PRESENTED AT

2016 Essential Non-Compete and Trade Secret Law

September 9, 2016 ▪ Dallas, Texas
September 30, 2016 ▪ Austin, Texas
October 7, 2016 ▪ Houston, Texas

FIGHT AT THE TI CORRAL

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I. Introduction

Except for the rare circumstance where a former employer seeks money damages only (typically based upon a liquidated damages clause), every case seeking to enforce a non-compete or non-solicitation agreement implicates some form of temporary injunctive relief. Often, the results of the TI hearing play a heavy hand in resolving the case altogether. It is therefore critical to carefully consider the substantive, procedural, and practical components of moving for, obtaining, and holding on to temporary injunctive relief (and advise your client accordingly) well in advance of filing.

II. Temporary Injunction Requirements

A. Temporary Injunction Standard

The Texas Covenants Not to Compete Act preempts the common law requirements for permanent injunctive relief. But, it does not preempt the common law requirements for temporary injunctive relief. *Argo Group. US, Inc. v. Levinson*, 468 S.W.3d 698, 702 (Tex.App.—San Antonio 2015, no pet.) (TI based on a non-compete requires proof of probable, imminent, and irreparable injury); *Cardinal Health Staffing Network, Inc. v. Bowen,* 106 S.W.3d 230, 239 (Tex.App.—Houston [1st Dist.] 2003, no pet.) ("Because section 15.51(a) does not govern preliminary relief, it does not preempt the law that generally applies to preliminary relief, including the equitable rules that apply to temporary injunctions.").

Therefore, to obtain a TI in state court based upon a non-compete, an applicant must show the traditional common law elements: (1) a cause of action; (2) a probable right to the relief sought; and (3) a probable, imminent, and irreparable injury in the interim. *Frequent Flyer Depot, Inc. v. Am. Airlines, Inc.,* 281 S.W.3d 215, 220 (Tex.App.—Fort Worth 2009, pet. denied), *cert. denied,* 559 U.S. 1036, 130 S.Ct. 2061, 176 L.Ed.2d 414 (2010). A trial court's decision to grant or deny a TI is discretionary. *Fairfield Estates L.P. v. Griffin,* 986 S.W.2d 719, 723 (Tex. App.—Eastland 1999, no pet.). Any failure to analyze or correctly apply the law is an abuse of discretion. *Argo Group*, 468 S.W.3d at 700.

B. Probable Right to Relief

To satisfy the first two common law TI elements, an applicant must plead a cause of action and offer "some evidence that tends to sustain it." *Intercont'l Terminals Co., LLC v. Vopak N. Am., Inc.,* 354 S.W.3d 887, 897 (Tex.App.—Houston [1st Dist.] 2011, no pet.); *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.,* 965 S.W.2d 18, 23-24 (Tex.App.—Houston [1st Dist.] 1998, pet. dism'd). An applicant is not required to show that it will ultimately prevail at trial, but some evidence is required. *Butnaru v. Ford Motor Co., 84 S.W.3d 198, 211 (Tex. 2002).* Nor is the applicant required to show a probable right to relief on every cause of action, so long as there is "some evidence" supporting at least one claim. *Mabrey v. SandStream, Inc.,* 124 S.W.3d 302, 317 (Tex.App.—Fort Worth 2003, no pet.).

A covenant not to compete is enforceable if: (1) "it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made," and (2) it "contains limitations as to time, geographical area, and scope of activity... that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promise." Tex. Bus. & Com. Code § 15.50(a).

1. Ancillary to an Otherwise Enforceable Agreement & Protectable Interest

A non-compete "must be ancillary to (supplementary) or part of (one of several units of which something is composed) an otherwise enforceable agreement." *Marsh USA, Inc. v. Cook*, 354 S.W.3d 764, 775 (Tex. 2011). Thus, an applicant must show it has an interest worthy of protection and that consideration, reasonably related to that interest, was provided to the employee. *Id.*; *see also Travelhost, Inc. v. Brady,* 2012 WL 555191, *4 (N.D. Tex. 2012). Protectable interests include:

- confidential information[1] and trade secrets

[1] The confidential information provided to the employee need not rise to the level of a trade secret. *Unitel Corp. v. Decker,* 731 S.W.2d 636, 640 (Tex.App.—Houston [14th Dist.] 2010, no writ) ("the non-competition agreement is not invalid merely because the information gained at appellant's expense was generally available to the public rather than a 'trade secret.'"); *Gallagher Healthcare Ins. Services v. Vogelsang,* 312 S.W.3d 640, 652 (Tex.App.–Houston [1st Dist.] 2009, pet. denied) (citing *Light,* 883 S.W.2d at 647 n. 14).

