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## Business Torts

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# BUSINESS TORTS

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## I. INTRODUCTION

THIS Article summarizes the recent developments of the law in the area of business torts from October 1, 1993 to September 30, 1994 (the Survey period). Specifically, this Article covers the topics of tortious interference with contractual and business relationships, anti-trust, covenants not to compete, and trade secrets analyzing these well-established legal theories and the important cases decided during the Survey period that related to these areas. Because this is the first year that the Texas Survey has included the coverage of these areas in this format, the Article will provide a discussion of the basic legal principles applicable to each area covered.

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## II. TORTIOUS INTERFERENCE WITH CONTRACT AND BUSINESS RELATIONS

### A. TORTIOUS INTERFERENCE WITH CONTRACT

#### 1. Background

The tort of tortious interference with contract protects the relationship between parties to a contract from external actions which may diminish the value of the contract or make the contract more or less difficult to perform.<sup>1</sup> One Texas court has opined that "[t]he law governing the area of tortious interference with contract is not a well developed area."<sup>2</sup> Recent Texas Supreme Court opinions,<sup>3</sup> however, have bestowed greater emphasis on the formulation of these torts as outlined in the *Restatement (Second) of Torts*.<sup>4</sup> For the Texas practitioner, this apparent shift by the Texas Supreme Court should provide further guidance on this ever changing area of the law. The elements of a cause of action for tortious interference with a contract include the following:<sup>5</sup> (1) the existence of a contract,<sup>6</sup> (2) a willful and intentional act of interference, (3) proximate causation, and (4) actual damage or loss to the plaintiff.<sup>7</sup>

Several important issues permeate the inquiry into the existence of a contract. Although Texas law does not require that the contract interfered with actually be enforceable,<sup>8</sup> contracts which are void or voidable

1. W. PAGE KEETON ET AL., PROSSER AND KEETON ON THE LAW OF TORTS § 129, at 978 (1984 & Supp. 1988) [hereinafter PROSSER & KEETON].

2. American Petrofina, Inc. v. PPG Indus., Inc., 679 S.W.2d 740, 759 (Tex. App.—Fort Worth 1984, writ dismissed by agr.).

3. See Southwestern Bell Tel. Co. v. John Carlo Texas, Inc., 843 S.W.2d 470, 472 (Tex. 1992); Juliette Fowler Homes, Inc. v. Welch Assoc., Inc., 793 S.W.2d 660, 666 (Tex. 1990); Sterner v. Marathon Oil Co., 767 S.W.2d 686, 689 (Tex. 1989).

4. RESTATEMENT (SECOND) OF TORTS §§ 766, 766A (1977) [hereinafter RESTATEMENT (SECOND)]. The RESTATEMENT (SECOND) defines the tort as follows:

One who intentionally and improperly interferes with the performance of a contract (except a contract to marry) between another and a third person by inducing or otherwise causing the third person not to perform the contract, is subject to liability to the other for the pecuniary loss resulting to the other from the failure of the third person to perform the contract.

*Id.* § 766.

5. For a discussion of the affirmative defense of justification, see *infra* § B.2.

6. The question of whether a contract exists is generally a question of law. Lone Star Steel Co. v. Scott, 759 S.W.2d 144, 157 (Tex. App.—Texarkana 1988, writ denied). However, the jury resolves factual disputes which question whether the parties intended to be bound to the agreement and resolves the question of whether the parties agreed to disputed terms. *Id.*

7. See Browning-Ferris, Inc. v. Reyna, 865 S.W.2d 925, 926 (Tex. 1993); Victoria Bank & Trust Co. v. Brady, 811 S.W.2d 931, 939 (Tex. 1991); Juliette Fowler Homes, Inc. v. Welch Assoc., Inc., 793 S.W.2d 660, 664 (Tex. 1990); Champion v. Wright, 740 S.W.2d 848, 853 (Tex. App.—San Antonio 1987, writ denied); Bellefonte Underwriters Ins. Co. v. Brown, 663 S.W.2d 562, 573 (Tex. App.—Houston [14th Dist.] 1983, *aff'd in part, rev'd in part on other grounds*, 704 S.W.2d 742 (Tex. 1986)).

8. See Clements v. Withers, 437 S.W.2d 818, 821 (Tex. 1969) ("the unenforceability of a contract is no defense to an action for tortious interference with its performance"); Exxon Corp. v. Allsup, 808 S.W.2d 648, 654-55 (Tex. App.—Corpus Christi 1991, writ denied) (contract which violates statute of frauds provides the basis for a tortious interference claim).

will not support a cause of action for tortious interference.<sup>9</sup> For example, in *Sterner v. Marathon Oil Co.*,<sup>10</sup> the Texas Supreme Court held that a terminable-at-will employment contract can provide the basis for a tortious interference claim.<sup>11</sup> The law is unresolved, however, as to whether competition will provide a defense to a claim based on an at-will contract.<sup>12</sup>

Courts applying Texas law analyze the intent element by applying the definition in the *Restatement (Second) of Torts* section 8A. The focal inquiry shifts to whether the interferer acted with malice.<sup>13</sup> The Texas Supreme Court addressed the intent issue in *Southwestern Bell Telephone Co. v. John Carlo Texas, Inc.*<sup>14</sup> Quoting the *Restatement (Second)*, the supreme court concluded that intent to interfere requires that the defendant foresaw the consequences of his actions or was substantially certain of the likely result of his acts.<sup>15</sup>

A successful plaintiff claiming tortious interference with contract must prove the defendant actually interfered with an existing contract.<sup>16</sup> Numerous types of acts by the defendant can satisfy this element of the tort. In *American National Petroleum Co. vs. Transcontinental Gas Pipe Line Corp.*<sup>17</sup> the Texas Supreme Court held that intentionally breaching one's own contract can provide a basis for a tortious interference claim if the breaching party intends to prevent a third party from performing its own contract.<sup>18</sup> Another intentional act which might satisfy this element is the prosecution of a lawsuit in bad faith for the purpose of causing damage.<sup>19</sup>

It is important to note that tort liability can attach even though the interference does not cause an actual breach of the contract.<sup>20</sup> For example, a defendant's actions which delay performance of the contract or increase the burden of performing the contract satisfy this element.<sup>21</sup>

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9. *Juliette Fowler Homes*, 793 S.W.2d at 664-65.

10. 767 S.W.2d 686 (Tex. 1989).

11. *Id.* at 689.

12. *See Deauville Corp. v. Federated Dept. Stores, Inc.*, 756 F.2d 1183, 1196 (5th Cir. 1985).

13. *See Anthony Pools, Inc. v. Charles & David, Inc.*, 797 S.W.2d 666, 668 n.2 (Tex. App.—Houston [14th Dist.] 1990, writ denied) ("The defendant must be shown to have maliciously interfered . . . with 'malice' being defined as an act without excuse of just cause").

14. 843 S.W.2d 470 (Tex. 1992).

15. *Id.* at 472.

16. *Juliette Fowler Homes*, 793 S.W.2d at 664.

17. 798 S.W.2d 274 (Tex. 1990).

18. *Id.* at 279. *See generally* *Black Lake Pipe Line Co. v. Union Constr. Co.*, 538 S.W.2d 80, 91 (Tex. 1976); *Raymond v. Yarrington*, 96 Tex. 443, 452, 73 S.W. 800, 804 (1903).

19. *Hughes v. Houston N.W. Medical Ctr.*, 680 S.W.2d 838, 842 (Tex. App.—Houston [1st Dist.] 1984, writ ref'd n.r.e.). *Hughes* is contrary to the general rule that pursuing a lawsuit is a privileged act and therefore not actionable. *See Ryan v. Laurel*, 809 S.W.2d 258, 261 (Tex. App.—San Antonio 1991, no writ).

20. *Hughes*, 680 S.W.2d at 842.

21. *See Bellefonte Underwriters Ins. Co. v. Brown*, 663 S.W.2d 562, 573 (Tex. App.—Houston [14th Dist.] 1983, *aff'd in part, rev'd in part on other grounds*, 704 S.W.2d 742 (Tex. 1986)).

Ultimately, the interferer must affect the plaintiff's rights under the contract.<sup>22</sup>

## 2. Recent Developments

Texas courts addressed several issues in the area of tortious interference with contract during the Survey period. Although none of the cases drastically change this area of the law, the courts continue to refine existing legal principles.

### a. Intent

The only Texas Supreme Court case during the Survey period which addressed the intent element<sup>23</sup> of tortious interference was *Browning-Ferris, Inc. v. Reyna*,<sup>24</sup> which involved a case between two business competitors in the business of providing street cleaning services. Reyna underbid Browning-Ferris on a contract by the City of Dallas to provide street cleaning services. After the city abruptly terminated the contract, Reyna filed suit alleging that Browning-Ferris tortiously interfered with the street cleaning contract. At the conclusion of Reyna's case, the jury returned a verdict against Browning-Ferris and awarded damages. The court of appeals affirmed the lower court's decision.

