IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF GEORGIA
ATLANTA DIVISION

C-E Minerals, Inc., Plaintiff and Counterclaim Defendant, vs. CARBO Ceramics Inc., Defendant and Counterclaim Plaintiff.	Civil Action No. 1:11-CV-2574-JOF

DEFENDANT'S BRIEF IN OPPOSITION TO
PLAINTIFF'S MOTION FOR PRELIMINARY INJUNCTION

In its motion for preliminary injunction, Plaintiff C-E Minerals, Inc. ("C-E" or "Plaintiff") seeks to enjoin Defendant CARBO Ceramics Inc. ("CARBO") from attempting to enforce a mutual non-compete provision ("Section 5") of the June 1, 2003 Raw Material Requirements Agreement ("Agreement"). CARBO opposes the motion on numerous grounds.

First, C-E's hands are unclean. Rather than challenge Section 5 when it first contended Section 5 was illegal in 2006, C-E: (i) attempted to use Section 5 offensively to restrict CARBO's foundry media business in 2005; (ii) reaffirmed the Agreement (including Section 5) when seeking price increases in 2006 and 2007; (iii) reaped large profits from the Agreement over a 7-year period; and (iv) waited nearly 6 years to bring this action. C-E simply cannot be heard now to invoke equity to be relieved of an obligation, entered into by a sophisticated party with superior bargaining power.

Second, C-E cannot show a likelihood of success on the merits. Section 5 does not violate any antitrust laws, Georgia public policy, or the law of Alabama. Section 5 is an ancillary agreement in partial restraint of trade that is part of a procompetitive supply agreement. This ancillary restraint served legitimate business purposes of (i) preventing C-E from competing unfairly using confidential and proprietary information acquired from CARBO by virtue of the Agreement,

(ii) fostering loyalty, and (iii) preventing abusive tactics by a supplier-turned-competitor.

Third, C-E cannot satisfy any of the other requirements for a preliminary injunction. The illusory "harm" of which it complains – inability to fulfill advance supply contracts for proppants with third parties – was created by C-E's own breach of Section 5. Nor can C-E complain about lack of competition in the proppant market: numerous competitors continue to enter the market to satisfy demand and existing competitors have increased their capacity. C-E has not shown irreparable harm. Enjoining Section 5's enforcement would deprive CARBO of the benefit of its mutual bargain with C-E and allow C-E to free-ride off CARBO's confidential information to get a head start into the marketplace – the very injury to CARBO that Section 5 was intended to prevent. The balance of the harms and the public interest tip decidedly in favor of *CARBO*, not C-E.

Fourth, the relief sought by C-E (enjoining CARBO from seeking to enforce Section 5) has other insurmountable hurdles. It would violate CARBO's right to petition the courts for relief, as guaranteed by the First Amendment to the U.S. Constitution. At this *preliminary* stage, such relief would even prevent CARBO from continuing to litigate the dispute before this Court! Even if C-E could establish an *ultimate* right to injunctive relief, that relief cannot

extend beyond enjoining enforcement of Section 5 in the courts of Georgia.

FACTS

For 15 years, C-E and CARBO had a long-term business relationship, memorialized by the Agreement and a predecessor supply agreement. (Edmunds Decl. ¶¶ 5-6, 24-31 & Ex. 4.) C-E was a near-exclusive supplier of kaolin clay needed to manufacture ceramic proppants at CARBO's Eufaula, Alabama plant. (Kessler Decl. ¶ 12; Edmunds Decl. ¶¶ 5-6,8.)

Proppants are small substances used in hydraulic fracturing to "prop" open fractures in oil and gas wells in order to enhance production. (Gallagher Decl. ¶¶ 6, 8-9, 11-13, 16.) Lightweight ceramic proppants compete directly with sand, resin-coated sand, intermediate weight ceramic, and heavy weight ceramic proppants. (*Id.* ¶¶ 11-13, 15-36, 39, 44, 45, 51-53, 60-61, 63.) CARBO sells its U.S.-manufactured lightweight ceramic proppants around the world in competition with proppant manufacturers in the United States and abroad. (*Id*. ¶¶ 37-38, 40, 44-45, 62.)

CARBO is no monopolist. Numerous new entrants have entered or announced plans to enter. (*Id.* ¶ 47.) Existing proppant manufacturers have expanded or announced plans to expand manufacturing operations. (*Id.* ¶¶ 38, 41, 47.) Foreign manufacturers export proppants to the United States and compete

with domestic producers. (*Id.* ¶¶ 32-33, 37-40-46, 59, 61.) CARBO's ceramic proppants capacity accounts for only a small fraction – about 4% – of the total worldwide demand for proppants. (*Id.* ¶¶ 53-55.) Its share of the global demand for ceramic proppants (only about 34%) does not a monopolist make. (*Id.* ¶ 55.) Its share of the proppant market has been declining in recent years. (*Id.* ¶ 60.) In 2010, foreign imports of ceramic proppants into the United States exceeded all of CARBO's sales in the US and approximately equaled its entire domestic capacity. (*Id.* ¶¶ 43, 54.) As a result of these and other market factors, CARBO cannot unilaterally impose significant price increases for ceramic proppants, and it has not attempted to do so. (*Id.* ¶¶ 63-67.)

