SMU | Dedman School of Law

SMU Law Review

Volume 65 | Issue 2 Article 7

January 2012

Business Torts

Charles M. Hosch

Lauren T. Becker

Kimberly E. Hodgman

BUSINESS TORTS

*Charles M. Hosch**
*Lauren T. Becker***
*Kimberly E. Hodgman****

TABLE OF CONTENTS

* Charles M. Hosch is a partner of Strasburger & Price, LLP of Dallas, Texas and co-teaches Trademarks and Business Torts at SMU Dedman School of Law. The views expressed in this article are for purposes of scholarship only and do not necessarily represent the views of the firm or its clients.

** Lauren T. Becker is senior counsel of Strasburger & Price, LLP of Dallas, Texas.

*** Kimberly E. Hodgman is an associate of Strasburger & Price, LLP of Dallas, Texas.

I. INTRODUCTION

THIS Survey period saw further developments and exposed some new and interesting questions in the law of trade secrets, tortious interference, false advertising, and other business torts. It also saw further interpretations of some of the new statutes regulating fair and unfair behavior, especially regarding the use of new technologies. In particular, the Texas law of noncompetition covenants continued its trend toward stricter interpretation and enforcement.

II. NONCOMPETITION COVENANTS

A. STOCK OPTIONS AND THE VANISHING "GIVE RISE" REQUIREMENT

The most significant case in this Survey period, *Marsh USA Inc. v. Cook*, is the latest in a decades-long series of Texas Supreme Court cases construing Subchapter E of the Texas Business and Commerce Code and the covenants against competition to which Subchapter E applies.[1]

The plaintiff, Mr. Cook, was a managing director of Marsh USA Inc. (Marsh), a large insurance brokerage firm for which he had worked since 1983. He was included in the 1992 Employee Incentive and Stock Award Plan and was granted stock options in 1996. Before exercising them, however, he had to sign a non-solicitation agreement which contained a covenant not to compete. Mr. Cook signed the agreement in 2005 and exercised the stock options, but he left Marsh in 2007 and went to work for one of its competitors. When Marsh sued to enforce the noncompetition covenant, Mr. Cook claimed it was unenforceable because it was signed in return for stock options, and stock options in and of themselves did not "give rise" to the need for a noncompetition covenant from him.

In Texas, noncompetition covenants are governed by sections 15.50–.52 of the Texas Business & Commerce Code. The principal requirement is found in section 15.50(a), which provides in part that:

> A covenant not to compete is enforceable if it is ancillary to or part of an otherwise enforceable agreement at the time the agreement is made to the extent that it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable

1. Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011). Subchapter E, titled "Covenants Not to Compete," is codified at TEX. BUS. & COM. CODE §§ 15.50–.52.

> and do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promisee.[2]

The terms "ancillary to or part of," "an otherwise enforceable agreement," and "at the time the agreement is made" have all been heavily disputed and litigated.[3] Until *Marsh*, it was generally understood that the phrase "ancillary to or part of," considered in light of the consideration the promisor was to receive in return for the noncompetition covenant, meant that the promisee needed to extend consideration of a type and quality that would only be (or best be) protected by the promisor staying out of the field in a given area altogether for a period of time—in other words, that the type of consideration being given by the employer would "give rise" to the need for a noncompetition covenant.[4] A corollary of this principle was that the noncompetition covenant should be designed to enforce that promise.[5]

Entrustment with trade secrets, specialized training, introductions and exposure to a company's customers and goodwill, and similar intangible benefits have been examples of consideration which might be considered to "give rise" to an employer's need for a noncompetition covenant. Each of these is intangible and not very fungible, and their value and consequent damages could be hard to quantify if they were misused. Thus, covenants in which employees promise, in effect, to stay out of temptation's reach altogether for awhile could be seen as necessary and appropriate ways to protect them—in a way that giving those employees a fistful of extra cash, for instance, could not. Giving an employee an extra amount of cash, for no other reason than to keep that employee from competing with his or her employer, seems closer to a naked restraint of trade as prohibited under Texas Business & Commercial Code section 15.05.

Marsh USA Inc. v. Cook involved neither extreme, but something in the middle: stock options, which are not themselves intangible trade secrets and the like, but are not simply cash either.[6] Mr. Cook urged that they were much closer to simply cash, and, hence, his former employer's tender of them did not "give rise" to a legitimate need for a noncompetition covenant in return. The supreme court disagreed, reasoning—if not altogether persuasively—that stock options are more than simply cash because they are closely tied to an employer's goodwill.[7]

The supreme court might have stopped at that relatively narrow holding and let it go at that, but the supreme court continued, concluding that

---

2. TEX. BUS. & COM. CODE ANN. § 15.50(a) (West 2011).

3. *See, e.g.*, Mann Frankfort Stein & Lipp Advisors, Inc. v. Fielding, 289 S.W.3d 844, 848–49 (Tex. 2009) (construing "at the time the agreement is made"); Alex Sheshunoff Mgmt. Servs., L.P. v. Johnson, 209 S.W.3d 644, 648–55 (Tex. 2006) (construing "an otherwise enforceable agreement").

4. *Johnson*, 209 S.W.3d at 648–49.

5. Light v. Centel Cellular Co. of Tex., 883 S.W.2d 642, 647–48 (Tex. 1994).

6. *Marsh*, 354 S.W.3d at 766.

7. *Id.* at 777–78.

the statute does not actually impose a "give rise" requirement after all.[8] Certainly the words "give rise" do not appear in the statute, and, applying basic principles of statutory construction that make a statute's words the first place to look in determining legislative intent, the supreme court found no indication the legislature intended to include a "give rise" requirement and disavowed any on its own.[9]

To a great extent, this holding reflects a considerable shift over the years, less of the legislature than of the Texas Supreme Court. From the mid- to late-1980s the Texas Supreme Court seemed overtly hostile to noncompetition covenants, while the legislature enacted and revised the statute specifically to override some of the court's rulings. By the mid-1990s, however, the supreme court seemed to be searching for a complex middle ground that was respectful of the statute yet demanding of noncompetition covenant promises. In the 2000s, the supreme court generally seems at least to support the idea of noncompetition covenants in principle, in some ways coming full circle back to the *Weatherford* decision of 1960 which established in Texas the reasonableness standard as to time, scope, and geographic area.[10] This acceptance of noncompetition covenants represents a significant policy choice on the part of the Texas legislature, and one not shared by legislatures as disparate as those of California and Alabama—both of which disavow postemployment noncompetition covenants altogether, except in limited circumstances.[11]

For now, we may expect to see a rise in stock-option grants in hopes of furthering the enforceability of post-employment noncompetition covenants, though that may be tempered by the astute businessperson's awareness that stock is easy to grant and hard to get back. In the absence of a "give rise" requirement, the phrase "ancillary to or part of" is also likely to need further examination. It is likely, too, that the noncompetition battleground may now shift from argument over statutory construction to fact-based disputes over what is a reasonable and fair balance in particular cases. More deeply, however, the fact that states as culturally different from each other as California and Alabama agree on and share, as a matter of fundamental public policy, a strong distaste for postemployment noncompetition covenants suggests that instead of being "baffled" by "reluctance to enforce [them]," Texas courts might find there is something to learn.

B. GROOMING CASES: PART I

The Dallas Court of Appeals case of *Jon Scott Salon, Inc. v. Garcia* reminds us that employees who have at-will status can still be subject to noncompete and non-solicitation agreements.[12] Appellees Garcia and

8. *Id.* at 773–76.
9. *Id.* at 778–79.
10. *See generally*, Weatherford Oil Tool Co. v. Campbell, 340 S.W.2d 950 (Tex. 1960).
11. *See* ALA. CODE § 8-1-1; CAL. BUS. & PROF. CODE § 16600 (West 2011).
12. Jon Scott Salon, Inc. v. Garcia, 343 S.W.3d 532 (Tex. App.—Dallas 2011, no pet.).

