# IN THE SUPREME COURT OF TEXAS

NO. 07-0490

MANN FRANKFORT STEIN & LIPP ADVISORS, INC., MFSL GP, L.L.C., AND MFSL EMPLOYEE INVESTMENTS, LTD., PETITIONERS,

v.

BRENDAN J. FIELDING, RESPONDENT

ON PETITION FOR REVIEW FROM THE
COURT OF APPEALS FOR THE FIRST DISTRICT OF TEXAS

**Argued November 13, 2008**

JUSTICE JOHNSON delivered the opinion of the Court.

JUSTICE HECHT filed a concurring opinion.

In this case we determine whether a covenant not to compete in an at-will employment agreement is enforceable when the employee expressly promises not to disclose confidential information, but the employer makes no express return promise to provide confidential information. We hold that if 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 Covenant Not to Compete Act are satisfied.

## I. Background

Mann Frankfort Stein & Lipp Advisors, Inc., MFSL GP, L.L.C., and MFSL Employee Investments, Ltd. (collectively "Mann Frankfort") is an accounting and consulting firm. It hired Brendan Fielding, a certified public accountant, on January 6, 1992. Fielding worked as a staff accountant in Mann Frankfort's Tax Department. He resigned in 1995 but was rehired later that year as a senior manager in the Tax Department. As a condition of Fielding's re-employment in 1995, Mann Frankfort required him to sign one of its standard at-will employment agreements. The agreement contained the following "client purchase provision":

> 10. If at any time within one (1) year after the termination or expiration hereof, Employee directly or indirectly performs accounting services for remuneration for any party who is a client of Employer during the term of this Agreement, Employee shall immediately purchase from Employer and Employer shall sell to employee that portion of Employer's business associated with each such client.

The agreement listed and defined the types of "business" Fielding would have to purchase from Mann Frankfort and set the purchase price. By executing the agreement, Fielding also promised he would "not disclose or use at any time . . . any secret or confidential information or knowledge obtained by [Fielding] while employed . . . ." In the course of his employment, Fielding also signed a limited partnership agreement that included a similar client purchase provision.

On January 19, 2004, Fielding again resigned from Mann Frankfort. Soon after he resigned, Fielding opened an accounting firm with David Hardy. Fielding[1] then filed a declaratory judgment action seeking to have the client purchase provisions in his employment and limited partnership

[1] Hardy and Darlene Plumly, both former Mann Frankfort employees, were parties to the trial court proceedings. They are not parties to this appeal.

agreements declared unenforceable pursuant to Texas Business and Commerce Code section 15.50(a), which states in part:

> [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.

Mann Frankfort answered and filed a counterclaim, asserting, among other matters, a breach of contract claim. Fielding filed a motion for partial summary judgment on the grounds that the client purchase provisions in his employment and limited partnership agreements were unenforceable covenants not to compete. Mann Frankfort filed a motion for partial summary judgment on the grounds that Fielding had breached the agreements, the client purchase provisions were not restrictive covenants, and even if they were, the provisions were nevertheless enforceable. The trial court granted Fielding's motion and denied that of Mann Frankfort.

After prevailing in the declaratory judgment action, Fielding sought attorney's fees under both the Uniform Declaratory Judgments Act (UDJA), *see* TEX. CIV. PRAC. & REM. CODE § 37.009, and under his employment agreement. His employment agreement provided that the "prevailing party" in a suit between Mann Frankfort and Fielding was entitled to attorney's fees. The trial court refused to award Fielding attorney's fees under the UDJA. Fielding and Mann Frankfort filed competing motions for partial summary judgment on Fielding's entitlement to attorney's fees under his employment agreement. The trial court granted Mann Frankfort's motion and denied Fielding's. The court determined that Fielding's claim for attorney's fees under his employment agreement was preempted by Business and Commerce Code section 15.52, which states:

> The criteria for enforceability of a covenant not to compete provided by Section 15.50 of this code and the procedures and remedies in an action to enforce a covenant not to compete provided by Section 15.51 of this code are exclusive and preempt any other criteria for enforceability of a covenant not to compete or procedures and remedies in an action to enforce a covenant not to compete under common law or otherwise.

