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Backdoor Non-Competes in Texas: Trade Secrets

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ARTICLES

BACKDOOR NON-COMPETES IN TEXAS: TRADE SECRETS

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I. INTRODUCTION

“The secret to creativity is knowing how to hide your sources”¹

The unpredictability of court decisions on covenants not to compete is an attorney’s nightmare in Texas. The Texas Supreme Court’s decision in *Light v. Centel Cellular (Light II)*² that trade secrets may serve as independent consideration for a valid covenant not to compete has only exacerbated the situation.³ Currently, attorneys and clients alike are at the mercy of judicial unpredictability—an unpredictability that is astounding when one reviews the litany of unpublished, undefined, and inconsistent post-*Light II* decisions.⁴ Texas courts have managed to muddle their own underlying public policy on covenants not to compete with trade secrets. During the years preceding *Light II*, Texas courts consistently struck a balance between the legitimate rights of employers to protect their trade secrets and the legitimate rights of employees to market their skill and gain employment. Today, this distinction has all but vanished. Although the issue has by far become the most litigated one in Texas, present case law is ineffectual and stands as an omnipresent threat to both employers and employees in Texas. Until the Texas Supreme Court adopts a clear rule, even the most experienced and creative of legal practitioners will continue the high stakes gamble on how best to zealously protect the interests of their clients.

This Article reviews the tormented history of trade secret laws in the State of Texas and reflects on the fundamental problems created by the hybrid of contract and tort causes of actions which have fused trade secret misappropriation and breach of covenants not to compete claims. In support of this Article, Part I lays out the foundation for trade secrets misappropriation. Part II outlines the his-

1. Albert Einstein, <http://www.quotationspage.com/quote/482.html> (last visited Feb. 6, 2005).

2. 883 S.W.2d 642 (Tex. 1994).

3. *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642, 645-46 (Tex. 1994).

4. Appendix A to this Article.

tory of the contentious battle on the enforcement of covenants not to compete that raged between the trial courts and appellate courts on the one hand and the Texas Supreme Court and the legislature on the other hand. This part pays special attention to the *Light II* decision that is viewed today as the foundation for any cause of action for breach of a covenant not to compete.⁵ While the *Light II* holding adopted the strict statutory requirements passed by the Texas Legislature in 1993, creative practitioners, in an effort to ensure trade secret protection for their clients, built their arguments on a loophole created by this case in footnote fourteen.⁶ Although citing footnote fourteen as the major holding in the case did not pierce the veil of this now well established rule, it did add to the already existing confusion because it allowed businesses, in the absence of an enforceable covenant not to compete, to nonetheless secure trade secret protection simply by qualifying their information as confidential or a trade secret. Part III provides practical advice for practitioners to consider when seeking equitable relief in trade secret cases. Finally, because covenants not to compete have been particularly disfavored in Texas, Part IV focuses on the doctrine of "inevitable disclosure" advanced by frustrated practitioners as yet another backdoor alternative to achieving trade secret protection.

II. DETERMINING THE EXISTENCE OF A TRADE SECRET IN TEXAS

A. Definition

Unlike the majority of states that have adopted the Uniform Trade Secrets Act (UTSA),⁷ Texas has long adhered to Section 757 of the Restatement (First) of Torts, which defines trade secrets as:

5. *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642, 645 (Tex. 1994).

6. *Id.* at 647 n.14.

7. Unif. Trade Secrets Act §§ 1-12, 14 U.L.A. 437-67 (1979) (amended 1985) (UTSA). The Uniform Trade Secrets Act was adopted by forty-three states and the District of Columbia. These states are: ALASKA STAT. § 45.50.910 (1988); ARIZ. REV. STAT. § 44-401 (1990); ARK. CODE ANN. § 4-75-601 (1981); CAL. CIV. CODE § 3426 (Deering 1981); COLO. REV. STAT. § 7-74-101 (1986); CONN. GEN. STAT. § 35-50 (1983); DEL. CODE ANN. tit. 6, § 2001 (1982); D.C. CODE ANN. § 36-401(1989); FLA. STAT. ANN. § 688.001 (West 1988); GA. CODE ANN. § 10-1-760 (1990); HAW. REV. STAT. ANN. § 482B-1 (Michie 1989); IDAHO CODE § 48-801 (Michie 1981); 765 ILL. COMP. STAT. 1065/1 (1988); IND. CODE § 24-2-3-1 (Michie 1982); 1990 IOWA ACTS 1201; KAN. STAT. ANN. § 60-3320 (1981); KY. REV. STAT.

[A]ny formula, pattern, device, or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see § 759) in that it is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount of other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or a device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article.⁸

Because a precise definition is impracticable,⁹ the Restatement (First) of Torts identifies six factors for the courts to weigh when deciding whether a process or device constitutes a trade secret.¹⁰ First, the information must not be readily available to the public.¹¹ Second, the number of employees and those involved in the business who have knowledge of the information must be limited.¹² Third, the proprietor must take affirmative measures to protect the

ANN. § 365.880 (Michie 1990); LA. REV. STAT. ANN. § 51:1431 (West 1981); ME. REV. STAT. ANN. tit. 10, §§ 1541-1548 (West 1987); MD. CODE ANN. COM. LAW I § 11-1201 (1989); MICH. COMP. LAWS § 445.1901 (1998); MINN. STAT. ANN. § 325C.01 (West 1981); MO. REV. STAT. § 417.450 (1995); MISS. CODE ANN. §75-26-1 (1990); MONT. CODE ANN. § 30-14-401(1985); NEB. REV. STAT. § 87-501 (1988); NEV. REV. STAT. § 600A.010 (1987); N.H. REV. STAT. ANN. § 350-B:1 (1990); N.M. STAT. ANN. § 57-3A-1 (Michie 1989); N.C. GEN. STAT. § 66-152 (1981); N.D. CENT. CODE § 47-25.1-01 (1983); OHIO REV. CODE ANN. § 1333.61 (West 1994); OKLA. STAT. ANN. tit. 78, § 85 (West 1986); OR. REV. STAT. § 646.461 (1986); R.I. GEN. LAWS § 6-41-1 (1986); S.C. CODE ANN. § 39-8-1 (Law. Co-op. 1992); S.D. CODIFIED LAWS § 37-29-1 (1988); TENN. CODE ANN. § 47-25-1701-1709 (2000); UTAH CODE ANN. § 13-24-1(1989); VT. STAT. ANN. tit. 9, § 4601 (1996); VA. CODE ANN. § 59.1-336 (Michie 1986); WASH. REV. CODE ANN. § 19.108.010 (West 1982); W. VA. CODE ANN. § 47-22-1 (1986); WIS. STAT. ANN. § 134.90 (West 1986). The following states have trade secret statutes that are not modeled after the Uniform Trade Secrets Act: ALA. CODE § 8-27-1 (1986); MASS. ANN. LAWS ch. 93, § 42 (Law. Co-op. 1967). Finally, in addition to Texas, the following states protect trade secrets under the common law: New Jersey, New York, Pennsylvania, and Wyoming.

8. Restatement (FIRST) OF TORTS § 757 cmt. b (1939).

9. *Lear Siegler, Inc. v. Ark-Ell Springs, Inc.*, 569 F.2d 286, 288 (5th Cir. 1978).

10. Restatement (FIRST) OF TORTS § 757 cmt. b (1939).

11. *Id.*

12. *Id.*

secrecy of the information.¹³ Fourth, the proprietor must believe the information is of great value.¹⁴ Fifth, the proprietor must invest time, effort and money in developing the information.¹⁵ Finally, the last factor a court will consider is whether the information is difficult to duplicate.¹⁶

To qualify as a trade secret, information need not be new or patentable; it need only contain a "substantial element" of secrecy.¹⁷ More importantly, the Restatement (First) of Torts affords trade secret protection to valuable non-trade secret information disclosed in confidential relationships or gained through improper or illegal means.¹⁸ In *Hyde Corp. v. Huffines*¹⁹ and *K & G Oil Tool & Service Co. v. G & G Fishing Tool Service*,²⁰ two cases decided on the same day, the Texas Supreme Court reaffirmed this definition, holding that "[t]he generally accepted definition of a 'trade secret' is that contained in the Restatement of Torts."²¹ Here, as in the Restatement (First) of Torts, the definition adopted is less expansive than the UTSA's.²² Typically, the UTSA focuses more on the information than on its commercial use;²³ the enumerated examples are not exhaustive and the information need not be of a busi-

13. *Id.*

14. *Id.*

15. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

16. *Id.*

17. *Id.*

18. *Id.*

19. 158 Tex. 566, 314 S.W.2d 763 (1958). The court quoted Section 757 of the Restatement (First) of Torts and held a trade secret existed because the parties entered into a confidential agreement before the patent was issued. *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 776 (1958).

20. 158 Tex. 594, 314 S.W.2d 782 (1958). This court was also quoting Section 757 of the Restatement (First) of Torts. *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 314 S.W.2d 782, 789 (1958).

21. *Huffines*, 314 S.W.2d at 776.

22. Unif. Trade Secrets Act § 1(4), 14 U.L.A. 438 (1979) (amended 1985). The UTSA defines trade secrets as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that:
 derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
 is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Id.

23. *Id.*

ness nature or require continuous use in order to qualify as a trade secret.²⁴

B. *Deciding Whether a Misappropriation Claim Has Merit*

Traditionally, before granting trade secret protection, the court examining the misappropriation claim began by identifying the trade secret, and then decided whether a confidential relationship existed between the parties.²⁵ This is precisely what Justice Holmes held in *E. I. duPont de Nemours Powder Co. v. Masland*,²⁶ in which he announced that the foundation of a trade secret claim rests not with “[w]hether the plaintiffs have any valuable secret . . . but that the defendant stood in confidential relations with the plaintiffs, or one of them.”²⁷ This holding was resurrected in *Hyde*, which also held that “the gravamen” of a trade secret suit “is the breach of confidence.”²⁸

Six years later, the focus shifted from the confidential relationship back to the original factors established by the Restatement (First) of Torts.²⁹ From a long, unbroken line of Texas cases, two legal principals were adduced. The first consisted of determining whether a device or process fell within the parameter identified by the Restatement (First) of Torts.³⁰ The second required courts to

24. RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

25. *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d. 763, 770 (1958).

26. 244 U.S. 100 (1917).

27. *E. I. duPont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102 (1917).

28. *Huffines*, 314 S.W.2d. at 770.

29. RESTATEMENT (FIRST) OF TORTS § 757 cmt. a, b (1939).

30. *See Luccous v. J.C. Kinley Co.*, 376 S.W.2d 336, 340 (Tex. 1964) (refusing to prevent the defendant from using information in a patent that had expired because its contents became public); *see also Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1179 (5th Cir. 1983) (holding a customer list to be a trade secret); *Weightman v. State*, 975 S.W.2d 621, 624 (Tex. Crim. App. 1998) (en banc) (determining that employee non-disclosure agreements, plant security, and restricted access by third parties to drawings, support a finding that the manufacturer maintained substantial secrecy); *John Paul Mitchell Sys. v. Randalls Food Mkts.*, 17 S.W.3d 721, 738 (Tex. App.—Austin 2000, pet. denied) (holding that a defendant's list of suppliers did not qualify as a trade secret); *Birnbaum v. Alliance of Am. Insurers*, 994 S.W.2d 766, 783 (Tex. App.—Austin 1999, pet. denied) (concluding that market report information disclosing insurance sales by zip code was a trade secret); *H.E. Butt Grocery Co. v. Moody's Quality Meats*, 951 S.W.2d 33, 39 (Tex. App.—Corpus Christi 1997, writ denied) (holding that the process for marinating fajitas was commonly known, had been published, was widely distributed in the industry, and therefore not a trade secret); *Stewart & Stevenson v. Serv-Tech, Inc.*, 879 S.W.2d 89, 95-96, 104 (Tex. App.—Houston [14th Dist.] 1994, writ denied) (explaining that there must be an instruc-

establish whether the defendant misappropriated and used the information that had been identified as a trade secret.³¹

After a careful examination of these earlier decisions, the Fifth Circuit made clear that liability for misappropriation of trade secrets settles on "(1) the existence of a trade secret, (2) the breach of a confidential relationship or the improper discovery of a trade secret, (3) the use of the trade secret, and (4) the award of appropriate damages."³² Thus, in construing a misappropriation claim, Texas courts have held, among other things, that equipment,³³ processes,³⁴ software,³⁵ tapes,³⁶ drawings,³⁷ customer lists,³⁸ forms,

tion to support a jury verdict that the alleged confidential information must be secret); *Schalk v. State*, 823 S.W.2d 633, 636 (Tex. Crim. App. 1991) (en banc) (finding that secrecy maintained by employment agreements, strict plant security, restricted computer access, non-authorization of disclosure, were adequate to maintain trade secret status); *Am. Precision Vibrator Co. v. Nat'l Air Vibrator Co.*, 764 S.W.2d 274, 276 (Tex. App.—Houston [1st Dist.] 1988, no writ) (holding that customer cards, blueprints and drawings were trade secrets); *Numed, Inc. v. McNutt*, 724 S.W.2d 432, 435 (Tex. App.—Fort Worth 1987, no writ) (stating that the information was not a trade secret because it was contained in contracts distributed to the plaintiff's customers); *Thermotics, Inc. v. Bat-Jac Tool Co., Inc.*, 541 S.W.2d 255, 260 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ) (concluding that improvements made to a drilling tool after it was patented were still secret and entitled to protection); *Arrow Chem. Corp. v. Anderson*, 386 S.W.2d 309, 312 (Tex. Civ. App.—Dallas 1965, writ ref'd n.r.e.) (observing that the formula was developed by a third party long before plaintiff's use and was generally known to those in the business); *Furr's, Inc. v. United Specialty Adver. Co.*, 385 S.W.2d 456, 459 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.) (holding that a trade secret was involved, because a confidential relationship did not exist between the parties for information to be improperly obtained through breach of confidence).

31. *See Ventura Mfg. Co. v. Locke*, 454 S.W.2d 431, 433 (Tex. Civ. App.—San Antonio 1970, no writ) (holding the plaintiff is entitled to discovery to determine whether the defendant used the alleged process); *see also Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 476 (1974) (declaring the holder of a trade secret is protected from those who obtain knowledge through "improper means"); *Atl. Richfield Co. v. Misty Prods.*, 820 S.W.2d 414, 422 (Tex. App.—Houston [14th Dist.] 1991, writ denied) (finding the plaintiff did not prove the defendant's use or disclosure of soap formula, confidential financial data or customer data).

32. *See Hurst v. Hughes Tool Co.*, 634 F.2d 895, 896 (5th Cir. 1981) (holding that Hurst did not take steps to protect his trade secret and that Hughes did not breach confidentiality or acquire the information through improper means).

33. *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 314 S.W.2d 782, 790 (1958).

34. *See E. I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1015-16 (5th Cir. 1970) (declaring that obtaining "knowledge of a process without spending the time and money to discover it independently is *improper* unless the holder voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy").