Gresham were cosmetologists at the Jon Scott salon.[13] They both signed employment agreements that included nondisclosure agreements and nonsolicitation covenants whereby they agreed that they would not directly or indirectly market their services to the salon's customers within a ten-mile radius for one year after termination of their employment.[14] They also acknowledged in writing that the salon would provide them with opportunities and resources to develop contacts and goodwill, and, in turn, they would refrain from benefiting from using that goodwill for the benefit of any person or entity other than the salon. The salon then provided them with training manuals, marketing programs, and customer information. Garcia and Gresham resigned from the salon in April 2010 and immediately opened their own salon within the prohibited ten-mile radius.[15] The salon alleged that it began to experience large amounts of no-show appointments and cancellations from clients with whom Garcia and Gresham had worked.

The salon filed suit for breach of contract, misappropriation of trade secrets, theft, conversion and breach of fiduciary duty.[16] The trial court granted a temporary restraining order, but, at the temporary injunction hearing that followed, the court interrupted witness testimony and denied the salon's request for an injunction as a matter of law.[17] The court determined that the covenants at issue in the contract were not enforceable because the contracts were for "at-will" employment and, therefore, the covenant was not ancillary to or part of an otherwise enforceable agreement as required by the Covenants Not to Compete Act of section 15.50(a) of the Texas Business and Commerce Code (the "Act").[18]

The salon filed an interlocutory appeal claiming the trial court misapplied the law.[19] The appeals court agreed. Citing the Texas Supreme Court case *Sheshunoff Management Services, L.P. v. Johnson*, the court reasoned that the Act did not require the non-compete or non-solicitation agreement to be enforceable at the time the agreement is made.[20] The agreement becomes enforceable based on performance. Once the employer fulfills the promise to provide confidential information, the contract can support the restrictive covenants.[21] The fact that they are contained in an at-will employment agreement does not, as a matter of law, make them unenforceable. The case was then remanded to the trial court for further consideration.[22]

As a matter of historical interest, noncompete historians will recall that barbering was among the "common callings" of which the Texas Supreme

13. *Id.* at 533.
14. *Id.*
15. *Id.*
16. *Id.*
17. *Id.* at 533–34.
18. *Id.* at 534.
19. *Id.*
20. *Id.* at 535.
21. *Id.*
22. *Id.*

Court refused to enforce noncompetition covenants in the 1980s following the *Hill v. Mobile Auto Trim, Inc.* decision, which announced the "common calling" doctrine.[23]

C. Grooming Cases: Part II

Times change, and "grooming" is evidently now a subject of hard dispute. In another case involving the grooming industry—this time for dogs—the Waco Court of Appeals continued the 2011 trend of expanding the enforceability of non-competition covenants. In *Salas v. Chris Christensen Systems, Inc.*, Christensen was in the business of manufacturing and distributing "high quality dog grooming products."[24] Christensen hired Salas, a dog handler and groomer, to be its vice president of sales. Salas signed a noncompete and confidentiality agreement with his new employer. Christensen provided Salas with training about what it regarded as its unique system, and about other trade secrets, including customer and distributor lists and ingredients and manufacturing methods for its products.[25] According to the agreement, Salas agreed that, for a period of five years, he would refrain from "endeavor[ing] to entice away from [Christensen] any client or account, with whom [Salas] had direct contact . . . [for any] entity, whatsoever, which is or intends to be engaged in providing or manufacturing pet supplies and related products."[26] The agreement did not contain an express geographic limitation.

After a little more than a year, Salas resigned from the company and contacted Christensen's main competitor to hire him.[27] He began promoting the competitor's products using Christensen's confidential information and induced two of Christensen's principal distributors to drop Christensen's products in favor of the competitor's. Christensen filed suit against Salas, alleging breach of contract, misappropriation of trade secrets, and tortious interference.[28]

On a restricted appeal, Salas argued that the lack of geographic limitation made the non-competition covenant unenforceable.[29] The appeals court rejected Salas' argument. The court held that while a covenant not to compete with a broad or no geographic scope is unenforceable, the covenant may nonetheless be enforceable if it contains a substitute restriction—for example, limiting the agreement to a particular client base.[30] The court held that Salas's agreement was limited to "entities which are or intend to be 'engaged in providing and manufacturing pet

23. Hill v. Mobile Auto Trim, Inc., 725 S.W.2d 168, 172 (Tex. 1987). *See* Bergman v. Norris of Houston, 734 S.W.2d 673, 674 (Tex. 1987) (barbering a "commission calling").

24. Salas v. Chris Christensen Sys., Inc., No. 10-11-00107-CV, 2011 WL 4089999, at *1 (Tex. App.—Waco Sept. 14, 2011, no pet.) (mem. op.).

25. *Id.*

26. *Id.*

27. *Id.* at *2.

28. *Id.*

29. *Id.* at *19.

30. *Id.*

supplies and related products manufactured and distributed by [Christensen],'" and that restriction was an acceptable substitute for a geographic limitation. The court went on to reason that, even if the lack of geographic limitation caused the agreement to be problematic, Salas had obtained trade secrets and confidential information from Christensen that were used to induce customers to discontinue business with Christensen. Even without a non-competition agreement, Salas was still restricted from using that information to compete with Christensen.[31]

Interestingly, the court did not address whether a five-year restriction would be unreasonably long.

III. TORTIOUS INTERFERENCE

A. Loose Lips Sink Cases

Downing v. Burns[32] is a reminder of two important lessons to an employer: (1) take appropriate measures to protect confidential information or risk losing trade secret protection and (2) be careful with what you say about a former employee, even if you believe what you are saying is true.

In this case, Ms. Downing resigned from her job as an assistant to Mr. Burns, a real estate broker.[33] After she resigned, Burns's attorney sent her a demand letter accusing her of copying documents containing Burns's confidential and proprietary information.[34] Ms. Downing admitted she had copied four pages from the company's policies and procedures manual, but otherwise denied the accusations. Ms. Downing went on to find another job, but Burns and his wife began telling people that Downing had stolen their manual and threatened to sue any company that hired her. Later they added that she had stolen checks from the Burns brokerage.[35] Threatened by the risk of being sued by Burns, Downing's new employer fired her from her job.[36] Downing sued Mr. and Mrs. Burns for tortious interference and slander.[37] Mr. and Mrs. Burns asserted affirmative defenses of justification and qualified privilege and counterclaimed against Ms. Downing for misappropriation of trade secrets.[38]

At trial, the jury found in favor of Downing, and the Houston Court of Appeals agreed.[39] The appellate court reasoned that the pages copied from the policies and procedures manual did not contain any of the Burns company's trade secrets because the employer did not take measures to

31. *Id.*
32. Downing v. Burns, 348 S.W.3d 415 (Tex. App.—Houston [14th Dist.] 2011, no pet.).
33. *Id.* at 418.
34. *Id.* at 419.
35. *Id.* at 420.
36. *Id.* at 419.
37. *Id.* at 420.
38. *Id.*
39. *Id.*

maintain the secrecy of the manual.[40] The employer never communicated that the manual was confidential; it was not marked "confidential," and Downing was never asked to sign any confidentiality agreement.[41] Perhaps the most important factor was that apart from some passwords contained in the manual, the information contained in the manual was generally known in the industry.[42] The court held that Mr. and Mrs. Burns slandered Downing and tortiously interfered with her subsequent employment, even though there may have been truth to their claim that she took documents from the company, for there was no basis for Mr. and Mrs. Burns's claim that she had stolen checks and that accusation of theft was defamatory per se.[43]

B. KNOWLEDGE IS POWER. IT IS ALSO A NECESSARY ELEMENT

Tortious interference is an intentional tort, meaning that the defendant must know of an existing contract before it can be held liable for interfering with it. *Hino Electric Holding Co., L.P. v. Constellation Newengery, Inc.*[44] reminds us that a court can direct a verdict in favor of defendants in a tortious interference claim when it finds no evidence that the defendants had "knowledge" of a current contract.

