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Business Torts

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THIS year saw interesting applications and reminders in a number of areas, including trade secrets, tortious interference, the tort of "economic duress," and others.

I. TRADE SECRETS AND CONFIDENTIAL AND PROPRIETARY INFORMATION

A. TRADE SECRETS, OR SOMETHING LESS?

Global Water Group, Inc. v. Atchley, contained a concise review of Texas trade secret law with regard to whether a trade secret exists.[1] The Dallas Court of Appeals held that information failing to meet the six-factor analysis of *In re Bass*[2] does not qualify as a trade secret—at least in cases where the purported secrets were not acquired by "unfair means."[3]

In the 1990s, Global Water Technology (GWT) developed the first successful self-powered, self-contained water purification system and considered it a trade secret, taking appropriate measures to maintain secrecy by requiring all employees to sign confidentiality agreements.[4] Atchley, the defendant, was GWT's president and had access to all of GWT's information, including the information underlying the self-powered, self-contained water purification system. One year after Atchley's 1994 resignation, Global Water Group (GWG) acquired GWTs assets, including its trade secrets.

When Atchley began manufacturing portable self-sustained water purification systems through his company Aspen Water, Inc., GWG sued asserting conspiracy and trade secret misappropriation. A jury awarded GWG $1 million in damages because it found that Atchley and his company had misappropriated two of GWG's trade secrets: (1) a formula used in the "mixed media pod," "a device used to remove contaminates from water," and (2) a "sequence of the process" used for purification.[5] The trial court, however, granted Atchley and Aspen's motion for judgment notwithstanding the verdict, which asserted that neither the formula nor the sequence constituted trade secrets and entered a take-nothing judgment.[6]

With respect to the "formula," GWG used a canister containing the materials KDF and carbon that removed chemicals from water.[7] The benefits of using these chemicals was apparently no secret, as other manufacturers used them as well. GWG's president testified the formula was, nonetheless, unique in the industry because it contained an approximate 10:90 ratio of KDF to carbon. The manufacturer of KDF recommended

1. 244 S.W.3d 924, 928 (Tex. App.—Dallas 2008, pet. denied).
2. 113 S.W.3d 735, 739 (Tex. 2003).
3. *Global Water Group, Inc.*, 244 S.W.3d at 928–30.
4. *Id.* at 927.
5. *Id.*
6. *Id.*
7. *Id.* at 929.

using more KDF than carbon, and according to GWG's president, other companies' ratios were "nowhere close" to GWG's 10:90 ratio. There was also testimony that GWG had guarded the formula through limiting access and requiring its employees to sign confidentiality agreements.

According to the court, however, "[t]he status of the information claimed as a trade secret must be determined through a comparative evaluation of all the relevant factors, including the value, secrecy, and definiteness of the information *as well as the nature of the defendant's misconduct.*"[8] The court concluded that the alleged misconduct was not egregious; GWG had not shown that the formula was valuable, contributed to the success of the water purification system (that is, the formula was unrelated to the system's novel features), or gave GWG a competitive advantage; and there was no evidence of the money or effort it took to develop the formula.[9] The court also noted that the formula could be easily reverse-engineered, and it was not precise.[10] According to the court, because of the "imprecise nature of [the] formula . . . [i]t thus becomes apparent, it would be difficult to protect such a 'formula,' without prohibiting fair competition."[11]

The court also noted that the imprecise nature of the formula made proving misappropriation difficult:

> Aspen allegedly "used" Global's trade secret because its product, like Global's, used much more carbon than KDF. While the two products were similar in this regard, there were also differences in the contents of the mixed media pods. For example, Aspen's product contained "separator pads" that kept the KDF and carbon separate. Global's product, on the other hand, used another purifying substance, PM 1000, as well as gravel. In light of these differences, and the fact that the similarities lie only in the percentages of two commonly used ingredients, no inference of use arises. We conclude there is legally insufficient evidence to show misappropriation of the formula of Global's mixed media pod.[12]

As for the sequence of the treatment process, GWG did not contend on appeal that its three-step process constituted a trade secret.[13]

B. Departing Employees: Three Fables Without a Consistent Moral

Three significant cases during the Survey period illustrated the difficulty—and, sometimes, the seemingly inconsistent results—of resolving trade secret cases involving departing employees.

In the first of these, Nova Consulting Group, Inc. (Nova) and Engineering Consulting Services, Ltd. (ECS) were competing environmental

8. *Id.* (emphasis added).
9. *Id.*
10. *Id.* at 930.
11. *Id.*
12. *Id.*
13. *Id.* at 931.

consulting firms.[14] Nova had an office in San Antonio that generated millions in annual revenue by 2001. When ECS decided to enter the San Antonio market, it hired key employees away from Nova. Over the following two years, ECS generated comparable revenues in its San Antonio office. During that same period, Nova's revenues dropped significantly.

Nova's employees had employment agreements that barred them from ever disclosing confidential information and from competing against Nova or soliciting other Nova employees for one year after leaving Nova.[15] Nova filed suit against ECS and four former Nova managers alleging that:

> ECS ignored Nova confidentiality agreements by requiring the former Nova employees . . . to load into its database client information taken from Nova; ECS allowed former Nova employees . . . to solicit and hire employees still working at Nova to also join ECS; . . . ECS' conduct damaged Nova through loss of client base and loss of key employees; and ECS intended to harm Nova. . . .[16]

Prior to trial, the district court ruled by summary judgment that Nova's covenants not to compete were overbroad and unenforceable but that claims for unfair competition through misappropriation of trade secrets and tortious interference remained at issue.[17] A jury found that ECS unfairly competed with Nova by misappropriating trade secrets and tortiously interfered with the employment agreements.[18] The jury awarded Nova past and future lost profits, plus exemplary damages.[19] The Fifth Circuit affirmed.[20]

On appeal, ECS argued unsuccessfully that (1) the evidence was insufficient to support the verdict for misappropriation of trade secrets and for tortious interference with Nova's employment agreements and (2) the trial court erred in failing to instruct the jury on the six-factor common-law test used by Texas courts to determine the existence of a trade secret.[21]

The Fifth Circuit held that evidence was sufficient to prove the client information taken by former Nova employees and loaded into the ECS database was confidential and constituted a trade secret.[22] While the information consisted of a collection of business cards, testimony presented at trial confirmed that the "cards contained handwritten notes with further details gathered about clients through dealings with them, such as names of contact persons, cell-phone numbers, and other notes."[23] There

14. Nova Consulting Group, Inc. v. Eng'g Consulting Servs., Ltd., 290 F. App'x 727, 729–30 (5th Cir. 2008).
15. *Id.* at 729.
16. *Id.* at 730.
17. *Id.*
18. *Id.*
19. *Id.*
20. *Id.* at 729.
21. *Id.* at 736–39.
22. *Id.* at 736–37.
23. *Id.* at 736.

was also evidence that ECS acquired those trade secrets by breach of a confidential relationship because it knew the Nova employees it was hiring had employment agreements barring them from disclosing Nova's confidential information.[24] There was evidence that ECS used the Nova trade secret information without authorization.[25] The court of appeals held that the evidence supported a "finding that ECS used Nova trade-secret client information to gain new customers and to increase revenues."[26] There was also sufficient evidence to support the tortious interference verdict because ECS interfered with the confidentiality provisions of the Nova employment agreements and induced their breach.[27]

ECS also argued that the six-factor trade-secret test from *In re Bass*[28] should have been included in jury instructions.[29] Dismissing the point, the court of appeals noted that the test is merely a tool used by courts to determine if evidence of a trade secret exists, and while the factors are relevant, they are not dispositive.[30] The court stated that it is impossible "to state the precise criteria for determining the existence of a trade secret."[31]

Conversely, an employee's disclosure of the mere identity of potential client accounts to his new employer, a competitor of his former company, did not constitute a theft of trade secrets in *Bluebonnet Petroleum, Inc. v. Kolkhorst Petroleum Co.*[32]

