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Business Torts

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THIS year saw interesting developments and applications in the importance of harm in false advertising and trade secret cases, in what constitutes permissible "preparing to compete," in compelling production of trade secret information, in the importance of "at the time the agreement is made" in noncompetition covenant cases, the nature of proof required to show federal trademark dilution, and other important business tort issues.

I. SECTION 43(A) AND FALSE ADVERTISING

A. Designation of Origin Claims

Some cases continue from year to year. Such was the case of *Decorative Center of Houston v. Direct Response Publications*,[1] which featured another reported opinion in this year's Survey. Significantly, the district court had earlier believed there was an open question as to the elements for the false designation of origin claim in the Fifth Circuit, but upon reflection, the court has now concluded that the Fifth Circuit would apply the elements listed here.[2] In an explanatory footnote, the court stated its reasoning that the Sixth and Seventh Circuits' tests for false designation of origin claims "are not consistent with the tight requirements imposed so far by the Fifth Circuit."[3] The court described the Seventh Circuit's three-part test (defendant used a false designation of origin or description in commerce, and the plaintiff believes he or she is likely to be damaged as a result) as "unworkable," and the Sixth Circuit's two-part test (substantial economic effect on commerce and likelihood of confusion) as "appearing incomplete" in light of the Fifth Circuit's approach.[4]

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1. Decorative Ctr. Of Houston v. Direct Response Publ'ns, 264 F. Supp. 2d 535 (S.D. Tex. 2003).
2. *Id.* at 552.
3. *Id.* at 552 n.52.
4. Section 43(a) of the Lanham Act provides:

> (1) Any person who, owned or in connection with any goods or services, or any container for goods, uses in commerce any work, term, name, symbol, or device, or any combination thereof, or any false designation of origin, any false or misleading description of any false or misleading representation of fact, which –
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> (A) Is likely to cause confusion, or to cause mistake, or to deceive as to the affiliation, connection, or association of such person with an-

In this heavily litigated case, the defendant publisher had held a contract to publish a directory of the vendors in the Decorative Center of Houston (the "Center"). When the Center was sold, the publisher agreed not to publish "the Decorative Center of Houston 2002 and Decorative Center of Houston 2003 Directories" and not to "solicit tenants of the Decorative Center of Houston for advertising for the Decorative Center of Houston 2002 and Decorative Center of Houston 2003 Directories."[5] Later, however, it did solicit fifty-six of the tenants to advertise in a directory it would call the "Dallas/Houston Design to the Trade Directory." Not until later did the publisher inform the vendors that its contract to publish the building-sponsored Decorative Center of Houston Directory had been terminated.[6] The Decorative Center alleged that the publisher had misled the vendors into believing that its new directory was authorized by the new owners, just as the "Decorative Center of Houston Directory" had been authorized for the two years before, and claimed tortious interference with prospective business relationships, false advertising under the Lanham Act, and unfair competition.

Applying these elements to the Center's false advertising claims, the court concluded first that the statements criticizing the Decorative Center were not actually false, but arguably were misleading. But it ultimately held that the Center failed to produce evidence sufficient to raise a material fact issue on the essential elements of actual consumer reaction showing a substantial number of consumers were actually misled or evidence that the misrepresentations likely influenced purchasing decisions and that the Center was injured as a result.[7] The court found "absolutely no direct evidence" that the alleged misrepresentation likely influenced the vendors, and what evidence it did see appeared to be inadmissible hearsay. In addition, the Center identified several other individuals whom it

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other person, or as to the origin, sponsorship, or approval of his or her goods, services, or commercial activities by another person, or

(B) In commercial advertising or promotion, misrepresents the nature, characteristics, qualities, or geographic origin of his or her or another person's goods, services, or commercial activities . . . shall be liable in a civil action by any person who believes that he or she is or is likely to be damaged by such act.

15 U.S.C. § 1125(a)(1). Actions bought under subsection 1125(a)(1)(A) are sometimes referred to as "false designation of origin" claims, while those brought under subsection 1125(a)(1)(B) are sometimes referred to as "false advertising" claims.

The Court of Appeals for the Fifth Circuit has held that the elements of a false advertising or false designation of origin claim under § 1125(a)(1) are as follows: (1) the defendant made a false statement of fact about his product in a commercial advertisement; (2) the statement actually deceived or had a tendency to deceive a substantial segment of its audience; (3) the deception was material, in that it was likely to influence the purchasing decision; (4) the defendant calls the false statement to enter interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result. *See* Logan v. Burgers Ozark County Cured Hams, Inc., 263 F.3d 447, 462 (5th Cir. 2001) (referring to § 1125(a)(1)(A)); Pizza Hut, Inc. v. Papa John's Int'l, Inc., 227 F.3d 489, 495 (5th Cir. 2000) (construing § 1125(a)(1)(B)).

5. *Decorative Ctr. of Houston*, 264 F. Supp. 2d at 540.

6. *Id.* at 541 n.11.

