No. 06-17-00112-CV

In the Sixth Court of Appeals
Texarkana, Texas

American Piping Inspection, Inc. and Samuel D. Orbison,
Appellants,

v.

Ma-Tex Wire Rope Company, Inc.,
Appellee.

Appellee's Brief

Gregory D. Smith
Nolan Smith
SMITH LEGAL PLLC
110 N. College Ave., Suite 1120
Tyler, TX 75702
greg@smithlegaltx.com
nolan@smithlegaltx.com
Phone: (903) 630-7118
Facsimile: (903) 609-3077

Bruce A. Smith
Brett F. Miller
WARD, SMITH & HILL, PLLC
P.O. Box 1231
Longview, TX 75606
bsmith@wsfirm.com
bmiller@wsfirm.com
Phone: (903) 757-6400

ATTORNEYS FOR APPELLEE

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Statement of the Case

Nature of the case

This suit litigates a serious trade-secret misappropriation and the breach of an employment contract's non-compete and non-solicitation provisions.

To avoid the effort of honest business development, API and Orbison conspired to steal Ma-Tex's carefully-tended trade secrets. They recruited Ma-Tex's key recertification staff. They used its most confidential information to undermine its competitive advantage and undercut its pricing. They co-opted its proprietary processes. And they even sowed a rumor that Ma-Tex no longer operated an active equipment-recertification service. In short, they weaponized Ma-Tex's own confidential information against it in every way imaginable.

Trial Court

Hon. Vincent Dulweber, County Court at Law No. 2, Gregg County

Course of Proceedings

Bench Trial. Judge Dulweber declared Orbison liable for breaching his employment contract. He held both defendants liable for misappropriating Ma-Tex's trade secrets. CR2307. And he awarded Ma-Tex relief including an injunction (i) restraining Orbison and API from using or disclosing Ma-Tex's confidential information, (ii) restraining API from further interfering with Orbison's employment agreement, and (iii) restraining Orbison from either competing with Ma-Tex in its area of operation or soliciting its employees. CR2734-35.

Judge Dulweber also awarded Ma-Tex actual damages of $126,494.83 (compensating lost goodwill, lost profits, and disgorgement/forfeiture of a small portion of Orbison's compensation), together with attorney's fees of $216,399 through trial. CR2732. And he decreed that API take nothing on its counterclaim for bad-faith suit filing. CR2732.

Issues

1. **Regarding Discovery:** Before trial, when API/Orbison complained that the actual-damages issues had not been adequately discovered, the trial court offered them a continuance, which they rejected. Did API/Orbison thus waive their principal issue, a challenge to the adequacy of Ma-Tex's discovery responses on actual damages?

2. **Regarding the Remedies:** Did Ma-Tex, by proving Orbison's misappropriation and illicit competition, in violation of his fiduciary duty and employment contract, together with API's complicity, prove the basis for equitable remedies including a prospective injunction and the modest disgorgement of a sliver of Orbison's employment compensation? And did Ma-Tex additionally prove compensable losses of goodwill and profits, via the factual testimony of its CEO/Owner?

3. **The Form of Injunctive Relief:** Is the trial court's injunction a legally justified and properly-scoped remedy for the defendants' joint misappropriation and Orbison's violation of his non-compete covenant?

4. **The Purported Termination Letter:** Is a post-employment termination letter of any consequence when, as here, (a) the employee has promised not to compete for a period of years commencing *after* the employment contract ends and (b) the defendants' trade-secret misappropriation is actionable independent of any employment agreement?

5. **API/Orbison's Counterclaim:** Ma-Tex, having prevailed on its claims at trial, cannot have prosecuted them in bad faith. Did the trial court properly reject API's bad-faith counterclaim?

6. **Attorney's Fees:** The defendants attack attorney's fees largely by rehashing a fated attack on actual damages. But Ma-Tex would remain the prevailing party even absent any actual damages, and the actual damages are in fact recoverable. Can there be any doubt that Ma-Tex is entitled to recover attorney's fees (from API/Orbison under the Trade Secrets Act and from Orbison individually for breach of contract)?

Statement of Facts

A. The Parties

Formed in the 1960s and headquartered in Kilgore, Ma-Tex Wire Rope Company is a family-owned oil-service company operating through five divisions. 7RR37, 38. Its CEO and owner, Mike Matthews, is a third-generation rigging expert. 7RR37.

American Piping Inspection (API) is a Tulsa-based oil-service company with an office in Kilgore. 9RR116. It primarily does nondestructive testing. 9RR117. Before the events of this suit, it had no work in the recertification area.

Sam Orbison was formerly Ma-Tex's recertification-division coordinator, before he left to work for API.

B. Ma-Tex develops an industry-leading wireline-recertification business.

Wireline recertification, a niche business, is the heart and soul of Ma-Tex's recertification division, representing about eighty percent of receipts and spanning some nineteen states. 7RR38-42, 77; PX1. It—Ma-Tex's wireline recertification business—is uniquely comprehensive. 7RR178. A few other entities do bits and pieces of wireline recertification, 7RR41, in scattered locales. 7RR178-79. And a couple of manufacturers will recertify their own equipment (with slow turnaround and a process that isn't particularly customer friendly). 7RR194, 251-52. But no one else does wireline

recertification quite like Ma-Tex, with its breadth of offerings, level of service, and geographic scale. 7RR42.

Ma-Tex's wireline-recertification leadership didn't just happen. A decade ago—when no one else in the oil business much cared about recertification—the company's managers saw an opportunity and set out diligently to develop it—through "tremendous effort," including extensive research into scientifically valid and efficient procedures and a program of customer education. 7RR54-55. The resulting procedures and knowledge are the company's competitive edge. 7RR41.

C. Ma-Tex builds the recertification business around its trade secrets.

Ma-Tex's in-house proprietary procedures and knowledge are broad ranging, and include:

(1) Industry contacts. Through relationships that developed in its electric wireline division some 35 years ago, Ma-Tex today knows just who to contact at the customer companies to get and keep wireline-recertification work. 7RR55.

(2) Ma-Tex's Customer Care Center. From scratch, Ma-Tex's Vice President, Steve Drew, developed a proprietary, web-based, highly confidential and password-protected tracking system—its Customer Care Center ("CCC")—to manage individual customer inventories, recordkeeping, and recertification schedules. 7RR46-47, 50-51. Ma-Tex subsequently has invested over a quarter-million dollars in developing and maintaining software to run the CCC. 7RR48.

(3) A Bin-Based Tracking System. Ma-Tex devised a simple but ingenious system, involving tagged wire bins, for its customers to conveniently isolate, store and ship equipment needing recertification and for Ma-Tex to efficiently return the recertified items. 7RR45-46. This process, which all but eliminates the headache of keeping up with inventory and recertification scheduling, is a hit with customers. 7RR45.

(4) Recertification Protocols. Utilizing its own experiences, its own databases of manufacturer information, its own R & D, and the expertise of its on-site engineer, Ma-Tex has developed proprietary recertification protocols designed to minimize equipment failures. 7RR214, 41.

(5) The DCS Accounting System. Ma-Tex maintains highly confidential databases of accounting and billing information, cost and profit figures, and sales and inventory on its DCS Accounting system. 7RR78. Because it took years of research to compile this data, *id.*, Ma-Tex carefully restricts the system's access to just a few key personnel. *Id.*

(6) Inspection Audits. As an important customer convenience, Ma-Tex conducts inspection audits and inventories at customer sites. 7RR86. To Ma-Tex's knowledge, no other wireline-recertification company does this. *Id.*

(7) Customer profiles. Over time, through an intentional effort to get to know the customer, Ma-Tex has developed a set of confidential customer profiles specific to

each customer and customer location. 7RR81-82. These profiles hold a treasure trove of specific customer preferences. *Id.*

D. Ma-Tex hires Orbison under an employment agreement protecting the company's customers and proprietary information.

When Ma-Tex hired Orbison, in 2011, as a management trainee, he was a young college grad with no experience in the oil business, let alone wireline recertification. 7RR59-61. Ma-Tex agreed to train Orbison and give him confidential and trade-secret information about its business. In exchange, Orbison signed an employment agreement on September 15, 2011, his first day on the job. PX7; 7RR59. The agreement included a covenant not to compete, a non-disclosure provision, and a non-solicitation provisions. PX7. Relatedly, the employment agreement included Orbison's promise not to "engage in any other business . . . or . . . in any activities which are or could be detrimental to the existing or future business of" Ma-Tex. PX7; 7RR68. The agreement declared Ma-Tex's customer names, lists, and profiles as confidential. 7RR81-82.

Before signing the employment agreement, Orbison was given time to review the document and he discussed its terms (including its non-compete clause, non-solicitation provision and non-disclosure provision) with Steve Drew, Ma-Tex's V.P. 7RR64-65.

E. Ma-Tex provides Orbison with specialized training and confidential information.

As agreed, Ma-Tex gave Orbison specialized training in matters such as its wireline-recertification process, manufacturer specifications, how to inspect rigging, 7RR72, how to use the CCC, 7RR69, how to perform Ma-Tex's inspection audits, 7RR86, and how to perform electric wireline billing (a "very complicated" task that only Ma-Tex's CEO/owner knew how to do). 7RR70. In the process, Orbison gained access to a slew of confidential information including: design techniques, 7RR77, customer lists and information, 7RR81-82, vendor information, 7RR77, software applications, 7RR77-79, sales databases and customer profiles, 7RR79-80, billing/pricing techniques (including invoicing and markups), 7RR80-81, and the company's marketing strategies. 7RR81. He thus acquired inside knowledge of the way Ma-Tex priced its services to different levels of customers, Ma-Tex's logistical network, and what products Ma-Tex wanted to push. 7RR81. Orbison was one of a select few employees given full access to Ma-Tex's DCS accounting information. 7RR78.

F. Ma-Tex makes Orbison its recertification coordinator.

In 2013, Orbison became the company's recertification coordinator. 8RR33. In that role, he acquired access to even more confidential customer data and daily interacted with Ma-Tex's recertification customers, all of which Ma-Tex's leaders—not Orbison—had secured. 8RR33, 74-75. Orbison likewise came to know Ma-Tex's specific and specialized industry vendors, none of which he had secured. 7RR75, 77.

G. Covertly, Orbison allies with API against Ma-Tex.

Orbison left Ma-Tex in August of 2016. But his affiliation with API began at least six months earlier, in the Spring, around the time Orbison switched Ma-Tex's non-destructive testing work from another vendor to API. 8RR41-42. In subsequent months (still during Orbison's Ma-Tex employment), Orbison communicated extensively with API's Vice President, David Alcorn—in emails, *at least 160 distinct text messages*, and an unknowable number of phone calls and meetings. 7RR244; 8RR66; PX59. The discussions that we know of (because they were recorded in texts and emails), included specific talks about Orbison's employment agreement and its covenant not to compete. 7RR244; PX59 (DA-6). API asked to see the agreement. PX59 (DA-7). Orbison didn't have it. Both parties agreed he shouldn't ask Ma-Tex about it, 8RR49-50, so as not to tip Ma-Tex off to their misdeeds. So Orbison arranged for another Ma-Tex employee to request a copy of *her* employment agreement. On receiving it, she immediately forwarded it to Orbison. 7RR245. Her contract, which Orbison and Alcorn discussed, also contained a covenant not to compete, a non-solicitation provision and a non-disclosure provision. 7RR245.

