FIFTH CIRCUIT UPDATE

SELECT BUSINESS TORTS JURISPRUDENCE

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Sofia recently graduated from the Harvard Business School Owner/President Management (OPM) Program and become an Alumna of the Harvard Business School. She was elected as the U.S. Keynote Graduation Speaker for HBS OPM 37 and U.S. Class Representative, ostensibly the first woman in the history of OPM. She is a frequent CLE speaker (over 100 to date) on topics such as business torts, managing complex litigation, experts, and joint ventures in litigation. Her legal publications (over 60 to date) include articles with the ABA BUSINESS TORTS JOURNAL, THE HOUSTON LAWYER, TEXAS LAWYER, THE TRIAL LAWYER and THE HOUSTON LAW REVIEW on experts, an article with THE REVIEW OF LITIGATION on mass torts class actions and ethics, articles with THE FIFTH CIRCUIT REPORTER (quarterly since 1997) and with the TEXAS TECH LAW REVIEW (annually since 2002) on business torts as well as a series of articles with the TRIAL DIPLOMACY JOURNAL on the management of complex litigation. She has served as an adjunct professor teaching Mass Tort Litigation at the University of Houston Law Center. Additionally, she is the Fifth Circuit Reporter for the ABA Section of Litigation. Sofia has been recognized for her public service by the City of Houston with a proclamation of July 4, 2004 as “Sofia Adrogué Day.”

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The goal is to capture those cases that are of interest to the business torts litigator that are not discussed in the Bankruptcy, Procedure, and Taxation Updates. As the author, I address, when pertinent, case law in the antitrust, “contorts,” and Civil Racketeer Influenced and Corrupt Organizations Act (“R.I.C.O.”) arenas as well as any other miscellaneous matters in the business torts realm. Occasionally, this Update transgresses traditional “business torts” in the federal courts arena, and reports on state jurisprudence when necessity or interest dictates.

A. Antitrust

- **Golden Bridge Tech., Inc. v. Motorola, Inc., et al.**

With a panel comprising Circuit Judges Emilio M. Garza and Jennifer Walker Elrod, and District Judge S. Maurice Hicks sitting by designation, the Fifth Circuit Court of Appeals considered an appeal from a grant of summary judgment dismissing a claim under the Sherman Antitrust Act. The plaintiff developed wireless communication technology and the defendants were wireless communications companies. All parties were members of a standards setting organization which attempts to ensure global compatibility between wireless communications companies. The organization adopted the plaintiff’s technology as an optional feature. Over several future meetings, this technology was added to a list of technologies to be removed from the organization’s options as it had become outdated and was not being used. The plaintiff did not attend any of these meetings. All but one of the defendants voted for the removal of the technology. The plaintiff filed suit alleging a violation of §1 of the Sherman Act, claiming that

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2 No. 07-40954, 2008 WL 4661807 (5th Cir. (Tex.) Oct. 23, 2008).
3 *Golden*, 2008 WL 4661807 at *1.
4 *Id.*
5 *Id.*
6 *Id.*
7 *Id.*
8 *Golden*, 2008 WL 4661807 at *1.
9 *Id.*
the defendants conspired with each other to remove the technology, resulting in the unlawful exclusion of the plaintiff from the market.\(^\text{10}\) The district court granted the defendants’ motion for summary judgment, and this appeal followed.\(^\text{11}\)

The Circuit Court began by noting that the U.S. Supreme Court has specified what a plaintiff must show to escape summary judgment on a §1 claim:

> To survive a motion for summary judgment ... a plaintiff seeking damages for a violation of § 1 must present evidence “that tends to exclude the possibility” that the alleged conspirators acted independently. Respondents ... must show that the inference of conspiracy is reasonable in light of the competing inferences of independent action or collusive action that could not have harmed respondents.\(^\text{12}\)

The Circuit Court explained it would reverse the district court’s grant of summary judgment “only where the evidence is strong enough to reasonably exclude the possibilities of independent action and conduct consistent with permissible competition.”\(^\text{13}\)

The Fifth Circuit reviewed the elements of a successful §1 claim.\(^\text{14}\) To establish a violation, a plaintiff must prove: (i) the defendants engaged in a conspiracy; (ii) that restrained trade; (iii) in the relevant market.\(^\text{15}\) Once a plaintiff has established the conspiracy, whether it violates §1 is determined by applying either the \textit{per se} rule or the rule of reason.\(^\text{16}\) If it is then determined that the defendant’s conduct would tend to restrict competition, the restraint is \textit{per se} illegal and no further inquiry occurs. However, if the conduct is not deemed \textit{per se} unreasonable,

\(^{10}\) Id. at *2.
\(^{11}\) Id.
\(^{12}\) Id. at *3 (quoting \textit{Matsushita Elec. Indus. Co. v. Zenith Radio Corp.}, 475 U.S. 574, 587-88 (1986)).
\(^{13}\) \textit{Golden}, 2008 WL 4661807 at *3.
\(^{14}\) Id.
\(^{15}\) Id. (citing \textit{Apani Sw., Inc. v. Coca-Cola Enter., Inc.}, 300 F.3d 620, 627 (5th Cir. 2002)).
\(^{16}\) Id. (citing \textit{Spectators’ Comme’n Network, Inc. v. Colonial Country Club}, 253 F.3d 215, 222-23 (5th Cir. 2001)).
the plaintiff must also show “that the conduct unreasonably restrains trade in light of actual market forces under the rule of reason.”\textsuperscript{17}

