports, summaries, manuals, proposals, contracts, customer lists, prospect lists, and other documents and data concerning the business of the Company. Any and all such records and data, whether maintained in hard copy or on a computer disk, computer hard drive, flash drive, or other medium is the property of the Company, regardless of whether it is or contains Confidential Information. Upon termination of your employment at the Company, you are required to return all such records to the Company and may not retain any copy of any such



records or make any notes regarding any such records. The Company retains the right to access all Company property including computers, desks, file cabinets, storage facilities, and files and folders, electronic or otherwise, at any time. Employees should not entertain any expectation of privacy when on Company grounds or while using Company property.

NOTICE: Theft of a trade secret can subject you to civil liability, damages, exemplary damages, and attorney's fees under the Texas Uniform Trade Secrets Act and the federal Defend Trade Secrets Act. TEX. CIV. PRAC. & REM. CODE §§ 134A.001–.008; 18 U.S.C. §§ 1831–36. Additionally, theft of a trade secret is a crime under Texas Penal Code § 31.05 and the Federal Economic Espionage Act of 1996, 18 U.S.C. § 1832. However, an individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made: (1) in confidence to a Federal, State, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

# TAB C

[Date]

[Former Employee]

[Address]

Re: Cease & Desist Notice | [Company]

Dear [Former Employee]:

Please be advised that I have been retained to represent [Company] with respect to your recent resignation from [Company] and, more specifically, protection of [Company's] property and confidential information. It has come to our attention that you have [describe wrongful conduct, for example: forwarded [Company] electronic information and documents to your personal email account in violation of [Company Employee Manual] and [Non-Disclosure Agreement]] which you executed at the outset of your employment with Company ("the Agreement"). For your convenience, I have enclosed a copy of the Agreement.

Specifically, you agreed, among other things, not to use [Company's] trade secrets, customer and other confidential data on your own behalf or disclose such information to any third-party except in furtherance of your employment at [Company] and as an employee of [Company]. At termination, you were reminded of your legal obligations and further instructed to return all [Company] property, including any paper and/or electronic files of [Company's] customers.

Per the Agreement, Confidential Information includes, but is not limited to, any information of a technical, financial or business nature with respect to [Company] or its business, whether or not marked confidential, which is not published or readily available to the public, and includes customer lists and information. By forwarding [Company's] electronic information and documents to your personal email account, you have breached the Agreement.

Please be advised that your continued possession of [Company's] documents and customer information in your personal email or elsewhere is in direct violation of the Agreement and may also violate other federal and state laws designed to protect [Company's] property and Confidential Information, including the Texas Uniform Trade Secrets Act and the federal Defend Trade Secrets Act. TEX. CIV. PRAC. & REM. CODE §§ 134A.001–.008; 18 U.S.C. §§ 1831–36.

[Company's] Confidential Information and trade-secret information constitute its most valuable assets and consists, among other things, of its [customer and vendor lists, customer preferences, purchasing history, software code, design, prototype, financial data, etc.]. This type of confidential and trade-secret information is specifically protected by the Texas Uniform Trade Secrets Act and federal Defend Trade Secrets Act. Your duty to maintain the confidentiality of this information remains even after termination of your employment. As a former employer, you have fiduciary and statutory duties to keep [Company's] trade secrets and confidential information in the strictest confidence, not disclose the information to anyone outside [Company] without [Company's] prior written consent, and not to make use of [Company's] trade secrets for your benefit or the benefit of anyone else outside the company.

If you fail to comply with these obligations, [Company] is authorized under the Texas Uniform Trade Secrets Act to obtain a court order to stop you from 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 seek reasonable attorney's fees for any misappropriation.

Furthermore, theft of trade secrets is also a third-degree felony in Texas.

[Company] therefore demands that you: [include all that apply]

1. Immediately return to [Company] any materials, including electronic files in your possession or control and whether on your laptop or other electronic devices, that could be characterized as trade secret or Confidential Information, as defined on Page \_\_ of the Agreement;
2. Immediately return to [Company] all files and documents, whether electronic or physical, and all client information, including any contact information or information pertaining to particular needs and requirements of [Company] customers which you obtained during your employment with [Company];
3. Immediately return to [Company] all trade secrets, customer data, and any other [Company] confidential data that you downloaded to any USB flash drive or other portable storage device or emailed to yourself and within your possession or control;
4. Immediately cease and desist from any further use of, either for yourself or the benefit of others, the trade secrets, customer data or other confidential data in your possession or elsewhere;
5. Immediately cease and desist any indirect or direct disclosure of any trade secrets, customer data, or other confidential information to anyone for any reason;
6. Immediately cease and desist revealing, directly or indirectly, the description of trade secrets, customer data, or other confidential data, including but not limited to the identity of a customer or customer contact information, to your prospective employer or anyone;
7. Immediately cease and desist any direct or indirect contact, calls, communications with, attempts to communicate with, solicitation or acceptance of business from any [Company] Customer, as defined in the Agreement; and
8. Immediately furnish a copy of the Agreement to your prospective employer as you are obligated to do pursuant to Page \_\_ of the Agreement and provide written confirmation to [Company] that you have fully complied with this obligation.

