Agreements Not To Compete in Wisconsin and Texas

> "[A] special consideration being set forth in the condition, which shews it was reasonable for the parties to enter into it, the same is good. . . [A] man may, upon valuable consideration, by his own consent, and for his own profit, give over his trade, and part with it to another. . ."
>
> - Parker, C.J., later Earl of Macclesfield[1]

I. Introduction

An agreement not-to-compete is a covenant between an employer and an employee that, after termination of employment, the employee will not compete with the former employer for a prescribed time-period and within a prescribed geographic area.[2] Non-compete agreements provide at least a partial restraint on trade and, therefore, the legal system struggles to balance the restraint agreements against the free market economy.[3] A non-compete agreement is not meant to punish an employee but rather protect the employer from unfair competition.[4] However, the courts will consider an agreement that imposes a restraint that is greater than is needed to protect the employer's legitimate interests or presents a hardship to the employee or the public as an unreasonable restraint of trade.[5] Proponents of non-compete agreements argue that, without the protection of such agreements, business would be unable to stimulate research, improve business methods, and communicate internally at an effective level.[6] A corollary, though, to the common law freedom of enterprise principle in employment is the public policy that, absent an

[1] Harlan M. Blake, *Employee Agreements Not to Compete*, 73 Harv. L. Rev. 625, 629 (1960) (citing to *Mitchel v. Reynolds*, I P. Wms. 182, 24 Eng. Rep. at 348 (Q.B. 1711)).
[2] *See* Jon H. Sylvester, *Validity of Post-Employment Non-Compete Covenants in Broadcast News Employment Contracts*, 11 Hastings Comm. & Ent. L.J. 423 (1989).
[3] Griffin Toronjo Pivateau, *Putting the Blue Pencil Down: An Argument for Specificity in Noncompete Agreements*, 6 (August 11, 2007), available at SSRN: http://ssrn.com/abstract=1004494.
[4] William M. Corrigan and Michael B. Kass, *Non-Compete Agreements and Unfair Competition – An Updated Overview,* 62 J. Mo. B 81 (2006).
[5] *See* Restatement (Second) of Contracts § 188.
[6] Blake, *supra* note 1, at 627.

agreement specifically to the contrary, an employee who has ended his employment with one employer has the right to compete against that same employer in an open market.[7]

Every state in the United States restricts non-compete agreements at some level and will generally only enforce agreements that are limited in both time and geography.[8] This paper focuses on the legislative and judicial roads that two states, Wisconsin and Texas, have followed from their common law roots to the statutory and judicial bases now in effect. Both states statutorily recognize the ability to establish agreements not-to-compete within prescribed limits.[9] However, before the statutes were enacted, and even after the statutes were enacted, common law formed an important basis for each state's respective approach to non-compete agreements.

This paper begins by exploring the early English common law before the formation of the United States as English law provided the initial foundation for the American non-compete laws, followed by the approaches that Wisconsin and Texas each employed prior to enacting statutes. After common law approaches were in place, the respective legislatures in each state enacted statutes, albeit more that thirty years apart. The courts, however, continued to play a significant role developing each state's non-compete agreement common law even after the statutory enactments. This paper deals primarily with non-compete agreements that arise in the post-employment context but some discussion of non-compete agreements made in conjunction with business transactions occurs. Discussion of non-compete agreements as they might specifically apply to lawyers is beyond the scope of this paper.

[7] Mark W. Freel & Matthew T. Oliverio, *When Commercial Freedoms Collide: Trade Secrets, Covenants Not to Compete and Free Enterprise,* 47 R.I. B.J. 9,9 (1999).
[8] Lawrence P. Postol, *Drafting Noncompete Agreements for All 50 States,* 33 Emp. Rel. L.J. 65 (Summer 2007).
[9] *Wis. Stat. § 103.465* (2007) and *Tex. Bus. & Com. Code Ann. §§ 15.50 – 15.52* (2007).

II. The Early Non-Compete Cases

Long before Wisconsin and Texas were even glimmers in someone's dreams, English businessmen were arguing non-compete agreements in the courts, and courts were openly hostile to the concept. Early English cases for restraint of trade were actions where the obligor agreed to restrict the territory in which he exercised his trade.[10] The first recorded case was reported in 1414 when a dyer of clothes tried to prevent an assistant from establishing a competing business in the same town.[11] However, the judge refused to issue the injunction being sought and instead declared that if the plaintiff were in court, the judge would have the plaintiff imprisoned until the plaintiff paid a fine to the king.[12] In three subsequent cases in years 1578 – 1602, the English courts continued to hold that agreements in the restraint of trade were void.[13] The courts held as illegal, in separate actions, agreements (i) not to carry on the same craft as a dealer in textiles in the same geographic area for a period of four years; (ii) not to exercise the same craft of blacksmithing in the same town; and (iii) not exercise the craft of haberdasher, as an apprentice or a master, for a fixed period of years within a specified geographic area.[14]

While the reasons for holding these agreements not to compete as void are not clearly known, the reasons might be surmised from the economic times. Workers could pursue few trades without having completed a lengthy period of apprenticeship, with skills generally confined to only that trade.[15] Between 1348 and 1349, the Black Death produced a severe labor shortage by destroying approximately half of the English population.[16] Following this, English Parliament

[10] Charles E. Carpenter, *Validity of Contracts Not to Compete,* 76 U. Pa. L. Rev, 244 (1928).
[11] Sylvester, *supra* note 2, at 424 (citing to *The Dyer's Case*, Y.B. 2 Hen. 5, pl. 26 (1414)).
[12] Carpenter, *supra* note 10, at 244.
[13] Handler & Lazaroff, *Restraint of Trade and the Restatement (Second) of Contracts,* 57 N.Y.U. L. Rev. 669, 721 (1982), note 250.
[14] *Id.*
[15] *Id.* at 721.
[16] *Id.* at 722.

enacted legislation, called the Statute of Laborers, which contained provisions such that an agreement to restrict competition might place the employer in violation of the statute.[17]

In 1613, the English courts first announced a rule that would allow a restraint of trade.[18] The court in *Rogers v. Parrey* held that "for a time certain and in a place certain, a man may be well bound, and restrained from using his trade."[19] However, the plaintiff, in actuality, may only have been limited in the use of the property, as the shop leased was a parcel of the house, and not truly prevented from operating a competing business.[20] Thus, even though, the English courts began to support limited non-compete agreements, those agreements were probably part of a sale of property or a business and narrow in scope.[21]

Four of the early non-compete cases probably involved restraints of trade as applied to apprentices or journeymen.[22] The situations appear to be masters attempting to prolong the traditional period of apprentice or journeyman subservience and the ability to enter a craft guild.[23] The relationship between the master and the apprentice was a contractual one, effectively an indenture agreement.[24] The master craftsmen were trying to protect their businesses from competing apprentices who were setting up business in the same town.[25] The *Rogers* case appears to be a business transfer, rather than an employment agreement.[26] Thus, one conclusion initially drawn from these four cases is that courts held restraints incident to the transfer of a

[17]Carpenter, *supra* note 10, at 245.
[18] Handler and Lazaroff, *supra* note 13, at 721 (citing to *Rogers v. Parrey*, 2 Bulst. 136, 80 Eng. Rep. 1012 (K.B. 1613)).
[19] *Id.* (citing to 80 Eng. Rep. 1013).
[20] Carpenter, *supra* note 10, at 245.
[21] *Id.*
[22] Blake, *supra* note 1, at 632.
[23] *Id.*
[24] Cathy Packer & Johanna Cleary, *Rediscovering the Public Interest: An Analysis of the Common Law Governing Post-Employment Non-Compete Contracts for Media Employees,* 24 Cardozo Arts & Ent. L. J. 1073, 1079 (2006 – 2007).
[25] *Id.*
[26] Carpenter, *supra* note 10, at 245.

business as valid while courts held restraints of future employment as invalid, violating traditional apprenticeship rules.[27] This foundation continued for the next 100 years.

