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BUSINESS TORTS

Charles M. Hosch*

THE struggles in all business torts are first to declare, understandably and predictably, where fair competition ends and actionable practices begin—and then, having declared it, to provide an effective remedy that both encourages the maintenance of commercial morality and enhances, or at least does not diminish, efficient and vigorous competition. It is a challenge worthy of the bar’s best efforts, for it embraces every ambition, and every emotion, in American business.

The effort to put structure to this field has been largely ad hoc, partly statutory and partly by common law development, as courts and legislatures have reacted to new and aggressive efforts to seize competitive advantage in a changing economy. As a result, the field of “business torts” is often studied not as a unified field, but as a series of separate—though linked—causes of action, each focused on particular conduct or situations. This article reviews developments during the Survey period in seven such causes of action.

I. FALSE ADVERTISING

The heartbeat of the modern law of false advertising is Section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a), which provides:

(a) (1) Any person who, on or in connection with any 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—

(A) is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with another person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(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 likely to be damaged by such act.¹

A. Labeling

In *IQ Products Co. v. Pennzoil Products Co.*, the plaintiff claimed the defendants' advertising (and, in particular, product labeling) was both literally and impliedly false. The competitors sold competing brands of roadside tire inflators, each being a can of chemicals under pressure. A motorist experiencing a flat tire could pull over to the side of road and insert the nozzle of this can into the tire. A gas propellant inside the can would then spray its contents all around the inside of the tire, reinflating the tire and at the same time forming a seal along the inside that would temporarily patch the leak long enough for the motorist to get to a service station where a better patch could be made or the tire could be replaced altogether. What caused the debate in this case was how to describe the propellant used in the cans. Some such propellants may be flammable or explosive. This is particularly an issue with respect to tires, because repairmen making permanent repairs sometimes weld the wheel rims and if the tire has been re-inflated with a flammable or explosive mixture, an errant spark can cause an explosion.3

In *IQ Products*, the plaintiff claimed that the defendants' "Fix-A-Flat" brand tire inflator was both flammable and explosive, but that the defendants had failed to label it accordingly, as allegedly required by the Federal Hazardous Substances Act ("FHSA"), and had instead falsely advertised that Fix-A-Flat was "nonexplosive."5

Court was not the plaintiff's first resort. In fact, IQ had been complaining about Fix-A-Flat to the Federal Trade Commission ("FTC") and the Consumer Product Safety Commission ("CPSC"), which has been responsible for enforcing the FHSA and its implementing regulations since 1994. The FTC had referred IQ's complaint to the National Highway Traffic Safety Administration, and the CPSC had investigated, but neither they nor any other federal agency took any other action. Eventually the plaintiff filed suit in federal court and asserted that the defendants' failure to label the Fix-A-Flat cans as "flammable" or "explosive," in accordance with what it believed to be the condition of the cans and its interpretation of the FHSA, constituted a violation of Section 45(a).6

The FHSA does not create a private cause of action, however.7 As a result, the United States Court of Appeals for the Fifth Circuit interpreted the plaintiff's action as essentially an attempt to enforce the labeling requirements of the FHSA through a private right of action not permitted under that act, but instead entrusted to the CPSC.8 As a result, it held that the "defendants' failure to label the product in keeping with FHSA regulations, even if true, does not constitute a false or misleading

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3. *Id.* at 370.
6. *Id.* at 373.
7. *Id.* at 374.
8. *Id.*
statement that is actionable under the Lanham Act.”

Regardless of whether the defendants should have labeled their product as “flammable,” or whether IQ was the proper party to bring such a claim, the defendants certainly did label their product as “nonexplosive,” and the plaintiffs alleged the defendants knew this not to be true and in fact to be literally false. If literally false, the court would assume that it actually misled consumers, without requiring any evidence of such deception from the plaintiff. The district court had found the statement that Fix-A-Flat was “nonexplosive” not to be literally false. The court of appeals did not decide whether there truly was a genuine issue of material fact on that point, however, because it concluded that the plaintiff had failed to produce competent summary judgment evidence that it was harmed by the defendants’ allegedly false and misleading advertisement in any event. The court held that it was not an abuse of discretion for the lower court to exclude under Federal Rule of Evidence 702 the testimony of both plaintiff’s expert witnesses on the materiality of the defendants’ false statements (that is, the effect on the buying decisions of the consumers), and the damage to the plaintiff as a result. Both experts had based their conclusions on the combined effect of the “defendants’ failure to label the product as flammable and advertisement of it as non-explosive,” and the court had rejected the first of those claims as a matter of law.

Survey and research data may be challenged some way, but the lack of survey or research data, or at least of some objective data that could be subject to testing and verification, can be fatal to a claim. In IQ Products, neither of the plaintiff’s experts had conducted market or survey research or tests to support their conclusions that consumers would have purchased their client’s tire inflators were it not for the defendants’ allegedly misleading statements about the explosiveness (or non-explosiveness) of the defendants’ own product. The court harkened back to its point from the earlier Pizza Hut case, explaining that “the plaintiff may not rely on the judge or the jury to determine, ‘based solely upon his or her intuitive reaction, whether the advertisement is deceptive.'”

B. STANDING

Standing to bring a Lanham Act claim also came before the Fifth Circuit. In Ford v. Nylcare Health Plans of the Gulf Coast, Inc., a surgeon alleged that a variety of health maintenance organizations (“HMOs”) with whom he had contracted had published deceptive advertisements not concerning him exactly—at least not individually, or by name—but

9. Id.
10. Id. at 375 (citing Pizza Hut, Inc. v. Papa John’s Int’l, Inc., 227 F.3d 489 (5th Cir. 2000)).
11. Id. at 376.
12. Id. at 377.
13. Id. at 376.
14. Id. at 376 n.41 (citing Pizza Hut, Inc., 227 F.3d at 497).
affecting him and decreasing his income nevertheless. He alleged that the HMOs had falsely advertised that their management techniques would improve health care quality and that they would allow patients and doctors to make their own treatment decisions. He alleged that the defendants’ cost control measures undercut quality and rationed medical care, sometimes against the will of doctors and patients, and reduced the incomes of doctors, including his own. He also claimed “that, by attracting new customers to the HMO’s health plans, the allegedly deceptive advertising further reduces doctors’ incomes because it increases the HMO’s market power over the price of medical services.”

That there was a considerable reach between these allegedly deceptive advertisements on one hand, and the allegedly reduced income of Dr. Ford and others like him on the other, was not doubted, and the district court held that Dr. Ford lacked prudential Lanham Act standing to bring those claims under Section 43(a). In a split opinion, the Fifth Circuit affirmed, but held that as a threshold matter—raised sua sponte—Dr. Ford lacked Article III constitutional standing, and accordingly, it need not reach the question of prudential Lanham Act standing at all. In a specially concurring opinion, Circuit Judge Benavides agreed with the result but argued that it would have been preferable to determine the prudential Lanham Act standing issue first, rather than immediately address the Article III standing issue. In any event, however, there was no evidence in the record to establish that the HMO’s restrictive policies caused a reduction in his income, or that those restrictive policies were established or at least made more onerous as a result of increased market power created by acquisition of new customers through the defendants’ allegedly deceptive ads. The causal connection was much too attenuated—a point perhaps highlighted by the defendants’ argument that Dr. Ford’s reduction in income “might have been a result of the fact that ‘he is not employed full time as a physician . . . and spends a significant period of time filming a fishing show for a sports network.’” Therefore, his claim of standing was rejected.

16. Id. at 331.
17. See id. at 337 (Benavides, J., specially concurring) (citing Procter & Gamble Co. v. Amway Corp., 242 F.3d 539 (5th Cir. 2001)). The Fifth Circuit had held that five factors are relevant to the prudential standing analysis: “(1) the nature of the plaintiffs' alleged injury . . . (2) the directness or indirectness of the asserted injury; (3) the proximity or remoteness of the party to the alleged injurious conduct; (4) the speculativeness of the damages claims; and (5) the risk of duplicative damages or complexity in apportioning damages.”
18. The court cited Lujan v. Defenders of Wildlife, 504 U.S. 555, 560-61 (1992), in holding that “the plaintiff must have suffered an ‘injury in fact’—an invasion of a legally protective interest which is (a) concrete and particularized . . . and (b) actual or imminent not conjectural or hypothetical . . . [s]econd, there must be a causal connection between the injury and the conduct complained of . . . [t]hird, it must be likely, as opposed to merely speculative, that the injury will be redressed by a favorable decision.” Ford, 301 F.3d at 332.
19. Id. at 334-39.
20. Id. at 333.
21. Id. at 333-34.
C. Harm

Where an advertisement may not be literally false on its face, but is alleged to be impliedly false or misleading in the context in which it is presented, a plaintiff must still show actual confusion or mistake in the minds of the consumers or that such mistake or confusion is likely to result. In *Woodjoy Enterprises, Inc. v. Wise Cracker, Inc.*, the court held that the plaintiffs’ Lanham Act claims failed where they did not adduce evidence that the defendants had actually misappropriated their goods, that there had been any confusion or mistake in the minds of the consumers, or that the plaintiffs had been harmed.22