You may make arrangements for the return of those materials identified in Items 1-3, above, by contacting [Company Employee] at [phone number] or [email [address](#)] no later than **[time, day, date]**.

Because you have already breached your Agreement with [Company], [Company] further demands that you verify in writing, no later than **[time, day, date]**, the destruction or return of any and all of [Company's] property and confidential information, whether electronic or physical copies, from your possession. Additionally, to protect [Company's] legitimate business interests, [Company] demands that you provide, at your expense and **no later than \_\_\_\_\_ on**

\_\_\_\_\_, \_\_\_, 2017, written confirmation to [Company] from a licensed, forensic investigator that any and all of [Company's] property and Confidential Information has been removed in its entirety from your personal email account and computer. You are specifically advised that any failure or delay in complying with these demands will likely compound the damages for which you may be liable. You are further advised that, pursuant to Tex. Civ. Prac. & Rem. Code § 38.001, attorney's fees are recoverable for the breach of a contract.

If [Company] has not received **full compliance with the above demands by the close of business on [day, date]**, [Company] is prepared to take all necessary steps, including suit to enjoin your continued violations, to protect its rights, pursuant to your agreements with [Company], without further notice to you. In addition to injunctive relief, [Company] will seek monetary damages and all costs or expenses, including attorneys' fees, incurred in enforcing this Agreement due to your violations. If you fail to comply with your duty to provide the Agreement to your future employer and provide satisfactory written confirmation to [Company] of such compliance, [Company] will exercise its right to do so pursuant to Page \_ of the Agreement.

The above is not an exhaustive statement of the relevant facts and law. [Company] expressly reserves all of its legal and equitable rights and remedies, including the right to seek injunctive relief and recover monetary damages, costs, and attorney's fees.

[Company] does not question your right to compete fairly with [Company]. However, the above-described conduct would be competing unfairly, and would result in serious damage to [Company], and a suit against you.

It is not [Company's] desire to create an adversarial relationship, but if you fail or refuse to comply with your obligations, [Company] will not hesitate to protect its interests and expend whatever resources are necessary to seek redress for your wrongful conduct.

[Company] trusts, moving forward, that you will honor your legal obligations, including those set forth in the Agreement. If you have any questions or concerns regarding this correspondence or your obligations to [Company], please contact me. If you are represented by legal counsel, please have your attorney direct any questions or concerns to me.

Sincerely,

[Name of Attorney]

TAB  
D

**NON-DISCLOSURE, NON-SOLICITATION  
AND NON-COMPETITION AGREEMENT**

This Non-Disclosure, Non-Solicitation and Non-Competition Agreement (the “Agreement”) is made and entered into on this \_\_\_\_ day of \_\_\_\_\_, 2017, by and between [Employer Name], a Texas [Entity Type] (“Employer”) and \_\_\_\_\_ (“Employee”).

WITNESSETH:

WHEREAS, Employer is engaged in the business of [describe Company’s business]; and

WHEREAS, Employer desires to employ Employee as an [position] and Employee desires to seek employment with Employer; and

WHEREAS, Employer will expend resources in training Employee and will provide Confidential Information (as defined below) to Employee; and

WHEREAS, Employee’s duties to Employer as [position] will include, among other things, [list duties, for example: interacting with Employer’s Customers, (as defined below), establishing relationships with Prospective Customers (as defined below), providing Employer’s products and services to Employer’s Customers, and managing Employer’s relationships with Employer’s Customers and Prospective Customers]; and

WHEREAS, Employee will play an important role as [position] in the development and maintenance of Employer’s Confidential Information and goodwill on behalf of Employer;

WHEREAS, as a condition precedent to employment with Employer, Employer requires Employee, and Employee has agreed, to enter into and execute this Agreement; and

WHEREAS, Employee agrees that the protections in this Agreement are reasonable and necessary to ensure that the confidentiality of Employer’s Confidential Information (as defined below) is adequately protected and that the goodwill Employer has developed in the relevant market is not damaged or compromised.

