

PRESENTED AT

23rd Annual Labor and Employment Law Conference

May 3-4, 2016
Austin, Texas

**COVENANTS NOT TO COMPETE AND
TEXAS UNIFORM TRADE SECRETS ACT (TUTSA)**

**Ken Hughes
Hughes Roch LLP**

**Honorable Grant Dorfman
Harris County District Judge, 334th District**

**Betsy Chestney
Cornell Smith Mierl & Brutocao LLP**

TABLE OF CONTENTS

I.	The Primary Sources Of Law That Govern Covenants Not To Compete in Texas	1
A.	The Texas Covenant Not to Compete Act	1
B.	The Effect of the Preemption Clause In The Act	2
C.	Cases Holding That the Act Does Not Preempt Laws Relating to Temporary Injunctive Proceedings	3
D.	Choice of Law Issues	3
E.	Forum Selection Clauses	6
F.	Mandatory Venue Selection	6
II.	Non-Solicitation Clauses and Other Agreements Similar to Covenants Not to Compete	8
III.	The Basic Requirements For A Non-Compete Under Texas Law	10
A.	The Requirement That The Non-Compete Be Ancillary To An Enforceable Agreement	11
B.	Types Of Consideration That Courts Have Found To Be Sufficient For A Non-Compete Agreement	13
IV.	The Reasonability Factors: Duration, Scope and Territory	14
A.	Geographic Scope	14
1.	Cases Upholding Broad Geographic Areas	15
2.	Cases Narrowing the Geographic Scope of a Non-Compete	16
B.	Duration of Non-Compete	17
C.	Scope of Activity Restrained	17
D.	The Relationship Between The Reasonableness Factors Affects The Resulting Scope of The Non-Compete	18
V.	Evidence Required To Establish A Violation Of A Covenant Not To Compete Sufficient For Temporary Injunctive Relief.	19
VI.	Attorneys Fees In Non-Compete Cases	19
A.	Employers Cannot Recover Attorneys Fees In Cases Involving Covenants Not To Compete	19
B.	An Employee May Recover Attorneys Fees Under the Act; However, the Burden is High	19

VII.	Injunction Orders and Bonds	20
A.	Tex. R. Civ. P. 683: Form and Scope Of Injunction Order	20
B.	Rule 684: The Bond Requirement	21
VIII.	Texas Uniform Trade Secrets Act	21
A.	Does TUTSA Change The Definition of a Trade Secret?	22
B.	Misappropriation.....	24
C.	Distinction Between Proper and Improper Means Used To Acquire Trade Secret	27
D.	TUTSA’s Injunction Provision.....	27
E.	TUTSA’s Presumption Favoring Protective Orders.....	29
F.	TUTSA’s Attorney’s Fee Provision	29
G.	Actual and Exemplary Damages	30
H.	TUTSA’s Preemption Provision.....	31

SUMMARY AND UPDATE OF TEXAS LAW ON COVENANTS NOT TO COMPETE AND UNIFORM TRADE SECRETS ACT

This paper is a summary and update of Texas law governing covenants not to compete, as well as and the Texas Uniform Trade Secrets Act. The focus is on non-competes and trade secret litigation in the employment context. Since the Texas Uniform Trade Secrets Act was only recently enacted, its full impacts remain to be seen. There have been, however, some interesting and significant decisions interpreting TUTSA.

I. The Primary Sources Of Law That Govern Covenants Not To Compete in Texas

A. The Texas Covenant Not to Compete Act

The Texas Covenant Not To Compete Act should be the starting point for analyzing any case involving a non-compete. The Act generally establishes the criteria for the enforceability of all non-compete agreements in Texas. Tex. Bus. & Com. Code § 15.50-52.

It is important to remember that the “the Act was intended to reverse the Court’s apparent antipathy to covenants not to compete.” *Marsh USA Inc. v. Cook*, 354 S.W.3d 764, 772 (Tex. 2011). Prior to passage of the Act, the Texas Supreme Court and lower courts had issued opinions making it hard to enforce covenants not to compete in Texas. In 1989, the Texas Legislature passed The Covenants Not To Compete Act which intended to supplant Texas decisional law that was unfavorable for non-compete agreements.

The Supreme Court has repeatedly emphasized the Texas Legislature’s intent to make covenants not to compete more likely to be enforced when construing the Act. Prior to its statement in *Marsh*, the Court discussed the legislative history of the Act in *Sheshunoff*, noting that:

Cumulatively, this legislative history indicates that (1) in 1989 and 1993 the Legislature wanted to expand the enforceability of covenants not to compete beyond that which the courts had allowed, (2) in 1989 the Legislature specifically wanted to ensure that covenants could be signed after the employment relationship began so long as the agreement containing the covenant was supported by new consideration, and (3) in 1993 the Legislature specifically wanted to make clear that covenants not to compete in the at-will employment context were enforceable.

Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644, 654 (Tex. 2006).

B. *The Effect of the Preemption Clause In The Act*

Section 15.52 of the Texas Business and Commerce Code expressly provides that the Act preempts the common law insofar as the enforceability of non-competes and the related procedures and remedies are concerned. The Act states:

The criteria for enforceability of a covenant not to compete provide 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. Tex. Bus. & Com. Code Ann. § 15.52 (West).

The Texas Supreme Court noted five years after the Act was passed that “Section 15.52 makes clear that the Legislature intended the Covenants Not to Compete Act to largely supplant the Texas common law relating to enforcement of covenants not to compete.” *Light v. Centel Cellular Co. of Texas*, 883 S.W.2d 642, 644 (Tex. 1994).

Another court noted that:

The Act provides that sections 15.50 and 15.51 “are exclusive and preempt any other criteria for enforceability of a covenant not to compete....” Tex. Bus. & Com. Code Ann. § 15.52 (Vernon Supp.2001). Thus, section 15.52 makes clear the legislature intended the Covenants Not to Compete Act “to largely supplant the Texas common law relating to enforcement of covenants not to compete.” *Light*, 883 S.W.2d at 644; *see also* Tex. Bus. & Com. Code Ann. § 15.52. *Butler v. Arrow Mirror & Glass, Inc.*, 51 S.W.3d 787, 792 (Tex. App.—Houston [1st Dist.] 2001, no pet.).

The Legislature’s insertion of a preemption clause was a response to cases decided after the Act was first enacted in which Courts held that covenants not to compete were unenforceable. *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644, 653 (Tex. 2006) (“section 15.52 was added to provide that the Act preempts common law”). The Legislative history of the 1993 amendments adding the preemption clause to the Act suggested that there was a belief that courts were ignoring the intent and substance of the 1989 Act.

Interestingly, some intermediate appellate courts are again limiting the effect of the Act by holding that it preemption clause does not apply to the requirements for temporary injunctive relief.

Find the full text of this and thousands of other resources from leading experts in dozens of legal practice areas in the [UT Law CLE eLibrary \(utcle.org/elibrary\)](http://utcle.org/elibrary)

Title search: Texas Law on Covenants Not to Compete and Texas Uniform Trade Secrets Act (TUTSA)

Also available as part of the eCourse

[2016 Labor & Employment Law eConference](#)

First appeared as part of the conference materials for the
23rd Annual Labor and Employment Law Conference session
"Trade Secret and Non-Compete Update"