In *Hino Electric*, the City of Harlingen had a Master Agreement with Hino to supply energy and agreed to extend it.[45] The extension, called the "Blend and Extend" contract, reduced the prices for the remaining months of the Master Agreement term and locked in that rate for 2007. Energy prices dropped in general, however, and the City asked Hino to renegotiate the Blend and Extend contract, saying otherwise it would opt out of the contract altogether. The City also asked a procurement consultant to obtain bids for the next year's energy contract (the same term as the Blend and Extend contract).[46] After the City voted to opt out of the Blend and Extend contract, it entered into a new contract with a different energy supplier for 2007, let its 2006 Master Agreement contract run out, and paid for energy under that contract's price rather than the more favorable rates of the Blend and Extend contract.[47]

Hino, insisting that the City could not opt out of its Blend and Extend contract, brought a tortious interference claim against the suppliers who had responded to bid requests for the 2007 term.[48] The court directed verdict for these suppliers, however, because there was no evidence that they had the intent and knowledge to interfere with Hino's contract.

---

40. *Id.* at 422–23.
41. *Id.* at 423.
42. *Id.*
43. *Id.* at 424–26.
44. Hino Electric Holding Co., L.P. v. Constellation Newenergy, Inc., No. 13-09-00657-CV, 2011 WL 1935616, at *1 (Tex. App.—Corpus Christi May 19, 2011, no pet.) (mem. op.).
45. *Id.* at *1.
46. *Id.*
47. *Id.* at *1–2.
48. *Id.*

In upholding the directed verdicts, the Corpus Christi Court of Appeals pointed out that it is the custom for government contracts to provide pricing to a customer while that customer is still under a current contract because the understanding is that the customer is requesting pricing for a term after their current contract expires.[49] Hino failed to prove a tortious interference claim because it did not show that either supplier had *intentionally* interfered with its contract with the City.

This situation also illustrates the difficulty of proving knowledge and intent, especially where a prospective customer is asking different vendors for competitive pricing before its current supply contract has expired.

C. Tortious Interference with a Statutory Right?

Tortious interference with contract is well understood in Texas, as is tortious interference with prospective contracts, or "favorable business relationships." There is now some suggestion that tortious interference with a *statutory right* may be redressable as well. This is not certain, however, and if Texas recognizes an interference with a statutory right claim, relief is at least conditioned on proving the defendant intended to interfere.

In *Johnson v. Affiliated Computer Services, Inc.*, the Northern District of Texas dismissed the plaintiff's tortious interference with a statutory right claim against a loan servicer who had declined to discharge the plaintiff's student loans.[50] Johnson claimed his student loans should have been discharged since the loans were obtained through his university's false certification of his application. Under 20 U.S.C. § 1087 it provides that the Secretary will reimburse the holder of a loan and discharge a borrower's loan where a school has falsely certified a borrower's eligibility to receive the loan.[51] Johnson claimed that the loan servicer had tortiously interfered with his statutory right to have his loan discharged by sending him a letter that stated he was obligated to continue payment on his loan, without recognizing that he might be eligible for a loan discharge.[52] In effect, Johnson alleged tortious interference, not with a contract, a prospective contract, or favorable business relationship, but with his *statutory* right to discharge a falsely certified loan.

While the court did not directly recognize that a cause of action for tortious interference with a statutory right is available in Texas, it seemed, at least, to open the door to this cause of action by entertaining the claim and then dismissing it for failing to plead facts sufficient to support the intent element.[53] The court was given the opportunity to state clearly

49. *Id.* at *4–6.

50. Johnson v. Affiliated Computer Servs., Inc., No. 3:10-CV-2333-B, 2011 WL 4011429, at *10 (N.D. Tex. Sept. 9, 2011).

51. 20 U.S.C. § 1087(c)(1) (2012); *see also* 34 C.F.R. § 682.402(e) (2012).

52. *Johnson*, 2011 WL 4011429, at *1.

53. *Id.* at *3–4.

that such a tort is unavailable in Texas, but declined to say so, instead dismissing the claim for failing to meet pleading requirements.[54]

IV. COMPUTER FRAUD AND ABUSE ACT

A. PILING UP DEFENDANTS TO PILE UP DAMAGES

The Computer Fraud and Abuse Act (CFAA), a federal criminal act with a private remedy available in some circumstances, is increasingly being used by private plaintiffs to redress losses caused by fraudulent acts using computers.[55] The civil remedy requires a jurisdictional threshold minimum of $5,000 in loss. Suppose that more than one defendant is involved and no one defendant can be shown to have caused $5,000 in loss, but, when added together, the losses caused by the defendants do total $5,000 in loss. May the losses caused by all the defendants be "added together" to clear the jurisdictional threshold?

In his September 2011 blog post, Shawn Tuma highlights *M-I LLC v. Argus Green LLC*[56] where two different federal courts answered this question in the affirmative: a plaintiff may combine, in a single action, the damages each defendant caused, in order to meet the $5,000 threshold under the CFAA.[57] Accordingly, a plaintiff need not sustain $5,000 worth of loss per each individual defendant.

> In *M-I*, plaintiff M-I, LLC (M-I) brought suit against two former employees, their new business associate, and the limited liability company that the three of them had established.[58] M-I alleged claims for breach of contract, fraud, computer fraud, interference with prospective business relations, and conversion.[59] The defendants sought a dismissal before both the Eastern District of Texas and the Southern District of Texas, claiming that no one defendant could be shown to have caused $5,000 or more in losses; thus, the suit should be dismissed for failing to meet the jurisdictional threshold under the CFAA.[60] According to the defendants, federal jurisdiction over the claim hinged on the plaintiff sustaining a loss of at least $5,000 per *each* defendant. Both courts disagreed and concluded that the plaintiff was allowed to aggregate the total damages caused by *all* of the defendants to meet the $5,000 threshold. Both courts denied the defendants' motion.[61]

---

54. *Id.* at *5.

55. 18 U.S.C. § 1030 (2012).

56. M-I LLC v. Argus Green LLC, No. H-10-cv-03364, 2011 WL 3813286 (S.D. Tex. Aug. 26, 2011).

57. Shawn Tuma, *Is a $5k Loss Required for Each Defendant Under Computer Fraud and Abuse Act?*, COMPUTER DATA PRIVACY LAW BLOG (Sept. 5, 2011, 12:07 PM), http://shawnetuma.com/2011/09/05/is-a-5k-loss-required-for-each-defendant-under-computer-fraud-and-abuse-act/.

58. *M-I*, 2011 WL 3613286, at *1–2.

59. *Id.* at *2.

60. *Id.* at *3.

