

**ADVISING DEPARTING EMPLOYEES ON  
AVOIDING CLAIMS OF THEFT OF TRADE  
SECRETS/CONFIDENTIAL INFORMATION**

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# ADVISING DEPARTING EMPLOYEES ON AVOIDING CLAIMS OF THEFT OF TRADE SECRETS/CONFIDENTIAL INFORMATION

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## I. Introduction

Most employees who depart from one employer to join another have every intention of leaving in a proper and lawful manner. Nevertheless, because very few employees seek and obtain counseling on what is permitted/forbidden during departure, it is not uncommon for an employee to make wholly innocent, but devastating, mistakes in connection with his/her departure—mistakes that may result in the employee being sued or, worse, losing his/her new job. Therefore, it is critical that an employee seek the advice and counsel of an experienced employment lawyer before undertaking efforts to leave an employer.

One of the most common mistakes made by a departing employee is the intentional or inadvertent removal of materials that contain the former employer's confidential information or trade secrets. This often happens because the employee wrongfully believes that the fruits of his/her work efforts belong jointly to the employee and the employer. In point of fact, however, as a general principle, the work done by the employee for the employer belongs to the employer. Indeed, because the employer paid the employee to render the work, the employer owns the work, and this includes the material that was created in connection with the work. And the employer has the right to restrict the departing employee from taking the fruits of his/her work—a/k/a the employer's confidential information or trade secrets—to a new employer.

To be safe, an employee should assume that almost all of the material he/she works on at his/her place of business belongs to the current employer. This assumption includes materials in paper and electronic form, as well as information stored in the employee's head. This assumption is, of course, overbroad, but acting cautiously is the best piece of advice that an attorney can give a departing employee/client.

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This paper will take a brief look at what an employer must show in order to prevail in a claim of misappropriation of trade secrets and/or confidential information. Thereafter, the paper will provide a checklist of things that an employee and his/her counsel should consider in order to minimize the possibility that the employee will be sued upon his/her departure.

## **II. Brief Overview of the Law**

To succeed on a claim for misappropriation of trade secrets, a plaintiff must show that (1) a trade secrets exists; (2) the defendant breached a confidential or contractual relationship it had with the plaintiff or improperly acquired the trade secret; and (3) the defendant disclosed or used the trade secret without authorization from the plaintiff. *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 769, 776, cert. denied, 358 U.S. 898 (1958).

Under the law of most states, a “trade secret” is “any formula, pattern, device, or compilation of information which is used in one’s business and presents an opportunity to obtain an advantage over competitors who do not know or use it.” *Id.* at 776. To determine whether information constitutes a trade secret, courts consider a non-exhaustive list of factors: (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by the owner of the information to guard its secrecy; (4) the value of the information to the owner and his competitors; (5) the resources expended by the owner in developing information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *In re Bass*, 113 S.W.3d 735, 738-40 (Tex. 2003).

The party claiming a trade secret need not satisfy all six factors because trade secrets do not fit neatly into each factor every time. *Id.* at 740. The status of information claimed as trade secret must be determined by evaluating any of these relevant factors, including the value, secrecy and definiteness of the information, as well as evaluating the nature of defendant’s misconduct. *Sharma v. Vinmar Int’l, Ltd.*, 231 S.W.3d 405, 425 (Tex. App. –Houston [14th Dist.] 2007, no pet.). Moreover, when deciding whether to grant or deny a temporary injunction in a lawsuit alleging the existence of trade secrets, “a trial court does not determine whether the information sought to be protected is, in law and fact, a trade secret; rather, the trial court determines whether the applicant has established that the information is entitled to trade secret protection pending the trial on the merits.” *Id.* at 424.

Applying these standards, courts have found that trade secrets encompass a wide variety of information, including future product development plans, product modeling and pricing strategies, customer information, potential projects, know-how, manufacturing processes and procedures, and technical information and drawings. See, e.g., *Conley*, 1999 WL 89955, at \*8-9 (future software development plans, modeling, and

pricing); *Rugen*, 864 S.W.2d at 552 (identities of clients, prospective clients, potential projects, and pricing information).