D. Misleading Failure to Disclose

In some circumstances, what has gone before, and is not clarified now, may give rise to Section 43(a) claims as well. In *Decorative Center of Houston, LP v. Direct Response Publications, Inc.*,23 a publisher wrote to a decorative center’s 131 tenants, soliciting them to place ads in a directory the publisher was proposing to publish. It seems the publisher had published two authorized directories for the decorative center in each of the two years before this, and according to the plaintiff, it now solicited the same tenants for a new directory. The publisher did not mention or distinguish this request from similar ones authorized in prior years by the building’s owner, nor did it mention that its contract had been bought out, that it was no longer authorized to publish the center’s official directories, and that it had agreed not to solicit tenants for advertising for the “Decorative Center Houston 2002 and Decorative Center Houston 2003 Directories.”24 Even though the solicitations were not literally false, the building owner claimed that its tenants were misled into believing that the defendant’s new directory was authorized in the same manner as the building’s own directory had been in the two preceding years, because the defendant failed to inform the tenants that it was no longer the publisher of the building’s authorized directory.25

Specifically, the building’s owner alleged that the defendant misled the tenants through two distinct sets of acts. One was sending solicitations directly to all 131 tenants, stating “‘[o]ur records currently show [certain] information’ about the tenant,” and failing to explain that the publisher was no longer authorized to publish the directory.26 Interestingly, the court observed that this claim seemed to invoke each of the two different Section 43(a) theories, both “false advertising (typically asserted under 15 U.S.C. § 1125(a)(1)(B)) and false designation of origin (generally pur-

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24. *Id.* at 722-23.
25. *Id.* at 723.
26. *Id.* at 726.
sued under 15 U.S.C. § 1125(a)(1)(A)).

As to the false advertising claim, while the statements in the publisher’s solicitation were not literally false, it did appear to the court, construing the allegations in the light most favorable to the nonmovant, that the solicitation could be construed as misleading with consequences of financial injury affecting interstate commerce. Accordingly, the court could not conclude as a matter of law that the owner would be “unable to establish any set of facts that would constitute a viable false advertising claim,” and though it warned the damages might turn out to be insubstantial, it could not dismiss as a matter of law the false advertising claim.

With respect to the false designation of origin claim, the court reviewed Fifth Circuit authority and concluded that the circuit had “not specifically addressed a false designation of origin claim.” It appeared to have tracked its required proof for a false advertising case, and one case from the Eastern District of Texas had adopted a formulation of the Seventh Circuit, but the court “in an exercise of caution” decided to rely on the elements of a § 1125(a)(1)(A) claim as articulated in King v. Ames, rather than adopt another circuit’s formulation of the elements of false designation of origin claims. Accordingly, the court reviewed the classic statement of false advertising, concluded that the plaintiff had met its pleading burden, and denied the motion to dismiss.

The court also noted certain “unspecified, generalized allegations” that the defendant had “made false or misleading oral statements to some tenants, which caused some” of the tenants to place ads in the defendant’s directory thinking that they were advertising in the plaintiff’s directory (after which they would not want to place ads in the plaintiff’s directory). The allegations of these oral statements did not include their time, place or the content, or identify the speakers or recipients, and so were held insufficient to support the plaintiff’s Lanham Act claim. Nevertheless, the court concluded that it was premature on a motion to dismiss to make a conclusive determination with respect to those statements, and that the issue should be addressed by a summary judgment motion or a trial.

E. Dependence on Other Claims

Where false advertising claims depend on other claims, the loss of the other claims will necessarily doom the false advertising claims as well. In

27. Id. at 727.
28. Id. at 728.
29. Id. at 728 n.15.
30. Id. at 729.
32. Decorative Ctr., 208 F. Supp. 2d at 729-30 (citing King v. Ames, 179 F.3d 370, 373-74 (5th Cir. 1999)).
33. Id. at 730.
34. Id. at 726.
35. Id. at 727.
Wood Arts Golf, Inc. v. Callaway Golf Co.,\textsuperscript{36} Callaway placed a nameplate covering the weight cavity on the golf irons of its club design. Plaintiff held a patent on a certain decorative inlay and brought a variety of causes of action against Callaway including patent infringement, false advertising and unfair competition. The court held that the nameplate did not serve the same function as the plaintiff’s patented decorative inlay and as such, dismissed its infringement claim under the doctrine of equivalents.\textsuperscript{37} Because the plaintiff’s claim of unfair competition was wholly dependent upon a finding of patent infringement, it was dismissed.\textsuperscript{38}

F. Survey Evidence

The capacity of survey evidence to support false advertising claims continued to be a fruitful source of dispute. In \textit{KIS, S.A. v. Foto Fantasy, Inc.},\textsuperscript{39} the parties competed in the photo booth industry. The plaintiffs alleged that by placing sketches of Tom Cruise and Marilyn Monroe bearing the phrase “Scan in Your Favorite Celebrities” outside their booths, the Defendants had violated the Lanham Act because it created confusion as to the “affiliation, connection, or association” of these celebrities with the defendants’ booths, and constituted false advertising by implying that they endorsed the defendants’ booths.\textsuperscript{40} The plaintiffs presented survey evidence to support their claim that this confusion led users to use the defendants’ booths more than they used the plaintiffs.’ The defendants moved to strike the survey evidence, claiming that the survey universe did not mirror the actual consumers of the defendants’ products, the expert’s questions were improperly leading, and the expert only showed distorted pictures rather than the actual booth.\textsuperscript{41} Under the circumstances, however, the court concluded that the universe was large enough for the results to be admissible, the questions were not too leading, and the pictures did not appear to the court to distort the machines. Accordingly, the defendants’ criticisms went only to the appropriate weight to be given to the survey, and not to admissibility itself.\textsuperscript{42}

II. TORTIOUS INTERFERENCE

The difference between tortious interference with a contract which already exists, and tortious interference with what is alleged to be a prospective contract or a favorable business relationship, is of enormous significance.\textsuperscript{43} Where a contract presently exists, the competition for the value represented by that contract has ended in favor of the contracting

\textsuperscript{37} \textit{Id.} at 471.
\textsuperscript{38} \textit{Id.}
\textsuperscript{40} \textit{Id.} at 969.
\textsuperscript{41} \textit{Id.} at 969, 971.
\textsuperscript{42} \textit{Id.} at 973.
\textsuperscript{43} See generally Wal-Mart Stores, Inc. v. Sturges, 52 S.W.3d 711 (Tex. 2001).
parties, and the stability of that relationship from third parties remains to be protected. This is not the case with respect to "prospective" contracts, however, where there may still be room for competition. "Tortious interference" may therefore mean two very different things, according to the nature of the thing supposed to have been interfered with, but the cases often present mixed fact patterns in which the challenged conduct is alleged to have interfered both with existing contracts and with contracts yet hoped for.

A. Stating a Claim

The landmark case of Wal-Mart Stores, Inc. v. Sturges established that, in order to support a claim for tortious interference with prospective contracts or favorable business relationships, plaintiffs must show commission of an independent, tortious, or wrongful act. Business or commercial disparagement might constitute such an independent tort. At least one court refused to discount that possibility "in the highly deferential context of a fraudulent joinder inquiry," and hence, concluded that the removing defendants had not established there was "absolutely no possibility that [the plaintiff] would be able to establish a cause of action [for tortious interference] against [the allegedly fraudulently-joined defendant] in state court."45

In Walsh v. America’s Tele-Network Corp., long distance users brought suit against a tele-network company alleging RICO claims as well as tortious interference and related claims arising generally from claims of over-billing. The court held that the long distance users failed to state RICO claims against the network companies because they had not alleged that the "association in fact" enterprise had an existence separate and apart from the alleged pattern of racketeering. The tortious interference claims, however, did appear to state a cause of action against defendant Integretel. The court concluded that the plaintiffs had adequately pled that a contract subject to interference existed (called the "ATN tariff"), that the defendant Integretel determined the fees that ATN’s customers (including the plaintiffs) should be billed, that Integretel willfully and intentionally interfered with the contract by unlawfully over-billing the plaintiffs in excess of the ATN tariff, and that this over-billing was the proximate cause of damage to the plaintiffs. This was held sufficient to state a cause of action.48

Similarly, in Decorative Center of Houston, LP v. Direct Response Publications, Inc., the court addressed the question of what would now con-
stitute an independent tort in the context of alleged interference with prospective contracts. In that case, an independent publisher of directories—which had previously been authorized to publish the official directory of the Houston Decorative Center—was no longer authorized; but according to the plaintiff, the publisher solicited the tenants anyway to advertise in a new directory, implying business as usual. The Decorative Center alleged that the publisher’s solicitations tortiously interfered with the Decorative Center’s own prospective contracts, asserting that but for these solicitations, there was “a reasonable probability that the [Decorative Center] and each of its 131 tenants would have entered into a contractual relationship for each tenant’s advertising” in Plaintiff’s own [authorized] Building Directory.”\(^{51}\) The court held that the building owner sufficiently alleged a reasonable probability for the likelihood of a contract—a reasonable probability, not a reasonable certainty as the defendant asserted, being all that is required.\(^{52}\) Following *Wal-Mart Stores, Inc.*, the court held that lack of justification and privilege are no longer required elements to be proven in a claim of tortious interference with prospective business relations.\(^{53}\)

