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## Business Torts

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# BUSINESS TORTS

Charles M. Hosch\*

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**T**HIS year saw interesting developments, applications, and reminders of the importance of trade secrets, of stock option "claw-backs" in connection with non-competition covenants, and other important business tort issues.

### I. TRADE SECRETS AND CONFIDENTIAL INFORMATION

#### A. "USE" OF A TRADE SECRET

Acquiring trade secrets or other confidential and proprietary information is often relatively easy, especially during the excitement of a new business venture. But after those trade secrets have been acquired, the process of disengaging from the party that disclosed them—and venturing off in the same line of business—is another matter entirely and can be difficult.

*Mabrey v. SandStream, Inc.* illustrates the point.<sup>1</sup> SandStream planned to design the first "converged" architecture for delivering television, telephone, internet, movies, and games into homes via fiber-optic networks

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1. 124 S.W.3d 302 (Tex. App.—Fort Worth 2003, no pet.).

using an internet protocol. It had invested \$40 million and four years in development. SandStream had not yet produced a final product when Mabrey—a developer of planned residential communities—contacted it in January 2002. After signing a confidentiality agreement, Mabrey performed technological and business due diligence investigations of SandStream and contributed modest investments and loans to it. Separately, Irving Napert, an independent consultant for Sundance Square Development in Fort Worth, contacted SandStream regarding the suitability of the technology for Sundance Square. He also signed a confidentiality agreement and was allowed to see all of SandStream's financial information supporting its business plan. Neither Mabrey nor Napert, however, actually contracted with SandStream for its services.<sup>2</sup>

SandStream experienced financial difficulties and laid off most of its staff, still without deploying its service. Two of its former employees joined with Napert and formed Fiber.TV; Mabrey was its sole stockholder and financier. SandStream saw that Fiber.TV intended to compete directly with SandStream and alleged that Fiber.TV's "sole purpose [was to improperly use] SandStream's technology, unique industry relationships, business practices and financial and business models. . . ."<sup>3</sup> The trial court entered a temporary injunction enjoining the defendants from using SandStream's trade secrets.<sup>4</sup>

As a preliminary matter, the court of appeals noted that, in determining whether to grant a trade secret protection by temporary injunction, "a trial court does not determine whether the information sought to be protected is, in fact and in law, a trade secret."<sup>5</sup> Instead, "the trial court determines only whether the applicant has established that the information is entitled to trade secret protection until the trial on the merits" and a probability of success is sufficient.<sup>6</sup> Significantly, after the injunction was ordered by the trial court, the appellate court reviewed it under a "some evidence" standard.<sup>7</sup>

Like many nondisclosure agreements, the one signed by Mabrey expressly provided that he could "negotiate or enter into transactions *similar to or in lieu of* the Proposed Transaction."<sup>8</sup> Mabrey argued that this allowed him to form a new company to perform a similar transaction. The court disagreed that the agreement's language could be read to permit Mabrey to use SandStream's trade secrets "to decide to invest in a company that intended to use SandStream's secret information to produce and market the identical product."<sup>9</sup> The court held that such a purpose could not be reconciled with other provisions of the nondisclosure

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2. *See id.* at 307-08.

3. *Id.* at 308.

4. *Id.*

5. *Id.* at 311.

6. *Id.*

7. *Id.* at 315.

8. *Id.* at 314.

9. *Id.*

agreement, which provided he would not use SandStream's confidential information for any other purpose, including any use that "could reasonably result in a competitive disadvantage to [SandStream]."<sup>10</sup>

"Use" of SandStream's information by Mabrey was itself an issue. Mabrey contended that he never "disclosed" SandStream's trade secrets to anyone. But did he "use" them in forming Fiber.TV? In the court's view, there was at least "some evidence" establishing a probability that Mabrey "used" the trade secrets and confidential and proprietary information he had previously acquired from SandStream as his basis for deciding to invest in Fiber.TV.<sup>11</sup>

SandStream also argued that Mabrey had "aided" the other defendants—particularly the former employees of SandStream—to breach their fiduciary duty to SandStream to hold its trade secrets in confidence after the termination of their employment. Mabrey argued there was no evidence of any such aid on his part, but the court again disagreed. Mabrey was Fiber.TV's sole stockholder and sole investor, and there was testimony that his purpose in providing this funding was to give the former engineers of SandStream "time to get more money." There was also evidence that Mabrey knew the identity of these engineers and their significant range of talent. The court, therefore, concluded there was at least some evidence that Mabrey "aided" the other individual defendants to breach their own fiduciary duties as former employees of SandStream.<sup>12</sup>

The fact that SandStream was nearly insolvent may have led Mabrey and the others to believe it was not a viable company that would survive, and thus would not suffer any harm (irreparable or otherwise) if they proceeded with the Fiber.TV venture. But SandStream's precarious financial footing provided scant equitable support for the defendants. By the time of the hearing, SandStream still had not made any revenue, had no employees drawing a salary, and had only three people showing up at the office regularly. Nevertheless, the court noted that "an irreparable injury exists when unfair competition deprives the initial producer of the fair opportunity to market its product," and held that the fact that "an applicant for injunctive relief from improper use of trade secrets has ceased to do business or to use the protected information does not preclude its entitlement to injunctive relief."<sup>13</sup>

"Use" and proof of loss resulting from such "use" were also at issue in

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10. *Id.* at 314-15.

11. *Id.* at 315. Compare *Omnitech Int'l, Inc. v. Chlorox Co.*, 11 F.3d 1316, 1325 (5th Cir.), *cert. denied*, 513 U.S. 815 (1994) (holding that it is not a trade secret infringement to become "smarter" about an industry).

12. *SandStream*, 124 S.W.3d, at 316-17.

13. *Id.* at 319-20. The court cited *Elcor Chem. Corp v. Agri-Sul, Inc.*, 494 S.W.2d 204, 213 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.) (affirming "judgment enjoining use of trade secrets even though there was evidence that Elcor was in serious financial difficulty, had ceased to produce product, had let employees go, had sold some of its facilities, and was in reorganization under the federal bankruptcy laws"). *SandStream, Inc.*, 124 S.W.3d at 320.

*Propulsion Technologies, Inc. v. Attwood Corp.*<sup>14</sup> Attwood produced rough castings of boat propellers for Propulsion Technologies. The jury found that Attwood had fraudulently induced Propulsion Technologies to enter into the contract, breached it, and then misappropriated Propulsion Technologies' trade secrets.