Reyna relied on a conversation he had with a highway department inspector as the basis of this tortious interference claim.<sup>25</sup> The supreme court held, however, that this statement did not satisfy the requisite intentional interference element of a tortious interference claim.<sup>26</sup> Although the statement demonstrates that Browning-Ferris may have been involved in a plan to terminate Reyna's contract, the inspector's statement, without more, did not establish knowing inducement.<sup>27</sup> In order for a litigant to satisfy the intent element of tortious interference, the plaintiff must establish a nexus between the conduct or statements that provide the basis for the tort and the parties charged with interfering.<sup>28</sup>

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22. See *Black Lake Pipe Line Co. v. Union Constr. Co.*, 538 S.W.2d 80, 91 (Tex. 1976).

23. *Closs v. Goose Creek Consol. Indep. Sch. Dist.*, 874 S.W.2d 859, 871 (Tex. App.—Texarkana 1994, no writ) reiterated the principle that tortious interference with contract is an intentional tort under Texas law. See also *Frost Nat'l Bank v. Alamo Nat'l Bank*, 421 S.W.2d 153, 156 (Tex. Civ. App.—San Antonio 1967, writ ref'd n.r.e.).

24. 865 S.W.2d 925 (Tex. 1993).

25. In the conversation, the inspector stated he "and his supervisor were 'working with [Browning-Ferris] to get [Reyna] out of the contract.'" 865 S.W.2d at 926.

26. *Id.* at 927.

27. *Id.*; see also *Robey v. Sun Record Co.*, 242 F.2d 684 (5th Cir. 1957), cert. denied, 355 U.S. 816 (1957); *J.S. Brown Hardware Co. v. Indiana Stoneworks*, 96 Tex. 453, 73 S.W. 800 (1903).

28. The supreme court's analysis in *Browning-Ferris* is consistent with an earlier case construing the intent element which required knowing and intentional interference. See *Clements v. Withers*, 437 S.W.2d 818, 822 (Tex. 1969)(plaintiff must establish knowing and intentional interference).

b. Existence of a Contract

During the Survey period, the Austin Court of Appeals addressed the issue of whether a contract existed in *S&A Marinas, Inc. v. Leonard Marine Corp.*<sup>29</sup> The plaintiff, S&A Marinas (S&A), and the defendant, Leonard Marine (Leonard), owned competing marina operations and each attempted to secure a new lease on additional marina space from the Lower Colorado River Authority (LCRA). The LCRA passed a resolution awarding the contract to S&A, but eventually awarded the lease to Leonard. Subsequently, S&A filed suit against Leonard alleging, *inter alia*, tortious interference with contract.<sup>30</sup>

The dispositive issue before the court centered on whether a board resolution authorizing the LCRA to negotiate with S&A as the future lessee constituted a contract which could then be subject to interference by Leonard. The interpretation of the contract presented a legal question, rather than a question of fact for the jury, because the contract was unambiguous.<sup>31</sup> The court held that no contract existed between the LCRA and S&A because the language of the board resolution did not evidence an intent to be bound.<sup>32</sup>

c. Actual Interference

In *West v. Brazos River Harbor Navigation District*<sup>33</sup> the plaintiff, West, filed suit against his employer, the Brazos River Navigation District (the Navigation District) and Merrill Lynch, Pierce, Fenner & Smith, Inc. (Merrill Lynch) charging tortious interference with an employment contract. The Navigation District released Clay from his position as director of finance and administration allegedly in retaliation for West's cancellation of an investment agreement with Merrill Lynch. West claimed that Merrill Lynch tortiously interfered with his employment contract and caused his termination.

In ruling on Merrill Lynch's motion for summary judgment, the court concluded that West failed to prove that Merrill Lynch actually interfered with the contract.<sup>34</sup> West argued that Merrill Lynch had the motive to interfere but had no evidence of actual interference. The lack of actual evidence of interference proved fatal to West's claim. Accordingly, evidence of improper purpose without proof of an act of interference will not support a contention of tortious interference with contract.

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29. 875 S.W.2d 766 (Tex. App.—Austin 1994, writ denied).

30. S&A Marine did not plead a cause of action for tortious interference with business relations. *Id.* at 767.

31. *Id.* at 769. (citing *Sun Oil Co. v. Madeley*, 626 S.W.2d 726, 727 (Tex. 1981)).

32. *Id.*

33. 836 F. Supp. 1331 (S.D. Tex. 1993).

34. *Id.* at 1339-40.

## B. TORTIOUS INTERFERENCE WITH BUSINESS RELATIONS

## 1. Background

The tort of tortious interference with prospective business relations is closely akin to the claim for tortious interference with contract. In fact, courts and commentators sometimes blur the distinctions between the torts. Two distinct causes of action exist, however, under Texas law. Tortious interference with business relations actually includes two independent causes of action: interference with prospective contracts and interference with prospective business relations.

The *Restatement (Second)* recognizes tortious interference with prospective contracts,<sup>35</sup> and at least one Texas court has adopted that definition.<sup>36</sup> Although the *Restatement (Second)* does not define a separate cause of action for interference with business relations, the Restatement drafters intended section 766B to apply to this type of claim.<sup>37</sup> Furthermore, section 767 lists several factors applicable to the inquiry into whether the interferer acted improperly.<sup>38</sup>

Courts have articulated four elements in a claim for tortious interference with a prospective contract: (1) a showing of reasonable probability that the plaintiff would enter into the contractual relationship; (2) a malicious and intentional act by the defendant which prevented the relationship from occurring;<sup>39</sup> (3) lack of privilege or justification by the

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35. Section 766B of the RESTATEMENT (SECOND) reads as follows:

One who intentionally and improperly interferes with another's prospective contractual relation (except a contract to marry) is subject to liability to the other for the pecuniary harm resulting from loss of the benefits of the relation, whether the interference consists of

(a) inducing or otherwise causing a third person not to enter into or continue the prospective relation or  
(b) preventing the other from acquiring or continuing the prospective relation.

RESTATEMENT (SECOND), *supra* note 4, § 766B.

36. Tarleton State Univ. v. Rosiere, 867 S.W.2d 948, 952 (Tex. App.—Eastland 1993, no writ).

37. See RESTATEMENT (SECOND), *supra* note 4, § 766B cmt. c.

38. RESTATEMENT (SECOND), *supra* note 4, § 767. The factors to consider include the following:

(a) the nature of the actor's conduct,  
(b) the actor's motive,  
(c) the interests of the other with which the actor's conduct interferes,  
(d) the interests sought to be advanced by the actor,  
(e) the social interests in protecting the freedom of action of the actor and the contractual interests of the other,  
(f) the proximity or remoteness of the actor's conduct to the interference and  
(g) the relation between the parties.

*Id.*

39. Because the level of intent associated with interference with prospective relations is malice, a higher showing is required than for interference with an existing contract. *Deauville Corp. v. Federated Dep't Stores, Inc.*, 756 F.2d 1183, 1196 (5th Cir. 1985) (applying Texas law); *Davis v. West Community Hosp.*, 755 F.2d 455, 466-67 (5th Cir. 1985) (evidence of discord between parties held insufficient to satisfy the malice requirement); *Verkin v. Melroy*, 699 F.2d 729, 733 (5th Cir. 1983) (plaintiff can prove malice with circumstantial evidence).

defendant; and (4) actual harm or damage to the plaintiff.<sup>40</sup> The following four elements constitute a cause of action for tortious interference with a business relationship: (1) a wrongful act by the defendant; (2) without legal right or justification; (3) with intent to harm the plaintiff; (4) which results in actual damage.<sup>41</sup> The most important distinction between this cause of action and one for tortious interference with an existing contract is that the plaintiff claiming interference with a business relationship must prove lack of justification as part of the *prima facie* case.<sup>42</sup> In the context of tortious interference with contract, however, justification is an affirmative defense.<sup>43</sup> The next section discusses the concept of justification as it applies to both tortious interference with contract and business relationships.

