I. INTRODUCTION

This paper discusses a common business tort: misappropriation of trade secrets by departing employees or other agents. A trade secret may be any information that can be used to economic advantage. However, to be entitled to trade secret protection, such information must be maintained as a secret. Valuable proprietary information can be lost when employees or other agents depart to a competitor. Accordingly, protection of such proprietary information must begin at the onset of the employee’s or agent’s employment and continue throughout the employment. Protection and enforcement of trade secrets is discussed for various jurisdictions with an emphasis on recent cases in California and Texas.

II. MISAPPROPRIATION OF TRADE SECRETS BY DEPARTING EMPLOYEES OR OTHER AGENTS

Most states have adopted some form of the Uniform Trade Secret Act (UTSA), however, Massachusetts, New Jersey, New York and Texas have not adopted the Act. A few states including Texas and New York refer to the Restatement of Torts.

Preliminary injunctions may be obtained in special circumstances to prevent irreparable harm to the trade secret owner. Examples of recent preliminary junction cases in California and Texas are discussed below.

A. California

Like most states, California has adopted the Uniform Trade Secrets Act. See California Uniform Trade Secrets Act, CAL. CIV. CODE §§ 3426 et seq. Under the California Uniform Trade Secrets Act,

(b) “Misappropriation” means: (1) 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; or (2) Disclosure or use of a trade secret of another without express or implied consent by a person who: (A) Used improper means to acquire knowledge of the trade secret; or (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was: (i) Derived from or through a person who had utilized improper means to acquire it; (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (iii) Derived from or through a person who owed a
duty to the person seeking relief to maintain its secrecy or limit its use; or (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

‗Trade secret‘ means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and

(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

See § 3426.1(b) and (d); see also ReadyLink Healthcare v. Cotton, 24 Cal. Rptr.3d 720, 727-28 (Cal.Ct.App. 2005).

In ReadyLink, the plaintiff was a licensed healthcare service provider with a nurse staffing division, which provided healthcare facilities and professionals with nurses. See ReadyLink, 24 Cal.Rptr.3d at 723. The plaintiff recruited, interviewed and hired nurses as its own employees and assigned them to its customer healthcare providers who requested nurses. Id. The plaintiff invested time, money and effort in developing its database of nurses and healthcare provider customers. Id. at 723-24. The database was used to recruit nurses and to service its clientele. Id. at 723.

The plaintiff also employed a sales force to recruit nurses, secure new business and service existing customers. See ReadyLink, 24 Cal.Rptr.3d at 724. Plaintiff hired the defendant, and, about 6 months later, it moved him into a nurse recruiting agent position. Id. The defendant signed 1) upon his employment, an employment agreement and an employee confidentiality, non-disclosure and non-circumvention agreement; and 2) upon his move into the nurse recruiting agent position, an agent agreement and another proprietary and confidential information, non-disclosure and non-circumvention agreement. Id.

About 14 months later, the plaintiff fired defendant for stealing company records containing proprietary and confidential information. See ReadyLink, 24 Cal.Rptr.3d at 724. While employed with the plaintiff, the defendant was caught on videotape entering company private offices at night and copying payroll practices, confidential documents and notes. Id. The defendant authorized a search of his residence and storage locker. Id. During the search, the police recovered 1-2 boxes of plaintiff’s stolen documents. Id. Although the police investigated the theft, the defendant was not criminally prosecuted. Id.

Upon termination of his employment, the defendant signed a declaration acknowledging 1) his misappropriation and improper use of plaintiff’s proprietary and confidential information, 2) his attempt to form his own company in competition with plaintiff, and 3) his improper solicitation of plaintiff’s employees to staff his company and investors to finance his company. See ReadyLink, 24 Cal.Rptr.3d at 724. A mere two weeks after his termination, the defendant began working at Registry Network, a competitor, despite agreeing in his declaration to not be employed at any other healthcare staffing company. Id. The plaintiff brought suit against defendant and Registry Network for, inter alia, violating the California Uniform Trade Secrets Act, alleging defendant stole confidential information regarding the
company’s finances, clients, employee contacts, payroll practices and business methods.\footnote{After plaintiff notified Registry Network of the defendant’s theft of its confidential and proprietary information, Registry Network terminated the defendant’s employment. \textit{Id.} at 725.} \textit{Id.} at 724-25. The plaintiff requested injunctive relief, as well as damages, prohibiting the defendant from disclosing the plaintiff’s proprietary information to Registry Network and from soliciting plaintiff’s employees and customers. \textit{Id.} at 725. The trial court granted a preliminary injunction. \textit{Id.}