Fielding appealed the trial court's denial of his motion for attorney's fees. 263 S.W.3d 232, 238-39. Mann Frankfort cross-appealed, arguing that the client purchase provisions were enforceable. *Id.* at 239. The court of appeals held the client purchase provisions were unenforceable covenants not to compete. *Id.* at 245-50. The appeals court held that the client purchase agreement was not ancillary to or part of an "otherwise enforceable agreement" as required by the Covenant Not to Compete Act (the Act). *Id.* at 247; TEX. BUS. & COM. CODE § 15.50(a). The court held that Mann Frankfort failed to provide any consideration because it made no promise to give Fielding access to confidential information. 263 S.W.3d at 247 (citing *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644 (Tex. 2006), and *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642 (Tex. 1994)). The court of appeals reasoned that because Fielding never acknowledged that he had received or would receive confidential information and the employment agreement contained no representations that Fielding was to receive any consideration for agreeing to the client purchase or non-disclosure provisions, there was no implied promise on the part of Mann Frankfort to disclose confidential information. *Id.*

As to Fielding's entitlement to attorney's fees, the court of appeals determined that the trial court did not abuse its discretion in denying attorney's fees under the UDJA and did not reach the issue of whether the Act preempts an award of attorney's fees under the UDJA. *Id.* at 255 n.8. The

court did, however, hold that Fielding was entitled to attorney's fees under his employment agreement. *Id.* at 259. It held (1) the Act did not preempt Fielding's claim because the Act's preemption provision limits only actions to *enforce* covenants not to compete, not actions seeking to *prevent* enforcement, and (2) the unenforceable client purchase provision was severable from the remainder of the agreement. *Id.* at 256, 259; *see also* TEX. BUS. & COM. CODE § 15.52.

Here, Mann Frankfort contends (1) the client purchase provision in Fielding's employment agreement is enforceable because Mann Frankfort impliedly promised to provide confidential information; and (2) Fielding was not entitled to attorney's fees under his employment agreement because Business and Commerce Code section 15.52 preempts his claim and the attorney's fees provision in Fielding's employment agreement was not severable from the remainder of the agreement.[2] We agree the client purchase provision is an enforceable covenant not to compete because (1) in a situation such as this—where the nature of the contemplated employment will reasonably require the employer to furnish the employee with confidential information—the employer impliedly promises to provide the information; and (2) the summary judgment evidence shows that Mann Frankfort provided such information to Fielding. Because of our conclusion, we do not reach the issue of whether Fielding is entitled to attorney's fees under his employment agreement.

[2] The parties have narrowed the issues in this appeal: (1) Mann Frankfort does not challenge the court of appeals' holding that the limited partnership agreement contains an unenforceable covenant not to compete; (2) Fielding does not challenge the reasonableness of the restrictions in the client purchase agreement; (3) Fielding does not challenge the court of appeals' determination that he was not entitled to attorney's fees under the UDJA, thus Mann Frankfort does not urge that an award of attorney's fees under the UDJA is preempted by the Act; and (4) Mann Frankfort no longer asserts its entitlement to attorney's fees.

## II. Standard of Review

We review a summary judgment de novo. *Provident Life & Accident Ins. Co. v. Knott*, 128 S.W.3d 211, 215 (Tex. 2003). We review the evidence presented in the motion and response in the light most favorable to the party against whom the summary judgment was rendered, crediting evidence favorable to that party if reasonable jurors could, and disregarding contrary evidence unless reasonable jurors could not. *See City of Keller v. Wilson*, 168 S.W.3d 802, 827 (Tex. 2005); *Johnson v. Brewer & Pritchard, P.C.*, 73 S.W.3d 193, 208 (Tex. 2002). The party moving for traditional summary judgment bears the burden of showing no genuine issue of material fact exists and it is entitled to judgment as a matter of law. TEX. R. CIV. P. 166a(c); *see also Knott*, 128 S.W.3d at 216. When both sides move for summary judgment and the trial court grants one motion and denies the other, we review the summary judgment evidence presented by both sides and determine all questions presented. *Comm'rs Court of Titus County v. Agan*, 940 S.W.2d 77, 81 (Tex. 1997). In such a situation, we render the judgment as the trial court should have rendered. *Id.*

## III. Enforceability of the Covenant Not to Compete

The relevant part of the Act provides:

> [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.