The Court of Appeals further explained that regarding the conspiracy element, “the Supreme Court recently observed that ‘the crucial question [in a § 1 claim] is whether the challenged anticompetitive conduct stems from independent decision or from an agreement.’”\textsuperscript{18} A plaintiff must prove that the defendants engaged in concerted action.\textsuperscript{19} Concerted action may be shown by either direct or circumstantial evidence.

Direct evidence explicitly refers to an understanding between the alleged conspirators, while circumstantial evidence requires additional inferences in order to support a conspiracy claim. Independent parallel conduct, or even conduct among competitors that is consciously parallel, does not alone establish the contract, combination, or conspiracy required by §1.\textsuperscript{20}

The Fifth Circuit then turned to the evidence in the instant case.\textsuperscript{21} The Court noted that the plaintiff presented only circumstantial evidence of a conspiracy.\textsuperscript{22} As already mentioned, to show conspiracy circumstantial evidence must tend to exclude the possibility that the defendants acted independently.\textsuperscript{23} In this case, the plaintiff presented no evidence refuting the possibility that the defendants found its technology outdated and independently supported its removal.\textsuperscript{24} Thus, the Fifth Circuit Court of Appeals declined to infer conspiratorial action on the basis of limited circumstantial evidence.\textsuperscript{25} Accordingly, because the plaintiff did not meet its threshold

\begin{flushleft}
\textsuperscript{17} \textit{Id.} \\
\textsuperscript{18} \textit{Golden}, 2008 WL 4661807 at *3 (quoting \textit{Bell Atlantic Corp. v. Twombly}, 127 S. Ct. 1955, 1964 (2007)). \\
\textsuperscript{19} \textit{Id.} \\
\textsuperscript{20} \textit{Id.} \\
\textsuperscript{21} \textit{Id. at *4.} \\
\textsuperscript{22} \textit{Id.} \\
\textsuperscript{23} \textit{Golden}, 2008 WL 4661807 at *4. \\
\textsuperscript{24} \textit{Id.} \\
\textsuperscript{25} \textit{Id. at *5.}
\end{flushleft}
burden of showing an agreement in restraint of trade, the Court affirmed the grant of summary judgment.26

B. Class Actions

- *Gene & Gene LLC v. Biopay LLC*27

With a panel comprising Chief Judge Edith H. Jones and Circuit Judges Will Garwood and E. Grady Jolly, the Fifth Circuit Court of Appeals considered an interlocutory appeal from an order certifying a class of plaintiffs alleging violations of the Telephone Consumer Protection Act ("TCPA").28 The TCPA prohibits, *inter alia*, the sending of unsolicited advertisements via fax machine.29 The defendant faxed thousands of advertisements to potential clients in Louisiana.30 The proposed lead plaintiff in the suit received one such fax, and filed a class action alleging that the defendant violated the TCPA by sending the faxes to an unidentified number of class members.31 The district court certified the class, and the defendant appealed.32 The following two questions were before the Court of Appeals: (i) whether the district court had subject matter jurisdiction; and (ii) whether the district court abused its discretion in certifying the class.33

The Fifth Circuit first addressed the question of subject matter jurisdiction.34 The Circuit Court explained that the district court had jurisdiction pursuant to the Class Action Fairness Act ("CAFA").35 CAFA provides federal courts with original jurisdiction over class actions where

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26 *Id.*
27 541 F.3d 318 (5th Cir. (La.) 2008).
29 *Id.*
30 *Id.* at 322.
31 *Id.* at 322-23.
32 *Id.* at 323.
33 *Gene*, 541 F.3d at 321-22.
34 *Id.* at 324.
there is minimal diversity and the aggregate amount in controversy is more than $5 million.\textsuperscript{36} In the instant case, the proposed lead plaintiff was domiciled in Louisiana and the defendant in Virginia, thus, creating minimal diversity.\textsuperscript{37} Further, given the possibility of treble damages under the TCPA, the aggregate amount in controversy exceeded $5 million.\textsuperscript{38} Therefore, the Court of Appeals concluded that the district court had subject matter jurisdiction.\textsuperscript{39}

Next, the Fifth Circuit addressed whether the district court abused its discretion in certifying the class.\textsuperscript{40} The Court reminded practitioners that to obtain certification, the plaintiff must satisfy the requirements of Rule 23(a): (i) numerosity; (ii) commonality; (iii) typicality; and (iv) adequacy of representation.\textsuperscript{41} Further, the requirements of Rule 23(b)(1), (2) or (3) must also be met.\textsuperscript{42} At issue in the present case was Rule 23(b)(3), which provides that common questions of law or fact predominate over questions affecting only individual members.\textsuperscript{43} A party seeking classification under this subsection of the rule, as the plaintiff did in this case, has the burden of proving the predominance requirement.\textsuperscript{44}

