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Business Torts

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BUSINESS TORTS

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I. TRADE SECRETS AND CONFIDENTIAL INFORMATION	
A. DISGORGEMENT OF DEFENDANT'S PROFITS: PROVE IT. NO, YOU PROVE IT	

IN trademark and copyright cases, a prevailing plaintiff can ordinarily recover the defendant's profits in addition to whatever damages the plaintiff can show it has suffered. "In assessing profits [in trademark cases] the plaintiff shall be required to prove defendant's sales only; defendant must prove all elements of cost or deduction claimed."¹ In copyright cases, the copyright owner may recover "any profits of the infringer that are attributable to the infringement and are not taken into account in computing the actual damages," and "[i]n establishing the infringer's profits, the copyright owner is required to present proof only of the infringer's gross revenue, and the infringer is required to prove his or her deductible expenses and the elements of profit attributable to factors other than the copyrighted work."² But what must a prevailing plaintiff show in order to recover a defendant's profits from misappropriation of trade secrets?

The Court of Appeals for the Fifth Circuit answered this question, apparently for the first time in many decades, in *MGE UPS Systems, Inc. v. GE Consumer and Industrial, Inc.*³ Here, the defendant had been found

1. 15 U.S.C. § 1117(a) (2006). The plaintiff is only entitled to recover profits attributable to the infringement, but separating those profits from profits attributable to other factors is the defendant's burden.

2. 17 U.S.C. § 504(b) (2006). The court noted that in meeting its initial burden, a copyright claimant "must show gross revenue *reasonably related* to the infringement." *MGE UPS Sys. v. GE Consumer & Indus.*, 622 F.3d 361, 367 (5th Cir. 2010).

3. *MGE UPS Sys.*, 622 F.3d at 361.

liable for misappropriation of trade secrets involved in using “dongles” to boot up software. After the plaintiff’s damages expert was struck and its lay witness testimony was found insufficient to support an award of reasonable royalties, the only information left to support an award was a chart showing the defendant’s gross revenues from *all* its businesses—not just the one that was involved in the “dongle” matter, and even then not separating the profits from the expenses.

The court found no support in Texas law for the proposition that disbursement of profits in trade secret cases would follow the burden-shifting procedure of trademark and copyright disputes. Instead, citing the 1973 Dallas Court of Civil Appeals case *Elcor Chemical Corp. v. Agri-Sul, Inc.*,⁴ the Fifth Circuit held although a defendant’s profits are a proper measure of damages in trade secret cases, the plaintiff must offer evidence “to show the actual profit made by [defendant].”⁵ The plaintiff failed to meet its burden, because the only evidence left was the chart showing gross revenue from multiple business lines—and profit, as all know, is not the same as revenue. As a result, the court held, “MGE needed to take additional steps to deduct unrelated revenue and costs from these total figures in order to demonstrate PMI’s *profits* related to the infringement, [and] MGE failed to do so.”⁶

The plaintiff argued that comment f to section 45 of the *Restatement (Third) of Unfair Competition* now governs Texas law on this point. Comment f provides that in trade secret matters—as in trademark and copyright actions—the plaintiff “bears the burden of establishing the defendant’s sales,” and the defendant bears “the burden of establishing any portion of the sales not attributable to the trade secret and any expenses to be deducted in determining net profits.”⁷

Citing, however, the leading Texas trade secret case of *In re Bass*,⁸ the Fifth Circuit held that “Texas courts have not adopted the RESTATEMENT (THIRD) OF UNFAIR COMPETITION in its entirety and whether § 45’s comment f is controlling in Texas courts is still an open question.”⁹ It also held that “[n]either the Texas Supreme Court nor any of the Texas appellate courts have specifically applied comment f to determine a defendant’s profits in a trade secret action,” and “[g]iven that comment f’s standard sets a plaintiff’s burden of proof for trade secret damages lower than the standard applied in *Elcor*, we conclude that the Texas Supreme Court would not adopt the burden-shifting procedures of

4. *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 214 (Tex. Civ. App.—Dallas 1973, writ ref’d n.r.e.).

5. *MGE UPS Sys.*, 622 F.3d at 369.

6. *Id.*

7. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. f (1995).

8. *In re Bass*, 113 S.W.3d 735, 739–40 (Tex. 2003). The Fifth Circuit noted that in *In re Bass*, the Texas Supreme Court followed the original RESTATEMENT OF TORTS definition of trade secrets and factors used to identify them. The burden-shifting provisions of the later RESTATEMENT (THIRD) OF UNFAIR COMPETITION are not included there.

9. *MGE UPS Sys.*, 622 F.3d at 370.

comment f.”¹⁰

B. PLAINTIFF’S LOST PROFITS: DEFENDANT’S SALES ARE A POOR PROXY

The “departing employee” case of *Glattly v. Air Starter Components, Inc.* is instructive on the evidence required to show a plaintiff’s lost profits for trade secret misappropriation. Here, the court held that “there is not ‘one complete calculation’ that is based on objective data showing with reasonable certainty [plaintiff’s] lost profits due to the misappropriation of its drawings,”¹¹ as it held was required under the Texas Supreme Court case of *ERI Consulting Engineers, Inc. v. Swinnea*.¹²

The plaintiff appears to have used the defendant’s sales as a proxy for what it would have sold, and hence what it would have made. The plaintiff assumed and argued that it would have made all of the sales the defendant had made, including sales for products or services which the plaintiff did not provide, and even to customers which had ceased buying from plaintiff for reasons unrelated to the defendant (rather than assuming it would have made about as many of those sales as its market share reflected for instance). In addition, the plaintiff based its lost profits on an average of all of its business, not just the profit associated with the customers or products at issue here. And it appears that the plaintiff combined its calculations for lost profits due to tortious interference (which the jury did not find) and for lost profits due to misappropriation into one amount, without separating them.¹³

For all these reasons, the court concluded that there was insufficient evidence on which to support an award of lost profits for trade secret misappropriation.¹⁴

C. DURATION OF INJUNCTION: FOREVER AND A DAY

Since the *Hyde Corp. v. Huffines* and *K&G Tool & Service Co.* cases from 1958, it has been understood that in Texas, further misappropriation of trade secrets may be enjoined “permanently” (meaning “forever”)—even after a patent has expired or the secrets have otherwise been made

10. *Id.*; see *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 214 (Tex. Civ. App.—Dallas 1973, writ ref’d n.r.e.).

11. *Glattly v. Air Starter Components, Inc.*, 332 S.W.3d 620, 635 (Tex. App.—Houston [1st Dist.] 2010, pet. filed).

12. *ERI Consulting Eng’rs, Inc. v. Swinnea*, 318 S.W.3d 867, 878–79 (Tex. 2010) (plaintiff has “burden of providing evidence showing a single complete calculation of lost profits”).

13. *Glattly*, 332 S.W.3d at 636.

14. *Id.* at 626. From this reporting period, see also *Rusty’s Weigh Scales & Serv., Inc. v. N. Tex. Scales, Inc.* 314 S.W.3d 105, 110–12 (Tex. App.—El Paso 2010, no pet. h.) (speculation of \$2 million lost profits unsupported by objective data; out-of-pocket expenses were due to the actions of a third party which had settled out; remaining conduct may have been “unethical,” but was not “malicious” as needed to support exemplary damages).

public—depending on the facts of the particular case.¹⁵

Compare this doctrine with the practice of states which limit “the duration of injunctive relief to the period it would take a legitimate competitor to acquire the information by lawful means” (the “head start” doctrine). Though the distinction is by no means precise, the latter practice is often characteristic of states which have adopted the Uniform Trade Secrets Act, which may emphasize the public’s interest in not restricting competition any more or longer than necessary. Texas courts expressly permit injunctions that forever bar a particular defendant from using the materials in question—even long after all its competitors know these secrets and even longer than needed to deprive the defendant of any unfair benefit of its poaching. This practice tends to be characteristic of states whose trade secret law follows the *Restatement of Torts*, the theory being that it is the breach of trust or improper means of discovery which are being remedied, and the court should do more than merely take away the defendant’s unfair “head start.” If the worst that would happen would be to be placed in the same position it would be in otherwise, no would-be defendant would be deterred from giving trade-secret misappropriation a try.