Bluebonnet is a classic case of the potentially disastrous recipe of mixing family and business. There a brother and sister worked at Bluebonnet Petroleum. The sister, Keithy Smith, was the president of the company, and her brother's title was disputed. The brother, Ray Robinson never signed any employment agreement, nondisclosure agreement or a covenant not to compete.[33] Between 2001 and 2005, Robinson acquired numerous new accounts for Bluebonnet, increased its gasoline sales volume, and became the face of Bluebonnet for its customers. In January 2005, Robinson was in contact with various convenience stores to gain their business, including Circle G in Gonzales, Texas, when he was contacted by Bluebonnet competitor Kolkhorst Petroleum. Robinson accepted the employment offer from Kolkhorst and proceeded to a previously scheduled meeting with Circle G to present a deal from Bluebonnet. During the meeting, he informed Circle G that he would not be servicing the account, as he was leaving Bluebonnet to work for Kolkhorst. Circle G

24. *Id.* at 735–36.
25. *Id.* at 736–37.
26. *Id.* at 737.
27. *Id.* at 738–39.
28. 113 S.W.3d 735, 739 (Tex. 2003).
29. *Nova Consulting Group, Inc.*, 290 F. App'x at 742.
30. *Id.*
31. *Id.*
32. No. 14-07-a379-CV, 2008 WL 4527709, at *5–8 (Tex. App.—Houston [14th Dist.] Oct. 9, 2008, pet. denied) (mem. op.).
33. *Id.* at *1.

had second thoughts about the contract, and it eventually executed a contract instead with Kolkhorst after a subsequent sales presentation in which Robinson recused himself from involvement.[34]

Bluebonnet sued Robinson and Kolkhorst for, *inter alia*, theft of trade secrets and tortious interference with prospective business relationships. The trial court dismissed both claims on summary judgment.[35] The Houston Court of Appeals affirmed.[36] The court reasoned that, although Brother gave the names of some potential customers, including Circle G, to his new employer, there was no evidence he revealed additional information on the accounts (such as feasibility studies, notes, or customer preferences).[37] The court held that the mere identity of the potential accounts was not even proprietary information under the circumstances of this case, much less a trade secret.[38]

II. DEFAMATION AND BUSINESS DISPARAGEMENT

A. Fact, Opinion, and Corporations as Private Parties

Unflattering remarks posted on an internet webpage were the focus of *Super Future Equities, Inc. v. Wells Fargo Bank Minnesota, N.A.*[39]

After a significant dispute arose among a certificate holder, the "special servicer," and the trustee for two commercial mortgage-backed securities trusts, some individuals and their relatives who were opposed to Orix, the "special servicer" created a website at www.predatorix.com (called "Predatorix"—a clever combination of "Orix" and "Predator"). Orix alleged that the website contained a number of derogatory statements about Orix that constituted "libel per se, business disparagement, tortious interference with contractual relationships, [and] common law conspiracy. . . ."[40] The defendants responded that the website statements were nonactionable opinion, satire, or parody.[41] Although the website publishers were actually counter-defendants in the procedural posture of the case, they will be referred to as "defendants" here for convenience.

It is settled, of course, that in order to be considered defamatory, statements must be statements of fact rather than opinion. Whether statements are an assertion of fact or opinion is a question of law, which depends on "'their verifiability and the context in which they were made.'"[42] This analysis must be made regardless of whether the speaker couches his statements as "just my opinion."[43] As the court read *Bentley*, it was not enough for a call-in television talk show host to state, even

34. *Id.*
35. *Id.* at *2.
36. *Id.* at *1.
37. *Id.* at *5.
38. *Id.* at *7.
39. 553 F. Supp. 2d 680, 684 (N.D. Tex. 2008).
40. *Id.*
41. *Id.* at 686, 687.
42. *Id.* at 687 (quoting Bentley v. Bunton, 94 S.W.3d 561, 583 (Tex. 2003)).
43. *Id.* at 688.

repeatedly, that it was his "opinion" that a judge was corrupt.[44] The court quoted Judge Friendly's comment, cited in *Bentley*, that "[it] would be destructive of the law of libel if a writer could escape liability for accusations of [defamatory conduct] simply by using, explicitly or implicitly, the words 'I think.'"[45]

In addressing the *Bentley* analysis of verifiability and context to the statements made on Predatorix, the court concluded first that these were indeed "verifiable statements of fact as opposed to protected opinions."[46] The statements included an assessment of the amount of money Orix spent in a matter and the amount of recovery, accusations of specific behavior, statements taken out of context to imply a different meaning, accusations of lying and other statements taken out of context, accusations of engaging in behavior similar to those of another institution, and a statement that one party had won or lost a case—all of which the court viewed as susceptible of verification.[47]

Significantly, the court added that a "disclaimer that '[t]his is my private information and opinion' does not transform the statements into opinions."[48] Considering the context, the court found that the website purported to give factual information about Orix's behavior; it provided links to court documents, deposition videos, news articles and court cases; and at least one writer claimed to verify the accuracy of the information he was posting.[49] In this context, the court concluded that these statements were not protected opinions.[50]

Nor were the statements satire or parody.[51] The test for satire or parody is "'whether the publication could be reasonably understood as describing actual facts.'"[52] Here, the court found that a reasonable person would find that the Predatorix site "describes actual facts."[53] The site referred to actual cases, cited several documents for support, and purported to gather factual information to document Orix's alleged misconduct. Accordingly, the court found that the statements were not satire or parody.[54]

Of particular interest was the issue of whether Orix—a large corporation—was a public or private figure for purposes of the libel analysis. This would matter for Orix's burden of proof, since "[t]ruth is an affirmative defense in a defamation case brought by a private plaintiff" and not an element of the private plaintiff's burden of proof.[55] Furthermore, a

44. *Id.* at 687–88.
45. *Id.* at 688 (quoting *Bentley*, 94 S.W.3d at 584).
46. *Id.*
47. *Id.* at 688–89.
48. *Id.* at 689 (citing *Bentley*, 94 S.W.3d at 584).
49. *Id.*
50. *Id.* at 689.
51. *Id.*
52. *Id.* (quoting New Times, Inc. v. Isaacks, 146 S.W.3d 144, 157 (Tex. 2004)).
53. *Id.*
54. *Id.*
55. *Id.* at 691–92.

private plaintiff only needs to show negligence, not actual malice.[56]

In determining whether a corporation is a public or private figure, the court noted that the Fifth Circuit has established a three (non-exclusive) factor test: (1) "'the notoriety of the corporation to the average individual in the relevant geographical area,'" which considers the size and nationality of the corporation; (2) "the nature of the corporation's business," particularly whether it makes or markets consumer goods; and (3) "the frequency and intensity of media scrutiny."[57] Here, the court found that Orix was indeed a large and successful loan servicing provider, but average individuals would not necessarily be familiar with it.[58] Thus, the court concluded that "this factor weigh[ed] slightly in favor of finding that Orix [wa]s a private figure."[59] Additionally, Orix did not make or market consumer products or offer services to the general public, which also weighed in favor of Orix being a private figure for these purposes. Additionally Orix was publicized only in its own industry, which the court did not conclude gave it a public figure status either.[60] Accordingly, the court concluded that Orix would be considered a private figure for purposes of the litigation.[61] Furthermore, the court rendered that the issue was not a matter of significant public interest.[62]

B. Attorneys' Fees: "Special Damages" to Support Business Disparagement?

Super Future Equities held that in order to establish a claim for business disparagement, a plaintiff must show "'(1) the defendant published false and disparaging information about it, (2) with malice, (3) without privilege, (4) that resulted in special damages to the plaintiff.'"[63] Proof of special damages is an essential part of the claim, requiring, in effect, the showing of "pecuniary loss that has been realized or liquidated as in the case of specific lost sales."[64]

The court concluded that Orix had not established special damages in the form of loss or trade or deals.[65] Apparently there was no evidence that the vitriol available on the "Predatorix" website had actually been absorbed by any Orix customers or clients.[66] It had, however, evidently been thought serious enough to justify considerable legal expense in try-

56. *Id.* at 692 (citing WFFA-TV, Inc. v. McLemore, 978 S.W.2d 568, 571 (Tex. 1998)).
57. *Id* at 689 (quoting Snead v. Redland Aggregates Ltd., 998 F.2d 1325, 1329 (5th Cir. 1993)).
58. *Id.* at 691.
59. *Id.*
60. *Id.*
61. *Id.*
62. *Id.*
63. *Id.* at 692 (quoting Forbes v. Granada Biosciences, Inc., 124 S.W.3d 167, 170 (Tex. 2003)).
64. *Id.* (quoting Hurlbut v. Gulf Atl. Life Ins. Co., 749 S.W.2d 762, 767 (Tex. 1988), (internal quotations omitted).
65. *Id.* at 693.
66. *Id.*

ing to close the website down.[67] The question arose, then, whether the attorneys' fees required in order to address the closure of the site could be "special damages" sufficient to meet the *Hurlbut* standard.