Upon interlocutory appeal, the defendant contended that the trial court abused its discretion in granting the preliminary injunction. \textit{See ReadyLink}, 24 Cal.Rptr.3d at 722 & 726. The Court of Appeals affirmed the preliminary injunction order, as modified. \textit{Id.} at 723 & 730. The Court stated:

\begin{quote}
\textit{...in deciding whether to issue a preliminary injunction, a trial court weighs two interrelated factors: the likelihood the moving party ultimately will prevail on the merits, and the relative interim harm to the parties from the issuance or nonissuance of the injunction.}
\end{quote}

\textit{Id.} at 726-27 (quoting Whyte v. Schlage Lock Co., 101 Cal.App.4th 1443, 1449-50, 125 Cal.Rptr.2d 277 (Cal.Ct.App. 2002)) (emphasis added). The Court found ample evidence supporting the trial court’s finding that plaintiff would likely prevail on its misappropriation of trade secrets claim:

\begin{enumerate}
\item in defendant’s declaration upon termination, the defendant admitted that he misappropriated proprietary and confidential information from plaintiff, and that a disclosure of such information violated local, state, and federal law, and he also admitted that, as a consequence of misappropriating such information, it would not be possible for him to engage in the healthcare staffing business without indirectly or inadvertently using or disclosing such information;
\item in plaintiff’s declarations supporting the injunction, plaintiff presented overwhelming evidence that the defendant intended to start his own nurse staffing business in competition with plaintiff using plaintiff’s trade secret information, and that he solicited plaintiff’s employees and nurses using plaintiff’s proprietary and confidential information such as plaintiff’s databases containing lists of nurses, employees, and healthcare facility customers, compilations of compensation, employment preferences, contact information, nurse applications and tests, and plaintiff’s per diem program;
\item the supporting declarations sufficiently establish that plaintiff’s trade secret information has potential economic value because the plaintiff went to great expense to compile the data, and that the information would enable a competitor to recruit nurses and employees away from the plaintiff; and
\item the defendant entered into two employment agreements in which he agreed not to use or disclose plaintiff’s proprietary and confidential information.
\end{enumerate}

\textit{Id.} at 728. Therefore, “it is reasonably likely that the plaintiff will prevail on its misappropriation claims.” \textit{Id.} at 730.

After finding that the plaintiff would likely prevail on its trade secrets misappropriation claims, the Court reviewed the relative interim harm to the parties from the issuance or nonissuance of the
injunction, and found ample evidence that defendant posed a threat to plaintiff’s business operations at the
time of the injunction hearing, including:

(1) the defendant intended to create his own competing business, and he had taken significant
steps to carry out his business plan, even though he had agreed not to commit such illicit
acts;

(2) shortly before his termination, the defendant was caught on videotape stealing plaintiff’s
documents, and a search of his home and computer revealed he had misappropriated
plaintiff’s documentation and information;

(3) the defendant acknowledged he misappropriated proprietary and confidential
information, and he solicited plaintiff’s employees and nurses using the information even
though he had agreed not to use or disclose the information; and

(4) right after leaving plaintiff, the defendant secured a job at a competitor and continued
soliciting plaintiff’s employees and customers using plaintiff’s proprietary information,
while simultaneously pursuing his plan of creating his own healthcare staffing business.

*Id.* at 732. Because the plaintiff also satisfied the irreparable harm requirement, the Court affirmed the
preliminary injunction order, as modified. *Id.* at 734.

California companies should guard the secrecy of their proprietary and confidential information
by marking confidential documents as “confidential to company” and storing original documents in a
vault, limiting access to information on its internal computer system to persons with appropriate system
identification and passwords, requiring persons entering the company premises to identify themselves and
to wear a badge, checking materials in and out of the premises, and using confidentiality agreements with
employees upon employment and, again, upon reassignment to another position.

For particularly sensitive information, companies should use video cameras to record activity in
areas where confidential information is kept, or where copiers are located. If an employee is caught
stealing such information, the employer should require the employee to sign a declaration admitting to
wrongdoing and agreeing to non-compete provisions upon termination.

California employees should avoid accessing their employer’s proprietary and confidential
information without its express or implied consent to do so.