61. *Id.*

B. *Intentionally* Causing Damage

Devon Energy Corp. v. Westacott "present[ed] an unusual twist to issues that arise all too often when an employee leaves to work for a competitor."[62] Former employees are often accused of having copied data from their former employer's computer system and taken it with them when they leave. In this case, however, Mr. Westacott was accused of having violated the Computer Fraud and Abuse Act (CFAA), among other things, by *deleting* proprietary data from the hard drive of his computer workstation, destroying the only source of a reservoir analysis he had been paid $125,000 to create. Mr. Westacott admitted deleting some files, but insisted they were only his personal files. He vigorously denied destroying anything proprietary, particularly the "only source" of anything. In particular, he denied deleting anything with the intent to harm his former employer.[63]

Devon claimed Westacott had violated section (a)(5)(A) of the CFAA, which provides that anyone who "knowingly causes the transmission of a program, information, code, or command, and as a result of such conduct, *intentionally* causes damage without authorization, to a protected computer" is guilty of a crime.[64] Section 1030(g) allows a private right of action by "[a]ny person who suffers damage or loss by reason of a violation" of the CFAA under certain circumstances, including when the act causes "loss to 1 or more persons during any 1-year period . . . aggregating at least $5,000 in value."[65] But Mr. Westacott claimed not to have had any intent to cause damage. Could he nevertheless be liable?

The court noted that the Fifth Circuit "has not interpreted" the relevant section, but other district courts have.[66] In particular, it noted that other "[c]ourts have held that the CFAA must be construed narrowly, even in civil actions, because the same sections that give rise to civil remedies also give rise to criminal penalties."[67] Here, then, the court drew a clear distinction between the "intent" that was involved in hitting whatever keystrokes Mr. Westacott did and what "intent," if any, he may have had to cause damage. The court followed the example of another district court, which had held in a similar context that "[u]ndoubtedly any copying of plaintiffs' files was deliberate; it is not clear, however, whether in copying the files, the defendant intended to cause damage."[68] Because ample evidence existed to create a genuine issue of material fact on this point, the court denied the plaintiff's motion for summary judgment on

62. Devon Energy Corp. v. Westacott, No. H-09-1689, 2011 WL 1157334, at *1 (S.D. Tex. March 24, 2011).

63. *Id.*

64. 18 U.S.C. § 1030(a)(5)(A) (2012) (emphasis added).

65. 18 U.S.C. § 1030(g) & (c)(4)(A)(i)(I) (2012).

66. *Devon Energy*, 2011 WL 1157334, at *10.

67. *Id.*

68. *Id.* (quoting Oracle Corp. v. SAP AG, 734 F. Supp. 2d 956, 964 (N.D. Cal. 2010)) (internal brackets and quotations omitted).

whether Mr. Westacott had had the requisite intent.[69]

V. COMMON LAW UNFAIR COMPETITION

A. YES, COMMON LAW UNFAIR COMPETITION IS STILL A DERIVATIVE TORT

Recovery under the Texas common law tort of unfair competition requires proof of an independent tort. In *Snapt Inc. v. Ellipse Communications Inc.*, the U.S. Court of Appeals for the Fifth Circuit clarified its position in a "hacking" case where the plaintiff alleged the common law tort but failed to identify the "independent tort that interfered with Snapt's ability to conduct its business."[70]

Snapt asserted that *United States Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc.*[71] altered the court's opinion in *Taylor Publishing Co. v. Jostens, Inc.*,[72] which held that recovery for a Texas common law unfair competition claim required an independent tort.[73] The Fifth Circuit, however, was quick to point out that, not only did *Johnny Stewart Game Calls* predate the opinion in *Taylor Publishing*, but *Taylor Publishing* actually cited *Johnny Stewart Game Calls*.[74] Nothing had changed after all.

VI. FALSE ADVERTISING

A. PATENT "FALSE MARKING": PART I

Remedies for patent infringement are stringent, and, hence, they provide powerful protection against copying. It follows that patent owners will not hesitate in putting the world on notice that their products are protected by patent—in fact, they must provide such notice in order to take full advantage of those remedies. It follows too, however, that there will be those who take unfair competitive advantage of the patent scheme by claiming patent protection where none exists.

The Patent Act has long proscribed "false marking" of products for the purpose of deceiving the public with claims of protection under patents which are expired, invalid, or inapplicable. Until recently, any private party could bring suit for breach of the Patent Act's "false marking" provisions under a *qui tam* process, sharing $500 per falsely-marked product with the federal government.[75] But, in 2009 when the U.S. Court of Appeals for the Federal Circuit determined that the $500 provision would apply *per item* falsely marked, as opposed to per model or grade or type of product falsely marked, it became quickly evident that multiplying

69. *Id.* at *11.
70. Snapt Inc. v. Ellipse Commc'ns Inc., 430 Fed. Appx. 346, 350 (5th Cir. 2011).
71. U.S. Sporting Prods., Inc. v. Johnny Stewart Game Calls, Inc., 865 S.W.2d 214 (Tex. App.—Waco 1993, writ denied).
72. Taylor Publ'g Co. v. Jostens, Inc., 216 F.3d 465, 486 (5th Cir. 2000).
73. *Snapt*, 430 Fed. Appx. at 350–51.
74. *Id.* at 351.
75. 35 U.S.C. §. 292 (2012).

$500 by item sales could lead to gigantic recoveries—especially in situations where a manufacturer had simply neglected to take its patent numbers off a product or its packaging (which would often require new molding) once the patent expired. The predictable result was a minor gold rush of suits, often brought by persons with no particular competitive interest in the result.[76]

The rush came to an abrupt halt, however, with the passage of the Leahy-Smith America Invents Act of 2011.[77] Among its many changes to the Patent Act was a drastic revision of the "false marking" provisions. Now only the federal government has standing to sue for the civil penalty authorized in Section 292 of the Patent Act.[78] A private right of action still exists for false marking—the anticompetitive potential of false marking is no less real than it was before the minor "gold rush" began—but has been sharply cut back; private parties must plead and prove actual competitive injury resulting from the false marking and can only recover compensatory damages.[79] In particular, it is no longer a violation to leave a patent number on a product after the patent has expired, provided that patent did once cover the product.

B. Patent "False Marking": Part II

Lost in the furor over "false marking," a *qui tam* suit is something that no competitor—or consumer for that matter—wants to face in patent litigation if it can be avoided. It remains true that falsely claiming one's own product to be "patented" and warning competitors that producing a similar product—or warning consumers that buying a competitor's similar product—could lead to patent trouble can be an unfair, but highly effective, way of directing sales traffic.

This (and more) was alleged in *VendEver LLC v. Intermatic Manufacturing Ltd.*.[80] VendEver and Intermatic both sell cotton candy vending machines. VendEver alleged that Intermatic falsely advertised its vending machines as being "patented" when its machines only had *pending* patent applications in the United States and Europe and no patent anywhere until August 2010, when a patent was issued in New Zealand.[81] VendEver further claimed Intermatic had printed language on its machines suggesting that it had U.S. and European patents on its machine, had "repeatedly claimed to consumers that Intermatic sells the 'first and only patented cotton candy vending machine,'" and had warned consumers that "they might have a problem if they purchase[d] VendEver's machine." VendEver claimed that these misrepresentations caused

76. *See, e.g.*, Forest Group, Inc. v. Bon Tool Co., 590 F.3d 1295 (Fed. Cir. 2009).
77. Leahy-Smith America Invents Act, H.R. 1249, 112th Cong. (2011) (enacted).
78. *Id.* at § 16(b)(1).
79. *Id.* at § 16(b)(2).
80. VendEver LLC v. Intermatic Mfg. Ltd., No. 3:11-CV-201-B, 2011 WL 4346324 (N.D. Tex. Sept. 16, 2011).
81. *Id.*

VendEver to lose potential sales.[82]

