IN THE SUPREME COURT OF TEXAS

NO. 03-1050

ALEX SHESHUNOFF MANAGEMENT SERVICES, L.P., PETITIONER,

v.

KENNETH JOHNSON AND STRUNK & ASSOCIATES, L.P., RESPONDENTS

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

Argued November 10, 2004

JUSTICE WAINWRIGHT, concurring.

Today, the Court modifies its interpretation in *Light v. Centel Cellular Company* of the Covenants Not to Compete Act. *See* 883 S.W.2d 642 (Tex. 1994); TEX. BUS. & COM. CODE §§ 15.50–.52. The at-will employee in this case, Kenneth Johnson, asserted that a noncompete agreement was unenforceable under *Light*'s construction of subsection 15.50(a) of the Act because no consideration was exchanged at the time the parties entered into the agreement. Contrary to *Light*, the Court holds that Johnson became bound by his promise not to compete when his employer later performed its corresponding promise to provide special training in its business methods and confidential information. This is similar to a unilateral contract under the common law and seems to address the Legislature's purpose. I join most of the Court's opinion.

I disagree with the Court's decision not to reconsider *Light*'s test for determining whether a covenant not to compete is "ancillary to or part of" an otherwise enforceable agreement. 883 S.W.2d at 647 n.14. First, the Act does not create standards for these words beyond their common and ordinary meaning. *Light* does. In *Light*, the Court explained that "if an employer gives an employee confidential and proprietary information or trade secrets in exchange for the employee's promise not to disclose them, and the parties enter into a covenant not to compete, the covenant is ancillary to an otherwise enforceable agreement . . . ." *Id.* I agree with this statement. However, *Light* erected two additional requirements to enforce a noncompete. For a covenant not to compete to be "ancillary to or part of" the confidentiality agreement, the consideration given by the employer for the confidentiality agreement "must give rise to the employer's interest in restraining the employee from competing," and the noncompete "must be designed to enforce the employee's consideration or return promise" not to disclose confidential information. *Id.* I would disapprove of these court-made requirements. Second, the statements in *Light* are dicta because Debbie Light, unlike Johnson in this case, did not promise to keep her employer's confidential information secret. Third, I fail to see compelling logic in requiring that the consideration for the otherwise enforceable agreement give rise to the employer's interest in restraining the employee from competing. An employer may desire a confidentiality agreement with its employees to protect the employer's confidential or proprietary property, an interest the Court has recognized as "worthy of protection." *DeSantis v. Wackenhut Corp.,* 793 S.W.2d 670, 682 (Tex. 1990). Under traditional contract law, the consideration for a confidentiality agreement could be money, as other courts have recognized. *See*, *e.g.*, *Zinpro Corp. v. Ridenour*, No. 07–96–0008–CV, 1996 WL 438850, at *9 (Tex. App.—Amarillo

Aug. 1, 1996, no writ) (not designated for publication) (suggesting that consideration for confidentiality agreement could be money, but evidence did not show payment). Under *Light*'s footnote 14 and the Court's opinion, a covenant not to compete would not be "part of or ancillary to" a confidentiality agreement supported by monetary consideration. To determine the enforceability of the covenant, the focus should be on the purpose of the otherwise enforceable agreement rather than the consideration for it. Because the noncompete would supplement the confidentiality agreement, it would constitute the otherwise enforceable agreement to which the noncompete is ancillary. I would disapprove of footnote 14 and use the ordinary meanings of the statutory language—ancillary means "supplementary" and part means "one of several . . . units of which something is composed." WEBSTER'S NINTH NEW COLLEGIATE DICTIONARY 84, 857 (9th ed. 1990).

More broadly, I wonder why we require an employer to provide consideration, in addition to employment, to make a confidentiality agreement entered at the commencement of or during employment enforceable post-termination. Almost fifty years ago we held that recovery against an employee for misappropriation of confidential information is not dependent on contractually imposed duties, but the duty on an employee not to misappropriate trade secrets is created by the confidence placed in an employee by his employer. *Hyde Corp. v. Huffines,* 314 S.W.2d 763, 769 (Tex. 1958). "One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if (a) he discovered the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him." 4 RESTATEMENT OF TORTS § 757 (1939). Some courts of appeals have held that mutual promises

between the employer to give confidential information and the employee to keep them secret is sufficient in an employment context to make a confidentiality agreement an otherwise enforceable agreement to which a noncompete may be a part. *See*, *e.g.*, *Curtis v. Ziff Energy Group, Ltd.*, 12 S.W.3d 114, 118 (Tex. App.—Houston [14th Dist.] 1999, no pet.).

The consideration for Johnson's confidentiality agreement is continuing employment. *Light* may be on solid ground in holding that consideration for a noncompete is illusory if it is dependent on continued employment for an at-will employee. Otherwise, the employer could terminate the employee prior to providing consideration and still hold the employee to the terms of the noncompete. However, with a confidentiality agreement, the consideration of continued employment is not illusory because neither of the parties' mutual promises is dependent on continued employment. If an employee signs a confidentiality agreement as a condition of his continued employment, it becomes enforceable upon the employee's continuation in his job. If the employee is terminated, voluntarily or involuntarily, before continuing his employment, he is not bound by the contract to the terms of the confidentiality agreement. *Light* requires an owner of property to pay his agent twice—continued employment plus qualifying consideration—to protect his property by contract.

It is not uncommon in certain contexts for the law not to require any additional consideration beyond employment to create rights enforceable in contract. Arbitration is one example. *See In re Dallas Peterbilt, Ltd., L.L.P.*, 196 S.W.3d 161, 163 (Tex. 2006) (holding that an employee who receives notice of a modification of employment policy, the implementation of arbitration, and continues working is bound by the policy); *Hathaway v. General Mills, Inc.*, 711 S.W.2d 227, 229

(Tex. 1986) (holding that an at-will employee's continuing to work after receiving modifications to the terms of employment constitutes acceptance of those terms "as a matter of law"). Here, we require the employer to pay consideration that "give[s] rise to the employer's interest in restraining the employee from competing," *Light*, 883 S.W.3d at 647 n.14, to protect his confidential information when we recognized long ago that a fiduciary duty precluded employees from misuse or misappropriation of such property. *Huffines,* 314 S.W.2d at 775. We should reconsider.

Both the confidentiality agreement and the noncompete are part of Johnson's employment agreement. I would hold that the covenant not to compete is enforceable on the ground that it is ancillary to the otherwise enforceable confidentiality agreement.

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J. Dale Wainwright
Justice

OPINION DELIVERED: October 20, 2006