Agenda

• Overview of Texas law
• Strategies for drafting enforceable covenants
• Practicalities of the litigation process in state and federal court
• Common problems that employers have in litigating restrictive covenants
• Strategies for using restrictive covenants to maximize employer protections of trade secrets and goodwill
Overview of Texas Law
- First Texas Supreme Court decision to chip away at *Light v. Centel Cellular Co. of Texas*, 883 S.W.2d 642 (Tex. 1994)

- For 12 years following the *Light* decision, employment practitioners litigated and argued technical issues surrounding non-compete agreements such as:
  
  o whether an at-will employment agreement was an “otherwise enforceable agreement” or if the agreement must contain a certain term of employment
  
  o whether the contract unequivocally promised that the employee will receive trade secrets and confidential information regardless of whether the employer continues the employment relationship
  
  o whether the employer had to provide the employee with trade secrets and confidential information contemporaneously upon the employee signing the agreement at the inception of employment
- *Sheshunoff* decision provided clarity on some of *Light’s* problematic technical requirements

  - Unilateral contracts that involve covenants not to compete in an at-will situation are enforceable

  - Once the employer provides the employee with confidential information/trade secrets, the covenant not to compete becomes enforceable (does not have to occur at the exact moment the employee signs the agreement)

  - Emphasis on non-compete agreements should be on the reasonableness of the restrictions as to time, geographical area and scope of activity to be restrained, NOT “overly technical disputes”
Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844 (Tex. 2009)

- Addressed the issue of whether a non-compete agreement would fail if it did not contain an explicit promise to provide trade secret/confidential information in exchange for the employee’s agreement not to compete

- Texas Supreme Court ruled that non-compete agreement was unenforceable because:

  o Even though there was no express promise to provide confidential information to the employee, “when the nature of the work the employee is hired to perform requires confidential information to be provided for the work to be performed by the employee, the employer impliedly promises confidential information will be provided.”

  o Since the employee’s employment “necessarily involved the provision of confidential information” by the employer, there was an implied promise to provide such confidential information when the parties entered the agreement.”
Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011)

-Following *Light*, courts had uniformly held that only valid consideration that would “give rise” to an interest worthy of protection by a non-compete agreement was:
   - Trade Secrets
   - Confidential Information
   - Specialized Training

-“Consideration for a noncompete that is *reasonably related* to an interest worthy of protection, such as trade secrets, confidential information or *goodwill*” satisfies the requirements of the Act.”

-Court ruled that *stock options* were given to employee to promote employer’s *goodwill* and to provide employee with incentive to promote that goodwill on behalf of the employer.
DRENNEN V. EXXON MOBIL

Drennen v. Exxon Mobil Corp., 452 S.W.3d 319 (Tex. 2014)

- Not a classic non-compete. An “Incentive Program.”

- The Incentive Program included provisions allowing ExxonMobil to cancel the incentive awards of employees who engage in “detrimental activity”.

- “Detrimental activity” included becoming employed or otherwise engaged by an entity that regulates, deals with, or competes with the Corporation....”
Texas Supreme Court ruled:

- Forfeiture of unvested stock NOT a non-compete because they do not restrict employee’s future employment

- Rather, stock plans reward “continued employment” and “loyalty”

- HOWEVER, decided under New York law under conflict of laws provision, so still unclear under Texas law
TUTSA

-Texas Uniform Trade Secrets Act ("TUTSA") – Effective September 1, 2013

-Prohibits “actual or threatened” misappropriation of trade secrets

-Potential damages:
  o Actual loss caused by misappropriation
  o Unjust enrichment caused by misappropriation
  o Reasonable royalty
  o Punitive damages if “clear and convincing evidence” of “willful and malicious” misappropriation
  o Attorneys fees if misappropriation made “in bad faith” or if willful and malicious
Strategies for drafting enforceable covenants
Drafting the Agreement – Consideration

- Confidential Information
- Goodwill
- Stock Options
Drafting the Agreement – Covenants

• Nondisclosure
• Duty of Loyalty
• Covenant Not to Compete
• Covenant Not to Solicit Customers
• Covenant Not to Solicit Employees
• Returning Company Confidential Information
• No Conflict
Drafting the Agreement – Other Provisions

- Non-disparagement
- Technology audit rights
- Notifications – both the Company and new employer
- Arbitration or jury waiver
- Equitable relief
- Law and forum
- Severability
- Successors and assigns
Practicalities of the litigation process
Federal Court

• Less immediacy/uncertain hearing status for TRO
• Less flexibility on scheduling
• Better attention to case
State Court

• Master calendar system
  • Uncertain judge draws
  • Byzantine scheduling system
  • Unpredictable dockets
• Limited subpoena power
• Elected judges
Common problems in litigating restrictive covenants
Litigation Issues

• Expense
• Getting the injunction
  • Requirement to give notice
  • Keeping employees out of work entirely (judges don’t like it)
  • Federal court “black hole” after TRO is submitted
• Discovery
• Getting damages in more involved cases
• Anti-SLAPP lawsuits
Strategies for using restrictive covenants for best results
Strategy Considerations

• Comprehensive strategy up front
  • The more you plan now, the better results you will have in court
• Consider forming group to determine business needs of the company
• Consider where the company is most vulnerable
Strategy Considerations

• Restrictive covenants vs. clawbacks
• Covenant not to compete vs. covenant not to solicit customers
• Employee non-hire vs. employee non-solicit
• Choice of law/forum for employees out of state