The court observed, however, that to maintain its cause of action the plaintiff must demonstrate that the defendant “committed ‘an independently tortious or unlawful act that prevented the relationship from occurring.’”\(^{54}\) Here the court warned that a state law unfair competition claim might not be sufficient to constitute the independent tort or unlawful act necessary, since that claim itself contains the element that there be an underlying tort or illegal act; the court did not reach “[t]he viability of [the] theory” that an “alleged violation of the Lanham Act (a statutory claim) [could be] the independent unlawful act.”\(^{55}\) The court was reluctant to grant a motion to dismiss, but “in order for the parties to more precisely join issue and to ready this case for further proceedings,” the court ordered the plaintiff promptly to file a supplement to its amended complaint to clarify the precise theory of its claim for tortious interference for prospective business relations.\(^{56}\)

In *Apani Southwest, Inc. v. Coca-Cola Enterprises, Inc.*,\(^{57}\) plaintiff sold bottled water in facilities owned and operated by a city – that is, until the city granted a competitor exclusive rights to sell bottled water on its property for ten years. In addition to claiming that this constituted an illegal combination or conspiracy in violation of the antitrust laws, the plaintiff alleged claims of tortious interference with existing and prospective business relationships.\(^{58}\) Interestingly, the court seemed to distinguish be-

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51. *Id.* at 732.
52. *Id.* at 733.
53. *Id.* (citing *Wal-Mart Stores, Inc.*, 52 S.W.3d at 726-27).
54. *Id.* at 734.
55. *Id.*
56. *Id.*
57. *Apani S.W., Inc. v. Coca-Cola Entrs., Inc.*, 300 F.3d 620 (5th Cir. 2002).
58. *Id.* at 624.
between a cause of action for interference with existing or prospective contracts, and interference with existing or prospective business relationships.\(^{59}\) In this case, it viewed the plaintiff's relationship with the city as a favorable business relationship, as opposed to being the subject of an existing contract, even an at-will one. Turning first to the cause of action for tortious interference with an existing business relationship, the court cited a 1978 state appellate court case as authority to identify the elements as "(1) unlawful actions undertaken without justification or excuse; (2) with intent to harm; and (3) actual damages."\(^ {60}\) It added that the plaintiff did not need to prove the existence of a valid claim, but "only that the defendant's interference was motivated by malice."\(^ {61}\) Here, because the court concluded that the defendant's actions did not violate the antitrust laws and that "entering into an exclusive agreement, in and of itself, does [not] constitute an unreasonable restraint of trade," it affirmed the trial court's summary judgment.\(^ {62}\)

Turning then to the claim for tortious interference with prospective business relations, the court interestingly observed that the Texas Supreme Court had "not yet set out all the elements of a [claim of] tortious interference with a prospective business contract or relations claim," and that the appellate courts had not been uniform in characterizing its elements.\(^ {63}\) (This might be a seemingly curious claim, in view of the holdings in Wal-Mart Stores, Inc. v. Sturges, but this was not the only court to reach the same conclusion; the Court of Appeals for the Fourteenth District concluded the same in Baty v. ProTech Insurance Agency.)\(^ {64}\) Some, for example, required a plaintiff merely to show that it was "reasonably probable" that the parties would have entered into a business or contractual relationship, as opposed to "reasonably certain."\(^ {65}\) In any event, however, the court observed that in Wal-Mart Stores, Inc. v. Sturges, the Texas Supreme Court had made clear that "to establish liability for interference with a prospective contractual or business relation the plaintiff must prove that it was harmed by the defendant's conduct that was either independently tortious or unlawful," and that "by independently tortious" that court meant "conduct that would violate some other recognized tort duty."\(^ {66}\) The court held this alleged conduct was not independently tortious or unlawful.\(^ {67}\) Furthermore, it did not violate the

59. Id. at 634.
60. Id. at 633-34 (citing Morris v. Jordan Fin. Corp., 564 S.W.2d 180 (Tex. Civ. App.—Tyler 1978, writ ref'd n.r.e.)).
61. Id. at 634 (citing CF&I Steel Corp. v. Pete Subett & Co., 623 S.W.2d 709, 715 (Tex. Civ. App.—Houston [1st Dist.] 1981, writ ref'd n.r.e.)).
62. Id. at 634. (In light of the previous holdings in the opinion, the omission of the word "not" in that sentence in the reported opinion appears to have been a typographical error.)
63. Id.
65. Apani S.W., Inc., 300 F.3d at 634.
66. Id. at 634-35 (citing Wal-Mart Stores, Inc., 52 S.W.2d at 713).
67. Id. at 635.
antitrust laws, or establish claims as asserted under the Texas constitution or the municipal bidding statute.\textsuperscript{68} Accordingly the trial court's judgment was affirmed.\textsuperscript{69}

In \textit{Baty}, the court held that, considering the teachings of \textit{Sturges} and other recent cases, the elements of tortious interference with prospective business relationships appear to be:

1. a reasonable probability that the plaintiff would have entered into a business relationship;
2. an independently tortious or unlawful act by the defendant that prevented the relationship from occurring;
3. the defendant did such act with a conscious desire to prevent the relationship from occurring or the defendant knew the interference was certain or substantially certain to occur as a result of the conduct; and
4. the plaintiff suffered actual harm or damages as a result of the defendant's interference.\textsuperscript{70}

B. STANDING

Standing was an issue in this year's tortious interference actions as well. In \textit{Friends for American Free Enterprise Association v. Wal-Mart Stores, Inc.},\textsuperscript{71} an association of manufacturer's representatives brought suit against Wal-Mart for tortious interference, on behalf of the association's individual members. In this case, the court held that the association lacked standing to pursue these claims on behalf of the individual members. The individuals would have to participate directly themselves.\textsuperscript{72}

C. PREEMPTION

Preemption was also an issue this year. In \textit{Kaufman v. Allied Pilots Association},\textsuperscript{73} the airline pilots association had held a work slow down (sometimes called a "sick out"). The airline passengers' class action was brought against the union for state law tortious interference with contract. The court held that the state law claims of tortious interference with contract were "Garmon preempted."\textsuperscript{74} In \textit{Alpha/Omega Insurance Services, Inc. v. Prudential Insurance Co. of America},\textsuperscript{75} however, the court held that a remedy provided by the State Insurance Code did not subsume a claimant's conversion and tortious interference claims.

\begin{itemize}
\item \textsuperscript{68} \textit{Id.}
\item \textsuperscript{69} \textit{Id.}
\item \textsuperscript{70} \textit{Baty}, 63 S.W.3d at 860.
\item \textsuperscript{71} \textit{Friends for Am. Free Enter. Ass'n v. Wal-Mart Stores, Inc.}, 284 F.3d 575 (5th Cir. 2002).
\item \textsuperscript{72} \textit{Id.} at 578.
\item \textsuperscript{73} \textit{Kaufman v. Allied Pilots Ass'n}, 274 F.3d 197 (5th Cir. 2002).
\item \textsuperscript{74} \textit{Id.} at 204.
\item \textsuperscript{75} \textit{Alpha/Omega Ins. Servs., Inc. v. Prudential Ins. Co. of Am.}, 272 F.3d 276 (5th Cir. 2002).
\end{itemize}
D. Contracts Subject to Interference

Tortious interference claims continue to be mixed with claims involving alleged breach of noncompetition covenants. In *Louisiana Transportation, Inc. v. Race*, a noncompetition covenant was held to have been unenforceable since the only consideration for it offered to an at-will employee was employment and/or continued employment. Because the noncompetition contract was thus unenforceable, the court held that it was not a contract properly subject to a claim of tortious interference, and hence the defendant could not have tortiously interfered with it.76

Similarly, in *Olander v. Compass Bank*, a bank employer had included noncompetition provisions in an employee’s stock option agreement. These provisions were held not to be ancillary to an otherwise enforceable agreement under Texas law, and as a result, the former employer’s application for a preliminary injunction was denied.78

E. Statute of Limitations

The statute of limitations for tortious interference is two years in Texas, but there is sometimes dispute as to when the statute starts to run. In *Collins v. Federal Home Loan Mortgage Corp.*, an employee’s claims of slander and tortious interference were held barred by the statute of limitations because she did not specify the date on which the statements were made and she failed to raise the discovery rule. The court rejected her argument that her claim for tortious interference was actually a claim for conspiracy to commit tortious interference and that hence the statute of limitations did not begin to run until after the “last overt act” with respect to the conspiracy.80 Significantly, the court repeated its holding from an earlier case rejecting the “continuing tort theory” that the statute begins to run when the tortious acts cease.82 Instead, the court held that “the statute of limitations begins to run when the plaintiff suffered legal injury.”83 In any event, however, the court also concluded that the only allegedly tortious act put forth was a statement by her former employer that one of the sales she had been handling would be given to another employee.84 Similarly, in *Snell v. Sepulveda*, the court held that the statute of limitations began running on the actual date the allegedly tortious conduct occurred, since the “conduct was easily discoverable and was not
fraudulently concealed.”

F. SUFFICIENT EVIDENCE

Speculation is not enough, and sufficient evidence is always required. In *U-Fuel, Inc. v. Southwest Research Institute*, a former customer brought suit against a research institute alleging that the research institute had conspired with a competitor, disclosed the former customer's trade secrets to the competitor, and tortiously interfered with the former customer's relationships. The action was dismissed, however, as the licensor's evidence that this had actually occurred amounted merely to speculation and nothing more. Similarly, in *Willis v. Sweetheart Cup*, a dismissed employee sued the former employer for alleged retaliation for filing an EEOC claim, but the tortious interference claim was dismissed for want of evidence that would support the allegations.