CARBO first contracted with C-E in 1995. (Edmunds Decl. ¶¶ 5-6.) That agreement included a one-sided restraint (predecessor to the one now in dispute) that effectively prevented CARBO from competing with C-E to sell calcined clay. (*Id*. ¶¶ 5-8.) As that contract neared its end, C-E proposed substituting Georgia clays for Alabama clays. (*Id.* ¶ 10.) This would require extensive testing, qualification, experimentation and blending to find ores suitable for production of ceramic proppants using CARBO's proprietary processes and know-how. (*Id.* ¶¶ 11-17, 20-21, 23, 37; Kessler Decl. ¶¶ 5-11, 15-16, 20-21.) CARBO's confidential information, developed over years of experimentation, gives CARBO a

competitive advantage; a competitor with access to it could speed by 3 years its entry to market, free-riding off CARBO's information and impairing the advantage CARBO derives from its investment and efforts. (Edmunds Decl. ¶¶ 11-21; Kessler Decl. ¶¶ 5-11, 22-23.)

C-E's bargaining power in 2003 was equal or superior to CARBO's. (Kessler Decl. ¶ 14.) After months of negotiation, C-E and CARBO entered into the Agreement, which mirrored the terms proposed by C-E in a January 20, 2003 letter: a new 7-year term, price increases for C-E, new sourcing of Georgia ores, and a mutual non-compete that prevented CARBO from directly competing in the manufacture of calcined clay and prevented C-E from competing in the manufacture and sale of ceramic proppants during the term of the Agreement and for three years after its expiration. (Edmunds Decl. ¶¶ 24-31.) Section 5 served to protect against free-riding on the confidential and proprietary information that would be developed to qualify Georgia clays, to secure loyalty and align both parties' priorities, and to prevent conflicts of interest that could develop into supply disruptions. (*Id.* ¶¶ 31-34, 44-49.) *Under the circumstances, CARBO would not have entered the Agreement, paid higher prices for Alabama clays and accepted lower-quality Georgia clays, without the protections against free-riding and unfair competition afforded by Section 5.* (*Id.* ¶¶ 41-43.)

C-E asserted – incorrectly – in December 2005 that CARBO had violated Section 5 to leverage a price increase. (*Id.* ¶¶ 9, 35, 39.) In July 2006, C-E reversed itself, now claiming Section 5 was not in force and stating C-E would not abide by it. (*Id.* ¶ 37.) CARBO advised that it expected C-E to abide by all of its obligations under the 2003 Agreement. (*Id.* ¶ 38.) In 2007, C-E agreed to amend the Agreement without any changes to Section 5 because the amendment gave C-E higher prices. (*Id.* ¶¶ 38-40.)

C-E began secret plans to build a ceramic proppants plant in 2008 and later surreptitiously signed up customers for its output. (Parias Decl. ¶¶ 8, 13). C-E took no action then to challenge Section 5. The Agreement expired December 31, 2010 (with Section 5 continuing three more years). (Edmunds Decl., Ex. 4, §§ 1, 5.) C-E took no action then to challenge Section 5. C-E finally challenged Section 5 by filing its Complaint on August 4, 2011. It moved for a preliminary injunction on September 14, 2011. On September 20, 2011, C-E's parent announced that C-E intended to start manufacturing ceramic proppants by the end of 2011 and that it had entered into advance supply contracts. (Eiszner Decl., Ex. 2.)

ARGUMENT AND AUTHORITY

I. Equitable Relief Is Inappropriate Because of Plaintiff's Inequitable Conduct.

After reaping all its benefits from the Agreement, C-E asks this Court to

nullify Section 5. C-E even invoked Section 5 against CARBO (while seeking a price increase) before deciding in mid-2006 that the provision was supposedly void. (Edmunds Decl. ¶¶ 5-8, 25-30, 35-39.) C-E could have sought relief in 2006 if its concerns were genuine, which would have given CARBO the opportunity to modify or terminate the Agreement, find a more trustworthy supplier, and take additional steps to protect its confidential information. But the only actions C-E took were to extract price increases for itself and secretly begin plans to manufacture and sell ceramic proppants in violation of Section 5. (*Id.* ¶¶ 39-40 & Ex. 7; Parias Decl. ¶ 8.) In fact, C-E reaffirmed to CARBO that it would honor its contractual obligations (*see* Edmunds Decl. ¶¶ 38-40).

