

UNITED STATES COURT OF APPEALS
FOR THE FIFTH CIRCUIT

No. 92-4941
Summary Calendar

IN THE MATTER OF: ASSOCIATED INDEPENDENT MARKETERS
INCORPORATED OF AMERICA, Debtors.

ASSOCIATED INDEPENDENT MARKETERS, INC.
OF AMERICA and AU PHARMACEUTICALS, INC.,
Plaintiffs-Appellees,

versus

MAXIMHEALTH, INC. ET AL.,
Defendants,
SKIN CARE LABORATORIES, INC.,
WILLIAM WHITNER, WHITNER SALES,
INC., and NORTH AMERICAN SALES,
INC.,
Defendants-Appellants.

Appeal from the United States District Court
For the Eastern District of Texas
(6:91-CV-590)

(May 10, 1993)

Before POLITZ, Chief Judge, DAVIS and JONES, Circuit Judges.

POLITZ, Chief Judge:*

*Local Rule 47.5 provides: "The publication of opinions that have no precedential value and merely decide particular cases on

Skin Care Laboratories, Inc. (SCL), William Whitner, Whitner Sales, Inc. (WSI), and North American Sales, Inc. (NAS) appeal an adverse judgment on verdict in this action raising state tort and contract and federal trademark claims. Finding neither reversible error nor abuse of discretion, we affirm.

Background

In 1988, Jeff Ivy and Curtis Payne developed a topical analgesic product apparently unique in its use of gold as an ingredient. Ivy and Payne licensed their product to Associated Independent Marketers Incorporated of America (AIM), a company of which they were principals, which marketed it under the brand name "Aurum." Initially, GDMI, Inc. manufactured the product for AIM. When GDMI's services proved inadequate, AIM entered into negotiations, subject to a confidentiality agreement, with John Beasley and Rita Gates of SCL. The negotiations culminated in an agreement under which SCL produced Aurum for AIM. Desirous of distributing Aurum as an over-the-counter drug, AIM, upon advice of SCL, made slight changes in its formula to comply with requirements of the Food and Drug Administration.

In October 1989, Frank Trent and Don Rhodes resigned from the AIM board of directors and began their own venture distributing gold-based lotions. They purchased MaximHealth, Inc., an AIM

the basis of well-settled principles of law imposes needless expense on the public and burdens on the legal profession." Pursuant to that Rule, the Court has determined that this opinion should not be published.

subsidiary, acquired a sublicense from AIM to distribute Aurum, and negotiated a trademark license with AIM to distribute Aurum under the name "MaximRelief." SCL manufactured the product for both AIM and MaximHealth. Trent and Rhodes retained the distribution services of William Whitner and WSI for the MaximHealth product.

In December 1989, AIM filed a petition under Chapter 11 of the bankruptcy code. The bankruptcy court approved a sale of substantially all of AIM's assets to AU Pharmaceuticals, Inc. (AUP), another company operated by Ivy and Payne. During the pendency of the bankruptcy proceedings, MaximHealth unilaterally terminated its licensing agreement with AIM, but continued to market the product. Sometime before this termination, and without informing AIM or AUP, SCL developed a new gold-based analgesic product, called RG2-85.¹ SCL licensed RG2-85 to MaximHealth, who distributed it through Whitner and WSI, continuing to use the "MaximRelief" name.

In November 1990, AIM initiated an adversary proceeding in the bankruptcy court against Trent, Rhodes, and MaximHealth. AUP intervened. Amendments to the initial complaint stated claims against SCL, Whitner, WSI, and NAS. AIM and AUP sought recovery for misappropriation of trade secrets and conspiracy to misappropriate trade secrets by all defendants; trademark infringement and unfair competition by all defendants except NAS; breach of the confidentiality agreement by SCL; breach of fiduciary

¹ SCL later attempted to license RG2-85 for marketing.