In *Finlan v. Dallas Independent School District*—which was but one segment of a long history of litigation among these parties—the Dallas Independent School District had brought suit against several activists for a variety of activities, including what the District characterized as tortious interference with the District's relationship with the Goldman Sachs & Co. investment firm, which was involved in a major bond issue. The activists counterclaimed, mainly on claims related to malicious prosecution but also for claims of tortious interference. The court upheld summary judgment for the District, however, holding that the activists had failed to show any summary judgment evidence that the District or the other defendants had “interfered with or damaged any specific contract, prospective contract, or relationship.”

G. BREACH OF OWN CONTRACT

It is not common, but occasionally breach of one's own contract may be held to constitute tortious interference with other agreements or relationships. *Consortium Information Services v. National Information Services* presented both breach of contract and tortious interference claims. In this case, the court agreed that breach of contract may constitute tortious interference when it has the purpose and effect of preventing the other party from fully enjoying its other business relationships, though it found no summary judgment evidence that the alleged interference had caused the plaintiff to lose any customers or other business and hence no

89. Id. at 412.
H. Regulatory Issues

Tortious interference claims may sometimes be entangled in statutory or regulatory environments. For example, in *Butnaru v. Ford Motor Co.*, the plaintiff was a potential (but disappointed) buyer of a car dealership. Ford claimed a contractual right to exercise a right of first refusal to buy a dealership rather than have it sold to another dealer and exercised that right in this instance. While the issue was pending, however, the Texas Motor Vehicle Commission Code was amended to provide that a manufacturer could not prohibit or prevent a dealer from transferring a dealership to a qualified applicant. This presented a question of interpretation of the Texas Motor Vehicle Commission Code, and the manufacturer asserted that the plaintiff thus had to first exhaust its administrative remedies before the Texas Motor Vehicle Commission before it might approach the court. The Texas Supreme Court held that the tortious interference claims asserted were not governed by the Motor Vehicle Code, however, and thus fell outside the Commission's exclusive jurisdiction, so the plaintiff would not have to exhaust its administrative remedies first. But the Motor Vehicle Commission did have primary jurisdiction over the claim, as it raised a question of construction of the Code, which was supposed to be within the Commission's special competence and expertise. Therefore, the trial court was directed to abate the suit and suspend finally adjudicating the tortious interference and declaratory judgment claims until the Commission had had a reasonable opportunity to act on the matter.

*Richter v. Wagner Oil Co.* presented another familiar fact pattern. In this case plaintiff Richter had approached a company called Duer Wagner & Co. with some ideas he had for a natural gas project involving Duer Wagner's reserves. After a confidentiality agreement was signed, Duer Wagner was sold and became Wagner Oil Company, and both it and the plaintiffs began to compete over the right to purchase certain reserves from Exxon. Wagner prevailed in that competition. When the plaintiffs brought suit alleging breach of the confidentiality agreement, summary judgment was affirmed, as the information allegedly used was found to be outside the scope of the confidentiality agreement. Summary judgment was also affirmed as to the claim of tortious interference with the plaintiffs' prospective business relationships with respect to the new projects because neither the plaintiffs nor the defendants were entitled to be declared the successful bidder on the new projects, and defendant Wagner's purchase was determined to be a successful exercise of its own rights.

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91. *Id.* at *3.
93. *Id.* at 208.
95. *Id.* at 898.
Motivations beyond mere commercial advantage were alleged in *Suprise v. Dekock*,\(^96\) which presented the interesting question of whether an action could lie for tortious interference with the use and enjoyment of real estate. Here, Mr. and Mrs. Suprise had bought a tract of land for hunting, investment, and their children. According to their petition, their neighbors were none too pleased and began a course of action to harass the Suprises and convince them to sell out. The petition alleged that the neighbors posted the land and called prospective buyers, interfered with the placement of deer blinds, intentionally scared the game, made personal threats to hunters, used racial epithets concerning the Suprises' ethnicity, and threatened to "game fence him out . . . ruin his name and make him 'eat' his investment."\(^97\) According to the petition, the net and intended result of this was that the plaintiffs were forced to sell out quickly and for less than fair market value. The court held that the trial court erred in granting summary judgment against this claim, as the pleadings set out both causes of action and were both recognized under Texas law.\(^98\)

Before there may be tortious interference with a contract (as opposed to tortious interference with favorable business relationships or with prospective contracts), there must first be a contract subject to interference. This was an issue in *Oakrock Exploration Co. v. Killam*,\(^99\) where the court determined that an oil company's letters to mineral owners lacked essential terms of an oil and gas lease and therefore did not sufficiently identify the subject matter of an alleged agreement between the parties. As a result, the letters were not considered enforceable contracts as a matter of law and claims of tortious interference with them were rejected. (The jury was not asked in this case whether there was interference with prospective contracts.)

Tortious interference cases are often intensely personal. In *Pabich v. Kellar*,\(^100\) the litigants had worked together in several business ventures and had—before the embezzlement—been close friends. The immediate issue was whether, by signing a certain settlement agreement in Michigan, the sole shareholder of a closely held corporation could be held personally liable to the former shareholder for tortious interference. The court held that he could not. The sole shareholder was not a party to, nor did he sign, the agreement in his individual capacity but only as president of the corporation. There was no evidence that he used the corporation to perpetrate a fraud or that he was its alter ego.\(^101\) He might still have been individually liable for the corporation's tortious conduct if he knowingly participated in it or had actual or constructive knowledge of it, but there

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97. *Id.* at 379.
98. *Id.* at 381.
101. *Id.* at 508.
was no finding that the corporation had committed a tort or done any-
thing wrong. According to the court, the court reversed the lower court judg-
ment, and rendered judgment for the defendant.

I. Justification and Privilege

Under Texas Beef Cattle Co. v. Green, a party is privileged to inter-
fere with the contractual relations of another if it acts in the bona fide
exercise of its own rights, or the interfering party has an equal or superior
right in the subject matter to that of the party to the contract. Justifica-
tion is established as a matter of law when the acts a plaintiff claims con-
stitute interference are done in the defendant’s exercise of its own
contractual rights, regardless of the defendant’s motives. Indeed, a
colorable right asserted in good faith may be privileged, even if it turns
out to have been mistaken.

Physicians, Surgeons & Hospitals Professional Services v. Texas Hospi-
tal Insurance Exchange was another such example. The plaintiff was
an insurance agency that wished to sell an insurance policy to McKenna
Hospital, an insured member of the defendant Exchange. The agreement
by which the plaintiff insurance agency was authorized to solicit this work
limited commissions to a certain amount, but—apparently without in-
forming the hospital—the plaintiff proposed a policy that contained a
substantial additional commission, which would effectively double the
cost of the insurance to the hospital. The defendant Exchange’s president
was informed, however, and he in turn informed the hospital, which de-
clined the offer and bought its insurance somewhere else. Summary
judgment was upheld, as the court held that recounting truthful informa-
tion would not constitute improper interference, and in any event, the
nature of the relationship between the hospital and the president of the
Exchange was that of insurer/insured, principal/agent, and also company/
owner and one of its owners. Accordingly, the president was held to
have been “justified in sharing material and truthful information.”

Hospital privileges are another common source of litigation. In Patel v.
Midland Memorial Hospital and Medical Center, a doctor complained
that the summary suspension of his clinical privileges constituted tortious
interference with contractual relations, defamation, breach of contract,
and a violation of his due process rights. Because the pre-suspension pro-

102. Id.
103. Id.
105. Id. at 211.
106. Id.
00373-CV (Tex. App.—Austin July 26, 2002, no pet.) (not designated for publication), 2002
Tex. App. LEXIS 5434.
108. Id. at *2-3.
109. Id. at *8.
110. Id. at *9.
cess was not practical, however, and the hospital showed it had no choice but to act quickly to protect patients' safety, the court held that the hospital's actions did not constitute tortious interference.\(^{112}\)

Justification and privilege were significant, but perplexing, issues in Baty v. ProTech Insurance Agency.\(^{113}\) In Baty, four employees resigned from an insurance agency and formed their own. Four insurance companies, who enjoyed agency relationships with the former employer and had insured a number of customers, also granted agency appointments to the new agency. After settling contract (but not tort) claims against the former employees, their former employer sued the four insurance carriers for tortious interference with existing contracts and prospective business relationships, business disparagement, and civil conspiracy, among other claims.\(^{114}\)

The claims of tortious interference with existing contracts were dismissed based on the carriers' affirmative defense of justification. In this case, the court agreed that in granting the agency appointments, the insurance companies were exercising their own contractual rights. Not only did they have the right to appoint their own insurance agents, they also (and "more importantly," said the court) had the obligation to honor their insureds' wishes to change agents from the former employer to the new agency, and hence their appointments were justified as a matter of law.\(^{115}\)

The carriers' justification defense with respect to the claims of tortious interference with prospective business relationships, however, was more complex, and required examination and application of the principles established in the Texas Supreme Court's early 2001 decision in Wal-Mart Stores, Inc. v. Sturges.\(^ {116}\) In Wal-Mart, the court had held that to recover on a claim for tortious interference with prospective business relationships (as opposed to interference with contracts already made), a plaintiff must establish that the defendant's actual conduct would be independently actionable under a recognized tort.\(^ {117}\) In this analysis, the Texas Supreme Court reasoned that because neither of two parties can be said to be more justified or privileged than the other when both are competing for a goal to which neither is yet entitled, "[j]ustification and privilege are not useful concepts in assessing interference with prospective relations, as they are in assessing interference with an existing contract."\(^{118}\) Accordingly, the court of appeals, in Baty, concluded that the defenses of privilege and justification would neither be required nor available actions for tortious interference with prospective relationships, except of course to

\(^{112}\) Id. at 346-47.


