

# THE DEVELOPMENT OF THE TEXAS NON-COMPETE: A TORTURED HISTORY

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## I. INTRODUCTION

A recent article in the New York Times reported the State of Texas hands out more incentives than any other state; around \$19 billion a year, to lure the most dynamic businesses in the United States to the Lone Star State.<sup>1</sup> The governor of Texas stated that "Facebook, eBay, Apple – all of those within the last two years have announced major expansion in Texas . . . . They're coming because it is given, it is covenant, in the boardrooms across America, that our tax structure, regulatory climate and legal environment are very positive to those businesses."<sup>2</sup> Although Texas offers tax incentives and a favorable business climate, high tech businesses may have, in the past, understandably been reluctant to relocate to Texas because of the prior anemic protection granted to businesses in the arena of non-competes. These businesses, one assumes, have no interest in training their best and brightest today, only to have them become competitors tomorrow.

The development of the non-compete covenant body of law in Texas, especially within the past five years, has addressed many concerns that businesses could have with the enforcement of non-competes. The dual prongs of *Sheshunoff Management Services v. Johnson*<sup>3</sup> and *Marsh USA v. Cook*,<sup>4</sup> addressed fully in this article, have provided some stability to the important business and legal issue of non-compete enforcement in the state of Texas.

Confidential information, and the access to confidential information, has never been more important as it is in noncompete litigation. Businesses involved in high-tech, engineering, and specialized service sectors necessarily seek to employ individuals with specialized skills, who may often utilize a company's confidential information and trade secrets. Indeed, in order for these businesses to maintain a competitive advantage in the marketplace, employees must have access to their employer's confidential information and trade secrets. Specifically, companies that hire specialists and provide unfettered access to confidential and proprietary information seek covenants from their employees to limit the likely market effect if an employee begins working for himself or herself or a competitor, targeting the former employer's customers. Texas law has, out of necessity, adapted to the needs of the specialized business sector. In doing so, however, it could be argued that Texas has now adopted different noncompete standards for the professional versus blue collar or non-management employees.

The tension between the Texas Legislature, the interpretation by courts of Texas statutes, and employers' goal to preserve confidential information has escalated as more businesses attempt to block today's service managers from becoming tomorrow's competitors. Examining the historic development and application by courts of covenants not to compete, from *Light* to present jurisprudence necessarily set the stage for *Sheshunoff* and *Marsh*.

Texas jurisprudence has gone through a tortured evolution regarding non-competes. Prior to the culmination of *Marsh USA*, practitioners could not provide a clear expectation to businesses as to what a Texas court would do. The history of non-compete law is analyzed in this article to provide the judicial and legislative context that brought Texas to where it is. The road traveled, by courts and our Texas Legislature, however, was not smooth, and *Marsh* still leaves

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<sup>1</sup> Louise Story, *Lines Blur as Texas Gives Industries a Bonanza*, N.Y. TIMES, Dec. 2, 2012.

<sup>2</sup> *Id.* at A18.

<sup>3</sup> *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644 (Tex. 2006).

<sup>4</sup> *Marsh USA Inc. v. Cook*, 354 S.W.3d 764 (Tex. 2011).

many unanswered questions, especially as to the type of consideration required to substantiate a noncompete.

When examining the Texas noncompete law, every analysis must begin with *Light v. Centel Cellular Co. of Texas*.<sup>5</sup> It may be argued that, in deciding *Light*, the Texas Supreme Court sought to modify the statutory language of section 15.50 *et seq.* of the Texas Business and Commerce Code (Covenant Not to Compete Act). In fact, the Covenant Not to Compete Act allows the court, even upon finding a covenant not to compete is too broad, to modify the covenant, decide upon a reasonable time and a reasonable geographic limitation, and yet still validate the contract. This is called “blue-lining.” Nevertheless, the *Light* majority applied a contract litmus test to determine whether covenants not to compete would be enforceable.

In *Light*, the Texas Supreme Court sidestepped the presumption of enforcement of noncompetes in section 15.51 of the Covenant Not to Compete Act and considered whether consideration is a must to be given in exchange for a contemporaneous covenant not to compete. The Texas Supreme Court argued that consideration from the employer, to form a bilateral contract, must concurrently and independently exist to support a covenant not to compete. In holding this way, the Texas Supreme Court went beyond the requirements of the statute. The original language of the Covenant Not to Compete Act merely stated that if the covenant not to compete is “ancillary to . . . an otherwise enforceable agreement,” supported by independent valuable consideration, and contains reasonable limits as to time and geography, the covenant must be enforced.<sup>6</sup>

This article traces the development of Texas law with respect to the covenant not to compete, from the initial common-law holding, to the Covenants Not to Compete Act contained in the Texas Business and Commerce Code, the famous footnote in *Light*, the uncertainties created by *Sheshunoff*<sup>7</sup> and *Mann Frankfort*<sup>8</sup> and, finally, to the Texas Supreme Court’s recent decision in *Marsh*.<sup>9</sup> One may finally conclude, at least at the time this article was written, notwithstanding the apparent preference for protecting companies involved in providing products and services involving the use of confidential and proprietary information, courts continue to differentially enforce covenants not to compete. That being the case, an employee who did not have access to confidential and proprietary information need not navigate the same noncompete gamut. Whether a different standard exists for employees who received confidential information and those that did not is beyond the scope of this article. The focus here is on the highly skilled or trusted employee who had access to and was provided with confidential information within a reasonable time of executing a covenant not to compete with the employer.

## A. Evolution of Noncompetes

### 1. Common-Law Chaos

Prior to 1989, enforcement of covenants not to compete were guided by common law principles. At that time, Texas courts merely examined whether restrictive covenants were

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

<sup>6</sup> See TEX. BUS. & COM. CODE ANN. § 15.50 (West 2011) (No mention is made of unilateral or bilateral contract provisions).

<sup>7</sup> *Sheshunoff*, 209 S.W.3d 644.

<sup>8</sup> *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, 289 S.W.3d 844 (Tex. 2009).

