

2007 Unfair Competition Law – Year in Review

Federal Court Decisions

General Universal Systems, Inc. v. Hal, Inc.

500 F.3d 444

5th Cir. 2007

**Subjects of Interest: Trade secret misappropriation; statute of limitations;
breach of confidential relationship**

This case arose from a business agreement where three parties agreed to develop a software program, and two of the parties later excluded the third party from participating in the agreement or benefiting from the profits. The issue on appeal was whether the plaintiff's trade secret misappropriation claim is barred by the statute of limitations.

The Court of Appeals noted that Texas law requires three elements for a trade secret misappropriation claim: 1) existence of a trade secret; 2) that defendant acquired the trade secret by breach of a confidential relationship or other improper means; and 3) that defendant used the trade secret without authorization. The Court of Appeals held that when the two parties ousted the third party from the business relationship, they breached the confidential relationship among the parties. The date that this ouster occurred was the date the cause of action accrued, which was more than two years before suit was filed.¹ The Court of Appeals also held that "use" required for misappropriation of trade secrets occurred when the defendants relied on the trade secret to continue developing their own software program. The Court of Appeals further held that trade secret misappropriation under Texas' pre-1997 law was not a continuing tort and the cause of action accrued on the first wrongful conduct. Accordingly, the Court of Appeals affirmed the magistrate judge's ruling that the trade secret misappropriation claims were time barred.

Triple Tee Golf, Inc. v. Nike, Inc.

485 F.3d 253

5th Cir. 2007

Subjects of Interest: Trade secret misappropriation

Triple Tee Golf's president Jack Gillig conceived of a novel design for golf clubs. He met with a golf-club builder and discussed the creation of a prototype of his design. Before the prototype could be built, the golf-club builder was hired as Director of Product Creation for Nike Golf. The golf-club builder claimed he could no longer create the prototype for Mr. Gillig. When Mr. Gillig later approached Nike Golf, Nike Golf told Mr. Gillig that they were not interested in pursuing his design. Later at a trade show, Mr. Gillig spotted newly released Nike clubs that appeared to use his club design. Mr. Gillig sued Nike Golf for several causes of action that eventually were limited to claims

¹ At the time of this case, Texas law imposed a 2-year statute of limitations to misappropriation of trade secrets.

involving trade secrets and specific Nike clubs. Nike moved for and was granted summary judgment on all of Mr. Gillig's claims.

The Fifth Circuit noted that the trial court relied entirely on the fact that Mr. Gillig's trade secrets required golf clubs that were adjustable by the user. Nike's clubs were not adjustable by the user, and accordingly, Mr. Gillig could not prove the third required element of a misappropriation of trade secret claim (that the defendant used the trade secret without permission). The Fifth Circuit held that this was too narrow a reading of Mr. Gillig's trade secrets. The Fifth Circuit held that the plaintiff's method of implementing its concept was at least as important as the concept itself. Mr. Gillig's expert identified several ways where Mr. Gillig's means of incorporating his adjustable weight into golf clubs had been incorporated into Nike's fixed weight clubs—by means that Nike did not appear to possess before its involvement with the golf-club builder who had met with Mr. Gillig. Thus, the Fifth Circuit found sufficient evidence that Nike had used at least a portion of Mr. Gillig's trade secrets, and the Court reversed the grant of summary judgment.

Further, while the golf clubs at issue did not contain adjustable weighting systems, after the trial court granted Nike's motion for summary judgment, Mr. Gillig discovered two Nike patent applications involving golf clubs with adjustable weighting systems. Mr. Gillig requested such information through discovery but Nike objected and never provided any patent applications to Mr. Gillig. Mr. Gillig moved for relief from the judgment. The Fifth Circuit held that the trial court should have granted this motion. The Fifth Circuit held that had the trial court known that Nike had applied for patents on adjustable weighted clubs—the very trade secrets at issue—it would have likely held there to be a fact question about whether Nike had used Mr. Gillig's trade secret.

AMX Corp. v. Pilote Films
Civil Action No. 3:04-CV-2035-D
2007 U.S. Dist LEXIS 40684
N.D. Tex. June 5, 2007

Subjects of Interest: Unfair competition based on trademark infringement claim; business enterprise theory; misappropriation; trade secret misappropriation

This case arises from competing summary judgment motions filed on multiple claims of both parties. AMX, a Texas-based company, entered into a distributorship agreement with Pilote, a French company, in 1994. That agreement was for a period of one year and could be renewed indefinitely for one-year terms. While neither party formally notified the other of formal renewal of the agreement, the parties conducted business with each other until May 2004 when AMX notified Pilote that it would not renew the 1994 agreement beyond February 2005. Pilote responded with various legal arguments, and AMX filed suit.