On June 2, 2016—still about 75 days before he would leave Ma-Tex—Orbison texted Alcorn about their plan for soliciting Ma-Tex's other recertification-division staff. PX59 (DA-8). Their discussion referenced confidential information on "hourly rates" and "salary structures." 8RR75-76; PX59 (DA-8). In a follow-up discussion, Orbison stressed that landing these Ma-Tex workers for API was necessary "in order

to operate because the training is expensive and takes a while." PX59 (DA-12). In other words, if they would work jointly to violate Orbison's pledge not to solicit Ma-Tex's employees, they could begin the actual competition far sooner. That was all Alcorn needed to hear: he green lighted Orbison to sign the employees up, 8RR76, even though it violated Orbison's employment-agreement pledge to refrain from any such solicitation.

Emails passed from Orbison to Alcorn and API's owner about "initial setup" of API's competing wireline-recertification business. 7RR131-32; PX24. In these discussions, Orbison cataloged the "high value" items (from Ma-Tex's recertification shop) that "we" would need "to begin processing" wireline-recertification orders. 7RR132, 228; PX24. Follow-up emails confirmed these needs. 7RR248-49; PX59. Orbison even used Ma-Tex's electronic forms to draft orders for buying equipment necessary to setting API up in its competing business. 7RR250.

A July Orbison text to Alcorn confirmed that Orbison—still a Ma-Tex manager and fiduciary—was into the nitty gritty of soliciting Ma-Tex's customers for API, or, as he euphemistically put it, "prepping" them for their "transition." PX59 (DA-18). We have no way of knowing the full extent of this "prepping," but we know this: Orbison understood it to be a big deal, gloating to Alcorn that "everyone" he had contacted had been brought "onboard." *Id.* He thus expected to be "processing orders" for these fully "prepped" customers within weeks. So Orbison's text re-emphasized the imperative of quickly getting in place everything necessary to the recertification work. *Id.*

Despite his intensive, ongoing efforts to set API up with a recertification division that he would apparently run, Orbison, when notifying Ma-Tex he was leaving it, flat lied about his intentions, by telling Steve Drew he was leaving the oil patch to work in either "executive recruiting" or construction. 7RR97-98; 8RR107.

When Orbison left Ma-Tex, he knew how to run a wireline recertification business. 8RR24-25. He knew Ma-Tex's recertification customers and vendor contacts intimately. 8RR24-25. He knew all about Ma-Tex's logistical system and the CCC. 8RR24-25. And he knew just how Ma-Tex linked price to its products and services, how it handled its customer-specific pricing and billing, and how it set about marketing to customers. 8RR24-25. There was little, if anything, about Ma-Tex's proprietary recertification data he hadn't been privy to.

H. Once at API, Orbison begins stealing Ma-Tex customers.

Once Orbison left Ma-Tex, the customer "prepping" became a no-holds-barred solicitation. From the start, Orbison, who plotted to keep his API employment secret, acknowledged he was in a "competitive situation with Ma-Tex." PX36. Orbison provided API a vendor list. 7RR239. Using API's server and working from its offices, he solicited business for API using Ma-Tex contacts that had been on Orbison's phone. 7RR239. (While Orbison at trial denied having taken any contact information with him to API, the documents told a different story. Once Orbison left Ma-Tex, his Ma-Tex email account the very next day received an Apple iCloud robo-text confirming the

transfer of contacts and data from Orbison's Ma-Tex iPhone, which had contained his Ma-Tex contacts, to some unknown other device. 7RR109, 111.)

At least by his second day at API, Orbison was making individually tailored sales pitches utilizing Ma-Tex's confidential data to steal its customers. 8RR143. For example, Orbison not only offered one Ma-Tex customer, Nine Energy, what he called "aggressive discounts" off Ma-Tex's pricing, but he promised to provide it "a report detailing the DOM [date of manufacture], next recertification date, states, et cetera" for Nine Energy's specific equipment—information only Ma-Tex would have had. 7RR87; PX2. Similarly, when Orbison had emailed Schlumberger about moving its recertification accounts, he had touted his Ma-Tex-developed, customer- and location-specific knowledge that Schlumberger's "Bradford Pennsylvania location has some items to be recertified in the near future," to which API could "extend [its] discounted price structure." PX9; 7RR91-92.

With his illicit insider's advantage, Orbison, in just his second week at API, processed two recertification orders, both for Ma-Tex customers that his API-solicitation emails had targeted (Halliburton Pinnacle and ArkLaTex). 8RR114. Orbison acknowledged that his solicitation secured these orders. 8RR114.

API would not have been able to compete successfully in such record time without tapping Orbison's knowledge of Ma-Tex's confidential customer and vendor contact information and its painstakingly developed recertification procedures and

protocols. 7RR156, 165, 247-48. To have honestly developed such materials would have taken years. 9RR92-93.

Meanwhile, back at Ma-Tex, Steve Drew began fielding the calls of angry and confused customers, who not only complained of Ma-Tex's pricing and freight charges but explicitly were questioning whether Ma-Tex was even still actively in the wireline-recertification business. 7RR139-41. So Drew toggled into damage-control mode to mitigate these serious customer-perception issues. 7RR140-41. The rattled customers included some of Ma-Tex's biggest accounts, such as, among others, Cased Hole Solutions, Vesco, and Schlumberger (a top-five Ma-Tex recertification customer, 8RR150-51). 7RR255.

Of course, all this time Orbison—a seemingly smart fellow with a degree in business administration, 7RR242-43—was operating against the grain of an employment agreement that expressly forbade him from competing against Ma-Tex or soliciting its staff. On August 24, Ma-Tex sent Orbison a firmly-worded cease-and-desist letter with a copy of that agreement attached. 8RR130-31. Orbison acknowledges reviewing this letter and forwarding it to API. *Id.* But rather than comply he wrote a defiant response, PX33, PX65, 7RR238, and redoubled the effort to steal Ma-Tex's customers. PX12.

To this latter end, Orbison promptly, on August 29, sent his contact at Schlumberger a written solicitation, PX40, attaching an API price list and urging Schlumberger to designate API as a certification vendor. 8RR151-52. The next week,

API, aided by Orbison, performed its recertification project for Halliburton Pinnacle, a customer Ma-Tex had introduced Orbison to. 7RR119, 122; PX13.

Having tried self-help measures to no effect, Ma-Tex sued, securing an ex-parte TRO enjoining Orbison from violating his non-compete covenant and enjoining API from utilizing Ma-Tex's proprietary information. Even then, after the trial court subsequently entered a TRO against them, API and Orbison still continued to both seek payment for recertification work, PX43, PX13, PX14, 7RR119, 122, and solicit Halliburton—one of Ma-Tex's biggest recertification customers. PX44; PX11.

Rejection of API/Orbison's factual view: This factual statement reflects the record as the trial court was entitled to, and did, find it. In contrast, the defendants' opposing view teeters on a legally impermissible assessment, built on the testimony of API's owner, Orville McBride, and Sam Orbison—testimony the trial court, in two unchallenged findings, categorically declared not credible (and, thus, testimony that now carries no weight). *See* CR2306. The trial court's credibility assessment was richly merited, in part by the many instances in which McBride and Orbison were impeached with incontestable documentary proof, including their own emails and text messages. *See, e.g.,* 8RR62-63 (testimony by Orbison, denying the clear words of a damning text by implausibly blaming it on the software's autocorrect feature and his "fat fingers"); 8RR90-91.

Summary of the Argument

API/Orbison present nothing that should give this Court any pause in affirming Judge Dulweber's determinations.

Discovery. Rather than address the merits, API/Orbison first challenge Ma-Tex's discovery responses. This argument was waived by refusing the trial court's offer of a continuance.

As for the merits, the trial court's rulings were proper in all respects:

Injunction. The trial court properly enjoined the offending conduct. Orbison's employment agreement contained an unchallenged covenant not to compete restricting him from competing against Ma-Tex for 5 years post-employment. Orbison's alleged termination of the employment agreement during this litigation is immaterial. No savings clause is needed for the post-employment provisions of Orbison's contract to have effect. As for API/Orbison's attacks on the injunction's terms, they are strawmen that generally attack provisions the injunction doesn't even include. The injunction is properly drafted with a proper scope.

Damages. The trial court correctly awarded Ma-Tex damages for loss of goodwill, lost profits, and equitable disgorgement.

(1) **Goodwill.** Ma-Tex proved a compensable loss of goodwill through the testimony of its owner, who determined the *minimum* loss by calculating the time and expense Ma-Tex would spend repairing the company's goodwill.

(2) **Lost Profit.** Ma-Tex also proved a modest lost net profit of $2,321, also through its owner's testimony. These lost profits resulted from two specifically identified wireline recertification jobs that API/Orbison stole and Ma-Tex otherwise would have performed.

(3) **Equitable Disgorgement/Forfeiture.** Ma-Tex additionally proved the basis for equitably disgorging small amounts of Orbison's compensation, to vindicate the duty of loyalty that every employee/manager owes his employer. Absent some such awards, the result would incentivize others to breach their employment duties.

Bad Faith Filing. The trial court properly rejected API's arguments about Ma-Tex's alleged bad-faith suit filing. Not only does no such cause of action exist in Texas, but Ma-Tex acted always in good faith, and as would any jilted employer whose competitive advantage has just been stolen from it.

Attorney's Fees. The trial court also properly awarded attorney's fees against Orbison for his breach of the employment contract and against Orbison and API for their misappropriation of Ma-Tex's trade secrets and confidential information.

In summary, this Court shouldn't fall for API/Orbison's briefing ploys. The case presents a clear misappropriation of trade secrets and confidential information and clear breaches of contract and fiduciary duties. The defendants' conduct strikes at the heart of Ma-Tex's business. On learning of that conduct, Ma-Tex did what any reasonable employer/business should be encouraged to do—it sent a cease-and-desist letter then,

when that failed, it filed suit and sought a prompt trial. As the trial court concluded, on ample proof, if Ma-Tex's past damages would not have been compensated and the defendants' further violations enjoined, it could jeopardize Ma-Tex's recertification division, if not the company itself.

The decision below should be affirmed.

Argument

This case presents a familiar scenario: A company seeks to expand into new business lines. But rather than go about it the right way, it takes a shortcut, conspiring with a competitor's manager to steal the latter's trade-secret procedures, its confidences, customers and key employees. Then the conspirators lie about it, in a coverup. That would be bad enough, and would support the full range of injunctive and equitable relief afforded to Ma-Tex. But in this case it gets worse, because Orbison was under an iron-clad employment contract explicitly preventing him from (1) disclosing or using Ma-Tex's confidences and trade secrets, (2) soliciting Ma-Tex's customers, or (3) soliciting Ma-Tex's employees. The relief afforded is proper as against both defendants, for their complicity in the misappropriation, employment-contract breaches, and breaches of Orbison's fiduciary duties. Orbison and API acted in concert to misappropriate Ma-Tex's secrets and to cherry pick prized customers.