The Circuit Court explained that to decide whether there is a class-wide basis for deciding the predominant issues, a court must first ascertain which issues predominate.\textsuperscript{45} In the instant case, this issue was whether the defendant’s fax advertisements were sent without the “prior express invitation or permission of each recipient.”\textsuperscript{46} The Court opined as follows:

\begin{itemize}
  \item \textsuperscript{36} \textit{Id.}
  \item \textsuperscript{37} \textit{Id.}
  \item \textsuperscript{38} \textit{Gene, 541 F.3d at 324.}
  \item \textsuperscript{39} \textit{Id. at 325.}
  \item \textsuperscript{40} \textit{Id.}
  \item \textsuperscript{41} \textit{Id.}
  \item \textsuperscript{42} \textit{Id.}
  \item \textsuperscript{43} \textit{Gene, 541 F.3d at 325.}
  \item \textsuperscript{44} \textit{Id.}
  \item \textsuperscript{45} \textit{Id. at 325.}
  \item \textsuperscript{46} \textit{Id.}
\end{itemize}
“Thus, the predominant issue of fact is undoubtedly one of individual consent.” The Fifth Circuit referenced other federal cases which considered violations of the TCPA. The cases referenced made the following points: (i) violations of the TCPA are not per se unsuitable for class action resolution; and (ii) “there are no invariable rules regarding the suitability of a particular case…for class treatment”—the facts of the case will determine if certification is appropriate.

The Circuit Court reviewed the facts of the instant case, and stated that “the determinative question of whether consent can be established via class-wide proof must, given the particular facts of this case, be answered in the negative.” The Court was careful to note that it did not hold that the consent requirement in the case defeated the possibility of class certification—it held only that the plaintiff failed to advance a viable theory of generalized proof of consent. Thus, the Fifth Circuit Court of Appeals concluded that the district court had abused its discretion in certifying a class and reversed and remanded the case for further proceedings not inconsistent with its opinion.

C. Contracts


In this per curiam opinion, the Fifth Circuit Court of Appeals considered the enforceability of a covenant not to compete. The facts involved the sale of a business. The

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47 Id. at 327 (emphasis in original).
48 Gene, 541 F.3d at 327-28 (citing Forman v. data Transfer, Inc., 164 F.R.D. 400, 404 (E.D.Pa. 1995) (denying class certification and noting the gravamen of the complain was not a common course of conduct but a series of individual transmissions); Kenro, Inc. v. Fax Daily, Inc., 962 F.Supp. 1162, 1169-70 (S.D.Ind. 1997) (denying class certification because consent would have to be proven with individual inquiries); Kavu v. Omnipak Corp., 246 F.R.D. 642, 647 (W.D.Wash. 2007) (certifying the class because individual evidence of consent would not be required because the recipients’ fax numbers were purchased from a single source, and thus a single, class-wide means of establishing consent, or the lack thereof, was available).
49 Id. at 328.
50 Id. at 329.
51 Id.
52 No. 07-50609, 2008 WL 4809471 (5th Cir. (Tex.) Nov. 5, 2008).
appellant company bought the company for which the individual appellee worked. As part of the purchase, the appellee, among others, was required to sign an employment agreement, which included: (i) a defined term of three years; (ii) a statement that the appellant was entitled to terminate the appellee for good cause; (iii) a noncompete covenant; (iv) a nonsolicitation of customers and employees covenant; and (v) a nondisclosure of trade secrets covenant. The corporate appellee, a competitor of the appellant, opened an operation in the same town as the facility at issue. The individual appellees left the appellant to work for the corporate appellee.

The appellees then brought a petition for a declaratory judgment against the appellant in Texas state court seeking a declaration that the covenant not to compete was void and unenforceable. The appellant removed the case to federal court, and filed its claims, applied for a permanent injunction, and moved for a temporary restraining order to enforce the individual appellee’s employment agreement. The district court denied the motion for the temporary restraining order, granted the preliminary injunction regarding solicitation of customers, and denied the injunction as to the noncompete covenant. A bench trial was held, and the court concluded, inter alia, that the noncompete covenant was unenforceable. This appeal followed.

The Fifth Circuit provided practitioners with a review of contract law as applied to

54 Id.
55 Id.
56 Id.
57 Id.
58 Ray Mart, 2008 WL 4809471 at *1.
59 Id. at *2.
60 Id.
61 Id.
62 Id.
63 Ray Mart, 2008 WL 4809471 at *2.
covenants not to compete.\textsuperscript{64} The Court explained that the enforceability of a noncompete covenant is a question of law.\textsuperscript{65} Pursuant to §15.50 of the Texas Business and Commerce Code, a covenant not to compete is enforceable if: (i) “it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made;’ and (ii) ‘it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.’”\textsuperscript{66} The Circuit Court further noted that determining whether a noncompete covenant is ancillary to an otherwise enforceable agreement consists of the following two steps: (i) identify an “otherwise enforceable agreement” and (ii) determine whether the noncompete covenant is ancillary to this otherwise enforceable agreement.\textsuperscript{67}