The appellate court reversed the district court's award of damages for misappropriation of trade secrets, citing *Avera v. Clark Moulding* for the proposition that "one element of proof of misappropriation of trade secrets is 'proof . . . that the defendant *used* the trade secret without authorization from the plaintiff.'"<sup>15</sup> The only proof of such use the court found in the record was Propulsion Technologies' argument that a reasonable inference of Attwood's use arose from one witness's testimony that producing Propulsion Technologies' propellers "kind of gave [Attwood] the ability to learn how to make them."<sup>16</sup> In the court's view, however, this did not describe use of a trade secret, and contrary testimony about design differences in Attwood's propellers and the fact that other propeller makers used different tool designs "foreclose[d] an inference of misuse of trade secrets . . . ." <sup>17</sup> Because there was no evidence that Attwood used the plaintiff's trade secrets to generate profits from its own line of propellers, there was no evidence of damages (described by the court as "[Propulsion Technologies'] loss or anyone else's gain"), and the judgment was reversed.<sup>18</sup>

## B. DISCOVERY OF TRADE SECRETS

Discovery of trade secrets gave rise to considerable controversy over the last few years.<sup>19</sup> In late 2003, the Texas Supreme Court addressed the issue again, this time clarifying what it means to have documents containing trade secrets in one's "possession, custody or control" as provided in Texas Rule of Civil Procedure 192.3(b) and 193.7(b).<sup>20</sup> The trial court, in a post-divorce action filed against Mr. Kuntz, had ordered Mr. Kuntz to produce documents to which he had access at his place of employment. The documents were actually in the physical possession of Kuntz's employer, were owned by a client of Kuntz's employer, and constituted that client's trade secrets. Kuntz had access to the documents, but he urged that his access did not constitute "possession, custody or control" because requiring him to produce these documents would force him to violate his own confidentiality obligations, potentially subjecting himself to significant liability.<sup>21</sup> The court agreed, perhaps moved by the colorful analogy

14. 369 F.3d 896 (5th Cir. 2004).

15. *Id.* at 905 n.57 (emphasis added) (citing *Avera v. Clark Moulding*, 791 S.W.2d 144, 145 (Tex. App.—Dallas 1990, no writ)).

16. *Id.* at 905.

17. *Id.*

18. *Id.*

19. See generally *In re Bridgestone/Firestone, Inc.*, 106 S.W.3d 730 (Tex. 2003); *In re Bass*, 113 S.W.3d 735 (Tex. 2003).

20. See *In re Kuntz*, 124 S.W.3d 179, 180-89 (Tex. 2003).

21. *Id.* at 180.

offered by the employer as amicus.<sup>22</sup> Regarding the trade secrets, Mr. Kuntz was “like a bank teller with access to cash in the vault,” but he had “neither possession, nor any right to possess” the trade secrets themselves.<sup>23</sup>

Interestingly, four justices concurred, with the additional view that Mr. Kuntz’s former wife was not entitled to production of the documents because she had not established that production of those privileged trade secrets would be “essential to the fair adjudication of her claims.”<sup>24</sup> Justice Wainwright concurred in a separate opinion, further describing the facts and explaining that Mr. Kuntz’s former wife wanted to see the documents in order to verify the compensation-related information she was otherwise receiving.<sup>25</sup>

### C. HARM AND SCOPE OF INJUNCTIVE RELIEF

Harm and the scope of a temporary injunction were the principal issues in *Fox v. Tropical Warehouses, Inc.*<sup>26</sup> Tropical Warehouses, a freshwater tropical fish wholesaler, had been selling fish to Wal-Mart stores since 1978 and to Petco for the last six or seven years. With only anecdotal exceptions, Wal-Mart and Petco were Tropical Warehouses’ only customers. Fox was Tropical Warehouses’ general manager for about ten years. Fox had complete access to all the company’s financial information, but he focused almost entirely on sales to Petco, while the owner focused on Wal-Mart.<sup>27</sup>

On one occasion, Petco demanded a considerable price discount. The owner did not agree to it. Fox gave two weeks notice and left, taking with him a rolodex and personally-owned computer he used at work, which contained much of Tropical Warehouses’ financial information. Fox then opened his own business and began selling fish to Petco at the discounted price that Petco had demanded, but which Tropical Warehouses’ owner refused to give. Tropical Warehouses sued, and the trial court granted a temporary injunction.<sup>28</sup>

The appellate court readily concluded that Fox had access to Tropical Warehouses’ confidential and proprietary information and that its price lists, customer lists, and the information contained in the reports would be entitled to trade secret protection until trial.<sup>29</sup> However, when Fox raised the “use” defense, arguing that he was not actually using it to gain a competitive advantage over Tropical Warehouses, the court responded that “[Tropical Warehouses] is not required to prove that Fox is actually *using* the information; it need only prove that he is *in possession* of the

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22. *Id.*

23. *Id.* at 183-84.

24. *Id.* at 184-85.

25. *Id.* at 186-87.

26. 121 S.W.3d 853, 856 (Tex. App.—Fort Worth 2003, no pet.).

27. *Id.*

28. *Id.* at 856-57.

29. *Id.* at 858-59.

information and is in a position to use it.”<sup>30</sup>

To support its claim for a temporary injunction, Tropical Warehouses was also required to show that it faced a probable, imminent, and irreparable injury from Fox’s use of these trade secrets. With respect to Wal-Mart, the court concluded that probable injury to Tropical Warehouses was shown. With Petco gone, Wal-Mart comprised almost all of Tropical Warehouses’ current business, and if Fox were allowed to use his knowledge of Tropical Warehouses’ pricing to cause the loss of Wal-Mart as a customer, the damages would indeed be difficult to calculate.<sup>31</sup> But Fox did hit the mark in arguing, in the alternative, that he should not be enjoined from at least continuing to sell to Petco. For years Tropical Warehouses had been selling fish to Petco cheaper than it sold to Wal-Mart. Lower prices to Petco did not seem likely to drive Wal-Mart away because Tropical Warehouses’ owner still refused to give Petco the discount it demanded. In any event, Petco based the price it would pay on the price charged by a different supplier and would not do business with anyone who would not at least match that supplier’s price. In short, the possibility that Tropical Warehouses’ business with Wal-Mart would be crippled by Fox continuing to sell to Petco on his own seemed, to the court, remote and speculative. Noting that an injunction “is not proper when the claimed injury is merely speculative” and that “fear and apprehension of injury are not sufficient to support a temporary injunction,” the court modified the temporary injunction to permit Fox to continue to sell to Petco.<sup>32</sup>