The English economy began to change, though, with the advent of the industrial revolution, causing the demise of the medieval apprenticeship system.[28] Long apprenticeships no longer served as barriers to changing jobs.[29] The first case to extensively discuss the reasons for holding non-compete agreements to be valid in certain circumstances, decided in 1711, was *Mitchel v. Reynolds.*[30] *Mitchel*, decided in the midst of England's industrial revolution, is considered to be the beginning of modern day non-compete agreement law.[31] In *Mitchel*, the court's general holding was that all general restraint agreements are void, while particular or partial restraint agreements will be valid if the agreements are entered upon with adequate consideration.[32] The *Mitchel* case involved a baker who leased his shop to another baker, agreeing not to practice the trade within the parish for the five-year term of the lease.[33] The lessor violated the terms of the agreement and argued that the agreement was an impermissible restraint of trade.[34] Judge Macclesfield, in his holding, distinguished between "general" restraints of trade and "particular" restraints of trade.[35] The "general" restraint of trade was denominated as having no geographic or temporal limits, while the "particular" restraint is limited in area or time.[36] General restraints of trade were determined to be universally invalid as those agreements would keep a tradesman from practicing his craft where this would be "of no benefit to either party" and therefore "only

[27] Blake, *supra* note 1, at 632.
[28] Packer and Cleary, *supra* note 24, at 1081.
[29] Blake, *supra* note 1, at 638.
[30] Carpenter, *supra* note 10, at 246 (citing to *I P.Wms. 181* (1711)).
[31] Blake, *supra* note 1, at 637.
[32] Carpenter, *supra* note 10, at 246.
[33] *Id*.
[34] Packer and Cleary, *supra* note 24, at 1081.
[35] *Id.*
[36] *Id.*

oppressive."[37] The *Mitchel* court said that particular restraint of trade agreements would be acceptable if the plaintiff could establish an important business reason for the agreement, supported by adequate compensation provided.[38] This test became known as the "rule of reason" or the "reasonableness test."[39] One commentator went so far as to suggest, "There is very little in the modern approach to the problem for which a basis cannot be found in Macclesfield's opinion."[40] Courts still regard the rule of reason, as set forth in *Mitchel*, as the standard for testing enforceability of restraint of trade covenants, such as employment contracts, which are ancillary to a business transaction, determining whether the challenged agreement promotes or suppresses competition.[41] Note that the rule of reason continues to this day to be an integral basis for Supreme Court decisions.[42]

Until the end of the nineteenth century, English and American courts considered *Mitchel* as the seminal authority in restrictive agreements and non-compete agreements.[43] Courts saw *Mitchel* as the fundamental authority in restraint of trade cases, and few decisions failed to cite *Mitchel* as an authority.[44] As society moved into the industrial age, the concern became not whether the agreement contained actual consideration as required by strict interpretation of contract law, but rather whether the agreement was fair.[45] Workers were now more mobile with

[37] Blake, *supra* note 1, at 630 (citing to *Mitchel* at I P. Wms. 182, 24 Eng. Rep. at 348 (Q.B. 1711)).
[38] Packer and Cleary, *supra* note 24, at 1081–82.
[39] *Id.* at 1082.
[40] Blake, *supra* note 1, at 630–31.
[41] *Nat'l Soc. of Prof'l Eng'rs v. U. S.*, 435 U.S. 679, 689 (1978).
[42] *See id.; see also National Collegiate Athletic Ass'n v. Board of Regents*, 468 U.S. 85 (U.S. 1984).
[43] *Nat'l Soc. Of Prof'l Eng'rs* at 638–39.
[44] *Id.* at 639.
[45] Dan Messeloff, *Giving the Green Light to Silicon Alley Employees: No-Compete Agreements between Internet Companies and Employees under New York Law,* 11 Fordham Intell. Prop. Media & Ent. L. J. 711, 718 (2000 – 2001).

easier ability to relocate geographically as well as between industries.[46] Employers sought to protect their customer base, territories, and intellectual capital.[47]

In one of the earliest reported cases in the United States, the Supreme Judicial Court of Massachusetts found a bond the preventing a person from ever carrying on a business of founding iron was void.[48] The *Alger* court indirectly cited to the 1414 *Dyer's* case as ancient rules of common law voiding bonds given in restraint of trade.[49] The *Alger* court proceeded to cite to *Mitchel* as the leading case providing that general restraints are void, but those restraints limited in time or place are valid and can be duly enforced.[50] Furthermore, the court went on to say that, whether the limited exceptions are wise is beyond question by a lawyer as the law is too long settled.[51] The court laid out five reasons for the unreasonableness of such agreements: ability to earn a livelihood is diminished; the public is deprived of services; industry and enterprise are discouraged; competition is diminished with increased prices; and, the public is exposed to monopolies.[52]

Some sixty-five years later, the United States Supreme Court heard its first case involving the protection of geographical boundaries by a restrictive agreement.[53] The opinion began by stating that the rule allowing for partial restraint of trade is good law, as long as the limitations are not unreasonable and consideration supported the agreement.[54] However, in order for the restraint to be reasonable, the necessary protection must not be broader than is required to protect the

[46] Blake, *supra* note 1, at 638.
[47] *Id.*
[48] *Alger v. Thacher*, 19 Pick. 51 (Mass. 1837).
[49] *Id.* at 52.
[50] *Id.* at 53.
[51] *Id.*
[52] *Id.* at 54
[53] *Oregon Steam Navigation Co. v. Winsor,* 87 U.S. 64 (1873).
[54] *Id.* at 66.

promissee.[55] The Court said that, using terms from the *Mitchel* decision delivered more than 160 years prior, a general agreement would be invalid if the person is totally precluded from pursuing his occupation or preventing the trade in the entire country or realm.[56] The Court clearly stated, though, that a limitation not to pursue the same business or trade, including erecting a similar establishment, within a reasonable distance, so as to not interfere with the value of the business, is valid.[57] An agreement that the person cannot pursue his trade or employment at a distance such that the business to be protected could not possibly be injured will be unreasonable.[58] The same agreement will be acceptable if the restraint is only to such an extent as to protect the territory of the business within a reasonable distance, provided such agreement does not prevent the party from pursuing his calling and the country is not deprived of his services.[59] The difficulty, as stated by the Court, is determining what will be the reasonable distance.[60] Thus, the foundations for early United States non-compete agreements were established. Non-compete agreements would be allowable subject to tests for reasonable distance, reasonable limitations placed on the ability to practice one's trade, and public policy concerns against the societal deprivation of the benefits of the labors.

III. Early Non-Compete Agreement Common Law in Wisconsin

Wisconsin now has strict and demanding statutory standards on agreements not to compete.[61] The statute expresses a strong public policy against non-compete agreements.[62] Because Wisconsin statutes disfavor non-compete agreements, any such agreements must withstand close

[55] Carpenter, *supra* note 10, at 259.
[56] *Oregon Steam Navigation Co.* at 68.
[57] *Id.*
[58] *Id.* at 69.
[59] *Id.*
[60] *Id.* at 68.
[61] *See Wis. Stat. § 103.465.*
[62] *H&R Block E. Enter., Inc. v. Swenson*, 745 N.W.2d 421, 426 (Wis. App., 2007).

scrutiny by the courts.[63] Wisconsin enacted its first statute addressing non-compete agreements in 1957.[64] Prior to 1957, a long line of cases formed the common law basis for non-compete agreements.[65] Wisconsin, since the initial State Constitution, has been a common law state.[66]

Wisconsin was already addressing the issue of non-compete agreements before the start of the twentieth century.[67] Even in the earliest cases, following in the footsteps of *Oregon Steam Navigation Co.,* the courts clearly recognized that any agreement entered into by the parties must be for adequate consideration, restricted as to geographic application, and not contrary to law or public policy.[68] Public policy generally provides that specified kinds of promises or other terms are unenforceable.[69] In *Washburn v. Dorsch*, the court found that when the agreement recognizes adequate consideration in the sale of a business and the limited territorial scope of the restriction to the town, the contract is valid and not a restraint of trade.[70] In this case, the limitation of not operating a similar business within the same town was not against public policy.[71] Seven years later, the Wisconsin Supreme Court found that an agreement preventing operation in thirty states to prevent harm was unreasonable as the defendant was operating in only one state.[72] The court will rely heavily on whether the agreement will be beneficial to the public.[73] By the end of the nineteenth century, the Wisconsin Supreme Court had established its non-compete footprint,

[63] *Streiff v. Am. Family Mut. Ins. Co.,* 348 N.W.2d 505, 510 (Wis. 1984).
[64] George A. Richards, *Drafting and Enforcing Restrictive Covenants Not to Compete,* 55 Marq. L. Rev. 242, 243 (1972).
[65] *See e.g., Washburn v. Dorsch*, 32 N.W. 551 (Wis. 1887); *Richards v. Am. Desk & Seating Co.* 58 N.W. 787 (Wis. 1894); *Eureka Laundry Co. v. Long*, 131 N.W. 412 (Wis. 1911); *Gen. Bronze Corp. v. Schmeling*, 243 N.W. 469 (Wis. 1932); *Milwaukee Linen Supply Co. v. Ring*, 246 N.W. 567 (Wis. 1933); *Wis. Ice & Co. v. Lueth,* 250 N.W. 819 (Wis. 1933); *Journal Co. v. Bundy*, 37 N.W.2d 89 (Wis. 1949).
[66] *State v. Picotte*, (661 N.W.2d 381, Wis. 2003).
[67] *See e.g., Washburn v. Dorsch*, 32 N.W. 551 (Wis. 1887); *Richards v. Am. Desk & Seating Co.* 58 N.W. 787 (Wis. 1894).
[68] *Washburn* at 552.
[69] Restatement (Second) Contracts § 178 cmt. a (1981).
[70] *Washburn* at 553-54.
[71] *Id.*
[72] *Richards, supra* note 67 at 790.
[73] *See id.* at 789.

allowing non-compete agreements that were reasonable to time and territory, not against public policy, and supported by adequate consideration. As will be seen, this foundation develops into Wisconsin's statutory law some sixty years later.

In 1911, the Wisconsin Supreme Court addressed the issue of whether any difference exists for non-compete agreements if they arise in a contract of sale or a contract of hire.[74] The issue as set forth by the court was, if an agreement should be lawful to protect a business after the sale of that business, should there be any difference in protecting the business from an employee who is familiar with the employer's business?[75] The court answered no; there was no difference whether the employer was in a purchase of a business or the hiring of an employee.[76] The court found that an agreement made in the course of hiring an employee was enforceable if reasonable.[77] This was a major step forward as business could now use the non-compete agreement in Wisconsin in the course of hiring and firing of an employee.