The Court of Appeals first determined whether an otherwise enforceable agreement existed.\textsuperscript{68} This requires setting aside the noncompete covenant and determining whether any binding promises remain that would constitute an enforceable agreement.\textsuperscript{69} The Fifth Circuit found that, disregarding the noncompete covenant, an otherwise enforceable agreement existed between the parties.\textsuperscript{70} Each party made multiple enforceable promises in the employment agreement, and these promises constituted an otherwise enforceable agreement.\textsuperscript{71} The appellant promised to employ the individual appellee for a term of three years, terminable only for good cause, and in exchange, the individual appellee promised to work for the appellant for three years.

\begin{itemize}
\item \textsuperscript{64} Id.
\item \textsuperscript{65} Id. (citing Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 644 (Tex. 1994), abrogated in part on unrelated grounds by Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644 (Tex. 2006)).
\item \textsuperscript{66} Id. (quoting TEX. BUS. & COM. CODE §15.50(a)).
\item \textsuperscript{67} Id. at *3.
\item \textsuperscript{68} Ray Mart, 2008 WL 4809471 at *3.
\item \textsuperscript{69} Id. (citing 31-W Insulation Co. v. Dickey, 144 S.W.3d 153, 157 (Tex. App.-Fort Worth 2004, pet. withdrawn)).
\item \textsuperscript{70} Id.
\item \textsuperscript{71} Id.
\end{itemize}
and not to disclose any confidential information obtained during employment.\textsuperscript{72} The Court concluded that these promises “created an employment relationship terminable only for good cause, which is an otherwise enforceable agreement for the purposes of §15.50.”\textsuperscript{73}

Having determined that an otherwise enforceable agreement existed, for the covenant not to compete to be enforceable, according the Court, it had to be ancillary to such agreement. To determine whether an agreement is ancillary to another agreement, the following elements must be present: (i) “the consideration given by the employer in the otherwise enforceable agreement must give rise to the employer’s interest in restraining the employee from competing;” and (ii) “the covenant must be designed to enforce the employee’s consideration or return promise in the otherwise enforceable agreement.”\textsuperscript{74}

The Circuit Court noted that it had little trouble finding that the noncompete covenant is designed to enforce the individual appellee’s promise not to disclose any confidential information that he obtained while working for the appellant, thus, satisfying the second element.\textsuperscript{75} The Fifth Circuit then considered whether the consideration given by the appellant in the otherwise enforceable agreement gave rise to the appellant’s interest in restraining the individual appellant from competing.\textsuperscript{76} The Court explained under the circumstances of the instant case, the employment agreement indicated that both the appellant and the individual appellee anticipated that the individual appellee would work for at least three years, in a job that

\begin{itemize}
\item \textsuperscript{72} Id.\textsuperscript{72}
\item \textsuperscript{73} Ray Mart, 2008 WL 4809471 at *3 (citing C.S.C.S., Inc. v. Carter, 129 S.W.3d 584, 591 (Tex. App.-Dallas 2003, no pet.).
\item \textsuperscript{74} Id.\textsuperscript{74}
\item \textsuperscript{75} Id. (citing Curtis v. Ziff Energy Group, Ltd., 12 S.W.3d 114, 118 (Tex. App.-Houston [14th Dist.] 1999, no pet.) (finding a noncompete covenant ancillary to an otherwise enforceable agreement where “the covenant not to compete was designed to enforce the employee’s consideration not to disclose or use the confidential information or trade secrets after employment”); Ireland v. Franklin, 950 S.W.2d 155, 158 (Tex. App.-San Antonio 1997, no writ) (finding a noncompete covenant ancillary to an otherwise enforceable agreement where “the covenant not to compete was designed to enforce the employee’s consideration not to disclose or use trade secrets”).
\item \textsuperscript{76} Id. at *4.
\end{itemize}
“would likely involve the use of confidential information such as price lists, sales strategies, and customer information.” 77 Further, the agreement contemplated that the individual appellee would be receiving confidential information, as evidenced by the nondisclosure covenant. 78 Finally, the district court found that the individual appellee did have access to confidential information, “including sales strategies, marketing strategies, pricing strategies, vendor arrangements, contractor programs, and customer information.” 79

The Fifth Circuit Court of Appeals concluded that the appellant’s promise to employ the individual appellee for three years, in light of the above facts, gave rise to an interest in protecting confidential information. 80 “Such an interest is precisely the kind that noncompete covenants are meant to protect.” 81 Thus, the Court of Appeals held that the district court erred in concluding that the noncompete covenant was not ancillary to an otherwise enforceable agreement, vacated the district court’s denial of the appellant’s cause of action for enforcement of the noncompete covenant or damages for its breach, as well as the declaratory judgment that the individual appellee was not bound by the covenant not to compete. 82

