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By J. Sean Lemoine, Partner Wick Phillips Gould Martin

Preserve Fee Recovery,

Structure Non-Compete Agreements with Care

The non-compete litigation between industry giants Oracle and Hewlett-Packard, which concluded in late 2010, brought to light the many possible implications of hiring a key employee from, or losing a key employee to, a competitor. As the importance of a company's intellectual property increases and the competitive landscape continues to change, these cases more frequently take top billing in many of the nation's courts.

While Texas courts have historically been reluctant to enforce non-compete agreements, the Texas legislature enacted the Covenants Not To Compete Act (Tex. Bus. & Com. Code §15.50 *et. Seq.*) providing a statutory framework which allows courts to enforce reasonable restrictions on employees in the form of non-solicitation and non-compete agreements. Texas is also unique in allowing a party suing for breach of contract to recover reasonable attorneys' fees when seeking to enforce contractual obligations. Most states are not so generous when it comes to attorney fee recovery.

In our own practice, we encourage clients to include prevailing party provisions in all agreements so that the victor can recover their costs and attorneys' fees in the event of a dispute. Many times, the threat of attorney fee recoupment can force the recalcitrant employee to honor his agreement. Usually, in the non-compete situation, if the employee/new employer is put on notice quickly, the damage to your business can be minimized in terms of lost opportunity. Unfortunately, securing that compliance has other costs, including attorneys' fees and expenses, which typically could be recovered under a contractual provision awarding the prevailing party attorneys' fees.

A recent decision by the Houston Court of Appeals, First District (*Glattly v. Air Starter Components, Inc*., Oct. 7, 2010), creates a potential roadblock to the recovery of attorneys' fees and expenses in the event of a violation of a non-compete or non-solicitation agreement. Potentially limiting the scope of fee recovery, the Houston Court of Appeals upheld the trial court's decision to refuse to award attorneys' fees to the employer, despite the existence of a prevailing party provision in the employer/employee contract. The Court cited TEX BUS. & COM. Code §15.52 as the basis for their decision and reasoned that because the Covenants Not To Compete Act does not contain a provision that allows for an employer to recover attorneys' fees, and because it contains specific preemption language, the inclusion of a prevailing party provision is effectively irrelevant.

This is consistent with Texas Supreme Court Justice Nathan Hecht's concurrence in *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, (Tex.2009). In *Mann*, Justice Hecht would have refused to allow a party to recover attorneys' fees under a prevailing party provision where the dispute would otherwise be covered by the Covenants Not To Compete Act. In that case, the majority of the Texas Supreme Court failed to address the prevailing party issue and resolved the dispute on other grounds.

To maximize attorney fee recovery in the future, agreements must be carefully structured paying particular attention to new restrictive rulings. For example, non-recruitment/no-hire provisions have generally escaped the application of the Covenants Not To Compete Act. Similarly, non-disclosure of confidential information restrictions is not subject to the Covenants Not To Compete Act. Additionally, the Texas Theft Liability Act provides that the prevailing party can recover attorneys' fees in cases where trade secrets are stolen by the departing employee, provided the employer can establish damages associated with that theft.

The bottom line is that the key to maximizing the amount of recoverable attorneys' fees and expenses is to structure contractual agreements carefully by including appropriate recovery provisions and managing carefully the time spent by your counsel when pursuing activities that are reimbursable under current guidelines.

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