35. *See Schalk v. State*, 823 S.W.2d 633, 636 (Tex. Crim. App. 1991) (affirming that computer programs are trade secrets).

and procedures qualify as trade secrets.³⁹ Furthermore, confidential relationships may be expressly affirmed in such instruments as licenses, employment agreements, nondisclosures, and covenant not to compete agreements.⁴⁰ It is possible, however, to infer the existence of confidentiality by “viewing the picture as a whole”;⁴¹ in other words, by scrutinizing the words and actions of the parties that may have given rise to a protected confidential relationship.⁴²

Courts also examine whether the means used to misappropriate trade secrets “fall below the generally accepted standards of commercial morality and reasonable conduct.”⁴³ To this effect, Section 757, comment f, of the Restatement (First) of Torts provides an evolving, non-exhaustive list of wrongful acts that give rise to liability. They include breaking into a business or physically assaulting an individual to steal a formula and “fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage.”⁴⁴ It is important to note that while “black hat” or wrongful acts give rise to liability, “white hat” acts do not.⁴⁵ “White hat” acts consist of instances where an individual acquires

36. *Id.* at 635.

37. *See* *Am. Precision Vibrator Co. v. Nat'l Air Vibrator Co.*, 764 S.W.2d 274, 276 (Tex. App.—Houston [1st Dist.] 1988, no writ) (holding that drawings qualify as trade secrets); *see also* *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1123 (5th Cir. 1991) (finding drawings and an architectural plan constitute trade secrets).

38. *See Am. Precision Vibrator Co.*, 764 S.W.2d at 276 (finding customer cards to be trade secrets); *Numed Inc. v. McNutt*, 724 S.W.2d 432, 435 (Tex. App.—Fort Worth 1987, no writ) (refusing to grant trade secret protection to customers lists that are made public); *Collins v. Ryon's Saddle & Ranch Supplies, Inc.*, 576 S.W.2d 914, 915 (Tex. Civ. App.—Fort Worth 1979, no writ) (affirming the grant of an injunction to prevent a former employee from using a customer list obtained from a former employer).

39. *See Gonzales v. Zamora*, 791 S.W.2d 258, 266 (Tex. App.—Corpus Christi 1990, no writ) (finding that forms and procedures are trade secrets).

40. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. j (1939) (offering situations in which there is a breach of confidence); RESTATEMENT OF AGENCY §§ 395-96 (1958).

41. *See Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 777 (1958) (noting that an express confidentiality agreement is not required for a finding of trade secret misappropriation).

42. *Id.*

43. RESTATEMENT (FIRST) OF TORTS § 757 cmt. f (1939); *see also* *E. I. duPont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1017 (5th Cir. 1970) (stating that “thou shall not appropriate a trade secret through deviousness under circumstances in which countervailing defenses are not reasonably available”).

44. RESTATEMENT (FIRST) OF TORTS § 757 cmt. f (1939); *see also Christopher*, 431 F.2d at 1017 (holding that “[i]mproper” will always be a word of many nuances, determined by time, place, and circumstances”).

45. RESTATEMENT (FIRST) OF TORTS § 757 cmt. f, g (1939).

the information through independent discovery, public disclosure, reverse engineering, or in situations where the owner failed to take adequate steps to protect the trade secret.⁴⁶ Moreover, a person who knowingly misappropriates a trade secret may not be liable unless he or she puts that information to commercial use.⁴⁷ "Commercial use" has been defined broadly as the exercise of dominion and control over the misappropriated trade secret,⁴⁸ and, more restrictively, as profiting by using a trade secret for the purpose for which it was designed.⁴⁹ Finally, once a finding is made as to the first three elements, the courts usually make a determination as to the appropriate pecuniary or equitable remedy.⁵⁰

C. Available Remedies

1. Pecuniary Relief

a. Plaintiff's Losses

Having lost profits due to the wrongdoer's misappropriation and use of a trade secret, a plaintiff may be able to recover actual damages.⁵¹ Because the plaintiff may have already lost the exclusive competitive edge in the market, Texas courts have also allowed for the recovery of costs associated with the research and development

46. *Christopher*, 431 F.2d at 1015-16. The court explained:

[O]ne may use his competitor's secret process if he discovers the process by reverse engineering applied to the finished product; one may use a competitor's process if he discovers it by his own independent research; but one may not avoid these labors by taking the process from the discoverer without his permission at a time when he is taking reasonable precautions to maintain its secrecy. To obtain knowledge of a process without spending the time and money to discover it independently is *improper* unless the holder voluntarily discloses it or fails to take reasonable precautions to ensure its secrecy.

Id.

47. *See Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1205 (5th Cir. 1986) (holding that if misappropriated trade secrets are not put into commercial operation as a product it can then use, "then no commercial use has occurred").

48. *Metallurgical Indus., Inc.*, 790 F.2d at 1205; *Univ. Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 542 (5th Cir. 1974).

49. *See Metallurgical Indus., Inc.*, 790 F.2d at 1205 (finding directed verdict appropriate because plaintiff failed to prove defendant gained from misappropriation).

50. *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. e (1939) (explaining that an owner of a trade secret is "entitled to a remedy or remedies appropriate under the circumstances").

51. *See K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 314 S.W.2d 782, 787 (1958) (finding that where there is a "violation of a confidence and the breach of a contract . . . the injured party is entitled to full relief").

of a trade secret.⁵² The plaintiff, however, bears the burden of proving with reasonable certainty that the losses incurred are a direct result of the misappropriation or breach of a confidential relationship.⁵³ The loss assessment “must be based on objective facts, figures, or data” or else relief will be denied.⁵⁴ In *Elcor Chemical Corp. v. Agri-Sul, Inc.*,⁵⁵ the court reversed a damage award because the plaintiff had not provided an objective assessment of the incurred losses.⁵⁶

b. Accounting of the Defendant’s Profits

Recognizing the evidentiary difficulties a plaintiff encounters when trying to recover damages for actual losses, the Restatement (First) of Torts and the Texas courts authorize an accounting of the wrongdoer’s profits as a more efficient method of determining a plaintiff’s damages.⁵⁷ However, the courts may not be able to award damages in cases where the wrongdoer failed to use and, therefore, did not profit from the misappropriated trade secret.⁵⁸

c. Reasonable Royalty Standard

Texas courts have adopted and favored the reasonable royalty standard when neither the plaintiff’s losses nor the defendant’s profits can be reasonably ascertained.⁵⁹ The reasonable royalty standard allows the courts to inquire as to “what the parties would have agreed upon, if both were reasonably trying to reach [an] agreement.”⁶⁰ This situation creates a hypothetical licensing agree-

52. RESTATEMENT (FIRST) OF TORTS § 757 cmt. e (1939).

53. *Houston Mercantile Exch. Corp. v. Dailey Petroleum Corp.*, 930 S.W.2d 242, 248 (Tex. App.—Houston [14th Dist.] 1996, no writ).

54. *Id.*

55. 494 S.W.2d 204 (Tex. Civ. App.—Dallas 1973, writ ref’d n.r.e.).

56. *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 214 (Tex. Civ. App.—Dallas 1973, writ ref’d n.r.e.).

57. *Id.* at 214; RESTATEMENT (FIRST) OF TORTS § 757 cmt. e (1939).

58. See Paul M. Janicke, *Commentary Issues in Patent Damages*, 42 Am. U. L. Rev. 691, 717 (1993) (discussing the problems related to damage estimates in a patent context).

59. *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1208 (5th Cir. 1986); *Molex, Inc. v. Nolen*, 759 F.2d 474, 479 (5th Cir. 1985); *Sykes v. McGraw-Edison Co.*, 665 F.2d 731, 737 (5th Cir. 1982); *Univ. Computing Corp. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 537 (5th Cir. 1974); *Elcor Chem. Corp.*, 494 S.W.2d at 213-14.

60. See *Univ. Computing Corp. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 537 (5th Cir. 1974) (quoting *Egry Register Co. v. Standard Register Co.*, 23 F.2d 438, 443 (6th Cir. 1928)).

ment in which reasonable royalty is measured not by a simple percentage of actual profits, but by four factors initially recognized by the Sixth Circuit Court in *Vitro Corp v. Hall Chemical Co.*,⁶¹ and later adopted by the Fifth Circuit Court.⁶² In dealing with reasonable royalty, the Fifth Circuit held that:

In calculating what a fair licensing price would have been had the parties agreed, the trier of fact should consider such factors as the resulting and foreseeable changes in the parties' competitive posture; the prices past purchasers or licensees may have paid; the total value of the secret to the plaintiff, including the plaintiff's development costs and the importance of the secret to the plaintiff's business; the nature and extent of the use the defendant intended for the secret, and finally whatever other unique factors in the particular case might have affected by the parties' agreement, such as the ready availability of alternative process.⁶³

In other words, the reasonable royalty standard considers other economic factors when lost revenues are not clearly ascertainable.⁶⁴

d. Punitive Damages

In some cases, courts have recognized the need to go beyond compensatory damages when "the defendant's actions are fraudulent or malicious."⁶⁵ Thus, proof of malice or willful fraudulent behavior is a prerequisite to an award of punitive damages.⁶⁶ The Waco court in *U.S. Sporting Products, Inc. v. Johnny Stewart Game*

61. 292 F.2d 678 (6th Cir. 1961).

62. *Metallurgical Indus., Inc.*, 790 F.2d at 1208.

63. *See id.* (quoting *Univ. Computing Corp. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539 (5th Cir. 1974)).

64. *Univ. Computing Corp.*, 504 F.2d at 537; *see also* *Thermotics, Inc. v. Bat-Jac Tool Co.*, 541 S.W.2d 255, 258-59 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ) (explaining that a plaintiff's lost sales may be due to other economic factors).

65. *See* *Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174, 1180 (5th Cir. 1983) (finding that when "key employees . . . violated the employer's trust," the court properly awarded exemplary damages); *U.S. Sporting Prods., Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214, 219-20 (Tex. App.—Waco 1993, writ denied) (holding that "both compensatory and exemplary damages are recoverable for misappropriation in addition to injunctive relief").

66. *See* RESTATEMENT (FIRST) OF TORTS § 908 cmt. c (1939) (stating that "the improper motive of the tortfeasor is both a necessary element in the cause of action and a reason for awarding punitive damages").

*Calls, Inc.*⁶⁷ held that malice had to be either actual or implied in order to support a punitive damage award.⁶⁸ Generally, actual malice is considered as “ill-will, spite, evil motive, or purposing the injuring of another,”⁶⁹ while implied malice exists when the wrongdoer “knowingly, willfully, and deliberately” misappropriates trade secrets without just cause or excuse.⁷⁰ Still, the court concluded that “implied or legal malice” rather than actual malice “is the appropriate standard for assessing exemplary damages for misappropriation,”⁷¹ thereby lowering the threshold for granting punitive damages. The court reasoned that “to allow compensatory damages without exemplary damages would serve as no deterrent because a defendant would, in effect, be only made to return what was not his in the first place.”⁷²

2. Injunctive Relief

There are instances in which the only available remedy for wrongful use and disclosure of a trade secret may be an injunction.⁷³ This scenario presents itself in cases where courts are unable to ascertain pecuniary damages due to the irreparable nature of an injury⁷⁴ or the plaintiff’s failure to prove losses with reasonable certainty.⁷⁵ Then again, a court may award both pecuniary *and* eq-

67. 865 S.W.2d 214 (Tex. App.—Waco 1993, writ denied).

68. *U.S. Sporting Prods., Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214, 222 (Tex. App.—Waco 1993, writ denied).

69. *Id.* (quoting *Clements v. Withers*, 437 S.W.2d 818, 822 (Tex. 1969)).

70. *Id.* (citing *Transfer Prods., Inc. v. Texpar Energy, Inc.*, 788 S.W. 2d 713, 715 (Tex. App.—Corpus Christ 1990, no writ); *Horton v. Robinson*, 776 S.W.2d 260, 265 (Tex. App.—El Paso 1989, no writ)).

71. *Id.*

72. *Id.* at 219.

73. *See Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d 763, 773 (1958) (noting that an award of damages in a claim for patent infringement might be inadequate and courts have a tendency to protect a recognized legal right, although an injunction will not always provide adequate relief).

74. *See Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230, 235 (Tex. App.—Houston [1st Dist.] 2003, no pet.) (overruling *Norlyn Enters., Inc. v. APDP, Inc.*, 95 S.W.3d 578 (Tex. App.—Houston [1st Dist.] 2002, no pet.)); *Butler v. Arrow Mirror & Glass, Inc.*, 51 S.W.3d 787, 795 (Tex. App.—Houston [1st Dist.] 2001, no pet.) (holding that a plaintiff may not have to show irreparable harm if the enforcement of a covenant not to compete is governed by state statute).

75. *Huffines*, 314 S.W.2d at 773. The Texas Supreme Court explained that:

[T]he injunction should ordinarily operate as a corrective rather than a punitive measure, but when, through inadequacies in the processes and methods of the law, a

uitable relief when damages alone do not put the plaintiff back in the original position held before the misappropriation.⁷⁶

In evaluating an injunctive request, courts look at the evidence presented by the plaintiff for proof of injury because it will not issue an injunction on a mere presumption of an injury.⁷⁷ Indeed, Rule 683 of the Texas Rules of Civil Procedure explains that "[e]very order granting an injunction and every restraining order shall set forth the reasons for its issuance; shall be specific in terms; shall describe in reasonable detail and not by reference to the complaint or other document, the act or acts sought to be restrained."⁷⁸ Typically, injunctions are issued in cases where a former employee had access to confidential information, then left his employer to work for a competitor and could inevitably disclose the confidential information or trade secret.⁷⁹ To prevent the former employee from using, disclosing, or benefiting from trade secrets, a court has the discretion to grant either a temporary or a permanent injunction.⁸⁰ On the one hand, the protection afforded by a temporary

choice must be made between the possible punitive operation of the writ and the failure to provide adequate protection of a recognized legal right, the latter course seems indicated and the undoubted tendency of the law has been to recognize and enforce higher standards of commercial morality in the business world.

Id.; see also *Williams v. Compressor Eng'g Corp.*, 704 S.W.2d 469, 471 (Tex. App.—Houston [14th Dist.], writ ref'd n.r.e.) (indicating that irreparable injury happens when an injured party cannot be adequately compensated and injury cannot be measured by any monetary standard).

76. See *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 S.W.2d 1195, 1208 (5th Cir. 1986) (allowing the plaintiff to prove its point on retrial to recover monetary and injunctive relief); *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 314 S.W.2d 782, 784 (1958) (reinstating the trial court's award of monetary and injunctive relief); *Huffman*, 314 S.W.2d at 765 (affirming both a money judgment and equitable relief to plaintiff); *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 212 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.) (reiterating the "well established rule of law . . . equity will grant relief in the form of monetary damages as well as injunction to restrain the use of such secret"); *Furr's, Inc. v. United Specialty Adver. Co.*, 385 S.W.2d 456, 459 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.) (reversing the trial court's judgment of monetary damages and injunctive relief on other grounds).

77. See *Camp v. Shannon*, 162 Tex. 515, 348 S.W.2d 517, 519 (1961) (stating that "[t]he applicant has, and in equity and good conscience ought to have, the burden of offering some evidence which, under applicable rules of law, establishes a probable right of recovery. . . . If he cannot or does not discharge his burden he is not entitled to extraordinary relief.").

78. TEX. R. CIV. P. 683.

79. *Sykes v. McGraw-Edison Co.*, 665 F.2d 731, 736-37 (5th Cir. 1982).