Interestingly, the court "express[ed] no opinion" on whether attorney's fees could constitute special damages.[68] It did note, however, that "[t]he Fifth Circuit has held that under Texas law, 'attorneys fees incurred in bringing a lawsuit [to stop the business disparagement], where no additional pecuniary loss has been identified, do not establish the element of special damages required to support a claim of business disparagement.'"[69]

C. When is Hiring a Woman a "Mistake?" When Saying So Leads to a Defamation Claim

Whether a statement was subject to a meaning that was defamatory of the plaintiff was one issue in *Klouda v. Southwestern Baptist Theological Seminary*.[70]

Professor Klouda, a female, was a tenure-track professor at Southwestern Baptist Theological Seminary.[71] The religious seminary's decision not to renew her employment or to offer her tenure was found to be "the product of a sincerely held religious belief" on the part of the seminary president and members of the board of trustees, and thus, the court concluded that the employment decision made by the defendants was ecclesiastical in nature.[72] The court concluded that the "ecclesiastical abstention doctrine" and narrow "ministerial exception" in challenges to a religious institution's employment decisions would prohibit judicial review of the employment decision, and the court denied the employment related claims.[73]

One of the claims brought by the plaintiff, however, was that the Seminary President had said to Professor Klouda that hiring her was a "mistake," while the chairman of the Seminary's Board of Directors had told a newspaper reporter that hiring a woman to teach men was a "momentary lack of parameters."[74] As an additional ground of dismissal, the court held that "[n]either statement is subject to a meaning defamatory of plaintiff."[75] "If either of the statements reflects badly on anyone," the court added, "it would be defendants."[76]

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67. *Id.*
68. *Id.*
69. *Id.* at 693 n.9 (quoting C.P. Interest, Inc. v. Cal. Pools, Inc., 238 F.3d 690, 696 (5th Cir. 2001)).
70. 543 F. Supp. 2d 594, 597 (N.D. Tex. 2008).
71. *Id.* at 596.
72. *Id.* at 611–12.
73. *Id.* at 611–13.
74. *Id.* at 613–14.
75. *Id.* at 614.
76. *Id.*

III. LANHAM ACT SECTION 43(A)

A. ATTORNEYS' FEES AND THE "UNEXCEPTIONAL" CASE

The Lanham Act permits a court to award reasonable attorneys' fees to a prevailing party "in exceptional cases."[77] This was considered in *Avid Identification Systems, Inc. v. Phillips Electronics North America Corp.*[78]

Here, the jury found the defendant liable both for patent infringement and for having falsely advertised that its veterinary device for reading tags implanted within animals could read all types of tags used in the United States.[79] The court noted that to recover attorney's fees, "the prevailing party must demonstrate the exceptional nature of the case by clear and convincing evidence;" that "[a]n exceptional case is one where the violative acts can be characterized as 'malicious,' 'fraudulent,' 'deliberate,' or 'willful;' and that an 'exceptional case' requires 'a showing of a high degree of culpability on the part of the infringer, for example, bad faith or fraud . . . . [A] few cases have gone as far as to require very egregious conduct.'"[80]

The plaintiff asserted that Phillips claimed its device could read all types of tags, even while knowing that it could not. The trial court wrote that after careful consideration of the trial record, however, it found that the plaintiff "did not prove that its case was exceptional under the Lanham Act by clear and convincing evidence."[81]

B. PROFITS: FACT OF INJURY, VERSUS AMOUNT

In *Mannatech, Inc. v. GlycoProducts International, Inc.*, the Northern District of Texas considered whether an accounting of the defendant's profits attributable to its false advertising of a dietary supplement should be awarded.[82]

The jury found the defendant had realized $150,000 in profits attributable to false advertising. In post-trial motion for judgment, however, the court noted that "an award of profits is not automatic upon a finding of liability."[83] Instead, to decide if it should award an accounting of profits, the court should consider a number of factors, including:

> (1) whether the defendant had the intent to confuse or deceive, (2) whether sales have been diverted, (3) the adequacy of other remedies, (4) any unreasonable delay by the plaintiff in asserting his rights, (5) the public interest in making the conduct unprofitable, and

77. 15 U.S.C. § 1117(a) (2000 & Supp. 2004).
78. No. 2:04-CV-183, 2008 WL 819962, at *2 (E.D. Tex. Mar. 25, 2008).
79. *Id.* at *1–2.
80. *Id.* at *2 (quoting Seven-Up Co. v. Coca-Cola Co., 86 F.3d 1379, 1390 (5th Cir. 1996)).
81. *Id.*
82. Mannatech, Inc. v. Glycoproducts Int'l, Inc., No. 3-06-CV-0471-BD, 2008 WL 2704425, at *3 (N.D. Tex. July 9, 2008).
83. *Id.* at *1, *3 (citing Am. Rice, Inc. v. Producers Rice Mill, Inc., 518 F.3d 321, 338 (5th Cir. 2008)).

(6) whether it is a case of palming off.[84]

In applying these factors, the court particularly noted the first two. The jury found the violation was not willful, which the court found suggested that the defendant did not intend to confuse or deceive.[85] The court determined that this factor was important. The court also found the evidence that any of plaintiff's sales had been diverted as a result of the false advertising of its mark insufficient.[86] "In order to obtain an accounting of profits," the court held, "a plaintiff must prove that the defendant benefitted from its alleged infringement."[87] The court added that "[p]rofits are rarely awarded where the plaintiff cannot establish that the false advertising caused a decline in sales."[88] The plaintiff testified that some sales associates complained about the false advertising and asserted that it had lost sales due to the presence of the defendant's products in the market.[89] But when the plaintiff's president was asked if he could "quantify or even estimate the amount of sales lost on account of such false advertising," the answer was "beyond speculative."[90]

The other factors were no further help to the plaintiff. The court concluded that "while requiring defendant to account for $150,000 in profits undoubtedly would serve the plaintiff's interests, it would not necessarily serve the public interest."[91] In addition, the court found that a permanent injunction against any further false advertising would provide an adequate remedy condemning "the nature of the infringing conduct and its adverse effect on plaintiff."[92] The court cited to two cases from other circuits as support for the proposition that damages are "not appropriate in a trademark action where an injunction will satisfy the equities of the case."[93]

Unquantified injury in the context of a section 43(a) infringement was the issue in *Schlotzsky's, Ltd. v. Sterling Purchasing and National Distribution Co.*[94] Here, a restaurant franchisor brought a Lanham Act suit against its former food distributor and purchasing agent, claiming that the former purchasing agent had dramatically misrepresented the nature of its relationship with franchisor and, thus, violated section 43(a) of the

84. *Id.* at *3 (citing Quick Techs., Inc. v. Sage Group PLC, 313 F.3d 338, 349 (5th Cir. 2002), *cert. denied*, 540 U.S. 814 (2003)).

85. *Id.* (citing *Quick Techs., Inc.*, 313 F.3d at 349 (noting that "willful infringement is an important factor")); Seatrax, Inc. v. Sonbeck Int'l, Inc., 200 F.3d 358, 372 n.9 (5th Cir. 2000) (noting a lack of authority within the Fifth Circuit for awarding an accounting of profits in the absence of willfulness).

86. *Mannetech*, 2008 WL 2704425, at *3.

87. *Id.* (citing Logan v. Burgers Ozak County Cured Hams, Inc. 263 F.3d 447, 464 (5th Cir. 2001)).

88. *Id.*

89. *Id.*

90. *Id.* at *3–4.

91. *Id.* at *4.

92. *Id.*

93. *Id.* (citing Synergistic Int'l, LLC v. Korman, 470 F.3d 162, 176 (4th Cir. 2006); Minn. Pet Breeders, Inc. v. Schell & Kampeter, Inc., 41 F.3d 1242, 1247 (8th Cir. 1994)).

94. 520 F.3d 393, 397 (5th Cir. 2008).

