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RECENT DEVELOPMENTS IN FIFTH CIRCUIT BUSINESS TORTS JURISPRUDENCE

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I. SCOPE OF THE ARTICLE

The mission is succinct: to address arenas in Fifth Circuit jurisprudence that cumulatively entail business torts and to explore weapons available to parties in the traditional contract realm whose allure include punitive or treble damages and attorney's fees. Parties utilize such causes of action in an attempt to establish tort liability, enabling potential recovery of punitive damages and damages for mental anguish in an otherwise contractual context. Albeit not exhaustive of all the business torts cases making new law in the Fifth Circuit, this article addresses case law in the antitrust and Civil Racketeer Influenced and Corrupt Organizations Act (RICO) arenas as well

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as miscellaneous matters in the business torts realm.[1] These miscellaneous areas of law include, *inter alia*, class actions as well as trademark and copyright in a business torts context that similarly merit scrutiny.[2] Therefore, traditional business torts are transgressed within Fifth Circuit jurisprudence as necessity or interest dictates.

II. ANTITRUST JURISPRUDENCE: *VIAZIS V. AMERICAN ASS'N OF ORTHODONTISTS*

With a panel comprised of Chief Judge Carolyn Dineen King and Circuit Judges Jerry E. Smith and Emilio M. Garza, the Fifth Circuit considered the evidence necessary to overcome a motion for judgment as a matter of law in the context of section 1 of the Sherman Act conspiracy claims.[3] The plaintiff, an orthodontist who designed and sold brackets for braces, sued the manufacturer of the brackets and two professional associations after one of the associations suspended his membership and the manufacturer ceased its marketing efforts for the brackets.[4] Although the plaintiff asserted several claims, the only one remaining at trial was that the defendants conspired to exclude the plaintiff's brackets from the orthodontics devices market in violation of Section 1 of the Sherman Act.[5]

On appeal from a motion granting the defendants' judgment as a matter of law, the court reviewed the elements of conspiracy under the Sherman Act.[6] Independent conduct is not proscribed by section 1 of the Sherman Act.[7] In order to establish a section 1 violation, a plaintiff needs to demonstrate concerted action.[8] In ruling on a motion for judgment as a matter of law, the court must "consider all the evidence offered by either party 'in the light and with all reasonable inferences in favor of' the party opposed to the motion . . . [and] in this case the range of permissible inferences is limited by particular principles of antitrust law."[9] The court noted that conduct, which is consistent with legal competition as well as with illegal conspiracy, will not support an inference of conspiracy.[10] Essentially, an antitrust plaintiff who cannot present direct evidence of conspiracy is required to introduce circumstantial evidence that " 'tends to exclude the possibility of independent action.' "[11]

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1. *See infra* Parts II-IV.
2. *See infra* Part IV.
3. Viazis v. Am. Assoc. of Orthodontists, 315 F.3d 758, 760-61 (5th Cir. Dec. 2002).
4. *Id.* at 761.
5. *Id.*
6. *Id.*
7. *Id.* at 761-62.
8. *Id.* (citing Monsanto Co. v. Spray-Rite Serv. Corp., 465 U.S. 752, 761 (1984)).
9. *Id.* (quoting Matsushita Elec. Indus. Co. v. Zenith Radio Corp., 475 U.S. 574, 588 (1986)).
10. *Id.* at 762.
11. *Id.* (quoting *Monsanto*, 465 U.S. at 768).

The court explained that direct evidence of a conspiracy explicitly references an understanding between the alleged conspirators.[12] The plaintiff's only evidence offered of this understanding was a letter written by the manufacturer's CEO; according to the court, the letter did not contain any explicit reference to an agreement between the manufacturer and any party.[13] At most, the letter was circumstantial evidence of a conspiracy.[14]

Concomitantly, the absence of direct evidence of a conspiracy necessitated the presentation of evidence that tended to exclude the possibility of independent conduct.[15] The plaintiff was required to show that the manufacturer and the professional associations were committed to a common scheme to achieve an unlawful objective.[16] Although the letter contained evidence of complaints received about the bracket, the court found it to be insufficient to constitute concerted action.[17] The court based this determination on its previous decision in *Culberson, Inc. v. Interstate Electric Co.*, which held a manufacturer's action in response to customer complaints was insufficient to form a basis for conspiracy.[18]

The plaintiff further argued that the manufacturer not only faced complaints but also asserted that the professional associations threatened a nationwide boycott to coerce the manufacturer into ending its marketing efforts.[19] An inference of conspiracy would only have been appropriate if the plaintiff presented evidence that tended to exclude the possibility of independent conduct on the part of the defendants.[20] The court explained that the plaintiff needed to show that the professional associations threatened the boycott and that the manufacturer's decision to abandon its marketing efforts was inconsistent with its independent self-interest.[21]

The court held that the plaintiff failed to do so.[22] A corporate entity can act only through its agents, and in the absence of formal decision making, the antitrust plaintiff must show the association's action was taken by individuals having apparent authority to act for the association.[23] The plaintiff had no such evidence.[24] Additionally, the evidence of the manufacturer's actions did

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12. *Id.*
13. *Id.* at 764.
14. *Id.*
15. *Id.* at 763.
16. *Id.*
17. *Id.*
18. *Id.* (citing *Culberson*, 821 F.2d 1092, 1094 (5th Cir. 1987)).
19. *Id.*
20. *Id.*
21. *Id.*
22. *Id.*
23. *Id.*
24. *Id.* at 763-64.

not tend to exclude the possibility of independent conduct because such action could have been taken in the manufacturer's self-interest.[25]

Next, the court turned to the plaintiff's assertion that his suspension from the professional association, because he allegedly violated the organization's prohibition on false and misleading advertising, constituted action pursuant to a conspiracy.[26] The court determined that the plaintiff failed to present evidence of a conspiracy, and his assertion regarding his suspension was therefore moot.[27]

Finally, the court explained that even if the plaintiff had presented evidence sufficient to show concerted action, Section 1 of the Sherman Act only prohibits agreements that constitute an unreasonable restraint on trade.[28]

> The question whether a particular restraint is unreasonable frequently turns on whether it is examined under the rule of reason or falls within the category of practices that are judged to be unreasonable *per se*. If application of the *per se* rule is appropriate, competitive harm is presumed, and further analysis is unnecessary. If, by contrast, the restraint should be judged according to the rule of reason, its net potential for competitive harm must be evaluated by weighing its probable anticompetitive effect against any procompetitive benefits.[29]

The plaintiff contended the advertising restrictions issue in the instant case should have been reviewed pursuant to the per se rule.[30] However, the court noted that the U.S. Supreme Court has been reluctant to apply the per se rule to standards issued by professional associations.[31] Additionally, the Supreme Court recently concluded such restrictions were not subject to analysis under the per se rule, and therefore, the plaintiff's assertions failed on this point as well.[32] Thus, since the plaintiff failed to present sufficient evidence of a conspiracy according to the Fifth Circuit, the district court had not erred in granting the defendants' motion for judgment as a matter of law.[33]

III. CIVIL RICO JURISPRUDENCE: *WHELAN V. WINCHESTER PRODUCTION CO.*

With a panel comprised of Circuit Judges Patrick E. Higginbotham, John M. Duhé, Jr., and Harold R. DeMoss, Jr., the Fifth Circuit considered an