I. The Trial Court's Unchallenged Findings and Conclusions Support the Judgment

The defendants attack the proof of actual damages, but otherwise they raise no factual or legal sufficiency challenge to the trial court's fact findings and conclusions, and no organized factual attack on the liability case. This is no small matter. The findings and conclusions are extensive. CR2298-2313. They are the backbone of the judgment. And because they are unchallenged, this Court should take them as established. *McGalliard v. Kuhlmann*, 722 S.W.2d 694, 696 (Tex. 1986); *In re E.R.C.*, 496 S.W.3d 270, 288 (Tex. App.-Texarkana 2016, pet. denied).

Findings of Fact. Among other things, the unassailed findings establish that:

1. When Orbison hired on at Ma-Tex, he had no experience in wireline recertification. FOF 17, 26. He signed an employment agreement acknowledging the confidential nature of Ma-Tex's customer information, FOF 25, and agreeing to non-solicitation, non-disclosure, and non-compete restrictions, FOF 17, which prohibited Orbison from competing against Ma-Tex for five years post-employment (and five years post the resolution of any employment litigation). FOF 18.

2. While still working for Ma-Tex, and with API's knowledge, FOF 55, Orbison helped API (i) open its wireline recertification division, FOF 54; (ii) solicit Ma-Tex customers, FOF 52; and (iii) solicit Ma-Tex employees. FOF 53.

3. Orbison disclosed Ma-Tex's distribution network and tracking software to API. FOF. 44. He used Ma-Tex's customer contacts and pricing information to solicit business for API. FOF 65. And after resigning from Ma-Tex, he downloaded Ma-Tex's customer contacts to his personal phone. FOF 60.

4. Orbison lied to conceal his contract breaches and trade-secret misappropriation, telling Ma-Tex he was leaving to work in "executive recruiting or construction." FOF 32.

5. At API, Orbison sent solicitation emails to Ma-Tex's top customers offering deep discounts off Ma-Tex prices. FOF 63, 64.

6. API and Orbison flaunted Ma-Tex's cease-and-desist letter (which attached a copy of Orbison's employment contract), by performing two wireline recertifications, hiring a Ma-Tex employee, and continuing to solicit Ma-Tex customers. FOF 76.

7. Even after the trial court issued its TRO, API continued to solicit wireline recertification business from one of Ma-Tex's biggest customers. FOF 77.

8. API/Orbison's solicitation of Ma-Tex's customers caused Ma-Tex to lose goodwill and net profits. CR2304 at ¶¶72-73; CR2305 at ¶81.

9. Neither Orbison's testimony nor API's owner's testimony was credible. FOF 92-93.

10. Ma-Tex's competitive advantage was due precisely to the confidences Orbison/API pilfered, including its procedures, its individually tailored customer pricing strategies, its customer profiles, and the customer interface by which Ma-Tex managed the recertification process. FOF 12, 13.

Conclusions of law. The unattacked conclusions of law include, among others:

1. Orbison and API misappropriated Ma-Tex's trade secrets. COL 9-10.[1]

2. Orbison converted Ma-Tex property in order to obtain business for API. COL 14, 15.

3. Orbison, with API's knowledge and help, breached his fiduciary duty to Ma-Tex by (i) soliciting Ma-Tex customers and employees, and (ii) assisting API at Ma-Tex's expense. COL 17, 18.

[1] API and Orbison contest that Ma-Tex proved the existence of a trade secret, but to the extent that those trade secrets exist, API and Orbison did not contest the trial court's findings/conclusions regarding misappropriation.

4. Orbison and API conspired to (i) convert Ma-Tex's property, (ii) breach Orbison's fiduciary duties, and (iii) violate Orbison's covenant not to compete. COL 22.

5. Orbison breached his employment agreement by (i) soliciting Ma-Tex's customers and employees, and (ii) breaching its covenant not to compete. COL 4.

6. The only adequate relief for Ma-Tex from API and Orbison's solicitation of Ma-Tex customers and the misappropriation of its confidential information is a prospective injunction. CR2310 at ¶¶30-34.

II. The attack on Ma-Tex's discovery responses goes nowhere.

API and Orbison's first (and presumably strongest) argument is a seventeen-page screed about the timing and sufficiency of Ma-Tex's discovery responses regarding its actual damages. The argument is a make weight, which was waived before trial when the defendants refused a continuance (a choice they now ignore).

A. The trial court had discretion to offer a continuance.

When a party asserts that its opponent has failed to make, amend, or supplement discovery in a timely manner—as API and Orbison do, Brief at 23—the trial court may rule on the complaint or grant a continuance. This is every court's right, as stated in Rule 193.6, subsection c:

> **(c) Continuance.** Even if the party seeking to introduce the evidence or call the witness fails to carry the burden under paragraph (b) [*i.e.*, the burden to show good cause or lack of prejudice], the court may grant a continuance or temporarily postpone the trial to allow a response to be made, amended, or supplemented, and to allow opposing parties to conduct discovery regarding any new information presented by that response. TEX. R. CIV. P. 193.6(c).

If this remedy is rejected, it waives further complaint of the alleged discovery violation, exactly as this Court held in *Wal-Mart Stores, Inc. v. Tinsley*. 998 S.W.2d 664, 671-72 (Tex. App.—Texarkana 1999, pet. denied) (applying predecessor to Rule 193.6). Other appellate courts have applied Rule 193.6 to the same result.

> The trial court . . . offered to continue the hearing to allow [Santos] to obtain the information he claimed he was not provided. In effect, the trial court granted the same relief available under 193.6(c) . . . . Santos declined the offer to continue the proceedings, insisting on going forward. He can hardly be heard to argue that he was unfairly prejudiced. *Santos v. Comm'n for Lawyer Discipline*, 140 S.W.3d 397, 404 (Tex. App.—Houston [14th Dist.] 2004, no pet.).
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> Hilburn chose not to avail herself of the trial court's initial offer [of a trial recess to allow a lunchtime deposition], which we have held was reasonable, that was made to remedy any unfair prejudice to her, nor did she explain when given the chance why that offer was insufficient. Accordingly, she can hardly now complain that she suffered unfair prejudice by the admission of Howard's testimony. *Hilburn v. Providian Holdings, Inc.*, 2008 Tex. App. LEXIS 8443, *33-*34 (Tex. App.—Houston [1st Dist.] 2008, no pet.).

Even *Snider v. Stanley,* which API cites (on another issue, Brief at 26), recognizes the trial court's right to remedy inadequate discovery responses with a continuance. 44 S.W.3d 713, 718 (Tex. App.—Beaumont 2001, pet. denied).

B. By refusing a perfectly good continuance, API/Orbison waived any appellate complaint based on Ma-Tex's discovery responses.

When Orbison and API raised their discovery gripe in pretrial proceedings, the trial court put the issue in perspective: (1) the actual damage case was straightforward,

and (2) the discovery period had been tightly compressed, to accommodate the defendants, owing to the pretrial TRO and request for a temporary injunction. 7RR29 ("[W]e're talking about two invoices and then the damage model tied to that"); 7RR28-29 ("This is a case seeking temporary injunction. Because of that, it's been a rather expedited trial schedule"). Then the court offered a generous, no-strings continuance.

> Court's relief's going to be to you, Mr. Walker, is if you believe that you would be prejudiced by the late production, would be a continuance of this trial setting … so that you have an opportunity to explore further the issues; the damage model, the information behind the damage model. Would you like a continuance, Counsel?

API/Orbison categorically rejected this offer, without proving the continuance prejudicial. *See* 7RR28-30. Instead, they contended, wrongly, that they wielded a power to force a trial with all proof of actual damages excluded (essentially, a trial by sanction). 7RR29-30 ("… We've joined issue and we are ready to proceed to trial. … And it's not incumbent upon us to accept a continuous [sic] of the trial proceeding. It's incumbent upon [Ma-Tex] to establish their burden . . .").

There was a time, in the 1980s, when courts might have considered API's position. In this brief period, scores of cases were decided on sanctions addressing discovery squabbles. *See, e.g.*, *Downer v. Aquamarine Operators, Inc.*, 701 S.W.2d 238, 242-43 (Tex. 1985). It quickly became apparent that the misery of the cure far exceeded the disease. *See TransAmerican Natural Gas Corp. v. Powell*, 811 S.W.2d 913, 918 (Tex. 1991) (holding "[d]iscovery sanctions cannot be used to adjudicate the merits of a party's claims or defenses unless a party's hindrance of the discovery process justifies a

presumption that its claims or defenses lack merit. . . . [P]unishment and deterrence . . . do not justify trial by sanctions."). So, this era of sanctions experimentation was short lived.

Today, a more sensible view pertains under the rules and the common law, which encourage merits-based adjudications whenever possible. *See TransAmerican Natural Gas Corp.*, 811 S.W.2d at 918. This includes the trial courts' power to afford continuances as a remedy for allegations of inadequate discovery.

Under both Rule 193.6 and his general powers to preside over trial, Judge Dulweber was within his discretion to offer a continuance. TEX. R. CIV. P. 193.6; *Wal-Mart Stores,* 998 S.W.2d at 671-72. When API/Orbison unceremoniously refused that offer—choosing to litigate the case "as is"—they forfeited any right to complain about discovery after the trial that *they* insisted on went against them. API/Orbison's discovery gotcha should be rejected.

C. Additionally, the defendants failed in their burden to prove the discovery inadequate or untimely.

The available continuance is not the only problem with API/Orbison's discovery complaint. Before any requirement could arise for Ma-Tex to show good cause respecting its discovery answers, API/Orbison first needed to prove Ma-Tex's discovery responses were tardy. *See Snider*, 44 S.W.3d at 715-16 (the burden of production regarding untimeliness of responses filed more than thirty days before trial falls "on the party seeking exclusion"). In this case, the trial court would have been

within its discretion to find Ma-Tex's discovery responses were reasonably prompt. After all, the discovery phase was compressed for "a rather expedited trial schedule," provided as an accommodation to API/Orbison because a TRO was in place. 7RR29. The case was tried a mere nine months after its filing. So it is understandable that some discovery responses would be supplemented towards the close of discovery. Actual damages are typically one of the last matters to be supplemented, for obvious practical reasons. Even so, Ma-Tex disclosed the damage methodology and figures in writing on May 3, more than thirty days before trial. CR1872-73. API/Orbison make many conclusory assertions about the discovery; but they do not begin to prove the discovery unreasonable under the circumstances, let alone prove an abuse of trial-court discretion.

D. The defendants also failed to present an adequate appellate record for adjudicating the adequacy of the discovery responses.

API/Orbison present an insufficient record for appealing the adequacy or timing of Ma-Tex's discovery responses. The appellate record omits deposition discovery that even API and Orbison concede to be relevant—including the initial deposition of Steve Drew and the deposition of Mike Matthews, both of which discuss damage issues, as counsel noted in the excerpt API/Orbison now quote from Steve Drew's second deposition. Brief at 17-18; *see* CR1567 ([by Ma-Tex counsel:] "[O]ur damage model remains the same as it was at the time of the first amended petition *and deposition of Steve Drew the first time. So we're not going to go back through and let you question him again on damages.*"). Coincidentally, the clerk's record includes a few snippets from Matthews' deposition

and from Drew's first deposition (because these skimpy excerpts were exhibits to API/Orbison's now immaterial summary-judgment response). But those excerpts—only about five page-lengths from Drew's 200-page first deposition and a like amount excerpted from Matthews's deposition—barely scratch the surface of the damage discovery. Without accessing the full discovery materials relevant to damages, this Court cannot say the damage discovery was inadequate or not reasonably prompt.