The scope of the injunction in *Mabrey v. SandStream, Inc.* was also controversial. Mabrey argued that the injunction was overbroad and vague because it was not limited to secret “information disclosed by SandStream ‘prior to completion of the Proposed Transaction’” as the confidentiality agreement provided.<sup>33</sup> The court disagreed, holding that the order specifically referred only to “‘SandStream’s confidential and proprietary information . . . or trade secret information,’ which necessarily excludes information not generally available to the public, and the order [was] limited in time to information obtained while Mabrey was a party to the nondisclosure agreement.”<sup>34</sup> The court noted that the “order specifically lists the acts prohibited by the defendants,” including “making any commercial, business or personal use of SandStream Confidential Information . . . .”<sup>35</sup> Whether this was specific enough to provide Mabrey with a clear guideline of what he was and was not permitted to do may be arguable, since whether Mabrey had made any “use” of the information

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30. *Id.* at 860 (emphasis added) (citing *Rugen v. Interactive Bus. Sys., Inc.*, 864 S.W.2d 548, 552 (Tex. App.—Dallas 1993, no writ) and *T-N-T MotorSports, Inc. v. Hennessey*, 965 S.W.2d 18, 24 (Tex. App.—Houston [1st Dist.] 1998, pet. dismissed)).

31. *See id.*

32. *Id.* at 860-61 (citing *Jordan v. Landry’s Seafood Rest., Inc.*, 89 S.W.3d 737, 742 (Tex. App.—Houston [1st Dist.] 2002, pet. denied)).

33. *SandStream, Inc.*, 124 S.W.3d at 320.

34. *Id.*

35. *Id.* at 320 n.49.

in the first place was itself one of the very points at issue in the case.<sup>36</sup>

#### D. WHAT CONSTITUTES A "TRADE SECRET"

What constitutes a "trade secret" was also a matter of concern in *General Universal Systems, Inc. v. Hal, Inc.*,<sup>37</sup> where the Fifth Circuit Court of Appeals reversed a summary judgment order that a certain software program was not properly protected as a trade secret. The appellant argued, and the court of appeals agreed, that the district court "applied an outmoded and overly restricted test for trade secret misappropriation."<sup>38</sup>

The district court concluded that Texas law requires the claimed trade secret to have been discovered by improper means.<sup>39</sup> However, the court noted that liability might also be imposed if the defendant's "disclosure or use [of the trade secret] constitutes a breach of confidence reposed in him by the other in disclosing the secret to him"—the record was unclear as to whether there was such a confidential relationship.<sup>40</sup>

Separately, the district court concluded "that Texas law requires that a person asserting a trade secret take reasonable precautions to protect it."<sup>41</sup> Because the district court found that the claimant in this case did not take such reasonable precautions, it concluded the software was not properly protected as a trade secret.<sup>42</sup> The court of appeals required a broader approach and followed the Texas Supreme Court's recent clarification that, to determine whether a trade secret exists, a court must examine six relevant but nonexclusive criteria. The appellate court affirmed this process as "a contextual inquiry which must evaluate a number of factors."<sup>43</sup> Since the district court did not engage in this broad inquiry, and the court of appeals concluded that further factual development might shed light on whether trade secret protection was appropriate, it reversed the grant of summary judgment on that issue.<sup>44</sup>

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36. *Id.* at 320-21.

37. 379 F.3d 131, 149 (5th Cir. 2004).

38. *Id.*

39. *Id.* at 151.

40. *Id.* at 151 (citing *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 211 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.)). In a footnote, the court noted the lack of a formal confidentiality agreement. One party urged that was evidence of a lack of a duty of confidentiality among the parties, which the court noted "finds some support in Texas law," but the court added that at least one Texas court had expressly rejected that argument. *Id.* at 151 n.55 (comparing *Daily Int'l Sales Corp. v. Eastman Whipstock, Inc.*, 662 S.W.2d 60, 63 (Tex. App.—Houston [1st Dist.] 1983, no writ) with *T-N-T Motorsports, Inc. v. Hennessey Motor Sports, Inc.*, 965 S.W.2d 18, 22 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd).

41. *Id.* at 150.

42. *Id.*

43. *See id.* (citing *In re Bass*, 113 S.W.3d 735, 739-40 (Tex. 2003)).

44. *Id.* at 150.

These six factors are: (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others inside involved in the business; (3) the extent of measures taken to safeguard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended in



## E. "BOUNDARIES" OF A TRADE SECRET

A common, vexing question often arises as to the "boundaries" of a trade secret. This question arises in a context where general scientific principles are well known, yet product formulations are less known but still generally familiar in an industry and specific recipes or formulations may be the subject of considerable experimentation, trial, or error. An application of trade secret principles in this context was found in *Nations AG II, LLC v. Hide Co., LLC*.<sup>45</sup> The Hide Company was a sales representative for Nations AG, which along with other plaintiffs formulated and sold generic versions of pesticides from expired patents. The plaintiffs sought a preliminary injunction to prevent Hide from using or disclosing their formula for mepiquat chloride, a product useful in the cotton industry.<sup>46</sup>

After describing the *In re Bass*<sup>47</sup> six-factor test to determine whether a trade secret exists, the court concluded that a trade secret did not exist, or at least the plaintiffs had not met their burden of showing a substantial likelihood of success on the merits in that respect.<sup>48</sup> The defendants had shown that the formula for mepiquat chloride can be determined from reading product labels, which is well known in the agricultural field. The plaintiff's formula was based on an expired patent that anyone could copy in a generic formulation. But at a more precise level, the record showed that "batch sheets" would reflect the formulation of a particular batch of mepiquat chloride, and formulation could vary depending on the purity of the technical ingredient. In the court's view, the plaintiffs did not set forth sufficient evidence to support the claim that the mepiquat chloride batch sheet that the defendants allegedly obtained was a trade secret.<sup>49</sup>

## II. BUSINESS DISPARAGEMENT AND LIBEL

*Dripping Wet Water, Inc. v. Halox Technologies, Inc.*<sup>50</sup> presented familiar claims of business disparagement, libel and slander, but in an unusual procedural posture.<sup>51</sup> Plaintiffs complained that a defendant "composed,

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developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

*Id.*

45. No. 3:04-CV-0511-K, 2004 WL 1496312 (N.D. Tex. June 30, 2004).

46. *Id.* at \*1.

47. 113 S.W.3d 735, 739 (Tex. 2003).

48. *Nations AG II, LLC*, WL 1493612, at \*4.

49. *Id.* at \*6.

