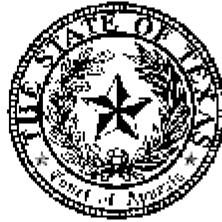
Affirmed and Opinion filed June 7, 2001.



In The

Fourteenth Court of Appeals

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NO. 14-98-01101-CV

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RIMKUS CONSULTING GROUP, INC, Appellant

V.

JEAN-PAUL BUDINGER, Appellee

On Appeal from the 133rd District Court
Harris County, Texas
Trial Court Cause No. 97-46391

O P I N I O N

Jean-Paul Budinger left his employment with Rimkus Consulting Group and joined a competitor. Rimkus filed suit to enforce a covenant not to compete signed by Budinger. The trial court found that the covenant was unenforceable as written, but reformed the covenant and ordered it enforced as reformed. In three points of error Budinger contends the trial court erred in finding the covenant reformable; that the trial court erred in its reformation of the covenant; and that the trial court erred in submitting issues to the jury. We affirm.

Rimkus is an engineering consulting firm which analyzes accidents and failures of

various kinds for insurance companies, law firms and other clients. Budinger, a licensed engineer and architect, joined Rimkus in October 1992. When he was hired, Budinger signed a covenant not to compete which read in part:

> It is agreed, for and in consideration of the Company's agreement to engage Employee to perform personal services and the resulting access by Employee to customer names and files, training and techniques given by the Company, trade secrets and other proprietary and confidential information, that so long as Employee is employed by the Company and for eighteen (18) months after such employment ceases for any reason . . . Employee agrees that he will not, directly or indirectly, individually or through any interposed person, entity or enterprise, compete with the Company. Accordingly, during such period, Employee agrees as follows:
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> a. Employee will not, directly or indirectly, own, manage, finance, control or participate in the ownership, financing or control of, or be connected as a partner, principal, agent, employee, independent contractor, management advisor and/or management consultant with, or use or permit his name to be used in connection with any business services similar to that which are carried on by the Company in any geographic area where the Company has done business during the term hereon, including, but not limited to, performance of consulting services in matters requiring expertise in the areas of accounting, computer science, (including programming), chemistry, physics, metallurgy, toxicology or engineering, whether theoretical or as applied sciences . . .
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> * * *
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> c. Employee agrees, that for a period lasting until eighteen (18) months after termination of his employment, he will not at any time, directly or indirectly, solicit the Company's customers and clients . . .
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> * * *
>
> f. In the course of his relationship with the Company because of the nature of his responsibilities and the experience to be acquired at the Company, the Employee will acquire valuable and confidential skills and information and trade secrets . . . As a consequence thereof, the Employee will occupy a position of trust and confidence with respect to the Company's affairs, services and clients. Maintenance of the confidential and proprietary character of confidential or trade secret information of the Company . . . is important to the Company. Employee agrees that during the period he is engaged to work for the Company and after such engagement . . . he will not use or divulge such information except as permitted or required by his duties in connection with his work with the

Company.

Budinger later signed a separate addendum agreement in which he agreed to finish work on cases open at the time of his departure.

Budinger left Rimkus in April 1997 and began working that same month for ProNet, a Rimkus competitor. Rimkus brought suit to enforce the covenant not to compete in September 1997. The parties tried the case to a jury. After hearing evidence, the trial court found as a matter of law that the covenant not to compete was unenforceable as written and reformed the covenant. The court set the terms of the revised agreement at one year, rather than eighteen months, and restricted the geographic area to Harris County.

Although finding that the covenant was unenforceable as written, the trial court submitted questions on damages arising from the addendum to the jury. The jury found for Rimkus in the amount of $69,125 in damages and attorney's fees. The trial court disregarded these answers because the governing statute does not permit monetary damages or attorney's fees to be awarded when a covenant must be reformed to be enforceable. TEX. BUS. & COM. CODE ANN. § 15.51(c) (Vernon Supp. 2000). Finally, the court awarded $30,000 in attorney's fees to Budinger. This final judgment was signed September 2, 1998; the injunction was set to take effect thirty days after judgment was entered or, in the event of an appeal, thirty days after the appeal becomes final.