E. The defendants have not proved harm.

An offered continuance generally cures any prejudice that might otherwise occur from omitted or late discovery. *See, e.g., Santos*, 140 S.W.3d at 404. In this case, the trial court's generous offer of a continuance without strings negates any conceivable harm.[2] API/Orbison, which ignore the proffered continuance, do not argue any such harm. And it is too late to do so in a reply brief. *McAlester Fuel Co. v. Smith Int'l, Inc.,* 257 S.W.3d 732, 737 (Tex. App.—Houston [1st Dist.] 2007, pet. denied).

For these reasons—waiver, lack of proof of untimeliness, an insufficient record, and lack of harm—the prolix attack on the actual-damage discovery should be rejected.

[2] API and Orbison indulge hyperbole when they say the "whole case turned" on admission of the actual-damage proof. Nonsense. The actual-damage recovery depends on that proof. But the injunctive relief, attorney's fees, and equitable disgorgement do not. These other remedies independently and adequately prove both the claims for breach of contract and misappropriation of trade secrets and fully support the judgment's awards of equitable relief (injunction and disgorgement/forfeiture) and attorney's fees.

III. The judgment's remedies are proper.

A. The injunction is a proper remedy.

As with many trade-secret cases, when it comes to analyzing the remedies, the primary focus should be on the equitable relief—here, an injunction preventing years of further injury and saving Ma-Tex's recertification division, if not the entire company. *E.g., Lewallen v. Jarma*, 1998 Tex. App. LEXIS 7177 (Tex. App.—Austin 1998) (the right to recover damages may come too late to save the plaintiff's business). The trial court has entered an injunction enforcing the non-compete covenant of Orbison's employment agreement. So the proper beginning is with the terms of that agreement and, specifically, it's non-compete covenant, which states:

> Employee agrees that during his employment **and thereafter for a period of five (5) years**, unless otherwise extended pursuant to the terms hereof, Employee will not, directly or indirectly, either as an employee, employer, consultant, agent, principal, partner, joint venture, investor, lender, stockholder, corporate officer, director or in any other representative capacity, engage or participate in any business that is in competition in any manner whatsoever with the business of Employer. . . CR 25.

The trial court was authorized to enforce this covenant, and to protect Ma-Tex's confidential information and trade secrets, with injunctive relief. *See* TEX. BUS. & COM. CODE § 15.51(a) (covenants not to compete); *Hyde Corp. v. Huffines*, 314 S.W.2d 763, cert. denied, 358 U.S. 898 (1958) (confidential information); *Rugen*, 864 S.W.2d at 551. Any such injunction is reviewed for an abuse of judicial discretion. *Webb v. Glenbrook Owners Ass'n*, 298 S.W.3d 374, 383 (Tex. App.-Dallas 2009, no pet.). For such an abuse to occur, it must appear—after drawing all legitimate inferences favoring the trial

court[3]—that the court acted arbitrarily, unreasonably, and without regard to any guiding legal principles. *Bocquet v. Herring*, 972 S.W.2d 19, 21 (Tex. 1998).

API/Orbison make two attacks on Judge Dulweber's injunction. First, they claim that a termination letter sent during this litigation somehow nullified the non-compete's protections. And second, they call the injunction vague—by attacking terms it does not even contain. These are not viable arguments.

1. The 2017 termination letter is immaterial to the trial court's injunction.

API/Orbison declare that there is no need of any injunction because Orbison in March of 2017—months after the filing of this suit—mailed a letter he says "terminated" the employment agreement and, poof, anointed Orbison's future behavior. Brief at 45-46. Orbison did send such a letter. But it had no such effect.

A formal written termination may be legally significant in many circumstances. But not here. The March letter was at most symbolic in declaring the termination of an already ended employment—like shooting a dead horse. It had no meaningful effect, and certainly did not disturb the agreement's contemplated *post*-employment protections against competition. What is more, even absent any employment agreement, the common law and the Texas statutes would have protected Ma-Tex's confidences beyond Orbison's resignation.

[3] *Super Starr Int'l, LLC v. Fresh Tex Produce, LLC*, 531 S.W.3d 829, 838 (Tex. App.-Corpus Christi 2002, no pet.).

Orbison, in contrast, claims the agreement's covenant not to compete needed some sort of "savings" clause before it could be enforceable. Of course, he provides no support for this argument. The case he cites, *Ostrowski v. Ivanhoe Property Owners Association*, does not concern any such clause or non-compete covenant. 38 S.W.3d 248, 253 (Tex. App.-Texarkana 2001, pet. denied). The dictionary definition Orbison offers of a *savings clause* describes a common *severability* feature applicable when a part of a contract is legally ineffectual. This case does not present any such situation, because the trial court has not declared any portion of the employment agreement to be "void, unenforceable, or unconstitutional."

Nor did the employment agreement's termination clause trigger the necessity for any savings clause. Like all such clauses, its clear intent was simply to confirm Orbison's at-will status, not to void a perfectly good non-compete covenant. In Texas, an otherwise valid non-compete covenant remains enforceable even after the expiration of an at-will employment contract. *See*, *e.g.*, *Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson*, 209 S.W.3d 644, 646 (Tex. 2006) ("an at-will employee's non-compete covenant becomes enforceable when the employer performs the promises it made in exchange for the covenant"). For this reason, a savings clause was unnecessary and would have been surplusage. Indeed, courts have held other clauses in employment agreements, including arbitration provisions, likewise survive the larger agreement's termination without necessity that a savings clause repeat this already explicit intent. *See Cleveland Const., Inc. v. Levco Const., Inc.*, 359 S.W.3d 843, 854 (Tex. App.-Houston [1st Dist.] pet.

dism'd) ("a savings clause was not required for the arbitration provision . . . to survive any termination"). There is no reason to treat non-compete covenants any differently. Orbison cites no contrary authority.

The *Sheshunoff* court held both that (1) non-compete covenants are consistent with and enforceable in at-will employment relationships, 209 S.W.3d at 651-52, and (2) the non-compete covenant was enforceable according to its terms even though the remaining employment agreement terminated. *Id.* at 657. Here, too, an at-will employee signed an employment agreement providing that (i) either party may terminate the agreement at any time, (ii) the employer will provide specialized training and confidential information, CR 24-25, and (iii) the employee will be governed by a non-compete covenant for a period of time after the employment ends. CR25. As in *Sheshunoff*, this covenant is enforceable because during the employment Ma-Tex provided Orbison with confidential information and specialized training. *Sheshunoff*, 209 S.W.3d at 653 n.5.

Orbison's non-compete covenant expressly provides that it remains effective five years *after* Orbison's employment ends and extends this period during any employment-related litigation. CR25 (emphasis ours) ("Employee agrees that during his employment **and thereafter for a period of five years** . . . Employee will not . . . engage or participate in any business that is in competition in any manner whatsoever with the business of Employer."); "[T]he time period of this covenant shall be extended … including any time spent enforcing this covenant … in a court of competent

jurisdiction"). So, Orbison remains subject to his promise not to compete until five years after this litigation ends. That was the parties' intent, according to the language of their agreement. Any other interpretation would challenge the generally accepted understanding of non-compete covenants, which primarily restrict competition *after* the employment. Daniel P. O'Gorman, *Contract Theory and Some Realism about Employee Covenant Not to Compete Cases*, 65 SMU L. REV. 145, 177 (Winter 2012); *Ofsowitz v. Askin Stores, Inc.*, 306 S.W.2d 923, 924 (Tex. App.-Eastland 1957, no writ) (An employee's covenant not to engage in competing business against his employer after termination of his employment contract may be enforced if the restriction is reasonable).

The employment expired when Ma-Tex and Orbison ended it. But the non-compete covenant remains enforceable.

2. The attack on the injunction's terms invokes straw men.

No injunction need be perfect. An injunction is sufficiently clear for enforcement if it states "in reasonable detail" the acts to be restrained. TEX. R. CIV. P. 683. Whether an injunction meets this standard depends on whether the defendant must draw speculative inferences or conclusions. *Villalobos v. Holguin*, 208 S.W.2d 871, 875 (Tex. 1948). The injunctive relief in this case is more than adequate under this standard.

Use of Ma-Tex's tracking system: To complain about the injunction's requirement that he neither disclose or use Ma-Tex's trade secrets and confidential information, Orbison merely denies that he used the company's tracking software once he left Ma-Tex. Brief at 50. But he must do better than that.

For one thing, not only does Orbison's denial contradict the legitimate inferences from opposing proof but it defies clear findings of fact. *E.g.,* CR2302 at ¶44 (Orbison disclosed to API the concept of Ma-Tex's tracking software). What is more, it was not necessary to show Orbison already had misused Ma-Tex confidences (although it is proved that he had). The focus instead is on the information's protected nature and the probability that the employee would misuse the confidences going forward. Evidence that an employee has violated or probably will violate any component confidence or secret is sufficient to support injunctive relief protecting all such confidences and secrets. *Halliburton Energy Servs. v. Axis Techs., LLC*, 444 S.W.3d 251, 257 (Tex. App.—Dallas 2014, no pet.) ("The scope of injunctive relief must of necessity be full and complete so that those who have acted wrongfully and have breached their fiduciary relationship and those who willfully and knowingly aided them in doing so, will be effectively denied the benefits and profits flowing from the wrongdoing"). Orbison thus gets nowhere by merely denying—implausibly and in opposition to proper trial-court findings—his past misuse of one component confidence.

From the start, Orbison encouraged API to set up such a tracking system. PX24; 9RR154. The evidence supports an inference that Orbison intended to afford API his knowledge of Ma-Tex's proprietary customer data, procedures, and customer interface, including its tracking system. 7RR231; PX24. There is ample evidence that Ma-Tex imparted such confidences on Orbison. 7RR79; 8RR25. These confidences and trade secrets include, but aren't limited to, the tracking program, the program's use, and

customer information derived from its use. 7RR79-82. While at Ma-Tex, Orbison had access to the tracking software, including the nature of the password-protected data fields, the interface between Ma-Tex and its customers, and the derivative customer information. 7RR79-80.

The injunction's prohibition on disclosure or use of "Ma-Tex's trade secrets and confidential information," which the judgment defines to include Ma-Tex's tracking software, information derived from it, and various categories of "information about Ma-Tex's customers," CR 2734, is a properly scoped, adequately defined remedy for the probable future violations.

Ma-Tex's customer list. Orbison and API talk at length about the Ma-Tex customer list, denying any such list was pilfered. Brief at 50-51. The injunction does not mention any such list but prohibits use of specific categories of "information about Ma-Tex's customers" that the record shows Orbison possessed: "pricing information, purchase and bid histories, needs and requirements, and contact information of decision makers." CR2734. Orbison and API do not deny that Orbison had such information, they do not deny that such information was highly confidential, and they provide no reason why the trial court could not enjoin disclosure or use of such information.