The emphasis, however, should be on “*may*,” since whether an injunction should issue—and if so what its proper scope and duration should be—is heavily dependent on the facts and equities of the case. That an injunction to bar a defendant forever *may* issue does not necessarily mean it *should*, and because the injunction will necessarily restrict competition in the field to some degree, there is much to be said for limiting it carefully to a scope and duration that effectively balances the interests of owner, poacher, and public. That may mean “forever,” but forever, especially in the digital age, is a long time.

Thus, the result in *Glattly*, is startling: the Houston First District Court of Appeals actually *reversed* a trial court ruling that enjoined a trade secret misappropriator for *only* thirty years and removed that time period from the injunction.¹⁶ There the defendants had been found liable for stealing some drawings. The plaintiff argued that by “only” enjoining the defendants for thirty years, the court had essentially given the defendants *title* to what was in effect stolen property, at the end of that period. The defendants replied that the prohibition did not do any more than the law already does in prohibiting a party from using someone else’s trade secrets, and acknowledged that “prohibition exists even without the injunction and will continue to exist thirty years from now.”¹⁷

Perhaps it was the fact that the case had been characterized as a theft case or perhaps that the defendants seemed not to assert that someday

15. *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 776 (Tex. 1958) (defendant has the burden of persuading the court that the injunction should be less than perpetual); *K&G Oil Tool & Serv. Co. v. G&G Fishing Tool Serv.*, 314 S.W.2d 782 (Tex. 1958). Compare RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. f (1955) and cases collected there.

16. *Glattly*, 332 S.W.3d, at 642–43.

17. *Id.* at 643.

they might be able to use the drawings at issue; or perhaps it was a combination of this and more. In any event, noting simply that the Texas Supreme Court “has affirmed a permanent injunction to prevent the improper use of trade secrets” and that the defendants “acknowledge they are prohibited from ever using [the plaintiff’s] drawings,” the court concluded that the “trial court erred by limiting the injunction to 30 years.”¹⁸

II. TEXAS THEFT LIABILITY ACT

A. NO DAMAGES: WINNING AND LOSING AT THE SAME TIME

The Texas Theft Liability Act establishes a civil cause of action for theft under the Texas Penal Code, including unlawfully appropriating a trade secret.¹⁹ “A person who has sustained damages may recover the amount of those actual damages,²⁰ and a “person who prevails” shall be awarded costs and attorneys’ fees.²¹

In *Glattly*²² the jury found that the defendant violated the Texas Theft Liability Act and, in effect, stole the drawings at issue. But the jury answered “Zero” on the damages question.²³ In these circumstances, did the plaintiff “prevail,” so as to be entitled to recover its attorneys’ fees?

Following the Texas Supreme Court case of *International Group Partnership v. KB Home Lone Star L.P.*,²⁴ the court of appeals answered “no.”²⁵ In that contract action, the Texas Supreme Court had “held that a party that did not receive damages or other relief on its claim could not be a prevailing party.”²⁶ True, in this case the plaintiff did receive injunctive relief—but the Texas Theft Liability Act does not provide for injunctive relief, only actual damages.²⁷ The injunctive relief was issued from its common law claim of trade secret misappropriation, not the Theft Liability Act that would give rise to the attorney’s fee award, and consequently the plaintiff was not a “prevailing party” under the Theft Liability Act.²⁸

B. ACTUAL DAMAGES

Southwest Grain Company, Inc. v. Pilgrim’s Pride S.A. de C.V. presented an interesting stack of factors leading to “actual damages”

18. *Id.*

19. TEX. CIV. PRAC. & REM. CODE ANN. §§ 134.001, 134.002(2) (West 2005).

20. *Id.* § 134.005(a)(1).

21. *Id.* § 134.005(b).

22. *Glattly*, 332 S.W.3d at 629–30.

23. *Id.* at 630.

24. *Int’l Grp. P’ship v. KB Home Lone Star L.P.*, 295 S.W.3d 650, 654–55 (Tex. 2009).

25. *Glattly*, 332 S.W.3d at 641.

26. *Int’l Grp. P’ship*, 295 S.W.3d at 655–56.

27. *Glattly*, 332 S.W.3d at 641.

28. *Id.*

under the Texas Theft Liability Act.²⁹ Here, Pilgrim's Pride bought ten railcars' worth of grain from the defendants and rented the railcars to transport them.³⁰ The defendants loaded the railcars with the grain, but when Pilgrim's Pride inspected the grain it found the grain was contaminated and refused to pay for it.³¹ Meanwhile, the railcars sat idle while Pilgrim's Pride continued to pay the rentals.³² When the case was finally tried (literally ten years later), the jury found the defendants liable for conversion and violation of the Texas Theft Liability Act.³³ Pilgrim's Pride elected to recover damages for civil theft under the Act.³⁴

Here, the "actual damages" were held to be (speaking chronologically) first, the many lease payments that Pilgrim's Pride had paid for the railcars as they sat idle.³⁵ Second, some years into those lease payments and with no end to them in sight, Pilgrim's Pride actually bought the railcars—a somewhat expensive proposition but at least it cut off the remaining lease payments. Finally there was the "lost use" of the railcars, as now owning them, Pilgrim's Pride could have at least leased the railcars to somebody else for what it had been leasing them, but under the circumstances could not.³⁶ The court held that the expert report "provided some evidence that Pilgrim's Pride's decision to purchase the railcars was a 'natural and proximate result' of [the defendant's] violation of the Act," and that the damages could include both the cost of buying the railcars and the lost rental value.³⁷

III. FALSE ADVERTISING

A. ARE CEASE-AND-DESIST LETTERS "ADVERTISING OR PROMOTION?"

Cease-and-desist letters, and related allegations in the field to the effect that one competitor is behaving in an untoward manner, are often infuriating to their targets and are common subjects of litigation. This was the situation in *Transcom Enhanced Services, Inc. v. Qwest Corp.*, where the issue was whether the defendant's purported "allegations in the telecom industry" that the plaintiff was "masking toll calls and otherwise avoiding paying access charges through fraudulent conduct" would

29. *Sw. Grain Co., Inc. v. Pilgrim's Pride*, No. 13-07-00557-CV, 2010 WL 2638483, at *1 (Tex. App.—Corpus Christi June 28, 2010, no pet. h.) (mem. op.).

30. *Id.*

31. *Id.*

32. *Id.*

33. *Id.*

34. *Id.*

35. *Id.* at *4.

36. *Id.*

37. *Id.* at *4–5. Significantly, the twelve years between the events giving rise to the action and the time it was finally tried led to interest awards which approximated the actual damages.

be actionable under section 43(a) of the Lanham Act.³⁸

The court stated that, by its terms, section 43(a) of the Lanham Act requires a party alleging a false or misleading statement of fact about his own or another party's goods or services show that it was done "in the context of 'commercial advertising or promotion.'"³⁹ Typically, cease-and-desist letters are directed to a competitor insisting that the competitor stop something it is doing, while the sorts of aspersions that the letter-writer's sales force often tells would-be customers are efforts to dissuade persons from buying the target competitor's products. So, are these efforts to suppress a competitor's sales conducted "in the context of 'commercial advertising or promotion'?"