During the Great Depression of the 1930s when Wisconsin courts were battling an advancing labor movement,[78] the Wisconsin Supreme Court took another major step forward and allowed invalid portions of non-compete agreements to be reformulated, changing an unreasonable restraint to a reasonable restraint.[79] This reformulation technique became known as using "blue-penciling."[80] In *General Bronze Corp. v. Schmeling*, the court, after reviewing the evidence presented and the agreements as submitted, reformulated the restricted territory from the United

[74] *Eureka Laundry Co. v. Long*, 131 N.W. 412, 413 (Wis. 1911).
[75] *Id.*
[76] *Id.*
[77] *Id*. at 415.
[78] *See generally* Joseph A. Ranney, *Trusting Nothing to Providence: A History of Wisconsin's Legal System* Chapter 16 (Roger P. Bruesewitz ed., University of Wisconsin Law School Continuing Education and Outreach 2001) (1999) (supporting the proposition of the ongoing battle between the Wisconsin courts and the labor movement).
[79] See e.g., *Gen. Bronze Corp. v. Schmeling*, 243 N.W. 469 (Wis. 1932); *Fullerton Lumber Co. v. Torborg*, 70 N.W.2d 585 (Wis. 1955).
[80] *Fullerton Lumber Co., supra* note 79, at 590 (citing to the application of blue-penciling in *Gen. Bronze Corp. v. Schmeling*).

States, Canada, and Mexico to simply the United States, excepting Nevada, as fairly representing the geographic area where General Bronze Corporation was conducting business.[81] Consistent with *Oregon Steam Navigation Co*., the court limited the applicability of the agreement to the geographic area in which business was actually being conducted.

Following *General Bronze*, in the next year in *Wisconsin Ice & Coal Co. v. Lueth*, the Wisconsin Supreme Court also noted that a non-compete agreement may be valid as applied in one circumstance and invalid as applied in another circumstance.[82] The court then views any territorial restrictions based on the circumstances of the business and the activities of the employee to determine the validity of the agreement.[83]

The first reported case in the United States that dealt specifically with an individual's post-employment non-compete agreement was decided by the Wisconsin Supreme Court in 1949.[84] The 1911 *Eureka Laundry* holding regarding applicability to an individual was being tested. In *Journal Co. v. Bundy*,[85] a radio entertainer, Jack Bundy, agreed by contract in 1932 not to use his stage name at any time after the expiration of the agreement from any Milwaukee radio station nor from another station within one hundred miles within the next sixty days.[86] The contract was terminated in 1935 or 1936; Bundy then contracted for any outside appearances on his own behalf.[87] Bundy left the radio station in 1944, going to New York.[88] He returned to Milwaukee in 1947 and began broadcasting again on the Milwaukee airwaves.[89] The *Journal Co.* sought to

[81] *Gen. Bronze Corp.* at 574.
[82] *Wis. Ice & Coal Co. v. Lueth*, 250 N.W. 819, 820 (Wis. 1933).
[83] *Id.*
[84] Packer and Cleary, *supra* note 24, at 1083.
[85] *Journal Co. v. Bundy*, 37 N.W.2d 89 (Wis. 1949).
[86] *Id*. at 90.
[87] *Id*. at 91.
[88] *Id*. at 90.
[89] *Id.* at 91.

prevent Bundy from using the stage names from his earlier employment.[90] The Supreme Court ruled in Bundy's favor, balancing the protection of the employer's rights without unreasonably restricting the rights of the employee.[91] The court cited that an agreement is unreasonable if "it (a) is greater than is required for the protection of the person for whose benefit the restraint is imposed, or (b) imposes undue hardship upon the person restricted."[92] This, in essence, was the same common law rule of reason that the court applied almost 240 years prior in *Mitchel*.[93] While the court denied the application of the agreement in this case, the court did not change the *Eureka Laundry* holding that an agreement could be used in an employee-employer relationship.

In 1955, in *Fullerton Lumber Co. v. Torborg*, the court, using the blue-penciling test, redrafted an invalid provision that placed a ten-year restriction on competition, to a restriction the court deemed valid – a three-year limitation on competitive employment.[94] A liberal application of blue-penciling allowed the court to have the ability to substantially modify a non-compete agreement.[95] The courts demonstrated they were openly amenable to severing the offending portion of the non-compete agreement with a reformulation that was acceptable to the court. In an interesting twist, counsel for Torborg stated in their brief that a three-year restriction rather than the agreement's ten-year restriction might be reasonable, apparently relying on an "all or nothing" approach[96] while apparently ignoring the holding in *General Bronze* where reformation of an offending occurred.[97] However, the court did exactly what Torborg's counsel

[90] *Id.* at 91-92.
[91] *Id.* at 92.
[92] *Id.* (citing to the *Restatement of the Law of Contracts*, secs. 513, 514, and 515).
[93] Packer and Cleary, *supra* note 24, at 1082.
[94] *Fullerton Lumber Co.* at 592.
[95] Pivateau, *supra* note 3, at 16.
[96] Richard Danzig, *The Capability Problem in Contract Law: Further Readings on Well-Known Cases* 57 (Harry W. Jones ed., The Foundation Press 1977).
[97] *Gen. Bronze Corp.* at 574.

proposed and held the agreement to be valid but "blue penciling" the offending passage from ten years to three years.[98]

The legal landscape for non-compete agreements Wisconsin was about to change, though. The legislature was about to get involved in non-compete agreements. However, before reviewing the actions taken by the legislature in response to *Fullerton Lumber Co.,* Texas's common law history, somewhat paralleling Wisconsin's common law history, will be discussed.

IV. Early Non-Compete Agreement Common Law in Texas

Civil law, rather than common law, was the basis of Texas pre-state-constitution legal origins, with Spanish-Mexican civil law leaving an imprint on Texas state law.[99] Texas civil law, before territorially passing into American possession, was more fully formed as a legal basis.[100] The Texas constitution, though, contemplated adoption of a common law basis stating, "Congress shall, as early as practicable, introduce, by statute, the common law of England, with such modifications as our circumstances, in their judgment, may require. (art. IV, sec. 13)"[101] Civil law was formally abolished in 1840, but the Texas courts retained the civil law system of petition and answer.[102] Procedures conformed neither to strictly common law nor to strictly civil law, but rather developed a hybrid system from which court organization and procedures merged law and equity in to decisions.[103] Sections of civil law remained imbedded in Texas substantive law, including such legal areas as holographic wills and the community-property system, but civil law traditions remained too alien to survive and common law prevailed.[104]

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[98] *Fullerton Lumber Co.* at 592.
[99] Lawrence M. Friedman, *A History of American Law* 167-69 (Simon & Schuster 1985) (1973).
[100] *Id.* at 169.
[101] *Id.* at 170.
[102] *Id.*
[103] *Id.*
[104] *Id.* at 171.

Like Wisconsin, Texas common law governed the early development of covenants not to compete.[105] Although lower courts addressed non-compete agreements throughout the first half of the twentieth century, not until 1960 did the first case reach the Texas Supreme Court.[106] The court delivered its seminal opinion in *Weatherford Oil Tool Co. v. Campbell*.[107] The court stated:

> An agreement on the part of an employee not to compete with his employer after termination of the employment is in restraint of trade and will not be enforced in accordance with its terms unless the same are reasonable. Where the public interest is not directly involved, the test usually stated for determining the validity of the covenant as written is whether it imposes upon the employee any greater restraint than is reasonably necessary to protect the business and good will of the employer. . . The period of time during which the restraint is to last and the territory that is included are important factors to be considered in determining the reasonableness of the agreement.[108]

In the *Weatherford Oil Tool* ruling, the Texas Supreme Court relied heavily upon rules set forth in the Restatement of Law to fashion a reasonableness test for lower courts to use when deciding upon the enforceability of a specific non-compete agreement.[109] The Restatement of Law used in *Weatherford Oil Tool* drew much of its spiritual lineage from the early Field Codes used in the middle to late 1800s in the western part of the United States.[110]

The *Weatherford* court also set forth its standard for reforming, or blue-penciling, of an overly broad non-compete agreement. The court repeated the common law rule that "although the territory or period stipulated by the parties may be unreasonable, a court of equity will nevertheless enforce the contract by granting an injunction restraining the defendant from

[105] Todd M. Foss, Texas, *Covenants Not to Compete, and the Twenty-First Century: Can the Pieces Fit Together in a Dot.com Business World?*, 3 Hous. Bus. & Tax. L.J. 207, 211 (2003).
[106] *Id.*
[107] *Weatherford Oil Tool Co. v. Campbell*, 340 S.W.2d 950 (Tex. 1960).
[108] *Id.* at 951.
[109] Foss, *supra* note 105, at 212.
[110] Friedman, *supra* note 99, 405-06.

competing for a time and within an area that are reasonable under the circumstances."[111] Thus, a court of equity could rewrite the parameters of an invalid non-compete agreement to make the agreement valid. However, damages in a case would be determined on the basis of an agreement pre-reformation.[112] In the *Weatherford* case, the Texas Supreme Court placed special importance on the reasonableness of the agreement, while enforcing the agreement, not awarding damages but the territorial restraints resulted in an unreasonable restraint on trade.[113] Thus, a court could not award damages for violations of an overly broad non-compete agreement.

