Covenants not to compete are defined as contracts wherein an employee agrees not to compete with a former employer following termination of employment. Generally, the contract prohibits the employee from working for a competing employer, from engaging in a competing enterprise, or from using the knowledge obtained during employment in a manner that competes with the former employer.

Historically, such agreements were prohibited under common law as being against public policy. Because such agreements could prevent a person from earning a living, courts ruled that they were unenforceable as a matter of law. The reasoning behind these cases was that such restraints not only affected the employee but also were prejudicial against society in general.

Courts in most states today will enforce a covenant not to compete as long as it is reasonable and is limited in scope, although some states restrict the circumstances in which the covenant will be enforced. Further, like any other contract, it must be supported by consideration. In Texas, enforcement of covenants not to compete is governed by Sections 15.50 through 15.52 of the Texas Business and Commerce Code. Although the Texas Legislature has expressly endorsed the enforceability of covenants not to compete, the courts in Texas have strictly construed the language of the statute, with the result that employers who sued their former employees for breaching the agreement were often unsuccessful.

A recent Texas Supreme Court decision has clarified one provision of the law and by doing so has expanded employers' ability to enforce their employees' promises. This paper will examine the historical development of the case law in Texas surrounding covenants not to compete, the statute and cases applying the statute, the split between the courts of appeals in interpreting the language of the statute, and the implications for future litigation due to the recent Texas Supreme Court decision.

II. Enforcing Covenants Not to Compete Prior to 1989

An initial consideration that courts will generally explore is whether the covenant unreasonably restricts the employee's rights. To answer this question, courts will look to the terms of the agreement, specifically the geographic restrictions, time restrictions, and activity restrictions, to determine the hardship to the employee that might result from the covenant.

In an early case, the Texas Supreme Court addressed the issue of a covenant not to compete in Weatherford Oil Tool Co. v. Campbell.

The former employee had agreed not to assist any competitor of the employer in offering goods or services similar to those offered by the employer in any area where it may be operating or carrying on business during a one year period. Citing the Restatement of the Law on Contracts, the Court noted that an agreement not to compete after termination of employment will not be enforced unless its terms are reasonable. The test for determining reasonableness is whether it imposes upon the employee any restraint greater than is reasonably necessary to protect the business and good will of the employer. The period of time during which the restraint is to last and the territory that is included are important factors to be considered in determining the reasonableness of the agreement. The Court held that the provisions regarding the territorial restriction were unreasonable because they restrained the employee's activities in a territory where he had not previously worked. In addition, such activity would not give him the opportunity to enjoy an undue advantage in competition with his employer.

The courts of appeals have also ruled that broad geographic areas were too inclusive and therefore the covenants were unenforceable when the former employee had worked in only a small portion of the area. However, a covenant will be considered reasonable when it covers the actual territory in which the employee worked while in the employment of the former employer. For example, when patients of a clinic came from all parts of Bexar County and adjoining counties, a restrictive covenant in the employment contract of a clinic manager prohibiting him from engaging in private practice within Bexar County for two years after termination of his employment was not unreasonable.

These early cases set the framework for numerous decisions which have examined the time and territorial restrictions contained in a covenant not to compete. A covenant prohibiting a former employee from engaging in the publishing business for a period of three years after termination within a 60-mile radius was deemed unreasonable in terms of both time and geographical area.

A provision enjoining a former employee from competing in any manner and by any method with his former employer for period of one year in all counties of the state or from competing in any manner and by any method with the former employer in all other states for a period of two years was overbroad and unreasonable. Broadly defined terms such as territory or area were also held to be unreasonable when they went beyond the geographical scope of the area covered by the former employer.

