No. 09-0558

In the
SUPREME COURT OF TEXAS

Marsh USA Inc. and Marsh & McLennan Companies, Inc.,

Petitioners,

v.

Rex Cook,

Respondent.

RESPONDENT'S BRIEF ON THE MERITS

Monica Wiseman Latin
State Bar No. 00787881
Stephanie Dooley Nelson
State Bar No. 24002006
Jesse K. Shumway
State Bar No. 24046841
Carrington, Coleman, Sloman & Blumenthal, L.L.P.
901 Main Street, Suite 5500
Dallas, Texas 75202
Telephone: 214-855-3000
Telecopy: 214-855-1333

Attorneys for Respondent Rex Cook

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STATEMENT OF THE CASE

Nature of the Case:	Marsh USA Inc. ("Marsh") and Marsh & McLennan Companies, Inc. ("MMC")* (collectively, "Petitioners") sued Rex Cook and his employer, asserting claims for breach of contract (a covenant not to compete) and breach of fiduciary duty.
Trial Court:	Honorable Martin Hoffman, 68th District Court, Dallas County, Texas
Trial Court's Disposition:	The trial court granted Cook's motion for partial summary judgment on Marsh and MMC's claims for breach of contract, and found that the covenant not to compete on which the claims are based is unenforceable as a matter of law. Marsh and MMC subsequently non-suited their claims for breach of fiduciary duty, rendering the trial court's summary judgment order a final judgment.
Court of Appeals:	Fifth Court of Appeals in Dallas, Texas. Opinion by Justice Carolyn Wright, joined by Justices Moseley and Francis. *Marsh USA Inc. v. Cook*, 287 S.W.3d 378 (Tex. App. -- Dallas 2009, pet. filed).
Court of Appeals' Disposition:	Affirmed. The Court of Appeals held that the covenant not to compete is not enforceable because MMC's consideration for the covenant -- a discounted sale to Cook of MMC's publicly-traded stock -- did not "give rise to an interest in restraining competition," as required to support a valid covenant not to compete under Texas law.

* Although Petitioners and the Court of Appeals refer to Marsh USA Inc. and Marsh & McLennan Companies, Inc. collectively as "Marsh" or "MMC," the two are distinct corporate entities. (R 94-95) Marsh USA Inc. is Cook's former employer. (R 95, 97) The contract in issue is with MMC. (R 95, 178-79)

RESPONSE TO STATEMENT OF JURISDICTION

Absence of a Genuine Issue of Statutory Construction. To the extent the petition presents a question of statutory construction, it is one that is well settled under multiple decisions of this Court. This Court considered the proper interpretation of Section 15.50(a) of the Texas Business and Commerce Code in *Light v. Centel Cellular Co. of Texas*, 883 S.W.2d 642 (Tex. 1994), and established the test for determining whether a covenant not to compete is "ancillary to or a part of an otherwise enforceable agreement" within the meaning of the statute. *Id*. at 647. That test, which this Court confirmed in *Alex Sheshunoff Management Services, L.P. v. Johnson*, 209 S.W.3d 644 (Tex. 2006), and again in *Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding*, 289 S.W.3d 844 (Tex. 2009), requires a valid covenant not to compete to be supported by consideration that gives rise to an interest in restraining competition. The decision of the Court of Appeals presents a straightforward application of that principle because the interest MMC claims did not arise from the consideration it provided.

Absence of Conflict. The Court of Appeals' opinion does not conflict with prior decisions of this Court. The issue presented is not whether goodwill may be protected through a covenant not to compete, as Petitioners contend. Rather, the issue is whether a discount on the purchase of publicly-traded stock is consideration of the kind that gives rise to an interest in restraining competition, as required to support a valid covenant not to compete under Texas law. Nothing in the Court of Appeals' decision suggests that an employer cannot use a covenant not to compete to protect its goodwill when the covenant otherwise satisfies the requirements of Texas law. Whether the Court of Appeals' opinion conflicts with the unpublished decision in *Totino v. Alexander & Assocs., Inc.*, No. 01-97-01204-CV, 1998 WL 552818 (Tex. App. -- Houston [1st Dist.] Aug. 20, 1998, no pet.), the judgment in that case was vacated and annulled.

Lack of Importance. Petitioners' efforts to demonstrate that this case presents an issue of importance to the state's jurisprudence are also premised on their flawed interpretation of the Court of Appeals' opinion. That opinion does not create an environment hostile to economic development. The Court of Appeals simply found that MMC failed to comply with this Court's and the Legislature's common-sense requirements for covenants not to compete.

ISSUE PRESENTED

Did the Court of Appeals err on a matter of law that is important to the jurisprudence of this state when:

a. This Court has consistently recognized that a valid covenant not to compete must be supported by consideration that gives rise to an interest in restraining competition;

b. The consideration provided by MMC to Cook in exchange for his covenant not to compete was a discount on the purchase of 3,000 shares of publicly-traded stock; and

c. The Court of Appeals applied well-established legal principles in determining that no interest in restraining competition arose from Cook's decision to purchase MMC's stock at a discount?

STATEMENT OF FACTS

MMC is a publicly-traded company listed on the New York, Chicago, and London Stock Exchanges. (R 53-54, 57, 94-95)[1] As of April 2008, MMC had over 500 million shares of stock outstanding and a market capitalization of over $12 billion. (R 53-54, 59) MMC is the holding company for Marsh and other MMC subsidiaries and affiliates. (R 94-95) Cook was an employee of Marsh until November 2007. (R 95, 97)

MMC awarded Cook stock options in 1996. (R 124, 127-28) Pursuant to the award, Cook could choose to purchase 500 shares of MMC's publicly-traded common stock at a fixed price of $95.0625 per share after the award vested. (R 127-35) The award vested in 25% increments each year, becoming fully vested and exercisable after four years. (*Id.*) The terms and conditions of the award required Cook to sign a Non-Solicitation Agreement only if and when he decided to purchase MMC stock at the option price. (R 129-41)

Cook decided to exercise his stock options in February 2005, almost 9 years after receiving them. (R 124-25, 177) To do so, he tendered to MMC $63,895.02 -- the sum of the option price for 3,000 shares of stock (the result of intervening stock splits) and $16,363.77 for tax withholding -- and a signed "Non-Solicitation Agreement for Exercise of Employee Stock Options." (R 124-25, 177-83) In return, MMC transferred 3,000 shares of MMC's publicly-traded common stock to Cook. (*See id.*) Cook obtained about a 0.0006% (6 ten-thousandths of one percent) stake in the company and a net financial

[1] "R" refers to the Clerk's Record; "Br." refers to Petitioners' Brief on the Merits filed in this Court; "COA Br." refers to Appellants' Brief filed with the Court of Appeals.

gain after taxes of $33,754.98 from the transaction. (*See* R 53-54, 59, 181-83) Although Cook could not purchase the stock until the vesting period had ended, nothing required Cook to hold the stock or remain employed by Marsh for any period of time after he decided to purchase it. (*See* R 127-83)

The Non-Solicitation Agreement purports to restrict Cook's ability to do business with certain clients, prospects, and former clients of Marsh. (R 25) These restrictions were to apply only in the event that Cook's employment with Marsh terminated within three years of his exercise of stock options. (*Id.*) Cook resigned his employment with Marsh on November 15, 2007 -- 2 years and 9 months after exercising his stock options. (R 97, 182-83)

Marsh and MMC filed suit against Cook and his new employer on March 17, 2008, each asserting claims for breach of contract arising out of Cook's alleged failure to comply with the restrictions of the Non-Solicitation Agreement and for breach of fiduciary duty. (R 6-14) Cook filed a motion for partial summary judgment (the "Motion") seeking judgment as a matter of law on Petitioners' contract claims on the ground that the Non-Solicitation Agreement constituted an unenforceable restraint of trade. (R 30-60) In his Motion, Cook neither admitted nor denied that the restrictions contained in the Non-Solicitation Agreement were reasonable. (*Id.*) Rather, Cook contended that the covenant not to compete was not ancillary to or part of an otherwise enforceable agreement. (R 30, 34-40)

In particular, Cook argued in his Motion that there was no "otherwise enforceable agreement" because the Non-Solicitation Agreement contained no return promise from either Marsh or MMC, and that the allegations in the petition referred only to past consideration -- the award of stock options 9 years earlier. (R 35-36) Marsh and MMC responded to this argument by asserting, among other things, that:

> By the very terms of the Non-Solicitation Agreement, the transfer of stock by MMC was the consideration, not the award of the option. Accordingly, the consideration was given *at the time the agreement was made*. . . .