TEX. BUS. & COM. CODE § 15.50(a) (emphasis added).

The enforceability of a covenant not to compete is a question of law. *Light v. Centel Cellular Co. of Tex.*, 883 S.W.2d 642, 644 (Tex. 1994). The parties disagree whether the covenant not to

compete in this case was "ancillary to or part of an otherwise enforceable agreement at the time the agreement [was] made." We addressed these requirements in *Light* and *Alex Sheshunoff Management Services, L.P. v. Johnson*, 209 S.W.3d 644 (Tex. 2006).

### A. *Light* and *Sheshunoff*

Two initial inquiries must be made when determining whether an enforceable covenant not to compete has been created under section 15.50: (1) is there an "otherwise enforceable agreement," and (2) was the covenant not to compete "ancillary to or part of" that agreement at the time the otherwise enforceable agreement was made. *Light*, 883 S.W.2d at 644. We held in *Light* that "'otherwise enforceable agreements' can emanate from at-will employment so long as the consideration for any promise is not illusory." *Id.* at 645. In footnote six of the opinion, we explained that a unilateral contract could be formed if one promise is illusory and the return promise is non-illusory. *Id.* at 645 n.6. We concluded, however, that a unilateral contract would not satisfy section 15.50:

> 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. . . . 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.

*Id.* Thus, we said that although an "otherwise enforceable agreement" could be created in the form of a unilateral contract, it could not support a covenant not to compete under the Act because the unilateral contract would not have been formed "at the time the agreement is made." *Id.*

As to the second inquiry—whether the covenant was "ancillary to or part of" the otherwise enforceable agreement at the time the otherwise enforceable agreement was made—we have derived two requirements for making the determination. *Id.* at 647; *Sheshunoff*, 209 S.W.3d at 648-49. First, 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. *Sheshunoff*, 209 S.W.3d at 648-49; *Light*, 883 S.W.3d at 647. Second, the covenant must be designed to enforce the employee's consideration or return promise in the otherwise enforceable agreement. *Sheshunoff*, 209 S.W.3d at 649; *Light*, 883 S.W.3d at 647. Unless both elements of the test are satisfied, the covenant is a naked restraint of trade and unenforceable. *Light*, 883 S.W.2d at 647.

In *Sheshunoff*, an employee signed an at-will employment agreement containing a covenant not to compete. 209 S.W.3d at 646. In the agreement, the employer promised to provide the employee access to confidential information and the employee promised not to disclose such information. *Id.* at 647. The employer then gave the employee access to confidential information throughout his employment. *Id.* We followed and confirmed our analysis in *Light*, with the exception of *Light*'s footnote six. *Id.* at 650-51 ("[W]e disagree with footnote six insofar as it precludes a unilateral contract made enforceable by performance from ever complying with the Act because it was not enforceable at the time it was made."). We concluded that under section 15.50, a covenant not to compete is not invalid simply because the otherwise enforceable agreement to which the covenant is ancillary is not enforceable at the time the agreement is made. *Id.* at 651. Rather, the covenant not to compete need only be "ancillary to or part of" the agreement at the time the agreement is made. *Id.* Thus, the requirement that there be an "otherwise enforceable

agreement" can be satisfied by the employer actually performing its illusory promise to provide an employee with confidential information. *Id.* at 655.

