St. Mary's Law Journal

Volume 43 | Number 4 Article 2

1-1-2012

Marsh USA Inc. v. Cook: One Final Step Away from Light.

Michael D. Paul

ARTICLE

MARSH USA INC. V. COOK: ONE FINAL STEP AWAY FROM *LIGHT*

MICHAEL D. PAUL*

* Michael D. Paul is an attorney with Gunn, Lee & Cave, P.C. in San Antonio, a firm specializing in intellectual property, unfair competition, and related litigation. Mr. Paul graduated from St. Mary's University School of Law in 2005. He also holds an Electrical Engineering degree (1995, *cum laude*) and an MBA (1996), both from Texas A&M University.

I. INTRODUCTION

In the last half-century, Texas law concerning covenants not to compete has come almost full circle. Initially, this area was governed by common law and, though recognized, was somewhat reluctantly enforced.[1] In 1989, the Texas Legislature codified what it perceived to be the common law, but the result was a highly technical and confusing interpretation by the courts beginning with the seminal case of *Light v. Centel Cellular Co. of Texas*.[2] In 2006, *Alex Sheshunoff Management Services, L.P. v. Johnson*,[3] while not overruling *Light*, encouraged courts to focus less on *Light*'s technical requirements for formation of a noncompete agreement and more on the reasonableness of the post-employment restraints.[4] Since *Alex Sheshunoff*, the Texas Supreme Court has taken two more significant steps away from *Light*, first with *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*,[5] and more recently with *Marsh USA Inc. v. Cook*,[6] which seems to dismantle *Light* once and for all.[7]

Part II of this Article provides general background on Texas law

1. *See* Hill v. Mobile Auto Trim, Inc., 725 S.W.2d 168, 171 (Tex. 1987) ("[C]ourts are reluctant to enforce covenants which prevent competition and deprive the community of needed goods."), *superseded by statute*, TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011), *as recognized in* Marsh USA Inc. v. Cook, 354 S.W.3d 764, 775 (Tex. 2011); Justin Belt Co. v. Yost, 502 S.W.2d 681, 686–87 (Tex. 1973) (declaring the contract not to compete to be unduly restrictive, but allowing reformation to remove the unreasonable restraints on trade).

2. Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642 (Tex. 1994), *abrogated by Marsh USA*, 354 S.W.3d 764. The Texas Supreme Court stated that in order for the noncompete agreement to meet the statute's "ancillary" requirement, the "consideration given by the employer in the otherwise enforceable agreement must give rise to the employer's interest in retaining the employee from competing." *Id.* at 646–47; *see also* BUS. & COM. § 15.50(a) ("[A] covenant not to compete is enforceable if it is *ancillary* to or part of an otherwise enforceable agreement . . . ." (emphasis added)). One of the possible reasons the *Light* court thought it appropriate to expand upon the statutory language was that the court felt the legislature "did not provide any standards for assessing whether or not a covenant not to compete is ancillary to or a part of an otherwise enforceable agreement." *Light*, 883 S.W.2d at 646–47.

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

4. *See id.* at 649, 650–51 (leaving *Light* undisturbed but denying *Light*'s assertion that a unilateral noncompete contract is always unenforceable); *see also Marsh USA*, 354 S.W.3d at 774 (noting that *Light* created a more restrictive interpretation of the common law requirements for a valid covenant not to compete).

5. Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844 (Tex. 2009).

6. Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011).

7. *See id.* at 775 ("*Light*'s requirement is contrary to the language of the Act.").

relating to covenants not to compete. Part III reviews the Texas statutes and key cases that interpret noncompete covenants up to and including *Mann Frankfort.* Finally, Part IV reviews the recent *Marsh USA* decision and its implications for the future of Texas covenants not to compete.

II. BACKGROUND

A. *Noncompete Agreements Generally*

A covenant not to compete is "[a] contractual provision—typically found in employment, partnership, or sale-of-business agreements—in which one party agrees to refrain from conducting business similar to that of the other party."[8] As a restraint on trade, noncompete agreements are generally disfavored, but courts will enforce a noncompete agreement if it is reasonable in terms of scope, duration, and geographic area.[9] The covenant cannot be an unreasonable restraint on trade or restrict gainful employment,[10] should be "ancillary to or part of an otherwise valid transaction,"[11] and should be only as restraining as necessary to

8. BLACK'S LAW DICTIONARY 370 (7th ed. 1999).

9. *See Marsh USA*, 354 S.W.3d at 771 (identifying that covenants not to compete will only be allowed where they are limited in duration and area (citing Chenault v. Otis Eng'g Corp., 423 S.W.2d 377, 381 (Tex. Civ. App.—Corpus Christi 1967, writ ref'd n.r.e.))); *Alex Sheshunoff*, 209 S.W.3d at 655 (maintaining that covenants not to compete must be limited by "time, geographical area, and scope of activity"); Justin Belt Co. v. Yost, 502 S.W.2d 681, 685 (Tex. 1973) ("This [c]ourt has recognized that restraints of trade unlimited as to both time and space are generally held to be unreasonable."). *But see* Weatherford Oil Tool Co. v. Campbell, 161 Tex. 310, 340 S.W.2d 950, 952 (1960) ("[I]t can no longer be said that a covenant not to compete is void and unenforceable simply because it is not reasonably limited as to either time or area."). The *Weatherford Oil* court indicated that though the stipulations as to time and area may be unreasonable, a court, through equity, may nonetheless enforce the agreement in such a way that would be reasonable given the circumstances. *Id.*

10. Peat Marwick Main & Co. v. Haass, 818 S.W.2d 381, 390 (Tex. 1991) (Cornyn, J., dissenting) (citing RESTATEMENT (SECOND) OF CONTRACTS § 186 (1981)). The Restatement, in addressing restraints on trade, states: "(1) [a] promise is unenforceable on grounds of public policy if it is unreasonably in restraint of trade"; and "(2) [a] promise is in restraint of trade if its performance would limit competition in any business or restrict the promisor in the exercise of a gainful occupation." RESTATEMENT (SECOND) OF CONTRACTS § 186 (1981). The *Weatherford Oil* court stated that the test for determining a restraint of trade is "whether it imposes upon the employee any greater restraint than is reasonably necessary to protect the business and good will of the employer." *Weatherford Oil*, 340 S.W.2d at 951.

11. TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011); *Marsh USA*, 354 S.W.3d at 773 (citing Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844, 849

protect the promisee's rights.[12] Texas courts have confirmed the validity of noncompete agreements since the 1890s,[13] albeit somewhat reluctantly.[14]

(Tex. 2009); Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 644 (Tex. 1994), *abrogated by Marsh USA*, 354 S.W.3d 764); *accord* RESTATEMENT (SECOND) OF CONTRACTS § 187 (1981) (identifying that for a noncompete promise to be reasonable, "the promisee must have an interest worthy of protection that can be balanced against the hardship on the promisor and the likely injury to the public").

12. *Peat Marwick*, 818 S.W.2d at 387; Desantis v. Wackenhut Corp., 793 S.W.2d 670, 682 (Tex. 1990); *accord* RESTATEMENT (SECOND) OF CONTRACTS § 188 (1981) (stating that a covenant not to compete that is ancillary to an otherwise enforceable agreement must be no "greater than is needed to protect the promisee's legitimate interest"); *see also Weatherford Oil*, 340 S.W.2d at 951 (informing that a noncompete agreement may not impose a restraint that is greater than what is required to protect the other party). Texas also requires the covenant be "ancillary to or part of an otherwise enforceable agreement." BUS. & COM. § 15.50(a).

13. *See Weatherford Oil*, 340 S.W.2d at 952–53 (enforcing covenants not to compete in Texas); Spinks v. Riebold, 310 S.W.2d 668, 669–70 (Tex. Civ. App.—El Paso 1958, writ ref'd) (allowing for a modified noncompete covenant to be enforced); Ofsowitz v. Askin Stores, Inc., 306 S.W.2d 923, 924 (Tex. Civ. App.—Eastland 1957, writ ref'd) (confirming an employee's noncompete agreement "against his employer after the termination of his employment contract, may be enforced if the restriction is reasonable in respect to the time it imposes, the territory it embraced and is reasonably necessary to protect some legitimate interest of the employer in the operation of his business"); Parker v. Smith, 254 S.W.2d 144, 146–47 (Tex. Civ. App.—San Antonio 1952, no writ) (holding the trial court should have issued a temporary injunction enforcing a covenant not to compete); Blaser v. Linen Serv. Corp. of Tex., 135 S.W.2d 509, 510 (Tex. Civ. App.—Dallas 1939, writ dism'd judgm't cor.) (identifying that "the validity of restrictive covenants in a contract, as here involved, has been upheld by the courts of this state in numerous cases"); Martin v. Hawley, 50 S.W.2d 1105, 1107–08 (Tex. Civ. App.—Dallas 1932, no writ) (stating the enforcement of noncompete employment contracts has "become the settled rule of law in this state"); Parisian Live Dyers & Cleaners v. Springfield, 275 S.W. 1098, 1099–1100 (Tex. Civ. App.—Galveston 1925, writ ref'd) (acknowledging the enforceability of a noncompete agreement); Patterson v. Crabb, 51 S.W. 870, 871 (Tex. Civ. App. 1899, writ dism'd w.o.j.) (identifying that for a teacher who left a music school, the employment covenant that restricted the instructor from teaching in the same town was an enforceable agreement); *see also* Ted Lee & Leila Ben Debba, *Backdoor Non-Competes in Texas: Trade Secrets*, 36 ST. MARY'S L.J. 483, 498 n.87 (2005) (citing multiple cases that enforced noncompete agreements).