**B. Texas**

Texas—like New York—has not adopted the UTSA—it applies common law referring to the
Restatement (First) of Torts. To establish misappropriation of trade secrets, a plaintiff must show:

(1) existence of trade secret;

(2) trade secret was acquired through a breach of a confidential relationship or was
discovered by improper means; and

(3) defendant used the trade secret without the plaintiff’s authorization.
See IAC, Ltd. v. Bell Helicopter Textron, Inc., 160 S.W.3d 191, 197 (Tex.App. –Fort Worth 2005). Texas courts have adopted the definition of a trade secret from the commentary to Section 757 of the Restatement of Torts:

Any formula, pattern, device or compilation of information which is used in one’s business and presents an opportunity to obtain an advantage over competitors who do not know or use it.

See IAC, 160 S.W.3d at 197 (quoting In re Bass, 113 S.W.3d 735, 739 (Tex. 2003)); see also RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939). To determine whether information is entitled to trade secret protection, courts consider the Bass factors:

1. the extent to which the information is known outside the holder’s business;
2. the extent to which it is known by employees and others involved in the holder’s business;
3. the extent of the measures taken by the holder to guard the secrecy of the information;
4. the value of the information to the holder and its competitors;
5. the amount of effort or money expended by the holder in developing the information; and
6. the ease or difficulty with which the information could be properly acquired or duplicated by others.

See IAC, 160 S.W.3d at 197-98 (citing In re Bass, 113 S.W.3d at 739); see also RESTATEMENT (FIRST) OF TORTS § 757, cmt. b.

In IAC, plaintiff was in the helicopter design and manufacture business. See IAC, 160 S.W.3d at 196. The defendants were in the helicopter maintenance and service business, and were trying to be in the helicopter replacement blade business. Id. In 2001, Jim Van Horn formed Van Horn Aviation, LLC to develop a 206B replacement blade. Id. Randy Stevens, principal of IAC, Ltd., agreed to manufacture and market the replacement blade. Id. At the time, IAC, Ltd. was a customer service facility (CSF) for the plaintiff. Id. As a CSF, IAC, Ltd. received proprietary data relating to the plaintiff’s 206B rotor blade. Id. Stevens agreed to use the proprietary data disclosed by plaintiff solely for the purpose of repairing plaintiff’s helicopters. Id.

Knowing that plaintiff’s OH-58 blade is similar to its 206B blade, Van Horn purchased a Depot Maintenance Work Report (DMWR) for plaintiff’s OH-58 helicopter from Newport Aeronautical Sales. Id. Van Horn used the OH-58/206B contour and twist data and 206B sealants and adhesives for the replacement blade. Id. at 197. When the plaintiff learned that defendants were making a replacement blade, it sued for, inter alia, misappropriation of trade secrets, and theft of trade secrets. Id. The trial court granted a temporary restraining order, and, about two months later, a temporary injunction. Id.

Upon interlocutory appeal, the defendants contended that, inter alia, the trial court erred in granting the temporary injunction. See IAC, 160 S.W.3d at 197. The Texas Court of Appeals affirmed the temporary injunction. Id. at 203. The Court of Appeals stated:
To be entitled to a temporary injunction, the applicant must plead a cause of action and show a probable right to recover on that cause of action and a probable, imminent, and irreparable injury in the interim…

Id. at 197 (internal citations omitted) (emphasis added). The Court found that the plaintiff’s evidence, when viewed in light of the Bass factors, supported the trial court’s finding that the 206B data that plaintiff disclosed to IAC, Ltd. and the DMWR obtained by Van Horn are entitled to trade secret protection at least until a trial on the merits. Id. at 198. With respect to the 206B data, the plaintiff produced evidence showing the measures it takes to guard the secrecy of the data, the amount of effort plaintiff expended in developing the data, the data's value, and the difficulty with which the data could be duplicated by others:

1. plaintiff guards the secrecy of its data by storing the originals of its drawings and specifications in a vault, posting security guards at its plants, requiring persons entering the plant to identify themselves and wear identification badges, checking material going in and out of the plant, limiting access to data on its internal computer system to persons with appropriate system identification and passwords, and using confidentiality agreements with its vendors to whom it supplies proprietary data;

2. one of plaintiff’s engineers testified that thirty to forty thousand hours were required to develop the design of the blade, and another thirty to forty thousand hours were needed to develop techniques for its production;

3. one of plaintiff’s sales and marketing employees estimated that the replacement blade market was worth approximately twelve million dollars a year; and

4. expert testimony showed that it would not be possible to duplicate the blade specifications with the necessary degree of precision through reverse engineering.

