

Non-compete Drafting and Litigation

State Bar of Texas

Essentials of Business Law



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Texas Non-Compete Update

1. Regarding first prong: An implied promise to provide confidential information sufficient to uphold non-compete. *See Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, 289 S.W.3d 844 (Tex. 2009).
2. Also, stock options grant sufficient to uphold a non-compete. *See Marsh USA Inc. v. Cook*, 354 S.W.3d 764 (Tex. 2011).
 - *Marsh's* logic likely extends to LTIPs



Texas Non-Compete Update

Restraint
of trade

3. Heavy focus on “reasonableness” prong now (the second prong). In the context of sales employees: “A restraint on client solicitation in a personal services contract is overbroad and unreasonable if it extends to clients with whom the employee had no dealings during his employment.”

EMS USA, Inc. v. Shary, 309 S.W.3d 653, 660 (Tex. App.—Houston [14th Dist.], 2010 no pet.).

But see M-I LLC v. Stelly, 733 F. Supp. 2d 759 (S.D. Tex. 2010) (enforcing much broader restraint when employee wasn’t just a mere salesman).

4. Still not necessarily a lay down to get an injunction, because of the irreparable harm requirement. *See infra*.

Texas Non-Compete Update

Money damages are not available based on breached of overbroad non-compete prior to reformation.

Rimkus Consulting Group, Inc. v. Cammarata, 688 F. Supp. 2d 598, 673 (S.D. Tex. 2010) (granting summary judgment against employer's claim for monetary damages based on breach of non-compete because all of the conduct that caused the damages occurred prior to the court's reformation of the non-compete).

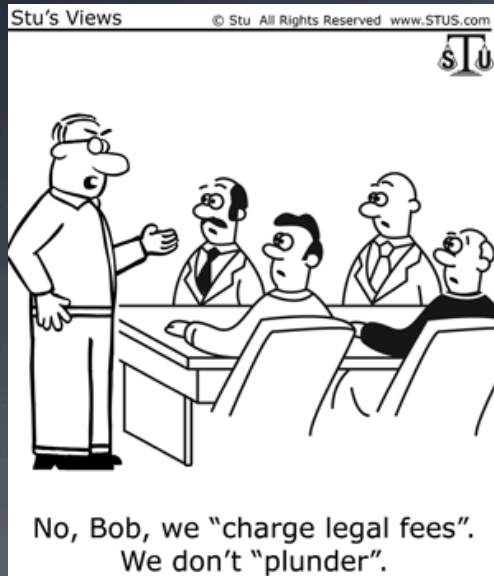


Non-Competes That Impose Monetary Penalties For Competing

- Subject to same analysis, per *Peat Marwick* case.

- But possible distinction recognized by Texas law between a penalty provision and a forfeiture provision concerning a non-contributory profit sharing plan. *Drennen* reserved this question for now.

Non-Compete & Attorneys' Fees Issues



1. For prevailing employer. Perhaps never.
2. For prevailing employees.
 - Some courts say only if employee satisfies section 15.51 (*see Perez*).
 - Other courts say prevailing employee may obtain fees even if they do not satisfy section 15.51 (*see Hardy*).
 - Recent 750k award for employee out of Houston. A cautionary tale for employers.

Obtaining Injunctive Relief For Breach of a Non-Compete

- Do you still have to prove “irreparable harm?”
 - Most courts say “yes.” *See, e.g., Cardinal Health Staffing Network, Inc.*
 - But some say “no” based on Section 15.51(a). *See, e.g., Heritage Operating, L.P.*
- Proof that a highly trained employee is continuing to breach a non-competition agreement gives rise to a rebuttable presumption that the applicant is suffering irreparable harm. *Cardinal Health Staffing Network, Inc.*
- Irreparable harm issue often turns on equitable considerations and black hat / white hat facts.

Obtaining Injunctive Relief For Breach of a Non-Compete

- Successor companies' rights to seek injunctive relief enforcing a noncompetition agreement.
- The effect of contractual stipulations of irreparable harm.
- The effect of delay on a party's ability to obtain injunctive relief.
- Equitable extensions of the period of restraint – possible if violation has been “consistent and persistent.”
- Is the ex-employee's new employer a necessary party?

See cases and discussion in paper.

Choice of Law and Forum Clauses

- For pure traditional noncompete, choice of law of other state probably won't be enforced if the employee worked exclusively (or probably even primarily) in Texas. *See DeSantis*.
- Choice of Forum clauses requiring all litigation to occur in another state are enforceable. *See In re AutoNation* (Tex. 2007).
- But for forfeiture agreement in a non-contributory profit sharing plan, likely will be enforced, under 2014 *Drennen* case.

General Drafting Tips

- Promise to provide ee confidential info, or stock options per *Marsh*, and follow through in a provable way.
- In salesperson situations, generally keep customer non-solicitations tied to customers employee dealt with, unless the employee is high level, as in *Stelly*, in which case it may be broader.
- Use forum selection clauses.
- If company is large, multi-state, with non-contributory profit sharing plan, may want to consider *Drennen*-like approach, and select either New York law, some other state's law like NY law, or – if you want to go out on a small limb – Texas law.

Practical Pointers For Ex-Employers:

1. Forensics dig asap, with expert report to reflect results and present to court if need be.
2. Don't always walk employee out the door. Rather, consider shutting off all access, and then have them answer critical questions in a signed writing on the spot. This can provide *awesome* evidence to use in court.
3. Put ex-employee and new employer on notice with a strong letter, and demand for information. Often, this will lead to an acceptable resolution, especially when sophisticated counsel represent all the parties.
4. Act fast in going to court, but not too fast (before you have evidence locked down).
5. Before you sue, ask: Does the employee have claims against us that our suit may stimulate them to bring? (e.g., FLSA class action example).

Thank You



THE END

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