14. *See, e.g.*, Hill v. Mobile Auto Trim, Inc., 725 S.W.2d 168, 170–71 (Tex. 1987) (affirming covenants not to compete are enforceable if they are reasonable, but finding the covenant unreasonable and void), *superseded by statute*, BUS. & COM. § 15.50(a), *as recognized in Marsh USA*, 354 S.W.3d at 775; *Yost*, 502 S.W.2d at 682 (discussing how "noncompetition agreements in the employer–employee relationship are enforceable when made during employment" and recognizing the settlement in this case was unreasonable with respect to time and area, and therefore the court could reform the agreement); *Weatherford Oil*, 340 S.W.2d at 951–53 (confirming covenants not to compete are enforceable, but finding the one in this case was unreasonable). Texas's reluctance to recognize covenants not to compete was based on the fear that such agreements might "prevent competition and deprive the community of needed goods." Jeffrey W. Tayono,

Employers use noncompete covenants to protect "business goodwill, trade secrets, and other confidential or proprietary information[,]"[15] discourage former employees from later competing, and to prevent quick turnover.[16] Litigation over noncompete agreements typically concerns the reasonableness of the duration and geographic area of the covenant,[17] whether the consideration is adequate or whether there is a failure of consideration received by the employee in exchange for agreeing to the covenant,[18] whether the agreement lacked reasonableness,[19] and the scope of activities that the promisee cannot perform as a result of an overly-broad covenant.[20]

Covenants Not to Compete in Texas: Shifting Sands from Hill *to* Light, 3 TEX. INTELL. PROP. L.J. 143, 152 (1995).

15. *DeSantis*, 793 S.W.2d at 682.

16. Michael D. Paul & Ian C. Crawford, *Refocusing* Light*:* Alex Sheshunoff Management Services, L.P. v. Johnson *Moves Back to the Basics of Covenants Not to Compete*, 38 ST. MARY'S L.J. 727, 731 (2007). *But see* 13 William V. Dorsaneo III & Peter Winship, *Texas Litigation Guide* § 201.02[3][b] (2011) (outlining examples of business interests that companies cannot protect by creating and enforcing covenants not to compete).

17. *Marsh USA*, 354 S.W.3d at 771 (quoting Chenault v. Otis Eng'g Corp., 423 S.W.2d 377, 381 (Tex. Civ. App.—Corpus Christi 1967, writ ref'd n.r.e.)); *see, e.g.*, *Weatherford Oil*, 340 S.W.2d at 951–52 (failing to award damages associated with a noncompete covenant because the original agreement required the promisor not to compete in any area where the employer might choose to sell its products); Lewis v. Krueger, Hutchinson & Overton Clinic, 153 Tex. 363, 269 S.W.2d 798, 799 (1954) (confirming a covenant not to compete could be reformed when it included an unreasonable time duration); Cobb v. Caye Pub'g Grp., Inc., 322 S.W.3d 780, 783–84 (Tex. App.—Fort Worth 2010, no pet.) (refusing to accept a broad geographical area); *see also* Diversified Human Res. Grp., Inc. v. Levinson-Polakoff, 752 S.W.2d 8, 12 (Tex. App.—Dallas 1988, no writ) (identifying the reasonable area of restraints as "the territory in which the employee worked while in the employment of his employer").

18. *See* Martin v. Credit Prot. Ass'n, 793 S.W.2d 667, 670 (Tex. 1990) (finding "that the covenant not to compete was not supported by independent valuable consideration" and was "not ancillary to an otherwise enforceable agreement"). Texas cases have also held that "special training or knowledge acquired by the employee through his employer" constitutes valuable consideration. *Hill*, 725 S.W.2d at 171; *e.g.*, Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644, 656 (Tex. 2006) (identifying that the noncompete agreement listed employee training and access to the company's confidential information as valuable consideration).

19. *See DeSantis*, 793 S.W.2d at 681 (stating that "[a]n agreement not to compete is in restraint of trade and therefore unenforceable . . . unless it is reasonable"); *see, e.g.*, *Hill*, 725 S.W.2d at 171–72 (refusing to enforce a covenant not to compete due to lack of reasonableness). The Texas Supreme Court has frequently stated that "[a] covenant not to compete is in restraint of trade and unenforceable on the grounds of public policy unless it is *reasonable*." *Martin*, 793 S.W.2d at 668 (emphasis added) (citing Frankiewicz v. Nat'l Comp Assoc., 633 S.W.2d 505, 507 (Tex. 1982)); *accord* Gallagher Healthcare Ins.

B. *Early History*

Over the last fifty years, the Texas Supreme Court and the Texas Legislature have played an ever increasing, and sometimes competing, role in the refinement of the law of noncompete agreements.[21] Regardless, a noncompete covenant remains a disfavored contract because it is a restraint on trade, and courts will not enforce a covenant not to compete unless the covenant satisfies specific statutory requirements.[22]

Servs. v. Vogelsang, 312 S.W.3d 640, 654 (Tex. App.—Houston [1st Dist.] 2009, pet. denied) (declaring that a covenant not to compete must meet the reasonability requirements set forth in the Texas Business and Commerce Code). Whether a covenant not to compete is reasonable is a question of law determined by the court. *Cobb*, 322 S.W.3d at 783.

20. *E.g.*, Juliette Fowler Homes, Inc. v. Welch Assocs., Inc., 793 S.W.2d 660, 663 (Tex. 1990) (asserting the noncompetition clause in the "contract contains no limitations concerning . . . scope of activity," and was therefore unenforceable); *see also* Peat Marwick Main & Co. v. Haass, 818 S.W.2d 381, 388 (Tex. 1991) ("[P]rovisions clearly intended to restrict the right to render personal services are in restraint of trade and must be analyzed for the same standards of reasonableness as covenants not to compete to be enforceable."). Texas Business and Commerce Code section 15.51(c) also provides that agreements that unreasonably restrict an employee's "scope of activity" will be reformed by a court to make them reasonable in scope. TEX. BUS. & COM. CODE ANN. § 15.51(c) (West 2011).

21. *See* Ted Lee & Leila Ben Debba, *Backdoor Non-Competes in Texas: Trade Secrets*, 36 ST. MARY'S L.J. 483, 503–06 (2005) (identifying how the Texas Supreme Court's decisions regarding noncompete covenants have not always dovetailed with the legislative initiatives on the same subject, but that the rules on creating effective noncompete provisions have nevertheless become more precise over the last fifty years). This mischaracterization of legislative intent is best exemplified in *Light*, where the Texas Supreme Court attempted to clarify the ancillary requirement found in section 15.50 of the Texas Business and Commerce Code. Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 646–47 (Tex. 1994), *abrogated by Marsh USA*, 354 S.W.3d 764. Because the legislature did not provide any standard to determine whether an agreement was ancillary, the court decided that, to meet the ancillary test, the agreement "must give rise to the 'interest worthy of protection' by the covenant not to compete." *Id.* (quoting *Desantis*, 793 S.W.2d at 682). This attempt to clarify legislative intent was not well received by later courts and has since been abrogated. *See Marsh USA*, 354 S.W.3d at 775 ("*Light*'s requirement is contrary to the language of the Act.").

22. *See* BUS. & COM. § 15.05 (providing "[e]very contract, combination, or conspiracy in restraint of trade or commerce is unlawful"); *id.* § 15.50 (identifying the specific requirements necessary to create an enforceable noncompete agreement); *Marsh USA*, 354 S.W.3d at 772–73 (identifying the "well[-]established" rule that covenants not to compete that are reasonable will not be deemed a restraint of trade (citing *Chenault*, 423 S.W.2d at 381)); *see also* Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844, 849 (Tex. 2009) (requiring a noncompete clause to satisfy statutory requirements); *Cobb*, 322 S.W.3d at 783 (affirming that noncompete agreements must satisfy Texas Business and Commerce Code section 15.50); Markwardt v. Harrell, 430 S.W.2d 1, 3 (Tex. Civ. App—Eastland 1968, writ ref'd n.r.e) (stating that "contracts not to

Several cases represent milestones in the development of the Texas common law on covenants not to compete. In *Lewis v. Krueger, Hutchinson & Overton Clinic*,[23] the Texas Supreme Court confirmed that a covenant not to compete that included an open-ended time duration could be reformed by the court to be more reasonable.[24] In *Weatherford Oil Tool Co. v. Campbell*,[25] the court emphasized that although noncompete agreements were valid, it would not enforce them unless the covenants were reasonable.[26] The court also stressed that it is within a trial court's discretion to reform a covenant that it determined in equity was unreasonable in both time and area.[27] A decade later, in *Justin Belt Co. v. Yost*,[28] the Texas Supreme Court reinforced the condition that a covenant not to compete "must be ancillary to and in support of another contract."[29]

---

compete are, by their nature, in restraint of trade and are not favorably regarded by our courts").

23. Lewis v. Krueger, Hutchinson & Overton Clinic, 153 Tex. 363, 269 S.W.2d 798 (1954).

24. *See id.* at 799 ("Merely because a limit has not been fixed for the duration of the restraint, the agreement will not be struck down but will be enforceable for such period of time as would appear to be reasonable under the circumstances."). The court affirmed the summary judgment in favor of the clinic; the supreme court, however, agreed with the appellate court's reformation of the time period of the covenant. *Id.* at 798–99.

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

26. *See id.* at 951 ("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."). The Texas Supreme Court further highlighted that "[w]here 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." *Id.* By the time the court decided *Weatherford Oil*, the covenant's restraint period had expired, and because the agreement was deemed to be unreasonable, there was not an award of damages for breach of contract. *Id.* at 953. *See generally* Ted Lee & Leila Ben Debba, *Backdoor Non-Competes in Texas: Trade Secrets*, 36 ST. MARY'S L.J. 483, 498–99 (2005) (outlining that the lower courts followed the decision in *Weatherford Oil* by "striking down those [covenants] that were unreasonably broad . . . [and] reform[ing] unreasonable covenants not to compete to ensure their enforceability").