D. Expert Testimony

● Nova Consulting Group, Inc. v. Engineering Consulting Srvcs. Ltd. 83

With a panel comprising Chief Judge Edith H. Jones and Circuit Judges Rhesa H. Barksdale and Carl E. Stewart, the Fifth Circuit Court of Appeals considered whether the district court improperly admitted the plaintiff’s expert witness’ testimony. 84 The plaintiff and the

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77 Id.
79 Id.
80 Id.
81 Id.
82 Id.
83 No. 07-50832, 2008 WL 3889995 (5th Cir. (Tex.) Aug. 22, 2008).
84 Nova, 2008 WL 388995 at *1.
defendant were competing, national environmental consulting firms.\textsuperscript{85} The plaintiff required that its employees sign an employment agreement, prohibiting the disclosure of confidential information, and for one year after leaving its employ, competing with it or soliciting its employees.\textsuperscript{86} The defendant hired several top managers away from the plaintiff, after which, the plaintiff’s revenue fell significantly.\textsuperscript{87} The plaintiff filed suit, alleging several business torts, and asserting that the defendant caused the loss in revenue by requiring that the employees at issue divulge confidential information, such as customer lists.\textsuperscript{88} A jury found for the plaintiff, and the defendant appealed, alleging, \textit{inter alia}, that the plaintiff’s expert witness testimony was inadmissible.\textsuperscript{89}

The Fifth Circuit began with a general review of the courts’ role in determining the admissibility of expert testimony.\textsuperscript{90} “The Federal Rules of Evidence require the district court to act as ‘gatekeeper’, to ensure expert testimony is relevant and reliable. ‘The focus, of course, must be solely on principles and methodology, not on the conclusions that they generate.’”\textsuperscript{91} The plaintiff’s expert in this case testified regarding the plaintiff’s loss of profits.\textsuperscript{92}

In asserting that the district court abused its discretion by admitting the expert testimony, the defendant challenged the expert’s expertise and the reliability of his opinions.\textsuperscript{93} During the defendant’s \textit{voir dire} of the plaintiff’s expert, a \textit{Daubert} hearing was held.\textsuperscript{94} Regarding the expert’s qualifications, the defendant argued that he should not have been allowed to testify regarding the plaintiff’s ability to recover from a particular market because he was a “financial

\textsuperscript{85} \textit{Id.}.
\textsuperscript{86} \textit{Id.}.
\textsuperscript{87} \textit{Id.}.
\textsuperscript{88} \textit{Id.} at *2.
\textsuperscript{89} \textit{Id.}.
\textsuperscript{90} \textit{Id.} at *3.
\textsuperscript{91} \textit{Id.} (quoting \textit{Daubert v. Merrell Dow Pharm., Inc.}, 509 U.S. 579, 598-95 & n.7 (1993)).
\textsuperscript{92} \textit{Id.} at *1-2.
\textsuperscript{93} \textit{Id.} at *3.
\textsuperscript{94} \textit{Id.}.
consultant and certified public accountant who has no experience in the environmental consulting field."\textsuperscript{95} However, the Circuit Court noted that during the \textit{voir dire} of the expert at trial, he testified that he was also a ‘‘certified insolvency and restructuring advisor’, who ‘works with businesses that are failing’, and has ‘consulted with an engineering consulting firm for methodologies of revitalizing its business after it came out of bankruptcy.’\textsuperscript{96} Thus, the Court opined, it was not an abuse of discretion for the district court to rule the expert was qualified to testify on the subject.\textsuperscript{97}

With regard to the reliability of the expert’s testimony, the defendant challenged several assumptions that it contended were underlying the calculation of profit and loss.\textsuperscript{98} These assumptions, the Circuit Court pointed out, “were fully explored at trial.”\textsuperscript{99} Further, the defendant cited nothing to show that any of these assumptions rendered the expert’s opinion unreliable under the circumstances.\textsuperscript{100} The Fifth Circuit further noted that there was “vigorous cross examination” of the expert as well as the presentation of contrary evidence.\textsuperscript{101} Additionally, the defendant’s expert, although he used a different approach, agreed with the plaintiff’s expert’s methodology.\textsuperscript{102} Finally, a limiting instruction was given to the jury, instructing the jury that although the court accepted the testimony of the competing experts at a threshold level, the jurors were ultimately the judges of the facts and, thus, could choose whether to believe any, all or none of the testimony.\textsuperscript{103} Accordingly, the Fifth Circuit Court of Appeals held that the district court did not abuse its discretion in allowing the plaintiff’s expert to testify,

\textsuperscript{95} Id. at *4.
\textsuperscript{96} Id.
\textsuperscript{97} Id. (citing Trugreen Cos. v. Scotts Lawn Serv., 508 F.Supp.2d 937, 958-59 (D.Utah 2007) (ruling insolvency and reorganization advisor qualified)).
\textsuperscript{98} Id.
\textsuperscript{99} Id.
\textsuperscript{100} Id.
\textsuperscript{101} Id. at *5.
\textsuperscript{102} Id.
\textsuperscript{103} Id.
and, ultimately, affirmed the decision.\textsuperscript{104}

E. Procedure

- \textit{Abner, et al. v. Kansas City Southern Railway, Co.}\textsuperscript{105}

