THE EVER-EVOLVING LAW OF NON-COMPETE AGREEMENTS

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Section 15.50 provides that a covenant not to compete is enforceable if:

- it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made; and

- the agreement contains “limitations as to time, geographic area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interests of the company.”
Light v. Centel Cellular Co. of Texas, 883 S.W.2d 642 (Tex. 1994)

Addressed 15.50’s “at the time the agreement is made” language:

“... But such unilateral contract, since it could be accepted only by future performance, could not support a covenant not to compete inasmuch as it was not an otherwise enforceable agreement “at the time the agreement is made.”
The *Light* Court then addressed the “ancillary” requirement:

1. The non-compete agreement must be designed to enforce the employee’s consideration or return promise, and

2. the consideration given by the employer in the otherwise enforceable agreement must “give rise” to the employer’s interest in restraining the employee from competing.
...Also, the employer’s interest must be “worthy of protection.” (citing DeSantis v. Wackenhut Corp., 793 S.W.2d 670 (Tex. 1990).
In *Light* the employee did not promise not to disclose any confidential or proprietary information given to her by the employer, and therefore, the non-compete agreement was not designed to enforce any return promise made by Light. For this reason, the Court found the non-compete agreement unenforceable.
Following *Light* Texas courts of appeals were split on the meaning of “otherwise enforceable agreement at the time the agreement is made,” with some focusing on whether the employee received confidential or proprietary information “at or near” the time the employee signs the non-compete agreement, and others requiring a contemporaneous exchange of consideration.

• retained Light’s “ancillary” analysis
• But, overruled Light insofar as it held that a unilateral contract formed when the employer performs a promise that was illusory when made can satisfy the requirements of the Act.
• Refocused attention on whether constraints were reasonable.
To obtain this result, first, the Court focused on the phrase “at the time the agreement is made” within Section 15.50’s requirement that the non-compete be “ancillary to or part of an otherwise enforceable agreement at the time the agreement is made.”
... and decided that the phrase “at the time the agreement is made” modified the phrase “ancillary to” rather than “otherwise enforceable agreement,” which was how Light interpreted this requirement.
So now, as long as the non-compete is “ancillary to” an otherwise enforceable agreement at the time the agreement is made, it is enforceable, regardless of whether the consideration for the non-compete is provided later.

Therefore, if the purpose of the non-compete was to enforce an otherwise enforceable promise by the employee (like to not disclose trade secrets) at the time the agreement was executed, the consideration for the non-compete can be given by the employer at a later point in the employment relationship.
Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844 (Tex. 2009)

• the Court dispensed with the requirement that the employer make an executory promise at all. ...
Mann Frankfort, cont.

Court wills imply an executory promise on the part of the employer where:

1. the nature of the contemplated employment will reasonably require the employer to furnish the employee with confidential information and
2. Evidence shoes that the employer actually provided such information to the employee.
Also important to the Court was the fact that the employee had promised in the employment agreement to not disclose or use at any time any secret or confidential information or knowledge he obtained while employed by Mann Frankfort. The Court observed that this promise would have been meaningless if Mann Frankfort did not have a correlative commitment to provide confidential information.
*Marsh USA, Inc. v. Cook, 287 S.W.3d 378 (Tex. App. – Dallas 2009)*

*Marsh* addresses the meaning of the phrase “ancillary to or part of.”

Reaffirmed *Light’s* analysis:

The consideration provided by the employer to support the non-compete must “*give rise***” to the company’s interest in restraining competition.
“The give rise requirement may be met only if the consideration given by the company creates the interest in restraining competition. This, in turn, will occur only where the interest in restraining competition did not exist before the consideration was given. Under our facts, MMC’s interest in restraining Cook from competing did not change or arise at the time that it transferred the stock to Cook. MMC offered the stock option to Cook because he was a valuable employee. Cook did not become any more valuable to MMC after he exercised the option and MMC transferred the stock to him.”
Time Limitations


“two to five years has repeatedly been held a reasonable time restriction in a non-competition agreement.”
Geography