80. See *Elcor Chem. Corp.*, 494 S.W.2d at 211 (determining that an injunction granted by the trial court was "too limited in its scope" and instead the "injunction should have

injunction can, for example, expire upon grant of a patent.⁸¹ On the other hand, a permanent injunction serves as a punishing tool, as it deprives the wrongdoer from using the trade secret even when the information has been made public.⁸² A few Texas courts have adopted the “head start” theory, which allows for the issuance of an injunction to prevent the wrongdoer from misappropriating the trade secret and using it to enhance his or her marketing advantage.⁸³ Many other courts, though, have granted injunctions to remove the marketing advantage of the “lead time” saved through misappropriation; in other words, the time the wrongdoer would have had to spend researching and developing the trade secret.⁸⁴ The injunction should be limited in scope and be of sufficient duration as to remove any competitive advantage the wrongdoer gained through misappropriation and use of a trade secret.⁸⁵ Once the court is satisfied with the evidence presented by the plaintiff, the burden shifts to the wrongdoer to show the unreasonableness of the injunctive relief, especially in cases where the plaintiff is seeking a permanent injunction.⁸⁶

perpetually” enjoined the defendant); *see also* Scott D. Marrs, *Trade Secrets—Preliminary Relief in Trade Secret Cases*, 61 TEX. B.J. 880, 884-87 (1998) (summarizing temporary relief).

81. *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150, 156 (2d Cir. 1949).

82. *Bryan v. Kershaw*, 366 F.2d 497, 501 (5th Cir. 1966) (citing *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 778 (1958)); *see also* *Atlas Bradford Co. v. Tuboscope Co.*, 378 S.W.2d 147, 149 (Tex. Civ. App.—Waco 1964, no writ) (noting that wrongful acts may deprive a person of the ordinary rights he or she would have as a member of society). *See generally* D. Kirk Jamieson, *Just Deserts: A Model to Harmonize Trade Secret Injunctions*, 72 NEB. L. REV. 515, 516-19 (1993) (describing the “two models [used] for calculating an injunctive period”).

83. *See* *Hyde Corp. v. Huffines*, 158 Tex. 566, 314 S.W.2d. 763, 773-75 (1958) (allowing for the issuance of an injunction despite disclosures to the public in patent applications).

84. *Garth & RTB Tech., Inc. v. Staktek Corp.*, 876 S.W.2d 545, 549 (Tex. App.—Austin 1994, writ *dism'd w.o.j.*).

85. *See* *Bryan*, 366 F.2d at 499 (finding it wholly inappropriate for an injunction to run for a period of time “necessary to remove the competitive advantage gained through the illegally used trade secrets”).

86. *See* *Huffines*, 314 S.W.2d. at 776 (requiring “the opposing party to show by competent evidence that an order of less duration than a permanent order will afford the injured party adequate protection”).

III. RESTRICTING THE ENFORCEABILITY OF COVENANTS NOT TO COMPETE: TEXAS'S TURBULENT HISTORY

A. *Pre-Hill Decisions (1938-1987): Minor Restrictions*

For over half a century, the Texas courts held covenants not to compete to be enforceable.⁸⁷ Still, in 1960, when the Texas Supreme Court heard its first covenant not to compete case in *Weatherford Oil Tool Co. v. Campbell*,⁸⁸ it acknowledged that a covenant not to compete constituted a restraint on trade; yet it enforced the covenant's terms which it deemed reasonable.⁸⁹ Here, because the Texas Supreme Court placed special importance on the reasonableness of covenants not to compete, it enforced the covenant without awarding damages to the plaintiff because the territorial restrictions incorporated therein constituted an unreasonable restraint on trade.⁹⁰

Following suit, the lower courts continued to enforce covenants not to compete while striking down those that were unreasonably broad, thereby affording protection to the employer's business interest.⁹¹ In keeping with the *Weatherford* decision, these courts also reformed unreasonable covenants not to compete to ensure

87. *Weatherford Oil Tool Co. v. Campbell*, 161 Tex. 310, 340 S.W.2d 950, 952 (1960); *Spinks v. Riebold*, 310 S.W.2d 668, 669 (Tex. Civ. App.—El Paso 1958, writ ref'd); *Ofsowitz v. Askin Stores, Inc.*, 306 S.W.2d 923, 924 (Tex. Civ. App.—Eastland 1958, writ ref'd); *Blaser v. Linen Serv. Corp. of Tex.*, 135 S.W.2d 509, 510 (Tex. Civ. App.—Dallas 1938, writ dismissed judgment corrected); *Parisian Live Dryers & Cleaners v. Springfield*, 275 S.W. 1098, 1099 (Tex. Civ. App.—Galveston 1925, writ ref'd).

88. 161 Tex. 310, 340 S.W.2d 950 (1960).

89. *Weatherford Oil Tool Co. v. Campbell*, 161 Tex. 310, 340 S.W.2d 950, 951 (1960).

90. *See id.* (stating that covenants not to compete "will not be enforced in accordance with its terms unless the same are reasonable. . . . [T]he test . . . is whether it imposes upon the employee any greater restraint than is reasonably necessary to protect the business and good will of the employer.").

91. *See, e.g., Cardinal Pers., Inc. v. Schneider*, 544 S.W.2d 845, 848 (Tex. Civ. App.—Houston [14th Dist.] 1976, no writ) (determining that the agreement unreasonably restrained trade); *Vaughan v. Kizer*, 400 S.W.2d 586, 589 (Tex. Civ. App.—Waco 1966, writ ref'd n.r.e.) (holding that the covenant was not reasonable and therefore unenforceable); *Traweck v. Shields*, 380 S.W.2d 131, 133 (Tex. Civ. App.—Tyler 1964, no writ) (finding that the agreement was reasonable).

their enforceability.⁹² Reformation continues today despite Texas's contentious common-law and legislative history.⁹³

In addition, the Texas Supreme Court in *Justin Belt Co. v. Yost*⁹⁴ adopted a second enforcement condition which required covenants not to compete to be "ancillary to and in support of another contract."⁹⁵ Stated differently, a separate and valid employment contract had to support the covenants not to compete.⁹⁶ Thus, in a number of cases the Texas Supreme Court held that covenants not to compete were ancillary to a range of contractual relationships, including settlement agreements,⁹⁷ leasing agreements,⁹⁸ contracts for the sale of a business,⁹⁹ and partnership agreements.¹⁰⁰

92. See *Campbell*, 340 S.W.2d at 952 (opining that "although the territory or period stipulated by the parties may be unreasonable, a court of equity will nevertheless enforce the contract by granting an injunction restraining the defendant from competing for a time and within an area that [is] reasonable under the circumstances"); see also *Justin Belt Co. v. Yost*, 502 S.W.2d 681, 685 (Tex. 1973) (affirming the trial court's reformation of a noncompete agreement that contained no limitation as to time or duration); *Evan's World Travel, Inc. v. Adams*, 978 S.W.2d 225, 233 (Tex. App.—Texarkana 1998, no writ) (reforming a covenant not to compete because it imposed unreasonable geographic restrictions).

93. See generally *Adams*, 978 S.W.2d at 233 (finding that the covenant not to compete contained an unreasonable geographic restriction); *McNeilus Cos., Inc. v. Sams*, 971 S.W.2d 507, 511 (Tex. App.—Dallas 1997, no writ) (prohibiting the defendant from working in any capacity for a competitor was a restraint too broad in scope); *John R. Ray & Sons, Inc. v. Stroman*, 923 S.W.2d 80, 85 (Tex. App.—Houston [14th Dist.] 1996, writ denied) (concluding that there were unreasonable restrictions on the scope of activity and no limitation on time); *Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654, 661 (Tex. App.—Dallas 1992, no writ) (holding a covenant unreasonable because of the broad geographic scope).

94. 502 S.W.2d 681 (Tex. 1973).

95. *Justin Belt Co. v. Yost*, 502 S.W.2d 681, 683 (Tex. 1973).

96. *Id.*

97. See *id.* (finding that the non-compete agreement was ancillary to a dispute settlement agreement).

98. See *City Prods. Corp. v. Berman*, 610 S.W.2d 446, 450 (Tex. 1980) (determining that a non-compete clause did prevent partners from leasing property to competitors of the partnership).

99. See *Hanks v. GAB Bus. Servs., Inc.*, 644 S.W.2d 707, 708 (Tex. 1982) (recognizing a covenant not to compete as an independent promise in a contract).

100. See *Henshaw v. Kroenecke*, 656 S.W.2d 416, 418 (Tex. 1983) (opining that a covenant not to compete agreement was an integral part of the partnership agreement and therefore enforceable by the plaintiff).

B. *Hill and Its Progeny (1987-1988): Major Restrictions and Confusion*¹⁰¹

The common law concerning non-compete agreements in Texas was fairly stable until 1982 when the Texas Supreme Court decided *Hill v. Mobile Auto Trim, Inc.*¹⁰² In this case, the non-compete agreement restricted the former franchisee, Hill, from competing in seven counties for three years.¹⁰³ Before enforcing a non-compete agreement, the Texas Supreme Court applied a more restrictive, four-pronged test to the case.¹⁰⁴ First, the promisee must have a legitimate interest in protecting his business or trade secret.¹⁰⁵ Second, the non-compete agreement must not unreasonably burden the promisor.¹⁰⁶ Third, the terms of the restrictive covenant must not injure the public by preventing competition and depriving the public of necessary goods.¹⁰⁷ Fourth, the Texas Supreme Court for the first time held that a promisee must give consideration for something of value from the promisor.¹⁰⁸ Hill failed to meet three of the four requirements and, as a result, the Texas Supreme Court refused to enforce the non-compete agreement.¹⁰⁹

Although the language in *Hill* favored the enforcement of restrictive non-compete agreements, the Texas Supreme Court managed to nullify that effect through its adoption of the "common callings" test.¹¹⁰ A person's "aptitudes, his skill, his dexterity, his manual or mental ability" are his own and not "his master's property."¹¹¹ Therefore, a non-compete agreement that restricts these

101. See generally Jeffrey W. Tayon, *Covenants Not to Compete in Texas: Shifting the Sands from Hill to Light*, 3 TEX. INTELL. PROP. L.J. 143 (1995) (listing and detailing both the Texas Supreme Court cases dealing with covenants not to compete and the legislature's responses to the decisions rendered in those cases).

102. 725 S.W.2d 168 (Tex. 1987).

103. *Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168, 169-70 (Tex. 1987).

104. *Id.* at 170.

105. *Id.* at 170-71.

106. *Id.* at 171 (citing *Frankiewicz v. Nat'l Comp. Assoc.*, 633 S.W.2d 505, 507 (Tex. 1982)).

107. *Id.* at 171.

108. *Hill*, 725 S.W.2d at 171.

109. *Id.* at 172.

110. See *id.* (stating that "a man's talents are his own" and "[a]bsent clear and convincing proof to the contrary, there must be a presumption that he has not bargained away the future use of those talents").

111. *Id.* (quoting Samuel Williston, A TREATISE ON THE LAW OF CONTRACTS § 1646 (rev. ed. 1937)).

personal "talents" or common callings is unenforceable.¹¹² This dichotomy between the four-pronged test and the common callings test created ambiguities which forced the lower courts in Texas to continue enforcing non-compete agreements as they had done prior to the *Hill* decision.¹¹³

The common calling test was later applied successfully to *Bergman v. Norris of Houston*.¹¹⁴ There, the Texas Supreme Court held that hairstyling was a common calling and refused to enforce the non-compete agreement even though the four former hairstylists had signed the agreement, left en masse, and went to work for a competitor.¹¹⁵ The Texas Supreme Court justified its holding by pointing out that the stylists' actions did not involve the sale of a business nor specialized knowledge or information.¹¹⁶ It further pointed out that the stylists had "acquired new customers through referrals and personal solicitations" and there "was little walk-in business and no advertising to obtain new customers."¹¹⁷ The *Bergman* decision, however, had little effect on the lower courts which continued to routinely enforce covenants not to compete;¹¹⁸

112. See *id.* (refusing to enforce a covenant not to compete that bargains away the promisor's talents and abilities without clear and convincing evidence).

113. See *Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168, 173 (Tex. 1987) (recognizing this ambiguity, stating, "For reasons not pled, argued or briefed, the court ignores well established Texas precedent and announces a new rule that puts into question the validity of covenants not to compete in franchise agreements."); *DeSantis v. Wackenhut*, 732 S.W.2d 29, 32-33 (Tex. App.—Houston [14th Dist.] 1987), *aff'd in part, rev'd in part*, 793 S.W.2d 670 (Tex. 1990) (upholding a covenant not to compete); *Unitel Corp. v. Decker*, 731 S.W.2d 636, 641 (Tex. App.—Houston [14th Dist.] 1987, no writ) (applying the *Hill* test and upholding the agreement).

114. 734 S.W.2d 673 (Tex. 1987).

115. *Bergman v. Norris of Houston*, 734 S.W.2d 673, 674 (Tex. 1987).

116. *Id.*

117. *Id.*

118. See *B. Cantrell Oil Co. v. Hino Gas Sales, Inc.*, 756 S.W.2d 781, 783 (Tex. App.—Corpus Christi 1988, no writ) (finding an eighteen month covenant in one county enforceable against a management level salesperson); *Bertotti v. C.E. Shepherd Co.*, 752 S.W.2d 648, 654 (Tex. App.—Houston [14th Dist.] 1988, no writ) (holding a two year covenant against competition enforceable against the sales manager); *M.R.S. Datascope, Inc. v. Exch. Data Corp.*, 745 S.W.2d 542, 544, 546 (Tex. App.—Houston [1st Dist.] 1988, no writ) (concluding that a three-year covenant in seven counties was enforceable against a salesperson who sold the business and remained as a salesperson); *Travel Masters, Inc. v. Star Tours, Inc.*, 742 S.W.2d 837, 840 (Tex. App.—Dallas 1987, writ *dism'd w.o.j.*) (enforcing a twenty-four month covenant against contacting customers); *H.H. Chandler v. Mastercraft Dental Corp. of Tex.*, 739 S.W.2d 460, 464 (Tex. App.—Fort Worth 1987, writ denied) (holding a five-year covenant in two states enforceable against sellers of dental equipment manufacturing, sales, and service business who remained as employees).

that is, until the Texas Supreme Court decided *DeSantis v. Wackenhut Corp.* (*DeSantis I*).¹¹⁹ In *DeSantis I*, the Texas Supreme Court began its analysis by holding that DeSantis was not engaged in a common calling because as a professional in the security business he had access to confidential information.¹²⁰ The Texas Supreme Court then went on to apply *Hill's* four-pronged test to the facts of this case, concluding that the covenant not to compete was not supported by valuable consideration and was unenforceable.¹²¹

Of similar effect was *Martin v. Credit Protection Association, Inc.* (*Martin I*),¹²² decided the same day, wherein the Texas Supreme Court held that a salesperson was engaged in a common calling.¹²³ The court refused to enforce the covenant not to compete because giving salespersons access to customer information was insufficient consideration to support the covenant.¹²⁴ Following these twin decisions, a majority of the subsequent appellate courts refused to enforce non-compete agreements,¹²⁵ while a minority of courts restricted their application through reformation.¹²⁶

119. 31 Tex. Sup. Ct. J. 616 (July 13, 1988).

120. See *DeSantis v. Wackenhut Corp.*, 31 Tex. Sup. Ct. J. 616, 620, 1988 Tex. LEXIS 97 (July 13, 1988) (explaining that because DeSantis was "a professional in the security business," and was responsible for "all operations, contracts, proposals and client development for the Houston office," he was not engaged in a common calling).

121. See *id.* (holding that "there is no evidence that DeSantis obtained any special knowledge or training from Wackenhut. DeSantis had more than fourteen years as an established professional in the security business before he joined Wackenhut, including two years experience immediately before joining Wackenhut in the management of security for a large corporation.").

122. 793 S.W.2d 667 (Tex. 1990).