27. *Weatherford Oil*, 340 S.W.2d at 953; *see also* Seline v. Baker, 536 S.W.2d 631, 635 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ) ("Covenants in restraint of trade do not rest upon inference. An agreement will not be extended by implication . . . ."). "To be enforceable[,] [covenants not to compete] must contain stated restraints." *Markwardt*, 430 S.W.2d at 3.

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

29. *See id.* at 683 ("Contracts which are in reasonable restraint of trade must be ancillary to and in support of another contract."). In *Yost*, the court affirmed the

In *Hill v. Mobile Auto Trim, Inc.*,[30] the court indicated that a covenant not to compete must meet four criteria: (1) it must be necessary to protect the employer's valid interests in trade secrets and business goodwill; (2) the limitations placed on the duration, locations, and activities that a former employee can perform must be reasonable; (3) the public must not be harmed; and (4) the employer must provide something of value as consideration for receiving the covenant not to compete from the employee.[31] In *Hill*, the court also emphasized that a covenant not to compete cannot restrict one from practicing his "common calling," a skill that he had before the relationship was established with the employer.[32]

In response to these decisions from the Texas courts, the legislature passed the Covenants Not to Compete Act in 1989.[33] The Act established the requirements for an enforceable covenant not to compete[34] as well as the remedies available to the parties to the agreement.[35] The Act was codified in the Texas Business and Commerce Code, and section 15.50 was modified in 1993[36] to read:

> [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

---

reformation of the covenant not to compete and granted injunctive relief in favor of the employer. *Id.* at 686.

30. Hill v. Mobile Auto Trim, Inc., 725 S.W.2d 168 (Tex. 1987), *superseded by statute*, TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011), *as recognized in* Marsh USA Inc. v. Cook, 354 S.W.3d 764, 775 (Tex. 2011).

31. *Id.* at 170–71 (identifying a four-pronged test for determining the validity of a noncompete agreement). The test closely follows RESTATEMENT (SECOND) OF CONTRACTS § 188 cmts. a–g (1981).

32. *Hill*, 725 S.W.2d at 172 (quoting Robbins v. Finlay, 645 P.2d 623, 627 (Utah 1982)). In *Hill*, the Texas Supreme Court revoked the temporary injunction in favor of the past employer and held the restrictive covenant void. *Id.*

33. Act of May 23, 1989, 71st Leg., R.S., ch. 1193, § 1, sec. 15.50, 1989 Tex. Gen. Laws 4852–53 (West) (codified as amended at BUS. & COM. §§ 15.50–.51 (West 2011)); *see also* Ted Lee & Leila Ben Debba, *Backdoor Non-Competes in Texas: Trade Secrets*, 36 ST. MARY'S L.J. 483, 503 (2005) ("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").

34. BUS. & COM. § 15.50.

35. *Id.* § 15.51.

36. Act of May 29, 1993, 73d Leg., R.S., ch. 965, § 2, sec. 15.51, 1993 Tex. Gen. Laws 4201 (codified at BUS. & COM. §§ 15.50–.52 (West 2011)).

> reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.[37]

Section 15.52 was added in 1993 to clarify that noncompete covenants are governed by statutory requirements and not by common law.[38] Section 15.51 allows for three remedies: damages, injunctive relief, and an award of attorney's fees if the defendant successfully defends against a plaintiff trying to enforce an unreasonable covenant not to compete.[39] The enforceability of a noncompete agreement, including a determination of the reasonableness of that covenant, "is a question of law for the court."[40]

Between 1989 and 1993, the Texas Supreme Court continued to decide noncompete cases, but in the five cases heard during that time, the court did not uphold a single covenant not to compete.[41]

---

37. BUS. & COM § 15.50.

38. Act of May 29, 1993 § 3; *see also* R. Brandon Bundren, Comment, *To Give or Not to Give: Enforceability of Covenants Not to Compete in Texas*, 57 BAYLOR L. REV. 273, 276 (2005) (describing how, in following the enactment of the Covenants Not to Compete Act in 1989, the Texas Supreme Court continued to use the common law to decide noncompete covenants cases). Even though the amendments were intended to provide guidance to Texas courts, their intentions were often thwarted. *See* Michael D. Paul & Ian C. Crawford, *Refocusing* Light*:* Alex Sheshunoff Management Services, L.P. v. Johnson *Moves Back to the Basics of Covenants Not to Compete*, 38 ST. MARY'S L.J. 727, 735 (2007) ("This dichotomy among the Texas courts' decisions would continue even after the 1993 amendments to the statutes.").

39. BUS. & COM. § 15.51. If a covenant not to compete is reformed by the court, the Code does not permit the promisee to receive damages for breach of the covenant by the promisor before the reformation. *Id.* Therefore, "[a] breach of an unreasonable restraint-of-trade covenant will not support damages" in favor of the employer. Gen. Devices, Inc. v. Bacon, 888 S.W.2d 497, 503 (Tex. App.—Dallas 1994, writ denied) (quoting Weatherford Oil Tool Co. v. Campbell, 161 Tex. 310, 314 S.W.2d 950, 953 (1960)). In *Alliantgroup, L.P. v. Feingold*, a federal court recited Texas law by stating "the procedures and remedies in an action to enforce a covenant not to compete provided by [s]ection 15.51 . . . are *exclusive* and *preempt* any other criteria for enforceability of a covenant not to compete." 803 F. Supp. 2d 610, 620–21 (S.D. Tex. 2011) (quoting BUS. & COM. § 15.52) (internal quotation marks omitted). This precluded the court from awarding any remedy outside the confines of section 15.51(c). *Id.* at 621.

40. Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 644–45 (Tex. 1994) (citing Martin v. Credit Prot. Ass'n, 793 S.W.2d 667, 668–69 (Tex. 1990)), *abrogated by* Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011); *see also* R. Brandon Bundren, Comment, *To Give or Not to Give: Enforceability of Covenants Not to Compete in Texas*, 57 BAYLOR L. REV. 273, 277 (2005) ("[T]he enforceability of a covenant not to compete, as well as the question of whether a covenant not to compete is a reasonable restraint of trade, is a question of law for the court." (citing *Martin*, 793 S.W.2d at 668–69)).

41. *See* Travel Masters, Inc. v. Star Tours, Inc., 827 S.W.2d 830, 832 (Tex. 1991) (finding the "covenant not to compete is unenforceable as a matter of law because it was

Despite greater statutory direction on creating an effective noncompete covenant, the Texas Supreme Court continued to find reasons in each case why the covenant was invalid as applied.[42]

III. 1993–2009

A. Light v. Centel Cellular Co. of Texas

Light v. Centel Cellular Co. of Texas was the first case in which the Texas Supreme Court addressed the 1993 changes to the Act.[43] In *Light*, the petitioner, Debbie Light, sold pagers and pager services for United TeleSpectrum, Inc. in an at-will employment relationship.[44] During the course of her employment, United required Light to sign an agreement that included a covenant not to compete.[45] She later resigned and sued Centel,

---

not ancillary to an otherwise enforceable agreement"), *superseded by statute*, BUS. & COM. §§ 15.51–.52, *as recognized in* Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644, 646 (Tex. 2006); Peat Marwick Main & Co. v. Haass, 818 S.W.2d 381, 382 (Tex. 1991) ("We hold that a damages provision affecting the right to render personal services operates as a restraint of trade and must be judged by the reasonableness standards for covenants not to compete, and that the sole relevant contractual provision at issue is unreasonable."); DeSantis v. Wackenhut Corp., 793 S.W.2d 670, 684 (Tex. 1990) (stating that the noncompete covenant was unreasonable and unenforceable); *Martin*, 793 S.W.2d at 670 ("[W]e find that the covenant not to compete was not supported by independent valuable consideration. Since the covenant not to compete is not ancillary to an otherwise enforceable agreement or supported by independent valuable consideration, we hold that the covenant not to compete is not enforceable . . . ."); Juliette Fowler Homes, Inc. v. Welch Assocs., Inc., 793 S.W.2d 660, 663 (Tex. 1990) (noting that the noncompetition clause contained "no limitations concerning geographical area or scope of activity," and therefore was "an unreasonable restraint of trade and unenforceable on grounds of public policy").

42. Michael D. Paul & Ian C. Crawford, *Refocusing* Light*:* Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson *Moves Back to the Basics of Covenants Not to Compete*, 38 ST. MARY'S L.J. 727, 736 (2007).

43. *See Light*, 883 S.W.2d at 644 (applying the Covenants Not to Compete Act retroactively). The 1993 amendment to the Act was effective September 1, 1993. *Id.* at 643. On April 23, 1990, Debbie Light received "a partial summary judgment [from the trial court] that the covenant not to compete was unenforceable." Centel Cellular Co. of Tex. v. Light, 841 S.W.2d 95, 96 (Tex. App.—Tyler 1992), *rev'd*, 883 S.W.2d 642 (Tex. 1994). Based on the fact she "was engaged in a common calling occupation," the covenant violated the Texas Business and Commerce Code, and was a restraint on trade. *Id.* at 97. The case was argued before the Texas Supreme Court on February 17, 1994, and decided on June 2, 1994. *Light*, 883 S.W.2d at 642.

44. *Id.* at 643.