50. No. SA-03-CA-1048-0G, 2004 U.S. Dist. LEXIS 18532 (W.D. Tex. March 22, 2004).

51. The tort of business disparagement is distinct from the tort of personal defamation by libel or slander, though they are often, and incorrectly, described interchangeably. Degregatory comments which disparage the quality of a product or service, thereby injuring the reputation of a business and causing economic injury, are addressed as "business disparagement." Defamatory statements which defame the reputation of a person, and cause a personal injury, are addressed as libel (if written) or slander (if spoken). The general elements of business disparagement are "publication by the defendant of the disparaging words, falsity, malice, lack of privilege, and special damages." *Prudential Ins. Co. v. Fin.*

published and circulated” a written report or circular claiming the following: the plaintiffs’ product would cause corrosion and environmental violations; the product lacked safety features; it was made at night by workers receiving no benefits; and it was more expensive.<sup>52</sup> The plaintiffs also claimed that the defendants stated that the plaintiffs “stole” the technology they were using and were going to lose their patent.<sup>53</sup>

The defendants removed the case to federal court in San Antonio and alleged that the plaintiff had fraudulently joined non-diverse DXP, a Texas corporation, to defeat diversity jurisdiction. Apparently, the plaintiffs did not claim DXP was the original source of the derogatory statements, but instead alleged that it had “ratified, approved and condoned the acts of [the source of the comments] both expressly and impliedly, by its inaction.”<sup>54</sup> To show that DXP had been fraudulently joined, the defendants needed to “put forth evidence that [would] negate the possibility of liability,” a heavy burden indeed since it would amount to negating that there is a “reasonable basis for predicting that state law might impose liability.”<sup>55</sup> To make this showing, the defendants offered extensive affidavits and other evidence, not to challenge whether the specific statements were made, but to negate DXP’s role in their creation or publication. DXP was able to show that it was not an agent of the other defendants, that it had had no role in composing or offering advice about the PowerPoint presentation at issue, and that it “did not ratify, condone, approve, support, confirm, or adopt” the presentation.<sup>56</sup> The plaintiffs made no challenge to DXP’s factual assertions that it was “merely present” at the meeting where the presentation was shown, and accordingly, the court could not conclude that there was “arguably a reasonable basis to predict that DXP would be liable” for defamation or business disparagement.<sup>57</sup>

Demand letters may also be a source of claims and, therefore, they can require careful drafting. In *Cram Roofing Co., Inc. v. Parker*, the general manager of the Rio Grande Valley branch office of a roofing company either abruptly quit or was fired (this was disputed) and joined with the company’s former production manager to start a new, competing roofing company.<sup>58</sup> Cram Roofing’s attorney then wrote a dozen identical letters to various suppliers and roofing companies that Cram Roofing believed would be the new company’s prospective customers. The letters ex-

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Review Servs., Inc., 29 S.W.3d 74, 82 (Tex. 2000). See also *Hurlbut v. Gulf Atl. Life Ins. Co.*, 749 S.W.2d 762 (Tex. 1987).

52. *Dripping Wet Water, Inc.*, 2004 U.S. Dist. LEXIS 18532, at \*38-39.

53. *Id.*

54. *Id.* at \*39. The court noted that “the mere fact the people appear together with the person making defamatory statements is no evidence that they agree with the defamer. . . . [but] a person’s presence when viewed in context with actions, inactions, or words indicating approval may be sufficient for a jury to impose liability for defamation.” *Id.* at \*32, \*35 n.110 (citing *Bentley v. Bunton*, 94 S.W.3d 561 (Tex. 2002)).

55. *Id.* at \*26.

56. *Id.* at \*52.

57. *Id.* at \*53.

58. 131 S.W.3d 84 (Tex. App.—San Antonio 2003, no pet.).

plained that Cram Roofing would be pursuing a legal action against the former employees and potentially against any new customers as well, "to recover all profits obtained by [the prospective customers] as a result of [the former employees'] illegal activities."<sup>59</sup> Soon afterwards, the former branch office general manager sued Cram Roofing for libel on the basis of the statements in the demand letter that he had "voluntarily terminated" his employment and the accusation that he had engaged in "illegal activities."<sup>60</sup> At trial, he obtained a jury verdict on the libel claim.<sup>61</sup>

On appeal, Cram Roofing argued that merely commenting that someone "quit" or "voluntarily terminated" his employment, was not defamatory; a statement is only "defamatory if it tends to injure a living person's reputation and thereby expose the person to public hatred, contempt or ridicule, or financial injury or to impeach any person's honesty, integrity, virtue, or reputation."<sup>62</sup> The appellate court agreed, and held that the statement that he had quit his employment, when construed in light of the rest of the demand letter and the surrounding circumstances, did not constitute defamation.<sup>63</sup>

Whether the statement that he had engaged in "illegal activities" was libelous was another issue. Cram Roofing argued that this was substantially true as a matter of law and hence not libelous because "truth is a defense to a libel action."<sup>64</sup> "Because substantial truth is sufficient to establish the defense" under the "substantial truth" test, the "statement under question is examined in its entirety to determine whether the 'gist' of the statement is substantially true."<sup>65</sup>

Cram Roofing argued that it was substantially true that the former employees had engaged in "illegal activities"—they had breached a contract (the noncompetition agreement) that carried the force of law, and their breach was "illegal."<sup>66</sup> One dissenting justice relied on the dictionary definition of "illegal" that included anything that is "contrary to or violating a law or rule or regulation or something else (as an established customer) having the force of law."<sup>67</sup> Since it was clear that Mr. Parker violated the noncompetition agreement, the dissent found that he thereby engaged in "illegal activities," that the "gist" of the statement must be substantially true, and Cram Roofing was not liable.<sup>68</sup>

The majority, however, held that "[w]hile a contract may indeed have the force of law, breach of a contract is not necessarily an illegal activity" but rather "a civil breach of an obligation imposed by the contract."<sup>69</sup>

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59. *Id.* at 88.

60. *Id.*

61. *Id.*

62. *Id.* (quoting TEX. CIV. PRAC. & REM. CODE ANN. § 73.001 (Vernon 1997)).

63. *Id.*

64. *Id.* (citing TEX. CIV. PRAC. & REM. CODE ANN. § 73.005 (Vernon 1997)).

65. *Id.* (citing *McIlvain v. Jacobs*, 794 S.W.2d 14, 15-16 (Tex. 1990)).

66. *Id.* at 91.

67. *Id.* at 93.

68. *Id.*

69. *Id.* at 91.