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25. *Id.* at 764.
26. *Id.*
27. *Id.* at 765.
28. *Id.* (citing Northwest Wholesale Stationers, Inc. v. Pac. Stationery & Printing Co., 472 U.S. 284, 289 (1985)).
29. *Id.*
30. *Id.*
31. *Id.* (citing FTC v. Ind. Fed'n of Dentists, 476 U.S. 447, 458 (1986)).
32. *Id.*
33. *Id.*

appeal from the district court's dismissal of the plaintiffs' civil RICO claims.[34] The plaintiffs were royalty owners of a well operated by the defendants.[35] The plaintiffs claimed the individual defendants used employees of the corporate defendants to defraud the royalty owners of payments.[36] The district court disagreed and granted summary judgment in favor of the defendants, finding that the plaintiffs "produced no evidence tending to demonstrate a RICO enterprise."[37] On appeal, the plaintiffs argued that the district court erred in finding the evidence did not offer support for an association-in-fact enterprise as is required by RICO.[38] According to the plaintiffs, the defendants "engage[d] in . . . a pattern of racketeering activity . . . connected to the acquisition, establishment, conduct or control of an enterprise."[39]

The Fifth Circuit opined that central to the dismissal by the district court was the conclusion that the plaintiffs had failed to demonstrate an enterprise—"a group of persons or entities associating together for the common purpose of engaging in a course of conduct."[40] The enterprise may have been any legal entity or any " 'union or group of individuals *associated in fact.*' "[41] The association-in-fact must not have been a pattern of racketeering activity alone, but must have existed independent of such a pattern.[42]

Moreover, for purposes of the statute's prohibition of conducting an enterprise's affairs through such a pattern, the plaintiff must have shown not only that the association-in-fact was separate from the predicate acts that constituted the racketeering activity, but also that the person committing the predicate acts was distinct from the enterprise.[43] Evidence that the employees of a corporation, in the course of their employment, associated to commit the predicate acts was insufficient.[44] Such activity did not establish an association-in-fact distinct from the corporation.[45]

The court found that the plaintiffs offered no evidence other than the predicate acts to demonstrate an association between the various defendants.[46] Moreover, even if the plaintiffs had made such a demonstration, they were

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34. Whelan v. Winchester Prod. Co., 319 F.3d 225, 226 (5th Cir. Jan. 2003) (considering RICO claims under 18 U.S.C. § 1962 (2000)).

35. *Id.* at 227.

36. *Id.*

37. *Id.*

38. *Id.* at 228.

39. *Id.* at 229 (footnote omitted). The court noted that the statute contains four subsections, but it previously reduced the statute to plain English in *In Re Burzynski*, 989 F.2d 733, 741 (5th Cir. 1993) and continues to use the quoted language when addressing RICO violations. *Id.* at 229 n.2.

40. *Id.* at 229 (citing United States v. Turkette, 452 U.S. 576, 583 (1981)).

41. *Id.* (quoting 18 U.S.C. § 1961(4) (2000)).

42. *Id.*

43. *Id.* (citing Bishop v. Corbett Marine Ways, Inc., 802 F.2d 122 (5th Cir. 1996)).

44. *Id.*

45. *Id.*

46. *Id.*

unable to demonstrate the association's continuity, a concept that has been incorporated into the enterprise requirement to control the scope of RICO.[47] In essence, "[a]n enterprise that 'briefly flourished and faded' will not suffice; [the plaintiffs] must adduce evidence showing that the enterprise functioned as a continuing unit."[48] The court held that the few transactions cited were insufficient to demonstrate continuity.[49]

Thus, the court concluded that the plaintiffs' evidence revealed no triable fact issues regarding any of the other sections of the statute.[50] The plaintiffs offered conclusory allegations only, which were insufficient to defeat a properly supported summary judgment, and therefore, the court affirmed the dismissal by the district court.[51]

IV. MISCELLANEOUS BUSINESS TORTS JURISPRUDENCE

A. Class Actions

1. McManus v. Fleetwood Enterprises, Inc.

With a panel comprised of Circuit Judges Emilio M. Garza and Edith Brown Clement, and District Judge Hudspeth sitting by designation, the Fifth Circuit reviewed the certification of a subclass of plaintiffs and held that the district court abused its discretion in certifying the class with regard to all but one of the claims.[52] The plaintiffs had all purchased motor homes from the defendant.[53] The defendant represented through signage and, in some instances, statements by salespeople that the motor homes could tow a certain amount of weight as is.[54] With Texas law governing the dispute, the plaintiffs alleged claims including breach of express warranty, breach of implied warranty of merchantability, negligent misrepresentation, and fraudulent concealment.[55] The plaintiffs sought injunctive relief under Federal Rule of Civil Procedure 23(b)(2) to compel the defendant to provide each class member with the correct information concerning towing limitations as well as any supplemental equipment to make the homes safe to tow the amount

47. *Id.* at 230 (citing Delta Truck & Tractor, Inc. v. J.I. Case Co., 855 F.2d 241, 243 (5th Cir. 1988)).
48. *Id.* (quoting Landry v. Airline Pilots Ass'n Int'l AFL-CIO, 901 F.2d 404, 433 (5th Cir. 1990)).
49. *Id.*
50. *Id.*
51. *Id.*
52. McManus v. Fleetwood Enters., 320 F.3d 545, 546 (5th Cir. Feb. 2003).
53. *Id.*
54. *Id.* at 546-47.
55. *Id.* at 547-48.

originally represented.[56] In the alternative, the plaintiffs sought monetary damages under Rule 23(b)(3).[57]

The court reminded practitioners of the requirements necessary for class certification.[58] The defendant did not challenge the conclusion that the plaintiffs met the requirements.[59] In addition to satisfying these requirements, the parties seeking class certification must also have demonstrated that the action could have been maintained under Rule 23(b)(1), (2), or (3).[60] The court considered the district court's decision under Rule 23 (b)(3) and (2) in turn.[61] For purposes of this article, the reliance analysis—an outcome determinative one under current class action jurisprudence—merits scrutiny.

Rule 23(b)(3) allows a district court to certify a class if it determines questions of law or fact common to the potential class members predominate over questions affecting individual members, and thus, that the class action is the superior method to fairly and efficiently adjudicate the controversy.[62] The defendant argued that common questions of fact did not predominate, particularly regarding the issue of reliance.[63] The defendant asserted that since each of the plaintiffs' claims required a showing of reliance on the alleged misrepresentation, commonality did not exist.[64] The plaintiffs responded that the district court could presume class-wide reliance because the same information regarding the towing capacity of the motor homes was given to all class members.[65]

The court began its analysis of the reliance issue by making a statement determinative of the outcome of this appeal: "Reliance may not be presumed under Texas law."[66] The plaintiffs had relied on cases allowing the presumption of class-wide reliance that had been overruled by the Texas Supreme Court in *Southwestern Refining Co. v. Bernal*.[67] The Texas Supreme Court emphasized that procedural devices will not be allowed to enlarge or diminish the substantive rights and obligations of parties in civil actions.[68] The circuit court cited to the "particularly instructive post-*Bernal* case" of

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56. *Id.* at 547.

57. *Id.*

58. *Id.* at 548. The four requirements are as follows: (1) numerosity, (2) commonality, (3) typicality, and (4) adequacy of the representative plaintiff. *Id.*

59. *Id.*

60. *Id.*

61. *Id.*

62. *Id.*

63. *Id.* at 549.

64. *Id.*

65. *Id.*

66. *Id.*

67. 22 S.W.3d 425, 435 (Tex. 2000) (overruling Life Ins. Co. of the Southwest v. Brister, 722 S.W.2d 764 (Tex. App.—Fort Worth 1986, no writ); Reserve Life Ins. Co. v. Kirkland, 917 S.W.2d 836 (Tex. App.—Houston [14th Dist.] 1996, no writ)).

68. *McManus*, 320 F.3d at 549 (citing *Bernal*, 22 S.W.3d at 437).