In his first point of error, Budinger contends the trial court should not have reformed the covenant because it was not "ancillary to" or part of an otherwise enforceable agreement, as required by statute. *See id.* § 15.50 (Vernon Supp. 2000). To meet this requirement, 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 the covenant must be designed to enforce the employee's consideration or return promise in the otherwise enforceable agreement. *Curtis v. Ziff Energy Group*, 12 S.W.3d 114, 118 (Tex. App.—Houston [14th Dist.] 1999, no pet.); *Donahue v. Bowles, Troy, Donahue, Johnson Inc.*,

949 S.W.2d 746,751(Tex. App.—Dallas 1997, writ denied).

An at-will employment relationship cannot serve as the otherwise-enforceable agreement because any return promise by the employer to continue employment would be illusory. *Travel Masters Inc. v. Star Tours Inc.*, 827 S.W.2d 830, 832-833 (Tex. 1991). However, an employment agreement can support a covenant not to compete if it contains a nonillusory promise. "'Otherwise enforceable agreements' can emanate from at-will employment so long as the consideration for any promise is not illusory." *Light v. Centel Cellular of Texas*, 883 S.W.2d 642, 645 (Tex. 1994). The original employment agreement contained a clause whereby Rimkus promised to share secret and proprietary information with Budinger, and Budinger promised not to disclose such information except as necessary in the course of his employment with Rimkus. This exchange of promises is a sufficient non-illusory agreement to support a covenant not to compete, even in the context of an at-will employment relationship. A promise by the employer to give an employee trade secrets in return for the employee's promise to keep them secret has been found to be one type of non- illusory promise that can support a covenant not to compete. *Ziff*, 12 S.W.3d at 118. Finding that the covenant in question was indeed ancillary to or part of an otherwise enforceable agreement, we overrule Budinger's first point of error.

In his second point of error Budinger contends the trial court erred in reforming the covenant not to compete. Budinger contends, first, that Rimkus did not sufficiently prove that the covenant protected a legitimate business interest, and second, that Rimkus did not prove that the limits at issue here were reasonable to protect its valuable proprietary interests. We will take each of these in turn.

The enforceability of a covenant not to compete is a question of law. *Light*, 883 S.W.2d at 644. If a covenant is ancillary to or part of an otherwise enforceable agreement, but contains restrictions which a court finds to be unreasonable, the court is required to reform the covenant to make the restrictions reasonable. TEX. BUS. & COM. CODE ANN. § 15.51(c)

(Vernon Supp. 2000).

Ralph Graham, a senior vice president of Rimkus, spent the better part of two days on the witness stand detailing the nature of the information the company was seeking to protect via its covenants not to compete. He said Rimkus had developed specialized techniques for analyzing failures and for explaining those failures in nontechnical terms. He also said Rimkus had developed an extensive customer database which included the names of key decisionmakers, their insurance coverages and their billing information. Graham estimated that Rimkus had spent more than $3 million developing its client base prior to Budinger's hiring; this information was compiled in a database to which Budinger had access while employed with the company. We find this testimony sufficient to show that Rimkus had a legitimate business interest which it was seeking to protect with its covenant not to compete.

Budinger's reliance on *Hunke v. Wilcox*, 815 S.W.2d 855 (Tex. App.—Corpus Christi 1991, no writ), is misplaced. Hunke hired Wilcox to work in his office, and the employment agreement contained a covenant not to compete. After two years Wilcox left to set up his own practice in violation of the agreement. *Id.* at 856. Hunke sued; Wilcox moved for summary judgment on the basis that Hunke could not show a legitimate business interest which would be protected by the covenant. *Id.* at 856-857. Hunke's affidavit in opposition to the motion for summary judgment stated that he "had introduced Wilcox to many professionals and key people in the general public who had previously and continuously referred patients" to him, that these contacts had enabled Wilcox to start his practice, and that because of these introductions Hunke had lost business to Wilcox. *Id.* at 858. The trial court granted summary judgment for Wilcox, and the court of appeals affirmed, finding that "the formation of professional contacts is in the realm of professional experience that Wilcox may freely use and over which Hunke can assert no proprietary interest." *Id.*

The interest which Rimkus seeks to protect here, by contrast, is not contacts in the community but more in the nature of customer lists. Depending on the degree of difficulty

inherent in assembling such lists, Texas courts recognize them as a legitimate business interest which may be protected by a covenant not to compete. *See, e.g., M.N. Dannenbaum, Inc. v. Brummerhop*, 840 S.W.2d 624, 632-633 (Tex. App.—Houston [14th Dist.] 1992, writ denied) and cases cited therein. We therefore find that Rimkus met its burden.