- specialized training
- goodwill
- sale of a business
- stock options

Marsh, 354 S.W.3d at 775 (stock options, confidential information/trade secrets, and goodwill); *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson,* 209 S.W.3d 644, 649 (Tex. 2006) (confidential information and goodwill); *Light v. Centel Cellular Co. of Tex.,* 883 S.W.2d 642, 645-47 Tex. 1994) (specialized training and confidential information); *Sharma v. Vinmar Int'l, Ltd.,* 231 S.W.3d 405, 424 (Tex.App.—Houston [14th Dist.] 2007, no pet.) (customer lists, pricing information, client information, customer preferences, and buyer contacts); *Stone v. Griffin Comm. & Security Systems, Inc.,* 53 S.W.3d 687, 694 (Tex.App.–Tyler 2001, no pet.) (knowledge of customer base and of the equipment or products used by the customers); *Travelhost*, 2012 WL 555191, *4 (trademark and licensing agreement); *TransPerfect Translations, Inc. v. Leslie,* 594 F. Supp. 2d 742, 754 (S.D. Tex. 2009) (acquisition strategies, compensation and benefits formulas, and payment rates); *Williams v. Powell Elec. Mfg. Co.*, 508 S.W.2d 665 Tex.App.—Houston [14th Dist.] 1974, no writ) (sale of business).

Conversely, a non-compete with no justification other than to prevent competition is unenforceable. *Marsh*, 354 S.W.3d at 777–78 (goodwill does not encompass guidelines that prevent the business from ceasing to exist). Likewise, an employee's general skills and knowledge developed during the course of employment are not protectable interests and do not satisfy the statutory nexus. *Daytona Group of Texas, Inc. v. Smith,* 800 S.W.2d 285, 289–90 (Tex.App.—Corpus Christi, 1990) (restrictions unenforceable where sales employee had no specialized knowledge or training, the employer's customers were public knowledge, and employee did not solicit the employer's customers). Finally, the consideration supporting a non-compete must be new. Past consideration is not sufficient. *Powerhouse Productions, Inc. v. Scott*, 260 S.W.3d 693 (Tex.App.—Dallas, 2008, no pet.) (training and confidential information provided to employee before signing non-compete was not sufficient; non-compete unenforceable because no evidence of new confidential information and training after employee signed agreement).

2. Reasonableness of Restrictions

As set forth in *Sheshunoff* and re-affirmed in *Marsh*, the hallmark of non-compete enforcement is whether or not the covenant is reasonable. *Marsh*, 354 S.W.3d at 777 (citing *Sheshunoff*, 209 S.W.3d at 655). Thus, the "core inquiry" is whether the restrictions contain reasonable limitations as to time, geographical area, and scope of activity and do not impose a greater restraint than is necessary to protect the employer's protectable interest. *Id*. What is reasonable will depend upon the specific facts and will vary according to the employer's business and the former employee's job duties, but the restrictions "must bear some relation to the activities of the employee." *Peat Marwick Main & Co. v. Haass,* 818 S.W.2d 381, 387 (Tex. 1991); *see also John R. Ray & Sons, Inc. v. Stroman,* 923 S.W.2d 80, 85 (Tex.App.—Houston [14th Dist.] 1996, writ denied); *Curtis v. Ziff Energy Group, Ltd.*, 12 S.W.3d 114, 119 (Tex.App.—Houston [14th Dist.] 1999, no pet.).

a. Temporal Restrictions

Courts consistently uphold temporal restrictions ranging from one to five years. *Vogelsang*, 312 S.W.3d at 655 ("[t]wo to five years has repeatedly been held as a reasonable time"); *Stone*, 53 S.W.3d at 696 ("two to five years has repeatedly been held a reasonable time restriction in a non-competition agreement"); *Butler v. Arrow Mirror & Glass*, Inc., 51 S.W.3d 787, 790–91 (Tex.App.—Houston [1st Dist.] 2001, no pet.) (two years reasonable).

That said, an applicant still must offer some evidence showing why the length of the temporal restriction is reasonable. *Stone*, 53 S.W.3d at 696 (five-year restraint was reasonable because "there is ample evidence in the record showing that it would take five years for the information received by Appellants while they were employed by Griffin to become outdated."); *Stroman*, 923 S.W.2d at 85 ("Furthermore, Ray & Sons has not shown that the limitations were necessary to protect the goodwill or business interests of the company."); *CDX Holdings, Inc. v. Heddon*, 2012 WL 11019355, *8-9 (N.D. Tex.

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