In the same *Weatherford* case, the Texas Supreme Court, referenced the 1933 Wisconsin decision of *Wisconsin Ice & Coal Co. v. Lueth* [114] (decided twenty-three years earlier in Wisconsin) when discussing the abilities to restrain the activities of the employee.[115] The Texas court found that an agreement on the part of an employee not to compete with his employer after termination of such employment was unreasonable and contrary to public policy, if the agreement was greater than was required for the protection of the person for whose benefit the restraint was imposed.[116] Thus, the common law standard developing in Texas was paralleling Wisconsin, albeit more than twenty years later.

The Texas Supreme Court addressed the ability to reform an agreement by adding time and territorial limits, even when the initial agreement did not include any such provisions.[117] In *Justin Belt Co. v. Yost*, the original agreement contained no explicit delineation of time or geography but simply stated that the two employees could "not in any manner engage in the boot

[111] *Weatherford Oil Tool Co.* at 952.
[112] *Id.* at 953.
[113] Ted Lee and Leila Ben Debba, *Backdoor Non-competes in Texas: Trade Secrets*, 36 St. Mary's L.J. 483, 498 (2004-2005).
[114] *Wis. Ice & Coal Co.* at 80.
[115] *Weatherford Oil Tool Co.* at 952.
[116] *Id.*
[117] *Justin Belt Co. v. Yost,* 502 S.W.2d 681 (Tex. 1973).

business or in the manufacture thereof."[118] The trial court reformed this to provide that the former employees could not be in the boot-making business for a seven-year time-period within the territory in the continental United States west of the Mississippi River.[119] While the Texas Court of Appeals reversed the trial court's decision, the Supreme Court reversed the Texas Court of Appeals saying the court will enforce an agreement that is reasonable to time and territory.[120] The Texas courts in 1973, through the reformation or blue-penciling approach, were at the same legal position as Wisconsin had been eighteen years earlier following *Fullerton Lumber Co.*[121]

In 1987, the Texas Supreme Court restated its rule of reason test, setting forth a more specific four-factor test.[122] In *Hill v. Mobile Auto Trim Co.,* Mobile Auto Trim sought to prevent its former employee from competing within a seven-county area for three years.[123] After reviewing prior judicial opinions regarding Texas non-compete agreements, the Texas Supreme Court formulated a new four-factor requirement that must be met in order that a non-compete agreement can be deemed reasonable.[124] The first requirement was that there must be a legitimate business interest for the protection of trade secrets or goodwill of the promissee.[125] Second, the limitations for time, territory, and the business activities must be reasonable as to the promisor.[126] Third, the public cannot be injured by denying needed goods or services.[127] Fourth, the non-compete agreement would be enforceable only if the promisee provided some consideration of value.[128] As will be seen, these provisions are strikingly similar to what became

[118] *Id.* at 685.
[119] *Id.* at 683.
[120] *Id.* at 685.
[121] *See Fullerton Lumber Co.*, *supra* note 79.
[122] *Hill v. Mobile Auto Trim, Inc.,* 725 S.W.2d 168, 170-71 (Tex. 1987).
[123] *Id.* at 169-70.
[124] *Id.* at 170.
[125] *Id.* at 170-71.
[126] *Id.* at 171.
[127] *Id.*
[128] *Id.*

Wisconsin's statutory law thirty years prior with associated judicial interpretations in the following years, but with one exception, Texas also adopted the "common calling" exception.

After restating the enforceability test using the four-factors, the Texas Supreme Court simultaneously established a broad exception, referred to as the "common calling" exception.[129] The Texas Supreme Court held that non-compete agreements designed to limit the right of the former employee to engage in a "common calling" were per se unenforceable.[130] In the dissenting opinion, Justice Gonzalez predicted difficulties for the court in applying this exception.[131]

Subsequent to the *Hill* decision, the Texas Supreme Court issue three more opinions and in each case, found the non-compete agreements, as written, unreasonable and therefore unenforceable.[132] In addition, a number of appellate decisions were handed down, discussing the "common calling" exception.[133] While most courts construed the common calling exception narrowly, dissatisfaction with the *Hill* four-factor test together with the associated common calling exception increased dramatically by the end of the 1980s.[134]

Just as in Wisconsin where the legislature had thought the Supreme Court had gone too far in its adjudication of non-compete agreements and use of blue-penciling,[135] a movement

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[129] *Id.* at 172.
[130] *Id.*
[131] *Id.* at 176 (Gonzalez, J., dissenting).
[132] *See Bergman v. Norris of Houston*, 734 S.W.2d 673 (Tex. 1987); *DeSantis v. Wackenhut*, 31 Tex. Sup. Ct. J. 616 (Tex. 1988) (*DeSantis I*); *Martin v. Credit Prot. Ass'n*, 31 Tex. Sup. Ct. J. 626 (Tex. 1988) (*Martin I*).
[133] *See e.g., B. Cantrell Oil Co. v. Hino Gas Sales, Inc.*, 756 S.W.2d 781, 783 (Tex. App. Corpus Christi 1988); *Hoddeson v. Conroe Ear, Nose and Throat Assocs.*, 751 S.W.2d 289, 290 (Tex. App. Beaumont 1988); *Spicer v. Tacito & Assocs., Inc.*, 783 S.W.2d 220, 221-22 (Tex. App. Dallas 1989).
[134] Steven R. Borgman, *The New Covenant Not to Compete Statute,* 2 Tex. Intell. Prop. L.J. 19, 21-22 (1993-1994) (One court stated, "[I]t seems clear that the opinions in Hill, Bergman, DeSantis, and Martin have effectively repudiated long-honored, common-law principles relating to consideration as applied to the law of contracts involving post-employment covenants not to compete. . . We disagree with the Supreme Court's abolition of these sound common – law principles. . ." *Bland v. Henry & Peters, P.C.,* 763 S.W.2d 5, 11-12 (Tex. App. Tyler 1988) (writ denied)).
[135] *Gen. Med. Corp. v. Mead*, 507 N.W.2d 381, 385 (Wis.App.,1993).

began in Texas to statutorily overrule the actions of the Texas Supreme Court.[136] The era of the common law in Texas was about to undergo a significant and acrimonious transformation. However, before looking at how the legal landscape changed following *Hill*, a review of where Wisconsin went statutorily in 1957 is appropriate.

V. Wisconsin Adopts a Statutory Basis

The legal landscape for non-compete agreements changed in Wisconsin in 1957. Following the ruling in *Fullerton Lumber Co.*, the case was remanded to the trial court for further hearing.[137] The trial court issued an injunction against Torborg and, again, the case was taken all the way to the Wisconsin Supreme Court.[138] Less than two months following the Wisconsin Supreme Court's decision in the second opinion of *Fullerton Lumber Co. v. Torborg*[139] and in direct response to this second opinion, Wisconsin Assemblyman Richard E. Peterson, a Republican in whose state assembly district the Fullerton Lumber Company was resident, wrote a letter to the head of the Wisconsin Legislative Drafting Service.[140] Mr. Peterson requested a bill be drafted for him to introduce, writing to the Drafting Service,

> I respectfully request that you draw up a bill which will have the effect of preventing the recovery of damages under any of these restrictive covenants, which are held unreasonable by the Court in any respect, but divisible to the extent that the Court will hold them enforceable as to area or time determined by the Court to be reasonable.[141]

This letter was specifically seeking to overturn the *Fullerton Lumber Co.* ruling and eliminate "blue penciling." Assemblyman Peterson's letter directly attacked the Court's revising

[136] Jeffrey W. Tayon, *Covenants Not to Compete in Texas: Shifting Sands from Hill to Light,* 3 Tex. Intell. Prop. L.J. 143, 178 (1994-1995).
[137] Danzig, *supra* note 96 at 58.
[138] *Id.* at 59.
[139] *Fullerton Lumber Co. v. Torborg*, 80 N.W.2d 461, 466 (Wis. 1957) (*Fullerton II*) (*aff'g* the time limit but reversing as to damages).
[140] Danzig, *supra* note 96 at 61.
[141] *Id.*

of overly broad provisions.[142] Mr. Peterson was especially critical of the unequal bargaining powers of the parties entering into the non-compete agreement saying in his letter, "[A]t the time the contract was entered into, the bargaining position of the two contractors appears to me to be relatively unequal in that the party seeking enforcement must, if he desires employment with the contracting party, consent to almost any restrictive covenant imposed."[143]

On July 24, 1957, less than five months following Assemblyman Peterson's request for proposed legislation, the Wisconsin legislature adopted Wis. Stat. § 103.465.[144] While not nearly as protracted, the battle between the legislature and the court harkens back to the first half of the twentieth century when the legislature and the court battled over the development of labor law in Wisconsin.[145] With the passage of Wis. Stat. § 103.465, the era of non-compete common law without statutory guidance had ended in Wisconsin. The Wisconsin legislature adopted Wisconsin Statute section 103.465 in 1957.[146] The statute stated:

> A covenant by an assistant, servant or agent not to compete with his employer or principal during the term of the employment or agency, or thereafter, within a specified territory and during a specific time is lawful and enforceable only if the restrictions imposed are reasonably necessary for the protection of the employer or principal. Any such restrictive covenant imposing an unreasonable restraint is illegal, void and unenforceable even as to so much of the covenant as would be reasonable restraint.[147]

It is interesting to note that since the passage of the original statute in 1957, the language, unlike with Texas's statutory language as will be seen, has remained substantially the same in the fifty-plus years since enactment. Only three minor changes in language have occurred since the

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[142] *Id.*
[143] *Id.*
[144] *Id.*
[145] *See generally* Ranney, *supra* note 78, at Chapter 15 (supporting the proposition of the ongoing battle between the Wisconsin legislature and the Wisconsin Supreme Court as to the legality of certain laws and regulations promulgated from the 1900s to the 1940s).
[146] Richards, *supra* note 64 at 242.
[147] *Id.*

original passage. In 1995, "his" was change to "his or her" to render the term gender neutral.[148] In 1997, the legislature added the phrase "after the termination of that employment or agency" following the word "thereafter" and the phrase "described in this subsection" following the phrase "such restrictive covenant", both to accomplish replacing nonspecific references with specific references for greater readability and to make the text have greater conformity with current styles.[149] The sum and substance of the original statute remains intact today.[150]

Two years after Wisconsin enacted Wis. Stat. § 103.465 in 1957, the Wisconsin Supreme Court used *Lakeside Oil Co. v. Slutsky* to interpret the recently enacted statute as it applied to a specific non-compete agreement.[151] *Lakeside Oil Co.* dealt with a non-compete agreement where a salesman for the company was restricted as to the time and territory where he could compete with his former employer.[152] The salesman was to secure new customers for fuel oil or gas for residential or industrial users.[153] No specialized knowledge was required.[154] In the event the employment was terminated, the non-compete agreement between the parties provided Slutsky would not reenter the petroleum or gasoline business in Milwaukee County for two years.[155] Slutsky had previously operated a grocery store but had to leave that business because of high blood pressure and the need not to physically exert himself.[156] After fifteen months on the job with Lakeside Oil, Slutsky decided to go into business for himself.[157] The trial court issued a temporary injunction and following a trial, made the injunction permanent.[158]

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[148] *1995 Wis. ALS 225, 347.*
[149] *1997 Wis. ALS 253, 81.*
[150] *Wis. Stat. § 103.465 (2007).*
[151] *Lakeside Oil Co. v. Slutsky*, 98 N.W.2d 415 (Wis. 1959).
[152] *Id*. at 417.
[153] *Id.*
[154] *Id.*
[155] *Id.*
[156] *Id.*
[157] *Id.*
[158] *Id.*

The Wisconsin Supreme Court first noted in its opinion that with the adoption of the Wis. Stat. § 103.465, the blue-penciling last seen in the *Fullerton Lumber Co.* had been statutorily changed. [159] However, the court also quickly explained that new statute did not change the previous common law basis as to what constituted unreasonable restraints as to time and place to be reasonably necessary.[160] What was changed was that if the contract were to be void for other reasons such as public policy, or created an undue hardship upon the employee, a court of equity could not enforce the contract.[161] The Wisconsin courts had now noted that their powers to reform unreasonable contracts had been eliminated, no longer having the ability to rewrite or blue-pencil an invalid non-compete agreement into a valid agreement.[162]

However, the Wisconsin Supreme Court significantly advanced non-compete agreement law by setting forth in *Lakeside Oil* a five-part test for determining the enforceable of a non-compete agreement:

1) Is there a need to restrict the activities of the former employee in order to protect the employer?[163]
2) Is the period during which activities restricted reasonable?[164]
3) Is the territory in which activities are restricted reasonable?[165]
4) Will the provisions of the agreement be oppressive or unreasonable to the former employee?[166]
5) Will enforcement of the agreement place an unreasonable burden upon the general public?[167]

Each of these tests has spawned its own case history to determine what is or is not the appropriate standard to apply. When the courts review these agreements, the courts will assume

[159] *Id.* at 419.
[160] *Id.*
[161] *Id.*
[162] *Wis. Stat. § 103.465*; *see e.g., JT Packard & Assocs. v. Smith*, 429 F. Supp. 2d 1052, 1054 (W.D. Wis. 2005) (Wisconsin employs a "no-blue-pencil" rule, prohibiting courts from re-writing employment contracts that contain unenforceable provisions.).
[163] *Lakeside Oil Co.* at 419.
[164] *Id.* at 420.
[165] *Id.*
[166] *Id.*
[167] *Id.* at 421.

that they are facially suspect, must withstand close scrutiny, will not be assumed to extend beyond what the agreement absolutely requires, and will be construed in favor of the employee.[168]

Test #1: Is the non-compete agreement necessary to protect the employer? According to *Lakeside Oil*, an employer is not entitled to protection against legitimate and ordinary competition without specific facts and circumstances to render the non-compete agreement reasonably necessary to protect the employer's business.[169] The Wisconsin Appellate Court expounded upon this standard thirty-five years later by simply saying in *NBZ, Inc. v. Pilarski* that what is reasonably necessary will depend upon the totality of the circumstances with the employer having the burden to prove necessity.[170] Earlier that same year, the Wisconsin Appellate Court said in *Wausau Med. Ctr., S.C. v. Asplund* that the employer must have a protectable interest not only when the employer drafted the non-compete agreement but also when the employer enforces the non-compete agreement.[171] The court also found that an employer will more likely have the required protectable interest when the employee has worked for the employer for a long time.[172]

Test #2: Does the non-compete agreement provide a reasonable time restriction? According to *Lakeside Oil*, reasonableness of the time restraint will likely depend upon the time required in the minds of the customers to remove the relationships formed during employment.[173] The amount of time depends upon the nature of the employee's contacts – regular and frequent contacts mean a shorter period is reasonable where as infrequent contacts tends towards a longer

[168] *Wausau Med. Ctr., S.C., v. Asplund*, 514 N.W.2d 34, 38 (Wis. Ct. App. 1994).
[169] *Lakeside Oil Co.* at 419.
[170] *NBZ, Inc. v. Pilarski*, 520 N.W.2d 93, 97 (Wis. Ct. App. 1994).
[171] *Wausau Med. Ctr., S.C.* at 39.
[172] *See id.* at 40.
[173] *Lakeside Oil Co.* at 420.

period of time.[174] By 1981, the courts had ruled that a two-year restraint is not an unreasonable time period.[175] In 1979, a one-year period was deemed reasonable for a catering employee because it was necessary for new drivers to become acquainted with customers on the route.[176] In 1990, a one-year general restraint placed on the business coupled with a two-year restraint on soliciting a patient list was reasonable.[177] While a period of time greater than two years might be allowable under the totality of the Test #1 facts and circumstances, a two-year period will likely have a greater probability of being upheld as reasonable.

Test #3: Does the non-compete agreement cover a reasonable territory? In 1975, the Wisconsin Supreme Court, consistent with the holding in *Oregon Steam Navigation Co.* and *General Bronze,* said limitations imposed cannot be broader than the scope of the employer's activities.[178] Geographic limitations become problematic for enforcement when the area includes more territory than the employer actually serves.[179] In 1994, the appellate court further held that the non-compete agreement can place territorial restrictions by specific geographic delineations or by the employer's customer base (i.e., from where is the employer's business generated).[180] By 2001, recognizing the changes in technology and movement that can occur, the Wisconsin courts are more likely to find a customer list limitation enforceable than a specific geographic limitation.[181] Even by 1981, the courts had held that customer-directed limits should not extend to customers to whom the employee had no contact unless the employee had confidential information about the customer.[182] This limitation was expanded upon in 2001 when the court

[174] *Id.*
[175] *See e.g., Lakeside Oil Co.* at 420; *Fields Found., Ltd. v. Christenson,* 309 N.W.2d 125, 133 (Wis. Ct. App. 1981).
[176] *Chuck Wagon Catering, Inc. v. Raduege*, 277 N.W.2d 787, 793 (Wis. 1979).
[177] *Pollack v. Calimag*, 458 N.W.2d 591, 599 (Wis. Ct. App. 1990).
[178] *Behnke v. Hertz Corp.*, 235 N.W.2d 690, 693 (Wis. 1975).
[179] *Id.* at 693.
[180] *Wausau Med. Ctr., S.C.* at 39.
[181] *See Farm Credit Servs. of N. Cent. Wis., ACA v. Wysocki*, 627 N.W.2d 444, 449 (Wis. 2001).
[182] *Rollins Burdick Hunter, Inc. v. Hamilton,* 304 N.W.2d 752, 756-57 (Wis. 1981).

said that limits imposed upon clients of the employer should be expressed in terms of clients for whom the employer provided services within a reasonable period prior to the employee's termination.[183] The courts are recognizing that ability to move and communicate has seriously impacted geographical limitations.

Test #4: Is the non-compete agreement oppressive or unduly harsh to the employee? Courts may consider the employee's special training for the occupation.[184] While few cases have specifically addressed this test, in 1981 Wisconsin courts held that consideration should be given to the extent to which the restraint on competition actually inhibits the employee's ability to pursue a livelihood in that particular enterprise, as well as restraints applied to particular skills, abilities, and experiences of the employee.[185]

The original version of the statute, as submitted to the legislature by Assemblyman Peterson contained the phrase "without imposing undue hardship on the employee or agent" following the phrase "reasonably necessary for the protection of the employer or principal."[186] Despite the phrase's deletion from the final statute, the Wisconsin Supreme Court, via this fourth test, brought back into the court's statutory interpretation the same oppressive standard as was deleted prior to enactment. Was this just the court trying to reassert its authority – the same push-pull type of battle as was seen during the formative labor years?[187]

Test #5: Is the non-compete agreement unreasonable for the general public? Public policy has been little addressed. In determining whether a non-compete agreement is unreasonable as it

[183] *Farm Credit Servs. of N. Cent. Wis., ACA* at 449; *Equity Enters. v. Milosch,* 633 N.W.2d 662, 670 (Wis. Ct. App. 2001) (holding that the entire working period of fifteen years was too long).
[184] *See Lakeside Oil Co.* at 420 (court found that honoring the agreement may be inconvenient or undesirable, but not unduly harsh or oppressive based on the employee having only fifteen months on-the-job experience).
[185] *Rollins Burdick Hunter, Inc.* at 757.
[186] Danzig, *supra* note 96 at 62.
[187] *See generally* Ranney, *supra* note 78, at Chapter 15 (supporting the proposition of the ongoing battle between the Wisconsin legislature and the Wisconsin Supreme Court as to the legality of certain laws and regulations promulgated from the 1900s to the 1940s).

applies to the general public, the court will consider whether competition might be stifled, cause a shortage of available workers, create a monopoly, or deny customers of the employer who wish to deal with the former employee rather than the employer.[188]

The evaluation of the non-compete agreement in Wisconsin does not end, though, with reviewing the five-factor test from *Lakeside Oil Co*. The employer must provide adequate consideration to the employee in exchange for signing the agreement.[189] *NBZ* was a case of first impression.[190] The Wisconsin Court of Appeals recognized that Wis. Stat. § 103.465 set forth the requirements for an enforceable non-compete agreement but did not answer the question of whether the agreement had to be supported by consideration.[191] The court stated that the common law was that a non-compete agreement must be supported by consideration.[192] The court also determined that even after the enactment of Wis. Stat. § 103.465, non-compete agreements continued to be subject to common law.[193] Statutory language will not abrogate the common law unless the abrogation is so clear at to leave no doubt as to the intent of the legislature, with any change narrowly construed so as to have minimal impact upon common law.[194] The court held there was no intent to abrogate the common law, and because a non-compete agreement is a contract between parties, the need for consideration to be present for a valid contract continued.[195] The court suggested that consideration beyond the simple promise of continued employment is necessary when a non-compete agreement is executed after the employment has commenced.[196]

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[188] *Lakeside Oil Co.* at 421; *Pollack* at 599.
[189] *NBZ, Inc.* at 95-97.
[190] *Id.* at 96.
[191] *Id.* at 95-96.
[192] *Id.* at 95 (citing to *Durbrow Comm'n Co. v. Donner*, 229 N.W. 635, 636 (Wis. 1930)).
[193] *Id*. at 96.
[194] *Id.* (citing to *Waukesha County v. Johnson*, 320 N.W.2d 1, 4 (Wis. Ct. App. 1982)).
[195] *Id.*
[196] *Id.* at 97.

In 1998, the Wisconsin Supreme Court answered the question of whether failing to sign a non-compete agreement can be grounds for termination.[197] In *Tatge v. Chambers & Owen, Inc.*, the employer fired an employee for failing to execute a non-compete agreement. The employee sued for wrongful discharge. The court ruled that the employee failed to identify a fundamental and well-defined public policy in § 103.465 that would trigger the exception to the employment-at-will doctrine.[198] There is no well-defined public policy against signing an unreasonable non-compete agreement.[199] The Wisconsin Supreme Court refused to create a cause of action at discharge for not signing an unenforceable agreement, rather stating that the time for a cause of action was at the attempted enforcement of an unreasonable agreement.[200]

By the close of the twentieth century in Wisconsin, the rules for non-compete agreements had been fairly well addressed. The courts had taken the legislature's statutory enactment completed in 1957 and had worked to implement its requirements through common law application to individual case facts and circumstances. Texas, by comparison, was an on-going feud between the legislature and the courts as each sought to be that state's controlling influence.

VI. Texas Adopts a Statutory Basis

In direct response to the quartet of cases decided by the Texas Supreme Court in 1987 and 1988 (*Hill*[201], *Bergman*[202], *DeSantis*[203], and *Martin*[204]), the Texas legislature enacted the first Texas statute addressing agreements not to compete effective August 28, 1989.[205] The 1989

[197] *Tatge v. Chambers & Owen, Inc.*, 579 N.W.2d 217 (Wis. 1998)).
[198] *Id.* at 224.
[199] *Id.*
[200] *Id.,* footnote 9.
[201] *Hill* at 168.
[202] *Bergman* at 673.
[203] *DeSantis v. Wackenhut*, 31 Tex. Sup. Ct. J. 616 (Tex. 1988) (*DeSantis I*).
[204] *Martin v. Credit Prot. Ass'n*, 31 Tex. Sup. Ct. J. 626 (Tex. 1988) (*Martin I*).
[205] Act of June 16, 1989, 71st Leg., R.S. ch. 1193, §1, 1989 Tex. Gen. Laws 4852-53, amended by Act of June 19, 1993, 73rd Leg., R.S., § 1, 1993 Tex. Gen. Laws 4201-02.

statutes rejected the approach mandated by the 1987 and 1988 Texas Supreme Court cases and changed the common law that existed prior to the two-year court decisions.[206]

After the Texas Supreme Court released the *DeSantis* and *Martin* opinions in July of 1989, the Intellectual Property Law Section of the Texas State Bar submitted proposed legislation to the Texas House of Representatives.[207] Following the introducing of the House bill, State Senator Whitmire introduced a companion bill the Texas Senate.[208] An impressive array of supporters including 145 lawyers and the Texas Employment Law Council backed the Senate bill.[209] In less than two months, the Senate bill was reviewed, discussed, amended, and enacted into Texas law. [210]

Notice the comparability to the enactment of the Wisconsin statute:

- Each state's highest court issued a ruling about a non-compete agreement.
- The legislature is upset with the court's decision (although in Wisconsin, the legislature is infuriated by the upholding of the agreement and in Texas, the legislature is infuriated by the vacating of the agreement).
- In both cases, in significantly less than one year's time, enabling legislation addressing non-compete agreements is enacted, laying out specific statutory language for courts to follow.

The new Texas law became Subchapter E to the Texas Business and Commerce Code and was called the Covenants Not to Compete Act (the "1989 Act").[211] The 1989 Act was intended to eliminate many of the judicially-imposed barriers that prevented enforcement of non-

[206] Tayon, *supra* note 136 at 147.
[207] Tex. H.B. 1026, 71st Leg., R.S. (1989).
[208] Tex. S.B. 946, 71st Leg., R.S. (1989).
[209] Tayon, *supra* note 136 at 178.
[210] *Id.*
[211] Foss, *supra* note 105 at 216-17.

compete agreements.[212] Senator Whitmire provided his reasons for sponsoring passage of this Act:

> It is generally held that these covenants, in appropriate circumstances, encourage greater investment in the development of trade secrets and goodwill employee training, provide contracting parties with a means to effectively and efficiently allocate various risks, allow the freer transfer of property interests, and in certain circumstances, provide the only effective remedy for the protection of trade secrets and goodwill.[213]

The 1989 Act, through the omission of the "common calling" test used in the reasonableness test, was intended to overrule the "common calling" exception announced in *Hill*.[214]

The 1989 Act enacted several additional significant changes. First, the 1989 Act mandated judicial reformation of overly broad agreements not to compete if the court was so requested by the promissee.[215] This reformation is the "blue penciling" that Wisconsin eliminated in 1957. Prior to the 1989 Act, a Texas court of equity had the ability, but not the obligation, to reform an overly broad agreement.[216] The court now had the obligation, if requested. Second, the 1989 Act codified the common law *Weatherford* rule that damages could not be recovered for the time prior to the date the agreement is reformed.[217] With the obligation to reform an agreement if possible, statutorily clarifying that retroactive damage would not apply served to answer the question even before it was judicially asked. In addition, the agreement not

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[212] Patrick J. Maher, *Covenants/Trade Secrets: a Continuing Education*, Labor and Employment Law Section Annual Meeting of the State Bar of Texas, 2 (can be found at http://www.shannongracey.com/documents/COVENANTS-TRADE%20SECRETS-%20a%20Continuing%20Evolution.pdf)
[213] Senator John Whitmire, Sen. Comm. on Econ. Dev., Bill Analysis, Tex. S.B. 946, 71st Leg., R.S. (1989).
[214] Borgman, *supra* note 134 at 23.
[215] *Tex. Bus. & Com. Code Ann. §15.51(c)* (West Supp. 1992).
[216] *See generally DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 682 (Tex. 1990) cert. denied, 111 S.Ct. 755 (1991) (*DeSantis II)* (explaining that a court of equity could reform an overly broad agreement but the reformation did not have to be enforced by a court of law).
[217] *Tex. Bus. & Com. Code Ann. §15.51(c)*.

to compete had to be "ancillary to an otherwise enforceable agreement" and, if the agreement were entered into as a separate agreement, the statute provided an additional requirement that "such covenant must be supported by independent valuable consideration."[218] The 1989 Act demonstrated the legislature's intent, in spite of the prior disdain held by the Texas Supreme Court, to make agreements not to compete not only possible but enforceable in Texas.