NOW THEREFORE, FOR VALUABLE CONSIDERATION, including but not limited to employment, continued employment; compensation; promotion; unique, extraordinary, and specialized development and training; access to certain of Employer’s Confidential Information, trade secrets and other proprietary information; and substantial knowledge of and relationships with Customers, the receipt and sufficiency of which is acknowledged, Employee agrees with Employer as follows:

1. **Definitions.** Whenever used in this Agreement, the following terms shall have the following respective meanings:

- (A) “Confidential Information” means each, every, and all written documentation (in whatever form stored), relating to or evidencing Employer’s:
  - i. Records and lists of Employer’s Customers and Prospective Customers (as defined below);

- ii. Accounts and records pertaining to Employer's Customers and Prospective Customers (as defined below) and suppliers;
  - iii. Programs, systems, processes and other products and/or services designed for Employer's customers;
  - iv. Schedules of fees or charges for Employer's products and services;
  - v. Financial information of the company, business plans and business strategies;
  - vi. Advertising or marketing plans and market studies;
  - vii. Goals, objectives and projections;
  - viii. Personnel information;
  - ix. Business practices, including, without limitation, Employer's proprietary sales practices and techniques;
  - x. Work product that is generated, developed, or obtained by any employee, including Employee, of Employer during the course and scope of such employee's employment with Employer;
  - xi. Computer software and programs; and
  - xii. Any other information known by Employee to be considered proprietary or maintained in confidence by Employer.
- (B) "Employer's Business" means [define Company's Business] and all development, programming, marketing, solicitation, and other routine practices incidental to such business operations.
- (C) "Directly or Indirectly" means to do an act oneself or to assist another person or entity in doing an act.
- (D) "Compete" means to means (1) to perform or attempt to perform tasks or duties on behalf or at the direction of a Competitor (as defined below) that are substantially similar to the tasks or duties Employee performs on behalf or at the direction of Employer, or (2) to perform or attempt to perform exclusively for the pecuniary benefit of Employee tasks or duties that are substantially similar to the tasks or duties Employee performs on behalf or at the direction of Employer.
- (E) "Employer's Customers" means the persons or entities that are identified as customers of Employer in any written or electronic records of Employer.
- (F) "Competitor" means any person, firm, corporation, association or other form of entity that engages in Employer's Business.



- (G) “Market Area” means that geographic area that is within thirty (30) miles of the city limits of [Address] (Employer’s current place of business) or Employer’s place of business at the time of Employee’s termination from employment with Employer.
- (H) “Customer’s Market Area” means the geographic area that is within a one (1) mile radius of Employer’s Customer’s or Employer’s Prospective Customer’s principal place of business or Employer’s Customer’s place of business in which the Employee conducted Employer’s Business with Employer’s Customers or Prospective Customers while employed by Employer.
- (I) “Prospective Customer” means any person or entity to whom Employer makes business proposals with Employee’s participation during Employee’s employment with Employer.

2. **Non-Disclosure of Confidential Information.** Employer agrees to provide to Employee some or all of the Confidential Information. Employee acknowledges that the Confidential Information constitutes valuable, secret, special, and unique assets of Employer. Employee agrees that Employee will not disclose the Confidential Information to any person or entity for any reason or purpose without the express written approval of Employer, and will not use the Confidential Information except in furtherance of Employee’s duties to Employer. In the event the laws of the State applicable to the enforcement of this Paragraph impose a reasonable time limitation, the period shall be deemed to be the term of Employee’s employment with Employer and for twenty-four (24) months thereafter.

3. **Ownership and Return of Confidential Information.** Any Confidential Information that is furnished to Employee by Employer, used by Employee on Employer’s behalf, or generated, developed, or obtained by Employee during the course of Employee’s employment with Employer, shall be and remain the property of Employer. Employee acknowledges that this information is confidential and is not readily accessible to Employer’s Competitors, and Employee agrees to undertake reasonable measures to safeguard the secrecy of the information. Measures to safeguard the secrecy of Confidential Information shall be considered “reasonable” if they are at least commensurate with those measures that a reasonably prudent business person would undertake under the same or similar circumstances. Upon termination of Employee’s engagement with Employer, Employee shall immediately deliver to Employer or its authorized representative all Confidential Information, including physical and electronic copies, remaining in Employee’s possession, custody, or control.