45. *Id.* Debbie Light started her employment with United TeleSpectrum, Inc. in 1985, and she was required to sign a noncompete agreement after United started selling cellular services in 1987. *Id.*

United's successor-in-interest, seeking a judgment that the agreement was unenforceable and void.[46]

In the agreement, United promised to provide Light with specialized training.[47] In return, Light promised to provide United with a fourteen-day notice prior to terminating her employment.[48] Light also "promise[d] to provide an inventory of all United property [in her possession] upon termination."[49] Importantly, United's promise to provide Light with specialized training was not contingent on her continued employment with United.[50]

The *Light* court began its analysis by recapping the then-recent 1993 amendment to the Act,[51] which required that in order to be enforceable, the covenant not to compete must be:

> [A]ncillary to or part of an otherwise enforceable agreement at the time the agreement is made [and] . . . contain[] 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.[52]

The court recognized that the legislature intended to broaden the enforceability of noncompete agreements with the 1993 amendment.[53]

To reach its holding, the court first noted that "[c]onsideration for a promise, by either the employee or the employer in an at-will employment, cannot be dependent on a period of continued employment."[54] After all, if the promisor can discontinue employment at any time, the promise is illusory, and under contract law, "[w]hen illusory promises are all that support a

46. *Id.*

47. *Id.* at 645–46. While other promises were recited by the agreement, they were illusory. *Id.* at 644–46.

48. *Id.*

49. *Id.* at 646.

50. *Id.*

51. *Id.* at 643–44.

52. *Id.* at 643 (quoting TEX. BUS. & COM. CODE ANN. § 15.50 (West 2011)) (internal quotation marks omitted).

53. *See id.* at 644 (indicating it was "clear that the [l]egislature intended the Covenants Not to Compete Act to largely supplant the Texas common law relating to enforcement of covenants not to compete" and, therefore, applying the Act in lieu of the common law).

54. *Id.* at 644–45.

purported bilateral contract, there is no contract."[55] The court held, however, that "otherwise enforceable agreements" under the statute can result from at-will employment relationships so long as the return promise for the employee's covenant is not illusory.[56]

The court then performed a highly technical analysis of the "otherwise enforceable agreement at the time the agreement is made" language of section 15.50.[57] In footnote six, the court recognized established contract law:

> If only one promise is illusory, a unilateral contract can still be formed; the non-illusory promise can serve as an offer, which the promisor who made the illusory promise can accept by performance.... The fact that the employer was not bound to perform because he could have fired the employee is irrelevant; if he has performed, he has accepted the employee's offer and created a binding unilateral contract.[58]

The court further noted that "[s]uch a unilateral contract existed between Light and United as to Light's compensation," but if the performance is not accepted by the employee at the time of the agreement, then it cannot support a covenant not to compete under the statute.[59] "[S]uch [a] 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'" under the statute.[60] In other words, if an employer promised an employee training and confidential information as consideration for the at-will employee's covenant not to compete, but fulfillment of this promise is dependent on continued employment, the employer's promise is illusory until the employer actually performs, which will be some time later than the time the agreement is made.[61] Thus, the agreement would not be

55. *Id.* at 645.

56. *Id.* (internal quotation marks omitted). "Any promise made by either employer or employee that depends on an additional period of employment is illusory because it is conditioned upon something that is exclusively within the control of the promisor." *Id.* at 645 n.5 (citing E. ALLAN FARNSWORTH, CONTRACTS 72–82 (1982)).

57. *Id.* at 643; *see also* BUS. & COM. § 15.50 (providing the statute at issue).

58. *Light*, 883 S.W.2d at 645 n.6 (citing E. ALLAN FARNSWORTH, CONTRACTS 75–76 (1982)).

59. *Id.* (citing E. ALLAN FARNSWORTH, CONTRACTS 75–76 (1982)).

60. *Id.*

61. *See* Vanegas v. Am. Energy Servs., 302 S.W.3d 299, 302 (Tex. 2009) (discussing

"otherwise enforceable" until some time after the agreement is made.[62]

The Light–United agreement required United to provide Light "initial and [ongoing] specialized training necessary to sell" United's products and services.[63] The court determined that the Light–United agreement would have required United to provide the promised initial training "[e]ven if Light had resigned or been fired."[64] Accordingly, the court established that "an otherwise enforceable agreement . . . existed between Light and United."[65]

The court, however, found the noncompete agreement unenforceable:

> 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.[66]

In other words, the covenant not to compete was not designed to enforce either Light's promise to give notice fourteen days prior to termination or Light's promise to provide an inventory upon

---

Light's analysis of the illusory promise dilemma for at-will employees (citing Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644, 649–50 (Tex. 2006)). The *Vanegas* court discussed at-will employment agreements and noted that, "under footnote six of *Light*, [the noncompete agreement] would still be considered invalid because [the employee] was an at-will employee, and his employer could have fired him" prior to the promise being fulfilled. *Id.* (citing *Alex Sheshunoff*, 209 S.W.3d at 650). The court identified that, under *Light*, "the agreement was not enforceable at the time it was made, but rather was only enforceable once [the employer fulfilled the illusory promise]." *Id.* (citing *Alex Sheshunoff*, 209 S.W.3d at 650). The *Vanegas* court, however, correctly identified that the issue concerning illusory promises was irrelevant; the critical question was whether the promise was enforceable at the time of breach. *See id.* at 303 ("[W]hether the promise was illusory at the time it was made is irrelevant; what matters is whether the promise became enforceable by the time of the breach." (citing *Alex Sheshunoff*, 209 S.W.3d at 651)).

62. *Light*, 883 S.W.2d at 645 n.6; *accord* BUS. & COM. § 15.50(a) (recognizing "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").

63. *Light*, 883 S.W.2d at 645 n.8.

64. *Id.* at 646.

65. *Id.*

66. *Id.* at 647.

termination.[67] Moreover, an "otherwise enforceable agreement must *give rise* to the 'interest worthy of protection' by the covenant not to compete."[68]

B. *From* Light *to* Alex Sheshunoff

In retrospect, *Light* did less than one would expect to settle issues concerning the enforceability of covenants not to compete.[69] Instead of just focusing on the reasonableness of the restraints on employment imposed by such covenants,[70] or whether specific covenants were designed to enforce the employee's consideration in the otherwise enforceable agreement,[71] Texas courts also had to settle arguments about whether the consideration given was illusory or non-illusory, and whether consideration was given to make the agreement otherwise enforceable at the time it was made.[72] This issue arose most frequently with respect to employers' promises to disclose trade secrets or confidential information.

---

67. *See id.* at 647–48 (pointing out "Light did not promise in the otherwise enforceable agreement to not disclose any of the confidential or proprietary information given to her by United").

68. *Id.* at 647 (emphasis added) (citing DeSantis v. Wackenhut Corp., 793 S.W.2d 670, 682 (Tex. 1990)).

69. *See* Eric Behrens, *A Trend Toward Enforceability*, 73 TEX. B.J. 732, 732 (2010) (stating that though *Light* was "perceived as having 'blueprinted' contractual language that would satisfy [s]ection 15.50(a)'s requirements, . . . the proper interpretation of [s]ection 15.50(a)'s criteria continued to elude employers").

70. *See* TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011) (requiring that the limitations and scope of the activity to be restrained by the covenant are reasonable and no greater than necessary); *see also* Peat Marwick Main & Co. v. Haass, 818 S.W.2d 381, 386 (Tex. 1991) ("[T]he restraint created must not be greater than necessary to protect the promisee's legitimate interests such as business goodwill, trade secrets, or other confidential or proprietary information." (citing *DeSantis*, 793 S.W.2d at 682; Henshaw v. Kroenecke, 656 S.W.2d 416, 418 (Tex. 1983); Frankiewicz v. Nat'l Comp Assocs., 633 S.W.2d 505, 507 (Tex. 1982); Weatherford Oil Tool Co. v. Campbell, 161 Tex. 310, 340 S.W.2d 950, 951 (1960))).

71. BUS. & COM. § 15.50(a) ("[A] covenant not to compete is enforceable if it is . . . part of an otherwise enforceable agreement"); *see also DeSantis*, 793 S.W.2d at 681–82 (advancing the idea that "the agreement not to compete must be ancillary to an otherwise valid transaction or relationship").

72. *Compare* Strickland v. Medtronic, Inc., 97 S.W.3d 835, 839 (Tex. App.—Dallas 2003, pet. dism'd w.o.j.) (concluding the promise to provide confidential information to the employee was illusory because "Medtronic could . . . fir[e] Strickland on the day the employment agreement was executed"), *with* Ireland v. Franklin, 950 S.W.2d 155, 158 (Tex. App.—San Antonio 1997, no writ) (asserting there need be only one non-illusory promise for a noncompete agreement to be enforceable).

For example, in *Ireland v. Franklin*,[73] in what would appear to be a direct contradiction to footnote six in *Light*, the Texas Fourth Court of Appeals held that a promise by Franklin to share trade secrets with Ireland was non-illusory, and thus supported the covenant not to compete.[74] The court held that the employment relationship was at-will, and the agreement listed certain items considered by Franklin to be trade secrets.[75] The disclosure of these trade secrets to Ireland was dependent on "her promise not to disclose or use [them] during or after her employment."[76] To support its holding, the court relied heavily on footnote fourteen of *Light*, which explained that if an employer gives confidential information in exchange for the employee's promise not to disclose that information, then the covenant is ancillary to an otherwise enforceable agreement.[77] The court acknowledged that "[t]his is the situation blueprinted [in *Light*]."[78] Without delving into when the confidential information was actually disclosed to Ireland, the court concluded that Franklin's consideration was his promise to share the trade secrets with Ireland at some point in the future.[79]

In *Beasley v. Hub City Texas, L.P.*,[80] the First Court of Appeals held that the promises between Beasley and Hub City constituted sufficient consideration for a noncompete agreement.[81] An amendment to the noncompete agreement was signed when Beasley was promoted to president of Hub City.[82] According to the amendment, Beasley would be provided access to new confidential information upon being promoted, and "[i]n

73. Ireland v. Franklin, 950 S.W.2d 155 (Tex. App.—San Antonio 1997, no writ).

74. *See id.* at 158 (declaring that the court "need[s] to find one non-illusory promise that the covenant not to compete is ancillary to" in order for the agreement to be enforceable).