duty by Trent, Rhodes, MaximHealth, and SCL; business disparagement by Whitner and WSI; and tortious interference with prospective contractual relations by WSI. AIM and AUP obtained preliminary injunctions from the bankruptcy court in March, July, and August enjoining production, sale, or marketing of any gold-based analgesic lotion by all defendants and their agents.²

Whitner, WSI, and NAS removed the litigation to district court. Shortly before trial, AIM and AUP settled with Trent, Rhodes, and MaximHealth. After a six-day trial, the district court granted judgment as a matter of law under Fed.R.Civ.P. 50(a) against SCL as to liability on all claims and against Whitner and WSI as to liability for trademark infringement.³ The jury found Whitner, WSI, and NAS liable for trade secret misappropriation and awarded \$1,000 compensatory and \$1,000 punitive damages against each. The jury also awarded \$27,000 in compensatory and \$300,000 in punitive damages against SCL, and \$182,000 in counsel fees. The trial court reduced the punitive damage award against SCL to \$100,000 and the attorneys' fee award to \$141,818.50, and granted

² Just before issuance of the June injunction, Ivy and Payne obtained a patent on their Aurum product. Later, Whitner retained an Oklahoma company to manufacture a gold-based lotion called "24K" resembling Aurum and MaximRelief, and sought to distribute it through NAS, another company which he operated.

³ The court granted judgment as a matter of law for Whitner and WSI on plaintiffs' unfair competition, business disparagement, and tortious interference with prospective contractual relations claims.

injunctive relief.⁴ After a false start with a premature appeal all defendants timely appealed.

Analysis

On appeal, all defendants challenge the directed verdicts and denial of their posttrial motions. In addition, all defendants challenge the jury instructions and verdict form, and award of attorneys' fees.⁵ District courts may withdraw issues from the jury only "if the facts and inferences point so strongly and overwhelmingly in favor of one party that the Court believes that reasonable [persons] could not arrive at a contrary verdict."⁶ We review district court rulings on such motions *de novo*.

1. Trade Secret Claims

⁴ The district court enjoined SCL from manufacturing, selling, marketing, or distributing any product identical or deceptively similar to MaximRelief, including the RG2-85 product. It enjoined Whitner, WSI, and NAS from manufacturing, marketing, selling, or distributing any product identical or deceptively similar to Aurum, including its "24K" product. The court set a two-year duration for both injunctions.

⁵ In addition, AIM and AUP challenge the subject matter jurisdiction of this court, maintaining that the defendants' motions for clarification of the judgment, because they did not seek relief within the scope of Fed.R.Civ.P. 59(e), did not delay the time for filing of a notice of appeal under Fed.R.App.P. 4(a)(4). The rejection by a prior panel of that contention is now the law of this case and, in the absence of an unusual circumstance warranting reconsideration, we decline to revisit the issue. **Petroleos Mexicanos v. Crawford enters., Inc.**, 826 F.2d 392 (5th Cir. 1987).

⁶ E.g., **Click v. Copeland**, 970 F.2d 106 (5th Cir. 1992) (quoting **Boeing Co. v. Shipman**, 411 F.2d 365, 374 (5th Cir. 1969) (*en banc*)).

Recovery for trade secret misappropriation requires existence of a trade secret; disclosure or use in breach of a confidential relationship or, after discovery, through improper means; and damages.⁷ Texas law has long followed the Restatement of Torts, according such protection to "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it."⁸ Trade secret protection, however, applies only to information not publicly available or readily ascertainable,⁹ and as to which its owner makes substantial efforts to maintain confidentiality.¹⁰

The defendants first claim, without citing authority, that AIM and AUP, as nonexclusive licensees rather than owners, lacked standing to assert trade secret claims with regard to the Aurum formula. Rather, they argue that only Payne and Ivy, as owners of the trade secret and as AIM's licensors, could properly assert

⁷ **Taco Cabana Int'l, Inc. v. Two Pesos, Inc.**, 932 F.2d 1113 (5th Cir. 1991), aff'd, 112 S.Ct. 964 (1992); **Hyde Corp. v. Huffines**, 314 S.W.2d 763, 769 (Tex. 1958); **Atlantic Richfield Co. v. Misty Prods., Inc.**, 820 S.W.2d 414 (Tex.App. 1991).