(R 78) (emphasis in original) Cook has not since challenged that assertion.

Cook also argued in his Motion that the Non-Solicitation Agreement was unenforceable because any consideration MMC provided did not give rise to an interest in restraining competition. (R 36-39) In response, Marsh submitted the affidavit of Sally Dillenback, the Head of Office for Marsh's Dallas office, and a business records affidavit documenting Cook's receipt and exercise of his stock options. (R 94, 123) Ms. Dillenback's affidavit discusses the business of Marsh and MMC, Cook's employment with Marsh, and the purpose of MMC's Employee Incentive and Stock Award Plan, pursuant to which Cook was awarded stock options. (R 94-98) Ms. Dillenback explained the purpose of the incentive plan as follows:

> The purpose of the Incentive Plan was to advance the interests of MMC and its stockholders by providing a means to attract, retain, and motivate employees of MMC and its affiliates, including Marsh, and to strengthen the mutuality of interest between employees and MMC's stockholders. The Incentive Plan was designed so that a valuable employee could ultimately benefit from an increase in the value of the business and profits, whereas, as an employee without stock options, Cook was limited to only those benefits provided to any employee of the firm. The Incentive Plan provides select employees with an incentive to stay with Marsh long-term; namely, an ownership interest in the company. This, in turn, gives employees an interest in ensuring that the company performs well and that its stock rises (thereby increasing the value of their options). The Incentive Plan also serves 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. The covenant not to compete provision of the Non-Solicitation Agreement prevents employees from using that goodwill, *i.e.*, the relationship between Marsh, the employee, and the customer, to attract the customer to a competitor.

(R 95-96) Ms. Dillenback also explained why Cook received a stock option award under the incentive plan:

> Cook was a valuable employee who had successfully performed at his position at Marsh. Cook had worked at Marsh and its predecessors in interest since September 1, 1983, and had been successful with attracting and retaining business for Marsh. Cook was pivotal in continuing to bring business to Marsh. Based on these factors, Cook met the criteria necessary to be awarded options under the Incentive Plan.

(R 96)

The trial court granted Cook's Motion on the ground that the covenant not to compete is unenforceable as a matter of law. (R 184) Marsh and MMC subsequently non-suited their other claims and appealed to the Fifth Court of Appeals. (R 192-96) The Court of Appeals affirmed the trial court's ruling.

SUMMARY OF THE ARGUMENT

Although Petitioners' brief confuses the record and the law and fails to clearly articulate the rule of law they would have this Court adopt, one thing is clear: it is not the rule that this Court adopted 16 years ago and has followed and confirmed in each of its subsequent opinions addressing covenants not to compete. Those opinions have not wavered in holding that a covenant not to compete must be supported by consideration that "gives rise to an interest in restraining competition" in order to be enforceable under Texas law. The Court of Appeals' application of that requirement is consistent with this

Court's precedent and the opinions of every court of appeals to address the issue, other than one unpublished court of appeals opinion that relied solely on inapposite authority. That case settled while a motion for rehearing was pending; the judgment was subsequently vacated and the appeal was dismissed.

Far from implementing a "new timing requirement," the decision below sets forth an uncontroversial explanation of what it means to "give rise" to something. The consideration for a covenant not to compete "gives rise" to an interest in restraining competition if it "creates" or, to use *Mann*'s terminology, "generates" that interest. MMC stock can be purchased on the open market without any requirement that the buyer sign a covenant not to compete. Cook was required to sign the covenant not to compete at issue in order to purchase MMC stock at the option price. Thus, the consideration he received in return for the covenant was a discount on the purchase of publicly-traded stock. Cook's job did not change, and he remained the same valuable employee whose performance earned him an award of stock options whether those options ever had value and whether he chose to exercise them. No interest in restraining competition arose as a result of Cook's decision to purchase MMC's common stock at the option price.

Petitioners distort the holding and effect of the Court of Appeals' opinion and advance theories that would permit the enforcement of a covenant not to compete against any employee who is in a position to successfully compete. Such tolerance of restraints of trade would be a marked departure from Texas law and would contravene Texas public policy, which recognizes the vital importance of free and fair competition. The Legislature and this Court have provided a clear roadmap for drafting enforceable covenants not to compete, and it is no longer complicated or difficult to draft a covenant under circumstances that justify a restraint on trade, such as the disclosure of confidential information to an employee. But, for good reason, Texas law does not permit employers to obtain covenants not to compete merely by dangling incentives in front of their employees. Allowing an employer to restrain trade without having demonstrated the justification required by the "give rise" requirement would chill competition and place Texas employees in the untenable position of choosing between compensation they have earned and the freedom to compete they may need later.

Because the Court of Appeals' decision provides a straightforward application of a principle that this Court has repeatedly confirmed as Texas law -- a principle that is integral to Texas public policy on restraints of trade -- its decision should be affirmed.

ARGUMENT AND AUTHORITIES

I. Non-Competition Agreements Are Unenforceable in Texas Unless They Satisfy Stringent Requirements That Are Clearly Established by Statute and This Court's Decisions.

Contrary to a recurring theme in Petitioners' brief (*see* Br. 2, 8, 10-12, 14-17, 26-30, 39-41), Texas public policy is hostile to restraints of trade. In fact, the law in Texas is that "[e]very contract, combination, or conspiracy in restraint of trade or commerce is unlawful." TEX. BUS. & COM. CODE § 15.05(a) (Vernon 2007). Petitioners ignore this statute, failing to cite it even once, and instead discuss The Covenants Not To Compete Act (the "Act") as if it were the only legislative enactment relevant to this case. (*See* Br. 2, 8, 10-12, 14, 17, 27-28, 39-41) Petitioners even go so far as to misquote the Act, stating that it "begins 'a covenant not to compete *is enforceable* if . . . .'" (Br. 10-11) (emphasis in original) The Act actually begins: "*Notwithstanding Section 15.05 of this code*, . . . a covenant not to compete is enforceable if . . . ." TEX. BUS. & COM. CODE § 15.50(a) (emphasis added). The Legislature made it clear that the Act is the exception to the general prohibition on restraints of trade, not the rule. The exception applies only to a covenant not to compete that 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. & COMM. CODE § 15.50(a). Thus, the exception requires that a covenant be both: (1) ancillary to or part of an otherwise enforceable agreement; and (2) reasonable in scope. *Id.* The first prong of this test is the only one at issue in this appeal. (*See* Br. at 6; COA Br. at 18 n.11, 39; R 34-40)

A. A Covenant Not To Compete Must Be "Ancillary" to an Otherwise Enforceable Agreement.

Texas courts have properly interpreted the Act to ensure that the exception outlined in Section 15.50 does not swallow Section 15.05's prohibition on restraints of trade. This Court has repeatedly (and recently) held that for a covenant not to compete to be ancillary to or part of an otherwise enforceable agreement, there must be an "otherwise enforceable agreement" that meets two conditions:

> (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.

Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844, 849 (Tex. 2009); *Alex Sheshunoff Management Services, L.P. v. Johnson*, 209 S.W.3d 644, 648-49 (Tex. 2006); *Light v. Centel Cellular Co. of Texas*, 883 S.W.2d 642, 647 (Tex. 1994) (emphasis added).[2] "Unless both elements of the test are satisfied, the covenant is a naked restraint of trade and unenforceable." *Mann*, 289 S.W.3d at 849 (citing *Light*, 883 S.W.2d at 647); *see also Sheshunoff*, 209 S.W.3d at 648-49 (quoting and applying *Light*'s two-part test). Although Petitioners suggest the contrary, this Court's recent decisions in *Sheshunoff* and *Mann* have "followed and confirmed" this test. *Mann*, 289 S.W.3d at 849 (citing *Sheshunoff*, 209 S.W.3d at 650-51).