Equity will not reward C-E's misbehavior or forgive its delay in asserting these claims. "[T]he equitable maxim that 'he who comes into equity must come with clean hands' . . . is a self-imposed ordinance that closes the doors of a court of equity to one tainted with inequitableness or bad faith relative to the matter in which he seeks relief, . . ." *Precision Instrument Mfg. Co. v. Auto. Maint. Mach. Co.*, 324 U.S. 806, 814 (1945).[1] C-E's hands are stained not only by bad faith but also by inexcusably long delay, during which C-E realized profits under the

[1] *See Rinks v. Courier Dispatch Group, Inc.*, No. Civ.A. 1:01-CV0678JOF, 2001 WL 34090167, at *3 (N.D. Ga. Apr. 11, 2001) (unclean hands may bar plaintiff who was paid for release affirming non-compete).

Agreement. Laches, too, bars a plaintiff from obtaining equitable relief where it has inexcusably delayed in asserting its rights and "it would be inequitable to allow the plaintiff to enforce his legal rights." *See, e.g., Angel Flight of Ga., Inc. v. Angel Flight of Am., Inc.*, 522 F.3d 1200, 1207 (11th Cir. 2008).[2]

C-E's failure to act 5 years ago, when it first suggested Section 5 is a dead-letter, has prevented CARBO from protecting its legitimate business interests in the confidentiality of its know-how, processes and proprietary information in any way *other than* the enforcement of Section 5. C-E's history of embracing and asserting the restrictions in Section 5 against CARBO, and C-E's alternating attempts to invoke, question, and secretly violate Section 5 – all within a few months – cannot be rewarded with extraordinary equitable relief.

II. C-E Cannot Demonstrate a Substantial Likelihood of Success on the Merits.

C-E concedes it must establish it has a substantial likelihood of ultimately prevailing on the merits. Because C-E cannot carry its burden, it should be denied extraordinary equitable relief which upsets the status quo.

A. Section 5 Is a Lawful and Enforceable Ancillary Restraint.

C-E asks the Court to read Section 5 in isolation, attach a *per se* label, and

[2] *See also Swanson v. Swanson*, 501 S.E.2d 491, 493-94 (Ga. 1998) ("lapse of time . . . may be telling on the question of inequity").

summarily condemn it. Just as C-E seeks a shortcut to market at CARBO's expense, C-E seeks a shortcut to an antitrust violation through the *per se* rule. But Section 5 does not warrant *per se* condemnation. Because the *per se* shortcut is so laden with risks of chilling beneficial and lawful conduct, it is applied to only a very few, narrow types of restraints – those that have proven through long experience to virtually always harm competition. *See, e.g., Cont'l T.V., Inc. v. GTE Sylvania, Inc.*, 433 U.S. 36, 49-50 (1977); *FTC v. Ind. Fed'n of Dentists*, 476 U.S. 447, 458-59 (1986). For more than a century, courts have found competitive *benefits* from non-competition covenants like Section 5.[3] Because courts lack the experience to say that such restraints virtually always harm competition, restraints like Section 5 must be evaluated under the Rule of Reason. *See, e.g., Consultants & Designers, Inc. v. Butler Serv. Group*, 720 F.2d 1553, 1560-61 (11th Cir. 1983) (noting "an unbroken line of cases" since 1898 "holding that the validity of covenants not to compete under the Sherman Act must be analyzed under the rule of reason").[4]

C-E's attempt to confuse the issue by dismissing Section 5 as a market

[3] *See, e.g., Lektro-Vend Corp. v. Vendo Co.*, 660 F.2d 255, 265 (7th Cir. 1981) ("The recognized benefits of reasonably enforced noncompetition covenants are by now beyond question.").

[4] *See also Nat'l Soc'y of Prof'l Eng'rs v. United States*, 435 U.S. 679, 689 (1978) and *Baker's Aid v. Hussmann Foodserv. Co.*, 730 F. Supp. 1209, 1216 (E.D.N.Y. 1990).

allocation agreement (Pl's Br. at 6-7) does not change this result. *Palmer v. BRG of Georgia* applied the *per se* rule to a *naked* restraint. The agreement there did not enhance "output" because BRG did not need HBJ's exclusive license in order to bring a viable bar review course to market. BRG had already done so for several years as HBJ's "intense" competitor. The only thing the HBJ/BRG agreement accomplished was to remove HBJ from Georgia. *Palmer*, 498 U.S. 46, 47 (1990).[5]

Section 5 is not a naked restraint. Unlike *Palmer*, C-E cannot show its agreement to sell clay to CARBO was a pretext. Section 5 was an integral part of the business "partnership" C-E and CARBO built via the Agreement. (*See* Edmunds Decl. ¶¶ 25-26, 41-42.) The Agreement embodied a procompetitive, output-enhancing relationship. Because of it, CARBO bought from C-E tens of thousands of tons of Georgia clay worth hundreds of thousands of dollars, trade increased between CARBO's Alabama plant and C-E's Georgia mines, and CARBO secured a reliable supply of the ore needed to produce proppants in an increasingly competitive marketplace. (*Id.* ¶¶ 41-43; *see* Kessler Decl. ¶¶ 6, 14.)