⁸ **Hyde Corp.**, 314 S.W.2d at 776 (quoting Restatement of Torts § 757 cmt. b).

⁹ E.g., **Spicer v. Tacito & Assocs., Inc.**, 783 S.W.2d 220 (Tex.App. 1989).

¹⁰ **Taco Cabana**, 932 F.2d at 1123 (citing **Furr's, Inc. v. United Specialty Advertising Co.**, 385 S.W.2d 456, 459 (Tex.Civ.App. 1964), cert. denied, 382 U.S. 824 (1965)).

these claims. In view of the fact that Payne and Ivy, as principals, controlled both AIM and AUP, we find this argument unpersuasive.

Defendants next claim that the Aurum formula could not constitute a trade secret because of general industry knowledge concerning the ingredients and processes used to produce analgesics. They also argue that public disclosure of Aurum's ingredients in order of concentration -- required by the FDA -- deprives even the product's precise formulation of trade secret status. We disagree. The precise formulation of a product, even where that product uses commonly-known ingredients, may qualify as a trade secret.¹¹ Likewise, the disclosure of ingredients in their order of concentration, as required by the FDA, did not prejudice the formula's status as a trade secret.¹²

The defendants assert that AIM and AUP failed to adduce evidence sufficient to meet all elements of trade secret misappropriation, and that the district court therefore erred in

¹¹ See **Integrated Cash Management Servs., Inc. v. Digital Transactions, Inc.**, 920 F.2d 171 (2d Cir. 1990) (unique and advantageous combination of components otherwise in public domain may constitute trade secret); cf. 70 Tex.Jur.3d **Trademarks** § 36, at 486 (1989) (trade secret need not be novel, and "mechanical improvement which any good mechanic could make" will qualify (citing **K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.**, 314 S.W.2d 782 (Tex. 1958))).

¹² See **Taco Cabana** (filing of confidential building plans with municipal authorities did not eliminate status of plans as trade secret); cf. **Ventura Mfg. Co. v. Locke**, 454 S.W.2d 431 (Tex.Civ.App. 1970) (fact that analysis of completed product may reveal process used to produce it does not vitiate status of process as trade secret).

denying their motions for judgment as a matter of law on that claim. Whitner, WSI, and NAS argue an absence of evidence that they had access to the Aurum formula.¹³ SCL suggests an absence of evidence that it used the Aurum formula to produce RG2-85. The record, however, supports neither contention. At trial, AIM and AUP adduced testimony that the similarity between the RG2-85 and Aurum formulae indicates an exceedingly low probability of independent development. The plaintiffs further put on evidence that the 24K formula bore a similar likeness to the Aurum formula. Such evidence gives rise to an inference that Whitner had access to the Aurum formula, and that SCL utilized that formula to develop RG2-85. The defendants identify no contrary evidence in the record, other than bald denials by SCL employees regarding misappropriation. The district court properly denied these motions.

Finally, citing no authority, the defendants allege lack of clarity in the district court's injunction and claim that because SCL entered into a nondisclosure agreement with AIM, that agreement rather than the law of trade secret misappropriation governs their

¹³ Whitner, WSI, and NAS suggest that the only evidence of their access to trade secrets lay in improper comment by plaintiffs' counsel concerning Whitner's failure to testify. They suggest that such argument itself warrants reversal here. We cannot agree. Assuming that Whitner, WSI, and NAS timely raised this issue and assuming further the comment's impropriety -- neither of which we decide -- the comment did not, in view of the entire record, prejudice any substantial right of the defendants and thus provides no basis for reversal. **Daniel v. Ergon, Inc.**, 892 F.2d 403 (5th Cir. 1990).