The Fifth Circuit has held that "for a statement to constitute 'commercial advertising or promotion,' the statement must be (1) commercial speech, (2) by a defendant in commercial competition with the plaintiff, (3) 'for the purpose of influencing consumers to *buy defendant's* goods or services,' and (4) sufficiently disseminated to the relevant purchasing public to constitute 'advertising' or 'promotion' within the relevant industry."⁴⁰

Here, the court found no allegations that any of the challenged statements were "for the purpose of influencing customers to *buy defendant's* goods or services."⁴¹ The defendant urged that the letters and associated communications were for the purpose of enforcing its legal rights, not persuading listeners to buy from the defendant.⁴² It argued that section 43(a) requires the communications to have contained a "marketing or sales pitch," citing two district court cases from out of state, in response to which the plaintiff noted that the Fifth Circuit has never adopted any such "marketing or sales pitch" requirement.⁴³ The court declined to decide whether or not the Fifth Circuit "would specifically require a 'marketing or sales pitch,'" but concluded the plaintiff had not met its burden

38. *Transcom Enhanced Servs., Inc. v. Qwest Corp.*, No. 4:09-CV-755-A, 2010 WL 2505606, at *2-4 (N.D. Tex. June 18, 2010). Section 43(a) of the Lanham Act of 1946, 15 U.S.C. § 1125(a)(1)(B) (2006) provides:

(1) Any person who, on or in connection with goods or services . . . uses in commerce any word, term, name, symbol, or device, or any combination thereof, or any false designation of origin, false or misleading description of fact, or false or misleading representation of fact, which— . . . (B) in commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities, shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

39. *Id.* at *4.

40. *Id.* (citing *Seven-Up Co. v. Coca-Cola Co.*, 86 F.3d 1379, 1384 (5th Cir. 1996) (emphasis added)).

41. *Id.* (emphasis added).

42. *Id.*

43. *Id.* (citing *Futuristic Fences, Inc. v. Illusion Fence Corp.*, 558 F. Supp. 2d 1270, 1280-82 (S.D. Fla. 2008) and *Avery Dennison Corp. v. Acco Brands, Inc.*, No. CV99-1877DT (MCX), 2000 WL 986995 (C.D. Cal. Feb. 22, 2000) ("cease-and-desist letters [. . .] were for the purpose of enforcing defendants' legal rights, rather than for the use of [. . .] influencing the [addressees] to purchase defendants' goods or services")).

of showing how any of the defendant's communications were "made to persuade any consumer to purchase defendant's goods or services."⁴⁴

The difference between "enforcing [one's] legal rights" and influencing consumers to buy one's own goods and services seems ill-defined.⁴⁵ Enforcing one's own legal rights, at least in the cease-and-desist context, often involves suppressing (presumably unfair or improper) sales efforts of another. One might also suppose that suppression to lead to enhanced or improved sales for the writer—or why else would the writer do it—and so there may be more to the *Transcom* plaintiff's point (that the Fifth Circuit has never required a "sales or marketing pitch") than was realized. Without such a requirement, courts may be free to recognize that even negatively-phrased communications may be made for the purpose of inducing consumers to buy the defendant's goods and services. Indeed, though at first glance *Transcom* seems to suggest otherwise, by basing its ultimate conclusion on the fact that the plaintiff had not met its burden of showing how the accused communications were in furtherance of the defendant's own sales efforts the court seems to have left the door open for future plaintiffs to show in the pleadings exactly (or at least more clearly than could be shown in *Transcom*) how that connection is made.

B. KEYWORD ADVERTISING: THE LOG IN YOUR OWN EYE

College Network, Inc. v. Moore Educational Publishers, Inc. offers a lesson to plaintiffs to first check the skeletons in their own closets before filing suit against a competitor.⁴⁶ Moore "had purchased the phrase 'The College Network' from Google and Yahoo as a search-engine keyword to summon MEP's sponsored-link advertising."⁴⁷ "The College Network," however, was a valid trademark owned by the plaintiff and the plaintiff sued for trademark infringement.⁴⁸ In one of the first jury verdicts in Texas on keyword advertising, the jury found that this example of competitive keyword advertising did not constitute trademark infringement, and the Fifth Circuit upheld the dismissal of the plaintiff's trademark claims.⁴⁹

Before the jury verdict was rendered, the trial court ruled that Moore's use of the keyword phrase did not constitute trademark "use" in commerce, so the jury's verdict that the advertiser did not infringe the trademark may have been based on that ruling as opposed to a finding of no likelihood of confusion.⁵⁰ On appeal, however, the Fifth Circuit apparently assumed the verdict was based on the latter and held that "the evi-

44. *Id.* at *5.

45. *Id.* at *4.

46. *Coll. Network, Inc. v. Moore Educ. Publishers Inc.*, No. 09-50596, 2010 WL 1923763, at *7 (5th Cir. May 12, 2010).

47. *Id.* at *3.

48. *Id.* at *1.

49. *Id.* at *1-2.

50. *Id.* at *10.

dence does not compel a finding of likelihood of confusion”⁵¹ as it rejected many of the trademark owner’s arguments on procedural grounds, explaining that “the jury was permitted to view the keyword-search process and visually compare the companies’ websites.”⁵² “[Plaintiff’s] own expert testified as to lack of actual confusion.”⁵³ “The evidence does not point so ‘strongly and overwhelmingly in favor’ of [Plaintiff] that a reasonable jury could not arrive at a contrary verdict.”⁵⁴

Compounding the plaintiff’s loss, the Fifth Circuit mostly affirmed the district court’s judgment in favor of defendant Moore on its counterclaim, determining that the Plaintiff was liable to Moore (and its principal) for some \$700,000 for defamation.⁵⁵ Apparently, College Network, Inc. had proclaimed to Moore’s customers that Moore was “out of business” or “going out of business,” and that Moore’s principal was a “thief” and “stole things” from it.⁵⁶ The jury found both statements were “defamatory in nature” and those about Moore’s principal were “defamatory per se.”⁵⁷ Specific evidence linked the defamatory statements to injury to Moore and its principal’s reputations, including deposition testimony revealing that customers had declined to purchase from Moore because of the perception the company was going out of business, and the statements correlated with a downward trend in sales.⁵⁸ The sales figures also warranted the jury’s award of lost profits.⁵⁹

C. REVERSE DOMAIN-NAME HIJACKING: THE LOG IN YOUR OWN EYE, PART II

GoForIt Entertainment, LLC, owns the registered mark “GoForIt” for use in connection with various services. After it filed suit against several businesses and an individual claiming cyberpiracy under the Anti-Cybersquatting Protection Act (ACPA), false designations of origin under section 43(a) of the Lanham Act, and unfair competition, it found itself on trial for “reverse domain name hijacking.”⁶⁰

The plaintiff, owner of GoForIt.com, argued that the defendants’ use of sub-domains such as GoForIt.com.org, coupled with wildcard technology (the automatic insertion of “www.” and “.com” before and after a word in an address bar), infringed on their trademark GoForIt.⁶¹ In other words, a consumer who types in “GoForIt.com” might be redirected to goforit.com.com. It argued that this combination of sub-domains and

51. *Id.*

52. *Id.* at *11 n.5.

53. *Id.*

54. *Id.*

55. *Id.* at *11.

56. *Id.* at *1.

57. *Id.* at *5.

58. *Id.* at *6.