Both parties filed no-evidence summary judgment motions on several of the opposing party's claims. In addressing those motions, the Court made numerous findings

and dismissed numerous claims, which are not addressed here. Notably, however, the Court dismissed Pilote's unfair competition claim, which was premised on a trademark infringement claim against AMX. Unfair competition under Texas law requires evidence of an illegal act that interfered with Pilote's business. Accordingly, the Court analyzed whether the trademark infringement claim qualified as such an illegal act. Because Pilote failed to present evidence to show a likelihood of confusion, the Court held that it could not be the illegal act forming the basis for the unfair competition claim. The Court also held that Pilote could not rely on trademark infringement under French law for the illegal act because French law required a showing of damages, which Pilote could not satisfy.

The Court also dismissed Pilote's misappropriation and trade secret misappropriation claims. The Court found that such claims could only exist if the single business enterprise theory applied. Pilote presented no evidence to support the single business enterprise theory. Thus, it could not show that a single business enterprise committed the conduct required for misappropriation or trade secret misappropriation.

AMX Corp. v. Pilote Films
Civil Action No. 3:04-CV-2035-D
2007 U.S. Dist LEXIS 57479
N.D. Tex. Aug. 7, 2007

**Subjects of Interest: Unfair competition; business enterprise theory;
 misappropriation; trade secret misappropriation**

This case involves a motion for reconsideration and an additional summary judgment motion after the opinion of June 5, 2007 was issued. On reconsideration, the Court held that Pilote has presented sufficient evidence to raise a fact question about whether AMX UK and AMX were a single business enterprise. The Court affirmed the dismissal of Pilote's misappropriation and trade secret misappropriation claims because it had not presented evidence indicating that AMX had used Pilote's confidential or trade secret information. The Court similarly affirmed several of its earlier rulings.

The Court, however, reversed its earlier ruling on Pilote's unfair competition claim. It held that under the single business enterprise theory, the conduct of AMX UK could be attributed to AMX. This conduct accordingly could support a finding that AMX and AMX UK had violated French law, which could be the illegal conduct necessary for supporting an unfair competition claim. Thus, the Court held that sufficient evidence existed to allow a jury to decide Pilote's unfair competition claim.

Kozak v. Medtronic, Inc.
512 F. Supp. 2d 913
S.D. Tex. 2007

**Subjects of Interest: Scope of expert testimony on damages for trade secret
 misappropriation**

This case involved the permissible scope of an expert's testimony and the qualifications of a party to testify about future damages for misappropriation of trade

secrets. The Court held that because an economic expert never addressed the calculation of trade secret misappropriation damages in his report, the expert is prohibited from testifying about those future damages. Further, the Court held that the plaintiff, a doctor and inventor, failed to demonstrate sufficient qualifications to permit him to testify about the future damages caused by the alleged trade secret misappropriation.

Landmark Graphics Corp. v. Seismic Micro Technology, Inc.
470 F. Supp. 2d 757
S.D. Tex. 2007

Subjects of Interest: Unfair competition; preemption

Plaintiffs moved to dismiss Defendant's unfair competition counterclaim. Plaintiff alleged that unfair competition is not an independent cause of action under Texas law but instead requires a party to show that the offending party engaged in independently tortious or illegal conduct that interfered with its ability to conduct business. Plaintiff claimed that Defendant had not alleged an independent tortious or illegal act. Defendant argued that its unfair competition claim was based on Plaintiff's improper assertion of a patent, knowing that the patent was obtained through inequitable conduct.

The Court recognized that the Federal Circuit has rejected the argument that a claim of unfair competition based on a claim of inequitable conduct cannot succeed. The Federal Circuit also has held that claims of inequitable conduct are preempted. The Court noted that the counterclaim does not rest entirely on actions before the PTO but alleges "marketplace misconduct." The unfair competition claim also included elements different from those required to show inequitable conduct before the PTO. Accordingly, the Court denied Plaintiff's motion to dismiss.