<sup>9</sup> *Marsh*, 354 S.W.3d 764.

reasonable. For example, in *Weatherford Oil Tool Co. v. Campbell*, the Texas Supreme Court articulated that:

An agreement on the part of an employee not to compete with his employer after termination of the employment is in restraint of trade and will not be enforced in accordance with its terms unless the same are reasonable. Where the public interest is not directly involved, the test usually stated for determining the validity of the covenant as written is whether it imposes upon the employee any greater restraint than is reasonably necessary to protect the business and good will of the employer.<sup>10</sup>

In addition, the Texas Supreme Court considered geographic and time limitations holding that “[t]he period of time during which the restraint is to last and the territory that is included are important factors to be considered in determining the reasonableness of the agreement.”<sup>11</sup> Another important issue in *Weatherford Oil Tool* was the court’s requirement that the employer had the burden to prove the restraint was necessary to protect the business and goodwill of the employer.<sup>12</sup>

*Weatherford* notwithstanding, nearly thirty years later, in the late 1980s, Texas Supreme Court decisions began to take on hesitancy about enforcing noncompete covenants.<sup>13</sup> In what has been characterized as a “bipartisan assault on prior common law,” within a twenty-month time frame, the Texas Supreme Court decided four cases that abruptly altered Texas jurisprudence on noncompetes.<sup>14</sup> The cases are addressed below.

a. *Hill*

In *Hill v. Mobile Auto Trim, Inc.*,<sup>15</sup> the Texas Supreme Court added a significant hurdle to the enforceability of noncompetes. *Hill* concerned Mobile Auto Trim’s noncompete agreement with former franchisee Joel Hill.<sup>16</sup> After failing to make required franchise payments, Mobile Auto Trim terminated its franchise relationship with Hill. Thereafter, Hill contacted a car dealership for which he had done work as a franchisee, and at which point Mobile Auto Trim sought to enforce the noncompete against Hill. Mobile Auto Trim was granted a temporary injunction preventing Hill from competing. The injunction was appealed to the Texas Supreme Court. The *Hill* court held that:

In 1982, the Utah Supreme Court refused to enforce a hearing aid distributor's non-competition agreement against a former salesman, setting forth the standard which we adopt today: “[c]ovenants not to compete which are primarily designed to limit competition or restrain the right to engage in a *common calling* are not enforceable.”<sup>17</sup>

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<sup>10</sup> *Weatherford Oil Tool Co. v. Campbell*, 340 S.W.2d 950, 951 (Tex. 1960).

<sup>11</sup> *Id.*

<sup>12</sup> *See id.* at 952–954.

<sup>13</sup> *See generally*, Jeffrey W. Tayon, *Covenants Not To Compete in Texas: Shifting Sands from Hill to Light*, 3 TEX. INTELL. PROP. L.J. 143, 147 (1995).

<sup>14</sup> *Id.* at 143.

<sup>15</sup> *Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168, 169 (Tex. 1987).

<sup>16</sup> *Id.* at 169.

<sup>17</sup> *Id.* at 172 (citing *Robbins v. Finlay*, 645 P.2d 623, 627 (Utah 1982) (emphasis added)).

This “common calling” limitation was uncircumscribed, ambiguous, and unprecedented.<sup>18</sup> Certainly, it complicated the enforcement of covenants not to compete. If any salesperson could avoid enforcement of a noncompete by declaring their occupation a “common calling,” no business could protect its trade secrets or goodwill. By following the Utah Supreme Court’s holding, the Texas Supreme Court significantly departed from Texas common law.

b. *Bergman*

*Bergman v. Norris of Houston*<sup>19</sup> concerned a Houston hairstyling salon chain that required its employees to sign noncompetes. Four hairstylists left the salon chain and went to work for a local competitor. One of the hairstylists, Diana Aschwege, held a management position. The employer obtained an injunction against the stylist, enforcing the noncompetes. Thereafter, the case was ultimately appealed to the Texas Supreme Court, which overturned the injunction against the employees.<sup>20</sup> In doing so, the court held that “[b]arbering, however labeled, is a common calling. Conferring upon Aschwege the title of manager of a hair salon does nothing to alter that status.”<sup>21</sup>

Justice Gonzales, joined by Justice Hill, filed a dissenting and concurring opinion in which he observed:<sup>22</sup>

Before Aschwege began working for Norris, she had no customers; when she left, she sent notices to 500 customers and now services 400 of those customers. She was the manager of the salon with authority to hire and fire. She attended monthly meetings in which the managers collectively formulated business policy to improve an already well-established and successful business. Norris' legitimate business interest as to Aschwege should be protected.<sup>23</sup>

The dissent highlighted the danger of the majority’s holding. As applied to the enforcement of covenants not to compete, an employee in a management position could invoke the “common calling” exception to the enforcement of a noncompete.

Justice Gonzales and Justice Hill’s concerns were not unfounded. Taken to its logical conclusion, a manager of a taxicab company could start a competing business next door to a former employer. If the former employer tries to enforce the parties’ noncompete, the employee could claim she was engaged in the common calling of driving a cab and that she was not a manager, just a cabbie with some management duties. As can be seen, many businesses could be and most likely were stolen by its managers as a result of this holding.

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<sup>18</sup> Tayon, *supra* note 13, at 149 (“In addition, the court decided to apply a new standard to covenants not to compete adding a fifth requirement that the promisor not try to restrain a common calling or limit competition.”).

<sup>19</sup> *Bergman v. Norris of Hous.*, 734 S.W.2d 673 (Tex. 1987).

<sup>20</sup> *Id.* at 675.

<sup>21</sup> *Id.* at 674.

<sup>22</sup> *Id.* at 675 (Gonzales, J., dissenting and concurring).

<sup>23</sup> *Id.*

c. *DeSantis*

*DeSantis v. Wackenhut Corp.*<sup>24</sup> concerned Edward DeSantis' noncompete agreement with Wackenhut Corporation, a supplier of security guards. In that case, the Texas Supreme Court held the covenant not to compete was not necessary to protect Wackenhut and hence the covenant failed for want of consideration.<sup>25</sup>

More significantly, the Texas Supreme Court acknowledged that DeSantis could recover under either "a common law cause of action for wrongful issuance of an injunction [or] a violation of the Texas Free Enterprise and Antitrust Act, because enforcement of the covenant constituted an illegal restraint on trade."<sup>26</sup> The court awarded costs and attorney's fees to DeSantis under the Act<sup>27</sup> and remanded the case for damage calculations.<sup>28</sup>

Under this holding, an employer would be wary of enforcing a noncompete agreement, considering the prospect of potential liability for treble damages, costs, and attorney's fees under the Texas Free Enterprise and Antitrust Act of 1983.

d. *Martin*

*Martin v. Credit Protection*<sup>29</sup> concerned Bruce R. Martin's noncompete agreement with collection agency, Credit Protection Association, Inc. ("CPA") Martin started a competing collection agency and solicited CPA's customers. The trial court enjoined Martin from competing with CPA, finding a protectable interest in CPA's client list. The Texas Supreme Court held:

"Customer information" is neither special training nor knowledge. Martin was and is a salesman, a "common calling" occupation. We will not restrain the right of any individual to engage in a common calling. Therefore, we reverse the judgment of the court of appeals, dissolve the injunction, and hold the restrictive covenant void.<sup>30</sup>

*Martin* may have done the most harm to prior Texas common law:

Though short in length, the fourth case in the quartet was sweeping in breadth, determining salespersons to be engaged in a "common calling" and describing "customer information" as insufficient special training or knowledge to support a covenant not to compete.<sup>31</sup>

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<sup>24</sup> *DeSantis v. Wackenhut Corp.*, No. C-6617, 1988 Tex. LEXIS 97 (Tex. July 13, 1988), *opinion withdrawn and substituted by DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670 (Tex. 1990).

