

United States District Court
EASTERN DISTRICT OF TEXAS
SHERMAN DIVISION

NORTH AMERICAN DEER REGISTRY, INC.	§ §	
v.	§	Civil Action No. 4:17-CV-00062
	§	Judge Mazzant
DNA SOLUTIONS, INC.	§ §	

MEMORANDUM OPINION AND ORDER

Pending before the Court is Plaintiff North American Deer Registry, Inc.’s Application for Preliminary Injunction (Dkt. #17). After reviewing the relevant pleading, motions, and evidence received at hearing, the Court finds the motion should be granted.

BACKGROUND

The deer breeding industry is a potentially lucrative industry with single straws of buck semen selling for \$5,000 to \$20,000 on average, and ranging all the way up to \$1 million to purchase the entire buck. Many deer are sold through auctions. Auction houses require a deer either to be registered, or if it is a fawn, to have a registration pending.

Breeders belong to several different deer associations nationwide. Before 2007, each association had its own registry. In particular, the Texas Deer Association and North American Deer Farmers Association (the “Associations”) had their own registries. Under this system, information about a deer’s lineage was often spread across several registries. If a breeder needed information about a deer from a different state or association, the breeder would have to join that registry. This increased the overhead cost of the breeder, as well as lowered the price of a deer. Deer prices suffered because lineage verification required substantial work and was of questionable reliability.

In 2007, the Associations joined forces to create the North American Deer Registry, Inc. (“NADR”). NADR is comprised of five board members from each of the Associations plus two board members from a Mexican association. To be a member of the NADR, a breeder only needed to be a member of either the Texas Deer Association or the North American Deer Farmer’s Association. This allows breeders to gain access to a larger database to confirm lineage, therefore reducing overhead costs.

DNA Solutions, Inc. (“DNAS”) began performing DNA lineage verification in 2000 when both Associations employed DNAS. DNAS hosted a registry for each Association that performed DNA testing and confirmed lineage for the deer profiles therein. Each registry restricted DNAS’s ability to compare lineages only to those deer within the respective registry.

DNAS’s service can be broken down in two steps. First, DNAS performs a DNA analysis wherein DNAS creates a genetic profile of the deer. This profile is comprised of various DNA markers known to the public. The second step uses DNAS’s proprietary system to interpret DNA markers and compare them to other deer related in the first-degree. From DNAS’s proprietary system, they are able to create or verify the lineage of each deer sample.

In 2007, NADR hired DNAS to host its registry (the “Registry”). The contract required DNAS to process deer genetic information, perform matching services, and host a database for NADR’s information, which would be accessible online. As part of the agreement, DNAS agreed to preserve the confidentiality of NADR’s information and to return such information upon termination of DNAS’s services. Also under this agreement, DNAS performed most of the client outreach for NADR and DNAS accepted samples directly at its office in Oklahoma City.

In 2013, NADR reduced DNAS’s role in their relationship. The 2013 contract eliminated DNAS’s role in administration and client outreach. Under this agreement, clients sent samples to

NADR in Edmond, Oklahoma, rather than to DNAS. As part of NADR's new client outreach role, clients were directed to call NADR directly with questions or concerns. NADR forwarded the question to DNAS, who answered NADR, and finally NADR would inform the client. Debra Lyon ("Lyon") and Dr. Brandt Cassidy ("Cassidy") testified for DNAS that the switch in 2013 caused some confusion with customers who did not understand the evolving relationship between NADR and DNAS.

The parties further revised their agreement in 2014 (the "Contract"). The Contract terminated by its terms on January 1, 2017.

Under the Contract, NADR retained ownership of all biological materials, genetic information, genotype analysis data, membership directory, and any other information provided by NADR. DNAS, on the other hand, retained ownership of any code it created because of running the registry. DNAS agreed to keep confidential the content of the registry or any other information it received from NADR in the performance of the Contract or in its prior dealings with NADR. DNAS further agreed that, upon termination of the Contract, it would return all information provided by NADR.

