DEFENDANTS' USE OF DOMAIN NAMES VERY SIMILAR TO PLAINTIFF'S STATED CAUSES OF ACTION FOR UNFAIR COMPETITION AND CYBERSQUATTING (FOURTH DEPT).

The Fourth Department determined plaintiff had stated causes of action for unfair competition and cybersquatting by using domain names similar to plaintiff's:

> … [D[efendants … operate a website accessed at idealyou.com. In 2016, … plaintiff…, established a competing business that operates a website accessed at idealbuff.com. …
>
> … [O]n the day plaintiff opened her business, defendants purchased two domain names, idealbuf.com and idealbuffalo.com, and redirected all web traffic from those addresses to idealyou.com. …
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> … As relevant to the cause of action for unfair competition, the statute prohibits using "any word, term, name, symbol, or device . . . or any false designation of origin . . . which . . . is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association . . . as to the origin, sponsorship, or approval of . . . goods, services, or commercial activities by another person" … . We agree with plaintiff that, accepting the allegations in the third-party complaint as true … defendants' use of the idealbuf.com and idealbuffalo.com domain names could be misleading and thus constitute unfair competition under the statute … . …
>
> "To successfully assert a claim [for cybersquatting], a plaintiff must demonstrate that[:] (1) its marks were distinctive at the time the domain name was registered; (2) the infringing domain names complained of are identical to or confusingly similar to the plaintiff's mark; and (3) that the defendant has a bad faith intent to profit from that mark" … . The Ideal You Weight Loss Ctr., LLC v Zillioux, 2019 NY Slip Op 05900, Fourth Dept 7-31-19

JUDGE SHOULD NOT HAVE, SUA SPONTE, GRANTED A PRELIMINARY INJUNCTION IN THIS TRADEMARK INFRINGEMENT CASE, CORPORATE OFFICERS PROPERLY SUED IN THEIR INDIVIDUAL CAPACITIES (SECOND DEPT).

The Second Department, modifying Supreme Court, determined that defendants' motion to dismiss the trademark infringement, trademark dilution and unfair competition causes of action was properly denied. The court noted that the complaint properly alleged torts by defendants in their individual capacities without alleging facts supporting piercing the corporate veil. The Second Department held that the judge, sua sponte, should not have granted the preliminary injunction:

> " [P]reliminary injunctive relief is a drastic remedy which will not be granted unless a clear right thereto is established under the law and the undisputed facts upon the moving papers, and the burden of showing an undisputed right rests upon the movant'" … . "As a general rule, the decision to grant or deny a preliminary injunction lies within the sound discretion of the Supreme Court" … . "In exercising that discretion, the Supreme Court must determine if the moving party has established: (1) a likelihood of success on the merits, (2) irreparable harm in the absence of an injunction, and (3) a balance of the equities in favor of the injunction" … . " [A]bsent extraordinary circumstances, a preliminary injunction will not issue where to do so would grant the movant the ultimate relief to which he or she would be entitled in a final judgment'" … .
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> The plaintiff did not request a preliminary injunction … [T]he record in this case lacks evidence establishing, among other things, irreparable harm or extraordinary circumstances warranting a preliminary injunction that would, in effect, depart from the status quo and grant the plaintiff its ultimate relief … . The evidence at this stage further fails to demonstrate that the plaintiff possesses a likelihood of success on the merits … . The court therefore improvidently exercised its discretion in sua sponte awarding preliminary injunctive relief to the plaintiff. Emanuel Mizrahi, DDS, P.C. v Angela Andretta, DMD, P.C., 2019 NY Slip Op 02315, Second Dept 3-27-19

IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP).