obligations to AIM. These assertions lack merit.¹⁴

2. Breach of Fiduciary Duty

SCL further assigns as error the verdict directed against it for breach of fiduciary duty, arguing that its relationship with AIM was not of a duration sufficient to give rise to such a duty. We disagree. Texas law recognizes the existence of fiduciary duty "where a special confidence is reposed in another who in equity and good conscience is bound to act in good faith and with due regard to the interests of the one reposing confidence."¹⁵ Fiduciary duty flows from the relationship between the parties, rather than from the terms of any contract between them.¹⁶ Certain formal relationships, such as that between attorney and client, entail fiduciary duty as a matter of law.¹⁷ By contrast, the element of confidence and trust inherent in every arms-length business arrangement does not.¹⁸ Between these poles, no clear rule

¹⁴ See **Hyde Corp.** (breach of confidentiality agreement may give rise to liability for trade secret misappropriation); **Molex, Inc. v. Nolan**, 759 F.2d 474 (5th Cir. 1985) (trial court need only frame injunction so that those enjoined will know what conduct is prohibited).

¹⁵ **Texas Bank & Trust Co. v. Moore**, 595 S.W.2d 502, 507 (Tex. 1980) (citation omitted); see also **Crim Truck & Tractor Co. v. Navistar Int'l Transp. Corp.**, 823 S.W.2d 591, 594 (Tex. 1992).

¹⁶ **Cambridge Oil Co. v. Huggins**, 765 S.W.2d 540 (Tex.Ct.App. 1989) (citing **Manges v. Guerra**, 673 S.W.2d 180 (Tex. 1984)).

¹⁷ **Crim Truck; Texas Bank & Trust Co.**

¹⁸ **Crim Truck**, 823 S.W.2d at 594-95.

emerges.¹⁹ However, Texas courts have long recognized that entrustment of trade secrets gives rise to a fiduciary relationship.²⁰ SCL's contrary argument lacks merit.²¹

3. Breach of Nondisclosure Agreement

SCL challenges the verdict directed against it for breach of the nondisclosure agreement, contending that AIM's marketing of Aurum publicly disclosed the concept of gold-based lotions prior to the effective date of the agreement. Similarly, it claims that the later-obtained patent publicly disclosed the Aurum formula. SCL thus claims that any use it made of AIM's information fell within exceptions created by section 2.02 to the confidentiality

¹⁹ **Texas Bank & Trust Co.**, 595 S.W.2d at 508.

²⁰ E.g., **Schalk v. State**, 823 S.W.2d 633 (Tex.Crim.App. 1991) (employer's disclosure of trade secrets to employee pursuant to nondisclosure agreement created fiduciary duty in employee); **Hyde**, 314 S.W.2d at 769 (licensor's disclosure of trade secret to licensee created confidential relationship as matter of law); **American Precision Vibrator Co. v. National Air Vibrator Co.**, 764 S.W.2d 274 (Tex.Ct.App. 1988) (employee's disclosure of trade secret violated fiduciary duty); **Elcor Chem. Corp. v. Agri-Sul, Inc.**, 494 S.W.2d 204, 211-12 (Tex.Civ.App. 1973) (quoting **E.I. DuPont de Nemours Powder Co. v. Masland**, 244 U.S. 100 (1917)).

²¹ SCL cites **O'Shea v. Coronado Transmission Co.**, 656 S.W.2d 557 (Tex.Ct.App. 1983), and **Thomson v. Norton**, 604 S.W.2d 473 (Tex.Civ.App. 1980), for the proposition that only longstanding informal relationships may entail fiduciary duties. We find this reading unpersuasive. Business relationships, such as **O'Shea** and **Thomson** involved, entail only that ordinary degree of trust and confidence which under Texas law will not alone give rise to fiduciary duty. Trade secret entrustment, however, clearly involves more. Thus, we view **O'Shea** and **Thomson** as applications -- not controlling in this case -- of the more general rule that relationships involve fiduciary duty only where entrustment by one party gives rise to a justifiable expectation that the other will act in his interest.