The court charged the jury that “[i]t is sufficient to establish libel if in reading the statement an ordinary person would draw a reasonable conclusion that [the individual] was charged with violation of some criminal law.”<sup>70</sup> The court concluded that on this record, the jury could reasonably have found that the gist of the phrase “illegal activities” meant criminal activities.<sup>71</sup> Because witnesses had testified that the phrase “illegal activities” conjures up thoughts of criminal violations, the majority concluded that the jury could have properly determined that the individual had been libeled, and the gist of the statement about “illegal activities” was not substantially true.<sup>72</sup>

### III. LANHAM ACT SECTION 43(A) AND FALSE DESIGNATIONS OF ORIGIN

The Fifth Circuit Court of Appeals applied the United States Supreme Court’s reasoning from a 2003 ruling in *Dastar Corp. v. Twentieth Century Fox Film Corp.*<sup>73</sup> when faced with a similar issue in *General Universal Systems, Inc. vs. Hal, Inc.*<sup>74</sup> Plaintiff General Universal Systems (“GUS”) accused Hal of copyright infringement and a number of other business torts involving Hal’s software, which GUS found unacceptably close to its own. GUS argued to the district court that Hal, by copying and marketing GUS’s software as Hal’s own, engaged in “reverse palming off” in violation of section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a). The District Court declined to find that Hal engaged in actionable copying, and so the court refused to find that Hal’s software constituted “reverse palming off.”<sup>75</sup>

The Court of Appeals affirmed the trial court’s dismissal, partly because it also rejected the copyright argument, but also due to the Supreme Court’s recent decision in *Dastar Corp.*<sup>76</sup> The court concluded

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70. *Id.* at 92.

71. *Id.*

72. *Id.* at 91-92. A retired contractor testified that if he received such a letter, the reference to “illegal activities” would make him nervous and make him “want to stay away from that individual.” When asked what the term “illegal activities” meant to him, he responded “Well, nowadays time, I think he would either be a dope peddler or a gun runner.” *Id.* at 91.

73. 539 U.S. 23 (2003).

74. 379 F.3d 131 (5th Cir. 2004).

75. *Id.* at 148. “Reverse palming off” occurs when “[t]he producer misrepresents someone else’s goods or services as his own.” *Id.* at 148 n.41 (quoting *Dastar Corp.*, 539 U.S. at 28 n.1). “A defendant may also be guilty of reverse palming off by selling or offering to sell another’s product that has been modified slightly and then labeled with a different name.” *Id.* (quoting *Roho, Inc. v. Marquis*, 902 F.2d 356, 359 (5th Cir. 1990)).

76. *Id.* at 149. In *Dastar Corp.*, Dastar purchased copies of an original 1949 television series with a copyright that once was owned by Twentieth Century Fox, but was expired and now in the public domain. Dastar edited the series and released it; Fox brought suit, alleging that Dastar’s sale of its own version of the series without proper attribution to the 1949 series constituted “reverse palming off” in violation of section 43(a) of the Lanham Act. The Court concluded that “the term ‘origin’ in section 43(a) applies only to the producer of the tangible goods that are offered for sale, and not to the author of any idea, concept, or communication embodied in those goods.” *Id.* at 148-49 (quoting *Dastar Corp.*, 539 U.S. at 37).

that *Dastar*'s reasoning was controlling because GUS did not accuse Hal of removing the trademarks from GUS's software and selling that software as Hal's own. Instead, GUS asserted that Hal "copied the ideas, concepts, structures and sequences embodied in its copyrighted work, thereby concluding that *Dastar* makes clear that such claims are not actionable under section 43(a)."77

The *Dastar* case applied in *Keane v. Fox Television Stations* as well.<sup>78</sup> Keane alleged that Fox Television's use of the phrase "American Idol" to identify its television series constituted a false designation of origin under section 43(a) of the Lanham Act, 15 U.S.C. § 1125(a).<sup>79</sup> The court found Keane's claims "derailed by two fundamental, fallacious premises."<sup>80</sup> The first was Keane's supposition that his "American Idol" concept or idea could be protected by trademark law.<sup>81</sup> Relying on *Dastar Corp.* and other precedent, the court noted that "trademarks are devices intended to identify fully developed products and services, not *ideas* for products or services."<sup>82</sup> The court also noted that the Supreme Court clarified the phrase "origin of goods" in section 43(a), confirming that "it does not connote the person or entity that originated the ideas or communications" embodied in the resulting commercial product, but rather "the name-recognition that a preexisting producer has created in the marketplace."<sup>83</sup> Federal trademark law "is not concerned with 'invention or discovery' of ideas, and the [Supreme] Court explicitly cautions against extending trademark law in that manner."<sup>84</sup>

The plaintiff's second fallacy was that being the first to use the "American Idol" mark was itself sufficient to give him exclusive rights to that mark.<sup>85</sup> "Mere invention, creation or discussion of a trademark does not

77. *Id.* at 149. The court noted that "ideas" are expressly excluded from protection under the Copyright Act of 1976. *Id.* at 142-43. See also 17 U.S.C. § 102(b) (2005).

78. 297 F. Supp. 2d 921 (S.D. Tex. 2004).

79. *Id.* at 934. Section 43(a) of the Lanham Act provides: (1) any person who, on or in connection with any goods or services, or any container for goods, 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 misrepresentation 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 or is likely to be damaged by such act. 15 U.S.C. §1125(a)(1)(A)-(B) (2005). Actions brought subsection 1125(a)(1)(A) are sometimes referred to as "false designation of origin" claims, while actions brought under subsection 1125(a)(1)(B) are sometimes referred to as "false advertising claims." *Keane*, 297 F. Supp. 2d at 934.

80. *Id.* at 933.

81. *Id.*

82. *Id.* (emphasis added). The court might have clarified its point to make clear that trademarks are not so much intended to identify the products or services themselves, as they are intended to identify the *sources* of those products or services.

83. *Id.* at 935.

84. *Id.* (citing *Dastar*, 539 U.S. at 33-34).

85. *Id.* at 934.

create priority rights.”<sup>86</sup> The court then examined Keane’s allegations and concluded that, even in the context of a 12(b)(6) motion to dismiss for failure to state a claim upon which relief could be granted, Keane had neither alleged nor could show that members of the general public had come to know and associate the “American Idol” mark with him before the Fox television series aired.<sup>87</sup> Keane admitted that he never actually sold or produced his show, and the only “use” he alleged was an admittedly unsuccessful effort to sell it. In the court’s view, “mere expectation or hope that a mark will be used, i.e., attempts at ‘promotion and marketing’ of an idea under a ‘mark,’ is insufficient to establish exclusive rights in a mark.”<sup>88</sup>

#### IV. TORTIOUS INTERFERENCE

In *Burke v. Union Pacific Resources Co.*,<sup>89</sup> the Texarkana Court of Appeals again expressed dissatisfaction with the Texas Supreme Court’s conclusion that the proper limitations period on a cause of action for tortious interference is two years.<sup>90</sup> In *Dickson Construction, Inc. v. Fidelity & Deposit Co. of Maryland*,<sup>91</sup> the Texarkana court first criticized the Texas Supreme Court’s reasoning that led to that conclusion, though it chose to adhere to the application of section 16.003 to tortious interference claims “until the Texas Supreme Court changes its interpretation.”<sup>92</sup>

