

2008 Unfair Competition Law – Year in Review

Federal Court Decisions

Nova Consulting Group, Inc. v. Eng’g Consulting Servs, Ltd.
2008 U.S. App. LEXIS 18323
5th Cir. 2008

Subjects of Interest: **Unfair competition; tortious interference with employment agreement; non-disclosure and non-solicitation agreements, misappropriation of trade secrets**

Nova and ECS provide environmental consulting services. Nova had its employees sign non-disclosure, non-competition and non-disclosure agreements. When ECS moved into the San Antonio area, it hired several Nova employees who brought Nova potential client information with them. The information was in the form of business cards containing handwritten notes. At Nova, that information was typically entered into a database. Nova sued ECS and the individual employees alleging misappropriation of trade secrets and interference with contractual relations. Nova prevailed at trial, and ECS appealed the unfair competition verdict, challenging expert witness expertise, the denial of its motion for judgment as a matter of law and two jury instructions.

The Court held that the information on the business cards and the handwritten notes were Nova’s trade secrets. The database was nothing more than a repository for the information on the business cards, and accordingly, entering the data into the database was not a prerequisite for trade secret protection. Taking the business cards was sufficient to constitute misappropriation of trade secrets regardless of the fact that the jury did not consider whether any database software or printouts were misappropriated.

Amigo Broadcasting, LP v. Spanish Broadcasting Sys., Inc.
521 F.3d 472
5th Cir. 2008

Subjects of Interest: **Unfair competition; tortious interference with employment agreement**

Amigo Broadcasting sued two of its former radio personalities and SBS when the radio personalities quit working for Amigo and then became employed by SBS. The radio personalities had signed three-year employment agreements with Amigo. Later that same year, the radio personalities left Amigo and went to work for SBS after negotiating employment agreements with SBS. Amigo alleged tortious interference, breach of contract, misappropriation of trade secrets and violation of the Lanham Act. The issues on appeal were whether the evidence was sufficient to find breach of the employment agreement between the radio personalities and Amigo, whether the evidence was sufficient to find SBS tortiously interfered with the employment agreement between the radio personalities and

Amigo, and whether Amigo had withdrawn its misappropriation of trade secrets and Lanham Act claims.

The Court found that the evidence was sufficient to find the radio personalities breached their employment contracts with Amigo because the employment contracts required a breach before a party could terminate, and this prerequisite applied to both the station and the radio personalities. Because the station had not breached the employment contracts, the radio personalities did not have the right to early termination. The Court found that the evidence was sufficient to conclude that SBS tortiously interfered with Amigo's contracts. Although the SBS employment contracts were dated after the radio personalities left Amigo, SBS recruited the radio personalities while they were still under contract with Amigo. Further, SBS should have known of Amigo's contracts because it is common in the radio industry for radio personalities to be under contract for a term of years. Finally, the Court reversed the finding that Amigo had withdrawn its misappropriation of trade secrets and Lanham Act claims because it determined that the district court erred in finding as a matter of law that Amigo did not have a license to use the names "El Chulo" and "La Bola."

American Rice, Inc. v. Producers Rice Mill, Inc.

518 F.3d 321

5th Cir. 2008

Subjects of Interest: Trademark infringement; election of remedies; Lanham Act; profit disgorgement damages

The issues on appeal were: (1) whether the prevailing party in a breach of contract and Lanham Act violation action can recover damages under both its breach of contract and Lanham Act theories or if the election of remedies doctrine limits recovery to only one theory; (2) whether a flow-through entity may be liable for lost profits if all of the profits flow through to its members; and (3) whether the defendant met its burden to prove costs to reduce its lost profits liability. The district court held that the prevailing party cannot recover attorneys' fees under the breach of contract theory as well as lost profits under the Lanham Act. The district court reasoned that to allow both attorneys' fees under the contract claim and lost profits under the Lanham Act claim would constitute impermissible picking and choosing among damage elements arising under different theories of recovery. The district court also reduced the damages for lost profits from \$1,256,280 to \$227.10 based on the defendant's tax return. The defendant argued that lost profits were not recoverable because all of the defendant's profits flowed through to member farmers. The plaintiff argued that the court should not have reduced the lost profits according to the tax return information but should have considered the \$1.25 million in sales because the defendant failed to meet its evidentiary burden of proving costs to offset sales.

The Fifth Circuit affirmed the holding that the election of remedies doctrine applies, reasoning that both claims seek to compensate for the same wrongful act.

In considering the award of lost profits, the Court noted that an award of lost profits under the Lanham Act is not automatic, but depends on: (1) whether the defendant had the intent to confuse or deceive; (2) whether sales have been diverted; (3) the adequacy of other remedies; (4) any unreasonable delay by plaintiff in asserting his rights; (5) the public interest in making the conduct unprofitable; and (6) whether it is a case of palming off. The Court found that defendant had the requisite intent to trade on the plaintiff's goodwill and that the plaintiff asserted its rights in a timely manner after it discovered the infringement. The Court found that an injunction alone would not compensate the plaintiff, and the defendant should not be rewarded for its infringement.