With a panel comprising Circuit Judges Patrick E. Higginbotham, Carl E. Stewart and Leslie H. Southwick, the Fifth Circuit Court of Appeals considered whether a second trial invalidates the fees and costs accrued in the first unsuccessful trial.\textsuperscript{106} The plaintiffs were employees of the defendant and sued alleging discrimination.\textsuperscript{107} The first trial resulted in a hung jury.\textsuperscript{108} In the second trial, the jury found for the plaintiffs.\textsuperscript{109} The plaintiffs filed for attorney’s fees and costs to cover the expenses accrued during both trials.\textsuperscript{110} The district court awarded the plaintiffs fees, but reduced the requested amount, finding some of the costs to be unreasonable.\textsuperscript{111} The defendant appealed, arguing that the plaintiffs were not entitled to fees accrued during the first trial.\textsuperscript{112}

The Fifth Circuit reviewed the defendant’s arguments.\textsuperscript{113} The defendant objected to the fees and costs from the first trial on two separate grounds: (i) that they were unreasonable; and (ii) that the plaintiffs did not prevail.\textsuperscript{114} The Circuit Court noted that these inquiries were, by necessity, intertwined.\textsuperscript{115} A prevailing party is successful “‘on any significant issue in litigation which achieves some of the benefit the party sought in bringing suit.’”\textsuperscript{116} However, a fee award is “unreasonable if a court has failed to adequately consider the ‘relationship between the amount

\begin{thebibliography}{99}
\bibitem{104} Id. at *5, *14.
\bibitem{105} 541 F.3d 372 (5th Cir. (La.) 2008).
\bibitem{106} Abner, 541 F.3d at 373.
\bibitem{107} Id.
\bibitem{108} Id.
\bibitem{109} Id.
\bibitem{110} Id.
\bibitem{111} Abner, 541 F.3d at 373.
\bibitem{112} Id.
\bibitem{113} Id. at 378.
\bibitem{114} Id. at 379.
\bibitem{115} Id.
\bibitem{116} Abner, 541 F.3d at 379 (quoting \textit{Hensley v. Eckerhart}, 461 U.S. 424, 433 (1983)).
\end{thebibliography}
of the fee awarded and the results obtained.”117 The Court of Appeals opined that to address the defendant’s claim that the fees and costs were unreasonable because the plaintiffs were unsuccessful at the first trial, it must consider the level to which the plaintiffs prevailed.118

The Fifth Circuit had not previously considered “whether a prevailing party in a subsequent trial may recover fees for work done in a prior trial in which that party did not prevail.”119 The Circuit Court relied on persuasive precedent from other circuit courts in answering the question.120 The Court considered cases from the First,121 Second122 and Seventh123 Circuits.124 These circuits all similarly held that if a party is not at fault for the “failure” in the first trial, and is successful in the second, it may recover the reasonable fees and costs associated with both trials.125 The Court further found that the questions of whether a party prevailed and whether a fee award is reasonable can be answered not by looking at each trial in isolation, but by focusing on the ultimate result in the case.126 In the instant case, the defendant did not contend that the plaintiffs caused or contributed to the mistrial.127 Thus, after noting that the district court may discount for repetitive work which may occur when there are two trials, the Fifth Circuit Court of Appeals agreed with its sister circuits and affirmed the decision of the district court.128

117 Id. (quoting Henley, 461 U.S. at 433).
118 Id.
119 Id.
120 Id.
121 See O’Rourke v. City of Providence, 235 F.3d 713 (1st Cir. 2001) (finding where a party does not cause the voiding of a trial, it may receive fees).
122 See Gierlinger v. Gleason, 160 F.3d 858 (2nd Cir. 1998) (holding where a party is not at fault for causing a mistrial, fees may be awarded).
123 See Shott v. Rush-Presbyterian-St. Luke’s Medical Center, 338 F.3d 136 (7th Cir. 2003) (opining that if the party’s unreasonable behavior did not cause the first trial to be vacated, it may receive fees incurred during that trial).
124 Abner, 541 F.3d at 379-83.
125 Id. at 383.
126 Id.
127 Id.
128 Id.
F. Trademark Infringement


With a panel comprising Circuit Judges Thomas M. Reavley, Carl E. Stewart and Priscilla Richman Owen, the Fifth Circuit Court of Appeals heard consolidated appeals concerning a trademark dispute.¹³⁰ The plaintiffs alleged that the defendants violated the Lanham Act and infringed their trademarks by marketing apparel in the schools’ color schemes with football game references.¹³¹ The district court granted summary judgment in favor of the plaintiffs for trademark infringement.¹³² This appeal followed.¹³³

The Fifth Circuit began its analysis with a review of trademark law.¹³⁴ The Court explained that to prevail on a trademark infringement claim, the plaintiffs must show the following: (i) ownership of a legally protectable mark; and (ii) likelihood of confusion.¹³⁵ The Circuit Court first addressed ownership issue.¹³⁶