Lanham Act.[95] Schlotzsky's claimed that Sterling had dramatically overstated its (Sterling's) authority by widely asserting that it was not only a purchasing agent appointed by both Schlotzsky's and a franchisee association, but also that it had been appointed by Schlotzsky's and the association "to be their exclusive representative in the purchasing of products."[96] The Fifth Circuit Court of Appeals held that Schlotzsky's claims fell within the scope of section 43(a), in that Sterling's actions violated the prohibition against representations of fact that are "likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another."[97] However, "the evidence of a wrong being committed [was] clear," while "the evidence of precise damage [was] not."[98] The court's examination of the evidence did "not reveal much of a means to place a dollar value on the effect of Sterling's actions."[99] There was, in short, no proof of a monetary amount of the damages.

The court held that the injury element of the claim was satisfied, however, because the evidence of Sterling's misstatements to numerous franchisees and distributors that it was Schlotzsky's "exclusive representative" constituted sufficient evidence that it was likely that it had damaged Schlotzsky's.[100] This was true even though a "dollar value on the extent to which this plan succeeded—maximizing Sterling's income at the expense of others including Schlotzsky's—was not proven."[101] A permanent injunction followed, along with an award of attorneys' fees.[102]

IV. NONCOMPETITION COVENANTS

A. Focussing on What They Did

Since the Texas Supreme Court's *Sheshunoff* opinion in 2006,[103] a number of cases seem to have trended toward preferring substance over form in determining the enforceability of non-compete agreements. Though not without the twists, turns, and contradictions that have characterized Texas non-competition law for twenty years or more, many non-compete agreements that might once have been found unenforceable are now being found viable. The opinions that follow suggest that Texas courts are increasingly less willing than before to invalidate an agreement simply because an explicit, enforceable promise to provide confidential information is not present. Instead, courts seem willing to examine an agreement in its totality to assess whether the parties envisioned that the employee

95. *Id.*; *see* 15 U.S.C. § 1125(a)(1)(B) (2006).
96. *Schlotzsky's*, 570 F.3d at 398.
97. *Id.* at 399–400 (quoting 15 U.S.C. § 1125(a)(1)).
98. *Id.* at 400.
99. *Id.*
100. *Id.* at 401.
101. *Id.*
102. *Id.* at 402–03.
103. Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644 (Tex. 2006).

actually would be entrusted with serious and valuable confidential information of the employer over the course of his or her employment, of the sort that would properly give rise to the employer's interest in enforcing a noncompetition covenant. And it appears the results often turn on the extent to which the employee was actually so entrusted.

A post-employment noncompetition covenant was analyzed in *Ray Mart Inc. v. Stock Building Supply of Texas LP.*[104] The facts were interesting: Weldon Vybiral had been the general manager of a door mill operation in Temple, Texas for thirteen years when Stock Building Supply bought the company. The new owner required all branch managers to sign employment agreements that included covenants of nondisclosure, nonsolicitation, and noncompetition. Vybiral signed such an agreement.[105]

Some time afterwards, another building supply company (Tri-Supply) opened a door mill in Temple.[106] Vybiral soon left Stock and went to work for Tri-Supply. In the following months, more than a dozen other Stock employees followed him to Tri-Supply. The profitability of Stock's Temple facility suffered, and eventually, Stock closed the facility altogether. Predictably, Vybiral, the other former Stock employees, and Tri-Supply all asserted that, when Stock took over the Temple operation, working conditions worsened and that "unhappy workers and unhappy customers eventually left Stock of their own volition."[107] Stock claimed they were deliberately poached by Tri-Supply, which was aided by Vybiral's active collusion.

The district court found for the former employees in all respects, concluding that the non-compete and non-solicitation covenants were not enforceable, that the employees had not breached any fiduciary duty to Stock, and that neither they nor their new employer had tortiously interfered with Stock's relationships with its employees.[108] The Fifth Circuit Court of Appeals affirmed in part, vacated in part, and remanded.[109]

Enforceability of a non-compete covenant is, of course, a question of law. To determine whether a noncompete covenant is ancillary to an otherwise enforceable agreement, the court must first identify an "otherwise enforceable agreement" between the employee and the former employer and then determine whether the noncompete covenants is "ancillary to" that agreement.[110] Most Texas employment agreements are "at will," meaning that the employer can dismiss the employee at any time and for any reason, aside from affirmatively unlawful ones, thus making the appearance of a promise of continued employment illusory and not "otherwise enforceable" and, hence, insufficient consideration for a non-

104. 302 F. App'x 232, 234 (5th Cir. 2008) (unpublished).
105. *Id.*
106. *Id.*
107. *Id.* at 235.
108. *Id.*
109. *Id.* at 234.
110. *Id.* at 236.

compete covenant.[111] Interestingly, however, Mr. Vybiral's new employment agreement with Stock was for a term of three years and provided that he could not be fired without cause. The court of appeals concluded this promise to employ Vybiral for three years and Vybiral's promises in return to work for Stock for three years and not to disclose trade secrets or other confidential information he obtained while working for Stock constituted "an otherwise enforceable agreement."[112]

To be "ancillary to" an otherwise enforceable agreement, the consideration given by the promisee (Stock) must give rise to its interest in restraining the former employee from competing, and the covenant must be designed to enforce that consideration or return promise.[113] The court noted that a "term" employment agreement for a period of years would not necessarily be one to which a non-compete covenant could be ancillary in this sense because it would not necessarily involve the employee receiving anything so intangible and valuable that it could only be protected by non-competition.[114] Entrusting Vybiral with trade secrets or other confidential information or perhaps providing him with specialized training in the operations of the company might have sufficed in this respect. The opinion did not say one way or the other, but it appears that Stock did not expressly commit to give these to Vybiral.[115] The court found persuasive, however, Stock's argument, that as general manger of the Temple operation, Vybiral would necessarily be made privy to such confidential information as price lists, sales strategies, and customer information and that Vybiral was given access to this information over the course of his employment.[116] "While admittedly a close call," the court held that this did give rise to an interest in protecting the confidential information and, hence, that the noncompete covenant was ancillary to an otherwise enforceable agreement.[117]

In a footnote, the court contrasted this case with others in which courts had found that an employer's consideration did not give rise to an interest in restraining an employee from competing by explaining that Stock had "articulated a coherent theory explaining how its promise to Vybiral gives rise to an interest in restraining Vybiral from competing."[118] Interestingly, the court did not address whether Stock had treated those price lists, sales strategies, and customer information as trade secrets and taken reasonable precautions to protect them, which is among the first principles of trade secret protection.[119]

111. *See* Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 644–45 (Tex. 1994).
112. *Ray Mart, Inc.*, 302 F. App'x at 236–37.
113. *Id.* at 236 (citing Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644 (Tex. 2006)).
114. *Id.* at 237.
115. *See id.* at 237–38.
116. *Id.* at 238.
117. *Id.*
118. *Id.* at 230 n.4 (citing Olander v. Compass Bank, 172 F. Supp. 2d 846, 855 (S.D. Tex. 2001)).
119. *See In re* Bass, 113 S.W.3d 735, 739 (Tex. 2003).

"Preparation to compete" also figured prominently in this case.[120] While appearing implicitly to agree that Vybiral owed a fiduciary duty to Stock while serving as its general manager of the Temple operation, the court reviewed the district court's rulings for clear error and concluded that the district court did not clearly err in finding that Vybiral did not interfere impermissibly with the relationships between Stock and its employees.[121] Although Stock believed that Vybiral had solicited the other employees to leave, Vybiral presented testimony that he had not. Vybiral's evidence left Stock with "little to point to besides suspicion,"[122] and there was no real evidence of it besides another departing salesperson having left "a Tri-Supply form on the desks of one or two other Stock employees."[123] Stock alleged that Vybiral and another employee breached their fiduciary duties to Stock by not telling Stock that Tri-Supply was opening a facility in Temple, that they were leaving, and that others intended to leave; but the court held that "the district court very reasonably could have found this behavior to be permissible preparation for competition."[124]

In *Staples, Inc. v. Sandler*, the Northern District of Texas focused on the need to locate a promise by the employer to provide confidential information to the employee but was content to find it in a separate, contemporaneously-signed document.[125] It should be noted that the original opinion was vacated pursuant to an "Agreed Order Concerning Resolution."[126] The Agreed Order provides that the case will be administratively closed, pending final dismissal in August 2009 unless a party notifies the court of reasons that it should not be dismissed.[127] One might infer that after the opinion was issued, the parties reached a settlement which called for some specific performance by both parties at some point between then and August 2009, and one of the conditions of the settlement likely was that the court's earlier opinion be vacated. It is, therefore, no longer controlling precedent and should not be cited. It may, however, provide helpful practical guidance on how these sorts of matters may be decided.