\(^{114}\) Id. at 846.

\(^{115}\) Id. at 857.


\(^{117}\) Id. at 726.

\(^{118}\) Id. at 717.
the extent they would apply in assessing the tortiousness of the underlying conduct, which was said to constitute the "independently tortious conduct" giving rise to the claim for tortious interference with prospective relationships.\textsuperscript{119}

If privilege or justification was not an issue with respect to tortious interference with prospective relationships, the question of whether the insurance companies actually had interfered certainly was. The plaintiff claimed that the fact that the insurance companies made it possible for the new agency to offer policies from them made it easy for the new agency to target their former employer's customer base. Following a line of Texas cases, however, the court of appeals held that merely participating in a transaction and accepting the fruits of a broken contract—even knowing that the former employees would be attempting to move a substantial amount of the carriers' business from the old agency to the new one—does not constitute knowing inducement required to impose liability for tortious interference.\textsuperscript{120} The court did reverse and remand with respect to one carrier, which had moved for summary judgment on the ground that it could not be liable for interference with what were in fact its own contracts and relationships, holding that the real issue lay not in those relationships but rather in those between the former employer and its customers.\textsuperscript{121}

There was an additional claim of significance. The former employer also alleged that the carriers had induced two of the former employees to breach their fiduciary duties to the former employer. With respect to that claim, the court recalled that where a third party knowingly participates in the breach of a duty of a fiduciary, it becomes a joint tortfeasor, and that "[p]rivileges to this are rare; business competition does not give rise to one."\textsuperscript{122} The court also recalled, however, the \textit{Texas Beef Cattle} holding that this rule does not apply where the third party is doing that which he has a legal right to do\textsuperscript{123} and concluded that, because in this case the insurance carriers "were contractually obligated to honor any change in agency appointments submitted by their insureds," their actions were indeed privileged.\textsuperscript{124}

Where a legal right does not so clearly exist, however, justification or privilege may be a much more difficult issue to sustain. In \textit{Vingcard A.S. v. Merrimac Hospitality Systems, Inc.},\textsuperscript{125} the jury found that a developer had tortiously interfered with each of four contractual relationships between a manufacturer and various customers. The developer claimed that, because of the manufacturer's prior breach, the developer was enti-

\textsuperscript{119} Baty, 63 S.W.3d at 858.
\textsuperscript{120} Id. at 861.
\textsuperscript{121} Id. at 862-63.
\textsuperscript{122} Id. at 863 (quoting \textsc{Restatement (Second) of Agency} § 312 cmt. a (1958)).
\textsuperscript{123} Id. (citing \textit{Tex. Beef Cattle Co.}, 921 S.W.2d at 211).
\textsuperscript{124} Id. at 864.
tled to terminate the contract between it and the manufacturer and that whatever flowed from that could not be tortious or wrongful. The court observed, however, that the developer's argument depended upon a finding that the manufacturer had earlier breached its agreement with the developer, and since the court of appeals upheld the jury's finding against the developer in that respect, the court rejected the developer's claim that its later actions could not constitute tortious interference.126

J. TRADE SECRETS AND CONFIDENTIAL AND PROPRIETARY INFORMATION

Issues relating to trade secrets and confidential and proprietary information arose most commonly in connection with disputes between former employers and employees. For example, in Olander v. Compass Bank,127 the court held that the fact that, since starting a new job with a new bank, a banker had been approached by and made loans to customers with whom he had worked at his former job and had drawn on his experience in his new job, did not establish that he had disclosed or used confidential information of his prior employer.128 Credit reports and other records of the former employer's customers were readily available and thus not proprietary, and the employee would follow his new employer's procedures and guidelines and investigate credit conditions anew anyway.129

Trade secret issues also arose in discovery disputes in personal injury cases. For example, in In re Continental Tire North America, Inc.,130 a plaintiff representative in a personal injury case sought leave for her attorney and an expert to enter, inspect, and photograph the defendant tire manufacturer's factory where the allegedly defective tire had been manufactured. The manufacturer strongly objected, however, arguing that such an inspection would reveal trade secrets and that the plaintiff had not met her burden of establishing she was entitled to discovery of them. The trial court agreed to permit the inspection, but the appellate court disagreed and conditionally granted a writ of mandamus (conditioned, of course, on the trial court not withdrawing its order granting the plaintiff's motion).131 The court reviewed Texas Rules of Evidence 507, as interpreted by the Texas Supreme Court in In re Continental General Tire, Inc.,132 to provide that once the party resisting discovery establishes that the information is a trade secret, the burden shifts to the requesting party to establish that the information is necessary for a fair adjudication of the claims.133

126. Id. at 867.
128. Id.
129. Id. at 856.
131. Id. at 886.
133. Id. at 610.
Sometimes the cases involve both personal injury and employment relationship issues. In *IBP, Inc. v. Klumpe*, an employee sued the defendant for injuries incurred in operating a meat-cutting machine. The defendant had developed guidelines for its operations, which it regarded as confidential. The employee's stepfather was also an employee of the defendant and had agreed not to disclose these guidelines. The stepfather referred his stepson to an attorney, who in turn referred him to a law firm, and in response to a discovery subpoena from the plaintiff's law firm, provided the plaintiff's law firm with a copy of the guidelines. In this action, the court held that once they had the guidelines, disclosing them in response to the subpoena was absolutely privileged, but there appeared to be fact issues as to whether the stepfather/employee had acquired them lawfully in the first place, or whether he and the attorney conspired to give them to the law firm representing his stepson.135

The year also saw confirmation that the dots must be connected: evidence, not mere inferences resting ultimately on speculation, is required to sustain a claim for misappropriation of trade secrets and other business torts. In *U-Fuel, Inc. v. Southwest Research Institute*, the court accepted the United States Magistrate's recommendations and dismissed by summary judgment the plaintiff's claims for misappropriation of trade secrets, as well as claims of tortious interference and conspiracy. In that case, the plaintiff claimed that Southwest Research Institute breached its testing, listing, and labeling agreement with the plaintiff by disclosing its trade secrets to (and conspiring with) a third party. The magistrate judge found, and the district court accepted, that even if the plaintiff's technology was unique and the third party used it in order to build its product, that would not be evidence that the Institute had disclosed the plaintiff's trade secrets to the third party, especially as there were indications that the plaintiff had previously disclosed them directly and that it was possible to make such a product without using the proprietary technology.137

Similarly, the magistrate judge found, and the district court agreed, that even if the Institute was aware of the nondisclosure provisions of the third party's agreement with the plaintiff, the mere fact that the Institute tested the third party's product was not evidence that the Institute had induced the third party to breach that agreement.138 Quoting from the famous *Texaco v. Pennzoil* case the court held that:

> ... a necessary element of the plaintiff's cause of action is a showing that the defendant *took an active part in persuading a party to a contract to breach it*. Merely entering into a contract with a party with

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135. Id.
137. Id. at *4-5.
138. Id.
the knowledge of that party's contractual obligations to someone else is not the same as inducing a breach . . . . It is necessary that there be some act of interference or of persuading a party to breach, for example by offering better terms or other incentives, for tort liability to arise.\footnote{Id. at *6 (citing Texaco v. Pennzoil, 729 S.W.2d 768, 803 (Tex. App.—Houston [1st Dist.] 1987, writ ref'd n.r.e)).}

Further, the court found no fact issue with respect to whether the defendant had conspired with the third party by aiding and abetting its alleged breach of the licensing agreement with the plaintiff as the plaintiff claimed. Instead, the court pointed out that in Texas, civil conspiracy requires specific intent of the harm or wrongful conduct—not merely proof that the party intended to engage in the conduct that resulted in the injury—and found the summary judgment evidence insufficient to raise a fact issue that the defendant possessed the requisite intent to participate in a conspiracy with the third-party to injure the plaintiff.\footnote{Id. at *7.}

The aftermath of a terminated license agreement, or even an expired one, is not always pleasant. In \textit{Holloman v. O. Mustad & Sons (USA), Inc.},\footnote{\textit{Id.} at 459.} two agreements related to the manufacture and sale of unpatented fishhooks designed by the plaintiff came to an end. The plaintiff/inventor claimed that the defendant/manufacturer breached the agreements by continuing to sell the designs without paying him royalties and, in addition, breached a fiduciary duty and misappropriated his trade secrets. Under Texas law, however, the court held that the plaintiff must show the alleged "trade secret was acquired through a breach of a confidential relationship or discovered by improper means," and in this case the court found that no "confidential relationship existed between the parties."\footnote{Id. at 460.} No express confidentiality agreement existed; the plaintiff produced no summary judgment evidence that he asked the defendant to keep the designs confidential or that he informed the defendant that he had submitted the designs in confidence; indeed, he appeared not to believe he needed to keep these designs secret. That there was no showing the plaintiff "took any precautions to keep the hook designs . . . out of the public domain" seemed especially significant given the apparent ease with which knock-offs could be made, and from all these the court concluded that no confidential relationship existed.\footnote{Id.} Hence, there was no misappropriation of trade secrets.\footnote{\textit{Id.}}

\section*{K. Covenants Not to Compete}

The statute governing this area, sections 15.50-15.52 of the Texas Business and Commerce Code\footnote{TEX. BUS. \\ \\ & COM. CODE ANN. §§ 15.50-15.52 (Vernon Supp. 2001).} and the seminal case regarding its interpre-

\footnotesize{\textit{Id.} at 459.}
tation, *Light v. Centel Cellular Co. of Texas*, \(^{146}\) continue to be explored.