75. *Id.*

76. *Id.*

77. *Id.* (citing Light v. Centel Cellular Co. of Tex., 883 S.W.2d 155, 158 (Tex. 1997), *abrogated by* Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011)).

78. *Id.*

79. *Id.* (emphasis added). The court held the covenant not to compete was valid, and "the trial court did not abuse its discretion when it granted the temporary injunction" in favor of Franklin. *Id.*

80. Beasley v. Hub City Tex., L.P., No. 01-03-00287-CV, 2003 WL 22254692 (Tex. App.—Houston [1st Dist.] Sept. 29, 2003, no pet.) (mem. op.).

81. *See id.* at *7 (explaining that for proper consideration to exist, "[t]he trial court had to find only one non-illusory promise to support the non[]competition covenant").

82. *Id.* at *5.

exchange, Beasley promised that he would not divulge . . . that information."[83] Relying on footnote fourteen of *Light*, the *Beasley* court noted that "[a]n employer's promise to provide confidential information or trade secrets, in exchange for an employee's agreement not to divulge or to use that information, forms an 'otherwise enforceable agreement' to which the employee's non-competition covenant can be ancillary."[84] The court then decided "sufficient evidence supported the trial court's finding that Hub promised to provide and actually did provide Beasley with new confidential information in exchange for his [covenant not to compete]."[85] Therefore, because at least one promise was non-illusory, the noncompete covenant was enforceable.[86]

To justify its holding, the *Beasley* court discussed the types of confidential information to which Beasley would be privy after he signed the agreement,[87] but failed to discuss the timing of the disclosure of the confidential information, just as the court did in *Ireland*. In fact, the court noted that Beasley did not begin attending meetings in which confidential information was available until after he was president, thereby implying that the actual disclosure was not at the time the agreement was made.[88] The court noted that "Beasley should not have had access to much of, or at least to the full amount of, this information before having become president."[89] The court justified its holding that the promise to disclose was not illusory by declaring that "viewed in the appropriate light, sufficient evidence supported the trial court's finding that Hub promised to provide and actually did provide Beasley with new confidential information in exchange for his . . . covenants."[90] This language certainly suggests the court viewed the amendment regarding the confidential information as

83. *Id.*

84. *Id.* (citing Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 647 n.14 (Tex. 1994), *abrogated by* Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011)).

85. *Id.* at *7.

86. *Id.* The court of appeals affirmed the trial court's decision enjoining Fred Beasley from competing against Hub City. *Id.* at *7–8.

87. *Id.* at *5.

88. *Id.* at *7.

89. *Id.*

90. *Id.* (emphasis added).

relevant to holding the covenant not to compete enforceable, contrary to *Light*'s footnote six.[91]

Other Texas courts of appeals took a stricter approach to *Light*. In *Anderson Chemical Co. v. Green*,[92] the Seventh Court of Appeals closely adhered to *Light*'s footnote six: "A promise not to disclose an employee's proprietary information which is later accepted by the employer's performance in providing that information to the employee is a unilateral contract that cannot support a covenant not to compete because it is not otherwise enforceable at the time it is made."[93]

In *Strickland v. Medtronic, Inc.*,[94] the Fifth Court of Appeals reviewed the employment agreement at issue, which included a covenant not to compete.[95] The employment agreement included a statement that Medtronic would provide confidential

91. *Compare id.* at *7 (holding the promise was not illusory because Hub promised and provided to Beasley secret information in exchange for Beasley's signature on the noncompete agreement), *with* Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 645 n.6 (Tex. 1994) ("If only one promise is illusory, a unilateral contract can still be formed; the non-illusory promise can serve as an offer, which the promisor who made the illusory promise can accept by performance."), *abrogated by* Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011).

92. Anderson Chem. Co. v. Green, 66 S.W.3d 434 (Tex. App.—Amarillo 2001, no pet.).

93. *Id.* at 438 (citing *Light*, 883 S.W.2d at 645 n.6). The court further noted that even if Anderson gave confidential information to Green, the agreement did not contain a promise by Anderson to do so. *Id.* "Thus, even if [Anderson] gave such information to Green, at the time it was made, there was no enforceable agreement." *Id.* The court concluded that the covenant not to compete was unenforceable and agreed with the trial court's refusal to issue a temporary injunction at the request of Anderson Chemical Company. *Id.* at 439; *see also* 31-W Insulation Co. v. Dickey, 144 S.W.3d 153, 158 (Tex. App.—Fort Worth 2004, pet. withdrawn) (holding the promise to provide confidential information was illusory because the employee could be terminated immediately after signing the agreement); Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 124 S.W.3d 678, 686 (Tex. App.—Austin 2003, pet. granted) (stressing the need to "evaluate the consideration given at the time the agreement was made"), *aff'd in part, rev'd in part*, 209 S.W.3d 644 (Tex. 2006); R. Brandon Bundren, Comment, *To Give or Not to Give: Enforceability of Covenants Not to Compete in Texas*, 57 BAYLOR L. REV. 273, 283–84 (2005) (describing the dichotomy between the two groups of court holdings: courts that require a contemporaneous exchange to make a noncompete agreement valid, and courts that do not). This potentially oversimplifies the courts' holdings. The issue is more precisely not whether the consideration given is contemporaneous, but whether the promise given by the employer—which in most cases is the promise to disclose trade secrets or confidential information—is illusory.

94. Strickland v. Medtronic, Inc., 97 S.W.3d 835 (Tex. App.—Dallas 2003, pet. dism'd w.o.j.).

95. *See id.* at 839 (holding the covenant not to compete was not created because the promise to provide confidential information was illusory).

information to Strickland.[96] Medtronic argued that this promise to provide confidential information represented additional consideration provided to the employee.[97] The court concluded that the promise to provide that information was illusory because Medtronic could "fir[e] Strickland on the day the employment agreement was executed."[98] The court stressed that "[t]he relevant inquiry under section 15.50 . . . is whether, *at the time the agreement is made*, there exists a binding promise to train."[99]

C. Alex Sheshunoff Management Services, L.P. v. Johnson

In *Alex Sheshunoff Management Services, L.P. v. Johnson*,[100] the Texas Supreme Court addressed the issue of whether a covenant not to compete signed by an at-will employee is enforceable against that employee if there is no other corresponding enforceable obligation.[101] Johnson had been an employee of Alex Sheshunoff Management Services (ASM) under an at-will arrangement since 1993.[102] In 1997, ASM promoted Johnson to a new position, and shortly after his promotion presented him with an employment agreement that included a covenant not to compete.[103] ASM required Johnson to sign the agreement as a condition of continued employment.[104]

As consideration for the agreement, ASM promised to give notice to Johnson of any forthcoming termination, other than termination justified by employee misconduct.[105] Alternatively, the agreement provided ASM with the option of terminating Johnson immediately "so long as ASM paid a specified fee to Johnson."[106] ASM also agreed to provide Johnson with

96. *Id.*
97. *Id.*
98. *Id.*
99. *Id.* The court found an "otherwise enforceable agreement" did, in fact, exist because of other non-illusory promises made by Medtronic, but the court ultimately held that the noncompete covenant was unenforceable. *Id.* The agreement could not be enforced because the noncompetition agreement was not ancillary to the otherwise enforceable agreement, not because the promise to disclose information was illusory. *Id.*
100. Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644 (Tex. 2006).
101. *Id.* at 646.
102. *Id.*
103. *Id.*
104. *Id.*
105. *Id.*
106. *Id.*

specialized training concerning ASM's business methods and to provide access to confidential and proprietary information.[107]

ASM, in fact, provided such training and confidential information, some of which were furnished indirectly through third parties, including respondent Strunk & Associates, L.P. (Strunk).[108] Strunk, one of ASM's competitors, later contacted Johnson about hiring him, and in early 2002 Johnson left ASM to work for Strunk.[109]

ASM sued Johnson under the agreement, and Strunk intervened to argue that footnote six of *Light* prevented the covenant from being enforced.[110] Strunk and Johnson argued that ASM's promises to provide specialized training and confidential information were illusory.[111] The district court agreed and granted Johnson's and Strunk's motions for summary judgment.[112]

The Third Court of Appeals affirmed,[113] stressing that the key time frame for analyzing the agreement "is the *moment the agreement is made*."[114] Because the company provided the new confidential information after the agreement was signed, the court of appeals concluded the promise was illusory at the time of the agreement and was therefore unenforceable.[115]

On review, the Texas Supreme Court agreed that, under then-current law, the ASM–Johnson agreement was not enforceable at the time it was made.[116] Under *Light*, the court of appeals' affirmation of the district court was correct: Because "ASM could fire Johnson after the agreement was signed, and before it provided any confidential information or specialized training, . . . the agreement . . . did not oblige ASM to provide

107. *Id.* at 647.

108. *Id.*

109. *Id.*

110. *Id.* (citing Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 645 n.6 (Tex. 1994), *abrogated by* Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011)).

111. *Id.*

112. *Id.*

113. *Id.*

114. Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 124 S.W.3d 678, 686 (Tex. App.—Austin 2003), *aff'd in part, rev'd in part*, 209 S.W.3d 644 (Tex. 2006).

115. *Id.* at 686–87.