Moreover, the *Light* test has drawn no response from the Legislature. As Petitioners correctly note, the Legislature has previously demonstrated its attention to this Court's opinions on covenants not to compete, passing the Act in 1989 to overturn *Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168 (Tex. 1987). (*See* Br. at 11-12) The *Hill* decision survived barely two years before the Legislature reacted in disapproval. In contrast, *Light*'s interpretation of the 1993 amendment to the Act has been the law for over 15 years, with no response from the Legislature and only limited modification by

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[2] Because Texas covenant-not-to-compete case law usually involves employers and employees, the relevant case law often uses those terms; for simplicity's sake, Cook's brief does as well, in place of the more general "offeror," though MMC was not Cook's employer.

this Court. *See Sheshunoff*, 209 S.W.3d at 650-51. There can be little doubt that the *Light* test, as modified by *Sheshunoff*, accurately reflects Texas public policy.

B. The Employer's Consideration Must Give Rise to an Interest in Restraining Competition.

Only certain types of consideration "give rise" to an interest in restraining competition. Texas cases decided since *Light*, including *Sheshunoff* and *Mann*, consistently hold that, when an employer agrees to provide trade secrets or confidential information to an employee, it has provided consideration of the kind that "generate[s]" or "give[s] rise" to an interest in restraining competition. *Mann*, 289 S.W.3d at 852 ("generated"); *Sheshunoff*, 209 S.W.3d at 649 ("give rise"); *Curtis v. Ziff Energy Group, Ltd.*, 12 S.W.3d 114, 118 (Tex. App. -- Houston [14th Dist.] 1999, no pet.); *Ireland v. Franklin*, 950 S.W.2d 155, 158 (Tex. App. -- San Antonio 1997, no writ). As this Court reasoned in *Mann*, "actual provision to [an employee] of access to confidential information satisfied the [give rise] requirement because the promise and provision of confidential information generated [the employer's] interest in preventing the disclosure of such information." 289 S.W.3d at 852.

Texas cases also identify types of consideration that do not meet this test. Foremost among these cases is *Sheshunoff*, in which this Court characterized the payment of money as a prototypical example of the type of consideration that does not give rise to an interest in restraining competition. The Court reasoned:

> Under *Light*, "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 if this particular consideration is never provided by the employer, the covenant not to

> compete cannot be enforced. Absent such consideration, the covenant is not "ancillary to or part of the otherwise enforceable agreement" under the Act as interpreted by *Light*. *To hold otherwise would mean that an employer could enforce a covenant merely by promising to pay a sum of money to the employee in the agreement, a result inconsistent with Light's requirements that the covenant must give rise to the employer's interest in restraining the employee from competing and the covenant must be designed to enforce the employee's consideration or return promise.*

209 S.W.3d at 650 (citations omitted) (emphasis added).

Similarly, the Austin Court of Appeals held that "financial benefits do not give rise to an 'interest worthy of protection' by the covenant not to compete." *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 463 (Tex. App. -- Austin 2004, pet. denied). Nor does an employer's promise to compensate an employee in the event of economic hardship, *Strickland v. Medtronic, Inc.*, 97 S.W.3d 835, 839 (Tex. App. -- Dallas 2003, pet. dism'd w.o.j.), or a deferred compensation agreement, *Valley Diagnostic Clinic v. Dougherty*, 287 S.W.3d 151, 157 (Tex. App. -- Corpus Christi 2009, no pet.) ("A compensation provision made only in exchange for a non-compete promise is precisely the sort of restraint that Texas law prohibits."). An agreement for employment for a term also does not justify a covenant not to compete. *C.S.C.S., Inc. v. Carter*, 129 S.W.3d 584, 590 (Tex. App. -- Dallas 2003, no pet.). Federal courts applying Texas law have found that stock options do not give rise to an interest in restraining competition. *See Oxford Global Res., Inc. v. Weekley-Cessnun*, No. Civ. A. 3:04-CV-0330, 2005 WL 350580, *4 n.8 (N.D. Tex. Feb. 8, 2005) (mem. op.) ("[S]tock options do not give rise to an employer's interest in restraining competition or solicitation."); *Olander v. Compass Bank*, 172 F. Supp. 2d 846, 855 (S.D. Tex. 2001), *aff'd*, 44 F. App'x

651 (5th Cir. 2002) (finding that employer failed to demonstrate how stock options gave rise to the goodwill and other business interests the employer sought to protect, or to an interest in restraining competition).[3]

The meaning of the requirement that the consideration must "give rise to an interest in restraining competition" is evident from the above-cited cases. The key difference between the categories of consideration that do give rise to this interest (such as certain types of confidential information) and those that do not (such as a term of employment and various types of financial benefits) is the impact they have on the employer. Sharing confidential information and trade secrets places an employer in a position of competitive vulnerability and the employee in a position of unfair competitive advantage. An employer that discloses confidential information to its employee takes a risk that the employee will later join a competitor and use the employer's confidential information to unfairly compete for customers. Provision of confidential information thus "generate[s]" an "interest in preventing the disclosure of such information" -- an interest this Court has recognized as a valid interest in restraining competition. *Mann*, 289 S.W.3d at 852. Although an employee's use of its former employer's confidential information to compete against its former employer is unlawful,[4] it is often impossible for

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[3] As the Court of Appeals recognized, the only contrary Texas case is an unpublished opinion that relied entirely on inapposite out-of-state case law. *Totino v. Alexander & Assocs., Inc.*, No. 01-97-01204-CV, 1998 WL 552818, *7 (Tex. App. -- Houston [1st Dist.] Aug. 20, 1998, no pet.) (not designated for publication). *Totino* is discussed below in section II.B.3.

[4] *See, e.g.*, *Mabrey v. SandStream, Inc.*, 124 S.W.3d 302, 316 (Tex. App. -- Fort Worth 2003, no pet.); *T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc.*, 965 S.W.2d 18, 21-22 (Tex. App. -- Houston [1st Dist.] 1998, pet. dism'd); *Miller Paper Co. v. Robert Paper Co.*, 901 S.W.2d 593, 600-01 (Tex. App. -- Amarillo 1995, no writ).

an employer to determine whether a departed employee has misused or will inevitably disclose confidential information. Texas law therefore permits an employer to enforce a covenant not to compete that is reasonable in light of the confidential information disclosed as consideration for the covenant, in order to protect itself from the unfair competition that could otherwise result from such disclosure.

In contrast, the types of consideration that Texas courts have identified as failing the "give rise" test, including financial incentives, do not generate risks of unfair competition by the employee. Nothing about an employer's payment of money, offer of deferred compensation (like an award of stock options), promise of compensation in the event of economic hardship, or agreement to employment for a term puts the employer at risk of unfair competition by the recipient employee. If an employer *also* gives the employee access to confidential information, of course, that access places the employer at risk and may create (or give rise to) a need for a covenant not to compete. *Mann*, 289 S.W.3d at 852. But an employee who receives deferred compensation or similar benefits is not in any better position to compete against his employer than an employee who has not received such benefits; the enforcement of a covenant not to compete that is supported only by consideration of this kind would allow an employer to restrain ordinary competition even absent the risk of unfair competition. The "gives rise" requirement serves Texas public policy by ensuring that an employer seeking to restrain competition has given consideration for the covenant that fairly necessitates a restraint of trade, while respecting the fundamental tenet that at-will employment otherwise permits employees to put their talents to fair, competitive use elsewhere.