123. *Martin v. Credit Protection Ass'n*, 793 S.W.2d 667, 670 (Tex. 1990).

124. *Id.*

125. See *Peat Marwick Main v. Haass*, 775 S.W.2d 698, 710 (Tex. App.—San Antonio 1989), *rev'd*, 818 S.W.2d 381 (Tex. 1991) (refusing to enforce a liquidated damages provision which the court believed to be overbroad and unreasonable against former partner and accountant); *Cukjati v. Burkett*, 772 S.W.2d 215, 218 (Tex. App.—Dallas 1989, no writ) (affirming the prior summary judgment holding that a three-year covenant for twelve miles against a veterinarian was unenforceable); *Bland v. Henry & Peters, P.C.*, 763 S.W.2d 5, 8 (Tex. App.—Tyler 1988, writ denied) (reversing enforcement of a liquidated damages provision for breach of a two-year covenant by accountant extending services to former clients of accounting firm).

126. See *Posey v. Monier Res., Inc.*, 768 S.W.2d 915, 919 (Tex. App.—San Antonio 1989, writ denied) (affirming the temporary injunction, but limiting the scope of the injunction to prior sales territory for one year against a salesman of concrete products); *French v. Cmty. Broad. of Coastal Bend, Inc.*, 766 S.W.2d 330, 336 (Tex. App.—Corpus Christi 1989, writ *dism'd w.o.j.*) (modifying and affirming the temporary injunction against a television station manager enforcing a three year covenant in viewing area).

C. *The Texas Legislature Reacts (1989-1994): The Five-Year "Pitched Battle" Between the Legislature and the Judiciary*

The Texas Legislature responded to the intense political, business, and commercial pressures to rein in the Texas Supreme Court by enacting the Covenants Not to Compete Act (Act).¹²⁷ The Act overruled the common calling test and codified a more detailed version of the pre-*Hill* common law.¹²⁸ Under the Act, a covenant not to compete is enforceable so long as it (1) is ancillary to an otherwise enforceable agreement,¹²⁹ and (2) contains reasonable and unburdensome limitations.¹³⁰

That very same day, the Texas Supreme Court retaliated in three opinions in which it (1) steadfastly refused to apply the substance of the Act retroactively, (2) evaded the statute, and (3) continued its assault on covenants not to compete.¹³¹ Furthermore, seeking to skirt the statutory requirements, the Texas Supreme Court aban-

127. Act of June 16, 1989, 71st Leg., R.S., ch. 1193, § 1, 1989 Tex. Gen. Laws 4852-53 (amended 1993) (codified at TEX. BUS. & COM. CODE ANN. §§ 15.50-.52). The Act was backed by the Intellectual Property Law Section of the State Bar of Texas along with the Texas Business Law Foundation, the Texas Employment Council, and Senator Whitmire who stated:

It is generally held that these covenants, in appropriate circumstances, encourage greater investment in the development of trade secrets and goodwill employee training, provide contracting parties with a means to effectively and efficiently allocate various risks, allow the freer transfer of property interests, and in certain circumstances, provide the only effective remedy for the protection of trade secrets and good will.

Recent Texas Supreme Court cases (notably *Hill v. Mobile Auto Trim, Inc.*, and *DeSantis v. Wackenhut Corp.*), however, have severely restricted the enforceability of these covenants in franchise and employment settings and raised questions about their use in other previously acceptable circumstances.

Jeffrey W. Tayon, *Covenants Not to Compete in Texas: Shifting the Sands from Hill to Light*, 3 TEX. INTELL. PROP. L.J. 143, 179 (1995) (quoting Senator Whitmire, BILL ANALYSIS, Tex. S.B. 946, 71st Leg., R.S. (1989)).

128. Act of June 16, 1989, 71st Leg., R.S., ch. 1193, § 1, 1989 Tex. Gen. Laws 4852-53 (amended 1993) (codified at Tex. Bus. & Com. Code Ann. §§ 15.50-.54).

129. TEX. BUS. & COM. CODE ANN. § 15.50 (West Supp. 1995).

130. *Id.*

131. *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 684-85 (Tex. 1990) (*DeSantis II*) (declaring the covenant not to compete was unreasonable and therefore unenforceable and failing to address whether the Act applied retroactively); *Martin v. Credit Prot. Ass'n*, 793 S.W.2d 667, 669 (Tex. 1990) (*Martin II*) (applying case law rather than the Act in a covenant not to compete action); *Juliette Fowler Homes, Inc. v. Welch Assoc., Inc.*, 793 S.W.2d 660, 662 (Tex. 1990) (looking to cases for applicable law instead of referencing the Act).

done the common calling test, holding instead that covenants not to compete could not be enforced if they were ancillary to terminable-at-will employment contracts.¹³² Taking their cue from these Texas Supreme Court decisions, the appellate courts refused to enforce covenants not to compete in five cases, all of which were decided between 1990 and 1991.¹³³

The Texas Supreme Court continued to voice its contempt for covenants not to compete in a number of subsequent cases. In *Peat Marwick Main & Co. v. Haass*,¹³⁴ instead of reforming the liquidated damages provision contained in the covenant not to compete, the court held that it was unreasonable and unenforceable.¹³⁵ In *Travel Masters, Inc. v. Star Tours*,¹³⁶ the court reaffirmed its position regarding at-will employment contracts and held once more that they were not ancillary to covenants not to compete.¹³⁷ Interestingly, the appellate courts took a different approach in subsequent cases; instead of not enforcing covenants not to compete, these courts reaffirmed their enforceability.¹³⁸

132. *Martin II*, 793 S.W.2d at 670.

133. See *Philip H. Hunke, D.D.S. v. Wilcox*, 815 S.W.2d 855, 858 (Tex. App.—Corpus Christi 1991, writ denied) (holding that the employer did not have a protectable business interest and thus the covenant not to compete was an unreasonable restraint of trade); *W.C. Larock, D.C., P.C. v. Enabnit, D.C.*, 812 S.W.2d 670, 672 (Tex. App.—El Paso 1991, no writ) (denying a chiropractic clinic's request for a temporary injunction against a chiropractor to enforce a covenant not to compete); *Gomez v. Zamora*, 814 S.W.2d 114, 119 (Tex. App.—Corpus Christi 1991, no writ) (finding the covenant not to compete overbroad and unenforceable as written); *Daytona Group of Tex., Inc. v. Smith*, 800 S.W.2d 285, 291 (Tex. App.—Corpus Christi 1990, writ denied) (holding that the non-competition agreement the employer signed with its employee was unenforceable because it was not necessary to protect the employer's legitimate business interests); *Recon Exploration, Inc. v. Hodges*, 798 S.W.2d 848, 854 (Tex. App.—Dallas 1990, no writ) (citing *DeSantis II* and denying an injunction on common law grounds).

134. 818 S.W.2d 381 (Tex. 1991).

135. *Peat Marwick Main & Co. v. Haass*, 818 S.W.2d 381, 388 (Tex. 1991).

136. 827 S.W.2d 830 (Tex. 1991).

137. *Travel Masters, Inc. v. Star Tours*, 827 S.W.2d 830, 833 (Tex. 1991).

138. See *Hilb, Rogal & Hamilton Co. v. Wurzman*, 861 S.W.2d 30, 35 (Tex. App.—Dallas 1993, no writ) (affirming a denial of a temporary injunction); *Car Wash Sys. of Tex. v. Brigante*, 856 S.W.2d 853, 858 (Tex. App.—Fort Worth 1993, no writ) (upholding the enforcement of the covenant at issue); *Butts Retail, Inc. v. Diversifoods, Inc.*, 840 S.W.2d 770, 773-74 (Tex. App.—Beaumont 1992, writ denied) (upholding a covenant that prohibited a franchisee from competing in the same shopping mall); *B.J. Software Sys., Inc. v. Osina*, 827 S.W.2d 543, 545-46 (Tex. App.—Houston [1st Dist.] 1992, no writ) (finding a covenant enforceable because it was ancillary to another enforceable contract); *Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654, 662-63 (Tex. App.—Dallas 1992, no writ) (stating that nondisclosure covenants are not against public policy).

Reacting to this litany of hostile Texas Supreme Court cases, the legislature added Section 15.52,¹³⁹ and amended Sections 15.50¹⁴⁰ and 15.51¹⁴¹ of the Act in two respects. First, amended Section

139. Act of Sept. 1, 1993, 73d Leg., R.S., ch. 965, § 1, 1993 Tex. Gen. Laws 4201-02 (codified at TEX. BUS. & COM. CODE ANN. § 15.52 (Vernon Supp. 2002)). The section reads:

The criteria for enforceability of a covenant not to compete provided 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.

Id.

140. Act of Sept. 1, 1993, 73 Leg., R.S., ch. 965, § 1, 1993 Tex. Gen. Laws 4201-02 (codified at TEX. BUS. & COM. CODE ANN. § 15.50 (Vernon Supp. 2002)). The section states:

- (a) Notwithstanding Section 15.05 of this code . . . , a covenant not to compete is enforceable if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made to the extent that it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.

Id.

141. Act of Sept. 1, 1993, 73d Leg., R.S., ch. 965, § 2, 1993 Tex. Gen. Laws 4201-02 (codified at TEX. BUS. & COM. CODE ANN. §15.51 (Vernon Supp. 2002)). The section reads:

- (a) Except as provided in Subsection (c) of this section, a court may award the promisee under a covenant not to compete damages, injunctive relief, or both damages and injunctive relief for a breach by the promisor of the covenant.
- (b) If the primary purpose of the agreement to which the covenant is ancillary is to obligate the promisor to render personal services, for a term or at will, the promisee has the burden of establishing that the covenant meets the criteria specified by Section 15.50 of this code. If the agreement has a different primary purpose, the promisor has the burden of establishing that the covenant does not meet those criteria. For the purposes of this subsection, the “burden of establishing” a fact means the burden of persuading the triers of fact that the existence of the fact is more probable than its nonexistence.
- (c) If the covenant is found to be ancillary to or part of an otherwise enforceable agreement but contains limitations as to time, geographical area, or scope of activity to be restrained that are not reasonable and impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee, the court shall reform the covenant to the extent necessary to cause the limitations contained in the covenant as to time, geographical area, and scope of activity to be restrained to be reasonable and to impose a restraint that is not greater than necessary to protect the goodwill or other business interest of the promisee and enforce the covenant as reformed, except that the court may not award the promisee damages for a breach of the covenant before its reformation and the relief granted to the promisee shall be limited to injunctive relief. If the primary purpose of the agreement to which the covenant is ancillary is to obligate the promisor to render

15.50(1) eliminated the requirement of independent valuable consideration.¹⁴² Second, amended Section 15.51(b) recognized the enforceability of reasonable at-will employment agreements.¹⁴³ The new Section 15.52 specifically provided that Sections 15.50 and 15.51 exclusively preempt the common law.¹⁴⁴

The Texas Legislature's regulatory scheme to resolve the conflict within the courts was again jeopardized by the Texas Supreme Court in *Light v. Centel Cellular Co. (Light I)*.¹⁴⁵ Despite the statute's clear language, the Texas Supreme Court refused to enforce Centel's reasonable at-will employment agreement, holding that it was not sufficient consideration to support a covenant not to compete.¹⁴⁶ Although the *Light I* court recognized for first time that it had to abide by the 1993 legislative amendments, it nonetheless stated that it "need not determine in this case whether [S]ections 15.50 and 15.51 apply retroactively because [S]ection 15.50(1) would not require a result in this case different from the one . . . reach[ed] today."¹⁴⁷

D. *Light II: Adding More Confusion*

Reconsidering its earlier decision in *Light I*, the Texas Supreme Court expressly applied the amended statute of 1994 in *Light v.*

personal services, the promisor establishes that the promisee knew at the time of the execution of the agreement that the covenant did not contain limitations as to time, geographical area, and scope of activity to be restrained that were reasonable and the limitations imposed a greater restraint than necessary to protect the goodwill or other business interest of the promisee, and the promisee sought to enforce the covenant to a greater extent than was necessary to protect the goodwill or other business interest of the promisee, the court may award the promisor the costs, including reasonable attorney's fees, actually and reasonably incurred by the promisor in defending the action to enforce the covenant.

Id.

142. TEX. BUS. & COM. CODE ANN. § 15.50(1) (Vernon Supp. 2002).

143. *Id.* § 15.51(b).

144. See *id.* § 15.52 (stating that Sections 15.50 and 15.51 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").

145. See *Light v. Centel Cellular Co.*, 37 Tex. Sup. Ct. J. 17, 1993 WL 392211 (Tex. Oct. 6, 1993) (failing to discuss the legislative amendments that were enacted less than a month prior to this court's decision).

146. See *id.* (holding that because *Light* was an employee at will "the covenant not to compete is not ancillary to an otherwise enforceable agreement and is an unreasonable restraint of trade and unenforceable on grounds of public policy").

147. *Id.* at 17 n.2.

Centel Cellular Co. (Light II).¹⁴⁸ However, just as it rejected the validity of the covenant not to compete in *Light I* because it deemed an at-will employment contract an invalid ancillary contract to a covenant not to compete, the action in *Light II* was dismissed on the grounds that the covenant not to compete was supported by “illusory” consideration and could not be ancillary to an at-will employment contract.¹⁴⁹ The Texas Supreme Court explained that although Light and Centel did have an otherwise enforceable agreement between them, the covenant “[was] not ancillary to or a part of the otherwise enforceable agreement between them.”¹⁵⁰

As it analyzed the gist of Section 15.51(b) dealing with the validity of at-will employment contracts, the Texas Supreme Court questioned its soundness, stating that “[a]s written, part (b) has no meaning, because there cannot be an ‘[otherwise enforceable] agreement’ which ‘obligate[s]’ a promisor ‘at-will.’ Describing something as an at-will obligation is nonsensical.”¹⁵¹ Accordingly, the Texas Supreme Court took advantage of the absence of legislative guidance on what validates a covenant not to compete and created two new criteria:

- (1) the consideration given by the employer in the otherwise enforceable agreement must give rise to the employer’s interest in restraining the employee from competing; and
- (2) the covenant must be designed to enforce the employee’s consideration or return promise in the otherwise enforceable agreement.¹⁵²

148. 883 S.W.2d 642 (Tex. 1994).

149. *Light v. Centel Cellular Co.*, 883 S.W.2d 642, 645-46 (Tex. 1994).

150. *Id.* at 648.

151. *Id.* at 645 n.7.

152. *Id.* at 647. The court found that:

The covenant not to compete between Light and United is not ancillary to or a part of the otherwise enforceable agreement between them. While United’s consideration (the promise to train) might involve confidential or proprietary information, the covenant not to compete is not designed to enforce any of Light’s return promises in the otherwise enforceable agreement. Light did not promise in the otherwise enforceable agreement not to disclose any of the confidential or proprietary information given to her by United.

Thus, the covenant not to compete between Light and United is unenforceable because it is not ancillary to or a part of the otherwise enforceable agreement between them.