The Texas Supreme Court would not go quietly into the night, though, regarding non-compete agreements and handed down three decisions on June 6, 1990, less than one year after the Texas legislature enacted Secs. 15.50 and 15.51. The Texas Supreme Court had withdrawn their prior *DeSantis*[219] and *Martin*[220] decisions following the statutory enactment, and reissued these two as *DeSantis II* [221] and *Martin II* [222] plus issuing *Juliette Fowler Homes. Inc. v. Welch Associates, Inc.*[223] However, instead of applying the 1989 Act, the Texas Supreme Court chose to ignore the new statute and held that the outcomes in each would not change from the pre-statutory common law analyses guided by *Hill* and its progeny.[224] The Texas court vs. legislature battle rings close to the court vs. legislature battles seen in Wisconsin with the labor movement[225] and with the Wisconsin court's action relative to reading-in language that had been specifically deleted during the legislative process.[226]

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[218] *Tex. Bus. & Com. Code Ann. §15.50(1).*
[219] *DeSantis I* at 616.
[220] *Martin I* at 626.
[221] *DeSantis II* at 670.
[222] *Martin v. Credit Protection Ass'n*, 793 S.W.2d 667 (Tex. 1990) (*Martin II*).
[223] *Juliette Fowler Homes, Inc. v. Welch Assoc., Inc.*, 793 S.W.2d 660.
[224] *DeSantis II* at 688 n. 9; *Martin II* at 669 n. 1; *Juliette Fowler Homes, In*c. at 663 n. 6.
[225] *See generally* Ranney, *supra* note 78, at Chapter 15 (supporting the proposition of the ongoing battle between the Wisconsin legislature and the Wisconsin Supreme Court as to the legality of certain laws and regulations promulgated from the 1900s to the 1940s).
[226] Danzig, *supra* note 96 at 62.

In *Martin II*, the Texas Supreme Court held that agreements not to compete that are not ancillary to a valid employment at-will agreement are unenforceable.[227] An at-will employment relationship has no definite term of employment and has no standard for discharging the employee.[228] The *Martin II* court determined that at-will employment is not binding on either the employer or the employee; as such, at-will employment does not constitute the requisite "otherwise enforceable agreement" as required by for an agreement not to complete.[229] Martin's agreement had only consisted of an agreement not to compete and had not described terms of employment such as title, position, employment duration, duties and responsibilities, or pay.[230] Second, the *Martin II* court held that an agreement not to compete, entered into on a date other than the date that the underlying agreement to which it must be ancillary was entered into, was unenforceable unless the employee was provided "independent valuable consideration" when the supplemental agreement is executed.[231] The promise of continued employment would not serve as independent valuable consideration, as the promise of continued employment is considered illusory.[232] Thus, the *Martin II* court had established that an at-will relationship could not constitute the otherwise enforceable agreement required by the statute nor can simply providing continuing employment serve as the independent valuable consideration that the employee must receive. One year later the Texas Supreme Court reaffirmed that an at-will agreement was not an "otherwise enforceable agreement."[233]

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[227] *Martin II* at 669-70.
[228] Borgman, *supra* note 134 at 23.
[229] *Martin II* at 669-70.
[230] *Id*. at 669.
[231] *Id.* at 670.
[232] Richard A. Roy, *The At-Will Relationship in the 21st Century: A Consideration of Consideration*, 58 Baylor L. Rev. 707, 736-37 (2006); *see generally* E. Allan Farnsworth, *Contracts 72-82* (1982) (explaining that if the obligation of a promise is terminable at will, the promise is illusory).
[233] *Travel Masters, Inc. v. Star Tours, Inc.*, 823 S.W.2d 830 (Tex. 1991).

In *DeSantis II*, the Texas Supreme Court chose to ignore the provisions of the 1989 Act and evaluated the non-compete agreement under common law standards.[234] The court continued to require a balancing of the burdens placed upon the promisor and the public.[235] An agreement may "accomplish the salutary purpose of encouraging an employer to share confidential, proprietary information with an employee in furtherance of their common purpose, but must not also take unfair advantage of the disparity of bargaining power between them or too severely impair the employee's personal freedom and economic mobility."[236] The court said these were questions of law that the court must decide.[237] The court was not ready to accept the applicability of the statutes.

The *DeSantis II* court acknowledged that the Texas legislature had statutorily done away with the concept of common calling.[238] However, the same court then stated that the nature of the job remains a factor in the analysis when determining the reasonableness of the agreement.[239]

By the end of 1993, almost seven years had elapsed since the Texas Supreme Court had decided *Hill* and still the Texas Supreme Court has refused to enforce any non-compete agreements.[240] Even after the enactment of the 1989 Act, the Texas Supreme Court still held that it was applying common law analysis in its determinations.[241] The Texas legislature responded in 1993 to the court's inaction by making three significant statutory changes (the "1993 Act").[242] First, Section 15.52 was added, stating that the court's common law basis was now expressly

[234] *DeSantis II* at 688.
[235] *Id.* at 682.
[236] *Id.*
[237] *Id.*
[238] *Id.* at 683.
[239] *Id.*
[240] Borgman, *supra* note 134 at 26.
[241] *Martin II* at 669.
[242] Tayon, *supra* note 136 at 220.

preempted.[243] Second, the legislature clarified Sec. 15.51(b) to make this section clearly applicable to at-will employment.[244] Third, the 1993 Act deleted the former section § 15.50(1) requiring that the agreement be supported by independent valuable consideration at a date of execution other than the date the underlying agreement was executed.[245] In its place, the legislature inserted language providing that the non-compete agreement will be enforceable if the agreement is ancillary to "an otherwise enforceable agreement at the time the agreement is made."[246] The important phrase in the third change is "at the time the agreement is made." The legislature was now overriding the prior position taken in *Martin II* by the Texas Supreme Court. The amended statutes became effective on September 1, 1993, but were to apply to all agreements that the courts had not been finally adjudicated, both prospectively and retrospectively.[247]

The difference of opinions held between the Texas legislature and the Texas Supreme Court as to non-compete agreements was still not resolved. In the year following the 1993 Act, the Texas Supreme Court again considered the issue of a non-compete agreement for an at-will employee.[248] Despite the Texas legislature having expressly added the term "at will" to the statute to ensure applicability to the at-will employment, the *Light* court held the non-compete agreement to be unenforceable.[249]

Light was actually heard twice by the Texas Supreme Court. In *Light I*, even though recognizing in the footnotes in its ruling that the 1993 Act had been enacted, cited extensively to *Martin II* and *Travel Masters* and held that the agreement did not apply to an at-will

[243] *Tex. Bus. & Com. Code. Ann. § 15.52* (West Supp. 1995).
[244] *Id.* § 15.51(b).
[245] *Id.* § 15.50.
[246] *Id.*
[247] *See* Tex. H.B. 7, 73rd Leg., R.S., 1993 Tex. Gen. Laws 4202 §§ 4-5.
[248] *Light v. Centel Cellular Co. of Tex.*, 37 Tex. Sup. Ct. J. 17 (Tex. 1993) (*Light I*) (opinion withdrawn).
[249] *Id.* at 17-18.

employment.[250] However, the Texas Supreme Court withdrew *Light I* (but not before one Texas Appellate Court followed its finding[251]) and scheduled the case for rehearing later in 1994.[252]

Upon rehearing, *Light II,* after five years of having a non-compete statute in effect but unapplied, the Texas Supreme Court finally applied Texas's non-compete statute.[253] Even though the court applied the statute, the result was the same – an unenforceable non-compete agreement. What was different was the analysis. While *Light I* said that a non-compete agreement was not enforceable in an at-will employment situation,[254] *Light II* held that the agreement was unenforceable because the agreement did not enforce any of the Light's "return promises in an otherwise enforceable agreement."[255] In essence, the *Light II* court found the agreement unenforceable because the non-compete agreement was not ancillary to an otherwise enforceable agreement between the parties.[256] The *Light II* court established that "at the time the agreement is made"[257] meant that agreement had to be enforceable upon execution – a unilateral contract contingent of the fulfilling a future specified return promise was not enforceable.[258]

At the end of 1994, several changes caused by the 1989 Act and the 1993 Act were now recognizable. Before the 1989, public law was routinely considered. The *Hill* court had said, "the covenant must not be injurious to the public, since courts are reluctant to enforce covenants which prevent competition and deprive the community of needed goods."[259] The statutes no longer address public interest.[260] Common calling, an original driver of the 1989 Act, is gone. The requirement that separate and independent consideration to support the non-compete