<sup>25</sup> Tayon, *supra* note 13, at 170–71 (citing *DeSantis*, 31 Tex. Sup. Ct. J. at 620).

<sup>26</sup> *Id.* at 171.

<sup>27</sup> *Id.* at 172.

<sup>28</sup> *Id.* (citing *DeSantis*, 31 Tex. Sup. Ct. J. at 622).

<sup>29</sup> *Martin v. Credit Protection Ass'n, Inc.*, No. C-7339, 1988 Tex. LEXIS 91 (Tex. July 13, 1988), *opinion superseded on denial of rehearing by Martin v. Credit Protection Ass'n, Inc.*, 793 S.W.2d 667 (Tex. 1990).

<sup>30</sup> *Id.* at \*3.

<sup>31</sup> Tayon, *supra* note 13, at 172 (citing *Martin v. Credit Protection Ass'n, Inc.*, No. C-7339, 1988 Tex. LEXIS 91 (Tex. July 13, 1988), *opinion superseded on denial of rehearing by Martin v. Credit Protection Ass'n, Inc.*, 793 S.W.2d 667 (Tex. 1990)).

Under this holding, a salesperson could steal customers from their previous employer without fear of injunction from a noncompete. After *Hill*, *Bergman*, *DeSantis* and *Martin*, the stage was set for the Texas Legislature to codify a set of rules to guide practitioners and businesses in noncompete law. For the most part, the Texas Legislature was successful and provided a reasonably clear guideline on these contentious covenants. The Texas Supreme Court, however, had other plans.

## 2. Covenants Not to Compete Act

The Covenants Not to Compete Act added sections 15.50 and 15.51 of the Texas Business and Commerce Code.<sup>32</sup> The Act provides that, under section 15.50, a covenant not to compete is enforceable if it:

(1) is ancillary to an otherwise enforceable agreement but, if the covenant not to compete is executed on a date other than the date on which the underlying agreement is executed, such covenant must be supported by independent valuable consideration; and

(2) contains reasonable limitations as to time, geographical area, and scope of activity to be restrained that do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.<sup>33</sup>

The sponsor of the amendments, Senator Whitmire, said:

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.<sup>34</sup>

Through additional enactments, the Texas Legislature sought to codify guidelines for the enforceability of noncompetes and curtail the narrowing stance taken by the Texas Supreme Court.

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<sup>32</sup> Act of May 25, 1989, 71st Leg., R.S., ch. 1193, § 1, secs. 15.50 & 15.51, 1989 Tex. Gen. Laws 4852 (codified at TEX. BUS. & COM. CODE ANN. §§ 15.50 & 15.51 (West 2011)).

<sup>33</sup> *Id.*

<sup>34</sup> Tayon, *supra* note 13, at 179 (citing Senate Comm. on Econ. Dev., Bill Analysis, Tex. S.B. 946, 71st Leg., R.S. (1989)).

### 3. The Texas Supreme Court Responds to the Act

#### a. *DeSantis* revisited

On June 6, 1990, the Texas Supreme Court withdrew its July 13, 1988 *DeSantis* opinion and issued a new one.<sup>35</sup> The court did not apply the new statute, holding:

The obvious threshold issue which this recent legislation presents is whether it may affect litigation regarding the rights of parties to an agreement not to compete which commenced before the statute was enacted. We find it unnecessary, however, to resolve this issue in this case because we conclude that the result in this case would not be affected by the statute.<sup>36</sup>

Concerning the agreement between *DeSantis* and *Wackenhut*, the court reached the same conclusion as its original *DeSantis* decision. The Texas Supreme Court held that “*Wackenhut* has not shown that *DeSantis*' agreement not to compete is necessary to protect any legitimate business interest, or that the necessity of such protection outweighs the hardship of that agreement on *DeSantis*, we conclude that *the agreement is unreasonable and therefore unenforceable.*”<sup>37</sup> The application of the common law, in lieu of the new statute, revealed the court's stubbornness in recognizing the legislature's effort to make noncompetes more enforceable.

Still, the court reversed its prior holding, and found that damages were not recoverable against *Wackenhut* under the Texas Free Enterprise and Antitrust Act.<sup>38</sup> Removing this cause of action against employers seeking injunctive relief was the first new step in the direction of deference to noncompetes.

The court also retreated from the “common calling” test previously set it out in *Hill* and *Bergman*:

In deciding whether an ancillary agreement not to compete is reasonable, the court should focus on the need to protect a legitimate interest of the promisee and the hardship of such protection on the promisor and the public. The nature of the promisor's job—whether it is a common calling—may sometimes factor into the determination of reasonableness, but it is not the primary focus of inquiry. The results in *Hill* and *Bergman* would have been the same irrespective of whether the promisors in those cases had been engaged in common callings. Moreover, the Legislature has now rejected common calling as a test for the reasonableness of noncompetition agreements. See TEX. BUS. & COM. CODE ANN. §§ 15.50–15.51 (Vernon Supp. 1990). Accordingly, we do not apply “common calling.”<sup>39</sup>

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<sup>35</sup> *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 685 (Tex. 1990), replacing withdrawn opinion of *DeSantis v. Wackenhut Corp.*, No. C-6617, 1988 Tex. LEXIS 97 (Tex. July 13, 1988).

<sup>36</sup> *Id.*

<sup>37</sup> *Id.* at 684 (emphasis added).

<sup>38</sup> See *Tayon*, *supra* note 13, at 187–88.

