

# FRIEDMAN & FEIGER

ATTORNEYS AT LAW

## Non-Compete Agreements and Lawful Restraints of Trade



In the 1200's, the City of Constantinople was sacked during the 4<sup>th</sup> Crusade. This sent skilled workers to the other Mediterranean center of economic activity, Venice. Among the refugees, was a group of glass blowers. Although the merchants of Venice were only too happy to welcome a new trade into their midst, there was one problem: glass making requires very hot fire. In order to avoid burning down the City of Venice, merchants set up glass making works on the separate island of Murano.

Although glass making was not a trade secret, after several hundred years of isolation on the island, the glassmakers of Venice became experts at making glass in a way that was a "trade secret." No one knew how it was done. In order to protect this valuable asset, the merchants of Venice came up with perhaps the first covenant not to compete in recorded history. In exchange for transmitting the know-how to apprentice glassmakers, the workers could never leave the island, ever.

This illustrates a dynamic that has persisted unchanged for centuries. Employers typically have all the leverage (power), have all the business connections, have all the customers, have assembled a valuable team of coworkers, and have invested in the development of confidential information and trade secrets. Employees are often not running toward a new golden employment opportunity as much as they are fleeing an unsatisfactory old position. The new employment relationship isn't always an arms-length negotiation. The employee frequently has very little leverage, he takes a job just because he needs a paycheck, will sign anything put in front of him, is naive, has no attorney, and doesn't know what a non-compete actually means. Perhaps for this reason, employees often think nothing of leaving a job and taking an employer's customer list, convincing fellow workers to leave with them, misappropriating trade secrets, and diverting corporate opportunities.

Texas Courts historically held that noncompetition covenants limit competition and are restraints of trade. Therefore, they are presumed to be invalid unless specifically authorized by a statute. Texas then adopted Sec. 15.50 of the Business & Commerce Code, which reads:

"A covenant not to compete is enforceable if it is (1) ancillary to or part of an otherwise enforceable agreement at the time the agreement is made (2) to the extent that it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and (3) do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee."

In plain English, a covenant not to compete is a contract in which the employee is giving up a valuable right—the right to compete. The rules are: (1) the agreement must be supported by consideration, an "at will" contract can't be enforced (it is said to be "illusory") and, therefore, the non-compete would not be ancillary to an enforceable agreement; (2) There must be some "justifiable business purpose" that the non-compete protects. "I don't want my employee competing after he leaves," usually isn't enough. As with the Venetian glass blowers, the employer must have imparted some confidential information that the non-compete reasonably protects; and, (3) the non-compete must be reasonable in time, scope, and place. If the non-compete involves a physician, there must also be a buyout clause.

Under Section 15.51(c) it is not fatal if the length of time is too long, or the geographical area, or scope is too expansive, the court is to reform (rewrite) the language to something the court finds reasonable. The penalty, however, lies in the fact that the court may not award damages until after the agreement is reformed. In Personal Services Contracts—If the Employer knew time, geography and scope were excessive—attorneys fees can be awarded to the employee.

In reality, because a departing employee typically does not have the resources to pay any award of money damages, a non-compete clause in an employment agreement is typically enforced by filing an application for, and obtaining, a Temporary Restraining Order, followed immediately by obtaining a Temporary Injunction. Although these procedures can require a significant amount of legal work in the initial days of your suit, the case is frequently resolved by the conclusion of the initial hearings.

### INSIDE

In The Spotlight—  
Mazin A. Sbaiti **2**

Remedies in Commercial Real Estate Contracts **2**

Giving Back to Future Lawyers **3**

Non-Competes and Lawful Restraints of Trade (cont'd) **3**

Calendar of Events **4**

(Continued on page 3)



## In The Spotlight



### Recent Copyright Opinion Has Far Reaching Consequences For Enforcement Actions

By Mazin A. Sbaiti



A recent Ninth Circuit decision has clarified a fine distinction in a Digital Millennium Copyright Act ("DMCA") lawsuit that has broader implications for the world of copyright law. In *Lenz v. Universal Music Corp.*, the Ninth Circuit held that "fair use" is not a defense of permissible infringement, it is in fact proof of *non*-infringement.

The Court went so far as to suggest that fair use is among the bundle of rights conferred by the Copyright Act. At its most benign, the decision potentially means that one need not plead the grounds for fair use as an affirmative defense to

liability. As in *Lenz*, it means there are new pitfalls if one mistakenly claims copyright over works that are rightfully deemed "fair use" -- thus exposing one to liability for attorneys fees or worse. It will be no argument that "fair use" is something that the defending party has to raise first. By positing that fair use is a right granted under the Copyright Act, filing a lawsuit for copyright violation just got hairy since certain allegations, depending on how they are framed, may require proving, affirmatively, that a use was not a "fair use."

And, while some commentators have suggested that *Lenz* "expanded" the fair use exception to copyright violations, this would be a misreading of the opinion. It is true that the law of fair use continues to develop—but that is mainly because fair use is a fluid and fact-specific inquiry. Uses that previously were not fair uses are not now fair uses solely in light of *Lenz*. The opinion purports to simply clarify the role of fair use in the context of a dispute under the DMCA, and in the wider context of copyright litigation.

Clients seeking to enforce copyright violations would do well to understand the context of the use of their works before taking affirmative action as it could land them in hot water.

Mazin A. Sbaiti is a commercial trial lawyer with Friedman & Feiger. He handles a variety of complex business, securities, trade secret, construction, insurance, copyright, patent, pharmaceutical, and white collar criminal matters for clients all over the country. Mr. Sbaiti is licensed in the federal and state courts of Texas, California, New York, and Washington D.C.