Ma-Tex's out-of-state customers. Next, Orbison claims he can't know which out-of-state customers he is not allowed to solicit. Brief at 51 (*e.g.*: "The Permanent Injunction is not clear on whether Orbison cannot do work in those states, or if he can

perform work for customers inside those states if he does it for a company that is not a Ma-Tex customer. But how is he to determine any of these facts during the term of the Permanent Injunction?"). The injunction invites no such guesswork. At trial, Ma-Tex proved its recertification division had a consistent business presence in Texas, Louisiana, New Mexico, Oklahoma, Arkansas, Utah, Colorado, California, Kansas, Kentucky, Pennsylvania, Illinois, Mississippi, North Dakota, Nebraska, Montana, Ohio, Wyoming, and West Virginia. 7RR39-40, 89. Ma-Tex even introduced a map depicting these states. PX1. As Orbison impliedly concedes, his noncompete covenant prevents him from working in the wireline recertification business or otherwise competing against Ma-Tex's existing businesses in "any … geographical region" where Ma-Tex operates. PX7 at §4(b). This would include the listed states.

Tracking the non-compete covenant, the injunction prohibits Orbison from "competing with Ma-Tex's niche business, in which it sells, services, and recertifies wireline equipment … in the following United States markets: Texas, Louisiana, New Mexico, Oklahoma, Arkansas, Utah, Colorado, California, Kansas, Kentucky, Pennsylvania, Illinois, Mississippi, North Dakota, Nebraska, Montana, Ohio, Wyoming, and West Virginia, until August 12, 2021." CR2734. This leaves Orbison absolutely no guesswork as to what he can't do (compete against Ma-Tex in the wireline recertification business), where he cannot do it (the nineteen identified states), and for how long (until August 12, 2021). Injunctions don't get any clearer than this. To comply, Orbison need

not know anything about who is or isn't a Ma-Tex customer (even though the record shows that he does know).

Besides, orders that generally restrain solicitation of customers but that do so without specifically listing individual customers are not overbroad, especially in cases such as ours, where secret customer information is a key asset to be protected. *Safeguard Business Systems, Inc. v. Schaffer*, 822 S.W.2d 640, 644-45 (Tex. App.—Dallas 1991, no pet.) (evidence of confidential customer names was neither required by law nor appropriate in permanent injunction); *Bertotti v. C. E. Shepherd Co.*, 752 S.W.2d 648, 656 (Tex. App.—Houston [14th Dist.] 1988, no writ).

The injunction against API. As for the injunctive relief directed at API, API says (1) there was no proof it used any trade secrets and (2) Orbison's termination letter eliminated the employment agreement as a basis for prospective injunctive relief. These arguments were wrong when Orbison floated them and they are just as wrong when API takes them up. Injunctive relief was proper against API based on the activities that were proved. *See Pike v. Tex. EMC Mgmt., LLC*, 2017 Tex. App. LEXIS 5217 at *67 (Tex. App.—Waco 2017, pet. filed) (when a defendant possesses trade secrets and is in a position to use them, harm is presumed). Orbison's actions bound API once he started working for it (not only in the sense of Orbison's formal API employment but also according to the informal agency that arose earlier, when Orbison secretly represented API to promote its interests). As for the termination letter, it had no effect on the non-compete covenant, for reasons already explained. What is more, API could

be enjoined from using Ma-Tex's confidences and trade secrets even had there been no employment agreement. Because these confidences were obtained by improper means, their use against Ma-Tex may be enjoined not only under the Trade Secrets Act, but under the common law as well. *Rugen v. Interactive Business Sys.*, 864 S.W.2d 548, 551 (Tex. App.-Dallas 1993, no writ) (even without an enforceable contractual restriction, a former employee cannot use for his own advantage, and to the detriment of the former employer, confidential information or trade secrets acquired in his employment).

API and Orbison have failed to show the injunctive relief to be improper in any respect.[4]

B. Actual damage was also proved.

1. Ma-Tex proved a compensable loss of goodwill.

Goodwill, an essential component of a business's value, is compensable for trade-secret misappropriation and the breach of a non-compete covenant. In fact, protection of business goodwill is a primary interest of both the law of trade secrets and the enforcement of non-compete covenants. *See, e.g., Marsh United States, Inc. v. Cook*, 354 S.W.3d 764, 764 (Tex. 2011) ("Legitimate covenants not to compete also incentivize employers to develop goodwill b making them less reluctant to invest significant resources in developing goodwill that an employee could otherwise immediately take and use against them in business").

[4] Of course, if there could have been any basis for modifying the injunction's breadth, this Court would be authorized to reform the judgment and affirm the injunction as so modified. *Center for Economic Justice v. American Ins. Ass'n*, 39 S.W.3d 337, 347 (Tex. App.—Austin 2001, no pet.).

Mike Matthews, as Ma-Tex's owner and its hands-on CEO (7RR55, 70), was competent to testify on this damage element, just as any other business or property owner generally is competent to testify to their property's worth. *Reid Rd. Mun. Util. Dist. No. 2 v. Speedy Stop Food Stores, Ltd.*, 337 S.W.3d 846, 852-53 (Tex. 2011) ("Generally, a property owner is qualified to testify to the value of her property even if she is not an expert and would not be qualified to testify to the value of other property"). Testimony quantifying the dollar value for a loss of goodwill is such proof, because goodwill is a property interest subject to being damaged. *See Texas & P. R. Co. v. Mercer*, 90 S.W.2d 557, 560 (Tex. 1936) ("Goodwill is property . . . It may be damaged. There is no principle of law making any distinction between it and other property with respect to the right of the owner to recover damages for it.").

Further, testimony quantifying the resources a company actually will expend in staunching the injury to any such property interest is a proper means of measuring recoverable damages. Alan J. Tracey, *The Contract in the Trade Secret Ballroom – Forgotten Dance Partner?* 16 TEX. INTEL. PROP. L.J. 47, 76 (Fall 2007) (trade secret damages may include out-of-pocket and employee compensation when the trade secret owner must incur these costs to protect its business from the effects of the misappropriation of its trade secret), citing *Dozer Agency, Inc. v. Rosenberg*, 218 A.2d 583, 585-86 (Pa. 1966); *General Environmental Science Corp. v. Horsfall*, 800 F.Supp. 1497, 1504 (N.D. Ohio 1992), *rev'd in part on other grounds* ("GES has also been damaged in regards to amounts expended by GES to attempt to regain customers or save lost accounts"); *Telex Corp. v.*

Int'l Bus. Machines Corp., 510 F.2d 894, 933 (10th Cir. 1975). This is true even though the much larger extent of the full damage[5] is likely unquantifiable, in large part due to intermingling with external influences (here, an oil-price plunge that set the entire oil-service industry off kilter). Indeed, the effect of such external factors on the ability to directly calculate losses to goodwill and profits is a sound reason why a liberal approach to proof of damages in trade-secrets cases is necessary. *See, e.g., Sw. Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d at 710; *accord Premier Lab Supply, Inc.*, 94 So.2d at 644 (plaintiff's burden of proof as to damages caused by misappropriation is "liberal").

Matthews testified that wireline recertification is "extremely important" to Ma-Tex's prosperity. 9RR215. The recertification division alone generated almost two million dollars in revenue in 2014. 9RR212. When Orbison left to compete, he weaponized the Ma-Tex-trained recertification staff, its customer-specific pricing policies, its proprietary customer contacts, its knowledge of customer needs, and the whole of its accumulated recertification expertise against it—amid the worst oil-patch downturn in decades. *See* 9RR178. The message Orbison conveyed to customers through API's discounted prices[6] and the misuse of Ma-Tex's proprietary data, was

[5] The loss proved at trial reflected only the tip of an iceberg. As Matthews explained, additional profit losses from API/Orbison's conduct were baked in the cake, 9RR238, via a loss of Ma-Tex's pricing power traceable to (a) API's huge discounts and (b) the uncertainty Orbison had sown about Ma-Tex's ongoing viability in the recertification industry.

[6] Of course, API's discount pricing structure was possible only because API/Orbison, having pilfered the products of Ma-Tex's heavy investment in relationships, R & D, and processes, neatly avoided hundreds of thousands of dollars in sunk costs that Ma-Tex—but not API—had to recoup. 7RR48, 54-55, 78, 240; 9RR238.

straightforward and potent: Ma-Tex not only was overcharging but it had nothing unique to offer. 9RR238 ("all the sudden they can buy the product three miles down the road at 20 percent cheaper. . . . The customers ask, 'why didn't you give me that discount?' And all of a sudden, they know what you could have done.").

Before the misappropriation, Ma-Tex's goodwill was substantial, representing the accumulated dividends from a half century's hard work. *E.g.*, 9RR236 (I've been working to establish the goodwill and reputation of Ma-Tex for 37 years). Thanks to API and Orbison, that goodwill took a massive, albeit not precisely calculable, hit. 9RR238 (the goodwill and reputation has been impacted; we had to deal with issues of goodwill and reputation and tried to restore them "all the sudden they can buy the product three miles down the road at 20 percent cheaper. It aggravates the customer. The customers ask, 'why didn't you give me that discount?' And all of a sudden, they know what you could have done.").

Like other losses from trade-secret misappropriation, as mentioned, the full effect of an injury to corporate goodwill can be difficult to evaluate. For this reason, the law of damages in trade-secret cases is characterized by a uniquely "flexible and imaginative approach" to allowable calculation methods—including the cost of remediation. *Sw. Energy Prod. Co. v. Berry-Helfand*, 491 S.W.3d 699, 710-711 (Tex. 2016) (each trade-secret case is controlled by its own facts; a "flexible and imaginative approach" is needed respecting trade-secret damages, which can take a variety of forms, from a plaintiff's lost net income, a defendant's gain, or the plaintiff's out-of-pocket

expenditures). In computing Ma-Tex's loss of goodwill, Matthews chose the most concrete and conservative methodology. He calculated the minimum loss, calculated in terms of observable costs actually incurred to mitigate the injury: (a) executive time (both for Matthews's work and the work of Vice-President Steve Drew), and (b) expenditure of company funds incurred to repair goodwill. 9RR242. Matthews calculated this loss at $120,000, comprising a $10,000 monthly expenditure occurring over 12 months. 9RR242. In reality, the arduous mitigation effort will last much longer. 9RR240 ("[I]t's going to be very difficult to restore Ma-Tex's goodwill. It's going to take years"); 10RR42. There was no counterproof suggesting either a shorter period of repair or a lower monthly cost. This proof is sufficient, under recognized criteria, for establishing a recoverable damage.

- It addresses a specific, recoverable damage element: loss of corporate value vis-à-vis loss of goodwill.
- It is rendered by the business's owner and CEO, under a record demonstrating his personal knowledge of the matters involved. *E.g.*, 9RR186, 207-08, 218-19.
- It reflects a disclosed, recognized methodology: here, the periodic amounts Matthews testified to as being the minimum to be expended on specific, identified inputs into repairing the damaged customer perceptions and relationships. 10RR42.

- It accepts the *im*possibility of directly computing the full value loss—here, because the defendants' misappropriation came during a time of tremendous upheaval and thus revenue volatility within the oil-service industry. *See* 9RR178 (noting a severe oil-patch downturn).

As with lost profit, Ma-Tex need not have done anything more to establish a prima facie case for this damage item, such as present expert testimony or offer the supporting documentary proof underlying Matthews's calculation. *See ERI Consulting Eng'rs*, 318 S.W.3d at 876.