In *Olander v. Compass Bank*, \(^{147}\) an at-will employee accepted a grant of stock options in connection with which he agreed to a noncompetition and nondisclosure agreement. Later, he brought a declaratory judgment action to have the non-compete provisions declared unenforceable. The court held that because the at-will nature of the employment agreement was illusory and the confidentiality provisions did not obligate the former employer to provide confidential information in exchange for the employee’s promise, they were not “otherwise enforceable agreements” within the meaning of section 15.50 of the Texas Business & Commerce Code governing the enforceability of noncompetition covenants. \(^{148}\) The former employer argued that the granted stock options were available in part at the time of the agreement and thus the grant was not illusory; even if this were so, however, the court concluded that their grant did not of itself give rise to an interest in preventing the employee from competing, and so it was not “ancillary” to an otherwise enforceable agreement as further required by section 15.50. \(^{149}\)

Interestingly, the employer argued that it did in fact disclose confidential information to the employee, and relying on footnote 6 to *Light v. Centel* (which describes certain ways a non-illusory promise can arise in an at-will employment relationship), the employer claimed to have accepted, through performance, the employee’s offer to maintain the confidentiality of its information and to abide by the noncompetition covenant. \(^{150}\) The court rejected this argument, however, explaining that “[t]he fact that [the employer] in fact did provide confidential information does not transform the illusory promise under Texas law into otherwise enforceable consideration to support the non-compete provision. Even if the confidentiality provisions are currently enforceable, the non-compete provision must be evaluated as of the time it was made; prior or future performance by [the employer] does not suffice.” \(^{151}\) The court specifically concluded the *Light* footnote 6 “does not stand for the proposition that a unilateral contract formed when an employer accepts an employee’s offer by performance supports enforcement of a covenant not to compete.” \(^{152}\)

Noncompetition covenants are not always struck down, however. In *A&A Global Industries, Inc. v. Wolfe*, \(^{153}\) the plaintiff company bought certain assets from a competitor in the candy business, including certain trademarks for particular brands of candy, and hired a manager of the

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\(^{146}\) Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642 (Tex. 1994).


\(^{148}\) Id. at 854.

\(^{149}\) Id.

\(^{150}\) Id. (citing Light, 883 S.W. 29 at 645 n.6).

\(^{151}\) Id. at 854.

\(^{152}\) Id. at 854 n.11.

selling company who had worked with those brands. Later, the purchaser came to believe the manager, then its employee, was competing with it in the sale of what it alleged were counterfeit KA-BLUEY brand candies. The manager was party to a noncompetition covenant, executed at the time of the asset purchase agreement, which restricted the manager from competing with the purchaser for one year after his termination in the sale of or manufacture of the product items the purchaser had bought from his previous employer (including KA-BLUEY). The court held that the noncompetition covenant was indeed ancillary to an otherwise enforceable agreement (at least as to the purchasing company, if not its corporate parent, which was not party to the asset purchase agreement), and further held that the restrictions were reasonable. The manager was not restricted from the confectionary business—only from those brands that had been sold to his new employer and only for one year, which the court described as “plainly reasonable under Texas law.” Interestingly, the manager argued that a surety bond in the full amount of his salary for one year would be necessary, claiming such an injunction would effectively prevent him from working in the candy industry for a year. Because the court specifically concluded it would not so restrict him, however, it set the bond at just less than half of that amount. The court declined to enjoin alleged infringement of the KA-BLUEY mark in the United States, finding “no extrinsic evidence” in the movants’ evidence that the allegations were true.

*Anderson Chemical Co., Inc. v. Green* presented a similar situation. The employee worked for the plaintiff for about eleven years as a salesman of water treatment systems. He signed an employment agreement that committed him to hold his employer’s confidential information in confidence, not to solicit other employees for a time after termination, and not to compete within a proscribed territory for one year. Upon termination he did begin work for a competitor, however, and solicited customers he had serviced while employed by the plaintiff. The trial court declined to enter a temporary injunction, without stating reasons. The court of appeals held that the plaintiff provided no non-illusory promise back to the employee in the agreement: “A promise not to disclose an employee’s proprietary information which is later accepted by the employer’s performance in providing that information to the employee is a unilateral contract that cannot support a covenant not to compete because it is not otherwise enforceable at the time it is made.” The court further added that under the particular terms of that agreement, the em-

154. Id.
155. Id. at *13.
156. Id. at *17.
157. Id. at *6.
159. Id. at 437.
160. Id. at 438 (citing Light, 883 S.W.2d at 645 n.6.).
ployee was excused from performing his obligations under the non-compete provisions anyway, due to the employer's prior breach of its agreement to promote him in accordance with his terms. The court further found that in any event, the plaintiff's promise to give ten days notice prior to terminating the employee's employment was not sufficient to give rise to any interest it might have in restraining him from competition.\textsuperscript{161}

The fact that a noncompetition covenant may be unenforceable, however, does not necessarily mean that a nondisclosure or confidentiality covenant—even one contained in the same agreement—may be similarly unenforceable. In this case, however, the trial court declined to enforce it by injunction, and the appellate court concluded it did not abuse its discretion in that regard. The evidence showed that the employee did not take any of the plaintiff's materials with him when he left, and that although he knew the names and approximate business volumes of its customers, the same information was generally known by other competitors. Material contents were written on the drums supplied to customers and were available to see, and the employee was not familiar with the product formulas. The same products and equipment were common throughout the industry, and there were generally few secrets.\textsuperscript{162} Accordingly, the court concluded that either the information the employee received from the plaintiff was not proprietary or he had not used it adversely. In addition, the non-solicitation provision provided an interesting twist. During the same week that the employee resigned, an advertisement appeared in the local newspaper seeking an experienced water treatment employee. There was conflicting testimony as to whether the defendant employee had told another of his former employer's employees that the advertisement was there for his benefit, and the court of appeals held that the district court did not abuse its discretion in basing a decision as to a probable right to recover on the resolution of conflicting evidence in the record. The court did not apply the same statutory analysis to the nonsolicitation covenant as it did to the noncompetition covenant.\textsuperscript{163}

Similarly, in \textit{Evans Consoles, Inc. v. Hoffman Video Systems, Inc.},\textsuperscript{164} a noncompetition covenant was enforced as to an individual, though reformed in scope. Here, the individual had worked for a little over ten years for plaintiff Evans Consoles, which manufactures technical furniture for specialized uses such as data centers, trading floors, and other technology intensive systems. After this period, the employee accepted an offer of stock in the plaintiff corporation and became a management shareholder. As a condition of this offer, he entered into a “Participation Agreement” with the plaintiff agreeing to be bound by a confidentiality agreement, an agreement not to solicit its employees or customers, and a

\textsuperscript{161} \textit{Id.} at 439.
\textsuperscript{162} \textit{Id.} at 442.
\textsuperscript{163} \textit{Id.} at 443.
noncompetition covenant lasting for three years after certain exit events and applying anywhere in the world. He left and joined a competitor about a year thereafter. In analyzing the covenant not to compete, it was no defense for the employee that he had not read it, and the court found that the plaintiff's promises were not illusory and an otherwise enforceable agreement existed between them. Though the opinion was not specific on this point, it appears the court considered the grant of stock non-illusory. The court further concluded that the noncompete agreement was ancillary to the otherwise enforceable agreement, as he was given access to confidential and proprietary information including the company's finances and plans. The court did not address, however, how the grant of stock would itself give rise to an interest in restraining the employee from competing "at the time the agreement was made." Interestingly, the court found that the three year term was not unreasonable; it had more concern over the scope of activity to be restrained and the geographical area within which it would apply. With respect to the geographical area, the court held that "[a]s a reasonable substitution for an expressed geographical limitation, the Court limits the covenant to restrict [the employee] from soliciting former clients with whom he had dealings at the time he left [the former employer]." With respect to the scope of activity, it appeared that he had sold technical furniture on behalf of the former employer, but went to the new company to sell video systems. The new company was only recently attempting to gain entry into the technical furniture market, and at his former employer, sales of video systems amounted to no more than ten percent, or perhaps less, of sales. Accordingly, the court concluded it would be unreasonable to prevent the employee from selling video systems for his new employer, but enjoined the employee from selling technical furniture in the six states within which he had worked for his former employer.

The court did enter an injunction prohibiting the employee from using confidential information he obtained during his employment with the plaintiff, noting however that this would not apply to information that "is or generally becomes available to the public," as provided in the confidentiality agreement. The court specifically noted that this information would include the plaintiff's financial information, which had been appended as an exhibit to one of the pleadings in the case and hence had become a matter of public record. (This happens with some frequency in trade secret litigation.) The court did not find that the employee had already used or disclosed confidential information of the plaintiff, but it nevertheless concluded that a preliminary injunction was the "proper

165. Id. at *5-8.
166. Id. at *16.
167. Id. at *17-18.
168. Id. at *20.
169. Id. at *22.
170. Id. at *23-24.
171. Id. at *25-26.
remedy where an employee has breached, or is in such a position that it is likely that he will breach, a confidentiality agreement." In this case, the court found that the employee was now employed in a position at the new company in which "it might be difficult to avoid the disclosure or use of [his previous employer's] confidential information." 