When employee Sandler join Staples, he signed a "Proprietary and Confidential Information Agreement" and a separate "Non-Compete and Non-Solicitation Agreement" ("Non-Compete Agreement").[128] In

120. *Ray Mart, Inc.*, 302 F. App'x at 239.
121. *Id.* at 240.
122. *Id.* at 239.
123. *Id.* at 246.
124. *Id.* (citing Abetter Trucking Co. v. Arizpe, 113 S.W.3d 503, 510 (Tex. App.—Houston [1st Dist.] 2003, no pet.) ("The employee has no general duty to disclose his plans and may secretly join with other employees in the endeavor without violating any duty to the employer.")).
125. *See generally* Staples, Inc. v. Sandler, No. 3:07-CV-0928-K, 2008 WL 4107656 (N.D. Tex. Aug. 29, 2008) (mem. op.), *vacated*, 2009 WL 1285838 (N.D. Tex. May 7, 2009).
126. Staples, Inc. v. Alan Sadler Preferred Office Prods., Inc., No. 3:07-CV-0928-K, 2008 WL 1285838, at *1 (N.D. Tex. May 7, 2009).
127. *Id.*
128. *Staples, Inc.*, 2008 WL 4107656, at *1.

the "Recitals" section of the Non-Compete Agreement, Staples recited that it "ha[d] and [would] entrust Employee with proprietary information, strategies, knowledge, customer relationships and know-how which would be detrimental to the Company if disclosed."[129] The court held that, under *Sheshunoff*,[130] this recital was a "unilateral contract conditioned upon performance."[131] The court added that "the confidentiality agreement signed contemporaneously with the noncompete provided a promise of confidential information. Thus, Staples promised to provide Sandler with confidential information that would give rise to its interest in restraining Sadler from competing."[132]

Sandler was subsequently given "access to cost margins, pricing lists, sales figures, and assorted business information, including customer information" that was not readily available to the public.[133] None of the information would constitute "trade secrets of the highest order," but it was confidential enough to constitute sufficient consideration for the non-compete agreement.[134] The court held that an employer need not provide confidential information that rises to the level of trade secrets in order to have an enforceable covenant not to compete.[135] The court also made clear that the quality and extent of the information provided would be significant in determining a reasonable (or unreasonable) scope of protection.[136]

In *Shoreline Gas, Inc. v. McGaughey*, an at-will employee was bound by an agreement that contained promises by the employee not to disclose the employer's confidential information and not to engage in post-employment competition.[137] But, significantly, the agreement was completely void of any obligation on the part the employer to provide confidential information to the employee.[138] Without addressing whether a promise could be implied as the Fifth Circuit found later in *Ray Mart*, the Corpus Christi Court of Appeals instead leaped past the issue and found that the employer had, in fact, provided that type of information. Thus, the non-compete agreement was an enforceable unilateral contract that had been accepted by performance.[139]

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.

129. *Id.* at *3.
130. Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 44 (Tex. 2006).
131. *Staples, Inc.*, 2008 WL 4107656, at *3.
132. *Id.*
133. *Id.*
134. *Id.*
135. *Id.*
136. *Id.* at *4.
137. No. 13-07-364-CV, 2008 WL 1747624, at *6 (Tex. App.—Corpus Christi Apr. 17, 2008, no pet.) (mem. op.).
138. *Id.*
139. *Id.* at *6–7.

> 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. Under *Sheshunoff*, such a unilateral contract constitutes an "otherwise enforceable agreement" sufficient to support an accompanying non-compete covenant.[140]

The court dismissed McGaughey's contention that the agreement was unenforceable because it did not contain a promise by the employer to provide the employee with confidential information.[141] McGaughey relied on *Sheshunoff* for his argument.[142] While the employment contract in *Sheshunoff* required the employer to provide the employee with "access to certain confidential and proprietary information and materials belonging to Employer," that promise, like the one at issue in *Shoreline*, was illusory because the employer could have avoided performance simply by terminating employment.[143]

Thus, as long as the employer actually provides confidential information to the employee (even absent a written express or implied promise by the employer to do so), the employee's promise not to disclose confidential information is no longer illusory, and a unilateral contract is formed when the employer does so provide it.[144] According to the Corpus Christi Court of Appeals in *Shoreline*, this unilateral contract is an otherwise enforceable agreement sufficient to support a promise by the employee not to compete.[145]

B. Timing Matters

Timing also matters. In *Powerhouse Productions, Inc. v. Scott,* the issue arose as to whether confidential information given *before* the effective date of a noncompetition covenant could properly serve as consideration.[146]

In *Powerhouse Productions*, the Dallas Court of Appeals affirmed a take-nothing judgment entered in favor of Defendant Eric Scott.[147] Powerhouse builds rocket packs of the sort made famous by "James Bond 007" and, more recently, by "Super Dave Osborne." Scott went to work for Powerhouse in 1993, where he was taught about the operation, maintenance, fuel manufacturing, and techniques, and most notably, how to fly the rocket pack machines.[148] Scott eventually made over 400 flights

140. *Id.* at *6 (internal citations omitted).
141. *Id.* at *6–7.
142. *Id.* at *6.
143. Alex Sheshunoff Mgmt. Serv., L.P. v. Johnson, 209 S.W.3d 644, 646–47, 650 (Tex. 2006).
144. *See Shoreline Gas, Inc.*, 2008 WL 1747625, at *6.
145. *Id.*
146. Powerhouse Prods., Inc. v. Scott, 260 S.W.3d 693, 696 (Tex. App.—Dallas 2008, no pet.).
147. *Id.* at 693.
148. *Id.* at 694.

throughout the world while employed with Powerhouse and charged clients up to $25,000 to fly his rocket at their event.

Scott signed a non-compete with the owner of Powerhouse when he started his employment in 1993.[149] Scott's employment agreement and non-compete agreement were not with the Powerhouse entity, which was not formed until 1996 or 1997, but rather, with the owner individually. That agreement expired around 2000. However, Scott remained employed with Powerhouse. In 2004, Scott entered into a confidentiality and non-compete agreement with Powerhouse whereby Scott agreed not to compete with Powerhouse for a five-year period. Scott and Powerhouse ended their relationship later that same year.[150]

In 2005, in contravention of his non-compete agreement with Powerhouse, Scott went to work for another rocket pack builder.[151] After learning that Scott was making flights for a competitor, Powerhouse filed suit seeking to enjoin Scott from violating the non-compete agreement.[152]

The trial court and the Dallas Court of Appeals rejected Powerhouse's argument that confidential information and training provided to Scott before 2004 could serve as consideration for the 2004 non-compete agreement.[153] Further, letting Scott fly the rocket pack, the Court reasoned, did not "give rise to [Powerhouse's] interest in restraining [Scott] from competing."[154] While each of Scott's 400 Powerhouse flights was expensive, they did not amount to the proper consideration that disclosure of confidential information would have.[155]

Timing also mattered in *Staples, Inc. v. Sandler.*[156] Though holding that an employer need not necessarily provide confidential information that rises to the level of a trade secret, the Northern District of Texas went on to hold that the restrictions contained in the Non-Compete Agreement prohibiting Sandler from doing business not only with Staples' customers but also with customers or prospective customers that Sandler "knew, serviced, or was familiar with prior to joining the Company" were overly broad.[157] The court said:

> [h]ere, it is apparent that the restraint on competition is not justified to the extent contemplated in the covenant not to compete given Sandler's relatively short employment, the minimal amount of confidential information he received, and Staples' legitimate interest in protecting the confidential information it provided him during his tenure.[158]

149. *Id.*
150. *Id.*
151. *Id.*
152. *Id.* at 695.
153. *Id.* at 697–98.
154. *Id.* at 697.
155. *Id.* at 696–98.
156. No. 3:07-CV-0928-K, 2008 WL 4107656 (N.D. Tex. Aug. 29, 2008) (mem. op.), *vacated*, 2009 WL 1285838 (N.D. Tex. May 7, 2009).
157. *Id.* at *5.
158. *Id.*

Thus, the court found that Staples' legitimate interest in confidentiality gave rise only to a restraint on Sandler that would keep him from transacting business with customers that he acquired while with the company.[159] A restraint that "prevents him from continuing long-standing relationships that he brought with him to Staples is overbroad, unrelated to Staples' legitimate interest in confidentiality, and would further unreasonably burden these third-party customers."[160]