Budinger next argues Rimkus did not prove the reasonableness of the limitations imposed by the original covenant not to compete. We disagree. That original agreement sought to restrict Budinger from competing in the areas where he worked for Rimkus for a period of eighteen months after the end of his employment. Texas courts have found similar time restrictions to be palatable. *See, e.g., Property Tax Associates v. Staffeldt*, 800 S.W.2d 349, 350 (Tex. App.—El Paso 1990, writ denied) (two-year restriction in employment agreement found reasonable); *Integrated Interiors Inc. v. Snyder*, 565 S.W.2d 350, 351 (Tex. App.—Fort Worth 1978, writ ref'd n.r.e.) (three-year restriction in employment agreement not objectionable). Broader geographic restrictions than those at issue here have similarly been endorsed. *See Ziff*, 12 S.W.3d at 119 (where other restrictions narrowly tailored, geographic limitation encompassing United States and Canada deemed unobjectionable); *Zep Mfg. Co. v. Harthcock*, 824 S.W.2d 654 (territory where employee worked for employer considered reasonable geographic restriction for purposes of covenant not to compete) (citing *Justin Belt Co. v. Yost*, 502 S.W.2d 681(Tex. 1973)). We find the limitation reasonable.

Finally, Budinger argues that because the original time for expiration of the covenant not to compete has expired, this court should decline to enforce it. *See Ray & Sons, Inc. v. Stroman*, 923 S.W.2d 80 (Tex. App.—Houston [14th Dist.] 1996, writ denied). We find *Ray* to be distinguishable. In that case, an employee signed a five-year covenant not to compete which ran concurrent with his employment with the company; he violated this agreement 4 ½ years later. *Id.* at 83. The trial court declined to reform the agreement when its judgment was handed down more than two years later, and this court affirmed, noting that the covenant had expired prior to the trial court's judgment. *Id.* at 85. Here the trial court judgment was signed before the covenant would have expired. Rimkus moved diligently to protect its rights; it

would therefore be inequitable to allow litigation to deprive it of the benefit of injunctive relief. *See, e.g., Premier Indus. Corp. v. Texas Industrial Fastener Co.*, 450 F.2d 444, 448 (5th Cir. 1971); *MedX, Inc. v. Ranger*, 788 F.Supp. 288, 292-293 (E.D. La. 1992).[1] Budinger's second point of error is overruled.

In his third point of error Budinger contends the trial court erred in submitting issues to the jury, since the issue of reformation of a covenant not to compete is a matter of law. The trial court found that the covenant not to compete, and a later addendum, could not be enforced as written. The court also found that this finding precluded money damages under the statute. *See* TEX. BUS. & COM. CODE ANN. § 15.51(c) (Vernon Supp. 2000). Six issues were nevertheless submitted: whether Budinger complied with the addendum agreement, what damages flowed from any failure by Budinger to comply, attorney's fees due Rimkus as a result of this breach, whether Budinger had access to "trade secrets or confidential information" during his employment with Rimkus, whether Rimkus fulfilled all the conditions necessary to enforce the addendum agreement, and whether Budinger's failure to comply with the addendum agreement was excused.

The statute prohibits an award of damages, or of attorney's fees, if an agreement is not enforceable as written. TEX. BUS. & COM. CODE ANN. § 15.51(c). The trial court told the attorneys that he submitted these issues because he wanted a verdict in place in case a reviewing court found the addendum agreement was enforceable as written. However, neither party brings this issue before this court. Since this jury charged asked about damages stemming from breach of the unenforceable agreement, we find they have no effect, and any error in their submission was harmless. We overrule Budinger's third point of error and affirm the judgment of the trial court.

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[1] We recognize that federal caselaw is merely advisory on our interpretation of Texas law. However, given the lack of Texas caselaw on this point, we are looking to federal law for assistance.

/s/ Norman Lee
Justice

Judgment rendered and Opinion filed June 7, 2001.

Panel consists of Justices Sears, Lee, and Draughn.**

Do Not Publish — TEX. R. APP. P. 47.3(b).

** Senior Justices Ross A. Sears, Norman Lee, and Joe L. Draughn sitting by assignment.