C. A Covenant Designed To Protect a Company's Goodwill Must Comply with These Requirements To Be Enforceable

The Act provides that a covenant not to compete that satisfies the "ancillary to" requirement discussed above is enforceable if it contains reasonable limitations that "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). As Petitioners correctly note, Cook did not challenge the reasonableness of the Non-Solicitation Agreement in his Motion, and that component of the test is not at issue in this appeal. (*See* Br. 6; R 30-41) Nevertheless, Petitioners seize on the Act's reference to "goodwill" and develop it into one of their primary themes -- that employers are entitled to protect their goodwill with covenants not to compete. (*See, e.g.*, Br. at 2, 7-8, 11-12, 14-17, 24-26, 30, 36-41)

This assertion misses the point.[5] To the extent Petitioners contend that Texas law considers goodwill to be an interest worthy of protection, neither Cook nor the Court of Appeals have contended otherwise. But to the extent Petitioners assert that a covenant not to compete is enforceable merely because it is designed to protect a legitimate goodwill interest and is supported by consideration of some kind, they are wrong. This Court has held in every one of its decisions under the Act that a covenant not to compete cannot be enforced unless it is supported by consideration that gives rise to an interest in restraining competition. *Mann*, 289 S.W.3d at 849; *Sheshunoff*, 209 S.W.3d at 648-49; *Light*, 883 S.W.2d at 647. A covenant that fails this requirement is "a naked restraint of

[5] Petitioners' extensive reliance on case law pre-dating the Act, as amended in 1993 and interpreted by *Light* and its progeny, is similarly misplaced. (*See* Br. at 14-17, 25-27) To the extent these cases are inconsistent with *Light*, *Sheshunoff*, and *Mann*, they do not reflect current Texas law or policy.

trade and unenforceable." *Mann*, 289 S.W.3d at 849 (citing *Light*, 883 S.W.2d at 647); *see also Sheshunoff*, 209 S.W.3d at 648-49 (quoting and applying *Light*'s two-part test). Thus, even if a company has a legitimate goodwill interest and seeks to protect that interest through a covenant not to compete, a Texas court cannot enforce the covenant unless the employer has provided consideration that causes it to need protection from competition. *See Mann*, 289 S.W.3d at 849. This Court has made clear that evaluating the nature of the consideration is not optional.

Indeed, if companies were allowed to procure covenants not to compete simply because they assert that they have customer relationships that are threatened by competition and therefore "need" to protect their goodwill, the exception would swallow the rule. All companies *want* to protect their customer base from competition, and protection of customers is inherent in almost any covenant not to compete. But the relevant inquiry here is whether the consideration itself "generates," or "gives rise" to, an interest in restraining competition. *Id.*

II. The Court of Appeals Correctly Determined That Cook's Non-Solicitation Agreement Is Not Ancillary to His Agreement with MMC To Purchase Stock.

Applying the Act and this Court's decisions in *Light* and *Sheshunoff*, the Court of Appeals correctly found the Non-Solicitation Agreement to be unenforceable because it is not supported by consideration that "gives rise" to an interest in restraining competition. 287 S.W.3d at 382. The court explained that the "*give rise* requirement may be met only if the consideration given by the company creates the interest in restraining competition" (*Mann* uses the term "generate[s]"); not surprisingly, the Court of Appeals reasoned that this can occur only if the interest did not previously exist, meaning that the interest must be newly generated or changed in some way as a result of the employer's provision of the consideration. *Id.* (emphasis in original) Applying this reasoning to the facts of the case, the Court of Appeals found that the transfer of stock had no impact at all on MMC's purported interest in restraining competition, as nothing about any such interest changed or arose as a result of the stock transfer. *Id.* The court therefore held that MMC's consideration for the Non-Solicitation Agreement -- the sale of MMC stock to Cook -- did not "give rise" to MMC's claimed interest in restraining competition. *Id*.

Although Petitioners have consistently disavowed that the award of stock options, as opposed to the actual sale of MMC stock, was the consideration for the "otherwise enforceable agreement," the Court of Appeals also considered whether MMC's incentive program as a whole gave rise to an interest in restraining competition. The court recognized that MMC's purpose in offering the stock options to certain valued employees was to protect its goodwill by incentivizing them to stay with the company. *Id.* at 381. The court noted that all companies have an interest in retaining good employees and that stock options are frequently utilized to this end. *Id.* But the appellate court reasoned that simply because a company's goodwill may benefit when employees are incentivized and retained does not mean that the incentive creates an interest in restraining competition. *Id*. at 381-82. If any employee incentive could support a covenant not to compete, almost any consideration would suffice, and the "give rise" requirement would be rendered meaningless. *Id.* at 382.

Petitioners accuse the Court of Appeals of a variety of offenses against Texas jurisprudence, but these contentions depend upon mischaracterizations and exaggerations of the Court of Appeals' opinion. Indeed, the Court of Appeals did none of the following:

- recognize that the transfer of stock (as opposed to the unilateral award of stock options) benefited Marsh's goodwill (*contra* Br. at 2, 6);
- hold that employers may not obtain covenants not to compete designed to protect their goodwill (*contra* Br. at 2, 7-8, 17, 20-22, 39-41);
- apply the "timing requirement" of *Light*'s footnote six (*see* Br. at 18, 21);
- hold that Cook's covenant not to compete was invalid because he was already a valuable employee before he signed it (*contra* Br. at 23-24); or
- hold that only consideration with no monetary value can give rise to an interest in restraining competition (*contra* Br. at 32-33).

See 287 S.W.3d at 380-82. The Court of Appeals simply found that neither an award of options to buy publicly-traded stock nor the actual transfer of such stock is consideration of the kind that "gives rise" to an interest in restraining competition. As discussed below, that holding was mandated by Texas law.

A. The Consideration for Cook's Covenant Not To Compete Was a Discount on the Purchase of Publicly-Traded Stock.

MMC transferred 3,000 shares of MMC stock to Cook in exchange for his payment of the option price and agreement to a covenant not to compete. (Br. at 5; COA Br. at 24; R 19-20, 67, 71, 74-79, 81) MMC's stock is publicly traded on three stock exchanges, and thus can be bought by any person (including a competitor of Marsh or MMC) at any time in exchange for payment of the market price. (*See* R 53-54, 57, 94-95) Cook was not required to hold the stock and could sell it at any time on the open market. (*See* R 127-35, 177-83) The only difference between Cook's purchase and a purchase that a co-worker, competitor, or any other person could consummate without having to sign a covenant not to compete is that Cook received a discount -- the difference between the option price and the market value on the date of exercise. That discount, as the benefit realized by Cook (and corresponding detriment to MMC) in exchange for the Non-Solicitation Agreement, was the consideration for the agreement. *See N. Natural Gas Co. v. Conoco, Inc.*, 986 S.W.2d 603, 607 (Tex. 1998) ("Consideration is defined as 'either a benefit to the promisor or a loss or detriment to the promisee.'") (quoting *Receiver for Citizen's Nat'l Assurance Co. v. Hatley*, 852 S.W.2d 68, 71 (Tex. App. -- Austin 1993, no writ)). The issue before the Court of Appeals and this Court is whether that discount gave rise to an interest in restraining competition.

It is undisputed that the award of an option to Cook in 1996 to buy stock was not the consideration for the Non-Solicitation Agreement. Despite Petitioners' attempts to obfuscate this point now, they clearly stipulated as much in their response to Cook's Motion in order to defeat Cook's argument that the award of stock options was past consideration. (R 36, 77-78) Petitioners asserted:

> By the very terms of the Non-Solicitation Agreement, the transfer of stock by MMC was the consideration, not the award of the option. Accordingly, the consideration was given *at the time the agreement was made*. . . .

(R 78) (emphasis in original)[6] Petitioners took the same position in their brief to the Court of Appeals. (COA Br. at 24)

[6] Neither Petitioners' summary judgment response nor their evidence addressed Cook's argument that Marsh, which had sued for breach of contract along with MMC, was not a party to

Nevertheless, like their summary judgment evidence, much of Petitioners' brief focuses not on the transfer of stock, but on the purpose and effect of the earlier award of stock options or on MMC's incentive plan as a whole. (*See, e.g.*, Br. at 2, 10, 14, 21, 23-24, 31-38) For example, Petitioners:

- contend that "a covenant not to compete could be ancillary to an agreement to award *stock options*" (Br. at 2) (emphasis added);
- note that the Court of Appeals admitted that MMC offered *stock options* to protect its goodwill (Br. at 14) (emphasis added);
- contend that "[h]ere, the *award of the option* motivated Cook to enhance the goodwill of Marsh" (Br. at 21) (emphasis added); and
- describe the "design" and "overall purpose" of the incentive plan. (Br. at 27; *see also* R 95-96 ("The purpose of the Incentive Plan was to advance the interests of MMC and its stockholders . . . . The Incentive Plan provides select employees with an incentive to stay with Marsh long-term; namely, an ownership interest in the company. This, in turn, gives employees an interest in ensuring that the company performs well and that its stock rises (thereby increasing the value of their *options*)") (emphasis added), 96 ("The *options* are awarded as part of a long-term incentive plan, to encourage employee loyalty to Marsh and continued, long-term employment at Marsh, and to protect Marsh's valuable business goodwill.") (emphasis added))

Petitioners' focus is misplaced. The question under this Court's precedent is whether the consideration for the covenant not to compete -- not the employer's motivation or some other characteristic of the agreement or events leading up to it -- gave rise to an interest in restraining competition. *Mann*, 289 S.W.3d at 849; *Sheshunoff*, 209 S.W.3d at 648-49; *Light*, 883 S.W.2d at 647. It is undisputed that the consideration for the Non-Solicitation Agreement was the sale of stock to Cook at a discount, and the

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the Non-Solicitation Agreement and provided no consideration for it. Thus, Petitioners failed to raise a genuine issue of material fact as to Marsh's claim for breach of contract.

covenant not to compete is enforceable only if that discount gave rise to an interest in restraining competition. *Id.* In any event, Petitioners' argument that an award of stock options pursuant to an incentive plan somehow gives rise to an interest in restraining competition fundamentally misconstrues the "give rise" requirement. As discussed below, even if the award of stock options were the consideration for the Non-Solicitation Agreement, it would fail the "give rise" requirement.