V. COMMON LAW UNFAIR COMPETITION

The nature of common-law unfair competition was at issue in *Vantage Trailers, Inc. v. Beall Corp.*[161]

Here the defendant sent letters to a number of third parties in the industry, claiming he could prohibit the plaintiff from "making, using or selling a bottom dump trailer having features depicted in [the letter-writer's] alleged [trademark]."[162] The plaintiff claimed that this assertion by the defendant constituted common law unfair competition.[163]

The court noted the traditional rule that, under Texas law, "'[t]he tort [of unfair competition] requires that the plaintiff show an illegal act by the defendant which interfered with the plaintiff's ability to conduct its business,'" and that the illegal act "'must at least be an independent tort.'"[164]

In this case, the court held that the "necessary implication" of the unfair competition claim was that the defendants' assertion was unfair competition either because the defendant's purported trademark was invalid in the first place or because the plaintiff's possible product did not infringe it.[165] In this case, however, no case or controversy (as required to support a declaratory judgment action) had actually arisen when the case was filed on either of those points.[166] Consequently, neither premise could serve as an "independent tort" to support the plaintiff's unfair competition claim.[167] Otherwise, the court held, "[p]laintiff would impermissibly be pursuing through the back door the identical claims analyzed [earlier in this opinion] above and over which the Court finds it has no jurisdiction, namely, that the Mark was either invalid or that Plaintiff's preliminary depiction of a trailer would not infringe Defendant's valid Mark."[168] Accordingly, the unfair competition claim was dismissed.[169]

159. *Id.*
160. *Id.*
161. No. H-06-3008, 2008 WL 304747 (S.D. Tex. Jan. 31, 2008) (mem. op.).
162. *Id.* at *7.
163. *Id.*
164. *Id.* (quoting Taylor Pub'l Co. v. Jostens, Inc., 216 F.3d 465, 486 (5th Cir. 2000)).
165. *Id.*
166. *Id.*
167. *Id.*
168. *Id.*
169. *Id.*

VI. TORTIOUS INTERFERENCE

A. WITH WHICH AGREEMENT ARE WE INTERFERING?

Stock's tortious interference claims appear to have been argued in two respects: first, that Tri-Supply tortiously interfered with *Vybiral's* employment agreement with Stock, by recruiting and hiring Vybiral while aware of (and in spite of) his noncompete agreement with Stock; and second, that Tri-Supply tortiously interfered with *Stock's* employment agreement with *its other employees,* by using and directing Vybiral and another departing salesman to solicit and encourage the other Stock employees to leave.[170] Because the Fifth Circuit held that Vybiral's noncompete covenant was indeed enforceable, and because it felt that the district court's dismissal of the tortious interference claim as to the noncompete covenant may have stemmed from its potentially erroneous conclusion that the covenant was invalid, the court reversed and remanded for the district court to consider whether Tri-Supply might have tortiously interfered with Stock's employment agreement with Vybiral.[171]

But since the district court had not clearly erred in concluding that Vybiral's actions could not be considered improper solicitation of the other employees, the court of appeals affirmed the district court's conclusion that there was no tortious interference *through* Vybiral and the others with Stock's employment agreements with its *other* employees.[172]

B. TORTIOUS INTERFERENCE BY ANY OTHER NAME

Amigo Broadcasting, KP v. Spanish Broadcasting System, Inc., presented an interesting "departing employee" tortious interference case in the context of Spanish-language radio broadcasting.[173]

In the early 1990s, Joaquin Garza developed the Spanish-language radio show "El Chulo y La Bola." Garza played the character "El Chulo," while Raul Bernal played "La Bola" and other fictional characters. In April 2002, Garza and Bernal signed three-year employment contracts with Amigo Broadcasting to perform the show on Amigo's Spanish-language station in Austin. Amigo aggressively promoted the show, which became very successful. Soon, Amigo syndicated the show to other Spanish-language stations through Latin Entertainment Network. Latin Entertainment Network's CEO was Tony Hernandez.[174]

In about May or June 2003, when Garza and Bernal's employment contracts were a little less than halfway through their three-year terms, Amigo ended its relationship with Latin Entertainment Network and Hernandez.[175] Garza and Bernal continued to broadcast the show from

170. Ray Mart, Inc. v. Stock Bldg. Supply of Tex. LP, 302 F. App'x 232, 240–41 (5th Cir. 2008).
171. *Id.*
172. *Id.*
173. 521 F.3d 472 (5th Cir. 2008).
174. *Id.* at 478.
175. *Id.*

Amigo's Austin station, but Mr. Hernandez set out to look for some new syndicating possibilities for the "El Chulo" show. Later in 2003, Spanish Broadcasting System (SBS) responded to Mr. Hernandez's proposals. On November 12th, Hernandez, Garza, and Bernal met with officials of SBS in Miami, even though Amigo had learned of the meeting and wrote SBS asking it not to interfere with its employment agreements with Garza and Bernal. SBS asked for and received copies of the employment agreements and concluded the two radio personalities could resign from Amigo and go on-air in Los Angeles or other SBS markets in which Amigo did not compete. Soon afterwards, SBS sent new employment contracts to Garza and Bernal, and on November 25 and 26, Garza and Bernal did not perform the show on Amigo.[176]

The first questions involved the employment contracts. The Fifth Circuit Court of Appeals held that the particular language found in these three-year employment contracts placed considerable restrictions on Garza and Bernal's abilities to resign their employment, at least without breaching the agreements.[177] A license agreement was also included in the employment contracts. However, Garza and Bernal licensed Amigo to use their names and likenesses in promoting the "El Chulo" show and agreed not to grant any such licenses to third parties during the terms of their employment or for one year afterwards.

Here, an interesting question arose: did "their names," in this context, refer to their legal names (Garza and Bernal), or to their radio personality names ("El Chulo" and "La Bola")?[178] The court of appeals concluded that there was a latent ambiguity in the contract, creating a fact issue as to which name was intended.[179] There were no damages, however, because Amigo's asserted damages arose from its lost profits (or, in the alternative, its lost investment) from loss of the show to SBS.[180] This loss resulted from the radio personalities' resignations—not from breach of the license.[181] Amigo had not asserted that Garza and Bernal's breach of the *license* agreement allowed SBS to compete with Amigo, thereby further diminishing Amigo's profits. This may have been related to SBS's earlier point—apparently not persuasive to the court of appeals—that SBS did not compete in the same markets as Amigo.[182]

The other principal issue involved Amigo's claim that SBS had tortiously interfered with Amigo's employment contracts with Garza and Bernal. Clearly, in the court of appeals' view, SBS should have realized that Garza and Bernal would have specific employment contracts with Amigo; in any event, SBS did know after Amigo sent it the November

176. *Id.* at 478–79.
177. *Id.* at 482.
178. *Id.* at 488.
179. *Id.* at 488–89.
180. *Id.* at 489.
181. *Id.*
182. *Id.* at 478.

12th letter.[183] Two points here were of particular interest.

First, SBS asserted that because it had concluded Garza and Bernal were free to resign without breach, it could not have had the requisite intent to interfere with the agreements.[184] The court held that this interpretation was "unreasonable," however, and consequently could not be considered in reviewing the sufficiency of Amigo's evidence.[185] Even more significantly, however, the court went on to hold that even if SBS *did* have a good faith belief that Garza and Bernal could resign without breach, SBS would *still* be liable for tortious interference in causing them to do so.[186] This should be compared, however, with the 1996 Texas Supreme Court case of *Texas Beef Cattle Co. v. Green,* which held that a good faith, colorable (albeit mistaken) belief in the lawfulness of one's actions could be a defense to a claim of tortious interference.[187]

SBS further asserted that its actions throughout were merely responses to the requests and initiatives of Mr. Hernandez, relying on the concept that "'[n]o wrong is committed where the employee acts upon his own initiative and the new employer is merely receptive to the employee's suggestions.'"[188] The court of appeals held, however, that a reasonable jury could believe that SBS's action had gone far beyond being "merely receptive" to Hernandez's actions and instead, actively pursued and induced Garza and Bernal to work for SBS.[189] The court held that a new employer is only "merely receptive" to an employee's suggestions "where the employee resigns for his own personal reasons *independent* of any act or inducement on the part of the new employer."[190]