Alternatively, a covenant that prevented a vice president of an oil and gas consulting firm from working for another oil and gas consulting firm in North America for six months was deemed

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* Covenants not to compete are also used in connection with sales of businesses, partnerships, and other arrangements; this note addresses issues solely with respect to employment agreements.
* The Court of Appeals noted that there was a time when covenants not to compete were held to be unenforceable as a restraint of trade and contrary to public policy. John L. Bramlet & Co. v. Hunt, 371 S.W.2d 787 (Tex. Civ. App.-Dallas 1963, writ ref’d n.r.e.). Under modern business practices and customs, however, it is now well established that covenants in connection with employment agreements are enforceable, as long as they are reasonably limited as to time and space. *Id. at 789. For a history regarding the common law on covenants not to compete, see Harlan M. Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625 (1960).
* *TEX. BUS. & COM. CODE ANN. §§ 15.50-15.52* (Vernon 2002).
not to impose an unreasonable restraint. Similarly, a one-year restriction on soliciting clients whom the employee served in several states and using records and customer information was deemed reasonable. The Houston Court of Appeals held that it was not an undue hardship to former employees to restrain them from competing with their former employer in the states of Texas, Oklahoma, New Mexico, Kansas, and California where most of its business was derived from the five-state area and the employees were its top salesmen. Absent a specified geographical area, the restriction would be deemed reasonable when it is limited to specified customers of the former employee.

In addition to reasonable geographic and time restraints, the covenant must be reasonable with respect to the activity covered. Language that prohibits a former employee from working “in any capacity whatsoever in any business activities competitive with those of [the employer]” will be deemed an unreasonable restraint. A covenant in an employment agreement precluding a recruiter of data processing personnel from engaging in any personnel recruitment was found unreasonable with respect to scope of activity. Restrictions covering clients with whom a salesman had no contact or industry-wide covenants will be held unenforceable. Restrictions are more likely to be enforced if they are limited to one field of activity among many that are available to the employee. Restrictions that prohibit solicitation of specific customers as opposed to more general geographic constraints are more likely to be upheld.

Where a covenant not to compete is overly broad in terms of the time, geographical area, or activity, instead of ruling the covenant the unenforceable, many courts will modify the agreement so that the restrictions bear some relationship to the activities of the employee. Addressing this issue, the Texas Supreme Court upheld a Court of Appeals ruling that a covenant not to compete with an unlimited time element, coupled with a limitation as to territory, did not render the contract void because the lower court had reduced the limitation to three years. The Supreme Court noted that merely because the time restraint had not been fixed would not render the agreement

18 See Curtis v. Ziff Energy Group, 12 S.W.3d 114 (Tex. App.-Houston (14th Dist.) 1999, no pet.).
19 Bob Pagan Ford, Inc. v. Smith, 638 S.W.2d 176 (Tex. App.-Houston (1st Dist.) 1988, no writ), the Court of Appeals applied a balancing test and held that the lower court did not abuse its discretion in reducing the time period from six months to three months as the shorter period was sufficient to protect the business and goodwill of the employer.

18 Where the covenant is overly broad in terms of geographic area, the courts will reduce the area so that the contract does not restrict activity more than is necessary to protect the former employer’s interest. In Toch v. Eric Schuster Corp., the Court of Appeals held that a non-compete agreement, while not expressly confined to any geographic area, is subject to reformation by the Court in which a reasonable geographic area as well as named customers may be designated. Accordingly, the contract as reformed was upheld because the three-year period, the express specification of Dallas and Tarrant Counties in Texas, and naming customers within various enumerated states constitute legal and enforceable restrictions.

However, reformation of covenants will be made only in cases where the employer is seeking injunctive relief. As noted by the Texas Supreme Court:

If the agreement is not reasonably limited as to either time or space, the parties are not definitively apprised of their respective rights and duties until a court of equity has carved out an area or a period that is reasonable under the circumstances. It is one thing for the court to do this as an incident to the granting of injunctive relief which operates prospectively and an entirely different matter to reform the contract for the purpose of giving the employer a cause of action for damages.

Thus, if the time period specified in the agreement has expired, the employer will have no right of reformation.