In *Burke*, the plaintiff was a feedlot operator who complained that seismic operations by the defendant caused its water well to produce too much sand, effectively ruining the feedlot business. The initial question was whether the “discovery rule” applied to claims for tortious interference.<sup>93</sup> The defendant argued that it did not because tortious interference dealing with these types of injuries is “not inherently undiscoverable and objectively verifiable.” The Texarkana court assumed, but did not specifically decide, that the discovery rule applied. The court concluded that even if the discovery rule applied, there was evidence from which a rational juror could have concluded that the plaintiffs knew or should have known that a third party committed tortious acts before the filing deadline expired. The court also concluded that the great weight and preponderance of the evidence was not contrary to the jury’s conclusion as

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86. *Id.* (quoting *Hydro-Dynamics, Inc. v. George Putnam & Co., Inc.*, 811 F.2d 1470, 1473 (Fed. Cir. 1987)).

87. *Id.* at 936-37.

88. *Id.* at 937. The court cited *Lucent Info. Mgmt., Inc. v. Lucent Techs., Inc.*, 186 F.3d 311, 318 (3d Cir. 1999) and *Zazu Designs v. L’Oreal, S.A.*, 979 F.2d 499, 503 (7th Cir. 1992), both relying on *Blue Bell, Inc. v. Farah Mfg. Co.*, 508 F.2d 1260 (5th Cir. 1975), “for the proposition that meaningful and public commercial use is required to establish rights in an unregistered mark.” *Id.*

89. 138 S.W.3d 46 (Tex. App.—Texarkana 2004, pet. filed).

90. *Id.* at 71. See also *First Nat’l Bank of Eagle Pass v. Levine*, 721 S.W.2d 287, 289 (Tex. 1986) (holding that tortious interference with business relations was within the meaning of trespass in TEX. CIV. PRAC. & REM. CODE ANN. § 16.003 (Vernon 1986)).

91. 960 S.W.2d 845 (Tex. App.—Texarkana 1997, pet. denied).

92. *Burke*, 138 S.W.3d at 71.

93. *Id.* at 60-61.

to indicate that the result was clearly wrong.<sup>94</sup> The court relied on the Texas Supreme Court's holding that two years is the proper limitations period for tortious interference claims; the claim was held to be barred.<sup>95</sup>

## V. COMMON LAW MISAPPROPRIATION

Common law misappropriation is a hybrid cause of action that is often confusing and difficult to define or apply. In Texas, a commonly cited case for misappropriation analysis is *U.S. Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc.*,<sup>96</sup> which defines the elements of the cause of action as (1) the creation by plaintiff of a "product through extensive time, labor, skill and money;" (2) the use of that product by defendant in competition with plaintiff, thereby giving the defendant a special competitive advantage because he was "burdened with little or none of the expense incurred by plaintiff" in the creation of the product; and (3) commercial damage to plaintiff.<sup>97</sup> Under a broad reading, this definition arguably could extend to virtually any copying of unpatented ideas or concepts in the public domain and run afoul of the Sears/Compco Doctrine.<sup>98</sup> Even when employing a narrower reading, a troubling preliminary issue is determining exactly what is being misappropriated.

In *Thomason v. Collins & Aikman Floor Coverings, Inc.*,<sup>99</sup> the San Antonio Court of Appeals addressed this question. Thomason was an independent carpet manufacturer's representative with an agreement with Collins & Aikman ("C&A") as to the volume prices it would charge for carpets sold to the state of Texas under a particular contract.<sup>100</sup> When C&A later raised its volume price and, according to Thomason, earned an additional \$1.8 million of profits for which it did not pay Thomason additional commissions, Thomason "sued C&A alleging breach of contract, breach of agency relationship, breach of fiduciary and/or duty of good faith and fair dealing, unjust enrichment, constructive trust, and misappropriation."<sup>101</sup>

Thomason alleged that C&A misappropriated the "fruits of [his] knowledge, work and efforts."<sup>102</sup> The court did not doubt that Thomason's time, labor, and skill were spent securing C&A's position on the 1996 contract.<sup>103</sup> Nevertheless, the court sought an actual "work product" that was misappropriated. According to the court, "an element of a

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94. *Id.*

95. *Id.* at 72.

96. 865 S.W.2d 214 (Tex. App.—Waco 1993, writ denied).

97. *Id.* at 218.

98. See *Sears Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 231-32 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237-39 (1964).

99. No. 04-02-00870-CV, 2004 Tex. App. LEXIS 2823 (Tex. App.—San Antonio, Mar. 31, 2004, pet. denied).

100. *Id.* at \*1-3.

101. *Id.* at \*4-5.

102. *Id.* at \*13.

103. *Id.* at \*13-14.

claim for misappropriation is the creation of a work product,"<sup>104</sup> and Thomason's time, labor and skill "did not result in a 'work product' subject to appropriation by a competitor."<sup>105</sup>

Though not addressed in *Thomason*, the Fifth Circuit Court of Appeals recently discussed common law misappropriation in *Dresser-Rand Co. v. Virtual Automation, Inc.*<sup>106</sup> In that case, Dresser-Rand hired a Mr. Mezzatesta to develop a new type of control system through the "Trax" project that could both operate machinery and control a plant. Mr. Mezzatesta, while employed by Dresser-Rand, formed a separate company, Virtual Automation, to market a controls product that could simultaneously operate machinery and process controls. Virtual Automation signed a contract with Apix, a hardware manufacturer, on the same day that Apix signed an exclusive sales agreement with Dresser-Rand. At trial, the jury found for Dresser-Rand on its common law misappropriation claim against Apix.<sup>107</sup>

On appeal, Apix claimed that, because the "Trax" project was never completed, there was no final product to misappropriate. The court observed that "Texas misappropriation law is specially designed to protect the *labor*—the so-called 'sweat equity'—that goes into creating the work," and the court did not accept the argument that there could be no misappropriation because there was no "final" product.<sup>108</sup> The court heard testimony that Dresser-Rand produced the plan and specifications to make the product and that this was "the essence of the product." The court concluded that "a final product is not required before it can be misappropriated" and upheld the lower court's judgment.<sup>109</sup>

Apix also argued that it had never *made* a product using the features that Dresser-Rand planned to use. But the court viewed the testimony as establishing that there were only superficial differences between their products that were intended to be made, and thereby concluded there was sufficient evidence to support the jury's conclusion that Apix "used" technology features associated with the Trax product.<sup>110</sup> Apix also claimed that it had never *sold* its own product and therefore did not "use" it in competition with Dresser-Rand. Here, the court noted that no published cases interpret "the term 'use' as that term is applied in the Texas common law definition of misappropriation."<sup>111</sup> The court analogized,

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104. *Id.* at \*13 (quoting *U.S. Sporting Prods., Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214, 218 (Tex. App.—Waco 1993, writ denied)).