## 2. Recent Developments: Justification

In *Tarleton State University v. Rosiere*,<sup>44</sup> Rosiere, a professor at Tarleton State University (the University), was denied tenure and brought suit against the University, its president and the vice-president for student services. Rosiere claimed that the officials wrongly denied him tenure after he criticized certain policies advocated by the president of the University. The court first ruled that Rosiere demonstrated a reasonable probability of forming a future business relationship with the university.<sup>45</sup> Rosiere's claim against the president ultimately failed,<sup>46</sup> however, because the court found that the president was an agent of the university and therefore could not interfere with Rosiere's prospective relation.<sup>47</sup>

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40. *Tarleton State Univ. v. Rosiere*, 867 S.W.2d 948, 952 (Tex. App.—Eastland 1993, writ dismissed by agr.); *C.E. Serv., Inc. v. Control Data Corp.*, 759 F.2d 1241, 1249 (5th Cir.), cert. denied, 474 U.S. 1037 (1985); *Leonard Duckworth, Inc. v. Michael L. Field & Co.*, 516 F.2d 952, 956 (5th Cir. 1975).

41. *American Medical Int'l v. Giurintano*, 821 S.W.2d 331, 335 (Tex. App.—Houston [14th Dist.] 1991, no writ); *Bray v. Squires*, 702 S.W.2d 266, 272 (Tex. App.—Houston [1st Dist.] 1985, no writ); *CF&I Steel Corp. v. Pete Sublett & Co.*, 623 S.W.2d 709, 713 (Tex. App.—Houston [1st Dist.] 1981, writ refused n.r.e.).

42. See *Gonzalez v. San Jacinto Methodist Hosp.*, 880 S.W.2d 436, 440-41 (Tex. App.—Texarkana 1994, writ denied). The broadest form of justification which bars recovery for the plaintiff is fair competition. See, e.g., *Leonard Duckworth, Inc. v. Michael L. Field & Co.*, 516 F.2d 952, 957-58 (5th Cir. 1975) (applying the competition justification only if defendant's actions are classified as fair play); *Bray v. Squires*, 702 S.W.2d 266, 272 (Tex. App.—Houston [1st Dist.] 1985, no writ) (justification privilege applies only to actions reasonably calculated to achieve legitimate business goals).

43. *Sterner v. Marathon Oil, Co.*, 767 S.W.2d 686, 690 (Tex. 1989). As in all affirmative defenses under Texas law, the defendant carries the burden of proof. *Id.* Moreover, as required by the Texas Rules of Civil Procedure, the defendant must plead justification affirmatively in a responsive pleading. Tex. R. Civ. P. 94.

44. 867 S.W.2d 948 (Tex. App.—Eastland 1993, no writ).

45. *Id.* at 952.

46. The trial entered a judgment for Rosiere after the jury awarded him \$155,665 in damages for economic loss, pain and suffering, humiliation, damage to reputation, and exemplary damages. *Id.* at 949-50.

47. *Id.* at 953. The court, citing *American Medical Int'l, Inc. v. Giurintano*, 821 S.W.2d 331, 335 (Tex. App.—Houston [14th Dist.] 1991, no writ) (only third parties are liable for tortious interference), found that because the president was an agent of the university and therefore not a third party, he was not liable for tortious interference. *Id.*



Moreover, the court ruled that the vice-president's communication with the president about statements that Rosiere voiced at an official university function were justified as a matter of law.<sup>48</sup> Although the vice-president played no official role in the tenure decisions, the court decided that he had an interest in protecting the image of the university.<sup>49</sup> Because the events in question took place at an official university recruiting function, the vice-president had an even greater interest in promoting the public relations of the school. Finally, the court added that Rosiere failed to prove that the vice-president acted with malice.<sup>50</sup>

*Gonzalez v. San Jacinto Methodist Hospital*<sup>51</sup> also focused on the issue of justification. After the hospital denied Gonzalez staff privileges, he filed suit alleging, inter alia, that the hospital tortiously interfered with his business relations and an existing contract.<sup>52</sup> The court of appeals affirmed the summary judgment granted by the trial court in favor of the hospital.<sup>53</sup>

The hospital argued on appeal that it had carried the burden of proof required to establish an affirmative defense to the claim of tortious interference with contract.<sup>54</sup> Prior to the denial of staff privileges, the hospital entered into an exclusive contract with a group of doctors to provide anesthesiology to the hospital. After executing the contract and going through a period of disagreement with Gonzalez, Carillo stopped scheduling Gonzalez for surgical procedures, effectively revoking Gonzalez's hospital staff procedures.

The court concluded that the hospital had the legal right to enter into an exclusive arrangement with Dr. Cavillo.<sup>55</sup> As a result, the court reasoned that the hospital's decision to effectively deny Gonzalez staff privileges via Dr. Cavillo's prerogatives or sole scheduler represented a bona fide use of its legal rights.<sup>56</sup> Accordingly, the court held that the hospital

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48. *Id.* at 953. Rosiere stated his opposition to the president's proposed sale of a ranch owned by the university.

49. *Id.* The court cited RESTATEMENT (SECOND), *supra* note 4, §§ 770, 772 for the proposition that an employee who notifies his superiors about improper conduct of a co-employee does not commit improper purpose. *Rosiere*, 867 S.W.2d at 953.

50. *Id.* at 953 n.7.

51. 880 S.W.2d 436 (Tex. App.—Texarkana 1994, writ denied).

52. Gonzalez alleged both tortious interference with an existing contract and tortious interference with business relations.

53. *Gonzalez*, 880 S.W.2d at 443.

54. To prevail on an affirmative defense of justification, a defendant must establish either a good faith exercise of legal rights or an equal or superior interest in the subject matter. *Victoria Bank & Trust Co. v. Brady*, 811 S.W.2d 931, 939 (Tex. 1991); *Sterner*, 797 S.W.2d at 691. Courts analyze the justification defense no differently in the context of tortious interference with an existing contract than in the framework of tortious interference with business relations. *Gonzalez*, 880 S.W.2d at 441.

55. *Gonzalez*, 880 S.W.2d at 441. The court cited *Williams v. Hobbs*, 460 N.E.2d 287 (Ohio Ct. App. 1983) for the proposition that exclusive contracts represents a reasonable exercise of the hospital's duty to manage the affairs of the institution. *Id.*

56. *Gonzalez*, 880 S.W.2d at 441.

sustained its burden to affirmatively prove that its actions were justified.<sup>57</sup>

### III. TEXAS FREE ENTERPRISE AND ANTITRUST ACT OF 1983<sup>58</sup>

The Texas Legislature completely reworked the state antitrust law with the adoption of this new statutory scheme. The stated purpose of the Texas Free Enterprise and Antitrust Act of 1983 (the Act) "is to maintain and promote economic competition in trade and commerce occurring . . . within the State of Texas and to provide the benefits of that competition to consumers in the state."<sup>59</sup> To aid the implementation of the Act, the statutory language directs the courts to adopt consistent federal precedent where applicable.<sup>60</sup>

During the Survey period, three Texas courts of appeals addressed issues arising under the Act. Though few in number, these judicial decisions are nonetheless significant.

The court in *Gonzalez v. San Jacinto Methodist Hospital*<sup>61</sup> addressed the issue of whether an alleged conspiracy which existed between a doctor and the San Jacinto Methodist Hospital (San Jacinto) constituted an unlawful restraint of trade. San Jacinto entered into an exclusive agreement with Dr. Octovio Cavillo (Cavillo) for anesthesiology services at the hospital. As a result of this contract, Gonzalez lost his staff privileges as an anesthesiologist. Gonzalez filed suit against the hospital alleging that a conspiracy existed between San Jacinto and Cavillo which rose to the level of an illegal restraint of trade.<sup>62</sup>

Gonzalez's claim failed because the court could find no evidence of a conspiracy or unlawful act which would provide the predicate for a violation of section 15.05(a).<sup>63</sup> The court recognized that San Jacinto had the legal right under its bylaws to enter into an exclusive contract as an exer-

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57. Although the summary judgment evidence tended to show that Dr. Cavillo may have acted in bad faith, the court refused to attribute his actions to the hospital. *Id.* This distinction is crucial in the context of a multi-defendant case.

58. TEX. BUS. & COM. CODE ANN. §§ 15.01-15.26 (Vernon 1987 & Supp. 1995).

59. TEX. BUS. & COM. CODE ANN. § 15.04 (Vernon 1987 & Supp. 1995).

60. *Id.* Section 15.05 which lists the unlawful practices of the Act is modeled after portions of the Sherman Antitrust Act, 15 U.S.C. §§ 1-2 (1988) and the Clayton Act, 15 U.S.C. §§ 14, 18 (1988). See Jerry R. Selinger, *Sherman Marches on Austin: Some Comments About the New Texas Antitrust Act*, 47 TEX. B.J. 56, 56 (1984).

An in-depth analysis of the Act is beyond the scope of this Article. For a thorough discussion of the Act see David J. Van Susteren, Comment, *The Texas Free Enterprise Act and Antitrust Act — Analysis and Implications*, 22 HOUS. L. REV. 1181 (1985); Lyman G. Hughes, *Torts—Commercial: Annual Survey of Texas Law*, 38 SW. L.J. 35 (1984).

