In EnVen Energy Corporation v. David M. Dunwoody, Jr., et al. (C.A. No. 2019-0579-KSJM), the Delaware Court of Chancery (the “Court”) stayed litigation pending the outcome of a separate lawsuit filed in Texas to give deference to a plaintiff's chosen forum, to avoid wasting judicial resources and to foreclose potential conflicting rulings.

EnVen Energy Corporation, an oil exploration company (the “Company”) filed a lawsuit against its former president, David M. Dunwoody, Jr. (“Dunwoody”) and later amended its complaint to add Oilfield Pipe of Texas, LLC as a defendant (“Oilfield”). Dunwoody allegedly engaged in a fraudulent scheme with Oilfield to contract with the Company outside of a competitive bidding process in exchange for kickbacks to Dunwoody's father who had a financial interest in Oilfield. In its amended complaint, the Company alleged breach of the fiduciary duty of loyalty and equitable fraud against Dunwoody and aiding and abetting breach of the fiduciary duty of loyalty and equitable fraud against Oilfield (the “Delaware Action”).

Several weeks earlier, Dunwoody had sued the Company in the District Court of Harris County in relation to the termination of his employment agreement with the Company (the “Texas Action”). Dunwoody alleged that the Company wrongfully
treated his termination as a resignation and denied him certain benefits. In his motion to dismiss or stay the Delaware Action, Dunwoody claimed that there was substantial overlap between the Delaware Action and the Texas Action. Dunwoody asked that the Court dismiss the Delaware Action arguing that his employment agreement included a forum selection clause favoring Texas.

The issue before the Court is whether the Delaware Action should be dismissed or stayed in favor of the Texas Action. First, the Court analyzed whether a valid forum selection clause existed in Dunwoody’s employment agreement. Dunwoody argued that his employment agreement included a broad forum selection clause which subjected the parties to the state district or federal courts in Harris County, Texas for any lawsuits related to the employment agreement, including his “contractual duty of loyalty”. However, the Court found that the forum selection provision was limited in its application to contractual claims related to the employment agreement. Further, the duty of loyalty arises out of Delaware common law and not a contractual obligation in the employment agreement as argued by Dunwoody. The Court therefore rejected Dunwoody’s interpretation of the forum selection clause in his employment agreement. The Court then analyzed whether the Delaware Action should be dismissed under the “first-filed rule”. The Company argued that the Texas Action was only related to a contractual dispute over Dunwoody’s resignation. However, the Court found that the alleged scheme underlying the claim for breach of fiduciary duty could be related to Dunwoody’s dispute over his resignation.

The Court found that there were common facts and overlapping issues between the Texas Action and the Delaware Action, but the claims were not identical. The Texas Action focused on Dunwoody’s termination under the employment agreement and the Delaware Action focused on Dunwoody’s fiduciary obligations and alleged fraud, as well as aiding and abetting of such actions. Since resolving the claims in the Delaware Action might not resolve the claims in the Texas Action, the Court held that a stay of litigation would be the best course of action. A stay of litigation gives deference to Dunwoody’s chosen forum, avoids wasting judicial resources and forecloses potential conflicting rulings on common issues. Therefore, the Court held that litigation is stayed pending the outcome of the Texas Action.

EnVen Energy Corporation v. David M. Dunwoody, Jr., et al.

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