**B. Implied Promise**

This case differs from *Sheshunoff* because Mann Frankfort made no express promise to provide Fielding access to confidential information, although Fielding expressly promised not to disclose any confidential information. The court of appeals held, based on this lack of an express promise, that there was no "otherwise enforceable agreement." 263 S.W.3d at 247. Mann Frankfort claims it impliedly promised to provide Fielding confidential information during his employment. The court of appeals rejected this argument and held that in order for a promise to be implied in an "otherwise enforceable agreement," either (1) the employee must acknowledge that he or she had received or would receive confidential information, or (2) the agreement must contain a representation that the employee was receiving consideration in return for his or her promise. *Id.* at 247. We disagree. When the nature of the work the employee is hired to perform requires confidential information to be provided for the work to be performed by the employee, the employer impliedly promises confidential information will be provided.

The difference between contracts formed through express promises and those formed through implied promises is the means by which the contracts are formed. *Haws & Garrett Gen. Contractors, Inc. v. Gorbett Bros. Welding Co.*, 480 S.W.2d 607, 609 (Tex. 1972) (stating that the terms of an express contract are recited by the parties, while an implied contract arises from the parties' acts and conduct); *see also* RESTATEMENT (SECOND) OF CONTRACTS § 4 cmt. a (1981) ("The distinction . . . lies merely in the mode of manifesting assent."). Regardless of whether a contract

is based on express or implied promises, mutual assent must be present. *Haws*, 480 S.W.2d at 609. In the case of an implied contract, however, mutual assent is inferred from the circumstances. *Id.* As one treatise states the rule: "[t]erms are implied not because they are just or reasonable, but rather for the reason that the parties must have intended them and have only failed to express them . . . or because they are necessary to give business efficacy to the contract as written." 2 JOSEPH M. PERILLO & HELEN HADJIYANNAKIS BENDER, CORBIN ON CONTRACTS § 5.27 (rev. ed. 1995); *see also* 11 RICHARD A. LORD, WILLISTON ON CONTRACTS § 31:7 (4th ed. 1999) ("[T]erms are to be implied in contract, not because they are reasonable, but because they are necessarily involved in the contractual relationship, such that the parties must have intended them and must have failed to express them only because of sheer inadvertence or because they are too obvious to need expression.").

Furthermore, if one party makes an express promise that cannot reasonably be performed absent some type of performance by the other party, courts may imply a return promise so the dealings of the parties can be construed to mean something rather than nothing at all. *Portland Gasoline Co. v. Superior Mktg. Co.*, 243 S.W.2d 823, 824-25 (Tex. 1951), *overruled on other grounds*, *N. Natural Gas Co. v. Conoco, Inc.*, 986 S.W.2d 603, 608 (Tex. 1998). In *Portland*, we explained why mutual promises may be implied in this type of situation:

> Mutuality may result from an implied obligation on the part of one of the parties. Though a contract on its face and by its express terms may appear to be obligatory on one party only, if it is manifest that it was the intention of the parties, and the consideration upon which one party assumed an express obligation, that there should be a corresponding and correlative obligation on the other party, such a corresponding and correlative obligation will be implied, and the contract held to be

> mutual,—as where the act to be done by the party expressly binding himself can only be done upon a corresponding act being done or allowed by the other party.

*Id.* at 825. In other words, 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.

**C. Application**

The circumstances surrounding Fielding's employment indicate that his employment necessarily involved the provision of confidential information by Mann Frankfort before Fielding could perform the work he was hired to do. As a certified public accountant, Fielding was required to use the tax and financial information of Mann Frankfort's clients to complete their tax returns. In order for Fielding to perform his duties, Mann Frankfort gave him access to its client database, which contains clients' names, billing information, and pertinent tax and financial information. This was confidential information which Mann Frankfort was interested in keeping confidential. *See DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 684 (Tex. 1990) (stating that client lists are confidential information that may be protected by an agreement not to compete).