[5] The other *per se* cases cited by C-E are distinguishable. *Fricke-Parks Press, Inc. v. Fang*, 149 F. Supp. 2d 1175, 1178-79 (N.D. Cal. 2001), condemned a naked market allocation. The three drug cases involved alleged attempts to manipulate regulatory schemes to produce competitive bottlenecks. *In re: Terazosin Hydrochloride Antitrust Litig.*, 352 F. Supp. 2d 1279, 1314-15 & nn.35 & 36 (S.D. Fla. 2005) (noting 11th Circuit disagreed with 6th Circuit's approach in *Cardizem*); *In re Ciprofloxacin Hydrochloride Antitrust Litig.*, 261 F. Supp. 2d 188, 233, 237-38, 242-43, 257 (E.D.N.Y. 2003) (**refusing** to apply *per se* rule); *In re Cardizem CD Antitrust Litig.*, 105 F. Supp. 2d 618, 623, 677-78 (E.D. Mich. 2000).

The Agreement provided a solution for the problems C-E was experiencing in Alabama (shrinking and difficult-to-extract reserves of high-alumina clay) and gave C-E opportunities to supply larger volumes of Georgia clay and obtain higher prices. (*See* Kessler Decl. ¶ 13; Edmunds Decl. ¶¶ 10, 26-30, 41.)

Testing and using Georgia ores meant that CARBO needed to develop extensive confidential information. (Edmunds Decl. ¶¶ 16-17, 19-21; Kessler Decl. ¶¶ 7-10, 15-16.) Out of business necessity, CARBO had to share such information with C-E, potentially allowing C-E to free-ride off CARBO's efforts in entering the ceramic proppant business and depriving CARBO of competitive advantages. Unrestrained, C-E's loyalty and priorities as a key supplier would be misaligned. (*Id.* ¶¶ 31-34.) Given these risks, CARBO would not have entered into the Agreement without Section 5's protection against unfair competition. (*Id.* ¶¶ 41-42.) Section 5 made possible the Agreement, expanded proppant production and enhanced trade with Georgia mines. (*Id.* ¶ 43.)

Like other supply agreement restraints, Section 5 is reasonably ancillary to a legitimate, procompetitive transaction. *See Baker's Aid*, 730 F. Supp. at 1216-17 (affirming that protection of confidential information provided to supplier was sufficient rationale for enforcing non-compete against supplier). Section 5 "merely enhances the value of the contract" and "permits the 'enjoyment of its fruits." *See*

Bus. Elecs. Corp. v. Sharp Elecs. Corp., 485 U.S. 717, 730 n.3 (1988).[6] Where, as here, an "agreement promoted enterprise and productivity at the time it was adopted . . . the court must apply the Rule of Reason to make a more discriminating assessment." *Polk Bros. v. Forest City Enters.*, 776 F.2d 185, 189 (7th Cir. 1985).

C-E cannot succeed under the Rule of Reason, which requires proof an agreement "is in fact unreasonable and anticompetitive." *Texaco, Inc. v. Dagher*, 547 U.S. 1, 5 (2006). "A showing of adverse market impact has been required in § 1 cases specifically involving noncompetition covenants." *Lektro-Vend*, 660 F.2d at 269. But C-E has made **no** attempt to show **any** anticompetitive effect. *See* Pl's Br. at 10-11. Because CARBO's small share of the proppants market and vigorous competition from new entrants, expanding incumbents, and foreign importers combine to prevent CARBO from acquiring market power in any relevant market (*see* Gallagher Decl. ¶¶ 11-13, 15-30, 32-47, 53-61, 63-66), C-E cannot show that Section 5 is likely to harm competition. *See, e.g., Polk Bros.*, 776 F.2d at 191.[7]

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[6] *See Valley Drug Co. v. Geneva Pharms.*, 344 F.3d 1294, 1313 n.31 (11th Cir. 2003) ("agreements that are anticompetitive when considered in isolation (such as covenants not to compete) can still be lawful if they are ancillary to another agreement and, when viewed in combination, will have the overall effect of enhancing competition").

[7] *See* III Areeda & Hovenkamp, *Antitrust Law* ¶ 703b, at 211 (3d ed. 2008) ("Unlawfulness under the antitrust laws requires power, which in this case means both that the covenant cuts off reasonable access to alternatives and that barriers to new entry are significant.").

This is fatal to its Sherman Act claims. *See, e.g., Rothery Storage & Van Co. v. Atlas Van Lines*, 792 F.2d 210, 229 & n.11 (D.C. Cir. 1986) ("Here, there are no anticompetitive effects and so there is nothing to place on that side of the scale. If the underlying contract integration is lawful, . . . restraints ancillary to the integration . . . should be lawful.").

B. Section 5 Is Enforceable Under Georgia and Alabama Law.

The parties selected Alabama law to govern interpretation of the Agreement, and as a result, CARBO asserts that Alabama law applies to C-E's state-law claims. Regardless of choice of law (Alabama or Georgia) Section 5 is enforceable.