2. Ma-Tex also proved a modest lost profit.

Lost profits need not be susceptible to exact calculation; it is sufficient that the amount of loss is shown by competent evidence with a reasonable degree of certainty. *Southwest Battery Corp. v. Owen*, 115 S.W.2d 1097, 1098 (Tex. 1938); *Lamont v. Vaquillas Energy Lopeno, Ltd.,* 421 S.W.3d 198, 224 (Tex. App.—San Antonio 2013, pet. denied) (trade-secret case). What constitutes reasonably certain evidence of lost profits is a fact-intensive determination. *Holt Atherton Indus., Inc. v. Heine*, 835 S.W.2d 80, 84 (Tex. 1992). In trade-secrets cases, the exactitude necessary for calculating lost profits is especially relaxed. As a general rule, the trade-secret claimant need only present a method of calculation that is reasonable under all the circumstances. *Berry-Helfand*, 491 S.W.3d at 711-12. ("In some cases damages maybe ascertained with precision . . . . But lack of certainty does not preclude recovery"). Ma-Tex has certainly done so.

Mike Matthews testified his company lost $2,321 in calculated net profit. 9RR233. This loss resulted from two specifically identified wireline-recertification jobs, which Orbison signed up and API performed for two key Ma-Tex customers (Halliburton and Arklatex). *Id.* Matthews first identified the goods and services involved, which he extracted from API's invoices for the diverted sales. 9RR232; *see* PX13 & PX14 (API invoices). He next computed the incremental profit that *Ma-Tex* would have made on these projects, under its own pricing schedules, if API/Orbison would not have diverted the work. 9RR232. Then, Matthews testified to the overall amount of this lost net profit: if Ma-Tex would have performed the diverted jobs, it would have made a $2,321 incremental net profit on them. 9RR233. In determining this net loss, it was not necessary to further deduct anything for Ma-Tex's fixed costs. Being fixed, they would not have increased in the event Ma-Tex had done the additional work. The damage calculation derives from Matthews's honest assessment of Ma-Tex's profit margin applied to the two projects, to compute a marginal net-profit loss of $2,321. 10 RR 41.

This is a proper and complete calculation. A business owner may offer lay testimony of lost profits based on personal knowledge as to what those profits would have been. *Naegeli Transp. v. Gulf Electroquip, Inc.*, 853 S.W.2d 737, 740 (Tex. App.-Houston [14th Dist.] 1993, no writ); *see ERI Consulting Eng'rs, Inc. v. Swinnea*, 318 S.W.3d 867, 876 (Tex. 2010) ("As a long-time co-owner and then sole owner of ERI—a small

profitable company—Snodgrass was competent to testify as to ERI's estimated profit margin on the Merico account").

Nor was Ma-Tex required to go further and admit the factual data underpinning the damage computation.

> As a minimum, opinions or estimates of lost profits must be based on objective facts, figures, or data from which the amount of lost profits can be ascertained. Although supporting documentation may affect the weight of the evidence, it is not necessary to produce in court the documents supporting the opinions or estimates. *ERI Consulting Eng'rs, Inc.*, 318 S.W.3d at 876, quoting *Holt Atherton Indus., Inc. v. Heine*, 835 S.W.2d 80, 84 (Tex. 1992).

At trial, API/Orbison did not try to dispute Matthews's calculation, disprove a lost profit amount of $2,321, or make an alternative calculation of Ma-Tex's loss—although Orbison should have been capable of these things. Instead, API/Orbison on appeal feign such a challenge by comparing Matthews's calculated loss of marginal profit against *API's* discounted prices. They apparently mean to suggest that Matthews's calculation is not credible. This is wrong on every level.

First, API's argument is at best a matter of the *weight* of the evidence, to be finally decided by the trial court, which was decided against API/Orbison. Second, a marginal net profit of 69% should not raise an eyebrow, in part because marginal profit excludes fixed costs[7], and in part because API's argument affords no point of comparison. (A jeweler who buys a ring wholesale at $300 and sells it retail at $900, in keeping with a

[7] *See* https://www.Investopedia.com/terms/marginal-profit.asp (defining marginal profit as the difference between the marginal cost and marginal revenue of one additional unit).

widely recognized rule of thumb, has a perfectly respectable markup or marginal profit of 200% of cost). Finally, if the marginal-profit percentage were relevant (it isn't), that percentage would be determined in comparison to *Ma-Tex*'s list prices, not API's discounted ones.

If API/Orbison wished to challenge the underlying support for the loss, they had the opportunity—via their case in chief or cross-examination—to place the data in evidence. They never attempted this. They instead cross-examined Matthews about the production in discovery, resurrecting a warmed-over version of their waived attack on the damage discovery.

> Q … Now, you agree that Ma-Tex hasn't produced any time sheets or anything else memorializing the amount of time that either you or Mr. Drew claim to have spent on these alleged efforts [to mitigate and repair the lost goodwill], right?
>
> A They weren't requested and that's correct. 10RR42-43; *accord* 9RR233 (arguing that the damage calculation was not disclosed early enough in discovery).
>
> * * *
>
> Q My question to you is, do you agree Ma-Tex has not produced in this case evidence of its cost of goods sold?
>
> * * *
>
> Q And you agree Ma-Tex has not produced any underlying financial records that would evidence the various overhead expenses that Ma-Tex has? 10RR39; *accord* 10RR40.
>
> * * *
>
> [By API's counsel:] It does, your Honor, matter greatly to API and Orbison that we have none of the underlying foundational records by

> which we could ascertain whether or not his so-called damages have any base at all in reality." 10RR41.

This was a dead-end argument at trial and it remains so now.

By the time Matthews testified, API/Orbison had long since waived any challenge to the discovery and waived any other derivative complaint (such as any complaint that their ability to present damage counterproof was compromised). They did so by tactically rejecting the trial court's offer of a continuance, choosing instead to try the case armed with Orbison's expertise and whatever damage materials they had in hand. API/Orbison made their bed on the issue of damages with their own bad choices.

3. Ma-Tex properly pled lost profits.

Citing a requirement to plead special damages, API asserts that "Ma-Tex failed to plead its lost profit damages." Brief at 34. This is not only factually wrong, but procedurally is an instance of inadequate briefing, because API's brief never actually attempts an analysis of Ma-Tex's pleadings. This is no small matter because in the trial court API expressly conceded that Ma-Tex had indeed pled to recover lost profits. *E.g.*, CR553 (API's summary-judgment motion, conceding that "[i]n each of its causes of action . . . Ma-Tex alleges it has suffered damages [which] Matex generally defines . . . as 'lost customers, goodwill, *and profits*.'"); *see also* CR1221-23 (API's MSJ response). API's trial-court concession was right.

The fair-notice standard of pleadings is liberal. *Low v. Henry*, 221 S.W.3d 609, 612 (Tex. 2007). The test is simply whether "the opposing party can ascertain from the

pleading the nature and basic issues of the controversy and what testimony will be relevant. *Horizon/CMS Healthcare Corp. v. Auld*, 34 S.W.3d 887, 896 (Tex. 2000). The standard is met when the opposing party has sufficient notice of what it should defend against. *Roark v. Allen*, 633 S.W.2d 804, 810 (Tex. 1982).

Ma-Tex's pleadings—and API's own prior assessment of those pleadings—prove that API had all the notice in the world that Ma-Tex sought to recover lost profits. Ma-Tex's second amended petition, in the "Facts" section *applicable to all pled causes of action,* declared that "Ma-Tex has suffered . . . lost . . . profits," stating:

> To the extent that Orbison has been and is successful in his efforts to discredit Ma-Tex and take its customers (in violation of his Employment Agreement), *Ma-Tex has suffered, and will continue to suffer, irreparable harm in the form of lost customers, goodwill and profits*. CR150 (emphasis added).[8]

It can't get much plainer than this statement, which informs everything else about the causes of action to follow. To have repeated this global declaration respecting each individual claim would have been a pointless exercise in pedantry.

Preservation. What is more, if API wished to lodge an appellate attack on the pleading of damages, it first needed to preserve the attack, by filing and securing a ruling on a proper special exception. *Leander v. Fin & Feather Club*, 2012 Tex. App. LEXIS 178 at *8-9 (Tex. App.—Texarkana 2012, no pet.) API did not do so. This was a waiver.

[8] *See also* CR714 (Ma-Tex's initial disclosures, stating that the damages include "loss of goodwill, customers, profits . . ."); 7RR24 (counsel for API, conceding that "[Plaintiff] said, essentially, that they're suing for lost customers, lost profits . . .").

Trial by consent. Finally, there is the matter of trial by consent. Whatever the state of the pleadings may have been, the lost-profits issue was in any event tried by consent. *Maswoswe v. Nelson*, 372 S.W.3d 889, 895 (Tex. App.-Beaumont 2010, no pet.); *see generally* TEX. R. CIV. P. 67 ("When issues not raised by the pleadings are tried by express or implied consent of the parties, they shall be treated in all respects as if they had been raised in the pleadings."). At trial, API/Orbison challenged the damage proof via their previously-waived discovery argument. But they didn't object to any lack of pleading. 9RR232-33. The lost profits proof was not referable to any other issue in the case besides damages. Having allowed lost profits to be tried without raising the asserted lack of a pleading, API/Orbison tried the issue by consent. *Roark v. Stallworth Oil & Gas*, 813 S.W.2d 492, 495 (Tex. 1991).

C. Ma-Tex proved the basis for equitable disgorgement.

Under the equitable remedy of disgorgement or forfeiture of consideration, a person who renders service to another in a relationship of trust maybe denied compensation for his service if he breaches that trust. *Burrow v. Arce*, 997 S.W.2d 229, 237 (Tex. 1999). The remedy, which intends to "discourag[e] agents' disloyalty," doesn't require that the claimant even have actual damages, let alone that it has proven them. *Burrow*, 997 S.W.2d at 238 (forfeiture "discourages an agent from taking personal advantage of his position of trust . . . *whether the principal may be injured or not*"), quoted in *Swinnea*, 318 S.W.3d at 873-74. It is the basic relief for misappropriation of trade secrets. *See University Computing Co.*, 504 F.2d at 536; *American Precision Vibrator Co. v. Nat'l Air*

Vibrator Co., 764 S.W.2d 274, 279 (Tex. App.—Houston [1st Dist.] 1989, no writ); *Premier Lab Supply, Inc. v. Chemplex Indus., Inc.*, 94 So.3d 640, 644 (Fla. Ct. App. 2012)(damages for misappropriation can include both the claimant's actual loss and the defendant's unjust enrichment); RESTATEMENT (THIRD) OF RESTITUTION AND UNJUST ENRICHMENT § 42.

Whether in equity to award such disgorgement or forfeiture of compensation, and in what amount is within the trial court's discretion. *See Burrow*, 997 S.W.2d at 237 (the court may "deny him all compensation or allow him a reduced compensation or allow him full compensation"); *see also* RESTATEMENT (SECOND) OF TORTS § 243.

The law clearly allows for disgorgement/forfeiture of some part of Orbison's Ma-Tex compensation for the period of his unauthorized competition and misappropriation. *See Swinnea*, 318 S.W.3d at 873 ("even if a fiduciary does not obtain a benefit from a third party by violating his duty, a fiduciary may be required to forfeit the right to compensation for the fiduciary's work.").