105. *Id.* at \*14. Compare with other common law misappropriation cases in which ideas—accompanied by detailed business plans, movie scripts or treatments, toy designs and the like—may be proper subjects of "misappropriation" treatment. See *Nat'l Basketball Assn. v. Motorola, Inc.*, 105 F.3d 841, 853-54 (2d Cir. 1997); *Reeves v. Alyeska Pipeline*, 926 P.2d 1130, 1135-36 (Alaska 1996).

106. 361 F.3d 831, 839-40 (5th Cir. 2004).

107. *Id.* at 838.

108. *Id.* at 839 (quoting *Alcatel USA, Inc. v. DGI Techs., Inc.*, 166 F.3d 772, 778 (5th Cir. 1999)).

109. *Id.*

110. *Id.* at 839-40.

111. *Id.* at 840.



however, to the tort of misappropriation of trade secrets, explaining that under Texas law, a defendant's attempt to market a product would satisfy the commercial use requirement.<sup>112</sup> Here, it was clear that the former employee and Apix were already taking orders for sales of the "clone" product while Mr. Mezzatesta was still employed by Dresser-Rand; this was enough for the court to conclude that Apix "did in fact 'use' the Trax technology."<sup>113</sup>

Apix also argued that it merely "planned to combine its own hardware with publicly available software." But the court noted that the evidence showed "Dresser-Rand, not Apix, was responsible for coming up with the *idea* for the control system, investing the time, labor, skill, and money to design the specifications, modify the existing hardware and software components, and conduct the alpha testing of the product."<sup>114</sup> Although the court used the word "idea" here, there appeared to be more than a mere "idea" at issue.<sup>115</sup>

A federal district court in Houston helped clarify this area of law in *Keane v. Fox Television Stations, Inc.*<sup>116</sup> Plaintiff Keane alleged a variety of claims against Fox TV, generally asserting that it copied his idea for a talent show to be called "American Idol." He claimed that a mass mailing of his "descriptive sales packet," internet postings, and discussions with five individuals were facts showing that he had used his "American Idol" marketing idea "in interstate commerce before the Fox television show 'American Idol' began airing in summer 2002."<sup>117</sup>

Keane sued for "common law misappropriation of idea/trade secret." The court observed that Keane pleaded his misappropriation cause of action in a confusing manner "because it combine[d] features and relie[d] on case law involving three distinct causes of action: misappropriation of a product, misappropriation of a trade secret, and misappropriation of an idea."<sup>118</sup> The court noted that misappropriation of a product or trade secret "ha[s] been explicitly recognized under Texas law" but "misappropriation of an idea" has not.<sup>119</sup> Nevertheless, the court assumed, apparently without deciding, that all three causes of action are available under Texas law and discussed each in turn.<sup>120</sup>

In analyzing "misappropriation of a product, the court cited *Johnny Stewart Game Calls*.<sup>121</sup> In analyzing misappropriation of a trade secret,

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112. *Id.* (citing *Forscan Corp. v. Dresser Indus., Inc.*, 789 S.W.2d 389, 395 (Tex. App.—Houston [14th Dist.] 1990, writ denied)).

113. *Id.*

114. *Id.* (emphasis added).

115. *Cf. Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1205 (5th Cir. 1996) (holding that a purchaser of a furnace was on notice that the furnace contained disputed trade secrets, but escaped, or perhaps deferred, liability because it had not yet turned the furnace on and hence had not "used" the trade secrets).

116. 297 F. Supp. 2d 921 (S.D. Tex. 2004).

117. *Id.* at 928-29.

118. *Id.* at 938.

119. *Id.*

120. *Id.*

121. 865 S.W.2d 214 (Tex. App.—Waco 1993, writ denied).

the court quoted the familiar six-factor test repeated in *In re Bass*.<sup>122</sup> To elucidate “misappropriation of an idea,” the court looked to *Official Airlines Schedule Information Services, Inc. v. Eastern Airlines, Inc.* (“*Oasis*”),<sup>123</sup> in which the Fifth Circuit defined the elements of misappropriation of an idea as: “(1) the idea must be novel; (2) the disclosure of the idea must be made in confidence; and (3) the idea must be adopted and made use of by the defendant.”<sup>124</sup> The court did note that the law described in *Oasis* is not Texas law, but assuming it is applicable, the court concluded that the pivotal element for purposes of a 12(b)(6) motion would be the confidentiality element because the other two elements would be fact specific for the jury.<sup>125</sup>

The court recognized that Keane did “not allege that he produced a ‘product’ as courts considering the viability of the misappropriation of a product tort have construed that term,” thus distinguishing this kind of alleged misappropriation from the kind in *Johnny Stewart Game Calls* and similar cases.<sup>126</sup> Instead, the court concluded it need only consider whether Keane could sustain a cause of action for misappropriation of an idea or a trade secret. In either case, a critical threshold issue would be confidentiality.<sup>127</sup> Keane could not meet this requirement. Though the court would ordinarily presume the truth of his assertions in a 12(b)(6) context, it was not required to accept as truth “conclusory allegations that are contradicted by documents referred to in the complaint,” and one court found this to be the case.<sup>128</sup> Under Fifth Circuit precedent, Keane could not “create a confidential relationship between himself and the production companies to whom he allegedly sent his idea simply by declaring that it was self-evident that he hoped to be paid for [the materials’] use.”<sup>129</sup> Also, sending ideas as he did—particularly by advertising them on the internet—“entirely eviscerate[d] his ability to characterize that concept as a trade secret or as an idea that was conveyed in confidence to a select group.”<sup>130</sup>

## VI. COMMON LAW FRAUD

In *Dresser-Rand v. Virtual Automation*,<sup>131</sup> Apex contended that although it had signed two separate contracts with two different entities on the same day, it could not be liable for common law fraud because its contract with Virtual Automation expressly prohibited it from selling the hardware in Dresser-Rand’s “[a]rea of [a]pplication.”<sup>132</sup> The court

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122. 113 S.W.3d 735, 739-40 (Tex. 2003).

123. 333 F.2d 672, 673-74 (5th Cir. 1964).

124. *Id.*

125. *Keane*, 297 F. Supp. 2d at 939.

126. *Id.*

127. *Id.*

128. *Id.* at 940.