Although Light acknowledged that she had received confidential information, that fact was not expressly reflected in the covenant not to compete agreement.¹⁵³ The agreement only contained her promise to provide her employer with fourteen days notice and inventory upon termination, which the court declared insufficient and illusory.¹⁵⁴

Two things stand out in the *Light II* decision. First, even though the court applied Section 15.50 of the Act, the inquiry did not stop there.¹⁵⁵ The Texas Supreme Court went on to weave the “non-illusory promise” test into the simple fabric of the statutory requirement with the ever-present goal of restricting the enforceability of covenants not to compete.¹⁵⁶ Second, footnote fourteen dispenses with the Restatement (First) of Torts’s requirement that a trade secret or confidential information be used or disclosed first before a cause of action for the enforcement of a covenant not to compete can be brought before a Texas court.¹⁵⁷

E. *The New Trend*—“*Everything’s a Trade Secret*”

Light II confused the fundamental principles of contract and tort law by opening the back door to creative attorneys who, today, continue to request trade secret protection for everything and anything by way of covenants not to compete, and continue to evade statutory restrictions established since 1939 by the Restatement

153. *Id.*

154. *Light v. Centel Cellular Co.*, 883 S.W.2d 642, 647 n.15 (Tex. 1994).

155. *Id.* at 644-47.

156. *Id.* at 645-46.

157. *Id.* at 647 n.14. The court explained that:

[I]f an employer gives an employee confidential and proprietary information or trade secrets in exchange for the employee’s promise not to disclose them, and the parties enter into a covenant not to compete, the covenant is ancillary to an otherwise enforceable agreement because:

- (1) the consideration given by the employer [the trade secrets] in the otherwise enforceable agreement [exchange of trade secrets for promise not to disclose] must give rise to the employer’s interest in restraining the employee from competing [employer has interest in restraining employee with knowledge of employer’s trade secrets from competing] and
- (2) the covenant must be designed to enforce the employee’s consideration or return promise [the promise not to disclose the trade secrets] in the otherwise enforceable agreement.

(First) of Torts which are supported by a sound body of Texas common law.¹⁵⁸

Interestingly, this new trend has given rise to a debate which is questioning Texas's status as a "Restatement state,"¹⁵⁹ suggesting, instead, the adoption of either the UTSA,¹⁶⁰ or Section 39 of the Restatement (Third) of Unfair Competition.¹⁶¹ Both of these alternatives are broader in scope,¹⁶² offer practical solutions for the rapidly changing world of advanced technology,¹⁶³ and most importantly, have eliminated "use" and "disclosure" of information as a pre-condition to a cause of action for trade secret misappropriation.

158. See *Beasley v. Hub City Tex.*, No. 01-03-00287-CV, 2003 Tex. App. LEXIS 8550, at *20 (Tex. App.—Houston [1st Dist.] Sept. 29, 2003, no pet.) (not designated for publication) (noting that the former employer contended that everything was a trade secret including pricing, margins, incentive programs, profit and loss performance, customer contact, information discussed at meetings, plans and analysis). The First District Court of Appeals held these trade secrets ancillary to an otherwise enforceable contract without scrutinizing the trade secrets as required by the Restatement (First) of Torts. *Id.*; see also *Anderson Chem. Co. v. Green*, 66 S.W.3d 434, 441 (Tex. App.—Amarillo 2001, no pet.) (describing a situation where the former employer claimed that "customer lists, price information, information on product application, and the information used to develop bids for customers including calculation programs" were trade secrets). Again, the court did not evaluate the trade secrets, but focused instead on the absence of an "non-illusory" promise without which the covenant not to compete could not be enforced. *Anderson Chem. Co.*, 66 S.W.3d at 441; see also *Ireland v. Franklin*, 950 S.W.2d 155, 157 (Tex. App.—San Antonio 1997, no pet.) (applying the *Light II* analysis and holding the trade secrets ancillary to an otherwise enforceable contract, again without scrutinizing the validity of the trade secrets).

159. *Computer Assocs. Int'l v. Altai*, 918 S.W.2d 453, 455 (Tex. 1994); *In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003); Patricia A. Meier, *Looking Back and Forth: The Restatement (Third) of Unfair Competition and Potential Impact on Texas Trade Secret Law*, 4 TEX. INTELL. PROP. L.J. 415, 418-19 (1996).

160. Unif. Trade Secrets Act § 1, 14 U.L.A. 438 (1979) (amended 1985)

161. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (1993).

162. See Unif. Trade Secrets Act § 1(4)(i), 14 U.L.A. 438 (1979) (amended 1985) (noting the broad definition given to a trade secret). The UTSA states that a trade secret must "derive[] independent economic value . . . from not being generally known . . . [or] . . . readily ascertainable." *Id.*; see also RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. f (1993) (defining a trade secret). The Restatement defines a trade secret as:

To qualify as a trade secret, the information must be secret. The secrecy, however, need not be absolute. The rule stated in this Section requires only secrecy sufficient to confer an actual or potential economic advantage on one who possesses the information. Thus, the requirement of secrecy is satisfied if it would be difficult or costly for others who could exploit the information to acquire it without resort to the wrongful conduct proscribed under § 40.

Id.

163. 4 TEX. INTELL. PROP. L.J. at 454-55.

tion.¹⁶⁴ However, in spite of the ongoing discussions and the creative legal maneuverings, a number of Texas courts continue to apply the restrictive definition of trade secrets contained in Section 757 of the Restatement (First) of Torts.¹⁶⁵

F. *The Post-Light II Legacy (1995-2004): A Litany of Inconsistent Results*¹⁶⁶

After the seven years war between the Texas Supreme Court and the Texas Legislature and the final pronouncement in *Light II* that the Texas Supreme Court was applying the statute adopted by the Texas Legislature, it would seem that the lower courts would begin to reach consistent results based upon the same facts. Such is not the case. This subsection illustrates the inconsistent results that have been reached by the lower courts from the date of the *Light II* decision to the present. This illustration is more complete in the table of cases given in Appendix A attached hereto.

1. Using Trade Secrets and Confidential Information As One Basis to Enforce a Covenant Not to Compete
 - a. *Beasley v. Hub City Texas, L.P.*¹⁶⁷

As part of a stock-purchase agreement, Beasley, the former President of Hub, signed an employment contract with Hub, which included a covenant not to compete.¹⁶⁸ After resigning, Beasley established a competing business and filed a declaratory judgment

164. See Unif. Trade Secrets Act § 1(4)(i) cmts., 14 U.L.A. 438 (1979) (amended 1985) (noting that the definition of a “trade secret” within the ULA is much broader than the definition in the Restatement of Torts (First)); RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1993) (renouncing requirement of use by trade secret owner stating that “a ‘use’ requirement . . . imposes unjustified limitations on the scope of [a] trade secret The requirement . . . places in doubt protection for so-called ‘negative’ information that teaches conduct to be avoided, such as knowledge that a particular process or technique is unsuitable for commercial use.”).

165. See *In re Bass*, 113 S.W.2d 735, 739 (Tex. 2003) (applying the Restatement (First) of Torts’ six factor test); *Computer Assocs. Int’l v. Altai*, 918 S.W.2d 453, 455 (Tex. 1994) (noting that a trade secret is “any formula, pattern or device . . . which is used in one’s business”) (emphasis added).

166. For a comprehensive list of post-*Light II* non-compete cases involving trade secrets, please see Appendix A to this Article.

167. No. 01-03-00287-CV, 2003 Tex. App. LEXIS 8550 (Tex. App.—Houston [1st Dist.] Sept. 29, 2003, no pet.).

168. *Beasley v. Hub City Tex., L.P.*, No. 01-03-00287-CV, 2003 Tex. App. LEXIS 8550, at *2 (Tex. App.—Houston [1st Dist.] Sept. 29, 2003, no pet.).

action that challenged the validity of the non-compete agreement.¹⁶⁹ The First District Court of Appeals held that the non-competition agreement was valid under *Light II* and Section 15.50 of the Texas Business and Commerce Code.¹⁷⁰ The court pointed out that Beasley had received new trade secret information upon his promotion in exchange for signing the non-competition agreement.¹⁷¹ Therefore, Hub was entitled to the temporary injunction issued by the trial court because the breach of a non-compete agreement by a high level employee such as Beasley created a rebuttable presumption that Hub had suffered irreparable injury.¹⁷²

b. *Evans Consoles, Inc. v. Hoffman Video Systems*¹⁷³

While working for Evans Consoles, Hargus accepted an offer of 500 voting common shares, thereby becoming a management shareholder.¹⁷⁴ As a condition for the offer, Hargus signed a “participation agreement” that contained a non-compete clause, in addition to confidentiality, non-disclosure, and non-solicitation clauses.¹⁷⁵ In 2001, Hargus resigned and started working for Evans’s competitor.¹⁷⁶ Evans moved for a preliminary injunction against Hargus.¹⁷⁷ Using *Light II* as reference, the U.S. District Court held that the “participation agreement” was ancillary to an otherwise enforceable agreement.¹⁷⁸ The court found that Hargus, as a management shareholder, had received stock and was given access to confidential information in return for his promise not to compete.¹⁷⁹ Therefore, the court granted Evans’s preliminary injunction request; however, it also reformed the unreasonable geographic restrictions contained in the non-compete clause.¹⁸⁰

169. *Id.* at *10.

170. *Id.* at *14-22.

171. *Id.* at *17-18.

172. *Id.* at *26-27.

173. No. 3:01-CV-1333-P, 2001 U.S. Dist. LEXIS 20341 (N.D. Tex. Dec. 7, 2001).

174. *Evans Consoles, Inc. v. Hoffman Video Sys.*, No. 3:01-CV-1333-P, 2001 U.S. Dist. LEXIS 20341, at *5 (N.D. Tex. Dec. 7, 2001).

175. *Id.* at *5-6.

176. *Id.* at *8.

177. *Id.* at *10.

178. *Id.* at *18.

179. *Evans*, No. 3:01-CV-1333-P, 2001 U.S. Dist. LEXIS 20341, at *18.

180. *Id.* at *23, 30.

c. *Flake v. EGL Global Logistics, L.P.*¹⁸¹

Flake signed an at-will employment agreement with EGL that contained a covenant not to compete, prohibiting him from working for a competitor and using or disclosing confidential information or trade secrets EGL would provide during the course of his employment.¹⁸² Flake, however, quit and went to work for a competitor, where he immediately began calling on his former employer's customers.¹⁸³ The Fourteenth Court of Appeals held that the trade secrets and confidential information EGL provided were sufficiently ancillary to the at-will-employment contract and affirmed the trial court's grant of a preliminary injunction.¹⁸⁴

d. *Friedman, Clark & Shapiro, Inc. v. Greenberg, Grant & Richards, Inc.*¹⁸⁵

The defendants were employees of a commercial debt collection firm and as a condition of their continued employment they signed non-competition agreements.¹⁸⁶ The defendants left the collection firm and formed their own competing business.¹⁸⁷ The collection agency sued for breach of contract, breach of fiduciary duty, and tortious interference with prospective contractual relationships.¹⁸⁸ The court agreed, holding the covenant not to compete was enforceable under Section 15.50 of the Texas Business and Commerce Code because it was supported by consideration.¹⁸⁹ The collection firm would not have shared its customer lists had the defendants not signed the at-will employment contract which con-

181. No. 14-01-01069, 2002 Tex. App. LEXIS 6593 (Tex. App.—Houston [14th Dist.] Sept. 5, 2002, no pet.) (not designated for publication).

182. *Flake v. EGL Global Logistics, L.P.*, No. 14-01-01069-CV, 2002 Tex. App. LEXIS 6593, at *1-2 (Tex. App.—Houston [14th Dist.] Sept. 5, 2002, no pet.) (not designated for publication).

183. *Id.* at *2.

184. *Id.* at *7-12.

185. No. 14-99-01218, 2001 Tex. App. LEXIS 6525 (Tex. App.—Houston [14th Dist.] Sept. 27, 2001, pet. denied) (not designated for publication).

186. *Friedman, Clark & Shapiro, Inc. v. Greenberg, Grant & Richards, Inc.*, No. 14-99-01218, 2001 Tex. App. LEXIS 6525, at *1 (Tex. App.—Houston [14th Dist.] Sept. 27, 2001, pet. denied) (not designated for publication).

187. *Id.* at *2-3.

188. *Id.* at *3.

189. *Id.* at *6-13.

tained the non-compete clause.¹⁹⁰ As a result, the court affirmed the trial court's grant of a temporary injunction.¹⁹¹

e. *Ireland v. Franklin*¹⁹²

For six years, Ireland worked for Franklin under an employment contract that included a covenant not to compete.¹⁹³ The contract listed items it considered as trade secrets and conditioned their disclosure on Ireland's promise to not reveal or use them following termination of employment.¹⁹⁴ Ireland then filed for declaratory relief from the covenant not to compete and proceeded to set up her own practice, sending announcements to patients she had treated while employed with Franklin.¹⁹⁵ Franklin sued her for breaching the covenant not to compete and moved for a temporary injunction.¹⁹⁶ On appeal, the court, applying the analysis in footnote fourteen of *Light II*, held that the at-will employment contract was not illusory because it was ancillary to an enforceable covenant not to compete and, therefore, the grant of temporary injunction was more than justified.¹⁹⁷

2. Denying the Enforcement of Covenants Not to Compete Despite the Existence of a Protectable Trade Secret

a. *Anderson Chemical Co. v. Green*¹⁹⁸

Anderson Chemical appealed the trial court's denial of a temporary injunction to prohibit Green from violating the non-competition agreement.¹⁹⁹ Green had left Anderson Chemical and went to work for their competitor, whereby he solicited Anderson Chemical's customers in an apparent violation of the non-competition agreement.²⁰⁰ The court held that the non-competition agreement was illusory because Anderson Chemical had not promised to pro-

190. *Id.* at *13-14 n.8.

191. *Friedman, Clark & Shapiro*, No. 14-99-01218, 2001 Tex. App. LEXIS 6525, at *14.

192. 950 S.W.2d 155 (Tex. App.—San Antonio 1997, no pet.).

193. *Ireland v. Franklin*, 950 S.W.2d 155, 157 (Tex. App.—San Antonio 1997, no pet.).

194. *Id.*

195. *Id.*

196. *Id.*

197. *Id.* at 158.

198. 66 S.W.3d 434 (Tex. App.—Amarillo 2001, no pet.).

199. *Anderson Chem. Co. v. Green*, 66 S.W.3d 434, 436-37 (Tex. App.—Amarillo 2001, no pet.).

200. *Id.* at 437.

vide Green with confidential information in return for his promise not to disclose.²⁰¹ Thus, the illusory non-competition agreement was not ancillary to an otherwise enforceable employment contract and the appellate court affirmed the trial court's denial of the temporary injunction.²⁰²

b. *Cardinal Health Staffing Network, Inc. v. Bowen*²⁰³

On the first day of his employment with Cardinal, Bowen signed an employment agreement that contained non-disclosure and non-competition covenants.²⁰⁴ Thereafter, Bowen left Cardinal to work for another company which then commenced the same type of staffing service.²⁰⁵ Cardinal sued, alleging breach of the covenants in the agreement.²⁰⁶ The trial court denied Cardinal's request for a temporary injunction and an appeal ensued.²⁰⁷ Because Cardinal had failed to show that it would suffer an irreparable injury for which it had no adequate legal remedy, its request for an injunction was again denied.²⁰⁸ Still citing *Norlyn Enterprises, Inc. v. APDP, Inc.*, Cardinal argued that it did not need to prove irreparable injury to get a temporary injunction.²⁰⁹ The appellate court disagreed again, overruled *Norlyn*, and refused to adopt the inevitable disclosure doctrine.²¹⁰

c. *C.S.C.S., Inc. v. Carter*²¹¹

Carter signed a confidentiality and non-competition agreement on July 17, 1997, and four days later signed an employment agreement.²¹² Thereafter, Carter left C.S.C.S. and began working for a

201. *Id.* at 438.

202. *Id.* at 439.