<sup>39</sup> *DeSantis*, 793 S.W.2d at 683.

b. *Martin* revisited

*Martin*,<sup>40</sup> decided on the same day the court abandoned the “common calling” exception in *DeSantis*, applied an even more stringent enforceability requirement to noncompetes.<sup>41</sup> The court held that “[s]ince an employment-at-will relationship is not binding upon either the employee or the employer and either may terminate the relationship at any time; continuation of an employment-at-will relationship does not constitute independent valuable consideration to support the covenant.”<sup>42</sup> Although the Covenant Not to Compete Act was written to be retroactive, the Texas Supreme Court ignored it, holding “section 15.50(1) would not require a result in this case different from the one we reach today.”<sup>43</sup>

This holding required “independent valuable consideration” in order for a noncompete to be enforceable. The court held:

Although “customer information” is neither special training nor knowledge which may constitute independent valuable consideration, business goodwill, trade secrets, and other confidential or proprietary information (including “customer information”) are legitimate interests which may be protected in an otherwise enforceable covenant not to compete.<sup>44</sup>

Hence, under the *Martin* decision, customer information cannot serve as the “independent valuable consideration.” This is so, notwithstanding the foreseeability that a business could possess such an extensive database of customer information with unlimited access such information an essential part of a promotion to management. Such a case would run afoul of *Martin*’s holding.

*Martin* marked a major shift from the court invalidating noncompetes that infringed on “common callings” to the court now attacking noncompetes for want of consideration.

c. *Travel Masters*

*Travel Masters, Inc. v. Star Tours, Inc.*<sup>45</sup> expanded the holding of *Martin* to apply not only to covenants not to compete entered into after employment-at-will, but also to covenants not to compete entered into *contemporaneously* with the start of employment at will. The court explained:

The only difference between this case and *Martin* is that [the employee] executed the covenant not to compete contemporaneously with the inception of her employment while the *Martin* covenant was executed three years after *Martin* began employment.<sup>46</sup>

The court refused to enforce noncompetes in at-will employment:

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<sup>40</sup> *Martin v. Credit Protection Ass'n, Inc.*, 793 S.W.2d 667 (Tex. 1990).

<sup>41</sup> See Tayon, *supra* note 13, at 188–91.

<sup>42</sup> *Martin*, 793 S.W.2d at 670.

<sup>43</sup> *Id.* at 669 n.1.

<sup>44</sup> *Id.* at 670 n.3 (citing *DeSantis*, 793 S.W.2d at 682).

<sup>45</sup> *Travel Masters, Inc. v. Star Tours, Inc.*, 827 S.W.2d 830 (Tex. 1991).

<sup>46</sup> *Id.* at 832.

Because employment-at-will is not binding upon either the employee or the employer and is not an otherwise enforceable agreement, we conclude that a covenant not to compete executed either at the inception of or during an employment-at-will relationship cannot be ancillary to an otherwise enforceable agreement and is unenforceable as a matter of law. Since [employee's] covenant not to compete is not ancillary to an otherwise enforceable agreement, we hold that the covenant not to compete is an unreasonable restraint of trade and unenforceable on grounds of public policy.<sup>47</sup>

This holding hindered the enforceability of any noncompete in Texas. Under *Travel Masters*, the Texas Supreme Court challenged the enforceability of any noncompete regardless of whether the noncompete was reasonable. This decision would not go unanswered by the Texas Legislature.

#### 4. 1993 Amendments

In 1993, the Texas Legislature amended the Covenants Not to Compete Act to clarify that covenants not to compete also apply to at-will employment and that the statute supersedes the common law.<sup>48</sup> Section 15.52 was added providing:

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.<sup>49</sup>

The Legislature's will, as contained in this statute was meant to preempt the common law.

The Legislature further eliminated the language previously contained in section 15.50 which stated that "if the covenant not to compete is executed on a date other than the date on which the underlying agreement is executed, such covenant must be supported by independent valuable consideration . . .".<sup>50</sup> The legislature added section 15.50(a), "Notwithstanding Section 15.05 of this code, and subject to any applicable provision of Subsection (b), 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* . . .".<sup>51</sup> This language, intended by the Legislature to clarify enforceability, would instead, further complicate the enforcement of noncompete covenants.

#### 5. Light

*Light v. Centel Cellular Co. of Texas*<sup>52</sup> may be remembered by future legal scholars of Texas jurisprudence as the wayward footnote which unleashed the floodgates of litigation.

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<sup>47</sup> *Id.* at 833.

<sup>48</sup> See Tayon, *supra* note 13, at 220.

<sup>49</sup> TEX. BUS. & COM. CODE ANN. § 15.52 (West 2011).

<sup>50</sup> TEX. BUS. & COM. CODE ANN. § 15.50 (West Supp. 1993) (amended 2009).

<sup>51</sup> TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011) (emphasis added).

<sup>52</sup> *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642 (Tex. 1994).

*Light* addressed the requirement that “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.”<sup>53</sup> In 1985, United TeleSpectrum, Inc. hired Debbie Light to sell pagers. In 1987, she was required to execute a new agreement, including a noncompete, in order to keep her job.<sup>54</sup> She resigned in 1988, and sued United’s successor-in-interest, Centel Cellular Co., for release from the noncompete.

The Texas Supreme Court in *Light* held that the underlying agreement must be enforceable at the time it is made in order for the noncompete agreement to be enforceable. The court reasoned that an employer’s promise to share confidential information with an employee is illusory because an employer could terminate the at-will employment and avoid ever sharing the confidential information.

Thus, the noncompete agreement in *Light*, according to the Texas Supreme Court, represented a unilateral contract that could be accepted by actually supplying the employee with confidential information, but was not provided at the time the noncompete was executed. The court reasoned that this unilateral contract was enforceable at the time of the performance, not at the time the agreement is made. As such, the employer could only seek performance from Light at the time confidential information was provided. The contract was unilateral because the employer, solely, had the right and ability to trigger a performance obligation by the employee, when the employer chose to perform. Until the employer performed by providing confidential information, it could not demand a reciprocal performance by the employee (abiding by the noncompete). “But such unilateral contract, since it could be accepted only by future performance, could not support a covenant not to compete inasmuch as it was not an ‘otherwise enforceable agreement at the time the agreement is made’ as required by § 15.50.”<sup>55</sup> Again, the Texas Supreme Court embarked on an adventurous holding devoid of precedent and alien to the language of the Act.

Justice Hightower wrote in his short concurrence, “I join the court’s judgment in this cause. I continue to believe that an at will employment “relationship” or “contract” may not be “an otherwise enforceable agreement.” If the employment is “at will,” it is not an otherwise enforceable agreement.”<sup>56</sup>

This decision imposed limitations on enforcement of noncompetes in Texas. For more than a decade, the employee had a better than even chance of limiting the terms of a covenant not to compete or having it struck as a naked restraint of trade. The Texas Supreme Court focused on the fact the *Light* contract was a unilateral contract, and, as such, could not be an “otherwise enforceable agreement” within the parameters of section 15.50 of the Texas Business and Commerce Code. Why? The fact of the matter is that a unilateral contract, inasmuch as a bilateral agreement is supported by performance, not merely a promise.