In addition to being reasonable with respect to the activities, time, and geographical scope covered by the agreement, covenants not to compete are contracts which must be supported by consideration. Anti-competitive agreements entered into coincident to and as a part of an otherwise enforceable agreement will be supported by adequate consideration. In Justin Belt Co. v. Yost, the Supreme Court held that the non-compete covenant at issue was valid because it was ancillary to an agreement that settled the dispute between the employer and its former employees. Conversely, at-will employment contracts cannot serve as consideration because there is no limit on an employer’s ability to terminate an employee at will. Special training or knowledge regarding trade secrets acquired by an employee during employment may constitute independent valuable consideration, but customer information is neither special training nor knowledge.

During the 1980s, the courts in Texas began to take a dim view of covenants not to compete.
Non-compete agreements were struck down if they were viewed as imposing an undue hardship on the employee, and the interest of the employee almost always outweighed the interest of the former employer.35

The trend toward a strict scrutiny approach was clearly demonstrated by the Texas Supreme Court decision in Hill v. Mobile Auto Trim, Inc.36 In Hill, the Court stated that in deciding whether an agreement not to compete is reasonable, the court should focus on both the need to protect the legitimate interest of the employer and any hardship of such protection on the promisor and the public in general. While a covenant not to compete may legitimately protect the goodwill of the employer, it may be unfair to the employee if he or she is unable to compete with the former employer, thereby diminishing his or her own goodwill. The Court held that a covenant was overly oppressive to the employee because it prevented him from using his previously acquired skills and talent to support him and his family where he lived. Absent clear and convincing proof to the contrary, there must be a presumption that an employee did not intend to agree to a provision that would prohibit him from engaging in a common calling.37 Thus, the Court established a new common calling exception for enforcing non-compete agreements.

Immediately following the Hill decision, the Texas Supreme Court ruled that hair stylists were engaged in a common calling and thus, covenants not to compete with their former employer were unenforceable since there was no disclosure of specialized knowledge or information involved.38 The following year, the Court held that a vice president, despite his title, was a salesman, a common calling occupation, and declined to restrain his right to engage in a common calling.39

Following the Supreme Court rulings, several appellate courts determined whether covenants not to compete were enforceable based on the common calling exception. In Travel Masters, Inc. v. Star Tours, Inc.,40 the Dallas Court of Appeals, citing Webster’s Dictionary, defined the individual words as follows: common means “of a usual type or standard; quite usual and average; entirely ordinary and undistinguished,” and calling means “the activity in which one customarily engages as a vocation or profession.” Thus, a person engaged in a common calling is one who performs a generic task for a living, one that changes little no matter for whom or where an employee works. A job of an office manager, which required additional skills and training beyond those required as a travel agent, would not be considered a common calling, said the Court.41 Applying this definition, the Court of Appeals in Corpus Christi held that a former employee who performed a sophisticated management function for the employer was not simply a dispatcher whose duties would vary little from business to business, and thus the common calling exception did not apply.42 Further, although the Court found that the covenant was enforceable and that it indeed had been breached by the former employee, the Court found that no actual damages had been sustained by the employer. There was no evidence that the former employer was injured, and while it was conceivable that the employee might have secured a customer list from his employer and used it to its detriment, the mere suspicion of this is not proof that it occurred.43

In a case involving a medical doctor, the Court of Appeals in Beaumont declined to enforce a covenant not to compete against the doctor ruling that the covenant was designed primarily to limit competition or to restrain the right to engage in a common calling.44 Similarly in Spicer v. Tactio & Assocs.,45 the Court of Appeals held that two salesmen were engaged in a common calling and received no specialized training or knowledge; therefore, the non-compete agreement was unenforceable against them.