C. Tortious Interference in Government Contracting

Governments are among the largest purchasers in the economy, so it is no surprise that complaints of tortious conduct arise in that connection from time to time. *Texas Logos, LP v. Brinkmeyer,* presented interesting questions of tortious interference in the context of competition for the award of a valuable state contract.[191]

Here the contract was the "logo sign contract" awarded periodically by the Texas Department of Transportation (TxDOT). Plaintiff Texas

183. *Id.* at 491.
184. *Id.* at 492 n.24.
185. *Id.*
186. *Id.* (citing Sterner v. Marathon Oil Co., 767 S.W.2d 686, 689 (Tex. 1989) (stating ". . . the terminable-at-will status of a contract is no defense to an action for tortious interference with its performance")).
187. Tex. Beef Cattle Co. v. Green, 921 S.W.2d 203, 211 (Tex. 1996) (supporting that no action for tortious interference will lie for persuading a contracting party to exercise a right it has under a contract); *cf.* ACS Investors, Inc. v. McLaughlin, 943 S.W.2d 426, 431 (Tex. 1997).
188. *Amigo,* 521 F.3d at 493 n.26 (quoting Custom Drapery Co. v. Hardwick, 531 S.W.2d 160, 166 (Tex. Civ. App.—Houston [1st Dist.] 1975, no writ)).
189. *Id.*
190. *Id.* (citing Bray v. Squires, 702 S.W.2d 266, 271 (Tex. App.—Houston [1st Dist.] 1985, no writ)).
191. Tex. Logos, LP v. Brinkmeyer, 254 S.W.3d 644 (Tex. App.—Austin 2008, no pet.).

Logos, LP had been the incumbent bidder, but when the contract was awarded to a competitor, it brought suit alleging that a now-former TxDOT engineer, "in combination with the winning vendor and others, had unlawfully skewed the procurement process so as to cause Texas Logos to lose the contract."[192] The principal allegation was that in return for the promise of valuable consulting contracts in the private sector, Mr. Brinkmeyer used his influence within TxDOT to manipulate the decision-making process through a number of acts, which Texas Logos felt resulted in a competitor being considered the "best value," despite what it claimed were a number of objective criteria to the contrary.[193]

The district court dismissed Texas Logos' common law tort claims for money damages, believing it lacked subject matter jurisdiction to hear them.[194] Texas Logos, however, asserted that it was not challenging TxDOT's award of the logo sign contract to the new vendor, but it was seeking instead "to enforce long-established common-law rights against private parties over which the district courts continue to possess subject-matter jurisdiction."[195] The defendants claimed this was "nothing more than a backdoor means of attacking the validity of the Logo Sign procurement,"[196] but Texas Logos insisted that its tort damages claims would not require re-litigation over whether the logo sign contract proposal provided the "best value" to the state but instead, would merely require a decision as to "whether, in the absence of [defendants'] . . . conduct, it is *probable* that Texas Logos would have received [the contract]."[197]

The court of appeals agreed with Texas Logos.[198] Although there would be some overlap between the determination of how TxDOT made its decision and whether, but for the defendant's conduct, that decision would have been in Texas Logos' favor, the court found no "legislative intent to divest Texas courts of their subject matter jurisdiction to adjudicate such issues even when they arise in the context of common-law tort claims."[199] Instead, the court focused on the fact that, in order to prevail on its tortious interference theory, Texas Logos did not need to prove that its proposal would have provided the best value for the State per se, or that TxDOT was "wrong" in its determination; it only needed to show that, but for the defendant's conduct, the decision would have been in its favor, "not that the tribunal's decision was wrong on the record before it."[200] For the elements needed to prove tortious interference with a prospective contract, the court cited *Texas Disposal Sys. Landfill, Inc. v. Waste Management Holdings, Inc.*, requiring a prospective-contract plaintiff to establish, among other things, "'a reasonable probability that the

192. *Id.* at 646.
193. *Id.* at 649–52.
194. *Id.* at 646.
195. *Id.* at 653.
196. *Id.*
197. *Id.* at 654.
198. *Id.*
199. *Id.*
200. *Id.*

parties would have entered into a business relationship . . . and actual harm or damages suffered by the plaintiff as a result of the defendant's interference, i.e., that the defendant's actions prevented the relationship from occurring.'"[201]

The claims against the former TxDOT engineer, Mr. Brinkmeyer, in his personal capacity were also reinstated and allowed to proceed. Mr. Brinkmeyer had claimed sovereign immunity (an appropriate defense to suit brought against him in his official capacity) and official immunity (an appropriate defense to suit for personal monetary liability in his individual capacity), but the court concluded that:

> any assertions that Texas Logos has pled only acts shielded by Brinkmeyer's official immunity or within his official capacity are without merit, [as those defenses apply only to] acts within a governmental employee's performance of their (1) discretionary duties in (2) good faith as long as they are (3) acting within the scope of their authority.[202]

D. HARM: ATTORNEYS' FEES AGAIN

A related issue of injury or harm was also fatal to Orix's claim for tortious interference in *Super Future Equities*.[203]

To show tortious interference with a contract, the willful and intentional act of interference must proximately cause the plaintiff's injury.[204] This element requires "cause in fact or substantial factor and foreseeability."[205] The Northern District of Texas found no evidence of proximate causation of harm, as no sales or other trade had apparently been lost.[206]

Interestingly, Orix claimed that its harm was its attorney's fees incurred in having to bring the action.[207] The court read *DP Solutions* to hold that attorney's fees incurred in previous litigation can be recovered in a later suit for tortious interference with contract, but it "limited this holding to situations 'where the natural and proximate results and consequences of prior wrongful acts had been to involve a . . . plaintiff in the litigation with and against third parties and other parties.'"[208]

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201. *Id.* at 654 n.7 (quoting Tex. Disposal Sys. Landfill, Inc. v. Waste Mgmt. Holdings, Inc., 219 S.W.3d 563, 590 (Tex. App.—Austin 2007, pet. denied)).

202. *Id.* at 658–59 (citing Tex. A&M Univ. Sys. v. Koseoglu, 233 S.W.3d 835, 843 (Tex. 2007)).

203. Super Future Equities, Inc. v. Wells Fargo Bank Minn., N.A., 533 F. Supp. 2d 680 (N.D. Tex. 2008).

204. *Id.* at 694 (citing Prudential Ins. Co. of Am. v. Fin. Review Servs., 29 S.W.3d 74, 77 (Tex. 2000)).

205. *Id.* (citing Video Ocean Group LLC v. Balaji Mgmt. Inc., No. Civ.A. H-03-1311, 2006 WL 964565, at *9 (S.D. Tex. 2006)).

206. *Id.*

207. *Id.* at 694 and n.13 (citing DP Solutions, Inc. v. Rollins, Inc., 353 F.3d. 421, 431 (5th Cir. 2003)).

208. *Id.* at 695 n.13 (citing *DP Solutions*, 353 F.3d at 431 (quoting Tex. Beef Cattle Co. v. Green, 883 S.W.2d 415, 430 (Tex. App.—Beaumont 1994), *reversed on other grounds*, 921 S.W. 2d 203 (Tex. 1996))).

E. Intent in a Tortious Interference Context

The nature of intent in a tortious interference context was an issue in *Ewbank v. ChoicePoint Inc.*[209]

Here, a consumer reporting bureau allegedly provided an inaccurate criminal background check to a prospective employer, reporting an arrest on a marijuana charge (subsequently dismissed) some years earlier. The bureau corrected its mistake by email two days later, but it did not do so before the plaintiff's prospective employer had withdrawn its conditional offer of employment. At the plaintiff's request, the bureau did send the prospective employer a corrected report a few days later, but the prospective employer maintained its refusal to employ the plaintiff. The plaintiff brought suit for tortious interference with prospective business relationships and with existing contracts, among other claims.[210]

The Northern District of Texas noted that to bring a claim for tortious interference with prospective business relations, among other elements, the defendant would have to be shown to have acted "with a conscious desire to prevent the relationship from occurring, or [with knowledge] that the interference was certain or substantially certain to occur as a result of his conduct."[211] Tortious interference with contract would similarly require showing a willful and intentional act of interference.[212] Summary judgment was entered for the bureau, because the court found no evidence that the bureau had intentionally acted to interfere with the contract or prospective business relations.[213] "There is no evidence that in reporting, and then correcting, the information requested by [the prospective employer], ChoicePoint intentionally reported the incorrect information that presumably cost Ewbank her job opportunity."[214]

Note the interesting nuance of difference here between intending to report information, on the one hand, and intending to report *incorrectly* on the other.