API and Orbison complain, as a factual matter, about the fraction of time Orbison spent on API's behalf while "on the clock" for Ma-Tex. This misses the point. Orbison was a *salaried* department head, a Ma-Tex agent and fiduciary. As such, the concept of on-the-clock has little meaning in this case. Orbison was not free to deem his activity for API proper by declaring himself to have been "on break" at the time of his backstabbing. A manager's fiduciary duty cannot be pigeon-holed in this manner, to be toggled off to advance the disloyal fiduciary's personal interests, especially not in this

case. Orbison contractually agreed not to compete against Ma-Tex and agreed to act in Ma-Tex's interest—period, whether on or off Ma-Tex's clock. PX7 at §§ 2(b), 4(b) ("Employee will devote his full time, attention and efforts to the performance of the duties described . . . to the benefit of Employer"; "Employee will not, directly or indirectly . . . participate in any business that is in competition in any manner whatsoever with the business of Employer"). What is more, the trial court had every reason to disbelieve Orbison's statements about keeping his breaches to breaks, nights and weekends. In an unchallenged finding, the court found his testimony not credible. CR2306 at ¶92. And the documentary proof shows that several emails, texts, and phone calls—before Orbison left Ma-Tex—occurred during normal business hours. PX23, PX25, PX26, PX54 & PX 59.

Whether noon or night, Orbison's efforts to set up a competitor were legally wrong. They not only gutted Ma-Tex's recertification division but also established a new category of competitor on steroids. API was a substantially larger company, with a broad geographical scope. 9RR114-15 (operating in twenty-five states). It already provided other services and products that could be useful hooks for luring recertification business away from Ma-Tex. 9RR115 (API had worked with all major oil companies). And thanks to Orbison's treachery, API now enjoyed cost-free access to Ma-Tex's key secrets—its customer contacts, its customer profiles, its field-audit and recertification procedures, its customer interface, and its customer-specific pricing. Talk about a competitive advantage. Ma-Tex had no other recertification competitors on this

scale or with such advantages. A few small companies provided tidbits of recertification services in some locales. 7RR41. And a few manufacturers recertified their own products, but with long lag times and customer unfriendly procedures. 7RR251-52. But there was no competitor with API's characteristics.

Orbison's pay between April and August of 2016, when Orbison was secretly assisting API in setting up its competing recertification shop, exceeded $18,000. PX 61;9RR234. The trial court disgorged ten percent of it (that is, a bit more than one week's pay). CR2308 at ¶13. Orbison's pay for the first two weeks at API—the period when his efforts were focused on competing against Ma-Tex—totaled $2,307.68. 9RR235. The trial court disgorged these two weeks' pay. CR2308 at ¶13`. The trial court had unquestionable discretion to award disgorgement/forfeiture of at least these two amounts, which were *de minimis* in relation to Orbison's total compensation. Besides, the fact the trial court applied a ten-percent fraction so as to *limit* Ma-Tex's recovery of Orbison's Ma-Tex compensation, rather than declaring the disgorgement of some larger portion of that compensation, obviously operates to Orbison's benefit; it gives him no cause to complain.

In any event, there is no requirement that the court apply any mathematical formula for the fraction of compensation that will be disgorged. *McCullough v. Scarbrough, Medlin & Assocs.*, 435 S.W.3d 871, 905 (Tex. App.—Dallas 2014, pet. denied). Equity just does not work this way. *Kramer v. Kastleman*, 508 S.W.3d 211, 214 (Tex. 2017) (matters of equity seldom are amenable to unyielding principles and inflexible rules).

Estimates of the time expended in competitive tasks may sometimes be helpful, but to require such proof or use it on appeal to nullify the trial court's determination of a fair and just disgorgement amount is to miss the point. Indeed, the time it took Orbison to make any particular solicitation call, text, or email is not nearly so important in the analysis as the much longer time it took Ma-Tex to accumulate the proprietary information Orbison was using against it.

A requirement limiting the trial court's disgorgement to only the funds compensating the precise time that the claimant can prove was spent working actively against the principal (whether at the old employment or the new one) is repugnant and would only encourage breaching fiduciaries and, because of difficulties of proof, would assure that in most cases the breaching fiduciary would retain the bulk of his compensation, even for time actually spent working against the principal.

Orbison also says his compensation should be off limits to disgorgement/forfeiture because that compensation was doled out as salary rather than in fees or commissions. Nonsense. For one thing, Orbison's Ma-Tex consideration included both salary and commissions. Brief at 45. Equally important, equity is not so rigid as Orbison supposes when it comes to remedies. *Johnson v. Cherry*, 726 S.W.2d 4, 8 (Tex. 1987 ("The equitable power of the court exists to do fairness . . . relief will be granted when, in view of all the circumstances, to deny it would permit one party to suffer a gross wrong at the hands of another"). There is absolutely no authority

supporting Orbison's narrow, blinkered distinction based on the name an item of compensation is given. It is all compensation and it is all subject to disgorgement.

Orbison's cases support no distinction between disgorgement/forfeiture of fees and commissions as opposed to other methods of compensating a fiduciary's work. They instead pronounce broad principals applying equally to all manner of compensation, whether a "fee," a "commission," salary, or an hourly paycheck. *See, e.g., Burrow*, 997 S.W.2d at 237 (trial court may "deny him [the fiduciary] all compensation"—not just the part paid in the form of a "fee" or "commission"); *W. Reserve Life Assur. Co. v. Ohio v. Graham*, 233 S.W.3d 360, 380 (Tex. App.—Fort Worth 2007, no pet.); *Kinzbach Tool Co. v. Corbett-Wallace Corp.*, 160 S.W.2d 509, 514 (Tex. 1942)(forfeiture of secret commission).

D. Ma-Tex proved that the defendants' culpable conduct caused its injuries.

API/Orbison challenge the proof of causation. This is not a serious position. Ma-Tex's losses indisputably were caused by the non-compete breach and trade-secret misappropriation: The lost sales occurred within days after Orbison left Ma-Tex to begin his employment with API. API/Orbison, by misappropriating Ma-Tex's pricing information, knew the "price to beat" and thus had gained a critical competitive advantage. That Orbison—while still in his post as Ma-Tex's recertification coordinator—was on June 2 gloating in a text about having "everyone" "on board" is yet more proof these sales were stolen from Ma-Tex. After all, Ma-Tex historically had

"received pretty close to all the work" from the relevant Arklatex location. 10RR37. And perhaps most important, Orbison, in soliciting Ma-Tex customers, played heavily on his Ma-Tex-developed customer relationships and promised the Ma-Tex-developed service protocol (including a field audit, 7RR86; PX2). Essentially, the customers were persuaded by copycat solicitations delivered by Ma-Tex's former recertification supervisor on the heels of his leaving and obviously intended to mimic Ma-Tex's offerings. What better proof of causation could there be? Such circumstantial proof as this—timing, proximity, knowledge—often form the bases of reasonable inferences on causation, in general, and in misappropriation cases. *See Town Hall Estates-Whitney, Inc. v. Winters,* 220 S.W.3d 71, 84 (Tex. App.—Waco 2007, no pet.)(generally); *USA Power, LLC v. PacifiCorp*, 372 P.3d 629, 656 (Utah 2016) (misappropriation case).

There certainly was no evidence that, but for API's and Orbison's conduct, these customers would have sent the jobs to some unidentified Ma-Tex competitor lacking Ma-Tex's full service and customer-friendly enhancements (such as its customer-specific recertification schedules and CCC customer portal).

IV. API/Orbison's bad-faith pleading argument is meritless.

The defendants' counterclaim for bad-faith pleading was properly dismissed because (1) as API/Orbison admitted below, CR2725 ¶38, Texas does not recognize any such private cause of action, (2) API/Orbison did not prove the pleading to be groundless or prove that Ma-Tex filed it without expectation of evidentiary support, and (3) Ma-Tex could not logically be determined, in the same judgment, to have

prevailed on its claims and yet simultaneously have acted been in bad faith by prosecuting them. Similarly, the reprise of the same rejected allegation of "bad faith," in a post-trial motion for sanctions, was properly denied—both because the allegation had no substance and was then moot.

The trial evidence and its result doubly vindicate Ma-Tex's decisions to sue and prosecute its claims. As stated, the proof showed that:

- During a months-long span of his employment with Ma-Tex, Orbison secretly assisted API in opening its new recertification division. 8RR63-64.
- During these same months, Orbison and API actively discussed: (a) Orbison's Ma-Tex employment agreement and its noncompete covenant, 8RR47-48, 52-53, 57-58; (b) confidential information on Ma-Tex's financial performance, 8RR72; (c) hiring Ma-Tex employees and those employees' confidential compensation histories, 8RR71, 75-77; (d) equipment needed to open a competing recertification shop, 7RR99-100, 130-32, 228; 8RR79-80, 92-94; (e) information on Ma-Tex vendors, 7RR239; 8RR97-98; and (f) soliciting Ma-Tex customers. 8RR63-64, 90-91; PX59.
- When he officially started at API, with API's blessing, Orbison immediately began soliciting Ma-Tex's top recertification customers—using the confidential customers contacts and pricing information he obtained while working at Ma-

Tex and spreading rumors about Ma-Tex's viability as a going concern in recertification. 7RR53, 88-89, 90-91, 192; 8RR24-25; PX8; PX9; PX11.

- Orbison was instrumental in API's recertification startup, helping it set pricing schedules that consistently tracked Ma-Tex pricing, discounting it by twenty to twenty-five percent. 7RR56; 129-30, 189-90; PX2, PX55.
- Orbison's solicitations resulted in two recertification orders for API (Halliburton Pinnacle and ArkLaTex), which orders Ma-Tex would have otherwise received. 7RR121-25, 156, 178; 8RR114; PX13; PX14.
- After receiving Ma-Tex's cease and desist letter with a copy of Orbison's employment agreement and its post-employment restrictions, API and Orbison performed two recertification jobs, hired an employee away from Ma-Tex, and continued to solicit recertification business from Halliburton and Schlumberger, two of Ma-Tex's largest customers.
- After the trial court issued its TRO, API and Orbison continued to solicited wireline recertification business from Halliburton, of Ma-Tex's largest customers, and also sought to collect payment for the two recertification jobs API had already performed (Halliburton Pinnacle and ArkLaTex).

The trial court's findings and conclusions likewise adopt this factual view.

A. The denial of Ma-Tex's summary-judgment motion does not benefit API/Orbison's bad-faith analysis.

Before trial, Ma-Tex sought a no-evidence summary judgment on API/Orbison's counterclaim for bad-faith pleading. The trial court denied the motion. It should have been granted, given the lack of any such cause of action as the defendants assert. But that is neither here nor there, because the denial of an opponent's no-evidence motion will not—indeed never could—lock the trial court into affording the claimant positive relief at trial, as API/Orbison seem to argue. No-evidence summary-judgment practice just doesn't work this way.

In an appeal of a merits judgment following a conventional trial, earlier denied motions for summary judgment are res judicata of nothing; they are moot and immaterial. At most, the denial of a no-evidence summary judgment embodies an *interlocutory* determination that a bare minimum of proof has been produced, authorizing the effort of a trial. Just as easily, however, the ruling may reveal a patient judge affording the benefit of the doubt to a questionable claim or a court disinclined to grant summary judgments. But whatever its basis, a summary-judgment denial can never support overturning a take-nothing judgment after a merits trial.