Quite apart from considerations under the Patent Act's *qui tam* provisions for false marking, the court had no trouble concluding that these allegations stated a claim which could be redressed under Section 43(a) of the Lanham Act.[83] The court rejected Intermatic's claim under Fed. R. Civ. P. 12(b)(6) that the numbers printed on the machines were actually true and not misleading because they contained the *serial numbers of the pending patent applications* as opposed to actual patent numbers. The court, thus, declined to apply to this Section 43(a) claim of false advertising the heightened pleading standard of Fed. R. Civ. P. 9(b)—which would have required VendEver to allege who made the statements, when, and which consumers were affected.[84]

C. Common Law False Advertising?

Of particular interest to the court was the fact that, in addition to its Lanham Act claim, VendEver included a count for "common law false advertising" under Texas common law.[85] The court noted that it is unclear whether there is in fact a common law cause of action for false advertising under Texas law.[86] The court reasoned that, in any event, as the movant seeking to dismiss VendEver's motion, it was Intermatic's burden to establish that no such cause of action is recognized in Texas or, at least, that VendEver had not alleged facts sufficient to state a claim under it.[87] Consequently, the court denied Intermatic's motion to dismiss.[88]

The court's point was well taken because there really is no such cause of action as "common law false advertising" in Texas or in many other states. Generally, except in matters of personal defamation, commercial disparagement, palming off, and similar situations, there has been a historic reluctance by courts to recognize a general, common law tort of false advertising, perhaps because of evident difficulties in determining who would have received the sale instead of the defendant.[89] There have been exceptions to this reluctance, such as situations in which there are

82. *Id.* at *1.

83. *Id.* at *4. "Under Section 43(a) of the Lanham Act, a plaintiff must allege that the defendant published '(1) [a] false or misleading statement of fact about a product; (2) [s]uch statement either deceived, or had the capacity to deceive a substantial segment of potential consumers; (3) [t]he deception is material, in that it is likely to influence the consumer's purchasing decision; (4) [t]he product is in interstate commerce; and (5) [t]he plaintiff has been or is likely to be injured as a result of the statement at issue.'" *Id.* (citing Pizza Hut, Inc. v. Papa John's Int'l, Inc., 227 F.3d 489, 495 (5th Cir. 2000).

84. *Id.*

85. *Id.*

86. *Id.*

87. *Id.*

88. *Id.*

89. *See, e.g.*, Am. Washboard Co. v. Saginaw Mfg. Co., 103 F. 281, 285 (6th Cir. 1900) ("It is doubtless morally wrong and improper to impose upon the public by the sale of spurious goods, but this does not give rise to a private right of action unless the property rights of the plaintiff are thereby invaded. There are many wrongs which can only be righted through public prosecution, and for which the legislature, and not the courts, must provide a remedy."). *Id.*

only two sources of a product[90] or where a seller falsely advertises his goods as coming from a region generally known for its quality goods;[91] however, such exceptions are rare. Instead, Texas cases which might otherwise be brought under a "common law false advertising" theory are typically brought under the Deceptive Trade Practices–Consumer Protection Act either by the Attorney General or by consumers, or under Section 43(a) of the Lanham Act where interstate commerce is involved.[92]

VII. TRADE DRESS

A. TRADE DRESS AND UTILITY PATENT PROTECTION AT THE SAME TIME

Can a jewelry designer seek trade dress protection on a bottlecap necklace, while at the same time applying for utility patent protection on the same necklace? The Northern District of Texas says yes.

In *M3Girl Designs v. Blue Brownies LLC*, the court denied the defendant's summary judgment motion.[93] The defendant had sought dismissal of M3Girl's trade dress claim, because the same trade dress elements the plaintiff claimed to protect were also the subject of the plaintiff's pending utility patent application.[94] The court noted, however, that, while the elements may be the same, M3Girl was seeking protection of the overall design of the necklace.[95]

Distinguishing *TrafFix Devices, Inc. v. Marketing Displays, Inc.*, in which the U.S. Supreme Court had held that a functional design cannot serve as a trademark and that a patented design is presumed to be functional,[96] the district court noted that, while the design of the necklaces may also be functional, the necklace may receive trade dress protection where the protected elements are not "essential to the use or purpose" of the jewelry.[97] Here, the court held that "the decorated bottlecaps are not the reason [the product] works."[98] The court refused to find that a pending utility patent application establishes that the design is functional as a matter of law and denied the motion for summary judgment.

---

90. *See* Grand Rapids Furniture Co. v. Grand Rapids Furniture Co., 127 F.2d 245 (7th Cir. 1942); Mosler Safe Co. v. Ely-Norris Safe Co., 273 U.S. 132, 133–34 (1927).

91. *See generally Grand Rapids Furniture*, 127 F.2d at 245; Pillsbury-Washburn Flour Mills Co. v. Eagle, 86 F. 608 (7th Cir. 1898).

92. TEX. BUS. & COM. CODE ANN. § 17.41–.63 (West 2011).

93. M3Girl Designs v. Blue Brownies LLC, No. 3:09-cv-2390-F, 2009 WL 6354925 (N.D. Tex. Dec. 6, 2011) (order denying defendant's motion for partial summary judgment on plaintiff's trade dress claims).

94. *Id.* at *2–3.

95. *Id.* at *5–6.

96. Traffix Devices, Inc. v. Marketing Displays, Inc., 532 U.S. 23 (2001).

97. *Id.* at 32.

98. *Id.*

B. PRODUCT PACKAGING

Shell Trademark Management B.V. v. Warren Unilube, Inc. provides an interesting analysis of the difficult task of defining trade dress infringement in the context of product packaging.[99] Shell produced a motor oil product called "ROTELLA," packaged in a white container with two rounded handles and a color scheme that includes a black cap with blue and yellow label; Warren decided to offer a lower-cost alternative, "LUBRIGUARD," in a similar container.[100]

In order to protect its trade dress, Shell had to show that its packaging is "nonfunctional" and is either inherently distinctive or has acquired secondary meaning.[101] The parties agreed that the putative trade dress was "nonfunctional," so the argument first focused on whether it was "inherently distinctive."[102]

The court noted that, as the U.S. Supreme Court has held, "a product's packaging—unlike the design of a product itself—'almost *automatically* tell[s] a customer that [it] refer[s] to a brand . . . and immediately . . . signal[s] a brand or a product source.'"[103] "However, 'where it is not reasonable to assume consumer predisposition to take . . . packaging as indication of source[,] . . . inherent distinctiveness will not be found.'"[104] The court held that in determining whether packaging is "inherently distinctive," the Fifth Circuit applies the factors found in *Seabrook Foods, Inc. v. Bar-Well Foods Ltd.*, which include:

> [w]hether it was a "common" basic shape or design, whether it was unique or unusual in a particular field, whether it was a mere refinement of a commonly-adopted and well-known form of ornamentation for a particular class of goods viewed by the public as a dress or ornamentation for the goods, [and] whether it was capable of creating a commercial impression distinct from the accompanying words.[105]

Shell moved for summary judgment on the issue of inherent distinctiveness, urging that courts have held that product packaging generally *is* inherently distinctive, that the *Seabrook* factors strongly favor that conclusion, and that such a conclusion was also supported by consumer survey evidence.[106] The court did note that "product packaging has a tendency to be inherently distinctive," as noted by the U.S. Supreme Court in *Wal-Mart* and by the Fifth Circuit in *Chevron Chemical Co. v.*

---

99. *See* Shell Trademark Mgmt. B.V. v. Warren Unilube, Inc., 765 F. Supp. 2d 884 (S.D. Tex. 2011).

100. *Id.* at 887–88.

101. *Id.* at 895.