On January 27, 2017, NADR filed a complaint, alleging unfair competition under the Lanham Act, misappropriation of trade secrets, constructive trust, unjust enrichment, and requesting injunctive relief (Dkt. #1). The same day, NADR made a demand for arbitration seeking relief for breach of contract, temporary and permanent injunctions, declaratory judgment, and attorneys' fees (Dkt. #21, Exhibit 2). On February 27, 2017, NADR filed its Application for Preliminary Injunction (Dkt. #17). On March 14, 2017, DNAS filed a response (Dkt. #21). On March 21, 2017, NADR filed a reply (Dkt. #23). On March 28, 2017, DNAS filed

a sur-reply (Dkt. #26). On May 17 and 18, the Court held an evidentiary hearing on NADR's application.

LEGAL STANDARD

A party seeking a preliminary injunction must establish the following elements: (1) a substantial likelihood of success on the merits; (2) a substantial threat plaintiffs will suffer irreparable harm if the injunction is not granted; (3) the threatened injury outweighs any damage the injunction might cause the defendant; and (4) the injunction will not disserve the public interest. *Nichols v. Alcatel USA, Inc.*, 532 F.3d 364, 372 (5th Cir. 2008). "A preliminary injunction is an extraordinary remedy and should only be granted if the plaintiffs have clearly carried the burden of persuasion on all four requirements." *Id.* Nevertheless, a movant "'is not required to prove its case in full at a preliminary injunction hearing.'" *Fed. Sav. & Loan Ins. Corp. v. Dixon*, 835 F.2d 554, 558 (5th Cir. 1985) (quoting *Univ. of Tex. v. Comenisch*, 451 U.S. 390, 395 (1981)). The decision whether to grant a preliminary injunction lies within the sound discretion of the district court. *Weinberger v. Romero-Barcelo*, 456 U.S. 305, 320 (1982).

ANALYSIS

Before addressing the merits, the Court must assess its jurisdiction to grant injunctive relief. DNAS continues to argue the Court does not have jurisdiction to grant injunctive relief. DNAS argues that injunctive relief is proper for the arbitrator because: (1) the arbitration clause is broad and encompasses injunctive relief; (2) NADR requested injunctive relief in its demand for arbitration; and (3) any determination by the Court will necessarily interfere with the arbitration proceedings.

NADR claims that the Court does have jurisdiction. NADR argues: (1) the arbitration provision is narrow and does not prefer either the Court or arbitrator to order injunctive relief; (2)

the arbitrator could not even order injunctive relief; and (3) the Court may enter injunctive relief in order to preserve the status quo pending arbitration. During closing arguments of the hearing, NADR went even further to argue the Court can order injunctive relief over even the breach of contract claim, which is undisputedly in front of the arbitrator.¹

NADR did not request relief over its breach of contract claim in its application. Therefore, the Court will only address the claims argued in the application: Lanham Act, trade secrets, unjust enrichment, and constructive trust (the “non-contract claims”). Based on the foregoing analysis, the Court finds it has jurisdiction to order injunctive relief over the non-contract claims.

First, the non-contract claims are properly before this Court and are not subject to arbitration. The Court has already entered an order regarding the arbitrability of NADR’s claims (Dkt. #43). The Court found NADR’s claims under the Lanham Act were not subject to arbitration (Dkt. #43 at p. 10). The Court denied DNAS’s motion as to NADR’s trade secret claims, but left open the question of whether the basis for NADR’s claim was so related to the contract that it should be ultimately sent to arbitration (Dkt. #43 at p. 10).

After a hearing, the Court finds NADR’s trade secret claims are not subject to arbitration. NADR developed its trade secret deer profiles, lineages, and member list over several years pre-dating the Contract. NADR is composed of two other associations that have been in existence for many years. The other associations had their own contracts with DNAS beginning in 2000. Since 2000, they have developed deer profiles, lineages, and member lists independently from the Contract. While the Contract will be evidence of protection of the trade secrets and NADR’s entrustment of information to DNAS, it is not dispositive of the entire trade secret history.

¹ At the hearing, NADR mentioned that it withdrew certain requests from the arbitrator’s consideration. The Court did not allow evidence of those claims, however, the Court notes that the claims before the arbitrator are now more limited.

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