L. BUSINESS DISPARAGEMENT

The distinction between a personal defamation by libel or slander and a claim for business or commercial disparagement is subtle but important. An action for defamation is to protect the personal reputation of the aggrieved party. If the damages alleged are primarily personal or general (such as injury to personal reputation, humiliation, or mental anguish), then the cause of action is for personal defamation by libel or slander, even though incidental or consequential professional losses may also be pled and proven. A claim for business or commercial disparagement (sometimes called "injurious falsehood"), on the other hand, is to protect the economic interests of the aggrieved party and is appropriate when a plaintiff alleges interference with commercial or economic relations. More stringent requirements have always been imposed on the plaintiff seeking to recover for injurious falsehood in three important respects: (1) falsity of the statement (falsity is required); (2) fault (malice) of the defendant; and (3) proof of special damages. Lack of privilege is also required.

These principles—which have changed little, if at all, since 1987—were applied in Newsom v. Brod. In this case, the plaintiff brought suit against his former employer for libel and slander, as well as business disparagement, arising out of the termination of the plaintiff's employment. The court reviewed the elements and principles of business disparagement, and found "no evidence of the direct, pecuniary loss necessary to satisfy the special damages element of a claim for business disparagement." Instead, the only damages alleged were for the personal harm, if any, he suffered as a result of the allegedly defamatory statements. As a result, his claim was clearly limited to one of personal defamation, and it was time-barred under the one-year statute of limitations for libel and slander instead of falling within the two-year statute applicable to claims for business disparagement.

Truth—even "substantial truth"—remains a defense. In Basic Capital

172. Id. at *28.
173. Id. at *29.
175. Id. at 766 (citing RESTATEMENT (SECOND) OF TORTS § 623A cmt. g (1977)).
176. Id.
178. Id. at 735.
179. Id.
Management, Inc. v. Dow Jones & Co., Inc.,\(^{180}\) a corporation was referenced in published reports of indictments alleging a massive conspiracy to manipulate stock prices. It brought suit, alleging defamation and business disparagement. The court held that “[a] statement that is true or substantially true cannot support a claim for either defamation or business disparagement,”\(^{181}\) and further explained that “a statement is substantially true, and thus not actionable, if its 'gist' or 'sting' is not substantially worse than the literal truth.”\(^{182}\) In this case, the underlying facts as to the gist of the libelous charge were undisputed, and the court held as a matter of law that the “taint of the allegedly defamatory statement is certainly no greater in the mind of the average reader than a more exacting truthful statement would have been,” and that a “comparison of the challenged statement and the indictment demonstrat[ed] that the article was substantially true and not inaccurate.”\(^{183}\)

M. CIVIL CONSPIRACY

In Baty v. ProTech Insurance Agency,\(^{184}\) the former employer also alleged the four insurance companies had conspired to commit tortious interference and to induce two of the former employees to breach their fiduciary duties to their former employer. In order to prevail on a civil conspiracy claim, however, the court held that “the plaintiff must show that the defendant was liable for some underlying tort.”\(^{185}\) Because the underlying claims of tortious interference and inducing breach of a fiduciary duty failed, the court held that the carriers could not be held liable for civil conspiracy with respect to them (in one carrier's case, because the plaintiff had not raised or briefed the issue).\(^{186}\) The same was true in Apani Southwest, Inc. v. Coca-Cola Enterprises, Inc.,\(^{187}\) where the plaintiff's failure to state a cause of action for violation of the antitrust acts, the Texas Constitution, municipal bidding requirements, or tortious interference left its civil conspiracy claim without critical support.\(^{188}\)

In other cases, conspiracy claims were sustained for similar reasons. In Walsh v. America's Tele-Network Corp.,\(^{189}\) the court noted that civil conspiracy is “an entirely derivative claim” and that the plaintiff must “plead and prove another substantive tort upon which to base a civil conspiracy claim.”\(^{190}\) In this case, breach of the Communications Act of 1934 was

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181. Id. at 480 (citing Hurlbut, 749 S.W.2d at 766).
182. Id. at 481.
183. Id. at 482.
185. Id. at 864 (citing Trammel Crow Co. No. 60 v. Harkinson, 944 S.W.2d 631, 635 (Tex. 1997)).
186. Id.
187. Apani S.W., Inc. v. Coca-Cola Enters., Inc., 300 F.3d 620 (5th Cir. 2002).
188. Id. at 635.
190. Id. at 850 (internal citations omitted).
not such a tort nor was it breach of contract. Tortious interference would
be, however, as would conversion, and in that case each had been pled
and supported sufficiently to state a cause of action, which would suffice
to sustain a claim of conspiracy.\textsuperscript{191}

III. TRADEMARK AND TRADE DRESS INFRINGEMENT,
AND COMMON LAW UNFAIR COMPETITION

Holdover ex-franchisees, properly terminated for breach of their
franchise agreements, sometimes resist “de-identifying” from the
franchise system by ceasing all use of the franchise marks, but are rarely
successful in the effort. In \textit{Pizza Hut, Inc. v. White},\textsuperscript{192} for example, a
franchisee was terminated for failure to pay royalties and other fees and
preliminarily enjoined from continuing to use the Pizza Hut marks. Pizza
Hut was then directed to initiate arbitration proceedings in accordance
with the parties’ franchise agreement.\textsuperscript{193}

Cybersquatter disputes may also be relatively straightforward, espe-
cially where the plaintiffs’ marks are highly distinctive and famous and
the defendants’ actions in adopting them as part of the plaintiffs’ domain
names appear to have been intentional and unjustifiable. For example, in
\textit{Baylor University v. International Star, Inc.},\textsuperscript{194} the defendant registered
the domain name www.baylorbayers.com and operated a web site located
there without the University’s approval. Particularly given that defen-
dant did not respond to the complaint or the plaintiff’s motion for sum-
mary judgment, the court had no trouble enjoining any further use,
registration, or holding of registrations for that domain name or any
other domain name that included the mark “Baylor” by the defendant,
and ordered the immediate transfer of that domain name to the
University.

Similarly, in \textit{E&J Gallo Winery v. Spider Webs, Ltd.},\textsuperscript{195} the U.S. Court
of Appeals for the Fifth Circuit affirmed a Magistrate Judge’s decision
under the Anti-Cybersquatting Consumer Protection Act (“APCA”) to
enjoin and order the transfer of the domain name www.ernestandjuliogallo.com to the plaintiff from the defendants, who
operate a family-owned pre-hanging millwork named Doartown, Inc. and
had created Spider Webs, Ltd. to develop internet address names (ap-
proximately 300 of which contain names that could be associated with
existing businesses).\textsuperscript{196} The court concluded that the APCA “was passed
to address situations just like this one,” in which it appeared the defend-
and was making a business of warehousing and trafficking in domain

\textsuperscript{191} \textit{Id.}
\textsuperscript{192} \textit{Pizza Hut, Inc. v. White}, No. 3:02-CV-0790-L, 2002 U.S. Dist. LEXIS 19930, at *1
(N.D. Tex Oct. 18, 2002).
\textsuperscript{193} \textit{Id.} at *14.
\textsuperscript{194} \textit{Baylor Univ. v. Int’l Star, Inc.}, No. W-00-CA-231, 2001 U.S. Dist. LEXIS 23619
(W.D. Tex Nov. 7, 1002).
\textsuperscript{195} \textit{E&J Gallo Winery v. Spider Webs, Ltd.}, 286 F.3d 270 (5th Cir. 2002).
\textsuperscript{196} \textit{Id.} at 271.
names of trademark holders. Since the defendant had no actual property rights in the name or mark aside from its domain name, the domain name did not contain the name of any defendant, the defendant had no prior or current use of it in connection with a bona fide offering of goods or services, made no bona fide non-commercial or fair use of the mark, had sold other domain names that were identical or similar to the names of well known businesses and products, and knew that the plaintiff's mark was distinctive and famous, the court had no trouble finding that the defendant's conduct was in bad faith, and affirmed the injunction, transfer, and award of $25,000 in statutory damages under the ACPA accordingly.

The court agreed it was appropriate to prevent the defendants from registering or using an internet domain name containing the words "gallo," "ernest," and "julio" in combination, but added that if the defendants could show a specific, legitimate need for an internet domain name containing those words, they could "return to the trial court and ask for a modification of the injunction to allow for that need."

In the 1980s, a flood of counterfeit products, sold surreptitiously by persons against whom effective relief was notoriously hard to recover by conventional means, lead first to an expansive view of the federal court's power to order ex parte temporary restraining orders and seizure orders, and then to passage of the Anti-Counterfeiting Act of 1984, which set out a statutory procedure by which ex parte seizure orders might be sought, obtained, and enforced in situations involving counterfeit goods. The following years saw increasing and expansive use of such orders with the not wholly unpredictable result that eventually counter-claims began to be asserted for wrongful seizures.