Schein v. Stromboe as the most recent discussion by the Texas Supreme Court on the reliance issue.[69]

In *Schein*, the Texas Supreme Court held that issues of reliance defeated the predominance requirement in a class action alleging false and misleading advertising.[70] The Fifth Circuit quoted from *Schein* as follows:

> The 20,000 class members in the present case are held to the same standards of proof of reliance—and for that matter all the other elements of their claims —that they would be required to meet if each sued individually. This does not mean, of course, that reliance or other elements of their causes of action cannot be proved class-wide with evidence generally applicable to all class members; class-wide proof is possible when class-wide evidence exists. But evidence insufficient to prove reliance in a suit by an individual does not become sufficient in a class action simply because there are more plaintiffs. Inescapably individual differences cannot be concealed in a throng. The procedural device of a class action eliminates the necessity of adducing the same evidence over and over again in a multitude of individual actions; it does not lessen the quality of evidence required in an individual action or relax substantive burdens of proof.[71]

Based on *Bernal* and *Schein*, the Fifth Circuit held that Texas law does not allow the type of presumed reliance asserted by the plaintiffs and that these reliance issues were fatal to the claims for fraudulent concealment and negligent misrepresentation under Rule 23(b)(3).[72] Additionally, the plaintiffs' claim under Rule 23(b)(3) for breach of express warranty required reliance and therefore was found inappropriate for class treatment.[73]

However, the court found that the district court did not abuse its discretion in certifying the class claim for breach of implied warranty under Rule 23(b)(3).[74] The court reviewed the implied warranty claim, reminding practitioners that reliance was not required.[75] The question focused on the *condition of the product* at the time it left the manufacturer's or seller's possession.[76] The defendant asserted that the measure of damages under this claim would vary from plaintiff to plaintiff and emphasized that the plaintiffs had not demonstrated that any of the class members were actually injured.[77]

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69. *Id.* (citing *Schein*, 102 S.W.2d 675 (Tex. 2002)).
70. *Id.* (citing *Schein*, 102 S.W.2d at 682).
71. *Id.* (quoting *Schein*, 102 S.W.2d at 682).
72. *Id.*
73. *Id.* at 550.
74. *Id.* at 551.
75. *Id.*
76. *Id.*
77. *Id.* at 552.

The court explained this argument misapprehended the nature of the claim of breach of implied warranty of merchantability.[78] The damages sought in this claim were not measured by the alleged defect of the product but were rooted in the fact that the plaintiffs did not receive the benefit of their bargain.[79] The question was whether the homes were defective with respect to their "ordinary purpose" and not whether the plaintiffs actually suffered any damages.[80] Therefore, the court concluded that the district court correctly certified the claim for breach of implied warranty of merchantability under Rule 23(b)(3).[81] Thus, the court ultimately held that the issue of reliance prevented the class from being certified as to all of the plaintiffs' claims against the defendant, with the exception of the breach of implied warranty of merchantability claim and, therefore, that the district court had abused its discretion in certifying the class for the remaining contract claims.[82]

2. Sandwich Chef of Texas, Inc. v. Reliance National Indemnity Insurance Co.

With a panel comprised of Circuit Judges Jerry E. Smith and Fortunato P. Benavides, and District Judge Fitzwater sitting by designation, the Fifth Circuit again opined on the issue of reliance as part of the prerequisites for class certification.[83] Most telling of the class action jurisprudence in this arena, Judge Fitzwater began the opinion as follows:

> Fraud actions that require proof of individual reliance cannot be certified as Fed. R. Civ. P. 23(b)(3) class actions because individual, rather than common, issues will predominate. The district court certified a nationwide Rule 23(b)(3) class in this RICO fraud action based on alleged overcharging of workers' compensation insurance premiums. It did so by eliminating, on substantive grounds, plaintiff-specific issues of reliance and causation. We hold that the district court erred as a matter of law in doing so and thus abused its discretion in certifying this case as a class action, and we reverse.[84]

The putative class action before the court alleged that the defendants, over one-hundred casualty insurance companies, were liable under RICO for wire and mail fraud for charging excessive premiums on workers'

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78. *Id.*
79. *Id.*
80. *Id.*
81. *Id.*
82. *Id.* at 554.
83. Sandwich Chef of Tex. v. Reliance Nat'l Indemnity Ins. Co., 319 F.3d 205, 211 (5th Cir. Feb. 2003).
84. *Id.* (footnote omitted).

compensation insurance policies over a fourteen-year period.[85] The plaintiff asserted that the defendants used the National Council of Compensation Insurance (the "Council") as a racketeering enterprise to defraud policyholders and state regulators.[86] The potential members of the class were from forty-four states and the District of Columbia.[87] The plaintiff sought damages caused by allegedly false filings made by the defendants and the Council with the regulators under a fraud-on-the-regulator theory as well as damages caused by inflated invoices sent to the policyholders under an invoice theory.[88]

The court provided a lengthy explanation of the premiums paid for retrospectively-rated workers compensation insurance, the type of policies at issue in the instant litigation, as well as how workers' compensation insurance is generally purchased.[89] Of import was the concept that the retrospectively-rated policies have premiums that fluctuate depending on the losses suffered by the insurance company.[90] The higher the losses suffered, the higher the premium charged.[91] The plaintiff maintained that the defendants sought to pass on certain expenses to the potential class members, contrary to the terms of the rating plan used on the policies at issue.[92] The plaintiff also alleged that the defendants used the Council to deceive state regulators in that it passed through certain expenses, portions of which did not qualify for pass-through tax treatment and, additionally, that the defendants had the Council make certain tax filings, which falsely reflected the amount charged by the defendants for certain services.[93]

In opposing the prospective class certification, the defendants contended that the plaintiff had failed to show typicality and adequacy of the lead plaintiff required by Rule 23(a), as well as the predominance, manageability, and superiority requirements required by Rule 23(b)(3).[94] Specifically, the defendants argued that the proof regarding the fraud-based RICO claims necessitated focus on the thousands of individuals involved in negotiating the policies and that the individual issues concerning the negotiations would predominate over the common issues.[95]

The district court disagreed, certified the class, and rejected the defendants' argument that individual issues predominated.[96] The court held that proximate cause in RICO fraud suits can be established if the plaintiff was

85. *Id.*
86. *Id.*
87. *Id.*
88. *Id.*
89. *Id.* at 211-14.
90. *Id.* at 211.
91. *Id.*
92. *Id.* at 212.
93. *Id.*
94. *Id.* at 213.
95. *Id.* at 213-14.
96. *Id.* at 214-15.

either the target of fraud or had relied on the defendants' fraudulent conduct.[97] According to the district court, the plaintiff had a claim under both the invoice and target theories, reasoning the plaintiff's fraud-on-the-regulator theory could have established causation under the target wing.[98] Moreover, the plaintiff could have shown proximate cause by establishing that class members had been injured by the regulator's reliance on misrepresentations and omissions by the defendants.[99]

The district court recognized that the Fifth Circuit had previously overruled class certifications because the facts required individual proof of reliance but found the instant case distinguishable.[100] The plaintiff's invoice theory claim was simple in contrast to others, and moreover, this theory had not been directly addressed by the Fifth Circuit.[101] Under the plaintiff's theory, each class member sustained the same injury—overcharge through an inflated invoice.[102] The plaintiff asserted this was classic mail fraud because the defendants knowingly sent the class members invoices they knew were inflated.[103] Because the defendants' records could provide all relevant information to measure the injury for each class member, this invoice theory did not raise factors that would defeat the certification.[104]

In addressing whether or not the district court had abused its discretion in certifying the class,[105] the court provided a review of class certification generally[106] and then scrutinized the causation/reliance issue in the instant case.[107] The Fifth Circuit reminded practitioners of the causation requirements

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97. *Id.* at 214 (relying on Summit Props. Inc. v. Hoecht Celanese Corp., 214 F.3d 556, 558-61 (5th Cir. 2000)).

