TEXAS LITIGATION SOLUTIONS

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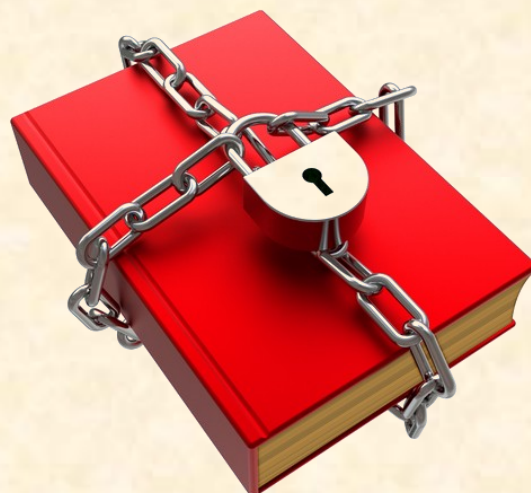## TRADE SECRETS: PROTECTING YOUR INFORMATION

Many of the world's most successful businesses establish and maintain industry strength through the careful protection of some secret formula, method, design, or information that provides them an economic advantage over their competitors. Such "trade secrets" must be unknown generally and remain unascertainable through reasonable investigation. Of course, the problem with trade secrets is that a certain number of personnel must know and use them in order for them to remain advantageous, and the greater the number of employees with access to a secret, the greater the chances the secret will become public, either through negligence or deliberate action. While the law provides some protection for businesses whose employees choose to disclose confidential and proprietary information, there are steps businesses can take to increase the chances their secret information remains secret.

Non-competition Agreements

Many businesses look toward non-competition agreements, or covenants not to compete, to safeguard their proprietary information in the event former employees attempt to use that information for competitive purposes. The problem with such agreements lies in their enforceability. In Texas, covenants not to compete are unenforceable unless they are ancillary to or part of an otherwise enforceable agreement and contain reasonable limitations as to time, geographical area, and scope of activity. In addition, such agreements are unlikely to be enforced unless an employer is able to show the harm it will suffer **(Continued page 2)**

BHDA CLIENT PREVAILS IN RECENT CASE

On March 9, 2011, The United States Court Of Appeals for the Fifth Circuit entered its decision in a case entitled El Paso Apartment Association, et al v. City of El Paso and Edmund Archuleta. The Fifth Circuit affirmed Judge David Briones' granting of a summary judgment in favor of the City of El Paso and Edmund Archuleta, the CEO of El Paso Water Utilities' Public Service Board. In the lower court, the El Paso Apartment Association had challenged the stormwater drainage fee assessed on their properties, arguing that the fee violated the Equal Protection Clause of the Fourteenth Amendment and was an unconstitutional occupation tax under Texas law. In affirming the lower court's granting of summary judgment, the Fifth Circuit held that the Equal Protection Clause of the Fourteenth Amendment was not violated and stormwater drainage fees are not unconstitutional occupation taxes under Texas law.

TRADE SECRETS (CONT'D)

as a result of non-enforcement and that enforcement will not unreasonably burden the former employee's basic right to practice a profession or trade or otherwise make a living.

It is important to note that the more specialized the knowledge required for a position, the easier it is to demonstrate the need to limit competition, and, conversely, the more general the knowledge required, the more difficult it is to show the need for protection. In addition, the Texas Supreme Court has held that the "otherwise enforceable agreement" criterion for enforceability of a covenant not to compete can be met where an employer makes an executory promise (i.e., a promise the employer intends to fulfill in the future) in conjunction with an at-will employment agreement if the employer performs the promise it made when securing the covenant not to compete. *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644, 655 (Tex. 2006). In other words, if an employer promises an employee ac-

cess to certain proprietary information at the time of the employment agreement and subsequently provides such access, any covenant not to compete ancillary to or part of the agreement can be judicially enforced. Nonetheless, it is important to remember that, as a general rule, non-competition agreements are not as easy to enforce as non-disclosure or confidentiality agreements, which specifically limit the types of confidential information or trade secrets an employee may share with third parties.

Employees' Fiduciary Duty

Simply stated, a fiduciary duty is an obligation to act in the best interests of another party. An employee owes his or her employer a fiduciary duty, which means the employee is obligated to act primarily for the benefit of his or her employer in matters related to employment. Among other things, an employee's fiduciary duty includes an obligation not to disclose the employer's confidential and proprietary information. This fiduciary duty extends beyond an employee's resignation, meaning that a former employee may not use any con-

fidential or proprietary information acquired during the employment relationship in a manner adverse to his or her former employer.

Although it is clear that a former employee who is not subject to an enforceable non-competition agreement is free to compete with his or her former employer, the courts have acknowledged limits on such competition, including restrictions applicable to employees who are still working for their employers. For example, an employee may not solicit his or her employer's customers or solicit the departure of other employees while still working for the employer. Employees are also prohibited from appropriating their employers' trade secrets or taking with them confidential information, including customer lists. An employee engaging in any of these actions breaches the fiduciary duty owed to his or her employer.

Some Final Thoughts

Of course, businesses may not feel entirely comfortable relying exclusively on judicially developed protections from the type of competitive tactics previously mentioned. In addition to non-competition agreements, which are subject to

the limitations on enforceability stated above, an employer may elect to address potential conflicts of interest and the issue of trade secrets via contract, by having each employee involved sign a clearly worded written agreement in which he or she promises not to take certain actions and agrees he or she will pay damages in

"...an employee's fiduciary duty includes an obligation not to disclose the employer's confidential and proprietary information."

the event he or she breaches the agreement. If an employer chooses to have an employee sign such an agreement, the employer should also make certain that its policy handbook explains what is expected of employees with regard to trade secrets and conflicts of interest. No matter which approach an employer takes, trade secrets or other confidential and proprietary information must be protected.

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Brad Young is a litigation partner in the Austin office of Bickerstaff Heath. Brad handles cases in all areas of the firm litigation practice, including commercial litigation, employment and civil rights actions, and all areas of public law. Brad is also the City Attorney for the City of Granite Shoals and the Municipal Prosecutor for the City of Bee Cave.

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