4. **Ownership of Intellectual Property.** The parties agree that all patents, copyrights, or trademarks relating to any work product Employee develops or participates in developing in the course and scope of his duties to Employer shall be the sole and exclusive property of Employer. Employee agrees to cooperate with Employer and to execute such documents as are reasonably necessary to effectuate Employee’s assignment of his rights to any such patents, copyrights, or trademarks to Employer. Employee further agrees to assist Employer in every reasonable way in any lawsuits Employer files against third parties to enforce its rights under any such patents, copyrights or trademarks. Employee’s obligations under this paragraph shall survive termination of Employee’s engagement with Employer. Upon termination of Employee’s engagement with Employer, Employee shall immediately deliver to Employer or its authorized representative all of Employer’s Intellectual Property, including physical and electronic copies, remaining in Employee’s possession, custody, or control.

5. **Notice:** Theft of a trade secret can subject you to civil liability, damages, exemplary damages, and attorney's fees under the Texas Uniform Trade Secrets Act and the federal Defend Trade Secrets Act. TEX. CIV. PRAC. & REM. CODE §§ 134A.001-.008; 18 U.S.C. §§ 1831-36. Additionally, theft of a trade secret is a crime under Texas Penal Code § 31.05 and the Federal Economic Espionage Act of 1996, 18 U.S.C. § 1832. However, an individual shall not be held criminally or civilly liable under any Federal or State trade secret law for the disclosure of a trade secret that is made: (1) in confidence to a Federal, State, or local government official or to an attorney solely for the purpose of reporting or investigating a suspected violation of law, or (2) in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. An individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding if the individual files any document containing the trade secret under seal and does not disclose the trade secret, except pursuant to court order.

6. **Non-Solicitation of Employer's Customers.** Beginning on the date of execution of this Agreement and continuing for a period ending two (2) years following the termination (whether voluntary or involuntary) of Employee's employment with Employer, Employee agrees not to Directly or Indirectly conduct Employer's Business within the Market Area with any of Employer's Customers or Prospective Customers for the benefit of Employee or for the benefit of any Competitor.

7. **Agreement Not to Compete.** Beginning on the date of execution of this Agreement and continuing for a period of one (1) year following the termination (whether voluntary or involuntary) of Employee's employment with Employer, Employee agrees not to Directly or Indirectly Compete with Employer within the Market Area. Employee also agrees that during Employee's employment with Employer, Employee will not engage in any activities in furtherance of any intention of Employee to Directly or Indirectly Compete with Employer.

8. **Statutory Enforcement.** The covenants contained in Paragraphs 5 & 6 above are entered into between Employer and Employee with express reference to 15.50 - 15.52, Texas Business and Commerce Code, as now existing or hereafter amended. Employer and Employee intend for the covenants to be enforceable under those statutory provisions, and if any provision of the Agreement is determined by a court of competent jurisdiction to be void, illegal or unenforceable, in whole or in part, all other provisions will remain in full force and effect, as if the void, illegal, or unenforceable provision is not part of the Agreement. Employee agrees that the restrictions imposed upon Employee and the rights and remedies conferred upon Employer are: reasonable in time, territory and scope and designed to eliminate competition which would otherwise be unfair to Employer, are fully required to protect the legitimate business interests of Employer, and do not confer a benefit upon Employer disproportionate to the detriment of Employee.

9. **Termination of Employment with Employer.** Upon termination of Employee's employment or business relationship with Employer, Employee agrees and understands that the obligations set forth in this Agreement will survive.

10. **Conflicting Obligations and Rights.** Employee agrees to inform Employer in writing on Exhibit A-1 hereto of any apparent conflict between Employee's work for Employer and any obligations Employee may have to preserve the confidentiality of another's proprietary information or materials. Otherwise, Employer may conclude that no such conflict exists and Employee agrees thereafter to make no such claim against Employer.

11. **Subsequent Employment of Employee.** Employee agrees that prior to accepting any employment by, or association with a Competitor, Employee will notify any such Competitor of the existence and terms of this Agreement, and shall furnish such person or entity with a copy of this Agreement. Upon request by Employee or the Competitor, Employer will provide a copy of this Agreement to the Competitor.

12. **Non-Solicitation of Other Employees.** Beginning on the date of execution of this Agreement and continuing for a period ending two (2) years following termination (whether voluntary or involuntary) of Employee's employment with Employer, Employee agrees not to Directly or Indirectly solicit or hire any of Employer's employees to work for (a) Employee in the Employer's Business or (b) for a Competitor.