98. *Id.*

99. *Id.* at 214-15.

100. *Id.* at 215. *But see* Patterson v. Mobil Oil Corp., 241 F.3d 417 (5th Cir. 2001); Bolin v. Sears, Roebuck & Co., 231 F.3d 970 (5th Cir. 2000); Castano v. Am. Tobacco Co., 84 F.3d 734 (5th Cir. 1996).

101. *Sandwich Chef*, 319 F.3d at 215.

102. *Id.*

103. *Id.*

104. *Id.*

105. *Id.* at 218. The court articulated the standard of review as follows:

> We review the district court's class certification decision for abuse of discretion. "If the court's certification was 'erroneous as a matter of law,' however, the court necessarily abused its discretion and the class should be decertified." "A district court by definition abuses its discretion when it makes an error of law." We review the district court's legal conclusions *de novo*.

Id. (citations omitted).

106. *Id.* The court stated as follows:

> To obtain class certification, Rule 23(a) requires the plaintiff to show that the class is too numerous to allow simple joinder; there are common questions of law or fact; the claims or defenses of the class representatives are typical of those of the class; and the class representatives will adequately protect the interests of the class. To receive (b)(3) certification, a plaintiff must also show that the common issues predominate, and that class treatment is the superior way of resolving the dispute.

Id. (quoting Patterson v. Mobil Oil Corp., 241 F.3d 417, 418-19 (5th Cir. 2001)).

107. *Id.*

for RICO fraud actions and explained, "The pervasive issues of individual reliance that generally exist in RICO fraud actions create a working presumption against class certification."[108] The court then reviewed the district court's decision, finding it was error to avoid individual issues of reliance by concluding on substantive grounds that these issues would not predominate.[109] If it was error to hold as such with regard to the substantive issues, then it was also error to certify the class.[110]

The Fifth Circuit first turned to the invoice theory the plaintiff presented in support of a showing of reliance.[111] The court found the theory to be legally flawed.[112] Certification of a class requires the district court to consider how the plaintiffs' claims would be tried, generally necessitating that the court go beyond the pleadings and understand the claims, defenses, and facts as well as the applicable substantive law.[113] The court found that the district court recognized the need to address how the trial would be conducted, but the district court failed to account for the individual issues of reliance that would be part of the defense against the RICO fraud claims.[114]

The defendants asserted that even if the invoices were unlawfully inflated, this practice was explained to policyholders during negotiations, and therefore the class members' knowledge of the inflated invoices would have eliminated reliance and broken the causation chain.[115] The court agreed, finding that the defendants had introduced evidence that the potential class members *individually* negotiated their policies; thus, class certification would not have been proper when evidence of individual reliance was necessary.[116] Accordingly, the Fifth Circuit held the invoice theory did not satisfy the reliance component of *Summit* and eliminated the individual issues of reliance.[117]

Finally, the court turned to the district court's finding that the plaintiff could also have avoided individual reliance issues through the target wing/fraud-on-the-regulator theory.[118] The district court had reasoned, based on *Summit*, that under this target wing "[i]ndividual reliance by class members was not an issue because reliance upon a fraudulent omission by a third person was sufficient if the plaintiff was injured as a result."[119] The plaintiff could have demonstrated proximate cause through the fact that the class members

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108. *Id.* at 219.
109. *Id.* at 220.
110. *Id.* at 220-24.
111. *Id.* at 220.
112. *Id.*
113. *Id.*
114. *Id.*
115. *Id.*
116. *Id.* at 220-21.
117. *Id.* at 221.
118. *Id.*
119. *Id.*

were injured by the regulators' reliance on the defendants' misrepresentations and omissions.[120]

The Fifth Circuit disagreed and held this was error, stating that it has narrowly applied the target theory in the past.[121] The court noted that in *Summit*, it had cited *Mid Atlantic Telecom, Inc. v. Long Distance Services, Inc.* as holding open the possibility that a plaintiff company may not need to show reliance when a competitor company lures away the plaintiff's clients by fraud directed at its customers.[122] However, the court *declined* to apply the theory in *Summit* because the plaintiffs did not contend they were targets of a scheme to defraud accomplished through a third party.[123]

The Fifth Circuit explained that *Summit*, in addition to later cases regarding RICO and reliance issues, carves out a narrow exception to individual reliance under the target wing theory that only applies when the plaintiff can demonstrate injury as a direct and contemporaneous result of fraud committed against a third party.[124] The court found that the plaintiff did not satisfy the target wing exception because no direct or contempor-aneous relationship existed between the fraudulent acts directed at the regulators and the harm the potential class members had incurred.[125] The regulators' reliance on the fraudulent acts alone were not enough to result in such a direct injury to the potential class members sufficient to satisfy the RICO proximate cause requirement.[126] Thus, the Fifth Circuit held that the district court relied in error on the target wing exception and reversed the district court's class certification order.[127]

B. Contract, Fiduciary Duty, and Fraud: Great Plains Trust Co. v. Morgan Stanley Dean Witter

In a second appeal to the Fifth Circuit, Circuit Judges Jerry E. Smith and Fortunato P. Benavides, and District Judge Sidney Fitzwater sitting by designation, were called upon once again to decide whether the defendant, Morgan Stanley Dean Witter & Co. ("Morgan Stanley") and its employees were liable to third parties for a due diligence investigation and fairness opinion that Morgan Stanley provided as financial advisor to its client

120. *Id.*

121. *Id.* (citing Procter & Gamble Co. v. Amway Corp., 242 F.3d 539, 567 (5th Cir. 2001) ("referring to target theory set out in *Summit* as narrow exception to rule that in civil RICO claims in which fraud is alleged as predicate act, reliance on fraud must be shown")).

122. *Id.* (referencing *Summit* and citing Mid Atlantic Telecom, Inc. v. Long Distance Servs., Inc., 18 F.3d 260, 263-64 (4th Cir. 1994)).

123. *Id.*

124. *Id.* at 224.

125. *Id.*

126. *Id.*

127. *Id.*

Allwaste, Inc. concerning Allwaste's possible merger with Philip Services Corporation ("Philip").[128] In the first generation of this case, *Collins v. Morgan Stanley Dean Witter*, the Fifth Circuit upheld a Rule 12(b)(6) dismissal of a suit by holders of Allwaste stock options against Morgan Stanley and one of its employees, Ian Pereira.[129]

In the instant action, which was filed in state court and removed to federal court by the defendants, the plaintiffs were Allwaste debenture holders who sued not only the defendants from the *Collins* case but also David Lumpkins, a Morgan Stanley employee and Texas citizen.[130] The Fifth Circuit had to decide whether the district court erred in denying the plaintiffs' motion to remand on the ground that Lumpkins had been fraudulently joined and in dismissing the claims by granting judgment on the pleadings under Rule 12(c).[131]

Plaintiffs, holders of Allwaste convertible debentures, sought to sue on behalf of themselves and certain other debenture holders and brought this suit in Texas state court as a putative class action against Morgan Stanley, Lumpkins, and Pereira based on claims arising from the defendants' actions in connection with the proposed merger.[132] Allwaste had entered into a letter agreement with Morgan Stanley in which Morgan Stanley agreed to provide Allwaste with financial advice on the transaction whereby Allwaste and Philip would merge into a new company to be owned by Philip.[133] The Allwaste shareholders were to receive Philip common stock in exchange for their shares.[134] Lumpkins was the Managing Director of the Houston office of Morgan Stanley, and he signed the letter agreement on Morgan Stanley's behalf.[135]