61. 880 S.W.2d 436 (Tex. App.—Texarkana 1994, writ denied). Other issues in *Gonzalez* relating to tortious interference with contract are discussed *supra* notes 44-59 and accompanying text.

62. Gonzalez alleged that San Jacinto violated TEX. BUS. & COM. CODE ANN. § 15.05(a) (Vernon 1987 & Supp. 1995) which reads: "Every contract, combination, or conspiracy in restraint of trade or commerce is unlawful."

63. *Gonzalez*, 880 S.W.2d at 444-43.

cise of its responsibility to manage the business affairs of the hospital.<sup>64</sup> To make out a claim of restraint of trade, "the restrainer must have the power to cause adverse, anticompetitive effects within the relevant product and geographic markets."<sup>65</sup> The court relied on United States Supreme Court authority to reinforce its holding that the exclusive agreement did not create an anti-competitive effect on the market.<sup>66</sup> Even though Gonzalez tried to rely on a conspiracy theory as the basis of the violation, the court still required him to show anticompetitive effect in the marketplace.<sup>67</sup>

Gonzalez argued, showing support only by affidavit, that the exclusive agreement between San Jacinto and Cavillo, and others like it at other hospitals in the region, had prevented him from obtaining work at these hospitals. As a result, he opined, an illegal restraint of trade existed. The court held, however, that he failed to provide the required nexus with anticompetitive impact on competition in the marketplace.<sup>68</sup> The court remarked that:

[a]t most, it may imply that this form of agreement has become so prevalent as to prevent an individual doctor specializing in this area from obtaining work at any hospital in the area unless he goes to work for one of the provider groups. However, it does not necessarily provide proof of an actual adverse effect on competition.<sup>69</sup>

Gonzalez's failure to adduce sufficient evidence of a restraint of trade with anticompetitive effects on the marketplace resulted in the court of appeals affirming the trial court's grant of summary judgment.<sup>70</sup>

The court in *Phoenix Bit & Tool, Inc. v. Texaco, Inc.*<sup>71</sup> addressed the issue of whether an exclusive right to purchase used drill bits renders a contract unenforceable under the Act. Phoenix Bit & Tool, Inc. (Phoenix) entered into an agreement with Texaco, Inc. (Texaco) which provided Phoenix the exclusive right to purchase used drill bits.<sup>72</sup> After Texaco terminated the contract according to its provisions, Phoenix filed suit alleging that it had the exclusive right to purchase all used drill bits that Texaco disposed of in the course of its business and that Texaco breached the contract. The trial court granted Texaco's motion for sum-

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64. *Id.* at 439-41.

65. *Id.* at 441.

66. See *Jefferson Parish Hosp. Dist. No. 2 v. Hyde*, 466 U.S. 2 (1984). In that case the Supreme Court held that an anti-competitive effect would result only if hospital patients were required to purchase the contracting firm's services as a result of the hospital's superior market position. *Id.* at 25.

67. *Gonzalez*, 880 S.W.2d at 441 ("[W]ithout a showing of actual adverse effect on competition, respondent cannot make out a case under the antitrust laws, and no such showing has been made." (quoting *Jefferson Parish*, 466 U.S. at 31)).

68. *Gonzalez*, 880 S.W.2d at 442.

69. *Gonzalez*, 880 S.W.2d at 442-43.

70. *Id.* at 443.

71. 879 S.W.2d 277 (Tex. App.—Houston [14th Dist.] 1994, writ denied).

72. The pertinent contract clause covered the following material: "Such quantities of used drill bits in various sizes that [Texaco] may want to dispose of from the Denver, Los Angeles, Midland, and New Orleans operations of [Texaco]." *Id.* at 279.

mary judgment holding, inter alia, that the exclusive right to contract rendered the contract illegal under section 15.05(c) of the Act.<sup>73</sup>

The Houston Court of Appeals disagreed with the trial on the antitrust issue on two grounds.<sup>74</sup> The court's primary holding was that the section 15.05(c) of the Act did not apply to the facts of this case.<sup>75</sup> "[T]his statute does not make unlawful any required exclusivity of a seller's commitment [sic] to deal only with the purchaser, and not the purchaser's competitors."<sup>76</sup> The focus is therefore on the impact of the exclusive agreement on competitors in the marketplace and not on the influence of the arrangement on the parties to the contract. Accordingly, the court found no illegality under the Act.<sup>77</sup>

The Houston court further examined the issue in dicta. After reviewing in detail the terms of the contract, the court concluded that it was neither an output contract nor an ordinary supply contract.<sup>78</sup> The court found no intent to restrain trade or create a monopoly and as a result there was no violation of the Act. Accordingly, the court concluded that "this ground cannot support the summary judgment."<sup>79</sup>

In dissent, Justice Lee disagreed with the majority's conclusion that the contract does not confer on Phoenix the exclusive right to purchase all of Texaco's used drill bits.<sup>80</sup> Justice Lee argued that Texaco failed to carry its summary judgment burden to prove that the contract did not give Phoenix an exclusive right to purchase the used bits and that this reading of the contract rendered it illegal under the Act.

Section 15.05(c) renders a contract illegal only if prevents a buyer from "dealing in the goods of competitors of the seller."<sup>81</sup> Justice Lee opined that Texaco failed to establish the applicability of section 15.05(c) to the contract at issue because the contract did not contain a clause limiting

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73. *Id.* at 279-80. Section 15.05(c) of the Act provides that:

It is unlawful for any person to sell, lease, or contract for the sale or lease of any goods, whether patented or unpatented, for use, consumption, or resale or to fix a price for such use, consumption, or resale or to discount from or rebate upon such price, on the condition, agreement, or understanding that the purchaser or lessee shall not use or deal in the goods of a competitor or competitors of the seller or lessor, where the effect of the condition, agreement, or understanding may be to lessen competition substantially in any line of trade or commerce.

TEX. BUS. & COM. CODE ANN. § 15.05(c) (Vernon 1987).

74. Curiously, the court addresses the antitrust issue even though Texaco did not raise the issue on appeal as a basis for affirming the trial court's judgment in its favor. *Phoenix*, 89 S.W. 201 at 280.

75. *Id.* at 280.

76. *Id.*

77. *Id.* The court affirmed the summary judgment on the grounds that "there was no intent to require Texaco to sell all used drill bits to Phoenix." *Id.* at 280. Because Texaco complied with the express terms for terminating the contract, Phoenix had no meritorious claim against Texaco. *Id.*

78. *Id.* at 281.

79. *Id.*

80. *Id.* (Lee, J., dissenting).

81. *Id.* at 283.

Phoenix's rights to deal with Texaco's competitors.<sup>82</sup> Because Texaco failed to carry its summary judgment burden, Justice Lee would have reversed the judgment and remanded the matter to the lower court for trial.<sup>83</sup>

In *Segura v. Abbott Laboratories, Inc.*<sup>84</sup> the plaintiffs Crystal Segura and others (Segura) intervened in a class action suit on behalf of themselves and others similarly situated against the manufacturers of infant baby formula (Abbott). The State of Texas originally brought the suit alleging antitrust violations against the Abbott defendants.<sup>85</sup> Segura asserted claims under the Deceptive Trade Practices-Consumer Protection Act<sup>86</sup> (DTPA) and alleged unconscionable conduct by Abbott.

The trial court dismissed the State's antitrust claims and held that the indirect purchaser doctrine deprived the State of standing to assert a cause of action against Abbott.<sup>87</sup> The trial court subsequently granted Abbott's motion for summary judgment concluding that Segura's unconscionability claim failed under the DTPA and alternatively that the indirect-purchaser doctrine of antitrust jurisprudence deprived Segura of standing under the DTPA.<sup>88</sup> The Austin Court of Appeals reversed the trial court's order and remanded the case for further disposition.<sup>89</sup>

The issue on appeal was whether lack of standing under the Act, because of the indirect-purchaser doctrine, will preclude recovery under the DTPA. Abbott argued that an impermissible statutory conflict would result if the court allowed recovery under the DTPA while prohibiting recovery under the Act. Consistency under the Act and the DTPA, Abbott argued, is accomplished by giving full effect to the Act and depriving Segura a right of action under the DTPA.

The court concluded that the indirect-purchaser rule did not apply to the DTPA and therefore did not interfere with Segura's standing under the DTPA.<sup>90</sup> The Austin Court of Appeals, however, refused to directly

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82. *Id.*; see also TEX. BUS. & COM. CODE ANN. § 15.05(c).

83. *Phoenix*, 879 S.W.2d at 283.

84. 873 S.W.2d 399 (Tex. App.—Austin 1994, writ granted).