III. ENFORCEMENT AFTER PASSAGE OF THE COVENANTS NOT TO COMPETE ACT

In 1989, the Texas legislature passed the Covenants Not to Compete Act46 largely in response to dissatisfaction with the Supreme Court’s decisions not to uphold post employment covenants not to compete.47 The law followed the common law principles requiring that to be enforceable, the covenant must contain reasonable limitations as to time, geographical area, and scope of activity, and that the restraint must not be greater than necessary to protect the employer’s goodwill or business interest. That Act also required that the covenant be ancillary to an otherwise enforceable agreement and if it is not executed contemporaneously with such agreement, it must be supported by independent consideration. In addition, Section 15.51 set forth the remedies to enforce a covenant not to compete which included damages and injunctive relief, including codification and mandating that courts attempt to reform otherwise overbroad provisions where an injunction is sought.48 Finally, the legislature made clear that the Act had retroactive application to agreements entered into before its effective date.

Within two years after the passage of the law, the Texas Supreme Court decided three cases in which it declined to enforce covenants not to compete. In the first case,49 the Court considered subsection (2) of the Covenants Not to Compete Act, which provided that the covenant must not

36 725 S.W.2d 168 (Tex. 1987). The Court of Appeals in Property Tax Assocs., v. Staffeldt, 800 S.W.2d 349, 351 (Tex. App.-El Paso 1990, writ denied), noted that since the Hill decision, “those seeking to enforce covenants not to compete have not been very successful in [the Texas Supreme Court].”
37 725 S.W.2d at 172. In a dissenting opinion, Justice Gonzalez noted that the Court could have refused to enforce the contract as written for failure to pass the reasonableness test. Instead, he wrote: “the court . . . [adopted] a broad new standard to determine the validity of a covenant not to compete. . . . It is inexplicable to me why the court has gone out of its way to take such an important step in changing well established law without the benefit of a complete record and without being raised by a point of error.” Id. at 177-78.
38 Bergman v. Norris of Houston, 734 S.W.2d 673 (Tex. 1987).
39 The former stylists of the employer sent out notices to over 1,300 of their customers at the plaintiff’s salon. In fact, initially, only the customers of the four-ex-employees were those who followed them there. When the stylists left, they also took the manicurist, leaving no one at the salon. Although solicitation of previous customers was an activity that could be legitimately restricted by a non-compete covenant, the Court refused to enforce it stating that it did not involve specialized knowledge or information. Id. at 674.
41 742 S.W.2d 837 (Tex. App.-Dallas 1987, writ dism’d w.o.j.).
42 Id. at 840-41.
44 793 S.W.2d 667 (Tex. 1990).
45 Juliette Fowler Homes, Inc. v. Welch Assocs., 793 S.W.2d 660 (Tex. 1990).
46 In 1989, the Texas legislature passed the Covenants Not to Compete Act largely in response to dissatisfaction with the Supreme Court’s decisions not to uphold post employment covenants not to compete. The law followed the common law principles requiring that to be enforceable, the covenant must contain reasonable limitations as to time, geographical area, and scope of activity, and that the restraint must not be greater than necessary to protect the employer’s goodwill or business interest. That Act also required that the covenant be ancillary to an otherwise enforceable agreement and if it is not executed contemporaneously with such agreement, it must be supported by independent consideration. In addition, Section 15.51 set forth the remedies to enforce a covenant not to compete which included damages and injunctive relief, including codification and mandating that courts attempt to reform otherwise overbroad provisions where an injunction is sought. Finally, the legislature made clear that the Act had retroactive application to agreements entered into before its effective date.
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impose restrictions that are greater than necessary to protect the promisee’s legitimate interest. Under this criteria, the Court examined whether a covenant not to compete incorporated reasonable limitations concerning time, geographical area, and scope of activity. Because the agreement contained no limitations concerning geographical area or scope of activity, it effectively prohibited the former employees from being employed by any past or present clients wherever they may be located. The prohibition was deemed to be “absolute, unequivocal and unreasonable” and, accordingly, the Court ruled that the noncompetition clause was an unreasonable restraint of trade and unenforceable on grounds of public policy.