59. *Id.*

60. GoForIt Entm’t, LLC v. Digimedia.com L.P., 750 F. Supp. 2d 712, 717 (N.D. Tex. 2010).

61. *Id.*

wildcard technology was done by the defendants specifically to redirect traffic from the plaintiff's website to their own.⁶² In response to this alleged conduct, the plaintiff directed the registrar of many of the defendants' domain names to place a registration lock on the domains, which prevented them from changing the names or selling them.⁶³ At the time of the lock, the defendants alleged "they were negotiating the sale of some of the [l]ocked [d]omain [n]ames."⁶⁴

In moving for summary judgment, the defendants effectively argued that the ACPA does not apply to sub-domains, and the court, finding scant case or statutory authority on the matter, side-stepped the direct issue of whether the defendants' registrations of sub-domains was done in bad faith to divert web traffic from registered mark.⁶⁵ Plaintiff also claimed the defendants violated section 43(a) by allowing "goforit" to be used as a third level domain to "com.org," especially because "goforit" remained visible in the browser's address bar as long as a user remained on the site, and that such displays resulted in user confusion as to whether the website displayed is affiliated with the GOFORIT brand.⁶⁶ Both of these claims were dismissed, however, due to lack of injury.⁶⁷ The court held there was no evidence that plaintiff was damaged by the defendants' conduct or that any of the defendants' alleged deceptions was likely to influence purchasing decisions.⁶⁸

The defendants had also filed counterclaims that the plaintiff's direction to the registrars to lock their domains was overbroad and constituted reverse domain-name hijacking.⁶⁹ The court denied plaintiff's motion for summary judgment to dismiss these claims, and instead ruled that the seizure of all the defendants' sub-domains (note, crucially, just the sub-domains pertaining to their mark, "GoForIt") was indeed overbroad, and could therefore open them to liability for reverse domain name hijacking.⁷⁰

IV. PERSONAL DEFAMATION AND COMMERCIAL DISPARAGEMENT

A. LINKS TO A BLOG PUBLISHING DEFAMATION

It is well understood that disparaging statements may be defamatory even if the target is not named in the statement, if people who know the

62. *Id.* at 718.

63. *Id.* at 720.

64. *Id.*

65. *Id.* at 722–23.

66. *Id.* at 719–20.

67. *Id.* at 730.

68. *Id.*

69. *Id.* at 720–21.

70. *Id.* at 737.

target would understand that the statement refers to him or her.⁷¹ *Wallace v. Perry* makes clear this is also true when the statements are made indirectly or anonymously, as by including links to websites where the defamatory statements are found.⁷²

Wallace arose as an adversary proceeding in the defendant's bankruptcy case. The claimants were seeking a range of damages for defamation (among numerous other claims), and objecting to Perry's discharge on grounds he had committed the acts with malice.⁷³ Among the claims was that Perry had insinuated that Wallace was not only an international arms dealer, but had been involved with Mark Thatcher (son of former Prime Minister Margaret Thatcher) in an effort to overthrow the government of Equatorial Guinea.⁷⁴ Apparently Perry asked his assistant to distribute some anonymous emails containing a link to a third-party blog where these allegations were found.⁷⁵ The bankruptcy court (which held that Perry's hands were not only "unclean" but "filthy" for equitable purposes)⁷⁶ had no trouble concluding that Perry defamed Wallace when he published the link to the blog.⁷⁷ The court further found and concluded that the allegations and insinuations were false.⁷⁸

B. NOT DEFAMATORY TO ACCUSE SOMEONE OF A LAWFUL ACT

Means v. ABCABCO, Inc. presented an interesting defamation case in an odd context.⁷⁹ The City of Austin was considering granting a fourth taxicab franchise. Kassa worked as a taxicab driver for one of the incumbents, Austin Cab, but formed his own cab company and set to work trying to gain the fourth Austin franchise.⁸⁰ Austin Cab terminated Kassa's contract, ostensibly because of his failure to comply with various terms, but Kassa believed the real reason was because he had formed his own taxicab company and was trying to gain a franchise to compete with it.⁸¹ And so he, or his lawyer, informed the Austin City Council.⁸² Days after making those comments, Austin Cab sued Kassa for defamation among other claims.⁸³

71. *Wallace v. Perry*, 423 B.R. 215, 267–68 (Bankr. S.D. Tex. 2010) (citing *Ledig v. Duke Energy Corp.*, 193 S.W.3d 167, 180 (Tex. App.—Houston [1st Dist.] 2006, no pet.) and *Newspapers, Inc. v. Matthews*, 339 S.W.2d 890, 893 (Tex. 1960)).

72. *Id.*

73. *Id.* at 230.

74. *Id.* at 241.

75. *Id.* at 248.

76. *Id.* at 287.

77. *Id.* at 269.

78. *Id.* at 232–33, 241.

79. *Means v. ABCABCO, Inc.*, 315 S.W.3d 209, 209 (Tex. App.—Austin 2010, no pet. h.).

80. *Id.* at 211.

81. *Id.*

82. *Id.*

83. *Id.* It is highly questionable whether the claim should have been pled as one of personal defamation as opposed to one of commercial disparagement. Commercial disparagement would seem more appropriate as it was Austin Cab whose business reputation was

Interestingly, the court held that Kassa's statements were not defamatory at all.⁸⁴ Clearly, the cab driver was saying that Austin Cab terminated his contract as soon as it found out he was seeking a franchise that would compete with it, but "[t]his statement," held the court, "does not suggest some wrongful or unethical conduct by Austin Cab."⁸⁵ It merely says that "Austin Cab terminated its contract with Kassa because was supporting a competitor."⁸⁶ The court went on to say "the ability to terminate a contract is a legal and ethical option often available to parties to a contract," and the suggestion that the firing was "retaliation for Kassa's support of a competitor does not make the statement defamatory."⁸⁷ Austin Cab had a legal right to terminate Kassa's contract, Kassa's statement "did nothing more than accuse [Austin Cab] of doing that which it had a legal right to do,"⁸⁸ and crucially, statements which, though insulting or offensive, simply accuse a plaintiff of doing something the plaintiff had a right to do are not defamatory as a matter of law.⁸⁹

C. BUSINESS DISPARAGEMENT: HONESTLY

In *Rimkus Consulting Group, Inc. v. Cammarata*, the plaintiff alleged that a competing engineering firm made disparaging statements about it in two emails to third parties.⁹⁰ One email said the defendants and several other "engineers left their 'old companies' to 'create a smaller, honest, cost effective alternative for the insurance claims industry [that would be responsive and cost-effective].'"⁹¹ The other email claimed, "We have never been a target of the media, the plaintiff's bar, or investigated by a government entity."⁹² The plaintiff complained that these constituted disparagement in suggesting that the plaintiff—though not mentioned by name—was *not* "honest," had done something wrong in the wake of Hurricane Katrina, or both.⁹³

Many competitors see others' affirmative claims (i.e., "*we are honest*") as thinly-disguised assaults on themselves ("as compared to some businesses we could mention"). But this is a highly contextual argument to make and it is much easier to imagine than to prove. Here, it was unpersuasive because the emails referred to "three different engineering firms," not just the plaintiff, and the context showed the statements were intended to showcase the differences between the defendant firm and

at issue as opposed to the personal reputation of an individual. See *Hurlbut v. Gulf Atl. Life Ins. Co.*, 749 S.W.2d 762 (Tex. 1987).

84. *Means*, 315 S.W.3d at 211.

85. *Id.* at 215.

86. *Id.*

87. *Id.*

88. *Id.*

89. *Id.*; cf. *ACS Investors, Inc. v. McLaughlin*, 943 S.W.2d 426 (Tex. 1997) (not tortious interference to persuade a person to do something he has a right to do).

90. *Rimkus Consulting Grp., Inc. v. Cammarata*, 688 F. Supp. 2d 598, 670 (S.D. Tex. 2010).