85. The State sought relief on behalf of all Texas consumers seeking injunctive relief and compensatory damages resulting from Abbot overcharging consumers of baby formula. *Id.* at 401; see also TEX. BUS. & COM. CODE ANN. § 15.21 (Vernon 1987 & Supp. 1995)(authorizing government agencies to file suit to recover damages and obtain injunctive relief).

86. TEX. BUS. & COM. CODE ANN. §§ 17.41-63 (Vernon 1987 & Supp. 1995).

87. *Segura*, 873 S.W.2d at 401. The indirect purchaser doctrine was first formulated by the Supreme Court in *Illinois Brick Co. v. Illinois*, 431 U.S. 720 (1977). This doctrine prevents an indirect purchaser from suing a manufacturer or wholesaler for violations of the Clayton Act, 15 U.S.C. § 15(a) (1988). *Id.* at 736-37. A purchaser is deemed a direct purchaser if "purchases goods or services directly from a manufacturer, wholesaler, or other provider" who violated the Clayton Act. *Segura*, 873 S.W.2d at 403. On the other hand, an indirect purchaser purchases goods or services from a seller "who is down the marketing chain from the antitrust violator." *Id.* The public policy behind this doctrine is to reduce the complexity of these types of antitrust actions and avoid the difficulty of apportioning damages to indirect purchasers. *Illinois Brick*, 431 U.S. at 737-38.

88. *Id.* at 402.

89. *Id.* at 408.

90. *Segura*, 873 S.W.2d at 406.

confront the issue of whether the indirect-purchaser doctrine even applies to the Texas Antitrust Act.<sup>91</sup> Instead, the court concluded that even if the doctrine were applicable, "there is no conflict between the Act and the DTPA."<sup>92</sup> "Based on the absence of an express exemption in either the DTPA or the [Act], combined with the presumption against finding statutes to be in conflict by implication, we decline to hold that the indirect-purchaser rule applies to the DTPA."<sup>93</sup>

#### IV. COVENANTS NOT TO COMPETE

In 1987, the Texas Supreme Court changed its approach to enforcing covenants not to compete.<sup>94</sup> In *Hill v. Mobile Auto Trim, Inc.*<sup>95</sup> the supreme court refused to enforce a covenant not to compete agreement.<sup>96</sup> Attempting to justify its decision under prior case law, the court actually made new precedent by holding that "covenants not to compete which are primarily designed to limit competition or restrain the right to engage in a *common calling* are not enforceable."<sup>97</sup> The court, however, failed to define the term "common calling."<sup>98</sup> Without any guidance as to the term's meaning, Texas courts applied this new common calling standard to determine the enforceability of contested covenants not to compete with varying results.<sup>99</sup>

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91. *Id.* at 403 n.2.

92. *Id.* at 403. The court reasoned "that when the legislature wishes to exempt certain defendants or claims from the coverage of the DTPA, it does so in unequivocal terms." *Id.* at 404.

93. *Id.* at 406.

94. The concern regarding restraint of trade dates back to the creation of the Texas Constitution, which prohibits the State or any political subdivision from creating a monopoly. TEX. CONST. art. I, § 26. Regardless of the effect on trade, Texas courts have regularly enforced covenants not to compete so long as they were reasonable. *Weatherford Oil Tool Co. v. Campbell*, 340 S.W.2d 950, 951 (Tex. 1960).

95. 725 S.W.2d 168 (Tex. 1987).

96. *Id.* at 172.

97. William John Bux, *Enforcement of Noncompetition Covenants*, in MODERN TRENDS IN BUSINESS LITIGATION SEMINAR, Tab O, p. 6 (Southern Methodist Univ. School of Law, Oct. 24-25, 1991)(citing *Hill*, 725 S.W.2d at 172.) (emphasis added).

98. *Hill*, 725 S.W.2d at 177 (Gonzales, J. dissenting). The Dallas Court of Appeals was the first court to define the term common calling. In *Travel Masters, Inc. v. Star Tours, Inc.*, the court used the definitions of each individual word to create the following definition of common calling: a vocation or profession of the usual type which is entirely ordinary and undistinguished. 742 S.W.2d 837, 840-41 (Tex. App.—Dallas 1987, writ dismissed w.o.j.). Applying this definition, the court held that an office manager was not a common calling. *Id.* On appeal, an undaunted Texas Supreme Court ruled that the *Travel Masters* covenant not to compete was nevertheless unenforceable because the parties had not executed it ancillary to an otherwise enforceable agreement. *Travel Masters, Inc. v. Star Tours, Inc.*, 827 S.W.2d 830, 833 (Tex. 1991)(holding "at-will" employment is not an "otherwise enforceable agreement").

99. See *Bergman v. Norris of Houston*, 734 S.W.2d 673 (Tex. 1987) (labeling hair styling as a common calling); *Martin v. Credit Protection Assoc., Inc.*, 31 Tex. Sup. Ct. J. 626 (July 13, 1988) (opinion withdrawn) (holding cable salesman was a common calling); *Bertotti v. C.E. Shepherd Co., Inc.*, 752 S.W.2d 648 (Tex. App.—Houston [14th Dist.] 1988, no writ) (holding sales manager of a company that manufactured and sold wire and plastic products was not a common calling); *B. Cantrell Oil Co. v. Hino Gas Sales, Inc.*, 756 S.W.2d 781 (Tex. App.—Corpus Christi 1988, no writ) (holding that manager of propane supplier was not a common calling).

In 1989, the Legislature responded to court's new common calling test and corresponding trend towards striking down covenants not to compete by passing the Covenant Not to Compete Act (the Act).<sup>100</sup> This Act added sections 15.50 and 15.51 to the Texas Business and Commerce Code.<sup>101</sup> By passing this Act, which made no mention of common callings, the Legislature sought to return the law to its pre-*Hill* status.<sup>102</sup> On the heels of the Act's passage, however, the Supreme Court of Texas intentionally snubbed the Legislature by issuing three cotenants-not-to-compete decisions in apparent disregard for the new Act.<sup>103</sup>

In *DeSantis v. Wackenhut Corp.*, the first of these three decisions, the court initially ignored the new Act, turning instead to the common law to

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100. The new subchapter E added by this Act provides:

§ 15.50 Criteria for Enforceability of Covenants Not to Compete.

Notwithstanding Section 15.05 of this code, a covenant not to compete is enforceable if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made to the extent that it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.

§ 15.51 Procedures and Remedies in Actions to Enforce Covenants Not to Compete.

(a) Except as provided in Subsection (c) of this section, a court may award the promisee under a covenant not to compete damages, injunctive relief, or both damages and injunctive relief for a breach by the promisor of the covenant.

(b) If the primary purpose of the agreement to which the covenant is ancillary is to obligate the promisor to render personal services, the promisee has the burden of establishing that the covenant meets the criteria specified by Subdivision (2) of Section 15.50 of this code. If the agreement has a different primary purpose, the promisor has the burden of establishing that the covenant does not meet those criteria. For the purposes of this subsection, the "burden of establishing" a fact means the burden of persuading the trier of fact that the existence of the fact is more probable than its nonexistence.

(c) If the covenant meets the criteria specified by Subdivision (1) of Section 15.50 of this code but does not meet the criteria specified by Subdivision (2) of Section 15.50, the court, at the request of the promisee, shall reform the covenant to the extent necessary to cause the covenant to meet the criteria specified by Subdivision (2) of Section 15.50 and enforce the covenant as reformed, except that the court may not award the promisee damages for a breach of the covenant before its reformation and the relief granted to the promisee shall be limited to injunctive relief. If the primary purpose of the agreement to which the covenant is ancillary is to obligate the promisor to render personal services, the promisor establishes that the promisee knew at the time of the execution of the agreement that the covenant did not meet the criteria specified by Subdivision (2) of Section 15.50 and the promisee sought to enforce the covenant to a greater extent than was necessary to protect the goodwill or other business interest of the promisee, the court may award the promisor the costs, including reasonable attorney's fees, actually and reasonably incurred by the promisor in defending the action to enforce the covenant.