The Court of Appeals, in a full-fledged opinion by Judge Feinman, over an extensive three-judge dissenting opinion, determined that the “cost avoidance” measure of damages should not be applied in this misappropriation of trade secrets, unfair competition and unjust enrichment action. Plaintiff proved at trial that former employees defected to defendant rival company, bringing trade secrets with them. Plaintiff’s only proof of damages was its expert’s opinion about how much it would have cost the rival company to develop the product without the misappropriated trade secrets (“avoided costs”):

> … [T]he measure of damages in a trade secret action must be designed, as nearly as possible, to restore the plaintiff to the position it would have been in but for the infringement. Whether those losses are measured by the defendant’s profits, revenues, cost savings or any other measure of unjust gain, there is “no presumption of law or of fact” that such a figure will adequately approximate the losses incurred by the plaintiff … . A plaintiff therefore may not elect to measure its damages by the defendant’s avoided costs in lieu of its own losses. * * *
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> … [D]amages in trade secret actions must be measured by the losses incurred by the plaintiff, and … damages may not be based on the infringer’s avoided development costs. * * *
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> … .[W]here a defendant saves, through its unlawful activities, costs and expenses that otherwise would have been payable to third parties, those avoided third-party payments do not constitute funds held by the defendant “at the expense of” the plaintiff. Therefore, a plaintiff bringing an unjust enrichment action may not recover as compensatory damages the costs that the defendant avoided due to its unlawful activity in lieu of the plaintiff’s own losses. E.J. Brooks Co. v Cambridge Sec. Seals, 2018 NY Slip Op 03171, CtApp 5-3-18

CORPORATION LAW (MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT, IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP))/TRADE SECRETS (MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT, IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP))/UNFAIR COMPETITION (MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT, IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP))/UNJUST ENRICHMENT (MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT, IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP))/DAMAGES (AVOIDED COSTS, (MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT, IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP))/AVOIDED COSTS (DAMAGES, MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT, IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP))/INTELLECTUAL PROPERTY (MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT, IN THIS MISAPPROPRIATION OF TRADE SECRETS, UNFAIR COMPETITION, UNJUST ENRICHMENT ACTION, DAMAGES CANNOT BE MEASURED BY THE DEVELOPMENT COSTS AVOIDED BY THE COMPANY WHICH MISAPPROPRIATED THE TRADE SECRETS (CT APP))

Tortious Interference with Contract and Unfair Competition Causes of Action Proven-Elements Explained—Punitive Damages Not Warranted-Purpose Explained

The First Department, in a full-fledged opinion by Justice Sweeney, determined that the trial judge (bench trial) properly found that JC Penney (JCP) had tortiously interfered with the exclusivity provision of a contract between Macy’s and Martha Stewart Living Omnimedia (MSLO), but that the trial judge had improperly dismissed the cause of action alleging tortious interference with the confidentiality provision of the contract and the cause of action for unfair competition. The First Department agreed with the trial judge that punitive damages were not warranted. Macy’s had entered a contract with MSLO which gave Macy’s the exclusive right to manufacture and sell MSLO products. JCP was found to have knowingly and forcefully engaged in negotiations with MSLO which resulted in MSLO’s breaching both the exclusivity and confidentiality provisions of the Macy’s contract:

> To sustain its claim of tortious interference with contract, Macy’s must prove (1) that it had a valid contract with MSLO; (2) that JCP had knowledge of Macy’s contract with MSLO; (3) that JCP intentionally induced MSLO to breach its contract with Macy’s; (4) that MSLO breached its contract with Macy’s; (5) that MSLO would not have breached its contract with Macy’s absent JCP’s conduct; and (6) that Macy’s sustained damages … .
>
> * * * On the record before us, the evidence establishes that JCP had, as the court found, a “certainty” or “substantial certainty” that it actions would result in a breach, particularly in light of the unambiguous language of the contract requirement that all MSLO goods in the Exclusive Product Categories, including all such goods sold in any MSLO Store, had to be manufactured by Macy’s. * * *

… Macy's alleges that JCP induced MSLO to disclose the terms of its agreement and confidential financial information. This was a violation of the confidentiality provision of the agreement. Macy's sufficiently demonstrated that the material disclosed does not fall under any exception to the confidentiality provisions as required by law or legal processes. Further, Macy's demonstrated that the scope of disclosure was not properly limited with respect to the information provided and the personnel receiving it. As noted, JCP sought this information almost from the inception of its discussion with MSLO. The information was tantamount to trade secrets, as JCP's executives acknowledged. * * *