MGE UPS Systems, Inc. v. Power Maintenance Int'l, Inc.
2007 U.S. Dist. LEXIS 95119
N.D. Tex. 2007

Subjects of Interest: Motion to strike expert; trade secret misappropriation

This case involves a denial of a motion to strike two defense experts in a case involving protection of trade secrets related to software. The Court noted that the defendants' expert had over forty years of experience as an intellectual property attorney, including several years as in-house legal counsel for computer companies. Based on that experience, the Court found the expert was qualified to opine about the steps required to protect trade secrets related to software. The Court further held that the expert's experience in negotiating licensing agreements, combined with the plaintiff's failure to identify any specific experience required for a damage expert, justified allowing the expert to testify regarding damages. The other expert was offered under FRCP 44.1—proof of foreign law—not FRCP 702, so the Court denied the motion to strike as to that expert.

Signtronix, Inc. v. General Sign, Inc.
Civil Action No. 3:06-CV-2244-L
2007 U.S. Dist. LEXIS 61743
N.D. Tex. August 22, 2007

Subjects of Interest: **Personal jurisdiction; Lanham Act violations; tortious interference; unfair competition; misappropriation**

Defendant filed a motion to dismiss the claims for lack of general or specific personal jurisdiction. These claims included violations of the Lanham Act, tortious interference with contractual relationships, unfair competition and misappropriation. The Court addressed each of the claims individually to determine whether the court could properly exercise jurisdiction over Defendant. The Court found personal jurisdiction over claims including violations of the Lanham Act, tortious interference with contractual relationships, unfair competition and misappropriation.

With respect to the Lanham Act claim, the Court held that Plaintiff had clearly pleaded a claim for violation of the Lanham Act and the underlying allegations were uncontroverted. Thus, the Court could exercise personal jurisdiction over this claim. Plaintiff's tortious interference claim alleged that Defendants disparaged Plaintiff in an effort to solicit its dealers to work for another company. Affidavits submitted by Plaintiff provided sufficient evidence of this fact, and accordingly, the Court concluded that Plaintiff had alleged sufficient contacts for the Court to exercise personal jurisdiction over the claim.

Plaintiff's unfair competition claim alleged that Defendants unfairly competed by using its proprietary process. Defendant argued that no independent tort was alleged to underlie the unfair competition claim. However, the Court held that because Plaintiff alleged that Defendant sold sign products on behalf of another company in Texas and used Plaintiff's copyright graphics and sales and marketing materials, this was sufficient to support the exercise of jurisdiction as to this claim. Plaintiff also alleged that Defendants misappropriated its intellectual property, including its copyrighted sales and marketing materials. The Court found that Plaintiff alleged that Defendant used such materials in Texas, and thus, specific personal jurisdiction exists for the claim.

Spectrum Creations, L.P. v. Carolyn Kinder Int'l, L.L.C.
514 F. Supp. 2d 934
W.D. Tex. 2007

Subjects of Interest: **Tortious interference with contract and prospective business relations; trade secret misappropriation; common law misappropriation; preemption**

The Court addressed Defendant Uttermost's motion for summary judgment as to plaintiff's claims for tortious interference with a contract, tortious interference with prospective business relations, misappropriation of trade secrets and common law misappropriation. Plaintiff had an agreement under which Defendant Kinder would

supply designs for various light fixtures to be sold to Home Depot. The relationship between the parties deteriorated, and Defendant Kinder slowed down its delivery of designs to Plaintiff. Plaintiff began withholding royalties from Defendant Kinder, and Defendant Kinder terminated the agreement. While working with Plaintiff, Defendant Kinder also conducted business with Defendant Uttermost and eventually began supplying Home Depot with light fixtures through Defendant Uttermost. Plaintiff then sued Defendants Kinder and Uttermost for the above-mentioned causes of action.

In addressing the claim for tortious interference with a contract, the Court noted that merely inducing someone to do what they have a right to do is not actionable. Alternatively, a contract that is terminable at will can still give rise to a claim for tortious interference. Tortious interference requires that the defendant actually cause the breach through willful or intentional conduct. The Court found that Plaintiff had presented sufficient evidence to raise a fact question concerning Defendant Uttermost's conduct. The Court similarly found that Plaintiff produced sufficient evidence to raise a fact question about whether Defendant Uttermost had engaged in tortious conduct that could support the claim for tortious interference with prospective business relationships.

With regard to Plaintiff's claim for misappropriation of trade secrets, Defendant Uttermost asserted that because the claim was based on light designs, it was preempted by copyright law. The Court held that in order to be preempted, the matter at issue must be the type of matter subject to copyright protection and the protection sought must be equivalent to the exclusive rights protected by copyright laws. Here, the trade secret information related to sales information and customer relationships was not the type of matter subject to copyright protection. Accordingly, the claim was not preempted by copyright law.