129. *Id.*

130. *Id.* at 940-41.

131. 361 F.3d 831 (5th Cir. 2004).

132. *Id.* at 841.

viewed the two contracts as irreconcilable. The contract with Virtual Automation only prohibited Virtual Automation from selling to Dresser-Rand and its subsidiaries or affiliates in the affected area; the contract did not prohibit Virtual Automation from selling to anyone else. Accordingly, it appeared that Virtual Automation would have the right to compete with Dresser-Rand in that area, which would conflict with the exclusive right Apix granted to Dresser-Rand on the same day. The court, therefore, held this was sufficient to support the district court's denial of Apix's motion for j.n.o.v. on Dresser-Rand's fraud claim.<sup>133</sup>

Another issue dealt with the damages Dresser-Rand could claim as a result of this fraud, since Virtual Automation had never made a product to compete with Dresser-Rand's product. In Apix's view, because Virtual Automation never made a product, Dresser-Rand never suffered any damages.<sup>134</sup> The court agreed that among the essential elements of fraud is a showing of injury suffered as a result, and that the measure of damages in a fraud case is the actual amount of the plaintiff's loss that directly or proximately results from the defendant's fraudulent conduct.<sup>135</sup> Pointedly, the court noted that "[t]he desired end is actual compensation for the injury, not lost profits."<sup>136</sup>

Here, the loss suffered was Dresser-Rand's investment in the Trax product. Dresser-Rand realized that it would be preempted by the other fraudulently acquired product, which would "effectively cause Dresser-Rand to lose its profitability. . . ." Accordingly, Dresser-Rand abandoned the Trax product. The court held that this supported the jury's conclusion that the fraud caused Dresser-Rand to prematurely withdraw from the market, "thereby suffering the loss of its investment cost."<sup>137</sup>

## VII. NONCOMPETITION COVENANTS

The enforceability of stock option "clawbacks" was again an issue in *Olander v. Compass Bank*.<sup>138</sup> Olander was an at-will executive with Compass Bank, subject to nondisclosure and noncompetition covenants. Part of his compensation was stock options granted on an annual basis through a series of annual agreements. The agreements, however, contained what the court described as a "remarkable provision"—the enforceability of the noncompetition covenants was "a *precondition* for the stock option to remain in effect."<sup>139</sup> If a court held the noncompetition covenant to be invalid, Olander would have to return either the shares of stock or the profits he had made from the stock's sale.<sup>140</sup> Olander de-

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133. *Id.*

134. *Id.* at 843-44.

135. *Id.* at 843 (citing *Tilton v. Marshall*, 925 S.W.2d 672, 680 (Tex. 1996)).

136. *Id.* (citing *C&C Partners v. Sun Exploration & Prod. Co.*, 783 S.W.2d 707, 718 (Tex. App.—Dallas 1989, writ denied)).

137. *Id.* at 844.

138. 363 F.3d 560, 562-63 (5th Cir. 2004).

139. *Id.* (emphasis added).

140. *Id.* at 563.

scribed this as a “clawback provision,” while Compass preferred to call it a “restoration provision.”<sup>141</sup> Olander exercised the stock options but left Compass in 2001 and began working for a competitor. On summary judgment, the district court held the noncompetition covenants unenforceable, but also held that Olander must pay to Compass the profits he made from selling the stock received under two of the stock option agreements.<sup>142</sup>

The appellate court affirmed the judgment and refused to enforce the noncompetition covenants.<sup>143</sup> Here the court found no non-illusory promises: Olander was an at-will employee; the stock option contained only illusory promises on Compass’s part apparently because its obligations were dependent on a period of continued employment; the nondisclosure agreement did not contain any express promises on Compass’s part to provide any trade secrets to Olander, nothing in the record suggested that Compass actually provided any trade secrets to Olander, and the district court “did not mention whether Compass proved that Olander actually *received* any information” as opposed to merely having access to it.<sup>144</sup> Thus, Compass “failed to show that it accepted a unilateral agreement,” and the agreement did not constitute an “otherwise enforceable agreement . . . because it was not valid at the time of the promise.”<sup>145</sup>

Interestingly, Compass also urged that the court’s recent decision in *Guy Carpenter & Co. v. Provenzal*<sup>146</sup> would require the court to find an “otherwise enforceable agreement” in the stock option agreements themselves. However, the court distinguished *Guy Carpenter* on two grounds. First, the parties had agreed to a severance package in event of improper termination, which was a separate and enforceable agreement not present in *Olander*. Second, the employer in *Guy Carpenter* expressly “promised to provide confidential information to the employee,” while the employer in *Olander* made no such promise.<sup>147</sup>

Olander’s victory on noncompetition covenant may have been a pyrrhic one; with a different interpretation of “supercede” in the later stock option agreements, the appellate court required that he return not only the profits from stock sales off the last option agreements, but the profits from *all* of them.<sup>148</sup>

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141. *Id.* at 562 n.5.

142. *Id.* at 563-64.

143. *Id.* at 564 (citing *Light v. Centel Cellular Co.*, 883 S.W.2d 642 (Tex. 1994) (interpreting TEX. BUS. & COMM. CODE ANN. § 15.50 (Vernon 2004))).

144. *Id.* at 565 (emphasis added).

145. *Id.* at 565-66.

146. 334 F.3d 459 (5th Cir. 2003).

147. *Olander*, 363 F.3d at 566 n.15.

148. *Id.* at 568.

## VIII. COMMON LAW UNFAIR COMPETITION

Under Texas law, “unfair competition” is a general rubric covering “all statutory and nonstatutory causes of action arising out of business conduct which is contrary to honest practice in industrial or commercial matters.”<sup>149</sup> “To prevail, the plaintiff must show that the defendant committed an illegal act that interfered with the plaintiff’s ability to conduct its business; the illegal act need not necessarily violate criminal law, but must at least be an independent tort.”<sup>150</sup>

Applied to the *Keane v. Fox Television Station*’s facts, the “independently tortious act” alleged by Keane was that the defendants misappropriated his novel idea, which he claimed was a trade secret. Since his misappropriation claims failed, however, his unfair competition claim failed as well for a lack of underpinning.<sup>151</sup>

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149. *Am. Heritage Life Ins. Co. v. Heritage Life Ins. Co.*, 494 F.2d 3, 14 (5th Cir. 1974).

150. *Keane v. Fox Television Stations, Inc.*, 297 F. Supp. 2d 921, 938 (S.D. Tex. 2004) (citing *Taylor Publ’g Co. v. Jostens, Inc.*, 216 F.3d 465, 486 (5th Cir. 2000)).

151. *See id.* at 941.