The Court should also disregard the footnote in Petitioners' statement of facts wherein they suggest that the Non-Solicitation Agreement would be enforceable under *Mann* because it contains an implied promise by MMC to provide confidential information and a promise by Cook not to disclose it. (*See* Br. at 5 n.7) This footnote is contradicted by Petitioners' own statement to both the Court of Appeals and this Court that "confidential information [is] not at issue" in this case. (Br. at 11 n.10; COA Br. at 13 n.10) Nor would this assertion have been sufficient even if it had been properly raised as an issue for this Court's review and addressed in the argument section of Petitioners' brief. There is nothing in the record showing compliance with *Mann* -- specifically, Petitioners neither alleged nor offered evidence that the nature of the work Cook was hired to perform required confidential information, or that MMC actually performed any implied promise to disclose confidential information.[7] *See* 289 S.W.3d at 845-46, 851-52. (R 17-25, 94-183) The consideration for the Non-Solicitation Agreement was a

[7] Petitioners' failure to offer evidence that MMC provided Cook with confidential information makes sense given that MMC is a holding company that did not employ Cook. (*See* R 94-95)

discount on the sale of publicly-traded stock, and the question for this Court is whether that discount gave rise to an interest in restraining competition.

B. MMC's Consideration to Cook Did Not Give Rise to an Interest in Restraining Competition.

The Court of Appeals' conclusion that MMC's consideration did not give rise to an interest in restraining competition was not only consistent with, but was mandated by, Texas law -- including the decisions of this Court. Unlike a commitment to provide trade secrets or other confidential information to an employee, a discounted sale of stock is analogous to the other incentives and financial benefits that Texas courts have repeatedly held do not give rise to an interest in restraining competition.[8] *See Sheshunoff*, 209 S.W.3d at 650; *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 463 (Tex. App. -- Austin 2004, pet. denied); *Strickland v. Medtronic, Inc.*, 97 S.W.3d 835, 839 (Tex. App. -- Dallas 2003, pet. dism'd w.o.j.); *C.S.C.S., Inc. v. Carter*, 129 S.W.3d 584, 590 (Tex. App. -- Dallas 2003, no pet.); *Olander v. Compass Bank*, 172 F. Supp. 2d 846, 855 (S.D. Tex. 2001), *aff'd*, 44 F. App'x 651 (5th Cir. 2002); *Oxford Global Res., Inc. v. Weekley-Cessnun*, No. Civ. A. 3:04-CV-0330, 2005 WL 350580 at *4 n.8 (N.D. Tex. Feb. 8, 2005) (mem. op.). Here, given that MMC's stock is publicly traded, Cook could have purchased the same shares on the open market without incurring any

[8] Petitioners assert that any "consideration of value necessarily involves a corresponding financial benefit," and that the opinion below invalidates any consideration that is not worthless. (Br. at 32-33) Whether Petitioners are correct that all consideration has financial value, their argument is a non-sequitur. Neither Cook nor the Court of Appeals has suggested that the *presence* of a financial component necessarily precludes a type of consideration from supporting a covenant not to compete; rather, a type of consideration such as the discounted sale of stock to Cook is incapable of supporting a covenant not to compete because of the *absence* of any element justifying a restraint of trade.

obligation not to compete with Marsh. He just would have paid more. What he gained by entering the Non-Solicitation Agreement was effectively a cash bonus equal to the difference between the exercise price and the stock's market value at the time of exercise. Petitioners' summary judgment evidence described the benefit to Cook as the ability to realize value from an increase in MMC's stock price (if any), a benefit that Marsh employees without stock options did not receive (though such employees could still of course buy MMC stock on the open market). (*See* R 95-96) Petitioners have conceded that the transfer of stock to Cook resulted in a "net financial gain" (COA Br. at 6, R 125), and MMC's own Confirmation of Exercise calculated specific dollar values representing Cook's gain and tax liability. (R 183)

Petitioners fail to explain how this discounted sale of publicly-traded stock gave rise to an interest in restraining competition. Although Petitioners claim they have an interest in protecting their goodwill, the interest they describe exists as a result of Cook's efforts to develop customer relationships, not as a result of his decision to exercise his option to purchase stock. (*See, e.g.*, Br. at 4 ("Cook's success in growing relationships increased the value of MMC's stock and the value of Marsh's goodwill . . . . [T]he incentive plan encouraged Cook to grow Marsh's goodwill . . . ."), 7 ("Marsh offered the stock to encourage Cook to enhance Marsh's goodwill by growing the customer relationships which comprise Marsh's goodwill."), 14 ("Marsh designed Cook's agreement to encourage him to build relationships with customers (to create value) and to prevent him from exploiting those relationships for the benefit of Marsh's competitors (to protect value)"); *see also* Br. at 23-24, 26, 28, 31, 37-38 (similar)) In fact, as the Court of

Appeals recognized, nothing about the sale affected Marsh or MMC's goodwill or changed Cook's ability to impact that goodwill. *See* 287 S.W.3d at 382. Cook was the same valuable employee after exercising his option to purchase stock that he was before.[9] *Id*. It would be anomalous to hold that a purchase of stock that any Marsh employee, competitor of Marsh, or member of the public could make without incurring any obligation not to compete with Marsh (*see* R 53-54, 57, 94-95) somehow gave rise to an interest in restraining Cook merely because he received a discount.

1. **Petitioners' argument that the sale of stock gave rise to an interest in protecting goodwill confuses the sale with the award of the option.**

Petitioners argue that "[t]he stock gave rise to Marsh's interest in protecting goodwill because, absent the non-compete, Cook could take the customer relationships grown as a result of the stock incentive and use them to compete with Marsh."[10] (Br. at 31) This contention equates the creation of customer relationships with the creation of an interest in restraining competition, a critical misconception that is addressed in the next

[9] Petitioners contend the Court of Appeals used Cook's "valuable employee" status as a basis to invalidate his non-compete. (Br. at 23-24) This is a mischaracterization of the court's opinion. The court's statement that Cook was a valuable employee before exercising his option to purchase stock restated Petitioners' own summary judgment evidence. (*See* R 96) The court's observation that Cook became no more valuable after exercising his option simply recognized that nothing about his decision to purchase stock changed or generated an interest in restraining competition. *See* 287 S.W.3d at 382. The Court of Appeals did not suggest that employers can only obtain enforceable covenants not to compete from employees who are not valuable.

[10] Petitioners' assertion that "customer relationships [were] grown as a result of the stock incentive" to Cook (Br. at 31) lacks record support. There is no evidence in the record regarding: (1) Cook's performance as an employee of Marsh while he held the options or after he exercised them; (2) the impact of the stock options or sale of stock on Cook's performance; or (3) the results of Cook's efforts as an employee. (*See* R 94-183)

section. At a more fundamental level, though, Petitioners' allegation also confuses the effect of the award of stock options with the effect of Cook's decision to exercise the options. It is the award of stock options that creates an incentive for an employee to remain employed in the interim and presumably to continue to grow customer relationships in the hope that the market price will eventually exceed the option price. (*See* R 95-96) For a variety of reasons, the employee might never exercise the options. If the employee chooses to exercise his options and purchase MMC stock at the discounted price, however, he can sell the stock immediately. Thus, the sale of stock does not itself necessarily create any incentive to grow customer relationships as Petitioners assert.