obligation.²²

SCL's suggestion that exposure to the public of the gold-based lotion concept excused their confidentiality obligation misses the mark: clearly, the parties intended protection of the Aurum formula, rather than the broader concept. Further, although patenting the Aurum formula may well have constituted public disclosure under section 2.02(c) of the agreement, SCL violated its confidentiality obligation months before issuance of the patent. The plain language of section 2.02(c) -- permitting an exception for information "which hereafter becomes generally known to the public through no fault of [SCL]" -- indicates no intent to relieve SCL of liability for violations occurring before public disclosure.²³ This argument founders.

4. Trademark Infringement

SCL, Whitner, and WSI claim error in the verdicts directed against them for trademark infringement.²⁴ In support of this

²² Section 2.02, in relevant part, provides "[SCL]'s obligation to maintain the confidentiality of AIM America's Confidential Information shall not apply to information (a) which was known to [SCL], as evidenced by written records, prior to [SCL]'s receipt of the disclosure; or (b) which was generally known to the public at the time of [SCL]'s receipt of the disclosure; or (c) which hereafter becomes generally known to the public through no fault of [SCL]."

²³ See Reilly v. Rangers Management, Inc., 727 S.W.2d 527 (Tex. 1987) (construing court should give contract language its plain grammatical meaning unless it definitely appears that doing so would defeat parties' intention).

²⁴ NAS also purports to raise this challenge. However, the district court did not direct a verdict against NAS on the trademark infringement claim.

argument, however, they fail to invite our attention to relevant authority or portions of the record. As such, their argument fails to demonstrate error in the district court's ruling.

5. Jury Instructions

SCL, Whitner, WSI, and NAS claim unfairness in the instructions and verdict form. Whitner, WSI, and NAS claim that the instructions improperly failed to require their access to trade secrets as a prerequisite to liability for trade secret misappropriation. All defendants claim that the trial court provided a confusing jury charge and verdict form improperly suggesting punitive damage liability and failing clearly to delineate the issues for determination. All defendants further challenge the correctness of the jury instructions concerning punitive damage awards. District courts enjoy broad discretion in formulating jury instructions provided the instructions are fundamentally accurate and not misleading.²⁵ Technical imperfections in jury instructions provide no basis for reversal as long as they are correct when viewed as a whole. Review of the jury instructions in this case convinces that they clearly meet this standard. Appellants' contrary contentions lack merit.

6. Attorneys' Fees

Finally, all defendants challenge the award of attorneys' fees. The court *a` quo* awarded attorneys' fees under two

²⁵ **Harrison v. Otis Elevator, Inc.**, 935 F.2d 714 (5th Cir. 1991).

exceptions to the American Rule: section 35(a) of the Lanham Act,²⁶ and its inherent authority to award fees in view of bad faith conduct.²⁷ We review such awards only for abuse of discretion,²⁸ testing underlying fact findings against a clearly erroneous standard.²⁹ Without citing authority or inviting our attention to relevant portions of the record, the defendants argue that they neither engaged in willful trademark infringement nor acted in bad faith. The defendants have failed to demonstrate error in the district court's award of attorneys' fees.

The judgment of the district court is AFFIRMED.

²⁶ That statute provides "The court in exceptional cases may award reasonable attorney fees to the prevailing party." 15 U.S.C. § 1117(a).

²⁷ **NASCO, Inc. v. Calcasieu Television & Radio, Inc.**, 894 F.2d 696 (5th Cir. 1990), aff'd, 111 S.Ct. 2123 (1991).

²⁸ **Taco Cabana** (under 15 U.S.C. § 1117(a)); **Schwarz v. Folloder**, 767 F.2d 125 (5th Cir. 1985) (award under "bad faith" exception to American Rule).

²⁹ **CJC Holdings, Inc. v. Wright & Lato, Inc.**, 979 F.2d 60 (5th Cir. 1992)1; Fed.R.Civ.P.52(a).