The letter agreement stated that, at Allwaste's request, Morgan Stanley would provide a financial opinion letter to Allwaste's Board of Directors regarding the fairness of the consideration that the shareholders were to receive.[136] Additionally, it stated that Morgan Stanley was acting as an independent contractor with duties owed only to Allwaste, and the opinions provided were not to be disclosed to any third party without the written consent of Morgan Stanley.[137] Morgan Stanley later issued two opinion letters that collectively constituted the fairness opinion.[138] It opined that "the merger

128. Great Plains Trust Co. v. Morgan Stanley Dean Witter, 313 F.3d 305, 308 (5th Cir. Dec. 2002).
129. 224 F.3d 496 (5th Cir. 2000).
130. *Great Plains*, 313 F.3d at 308.
131. *Id.*
132. *Id.*
133. *Id.*
134. *Id.*
135. *Id.* at 308-09.
136. *Id.* at 309.
137. *Id.*
138. *Id.*

was fair from a financial point of view" but expressed no view or recommendation regarding whether or not the stockholders should approve the merger.[139] Morgan Stanley also stated that it relied upon the information supplied by Allwaste and Philip without independently verifying the information.[140] The fairness opinion also contained a restriction on disclosure.[141] Pereira signed both letters that constituted the fairness opinion.[142]

Following the merger, Philip revealed that its financial statements had been inaccurate, and as a result, the value of its stock and debentures declined.[143] The plaintiffs sued the defendants in Texas state court under the following causes of action: (1) negligence, (2) gross negligence/malice, (3) negligent misrepresentation, (4) breach of fiduciary duty, (5) fraud, (6) violations of the Texas Deceptive Trade Practices Consumer Protection Act (DTPA),[144] (7) professional negligence, and (8) breach of contract.[145] The defendants removed the case to federal court based on diversity jurisdiction.[146] The plaintiff moved for remand, which the district court denied, concluding that Lumpkins had been fraudulently joined to defeat diversity.[147]

After the district court's ruling, the Fifth Circuit decided *Collins*, in which it affirmed the dismissal of the suit by Allwaste stock option holders against Morgan Stanley and Pereira based on similar allegations of an inadequate investigation of Philip.[148] The defendants then moved under Rule 12(c) for judgment on the pleadings, and the district court relied in part on *Collins* as persuasive authority and dismissed the complaint.[149] The plaintiffs appealed, arguing that the defendants failed to establish that Lumpkins was fraudulently joined.[150]

The court considered together the plaintiffs' claims for negligence, gross negligence/malice, and professional negligence.[151] The court explained Texas negligence law as follows: " 'Under Texas law, negligence consists of four essential elements: (1) a legal duty owed to the plaintiff by the defendant; (2) a breach of that duty; (3) an actual injury to the plaintiff; and (4) a showing

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139. *Id.*
140. *Id.*
141. *Id.*
142. *Id.*
143. *Id.*
144. TEX. BUS. & COM. CODE ANN. §§ 17.41-17.826 (Vernon 1987 & Supp. 2002).
145. *Great Plains*, 313 F.3d at 309.
146. *Id.*
147. *Id.* at 310.
148. *Id.* at 310-11 (citing Collins v. Morgan Stanley Dean Witter, 224 F.3d 496, 498 (5th Cir. 2000)).
149. *Id.*
150. *Id.* at 311. The plaintiffs did not appeal the dismissal of their breach of contract claim, and therefore the Fifth Circuit did not address this particular cause of action. *Id.* at 311 n.6.
151. *Id.* at 314.

that the breach was the proximate cause of the injury.' "[152] Moreover, gross negligence has the following two requirements: (1) the act or omission must involve an extreme degree of risk, including the probability and magnitude of the potential harm to others, objectively viewed from the standpoint of the actor; and (2) the actor must have actual and subjective knowledge of the risk involved but nevertheless proceed with conscious indifference to the rights, safety, or welfare of others.[153] For a plaintiff to establish liability for professional negligence, he must show the existence of a duty, a breach of that duty, and damages arising from that breach.[154]

The district court held that Lumpkins had been fraudulently joined because the plaintiffs had not plead allegations showing that he owed an individual duty to the debenture holders independent of the duty Morgan Stanley allegedly assumed upon entering into the letter agreement.[155] The plaintiffs argued that the district court erred because, under Texas law, a corporate officer can be individually liable for a corporation's tortious conduct if the officer knowingly participated in the conduct or had actual or constructive knowledge of it.[156]

The plaintiffs maintained that the complaint alleged personal participation by Lumpkins in the tortious conduct, that it was reasonable to infer that he would have benefitted from the merger, and that he therefore had reason to be personally involved in the negligent due diligence.[157] After reviewing the complaint, the Fifth Circuit determined the "district court correctly concluded that [the] plaintiffs ha[d] no possibility of recovering against Lumpkins based on their negligence causes of action."[158] Individual liability for corporate negligence arises in Texas " 'only when [an] officer or agent owes an independent duty of reasonable care to the injured party apart from the employer's duty.' "[159] The plaintiffs had not alleged that Lumpkins participated in any specific conduct that imposed any independent duty other than soliciting in his capacity as a corporate officer of Morgan Stanley.[160]

The court then turned to the district court's dismissal of the plaintiffs' negligence claims under Rule 12(c).[161] The district court dismissed the claims on the ground that they solely arose from Morgan Stanley's negligent

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152. *Id.* (quoting Gutierrez v. Excel Corp., 106 F.3d 683, 687 (5th Cir. 1997) (citing Skipper v. United States, 1 F.3d 349, 352 (5th Cir. 1993))).

153. *Id.* (citing Henderson v. Norfolk Southern Corp., 55 F.3d 1066, 1070 (5th Cir. 1995)).

154. *Id.* (citing Banc One Capital Partners Corp. v. Kneipper, 67 F.3d 1187, 1198 (5th Cir. 1995)).

155. *Id.* at 314-15.

156. *Id.* at 315.

157. *Id.*

158. *Id.*

159. *Id.* (quoting Leitch v. Hornsby, 935 S.W.2d 114, 117 (Tex. 1996)) (alteration in original).

160. *Id.*

161. *Id.* at 316.

performance of the letter agreement and that Morgan Stanley had no independent legal duty apart from its contractual obligations to Allwaste.[162]

Additionally, the district court concluded that the plaintiffs could not recover on their professional malpractice claim because it could not be brought without a professional relationship based on an agreement to provide professional services; Morgan Stanley did not agree to provide professional services to the debenture holders.[163]

The Fifth Circuit further examined the plaintiffs' arguments for asserting a duty on the defendants' behalf to someone other than Allwaste; the court dismissed them all.[164] The plaintiffs contended that the defendants knew or should have known that Allwaste would and did disseminate the fairness opinion and related information.[165] However, the court found that this assertion merely made a conclusory statement that the defendants owed the debenture holders a duty and found it insufficient.[166] The other basis asserted by the plaintiffs for alleging a duty was that Texas would recognize, under general principles of negligence, that the defendants owed them a duty of reasonable care.[167] The court pointed out that the plaintiffs did not rely on this contention in the district court and accordingly held that the plaintiffs waived the argument.[168] Ultimately, the court concluded that because the plaintiffs failed to demonstrate that the defendants owed them a duty to act with reasonable care, the district court did not err in holding that they could not recover on their claims for negligence, gross negligence/malice, or professional negligence.[169]

The court further addressed the plaintiffs' claims of negligent misrepresentation, considering together whether Lumpkins was fraudulently joined.[170] To recover for negligent misrepresentation in Texas, a plaintiff must prove the following: (1) the defendant made a representation in the course of business or in a transaction in which he had a pecuniary interest; (2) the defendant supplied false information for the guidance of others in their business; (3) the defendant failed to exercise reasonable care in obtaining or communicating the information; and (4) the plaintiff suffered pecuniary loss by justifiably relying on the representation.[171] The district court held, *inter alia*, that this information was intended for Allwaste and concluded that even if Morgan

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162. *Id.*
163. *Id.*
164. *Id.*
165. *Id.* at 316-17.
166. *Id.* at 317.
167. *Id.*
168. *Id.*
169. *Id.*
170. *Id.* at 318.
171. *Id.* (citing First Nat'l Bank of Durant v. Trans Terra Corp. Int'l, 142 F.3d 802, 809 (5th Cir. 1998)).