Nor does Petitioners' contention find support in the summary judgment record. Petitioners assert that there was important evidence "that established that the *transfer* of stock (as opposed to the award of the option) enhanced and protected Marsh's goodwill" (Br. at 21) (emphasis in original), but this assertion is unaccompanied by citation to the record. To the contrary, Ms. Dillenback testified that:

> The Incentive Plan was designed so that a valuable employee could ultimately benefit from an increase in the value of the business and profits, whereas, *as an employee without stock options*, Cook was limited to only those benefits provided to any employee of the firm. The Incentive Plan provides select employees with an incentive to stay with Marsh long-term; namely, an ownership interest in the company. This, in turn, gives employees an interest in ensuring that the company performs well and that its stock rises (thereby increasing the *value of their options*).

(R 95-96) (emphasis added) The record contains no evidence that the sale of stock itself, which takes place if the employee decides to exercise his stock options, necessarily has any impact at all on goodwill.

2. Whether the sale of stock or the award of stock options incentivized Cook to build goodwill, an incentive to create goodwill does not give rise to an interest in restraining competition.

Even if Petitioners' consideration for Cook's covenant not to compete had incentivized him to grow customer relationships, or otherwise given rise to goodwill, such consideration does not give rise to an interest in restraining competition. Petitioners fundamentally misunderstand the meaning of the "give rise" requirement. They argue that the stock incentive gave rise to an interest worthy of protection because Cook supposedly helped to increase MMC's goodwill as a result of that incentive, and his covenant not to compete is designed to protect that goodwill. (*See* Br. at 7, 10, 14, 23-24, 27-28, 31-35) This argument incorrectly equates the concept of *advancing* a business interest that is protectable under the Act (*i.e.*, building goodwill) to the concept of *giving rise to an interest in restraining competition*. When a company incentivizes its (or a subsidiary's) employees, by whatever means, to build the goodwill of the company by growing customer relationships, it strengthens its position in the competitive marketplace. In contrast, when an employer shares confidential information with its employees -- which it does not as an "incentive," but to enable the employees to do their jobs -- the employer exposes itself to the risk of unfair competition. Such consideration therefore gives rise to an interest in restraining competition that outweighs Texas public policy against restraints of trade.

Moreover, Petitioners' claim that consideration that incentivizes employees somehow satisfies the "give rise" requirement deprives the requirement of any force because almost any consideration provided by an employer (though perhaps not provision of confidential information) could be characterized as an "incentive." Employment benefits necessarily provide an incentive to employees to work hard so they can keep their jobs and/or earn promotion and receive the offered benefits. Thus, salary, bonuses, profit-sharing plans, health benefits, company cars, or any other form of employee benefit that causes employees to want to continue working for the employer and helping the employer to succeed would suffice under Petitioners' interpretation of the "give rise" requirement. Visionary management or an exciting product can also help to build a loyal and devoted sales force. As the Court of Appeals correctly found, Petitioners' analysis "renders the 'give rise' requirement in *Light* meaningless." 287 S.W.3d at 382.

Although Petitioners suggest that their theory is limited to incentives whose value is directly tied to the long-term performance of the company, their contention still cannot be squared with Texas law. Under their argument, a deferred performance bonus that is tied to long-term company-wide performance targets would suffice in the same way that stock options would. Indeed, such a bonus is effectively what Cook received when he purchased MMC stock at the discounted option price. Texas case law, and specifically *Sheshunoff*, consistently rejects the idea that such financial benefits give rise to an interest in restraining competition. 209 S.W.3d at 650 (characterizing money as a prototypical example of the type of consideration that does not give rise to an interest in restraining competition); *Valley Diagnostic*, 287 S.W.3d at 157 ("A compensation provision made only in exchange for a non-compete promise is precisely the sort of restraint that Texas law prohibits."); *Trilogy*, 143 S.W.3d at 463 ("[F]inancial benefits do not give rise to an 'interest worthy of protection' by the covenant not to compete."); *Strickland*, 97 S.W.3d at 839 (holding that an employer's promise to compensate an employee in the event of economic hardship does not give rise to an interest in restraining competition); *C.S.C.S.*, 129 S.W.3d at 590 (holding that an agreement for employment for a term does not justify a covenant not to compete); *Oxford*, 2005 WL 350580 at *4 n.8 ("[S]tock options do not give rise to an employer's interest in restraining competition or solicitation."); *Olander*, 172 F. Supp. 2d at 855 (finding that employer failed to demonstrate how stock options gave rise to the goodwill and other business interests employer sought to protect, or to an interest in restraining competition).

3. ***Totino* is inapposite and unpersuasive.**

The lone exception is a single unpublished opinion that was decided almost 12 years ago and subsequently vacated. *Totino v. Alexander & Assocs., Inc.*, No. 01-97-01204-CV, 1998 WL 552818 (Tex. App. -- Houston [1st Dist.] Aug. 20, 1998, no pet.) (not designated for publication). The Court of Appeals was right to reject *Totino*. As an unpublished disposition, *Totino* "[has] no precedential value." TEX. R. APP. P. 47.7. More fundamentally, the parties in *Totino* settled their dispute while a motion for rehearing was pending; thus, the judgment was "vacated, set aside, and annulled" by the court of appeals and the appeal was dismissed. (Appendix)

Totino is also distinguishable, and it lacks persuasive value. First, the consideration for the covenant not to compete at issue in *Totino* was an award of stock options, not the sale of publicly-traded stock, as in this case. Second, as the Court of Appeals correctly noted, *Totino* relied on Indiana law, which lacks the "give rise" requirement of Texas law and instead requires only that a covenant not to compete have a "significant nexus" to the "employment situation." *See* 287 S.W.3d at 381; *Totino*, 1998 WL 552818 at *7; *Field v. Alexander & Alexander of Ind., Inc.*, 503 N.E.2d 627, 630-32 (Ind. Ct. App. 1987). Indiana law does not require any inquiry into the nature of an employer's consideration for a non-competition agreement. *See Ackerman v. Kimball Int'l, Inc.*, 634 N.E.2d 778, 781 (Ind. Ct. App. 1994) (holding that "[a]n employer's promise to continue at-will employment is valid consideration for the employee's promise not to compete with the employer after his termination."), *vacated in part, but adopted in relevant part by* 652 N.E.2d 507 (Ind. 1995). Thus, in determining whether an employee's stock option award was appropriate consideration for a promise not to compete, the *Field* court considered only whether it constituted *some* consideration. 503 N.E.2d at 630-31. The court did not assess whether the consideration gave rise to an interest in restraining competition because Indiana law has no such requirement.[11] *Id.*; *see also Ackerman*, 634 N.E.2d at 781.

[11] Petitioners cite additional cases from other jurisdictions, but do not demonstrate that those jurisdictions assess covenants not to compete using a framework that is consistent with the requirements of Texas' Covenants Not To Compete Act. (Br. at 35-36 n.17, 39-40 n.19)

In contrast, federal courts applying Texas law recognize that stock options do not give rise to an interest in restraining competition. In *Olander,* the court specifically rejected *Field* and other out-of-state case law, finding that they "do not apply rules comparable to those applicable under Texas law," and concluded that the employer had failed to demonstrate how stock options gave rise to an interest in restraining competition. 172 F. Supp. 2d at 852. Similarly, the court in *Oxford* noted that "stock options do not give rise to an employer's interest in restraining competition or solicitation." 2005 WL 350580 at *4 n.8. Because *Totino* is distinguishable, unpersuasive, and non-precedential, the Court should reject its reasoning.

4. *Sheshunoff* supports Cook's position, not Petitioners' position.

Petitioners appear in substantial portions of their brief to abandon their argument that MMC's consideration for the Non-Solicitation Agreement gave rise to an interest in restraining competition, and instead resort to attacking or undermining that requirement. (*See, e.g.*, Br. at 7, 12-18, 26-30, 35-38) Petitioners complain that applying the "ancillary to or part of" test rather than focusing on the reasonableness of the restraint is "overly technical," and contend that *Sheshunoff* signaled the end of such analysis. (Br. at 7, 12-14, 18) Petitioners mischaracterize *Sheshunoff.* The Court noted in that case that concerns about the amount of confidential information received by the employee, its true degree of confidentiality, and the time period over which it is received are "better addressed" in assessing the reasonableness of the restraint. 209 S.W.3d at 655-56. But the Court reaffirmed and applied the threshold requirement that the *nature* of the consideration provided in return for a covenant not to compete must give rise to the interest in restraining competition for which protection is sought. *Id*. at 649, 655. Indeed, *Sheshunoff* added clarity to the "give rise" requirement by stating that financial incentives like the payment of money do not satisfy that requirement. *Id*. at 650. Without question, *Sheshunoff* supports Cook's position, not Petitioners' position. The Court of Appeals was correct to examine the nature of MMC's consideration, and it correctly concluded that the discounted sale of stock did not give rise to an interest in restraining competition.