Defendant also argued that the unfair competition claims were preempted because they were based on the misappropriation of trade secrets. The Court noted that unfair competition claims can be based on more than trade secret claims; however, as the trade secret claims were not preempted, neither were the unfair competition claims in this case.

Sun Water Systems, Inc, et al. v. Vitasalus, Inc.

Civil Action No. 4:05-CV-574-Y

2007 U.S. Dist. LEXIS 14028

N.D. Tex. February 28, 2007

**Subjects of Interest: Preliminary injunction; trademark infringement;
unfair competition; trademark dilution**

Plaintiffs filed a motion requesting that the Court preliminary enjoin Defendants from using certain trademarks and trade dress in conjunction with the design and labeling of a whole-house water-filtration system. Plaintiffs' lawsuit included allegations of trademark infringement as well as unfair competition and trademark dilution. The Court concluded that the motion for preliminary injunction should be denied.

The Court specifically addressed Plaintiffs' likelihood of success on their claim of common law unfair competition. The Court identified that the gravamen of any unfair-competition claim is the likelihood of the consuming public's confusing the products of one business with those originating from another. Plaintiffs argued that Defendants showed intent to pass off their goods as those of Plaintiffs by using trademarks and trade dress that are almost identical to Plaintiffs. The Court noted, however, that Defendants' website carefully and explicitly distinguishes their whole-house system from that of Plaintiffs. The Court held that it was clear that Defendants had no intention of passing off their product as that of Plaintiffs and intentionally altered their product so there would be no mistaken association. Accordingly, Plaintiffs failed to meet the burden of establishing a substantial likelihood of success on the merits.

State Court Decisions

Astoria Indus. of Iowa, Inc. v. Brand FX Body Co.

223 S.W.3d 616

Tex. App.—Fort Worth 2007

Subjects of Interest: **Business disparagement; tortious interference; free speech defense; special damages showing; false advertising; trade secret misappropriation**

This case involves a dispute between two companies involving service body-toppers for commercial vehicles. When Astoria allegedly began copying Brand FX's unique style for its toppers and started running allegedly defamatory ads, Brand FX filed suit asserting several causes of action. Astoria moved for summary judgment, which was denied. Astoria then filed an interlocutory appeal asserting that several of its claims involved issues of free speech, which under Tex. Civ. Prac. & Rem. Code § 51.014 gave Astoria a right to an interlocutory appeal.

The Court of Appeals held that, unlike a defamation case where the statement is presumed false and truth is an affirmative defense, a business disparagement claim has no such presumption. Thus, falsity of the statement must be proven by the plaintiff. Accordingly, the business disparagement claim as well as the tortious interference claim that relied on the disparagement claim were proper subjects for the defendant's no evidence motion for summary judgment. Combined with the defendant's free speech defense, the motion was proper and appealable under Tex. Civ. Prac. & Rem. Code § 51.014. The Court noted, however, that the statute only gave the Court of Appeals jurisdiction to rule on claims that involved the free speech defense.

In addressing those claims, the Court of Appeals upheld the grant of the defendant's motion for summary judgment on the plaintiff's business disparagement claim. The Court of Appeals noted that such a claim required a showing of special damages—a direct pecuniary loss that has been realized or liquidated. The plaintiff, however, could only show how much it might have to spend on corrective advertising if it had chosen to do so. It could not identify any lost sales or other special damages, and so it could not prove the required element.

With regard to the plaintiff's false advertising claim under the Lanham Act, the Court affirmed the denial of summary judgment. The Court noted that at least one of the statements made in the defendants' advertising was a statement of fact which, if false, would relieve the plaintiff from proving that customers were actually misled. Thus, a fact question existed concerning the plaintiff's false advertising claim.

Finally, in analyzing the claim for trade secret misappropriation, the Court of Appeals determined that under Texas' six-factor test, plaintiff's design drawings which were given to the defendant by one of plaintiff's customers could qualify as trade secrets. The Court of Appeals also held that conflicting testimony about whether plaintiff's customer knew the drawings were confidential raised a fact question about whether the defendants had acquired the trade secret by improper means.