[250] Tayon*, supra* note 136 at 226.
[251] *Burgess v. Permian Court Reporters, Inc.*, 864 S.W.2d 725 (Tex. App. El Paso 1993, *writ dism'd w.o.j*).
[252] *Id.*
[253] *Light v. Centel Cellular Co.*, 883 S.W.2d 642, 648 (Tex. 1994) (*Light II*).
[254] *Light I* at 17-18.
[255] *Light II* at 647.
[256] *Id.* at 648.
[257] *Tex. Bus. & Com. Code. Ann. § 15.50.*
[258] *Light II* at 645.

agreement is gone. Reformation of an unreasonable agreement is now mandatory, noting that the 1993 Act removed the requirement that the promissee reformation. However, the unreasonable non-compete agreement cannot be reformed if it is not ancillary to an otherwise enforceable agreement.[261]

During this period of history when the battle raged between the Texas legislature and the Texas Supreme Court, the political composition of the Texas Supreme Court changed slightly, in both political alignment and serving justices.[262] In Texas, Supreme Court justices are elected in state-wide partisan elections.[263] By 1983, the composition of the Texas Supreme Court had become pro-plaintiff, setting the stage for the *Hill* decision.[264] However, during the period from 1983 to 1987, the Texas Supreme Court was rocked with scandal.[265] For the 1988 election, six judicial positions were vacant.[266] In an unusual political twist, a bipartisan slate of reform candidates was offered, winning five of the six vacant positions – with the final split of elected justices even with three Democrats and three Republicans, including the removal from the bench of the author of the *Hill* decision.[267] Between 1988 and 1994, the Democrat/Republican split changed from six:three (Democrat:Republican) to five:four, with three Democrats and two Republicans serving on the court during this entire timeframe.[268] As the court changed, though,

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[259] *Hill* at 170.
[260] *Tex. Bus. & Com. Code. Ann. §§ 15.50 – 52*.
[261] *Recon. Exploration, Inc. v. Hodges*, 798 S.W.2d 848, 852-53 (Tex. App. Dallas 1990).
[262] *See* Julie F. Siegel, *High Court Studies: The Supreme Court of Texas from 1989-1998: Independence Determined by Six-Year Terms*, 62 Alb. L. Rev. 1649, 1687 (1998-1999).
[263] Judgepedia.org (can be found at http://judgepedia.org/index.php/Texas_Supreme_Court).
[264] Anthony Champagne and Kyle Cheek, *The Cycle of Judicial Elections: Texas as a Case Study*, 29 Fordham Urb. L.J. 907, 912 (2001-2002).
[265] *Id.* at 912-14.
[266] *Id.* at 914.
[267] *Id.* at 915.
[268] Siegel, *supra* note 262, at 1687.

different perspectives began to appear on the non-compete ruling, with final acknowledgement by the court in *Light II* that statutes do apply.[269]

For more than ten years following *Light II*, the Texas legal landscape for non-compete agreements remained relatively unchanged. On August 20, 2006, the Texas Supreme Court (now 100% Republican) announced in *Alex Sheshunoff Management Services, L.P. v. Johnson* [270] a change that makes the Texas statute easier to enforce against at-will employees. Specifically, the Texas Supreme Court said it was disagreeing with language in *Light II*.[271] In *Light II*, the court said that illusory promises were unenforceable.[272] In *Sheshunoff*, the court said that the underlying agreement need not be enforceable at the time it is made but that once the employer has performed its promise, an otherwise valid agreement can now be enforced.[273] In *Sheshunoff*, the acceptance of the promise to maintain confidentiality by later providing confidential information created a unilateral contract; however the creation of the contract did not create an otherwise enforceable agreement when the first the agreement was made.[274] The agreement becomes enforceable after the agreement is made if the employer performs his promise and all other requirements under the Act are met.[275] Through *Sheshunoff*, the Texas Supreme Court has now recognized that an at-will employment can be subject to an otherwise enforceable non-compete agreement.

[269] *Light II* at 647.
[270] *Alex Sheshunoff Mgmt. Servs, L.P. v. Johnson*, 209 S.W.3d 644 (Tex. 2006).
[271] *Id.* at 646.
[272] *Light II* at 645.
[273] *Sheshunoff* at 652.
[274] *Sheshunoff* at 648.
[275] *Light II* at 655.

The *Sheshunoff* court, though, did not abandon much of *Light II*, retaining the ancillary requirements for the agreement, the requirement for adequate consideration, and the non-compete agreement must enforce the employee's return promise.[276]

Because the Texas Supreme Court has recognized the ability to have an enforceable non-compete agreement for an at-will employee, the Texas courts have to determine how the agreement must be worded to be enforceable. A recent 2008 case from the Corpus Christi Court of Appeals addressed that question. An at-will employee's agreement contained promises made by the employee to (a) not disclose the employer's confidential information, and (b) not engage in post-employment competition.[277] The agreement did not obligate the employer to provide confidential information to the employee (the *Sheshunoff* employment contract required the employer to provide to the employee with "access to certain confidential and proprietary information and materials belonging to Employer"[278]). Nevertheless, the court found that the employer had in fact provided such information. The court explained:

> McGaughey's promise not to disclose Shoreline's confidential information, though not enforceable when made, constituted an offer for a unilateral contract which Shoreline had the option to accept. Shoreline accepted McGaughey's offer by performing—that is, by supplying McGaughey with confidential information—and so a unilateral contract was formed under which McGaughey became bound by his promise not to disclose that information (cite omitted) Under *Sheshunoff*, such a unilateral contract constitutes an "otherwise enforceable agreement" sufficient to support an accompanying non-compete covenant.[279]

However, the court also found that because (i) the promise provided in *Shoreline Gas* was illusory because the employer could avoid performance simply by terminating employment; and (ii) this promise was not of the type that could be considered an offer for a unilateral contract that

[276] *Id.* at 648-49.
[277] *Shoreline Gas, Inc. v. McGaughey,* 2008 Tex. App. LEXIS 2760 (Tex. App. Corpus Christi Apr. 17, 2008).
[278] *Sheshunoff* at 647.
[279] *Shoreline Gas* at 16-17.

could be accepted by the performance of the promise, the agreement could not have formed the basis of an "otherwise enforceable agreement" capable of sustaining a non-compete covenant under *Sheshunoff* parameters.[280] Thus, according to the Texas court of appeals in the *Shoreline Gas*, as long as the employer provides confidential information to the employee (even if the agreement does not contain a promise by the employer to do so), a unilateral contract is formed when the employer does so (with the employee's promise not to disclose the information constituting the other part of the unilateral contract) and is an otherwise enforceable agreement sufficient to support a promise by the employee not to compete.[281]

On the surface, *Shoreline Gas* appears to be a lessening of the at-will restrictions placed upon employers by the Texas Supreme Court. However, for Texas, when drafting new non-compete agreements, the safest course may be to explicitly include language by which the employer promises to provide confidential information to the employee and thereby make an enforceable agreement.

The bottom line analysis is that the holdings in *Sheshunoff* and *Shoreline Gas* now make non-compete agreements easier to enforce in Texas.[282]

Since 1994 when *Light II* was decided until 2006 when *Sheshunoff* was decided, there was a significant changeover in the composition of the Texas Supreme Court. Of the nine sitting justices in 1994, only one remained. The composition, which had been five Democrats and four Republicans in 1994, was now all nine Republican in 2006 – not one Democrat remained. A

[280] *See Sheshunoff* at 650.
[281] *Shoreline Gas* at 14.
[282] Jones Day Commentaries, *Texas Supreme Court Clarifies Confusion Over Enforcement of Noncompete Agreements for At-Will Employees,* November 2006 (can be found at http://www.jonesday.com/files/Publication/268c0bfd-c984-4899-b226-0025d2133e2d/Presentation/PublicationAttachment/de6ce7a6-5feb-440a-9a9b-019a4ae55340/Texas%20Supreme%20Court.pdf).

major concern in Texas remains the influence of money in the Texas courts.[283] While it is impossible to say what might have tipped the scale in *Sheshunoff* and *Shoreline Gas*, both rulings make it easier to establish an acceptable non-compete agreement and therefore, must be viewed as favorable to business, where political money can often be found.

VI. Wisconsin and Texas Today

Has the legal landscape for non-compete agreements stabilized in Wisconsin and Texas? While the answer is most likely a qualified "yes" for Wisconsin, the answer is probably "no" for Texas. Wisconsin's statutory basis has remained relatively unchanged for more than fifty years. The Wisconsin legislature has not quarreled with the positions taken by the Wisconsin Supreme Court. However, with changes in technology, the geographical limitations previously recognized are likely to become less meaningful. Client lists, electronic databases, and what constitutes confidential data are just a few of the issues likely to have to be addressed by the Wisconsin courts in forthcoming years.

Texas, however, has been an on-going battle between the Texas legislature and the Texas Supreme Court for the past twenty years. For the period 1994 to 2006, the battle zone was relatively quiet. The quiet was abruptly changed in 2006 with *Sheshunoff*. The Texas practitioners are now redefining the limitations placed on non-compete agreement based on the *Sheshunoff* opinion. Based upon 2008 *Shoreline Gas* decision, there appears to be a loosening of the constraints but no one knows whether the Texas Supreme Court will agree with the Corpus Christi Court of Appeals. How practitioners drafting non-compete agreements and businesses adopting non-compete agreements will respond to recent changes in the court's interpretations remain to be seen.

[283] Champagne and Cheek, supra note 264, at 935.