203. 106 S.W.3d 230 (Tex. App.—Houston [1st Dist.] 2003, no pet.).

204. *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230, 233 (Tex. App.—Houston [1st Dist.] 2003, no pet.).

205. *Id.*

206. *Id.* at 234.

207. *Id.*

208. *Id.* at 236.

209. *Bowen*, 106 S.W.3d at 236-37.

210. *Id.* at 236-42; *see also* *Norlyn Enters., Inc. v APDP, Inc.*, 95 S.W.3d 578, 583 (Tex. App.—Houston [1st Dist.] 2002, no pet.) (noting that a movant must show a probable injury before being entitled to injunctive relief).

211. 129 S.W.3d 584 (Tex. App.—Dallas 2003, no pet.).

212. *C.S.C.S., Inc. v. Carter*, 129 S.W.3d 584, 587 (Tex. App.—Dallas 2003, no pet.).

competitor.²¹³ C.S.C.S. sued, the temporary restraining order request was denied, and C.S.C.S. appealed.²¹⁴ The appellate court found that the non-competition agreement was signed prior to the employment agreement; thus, according to Section 15.50 (a) of the Texas Business and Commerce Code, it was not “ancillary to or part of an [employment agreement].”²¹⁵ The appellate court also pointed out that the non-competition agreement gave C.S.C.S. the option to reveal confidential information to Carter and that option was considered illusory and could not support the employment contract.²¹⁶

d. *Guy Carpenter & Co. v. Provenzal*²¹⁷

Provenzal’s employment agreement with Carpenter contained non-disclosure and non-solicitation covenants.²¹⁸ Provenzal voluntarily left his employment with Carpenter and found work with a competitor.²¹⁹ Carpenter sued, alleging Provenzal had contacted and solicited its clients and had disclosed its confidential information in violation of the non-solicitation and non-disclosure covenants.²²⁰ On appeal from the district court’s denial of the corporation’s motion for a preliminary injunction, the appellate court found that the non-solicitation covenant incorporated in the employment agreement was enforceable under Section 15.50 of the Texas Business and Commerce Code²²¹ However, because Carpenter’s customer list was not recognized as a trade secret, the court surmised that the cause of action for misappropriation of trade secret would not succeed.²²² As for the remaining twelve trade secrets enumerated in the non-competition agreement,²²³ the appellate court found that since Provenzal had not used them, a misappropriation claim would not succeed.²²⁴

213. *Id.* at 588.

214. *Id.*

215. *Id.* at 590.

216. *Id.* at 587-88.

217. 334 F.3d 459 (5th Cir. 2003).

218. *Guy Carpenter & Co. v. Provenzale*, 334 F.3d 459, 462 (5th Cir. 2003).

219. *Id.* at 463.

220. *Id.*

221. *Id.* at 465-66.

222. *Id.* at 465.

223. *Provenzale*, 334 F.3d at 467 n.4.

224. *Id.* at 468-69.

e. *Olander v. Compass Bank, Inc.*²²⁵

Olander was an at-will employee for Compass.²²⁶ In return for his stock option agreement, Olander executed a non-competition agreement.²²⁷ However, the validity of the stock option agreement depended entirely on the validity of the other contracts, which included the non-competition agreement.²²⁸ Consequently, if any part of the agreement were held invalid, Olander would have to return the profits earned from the stock option.²²⁹ Since Compass did not provide Olander with any confidential information at the time he signed his stock option agreement and because there was no evidence to show that he had disclosed any confidential information, the court found that the non-competition agreement was illusory and could not support an otherwise enforceable at-will employment contract.²³⁰ Thus, while Olander won the battle, he lost the war when he was ordered to repay \$224,980.00 worth of profits earned from his stock option agreement.²³¹

f. *Strickland v. Medtronic, Inc.*²³²

Strickland was a former employee of Medtronic who sought a declaratory judgment that the non-compete covenant she signed was unenforceable.²³³ Medtronic counterclaimed, seeking damages and a temporary injunction enforcing the covenant.²³⁴ The court granted a temporary injunction and Strickland appealed.²³⁵ The Fifth Court of Appeals held that the promise to provide a ninety-day employment termination notice did not change the at-will nature of the employment contract because it did not limit Medtronic's ability to terminate Strickland's employment.²³⁶ Moreover, the court found that the promise to compensate a for-

225. 363 F.3d 560 (5th Cir. 2004).

226. *Olander v. Compass Bank, Inc.*, 363 F.3d 560, 562 n.2 (5th Cir. 2004).

227. *Id.*

228. *Id.* at 562-63.

229. *Id.* at 563.

230. *Id.* at 564-68.

231. *Olander*, 363 F.3d. at 568.

232. 97 S.W.3d 835 (Tex. App.—Dallas 2003, no pet.).

233. *Strickland v. Medtronic, Inc.*, 97 S.W.3d 835, 837 (Tex. App.—Dallas 2003, no pet.).

234. *Id.*

235. *Id.*

236. *Id.* at 838.

mer employee for economic hardship resulting from the non-compete agreement was “illusory” and did not constitute a protectable interest under the covenant.²³⁷

g. *Tom James of Dallas, Inc. v. Cobb*²³⁸

Tom James, the employer, sued its former salesmen, Cobb, for breach of a non-compete agreement.²³⁹ The trial court denied the application for a temporary injunction and the employer appealed.²⁴⁰ Tom James contended that Cobb was given specialized training and certain information that constituted trade secrets.²⁴¹ The Fifth Court of Appeals pointed out that the evidence did not support Tom James’s contention because the information in question was not kept secret. In fact, the information was disclosed to third parties, including potential sales recruits and competitors.²⁴² The court also found that the employment agreement was supported by past consideration and, thus, unenforceable.²⁴³

IV. COVENANTS NOT TO COMPETE AND THE LITIGATION RISKS RELATING TO INJUNCTIONS

While “[t]he protection of a trade secret [through an injunction] is a well-recognized objective of equity . . . ,”²⁴⁴ liability may ensue if an employer proceeds with carelessness.²⁴⁵ An injunction should be narrowly tailored and must contain the proper evidentiary foundation.²⁴⁶ Given that a cause of action for misappropriation of a trade secret is controlled by Section 15.50 (a) of the Act, an em-

237. *Id.* at 839.

238. 109 S.W.3d 877 (Tex. App.—Dallas 2003, no pet.).

239. *Tom James of Dallas, Inc. v. Cobb*, 109 S.W.3d 877, 882 (Tex. App.—Dallas 2003, no pet.).

240. *Id.* at 882.

241. *Id.*

242. *Id.* at 888-89.

243. *Id.* at 886-87.

244. *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 314 S.W.2d 782, 790 (1958).

245. TEX. BUS. & COM. CODE ANN. § 15.51(c) (Vernon Supp. 2002).

246. TEX. R. CIV. P. 683; *see also* *Butnaru v. Ford Motor Co.*, 84 S.W.3d 198, 204 (Tex. 2002) (stating that “the applicant must plead and prove three specific elements: (1) a cause of action against the defendant; (2) a probable right to the relief sought; and (3) a probable, imminent, and irreparable injury in the interim”); Larry D. Carlson, *Enforcing a Non-Compete*, 4 TEX. INTELL. L.J. 149, 150-60 (1996) (providing a hypothetical example and the appropriate steps which are necessary when applying for a temporary injunction).

ployer must assert that the covenant not to compete is ancillary to an otherwise enforceable agreement and that it contains reasonable restrictions as to time, location, and activity.²⁴⁷ This assertion must not, however, be made in bad faith or the court could very well reform the covenant not to compete.²⁴⁸ The court will make a finding of bad faith if, for example, the employer was aware at the time the agreement was signed that (1) the covenant not to compete was overreaching, (2) the limitations "impose a greater restraint than is necessary to protect" his "good will or other business interest", and (3) that he "sought to enforce the covenant to a greater extent than was necessary to protect" his "good will or other business interest"²⁴⁹

Though here a court may still grant injunctive relief, the employer may not recover costs, attorneys' fees, or anything else for that matter.²⁵⁰ In fact, it is the former employee who benefits from reformation because Section 15.51(c) grants Texas courts the discretion to award attorneys' fees to those who find themselves "defending the action to enforce the covenant."²⁵¹ In *Rimkus Consulting Group, Inc. v. Budinger*,²⁵² the court provides a useful example of the negative outcome that result from an overbroad covenant not to compete.²⁵³ After reforming the overly broad covenant not to compete, the jury found for the employer and awarded him \$69,125 in damages and attorneys' fees.²⁵⁴ Upon review, however, the trial court disregarded this recommendation because, as it pointed out, the Act does permit the award of attorneys' fees following the reformation of a covenant not to com-

247. TEX. BUS. & COM. CODE ANN. § 15.50 (1) (Vernon Supp. 2002).

248. *Id.* § 15.51 (c).

249. *Id.*

250. *Perez v. Tex. Disposal Sys., Inc.*, 53 S.W.3d 480, 482-83 (Tex. App.—San Antonio 2001), *rev'd on other grounds*, 80 S.W.3d 593 (2002) (citing *Peat Mawick & Co. v. Haass*, 818 S.W.2d 381, 388 (Tex. 1991)).

251. TEX. BUS. & COM. CODE ANN. § 15.51(c) (Vernon 2004); *see also* *Rimkus Consulting Group, Inc. v. Budinger*, No. 14-98-011101-CV, 2001 Tex. App. LEXIS 5860, at *14 (Tex. App.—Houston [14th Dist.] Aug. 23, 2001, no pet.) (not designated for publication) (prohibiting the employer to recover attorney's fees).

252. No. 14-98-011101-CV, 2001 Tex. App. LEXIS:5860 (Tex. App.—Houston [14th Dist.] Aug. 23, 2001, no pet.)

253. *See* *Rimkus Consulting Group, Inc. v. Budinger*, No. 14-98-011101-CV, 2001 Tex. App. LEXIS 5860, at *14 (Tex. App.—Houston [14th Dist.] Aug. 23, 2001, no pet.) (barring the recovery of attorney's fees because of the overbreadth of the covenant).

254. *Id.* at *6.

pete.²⁵⁵ Instead, the trial court awarded \$30,000 in attorneys' fees to the former employee even though he had violated the covenant not to compete.²⁵⁶ The appellate court affirmed the trial court's judgment but reversed with respect to the award of attorneys' fees because the evidence presented by the former employee was insufficient to support the award of \$30,000.²⁵⁷

Resorting to Section 38.001(8) of the Texas Civil Practice and Remedies Code,²⁵⁸ which permits a plaintiff to recover attorneys' fees, will not be of any use, given that the Act preempts the award of attorneys' fees under any other statute.²⁵⁹ In *Perez*, Justice Marion specifically held "that the Act controls the award of attorneys' fees, and section 15.52 preempts an award of fees under any other law."²⁶⁰ In addition, courts will normally not issue a prelimi-

255. *Id.*

256. *Id.*

257. *Id.* at *18-19.

258. TEX. CIV. PRAC. & REM. CODE § 38.001 (Vernon 1997) (explaining under what types of actions attorney's fees are recoverable). The statute explains that:

A person may recover reasonable attorney's fees from an individual or corporation, in addition to the amount of a valid claim and costs, if the claim is for:

- (1) rendered services;
- (2) performed labor;
- (3) furnished material;
- (4) freight or express overcharges;
- (5) lost or damaged freight or express;
- (6) killed or injured stock;
- (7) a sworn account; or
- (8) an oral or written contract.

Id.

259. See *Gage Van Horn & Assocs., Inc. v. Tatom*, 26 S.W.3d 730, 733 (Tex. App. Eastland 2000, pet. denied) (holding that "procedures and remedies set forth in the Covenants Not to Compete Act have preemptive effect only in an action to enforce a covenant not to compete"); *CRC-Evans Pipeline Int'l, Inc. v. Myers*, 927 S.W.2d 259, 263 (Tex. App.—Houston [1st Dist.] 1996, no writ) (announcing that the Act governs the enforceability of procedures and remedies for covenants not to compete).

260. *Perez v. Tex. Disposal Sys., Inc.*, 103 S.W.3d 591, 593-94 (Tex. App.—San Antonio 2003, pet. denied) (stating that "if the covenant not to compete does not meet the section 15.50 criteria and the trial court reforms the covenant, a court may award an employer injunctive relief only"). The *Perez* court notes that Texas Business and Commerce Code Section 15.52 preempts any other provision which may allow for the recovery of attorney's fees. *Id.* at 592. The effect of this holding is to render *Williams v. Compressor Eng'r Corp.*, 704 S.W.2d 469 (Tex. App.—Houston [14th Dist.] 1986, writ ref'd n.r.e.) inapplicable in situations where attorney's fees are sought in covenant to compete situations. *Id.* Furthermore, *Buller v. Arrow Mirror & Glass, Inc.*, 51 S.W.3d 787 (Tex. App.—Houston [1st Dist.] 2001, no pet.) is distinguishable from *Perez* because the issue of whether the Act preempts other areas of law awarding attorney's fees was never raised. *Id.*

nary or a temporary injunction before a bond is posted by the requesting party.²⁶¹ This is done primarily to protect the interests of the defendant.²⁶² Thus, if an injunction is improperly granted, or the plaintiff fails to prove the merits of the case at trial, the defendant may, as a means of redress, petition the court to recover the amount of the injunction bond.²⁶³

V. WHETHER TEXAS IS RESURRECTING THE DOCTRINE OF INEVITABLE DISCLOSURE

A. *Origin of the Doctrine of Inevitable Disclosure*

Prompted by the industrialists' concerns over increasing employee mobility at the turn of the nineteenth century, the Seventh Circuit Court intervened in *Harrison v. Glucose Sugar Refining Co.*²⁶⁴ because of the lack of any adequate remedy. The court sustained an injunction against a former employee's disclosure of secrets acquired during his employment.²⁶⁵ Although the term "in-

261. TEX. R. CIV. P. 684. Texas Rules of Civil Procedure covering injunction bonds states:

In the order granting any temporary restraining order or temporary injunction, the court shall fix the amount of security to be given by the applicant. Before the issuance of the temporary restraining order or temporary injunction the applicant shall execute and file with the clerk a bond to the adverse party, with two or more good and sufficient sureties, to be approved by the clerk, in the sum fixed by the judge, conditioned that the applicant will abide the decision which may be made in the cause, and that he will pay all sums of money and costs that may be adjudged against him if the restraining order or temporary injunction shall be dissolved in whole or in part. . . . [A]nd the liability of the applicant shall be for its face amount if the restraining order or temporary injunction shall be dissolved in whole or in part. The discretion of the trial court in fixing the amount of the bond shall be subject to review. Provided that under equitable circumstances and for good cause shown by affidavit or otherwise the court rendering judgment on the bond may allow recovery for less than its full face amount, the action of the court to be subject to review.

Id.

262. *Id.*

263. See *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 685-86 (Tex. 1990) (holding that "[a] person who obtains an injunction wrongfully is liable for damages caused by issuance of the injunction" and the recoverable damages are limited to the bond amount); *Goodwin v. Goodwin*, 456 S.W.2d 885, 885 (Tex. 1970) (stating that "under Rule 684 a bond is specifically required as a condition precedent to the issuance of a temporary injunction, and the failure of the applicant to file such a bond renders the injunction void *ab initio*").

264. 116 F. 304 (7th Cir. 1902).