102. *Id.*

103. *Id.* (quoting Wal-Mart Stores Inc. v. Samara Bros., Inc., 529 U.S. 205, 212 (2000) (emphasis, brackets, and ellipses in original)).

104. *Id.* (quoting *Wal-Mart*, 529 U.S. at 213) (brackets and ellipses in original).

105. *Id.* (quoting *Seabrook Foods*, 568 F.2d 1342, 1344 (C.C.P.A. 1978)).

106. *Id.* at 896.

Voluntary Purchasing Groups, Inc.[107] Nevertheless, the defendant submitted "many pages" of exhibits showing other motor oils with the same general shape, dual handles, white bodies, black caps, and one or more of the colors blue, yellow, orange, and white, though not all of those features at the same time.[108] The court concluded that a genuine issue of material fact must exist and reserved that question for the factfinder. The court also concluded that material issues of fact must exist as to whether secondary meaning had been achieved.[109]

In its own motion for summary judgment, the defendant raised two interesting questions regarding the issue of no likelihood of confusion: (a) did Shell prominently display the brand ROTELLA on the label, with the Shell logo on the bottles, and (b) would that not eliminate any possibility of confusion caused by the other similarities?[110] After all, argued the defendant, "'the presence of well-known brands on a trade dress significantly reduces, if not altogether eliminates, the likelihood that consumers will be confused as to the source of the parties' products.'"[111] The court noted that this was the case, for example, in *Bristol-Myers Squibb Co. v. McNeill-P.P.C., Inc.*, in which "'by far the most prominent feature' on the boxes were the [powerful] trade names 'Excedrin' and 'Tylenol'" and, thus, the contending "trade dresses . . . did not 'create the same general overall impression.'"[112]

That was not the case here, however. When brand names are less prominent than "Excedrin" or "Tylenol," the court held that a likelihood of confusion could remain.[113] For example, in *Keds Corp. v. Renee International Trading Corp.*, sneaker labels with "words [that could] only be read" when close to the eyes would not be sufficient "to eliminate the likelihood of confusion."[114] Further, "even if the names [did] eliminat[e] [the] risk that consumers would think the two *products* were the same, there could still be a risk that they would be led to believe that LUBRIGUARD was associated with Shell."[115] Particularly when considering the additional likelihood-of-confusion factors—relative strength of the Shell trade dress, overlapping sales to the same market, slight evidence of intent to copy, some evidence (though through a flawed survey) of consumer confusion, and some evidence of relatively little consumer care in the purchase of motor oil—the court concluded that summary judgment for the defendant on the likelihood of confusion issue was like-

107. *Id.* at 897; *see Wal-Mart*, 529 U.S. at 212; *Chevron Chemical*, 659 F.2d 695, 702–03 (5th Cir. Unit A Oct. 1981) (noting that "the possible varieties of advertising display and packaging are virtually endless").

108. *Id.* at 897–98.

109. *Id.* at 898–99.

110. *Id.* at 899.

111. *Id.* (quoting Nabisco, Inc. v. Warner-Lambert Co., 220 F.3d 43, 46 (2d Cir. 2000) (internal citations omitted)).

112. *Id.* at 900 (quoting *Bristol-Myers*, 973 F.2d 1033, 1045 (2d Cir. 1992)).

113. *Id.*

114. *Id.*; Keds Corp. v. Renee Int'l Trading Corp., 888 F.2d 215, 222–23 (1st Cir. 1989).

115. *Shell*, 765 F.2d at 900.

wise inappropriate and allowed the case to go to the factfinder.[116]

VIII. COMMON LAW FRAUD

A. Opinions, Predictions, and Promises

For purposes of sustaining a fraud claim, a mere opinion is not an actionable misrepresentation. This was the ruling in *Anglo-Dutch Petroleum International v. Shore Harbour Capital Management Corp.*, where the First District Court of Appeals for Houston reversed the trial court and dismissed Shore Harbour's fraud claim, holding that it could not bring a claim for fraudulent misrepresentation based on an opinion.[117]

Shore Harbour attempted to recover on a theory of fraudulent misrepresentation after it invested $100,000 to facilitate the buy-out of an oil and gas company in Kazakhstan.[118] In return for its investment, Anglo-Dutch had promised Shore Harbour that it would receive an interest in the revenues from the Kazakhstan company.[119] The deal never closed, however, and Shore Harbour lost its investment.[120] Subsequently, a third party bought the Kazakhstan company using misappropriated information. In a separate action, Anglo-Dutch settled with the third party for damages from the misappropriation claim, but these damages did not cover all of Anglo-Dutch's costs. Shore Harbour attempted to recover its investment from Anglo-Dutch on a fraudulent misrepresentation theory. The alleged misrepresentation was that "the deal would close."[121]

The Houston Court of Appeals found that this was an opinion and not an actionable misrepresentation of fact.[122] The court did recognize that, in certain circumstances, an opinion may be elevated to a statement of fact where the defendant knew of the falsity of the opinion, where a defendant made a promise without intent to fulfill, or where the defendant had some specialized knowledge of the facts that was not conveyed at the time the opinion was made.[123] None of those circumstances, however, existed here.

B. Proving Intent

How do you prove a defendant *intended* to defraud? The Fort Worth Court of Appeals reminds practitioners that intent may be shown by a variety of factors: "Intent may be inferred from a party's actions before and after the fraudulent conduct and may also be established by either

116. *Id.* at 900-01.
117. Anglo-Dutch Petrol. Int'l v. Shore Harbour Capital Mgmt. Corp., No. 01-09-00417-CV, 2011 Tex. App. LEXIS 1761, at *15 (Tex. App.—Hous. [1st Dist.] Mar. 10, 2011, no pet.).
118. *Id.* at *1–6.
119. *Id.* at *3.
120. *Id.* at *5.
121. *Id.* at *5–6.
122. *Id.* at *15.
123. *Id.* at *9.

direct or circumstantial evidence."[124]

In *Hannon, Inc. v. Scott*, the Fort Worth Court of Appeals upheld a finding of fraud where the counter defendant sold the counter plaintiff his Dollar Land store, but misrepresented the amount of inventory and the average total sales the store had made.[125] The trial court found that the counter defendant had defrauded the counter plaintiff and awarded $60,000 in damages.[126] The appellate court upheld the ruling on fraud, but suggested a remittitur since the counter plaintiff could not recover for damages of the quick sale of his home.[127] The court found that "the means by which [the counter plaintiff] came up with money that he used for the down payment did not result from [the counter defendant's] fraud."[128]

In reminding practitioners that a defendant's actions *before* and after allegedly fraudulent conduct occurs may be considered in proving fraud, *Hannon* illustrates how broad the proof may be. Not everything may be sufficient, however. In particular, it is worth recalling that the mere failure to perform a promise is not, in itself, sufficient to show that the defendant never intended to perform at the time the promise was made. The defendant may simply have changed its mind.[129]

C. Two Kinds of Fraud

In *Blue Gordon, C.V. v. Quicksilver Jet Sales, Inc.*, the U.S. Court of Appeals for the Fifth Circuit reminded practitioners that, under Texas law, there are actually two separate kinds of common law fraud which remain separate and distinct torts: fraudulent inducement to enter into a contract and fraud by nondisclosure.[130]

The difference lies between an action based on something that has been said but should not have been and one based on something that has not been said but (in furtherance of a duty to speak) should have been. Fraudulent *inducement* requires the plaintiff to show "'a material misrepresentation, which was false, and which was either known to be false when made or was asserted without knowledge of its truth, which was intended to be acted upon, which was relied upon, and which caused injury.'"[131] Fraud *by nondisclosure* requires a plaintiff to show that:

---

124. Hannon, Inc. v. Scott, No. 02-10-00012-CV, 2011 Tex. App. LEXIS 3624, at *18 (Tex. App.—Fort Worth May 12, 2011, pet. denied).