In DeSantis v. Wackenhut Corp., the Court first determined that the former employee was not engaged in a common calling. It then examined whether the agreement was necessary to protect some legitimate interest of the employer and determined that the employer had claimed that its business goodwill was worthy of protection by an agreement not to compete. While there was some dispute over the existence of goodwill, the Court focused on whether the former employee did or even could divert that goodwill to himself for his own benefit after termination. While the employee did compete with the employer, the Court found that in the following six months he had received business from only one of those customers and might have received business from another. There was evidence that both were considering moving their business to the employee’s new company because they were dissatisfied with his prior employer. There was no evidence that the hardship of the agreement on the employee was outweighed by the need to protect the former employee’s goodwill.

In addition, the DeSantis Court noted that while confidential information may be protected by an agreement not to compete, the employer failed to show that it needed such protection. Its customers could be readily identified by someone outside its employ and its customers’ needs could have been ascertained simply by inquiry addressed to those customers themselves. Based on this reasoning the Court ruled in favor of the employee and denied summary judgment. Similarly, in Martin v. Credit Protection Ass’n (hereinafter referred to as Martin II), the Court reversed a lower court’s decision and held that while special training, knowledge, and other confidential or proprietary information can be considered legitimate interests which may be protected in an otherwise enforceable covenant not to compete, customer information alone does not amount to such special knowledge that would support the non-compete agreement.

Responding to the Supreme Court’s failure to enforce an covenant not to compete subsequent to the passage of the Act, the legislature, in 1993, amended Section 15.50 of the Texas Business Code by removing the requirement that courts consider the interests of the employee or the general public, which had been important elements of the common law test. In addition, section 15.52 of the amended statute provided that the Act was the exclusive determination of whether a covenant not to compete should be enforced and preempted any other criteria regarding both procedures and remedies in an action to enforce a covenant.

One year after the amendments were enacted the Texas Supreme Court was presented with the opportunity to review a covenant not to compete under the new standards. In Light v. Cental Cellular Co. of Texas, the Court established a two-part test for satisfying the ancillary to or part of requirement: (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. In considering the first part of this test, the Court noted that while an at-will employment relationship cannot by itself serve as the otherwise enforceable agreement, the existence of at least one non-illusory promise between the parties can serve as consideration.

The Court found that the following promises constituted sufficient consideration: (1) the employer’s promise to provide “initial . . . specialized training;” (2) the employee’s promise to provide 14 days’ notice to terminate employment; and (3) the employee’s promise to provide an inventory of all property upon termination.

The Court next turned to the second part of the test, and observed that the change in the law was noticeably different from the previous standard; in order to be ancillary, the covenant must be designed to enforce a contractual obligation of one of the parties. While the employer’s consideration (the promise to train) might have involved confidential or proprietary information, the covenant not to compete was not designed to enforce any of the employee’s return promises in the otherwise enforceable agreement. Thus, the Court found that the covenant not to compete was unenforceable because it was not ancillary to or a part of the otherwise enforceable agreement between the parties.

The Light case illustrates the Texas Supreme Court’s continued reluctance to uphold covenants not to compete even after the 1993 amendments. A more controversial aspect of the case was the inclusion of the disputed footnote 6 which provides:

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

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50 Id. at 663.

51 793 S.W.2d 670 (Tex. 1990). The Court acknowledged that the Legislature had rejected the common calling argument as a test for reasonableness of noncompetition agreements. Id. at 683.

52 Id. at 684.

53 793 S.W.2d 667 (Tex. 1990). See note 34 and accompanying text supra.