#### a. Unilateral Contracts

Under basic contract law, a unilateral contract is formed by performance. An example of a unilateral contract is:

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<sup>53</sup> TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011).

<sup>54</sup> *Light*, 883 S.W.2d at 643.

<sup>55</sup> *Id.* at 645 n.6.

<sup>56</sup> *Id.* at 648.

If A says to B, “If you walk across the Brooklyn Bridge I will pay you \$100,” A has made a promise but has not asked B for a return promise. A has asked B to perform, not a commitment to perform. A has thus made an offer looking to a unilateral contract. B cannot accept this offer by promising to walk the bridge. B must accept, if at all, by performing the act. Because no return promise is requested, at no point is B bound to perform. If B does perform, a contract involving two parties is created, but the contract is classified as unilateral because only one party is ever under an obligation.<sup>57</sup>

Under *Light*, an employer’s promise to provide an employee with confidential information in exchange for an employee’s noncompete fails to form an enforceable contract. “[A unilateral] contract is completed by the promisee’s performing the act or acts called for, not by such promisee making any reciprocal promise or promises.”<sup>58</sup> The employer’s promise cannot make the contract enforceable. Only the performance completes the contract and makes it enforceable.

## 6. Unraveling *Light*

### a. *Sheshunoff*

*Sheshunoff* shut the door on noncompetes for employees in sensitive positions within a company. *Alex Sheshunoff Management Services, L.P. v. Johnson* undid the holding of *Light* as to whether a unilateral contract made enforceable by performance could comply with section 15.50.<sup>59</sup> *Sheshunoff* concerned a noncompete signed by Kenneth Johnson as part of a promotion within Alex Sheshunoff Management Services. The agreement included the following:

To assist Employee in the performance of his/her duties, Employer agrees to provide to Employee, special training regarding Employer's business methods and access to certain confidential and proprietary information and materials belonging to Employer, its affiliates, and to third parties, including but not limited to, customers and prospects of the Employer who have furnished such information and materials to Employer under obligations of confidentiality.

Johnson left the company to work for a competitor and was promptly sued by his former employer, Sheshunoff. Johnson argued the noncompete was unenforceable under the holding of *Light*.

The Texas Supreme Court analyzed the language of section 15.50, ignored *Light*, altered Texas jurisprudence, and still had the audacity to hold that *Light* was not overturned. The court reasoned, “Simply reading the text, the clause ‘at the time the agreement is made’ can modify either ‘otherwise enforceable agreement’ or ‘ancillary to or part of.’”<sup>60</sup> The court held that the “‘at the time the agreement is made’ clause modified only the ‘ancillary to or part of’ language. Therefore, the agreement need not be enforceable at the time the agreement is made. The *Sheshunoff* decision allows a unilateral contract to fulfill the statute’s requirements

<sup>57</sup> JOHN D. CALAMARI & JOSEPH M. PERILLO, THE LAW OF CONTRACTS § 2-10(a) (4th ed. 1998).

<sup>58</sup> *Shirey v. Albright*, 404 S.W.2d 152, 156 (Tex. App.—Corpus Christi 1966, writ ref’d n.r.e.).

<sup>59</sup> *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644, 650–51 (Tex. 2006).

<sup>60</sup> *Id.* at 651.

provided that at the time the agreement was made, it was ancillary to or part of an otherwise enforceable agreement.

i. Jefferson's Concurrence

Chief Justice Jefferson filed a concurrence, which was joined by Justice O'Neill and Justice Medina. Jefferson expressed concern that an employer could have an employee sign a noncompete, fail to provide any confidential information, then just before the employee left, provide confidential information.<sup>61</sup> The Chief Justice wrote:

The Court's holding permits an employer to enforce a non-compete covenant months or even years after the employee signed it, as long as the employer eventually fulfills its side of the bargain. That sort of delay is inconsistent with clear statutory language that the covenant must be enforceable "at the time the agreement is made." While I agree with the Court that "at the time" does not require an instantaneous exchange of consideration, neither does the statute permit the employer's promise to hang in the air, indefinitely, until it "becomes enforceable" by performance. Rather, consistent with *Light* and with the statute, I would hold that the employer's exchange of consideration must occur within a reasonable time after the agreement is made. Because that condition was satisfied on this record, I concur in the judgment.<sup>62</sup>

Jefferson also criticized the court's interpretation of the phrase "ancillary to or part of." Jefferson wrote:

A plain reading of the statute, however, establishes that the phrase "at the time the agreement is made" either refers solely to "otherwise enforceable agreement" or to both "otherwise enforceable agreement" and "ancillary to or part of"—but in no event to "ancillary to or part of" alone.<sup>63</sup>

Chief Justice Jefferson's "plain reading" is in direct conflict with the court's holding. He cites the "doctrine of last antecedent." The doctrine dictates that "a qualifying phrase in a statute or the Constitution must be confined to the words and phrases immediately preceding it to which it may, without impairing the meaning of the sentence, be applied."<sup>64</sup>

Further, the Chief Justice argues that "[The court's holding] would permit an employer's illusory promise to bind its employee to the covenant even if, at the time the covenant is signed, the employer never intended to perform, and even when the employer's performance is deferred so long that one cannot say the enforceable agreement and covenant are part of the same transaction."<sup>65</sup>

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<sup>61</sup> *Sheshunoff*, 209 S.W.3d at 662 ("After today, an employer may easily refrain from sharing trade secrets or other specialized technical knowledge with an employee for a substantial period of time after the covenant is signed, only to quickly perform once the employee indicates an intention to leave his current job for the employer's competitor. See *Light*, 883 S.W.2d at 645 & n. 5 (discussing the example of an employer's promise to raise wages). Thus, an employer may now legitimately restrain trade merely by performing a previously illusory promise, thereby converting an unenforceable unilateral contract into a binding commitment at the last minute. We should not encourage such one-sided gamesmanship.").

<sup>62</sup> *Id.* at 657–58.

<sup>63</sup> *Id.* at 662.

<sup>64</sup> *Id.* at 662 (citing *Spradlin v. Jim Walter Homes, Inc.*, 34 S.W.3d 578, 580–81 (Tex. 2000)).