*Id.*

101. See Bux, *supra* note 97, at 9; Light v. Centel Cellular Co., 883 S.W.2d 642, 643 (Tex. 1994).

102. Bux, *supra* note 97 at 9.

103. See *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670 (Tex. 1990); *Martin v. Credit Protection Ass'n, Inc.*, 793 S.W.2d 667 (Tex. 1990); *Juliette Fowler Homes, Inc. v. Welch Assoc. Inc.*, 793 S.W.2d 660 (Tex. 1990).

determine the covenant's enforceability. "The fundamental common law principles which govern the enforceability of covenants not to compete in Texas are relatively well established."<sup>104</sup> Unless an agreement not to compete is *reasonable*, it is a restraint of trade and unenforceable on the grounds of public policy.<sup>105</sup> Having restated these common law principals governing covenants not to compete, the *DeSantis* court enumerated a three-prong test for evaluating "reasonableness," which oddly enough bore a striking resemblance to the new Act: (1) the covenant must be ancillary to an otherwise valid transaction or relationship; (2) the covenant must not be more of a restraint than necessary to protect the promisee's interest; and (3) the promisee's need for protection must be greater than any hardship to the promisor or injury to the public.<sup>106</sup> In conjunction with its issuance of a new test for reasonable, the court discussed the confusion created by its *Hill* decision and the presumed common calling requirement. While the court flatly rejected a common calling test,<sup>107</sup> it reserved the right to consider common calling as a factor when making its overall determination of reasonableness.<sup>108</sup>

Applying its new reasonableness test, the court determined that DeSantis's agreement not to compete was not necessary to protect any legitimate business interest.<sup>109</sup> Accordingly, the court held that the agreement was unreasonable and therefore unenforceable.<sup>110</sup> Only after reaching this conclusion did the court finally address the passage of subchapter E to the Texas Business and Commerce Code. After a cursory mention, the court "conclud[ed] that the result in this case would not be affected by the statute."<sup>111</sup>

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104. *DeSantis*, 793 S.W.2d at 681.

105. *Id.*

106. *Id.* at 681-82.

107. *Id.* at 682-83.

108. *Id.* at 683. The supreme court also noted that the Legislature rejected the "common calling" as a test for the reasonableness of a covenant not to compete when it passed its new law. *Id.*

109. *Desantis*, 793 S.W.2d at 684. DeSantis devoted his entire career to providing security services. Wackenhut, a corporation which provided security guards to other companies, hired DeSantis to run its Houston division. After three years, DeSantis resigned under threat of termination. Following his resignation, he started a company which marketed security services to a limited clientele — about half of which were previously Wackenhut's clients. DeSantis's employment agreement with Wackenhut contained a covenant not to compete. Based on this covenant, Wackenhut sued DeSantis claiming that the goodwill DeSantis developed for Wackenhut during his employment with them was a business interest worthy of protection under its covenant not to compete. The court found little evidence in the record to support this allegation. *Id.* at 683. Wackenhut also claimed that it possessed confidential information that required the protection afforded by a covenant not to compete such as customer lists, the special fees and requirements of their customers, Wackenhut's pricing policies, cost factors, and bidding strategies. The court held that Wackenhut failed to show that this information was not just as easily accessible through other sources. *Id.* at 684. As a result, Wackenhut failed to meet the second prong of the court's reasonableness test, showing that they had a legitimate business interest necessitating the use of covenant not to compete. *Id.*

110. *Id.*

111. *Id.* at 685.



In *Juliette Fowler Holmes, Inc. v. Welch Associates, Inc.*<sup>112</sup> the court applied the *DeSantis* reasonableness test. Focusing on the second prong regarding the necessity of such a covenant to protect the promisee's legitimate business interest, the court inquired as to whether or not the covenant not to compete contained reasonable limitations concerning time, geographical area and scope of activity.<sup>113</sup> Because the covenant contained no limitations concerning applicable geographic territories or scope of activity, the court declared this restraint to be "absolute, unequivocal and unreasonable."<sup>114</sup> In a subsequent footnote, the court briefly addressed the new Act by again stating that it would not require a different result from the one reached.<sup>115</sup>

In its third case, *Martin v. Credit Protection Ass'n*,<sup>116</sup> the supreme court elaborated on the first prong of the *DeSantis* reasonableness test. The issue before the court was whether or not the parties executed the covenant not to compete ancillary to another "otherwise enforceable agreement."<sup>117</sup> Either party could have terminated the employment relationship at anytime; therefore, their "employment-at-will" relationship by itself was not an enforceable agreement because any promise of continued employment was illusory.<sup>118</sup> In addition, the court held that the promise of continued employment did not constitute the independent valuable consideration required to support a covenant not to compete that was executed after the employee had started working.<sup>119</sup> Because the parties entered the agreement three years after Martin started to work for the company and the agreement contained nothing more than the covenant not to compete, the court held that the covenant not to compete was not ancillary to an otherwise enforceable agreement.<sup>120</sup> As a result, the covenant not to compete was unenforceable.<sup>121</sup>

As far as the *Martin* holding related to employment-at-will relationships and their inability to support covenants not to compete, it sparked new tensions between the Texas Judiciary and the Texas Legislature in the area of noncompetition agreements. Because "at-will" employment is typical in Texas, a common law ruling which exempted such relationships from the realm of enforceable covenant not to compete agreement

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112. 793 S.W.2d 660 (Tex. 1990).

113. *Id.* at 662-63.

114. *Id.* at 663.

115. *Id.* at 663 n.6. Apparently, the court's displeasure with the new law stemmed from the Legislature's attempt to have the law applied retroactively. *Id.* at 664. See also *DeSantis*, 739 S.W.2d at 684-85.

116. 793 S.W.2d 667 (Tex. 1990).

117. *Id.* at 669.

118. *Id.* at 670. See also *infra* note 126 and accompanying text (discussing black letter law reason why employment-at-will cannot be enforceable because it is based on illusory promises).

119. *Id.* The *DeSantis* court held that a covenant not to compete, executed on a date other than the date on which the underlying agreement is executed, is enforceable only if it is supported by independent valuable consideration. *DeSantis*, 793 S.W.2d at 681.

120. *Martin*, 793 S.W.2d at 670.

121. *Id.*

was bound to cause a stir. In fact, the *Martin* ruling, in large part, prompted the Legislature to amend the Covenants Not to Compete Act.<sup>122</sup> In an attempt to replace the common law of covenants not to compete in its entirety, the Legislature passed amendments to the Act in 1993.<sup>123</sup>

On September 1, 1993, these amendments went into effect making them ripe for judicial action during this Survey period. In a bold opinion, the Texas Supreme Court addressed the new amendments and ignored the Legislature's attempt to obliterate the existing common law on covenants not to compete. In *Light v. Centel Cellular Co. of Texas*,<sup>124</sup> the court taunted the Legislature by reiterating its prior holding that an at-will employment relationship by itself cannot constitute an otherwise enforceable agreement.<sup>125</sup> Focusing on black-letter contract law, the court noted that at-will employment relationships are not enforceable agreements.<sup>126</sup>

In the at-will employment context, neither party has an obligation to continue the employment relationship. Any promise which seeks to form the basis of an enforceable agreement cannot be conditioned or tied in any way to the duration of employment because such a promise would be illusory.<sup>127</sup> In order to have an enforceable covenant not to compete in the at-will context, the court concluded that the covenant must be ancil-

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122. Acts of May 13, 1993, ch. 965, § 1, 1993 Tex. Gen. Laws 4201 (effective Sept. 1, 1993). The Legislature amended § 15.50 to remove the requirement that the covenant not to compete be supported by "independent valuable consideration" if it is entered at a time other than the underlying agreement. In an even more poignant act, they amended § 15.51 to include the following new language: "(b) If the primary purpose of the agreement to which the covenant is ancillary is to obligate the promisor to render personal services, for a term or *at will* . . ." TEX. BUS. & COM. CODE ANN. § 15.51(b) (Vernon Supp. 1994) (emphasis added). Through the inclusion of the words "at-will," the Legislature made an obvious attempt to strike the *Martin* court's ruling concerning "employment-at-will" and covenants not to compete.

123. The addition of § 15.52 made it painfully clear that the Legislature intended the Covenants Not to Compete Act to largely supplant the Texas common law relating to enforcement of covenants not to compete. Section 15.52 provides:

§ 15.52 Preemption of Other Law

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

TEX. BUS. & COM. CODE ANN. § 15.52 (Vernon Supp. 1994) (emphasis added).

124. 883 S.W.2d 642 (1994).

125. *Id.* at 644 (citing *Travel Masters*, 827 S.W.2d at 832-33).

126. *Id.* The supreme court held:

We reach this conclusion on the basis of black-letter contract law, and not because the Legislature added the words "at-will" to § 15.51. . . . As written, part (b) [of § 15.51] has no meaning, because there cannot be an "[otherwise enforceable] agreement" which "obligate[s] a promisor 'at-will.'" Describing something as an at-will obligation is nonsensical."

*Id.* at 644 n.7.

127. *Id.* at 644 n.5.

lary to an agreement supported by other or additional promises that are not illusory.<sup>128</sup>

The *Light* court proceeded to evaluate whether or not the parties had an otherwise enforceable agreement based on promises other than their at-will employment relationship. According to the court, three promises existed that could serve as consideration for an agreement. After a brief analysis, the court determined that an otherwise enforceable agreement for the employer to train Light in exchange for Light's giving two weeks notice to terminate employment and providing the employer with an inventory upon her termination existed.<sup>129</sup> Having determined that an agreement existed, the court turned to the second required inquiry: Was the covenant not to compete ancillary to or part of this otherwise enforceable agreement?