It is well established under the law of most states that injunctive relief is a proper remedy to protect against the misappropriation of confidential information and trade secrets. *See, e.g., K&G Tool & Serv. Co. v. G&G Tool Serv.*, 314 S.W.2d 782, 787-88 (Tex. 1958); *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 211 (Tex. Civ. App.—Dallas, 1973, writ ref'd n.r.e.). Indeed, courts routinely grant injunctions in actions for misappropriation of trade secrets based on the improper use and disclosure of trade secrets and other confidential and proprietary business information. *See, e.g., K&G Tool*, 314 S.W.2d at 787-88. As prescribed by one court of appeals in Texas, “[f]ull and complete protection must be given against breach of faith and reprehensible means of learning another’s secret.” *Elcor*, 494 S.W.2d at 212. This protection often takes the form of an injunction.

It is well established that a former employee may not use or disclose his former employers’ trade secrets to a competitor. *See Hyde*, 314 S.W.2d at 776. In some cases and in some states, however, even without direct proof of the employee’s misappropriation of trade secrets and confidential information, the former employer may be able to allege a viable cause of action against the former employee. Indeed, courts in many jurisdictions have not only enjoined former employees from actually disclosing or using trade secrets, but have also enjoined former employees from working in positions with competitors wherein it is probable that trade secrets will be disclosed or used to the former employer’s detriment. For instance, in *Weed Eater, Inc. v. Dowling*, the Houston Court of Appeals noted that even though the trial court’s injunction prevented the former employee, Dowling, from “disclosing” the trade secrets of his former employer, Weed Eater, the injunction was inadequate. *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 902 (Tex. Civ. App.—Houston [1st Dist.] 1978, writ ref'd n.r.e.). “Even in the best of good faith, Dowling can hardly prevent his knowledge of his former employer’s confidential methods from showing up in his work [for the competitor].” *Id.* The court went on to explain, “The only effective relief for Weed Eater is to restrain Dowling from working for [the competitor] in any capacity relating to the manufacture by [the competitor] of a flexible line trimming device.” *Id.* Consequently, the Houston Court of Appeals held that,

The trial court abused its discretion in failing to include in the injunction order a provision restraining Thomas W. Dowling, Jr., from continuing in the employment of [the competitor] so long as his duties include activities related to developing, manufacturing and marketing lawn and garden trimmers, lawnmowers, and similar products.

*Id.*

Like the court in *Weed Eater*, another court of appeals found injunctive relief appropriate where a former employee's prospective employment with a competitor will probably lead to disclosure or use of the former employer's trade secrets. In *Rugen*, the court of appeals upheld the trial court's temporary injunction where the former employee operated a company in direct competition with her former employer, IBS, and was "in a position to use" IBS's confidential information. *Rugen*, 864 S.W.2d at 552. Citing the *Weed Eater* opinion, the appellate court stated, "Under these circumstances, it is probable that Rugen will use the information for her benefit and to the detriment of IBS. At times, an injunction is the only effective relief an employer has when a former employee possesses confidential information." *Id.*

Abiding its opinion in *Rugen*, the same appellate court again applied the "probable disclosure" theory to uphold a temporary injunction in *Conley v. DSC Commc'ns Corp.*, No. 05-98-01051-CV, 1999 WL 89955, at \*3-8 (Tex. App. – Dallas Feb. 24, 1999, no pet.) (not designated for publication). The *Conley* court temporarily enjoined Conley, the plaintiff's former employee, from working for a competitor in any capacity relating to "digital loop carrier products," the subject-matter of his previous employment with the plaintiff. *Id.* at \*1-2. Holding that this injunction was appropriate, the court of appeals explained that "enjoining an employee from using an employer's confidential information is appropriate 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." *Id.* at \*4 (emphasis in original). The *Conley* court looked to three factors to determine whether the former employee was in a position to use the former employer's confidential information to its detriment: (1) the existence of misconduct on the part of the employee in taking a former employer's confidential information;<sup>2</sup> (2) the new employer's ability to use the trade secret information to its benefit or to the former employer's detriment; and (3) the degree of similarity between the employee's former and current positions. *Id.* at \*5 (accepting and rejecting certain of the five factors proposed by the defendant).