C-E again asks the Court to apply the wrong standard in order to reach the wrong result on its state law claims. While Georgia public policy disfavors *general* restraints of trade, restraints that are ancillary to legitimate business ventures – whether a joint venture, sale of a business, a professional partnership agreement, a franchise agreement, or any other agreement – are considered *partial* restraints and are evaluated for their reasonableness under a low level of scrutiny. *See, e.g., Clower v. Orthalliance, Inc.*, 337 F. Supp. 2d 1322, 1334 (N.D. Ga. 2004) ("The state of Georgia is generally concerned with the reasonableness of a covenant not to compete ancillary to *any contract* . . . ." (emphasis added)); *W.R.*

Grace & Co. v. Mouyal, 422 S.E.2d 529, 531 (Ga. 1992) (restrictive covenants are considered partial restraints and enforceable if reasonable).

By citing to employment (and other strict scrutiny) cases, C-E in effect asks the Court to assume that Section 5 warrants strict scrutiny. Georgia courts do not simply assume strict scrutiny applies to most restraints – nor do they base their analysis on a flimsy comparison of the restraint before the court with the nearest example they can find in the caselaw. Instead, a court applying Georgia law "must look to the purposes behind the varying levels of scrutiny to determine which level" – strict, intermediate or "much less" scrutiny – "is most appropriate for the contract before us." *Swartz Invs., LLC v. Vion Pharms.*, 556 S.E.2d 460, 463 (Ga. Ct. App. 2001). In doing so, "Georgia law requires that we analyze [1] the bargaining capacity of the covenantor" and [2] "the existence of any independent consideration given for the covenant." *Palmer & Cay, Inc. v. Marsh & McLennan Cos.*, 404 F.3d 1297, 1304 (11th Cir. 2005); *see also W. Coast Cambridge, Inc. v. Rice*, 584 S.E.2d 696, 698-99 (Ga. Ct. App. 2003).

Both factors direct the Court to apply the "much less scrutiny" that Georgia courts reserve for business transactions between sophisticated corporate parties. C-E was not lacking in bargaining power. It is one of the world's leading suppliers of industrial minerals and its negotiating team was led by knowledgeable business

executives with years of experience negotiating supply agreements. After supplying CARBO for 8 years under a supply agreement with a one-sided non-competition provision that benefitted only C-E – it understood the significance of Section 5. (*See* Edmunds Decl. ¶¶ 5-8, 23-30, 49; Eiszner Decl., Ex. 3.) If anything, C-E had *superior* bargaining power due to its control of the kaolin needed for CARBO's Alabama manufacturing operations. (Kessler Decl. ¶ 14.)

Section 5 itself evinces the parties' equal bargaining power. By imposing reciprocal restraints, Section 5 was mutually advantageous to both. *See Rash v. Toccoa Clinic Med. Assocs.*, 320 S.E.2d 170, 173 (Ga. 1984).[8]

The mutual restraints in Section 5 also provide independent consideration for Section 5. *See Celtic Maint. Servs. v. Garrett Aviation Servs.*, No. CV 106-177, 2007 WL 4557775, at *3 (S.D. Ga. Dec. 21, 2007) (restraint supported by independent consideration because it bound both parties). But that is only part of the consideration. To accommodate C-E's concerns over the difficulty of continuing to supply Alabama clays, CARBO also agreed to take clay from Georgia mines. (Edmunds Decl. ¶¶ 10, 23-31.) That concession came with a price to CARBO: the extensive testing required to find, evaluate, and blend Georgia

[8] *Amstell, Inc. v. Bunge Corp.*, 443 S.E.2d 706 (Ga. Ct. App. 1994), is distinguishable and does not change this result. In *Amstell*, unlike here, the distributor had less bargaining power and the non-compete was one-sided. Section 5 of the Agreement is mutual and C-E had at least as much, if not more, bargaining power as CARBO. (*See* Kessler Decl. ¶ 14.)

clays to find ores that were suitable for proppant manufacturing. That process created a new, valuable confidential information that, in the hands of a competitor, would give it a short-cut to market and undercut a competitive advantage that CARBO would developed at considerable expense. (*Id.* ¶¶ 15-21, 31; Kessler Decl. ¶¶ 9-11, 22-23.) As consideration for taking the risk of substituting Georgia clays and investing in such testing, Section 5 protected CARBO from C-E's free-riding and misuse of this valuable information. (Edmunds Decl. ¶ 31.)

Because Section 5 was negotiated by parties with equal bargaining power and supported by independent consideration, it is subject to "much less scrutiny."[9] And because Section 5 is reasonable in time, territory and scope, it is enforceable under Georgia law. *See, e.g., Clower*, 337 F. Supp. 2d at 1334, 1336. As to duration, Section 5 lasts no longer than the time that CARBO calculated a new entrant would need to start up a proppant manufacturing operation *without* the head-start it would derive from CARBO's confidential information. (*See* Edmunds Decl. ¶¶ 18-19; Kessler Decl. ¶¶ 22-23.) A 3-year post-termination restraint is clearly reasonable under Georgia cases. *See, e.g., Bemco Mattress Co. v. Se. Bedding Co.*, 396 S.E.2d 238, 239, 241 (Ga. Ct. App. 1990) (10 years); *Hicks v.*

[9] *See, e.g., Am. Control Sys. v. Boyce*, 694 S.E.2d 141, 144-45 (Ga. Ct. App. 2010); *Reed v. E. Elec. Apparatus Repair Co.*, 391 S.E.2d 472, 473 (Ga. Ct. App. 1990).