265. *Harrison v. Glucose Sugar Ref. Co.*, 116 F. 304, 312 (7th Cir. 1902). The *Harrison* court explains:

evitable disclosure” was not used at that time, the court recognized that it would be practically impossible for a former employee to avoid disclosing confidential information to a new employer engaged in a competing business.²⁶⁶ The term and the doctrine of “inevitable disclosure” remained in obscurity for decades whereby courts, while recognizing the concept, avoided its official designation, preferring instead to use such terms as “impossible,” “potential,” and “probable.”²⁶⁷

The inevitable disclosure doctrine emerged from this relative obscurity in *PepsiCo v. Redmond*.²⁶⁸ The Seventh Circuit Court sustained the grant of an injunction in this situation where a plaintiff demonstrated that the defendant, a former employee, would inevitably disclose trade secrets to his competing new employer.²⁶⁹ Consequently, the court held that in order to prevail in an inevitable disclosure claim, the employer must prove (1) the existence of a trade secret; (2) the defendant had access to the secret; (3) the defendant was hired by a competitor who would benefit from the disclosure of the trade secret; and (4) that there is a high degree of probability that the defendant would disclose the trade secret to the new employer.²⁷⁰ Under this established principal, the application of the inevitable disclosure doctrine is in no way contingent on the existence of a covenant not to compete.²⁷¹ In fact, some view it as a “backdoor means of achieving a noncompete type restric-

There is no adequate remedy at law for such violation. There are no means to determine the extent of the damages which would be sustained by disclosure of such secrets. To vacate the restraint imposed by the court below would practically decree for the appellant upon the merits of the case, for a decree would be useless if the secrets were once disclosed.

Id.

266. *See id.* at 311 (recognizing that an employee cannot in good faith serve two interests without breaching an owed duty to one party).

267. *See Carborundum Co. v. Williams*, 468 F. Supp. 38, 40-41 (E.D. Tenn. 1978) (employing the concept but using *probable* instead of “inevitable” disclosure); *Allis-Chalmers Mfg. Co. v. Cont'l Aviation & Eng'g Corp.*, 255 F. Supp. 645, 654 (E.D. Mich. 1966) (using the concept of *impossibility* of disclosure when a former employee is hired by a competitor); *Sybron Corp. v. Wetzel*, 385 N.E.2d 1055, 1057 (N.Y. 1978) (referencing *potential* trade secret disclosure).

268. 54 F.3d 1262, 1269 (7th Cir. 1995).

269. *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262, 1268 (7th. Cir. 1995).

270. *See id.* (outlining the requirements to establish trade secret appropriation).

271. *See id.* at 1271 (explaining that misappropriation of trade secrets can occur in the absence of a covenant not to compete).

tion. . . ."²⁷² Despite the court's clear guidance on the application of the inevitable disclosure doctrine, many jurisdictions have either adopted a watered-down version or outright rejected its application because of the unfair restraint it would impose on employees.²⁷³

B. *The Status of Inevitable Disclosure in Texas: The Absence of an Express Adoption*

Texas has long adhered to the principal established by the United States Supreme Court in 1957 that a state should not prevent a person from practicing his chosen occupation in an arbitrary way.²⁷⁴ The fact that Texas courts have skirted the doctrine of in-

272. M. Scott McDonald, *Noncompete Contracts: Understanding the Cost of Unpredictability*, 10 TEX. WESLEYAN L. REV. 137, 145 (2003).

273. Connecticut, Iowa, Massachusetts, New York, North Carolina, and Texas have adopted a somewhat limited version, while California, Florida, and Virginia have refused to apply the doctrine of inevitable disclosure. See *Danjaq, L.L.C. v. Sony Corp.*, No. CV 97-8414-ER, 1999 U.S. Dist. LEXIS 22486, at *7 n.1 (C.D. Cal. Mar. 11, 1999) (refusing to allow reliance on the doctrine of inevitable disclosure and holding that "*PepsiCo* is not the law of the State of California or the Ninth Circuit"); *Branson Ultrasonics Corp. v. Stratman*, 921 F. Supp. 909, 913-14 (D. Conn. 1996) (stating that, "When, as here, a high degree of similarity between an employee's former and current employment makes it likely that the former employer's trade secrets and other confidential information will be used and disclosed by the employee in the course of his new work, enforcement of a covenant not to compete is necessary to protect against such use and disclosure"); *Uncle B's Bakery, Inc. v. O'Rourke*, 920 F. Supp. 1405, 1435 (N.D. Iowa 1996) (enjoining the employee from working for the competitor because there was a "realistic threat of inadvertent disclosure of trade secrets, and consequently a threat of irreparable harm to Uncle B's Bakery."); *Marcam Corp. v. Orchard*, 885 F. Supp. 294, 297 (D. Mass. 1995) (holding that the former employee will "inevitably, even if inadvertently, be influenced by the knowledge he possesses of all aspects of [the] development efforts"); *Business Intelligence Servs., Inc. v. Hudson*, 580 F. Supp. 1068, 1072 (S.D.N.Y. 1984) (relying on the doctrine of inevitable disclosure to enforce a non-compete agreement); *Glaxo Inc. v. Novopharm Ltd.*, 931 F. Supp. 1280, 1303 (E.D.N.C. 1996) (applying a narrower interpretation of the *PepsiCo* decision); *Del Monte Fresh Produce Co. v. Dole Food Co.*, 148 F. Supp. 2d 1326, 1336 (S.D. Fla. 2001)(restricting the application of *PepsiCo* to cases that did not involve covenants not to compete); *Elec. Data Sys. Corp. v. Powell*, 524 S.W.2d 393, 398 (Tex. Civ. App.—Dallas 1975, writ ref'd n.r.e.) (enforcing a non-disclosure provision because "[e]ven in the best of good faith, a former technical or 'creative' employee such as Powell working for a competitor such as SRI can hardly prevent his knowledge or his former employer's confidential methods from showing up in his work"); *Gov't Tech. Servs., Inc. v. IntelliSys Tech. Corp.*, No. 160265, 1999 Va. Cir. LEXIS 502, at *2 (Va. Cir. Ct. Oct. 20, 1999) (holding that, "Virginia does not recognize the inevitable disclosure doctrine.").

274. See *Schwartz v. Bd. of Bar Exam'rs*, 353 U.S. 232, 249 (1957) (explaining that arbitrary standards for refusal to allow one to join a profession offend the Due Process Clause).

evitable disclosure is indicative of its unwillingness to impose restrictions on employees. Although the term “inevitable” disclosure was not generally recited by the Texas courts in the 70s, 80s, and early 90s, courts did adopt a weakened version of the doctrine.²⁷⁵ In *Weed Eater, Inc. v. Dowling*,²⁷⁶ the appellate court recognized the need for injunctive relief because “[e]ven in the best of good faith,” a former employee “can hardly prevent his knowledge of his former employer’s confidential methods from showing up in his work.”²⁷⁷ In *FMC Corp. v. Varco International, Inc.*,²⁷⁸ the Fifth Circuit granted a preliminary injunction to the former employer because he had met the four requirements under *PepsiCo*.²⁷⁹ Furthermore, in *Rugen v. Interactive Business Systems*,²⁸⁰ the appellate court explained that an injunction was the “only effective” method available to an employer who has disclosed confidential information to a former employee because “it is probable that [an employee] will use the information for her benefit and to the detriment of [her previous employer].”²⁸¹

However, the Texas Supreme Court in *Computer Associations International v. Altai, Inc.*²⁸² categorically rejected the doctrine of inevitable disclosure, reiterating instead the long-held view that a

275. See *Union Carbide Corp. v. UGI Corp.*, 731 F.2d 1186, 1191 (5th Cir. 1984) (pointing out, “Carbide’s strong showing that Sutton disclosed its disinterest price, and the failure of appellants to exclude Sutton from a situation where disclosure of confidential information would be difficult to avoid, persuaded the district court of the existence of a substantial likelihood of disclosure.”); *FMC Corp. v. Varco Int’l, Inc.*, 677 F.2d 500, 505 (5th Cir. 1982) (noting that there is a realistic fear of “irreparable injury” from the disclosure of a trade secret); *Rugen v. Interactive Bus. Sys.*, 864 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no writ) (explaining the probability that a newly hired employer will use information to the detriment of the previous employer); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 902 (Tex. Civ. App.—Houston [1st Dist.] 1978, writ ref’d n.r.e.) (declaring that even when acting in good faith, an employer’s past knowledge will emerge as he performs his new job); *Elec. Data Sys. Corp. v. Powell*, 524 S.W.2d 393, 397-99 (Tex. Civ. App.—Dallas 1975, writ ref’d n.r.e.) (stating that former employees “cannot help but utilize information from [employers’] health-care programs and data systems if permitted to continue in the SRI-HIS systems development effort which parallels [employers’ systems]”).

276. 562 S.W.2d 898 (Tex. Civ. App.—Houston [1st Dist.] 1978, writ ref’d n.r.e.).

277. *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 902 (Tex. Civ. App.—Houston [1st Dist.] 1978, writ ref’d n.r.e.).

278. 677 F.2d 500 (5th Cir. 1982).

279. *FMC Corp. v. Varco Int’l, Inc.*, 677 F.2d 500, 503-05 (5th Cir. 1982).

280. 864 S.W.2d 548 (Tex. App.—Dallas 1993, no writ).

281. *Rugen v. Interactive Bus. Sys.*, 864 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no writ).

282. 918 S.W.2d 453 (Tex. 1994).

cause of action for misappropriation accrues only when a trade secret is "used."²⁸³ This underlying judgment merely reflected the Texas courts' dislike of covenants not to compete. Indeed, the court was not about to allow plaintiffs to circumvent the statutory requirements established by the legislature and *Light II* in order to obtain non-compete types of restrictions through a backdoor left open by the doctrine of inevitable disclosure.²⁸⁴

The decision in *Computer Associations International* had a tremendous impact on Texans. With this precedent, the majority of cases that followed were unsuccessful in advancing the doctrine of inevitable disclosure.²⁸⁵ In a non-published case, the Fifth Court of Appeals acknowledged that it "found no Texas case referring to a 'doctrine of inevitable disclosure. . . .'"²⁸⁶ So, it created a test with similar attributes, suggesting injunctions should issue in cases in which there is a high probability that a former employee will not just disclose but also "use" trade secrets for his or her own benefit.²⁸⁷ Stronger rejection followed in *Cardinal Health Staffing Network v. Bowen*,²⁸⁸ whereby the court flatly refused to apply either the doctrine of inevitable disclosure or its weak progeny announced in *Rugen* and *Conley*.²⁸⁹ Finally, if there was any doubt about where Texas stands, the court's recent pronouncement in

283. See *Computer Assocs. Int'l v. Altai, Inc.*, 918 S.W.2d 453, 455 (Tex. 1994) (stating that "[a] cause of action for misappropriation of trade secrets accrues when the trade secret is actually used").

284. M. Scott McDonald, *Noncompete Contracts: Understanding the Cost of Unpredictability*, 10 TEX. WESLEYAN L. REV. 137, 145 (2003).

285. See *T-N-T Motorsports v. Hennessey Motorsports*, 965 S.W.2d 18, 24 (Tex. App.—Houston [1st Dist.] 1998, no pet.) (applying the inevitable disclosure doctrine only after discovering from the evidence that the defendant has already utilized confidential information and thus likely to pose an inherent threat to the disclosure and use of appellee's trade secrets); *Totino v. Alexander & Assocs.*, 1998 Tex. App. LEXIS 2502, at *4-8 (Tex. App.—Houston [1st Dist.] Apr. 30, 1998, no pet.) (rejecting the inevitable disclosure argument); *Conley v. DSC Communs. Corp.*, 1999 Tex. App. LEXIS 1321, at *10-11 (Tex. App.—Dallas Feb. 24, 1999, no pet.) (not designated for publication) (admitting it was not endorsing the inevitable disclosure doctrine, but establishing protection based on probable use).

286. *Conley*, 1999 Tex. App. LEXIS 1321, at *8.

287. See *id.* at *4-7 (explaining the factors that were analyzed to determine if the issuance of an injunction was proper).

288. 106 S.W.3d 452 (Tex. App.—Austin 2004, pet. filed).

289. See *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230, 242-43 (Tex. App.—Houston [1st Dist.] 2003, no pet.) (explaining that no Texas case has ever expressly adopted the inevitable disclosure doctrine).

*Trilogy Software, Inc. v. Callidus Software, Inc.*²⁹⁰ on this issue should eliminate it. The Austin appellate court relied on the aforementioned decisions to dismiss the application of the inevitable disclosure doctrine.²⁹¹

VI. CONCLUSION

“Reality is merely an illusion, albeit a very persistent one.”²⁹²

After a fifty-year struggle, unless Texas courts recognize that just as oil and water have never been successfully mixed, elements of tort and contract laws will not fuse, confusion will continue to reign in Texas. In the course of balancing the need to protect trade secrets against the need to limit unreasonable restraint on trade, Texas courts are urged to provide separate assessments of (1) tort causes of action for trade secret misappropriation and (2) contract causes of action for breach of a covenant not to compete. Fusion only weakens their value; separation, conversely, strengthens their effectiveness. Today, the only thing predictable about sustaining a hybrid model is unpredictability itself. Economic growth and innovation are unsustainable under such conditions. Companies should be able to both minimize risk and be afforded the means to protect legitimate business interests. Employees should be permitted to practice a chosen occupation in a reasonable, non-arbitrary way.

290. 143 S.W.3d 452 (Tex. App.—Austin 2004, pet. filed).

291. See *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 464 (Tex. App.—Austin 2004, pet. filed) (relying on *Cardinal Health Staffing Network, Inc. v. Bowen*, 106 S.W.3d 230 (Tex. App.—Houston [1st Dist.] 2003, no pet.) in its holding). The *Trilogy* court expressly references the *Cardinal* court’s notation that courts “have found no Texas cases expressly adopting the inevitable disclosure doctrine. . . .” *Bowen*, 106 S.W.3d at 242.

292. Albert Einstein, <http://www.quotationspage.com/quote/482.html> (last visited Feb. 6, 2005).

VII. APPENDIX A
 APPENDIX A
 POST LIGHT II INJUNCTION CASES INVOLVING COVENANTS NOT TO COMPETE
 AND TRADE SECRETS

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<i>Anderson Chem. Co. v. Green</i> , 66 S.W.3d 434 (Tex. App.—Amarillo 2001, no pet.)	Breach of covenant not to compete and breach of covenant not to disclose proprietary information	Promisee	Temporary injunction denied	Affirmed	Green, salesman for a water treatment systems company, had contacted and solicited former employer's customers. The court held the non-competition covenant was unenforceable as it was not a part of any other enforceable agreement. The court further stated that the customer information used by Green was information that was neither proprietary nor did it have an adverse effect on the former employer.
<i>Bandit Messenger of Austin, Inc. v. Contreras</i> , NO. 03-00-00359-CV, 2000 Tex. App. LEXIS 7166 (Tex. App.—Austin Oct. 26, 2000, no pet.) (not designated for publication)	Breach of a non-competition agreement	Promisee	Temporary restraining order dissolved—Temporary injunction denied	Affirmed	Contreras worked as an office manager for a delivery service. He executed non-competes and non-disclosure clauses incorporated in his employment agreement. The former employer argued that the customer list was a trade secret and without stating a reason the trial court denied the request for an injunction. On appeal the court held that the former employer had failed to protect the list and denied trade secret protection.
<i>Beasley v. Hub City Tex.</i> , No. 01-03-00287-CV, 2003 Tex. App. LEXIS 8550 (Tex. App.—Houston [1st Dist.] Sept. 29, 2003, no pet.) (not designated for publication)	Declaratory judgment to determine validity of non-competition agreement and counter claim for misappropriation of trade secrets	Promisor	Temporary injunction granted	Affirmed	Beasley resigned from employer and created a separate business in competition with former employer. The court found the non-competition agreement between Beasley and his former employer to be valid under the Texas Business Code. The court further held that Beasley's position as president created a rebuttable presumption that the information he received was a valuable trade secret.