Stanley knew the shareholders would receive the information and rely on it when deciding how to vote on the proposed merger, the opinion did not appear to be intended to benefit the debenture holders.[172]

The circuit court reviewed the arguments and held that the district court did not err in dismissing the plaintiffs' negligent misrepresentation claim because the plaintiffs failed to plead sufficient facts to permit the conclusion that they were the persons for whose benefit the defendants intended to supply the information.[173] The debenture holders did not have authority to approve the merger, and the letter agreement explicitly stated that Morgan Stanley owed duties only to Allwaste.[174] Confronted with this information, the court held that the plaintiffs were required to allege facts that, viewed favorably to them, permitted a finding that the defendants intended to provide information to the debenture holders or at least knew that Allwaste intended to supply the information, despite the express limitations provided in the letter agreement and opinion letter.[175] The court determined that the plaintiffs failed to plead the negligent misrepresentation claim as required and that the district court did not err in dismissing it or in concluding that Lumpkins had been fraudulently joined.[176]

The court also considered the plaintiffs' claim of breach of fiduciary duty and held the district court had not erred in holding the Lumpkins had been fraudulently joined, because he owed no independent duty to the plaintiffs, and could not therefore be held individually liable.[177] In affirming the district court's dismissal of this claim regarding all defendants, the circuit court noted that the plaintiffs had not adequately briefed their argument on this point of appeal, determined it would not consider an argument that was inadequately briefed, and concluded that the plaintiffs' arguments failed to comply with the minimum standards necessary to permit review.[178]

The Fifth Circuit addressed the plaintiffs' claim of fraud as well.[179] The plaintiffs asserted the "should have known" argument with respect to reliance.[180] The court held the district court did not err in holding that

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172. *Id.*
173. *Id.* at 319.
174. *Id.*
175. *Id.* at 320.
176. *Id.*
177. *Id.* at 320-21.
178. *Id.*
179. *Id.* at 321-22. The court articulated the elements as follows:

> To maintain a fraud cause of action against Lumpkins under Texas law, plaintiffs must establish that he (1) made a material representation, (2) that was false when made, (3) he knew the representation was false, or made it recklessly without knowledge of its truth and as a positive assertion, (4) he made the representation with the intent that plaintiffs should act upon it, and (5) plaintiffs acted in reliance upon it and suffered injury as a result.

Id. at 322 (citing Beijing Metals & Minerals Imp./Exp. Corp. v. Am. Bus. Ctr. Inc., 993 F.2d 1178, 1185 (5th Cir. 1993)).

180. *Id.* at 322-23.

Lumpkins was fraudulently joined because the only misrepresentation specifically attributable to Lumpkins alleged that Lumpkins represented to Allwaste that Morgan Stanley was qualified to investigate and advise regarding the transaction; this allegation did not address whether Lumpkins intended for the debenture holders to rely on his representation.[181] Additionally, the court reasoned that the allegations did not address whether Lumpkins had reason to expect that the debenture holders would so rely.[182]

With respect to the other defendants, the court held that no error was committed in dismissing the fraud claim, again because the plaintiffs failed to establish that the defendants intended the debenture holders, as opposed to the Allwaste Board of Directors, to rely on the fairness opinion.[183] Moreover, the court ruled that even if the opinion could be read as an intended communication to the debenture holders, the plaintiffs had not adequately averred that the reliance on the information was justifiable as required under Texas law.[184]

Finally, the Fifth Circuit addressed the DTPA claim.[185] The district court held that the debenture holders were not "consumers" under the DTPA because they did not acquire goods or services from Morgan Stanley or Lumpkins, as they were not parties to, nor third-party beneficiaries of, the letter agreement.[186] The plaintiffs contended that the district court had erroneously imposed a privity requirement between them and Lumpkins or Morgan Stanley.[187] The circuit court concluded that the plaintiffs misunderstood the district court's decision.[188] According to the Fifth Circuit, the district court held that the plaintiffs did not acquire services from Lumpkins or Morgan Stanley because the contract for services was between Morgan Stanley and Allwaste and the debenture holders were neither parties to, nor third party beneficiaries of, that agreement—not that contractual privity was necessary.[189] The district court looked at the legal arrangement under which Morgan Stanley provided services and held the debenture holders were not part of that arrangement.[190] Based on the fact that the circuit court

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181. *Id.*
182. *Id.*
183. *Id.*
184. *Id.* at 326.
185. *Id.* at 327. According to the court, "[t]o recover under the DTPA, plaintiffs must prove that they are consumers, that defendants engaged in a false, misleading, or deceptive act, and the act constituted a producing cause of their damages." *Id.* (citing Doe v. Boys Clubs, 907 S.W.2d 472, 478 (Tex. 1995); TEX. BUS. & COM. CODE ANN. § 17.50(a)(1) (Vernon Supp. 2002)). Moreover, " '[a] consumer is an individual who "seeks or acquires by purchase or lease, any goods or services." ' " *Id.* (quoting Narte v. State Farm Fire & Cas. Co., 82 S.W.3d 114, 122 (Tex. App.—San Antonio 2002, no pet.)).
186. *Id.*
187. *Id.*
188. *Id.*
189. *Id.*
190. *Id.*

was able to dismiss all of the plaintiffs' points on appeal, essentially on the fact that the plaintiffs were not owed a duty by any of the defendants, the court affirmed the holding of the district court.[191]

C. *Trademark and Copyright:* Quick Technologies, Inc. v. Sage Group

This appeal before Circuit Judges Harold R. DeMoss, Jr., Carl E. Stewart, and James L. Dennis gave the Fifth Circuit an opportunity to consider both jurisdictional and trademark infringement issues.[192] The plaintiff (QTI) filed suit against three defendants—The Sage Group ("Sage Group"), Sage U.S. Holdings ("Holdings"), and Sage Software (collectively "defendants") for trademark infringement and unfair competition.[193] QTI, when originally formed, provided online information about distributors of promotional products.[194] After a few years, QTI expanded into offering online information about all kinds of advertising and suppliers of business software.[195] It began using the mark "Sage Information System" one year after formation and had been continuously using a variety of marks that included the word "Sage" since that time.[196]

The defendant Sage Group was an English and Welsh company that manufactured and sold accounting and business management software.[197] Its principal place of business was England.[198] Sage Group received registration for the mark "Sage" in the United Kingdom, and afterwards, in the same year as QTI's formation, Sage Group, acting through Holdings, acquired American companies that developed and sold business management software.[199] Sage Group ultimately adopted the brand name of "Sage" as its international brand name.[200]