<sup>65</sup> *Id.* at 662.

ii. Wainwright's Concurrence

Justice Wainwright's concurrence<sup>66</sup> further criticized *Light*. Wainwright wrote:

In *Light*, the Court explained that “if 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 . . . .” I agree with this statement. However, *Light* erected two additional requirements to enforce a noncompete. For a covenant not to compete to be “ancillary to or part of” the confidentiality agreement, the consideration given by the employer for the confidentiality agreement “must give rise to the employer's interest in restraining the employee from competing,” and the noncompete “must be designed to enforce the employee's consideration or return promise” not to disclose confidential information. I would disapprove of these court-made requirements.<sup>67</sup>

Wainwright believed that a confidentiality agreement could be the “otherwise enforceable agreement” to which the noncompete is ancillary. Justice Wainwright went on to note that continuing employment is sufficient consideration to enforce an arbitration agreement.<sup>68</sup> Similarly, in Wainwright's view, a confidentiality agreement becomes enforceable when an employee merely continues to work. Wainwright criticized the need for additional consideration to enforce a confidentiality agreement when the court “recognized long ago that a fiduciary duty precluded employees from misuse or misappropriation of such property.”<sup>69</sup> Under Wainwright's concurrence, although the noncompete may be unenforceable on its face, the confidentiality agreement is enforceable and serves as the otherwise enforceable agreement.<sup>70</sup> Thus, the confidential agreement makes the noncompete enforceable.

b. *Mann Frankfort*

*Mann Frankfort* opened the door further for the viability of noncompetes. This discussion takes the position of presumed consideration.<sup>71</sup> While, the holding of *Mann Frankfort v. Fielding* may have expanded the enforceability of covenants not to compete, unfortunately, there are no markers against which this rule may be consistently applied. Recall, the employers in *Light* and *Sheshunoff* each promised to provide their employee with confidential information. In return, the employee agreed to be bound by a noncompete agreement. But, this was not the case in *Mann Frankfort*. Therein, and although, the employee, Brendan Fielding, promised not to disclose confidential information, he received no express return promise from his employer, Mann Frankfort. The Texas Supreme Court held, “[w]hen the nature of the work the employee is hired to perform requires confidential

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<sup>66</sup> *Id.* at 664.

<sup>67</sup> *Id.* at 664 (citation omitted).

<sup>68</sup> *Id.* at 665 (citing *In re Dallas Peterbilt, Ltd., L.L.P.*, 196 S.W.3d 161, 163 (Tex. 2006)).

<sup>69</sup> *Id.* at 665 (citing *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 775 (Tex. 1958)).

<sup>70</sup> *Id.* at 666 (“Both the confidentiality agreement and the noncompete are part of Johnson's employment agreement. I would hold that the covenant not to compete is enforceable on the ground that it is ancillary to the otherwise enforceable confidentiality agreement.”).

<sup>71</sup> See *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, 289 S.W.3d 844, 852 (Tex. 2009).

information to be provided for the work to be performed by the employee, the employer impliedly promises confidential information will be provided.”<sup>72</sup>

The court’s holding is a *non-sequitur*. The Texas Supreme Court seems to state that an employer would have an employee agree not to disclose confidential information, only if the employer plans on sharing confidential information with the employee.

The same problems of consideration and illusory promises still abound under this holding. Under *Sheshunoff*, an employer could enforce a noncompete by performing its promise. Under *Mann Frankfort*, an employer is not even required to make that promise.

Therefore, the pendulum has swung the other way with an employee justifiably hesitant to limit her ability to work by signing a noncompete. As a result, an employee may find it important to know exactly what specialized training and access to knowledge her employer will provide. Even if the promise to provide such information is illusory, it may be illustrative of what may be provided. With no requirement that a promise be made, an employer can have an employee sign a noncompete with no idea what information will be shared, if any is shared at all.

i. “Nature of the Work”

The holding of *Mann Frankfort* begs the question: does the nature of the work require the employer to provide confidential information and trade secrets to the employee? Texas law recognizes a broad range of protectable trade secrets. Under Texas law:

A trade secret may consist of any 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 . . . .<sup>73</sup>

However, “[to] be accorded the court’s protection the proprietary information must be more than merely of a kind and character encompassed by the definition. It must be information that is not publicly available or readily ascertainable by independent investigation.”<sup>74</sup>

Items such as customer lists, pricing information, client information, customer preferences, buyer contacts, market strategies, blueprints, and drawings have all been shown to be trade secrets.<sup>75</sup> In addition, “business goodwill, trade secrets, and other confidential or proprietary information (including ‘customer information’) are legitimate interests which may

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<sup>72</sup> *Id.* at 850.

<sup>73</sup> *Allan J. Richardson & Assocs., Inc. v. Andrews*, 718 S.W.2d 833, 836 (Tex. App.—Houston [14th Dist.] 1986, no writ) (citing *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 776 (1958) (adopting the definition of “*Trade Secret*” from RESTATEMENT OF TORTS § 757 (1939))).

<sup>74</sup> *Id.* at 837 (citing *SCM Corp. v. Triplett Co.*, 399 S.W.2d 583, 586 (Tex. App.—San Antonio 1966, no writ)).

<sup>75</sup> *Am. Precision Vibrator Co. v. Nat’l Air Vibrator Co.*, 764 S.W.2d 274, 278–79 (Tex. App.—Houston [1st Dist.] 1988, no writ); *Miller Paper Co. v. Roberts Paper Co.*, 901 S.W.2d 593, 601 (Tex. App.—Amarillo 1995, no writ).

be protected in an otherwise enforceable covenant not to compete.”<sup>76</sup> The compilation of information may be protectable confidential information.<sup>77</sup>

To determine whether a trade secret exists, Texas courts apply the RESTATEMENT OF TORTS' six-factor test: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>78</sup>

Given the wide range of interests that may be protected, it is difficult to imagine a job where the “nature of the work” does not require confidential information. Read more broadly, the *Mann Frankfort* decision appears to harken back to a *quasi* “common calling” test that the Texas Supreme Court introduced in *Hill v. Mobile Auto Trim, Inc.* In other words, an employee in a position of common calling—a non-management or blue-collar employee—who is an at-will employee may avoid a covenant not to compete. Alternatively, a management employee or an employee with access to confidential information—who is not a “common calling” employee—must be concerned about this new rule.

#### ii. Not All Confidential Information is Created Equal

By way of example, consider Eva, a hypothetical employee. Eva works for Widget Co., a Texas company that has secret processes for manufacturing widgets. These trade secrets are the envy of every widget manufacturer in the world. Eva is up for a promotion to plant manager. As plant manager Eva will finally get to know the valuable secret processes that make Widget Co. a success. Widget Co. insists that Eva sign a noncompete before beginning work as plant manager. Eva signs an agreement which provides that, upon the end of her employment, Eva will refrain from competing against Widget Co. within an area of fifty miles for a period of two years. The agreement also provides that Eva will keep confidential any customer lists, pricing information, client information, customer preferences, buyer contacts, market strategies, blueprints, and drawings.