116. *See Alex Sheshunoff*, 209 S.W.3d at 650 (establishing "[i]n the pending case, the court of appeals correctly held that under *Light*'s footnote six, the agreement was illusory insofar as it required ASM to provide confidential information and specialized training").

initial training whether or not Johnson was still employed by ASM."[117] The court also agreed with *Light*'s recitation of black-letter contract law that an illusory promise can still be accepted by performance.[118]

Specifying its departure from *Light*, the court targeted footnote six[119] and focused on the legislative history behind the Act.[120] To justify its departure from *Light*, the court revisited the meaning of the phrase, "at the time the agreement is made"[121]:

> Simply reading the text [of the Act], the clause "at the time the agreement is made" can modify either "otherwise enforceable agreement" or "ancillary to or part of." No amount of pure textual analysis can tell us unequivocally which preceding clause is modified. *Light* stated that the agreement must be enforceable at the time the agreement is made, and therefore concluded that "at the time the agreement is made" must modify "otherwise enforceable agreement."[122]

In rejecting this perhaps overly analytical interpretation of the Act under which unilateral covenants not to compete would never be enforceable, the court found "no sound reason" as to why this should be the case[123]:

> We understand why the [l]egislature and the courts would not allow an employer to spring a non[]compete covenant on an existing employee and enforce such a covenant absent new consideration .... But if, as in the pending case, the employer's consideration is provided by performance and becomes non-illusory at that point, and the agreement in issue is otherwise enforceable under the Act, we see no reason to hold that the covenant fails.[124]

After tracing the legislative history of the Act, the court concluded that the language, "at the time the agreement is

---

117. *Id.*

118. *See id.* ("Upon further review[,] ... we disagree with footnote six insofar as it precludes a unilateral contract.").

119. *See id.* at 650–51 (confining the disagreement with the lower court to its interpretation of the effect of footnote six).

120. *See id.* at 651–52 ("consult[ing] the legislative history to help glean the statute's fair and ordinary meaning").

121. *Id.* at 651.

122. *Id.*

123. *Id.*

124. *Id.* In reaching this conclusion, the court reaffirmed that a "covenant cannot be a stand-alone promise from the employee lacking any new consideration from the employer." *Id.* (citing Martin v. Credit Prot. Ass'n., 793 S.W.2d 667, 669 (Tex. 1990)).

made[,]"was included in the 1993 amendment to the Act so that a covenant not to compete could be signed after the date that employment begins, and not to require the agreement containing the covenant be enforceable when made.[125] "There is no indication in the legislative history of the 1993 amendment of an intent to reduce the enforceability of covenants not to compete; all of the legislative history is to the contrary."[126]

In fact, one of the chief purposes of the 1993 amendment to the Act was to clarify that at-will employment agreements can still be the subject of a covenant not to compete,[127] and the court noted that this would be the typical employee–employer relationship where the employer's promise is prospective.[128] Other than for the simple reason of ensuring the validity of a covenant not to compete, why would an employer be prepared to disclose confidential information when the agreement is signed prior to the employee going through training, becoming familiar with procedures, and building a relationship of trust? While it would make for an enforceable covenant not to compete under *Light*, it would be bad business. "Such a reading would take language from the 1993 amendment, intended to expand the reach of the Act to cover at-will employment, and use that language to restrict the reach of the Act in this context."[129]

---

125. *Id.* at 654 (internal quotation marks omitted).

126. *Id.* at 654–55. In interpreting a statute, the court's principal "objective is to determine and give effect to the [l]egislature's intent." Tex. Dep't of Transp. v. Needham, 82 S.W.3d 314, 318 (Tex. 2002) (quoting Nat'l Liab. & Fire Ins. Co. v. Allen, 15 S.W.3d 525, 527 (Tex. 2000)). "Wherever possible, [the Texas Supreme Court] construe[s] statutes as written, but where enacted language is nebulous, [the court] may cautiously consult legislative history to help divine legislative intent." *Alex Sheshunoff*, 209 S.W.3d at 652 (citing Helena Chem. Co. v. Wilkins, 47 S.W.3d 486, 493 (Tex. 2001)).

127. *Id.* at 655.

> Cumulatively, th[e] legislative history indicates that (1) in 1989 and 1993 the [l]egislature wanted to expand the enforceability of covenants not to compete beyond that which the courts had allowed, (2) in 1989 the [l]egislature specifically wanted to ensure that covenants could be signed after the employment relationship began so long as the agreement containing the covenant was supported by new consideration, and (3) in 1993 the [l]egislature specifically wanted to make clear that covenants not to compete in the at-will employment context were enforceable.

Id. at 654.

128. *See id.* at 655 ("In this typical arrangement, the employer's promise is prospective and becomes enforceable only after the employer provides such confidential information or training and a unilateral contract results.").

129. *Id.*

Perhaps most importantly, the *Alex Sheshunoff* court endeavored to spur a return to the basics of covenants not to compete—the reasonableness of the limitations on a former employee "as to time, geographical area, and scope of activity to be restrained."[130] The court further explained:

> Concerns that have driven disputes over whether a covenant is ancillary to an otherwise enforceable agreement—such as the amount of information an employee has received, its importance, its true degree of confidentiality, and the time period over which it is received—are better addressed in determining whether and to what extent a restraint on competition is justified.[131]

D. Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding

Two years after *Alex Sheshunoff*, the Texas Supreme Court again addressed noncompete agreements in *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*.[132] Specifically, the court considered whether an implied promise could serve as consideration sufficient to support a covenant not to compete.[133]

Mann Frankfort, an accounting and consulting firm, hired Fielding as an accountant in 1992.[134] Fielding resigned three years later, but was quickly rehired.[135] As a condition to his re-employment, Mann Frankfort required that Fielding execute an employment agreement that included a noncompete provision[136] and a promise by Fielding that he would not disclose or use confidential information he acquired as a result of his

130. *See id.* ("We also take this opportunity to observe that section 15.50(a) does not ground the enforceability of a covenant not to compete on the overly technical disputes that our opinion in *Light* seems to have engendered over whether a covenant is ancillary to an otherwise enforceable agreement."). The court further added it "did not intend in *Light* to divert attention from the central focus of section 15.50(a). To the extent our opinion caused such a diversion, we correct it today." *Id.* at 656.

131. *Id.* at 655–56.

132. Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844 (Tex. 2009).

133. *See id.* at 845–46 ("[I]f the nature of the employment for which the employee is hired will reasonably require the employer to provide confidential information to the employee for the employee to accomplish the contemplated job duties, then the employer impliedly promises to provide confidential information and the covenant is enforceable so long as the other requirements of the . . . Act are satisfied.").

134. *Id.* at 846.

135. *Id.*

136. *Id.*

employment.[137] The agreement did not, however, include a recitation or promise by Mann Frankfurt that confidential information would be disclosed to Fielding.[138] Fielding later resigned a second time and opened his own firm,[139] and Mann Frankfort alleged breach of the noncompete provision.[140]

The trial court held that the covenant not to compete was unenforceable,[141] and the First Court of Appeals affirmed, because Mann Frankfort failed to provide consideration to Fielding for the noncompete agreement.[142] Specifically, because Fielding never acknowledged that he had received or would receive confidential information, the court of appeals concluded there was no implied promise by Mann Frankfurt to disclose confidential information.[143] In effect, the court of appeals established a specific set of parameters required for an implied promise by the employer seeking a covenant not to compete.[144]

The Texas Supreme Court reversed, holding that if the nature of the employment requires the employer to furnish the employee with confidential information, the employer impliedly promises to provide that information and that implied promise is sufficient consideration to support a covenant not to compete.[145] The court recognized that Fielding's position required him to have access to and use confidential information of Mann Frankfort, such as billing information, client names, and tax and financial information.[146] Moreover, Fielding had been provided with such information.[147] Finally, the court noted that Fielding could not

137. *Id.*
138. *Id.* at 846–47.
139. *Id.* at 846.
140. *Id.*
141. *Id.*
142. *Id.* at 847.
143. *Id.*
144. *See id.* at 850 (noting that because Mann Frankfort did not expressly promise to provide confidential information, the court of appeals held that there was no "otherwise enforceable agreement" that would render the noncompete covenant enforceable (internal quotation marks omitted) (citing Hardy v. Mann Frankfort Stein & Lipp Advisors, Inc., 263 S.W.3d 232, 247 (Tex. App.—Houston [1st Dist.] 2007), *rev'd*, 289 S.W.3d 844 (Tex. 2009))).
145. *Id.* at 852.
146. *Id.* at 851.
147. *Id.*

have acted on his express promise to protect the confidential information unless he first received it.[148]

In his concurring opinion, Justice Hecht echoed the sentiment of *Alex Sheshunoff* two years earlier and observed the desirability of rejecting overly technical interpretations of the Act.

> [I]n cases involving the enforceability of covenants not to compete, a shift in focus away from the reasonableness of the covenant's time, territory, and conduct restrictions toward issues of contract formation increases the risk that achieving what must in the end be an equitable result will cause a court to distort, confuse, or misstate contract law.
>
> *Light*... is a case in point. A concern in *Light* was that while an at-will employee could be held to a covenant not to compete, the employer should not be allowed to take advantage of the employee by requiring her to sign a broad covenant not to compete, terminating her soon afterward, and then enforcing the covenant as written. The simple answer is that the court cannot enforce the restrictions beyond the limits reasonable to protect the employer's interest—in the example, perhaps not at all. Rather than focus on the reasonableness of the restrictions in *Light*, the [c]ourt concluded that a covenant is not enforceable at the time it is made if the only consideration given by the employer is a promise to provide training and confidential information in the future that is illusory because it is contingent on continued employment. We have since withdrawn from that conclusion and held that a covenant not to compete must only be ancillary to another agreement at the time the agreement was made, even if that agreement is not yet enforceable because the promise of future action has not yet performed. Today we withdraw further and hold that the promise of future action need not be express but may be implied.[149]

Foreshadowing *Marsh USA*, Hecht continued: "[T]he statute's core inquiry is whether the covenant '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.'"[150]

---

148. *Id.*
149. *Id.* at 856–57 (citations omitted).
150. *Id.* at 858 (quoting TEX. BUS. & COM. CODE ANN. § 15.51(c) (West 2011)).