54 Act of Sept. 1, 1993, 73d Leg., R.S., ch. 965 § 1, 965 § 1, 993 Tex. Gen. Laws 4201-02 (codified at Tex. Bus. & Com. Code Ann. §§ 15.50 et seq. (Vernon 2002). Section 15.50 provides: “Notwithstanding Section 15.05 [which generally declares restraints on competition unlawful] of this code, 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 goodwill or other business interest of the promisee.”


56 Tex. Bus. & Com. Code Ann. § 15.52 (Vernon 2002). The exclusivity of the statutory provisions was recognized by the Texas Supreme Court in Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642 (Tex. 1994). See also Bird & Glass, Inc. v. 51 S.W.3d 787 (Tex. App.-Houston (1st Dist.) 2001, no pet.). However, common law principles, not the statute, are used when considering an employer’s application for a temporary restraining order against an employee. Cardinal Health Staffing Network, Inc. v. Bowen, 106 S.W.3d 230 (Tex. App.-Houston (1st Dist.) 2003, no pet.) (en banc); Wright v. Sport Supply Group, Inc., 137 S.W.3d 289 (Tex. App.-Beaumont 2004, no pet.). The Houston Court of Appeals stated that the clear language of the Act expresses an intention to govern only final remedies; a temporary injunction is not a final remedy. Accordingly, a showing of irreparable injury for which no remedy is available at law is necessary to award temporary injunctive relief. 106 S.W.3d at 237-39.

57 883 S.W.2d 642 (Tex. 1994).

58 Id. at 644-45.

59 Id. at 646. In finding the first promise illusory, the Court noted that even if the employee had resigned or been fired after the agreement was executed, the employer would still have been required to provide the initial training. Similarly, the fact that the employee could terminate the employment at her will in no way renders her two promises illusory. Id. Three years later, the Dallas Court of Appeals considered a covenant not to compete and based on the first prong of the Light test, declined to enforce the agreement. The Court found that the only non-illusory promise made by the employer was to give the employee thirty days notice if it wished to terminate the employment agreement. Under Light, the consideration given by the employer in the otherwise enforceable agreement must give rise to its interest in restraining the employee from competing. According to the employer, the restrictive covenant was intended to protect the value of the company’s goodwill and past promotions, which it contends constitutes about half of the value of its stock. Its promise to give thirty days notice does not give rise to its stated interest in restraining the employee from competing. Donahue v. Bowles, Troy, Donahue, Johnson, Inc., 949 S.W.2d 746 (Tex. App.-Dallas 1997, writ denied).

60 883 S.W.2d at 647.

61 Foss, supra note 56, at 222.
A illusory promise can accept by performance. For example, suppose an employee agrees not to disclose an employer’s trade secrets and other proprietary information, if the employer gives the employee such specialized training and information during the employee’s employment. If the employee merely sought a promise to perform from the employer, such a promise would be illusory because the employer could fire the employee and escape the obligation to perform. If, however, the employer accepts the employee’s offer by performing, in other words by providing the training, a unilateral contract is created in which the employee is now bound by the employee’s promise. 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. To form such a unilateral contract, however, (1) the performance must be bargained-for so that it is not rendered past consideration, and (2) acceptance must be by performance and not by a promise to perform. Such a unilateral contract existed between Light and United as to Light’s compensation. But such unilateral contract, since it could be accepted only by future performance, could not support a covenant not to compete inasmuch as it was not an “otherwise enforceable agreement at the time the agreement is made” as required by § 15.50.65

The language of the footnote appears inconsistent with the Court’s primary holding that the employer’s promise to provide specialized training was not illusory even under an employment at-will agreement.66 Nevertheless, subsequent to the decision, the highlighted language has been used as the basis for the argument that executory promises on the part of the employer can never serve as consideration for the covenant not to compete. Specifically, the Dallas and Fort Worth Courts of Appeals found that covenants not to compete are unenforceable when they are based on promises to disclose confidential information or provide specialized training in the future. In Strickland v. Medtronic, Inc., the Court stated the argument as follows:

[Even assuming that ..., Medtronic impliedly promised to provide confidential information to Strickland, we conclude such a promise is illusory because it necessarily depends on a period of employment. Medtronic could avoid this obligation by simply firing Strickland on the day the employment agreement was executed. Medtronic also argues the fact that Medtronic provided “immediate training” to Strickland in consideration for her execution of the employee agreement is an additional basis supporting the existence of an otherwise enforceable agreement. We disagree. At best, the record indicates that Medtronic sent Strickland some “pre-study materials” prior to the execution of the employment agreement and gave her training during the initial months of her employment. The relevant inquiry under section 15.50, however, is whether, at the time the agreement is made, there exists a binding promise to train. No such promise exists in this case.66

Similarly, the Fort Worth Court of Appeals, following Strickland, held that an employer’s promise to provide access to its confidential information is illusory because the employer could terminate the employee’s employment immediately after signing the agreement and thereby never be obligated to provide him with any confidential information.67

Courts of Appeals in Houston, San Antonio, and Beaumont have reached different results when considering covenants not to compete. These courts found that the employers’ promises to provide confidential information or trade secrets to employees and the employers’’ return promises not to disclose or make use of such information during and after employment were not illusory.68 In Wright v. Sport Supply Group, Inc.,69 the Beaumont Court specifically noted that subsequent to the signing of the agreement, the employer, on a daily basis, made confidential information available to the employee. In a diversity case, the Fifth Circuit also followed the Houston–San Antonio–Beaumont view and upheld a covenant not to compete.70 The Court noted that the arrangement under question was precisely the type of arrangement that satisfied the Texas Supreme Court test because: (1) the consideration given by the employer (the trade secrets) in the otherwise enforceable agreement (an exchange of trade secrets for promise not to disclose) gave rise to the employer’s interest in restraining the employee from competing, and (2) the covenant was designed to enforce the employee’s consideration or return promise (the promise not to disclose the trade secrets) in the otherwise enforceable agreement.71

The Federal Court of Appeals also considered the employee’s argument that because the employer’s promise to provide trade secrets was illusory for purposes of an analysis of contractual consideration, the agreement to exchange trade secrets for a non-solicitation covenant failed Light’s ancillary to or part of test. The Court disagreed stating that to hold otherwise would pin the enforceability of non-solicitation agreements on whether an employer discloses confidential information at the time the employee signs an employment contract. “This is not what Light, or [the Texas Covenants not to Compete Act] intends or requires,” stated the Court.72

IV. SUPREME COURT ENDS DEBATE IN ALEX SHESHUNOFF MANAGEMENT SERVICES V. JOHNSON

The issue whether there must be a contemporaneous exchange of consideration at the time the otherwise enforceable agreement is executed was resolved by the Supreme Court in Alex Sheshunoff Management Services v. Johnson.73

65 883 S.W.2d at 645 (citations omitted, emphasis added).
66 See note 60 and accompanying text supra. One author notes that while footnote 6 appears to address a unilateral contractual provision, it also addresses the situation where the employer makes a promise, which it could avoid performing simply by firing the employee, making the promise illusory. This is inconsistent with the Court’s language later in the decision. R. Brandon Bundren, To Give or Not to Give: Enforceability of Covenants Not to Compete in Texas, 57 BAYLOR L. REV. 273 (2005).
67 137 S.W.3d 114 (Tex. App.-Houston (14th Dist.) 1999, no pet.); Ireland v. Franklin, 950 S.W.3d 155 (Tex. App.-San Antonio 1997, no writ). But see TMC Worldwide, L.P. v. Gray, 178 S.W.3d 29 (Tex. App.-Houston (1st Dist.) 2005, no pet.). The Court in Ireland further noted that the non-compete agreement was ancillary to the trade secret clause because the employer’s consideration gave rise to its interest in restraining the employee from competing, while the covenant not to compete was designed to enforce the employee’s consideration not to disclose trade secrets.
69 Guy Carpenter & Co., v. Provenzale, 334 F.3d 459 (5th Cir. 2003).
70 Id. at 466. Similarly in Ann. Express, Fin. Advisors, Inc. v. Scott, 955 F. Supp. 688 (N.D.Tex. 1996), the Federal District Court held that a covenant not-compete is ancillary to the otherwise enforceable contract because the training, confidential information, and trade secrets given to the employee gave rise to the employer’s interest in restraining him from competing, and the non-compete covenant enforces the return promise not to use or disclose the confidential information and trade secrets in the context of the otherwise enforceable contract. Id. at 692.
71 334 F.3d at 466.
Sheshunoff Management Services v. Johnson. The Court first considered the employer’s promise to disclose confidential information and to provide specialized training and the employee’s promise not to disclose confidential information. Unlike Light, where the covenant was not designed to enforce any of the employee’s return promises in the otherwise enforceable agreement, the Court found that the covenant not to compete was designed to protect the employer’s interest in restraining the employee from disclosing confidential information.