F. Less Confused Than Perhaps They Think They Are

In 2008, there were indications that, with respect to the elements required to show tortious interference with prospective business relationships in Texas, the federal courts of the Fifth Circuit may have believed that they were more confused than they actually were. In *Nano—Proprietary, Inc. v. Canon, Inc.*, the Fifth Circuit cited back to a 2002 case, recalling that "[t]he Texas Supreme Court has not yet set out the elements of a tortious interference with a prospective business contract or relations claim, and the appellate courts have not been uniform in their characteri-

209. 551 F. Supp. 2d 563 (N.D. Tex. 2008) (mem. op.).
210. *Id.* at 565.
211. *Id.* at 567.
212. *Id.*
213. *Id.*
214. *Id.*

zation of such actions."[215]

The court summarized several cases to "require a 'business relationship' while others require a 'contractual relationship,'"[216] but, interestingly, did not discuss the seminal case of *Walmart Stores, Inc. v. Sturges*.[217] There the Texas Supreme Court did discuss the elements of a cause of action for tortious interference with prospective contracts or business relationships on the one hand, and tortious interference with existing contracts on the other, and explained the reasoning behind the different elements (competition having already concluded in the one, but not yet having concluded in the other).[218] In *Nano-Proprietary*, the difference between tortious interference with contracts or business relationships did not really matter because the plaintiff had "presented no evidence of a reasonable probability of *either* an impending business relationship or contractual relationship."[219] Therefore, the claim of tortious interference was properly dismissed in any event.[220]

Nano-Proprietary was cited by the Northern District of Texas just a few months later in *L-3 Communications Integrated Systems, LP v. Lockheed Martin Corp.*[221] The L-3 case involved claims of misconduct in the international market for refurbishment of P-3 anti-submarine aircraft. L-3 alleged that Lockheed was claiming to foreign governments and other prospective purchasers that it owned certain data necessary for aspects of refurbishing the P-3 aircraft, that a license would be necessary for anyone to use that data, and that plaintiff L-3 did not have such a license for use in foreign contracts.[222]

L-3 claimed that Lockheed's assertions prevented L-3 from effective competition for that limited market. Lockheed responded that L-3 had not shown a reasonable probability that it would have entered into a contract with anyone.[223] Without commenting on whether L-3 would or would not eventually be able to prove its claims[224] the court noted that there were only two competitors, or at least very few, in the market, so L-3 would be a likely contract candidate for any contract.[225] Thus, L-3 had "pled a reasonable probability that a foreign country would enter into a contract with it" for refurbishing the P-3 aircraft.[226]

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215. Nano-Proprietary, Inc. v. Canon, Inc., 537 F.3d 394, 403 (5th Cir. 2008) (citing Apani Sw., Inc. v. Coca-Cola Enters., Inc., 300 F.3d 620, 634 (5th Cir. 2002)).

216. *Id.*

217. 52 S.W.3d 711 (Tex. 2001).

218. *Id.*

219. *Nano-Proprietary*, 537 F.3d at 403–04 (emphasis added).

220. *Id.* at 404.

221. No. 3:07-CV-0341-B, 2008 WL 4391020, at *11 n.13 (N.D. Tex. Sept. 29, 2008).

222. *Id.* at *8.

223. *Id.* at *11.

224. *Id.* (quoting Bell Atl. Co. v. Twombley, 550 U.S. 544, 557 (2007) ("[A] well-pleaded complaint may proceed even if it strikes a savvy judge that actual proof of these facts is improbable, and 'that a recovery is very remote and unlikely.'")).

225. *Id.*

226. *Id.*

Nano–Proprietary found its way into a footnote in the case, noting the Fifth Circuit

> belief that there are two lines of thought in Texas appellate courts regarding the elements [for tortious interference with prospective business relationships], with the only difference being in the first element requirement of some courts of only a business relationship and other courts requiring a more formal contractual relationship. As of yet, the Fifth Circuit has not determined the issue of the extent of the required relationship, and this Court finds it unnecessary to do so as well.[227]

VII. TORT OF ECONOMIC DURESS

Schlotzsky's, Ltd. v. Sterling Purchasing and National Distribution, Inc. also raised the seldom-seen claim of economic duress.[228]

Sterling claimed that Schlotzsky's had tortiously interfered with Sterling's contract with various franchisees by compelling those franchisees to terminate their contracts with Sterling and cease doing business with it, in favor of representatives or suppliers whom Schlotzsky's preferred. Sterling claimed that this was a form of economic duress. The Fifth Circuit held that economic duress requires a showing of "(1) a threat to do something beyond the legal right of the party making the threat; (2) an 'illegal exaction or some fraud or deception' occurs; and (3) a restraint arises that is 'imminent' and destroys 'free agency without present means of protection.'"[229]

This was not a case of economic duress, the court held, because Schlotzsky's had the legal right to execute the contracts it did.[230] As the franchisor, "Schlotzsky's had the right to set quality standards for its products," and to "approve all suppliers and distributors of [its] branded products."[231] As a result, it was within Schlotzsky's contractual rights to insist that its franchisees abandon other arrangements and deal exclusively with the applicable, approved distributor for their regions.[232] There was thus no threat or commission of an act that was beyond Schlotzsky's legal rights. Sterling lost, the court concluded, only "what it was always legally vulnerable to losing."[233]

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227. *Id.* at *11 n.13 (citing Apani Sw., Inc. v. Coca-Cola Enters., Inc., 300 F.3d 620, 639–35 (5th Cir. 2007)).

228. Schlotzsky's, Ltd. v. Sterling Purchasing & Nat'l Distrib., Inc., 520 F.3d 393 (5th Cir. 2008).

229. *Id.* at 404 (citing Beijing Metals & Minerals Import/Export Corp. v. Am. Bus. Ctr., Inc., 993 F.2d 1178, 1184–85 (5th Cir. 1993)).

230. *Id.* at 405.

231. *Id.* at 404–05.

232. *Id.* at 405.

233. *Id.*

VIII. CONSPIRACY

The target of the "gripe site" at issue in *Super Future Equities, Inc. v. Well Fargo Bank Minnesota, NA*, also claimed that the defendants had conspired with one another to create the website and publish the defamatory statements.[234]

The Northern District of Texas noted that conspiracy requires: "(1) two or more persons; (2) an object to be accomplished; (3) a meeting of minds on the object or course of action; (4) one or more unlawful, overt acts; and (5) damages as the proximate result."[235] The court added that "[l]iability for conspiracy depends on participation in an underling tort."[236]

Here, the court found that there was evidence that the defendants had been involved in creating and maintaining the "Predatorix" website and creating documents for it, activities from which one could infer conspiracy.[237] According to the court, the "object" of the meeting of the minds was to publish defamatory material about Orix; the "overt act" was the publication of that material on Predatorix; and the "underlying tort" would be libel per se, a cause of action for which damages are presumed.[238]

Interestingly, the court did note that a corporation "cannot conspire with itself, no matter how many of its agents participated in the wrongful action."[239] But this doctrine would not apply if Orix proved that the defendants conspired to form the corporation that committed the acts.[240]

234. 553 F. Supp. 2d 680 (N.D. Tex 2008).

235. *Id.* at 695 (citing Apani Sw., Inc. v. Coca-Cola Enters., Inc., 300 F.3d 620, 635 (5th Cir. 2005) (quoting Massey v. Armco Steel Co., 652 S.W. 2d 932, 934 (Tex. 1983))).

236. *Id.* (citing Tilton v. Marshall, 925 S.W.2d 672, 681 (Tex. 1996)).

237. *Id.*

238. *Id.* at 695–96 (citing Bentley v. Bunton, 94 S.W.3d 561, 604 (Tex. 2003)).

239. *Id.* at 695 n.15 (citing Leasehold Expense Recovery, Inc. v. Mothers Work, Inc., 331 F.3d 452, 463 (5th Cir. 2003)).

240. *Id.* at 696 n.15 (citing C. Albert Sauter Co. v. Richard S. Sauter, Co., 368 F. Supp. 501, 510 (E.D. Penn. 1973) ("The [intra-corporate conspiracy] rule does not apply when, as here, the defendants conspired, prior to the formation of a corporation, to form a corporation for the purpose of injuring the plaintiff.")).