QTI filed an application with the U.S. Patent and Trademark Office to register the mark "Sage Information System," which was published for opposition, and at this time Sage Group learned of the use of "Sage."[201] Negotiations ensued between the two but eventually broke down, and Sage Group filed a Notice of Opposition to QTI's use of the mark.[202] Sage Group then filed an intent-to-use application with the U.S. Patent and Trademark

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191. *Id.* at 328-30.
192. Quick Techs., Inc. v. Sage Group, 313 F.3d 338, 343 (5th Cir. Dec. 2002).
193. *Id.* at 341.
194. *Id.* at 342.
195. *Id.*
196. *Id.*
197. *Id.*
198. *Id.*
199. *Id.*
200. *Id.*
201. *Id.*
202. *Id.*

Office but later abandoned the application.[203] Holdings and Sage Software began using the "Sage" mark in connection with their products, and QTI filed suit against Sage Group and Holdings alleging, *inter alia*, trademark infringement.[204] QTI then filed a similar suit against Sage Software, and the cases were consolidated into the present case.[205]

The district court granted Sage Group's motion to dismiss the claim against it for lack of personal jurisdiction.[206] The case was set for trial, and the court reviewed the joint proposed pretrial order.[207] The case was ultimately continued for several months.[208] QTI served the defendants with a proposed amended pretrial order seeking to add a damages claim for corrective advertising, but the court rejected the new proposed order and entered the pretrial order that was previously submitted.[209] The case was tried to a jury, and the court instructed the jury that it must determine whether Holdings and Sage Software's infringement was willful—that is, whether they had intended to cause confusion or mistake or to deceive.[210] The jury returned a verdict for QTI on the likelihood of confusion issue but could not find that the defendants had acted with a willful intent.[211] The court entered a judgment that granted QTI permanent injunctive relief but no damages.[212] QTI appealed.[213]

QTI presented the following three issues on appeal: (1) whether the trial court erred in dismissing Sage Group for lack of jurisdiction; (2) whether the trial court abused its discretion in denying QTI's request to amend the pretrial order; and (3) whether the trial court erred in instructing the jury that it must find a willful intent before it awarded damages.[214] The Fifth Circuit first addressed the personal jurisdiction issue.[215] The plaintiff asserted that it had presented a prima facie case for specific personal jurisdiction over Sage Group pursuant to Rule 4(k)(2).[216] The court explained that this rule sanctions

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203. *Id.*
204. *Id.*
205. *Id.* at 343.
206. *Id.*
207. *Id.*
208. *Id.*
209. *Id.*
210. *Id.*
211. *Id.*
212. *Id.*
213. *Id.*
214. *Id.*
215. *Id.* at 343-44.
216. *Id.* at 344. Rule 4(k)(2) provides as follows:

> If the exercise of jurisdiction is consistent with the Constitution and laws of the United States, serving a summons or filing a waiver of service is also effective, with respect to claims arising under federal law, to establish personal jurisdiction over the person of any defendant who is not subject to the jurisdiction of the court of general jurisdiction of any state.

Id.

personal jurisdiction over a foreign defendant for claims that arise under federal law if the defendant has sufficient contacts with the United States to justify the application of United States laws but does not have sufficient contacts to satisfy the due process concerns of the long-arm statute of any one state.[217]

In the instant case, the parties did not dispute that the claims arose under federal law; the issue was whether the exercise of jurisdiction over Sage Group was consistent with the United States Constitution and laws as required by Rule 4.[218] The court stated that to make this determination, a court must conduct a "minimum contacts" analysis.[219] QTI asserted the following to establish that Sage Group's contacts had satisfied the test: Sage Group filed opposition to QTI's trademark application; Sage Group retained an attorney in the United States; Sage Group filed an intent to use application with the U.S. Patent and Trademark Office; Sage Group operated a website with links to its U.S. subsidiaries; and Sage Group used the "Sage" mark in publications in the U.S.[220] Sage Group asserted that the court should only consider the filings with the U.S. Patent and Trademark Office and the operation of the website in the minimum contacts inquiry because those were the only contacts in existence before the district court ruled on the motion to dismiss.[221]

The Fifth Circuit found that it could not exercise personal jurisdiction over Sage Group and that the district court had not erred in granting the motion to dismiss.[222] The claims did not sufficiently arise out of the contacts indicated by the documents filed with the Patent Office.[223] Advertisements are insufficient to establish personal jurisdiction.[224] Similarly, Sage Group's website did not provide sufficient grounds for jurisdiction.[225] Finally, Sage Group's contacts with U.S. companies did not involve the use of the mark at issue and, similarly, did not provide sufficient basis for personal jurisdiction.[226] The court next turned to the amendment of the pretrial order and simply held that the Federal Rules of Civil Procedure provide that a pretrial order should only be amended to prevent manifest injustice and that the lack of the corrective advertising claim did not rise to this level.[227]

Finally, the court addressed QTI's assertion that the district court had erred by conditioning the award of damages on the finding of willful

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217. *Id.* (citing World Tanker Carriers Corp. v. M/V Ya Mawlaya, 99 F.3d 717, 720 (5th Cir. 1996)).
218. *Id.*
219. *Id.*
220. *Id.*
221. *Id.* at 345.
222. *Id.*
223. *Id.*
224. *Id.* (citing Singletary v. B.R.X., Inc., 828 F.2d 1135, 1136-37 (5th Cir. 1987)).
225. *Id.*
226. *Id.*
227. *Id.* at 345-46.

infringement.[228] The court considered precedent and determined that willful infringement is an important factor in the determination of damages but refused to adopt a bright line rule that it be a prerequisite.[229] Under the instruction in the case at bar, the fact that the jury was only allowed to consider one factor, albeit perhaps the most important factor, was not sufficient.[230] Thus, the court concluded that the jury instruction constituted error, but held that because the principles of equity in the case did not weigh in favor of a damages award to QTI, the error did not rise to abuse of the wide discretion afforded the district court and needed for reversal.[231]

V. SELECT BUSINESS TORTS CAUSES OF ACTION[232]

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
Breach of Contract	1. existence of contract; 2. material breach; 3. causation; and 4. damages.[233]	Four years.[234]

228. *Id.* at 346-50.
229. *Id.* at 349.
230. *Id.*
231. *Id.* at 350.
232. The Author wishes to acknowledge Randy Carr, Associate of Diamond, McCarthy, Taylor, Finley, Bryant & Lee, L.L.P., who authored this table in substantial part. *See also* MICHEL O'CONNOR & LESLIE C. TAYLOR, O'CONNOR'S TEXAS CAUSES OF ACTION (2001-02).
233. *See* Darwin v. Fugit, 914 S.W.2d 621, 627 (Tex. App.—Fort Worth 1995, writ denied).
234. *See, e.g.*, U.C.C. § 2-725 (2001).

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
Business Disparagement	1. publication of disparaging words by the defendant about plaintiff's economic interests; 2. falsity; 3. publication with malice; 4. publication without privilege; and 5. publication caused special damages.[235]	Two years.[236] An action accrues on the date the defamatory matter is either published or spoken. The Discovery Rule may apply when the nature of the plaintiff's injury is inherently undiscoverable and the injury is objectively verifiable by physical evidence.[237]
Civil Conspiracy	1. two or more persons; 2. an object to be accomplished; 3. a meeting of the minds on the object or course of action; 4. one or more unlawful, overt acts; and 5. damages as the proximate result.[238]	Four years.[239]

235. Tzquino v. Teledine Monarch Rubber, 893 F.2d 1488, 1501 (5th Cir. 1990).

236. Dickson Constr., Inc. v. Fid. & Deposit Co. of Md., 960 S.W.2d 845, 848-50 (Tex. App.—Texarkana 1997, no writ).

237. *Id.* at 850.