Doors by Mike, Inc., 579 S.E.2d 833, 836 (Ga. Ct. App. 2003) (5 years); *Drumheller v. Drumheller Bag & Supply*, 420 S.E.2d 331, 335 (Ga. Ct. App. 1992) (same).

The worldwide territorial scope of Section 5 is also reasonable. Ceramic proppants made in one country are sold worldwide. (Gallagher Decl. ¶¶ 11, 32, 37-38, 40-46, 59-60, 62.) CARBO exports the ceramic proppants it makes in Alabama and Georgia to approximately 50 countries each year. (Gallagher Decl. ¶ 37.) Moreover, C-E and its affiliated companies have kaolin reserves – an important raw material for manufacturing ceramic proppants, (Parias Decl. ¶ 5) – located in 18 different countries (Eiszner Decl., Ex. 1, at 4, 5). C-E had access to the resources of Imerys, which is a "world leader" in converting mineral resources into industrial products. (Parias Decl. ¶ 5). Under these facts, limiting the scope of the non-compete to any geography smaller than the world would have left a gaping hole in CARBO's efforts to protect its know-how and to preserve C-E's loyalty as a supplier. CARBO would not have agreed to permit C-E to supply it with clay from Georgia or elsewhere if the non-compete was limited to less than the entire geography in which C-E and its international affiliates could make or sell ceramic proppants. *See, e.g., Barry v. Stanco Commc'ns Prods.*, 252 S.E.2d 491, 493-94 (Ga. 1979) ("reasonableness of the territorial restrictions consider[s] the nature of

the business involved, and the facts surrounding each case"); *Turner v. Robinson*, 107 S.E.2d 648, 650-51 (Ga. 1959) (focus of reasonableness of territory inquiry involves nature and extent of the business, situation of the parties, and all other circumstances).

Finally, Section 5 is reasonably designed to protect CARBO's legitimate business interests.[10] Consistent with C-E's proposals, the Agreement ensured that C-E and CARBO would continue their business "partnership" for 7 years, using untried Georgia clays that would necessitate testing and qualifying. (Edmunds Decl. ¶¶ 10, 24-31.) This would create highly proprietary information that if used by C-E would give it a cost-free fast-track to market. (*Id.* ¶¶ 11-21; Kessler Decl. ¶¶ 10-11, 15-16, 22-23.) Absent Section 5, C-E could use its established footprint in Georgia to free-ride off CARBO's confidential information to enter and compete unfairly.

Section 5 was not the only mechanism for accomplishing this – CARBO

[10] Georgia law evaluates "the reasonableness of any such covenant not to compete . . . on whether the restrictions are designed to protect the legitimate business interests of the" covenantee. *Clower*, 337 F. Supp. 2d at 1334. Alabama law similarly considers whether the convenantee "has a protectable interest" – defined as "a substantial right in [one's] business sufficiently unique to warrant the type of protection contemplated by [a] non-competition agreement" – and whether "the restriction is reasonably related to that interest." *Cent. Bancshares of the South, Inc. v. Puckett*, 584 So.2d 829, 831 (Ala. 1991) [hereinafter *Puckett*]; *Nationwide Mut. Ins. Co. v. Cornutt*, 907 F.2d 1085, 1087-88 (11th Cir. 1990). Whether described as a legitimate business interest or a protectable interest, Section 5 is reasonably designed to protect interests recognized by Georgia and Alabama law.

also bound C-E and its employees to several confidentiality agreements – but as the events giving rise to this litigation demonstrate, such agreements can be easily forgotten and are difficult to police. (Edmunds Decl. ¶¶ 44-49.) Paul Hall, C-E's Vice President of Sales (and one of its affiants), swore that CARBO did not advise him that C-E was receiving confidential information and did nothing to protect it. (Hall Decl. ¶ 5). Mr. Hall apparently forgot that **he personally signed two confidentiality agreements** on behalf of himself and C-E, in which he acknowledged that any information providing CARBO "an advantage over competitors" was Proprietary Information. (Kessler Decl., Ex. 1.) Hall and C-E promised to keep such information confidential. *Id.* As C-E's actions demonstrate, Section 5 offered the only reasonable and effective way to monitor and protect CARBO's legitimate, protectable interest in the preservation of its proprietary information and know-how against unfair competition by C-E.[11]

Absent Section 5, C-E's dual role as primary supplier and putative competitor would create a conflict of interest between its duty to supply ore to CARBO under the Agreement and its desire to take business from CARBO (as a

[11] Should C-E respond with self-serving arguments that it "didn't use" CARBO's confidential information in its new plant or that it uses a different process, etc., this simply enhances CARBO's argument about the inherent difficulty in monitoring or policing free-riding behavior through confidentiality agreements. One would need access to all of C-E's processes and manufacturing methods to determine if they were the product of trade secret theft or independently obtained. Non-compete provisions avoid such a lengthy, costly and difficult-to-monitor effort and are the most efficient way to protect legitimate interests.

competitor). (Edmunds Decl. ¶¶ 31-34.) C-E would have both motive and opportunity to disrupt CARBO's supply of kaolin if it competed with CARBO.