> The Lanham Act provides that a trademark may be “any word, name, symbol, or device, or any combination thereof” that is used or intended to be used “to identify and distinguish” a person's goods “from those manufactured or sold by others and to indicate the source of the goods, even if that source is unknown.”¹³⁷

The Court explained that a mark does not need to be registered to receive protection because ownership is established by use.¹³⁸ The marks in the instant case are not registered.¹³⁹ The

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¹²⁹ Nos. 07-30580, 07-30887, 2008 WL 4981326 (5th Cir. (La.) Nov. 25, 2008).
¹³⁰ LSU, 2008 WL 4981326 at *1.
¹³¹ Id.
¹³² Id.
¹³³ Id.
¹³⁴ Id. at *4.
¹³⁶ Id.
¹³⁸ Id.
protection afforded unregistered marks is governed by essentially the same principles that qualify a mark for protection under the Lanham Act.\textsuperscript{140} The central question is whether the mark is “capable of distinguishing the applicant’s goods from those of others.”\textsuperscript{141} Marks have five general classifications: (i) generic; (ii) descriptive (iii) suggestive; (iv) arbitrary; and (v) fanciful.\textsuperscript{142} The marks in the instant case have been treated as descriptive marks.\textsuperscript{143} A descriptive mark is not inherently distinctive; it requires a secondary meaning to receive protection under the Lanham Act.\textsuperscript{144}

Secondary meaning occurs when “in the minds of the public, the primary significance of a mark is to identify the source of the product rather than the product itself.”\textsuperscript{145} The Fifth Circuit explained that it applies a multi-factor test to determine secondary meaning: (i) length and manner of use of mark; (ii) volume of sales; (iii) amount and manner of advertising; (iv) nature of use of mark in newspapers and magazines; (v) consumer survey evidence; (vi) direct consumer testimony; and (vii) the defendant’s intent in copying the mark.\textsuperscript{146} The Court noted that the factors in combination may show consumers identify the mark with its source even if each individual factor might not prove secondary meaning.\textsuperscript{147} After considering the application of the factors to the facts of the case, the Court of Appeals concluded that the record established secondary meaning in the marks at issue.\textsuperscript{148}

\begin{itemize}
\item \textsuperscript{139} Id.
\item \textsuperscript{140} LSU, 2008 WL 4981326 at *4.
\item \textsuperscript{141} Id. (quoting Two Pesos, Inc. v. Taco Cabana, Inc., 505 U.S. 763, 768 (1992)).
\item \textsuperscript{142} Id.
\item \textsuperscript{143} Id.
\item \textsuperscript{144} Id.
\item \textsuperscript{145} LSU, 2008 WL 4981326 at *5 (quoting Wal-Mart Stores, Inc. v. Samara Bros., Inc., 529 U.S. 205, 211 (2000)).
\item \textsuperscript{146} Id.
\item \textsuperscript{147} Id.
\item \textsuperscript{148} Id. at *7.
\end{itemize}
The Fifth Circuit then addressed the issue of likelihood of confusion. The plaintiff must show that the defendant’s use of the mark “‘creates a likelihood of confusion in the minds of potential customers as to the source, affiliation, or sponsorship’ of the product at issue.’” The Court considers a nonexhaustive list of so-called “digits of confusion,” when assessing the likelihood of confusion, including: (i) the type of mark; (ii) the similarity between the two marks; (iii) the similarity of the products; (iv) the identity of the retail outlets and purchasers; (v) the advertising media used; (vi) the defendant’s intent; and (vii) evidence of actual confusion. “No single factor is dispositive, and a finding of a likelihood of confusion need not be supported by a majority of the factors.” The Court of Appeals applied the digits of confusion to the facts at issue, and concluded that a likelihood of confusion was demonstrated by the plaintiffs.

The Circuit Court went on to consider the issue of functionality. “A product feature that is functional does not qualify for protection under the Lanham Act.” A party seeking protection has the burden of establishing nonfunctionality. The U.S. Supreme Court has recognized two tests for determining functionality.

“The primary test for determining whether a product feature is functional is whether the feature is essential to the use or purpose of the product or whether it affects the cost or quality of the product.” This is the “traditional” test. “Under this traditional definition, if a product feature is ‘the reason the device works,’ then the feature is functional.” Under a secondary test for functionality “a functional feature is one the exclusive use of which would put competitors at a significant non-reputation-related

149 Id.
150 LSU, 2008 WL 4981326 at *7 (quoting Westchester Media v. PRL USA Holdings, Inc., 214 F.3d 658, 663 (5th Cir. 2000)).
151 Id.
152 Id.
153 Id. at *13.
154 Id. at *14.
156 Id. (citing TrafFix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23, 32 (2001)).
disadvantage.” This is the “competitive necessity” test.\textsuperscript{157}

The Fifth Circuit reviewed the district court analysis, and concluded that it had correctly held that the marks at issue were nonfunctional.\textsuperscript{158}