The Court then turned to the issue raised in footnote 6, and concluded that the language in the statute—“at the time the agreement is made”—does not mean that a unilateral contract can never meet the requirements of the Act because such a contract is not immediately enforceable when made. Thus, the Court held:

[A] covenant not to compete is not unenforceable under the Covenants Not to Compete Act solely because the employer’s promise is executory when made. If the agreement becomes enforceable after the agreement is made because the employer performs his promise under the agreement and a unilateral contract is formed, the covenant is enforceable if all other requirements under the Act are met.

The Court found that by the time the employee had left employment, the executory agreement had become an enforceable unilateral contract because the employer had provided confidential information and specialized training as promised to the employee who, in return, had promised to preserve the confidences of his employer. Accordingly, the covenant was enforceable, and the case was remanded to the district court to determine the issue of damages.

V. CONCLUSION

By reversing itself with respect to footnote 6 in Light, the Texas Supreme Court has resolved a split among the courts of appeals in considering covenants not to compete. It also clarified the type of ancillary agreement that will satisfy the statute and the two-pronged test enunciated in Light. More importantly, however, the Court has sent a signal that it may be more willing to enforce such contracts as long as they otherwise meet the statutory requirements. One author has described the decision as a “breath of fresh air” for employers in that future performance is sufficient consideration under the law. Interestingly, Justice Jefferson, in his concurring opinion, notes that although the employer’s promise was initially illusory, its “contemporaneous” performance created an enforceable unilateral contract. He observed that although provision of confidential information need not occur as soon as the covenant is signed, “it must occur within a reasonable time so that the employer’s performance and the employee’s promise are bargained for and constitute reciprocal inducements.” One may speculate that this language, although not part of the majority opinion, might be interpreted to require a certain closeness in time between the execution of the agreement by the employee and disclosure on the part of the employer. In any event the Court has resolved much of the ambiguity around covenants not to compete and has laid out a roadmap, which if followed by employers, should afford them a reasonable level of protection from competition by former employees.

73 209 S.W.3d 644 (Tex. 2006).
74 Id. at 649. The Court implicitly accepted the Court of Appeals’ holding in Ireland v. Franklin, 950 S.W.3d 155 (Tex. App.-San Antonio 1997, no writ), by stating that an independent trade secret or confidential information agreement will meet the Light test.
75 209 S.W.3d at 651. The Court noted that the language in footnote 6 was not essential to the holding in Light.
76 Id. at 655. The Court also considered the terms of the agreement and found them to be reasonable.
77 In a second concurring opinion, Justice Wainwright lamented that the Court did not take the opportunity to reconsider its decision in Light. Id. at 664.
78 Tim McInturf, Non-Competition Agreements: A Breath of Fresh Air for Employers, 44 HOUS. LAW. 49 (2006).
79 209 S.W.3d at 663.
80 Id. at 662.