238. Massey v. Armco Steel Co., 652 S.W.2d 932, 934 (Tex. 1983).

239. 15 U.S.C. § 15b (2000).

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
DTPA	1. plaintiff is consumer; 2. defendant engaged in false, misleading, or deceptive acts; and 3. these acts constituted a producing cause of the consumer's damages.[240] Certain acts are per se false, misleading or deceptive, the most pertinent being passing off goods or services as those of another.	Two years.[241] Discovery Rule: Applicable.[242]
Fraud	1. a material misrepresentation; 2. which is false; 3. and which was either known to be false when made or was asserted without knowledge of its truth; 4. which was intended to be acted upon; 5. which was relied upon; and 6. which caused injury.[243]	Four years.[244] Discovery Rule: Applicable.[245]

240. *See* TEX. BUS. & COM. CODE §§ 17.01, 17.41-17.63 (Vernon 1987).
241. *Id.* § 17.565.
242. *Id.*
243. *See* PROSSER & KEETON ON TORTS, 728 (W. Page Keeton et al. eds., 5th ed. 1984).
244. Jackson v. Speer, 974 F.2d 676, 679 (5th Cir. 1992).
245. *Id.*

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
(i) Fraud by Omission	1. a material omission when there was a duty to speak; 2. which was intended to be acted upon; 3. which was relied upon; and 4. which caused injury.[246]	Four years.[247] Discovery Rule: Applicable.[248]
Lanham Act § 43(a)	1. commercial advertisement that is false; or 2. commercial advertisement that is likely to mislead or confuse consumers.[249]	Four years (borrows from Texas's fraud limitations period).[250]

246. Williams v. WMX Techs, Inc., 112 F.3d 175, 177 (5th Cir. 1997); *see* Phillips Petroleum Co. v. Daniel Motor Co., 149 S.W.2d 979, 987 (Tex. App.—Eastland 1941, writ dism'd judgm't cor.).

247. Proctor & Gamble Co. v. Amway Corp., 242 F.3d 539, 566 (5th Cir. Feb. 2001).

248. *Id.*

249. *See* 15 U.S.C. § 1125 (2000).

250. *See Proctor & Gamble Co.*, 242 F.3d at 566.

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
Negligent Misrepresentation	1. defendant provides information in the course of his business, or in a transaction in which he has a pecuniary interest; 2. the information supplied is false; 3. the defendant did not exercise reasonable care or competence in obtaining or communicating the information; 4. the plaintiff justifiably relies on the information; and 5. the plaintiff suffers damages proximately caused by the reliance.	Two years.[251] Discovery Rule: May be applicable.[252]
Robinson-Patman Anti-discrimination Act[253]	Unlawful for any person engaged in commerce to discriminate in price between different purchasers of commodities of like grade and quality where the effect is to lessen, destroy, or prevent competition. Several exceptions to this prohibition.	Four years.[254]

251. Tex. Soil Recycling, Inc. v. Intercargo Ins. Co., 273 F.3d 644, 649 (5th Cir. Nov. 2001).

252. Kansa Reinsurance Co., Ltd. v. Cong. Montg. Corp. of Tex., 20 F.3d 1362, 1372 (5th Cir. 1994) (declining to apply the discovery rule to negligent misrepresentation); *but see Tex. Soil Recycling, Inc.*, 273 F.3d at 649 (citing *Kansa Reinsurance Co.* while applying discovery rule to negligent misrepresentation).

253. 15 U.S.C. § 13(a).

254. *Id.* § 15b.

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
Sherman Act § 1[255]	1. existence of a contract or conspiracy; 2. affecting interstate commerce and commerce with foreign nations; 3. that imposes a restraint on trade.	Four years.[256]
Sherman Act § 2[257]	Two distinct claims: 1. Monopolization (a) monopolizing conduct (willful acquisition or maintenance of monopoly power); (b) coupled with monopoly power in the relevant market 2. Attempted Monopolization (a) anticompetitive conduct; (b) intent to monopolize; (c) dangerous probability of obtaining monopoly.	Four years.[258]

255. *Id.* § 1.
256. *Id.* § 15b.
257. *Id.* § 2.
258. *Id.* § 15b.

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
Texas Free Enterprise and Antitrust Act of 1983	Unlawful practices defined: 1. Every contract, combination, or conspiracy in restraint of trade or commerce is unlawful. 2. It is unlawful for any person to monopolize, attempt to monopolize, or conspire to monopolize any part of trade or commerce. 3. It is unlawful for any person to sell, lease, or contract for the sale or lease of any goods, whether patented or unpatented, for use, consumption, or resale or to fix a price for such use, consumption, or resale or to discount from or rebate upon such price, on the condition, agreement, or understanding that the purchaser or lessee shall not use or deal in the goods of a competitor. . .[259]	Four years after the cause of action has accrued or one year after the conclusion of any action brought by the state, whichever is longer.[260]

259. TEX. BUS. & COM. CODE ANN. §§ 15.01, .05 (Vernon 1987).
260. *Id.* § 15.25.

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
Tortious Interference with Existing Contract	1. plaintiff has a valid contract; 2. defendant willfully and intentionally interfered with the contract; 3. interference was a proximate cause of the plaintiff's injury; and 4. plaintiff incurred actual damages or loss.[261]	Two years.[262] A cause of action accrues when the defendant interferes with the contract and causes harm to the plaintiff. The Discovery Rule may apply when the nature of the plaintiff's injury is inherently undiscoverable and the injury is objectively verifiable by physical evidence.[263]

261. 45 AM. JUR. 2D Interference § 6 (1999).
262. Jackson v. W. Telemarketing Corp. Outbound, 245 F.3d 518, 523-24 (5th Cir. Apr. 2001).
263. *Id.* at 524.

CAUSE OF ACTION	ELEMENTS	STATUTE OF LIMITATIONS
Tortious Interference with Prospective Contract	1. reasonable probability that the plaintiff would have entered into a business relationship with a third person; 2. defendant intentionally interfered with the relationship; 3. defendant's conduct was independently tortious or unlawful; 4. interference was the proximate cause of the plaintiff's injury; and 5. plaintiff suffered actual damage or loss.[264]	Two years.[265] A cause of action accrues when the defendant's interference with existing negotiations, which are reasonably certain of producing a contract, results in the termination of negotiations and harm to the plaintiff. The Discovery Rule may apply when the nature of the plaintiff's injury is inherently undiscoverable and the injury is objectively verifiable by physical evidence.[266]
Unfair Competition (Common Law)	Violation of Lanham Act automatically provides a cause of action.[267]	Two years.[268]

264. Stewart Glass & Mirror, Inc. v. Auto Glass Disc. Ctrs., Inc., 200 F.3d 307, 316 (5th Cir. 2000).

265. Tex. Oil Co. v. Tenneco Inc., 917 S.W.2d 826, 832 (Tex. App.—Houston [14th Dist.] 1994, no writ), *rev'd on other grounds*, Morgan Stanley & Co. v. Tex. Oil Co., 958 S.W.2d 178 (Tex. 1997).

266. Hofland v. Elgin-Butler Brick Co., 834 S.W.2d 409, 414 (Tex. App.—Corpus Christi 1992, no writ).

267. *See* Inwood Labs, Inc. v. Ives Labs, Inc., 456 U.S. 844, 856 n.2 (1982) (White, J., concurring).

268. Coastal Distrib. Co. v. NGK Spark Plug Co., 779 F.2d 1033, 1038 (5th Cir. 1986); J.M. Huber Corp. v. Positive Action Tool of Ohio Co., 879 F. Supp. 705, 708-09 (S.D. Tex. 1995).