125. *Id.* at *1, 5.

126. *Id.* at *5.

127. *Id.* at *30.

128. *Id.* at *28.

129. *See* Spoljaric v. Percival Tours, Inc., 708 S.W.2d 432, 434 (Tex. 1986) ("A promise to do an act in the future is actionable fraud when made with the intention, design and purpose of deceiving, and with no intention of performing the act.").

130. Blue Gordon, C.V. v. Quicksilver Jet Sales, Inc., No. 10-50677, 444 Fed. Appx. 1, at *10 (5th Cir. June 30, 2011) (unpublished).

131. *Id.* (quoting Formosa Plastics Corp. USA v. Presidio Eng'rs & Contractors, Inc., 960 S.W.2d 41, 47 (Tex. 1998)).

> (1) the defendant concealed or failed to disclose a material fact within his knowledge to the plaintiff; (2) the defendant had a duty to disclose this fact; (3) the defendant knew that the plaintiff was ignorant of the fact and did not have an equal opportunity to discover the truth; (4) the defendant intended to induce the plaintiff to take some action by concealing or failing to disclose the fact; (5) the plaintiff relied on the defendant's nondisclosure; and (6) the plaintiff suffered injury as a result of acting without knowledge of the undisclosed fact.[132]

In this case, the real cause of the plaintiff's injuries was neither a fraudulent inducement nor a fraud by nondisclosure, but rather its own failure to cure its defaults under a jet lease agreement and pay the amounts owed.[133] The distinction between these two torts—and between either of them and their negligence-based, rather than intent-based cousin: the tort of negligent misrepresentation—is nevertheless instructive.

IX. TRADE SECRETS

A. Using Trade Secrets a Competitor Already Knows (or Learns Directly from a Customer)

Suppose an employee of one company leaves to go work for its major competitor, carrying with him trade secrets and confidential and proprietary information of his former employer, and begins using it in competition with his former employer to bid for contracts on behalf of his new employer. That is one thing. Suppose, however, that his new employer *already knows* that confidential information from its own sources and research or, at least, that the former employer cannot show evidence that the new employer did not receive this information from the customer. May the former employer recover from the departing employee's new employer?

In *TSBA, Inc. v. Perkins Insurance Agencies, LLP*, the Eastland Court of Appeals said no, at least not without proof that the confidential information came from the former employer.[134] In upholding summary judgment in favor of the defendants, the court found that the plaintiff failed to raise enough evidence to succeed on its claims—that is, simply showing that a former employee now works for another company who does business with a former customer will not satisfy the evidentiary requirements to show either misappropriation of trade secrets or tortious interference with favorable business relations.[135] The dispute arose after Ron Caspell left TSBA to join Perkins Insurance.[136] Caspell had entered into an employment contract with TSBA that included certain covenants of confi-

132. *Id.*
133. *Id.* at *11.
134. TSBA, Inc. v. Perkins Ins. Agencies, LLP, No. 11-10-00170-CV, 2011 Tex. App. LEXIS 2363, at *5–7 (Tex. App.—Eastland Mar. 31, 2011, pet denied) (mem. op.).
135. *Id.*
136. *Id.* at *3.

dentiality and a non-compete provision.[137] After Caspell left, TSBA concluded that Caspell used TSBA's proprietary information about a TSBA customer when submitting a bid on behalf of his new company for that customer's business.[138] TSBA soon sued Perkins Insurance and the individual defendants alleging that they had misappropriated trade secrets or other confidential information and interfered with an existing contract and with business relationships, all while acting in a joint venture and in conspiracy.[139]

The court affirmed summary judgment for the defendants on the misappropriation claim, however, since TSBA failed to show that Perkins Insurance and Caspell obtained the customer's confidential information from TSBA and not merely from the actual customer itself.[140] The confidential financial information belonged to the customer, not TSBA. TSBA failed to prove that Perkins Insurance's source of this information was TSBA and not the customer, and, therefore, the claim could not succeed.

The court disposed of the interference with business relations claim since TSBA failed to provide evidence as to any element of the tort.[141] Instead, the court characterized TSBA's assertion as a claim for unjust enrichment. The court, however, quickly recognized that the defendants had not actually obtained any money from TSBA and were not liable under this theory.[142]

Likewise, the court found that TSBA failed to produce evidence to support its interference with a contract or business relations claims.[143] TSBA complained that Caspell provided information about TSBA's clients to Perkins Insurance in an effort to interfere with TSBA's existing contracts.[144] The court examined correspondence between the parties and found no interference. TSBA claimed that Perkins Insurance's request of a list of clients was evidence that Perkins Insurance was intending to interfere with these contracts. However, the court was quick to point out that the request for TSBA's client list was framed to *avoid* a breach of the noncompetition covenant between Caspell and TSBA, not facilitate one, and that TSBA had itself invited the complained-of activity by informing defendants that they should seek out that information from Caspell.[145]

This case highlights one of the thorniest practical problems in business-tort cases: how to obtain the needed evidence *without* involving the common customer(s). No customer wants to be dragged into a dispute be-

137. *Id.* at *2–3.
138. *Id.* at *3.
139. *Id.* at *3–4.
140. *Id.* at *5–7.
141. *Id.* at *10-11.
142. *Id.*
143. *Id.* at *7–11.
144. *Id.* at *7–9.
145. *Id.* at *9.

tween competing vendors, and if a customer, under subpoena to testify in a dispute between two vendors, cannot cry "[a] plague [on] both your houses"[146] and seek refuge in a third, more peaceful provider, it is at least likely to remember with distaste the vendor who drug it into the mess and be open to a change at the next opportunity. If certain information is not already present in the competitor's files, proving or corroborating that it *did* or *did not* come from a customer is likely to be difficult to do without the customer's active involvement—or unless relevant email traffic saves the day.

B. Unique Combinations?—But Disclosed in a Published Patent Application

A trade secret "is one of the most elusive and difficult concepts in the law to define,"[147] and the U.S. Court of Appeals for the Fifth Circuit examined it closely in *Tewari De-Ox Systems, Inc. v. Mountain States/Rosen, L.L.C.*,[148] Here, Tewari claimed to own trade secrets related to a meat-packing method that would create storage atmosphere practically free of oxygen. It claimed to have visited Mountain States/Rosen, a wholesaler of fresh cuts of lamb, and disclosed the secrets pursuant to a nondisclosure agreement.[149] When Tewari later accused Mountain States/Rosen of having misused its secrets, questions arose as to whether Tewari actually held any protectable trade secrets at all.[150]

Quoting a 1964 Texas Supreme Court case, the court noted that "[i]t is self-evident that the subject matter of a trade secret must be secret."[151] Evidently much of what Tewari disclosed to Mountain States/Rosen in 2005 had been covered in Tewari's patent application that was published the year before.[152] The court noted that "[u]nder Texas law, information that is generally known *or readily available* by independent investigation is not secret for purposes of trade secrecy," and, in a ruling that may be of some considerable significance, concluded that "[t]here can be no dispute that a published patent application" must certainly be "readily available" because both Google and the United States Patent and Trademark Office "allow free online searching of [patents and] published patent applications."[153]

The court did not appear to consider that it was making a particular leap in this regard, as it relied on "the weight of authority" of other jurisdictions, holding that publication of a patent application would defeat

146. *See* WILLIAM SHAKESPEARE, ROMEO AND JULIET, act 3, sc. 1, l. 87 (Stephen Greenblatt ed., W.W. Norton & Co. 1997) (1623).
147. Lear Siegler, Inc. v. Ark-Ell Springs, Inc., 569 F.2d 286, 288 (5th Cir. 1978).
148. Tewari De-Ox Sys., Inc. v. Mountain States/Rosen, L.L.C., 637 F.3d 604 (5th Cir. 2011).
149. *Id.*
150. *Id.* at 607–08.
151. *Id.* at 611 (quoting Luccous v. J.C. Kinley Co., 376 S.W.2d 336, 338 (Tex. 1964)).
152. *Id.* at 611–12.
153. *Id.* at 612.