Section 5 is also enforceable under Alabama law. Section 5 does not restrict C-E from making or selling non-ceramic proppants (e.g., resin-coated proppants), which compete with lightweight ceramic proppants. Section 5 allows C-E to (1) make and sell products for refractory-related industries (which C-E has always done) to anyone anywhere in the world and (2) manufacture and sell competitive, non-ceramic proppants to anyone anywhere in the world. Thus, Section 5's provision preventing C-E from manufacturing or selling *ceramic* proppants constitutes a "partial restraint" under Alabama law. *See, e.g., Ex parte Howell Eng'g & Surveying, Inc.*, 981 So.2d 413, 422-23 & n.4 (Ala. 2006) (employment restraint is partial and enforceable where it preserves "the ability of an employee to engage, as a practical matter, in the meaningful pursuit of one's calling, notwithstanding the terms of the agreement").[12] In Alabama, "[c]ontracts in partial restraint of trade are **always upheld**, when properly restricted as to territory, time, and persons, where they are supported by sufficient consideration." *Terre Haute Brewing Co. v. McGeever*, 73 So. 889, 891-92 (Ala. 1916)(emphasis added).

[12] *See also Buckley v. Seymour*, 679 So.2d 220, 226 (Ala. 1996); *Tomlinson v. Humana, Inc.*, 495 So.2d 630, 632 (Ala. 1986); *Gafnea v. Pasquale Food Co.*, 454 So.2d 1366, 1369 (Ala. 1984); *Hughes Assocs. v. Printed Circuit Corp.*, 631 F. Supp. 851, 856-57 (N.D. Ala. 1986).

For the same reasons that Section 5 is reasonable under Georgia law, Section 5 satisfies the reasonableness requirements of Alabama law. Section 5 does not purport to restrict anyone other than the parties to the Agreement and a 3-year post-termination restriction is reasonably limited in time. *See, e.g., Famex, Inc. v. Century Ins. Servs.*, 425 So.2d 1053, 1055 (Ala. 1982) (upholding three-year restraint). Since the inception of the Agreement, both C-E and CARBO have sold products covered by their respective obligations under Section 5 around the world, and Section 5 reflects the same territorial scope. *See Cornutt*, 907 F.2d at 1088 (noting that employment restraint's territory should coincide with territory where employer "continues to engage, in that locale, in the activity that it seeks to enjoin"); *Parker v. EBSCO Indus.*, 209 So.2d 383, 386-88 (Ala. 1968) (noting that where restraint is silent as to territory, court will infer territory from other contractual circumstances).[13] C-E was "more than adequately compensated" for its obligations under Section 5 by the financial benefits that it received under the business relationship created by the Agreement and the mutual non-compete from CARBO. *See Puckett*, 584 So.2d at 832 (finding that where officers realized $1 to $2 million through exercise of stock options, they "were more than adequately

[13] *See also Puckett*, 584 So.2d at 831-32 (enforcing 2-year post-termination restraint) and *Kershaw v. Knox Kershaw, Inc.*, 523 So.2d 351, 359 (Ala. 1988) (enforcing 5-year non-compete in stock redemption agreements).

compensated for agreeing not to compete" in connection with option agreements). And as noted, CARBO has a "protectable interest" to which Section 5 is reasonably related.

Last, even if Section 5 was found overly broad, both Georgia and Alabama law permit the Court to "blue-pencil" a non-compete like Section 5 to narrow its scope while enforcing its restrictions. *See, e.g., Cornutt*, 907 F.2d at 1088; *Kershaw*, 523 So.2d at 359; *Boyce*, 694 S.E.2d at 144-45.

III. C-E Cannot Satisfy the other Requirements for Injunctive Relief.

C-E fails to establish the remaining elements required for injunctive relief. Although C-E may incur some pecuniary loss from being unable to manufacture ceramic proppants before 2014, this bargained-for opportunity cost falls far short of "irreparable injury." Such alleged harm is compensable by money damages if C-E were to ultimately prevail. And, by not seeking relief until after it breached Section 5, C-E's alleged harm is self-inflicted. *See Variable Annuity Life Ins. Co. v. Joiner*, 454 F. Supp. 2d 1297, 1304-05 (S.D. Ga. 2006) (covenantors "took a calculated risk . . . when they elected to violate the terms of the Agreement rather than seek a declaratory judgment as to the validity of the restrictive covenants"). Moreover, Section 5 does not prevent C-E from manufacturing or selling non-ceramic proppants. During the period that Section 5 remains in effect, C-E can

manufacture and sell the full range of proppants other than *ceramic* proppants. *See Affiliated Paper Cos. v. Hughes*, 667 F. Supp. 1436, 1447 (N.D. Ala. 1987).