Upon beginning work, Eva is provided with confidential customer lists and information she previously could not access. Eva is disappointed to find out that she is still kept in the dark as to many of the secret manufacturing processes. Under *Sheshunoff* and *Mann Frankfort*, Widget Co. performed its implied promise of providing confidential information. The fact that the nature of the work required confidential information allows Widget Co. to avoid specifics as to what information is to be provided. If Eva were merely packaging widgets on the shop floor, a fungible common calling, she would not be under the strictures of *Mann Frankfort*.

#### iii. Avoiding the Problem of Presumed Confidentiality

Where there is no express promise by the employer, confidentiality is now presumed in certain cases based upon the nature of the work, and employers are in the precarious

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<sup>76</sup> *Martin v. Credit Protection Ass'n, Inc.*, 793 S.W.2d 667, 670 n.3 (Tex. 1990).

<sup>77</sup> See *supra* note 68.

<sup>78</sup> *In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003) (citing RESTATEMENT OF TORTS § 757 cmt. b. (1939)).

situation of deciding whether they should later disclose confidential information to an employee because of the uncertainty created by the nature of the work requirement.

The nature of the work requirement is also an escape valve for an employee to avoid the covenant not to compete. Again, suppose Eva, instead of being the plant manager, operates the machine that makes the fabulous widgets. Here, she unavoidably witnesses the secret process of making the widgets, but does the nature of her work *require* confidential information? If not, without the employer's express promise to provide confidential information or trade secrets, a noncompete restricting her ability to work for a competitor would likely be unenforceable. This seems to fly in the face of reasonableness and the intent of the legislature expressed in section 15.50(a).

So, how can business owners and attorneys attempt to avoid the problem of presumed confidentiality that stems from the "nature of the work" requirement? Under a careful reading of *Mann Frankfort*, the court's holding is applied when there is no express promise, but an implied promise from the employer. Thus, when drafting a covenant not to compete, if the employer includes the its express promise to provide confidential information to the employee so that he or she may accomplish any contemplated job duties, the employer may circumvent the problem of presumed confidentiality.

c. *Marsh*

In *Marsh USA Inc. v. Cook*, the Texas Supreme Court further dismantled the holding in *Light* by abrogating the requirement that "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"<sup>79</sup> in order to determine what is "ancillary to or part of an otherwise enforceable agreement" under section 15.50.<sup>80</sup> Instead, harkening back to the "reasonableness" standard in *Weatherford Oil Tool*,<sup>81</sup> the court held that the "ancillary to or part of" requirement is satisfied if the consideration given is "reasonably related" to the business interest being protected.<sup>82</sup> Further, the court identified trade secrets, confidential information, and goodwill as business interests worthy of protection.<sup>83</sup>

Importantly, the *Marsh* court eliminated only the first prong of *Light*'s test to determine what is "ancillary to or a part of."<sup>84</sup> Thus, in order to be ancillary, the noncompete provision must still be "designed to enforce the employee's consideration or return promise in the otherwise enforceable agreement."<sup>85</sup> And, now under *Marsh*, the consideration must also be reasonably related to the protected business interest.

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<sup>79</sup> *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642, 647 (Tex. 1994) (emphasis added).

<sup>80</sup> *See Marsh USA Inc. v. Cook*, 354 S.W.3d 764, 775 (Tex. 2011) ("*Light*'s requirement is contrary to the language of the Act; thwarts the purpose of the Act, which was to expand rather than restrict the enforceability of such covenants; and contradicts the Act's intent to return Texas law on the enforceability of noncompete agreements to the common law prior to *Hill*.").

<sup>81</sup> *See id.* (The court also points out, citing *Sheshunoff*, 209 S.W.3d at 653 (quoting House Research Org., Bill Analysis, Tex. S.B. 946, 71st Leg., R.S. (1989)), that the Covenants Not to Compete Act was intended to codify the common law); *see also Marsh*, 354 S.W.3d at 777 ("The hallmark of enforcement is whether or not the covenant is reasonable.").

<sup>82</sup> *Id.* at 775.

<sup>83</sup> *Id.*

<sup>84</sup> *Id.* at 773.

<sup>85</sup> *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642, 647 (Tex. 1994).

In *Marsh*, Rex Cook was employed by Marsh USA Inc., an insurance business.<sup>86</sup> Under the company's Incentive and Stock Award Plan in 1996, Cook had a ten-year option to purchase shares of common stock in Marsh's parent company, MMC.<sup>87</sup> In order to exercise the option, Cook had to sign a noncompete, which stipulated that if he left Marsh within three years of exercising the option, for a period of two years he would not solicit or accept business from any of Marsh's clients, prospects, or affiliates, he would not solicit Marsh's employees, and he would maintain the confidentiality of Marsh's confidential information and trade secrets.<sup>88</sup> In 2005, Cook exercised his stock option, and less than three years later he left Marsh and immediately began working for a direct competitor.<sup>89</sup> Marsh sued Cook and the competitor.<sup>90</sup>

The trial court found the noncompete was unenforceable as a matter of law, and, relying on *Light*, the court of appeals affirmed, holding that "the transfer of stock did not give rise to Marsh's interest in restraining Cook from competing."<sup>91</sup>

After detailing the history and policy behind noncompete common law and statutory law in Texas, the court emphasized that the legislature never intended section 15.50(a) include a "give rise" requirement:

Turning to the "give rise" question, the Legislature did not include a requirement in the Act that the *consideration* for the noncompete must give rise to the interest *in restraining competition with the employer*. Instead, the Legislature required a nexus—that the noncompete be "ancillary to" or "part of" the otherwise enforceable agreement between the parties.<sup>92</sup>

Accordingly, the court found the requirement of a nexus between the covenant not to compete and the interest(s) being protected is satisfied when the noncompete is reasonably related to an interest worthy of protection.<sup>93</sup> While, the court unequivocally expressed its intent to bring the statute in conformity with the common law prior to *Hill* some may question how this new requirement (while doing away with one of *Light's* requirements) clarified section 15.50(a). Justice Green surely did.

#### i. Green's Dissent

Justice Green argued back to the *Marsh* majority that the "consideration prong remains an equally crucial inquiry under the Act, and its application is rendered meaningless by the Court's decision to concoct a new, broad definition of 'ancillary or part of' as 'reasonably related to.'"<sup>94</sup> Additionally, Green pointed out that stock options had never been recognized as a valid form of consideration in a noncompete.<sup>95</sup> Pointing out a consequence of

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<sup>86</sup> *Marsh USA Inc. v. Cook*, 354 S.W.3d 764, 766 (Tex. 2011).