13. **Disclosure of this Agreement.** Employee agrees that Employer may communicate the terms of this Agreement to any of Employer's Customers or Prospective Customers or to any Competitor if Employer reasonably believes Employee is engaged in conduct that could be a breach of this Agreement or if such Customer, Prospective Customer, or Competitor inquires as to the existence of this Agreement; and Employer shall incur no liability to Employee by reason of disclosure of the terms of this Agreement to any person to whom disclosure is authorized by this paragraph.

14. **Tolling.** Employee agrees that during any period in which Employee is in breach of the covenants contained in these Paragraphs 5, 6 and 11, the time period of such covenants shall be extended for an amount of time equal to the period in which Employee is in breach thereof. Employee further acknowledges and agrees that if Employee violates any covenant contained in these Paragraphs 5, 6 and 11 and Employer brings legal action for injunctive or other relief, Employer shall not, as a result of the time involved in obtaining the relief through litigation, be deprived of the benefit of the full period of any covenant. Accordingly, the covenants of Employee contained in these Paragraphs 5, 6 and 11 shall be deemed to have duration as specified above, which periods shall commence upon the later of (i) the ending date above stated or (ii) the date of entry by a court of competent jurisdiction of a final judgment enforcing the covenants of Employee set forth in these Paragraphs 5, 6 and 11.

15. **Breach of this Agreement.** In the event of breach of any of the provisions of this Agreement, Employer shall be entitled to injunctive relief as well as any other applicable remedies at law or in equity. Employee acknowledges that in the event of a breach of this Agreement by Employee, monetary damages alone would be inadequate to compensate Employer. This Agreement shall inure to the benefit of any successor in interest of Employer by way of merger, consolidation, or other similar succession.

16. **Identical Counterparts.** This Agreement may be executed in a number of identical counterparts, each of which shall be deemed an original for all purposes and all of which shall be construed together as comprising a single document.

17. **Waiver/Modification.** No waiver or modification of this Agreement shall be valid unless in writing and duly executed by Employer.

18. **Attorneys' Fees.** If any litigation arises to enforce or construe this Agreement, the prevailing party shall be entitled to an award of reasonable attorneys' fees, and costs. In the event a

court enforces this Agreement, whether as written or as reformed by the Court, the Employer shall be deemed the prevailing party for purposes of this section.

19. **Entire Agreement.** This Agreement contains the entire agreement between the parties. Any prior agreement between the parties with respect to the subject matter of this Agreement shall be of no further force and effect.

20. **Severability.** Should any term or provision of this Agreement be declared invalid by a court of competent jurisdiction, the parties agree that all other terms of this Agreement are binding and have full force and effect as if the invalid portion has not been included.

21. **Choice of Law/Choice of Venue.** This Agreement shall be interpreted in accordance with the laws of the State of Texas and venue for any action in a court of law or equity respecting any aspect of this Agreement will be exclusively in \_\_\_\_\_ County, Texas.

22. **Survivability.** This Agreement shall be binding upon and inure to the benefit of the parties, and their respective personal representatives, heirs, successors, and assigns.

23. **Notices.** Unless a party provides written notice of an alternative address or e-mail address, any notices required or permitted to be given under this Agreement shall be sufficient if in writing and if sent by certified mail, hand-delivery, or electronically to:

**For Employer**

**For Employee**

[Company Name]  
 Attn: [Company Representative]  
 [Address]  
 [Email]

\_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_  
 \_\_\_\_\_

23. **Acknowledgment of Employee: EMPLOYEE HAS CAREFULLY CONSIDERED AND AGREES THAT THE PROVISIONS OF THIS AGREEMENT ARE FAIR, REASONABLE, AND NOT UNDULY RESTRICTIVE ON EMPLOYEE, AND EMPLOYEE HAS HAD AN OPPORTUNITY TO OBTAIN LEGAL ADVICE BEFORE AGREEING TO THESE TERMS AND HAS ENTERED INTO THIS AGREEMENT VOLUNTARILY WITHOUT ANY DURESS OR COERCION.**

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first above written,

**[Company Name]**

**EMPLOYEE**

By: \_\_\_\_\_

\_\_\_\_\_

Print Name: \_\_\_\_\_

Print Name: \_\_\_\_\_

Title: \_\_\_\_\_

**EXHIBIT A-1****NOTICE BY EMPLOYEE**

Please specify any obligations Employee may have to preserve the confidentiality of another's proprietary information or materials **here: (if none, please write "none" and initial bottom of page)**.