91. *Id.*

92. *Id.*

93. *Id.*

these much larger firms—leaving “no basis to conclude” that a reader would take the statements as pointing to the plaintiff and no one else.⁹⁴ Further, and in any event, there was no record of special damages arising from the statements.⁹⁵

Thus *Rimkus* are reminders of the difficulty in alleging and proving business disparagement in Texas, which still requires proof of falsity, malice, and special damages, and of the difficulty of sustaining an action based on a competitor’s claim that it is “honest.”⁹⁶

V. TORTIOUS INTERFERENCE

A. SUMMARY JUDGMENT ON “LACK OF INTENT”: NOT LIKELY

Tortious interference requires proof that the defendant willfully and intentionally interfered with the plaintiff’s contract.⁹⁷ Can summary judgment be granted in a tortious interference case if the defendant asserts he simply did not know of the contract or did not believe he was interfering? Rule 166a(c) suggests it may be if the defendant’s assertion may be “readily controverted.”⁹⁸ But *Wohlstein v. Aliezer* reminds that “summary judgment should generally not be granted as to issues of knowledge or intent because the non-movant cannot readily controvert a defendant’s self-serving denials.”⁹⁹

B. PROOF OF LOST PROFITS: FOCUS ON THE LOST CUSTOMERS

A substantial award of lost profits in a tortious-interference case was reversed by the Dallas Court of Appeals in *Exel Transportation Services, Inc. v. Aim High Logistics Services, LLC*.¹⁰⁰ Plaintiff Aim High claimed Exel circumvented the procedures in their agreement in order to “‘steal [four of Aim High’s] customers,’” namely Yamaha, Del Monte, Funai, and Electrolux.¹⁰¹ The appellate court found no record evidence of any wrongdoing apart from these four accounts, but Aim High’s damages models only calculated “company-wide” lost profits and did not “individually price tag” the losses with respect to just these four.¹⁰²

94. *Id.* at 671–72.

95. *Id.* at 672.

96. *Hurlbut v. Gulf Atl. Life Ins. Co.*, 749 S.W.2d 762, 766 (Tex. 1987). *See also* Nat’l. Refining Co. v. Benzo Gas Motor Fuel Co., 20 F.2d 763, 765 (8th Cir. 1927), *cert. denied* 275 U.S. 570 (1927) (pamphlet urged the benefits of White Rose gasoline, said gas made with Benzol was harmful, and urged consumers to buy White Rose, “an honestly made gasoline”; court held special damages must be shown).

97. *See* *Batnaru v. Ford Motor Co.*, 84 S.W.3d 198, 207 (Tex. 2002).

98. Tex. R. Civ. P. 166a(c).

99. *Wohlstein v. Aliezer*, 321 S.W.3d 765, 772 (Tex. App.—Houston [14th Dist.] 2010, no pet. h.). The court noted, however, that English was not the appellant’s native language, and the clarity of the movant’s affidavit contrasted with the movant’s deposition testimony may have contributed to the court’s view of his credibility being weighed in person.

100. *Exel Transp. Servs., Inc. v. Aim High Logistics Servs., LLC*, 323 S.W.3d 224, 235 (Tex. App.—Dallas 2010, pet. denied).

101. *Id.* at 227.

102. *Id.* at 230, 233–34.

The “company-wide” damages models may have based on widespread disruption beyond these four accounts that Aim High claimed to have suffered when these accounts were removed.¹⁰³ Evidently these could not well be quantified, however, and there was also compelling evidence that the losses attributable to these four accounts were much lower than the “company-wide” losses, because the loss of just one other very large account which Exel had not had anything to do with had dropped Aim High’s annual revenue by two-thirds.¹⁰⁴ On this record the court concluded that the “company-wide” lost profits did not “relate” to the losses resulting from the acts alleged, and reversed the award.¹⁰⁵

C. INTERFERENCE PEHAPS BUT NO CAUSATION

Plaintiff Hambric Sports represented professional golfer Anthony Kim and secured lucrative contracts for him including one with Nike, before Kim terminated the representation and signed with the IMG agency.¹⁰⁶ Hambric alleged that Kim’s head had been turned by defendant Gaylord who wished to represent him.¹⁰⁷

Gaylord knew of Hambric’s exclusive contractual relationship with Kim, but nevertheless engaged in talks to feel out the market for new potential endorsement contracts.¹⁰⁸ In the court’s view, this was sufficient to constitute intentional and willful interference.¹⁰⁹ In the end, Gaylord did not get the job.¹¹⁰ But could his efforts have nevertheless “caused” the alleged breach?

Hambric argued that Gaylord played an active role in persuading Kim to cancel the agreement because he participated in over thirty phone calls to discuss replacing Hambric with himself. But Gaylord never succeeded in the other half of what he allegedly sought—namely, gaining the contract for himself. It was this second half of the equation that the court focused on, reasoning that it was “necessary that there be some act of interference or of persuading a party to breach, for example by offering better terms or other incentives” and, in any event, that there was “no

103. *Id.* at 229 (“it’s huge . . . when you have carriers moving in directions for you and you start pulling accounts out . . . it starts damaging everything you put into place.”).

104. *Id.*

105. *Id.* at 234. The court also distinguished cases holding only objective facts, figures, or data from which lost profits can be ascertained are required instead of a particular “customer identification” formula for proving lost profits. The court observed that one of those cases (unlike this one) completely prevented the plaintiff’s business from operating. *Id.* at 233 (citing *Ishin Speed Sport, Inc. v. Rutherford*, 933 S.W.2d 343, 350–51 (Tex. App.—Fort Worth 1996, no writ). The other included testimony of the average price of its products and average profit margin across many sales, which this case did not. *Id.* (citing *Sw. Recreational Indus. v. FieldTurf, Inc.*, No. 01-50073, 2002 WL 32783971, at *4–5 (5th Cir. Aug. 13, 2002).

106. *Hambric Sports Mgmt., LLC v. Team AK, Inc.*, No. 3:09-CV-1662-L, 2010 WL 2605243, at *1 (N.D. Tex. June 29, 2010).

107. *Id.*

108. *Id.*

109. *Id.* at *8.

110. *Id.* at *2.

indication in the pleadings that Gaylord actively persuaded Kim to terminate the Agreement.”¹¹¹ Hence the court found no proximate cause.¹¹²

D. INDEPENDENTLY TORTIOUS OR UNLAWFUL: TWO TORTS FOR THE PRICE OF ONE

Silver Lion, Inc. v. Dolphin Street, Inc. presented an interesting look at what constitutes an interference that is “independently tortious or otherwise unlawful” as required to support tortious interference with prospective contracts or favorable business relationships.¹¹³ Here, a landlord had leased space to a tenant for a nightclub.¹¹⁴ Almost immediately the nightclub ran into trouble, and it and the landlord entered into an agreement for the landlord to manage the club while the tenant tried to sell it as an ongoing business.¹¹⁵ The tenant found a prospective buyer, but it turned out the tenant had downplayed the expenses the landlord would have to pay while it was keeping the club open, and the landlord refused to approve the sale unless the buyer paid those expenses and rent for the three months it had been managing the club.¹¹⁶ When the buyer backed out, the tenant claimed the landlord had tortiously interfered with its prospective sale.¹¹⁷

The problem here was that under the terms of the management agreement, the landlord did not have a right to make this demand of the prospective buyer.¹¹⁸ Its agreement with the tenant provided that the landlord would forgive (or pay itself) the three months of rent—sufficient evidence, in the court’s view, that these statements to the prospective buyer were fraudulent misrepresentations, not unactionable representations as to “a point of law or the legal effect of a document.” Rather the statements were “positive assertions of material fact” regarding the tenant’s total liabilities, and hence squarely within the example set forth in *Wal-Mart Stores, Inc. v. Sturges* of how fraudulent statements can support a claim for tortious interference with a prospective contract.¹¹⁹ The appellate court went on to defer to the trial court’s decision (as fact-finder) to credit the plaintiff’s testimony over the buyer’s in finding actual causation, and rejected the defendant’s claim that there was undisputed evidence that it wanted the prospective sale to close, finding evidence it only

111. *Id.* at *9.