<sup>87</sup> *Id.* at 766–67.

<sup>88</sup> *Id.*

<sup>89</sup> *Id.* at 767.

<sup>90</sup> *Id.*

<sup>91</sup> *Id.* at 768.

<sup>92</sup> *Marsh USA Inc. v. Cook*, 354 S.W.3d 764, 775 (Tex. 2011).

<sup>93</sup> *Id.*

<sup>94</sup> *Id.* at 792.

<sup>95</sup> *Id.* at 794.

the court's holding, Green noted, "[i]f any financial incentive that can encourage an employee to create more goodwill can satisfy the consideration prong of the Act, then we might as well ignore the consideration requirement all together. Under the Court's reasoning, a raise, a bonus, or even a salary could support an enforceable covenant."<sup>96</sup> With this minimum threshold, Green, viewing this new standard as unreasonable for the employee, maintained that the court's holding "not only thwarts the legislative intent behind § 15.50, but also contradicts the strong policy goals inherent in Chapter 15, which protect the interests of free trade and a competitive market."<sup>97</sup>

ii. Wainwright's Response to Green

Contrary to Justice Green, Justice Wainwright reiterated that the court's holding helped conform the statute's interpretation with the original intent of the legislature and the common law prior to *Hill*. Moreover, Wainwright pointed out that, while trade secrets, confidential information, or special training are more easily definable than goodwill, "[t]he Act expressly provides that goodwill is an interest worthy of protection, and the common law before that agreed."<sup>98</sup>

7. What Does All This Mean?

Beginning with the pertinent language of the statute, a covenant not to compete is enforceable if:

- 1) it is 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 do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.<sup>99</sup>

Next, one must consider the Texas Supreme Court's interpretation of the first prong since *Light*:

1) Under *Light* and *Marsh*, "ancillary to or part of" means:

- a) the covenant must be designed to enforce the employee's consideration or return promise in the otherwise enforceable agreement,<sup>100</sup> and
- b) the consideration given by the employer for the noncompete must be reasonably related to a business interest worthy of protection.<sup>101</sup>

2) Under *Sheshunoff*, "at the time the agreement is made" includes:

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<sup>96</sup> *Id.* at 790.

<sup>97</sup> *Id.* at 795.

<sup>98</sup> *Marsh USA Inc. v. Cook*, 354 S.W.3d 764, 779 (Tex. 2011).

<sup>99</sup> TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011).

<sup>100</sup> *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642, 647 (Tex. 1994).

<sup>101</sup> *Marsh*, 354 S.W.3d at 775.

A unilateral contract with an at-will employee, which becomes enforceable when the employer performs the promises it made in exchange for the covenant.<sup>102</sup>

3) Under *Mann Frankfort*, in the case when the employer makes no express promises in the noncompete, “an otherwise enforceable agreement” includes:

An implied promise to provide confidential information when the nature of the work performed by the employee requires the use of confidential information to carry out his or her duties.<sup>103</sup>

### **B. Effects of Noncompete Law**

The decision of the Texas Legislature to make noncompetes more enforceable was designed to make Texas more attractive to businesses. Accordingly, Texas businesses will have comfort knowing, when sharing confidential information with their employees that those employees will be bound by mutually agreed upon noncompete provisions. Whether making noncompetes enforceable will result in more businesses coming to Texas and generating tax revenues is debatable. Certainly, a business with many trade secrets and proprietary information would desire enforceable noncompetes to bind their employees.

From a practical point of view, absent a noncompete provision, an employer may be reluctant to share trade secrets with an employee. After all, an employee who has benefited from special training and knowledge of proprietary information may use those same benefits for or on behalf of the employer’s competitor, or the employee may, himself, become a competitor.

Furthermore, the point of noncompete law is to “maintain and promote competition in trade and commerce” in Texas.<sup>104</sup> In order to incentivize businesses to truly compete, businesses must have the assurance they can share confidential information with their employees, and the information shared or specialized skills taught do not end up in the hands of a competitor. Accordingly, as the *Marsh* court detailed, the primary concern of a noncompete provision is contained in the reasonableness of the restrictions upon an employee after the employee is no longer employed:

The Legislature, presumably recognizing these interests could conflict, crafted the Act to prohibit naked restrictions on employee mobility that impede competition while allowing employers and employees to agree to reasonable restrictions on mobility that are ancillary to or part of a valid contract having a primary purpose that is unrelated to restraining competition between the parties. *See* TEX. BUS. & COM. CODE ANN. §§ 15.05(a), .50(a). By doing so, the Legislature facilitates its stated objective of promoting economic competition in commerce.<sup>105</sup>

Unfortunately, by creating unprecedented limitations on the “ancillary to or part of an otherwise enforceable agreement at the time the agreement is made” requirement under section 15.50(a), the court in *Light* inadvertently undermined the reasonableness requirement

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<sup>102</sup> *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644, 646 (Tex. 2006).

<sup>103</sup> *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, 289 S.W.3d 844, 850 (Tex. 2009).

<sup>104</sup> TEX. BUS. & COM. CODE ANN. § 15.04 (West 2011).

<sup>105</sup> *Marsh*, 354 S.W.3d at 770.

contained in the same sentence of the subsection. Since *Light*, the court has made noble attempts to either abrogate or restrict the requirements set out in *Light*, but in doing so, has created new uncertainties: when is “nature of the work” presumed confidential? Considering that financial incentives are now valid consideration in a noncompete, when is the reasonably related threshold not met in relation to the protected business interest?

Texas’s relatively new course correction, leaning towards enforcement of noncompetes, seems to adhere more closely with the Texas Covenants Not to Compete Act. The at-will doctrine, especially as it applies to employees with access to sensitive company information, is not dead, but it is certainly qualified. Similarly, analysis of a noncompete provision is no longer limited to the four corners of the document, or whether the contract was unilateral versus bilateral, but now may consider the underlying duties of an employee, and whether that employee, during the course of his or her employment, received confidential information and trade secrets from the employer. If such information were imparted to the employee, a previously toothless noncompete provision could acquire a litigious ferocity. Additionally, under *Marsh*, the uncertainty as to valid consideration for a noncompete may tempt the floodgates of litigation. Thus, is the present standard of Texas noncompete law, at least as of the time of publication of this article. Moreover, the court’s recent holdings may likely invite drastically varying decisions from the bench, especially at the injunction stage. Until the Texas Supreme Court provides reasonable guidance on its various requirements and limitations on noncompetes, there will be unpredictability in enforcement, and increased litigation. That simply is something many Texas businesses, large and small, cannot afford.