SUPREME COURT OF TEXAS

Texas Outfitters Limited, LLC v. Carolyn Grace Nicholson, William Luther Carter, Jr., and Dora Jo Carter, Individually and as General Partner of Carter Ranch, Ltd.

572 S.W.3d 647 (Tex. 2019) · No. 17-0509 · Decided April 12, 2019

SUMMARY

The Supreme Court of Texas held that the holder of an executive right to lease a mineral estate owes non-executive mineral-interest owners a duty of utmost good faith and fair dealing. Applying the controlling inquiry from KCM Financial LLC v. Bradshaw, the Court concluded that legally sufficient evidence supported the finding that Texas Outfitters engaged in self-dealing that unfairly diminished the Carters' mineral interests by refusing an oil-and-gas lease. The Court affirmed the court of appeals' judgment.

CASE DETAILS

COURT	Supreme Court of Texas
WRITING FOR THE COURT	Debra H. Lehrmann
JURISDICTION	Texas
DECIDED	April 12, 2019
DOCKET	17-0509
DISPOSITION	affirmed
PROCEDURAL POSTURE	Texas Outfitters petitioned the Supreme Court of Texas for review after the trial court entered judgment for the Carters following a bench trial and the Court of Appeals for the Fourth District of Texas affirmed.
STANDARD OF REVIEW	A trial court's findings of fact after a bench trial are reviewed under the same appellate standards as a jury verdict. A legal-sufficiency challenge fails if more than a scintilla of evidence supports the challenged finding.
PRECEDENTIAL VALUE	Published opinion; precedential authority of the Supreme Court of Texas
PARTIES	Texas Outfitters Limited, LLC v. Carolyn Grace Nicholson, William Luther Carter, Jr., Dora Jo Carter, individually and as general partner

of Carter Ranch, Ltd.

TOPICS

oil and gas · mineral rights · real estate · commercial litigation · damages

PRACTICE AREAS

oil and gas law · mineral rights · fiduciary duties · appellate procedure

QUESTIONS PRESENTED

1. Whether the executive right holder's duty of utmost good faith and fair dealing is governed by different standards for affirmative leasing and refusal to lease.
2. Whether legally sufficient evidence supported the trial court's finding that Texas Outfitters breached its executive duty by refusing El Paso's lease offer.
3. Whether an executive generally breaches its duty by declining a lease in honest anticipation of obtaining better terms for all interested parties.

HOLDINGS

1. The same controlling inquiry governs executive-duty cases regardless of whether the challenged conduct is affirmative leasing or refusal to lease: whether the executive engaged in self-dealing that unfairly diminished the value of the non-executive interest.
2. Legally sufficient evidence supported the finding that Texas Outfitters breached its duty of utmost good faith and fair dealing by refusing the El Paso lease under the particular facts and circumstances.
3. An executive generally does not breach its duty by declining a lease in honest anticipation of obtaining better terms for all parties, but that general principle did not protect Texas Outfitters because the trial court found that its refusal was a self-interested gamble that unfairly harmed the Carters.

KEY QUOTATIONS

> *“The holder of the executive right to lease a mineral estate owes non-participating mineral- and royalty-interest owners a duty of utmost good faith and fair dealing.”* (at 647)

> *“whether the executive engaged in acts of self-dealing that unfairly diminished the value of the non-executive interest.”* (at 653)

> *“By purchasing executive rights, Texas Outfitters also purchased the corresponding duty of utmost good faith and fair dealing.”* (at 659)

FACTUAL BACKGROUND

Texas Outfitters purchased the surface estate of a 1,082-acre Frio County ranch, a small mineral interest, and the executive rights to the Carters' retained 45.84% mineral interest. When El Paso offered to lease the remaining mineral interests for a $1,750-per-acre bonus and a 25% royalty after leasing the Hindes family's 50% interest, the Carters wanted Texas Outfitters to accept, but Texas Outfitters refused because it wanted to await better terms and preserve the surface for its hunting operation. The trial court found that Texas Outfitters knew the Carters did not want to gamble on a better offer, that the Hindeses' prior lease reduced the pool of potential lessees, and that refusal benefited Texas Outfitters' surface interest while harming the Carters' mineral interest.

PROCEDURAL HISTORY

The Carters sued Texas Outfitters and Frank Fackovec, alleging that Texas Outfitters breached its duty as holder of the executive rights to the Carters' mineral interests by refusing an oil-and-gas lease. After a bench trial, the trial court awarded the Carters $867,654.32 in damages against Texas Outfitters and found Fackovec not personally liable. The court of appeals affirmed, and the Supreme Court of Texas granted review and affirmed the appellate judgment.

DISPOSITION

affirmed

CASES CITED

- KCM Fin. LLC v. Bradshaw, 457 S.W.3d 70 (Tex. 2015)
- Lesley v. Veterans Land Bd. of State, 352 S.W.3d 479 (Tex. 2011)
- Manges v. Guerra, 673 S.W.2d 180 (Tex. 1984)
- Anderson v. City of Seven Points, 806 S.W.2d 791 (Tex. 1991)
- Formosa Plastics Corp. USA v. Presidio Eng'rs & Contractors, Inc., 960 S.W.2d 41 (Tex. 1998)
- Ray v. Farmers' State Bank of Hart, 576 S.W.2d 607 (Tex. 1979)
- Sneed v. Webre, 465 S.W.3d 169 (Tex. 2015)
- Burford v. Pounders, 199 S.W.2d 141 (Tex. 1947)
- Merriman v. XTO Energy, Inc., 407 S.W.3d 244 (Tex. 2013)