The Court further held, on an issue of first impression, that cooperatives like the defendant should not be treated differently because their profits flow through to their farmer-members. The profits that flow through the defendant to its members are the profits to be considered for the purpose of the Lanham Act. The Court disagreed with the district court that profit disgorgement beyond taxable income is a penalty because the Court reasoned that the Lanham Act's disincentives for infringement should apply to cooperative infringers as they would to any other kind of infringer.

The dissent is based on disagreement that the marks are similar and likely to cause confusion.

Ray Mart, Inc. v. Stock Building Supply of Tex., LP
2008 U.S. App. LEXIS 22882
5th Cir. 2008

Subjects of Interest: Non-competition agreement; non-solicitation agreement

This case arises from an employment agreement that contained a non-compete covenant, a non-solicitation of customers and employees covenant and a non-disclosure of trade secrets covenant. The district court ruled against the employer on all claims, finding the non-compete and non-solicitation of employees covenants unenforceable and finding no tortious interference with employment relationships.

On appeal, the Court found that the non-compete covenant was enforceable because other enforceable agreements existed including the employer's promise to employ the employee for three years, the employee's promise to work for the employer for three years, and the employee's promise not to disclose trade secrets while he worked for the employer. The Court found that "[t]hese promises created an employment relationship terminable only for good cause, which is an otherwise enforceable agreement." In further support of the Court's finding of enforceability, the Court determined that the non-compete is ancillary to the nondisclosure covenant because the non-compete was designed to enforce the non-disclosure covenant. The Court found that even though the employee's duties were not outlined in the employment agreement, both parties knew that the employee would receive confidential information in the scope of his employment because the employee was told his job description would not change. The Court admitted that it was a close call under these facts, but held that the promise to employ for three years gave rise to an interest in protecting

the confidential information that the employer gave to the employee. The Court reversed the district court's finding that the non-compete was unenforceable.

The Court upheld the district court's finding that the employer did not prove that the employee breached its fiduciary duty to the employer or violated the anti-solicitation of employees covenant because the employer brought forth no evidence beyond suspicion.

The Court vacated the district court's conclusion that a company in competition with the employer did not tortiously interfere with the employer's contract with the employee. The company in competition recruited the employee even though it knew the employee had a non-compete agreement with the employer and encouraged the employee to aggressively recruit other employees of the employer even though it knew of the non-solicitation covenant.

Xpel Technologies Corp. v. Am. Filter Film Distributors
2008 U.S. Dist. LEXIS 60893
W.D. Tex. 2008

Subjects of Interest: Copyright infringement; Lanham Act

The plaintiff alleged copyright infringement, misappropriation and unjust enrichment among other causes of action arising from the defendants' use of designs for window film and paint and headlamp protection products for automobiles. One issue before the Court was whether the Lanham Act "origin of goods" and misrepresentation claims were viable considering the claims did not concern tangible works, but rather addressed ideas, concepts and designs. The Court dismissed the "origin of goods" claim based on the Supreme Court's finding in *Dastar Corp. v. Twentieth Century Fox Film Corp.*, 539 U.S. 23 (2003), that "origin of goods" claims under the Lanham Act only apply to tangible goods and not to the idea, concept or communication embodied in those goods. The Court did not grant the defendants' motion to dismiss the misrepresentation claim under the Lanham Act but invited further briefing because the Court found that *Dastar* did not necessarily preclude a misrepresentation claim based on ideas, concepts or communications rather than on a tangible product.

State Court Decisions

In re XTO Resources, I, LP

248 S.W.3d 898

Tex. App. – Fort Worth

Subjects of Interest: **Compelling trade secrets in discovery**

This was a breach of contract case arising from a contract to reassign acreage that was not developed in accordance with continuous development obligations in certain gas leases. The plaintiff sought discovery of reserve estimates, recoverable gas reserve estimates and future revenues for all wells governed by the leases. The defendant objected to the discovery requests asserting trade secret privilege and arguing that the plaintiff could calculate its alleged damages utilizing other sources.

The Court held that the information sought was a trade secret. The Court also found that the benefit of disclosing the information did not outweigh the burden on the defendant in disclosing it because the plaintiff's expert did not need the information to form an opinion. Instead, the expert testified that the defendant's confidential information would be helpful in forming an opinion. The Court concluded that the trial court abused its discretion in compelling the trade secret information because the plaintiff did not carry its burden of showing the production of trade secret information is necessary to a fair adjudication.

Justice Walker dissented, arguing that the defendant should not be permitted to claim that the plaintiff suffered no damages and at the same time shield documents showing that the defendant had internally assessed a dollar value to the same leases and wells that it failed to reassign to the plaintiff. The majority countered the dissent's argument with the position that the plaintiff still had to present evidence that it needed the trade secret information.