The Legislature failed to provide any standards for assessing this second inquiry, compelling the Texas Supreme Court to develop one. Adopting United States Supreme Court Justice Stevens's standard, as outlined in Justice Stevens's dissent to *Business Electronics Corp. v. Sharp Electronics Corp.*,<sup>130</sup> the court held that a covenant not to compete was not ancillary to the otherwise enforceable agreement unless it was designed to enforce a contractual obligation of one of the parties.<sup>131</sup> This designed-to-enforce-a-contractual-obligation standard has two requirements:

- (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.<sup>132</sup>

Applying the above standard to the *Light* agreement, the court held that the covenant not to compete was not ancillary to or a part of their otherwise enforceable agreement because it was not designed to enforce either of Light's return promises — to give two weeks' notice or to provide an inventory upon termination.<sup>133</sup> Once again, the court stuck down a covenant not to compete as "a naked restraint on trade and unenforceable."<sup>134</sup>

Following suit, in *Burgess v. Permian Court Reporters, Inc.*,<sup>135</sup> the El Paso Court of Appeals reversed the trial court, dissolving the temporary injunction it issued to enforce a covenant not to compete.<sup>136</sup> Stanley Burgess (Burgess) worked for Permian Court Reporters (Permian). Con-

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128. *Id.* at 645.

129. *Id.* at 645-46.

130. 485 U.S. 717, 739-41 & n.3, 744-46 (1988) (Stevens, J., dissenting).

131. *Light*, 883 S.W.2d at 647.

132. *Id.*

133. *Id.* at 647-48.

134. *Id.* at 647.

135. 864 S.W.2d 725 (Tex. App.—El Paso 1993, writ dismissed w.o.j.).

136. *Id.* at 728.

tained in his employment contract, the contested covenant not to compete recited that upon termination of his employment Burgess would not work within a fifty mile radius of Midland and Odessa for two years unless he was appointed as an official court reporter for a court of record. Permian obtained a temporary injunction from the trial court based on this covenant.

On appeal, Burgess argued that the contract between Permian and himself was not an otherwise enforceable agreement because it merely created an at-will employment relationship.<sup>137</sup> Relying on *Zep Manufacturing Co. v. Harthcock*,<sup>138</sup> Permian argued that at-will relationships can support covenants not to compete. Because the *Zep* agreement contained a clause limiting the reason why Harthcock could be fired to unsatisfactory performance as determined by Zep's president, the court distinguished the cases by holding that *Zep* did not involve a true at-will relationship.<sup>139</sup> Citing *Travel Masters, Inc. v. Star Tours, Inc.*,<sup>140</sup> the court of appeals agreed with Burgess and held that at-will relationships do not support the enforcement of covenants not to compete.<sup>141</sup>

In a supplemental motion for rehearing, Permian requested the court to reconsider its decision in light of the recent amendments to the Texas Business and Commercial Code.<sup>142</sup> After determining that the new legislative amendments did apply to the case, the court of appeals focused on the recently decided Texas Supreme Court case of *Light v. Centel Cellular Co. of Texas*.<sup>143</sup> "Following the Supreme Court's lead, we again note that the contract between Burgess and Permian was terminable at will . . . [and] therefore not an otherwise enforceable agreement" and cannot meet the criteria necessary to sustain a covenant to compete.<sup>144</sup> Deciding between the legislative amendments and the Texas Supreme Court's decision, the El Paso Court of Appeals made its choice clear.

In *General Devices, Inc. v. Bacon*<sup>145</sup> the case was on remand to the Dallas Court of Appeals for reconsideration in light of the Texas Supreme Court's *Travel Masters* decision. General Devices, Inc. (GDI) was an employment placement agency furnishing highly skilled temporary personnel to high-tech companies. GDI executed employment agreements containing covenants not to compete with all of its employees. In 1987, Bacon and Shannon (the defendants) left GDI's employment and began to work directly for a company which had previously been their temporary employer. The evidence also indicated that the de-

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137. *Id.* at 727.

138. 824 S.W.2d 654, 659 (Tex. App.—Dallas 1992, no writ).

139. *Burgess*, 864 S.W.2d at 728.

140. 827 S.W.2d 830, 833 (Tex. 1991). See *supra* note 126 & accompanying text (citing the "at-will" holding in *Travel Masters*).

141. *Burgess*, 864 S.W.2d at 728.

142. See *supra* notes 122-23 and accompanying text (discussing legislative amendments to §§ 15.50-.52 in 1993).

143. 888 S.W.2d 642 (Tex. 1994).

144. *Burgess*, 864 S.W.2d at 729.

145. 888 S.W.2d 497 (Tex. App.—Dallas 1994, writ denied).

fendants encouraged twelve other GDI employees on that assignment to do the same thing. As a result, GDI sued the defendants alleging breach of their covenants not to compete, tortious interference with GDI's contractual relationships with its twelve other employees, and tortious interference with its contractual relationship with its client — the temporary employer.<sup>146</sup>

In the trial court, GDI moved for summary judgment because its covenants not to compete were enforceable and because the defendants had no viable claims under the Texas Free Enterprise and Antitrust Act. The defendants responded and moved for partial summary judgment because their covenants not to compete were unenforceable and because they had viable claims under the Texas Free Enterprise and Antitrust Act. The trial court granted GDI's motion for summary judgment and denied the defendants' motion.<sup>147</sup> The case proceeded to trial. At the close of GDI's case-in-chief, however, the trial court directed a verdict for the defendants, ruling that GDI presented insufficient evidence on damages.<sup>148</sup>

Even though the court of appeals was taking its second look, it still struggled in applying the new covenant not to compete laws. While the Texas Supreme Court remanded the case with explicit directions to reconsider it in light of its *Travel Masters* decision, the court of appeals failed to follow the *Travel Masters* analysis in reviewing the covenant not to compete issue. Although the court correctly noted the governing common law and statutory provisions, the court skipped the first inquiry under the *DeSantis* reasonableness test — whether or not the covenant not to compete is ancillary to an otherwise enforceable agreement.<sup>149</sup> In *Travel Masters*, however, this was the central issue culminating in the holding that at-will employment cannot support a covenant not to compete because it is not an otherwise enforceable agreement.<sup>150</sup> Having failed the first step of the reasonableness inquiry, the court held that the *Travel Masters* covenant not to compete was unenforceable.<sup>151</sup>

The *General Devices* court, ignoring the *Travel Masters* holding, jumped right into the second inquiry of the reasonableness test: is the covenant not to compete more of a restraint than necessary to protect the employer's interest? In evaluating this issue, the court asked whether or not the covenant not to compete was appropriately limited as to time, geographic area, and scope of activity. Because GDI's covenant sought to limit employment between the employee and its clients for thirty days after the end of GDI's relationship with the client and did not specify a geographic boundary, the court held that the covenant not to compete

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146. *Id.* at 500.

147. *Id.*

148. *Id.*

149. *Id.* at 503.

150. *Travel Masters*, 827 S.W.2d at 833.

151. *Id.*

was not sufficiently limited as to be reasonable.<sup>152</sup> Accordingly, the court of appeals reversed the trial court's summary judgment for GDI on this point.<sup>153</sup>

Finally, in the last of the Survey period's covenant not to compete cases, the Dallas Court of Appeals dismissed an interlocutory appeal from a temporary injunction enforcing a covenant not to compete.<sup>154</sup> On April 12, 1993, the trial court granted a temporary injunction and set a trial on the merits for July 19, 1993.<sup>155</sup> The defendants perfected an interlocutory appeal.<sup>156</sup> Five days before the case was set to go to trial on the merits, the defendants filed a Plea in Abatement, or, in the alternative, First Motion for Continuance urging the court to postpone the trial because a pivotal question of law was before the court of appeals. Great North American Companies (GNAC), the plaintiff, did not oppose the motion. The trial court abated the case on July 16, 1993.<sup>157</sup> Neither party attempted to get the trial reset before the appeal was heard.