"the secrecy of its contents for trade secret purposes."[154] Yet one might wonder how "readily available" online information (or information in any library) really is if it would require sophistication, time, effort, or cleverness to think of looking for it, find it, understand it, and synthesize it.

Nor did the court accept Tewari's argument that, in Texas, how a misappropriator *might* have found an alleged trade secret matters less than how it *did* find it.[155] Without rejecting that historic principle of Texas trade secret law, the court distinguished Tewari's position from the line of cases relying on that principle, drawing the distinction between cases in which the defendant learned the plaintiff's trade secrets while they were still secret (before their secrecy was lost by subsequent patent publication) and situations, like Tewari's, where the secrecy was lost before the materials were disclosed to the defendant.[156]

Thus, the putative trade secrets published in the 2004 patent application were lost. Tewari also claimed five more categories of trade secrets, however, that were not disclosed in the 2004 application.[157] The district court concluded that "every specific" of Tewari's trade secrets not already published in the 2004 application was already known in the industry.[158] Even if that may have been true, however, and even though it is correct that "a simple and obvious change in an existing device or process is not a trade secret,"[159] "'a *combination* of characteristics and components each of which by itself, is in the public domain'" can nevertheless, constitute a protectable secret when its "'unified process, design and operation . . . in unique combination, affords a competitive advantage'" and is, of course, a secret.[160] Here, therefore, Tewari raised a genuine issue of material fact, and the district court's grant of summary judgment was to that extent reversed.[161]

There is an important lesson here: intellectual property protections may sometimes work at cross-purposes to one another and need to be coordinated.

C. Does Deleting Data Constitute "Use"?

Devon Energy Corp. v. Westacott presented another interesting issue, asking whether *deleting* a former employer's trade secrets—as opposed to disclosing and putting them to profitable purpose—might constitute un-

154. *Id.*
155. *Id.*
156. *Id.*
157. *Id.* at 612–13.
158. *Id.*
159. *Id.* at 613–14 (quoting Sikes v. McGraw-Edison Co., 665 F.2d 731, 733 (5th Cir. 1982) (internal quotations omitted)).
160. *Id.* at 613 (quoting Imperial Chem., Ltd. v. Nat'l Distillers & Chem. Corp., 342 F.2d 737, 742 (2d Cir. 1965) (emphasis added)).
161. *Id.* at 614.

lawful "use" of the trade secrets under Texas law.[162]

Evidently the matter was one of first impression and, perhaps, not an unreasonable question to ask, for the Court noted that in *General Universal Systems, Inc. v. HAL, Inc.*, the U.S. Court of Appeals for the Fifth Circuit quoted from the Restatement (Third) of Unfair Competition's definition of use: "As a general matter, any exploitation of the trade secret that is likely to result in injury to the trade secret owner or enrichment to the defendant is a 'use' under this Section."[163] Yet the same court also noted that "Texas intermediate courts have stated [that] [u]se of a trade secret means commercial use, by which a person seeks to profit from the use of the secret."[164] The court noted that Devon Energy had not cited any Texas support for its claim that "use," other than something intended to yield a profit, could constitute "use" for purposes of a trade secret claim and found no evidence to indicate that Mr. Westacott had attempted to profit by deleting the data at issue.[165] Consequently it denied Devon Energy's motion for summary judgment.

X. CONCLUSION

Perhaps excepting *Marsh USA Inc. v. Cook*, few new principles of fair or unfair competition emerged this year. Instead, Texas has continued its common law development in this area, addressing a number of points including:

(a) stock option grants may now provide sufficient consideration to support a post-employment noncompetition covenant;[166]

(b) whether a cause of action may lie for tortious interference with a statutory right has been left open;[167]

(c) plaintiffs may add the losses caused by each defendant, in order to clear the $5,000 jurisdictional threshold of harm under the Computer Fraud and Abuse Act;[168]

(d) the Leahy-Smith America Invents Act has substantially cut back private rights of action for "false marking" of patents under Section 292 of the Patent Act;[169]

---

162. Devon Energy Corp. v. Westacott, No. H-09-1689, 2011 WL 1157334 (S.D. Tex. March 24, 2011).

163. *Id.* at *7 (citing *Gen. Universal Sys.*, 500 F.3d 444, 451 (5th Cir. 2007) (quoting RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 (1995)).

164. *Id.* (citing *Gen. Universal Sys.*, 500 F.3d at 450) (quoting Trilogy Software Inc. v. Calidus Software, Inc., 143 S.W.3d 452, 464 (Tex. App.—Austin 2004, pet. denied)) (internal quotations omitted).

165. *Id.* at *8.

166. *See supra* Part II (discussing Marsh USA Inc. v. Cook, 354 S.W.3d 764, 766 (Tex. 2011)).

167. *See supra* Part III (discussing Johnson v. Affiliated Computer Servs., Inc., No. 3:10-CV-2333-B, 2011 WL 4011429, at *9–10 (N.D. Tex. Sept. 9, 2011)).

168. *See supra* Part IV (discussing M-I LLC v. Argus Green LLC, No. H-10-cv-03364, 2011 WL 3813286, at *9 (S.D. Tex. Aug. 26, 2011)).

169. *See supra* Part VI (discussing Leahy-Smith America Invents Act, H.R. 1249, 112th Cong. (2011) enacted)).

(e) Lanham Act Section 43(a) claims still survive for misrepresentations of patent status in interstate commerce;[170]

(f) although a functional design cannot serve as a trademark and a patented design is presumed to be functional, design features which are also elements of a patent application may receive trade dress protection where they are not "essential to the use or purpose of the product;"[171]

(g) fraudulent inducement and fraud by nondisclosure are two separate and distinct torts;[172]

(h) trade secrets disclosed in a published patent application lose their secrecy;[173] and

(i) deleting trade secret information does not constitute "use" of it for purposes of a misappropriation claim.[174]

170. *See supra* Part VI (discussing VendEver LLC v. Intermatic Manufacturing Ltd., No. 3:11-CV-201-B, 2011 WL 4346324 (N.D. Tex. Sept. 16, 2011)).

171. *See supra* Part VII (discussing M3Girl Designs v. Blue Brownies LLC, No. 3:09-cv-2390-F, 2009 WL 6354925 (N.D. Tex. Dec. 6, 2011)) (order denying defendant's motion for partial summary judgment on plaintiff's trade dress claims).

172. *See supra* Part VIII (discussing Blue Gordon, C.V. v. Quicksilver Jet Sales, Inc., No. 10-50677, 444 Fed. Appx. 1(5th Cir. June 30, 2011) (unpublished)).

173. *See supra* Part IX (discussing Tewari De-Ox Systems, Inc. v. Mountain States/Rosen, L.L.C., 637 F.3d 604 (5th Cir. 2011)).

174. *See supra* Part IX (discussing Devon Energy Corp. v. Westacott, No. H-09-1689, 2011 WL 1157334 (S.D. Tex. March 24, 2011)).