5. Cases addressing covenants not to compete in the context of the sale of a business do not support enforcement of Cook's covenant not to compete.

Petitioners also attempt to circumvent the "give rise" requirement by analogizing to cases involving the sale of a business. (Br. at 24-26) Texas cases have permitted purchasers of businesses to obtain covenants not to compete from the sellers. (*Id.*); *see also Bandera Drilling Co. v. Sledge Drilling Corp.*, 293 S.W.3d 867, 875 (Tex. App. -- Eastland 2009, no pet.). The justification for this rule is that a buyer of a business does not receive the full value of what it has purchased if the seller is permitted to compete, thereby diminishing the goodwill it sold. *See LaRocca v. Howard-Reed Oil Co.*, 277 S.W.2d 769, 772 (Tex. Civ. App. -- Beaumont 1955, no writ); RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. b (1979). Petitioners urge that the same principles apply here, suggesting that an employer is entitled to a covenant not to compete any time it invests money in its employees' development of customer relationships. (Br. at 26)

But Petitioners' attempt to import non-compete concepts from the sale-of-a-business context into this case relies on an analogy that is flawed for three reasons. First, in the sale-of-a-business context, the *buyer* receives the protected interest, and the *seller* is the restrained party. *Bandera Drilling*, 293 S.W.3d at 873 n.4 (distinguishing sale-of-business covenants from employment covenants). Here, Cook was the buyer of an interest in MMC, not the seller.

Second, Petitioners have never contended that the consideration for Cook's covenant not to compete was an investment by MMC in Marsh's business, nor does the record contain any such evidence. Indeed, MMC invests in Marsh for its own benefit, not as consideration to Cook. Allowing an employer to obtain a covenant not to compete any time it invests in its employees' development of customer relationships would dramatically expand the enforceability of such covenants in the employment context, permitting restraint of almost any employee who deals with customers. And finally, Texas courts "scrutinize covenants not to compete in employment relationships more closely than covenants not to compete associated with the sale of a business." *Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168, 177 (Tex. 1987) (Gonzalez, J., dissenting).

6. This Court should apply controlling precedent despite Petitioners' calls to ignore it.

In a last-ditch effort, Petitioners ask this Court to change Texas law. Petitioners urge that there is no historical support for a requirement that the consideration provided by the employer must give rise to the employer's interest in restraining competition, and that courts therefore should not inquire into the nature of the consideration that supports a covenant not to compete. (Br. at 27-30) Petitioners also argue that the "give rise" requirement should serve merely to avoid enforcement of a "purely naked restraint," which, unlike Texas law, Petitioners apparently define as a restraint imposed on a stranger. (Br. at 28-29); *contra Mann*, 289 S.W.3d at 849 ("Unless both elements of the test are satisfied, the covenant is a naked restraint of trade and unenforceable.") (quoting *Light*, 883 S.W.2d at 647). Thus, Petitioners suggest, a "significant nexus" between the covenant and the employment situation should suffice to render a covenant enforceable. (Br. at 36-38) Petitioners conclude that the context of an on-going employment relationship between an allegedly high-ranking executive[12] and his employer removes Cook's agreement with its parent company from the realm of naked restraints. (Br. at 29)

These contentions are not consistent with Texas law, but rather call for a liberalization of Texas policy toward covenants not to compete. Such arguments would require the Court to ignore *stare decisis*, ignore the Covenants Not To Compete Act, abandon the Court's last three decisions relating to the Act, and expand the exception to Texas' prohibition on restraints of trade without any legislative mandate.

C. The Court of Appeals Did Not Impose a New "Timing Requirement" Inconsistent with This Court's Decisions.

Petitioners seize on a few words in the last paragraph of the Court of Appeals' opinion and urge that the court adopted a new "timing requirement" inconsistent with *Sheshunoff*'s rejection of *Light*'s footnote six. (*See* Br. at 18-22) This argument mischaracterizes the decision of the Court of Appeals and those of this Court.

The so-called "timing requirement" modified by *Sheshunoff* concerns when an employer must provide its consideration; *Sheshunoff* concludes that a unilateral

[12] The summary judgment evidence does not support this characterization of Cook's position.

agreement that becomes enforceable through performance at a later date constitutes an "otherwise enforceable agreement." 209 S.W.3d at 648-56. The Court of Appeals here did not question the timing, formation, or existence of an otherwise enforceable agreement. Indeed, Petitioners represented to that court and the trial court that the agreement to transfer stock was performed immediately. (R 78; COA Br. at 24) Rather, the Court of Appeals' opinion concerns the separate requirement that the consideration provided in exchange for a covenant not to compete must give rise to an interest in restraining competition.

Nor did the Court of Appeals impose a new "timing requirement." The Court of Appeals' statement that the employer's consideration "give[s] rise" to an interest in restraining competition only if it creates that interest is consistent with *Mann*'s conclusion that the employer's consideration (there, confidential information) "gave rise" to an interest in restraining competition because it "generated" an interest in protecting that information. *Compare Cook*, 287 S.W.3d at 382, *with Mann*, 289 S.W.3d at 852. Moreover, the Court of Appeals' observation that the creation of an interest in restraining competition "will occur only where the interest in restraining competition did not exist before the consideration was given" makes perfect sense. 287 S.W.3d at 382. Something cannot arise or be created or generated if it already exists. The next sentence in the Court of Appeals' opinion makes clear that an existing interest in restraining competition that changes as a result of the consideration provided would also suffice. *Id.* Far from creating a new requirement, the Court of Appeals applied the "gives rise" test in the only way that makes sense.

Petitioners also incorrectly suggest that, because the employees in *Sheshunoff* and *Mann* received confidential information before executing their covenants not to compete, those cases stand for the proposition that an employer's consideration need not create an interest in restraining competition. (*See* Br. at 18-19); *see Sheshunoff*, 209 S.W.3d at 657; *Mann*, 289 S.W.3d at 851. This is a distortion of the facts and analysis in those cases. Petitioners' argument splices together unrelated portions of the *Sheshunoff* and *Mann* opinions. Specifically, the Court's discussion of the effect of previous disclosure of confidential information in those opinions is unrelated to the "gives rise" requirement. In *Sheshunoff*, the Court was asked whether the covenant not to compete was unreasonable -- the second prong of the analysis -- given that the employee had received the same type of information before executing the covenant not to compete. 209 S.W.3d at 657. The Court concluded that the employer's request for a covenant not to compete was not unreasonable merely because the employer had previously disclosed some confidential information to the employee. *Id.* In *Mann*, the Court considered whether the employer had made an implied promise to provide confidential information. The Court determined that such a promise could be implied because, among other things, the employee's receipt of confidential information during his previous employment in a lower-ranking position with the same employer made it clear that the nature of his duties in a more senior position would require him to have and use confidential information. 289 S.W.3d at 851.

In any event, the fact that the employees in *Sheshunoff* and *Mann* had received confidential information in the past did not preclude an interest from arising as a result of the new information provided. As Petitioners themselves emphasize, confidential information is not a static interest, and businesses must "constantly develop new confidential information" to stay competitive. (Br. at 20) Given that past consideration cannot support a contract, the consideration for the covenants not to compete at issue in *Sheshunoff* and *Mann* necessarily was the additional disclosure of confidential information after the covenants were executed. *See Mann*, 289 S.W.3d at 849-52; *Sheshunoff*, 209 S.W.3d at 651 ("The covenant cannot be a stand-alone promise from the employee lacking any new consideration from the employer."), 660, 663 (Jefferson, C.J., concurring) (noting that "'past consideration' is not consideration," but that employee had access to confidential information on a daily basis for four years after signing his covenant); *Powerhouse Prods., Inc. v. Scott*, 260 S.W.3d 693, 697 (Tex. App. -- Dallas 2008, no pet.) ("[P]ast consideration is not competent consideration for contract formation"); *Trilogy*, 143 S.W.3d at 463 ("[P]ast provision of proprietary information and specialized training would be past consideration and therefore not competent consideration for contract formation."). The disclosure of new confidential information to the employees in *Sheshunoff* and *Mann* after they executed their covenants not to compete gave rise to a new or renewed interest in restraining competition that did not exist before. Stated differently, the disclosure of new confidential information changed or added to any interest that may already have existed. That a new or changed interest is of the same *kind* as a pre-existing interest does not preclude an employer from seeking the protection of a covenant not to compete when it provides new consideration. *See Sheshunoff*, 209 S.W.3d at 651, 657.