Texas courts have required some geographic limitation in order to find a non-compete enforceable, and covenants with no geographic or customer restrictions are invalid. *Goodin v. Joliff*, 257 S.W.3d 341 (Tex. App. – Fort Worth 2008, no pet.).
As a general matter, a “reasonable geographic scope is generally considered to be the territory in which the employee worked for the employer.” TransPerfect Translations, Inc. v. Leslie, 594 F. Supp. 2d 742, 754 (S.D. Tex. 2009)
A non-compete that contains a geographic scope equal to the employer’s operations may permissible. See, e.g., Webb v. Hartman Newspapers, Inc., 793 S.W.2d 302 (Tex. App. – Houston [14th Dist.] 1990, no writ.)
**Vais Arms, Inc. v. Vais, 383 F.3d 287, 295 (5th Cir. 2004)***

The Court enforced a non-compete agreement that was national in scope, but:

- the agreement arose out of the sale of a business, and
- There was evidence that the parties intended the non-compete agreement to be national in scope.
Scope of Activity

_Gallagher Healthcare Ins. Servs. v. Vogelsang, 312 S.W.3d 640 (Tex. App. – Houston [1st Dist] 2009, no pet. hist.):_ restraints that were tied to the employee’s own work at the prior employer were reasonable.

_Drummond American, LLC v. Share Corp., 693 F. Supp. 2d 650 (E.D. Tex. 2010):_ a restriction prohibiting employees from calling on any customer of theirs from whom they solicited orders or to whom they sold competitive products on behalf of the company during the last year of their employment for a period of two years following termination of their employment was reasonable.
EMS USA, Inc v. Shary, 309 S.W.3d 653 (Tex. App. – Houston [14th Dist.] 2010, no pet.)

“A restraint on client solicitation in a personal services contract is overbroad and unenforceable if it extends to clients with whom the employee had no dealings during his employment.”

Restriction limiting salesperson to those he did business with during employment not overly broad where:

1. The covenant is of a short duration.
2. The salesperson is a member of upper management.
3. Protectable interest extends beyond the customer base given the EE’s “intimate knowledge of tool designs and functionality.”

The court found overbroad a non-compete agreement that prohibited a former employee from doing business with customers the employee had provided services to before employment with the company where the duration of employment was short, he received a minimal amount of confidential information, and would have unreasonably burdened third parties.
Costs and Attorney’s Fees

A court may award costs and attorney’s fees incurred by an employee in defending an action to enforce a non-compete if:

(1) the primary purpose of the agreement to which the covenant is ancillary is to obligate the promisor to render personal services,
(2) the limitations were unreasonable,
(3) the employer knew, at the time the agreement was executed, that the agreement did not contain reasonable limitations as to time, geographical area, and scope of activity to be restrained, and
(4) the employer sought to enforce the agreement to a greater extent than necessary to protect its goodwill or business interests.

TEX. BUS. & COM. CODE ANN. § 15.51(c).

“Although Texas case law on noncompetition and nonsolicitation restrictions was clear in 1996, there is no evidence that Rimkus knew that the relevant provisions of Cammarata’s Employment Agreement were unreasonable under Texas law.”
Section 15.51 precludes a damages award for conduct prior to any necessary reformation of the scope of the covenant.
Awarded attorney’s fees to a prevailing employee based on finding that:

1. the non-compete was unreasonably broad,
2. the employer demonstrated no investment in training that would justify any restriction, and
3. unlike in *Rimkus*, the employer knew when the agreements were signed that the covenants were unreasonable.
Section 15.52 of the Act provides that “[t]he criteria for enforceability of a covenant not to compete provided by Section 15.50 of this code and the procedures and remedies in an action to enforce a covenant not to compete provided by Section 15.51 of this code are exclusive and preempt any other criteria for enforceability of a covenant not to compete or procedures and remedies in an action to enforce a covenant not to compete under common law or otherwise.”
... this precludes an award to an employer who successfully enforces a non-compete agreement against a former employee, since Section 15.51 makes no provision for such an award.
Breach of Fiduciary Duty

An at-will employee breaches his fiduciary duty to his employer if, during his employment, he (1) misappropriates the employer’s trade secrets, (2) solicits the employer’s customers while working for the employer, (3) solicits the departure of other employees while still working for the employer, or (4) carries away confidential information.

Fifth Circuit COA affirmed a $1.43 million award against two former employees of the company and the new company they formed to compete against their former employer.
Meaux, cont.

Key holdings:

• A jury may infer proximate cause from circumstantial evidence.
• Recovery of lost profits does not require that the loss be susceptible to exact calculation.
Additional Reading:
