No. 09-0558

In The Supreme Court of Texas

MARSH USA INC. and
MARSH & McLENNAN COMPANIES, INC.,

PETITIONERS,

v.

REX COOK,

RESPONDENT,

REPLY IN SUPPORT OF PETITIONER'S BRIEF ON THE MERITS

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ARGUMENT AND AUTHORITIES

I. TEXAS PUBLIC POLICY ENCOURAGES INVESTMENT AND ECONOMIC DEVELOPMENT THROUGH NON-COMPETES.

Texas public policy favors non-competes that encourage businesses to invest in the development of customer goodwill. Indeed, in passing the Act, the Texas Legislature recognized that non-competes encourage investment and economic development:

> It is generally held that these covenants, in appropriate circumstances, encourage greater investment in the development of trade secrets and goodwill [*sic*] employee training, provide contracting parties with a means to effectively and efficiently allocate various risks, allow the freer transfer of property interests, and in certain circumstances, provide the only effective remedy for the protection of trade secrets and good will.

SEN. RESEARCH COMM., BILL ANALYSIS, Tex. S.B. 946, 71st Leg., R.S. (1989); *Alex Sheshunoff Management Servs., L.P. v. Johnson*,, 209 S.W.3d 644, 653 (Tex. 2006) (noting that the Legislature passed the Act to "remove an impairment to economic development in the state." (quoting legislative history)). "A covenant satisfying the [Act] is part of a transaction that benefits both parties. In the employment setting, these benefits include . . . greater investment in the improvement of business methods . . . ." *Sheshunoff*, 209 S.W.3d at 660 (Jefferson, J., concurring) (citing Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625, 627 (1960)). The Court should reject Cook's narrow interpretation of the Act because it would discourage businesses from investment and economic development.

II. THE PRESENCE OF A "FINANCIAL BENEFIT" DOES NOT NEGATE ENFORCEABILITY OF A NON-COMPETE.

Cook cites *Sheshunoff* and other Texas cases addressing "financial benefits." Resp. Br. 9-10, 20-21. He claims that "[t]he Court of Appeals' conclusion that MMC's consideration [failed the "gives rise" test] was not only consistent with, but *was mandated by*, Texas law . . . ." Resp. Br. 9-11, 20-21 (emphasis added). This "financial benefits" argument ignores the direct link between Marsh's stock investment and the growth of its goodwill and relies on an overly broad interpretation of *dicta* in *Sheshunoff* that does not apply here.

A. Marsh's Stock Investment Encouraged Cook to Grow Its Goodwill.

Sheshunoff involved confidential information, not stock. *See* 209 S.W.3d at 649. Ignoring this fact, Cook relies on *dicta* in *Sheshunoff* wherein the Court stated that a *mere promise* "to pay a sum of money" cannot support a non-compete, and extrapolates from that *dicta* that no financial benefit can support a valid non-compete under the Act.[1] Resp. Br. 9-10, 20. A stock investment in a key employee designed to encourage the development of customer goodwill bears no resemblance to a mere promise of money. Stock vests the shareholder with ownership. The performance of the company dictates the value of stock, which can increase *or* decrease in value. Ownership aligns the shareholder's interests with those of the company and creates an incentive to see that the

[1] Under Cook's logic, the associate who receives a fixed salary has the same interest in growing the goodwill of a law firm as an equity partner whose compensation depends on the success of the firm.

company performs well. A court would have to disregard these corporate facts to find a stock investment is the same as cash.

The remaining state cases cited by Cook in support of his "financial benefits" argument do not address stock consideration. In *Trilogy Software Inc. v. Callidus Software, Inc,* 143 S.W.3d 452 (Tex. App. — Austin 2004, pet. denied), the "financial benefit" at issue was merely an agreement to provide one month additional employment and salary. *Id.* at 462-63. Likewise, *Strickland v. Medtronic, Inc.,* 97 S.W.3d 835 (Tex. App. — Dallas 2003, pet. dism'd w.o.j.), involved a ninety-day notice provision and a promise to compensate the employee in the event of economic hardship caused by the non-compete. *Id.* at 839. Neither of these cases involved a stock award with a direct connection to growth of goodwill. (R. 95-97.) *CSCS, Inc. v. Carter*, 129 S.W.3d 584 (Tex. App. — Dallas 2003, no pet.), involved an employer's illusory promise that it "may reveal" confidential information to the employee and is therefore wholly inapplicable. *Id.* at 592. *Valley Diagnostic Clinic v. Dougherty*, 287 S.W.3d 151 (Tex. App. — Corpus Christi 2009, no pet.), addressed a deferred compensation provision and found the non-compete invalid under the "return promise" prong of the "ancillary to or part of" test. *Id.* at 157. This case does not involve the "return promise" prong.[2]

Cook's federal case law is also inapplicable. In *Olander v. Compass Bank*, 172 F. Supp. 2d 846 (S.D. Tex. 2001), *aff'd*, No. 01-21151, 44 Fed. Appx. 651 (5th Cir. 2002) (unpublished), the court indicated that the "gives rise" analysis was fact-specific:

[2] As Cook admits, "[t]he first prong of this test is the only one at issue in this appeal." Resp. Br. 7.

> The Court does not rule that a stock option agreement can never give rise to an interest in restraining competition; rather, the Court finds that no interest in restraining Olander in his post-Compass employment has been shown to arise from Compass's grant of the stock options in the Agreements *in this case*.

Id. at 855 (emphasis added). Notably, the court reached its decision only after an evidentiary hearing, tantamount to a trial on the merits. *Id.* at 848. The court of appeals, on the other hand, was not free to make its own findings and was required to indulge every reasonable inference and resolve any doubts in Marsh's favor. *See Provident Life & Accident Ins. Co.*, 128 S.W.3d 211, 215 (Tex. 2003). Furthermore, *Olander* turned on the employer's failure to enunciate a theory as to how the promise to grant stock options gave rise to a worthy interest. *See id.* at 855. Unlike in *Olander*, Marsh has shown how its stock investment gave rise to its interest in restraining Cook. (R. 95-97, 99, 127, 131.) Indeed, Cook *admits* that "it is the award of stock options that *creates an incentive* for an employee to remain employed . . . and presumably to continue *to grow customer relationships* . . . ." Resp. Br. 23 (emphasis added).

Oxford Global Resources, Inc. v. Weekley-Cessnun, No. Civ. A. 3:04-CV-0330, 2005 WL 350580 (N.D. Tex. 2005) (unpublished), contains a footnote in which the court off-handedly stated, in *dicta* and without any factual or legal analysis, that "stock options do not give rise to an employer's interest in restraining competition or solicitation." *Id.* at *4 n. 8. Once again, *Oxford Global* involved a preliminary injunction proceeding, not a summary judgment. *Id.* at *2. Moreover, the holding in *Oxford Global* relied on footnote six of *Light v. Centel Cellular Co. of Texas,* 883 S.W.2d 642 (Tex. 1994). *See* 2005 WL

350580 at *4 (citing *Light*, 883 S.W.2d at 645 n. 6). The Court has since rejected footnote six of *Light*. *See Sheshunoff*, 209 S.W.3d at 650-51. The Court should not follow *dicta* in a case applying footnote six of *Light*, particularly where it lacks any factual or legal analysis and is procedurally inapposite.

B. Marsh's Stock Investment Differs From a Naked Restraint With No Protectable Interest.

Further, the *dicta* in *Sheshunoff* does not support the invalidation of a stock investment designed to grow goodwill. The *dicta* in *Sheshunoff* simply illustrates that the mere payment of money alone, without a legitimate business interest to protect like goodwill in the employment setting, creates an unenforceable, naked restraint of trade. *See Sheshunoff*, 209 S.W.3d at 650. The *Restatement* illustrates the difference between an unenforceable, naked restraint of trade like the one discussed in *Sheshunoff* and a valid restraint designed to protect goodwill in the employment setting:

> A is about to go into a business that would compete with B's business in the same city. B pays A $50,000 in return for A's promise not to compete. A's promise is unreasonably in restraint of trade and is unenforceable on grounds of public policy.

RESTATEMENT (SECOND) OF CONTRACTS § 187 cmt. b, illus. 1 (1981).

> A employs B as a fitter of contact lenses under a one-year employment contract. As part of the employment agreement, B promises not to work as a fitter of contact lenses in the same town for three years after the termination of his employment. B works for A for five years, during which time he has close relationships with A's customers, who come to rely upon him. B's contacts with A's customers are such as to attract them away from A. B's promise is not unreasonably in restraint of trade and enforcement is not precluded on grounds of public policy.

RESTATEMENT (SECOND) OF CONTRACTS § 188 cmt. g, illus. 6 (1981). A naked restraint

of trade, with no showing of a goodwill interest to protect, bears no resemblance to the investment Marsh made in this case — a stock award with an ultimate value dependent on the success of the company that incentivized Cook to grow and create the very customer goodwill that determines Marsh's success.

Cook inaccurately claims that "Petitioners have never contended that the consideration for Cook's covenant not to compete was an investment by MMC in Marsh's business . . . ." *See* Resp. Br. 30. To the contrary, the entire transaction was an investment by MMC in the growth of Marsh's goodwill, and therefore, its business. (R. 95-97.) Cook's claim that "MMC invests in Marsh for its own benefit, not as consideration to Cook," *see* Resp. Br. 30, ignores Justice Jefferson's recognition in his concurring opinion in *Sheshunoff* that any contract involves the payment of consideration to receive a benefit in return. *See Sheshunoff*, 209 S.W.3d at 659 (Jefferson, J., concurring) ("Each party's promise or performance serves as a reciprocal inducement to enter the agreement."). The Court should not penalize Marsh for seeking a benefit from its investment, particularly when the Act was intended to encourage such investment.

C. Marsh's Stock Investment to Grow Goodwill Satisfies Cook's "Financial Benefits Plus" Test.

Perhaps recognizing the many flaws in his "financial benefits" test, Cook reasons that "the *presence* of a financial component" does not prevent consideration from supporting a non-compete; rather, "stock . . . is incapable of supporting a [non-compete] because of the *absence* of any element justifying a restraint on trade." Resp. Br. 20 n. 8. Cook's admission that a financial component can support a non-compete undermines his

entire "financial benefits" argument. Furthermore, under this "financial benefits plus" test, Marsh has demonstrated a number of additional "element[s] justifying a restraint of trade," *see* Resp. Br. 20 n. 8, including the existence of an employment relationship, a stock investment designed to grow customer goodwill, and such goodwill held in the hands of a valuable employee. (R. 95-97.) Petitioners have cited to over fifty years of Texas case law recognizing customer goodwill in the employment setting as sufficient justification for a restraint of trade. *See* Br. 14-17.

III. TEXAS LAW DOES NOT RECOGNIZE A "COMPETITIVE VULNERABILITY" TEST.

Cook cites no authority for his argument that an employer's consideration cannot meet the "gives rise" test unless the consideration places the employer "in a position of competitive vulnerability and the employee in a position of unfair competitive advantage." Resp. Br. 11-12. The Legislature intended to "encourage greater investment in the development of trade secrets and goodwill" and to "remove an impairment to economic development in the state." SEN. RESEARCH COMM., BILL ANALYSIS, Tex. S.B. 946, 71st Leg., R.S. (1989); *Sheshunoff,* 209 S.W.3d at 653; *see also id.* at 660 (Jefferson, J., concurring). Nothing in the legislative history of the Act supports a policy that requires an employer to place itself in a position of weakness to protect its goodwill.

Even if the "competitive vulnerability" test had legal support, MMC has placed itself in a position of vulnerability by investing substantial consideration in a vital employee holding the means to divert Marsh's goodwill to a competitor. Contrary to Respondent's assertions, Cook was not just any employee. Resp. Br. 5, 22, 30. He had

built and was capable of building the substantial customer relationships that define Marsh's business. (R. 96-97.) Thus, he met the factors recognized by Texas courts to give rise to a protectable goodwill interest under the Act. *See generally Totino v. Alexander & Assocs., Inc.*, No. 01-97-01204-CV, 1998 WL552818, at *7 (Tex. App. — Houston [1st Dist.] August 20, 1998, no pet.) (not designated for publication) (describing factors)[3]; *Hospital Consultants, Inc. v. Potyka* 531 S.W.2d 657, 662 (Tex. Civ. App. — San Antonio 1975, writ ref'd n.r.e.) (finding that, in order to protect goodwill based on customer relationships, employer must show that customer will likely identify employee with product or service sold based on frequency of contact, locale, and functions of employee's job). Conversely, no amount of stock or other consideration would likely allow an employer to prevent a cashier from working for a competing business because there is no substantial goodwill interest to protect.

Furthermore, while Cook claims that it is only access to confidential information that places an employee "in a position of unfair competitive advantage," Resp. Br. 11, and exposes an employer to the risk of "unfair competition," Resp. Br. 12, 24, Cook disregards the litany of cases cited by Petitioners, both pre- and post-*Hill v. Mobile Auto Trim, Inc.*, 725 S.W.2d 168 (Tex. 1987), that recognize the need to protect an employer from the risk that an employee with substantial customer relationships could use those

[3] Cook devotes substantial attention to the fact that the *Totino* opinion was set aside. *See* Resp. Br. viii, 26. Petitioners do not cite *Totino* for its precedential value. Rather, Petitioners cite to *Totino* to illustrate the conflict between courts of appeals as to enforcement of a non-compete supported by a stock investment designed to grow customer goodwill.

relationships to divert the employer's business. *See* Br. 14-17. Cook incorrectly claims that "reliance on case law pre-dating the Act, as amended in 1993 and interpreted by *Light* and its progeny, is . . . misplaced." Resp. Br. 13 n. 5. The Act was passed to "simply restore over 30 years of common law developed by Texas Courts . . . ." *Sheshunoff,* 209 S.W.3d at 653 (quoting HOUSE RESEARCH ORG., BILL ANALYSIS, Tex. S.B. 946, 71st Leg., R.S. (1989)). Thus, case law pre-dating the Act is particularly instructive. *See John R. Ray & Sons, Inc. v. Stroman,* 923 S.W.2d 80, 84-85 (Tex. App. – – Houston [14th Dist.] 1996, writ denied) ("[Section 15.50] adopted the Texas common law in many respects. We may therefore look to cases prior to the statute's enactment for guidance."). Cook also fails to acknowledge the unfair competition that exists in his signing a non-compete, taking Marsh's substantial investment, and then walking out and diverting Marsh's customers and goodwill:

> Under traditional agency concepts, any new business or improvement in customer relations attributable to [the employee] during his employment is solely for the benefit of the principal. This is what he is being paid to do. *When he leaves the company he should no more be permitted to try to divert to his own benefit the product of his employment than to abscond with the company's cash box.*

Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625, 653-54 (1960) (*cited by Peat Marwick Main & Co. v. Haass,* 818 S.W.2d 381, 387 (Tex. 1991)) (emphasis added).

> The covenant, in turn, ensures that the costs incurred to develop human capital are protected against competitors who, having not made such expenditures, might offer higher salaries to employees and thereby appropriate the employer's investment.

Sheshunoff, 209 S.W.3d at 660 (Jefferson, J., concurring) (citing Lembrich, *Garden Leave: A Possible Solution to the Uncertain Enforceability of Restrictive Employment Covenants*, 102 COLUM. L. REV. 2291, 2296 (2002)).

It is disingenuous for Cook to claim that his attempt to divert Marsh's customer goodwill to his own benefit is not unfair competition or that Marsh has not placed itself in a position of vulnerability by investing so much in the development of customer goodwill. Similarly, to the extent Cook implies that Marsh deprived him of "deserved" or "earned" compensation, *see* Resp. Br. 6, 37, Cook has never claimed he was not paid his salary. As for the stock — the only way Cook "earned" the stock was in exchange for his agreement to not compete. (R. 124-25, 131.) Cook breached this non-compete, retained the benefit, and then diverted Marsh's customers. (R. 95, 97.) Marsh's vulnerability lies in the fact that, absent a non-compete, its goodwill investment can walk out the door with Cook, thereby causing substantial financial harm. If employers cannot protect their goodwill held by valuable employees such as Cook, they have little incentive to invest additional resources in such employees. Employers also have little incentive to invest in Texas over nearby states when such states afford clearer and more consistent protection of customer goodwill. *See* Br. 39-40.

Cook's claim that a company's investing in its employees to build goodwill only "strengthens its position in the competitive marketplace" while providing confidential information only weakens an employer is similarly flawed. Resp. Br. 24. Again, the Act serves to encourage investment and economic development, not weakness. *See* Section I,

supra. Further, Cook overlooks that providing confidential information to employees *also* strengthens a company. Sharing with the entire sales force confidential information such as customer data or proprietary software makes a company more competitive than holding such information back. Cook's unsupported "competitive vulnerability" test adds nothing to the analysis except another layer of distraction likely to cause more confusion.

IV. THE COURT SHOULD JUDGE THE CONSIDERATION GIVEN BY THE EMPLOYER FROM THE EMPLOYER'S PERSPECTIVE.

A. The "Gives Rise" Test Examines the Employer's Interest, Not the Employee's.

Throughout Cook's brief, he applies a one-sided analysis to the consideration given by Marsh. Cook views the stock transaction only from his perspective, claiming that all he received was a discount on publicly traded stock representing 0.0006% of MMC that he could have purchased on the open market. *See, e.g.*, Resp. Br. viii, 1, 5, 16 – 21, 23. The "gives rise" test focuses on whether the consideration *given by the employer* gives rise to the *employer's interest* in restraining the employee, not on what the employee received. *See Sheshunoff*, 209 S.W.3d at 648-49. Fixating solely on the discount or analyzing what the employee chose to do with the consideration after actual receipt misses the point. *See id.* Regardless, Cook fails to acknowledge the evidence that Marsh's stock investment created a protectable goodwill interest. (R. 95-97.) Cook attempts to dismiss Marsh's interest by claiming "the interest . . . 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." Resp. Br. 21. Cook ignores the evidence in the

record that Marsh's stock investment was offered to Cook, a key employee, to enhance Marsh's goodwill, which exists in the form of the relationships between such employees and Marsh's customers. (R. 95-97.) The court of appeals was obligated to construe this evidence and all inferences in Marsh's favor. *See Provident*, 128 S.W.3d at 215.

B. The Sufficiency of the Consideration Determines the Reasonableness of the Restraint, Not Its Enforceability.

Cook's unilateral perspective on the discount he received, the public vs. privately traded nature of the stock, and the percentage of ownership interest he received also present significant enforcement problems. These arguments all beg the question of where to draw the line. The public or private nature of an ownership interest makes no difference with respect to the goodwill incentive it creates. Moreover, 0.0006 percent of MMC, a company with a $12 billion market capitalization, likely provides far more incentive to grow the customer relationships that increase MMC's stock value than a fifty-percent interest in a smaller company. There is no objective basis upon which an employer could predict in advance whether a fifty-percent interest in a company would satisfy Cook's sufficiency test, but a forty-nine percent interest would not.

To avoid precisely these types of issues, courts have consistently held that only the *existence* of consideration determines whether the parties formed a valid contract, not the *adequacy* of such consideration. RESTATEMENT (SECOND) OF CONTRACTS § 79 cmt. c (1979) ("Ordinarily, therefore, courts do not inquire into the adequacy of consideration."); *see also id.* § 79 ("If the requirement of consideration is met, there is no additional requirement of . . . (b) equivalence in the values exchanged."); *see generally Sudan v.*

Sudan, 145 S.W.3d 280, 285 (Tex. App. — Houston [14th Dist.] 2004, no pet.) ("[I]f consideration is found . . . courts will not ordinarily inquire into the adequacy of consideration."), *rev'd on other grounds*, 970 S.W.2d 520, 526 (Tex. 1998). Furthermore, after *Sheshunoff*, a court should not judge the *sufficiency* of consideration apart from the reasonableness of the covenant. *See Powerhouse Prods., Inc. v. Scott*, 260 S.W.3d 693, 699 (Tex. App. — Dallas 2008, no pet.). *Sheshunoff* encouraged courts to judge the sufficiency of consideration as part of the reasonableness test *after* the court first determines that some consideration exits to support the otherwise enforceable agreement. *Id.* Thus, when applying the "gives rise" test, the Court should address the existence of consideration without delving into the quality of the consideration.

V. THE COURT OF APPEALS TIMING REQUIREMENT CONFLICTS WITH *SHESHUNOFF* AND *MANN*.

In *Sheshunoff*, a unilateral contract entered at an *earlier point* but made enforceable by the employer's *subsequent performance* satisfied the requirements of the Act. *See* 209 S.W.3d at 650-51, 655. *Sheshunoff* also recognized that the employer's promise to disclose, made *before the transfer* of consideration, met the "gives rise" test:

> ASM promised to disclose confidential information and . . . Johnson promised not to disclose confidential information. The covenant was ancillary to or part of the agreement under [the "gives rise" and "return promise" prongs of the "ancillary to or part of" test] of *Light* quoted immediately above.

Id. at 649. *Sheshunoff* viewed the subsequent moment of transfer as simply creating the enforceable agreement. *Id.* at 650 ("[I]f this particular consideration is never provided . . . the covenant not to compete cannot be enforced."); *see also id.* at 655 ("In this typical

arrangement, the employer's promise is prospective and becomes enforceable only after the employer provides such [consideration]."). In holding that the *promise* to disclose was sufficient to meet the "gives rise" test and holding that the later *transfer* of confidential information simply made the agreement enforceable, *Sheshunoff* looked to the entire transaction between the parties and not just the moment of transfer in a vacuum. *Id.* at 649-51, 655.

Similarly, in *Mann Frankfort Stein & Lipp Advisor, Inc. v. Fielding*, 289 S.W.3d 844 (Tex. 2009), the Court found that the employer's "*implied promise and its actual provision* [to the employee] of access to confidential information satisfied the ['gives rise' test] because *the promise and the provision* of confidential information *generated* [*the employer's*] *interest* in preventing disclosure of such information." 289 S.W.3d at 852 (emphasis added). As in *Sheshunoff*, *Mann* used the actual transfer to find the agreement enforceable. *Id.* ("[T]he parties still formed an 'otherwise enforceable agreement' as contemplated by [the Act] when [the employer] performed its illusory promise by actually providing confidential information." (quoting *Sheshunoff*, 209 S.W.3d at 651)); *id.* at 849-50 ("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 [consideration]."). Thus, in both *Sheshunoff* and *Mann*, the Court looked to the transaction as a whole, beginning with the employer's *promise* to provide consideration, to determine whether it satisfied the "gives rise" prong of the "ancillary to or part of" test.

The court of appeals, on the other hand, applied the "gives rise" test only at the moment of transfer, ignoring the interests created beforehand that gave rise to a protectable interest under *Sheshunoff* and *Mann*, and further held that any such pre-existing interests actually invalidated the non-compete:

> The *give rise* requirement may be met *only if* the consideration given by the company creates the interest in restraining competition. This, in turn, will occur *only where the interest* in restraining competition *did not exist before the consideration was given*. Under our facts, MMC's interest in restraining Cook from competing did not change or arise *at the time that it transferred the stock to Cook*. MMC offered the stock option to Cook because he was a valuable employee. Cook did not become any more valuable to MMC after he exercised the option and MMC transferred the stock to him.

See Marsh USA Inc. v. Cook, 287 S.W.3d 378, 382 (Tex. App. — Dallas 2009, pet. filed) (initial emphasis in original, remaining emphasis added). This new "non-existence" requirement directly conflicts with *Sheshunoff* and *Mann*, both of which recognize that the "gives rise" analysis begins before the transfer, while the ultimate transfer creates an enforceable agreement. *See Sheshunoff*, 209 S.W.3d at 649-50, 655; *Mann*, 289 S.W.3d at 849-50, 852.

Consistent with the court of appeals, Cook urges the Court to look at the transfer of stock in a vacuum and ignore the entire transaction between the parties. *See, e.g.*, Resp. Br. 18, 23-24. For example, Cook claims that 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 on goodwill." Resp. Br. 24. (emphasis added). Cook also affirms that "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 [non-compete]." Resp. Br. 35 n. 13. (emphasis added). *Sheshunoff* and *Mann* make clear that the "gives rise" analysis begins well before the transfer of consideration that makes the agreement enforceable. *Sheshunoff*, 209 S.W.3d at 649-50, 655; *Mann*, 289 S.W.3d at 849-50, 852.

In addition, Cook incorrectly claims that the court of appeals opinion allows a "new" or "changed" interest at the moment of transfer to meet the "gives rise" test. Resp. Br. 15, 32, 34. The court of appeals did not allow for any changed, pre-existing interest to meet the "gives rise" test. In fact, the court of appeals stated that the consideration given by the employer meets the "gives rise" test "*only* where the interest in restraining competition *did not exist* before the consideration was given." *Marsh*, 287 S.W.3d at 382 (emphasis added).

The "non-existence" test dramatically alters and narrows the "gives rise" analysis to focus only on the time of transfer rather than the transaction as a whole. The record establishes that the transaction as a whole, from the offer of stock (as Cook concedes, *see* Resp. Br. 23) to its actual transfer (as the court of appeals recognized, *see Marsh*, 287 S.W.3d at 381), was intended to grow and enhance Marsh's goodwill. (R. 95-97, 99, 127, 131.) The non-existence test also imposes a new timing requirement that would prevent a prior promise from meeting the "gives rise" test. The focus only on the moment of transfer is at odds with *Sheshunoff* and *Mann* and creates an overly-restrictive interpretation of an Act designed "to facilitate, not impede, enforcement of covenants not to compete." *Mann*, 289 S.W.3d at 858 (Hecht, J., concurring).

VI. THE COURT OF APPEALS INTERPRETED THE ACT TO DEFEAT ITS VERY PURPOSE.

Cook claims that "[i]n a last ditch effort, Petitioners ask this Court to change Texas law." Resp. Br. 30. Petitioners are not asking the Court to change Texas law, but to uphold it in harmony with the legislative intent and the Court's recent opinions in *Sheshunoff* and *Mann*.

A. *Sheshunoff* Disapproved of the Use of Tests and Timing Requirements that Defeat the Purpose of the Act.

The "financial benefits" test, the "financial benefits plus" test, the "competitive vulnerability" test, the focus on the sufficiency of consideration, and the "non-existence" timing requirement all have one thing in common. They are the precise type of arguments the Court disapproved of in *Sheshunoff*. *See* 209 S.W.3d at 655-56. These tests and timing requirements distract from the "core inquiry" and "central focus" under the Act, which is the reasonableness of the restraint, *see id.* at 655, and they improperly divert the focus toward issues of contract formation. *See Mann*, 289 S.W.3d at 856 (Hecht, J., concurring) ("[A] shift in focus away from the reasonableness of the covenant[] . . . toward issues of contract formation increases the risk that achieving what must in the end be an equitable result will cause a court to distort, confuse, or misstate contract law.").

B. The Act Allows an Employer to Protect Goodwill Standing Alone.

Cook accuses Petitioners of having "no alternative interpretation" of the Act, but Cook has not advanced an interpretation that would allow an employer to protect goodwill standing alone. Resp. Br. 35. While Cook claims that goodwill still remains a

protectable interest under the Act, Resp. Br. vii, 13, 36, the only protectable interest Cook identifies in his Brief is confidential information. *See, e.g.*, Resp. Br. 6, 9, 11-12, 24-25. Indeed, under Cook's interpretation, in order to protect goodwill, the employer must *also* have confidential information to disclose and protect. *See* Resp. Br. 12 (claiming award of options to grow goodwill is insufficient, but "[i]f 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").

What's more, Cook's interpretation of the Act creates a double standard for confidential information and goodwill. *Mann* embraced an expanded view of enforceability of non-competes involving confidential information by recognizing that an *implied promise* to provide confidential information can support a non-compete. *Mann*, 289 S.W.3d at 852. It makes no sense to interpret the Act so broadly for confidential information but so narrowly for goodwill. Goodwill, which is admittedly different from confidential information, is no less important to a business, and Cook is incorrect to claim that "protection of customers is inherent in almost any covenant not to compete." Resp. Br. 14. To the contrary, confidential information is frequently the only interest at issue in non-compete cases. *See, e.g., Mann*, 289 S.W.3d at 852; *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, 157 (Tex. App. — San Antonio 1997, no pet.). Thus, while Coca-Cola relies on its secret formula to sell its product, Marsh, whose products are the same as its competitors, must rely on the relationships between its employees and

customers to compete in its area of business. (R. 97.) Because the existence of long term, quality relationships between customers and key employees provides to Marsh the same advantage that confidential information provides to other businesses, the Court should afford the same degree of protection to customer goodwill that confidential information receives under the Act.

C. The Court Should Avoid an Interpretation of *Light* that Embraces its Flaws.

Cook argues that *Light*'s "ancillary to or part of" test, with only the "limited modification" removing footnote six, is the law in Texas. Resp. Br. vii, 4, 8. In creating the "ancillary to or part of" test, *Light* "erected two additional requirements ['gives rise' and 'return promise'] to enforce a noncompete." *Sheshunoff*, 209 S.W.3d at 664 (Wainwright, J., concurring). These "court made requirements" were in *dicta* and represented a "seriously flawed statement of contract law." *Sheshunoff*, 209 S.W.3d at 664 (Wainwright, J., concurring); *Mann*, 289 S.W.3d at 857 (Hecht, J., concurring) (noting the Court's "estrangement" from *Light*).

Indeed, much of the confusion in *Light* lies in the requirements it adopted. *Light* based its "ancillary to or part of" test on a dissenting opinion in *Business Electronics Corp. v. Sharp Electronics Corp.*, 485 U.S. 717 (1988), which the majority said "introduce[d] needless confusion into antitrust terminology" regarding the requirements for a restraint to be ancillary to an otherwise enforceable agreement, not part of the agreement. *See Light*, 883 S.W.2d at 647; *Business Electronics*, 485 U.S. at 730. *Light* applied this confusing test to both *ancillary* non-competes, and non-competes that are