112. *Id.* To some degree, this seems internally inconsistent. If the thirty phone calls were acts of interference, and all that is required is “persuading a party to breach,” and the party does (allegedly) breach, might interference not follow whether the alleged interferor benefits from it or not?

113. *Silver Lion, Inc. v. Dolphin St., Inc.*, No. 01-07-00370-CV, 2010 WL 2025749, at *5 (Tex. App.—Houston [1st Dist.] May 20, 2010, pet. denied) (mem. op.).

114. *Id.* at *1.

115. *Id.*

116. *Id.* at *2.

117. *Id.* at *3. Months afterward, the buyer did open its own nightclub in the space, though only after negotiating an entirely new contract with the landlord. *Id.*

118. *Id.* at *7.

119. *Id.* at *7–8 (citing *Wal-Mart Stores, Inc. v. Sturges*, 52 S.W.3d 711, 713 (Tex. 2001)).

wanted the sale if it included the payments the landlord was (fraudulently) claiming were required.¹²⁰

There appears to have been considerable emphasis on the fraudulent nature of the defendant's statements to the prospective buyer and considerable suspicion of fraudulent intent. One may wonder what would have been the outcome if the statements had been less fraudulent: mere negligent misrepresentations might well have been "independently tortious or otherwise unlawful" under *Wal-Mart*, but would entirely innocent statements, though eventually mistaken, have also amounted to an actionable interference?

E. THE AT-WILL DILEMMA

In Texas, will a cause of action lie for tortious interference with a contract terminable at will? The 1989 Texas Supreme Court case of *Sterner v. Marathon Oil Co.* certainly said "yes," as do a number of subsequent cases including *Juliette Fowler Homes, Inc. v. Welch Associates, Inc.* and *Knox v. Taylor*.¹²¹ Yet, this principle sits somewhat uneasily among today's precedents, because the supreme court 1997 case of *ACS Investors, Inc. v. McLaughlin* also made clear that merely inducing a party "to do what it ha[s] a right to do" under a contract—including, assuming the contract so provides, terminate it—does *not* constitute tortious interference.¹²²

This was an issue in *Faucette v. Chantos*.¹²³ Faucette and other employees declined to exercise an option to buy out their employer Chantos; instead, they formed their own company and resigned from Chantos' employment, and got some of their former employer's lines of business.¹²⁴ Their former employer claimed they intentionally destroyed the business for their own gain by persuading a manufacturer who had used Chantos for twenty years to leave, and timing their departure without notice when its owner was out of state and unable to respond quickly to customers.¹²⁵

Interestingly, the court noted that *Juliette Fowler* and *Sterner* provided causes of action for interference with at-will contracts, but did not address the issue square-on; instead it observed that these cases' "protection" for such cases is "somewhat limited."¹²⁶ The court went on to find that the defendants had not actually induced the manufacturer to *breach* its contract with Chantos, as its contract had always allowed for termina-

120. *Id.* at *9–11. In part, this appears to have been because by the time of trial, the defendant was now the buyer's landlord.

121. *Juliette Fowler Homes, Inc. v. Welch Assocs., Inc.*, 793 S.W.2d 660, 666 (Tex. 1990) ("[u]ntil a contract is terminated, it is valid and subsisting, and third persons are not free to tortiously interfere with it"); *Sterner v. Marathon Oil Co.*, 767 S.W.2d 686, 689 (Tex. 1989); *Knox v. Taylor*, 992 S.W.2d 40, 57–58 (Tex. App.—Houston [14th Dist.] 1999, no pet. h.).

122. *ACS Investors, Inc. v. McLaughlin* 943 S.W.2d 426, 431 (Tex. 1997).

123. *Faucette v. Chantos*, 322 S.W.3d 901, 904 (Tex. App.—Houston [1st Dist.] 2010, no pet.).

124. *Id.* at 905.

125. *Id.* at 913.

126. *Id.* at 914.

tion on notice.¹²⁷ Instead, the court characterized plaintiff Chantos' claim as one of tortious interference with *prospective* contract, and found no assertion that the defendants had committed an "independently tortious or otherwise unlawful" act sufficient to support such a claim.¹²⁸

Chantos may have particular interest for employees contemplating a move or employers about to be offended by one. The *Chantos* plaintiff made the point—quite correctly—that a defendant may be liable for interference through actions which make the plaintiff unable to perform the plaintiff's own contract, destroy or damage property that is the subject matter of a contract, or make its performance "more burdensome, difficult or impossible, or of less or no value to the one entitled to performance."¹²⁹ The *Chantos* defendants may have done this (or something very nearly like it) by calculating to a very fine degree the timing and mechanics of their abrupt departure. However, note the difference between causing a third party to *breach its* contract and making it difficult for the plaintiff to *perform its own*. This difference was not brought to light in the *Chantos* jury issues, which did not ask if the defendants had interfered tortiously with the plaintiff's ability to perform its own contracts. But in the future, similarly-situated plaintiffs may plead, argue, and prove tortious interference not only with existing or prospective third-party contracts, but also with the plaintiffs' ability to perform their own.

F. EXEMPLARY DAMAGES: ELEVATOR (COMPANY) GOING DOWN

*Bagby Elevator Co. v. Schindler Elevator Corp.*¹³⁰ gave new meaning to "maximum capacity" after Schindler Elevator suffered an exemplary damages award for hiring a competitor's dishonest employee and taking advantage of the trade secrets he brought with him to regain lost business.¹³¹

Schindler Elevator had contracts with commercial property owner Younan to service most of its downtown Dallas high-rises.¹³² Meanwhile, Schindler's local competitor Bagby Elevator hired a new salesperson named Armstrong.¹³³ Armstrong quickly made contacts at Younan and convinced Younan to allow Bagby to service one of its downtown buildings.¹³⁴ Soon after, Younan terminated its agreements with Schindler (complaining of Schindler's poor work quality) and asked Armstrong to quote prices for Bagby to take over that work.¹³⁵ Bagby eventually se-

127. *Id.* at 915.

128. *Id.* at 914-16. The jury found a breach of fiduciary duty, which might have been the "independently tortious or otherwise unlawful" act, but it had not been so pled and there was no jury issue on the point.

129. *Id.* at 916.

130. *Bagby Elevator Co. v. Schindler Elevator Corp.*, 609 F.3d 768, 768 (5th Cir. 2010).

131. *Id.* at 773.

132. *Id.* at 770.