In contrast, as the Court of Appeals correctly concluded, any interest MMC had in restraining Cook from competing was unaffected by, and did not "change or arise" as a result of, the discounted sale of stock that was the consideration for Cook's Non-Solicitation Agreement. 287 S.W.3d at 382. Whether Cook was a valuable employee in a position to take customer relationships with him to a competitor, the Court of Appeals correctly observed that he was the same employee the day after he exercised his stock options as he was the day before, except that he had experienced a net financial gain of approximately $34,000. *Id.* Thus, whatever interest MMC might have had in restraining Cook from competing did not arise from that transaction.[13] Petitioners' assertion that the Court of Appeals' reasoning would require employers to obtain covenants not to compete before generating any interest that needs protection (*see* Br. at 20-21) also is wrong. The court's holding simply recognizes that some new or changed interest must result from the consideration provided in exchange for the covenant, which is consistent with this Court's precedent. *Mann*, 289 S.W.3d at 849, 852; *Sheshunoff*, 209 S.W.3d at 648-49.

Petitioners offer no explanation of what the "gives rise" requirement means if it does not require the creation or generation of something that did not previously exist. For all of their criticism of the Court of Appeals' application of the rule, Petitioners offer no alternative interpretation. The essence of Petitioners' argument, as in much of their brief,

[13] As explained *supra*, in Section II.B.1, Petitioners' contention that the Court of Appeals "ignore[d] the importance of the evidence that established that the *transfer* of stock (as opposed to the award of the option) enhanced and protected Marsh's goodwill" (Br. at 21) is not consistent with the record. The Court of Appeals focused specifically on the effect of the transfer in concluding that it did not justify a restraint of trade in the form of a covenant not to compete.

appears to be that any consideration of any sort should suffice, as long as the employer is trying to protect its goodwill. Given that covenants not to compete are always imposed to protect a business from competition, this argument would gut the rule. It is thus Petitioners who would abandon *Light*, *Sheshunoff*, and *Mann*, despite their pretense of embracing those decisions.

D. The Court of Appeals' Decision Does Not "Create an Environment Hostile to Economic Development."

Petitioners' apocalyptic prediction that the Court of Appeals' decision will result in job losses and an exodus of employers out of the state (Br. at 39-41) is a misplaced attempt to manufacture a reason why this case -- which follows well-established precedent -- is conceivably important to the jurisprudence of the state. Petitioners' argument is premised on one of their key fallacies: that the Court of Appeals' decision threatens the right of employers to protect their goodwill. The Court of Appeals did not address whether goodwill is an interest worthy of protection through a covenant not to compete because the point has never been in dispute. It simply reaffirmed that employers seeking to protect their goodwill with covenants not to compete must meet certain requirements, all of which are outlined in this Court's decisions in *Light*, *Sheshunoff*, and *Mann*. 287 S.W.3d at 381-82. Proper application of those requirements led the Court of Appeals to determine that Cook's Non-Solicitation Agreement is unenforceable -- not because the Court of Appeals had some aversion to protecting goodwill, but because MMC's consideration did not give rise to the interest in restraining competition that MMC purports to have.

As discussed above, there can be little doubt that the "gives rise" requirement accurately reflects Texas public policy. And it is sound policy. By ensuring that employers seeking an extraordinary restraint on their employees' future activities give the employee something that justifies that restraint, the "gives rise" requirement strikes an appropriate balance between beneficial agreements that maintain fair competition and inappropriate restraints of trade that chill competition. A rule that would allow an employer to dangle financial carrots in front of their employees in return for covenants not to compete falls into the latter category. Such a rule would allow employers to take advantage of their superior bargaining position and pressure Texas employees into forfeiting their rights to compete in the future in exchange for all or part of their deserved compensation. *See Hill*, 725 S.W.2d at 177 (Gonzalez, J., dissenting) (noting that an employer's superior bargaining position can result in economic coercion against the employee). The Court of Appeals' opinion does not threaten economic development -- but Petitioners' attempt to liberalize Texas law surely would do so.

PRAYER

Because the decision of the Court of Appeals presents a straightforward application of a principle to which this Court has adhered in all of its decisions relating to the Covenants Not To Compete Act, Respondent Rex Cook prays that the Court deny the Petition for Review or affirm the Court of Appeals' decision.

Respectfully submitted,

/s/ Monica W. Latin

Monica Wiseman Latin
State Bar No. 00787881
Stephanie Dooley Nelson
State Bar No. 24002006
Jesse K. Shumway
State Bar No. 24046841
Carrington, Coleman, Sloman & Blumenthal, L.L.P.
901 Main Street, Suite 5500
Dallas, Texas 75202
Telephone: 214-855-3000
Telecopy: 214-855-1333

Attorneys for Respondent Rex Cook

CERTIFICATE OF SERVICE

The undersigned hereby certifies that on February 18, 2010, a copy of this Respondent's Brief on the Merits was served by Federal Express on the following counsel for Petitioners:

Thomas L. Case
Beverly A. Whitley
John R.W. Fugitt
Bell Nunnally & Martin LLP
3232 McKinney Ave., Suite 1400
Dallas, Texas 75204-2429

/s/ Monica W. Latin
Monica Wiseman Latin

APPENDIX

Court of Appeals

First District of Texas

JUDGMENT

GLENN A. TOTINO, SCOTT D. NEWELL, JAMES R. NOLEN, JACK FREEMAN, WILLIS CORROON, INC., AND WILLIS CORROON CORPORATION OF TEXAS, APPELLANTS

Appeal from the 280th District Court, Harris County, Texas. (Tr. Ct. No. 97-49862). Panel consists of Justices Mirabal, Wilson, and Taft. Opinion delivered by Justice Taft.

NO. 01-97-01204-CV V.

ALEXANDER & ASSOCIATES, INC. AND ALEXANDER & ALEXANDER OF TEXAS, INC., APPELLEES

On this day came on to be considered appellants' motion to dismiss the appeal, and, the motion having been duly considered, it is, therefore, **ordered** that this Court's former judgment of August 20, 1998, of record in Minute Book 33, Page 3688, be, and the same hereby is, **VACATED, SET ASIDE,** and **ANNULLED.**

It is further **CONSIDERED, ADJUDGED,** and **ORDERED** that the appeal herein be, and the same hereby is, **dismissed.**

It is further **ORDERED** that the appellants, GLENN A. TOTINO, SCOTT D. NEWELL, JACK FREEMAN, WILLIS CORROON, INC., AND WILLIS CORROON CORPORATION OF TEXAS, jointly and severally, pay 83 percent of the costs incurred by reason of this appeal, and that appellees, ALEXANDER & ASSOCIATES, INC. AND ALEXANDER & ALEXANDER OF TEXAS, INC., jointly and severally, pay 17 percent of the costs incurred by reason of this appeal.

It is further **ORDERED** that this decision be certified below for observance.

Judgment rendered by panel consisting of Justices Mirabal, Wilson, and Taft.

Judgment rendered March 30, 1999

COURT OF APPEALS
★ ★
OF THE STATE OF TEXAS

STATE OF TEXAS
COUNTY OF HARRIS

I, M. Karinne McCullough, Clerk of the Court of Appeals, First District, Houston, Texas, do hereby certify that the foregoing is a true and correct copy of the original record, as appears of record on file in my office.

Witness my official hand and seal of office, this

2?th day of January 2016

M. Karinne McCullough, Clerk of the
Court of Appeals, First District,
Houston, Harris County, Texas.

Vinnia
Deputy