Annoyed that the parties basically agreed to delay the trial on the merits while pursuing a frivolous appeal that could *not* evaluate the merits, the court dismissed the appeal.<sup>158</sup> While the court was tempted to award damages for delay against the parties, Texas Rule of Appellate Procedure 84 only allows a court to award damages for delay to the prevailing party.<sup>159</sup> Because GNAC had not opposed the motion, the court declined to reward its acquiescence, and therefore, ordered each of the parties to pay their own costs of appeal.<sup>160</sup>

## V. TORTS OF UNFAIR COMPETITION

### A. TRADE SECRETS

In addition to causes of action based on breach of contract arising from a covenant not to compete agreement, employers may pursue the tort of unfair competition to protect their trade secrets against appropriation by former employees and disclosure to competitors.<sup>161</sup> In Texas, a cause of action for misappropriation of trade secrets has four elements: (1) the existence of a trade secret; (2) the obtaining of the secret from its owner

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152. *General Devices*, 888 S.W.2d at 504. Theoretically, the relationship between GDI and its clients could last indefinitely. As a result, any restraint on the employee tied to such a time frame is wholly unreasonable. *Id.*

153. *Id.*

154. *Hiss v. Great North Am. Cos., Inc.*, 871 S.W.2d 218 (Tex. App.—Dallas 1993, no writ).

155. *Id.* at 219.

156. *Id.*

157. *Id.*

158. *Id.* at 220. Because an interlocutory appeal may not be used to get an advanced ruling on the merits, "[t]he fastest way to cure the hardship of an unfavorable preliminary order is to try the case on the merits." *Id.* at 219 (citations omitted). As a result, "[t]he appeal of a temporary injunction should not be cause for trial delay." *Id.* (citing Tex. R. Civ. P. 683).

159. *Id.* at 220 (citing TEX. R. APP. P. 84).

160. *Id.*

161. See Bux, *supra* note 97, at 18.

in confidence or by improper means; (3) the unauthorized use of the trade secret by the person who obtained it; and (4) damage caused to the owner of the trade secret by its use.<sup>162</sup> During the Survey period, one Texas court addressed the first element asking what is a trade secret.

In *Stewart & Stevenson Services, Inc. v. Serv-Tech, Inc.*<sup>163</sup> the Houston Court of Appeals reviewed a case alleging breach of contract and misappropriation of confidential, trade secret, and/or technical information. Because Texas only recognizes a cause of action for misappropriated trade secrets, the appellants challenged the jury's award for such a violation claiming that the appellees failed to show that a trade secret existed. The court's determinative inquiry focused on whether or not the appropriated information was secret or at least substantially secret, entitling it to protection as a trade secret.<sup>164</sup>

In order for information to qualify as a trade secret, the law is well settled that the information must be kept secret.<sup>165</sup> Instead of addressing the issue in terms of a trade secret, the *Serv-Tech* trial court referred to the appropriated information as "confidential information." Regardless of what the information is called, Texas recognizes a viable cause of action for misappropriation of the information when it is kept secret or substantially secret.<sup>166</sup> After reviewing the questions submitted to the jury and the trial court's definition of confidential information,<sup>167</sup> the court of appeals noted that neither of them recognized or required secrecy as an element of the cause of action. Because the information must be secret to

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162. *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 314 S.W.2d 782 (Tex. 1958), *cert. denied sub. nom.*, 358 U.S. 898 (1958).

163. 879 S.W.2d 89 (Tex. App.—Houston [14th Dist.] 1994, writ denied).

164. *Id.* at 99.

165. *Id.* at 98 (citing *Wissman v. Boucher*, 240 S.W.2d 278, 280 (Tex. 1951)). "A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." *Id.* at 95 (citing RESTATEMENT (FIRST) OF TORTS § 757, cmt. b).

166. *Id.* at 95-99.

167. The trial judge instructed the jury:

"Confidential Information" — Although given information is not a trade secret, one who receives the information in a confidential relation or discovers it by improper means may be under some duty not to disclose or use that information. Because of the confidential relation or the impropriety of the means of discovery, he may be compelled to go to other sources for the information. The duty not to use or disclose "confidential information" may be imposed by employment or contract where one person trusts and relies upon the other. Such information may be a trade secret or similar specific information received under moral or business circumstances that would reasonably require confidentiality. This is determined by the actual facts of the relationship.

*Id.* at 95-96.

According to this definition, secrecy need not exist in order for a misappropriation of information to rise to the level of an actionable misappropriation. *Id.* at 96. This is, however, an incorrect statement of the law. Because Texas does not recognize an action for misappropriation of confidential information but does recognize an action for misappropriation of trade secrets, the first element of which is proving the existence of a trade secret, the plaintiff must show that the information was kept secret in order to establish a viable claim under trade secrets law. *Id.* at 99.

be entitled to protection under trade secrets law, the court concluded that the jury's findings failed to establish a cause of action for misappropriated information.<sup>168</sup>

In *Garth v. Staktek Corp.*,<sup>169</sup> another trade secret case, the court determined whether or not injunctive relief was a proper remedy if the trade secret had since been publicly released. In January of 1990, Garth, Burns, and Campbell formed BCG Ventures to produce a three-dimensional high-density memory package for mini-and-micro computer application. During the first month, Burns and Garth signed a nondisclosure agreement covering information exchanged during the venture, excusing information that otherwise became publicly available. Shortly thereafter, the venture dissolved even though Burns had made some important advances in his research.

Upon dissolution, all three venturers signed an agreement giving Burns all rights to the intellectual property that he created while participating in the venture. Burns and Campbell formed Staktek Corporation to produce Burn's product. Garth joined another firm, RTB Technology, which then attempted to license and market a competing product. In 1992 a trade publication published Burn's patent abstract. In 1993 an article came out which highlighted RTB's competing product. After the publication of this 1993 article, Staktek sought to enjoin RTB and Garth from using its trade secrets.<sup>170</sup>

Because Burn's patent abstract was published to the public in 1992, RTB and Garth argued that Staktek's trade secrets were no longer secret, and therefore, open to use.<sup>171</sup> From the evidence, however, the trial court determined, and the court of appeals agreed, that RTB and Garth used Burn's technology prior to its publication in 1992.<sup>172</sup> "By appropriating Staktek's confidential information before its publication, RTB was able to prepare to enter the market at the same time as Staktek, and thus could deprive Staktek of the competitive advantage offered by the normal developmental period."<sup>173</sup> As a result, the court determined that real relief from misappropriation of trade secrets used to concurrently develop a similar product would appropriately entail injunctive relief beyond the date that the developing company would publicize its new technology.<sup>174</sup>

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168. *Stewart & Stevenson*, 879 S.W.2d at 99.

169. 876 S.W.2d 545 (Tex. App.—Austin 1994, writ dismissed w.o.j.).

170. *Id.* at 547.

171. *Id.* at 548.

172. *Id.*

173. *Id.* at 549. Unlike the situation in *Serv-Tech*, the element of secrecy was evidenced by the existence of agreements between Garth and Burns as to who owned the information.

174. *Id.*



## B. MISAPPROPRIATION

The difference between an action for misappropriation and an action for trade secrets violations lies in the item stolen. While trade secret laws protect intellectual property, the doctrine of "misappropriation" protects tangible property from unauthorized use. The elements of misappropriation are:

- (1) the creation of plaintiff's product through extensive time, labor, skill and money; (2) the defendant's use of that product in competition with plaintiff, thereby gaining a special advantage in that competition (i.e., a "free ride") because defendant is burdened with little or none of the expense incurred by the plaintiff; and (3) commercial damage to plaintiff.<sup>175</sup>

During the Survey period, the Waco Court of Appeals heard a case concerning an issue of misappropriation.

In *United States Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc.*<sup>176</sup> Stewart had expended a significant amount of time and money to capture the sounds of wild animals on tape, which he later marketed. At trial, the jury agreed with Stewart and found that U.S. Sporting Products and its president (the appellants) misappropriated various animal sound recordings that Stewart had gathered.<sup>177</sup> The appellants argued that Texas did not recognize a claim for misappropriation.<sup>178</sup> After surveying the law, the court held that Texas does recognize misappropriation as an actionable claim.<sup>179</sup> The court also ruled that money damages could be recovered for a successful misappropriation claim.<sup>180</sup> "If only injunctive relief were available for a misappropriation claim, tortious conduct would take the posture of an ordinary business decision allowing the defendant to keep his ill-gotten gain."<sup>181</sup> According to the Waco Court of Appeals, both monetary and injunctive remedies are available for misappropriation.

## VI. CONCLUSION

Having summarized the developments during the Survey period, this Article provided a broad overview of pertinent issues in business torts. The Article also provided an analysis of relevant cases which were decided during the Survey period. Hopefully, this discussion will aid the reader in understanding the progression of Texas business torts law.

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175. *United States Sporting Prod., Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214, 218 (Tex. App.—Waco 1993, writ denied) (citing *Synercom Technology, Inc. v. University Computing Co.*, 474 F. Supp. 37, 39 (N.D. Tex. 1979)).

176. 865 S.W.2d 214 (Tex. App.—Waco 1993, writ denied).

177. *Id.* at 216.

178. *Id.*

179. *Id.* at 218.

180. *Id.* at 219 (citing *International News Serv. v. Associated Press*, 248 U.S. 215, 236 (1918)).

181. *Id.*