

TEXAS SUPREME COURT DECIDES THAT A COVENANT NOT TO COMPETE MAY BE ENFORCEABLE EVEN IF THE EMPLOYER DOES NOT EXPRESSLY PROMISE TO PROVIDE CONFIDENTIAL INFORMATION



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The Texas Supreme Court recently decided that a covenant not to compete may be enforceable even if the employer makes

no express promise to provide confidential information, so long as the nature of the employment for which the employee is hired will reasonably require the employer to provide confidential information to the employee. *Mann Frankfort Stein & Lipp Advisors Inc., v. Fielding*, — S.W.3d—, No. 07-0490, 2009 WL1028051, at *1 (Tex. April 17, 2009). In *Mann Frankfort*, an accounting firm hired a tax accountant and required him to sign a standard at-will employment agreement. *Id.* The agreement contained a provision that required the employee to purchase from the employer the portion of business for which he performed services in the first year after termination. *Id.* In the agreement, the employee also promised that he would "not disclose or use at any time . . . any secret or confidential information or knowledge obtained by [the employee] while employed . . ." *Id.* The employee left the firm and filed suit for a declaration that the covenant was not enforceable. *Id.* The trial court granted the employee's motion for summary judgment on enforceability, and the court of appeals affirmed that decision. *Id.* at *2.

The Texas Supreme Court reversed the lower courts. The Court first described its precedent regarding the enforcement of covenants not to compete since the Texas Legislature had adopted section 15.50(a) of the Texas Business & Commerce Code. That provision states in relevant part 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 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 good-

will or other business interest of the promisee.

In 1994, the Texas Supreme Court held that this provision required two elements: (1) whether there is an "otherwise enforceable agreement"; and (2) whether the covenant not to compete is "ancillary to or part of" that agreement at the time that the otherwise enforceable agreement is made. *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642, 644 (Tex. 1994). The Court held that "[o]therwise enforceable agreements' can emanate from at-will employment so long as the consideration for any promise is not illusory." *Id.* at 645. The Court cited as one example of an enforceable non-illusory promise an employer's promise to provide the employee confidential information. *Id.* at 647 n.14. But in the infamous footnote six, the Court suggested that a promise to provide confidential information in the future would not support a covenant not to compete. *Id.* at 645 n.6.

In 2006, the Court modified *Light* and held that an employer did not have to actually provide the confidential information at the time of the promise. *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644, 646 (Tex. 2006). The Court acknowledged that the unfulfilled promise would be illusory at the time of the employment agreement. *Id.* at 650-51. But it held that the requirement that there be an "otherwise enforceable agreement" could be satisfied by the employer actually performing its illusory promise to provide an employee with confidential information. *Id.* at 651. That is, once the promise is performed, the covenant is enforceable. *Id.*

In *Mann Frankfort*, the Court decided that an implied promise to provide confidential information could, under certain circumstances, be the basis of an "otherwise enforceable agreement." 2009 WL1028051, at *1. It described the law regarding implied promises as follows: "when it is clear that performance expressly promised by one party is such that it cannot be accomplished until a second party has first performed, the law will deem the second party to have impliedly promised to perform

the necessary action." *Id.* at *6.

In *Mann Frankfort*, the circumstances surrounding the employee's employment indicated that it necessarily involved the transfer of confidential information by the employer before the employee could perform the work that he was hired to do. *Id.* The Court also noted that the employee could not have acted on his promise to refrain from disclosing confidential information unless the employer provided him with it. *Id.* at *7. That is, the employee's promise to not disclose confidential information "meant nothing without a correlative commitment by [the employer]." *Id.* The Court concluded that the employer's implied promise and its actual transfer of confidential information to the employee

satisfied the first requirement because the promise and provision of confidential information generated [the employer's] interest in preventing the disclosure of such information. In addition, [the employee's] promise not to disclose any confidential information satisfied the second requirement because the client purchase provision was designed to hinder [the employee's] ability to use the confidential information to compete against [the employer].

Id. at *7 (citations omitted). Therefore, the Court held that the client purchase provision was "ancillary to or part of" the otherwise enforceable agreement and was enforceable. *Id.*

This case is an important development in the enforcement of covenants not to compete. Many courts in Texas have held that a covenant was not enforceable if the employer did not make an express promise to deliver confidential information. Those opinions are effectively disapproved to the extent that an employee's position requires the disclosure of confidential information and the employee promises to maintain that information in confidence. This case also evidences the Texas Supreme Court's willingness to enforce covenants not to compete and eschew the "overly technical disputes" that the Court denounced in *Sheshunoff*. 209 S.W.3d at 655.