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### Remedies in Commercial Real Estate Contracts By Ryan Lurich

As the commercial real estate market continues to boom in North Texas, a purchaser's remedies have been affected by the high demand and short supply of deals to be made. On the other hand, a seller's remedies have remained relatively constant -- the retention of the earnest money. But, the remedies in the event of a seller's breach are much more complex and have become the focus in real estate negotiations.

In a seller-friendly market, a purchaser may fear that it will spend significant time and effort pursuing a deal, only to have the seller default and refuse to transfer the property under contract or be unable to transfer the property (because of a prior conveyance due to the receipt of a more attractive offer). In this situation, a purchaser may not be satisfied with the mere return of the earnest money it previously paid to secure the deal. Ordinarily, the purchaser could demand specific performance -- the forced conveyance of the property by the seller. But, if the seller has already conveyed the property because of a better offer, the remedy of specific performance may not be available. Thus, it is becoming more common for purchasers to negotiate for the remedy to recover actual damages or even consequential damages in the event of a seller's default.

This new trend should be met by sellers with caution and a good sense of risk management. If faced with a purchaser's request to recover damages in the event of a default, the seller should consider ways to mitigate its risk. One suggestion is to eliminate a

purchaser's recovery of consequential damages. By limiting a purchaser to actual damages, the seller can protect itself from the purchaser's claims of lost profits or lost business opportunity. The seller could also negotiate for an itemized list of acceptable damages. For instance, the purchaser's damages could be limited to out-of-pocket costs for engineering, surveying and legal expenses associated with pursuing the deal. Finally, the seller could insist on a specific cap on the recovery of damages in the event of a seller's default.

Supply and demand usually dictates who is more concerned with the default of the other party. In the current climate, a prudent seller should make sure that whatever remedies are provided for in the sales contract are as narrowly and specifically defined as possible.



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**Giving Back To Future Lawyers**

Friedman & Feiger attorney Ernest Leonard has a fun and exciting hobby – coaching a high school mock trial team. The 2015-2016 school year was Ernest’s third season coaching Frisco ISD’s High School Mock Trial Team, and this year the team made it to the Texas State Championship.

Now in its 37<sup>th</sup> year, the Texas High School Mock Trial Competition sponsors mock trials between dozens of teams in 19 separate regional districts across the state. For local competitions, the Dallas Bar Association recruits judges from its membership. A number of Friedman & Feiger attorneys have judged competitions over the years.

Making it to the State Championship was a tremendous accomplishment for the Frisco Team and for “Coach” Ernest Leonard. “I am very proud of these students. They worked hard and did a great job,” said Ernest. “The future of the legal profession requires a steady influx of bright and energetic new lawyers; seeing the hundreds of enthusiastic future lawyers at these competitions gives me great assurances.”



Frisco Team celebrating Ernest Leonard on the far left.

ISD’s High School Mock Trial their victory. “Coach” Ernest

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**Non-Compete Agreements and Lawful Restraints of Trade (cont’d from page 1)**

The lawyers at Friedman & Feiger are highly experienced in drafting employment contracts which protect a business’ legitimate rights and interests. Friedman & Feiger attorneys frequently file suit to enforce non-compete clauses, enforce covenants not to solicit co-workers away from a business, enjoin the misappropriation of trade secrets by departing employees, and to enjoin diversion of business opportunities by employees.

Sincerely,

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**JANELLE FRIEDMAN INVITED TO ONE OF THE  
MOST IMPORTANT LITERARY EVENTS IN THE UNITED STATES:  
AUTHORS NIGHT**

Janelle Friedman was invited to autograph her book, *You Are Invited*, at the lavish AUTHORS NIGHT benefitting the East Hampton Library in Long Island, New York. Considered one of the nation's leading literary events, Janelle joined 100 well-known authors with over 2,500 guests in attendance. Alec Baldwin is Founding Honorary Chair. Event Co-Chairs also autographing their books included Christie Brinkley, Robert Caro, Dick Cavett, Gwyneth Paltrow, Eric Ripert, Ina Garten, Nelson DeMille, Dr. Ruth Westheimer, Mary Higgins Clark, and Erica Jung, among others.

*You Are Invited* is available at [amazon.com](http://amazon.com) and [barnesandnoble.com](http://barnesandnoble.com).



## Upcoming Events

### **Friedman & Feiger Calendar**

- September 14, 2016** Janelle Friedman speaks on "Having It All" at the Plano Chamber of Commerce Women's Division Luncheon, 11:30 a.m. to 1:00 p.m., Gleneagles Country Club, 5401 West Park Blvd.
- September 15, 2016** Larry Friedman speaks at the Texas Lawyer In-House Counsel Seminar, "Lower Your Legal Fees and Maximize Your Results," 10:30 a.m. to 11:15 a.m., Maggiano's @ NorthPark, 205 North Park Center.
- September 20, 2016** Friedman & Feiger sponsors the 2016 Kidney Texas Runway Report Luncheon and Style Show, 11:00 a.m., Brook Hollow Golf Club, 8301 Harry Hines Blvd.
- September 24, 2016** Friedman & Feiger sponsors the Fur Ball benefiting the SPCA of Texas, 6:30 p.m., Omni Dallas Hotel, 555 South Lamar Street, with Chairwoman Phyllis Commu.
- October 26, 2016** Friedman & Feiger sponsors the Dallas Holocaust Museum's fundraising event The Hope for Humanity Award Dinner, honoring Nate Levine; Fairmont Hotel Regency Ballroom, 1717 N. Akard, Reception 6:00 p.m., Dinner 7:00 p.m.