Id. at 198. With respect to the DMWR, the plaintiff produced evidence of the measures it takes to protect the secrecy of the data contained in the DMWR and the extent to which the information is known outside of plaintiff’s business:

1. plaintiff showed that the DMWR was created using plaintiff’s drawings that would have been marked “confidential to Bell” and that the DMWR stated on its face that it was not available through Attorney General publication centers; and

2. plaintiff’s evidence also revealed that the drawings used to create the DMWR were not available through a Freedom of Information Act (FOIA) request, and that Newport Aeronautical, Van Horn’s alleged source of the DMWR, provided the DMWR only on a “need to know basis” and did not provide electronic access to it.

Id.

The Court also found that the plaintiff’s evidence supported the trial court’s finding that the defendant acquired the 206B data and DMWR through a breach of a confidential relationship or discovered it by improper means. See IAC, 160 S.W.3d at 199. With respect to acquiring the information through a breach of a confidential relationship, the plaintiff produced evidence of IAC, Ltd.’s probable breach of the confidential relationship with the plaintiff to obtain the 206B data:
several witnesses testified, and plaintiff’s Customer Service Facility Agreement showed, that plaintiff disclosed 206B data to IAC, Ltd. so that IAC, Ltd. could repair plaintiff’s helicopters;

IAC, Ltd. had an obligation to keep the plaintiff’s data confidential pursuant to a confidentiality agreement;

Stevens, the president of IAC, Ltd., was a partner with Van Horn in the defendant’s 206B replacement blade project;

IAC, Ltd. kept the 206B data in its library, and Van Horn had access to the data; and

the contour and twist data for the 206B blade is identical to that for the replacement blade.

Id. With respect to acquiring the information through improper means, the plaintiff also produced evidence of Van Horn’s likely improper means to obtain the DMWR:

the DMWR was not available through Attorney General publication centers;

the drawings upon which the DMWR was based were not available through a FOIA request; and

Newport Aeronautics provided the DMWR only on a “need to know” basis.

Id.

In addition, the plaintiff produced some evidence that defendant used the 206B data and DMWR without the plaintiff’s authorization:

the defendants used contour and twist data contained in both the 206B data disclosed to IAC, Ltd. and the DMWR and that they used primer and adhesive specifications present in the 206B data;

Van Horn created his certification plan to submit to the Federal Aviation Administration for the 206B project on the same day he purchased the DMWR;

IAC, Ltd.’s was expressly prohibited from using the 206B data pursuant to a confidentiality agreement, and Van Horn was not authorized to use the data in the DMWR.

Id. at 199-200. “Because [plaintiff] presented some evidence to support each element of its trade secret misappropriation claim, it has shown a probable right to recover under this cause of action.” Id. at 200.

After finding that the plaintiff would probably recover on its trade secrets misappropriation claim, the Court reviewed whether the plaintiff met its burden of showing that a probable, imminent, and irreparable injury would result before trial in the absence of a temporary injunction. See IAC, 160 S.W.3d at 200. Plaintiff’s evidence showed that the defendants had possession of plaintiff’s data entitled to trade secret protection and they were actively using that information to compete with plaintiff in the
replacement blade market. *Id.* Further, plaintiff’s evidence also showed that defendant’s replacement blades were going to be available for shipment around June 15, 2004 and would be priced lower than plaintiff’s blade:

[Plaintiff’s] Executive Director of Integrated Product Solutions testified that the creation of a lower-priced 206B replacement blade market would undermine the goodwill that Bell has with its clients, leading to an incalculable loss of business goodwill.

*Id.* at 200. Because the plaintiff also satisfied the imminent and irreparable injury requirement, the Court held that the trial court did not abuse its discretion by granting the temporary injunction. *Id.*

Texas companies should guard the secrecy of their proprietary and confidential information by marking confidential documents as “confidential to company” and storing original documents in a vault, limiting access to information on its internal computer system to persons with appropriate system identification and passwords, requiring persons entering the company premises to identify themselves and to wear a badge, checking materials in and out of the premises, and using confidentiality agreements with employees and vendors. For particularly sensitive information, companies should use video cameras to record activity in areas where confidential information is kept, or where copiers are located.

Texas vendors, that are subject to a confidential agreement, should guard the secrecy of the other party’s confidential information as discussed above.

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