### **III. Issues to Address with Departing Employees to Minimize Legal Exposure**

A departing employee is always at risk of being sued by his/her former employer for misappropriation of trade secrets or confidential information if the departing employee obtains employment with a competitor. In many cases, the new employer is also at significant risk of being sued under such circumstances for tortious interference or conspiracy to misappropriate trade secrets or confidential information.

If avoiding exposure to a legal claim for theft of trade secrets or confidential information is a goal, it is imperative that a departing employee obtain legal advice well

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<sup>2</sup> Although the *Conley* court found the existence of employee misconduct to support a finding of probable disclosure, the court further explained that "the absence of that evidence does not bar the trial court from entering a temporary injunction." *Conley*, 1999 WL 89955, at \*5.

in advance of his/her departure. Indeed, whether the departing employee retains a lawyer on his/her own nickel or the new employer hires a lawyer to advise the departing employee,<sup>3</sup> the soundest way to avoid the initiation of legal action against the departing employee (and the new employer) is to talk to lawyer and develop a list of things that the departing employee should do, and things the employee should not do, in connection with his/her departure. In order to minimize the employee's exposure to a claim of misappropriation of trade secrets or confidential information (and the resulting liability should such a claim be asserted), the departing employee should consider the following:

### Prior to Departure

- Provide the prospective new employer with a copy of any agreements—most importantly, agreements containing non-disclosure, non-solicitation and/or non-compete provisions—signed by you.
  - If you do not possess a copy of the(se) agreement(s), you should consider asking co-workers for a copy of any similar agreements.
- Provide the prospective new employer with any handbooks, manuals, or policies that address the matter of the then-current employer's expectations concerning the protection of its confidential information.
- Resist the urge to use regular work hours to prepare for your new job.
- Do not provide the prospective new employer with a list of current or prospective customers before resigning.
- Do not provide the prospective new employer with commission reports or similar compensation documentation that might reveal the identities of current customers.
- Do not inform the prospective new employer of any prospective business opportunities while you are still employed.
  - Do not “warehouse” deals before resigning.

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<sup>3</sup> Some would argue that “it looks bad” for the new employer to hire a lawyer to provide legal advice to a departing employee because it makes the new employer appear as if it has a “guilty conscience” — if you are not doing anything wrong, why do you need to hire a lawyer to advise the new employee? At the end of the day, though, if the options are (i) to get sued because the departing employee could not afford or did not want to pay for the services of a lawyer to advise him/her on the proper ways of departure, or (ii) to be accused of having a “guilty conscience” by hiring an attorney to ensure that the departing employee does the right things upon departure, it seems the best way to minimize legal exposure is the latter course of action.

