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Trade Secret and Non-Compete Update

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TEXAS NON-COMPETE AND TRADE SECRETS UPDATE

I. INTRODUCTION

Non-compete and trade secret litigation continues to be a highly active and ever-changing area of practice. This paper will address the essential cases and statutes, as well as more recent noteworthy decisions.

II. TEXAS COVENANT NOT TO COMPETE UPDATE

1. 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 when it was initially passed in 1989 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).

Other states and jurisdictions have made legislative changes to non-compete obligations. Perhaps the Texas Legislature will again wade into the areas of non-compete law in upcoming sessions.

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.

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).[1]

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.

There are cases where intermediate appellate courts have limited the effect of the Act's preemption clause holding that it does not apply. One area where courts have found that the common law is not preempted involves injunction cases and the requirements for temporary injunctive relief. Another involves declaratory judgments.

C. Cases Holding That The Act Does Not Preempt the Common Law or Other Statutes

1. Cases Involving Temporary Injunctive Relief

Several Texas intermediate appellate courts have held that the Act does not preempt the common law requirements for obtaining temporary injunctive relief including irreparable injury. *EMS USA, Inc. v. Shary,* 309 S.W.3d 653, 658 (Tex. App.—Houston [14th Dist.] 2010, no pet.); *EMSL Analytical, Inc. v. Younker,* 154 S.W.3d 693, 695 (Tex. App.—Houston [14th Dist.] 2004, no pet.); *Cardinal Health Staffing Network, Inc. v. Bowen,* 106 S.W.3d 230, 239–40 (Tex. App.–Houston [1st Dist.] 2003, no pet.). This is

[1] Although the Court's holding in *Light* was first modified by *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644 (Tex. 2006), then abrogated by *Marsh USA Inc. v. Cook,* 354 S.W.3d 764 (Tex. 2011), the notion that the Legislature intended that the Act supplant Texas common law regarding covenants not to compete remains true.

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