Rather than invoke the immaterial summary-judgment ruling, API needed to show that its counterclaim's dismissal was against the great weight of the evidence, *Croucher v. Croucher*, 660 S.W.2d 55, 58 (Tex. 1983). It obviously has failed in this burden, given Ma-Tex's prevailing-party status.

B. Nor did the trial court abuse its broad discretion by denying the defendants' post-trial motion for sanctions.

After trial, on realizing that, as the trial court concluded, there was no cause of action for bad-faith litigation, CR2725 at ¶38, API/Orbison repackaged their counterclaim into a motion for sanctions. According to that cynical motion, everything Ma-Tex has done in this lawsuit was in bad faith—never mind that Ma-Tex presented abundant proof, received virtually all the relief it requested, and now stands as the prevailing party upon all its claims. A plaintiff does not act in bad faith by prosecuting a winning suit. Nor can a trial court, having found that the facts and law support the plaintiff's recovery, abuse its discretion by denying the losing defendant's post-trial request for frivolous-suit sanctions.

In this Court, API/Orbison must prove the lower court's denial of sanctions to be an abuse of discretion. *Low v. Henry*, 221 S.W.3d 609, 615 (Tex. 2007). This is inconceivable. Courts presume parties file all papers in good faith. *Dike v. Peltier Chevrolet, Inc.*, 343 S.W.3d 179, 184 (Tex. App.-Texarkana 2011, no pet.). As already discussed, there is overwhelming proof that Ma-Tex has acted in good faith, to protect its confidential information and competitive advantage, as any reasonable trade-secret owner would do in similar circumstances.

When Ma-Tex sued, it had caught Orbison red-handed in a lie about his employment intentions. 7RR97-98. He had appropriated his Ma-Tex contact information, as confirmed by an emailed notice from Apple's iCloud service. PX15;

7RR109-11. And, despite the prohibitions of his employment contract, Orbison had begun a raid on Ma-Tex's remaining wireline recertification staff, as confirmed by private investigator surveillance. 8RR53-54. Ma-Tex's customers were questioning if Ma-Tex had left the recertification business and were loudly complaining of its billings. 7RR139. And Orbison had conscripted Ma-Tex's electronic order forms conscripted to facilitate the requisition of a "test bed" crucial to API's ability to process recertification orders. PX21; 7RR99-101.

Then, once the suit was filed, a six-month-long arrangement between Orbison and API surfaced, and with it numerous smoking-gun emails and fully 160 text messages. These communications, fairly interpreted, showed Orbison as the point man of API's push into recertification work. The timing and recipients of these communications showed hands down that Orbison had mined Ma-Tex's customer-contact data: there was no other way he could be targeting these folks such machine-gun rapid succession, seeking orders beginning the second day of his API employment. Just as surely, the proof shows Orbison was using individual customer data sets to undercut Ma-Tex's customer-specific pricing with surgical precision and to trade on proprietary customer- and location-specific information such as what equipment at Schlumberger's Bradford location was due for recertification. PX9; 7RR91. These acts, which clearly traded on Ma-Tex's confidences and clearly violated Orbison's employment-agreement promises, are classic grounds for the remedies Ma-Tex has

been allowed: prospective injunctive relief, actual damages, and disgorgement/forfeiture of ill-gotten gains.

And API/Orbison really think the suit was sanctionable? That's just not credible.

Sanctions are proper only in those "egregious situations" where a party uses the judicial system "for ill motive without regard to reason and the guiding principles of the law." *Save Our Springs Alliance, Inc. v. Lazy Nine Mun. Util. Dist.*, 198 S.W.3d 300, 319 (Tex. App.-Texarkana 2006, pet. denied). No such showing is possible here.

API feigns such proof by accusing Ma-Tex of "doubling down" on an allegedly unsustainable TRO. The fact, however, is that the TRO was extended *by agreement* and at API's behest—no less than three times. CR36, 70, 164. In the same misguided vein, API chastises Ma-Tex for not submitting any proof at the temporary-injunction hearing. But there was no occasion for evidence because the parties announced an agreement at the hearing's beginning. 4RR4. Under that agreement, API promised to (i) segregate Orbison from any wireline recertification work, (ii) purge certain data from its computers, and (iii) return documents to Ma-Tex. 4RR4-8.

C. Rules 10 and 13 do not support API/Orbison's sanctions allegations.

Undeterred, API/Orbison argue that Ma-Tex nonetheless acted in bad faith because it allegedly knew it lacked "provable" actual damages. *E.g.*, Br. at 57. There are four distinct problems with this approach. First, API ignores the injunctive relief, which made Ma-Tex the prevailing party regardless whether it pled or proved actual damages.

Second, Ma-Tex in fact prevailed on its claims for actual damages. Third, even in cases where the claimant does not prevail, a court, cannot impose sanctions just because the claimant's proof does not win the day, at least not under Rule 13. *Trimble v. Itz*, 898 S.W.2d 370, 374 (Tex. App.-San Antonio 1995), *writ denied*, 906 S.W.2d 481. And, lastly, the party seeking sanctions for bad faith filing generally must prove the actor's subjective state of mind, something API has not done. *See Thielmann v Kethan*, 371 S.W.3d 286, 294 (Tex. App.—Houston [1st Dist.] 2012, pet. denied).

What is more, API/Orbison's sanctions motion would have had no chance for the procedural reason that it is barred by laches. Pre-trial conduct such as API/Orbison allege, including violations of Chapter 10 of the Civil Practice and Remedies Code, are waived if a proper motion is not filed, and a ruling secured, pretrial. *Trussell Ins. Servs., v. Image Solutions*, 2010 Tex. App. LEXIS 9735 at *9 (Tex. App.—Tyler 2010, no pet.). Otherwise, clever parties would sandbag unfiled pre-trial sanctions motions, to be cashed in post-trial, as tickets for do-overs of bad trial results, as API attempts.

V. Ma-Tex is entitled to recover its attorney's fees.

API and Orbison make three attacks on the attorney's-fee award, none of which is viable.

API says it can't be liable for fees upon a contract theory, because it was not a party to Orbison's employment agreement. This is of no consequence, because the trial court did not rest API's attorney-fee liability upon breach of contract, but upon Ma-Tex's statutory claim of trade-secret misappropriation. CR2311 at ¶36. Only Orbison

was held liable for attorney's fees on the alternative basis of a contract claim. CR2311 ¶35 ("***Under . . . 38.001***, Ma-Tex is entitled to recover its reasonable and necessary attorney's fees . . . from ***Orbison***").

Orbison, for his part, claims he also can't be liable for attorney's fees under a contract theory because, he says, Ma-Tex has not proved contract actual damages. This is wrong, for all the reasons discussed above as to why Ma-Tex's actual-damage award *is* recoverable. But more importantly, Orbison's argument is wrong because Ma-Tex need not seek or recover actual damages in order to recover attorney's fees on a non-compete-covenant claim. This contractual claim is complete—and supports a fee award—upon Ma-Tex's recovery of injunctive relief. The Covenant Not to Compete Act puts injunctive relief on a par with actual damages. TEX. BUS. & COM. CODE ANN. § 15.51(a) (authorizing recovery of "damages, injunctive relief, or both damages and injunctive relief" for breaches of non-compete covenants).

Finally, Orbison and API both are wrong to attack the recovery of fees under the misappropriation claim. Their sole attack on this ground for the fee award—a claim that the trial court omitted to adjudge the defendants' conduct willful and malicious, as required for a fee recovery under the Texas Uniform Trade Secrets Act, TEX. CIV. PRAC. & REM. CODE ANN. § 134A.005(3)—is false. Judge Dulweber made this predicate determination in the unchallenged conclusion of law 36, which declares a fee recovery to be proper under Section 134A.005(3) "because Orbison's and API's

misappropriation was willful and malicious."[9] CR2311. Although entered as a conclusion of law, this Court may treat the conclusion as a finding. *See Ray v. Farmers' State Bank*, 576 S.W.2d 607, 608 n.1 (Tex. 1979) (how a trial court labels a determination as a "finding" or "conclusion" is not controlling on appeal); *accord* CR2298 (Judgment, stating that "… any conclusion of law which is actually a finding of fact shall be deemed a finding of fact"). API/Orbison don't attack the factual basis for the trial court's "willful and malicious" finding. And for good reason.

The statute defines "willful and malicious misappropriation" as "intentional misappropriation resulting from the conscious disregard of the rights of the owner of the trade secret." TEX. CIV. PRAC. & REM. CODE ANN. § 134A.002(7). All Orbison's acts were intentional and in disregard of Ma-Tex's trade-secret rights. Orbison didn't accidentally use or disclose the proprietary information but did so with purpose and in disregard of the employment agreement's designation of confidential information.

(API also insinuates that the trial court may have awarded attorney's fees for common-law misappropriation of trade secrets. Brief at 60-61. The trial court, however, explicitly cited to the Texas Uniform Trade Secrets Act, ensuring that it was acting on the statutory fee-bearing claim. CR2311 ¶36.)

[9] Conclusion of law 36, under the heading "Attorney's Fees," states: "36. Under Tex. Civ. Prac. & Rem. Code § 134A.005(3), Ma-Tex is entitled to recover its reasonable and necessary attorney's fees in the amount of $216,399 from Orbison and API ***because Orbison's and API's misappropriation was willful and malicious."*** CR 2311.

API and Orbison do not address the reasonableness or necessity of the awarded fees, complain of segregation, or raise any further challenge to the fee award. So neither will we. The fee award is proper as to both API and Orbison under the misappropriation claim (and independently proper against Orbison for his breach of the non-compete covenant).

Conclusion and Prayer

The trial court's judgment, begin supported by the facts and the law, should be affirmed in all respects. Alternatively, if there could be any basis for denying any component recovery (there isn't), the Court should in that unlikely instance reform the judgment to eliminate any such unsustainable award and should affirm the judgment as to all other relief. Of course, Ma-Tex additionally requests all other related and subsidiary relief in its favor that the facts and law support.

Respectfully submitted,

/s/ Gregory D. Smith
Gregory D. Smith
Bar No. 18600600
Nolan Smith
Bar No. 24075632
SMITH LEGAL, PLLC
110 N. College Ave., Suite 1120
Tyler, Texas 75702
Phone: (903) 571-1101
Fax: (903) 609-3077
greg@smithlegaltx.com
nolan@smithlegaltx.com

Bruce A. Smith
Brett F. Miller
WARD, SMITH & HILL, PLLC
P.O. Box 1231
Longview, TX 75606
Phone: (903) 757-6400
bsmith@wsfirm.com
bmiller@wsfirm.com

ATTORNEYS FOR APPELLEE

CERTIFICATE OF SERVICE

This brief has this 2nd day of April, 2018 been served electronically, via the electronic filing manager, on the following counsel of record for the appellee and whose email address is on file with the electronic filing manager.

James W. Walker
Texas Bar No. 20709600
Cole Schotz P.C.
2515 McKinney Ave., Suite 1350
Dallas, Texas 75201
jwalker@coleschotz.com
Phone: (469) 557-9391
Fax: (469) 533-0361

/s/ Gregory D. Smith
Gregory D. Smith

CERTIFICATE OF COMPLIANCE

1. This brief complies with the type-volume limitations of TEX. R. APP. P. 9.4 because it contains 14,391 words, excluding the parts of the brief exempted by TEX. R. APP. P. 9.4(i)(2)(B).

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Gregory D. Smith