Los Cucos Mexican Café, Inc. v. Sanchez
2007 Tex. App. LEXIS 3408
Tex. App.—Corpus Christi 2007

Subjects of Interest: Unfair competition; trade secret misappropriation;

This case involves an appeal from a grant of summary judgment in favor of Defendants. The dispute between the parties arose when Defendants quit their jobs with Plaintiff and opened a competing restaurant. Plaintiff claimed that Defendants misappropriated its proprietary information and improperly hired away Plaintiff's employees. Plaintiff asserted multiple causes of action against Defendants, which the Court of Appeals held all "fall under the umbrella of 'unfair competition' regarding misappropriation of trade secrets."

Plaintiff contended that its recipes were trade secrets, and the Court of Appeals agreed that recipes could qualify as trade secrets. However, Plaintiff presented no evidence other than its own self-serving and conclusory testimony that the recipes were trade secrets. That testimony was insufficient to raise a fact question to defeat the motion for summary judgment. The Court of Appeals also held that Defendants' summary judgment motion encompassed later-pled claims for unjust enrichment and quantum meruit, because they all fell under the umbrella of "unfair competition," which is a catch-all for all statutory and non-statutory causes of action based on dishonest business conduct. The Court of Appeals noted that all of the causes of action required proof of proprietary or trade secret information, which the first motion addressed. Thus, Defendants' motion encompassed the later-pled claims, and a grant of summary judgment was proper on those later-pled claims as well.

Matrix Network, Inc. v. Ginn
211 S.W.3d 944
Tex. App.—Dallas 2007

Subjects of Interest: **Temporary injunction; breach of non-disclosure agreement; breach of fiduciary duty; unfair competition**

This case involves an appeal from a denial of a temporary injunction. Defendant Ginn was working for Plaintiff Matrix, to develop a platform to allow customers to remotely view security cameras and to combine account management features with the remote viewing option. Before the project was complete, Ginn resigned from Matrix to pursue consulting work. When the consulting work was successful, Ginn continued to develop the remote viewing system. Ultimately, Ginn developed the system using a different technique than that used by Matrix, and he formed his own company to market the system. Matrix then sued Ginn for breach of his non-disclosure agreement, breach of fiduciary duty, and unfair competition. Matrix requested a temporary restraining order, which the trial court denied.

The Court of Appeals affirmed the trial court. It focused on the requirement of a showing of irreparable injury to support the grant of a temporary injunction. The Court of Appeals held that because Matrix failed to present evidence showing why monetary damages would not be sufficient compensation, Matrix failed to present evidence of an irreparable injury. The Court of Appeals also noted that since the products provided by Ginn and Matrix had different features and operated on different platforms, they were not in direct competition. Additionally, Ginn agreed not to solicit Matrix's customers for at least a year, giving Matrix a substantial lead in marketing its product. This evidence convinced the Court of Appeals that the trial court had not abused its discretion in denying the temporary restraining order.

Sharma v. Vinmar Int'l, Ltd.
231 S.W.3d 405
Tex. App.—Houston[14th Dist.] 2007

Subjects of Interest: **Temporary/preliminary injunction; trade secret misappropriation;**

This case involves an appeal from the granting of a temporary injunction in favor of Plaintiff. Most of the defendants were former employees of Plaintiff, an international chemical trading company. These employees allegedly conspired to leave Plaintiff's employ and start a competing company to take over one portion of Plaintiff's chemical business—i.e., along with another chemical company, they sought to usurp the purchase of isoprene from the only Russian supplier. After starting a competing company, Plaintiff sued the former employees in Texas court. Plaintiff immediately sought a preliminary injunction, which the trial court granted.

On appeal, the defendants raised several points. First, they claimed that an essential party had not participated in the temporary injunction hearing. The Court of

Appeals held that the party's lack of participation was irrelevant as Plaintiff had been personally aggrieved, and the essential party had acted as the agent for Plaintiff with respect to the underlying facts. The Court of Appeals also held that TRCP 682 does not require a plaintiff to request extremely detailed relief and that general requests for relief will support the grant of a temporary injunction. The Court additionally noted that granting a temporary injunction based on a misappropriation of trade secrets is not a ruling that there trade secrets exist, but rather that there is information that may be entitled to trade secret protection pending trial. The Court noted that employees have an extra-contractual obligation to not use an employer's trade secrets in direct competition with the employer even after the employment terminates. The Court of Appeals also highlighted the six-factor test used to evaluate whether information is a trade secret, in supporting its finding that Plaintiff possessed trade secrets and a broad temporary injunction was necessary to preserve the status quo pending trial.