part of an enforceable agreement. *See Donahue v. Bowles, Troy, Donahue, Johnson, Inc.*, 949 S.W.2d 746, 756-57 (Tex. App. — Dallas 1997, writ denied) (Moseley, J., concurring) ("*Light* thus lumped together the two alternative elements found in section 15.50 of the Business and Commerce code, effectively rendering the "or part of" phrase in the 1993 amendments a nullity."). Here, the non-compete was *part of* the agreement, but the court of appeals still required it to meet the elements of an ancillary document. *See Sheshunoff*, 209 S.W.3d at 665 (Wainwright, J., concurring) ("[A]ncillary means 'supplementary' and part means 'one of several units of which something is composed.'" (quoting WEBSTER'S NINTH NEW COLLEGIATE DICTIONARY 84, 857 (9th ed. 1990))). Because of these flaws in the *Light* test, the Court has withdrawn not once, but twice, from the *Light* opinion. *See Mann*, 289 S.W.3d at 857 (Hecht, J., concurring) ("We have since withdrawn from [*Light*'s footnote six], today we withdraw further . . . .").

While *Light* has no doubt caused much of the uncertainty that exists today, Petitioners are not asking the Court to overturn *Light* itself, but rather the court of appeals' interpretation of *Light's* "ancillary to or part of" test. The *Light* test has made proper interpretation of the Act difficult, and unless courts are vigilant, litigants can use misinterpretations of *Light* to circumvent the intent of the Act. The court of appeals opinion is the result of such a misinterpretation. Rather than embrace the purpose of the Act, the court of appeals opinion embraces the flaws with *Light* that this Court has sought to avoid.

D. The Court Should Interpret the Act to Treat Goodwill and Confidential Information as Equally Worthy of Protection.

Consistent with *Sheshunoff* and *Mann*, the Court should look at the entire transaction, beginning with Marsh's offer of stock options to Cook, to determine whether Marsh's stock investment met the "gives rise" requirement. *See Sheshunoff*, 209 S.W.3d at 649-50, 655; *Mann*, 289 S.W.3d at 849-50, 852. The employer's actual transfer of consideration makes the agreement enforceable, and should do so without any requirement of "new" or "changed" interest upon transfer. *Id.* The Court should also consider the relationship between the parties in conducting the "gives rise" test, which in this case was an employment relationship rather than a naked restraint of trade. *See Sheshunoff*, 209 S.W.3d at 658 (Jefferson, J., concurring) (recognizing that under pre-Act common law, a non-compete was "unenforceable . . . unless it arose from a 'valid transaction or relationship,' such as 'the purchase of a business, and employment relationships.'" (quoting *Light*, 883 S.W.2d at 644 n. 4)); *DeSantis v. Wackenhut Corp*. 793 S.W.2d 670, 682 (Tex. 1990) (finding a restraint "unreasonable unless it is part of and subsidiary to an otherwise valid transaction or relationship which gives rise to an interest worthy of protection." (citing RESTATEMENT (SECOND) OF CONTRACTS § 187 cmt. b (1979))).

The Court should focus on the reasonableness of the restraint rather than on issues of contract formation. *Mann*, 289 S.W.3d at 856 (Hecht, J., concurring); *Sheshunoff*, 209 S.W.3d at 655-56. "Section 15.50(a) seeks to enforce reasonable covenants that protect legitimate interests and are supported by valid consideration." *Sheshunoff*, 209 S.W.3d at

660 (Jefferson, J., concurring). "[T]he focus should be on the purpose of the otherwise enforceable agreement rather than the consideration for it." *Id.* at 664 (Wainwright, J., concurring). Thus, the sufficiency of consideration should only affect the reasonableness inquiry, not the enforceability of the agreement. Finally, the Court should interpret the Act consistent with its purpose — to promote investment and to overturn *Hill*'s threat to goodwill, not require vulnerability and protect only confidential information. *See Peat Marwick Main & Co. v. Haass*, 818 S.W.2d 381, 388 (Tex. 1991); *Hill*, 725 S.W.2d at 171.

CONCLUSION

An employer should be able to protect customer relationships under the Act in the same way it could before *Hill*. The Court should interpret the Act in accordance with *Mann* and *Sheshunoff* and uphold the purpose of the Act to encourage investment in the growth of goodwill. Because the court of appeals' overly technical and inaccurate interpretation of the "ancillary to or part of" test does just the opposite, the Court should reverse the judgment of the court of appeals.

PRAYER FOR RELIEF

WHEREFORE, Marsh USA Inc. and Marsh & McLennan Companies, Inc. pray that the Court grant their petition for review, reverse the judgment of the court of appeals, and grant such other and further relief which the Court deems appropriate.

Respectfully submitted,

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CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing pleading was served upon the persons listed below in the manner indicated on the date indicated.

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