It is well settled that "the primary concern in unfair competition is the protection of a business from another's misappropriation of the business' organization [or its] expenditure of labor, skill, and money'" (Ruder & Finn v Seaboard Sur. Co., 52 NY2d 663, 671 [1981]…). Indeed, "the principle of misappropriation of another's commercial advantage [is] a cornerstone of the tort" (52 NY2d at 671). Allegations of a "bad faith misappropriation of a commercial advantage belonging to another by exploitation of proprietary information" can give rise to a cause of action for unfair competition … .

Here, the agreement between Macy's and MSLO provided Macy's with valuable exclusive rights to the Martha Stewart trademark and MSLO's designs in the Exclusive Product Categories, which, as the court found, gave Macy's a competitive advantage. It is conceded that the MSLO brand had significant value in the retail world, and the record shows JCP was fully aware of Macy's commercial advantage as the exclusive distributor of these branded products. JCP's actions in attempting to misappropriate this commercial advantage by inducing MSLO to breach its agreement falls squarely within Ruder and Finn's definition of unfair competition … . * * *

…In order to be entitled to punitive damages, a private litigant "must not only demonstrate egregious tortious conduct by which he or she was aggrieved, but also that such conduct was part of a pattern of similar conduct directed at the public generally … . Punitive damages are "a social exemplary remedy, not a private compensatory remedy" Macy's Inc v Martha Stewart Living Omnimedia Inc, 2015 NY Slip Op 01728, 1st Dept 2-26-15

Elements of Civil Antitrust Action Under the General Business Law (Donnelly Act) Explained; Corporate Officers Can Be Individually Liable

The Fourth Department determined there were questions of fact re: the civil antitrust action and the related individual liability of corporate officers:

… [T]he court erred in granting those parts of defendants' motions for summary judgment dismissing the fourth cause of action against them, alleging unfair competition and restraint of trade in violation of General Business Law § 340 (1) (hereafter, Donnelly Act), and we therefore modify the judgment accordingly. … "A party asserting a violation of the Donnelly Act is required to (1) identify the relevant product market; (2) describe the nature and effects of the purported conspiracy; (3) allege how the economic impact of that conspiracy is to restrain trade in the market in question; and (4) show a conspiracy or reciprocal relationship between two or more entities" … . The Court of Appeals has recognized, however, "that neither the Donnelly Act nor the Sherman Act, after which it was modeled, has been interpreted as prohibiting every agreement that has the effect of restraining trade, no matter how minimal. Instead, as construed by State and Federal courts, the antitrust laws prohibit only unreasonable' restraints on trade" … . * * *

"[C]orporate officer[s] can also be held liable in civil antitrust actions" under the Donnelly Act, and there are triable issues of fact regarding their participation in the alleged corporate antitrust violations … . Radon Corp of Am Inc v National Radon Safety Bd. 2015 NY Slip Op 01365, 4th Dept 2-13-15

Conclusory Allegations of Customer Confusion Insufficient to Defeat Motion for Summary Judgment

In reversing the motion court's grant of summary judgment to the plaintiff in an unfair competition action, the Fourth Department determined that conclusory allegations of customer confusion or mistake in plaintiff's affidavit were not sufficient, and the exhibits attached to the affidavit to demonstrate customer confusion were not admissible under the business records exception to the hearsay rule (insufficient foundation). **KG2, LLC … v Weller…, CA 12-01225, 338, 4th Dept. 4-26-13**

Duty to Defend Broader than Duty to Indemnify.

The Second Department applied the rule that an insurer's duty to defend under a policy is broader than its duty to indemnify. Because the language of the policy was broad enough to cover the cause of action for unfair competition, the insurer was obligated to defend, in spite of the fact that the related breach of contract cause of action was excluded from coverage under the terms of the policy. Natural Organics, Inc v OneBeacon America Insurance Co., 2011-03268, 2011-05298, Index No. 12763/10 Second Dept. 1-16-13