- Resist the urge to inform your co-workers of your intention to leave your then-current employer to join a competitor.
  - This item is particularly important if the agreements signed by you during your employment with your then-current employer contain restrictions on your ability to solicit, recruit or hire co-workers.
- Resist the urge to inform current or prospective customers that you intend to leave for a prospective new employer.
  - This item is particularly important if the agreements signed by you during your employment with your then-current employer contain restrictions on your ability to communicate with, solicit, or do business with current or prospective customers.
- Do not remove any documents, paper files, books, manuals, demonstrative sales items, rolodexes, or other materials belonging to your then-current employer prior to resigning.
  - Some of this material may not ultimately be deemed to be “confidential,” but it’s not worth taking the chance of removing something that is later deemed to be “confidential.”
- Do not transfer any information maintained in an electronic form to a disk/CD, thumb drive, PDA device or other storage device prior to resigning.
- Do not delete, remove or destroy unusually significant amounts of data or information residing on your then-current employer’s computer system prior to your departure.
  - Efforts to delete, remove or destroy such data is easy to trace and could be viewed as an effort to harm your then-current employer.
- Do not use your then-current employer’s computer system (including its e-mail server), telephones, offices or other facilities to communicate with your new employer (or a prospective new employer).
- Do not send e-mails or other electronic or paper communications from your home or office computer that overtly or remotely involve or hint at improper activities.
- In negotiating with a new prospective employer, be cognizant of the extent to which the compensation terms—salary, bonus, commission, stock, etc.—may be

viewed as creating an incentive to steal business from your then-current employer.

- Ensure that your salary and bonus are reasonably related to the compensation paid to similarly-situated employees.
- Ensure that new account bonuses or other incentives for new business are reasonably related to bonuses paid to similarly-situated employees.
- Use standard commission plans and arrangements.
- Ask the prospective new employer to indemnify you for any litigation that arises out of your departure or work for the new employer.

### Resignation

- Submit a written notice of resignation to your supervisor.
- Prepare a script in case you are asked to participate in an exit interview
  - You almost have to participate in an exit interview, if asked—a refusal to do so will be viewed as a sign that you are not to be trusted after your departure.
  - In the script, briefly describe why you are leaving and where you are going to work—no doubt, this process is extremely dicey and might turn into a confrontation, but it's better to err on the side of honestly describing these matters.
  - Most importantly, do not lie about why you are leaving and where you are going to work—dishonesty will be viewed by a court as a sign that you cannot be trusted to not disclose the former employer's trade secrets or confidential information.
- Return all company-issued equipment, including any computer, printer, fax machine, cell phone, air card, PDA device, automobile, credit cards, security access cards, keys, *etc.*, to HR or your supervisor upon submitting your notice of resignation.
  - Ask for an inventory to be taken that reflects your return of these items.
- Retrieve from your home or automobile any tangible materials provided to you by the former employer during your employment—ANY materials, not just

materials that arguably contain the former employer's confidential information—and return them to HR or your supervisor upon submitting your notice of resignation.

- Ask for an inventory to be taken that reflects your return of these items.
- If appropriate, seek authorization from the former employer to retrieve and purge from your home computer any electronic materials residing on the computer that belong to, were provided to you by, or were placed on the computer by you in connection with your work for, the former employer.
- If appropriate, seek authorization from the former employer to retrieve and purge from your personal cell phone or PDA device any electronic materials residing on the device(s) that belong to, were provided to you by, or were placed on the device(s) by you in connection with your work for, the former employer.
- Request that HR or your supervisor escort you to your office so that you can remove personal items from your office.
- Offer to prepare a memorandum setting forth the status of your work efforts and of any business opportunities of which you are aware as of the time of your resignation.

### **After Departure**

- Create from publicly available sources a list of prospective customers and other business persons you want to contact in your business.
  - Collect and keep copies of any source materials used by you in connection with creating the list to demonstrate that you obtained the information from publicly available sources and not from materials of the former employer.
- Create a log of all unsolicited contacts by former customers or co-workers.
- Avoid making statements that place your former employer in a negative light (or otherwise disparage your former employer).
- Seek appropriate directions from your new employer before contacting your former co-workers about job opportunities at your new employer.
- Avoid contacting, communicating with or soliciting business from your old accounts for as long as possible—six months at a minimum.

- Ask the new employer to assign you with new accounts and a new territory for a certain period of time – six months at a minimum.
- Seek advice from an attorney or the new employer's HR department concerning written communications with former customers or co-workers.
- Ask the new employer to provide you with a memo confirming that the new employer does not need or wish for you to use or disclose trade secrets of any third party in connection with performing your duties for the new employer.