Waco International, Inc. v. KHK Scaffolding Houston, Inc. was one such case. The defendant, also a scaffolding distributor, sold scaffolding that was compatible with the products of the plaintiff and others and distributed brochures that used abbreviations to indicate they were compatible with the plaintiff's and other's products. The plaintiff sought and obtained an ex parte seizure order under 15 U.S.C. § 1116(d)(1)(A), and seized the defendant's scaffolding and certain business records. At the post-seizure hearing and preliminary injunction hearing, however, the Magistrate Judge found that the product seized did not carry a "counterfeit mark," and that in most cases the defendant was using the plaintiff's mark in a descriptive sense. At trial, the jury awarded the defendant substantial amounts in attorneys' fees, costs, and punitive damages, but found the defendant suffered zero dollars in lost profits and zero dollars

197. Id. at 276.
198. Id. at 275-78.
199. Id. at 280.
200. See In re Louis Vuitton, 679 F.2d 1 (2d Cir. 1983).
202. Waco Int'l Inc. v. KHK Scaffolding Houston, Inc., 278 F.3d 523 (5th Cir. 2002).
203. Id. at 527.
in lost good will from the seizure.\textsuperscript{204}

The court of appeals affirmed in all respects. In particular, it held that a seizure may be wrongful where an applicant acted in "bad faith" in seeking the seizure order or if the goods seized are predominately legitimate merchandise, even if the plaintiff acted in good faith.\textsuperscript{205} The court held that there was "no support for the proposition that, in all cases, a wrongful seizure claimant must show bad faith."\textsuperscript{206} Significantly, the court also made clear that the fact that use of a mark may be infringing does not necessarily mean that a seizure is warranted. The "ex parte seizure remedy must be narrowly construed, and is not coextensive with liability for any Lanham Act claim."\textsuperscript{207} As a result, even if the plaintiff had prevailed on its trademark infringement claim, its "application for an ex parte seizure still could be found wrongful."\textsuperscript{208} Further, although the rationale for the ex parte nature of the seizure stemmed from the furtiveness of counterfeiters who would be likely to spirit away or hide the counterfeit goods if given advance notice, the court made clear that "the primary focus of an ex parte seizure order is on the goods themselves, rather than any business practice or representation that may give rise to liability for trademark infringement."\textsuperscript{209} The court found that Congress intended that "a seizure must be considered wrongful when the material to be seized is legitimate, non-infringing merchandise."\textsuperscript{210} In this case, the goods seized did not bear the plaintiff's trademark.

The court of appeals also found that the jury had been properly instructed as to the "fair use" doctrine. "Fair use" is defined under 15 U.S.C. § 1115(b)(4) as the "use of the name, term, or device charged to be an infringement is a use, otherwise than as a mark ... of a term or device which is descriptive of and used fairly and in good faith only to describe the goods or services of such party."\textsuperscript{211} The jury had been instructed that "[i]t is acceptable for competitors to use a competitor's trademarks for comparative or reference purposes."\textsuperscript{212} The court held that this clearly falls under the category "descriptive" as defined in § 1115(b)(4).\textsuperscript{213} Further, the court held that even if the defendant did not lose profits or good will, it was in fact damaged by reason of the seizure, and that its attorneys' fees are part of the damages. The court concluded that "Congress apparently intended that wrongful seizure claimants be compensated for the attorney fees and costs expended in bringing the counterclaim, assuming the claimant prevails in establishing "bad faith"
or that the goods were predominately legitimate.”

The issue of insurance coverage for trademark infringement continues to be widely litigated. In Finger Furniture Co., Inc. v. Traveler’s Indemnity Co. of Connecticut,215 the United States Magistrate Judge found for the insured that the defendant insurer had a duty to defend the insured in the prior lawsuit alleging infringement of the mark True Value. The insured plaintiff argued that the complaint stated claims under the definition of advertising injury, namely, “‘misappropriation of advertising ideas or style of doing business,’ and ‘infringement of copyright, title or slogan.’”216 The carrier argued that the definition of “advertising injury” did not “include ‘trademark infringement, false designation of origin, trademark dilution [or] unfair competition,’” as alleged in the complaint, and thus was not covered.217 It further claimed that there was no allegation that the damages the underlying plaintiff supposedly suffered were caused “by the offending advertising.”218 The court found that the underlying complaint did indeed address the insured’s advertising,219 and noted from the underlying complaint that the plaintiff alleged it “creates and runs extensive national and regional advertising programs . . . to promote the [mark].”220 The court thus found it reasonable to conclude that the underlying complaint stated a claim for the “misappropriation of advertising ideas,” one of the types of “advertising injury” covered under the policy.221 In addition, the court concluded that the mark could be considered a “title or slogan,” also bringing it within the coverage period.222

The carrier fared no better in asserting two defenses. One, the “prior publication” exclusion provided that the policy did not apply to advertising injury arising out of “oral or written publication of material whose first publication took place before the beginning of the policy period.”223 Here, the court held that if the pleadings are not specific in alleging clearly that the insured infringed upon the plaintiff’s mark before the coverage period began, and if “there is, even potentially, a claim within the [p]olicy’s coverage, then the relevant exclusion does not apply to obviate a duty to defend.”224 Because the pleadings were not specific on that point, it was possible to construe the complaint to allege that the first infringing publication occurred after the policy period began, and so the duty to defend was triggered. Further, though the policy excluded coverage for an advertisement published with “knowledge of [its] falsity,” the

214. Id. at 535.
216. Id. at *21.
217. Id. at *21-22.
218. Id. at *22.
219. Id. at *27-29.
220. Id. at *31.
221. Id. at *31-32.
222. Id. at *32.
223. Id. at *33.
224. Id. at *40.
court held that the insured could have been found liable under the underlying complaint for trademark infringement without any finding that it had knowledge of the alleged falsity.\(^{225}\) Accordingly, that exclusion was held not to apply either, and the duty to defend remained.

Where injunctive relief is not thought to be appropriate, but where some step seems necessary to alleviate a likelihood of confusion, disclaimers are sometimes employed. In *Westchester Media Co., L.P. v. PRL USA Holdings*,\(^{226}\) the issue of what remedy would be appropriate had been remanded to the district court.\(^{227}\) The trial court had found that Westchester had infringed the PRL trademark polo in its new Polo magazine directed to equestrian enthusiasts, but it vacated the broad injunctive relief granted by the trial court, and remanded the matter for the trial court to consider "whether a disclaimer procedure better comports with First Amendment principles than an outright prohibition on Westchester's use of 'Polo' for New POLO Magazine."\(^{228}\)

On remand, the court noted, as the Fifth Circuit had found, the magazine's title "is a hybrid of commercial and artistic speech, and as such, it intersects, if not collides with, competing trademark and [F]irst [A]mendment interests."\(^{229}\) Even where trademark infringement has been found, "[F]irst [A]mendment interests should influence the choice of remedy."\(^{230}\)

Earlier, the court had fashioned its own disclaimer language, but concluded that the disclaimer in use was "only 'minimally effective' to dispel confusion,"\(^{231}\) and concluded that "a more concise disclaimer, consistently placed in a more prominent position" on the magazine, would be better.\(^{232}\) Accordingly, the court ordered that the disclaimer "not affiliated with Polo Ralph Lauren" was to be written in a legible black type in a white box with a black border and type, to appear prominently in every instance in which the plaintiff used "Polo" on the magazine's cover, to be at least 16 point font on the cover, and to be no less than one-half the size of the "Polo" name in all other locations.\(^{233}\)

Mislabeling products and their packaging can have serious criminal consequences, which at least one set of defendants narrowly averted. In *United States v. Hanafy*,\(^{234}\) the court of appeals affirmed the district court's acquittal of the defendants despite a jury verdict finding them guilty of mislabeling and trademark infringement in violation of 18 U.S.C.

\(^{225}\) *Id.* at *42-44.


\(^{227}\) *Westchester Media v. PRL USA Holdings*, Inc., 214 F.3d 658 (5th Cir. 2000).

\(^{228}\) *Id.* at 675.


\(^{230}\) *Id.* at *64 (citing *Westchester Media*, 214 F.3d at 672).

\(^{231}\) *Westchester Media*, 2001 U.S. Dist. LEXIS 17468, at *78.

\(^{232}\) *Id.* at *78.

\(^{233}\) *Id.* at *80.

\(^{234}\) *United States v. Hanafy*, 302 F.3d 485 (5th Cir. 2002).
§ 2320 and 21 U.S.C. §§ 331(a), 333(a2), and 321(m). In that case, the defendants bought individual cans of infant formula from various convenience stores and other sources and then re-packaged the cans into trays. They marked the shipping trays with the trademarks of the manufacturers whose goods were contained and re-sold these trays to other wholesalers. The goods themselves were genuine, although they were not packaged by the original manufacturers for re-sale in this form, and all were sold within the “sell by” date. The court held as a matter of law that the packaging did not constitute a “counterfeit” under 18 U.S.C. § 2320 and that the marks on the shipping trays did not constitute “labeling” as a matter of law under 21 U.S.C. §§ 331(a) and 333(a)2. Although re-packaging the goods without the manufacturer’s approval or control may give rise to civil liability under the Lanham Act, the court concluded that attaching a mark to trays containing the “genuine unadulterated, unexpired products associated with that mark does not give rise to criminal liability under § 2320.” Further, it held that “merely identifying the contents of a shipping tray with no more information than that which is already upon the articles themselves does not ‘explain’ or provide ‘substantial information’ so as to rise to the level of ‘labeling’ as contemplated by [applicable precedents].”

235. *Id.*
236. *Id.* at 489.
237. *Id.* at 490.