133. *Id.*

134. *Id.*

135. *Id.*

cured five-year service contracts on eight of Younan's Dallas properties—thanks in large part to Armstrong—but after Bagby discovered that Armstrong was running up personal charges on his company credit card Armstrong was fired.¹³⁶

It did not take long for Armstrong to run *back* to Schindler and ask for his job back—premised on the commitment that he would get back the Younan contracts he had caused Schindler to lose to Bagby.¹³⁷ And so he did, first by revealing Bagby's confidential pricing terms to Schindler so it could undercut Bagby's prices, and then by assuring Younan (with Schindler) that the Bagby contracts contained a termination clause which would allow Younan to terminate them at will.¹³⁸ This was untrue, however, and Bagby sued Younan for breach of contract.¹³⁹ When Younan confronted Schindler about this, Armstrong produced a “suspicious” letter he claimed to have written just before his termination from Bagby purporting to give Younan a unilateral right to terminate its contracts with Bagby.¹⁴⁰ Suspiciously, neither Bagby nor Younan had a copy of the letter in their files.¹⁴¹ Bagby sued Schindler for tortious interference with its Younan contracts.¹⁴² At trial, the jury found Schindler and Armstrong's conduct not only constituted tortious interference, but was malicious and grossly negligent; thus, it awarded Bagby exemplary damages.¹⁴³ The Fifth Circuit found this evidence quite sufficient.¹⁴⁴

VI. FIDUCIARY DUTY

A. STATUTE OF LIMITATIONS: A TORT, BUT STILL FOUR YEARS

It is worth remembering (and worth the occasional reminder) that even though torts ordinarily carry a statute of limitations of two years, “[t]he limitations period for breach of fiduciary duty and fraud is four years.”¹⁴⁵

B. PROOF OF LOST PROFITS

In contrast to other cases in this year's Survey in which claims for lost profits from intentional torts failed for lack of specificity, *Meaux Surface Protection, Inc. v. Fogelman* affirmed a substantial award as *not* being too speculative even without the assistance of an expert damages witness.¹⁴⁶ The evidence included testimony from a corporate representative with

136. *Id.*

137. *Id.* at 771.

138. *Id.*

139. *Id.*

140. *Id.*

141. *Id.*

142. *Id.*

143. *Id.*

144. *Id.* at 773.

145. *SJW Prop. Commerce, Inc. v. S.W. Pinnacle Props., Inc.*, 328 S.W.3d 121, 144 (Tex. App.—Corpus Christi 2010, pet. filed) (citing TEX. CIV. PRAC. & REM. CODE ANN. § 16.004(a)(4)–(5) (West 2002); *Willis v. Donnelly*, 199 S.W.3d 262, 278 n.33 (Tex. 2006)).

146. *Meaux Surface Prot., Inc. v. Fogelman*, 607 F.3d 161, 173 (5th Cir. 2010).

personal knowledge that Meaux had lost \$2.3 million after the employees left, and compared 2007 sales figures for several major clients with budget projections which had been prepared by one of the defendants before he left—budget projections which the defendant agreed were reasonable estimates.¹⁴⁷

Two points seemed especially significant. The defendants had urged that other factors could have contributed to the decline in business, one being the fact that 2006 losses had been unusually high because of hurricanes Katrina and Rita, and another being that the industry is quite competitive anyway; but the court did not find these possibilities significant enough to overcome the jury's finding of \$1.43 million in lost profits.¹⁴⁸ Also, and significantly, the court noted that "a record of profitability, records of past profits (with other relevant facts and circumstances) may support a finding of lost profits" for established plaintiff-enterprises, while "new or unestablished [plaintiff] ventures must meet more exacting standards to prove that the profits claimed are not 'too uncertain or speculative.'"¹⁴⁹ Thus, Meaux's failure to provide (or "election not to provide," as the court viewed it) more details documenting its losses or eliminating "every potentially contributory factor" went to the weight of lost-profits testimony rather than its sufficiency.¹⁵⁰

C. CAUSATION: WHAT CAUSED THE LOSS?

Meaux was a departing-employee case in the vessel hull-cleaning industry. Evidently, it was uncontested (at least on appeal) that the defendants had a fiduciary duty to the plaintiff, but the defendants argued "there was no showing that their actions had caused harm to [the plaintiff]."¹⁵¹ The court held, however, that "[a] jury may infer proximate cause from circumstantial evidence,"¹⁵² and in this case, there appeared to the court to be ample circumstantial evidence on which to support that inference.¹⁵³ The defendants had "set up [their new company] several months before they resigned,"¹⁵⁴ "informed many of [the plaintiff's] foremen and staff that they would form a new company"¹⁵⁵ and that many contracts were going with them, actively recruited the foremen (whom the clients would follow), and within days after their resignation, had secured work crews, master service agreements, insurance and contracts with some of the plaintiff's largest customers.¹⁵⁶ This was substantive enough to support the jury's finding that their actions caused substantial loss to the

147. *Id.* at 172.

148. *Id.* at 170–72.

149. *Id.* at 171 (citing *Sw. Battery Corp. v. Owen*, 115 S.W.2d 1097, 1098–99 (Tex. 1938) and *Tex. Instruments v. Teletron Energy Mgmt., Inc.*, 877 S.W.2d 276, 279 (Tex. 1994)).

150. *Id.*

151. *Id.*

152. *Id.* at 169.

153. *Id.*

154. *Id.* at 170.

155. *Id.*

156. *Id.*

plaintiff.¹⁵⁷

Compare the actions of these defendants with those of the departing employee/independent contractors in the 2004 Houston (First District) Court of Appeals case *Abette Trucking Co. v. Arizpe*.¹⁵⁸ They also made plans before leaving, had key employee/independent contractors and customers promptly follow them, and were almost immediately in full operation.¹⁵⁹ However, there was testimony that they did not try to convince workers or clients to leave and did not take any trade secrets with them.¹⁶⁰ Seen in light of *Meaux*, the things they did *not* do seems to have an added significance.

D. REMEDIES: FORFEITURE OF CONSIDERATION PLUS DAMAGES

In what may be one of the most important cases of this reporting period, Snodgrass and Swinnea were partners in ERI Consulting, an asbestos abatement business.¹⁶¹ Snodgrass agreed to buy out Swinnea's interest, and in exchange, Swinnea agreed to continue to work for ERI and not to compete with the business.¹⁶² Unknown to Snodgrass, however, Swinnea had already set up a competing business under the name of Swinnea's wife.¹⁶³

After the buyout, Swinnea's revenue production for ERI dropped significantly and the relationship between Swinnea and Snodgrass deteriorated.¹⁶⁴ Soon after, Snodgrass found out about Swinnea's relationship to Mrs. Swinnea's new business, and he sued Swinnea for breach of fiduciary duty among other claims.¹⁶⁵ The trial court ordered that Swinnea must forfeit the consideration he received for the buy-out of his interest, but the court of appeals reversed, concluding that forfeiture was not an available remedy.¹⁶⁶

The Texas Supreme Court reversed the appellate court holding that when a partner in a business breaches his fiduciary duty by fraudulently inducing another partner to buy out his interest, the consideration he receives for his interest in the business *is* subject to forfeiture as a remedy for his breach, in addition to other damages that result from his tortious conduct.¹⁶⁷ The court analogized its holding to a fee forfeiture situation between a principal and agent, which it had discussed in *Burrow v. Arce*,¹⁶⁸ reasoning that "[t]he remedy of forfeiture is necessary to prevent

157. *Id.* at 169–70.

158. *Abette Trucking Co. v. Arizpe*, 113 S.W.3d 503, 503 (Tex. App.—Houston [1st Dist.] 2003, no pet. h.).

159. *See id.*

160. *Id.* at 512.

161. *ERI Consulting Eng'rs Inc. v. Swinnea*, 318 S.W.3d 867, 870 (Tex. 2010).

162. *Id.* at 870–71.

163. *Id.* at 871.

164. *Id.*

165. *Id.*

166. *Id.* at 872.

167. *Id.* at 870.

168. *Id.* at 873; *Burrow v. Arce*, 997 S.W.2d 229, 237–45 (Tex. 1999).

such abuses of trust, regardless of proof of actual damages.”¹⁶⁹ The case was remanded to the trial court for further proceedings to calculate the award.¹⁷⁰

Though perhaps equitable in the circumstances of this case, it may also be possible to extend the holding of *ERI Consulting* too far. It is true that fiduciary duties are to be honored; true too, that the Texas law of fair and unfair competition sometimes shows a marked willingness to err on the side of over-compensating rather than under-compensating for their abuse. But forfeiture unlinked to actual damages, for the purpose of “preventing”—*i.e.*, deterring—“such abuses” sounds very much like exemplary or punitive damages, and not even punitive damage awards may be entirely unbounded. So if forfeitures are to be extended beyond fees received, further equitable principles for when, how, and how much forfeiture is appropriate will likely need to be developed.