Mann Frankfort's summary judgment evidence shows it provided Fielding with confidential information either on his first day of work in 1995 or shortly after. In his affidavit, Fielding claims he was not provided confidential information on his first day of work, but he does not dispute Mann Frankfort's assertion that by his second day he was working on client files. Fielding testified in his deposition that his supervisors provided him with confidential tax and financial information that had been given to Mann Frankfort by its clients. Moreover, prior to being rehired in 1995, Fielding

worked for three years at Mann Frankfort and was given confidential information during that time. Thus, when Mann Frankfort rehired Fielding in 1995, it was clear that by the nature of his duties as a senior manager in the firm's Tax Department, Fielding would be required to have and use information confidential to the firm.

Additionally, Fielding could not have acted on his promise to refrain from disclosing confidential information unless Mann Frankfort provided him with it. *See Portland*, 243 S.W.2d at 825. Fielding expressly promised in his employment agreement to "not disclose or use at any time . . . any secret or confidential information or knowledge obtained by [Fielding] while employed . . . ." This promise, though, meant nothing without a correlative commitment by Mann Frankfort. *See id.* Neither party disputes that performing the function of a certified public accountant requires accessing and using confidential information and that Mann Frankfort actually provided Fielding with confidential information during his first employment with the firm. The summary judgment evidence shows conclusively that Mann Frankfort impliedly promised to supply confidential information to Fielding when the parties entered into the 1995 agreement.[3]

Mann Frankfort's implied promise to provide Fielding with confidential information when he was employed in 1995 was illusory because Mann Frankfort had the option of terminating Fielding's employment prior to giving him access to confidential information. *See Light*, 883 S.W.2d at 645. Nevertheless, the parties still formed an "otherwise enforceable agreement" as

[3] Fielding argues that Richard Stein, Mann Frankfort's corporate representative, admitted Mann Frankfort made no enforceable promise to provide its employees confidential information. Stein's deposition testimony that Fielding refers to, however, concerned Plumly's employment agreement. Additionally, Stein testified that, "as part of her employment, we did agree to give her confidential information."

contemplated by section 15.50 when Mann Frankfort performed its illusory promise by actually providing confidential information. *See Sheshunoff*, 209 S.W.3d at 651 ("[A] unilateral contract formed when the employer performs a promise that was illusory when made can satisfy the requirements of the Act.").

As was noted, for a covenant not to compete to be "ancillary to or part of" an otherwise enforceable agreement under section 15.50, (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. *Id.* at 648-49; *Light*, 883 S.W.2d at 647. Here, Mann Frankfort's implied promise and its actual provision to Fielding of access to confidential information satisfied the first requirement because the promise and provision of confidential information generated Mann Frankfort's interest in preventing the disclosure of such information. *See Sheshunoff*, 209 S.W.3d at 648-49. In addition, Fielding's promise not to disclose any confidential information satisfied the second requirement because the client purchase provision was designed to hinder Fielding's ability to use the confidential information to compete against Mann Frankfort. *Id.* at 649. Therefore, the client purchase provision was "ancillary to or part of" the otherwise enforceable agreement when the otherwise enforceable contract was made, and the client purchase provision is enforceable under the Act.

## IV. Attorney's Fees

Fielding's employment agreement contained the following provision regarding attorney's fees:

> 15. In the event of litigation between the parties hereto arising out of or connected with this Agreement, the prevailing party shall be entitled to recover all reasonable costs and expenses and all reasonable, actual attorney fees incurred by it or by him in the preparation for and conduct of such litigation.

The trial court and court of appeals determined the client purchase provision was unenforceable and Fielding was the "prevailing party." Because we hold the client purchase provision is enforceable, Fielding is not the prevailing party under the agreement and is not entitled to attorney's fees under it. We do not reach the issues of whether the Act preempts the agreement in regard to entitlement to attorney's fees or whether the client purchase provision was severable from the remainder of the agreement. *See* TEX. BUS. & COM. CODE § 15.52.

## V. Conclusion

The client purchase provision in the 1995 employment agreement is enforceable. *See id.* § 15.50(a). We reverse the court of appeals' judgment and render judgment that Fielding take nothing.

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Phil Johnson
Justice

**OPINION DELIVERED:** April 17, 2009