By contrast, CARBO paid C-E substantial sums under the Agreement, which it would not have done without the protections provided by Section 5. (Edmunds Decl. ¶¶ 41-43.) An injunction would inflict the very harm Section 5 was crafted to prevent: giving C-E a shortcut to market at CARBO's expense, funded with monies paid by CARBO. The balance of harms tips decidedly in CARBO's favor. *See Smallbizpros, Inc. v. Court*, 414 F. Supp. 2d 1245, 1251 (M.D. Ga. 2006).[14]

Finally, both Alabama and Georgia embrace a strong public policy in favor of enforcing contracts freely entered into by competent parties. *See, e.g., Rinks*, 2001 WL 34090167, at *2; *Puckett, Taul & Underwood, Inc. v. Schreiber Corp.*, 551 So.2d 979, 983 (Ala. 1989); *Habif, Arogeti & Wynne, P.C. v. Baggett*, 498 S.E.2d 346, 352 (Ga. Ct. App. 1998). "[E]nforcement of an ostensibly enforceable covenant not to compete would not be adverse to the public interest." *Smallbizpros*, 414 F. Supp. 2d at 1251.

IV. Plaintiff's Requested Relief Has Other Hurdles to Overcome.

The injunction sought would violate the First Amendment. C-E asks the Court "to enjoin the enforcement of the non-compete." (Pl's Br. at 25.) C-E

[14] *See also Barry*, 252 S.E.2d at 494; *Turner*, 107 S.E.2d at 651.

thereby seeks to close the courthouse doors to CARBO. It asks the Court, at a preliminary stage, to prohibit CARBO from exercising its First Amendment right to petition any court. *See, e.g., BE&K Constr. Co. v. NLRB*, 536 U.S. 516, 524-25 (2002) ("right to petition [is] one of 'the most precious of the liberties safeguarded by the Bill of Rights,'"); *Bounds v. Smith*, 430 U.S. 817, 828 (1977) (affirming "the fundamental constitutional right of access to the courts"). For fear of chilling this right, courts will not punish petitioning activity unless the petition is objectively baseless. *See, e.g., Prof'l Real Estate Investors v. Columbia Pictures Indus.*, 508 U.S. 49, 60-61 (1993); *Bill Johnson's Restaurants, Inc. v. NLRB*, 461 U.S. 731, 743, 748-49 (1983)(state-court suit may not be enjoined unless it lacks reasonable basis). C-E has not shown a likelihood of success, much less demonstrated that CARBO's efforts to specifically enforce Section 5 would be baseless.

The injunction sought is beyond the Court's power. Any preliminary injunction that the Court could grant would have to be limited to the State of Georgia. *See Keener v. Convergys Corp.*, 342 F.3d 1264, 1270 (11th Cir. 2003). C-E cannot (and has not tried to) make a showing that Section 5 can only be enforced by CARBO in Georgia so a preliminary injunction by this Court would not prevent C-E's alleged harm (enforcement of Section 5).

The injunction sought requires a significant bond. If this Court were to issue an injunction, it must require C-E to post a bond. *See* Fed. R. Civ. P. 65(c)(filing of bond to secure injunctive relief is mandatory). Courts should err on the high side in setting a bond. 13 Moore, *Moore's Federal Practice* § 65.50[1], at 65-98 (3d ed. 2011). C-E's motion for preliminary injunction should be denied; but, if granted, CARBO seeks a bond of $20 to $30 million – CARBO's current estimate of C-E's illicit profits from the sale of ceramic proppants during the remaining life of Section 5. (Gallagher Decl. ¶¶ 48-50). CARBO seeks disgorgement of C-E's profits as a proxy for its damages from C-E's breach. *See* Restatement (Third) of Restitution and Unjust Enrichment § 39 and cmt. d, illustration 9.

CONCLUSION

The facts and controlling law do not support C-E's request for extraordinary relief. If anything, CARBO is entitled to an injunction against C-E's breach of Section 5.

Respectfully submitted this 14th day of October, 2011.

/s/ Samuel S. Woodhouse

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CERTIFICATE OF SERVICE

I hereby certify that on October 14, 2011, I electronically filed Defendant CARBO Ceramics Inc.'s Brief in Opposition to Plaintiff's Motion for Preliminary Injunction with the Clerk of Court using the CM/ECF system which will automatically send e-mail notification of such filing to the following attorneys of record:

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CERTIFICATION

Pursuant to LR 7.1D, NDGa, I hereby certify that the foregoing brief has been prepared using 14-point Times New Roman as approved by the Court in LR 5.1C, NDGa.

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