VII. COVENANTS NOT TO COMPETE

A. TERRITORY: GOING WHERE THE DEFENDANT HAS NEVER GONE BEFORE. (BUT . . .)

In a case it believed to be of first impression, the Fort Worth Court of Appeals held in *Cobb v. Caye Publishing Group, Inc.* that a reasonable geographical limitation of a covenant not to compete could not include areas where the employee had never worked for the plaintiff-publisher but where the publisher intended to distribute its magazine at some point in the future.¹⁷¹

Caye Publishing published and distributed a “coupon based” magazine called *Local Life*.¹⁷² “Local” in this sense meant Johnson County immediately south of Fort Worth.¹⁷³ Cobb was an independent contractor for Caye Publishing hired to sell advertising.¹⁷⁴ Their agreement had a one-year post-termination covenant not to compete but contained no geographical limitation.¹⁷⁵ About a year and a half later, Cobb resigned and opened his own magazine in Weatherford and Aledo, which are located in Parker County immediately to the northwest.¹⁷⁶ Caye Publishing had never published a magazine in Parker County and had no immediate plans to do so, but had taken some steps in that direction such as discussing buying an existing magazine there and doing other research.¹⁷⁷ The court held that extending the covenant not to compete to an area where the defendant had not previously worked would be overbroad and unen-

169. *Swinnea*, 318 S.W.3d at 874.

170. *Id.* at 882.

171. *Cobb v. Caye Publ'g Grp., Inc.*, 322 S.W.3d 780, 784 (Tex. App.—Fort Worth 2010, no pet. h.).

172. *Id.* at 782.

173. *Id.*

174. *Id.*

175. *Id.*

176. *Id.*

177. *Id.* at 785.

forceable, and affirmed the trial court's decision to reform the covenant to extend only to Johnson County where Cobb had worked.¹⁷⁸

On its face, this seems a reasonable resolution and an equitable balancing of the legitimate interests of former employer and employee (noting, however, that Cobb was an independent contractor), especially because by definition the magazines were focused on geographically-limited concerns. But a significant problem lies within it. It is one thing to reform a covenant that is overbroad as to time, scope, or geographic area, as the statute says the court "shall."¹⁷⁹ It is another thing entirely to *insert* a geographical or other limitation where one does not already exist, for where one does not already exist, there is nothing to reform. Even the *Caye Publishing* court seems to have noted that principle in a footnote,¹⁸⁰ citing to its 2008 case *Goodin v. Jolliff*, and it might have saved itself a significant doctrinal error had it applied the principle directly. Happily in this case, it seems to have not mattered much to the parties because Cobb was not evincing interest in Johnson County where his former contractor was incumbent.¹⁸¹ The concern lies for those who might rely too heavily on this case in the future.

B. TEMPORARY INJUNCTION DENIED: LIKELIHOOD OF SUCCESS, BUT NO IRREPARABLE HARM

Despite the growing trend in courts implying terms to enforce noncompete agreements, *Sadler Clinic Association v. Hart*¹⁸² highlights the difficulty that employers still encounter in obtaining temporary injunctions. A physician practice group sued a former partner in the practice for violating a noncompete agreement when he left to form a solo practice within the twenty-two-mile proscribed radius in his agreement.¹⁸³ The trial court denied the practice's request for a temporary injunction.¹⁸⁴

The appellate court recognized that the practice may indeed be successful at enforcing the noncompete at trial—where the employer need not establish irreparable harm—but it refused to disturb the trial court's denial of the temporary injunction.¹⁸⁵ The court emphasized that when the twenty-two-mile geographic restriction was implemented, the town of Conroe's population was half the size it was when the practice sought to

178. *Id.* at 783–84.

179. TEX. BUS. & COM. CODE ANN. § 15.51(c) (West 2009).

180. *Caye Publ'g Grp.*, 322 S.W.3d at 784 n.16 (citing *Goodin v. Jolliff*, 257 S.W.3d 341,352 (Tex. App.—Fort Worth 2008, no pet.) (holding that an agreement restricting a party from starting, directly or indirectly, a competing business "without any limitation as to geographic scope whatsoever" was unenforceable)). See *Juliette Fowler Homes, Inc. v. Welch Assoc., Inc.*, 793 S.W.2d 660, 663 (Tex. 1990) (an agreement containing no limit on geographic area or scope of activity was "an unreasonable restraint of trade and unenforceable on grounds of public policy").

181. See *id.*

182. *Sadler Clinic Ass'n v. Hart*, No. 09-09-00452-CV, 2010 WL 114241, at *1 (Tex. App.—Beaumont Jan. 14, 2010, no pet. h.) (mem. op.).

183. *Id.*

184. *Id.*

185. *Id.* at *3.

enforce the agreement.¹⁸⁶ Also, there was no evidence that the departing physician had taken any of the practice's confidential information or that the practice had suffered a loss of revenue as a result of his departure.¹⁸⁷ The practice simply failed to prove irreparable harm, which is a prerequisite to obtaining a preliminary injunction.¹⁸⁸

C. TERMINATION OF AT-WILL EMPLOYMENT

In *Drummond American, LLC v. Share Corp.*, the court held that involuntary termination of an at-will employment agreement does not invalidate a noncompete covenant.¹⁸⁹ The court reasoned that the method by which the at-will employment was terminated was not relevant to the noncompete issue.¹⁹⁰ Two of Drummond's independent sales agents terminated their employment with Drummond and went to work for Share, Drummond's direct competitor.¹⁹¹ Drummond sued the employees, along with Share, to enforce the employees' noncompete covenant.¹⁹² In defense, the defendants argued the covenant was not enforceable because Drummond's actions prior to the employees' departure give rise to a bad faith constructive discharge.¹⁹³ The court responded that the contract was at-will, so it did not matter who terminated the contract, when, or how.¹⁹⁴ It was terminable at any time by either party with or without cause, and the noncompete covenants remained enforceable.¹⁹⁵

VIII. CONCLUSION

This year seems to have seen an outsize number of cases focusing on remedies: equitable forfeitures, calculations of lost profits, assessments of what damages can and cannot be reached, injunction durations, and other questions of remedies. Instructive lessons can be drawn from each case, and while no specific trend is apparent, we suggest three thoughts.

This year's cases seem generally—though without ever quite saying so—to point toward increased focus on specific lost sales and accounts, and toward near-individualized calculations for the resulting losses. It may be too that breach of fiduciary duty is rising in the constellation of business tort causes of action and that coming years will see, possibly from the forfeiture holding of *ERI Consulting*, more claims on that topic. We finally note some significant and sometimes ominous examples of courts focusing too narrowly on particular language of past cases rather than on the principles found in those cases, or worse, of courts laudably

186. *Id.* at *2.

187. *Id.* at *2-3.

188. *Id.*

189. *Drummond Am., LLC v. Share Corp.*, 692 F. Supp. 2d 650, 657 (E.D. Tex. 2010).

190. *Id.*

191. *Id.* at 652.

192. *Id.*

193. *Id.* at 653.

194. *Id.* at 657.

195. *Id.* at 657-58.

focusing on the facts of the cases before them and reaching what are probably the equitable results in those cases, but perhaps on the wrong reasoning, or more commonly, on reasoning which is not quite right enough. These are cautionary tales for the future.