IV. *MARSH USA INC. V. COOK*

A. *Background and Procedural History*

Marsh USA Inc., an insurance and consulting services provider, hired Rex Cook in 1983.[151] Cook eventually became a managing director of Marsh, which considered him one of its key personnel.[152]

In 1992, Marsh established a plan to provide key employees with an ownership interest in the company to incentivize their contribution to Marsh's long-term success.[153] Under the plan, stock options granted to key personnel would fully vest four years after the grant, with a twenty-five percent interest vesting each of the four years.[154]

In 1996, Marsh granted Cook options according to the plan, which were set to expire in 2006.[155] In early 2005, Cook exercised these options to acquire shares of Marsh stock.[156] At the time of execution, Cook agreed in writing that if he left Marsh within the next three years, he would not compete with Marsh, he would not solicit Marsh's employees, and that he would maintain the confidentiality of Marsh's confidential information and trade secrets.[157]

Prior to the expiration of the three-year period, Cook resigned from Marsh and was hired by a direct competitor.[158] Marsh sued Cook for breach of contract and fiduciary duty, alleging Cook solicited and accepted business from clients and prospects of Marsh who were serviced directly by Cook or where Cook supervised, directly or indirectly, the solicitation activities related to the client or potential client.[159]

Cook asserted that the agreement constituted an unenforceable noncompete contract because it was not ancillary to or part of an otherwise enforceable agreement under *Light*.[160] The trial court

151. Marsh USA Inc. v. Cook, 354 S.W.3d 764, 766 (Tex. 2011).
152. *Id.*
153. *Id.*
154. *Id.* at 766–67.
155. *Id.* at 766.
156. *Id.* at 767.
157. *Id.*
158. *Id.*
159. *Id.*
160. *Id.*

granted Cook's summary judgment on that point, after which Marsh nonsuited its other claims and appealed the ruling.[161]

On appeal, Marsh argued that the stock options were sufficient under Texas law to support enforceability of the agreement.[162] More specifically, Marsh contended that offering a stock option to key personnel gave rise to its interest in protecting its goodwill[163] and that Marsh was protecting its goodwill—the relationship between Marsh, its clients, and Cook—by preventing Cook from using the goodwill to attract Marsh's customer to a competitor.[164] Cook, on the other hand, contended that the agreement was not "ancillary to or part of an otherwise enforceable agreement" because the consideration did not "*give rise*" to Marsh's interest in restraining Cook from competing.[165]

The court of appeals sided with Cook and affirmed.[166] "The *give rise* requirement," the court stated, "will occur only where the interest in restraining competition did not exist before the consideration was given. Under our facts, [Marsh's] interest in restraining Cook from competing did not change or arise at the time that it transferred the stock to Cook."[167]

B. *The Majority Opinion*

On review, the Texas Supreme Court concluded that the noncompete provision satisfied the requirements of the Act.[168] In its analysis, the court recognized that: (1) "Marsh linked the interests of a key employee with the company's long-term business interests"; (2) "[o]wners' interests are furthered by fostering the goodwill between the employer and its clients"; and (3) "stock options are reasonably related to the protection of this business goodwill."[169] The court specifically identified the goodwill as "the

161. *Id.*

162. Marsh USA v. Cook, 287 S.W.3d 378, 380 (Tex. App.—Dallas 2009), *rev'd*, 354 S.W.3d 764 (Tex. 2011).

163. *Id.* at 381.

164. *Id.*

165. *Id.* at 381–82.

166. *Id.* at 382.

167. *Id.*

168. Marsh USA Inc. v. Cook, 354 S.W.3d 764, 780 (Tex. 2011). Importantly, the court did not consider whether the agreement's limitations as to time, geographic area, and scope of activity to be restrained were reasonable. *Id.* at 778.

169. *Id.* at 777. The court emphasized the legislative intent to "maintain and promote economic competition in trade and commerce" in reaching its decision to enforce

relationships the company has developed with its customers and employees and their identities, due in part to Cook's performance as a valued employee."[170]

The court's opinion relied on the language of *Alex Sheshunoff*. Specifically, the court stated that the "hallmark of enforcement is whether or not the covenant is reasonable," and that the "enforceability of the covenant should not be decided on 'overly technical disputes' of defining whether the covenant is ancillary to an agreement."[171]

The court also hinged its opinion on whether the agreement had a beneficial effect on Marsh's goodwill. First, the court noted that the Act itself identifies goodwill as a protectable interest.[172] Second, the court noted that "Texas law has long recognized that goodwill, although intangible, is property and is an integral part of the business just as its physical assets are."[173]

C. *The Dissent and Majority Response*

Justice Green, who sided with the majority in *Alex Sheshunoff*, spearheaded the dissent. Green, joined by Chief Justice Jefferson and Justice Lehrmann, concluded that the majority's opinion undermines the legislative intent behind the Act and contradicts its inherent policy goals.[174]

The dissent alleged that the majority missed the mark by focusing on *why* consideration is given rather than *what* constitutes

---

the noncompete agreement. *Id.* at 769 (quoting TEX. BUS. & COM. CODE ANN. § 15.04 (West 2011)) (internal quotation marks omitted). The court recognized that noncompete agreements might be construed as a restraint on trade, but clarified that an enforceable agreement also fosters trade by "encouraging employers to entrust confidential information and important client relationships to key employees." *Id.*

170. *Id.* at 777.

171. *Id.*

172. *Id.* (citing BUS. & COM. § 15.50(a)).

173. *Id.* (citing Alamo Lumber Co. v. Fahrenthold, 58 S.W.2d 1085, 1088 (Tex. Civ. App.—Beaumont 1933, writ ref'd); Taormina v. Culicchia, 355 S.W.2d 569, 573 (Tex. Civ. App.—El Paso 1962, writ ref'd n.r.e.)). The court defined goodwill as:

> [T]he advantage or benefits which [are] acquired by an establishment beyond the mere value of the capital stock, funds or property employed therein, in consequence of the general public patronage and encouragement which it receives from constant and habitual customers on account of its local position, or common celebrity, or reputation for skill, or influence, or punctuality, or from other accidental circumstances or necessities, or even from ancient partialities or prejudices.

Id. (citing *Taormina*, 355 S.W.2d at 573).

174. *Id.* at 795 (Green, J., dissenting).

consideration.[175] Relying on *Light*, Green noted that in order for a covenant not to compete to be "ancillary to an otherwise enforceable agreement" under the Act: "(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."[176]

Justice Green continued:

> Goodwill is not the dispute in this case. The dispute is whether the consideration given to allegedly protect the employer's goodwill gives rise to an interest in restraining competition. . . . Any financial incentive given to an employee can arguably motivate the employee to increase his employer's goodwill, and every employee, if he performs his job as expected, creates goodwill for his employer. . . .
>
> . . . The true issue is that Texas courts have stated time and time again that an employer cannot buy a covenant not to compete, and the [c]ourt's decision allows Marsh and other employers to do exactly that.[177]

Justice Green also relied on stare decisis and the legislature's lack of action over the previous two decades to support his focus on the "*what*" rather than the "*why*":

> The [l]egislature has not clarified or altered the meaning of the term "ancillary" since the [c]ourt defined it in *Light* seventeen years ago. Stare decisis applies with greater force to statutory construction for this very reason. If [l]egislative intent were thwarted by our decision in *Light*, as the [majority] claims, the [l]egislature could have clarified its meaning of "ancillary to or part of" at some point during the past seventeen years. . . .
>
> . . . .
>
> The [c]ourt's new rule not only thwarts the legislative intent behind [section] 15.50, but also contradicts the strong policy goals inherent in [c]hapter 15, which protect the interests of free trade and a competitive market.[178]

---

175. *See id.* at 794 ("*Why* consideration was given has never mattered so much as *what* was given.").

176. *Id.* at 789 (internal quotation marks omitted).

177. *Id.* at 790–91 (citations omitted).

178. *Id.* at 795 (citing TEX. BUS. & COM. CODE ANN. § 15.04 (West 2011)).