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<i>BS&B Safety Sys., Inc. v. Fritts</i> , No. 01-98-00957-CV, 1999 Tex. App. LEXIS 4554 (Tex. App.—Houston [1st Dist.] June 17, 1999, no pet.) (not designated for publication)	Breach of employment agreement	Promisee	Temporary injunction granted for a limited time	Dismissed	The court dismissed the appeal to modify the covenant not to compete because the issue was moot as the two-year limitation of competition period expired. The court affirmed the modification of the temporary injunction which restricted a former employee's non-disclosure agreement.
<i>Budler v. Arrow Mirror & Glass, Inc.</i> , 51 S.W.3d 787 (Tex. App.—Houston [1st Dist.] 2001, no pet.)	Breach of covenant not to compete	Promisee	Injunction granted	Affirmed	An operations manager after one year of employment left and in violation of the non-competition agreement set up a similar business and sold to the same accounts. The court reformed the parts pertaining to geographic scope and entered an injunction enforcing the reformed contract. Because the contract was reformed the court awarded attorney fees in the amount of \$30,000 to the defendant. (The opinion never discussed whether the contract was illusory).
<i>C.S.C.S., Inc. v. Carter</i> , 129 S.W.3d 584 (Tex. App.—Dallas 2003, no pet.)	Breach of covenant not to compete	Promisee	Temporary injunction denied	Affirmed	A non-compete agreement was signed by employee four days after the employment contract had entered into effect. The former employer brought suit against employee based on violation of the non-competition agreement. The court would not enforce the non-competition agreement because the agreement was signed before the employment contract and the agreement was neither ancillary to or part of the employment contract.

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<p><i>CRC-Evans Pipeline Int'l, Inc., v. Myers</i>, 927 S.W.2d 259 (Tex. App.—Houston [1st Dist.] 1996, no writ)</p>	<p>Breach of covenant not to compete and trade secret theft</p>	<p>Promisee</p>	<p>Temporary injunction denied</p>	<p>Affirmed</p>	<p>Two former employees of CRC came back to work for CRC, at which time they signed an employment agreement containing covenants not to compete and preventing disclosure of trade secrets. When the ex-employees quit and went to work for a competitor they were sued under the non-competition agreement. Because no training or trade secrets were provided to the ex-employees at the time they signed the covenants not to compete, they were not "ancillary to or part of an otherwise enforceable agreement."</p>
<p><i>Evans Consoles, Inc. v. Hoffman Video Sys.</i>, No. 3: 01-CV-1333-P, 2001 U.S. Dist. LEXIS 20341 (N.D. Tex. Dec. 7, 2001)</p>	<p>Breach of non-compete and non-disclosure covenants</p>	<p>Promisee</p>	<p>Preliminary injunction granted</p>	<p>N/A</p>	<p>As part of a participation agreement, the former employee signed a non-competition agreement. As a management shareholder, the employee received information on strategic business plans, financial performance and projections, growth opportunities and future direction. This confidential information, along with the employer's desire to secure the employee's loyalty and service, show a substantial likelihood that the non-compete agreement was ancillary to an otherwise enforceable agreement. The court reformed the scope of the covenant not to compete because the unlimited geographical area clause was deemed unreasonable.</p>

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<i>Flake v. EGL Eagle Global Logistics, L.P.</i> , No. 14-01-01069-CV, 2002 Tex. App. LEXIS 6593 (Tex. App.—Houston [14th Dist.] Sept. 5, 2003, no pet.) (not designated for publication)	Breach of non-compete and non-disclosure covenants	Promisee	Temporary injunction granted	Affirmed	Flake asserted that he worked for Eagle for several years prior to signing an at-will employment contract which contained a non-competition agreement. Conflicting testimony was presented as to whether additional trade secrets were provided to Flake upon signing the employment contract. The non-competition agreement was enforced when Flake testified to receiving and using trade secrets. The court stated this could reasonably be construed as Flake receiving new consideration for signing a non-compete agreement.
<i>Friedman, Clark & Shapiro, Inc. v. Greenberg, Grant & Richards, Inc.</i> No. 14-99-01218-CV, 2001 Tex. App. LEXIS 6525 (Tex. App.—Houston [14th Dist.] Sept. 27, 2001, no pet.) (not designated for publication)	Breach of a contract, breach of a fiduciary duty, and tortious interference with prospective contractual relationships	Promisee	Enjoined for one year	Affirmed	Three employees left the employer and formed a rival competing business. All employees had signed non-competition agreements. The agreements were enforceable because the agreements modified the at-will employment relationship and new consideration was given. The court affirmed the trial court's judgment awarding a temporary injunction and \$162,500 in damages.
<i>Grove Temp. Serv., Inc. v. Steger</i> , No. 05-95-01788-CV, 1996 Tex. App. LEXIS 1366 (Tex. App.—Dallas April 11, 1996, no pet.) (not designated for publication)	Breach of a covenant not to compete	Promisee	Temporary injunction denied	Affirmed	Steger worked for a personnel agency. A few weeks after she was hired, she signed a covenant not to compete. Steger then accepted employment with a competitor. The former employer contended that everything was secret, including "taking customers to lunch." Steger had worked as a job counselor and did not receive instructions or special training. Thus, the court concluded that the covenant not to compete in Steger's contract was not ancillary to or part of an otherwise enforceable agreement because Steger did not receive additional consideration.

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<i>GTC Chem. Serv., Inc. v. Burdge</i> , No. 13-98-088-CV, 1998 Tex. App. LEXIS 3562 (Tex. App.—Corpus Christi June 11, 1998, no pet.) (not designated for publication)	Breach of a covenant not to compete and trade secret theft	Promisee	Temporary injunction denied on non-competition claim, but granted on trade secrets claim	Affirmed	Employee signed a patent and confidentiality agreement, which contained a non-competition agreement. Employee left former employer to form a new business, and former employee sought to enjoin the employee. The temporary injunction was denied because the former employer had an adequate remedy at law in the form of damages.
<i>Houston Solvents & Chemicals, Co., Inc. v. Montealegre</i> , No. 14-98-00612-CV, 1999 Tex. App. LEXIS 2881 (Tex. App.—Houston [14th Dist.] April 15, 1999, no pet.) (not designated for publication)	Breach of a non-competes and non-disclosure covenant	Promisee	Temporary injunction denied	Affirmed	Montealegre signed an employment agreement while working as a salesman for Houston Solvents that contained a covenant not to compete and not to divulge trade secrets. While holding that certain parts of the agreement were not illusory, the court found that the non-competition promise was not ancillary to an otherwise enforceable agreement because it lacked consideration. There was no proof that trade secrets were misappropriated.
<i>Ireland v. Franklin</i> , 950 S.W.2d 155, (Tex. App.—San Antonio 1997, no pet.)	Breach of a covenant not to compete	Promisor	Temporary injunction granted	Affirmed temporary injunction	Ireland worked for Franklin Chiropractic for six years. Ireland had signed a contract that contained a covenant not to compete, which prohibited her from contacting former patients and from disclosing certain trade secrets. The court held that the purported trade secrets listed in the employment contract provided the requisite consideration needed to make the covenant not to compete enforceable. The court did not discuss whether the information actually constituted trade secrets.

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<i>Learn2.com, Inc. v. Bell</i> , NO. 3:00-CV-0812-R, 2000 U.S. Dist. LEXIS 14277 (N.D. Tex. Aug. 30, 2000)	Misappropriation of trade secrets and breach of a covenant not to compete	Promisee	Preliminary injunction granted	N/A	Bell executed a covenant not to compete with his employer. He set up a secret side company. He then used trade secrets acquired from his employer to run his new business. In a case filled with black hat material, the covenant not to compete was held ancillary to an otherwise enforceable agreement.
<i>Maxxim Med., Inc. v. Michelson</i> , 51 F. Supp. 2d 773 (S.D. Tex. 1999)	Breach of a non-compete, covenant trade secret theft, and breach of fiduciary duty	Promisee	Preliminary injunction granted	N/A	Michelson was employed as a sales representative for Maxxim covering the areas of California, Nevada and Texas. Since most of the services were performed in California, California law applied. The court enjoined Michelson because it found that if Michelson had not already disclosed trade secrets, then it was inevitable that he would.
<i>McNeilus Co., Inc. v. Sams</i> , 971 S.W.2d 507 (Tex. App.—Dallas 1997, no pet.)	Breach of a covenant not to compete	Promisee	Temporary injunction denied	Affirmed denial of temporary restraining order	Sams, while employed by McNeilus, signed an employment agreement that had a non-compete clause. He received one month of training, but after eight months, resigned and went to work for a competitor. There was a dispute over whether any of the information was confidential and whether documents were taken. The non-compete agreement was held to be unreasonable in scope, but it was not reformed.
<i>Miller Paper Company v. Roberts Paper Company</i> , 901 S.W.2d 593 (Tex. App.—Amarillo 1995, no pet.)	Violating covenants not to compete, theft of trade secrets	Promisee	Temporary injunction issued	Reversed as to the temporary injunction covering the covenant not to compete	All individuals employed by Roberts Paper executed covenants not to compete. When President Miller left, all of the others left and joined her to set up a competing business of Miller Paper. After reviewing the <i>Light II</i> factors, the covenant not to compete was held to be illusory and was unenforceable by Roberts Paper. However, the injunction against use of trade secrets was sustained.

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<i>Norlyn Enter., Inc. v. APDP, Inc.</i> , 95 S.W.3d 578 (Tex. App.—Houston [1st Dist.] 2002, no pet.)	Enforcement of a non-competition agreement	Promisor	Temporary injunction denied	Reversed and remanded	The franchise agreement contained a non-competes agreement. On appeal the court held that the trial court abused its discretion when it required proof of irreparable injury for obtaining an injunction. (Case was reversed in a later decision.)
<i>Olander v. Compass Bank</i> , 353 F.3d 560 (5th Cir. 2004)	Sought a declaratory judgment that a non-competition agreement was unenforceable	Promisor	Preliminary injunction denied	Affirmed	The non-competition agreement between employee and former employer was held to be unenforceable because the stock option agreement was merely an illusory promise and no evidence was presented to show that the former employer supplied the employee with trade secrets or other consideration.
<i>R & R Unifs., Inc. v. Meischen</i> , NO. 01-96-00733-CV, 1997 Tex. App. LEXIS 2828 (Tex. App.—Houston [1st Dist.] May 29, 1997, no pet.) (not designated for publication)	Violation of a covenant not to compete and trade secret theft	Promisee	Temporary injunction denied	Affirmed	Former employer brought suit against former employees for violation of non-competes and trade secret agreements. The court affirmed the trial court's decision. The court stated the appeal from the order denying the injunction was interlocutory and the merits were not presented on appeal. The court held that it was within the trial court's discretion to decide whether to grant a temporary injunction.
<i>Rimkus Consulting Group, Inc. v. Budinger</i> , No. 14-98-01101-CV, 2001 Tex. App. LEXIS 5860 (Tex. App.—Houston [14th Dist.] Aug. 23, 2001, no pet.)	Breach of a non-competition agreement	Promisee	Injunction granted	Affirmed	Budinger signed an addendum agreement with Rimkus, which reiterated a previously signed covenant not to compete. Budinger left Rimkus and went to work with the competition. The court determined that the non-competes agreement was enforceable because consideration was exchanged between Budinger and Rimkus in the form of promises. The non-competes agreement was also subject to reformation.

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<i>Sec. Telecom Corp. v. Meziere</i> , No. 05-98-00059-CV, 2000 Tex. App. LEXIS 1818 (Tex. App.—Dallas Mar. 22, 2000, no pet.) (not designated for publication)	Breach of a non-competition agreement	Promisee	Temporary injunction denied; Permanent injunction denied	Summary judgment affirmed	Meziere executed a non-competition agreement sometime after his employment. Later, he went into competition with his former employer. The court held that the non-competition agreement was not supported by valuable consideration and, therefore, was not ancillary to an otherwise enforceable agreement. The trial court's grant of a summary judgment was affirmed in favor of the former employee.
<i>Strickland v. Medtronic, Inc.</i> , 97 S.W.3d 835 (Tex. App.—Dallas 2003, pet. dismissed w.o.j.)	Enforcement of a non-competition agreement	Promisor	Temporary injunction granted	Reversed	Strickland signed an at-will employment agreement that contained a non-competition clause. Medtronic did not provide adequate consideration to make the non-competition clause enforceable. The court held that Medtronic's promise to give 90-days notice prior to termination of employment and the promise to provide compensation should Strickland suffer economic hardship because of the non-competition clause was not sufficient consideration. The non-competition clause was held to be unenforceable.
<i>Tom James of Dallas, Inc. v. Cobb</i> , 109 S.W.3d 877 (Tex. App.—Dallas 2003, no pet.)	Enforcement of a covenant not to compete	Promisee	Temporary injunction denied	Affirmed	Former employer tried to enforce a covenant not to compete against former employees. The court stated that the non-competition agreements were not ancillary to an otherwise enforceable contract because the former employer did not give consideration for said covenants. The purported trade secrets were not secrets at all because the former employer did not keep the information secret. Since adequate consideration was not given, the non-competition agreements were unenforceable.

APPENDIX A — CONTINUED

Citation	Cause(s) of Action Asserted	Suit Brought By	Lower Court's Decision	Appellate Court's Holding	Case Brief
<p><i>Toino v. Alexander & Assoc., Inc.</i>, No. 01-97-01204-CV, 1998 Tex. App. LEXIS 5295 (Tex. Dist.] Aug. 20, 1998, no pet.)</p>	<p>Breach of a covenant not to compete, non-solicitation and unfair competition</p>	<p>Promisee</p>	<p>Temporary injunction granted</p>	<p>Temporary injunction modified and affirmed</p>	<p>Four at-will employees worked for Alexander & Associates as commercial brokers. All four signed employment contracts that included covenants not to compete. However, one of the four employees entered into the non-compete agreement after reviewing <i>Light II</i> factors, three of the four non-competition agreements were enforceable because they were ancillary to other enforceable agreements and consideration was given in the form of stock options and trade secrets. The fourth non-competition agreement was not enforceable because it was illusory and not executed when the employment contract was entered into.</p>
<p><i>Yoakum v. Eagle USA Air Freight, Inc.</i>, No. 01-98-01335-CV, 1999 Tex. App. LEXIS 5777 (Tex. App.—Houston [1st Dist.] Aug. 5, 1999, no pet.) (not designated for publication)</p>	<p>Breach of non-competition and non-disclosure provisions Tortious interference with contract</p>	<p>Promisee</p>	<p>Temporary injunction granted</p>	<p>Affirmed</p>	<p>Yoakum worked for a freight forwarding company as a salesman and signed an employment agreement with non-compete and non-disclosure provisions. Yoakum went to work for the competitor and convinced major account holders to switch to his new employer. The court upheld the non-compete and non-disclosure agreements because adequate consideration, in the form of confidential information, was given to Yoakum. The court enjoined Yoakum from soliciting these customers, and Yoakum's argument that he did not have a written list of customers was rejected.</p>