Finally, the Court of Appeals considered the issue of nominative fair use.\textsuperscript{159} “The nominative fair use doctrine provides that one who has lawfully copied another’s product can tell the public what he has copied.”\textsuperscript{160} The right of fair use is limited—it cannot be one that creates a likelihood of confusion as to source, sponsorship, affiliation, or approval.\textsuperscript{161} The Circuit Court noted that is has held that a nominative fair use claim is a claim that a mark’s use is noninfringing and, thus, creates no likelihood of confusion.\textsuperscript{162} Therefore, a court should consider a nominative fair use claim in conjunction with the likelihood of confusion analysis to avoid lowering the standard for confusion.\textsuperscript{163} Again, after reviewing the record, the Circuit Court concluded that the district court correctly determined that nominative fair use did not exist in this case.\textsuperscript{164} Thus, the Fifth Circuit Court of Appeals held that the district court did not err in granting the plaintiffs’ motion for summary judgment.\textsuperscript{165}

- \textbf{Brennan’s Inc. v. Brennan, et al.}\textsuperscript{166}

In a brief \textit{per curiam} opinion, the Fifth Circuit Court of Appeals provided practitioners with a review of the elements of a claim for trademark infringement under the Lanham Act.\textsuperscript{167} The appellant owned and operated “the well known “Brennan’s” restaurant in New Orleans,

\textsuperscript{157} \textit{Id.} (quoting \textit{Eppendorf-Netheler-Hinz GMBH v. Ritter GMBH}, 289 F.3d 351, 355-56 (5\textsuperscript{th} Cir. 2002)).

\textsuperscript{158} \textit{Id.} at *15.

\textsuperscript{159} \textit{Id.} at *16.

\textsuperscript{160} \textit{LSU}, 2008 WL 4981326 at *16.

\textsuperscript{161} \textit{Id}.

\textsuperscript{162} \textit{Id}.

\textsuperscript{163} \textit{Id}.

\textsuperscript{164} \textit{Id}.

\textsuperscript{165} \textit{LSU}, 2008 WL 4981326 at 17.

\textsuperscript{166} \textit{No. 07-60497, 2008 WL 3091759 (5\textsuperscript{th} Cir. (Miss.) Aug. 6, 2008).}

\textsuperscript{167} \textit{Brennan}, 2008 WL 3091759 at *1.
Louisiana.” The appellees were former employees of the appellant, and planned to open their own restaurants Florida and Mississippi. The appellees registered the mark “Clark and Blake Brennan’s Royal B” for use in connection with the restaurants. Pursuant to the Lanham Act, the appellant brought suit for trademark infringement and unfair competition. The appellant also sought an injunction to prohibit the appellees “from using the name, or any name similar to, the ‘Brennan’s’ mark; selling, displaying, using, or advertising under the ‘Brennan’s’ mark or incorporating the ‘Brennan’s’ mark or any variation thereof; and engaging in unfair competition.” The district court held that the appellant failed to satisfy the elements necessary to impose a preliminary injunction. The instant appeal ensued.

The Circuit Court reminded practitioners that a preliminary injunction is “an extraordinary equitable remedy” to be granted only if the plaintiff establishes the following four elements: (i) a substantial likelihood of success on the merits; (ii) a substantial threat of irreparable injury; (iii) the threatened injury outweighs any damage the injunction might cause the defendant; and (iv) the injunction is not against public interest. To succeed on a trademark infringement claim, a party must initially show as follows: (i) that it has a protectable right in the mark; and (ii) that there is a likelihood of confusion between the marks.

The district court found that the appellant failed to establish a substantial likelihood of success on the merits. Specifically, the court found: (i) the mark at issue was weak due to the number of restaurants using the Brennan name; (ii) the only similarity in the two marks was the

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168 Id.
169 Id.
170 Id.
171 Id.
172 Brennan, 2008 WL 3091759 at *1.
174 Id.
175 Id. (citing Speaks v. Kruse, 445 F.3d 396, 399-40 (5th Cir. 2006)).
176 Id. (citing Sec. Ctr., Ltd. v. First Nat'l Sec. Ctrs., 750 F.2d 1295, 1298 (5th Cir. 1985)).
177 Brennan, 2008 WL 3091759 at *1.
name “Brennan’s,” and use of the appellees’ first names sufficiently distinguished the marks; (iii) any similarities between the restaurants already existed between the appellant’s restaurants “and ‘countless other’ New Orleans and French Quarter restaurants, including restaurants opened by other Brennan family members,” and the appellees did not replicate the appellant’s restaurant to an extent likely to cause confusion; (iv) the parties were not in direct competition for customers due to the distances between the restaurants; (v) the distances in between the restaurants would not likely result in misleading advertising; (vi) the appellees did not intend to confuse or deceive the public; and (vii) there was insufficient evidence of actual confusion.178 The district court also held that the appellant failed to establish irreparable harm.179 Finally, the district court found that allowing the appellees to use their own last name in connection with their restaurants, given the low likelihood of confusion, was not against public interest.180 The Fifth Circuit, without explanation, stated that it found no error with the district court’s findings, and held that the district court did not abuse its discretion in denying the preliminary injunction.181 The district court’s decision was affirmed.182

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178 Id.
179 Id.
180 Id.
181 Id. at *2.
182 Brennan, 2008 WL 3091759 at *2.