In response, the majority reasoned its holding does, in fact, reflect the legislature's intent, even if it took seventeen years to do so:

> The [l]egislature passed the Act to overturn this [c]ourt's opinion in *Hill v. Mobile Trim.* Reinforcing this point, the House Research Organization indicated that the purpose was to reverse the [c]ourt's antipathy toward such covenants. . . .
>
> . . . [Stare decisis] does not compel perpetuating an interpretation of section 15.50 that the entire [c]ourt agrees cannot be discerned from the text of the statute. Construing statutes as written is necessary to predictability in statutory interpretation and to validating the public's trust in and reliance on the words it reads in the statute books. Certainly, the doctrine of stare decisis is essential to the stability of the law, which is the reason departures from it are rare. Here, the doctrine has little force as we have questioned *Light* each time we have discussed it and have never affirmed *Light*'s "give rise" requirement.[179]

D. *Analysis*

Although *Alex Sheshunoff* tried to hold on to as much of *Light* as possible, the Texas Supreme Court held nothing back in *Marsh USA*. In fact, *Marsh USA* renders moot much of the fighting over noncompete agreements since *Hill v. Mobile Auto Trim*:

> [T]here is no compelling logic in *Light*'s conclusion that consideration for the otherwise enforceable agreement gives rise to the interest in restraining the employee from competing. Consideration for a noncompete that is reasonably related to an interest worthy of protection, such as trade secrets, confidential information or goodwill, satisfies the statutory nexus; and there is no textual basis for excluding the protection of much of goodwill from the business interests that a noncompete may protect. *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 contracts the Act's intent to return Texas law on the enforceability of noncompete agreements to the common law prior to *Hill*.[180]

One key in the court's reasoning seems to be the perceived limitations on how to protect business goodwill, an express

179. *Id.* at 779 (majority opinion) (citations omitted).
180. *Id.* at 775 (citations omitted).

purpose of section 15.50, under *Light* and its progeny.[181] As noted by the court, other than a promise not to disclose trade secrets and confidential information, little else seems to satisfy the requirement that the consideration "give rise" to the interest to be protected.[182]

In contrast to this restrictive give rise standard, *Marsh USA* suggests a less technical approach for determining the validity of covenants not to compete.[183] *Marsh USA*'s approach would seem to give employers more leeway and flexibility to construct covenants not to compete as they deem necessary to protect their business goodwill.[184] This may have been the court's intended purpose, given the court's discussions concerning the benefits of covenants not to compete.[185] Finally, the court recognized that covenants not to compete incentivize employers to develop goodwill while also providing a mechanism to reward employers for their investment in human capital.[186]

---

181. *See id.* at 779 ("We are somewhat befuddled by the continued antipathy to reliance on consensual and reasonable noncompete[] [agreements] as one means 'to encourage greater investment in the development' of business goodwill." (citing House Research Org., Bill Analysis, Tex. S.B. 946, 71st Leg., R.S. (1989))). The court emphasized that the legislative history of the Act indicated that the purpose of the enactment was to "reverse the [c]ourt's antipathy toward [covenants not to compete]." *Id.* (citing House Research Org., Bill Analysis, Tex. S.B. 946, 71st Leg., R.S. (1989)).

182. *See id.* at 774 ("Although we have recognized on multiple occasions that goodwill, along with trade secrets and other confidential or proprietary information, is a protectable business interest, *Light*'s 'give rise' language narrowed the interests the Act would protect, excluding much of goodwill as a protectable business interest.").

183. *See id.* at 774–75 (noting *Light*'s restrictive interpretation of the Act and stating that "[t]here is nothing in the statute indicating that 'ancillary' or 'part' should mean anything other than their common definitions"). The court defined ancillary as "supplementary" and part as "one of several . . . units of which something is composed." *Id.* at 775 (citing Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644, 651, 665 (Tex. 2006)).

184. *See id.* at 776 (declaring that the Act's purpose "was to expand rather than restrict the enforceability of [covenants not to compete]"); *accord* Dean J. Schaner et al., *Emerging from the* Marsh*: The Texas Supreme Court Clarifies and Solidifies the Enforcement of Non-Compete Agreements in the Employment Context*, HAYNES & BOONE, LLP (Aug. 15, 2011), http://www.haynesboone.com/emerging_from_the_marsh/ (identifying that "employers will find it far easier to enforce non[]competition/ non-solicitation agreements under Texas law").

185. *See Marsh USA*, 354 S.W.3d at 769 ("[V]alid noncompete[] [agreements] constitute reasonable restraints on commerce agreed to by the parties and may increase efficiency in industry by encouraging employers to trust confidential information and important client relationships to key employees." (citing Hill v. Mobile Auto Trim, Inc., 725 S.W.2d 168, 176–77 (Tex. 1987) (Gonzalez, J., dissenting))).

186. *See id.* (discussing economic incentives that would encourage employers to

Of course, *Marsh USA* will likely not be the end of major decisions on Texas noncompete agreements, but now the focus will shift to whether the consideration for a noncompete agreement is reasonably related to the employer's interest in protecting its goodwill.[187] Unfortunately, the court provided no guidance on this point.[188] Marsh granted stock opinions that vested equally over each of four years, which the court considered reasonably related to protecting its goodwill.[189] Are stock options distinguishable from a promise to pay a lump sum bonus at the end of four years, or from equal lump sum payments paid at the end of each of four years?[190]

Moreover, to what extent should "reasonableness of the consideration" be linked to the nature of the employee's duties, if at all? As an accountant, Cook had access to confidential

---

invest in developing goodwill and not hinder the allocation of resources in this area (citing RICHARD A. POSNER, ECONOMIC ANALYSIS OF LAW § 3.1 (2d ed. 1977)); *accord* RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. c (1981) ([E]ven a post-employment restraint may increase efficiency by encouraging the employer to entrust confidential information to the employee.").

187. *See Marsh USA*, 354 S.W.3d at 777 ("[T]he statute's core inquiry is whether the covenant '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 promissee.'" (quoting TEX. BUS. & COM. CODE ANN. § 15.50(a))) (emphasis added).

188. *See id.* at 795 (Green, J., dissenting) ("[I]f we are to ignore the doctrine of stare decisis, we must at least give trial courts some guidance in the enforcement of covenants not to compete"). According to the dissent, "in most matters it is more important that the applicable rule of law be settled than that it be settled right." *Id.* at 795 n.10 (citing John R. Sand & Gravel Co. v. United States, 552 U.S. 130, 139 (2008)).

189. *Id.* at 777–78 (majority opinion).

190. *Marsh USA* suggests this would be sufficient, as this would be "link[ing] the interests of a key employee with the company's long-term business interests." *Id.* at 777. The dissent also noted that Texas courts routinely found that mere financial compensation could not support a covenant not to compete. *Id.* at 793 (Green, J., dissenting). Prior to *Marsh USA*, stock options failed the give rise standard enunciated by *Light*. *Compare* Olander v. Compass Bank, 172 F. Supp. 2d 846, 855 (S.D. Tex. 2001) (applying Texas law and determining that stock options granted to an at-will employee did not suffice under section 15.50), *and* Marsh USA Inc. v. Cook, 287 S.W.3d 378, 381–82 (Tex. App.—Dallas 2009) (discussing stock options and noting that "the fact that a company's business goodwill benefits when an employee accepts the offered incentive and continues his employment does not mean that the incentive *gives rise* to an employer's interest in restraining the employee from competing"), *rev'd*, 354 S.W.3d 764 (Tex. 2011), *with Marsh USA*, 354 S.W.3d at 766 ("We hold that, under the terms of the [Act], the consideration for the noncompete agreement (stock options) is reasonably related to the company's interest in protecting its goodwill, a business interest the Act recognizes as worthy of protection.").

information of both Marsh and Marsh's clients.[191] What is the extent of the link now required between confidential information and business goodwill, if any? The court suggests, for example, that protection of goodwill stands on its own as a protectable interest.[192] Might two separate lines of cases develop, one for noncompete agreements intended to protect confidential information and another for the protection of the employer's goodwill?

And perhaps most interestingly, to what extent do the acts of the employer in negotiating a noncompete agreement come into play? In *Marsh USA*, for example, the stock options were granted pursuant to an established incentive plan that was developed to provide valuable select employees with an "incentive to contribute to and benefit from the long-term growth and profitability of [the company]."[193] Would the court have ruled differently if no established plan were in place or if Cook had simply requested the stock options as part of his compensation package? Is it possible that the same consideration could both support and not support the same covenant not to compete depending on the intent of the employer under each set of facts?

Of course, corporate counsel should not interpret *Marsh USA* to mean that stock options alone will support noncompete agreements. Marsh had extensive evidence supporting its intent that the stock options were granted in furtherance of the protection of its goodwill.[194] Ultimately, *Marsh USA* only indicates that stock options awarded to an employee at a discounted price, when the employee has long-term personal

191. *See* Brief for Petitioner at 28, *Marsh USA*, 354 S.W.3d 764 (No. 09-0558), 2010 WL 303888 at *28 (arguing that Cook's position allowed him to "create and enhance relationships with Marsh customers").

192. *See Marsh USA*, 354 S.W.3d at 775 ("Consideration for a noncompete [agreement] that is reasonably related to an interest worthy of protection, such as trade secrets, confidential information or goodwill, satisfies the statutory nexus . . . ."). Additionally, later in the opinion the court links Marsh's Incentive Plan to the legislature's intent, explaining that reasonable noncompete agreements promote both the business goodwill and employee training. *Id.* at 777.

193. *Id.* at 766.

194. Marsh's evidence included an affidavit from the head of its Dallas office concerning the intent of the employee incentive plan, including that it "serve[d] to enhance the relationships between Marsh and its customers by helping the company retain highly motivated employees with an interest in the long-term success of the company, which, in turn enhances the goodwill of Marsh." *Id.* at 776–77.

contact with the customer and the customer is especially important due to the similarity of the product with its competitors, provides "the required statutory nexus between [a] noncompete [agreement] and the company's interest in protecting its goodwill."[195]

V. CONCLUSION

Despite the dissent's reliance on stare decisis, *Marsh USA*'s reasoning and holding make sense, especially for those who have crossed paths with *Light*. For nearly two decades, practitioners have strained to explain *Light*'s definition of section 15.50's language, such as the "give rise" requirement, to their clients, who have no doubt wondered how language seemingly so straightforward could become so confusing. Now, employers and employees may focus on the reasonableness of the covenant's time, territory, and conduct restrictions, rather than issues of contract formation, in order to achieve an equitable result.[196]

195. *Id.* at 777. In the initial opinion issued June 24, 2011, the last sentence of the paragraph read: "Cook's exercise of the stock options to purchase [Marsh] stock at a discounted price provided a reasonable nexus between the noncompete [agreement] and the company's interest in protecting its goodwill." Marsh USA Inc. v. Cook, 54 Tex. Sup. Ct. J. 1234, 1243, *withdrawn*, 354 S.W.3d 764 (2011).

196. *See* Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 89 S.W.3d 844, 858 (Tex. 2009) (Hecht, J., concurring).