7. *Id.* at 553.

claimed had been confused, yet these were of little weight in establishing that the publisher's statements had influenced their purchasing decisions. One client's advertisements were paid for by its manufacturers, and the others had either purchased the same number of ads as before or none at all. The center based its other claims on this point on hearsay. The total number of advertisements sold by the Center did drop, but there were a number of possible explanations for this—most likely the Center's 85% rate hike over the price the publisher had charged previously—and the court concluded that what the Center claimed was circumstantial evidence was instead speculation.[8] In a footnote, the court noted the Center's argument that it could not afford to systematically investigate why everyone of its tenants and the designer lines they represented made the advertising decisions they made. "Nevertheless," held the court, "[the Center] is obligated to produce at least *some* evidence that the alleged confusion likely influenced purchasing decisions."[9]

B. Causation

Causation was the pivotal issue in the false advertising case of *Laughlin Products, Inc. v. ETS, Inc.*[10] In this action, the defendant had applied for a patent on its "Sunless Express" tanning booth and had received a notice of allowance from the Patent and Trademark Office, but the patent had not yet actually been issued when the defendant introduced its tanning booths at a trade show in Las Vegas. The defendant distributed a number of brochures describing its product as "patented," however, and placed similar statements on its website.[11] The plaintiff—also in the tanning booth business—asserted that this premature claim of a patent amounted to false advertising in violation of the Lanham Act.

On motion for summary judgment, the dispositive question was whether a fact issue existed as to whether the plaintiffs were indeed likely to be injured as a result of the allegedly false statements.[12] Relying on what it described as a thorough analysis of the United States District Court for the Western District of Texas in *Healthpoint, Ltd. v. Stratus Pharmaceuticals, Inc.*,[13] the court refused to conclude as a matter of law that causation and harm would be presumed. Instead, the plaintiff would have to demonstrate causation and harm,[14] and under these facts the court concluded that it failed to do so. The plaintiff did produce a letter from prospective investors "experiencing doubt and hesitation to move forward," but the letter showed only that the prospective investors had learned of the defendant's product and were concerned about it as a

8. *Id.* at 555.
9. *Id.* at 535-55 n.62 (emphasis in original).
10. Laughlin Prods., Inc. v. ETS, Inc., 257 F. Supp. 2d 863 (N.D. Tex. 2002).
11. *Id.* at 865-66.
12. *Id.* at 868.
13. Healthpoint, Ltd. v. Stratus Pharms., Inc. 273 F. Supp. 2d 87 (W.D. Tex. 2001).
14. *Laughlin*, 257 F. Supp. 2d at 868.

source of competition, rather than the statements that were at issue.[15] The plaintiff's principal also asserted that numerous attendees at the trade show expressed confusion and uncertainty about whether the defendant had a patented system and how the plaintiff could have one also. The court regarded these statements as inconclusive and not supported by the evidence, and therefore it did not credit any link between lost sales and the defendant's allegedly false advertising. As a result, the court concluded the plaintiff could not meet its burden of showing harm had or would likely result, and summary judgment followed.

II. BREACH OF FIDUCIARY DUTY

A. Preparing to Compete

Abetter Trucking Co. v. Arizpe,[16] a "departing employee" case, posed interesting questions of fact and law in an area with surprisingly sparse direct authority. Abetter was a trucking company. It hauled sand and gravel for its main client, Vulcan Materials, using a fleet of about thirty trucks owned by independent contractors. One of Abetter's independent contractors was Mr. Arizpe, who, together with his brothers, owned seven of the trucks.

After many years of working for Abetter as an independent owner-operator hauling Vulcan's sand and gravel, Mr. Arizpe was placed in charge of Abetter's field operations. Apparently he continued to be an independent contractor in his capacity as a driver, but also worked as an at-will employee for Abetter at the same time. There was no mention of a written agreement to this effect, and no post-termination noncompetition covenant. As head of field operations, Mr. Arizpe worked closely with Vulcan, and also with the two dozen or so other independent drivers who drove for Abetter.[17]

When Abetter's owner decided to retire and sell the business, Mr. Arizpe decided to form his own trucking company. He told the owner this, and also contacted Vulcan and "asked if Vulcan would be interested in hiring his trucks." After Vulcan expressed its interest, Arizpe incorporated his new business, and secured permits and insurance for twenty-five trucks. When this was done, Arizpe resigned his position with Abetter, taking his brothers and their trucks with him, and on the very next day, twelve more drivers resigned and joined his new company. This was two-thirds of the Abetter fleet—a heavy blow in any event, but apparently made even more so by the unexpected timing. Apparently Abetter knew that at least some of the drivers intended to follow Mr. Arizpe, but was very surprised at how many left and at how quickly. Abetter immediately sued for breach of fiduciary duty and tortious interference, among other

15. *Id.* at 868-869.
16. Abetter Trucking Co. v. Arizpe, 113 S.W.3d 503 (Tex. App.—Houston [1st Dist.] 2003, no pet.).
17. *Id.* at 507.

claims.[18]

With respect to the fiduciary duty issue, there were two principal questions: First, were the answers to whether Arizpe owed a fiduciary duty fatally inconsistent, and second, was the evidence factually and legally sufficient to support the jury's finding that he did not breach that duty.

The jury found that Arizpe was Abetter's agent so that he owed Abetter a fiduciary duty, but it also found that a relationship of trust and confidence did *not* exist between them and that Arizpe did *not* breach his fiduciary duty to Abetter in the manner of his departure. On appeal, Abetter urged that the answers to these questions were fatally inconsistent. The court explained that they were not, since the test is not whether findings are inconsistent or even irreconcilable, but rather whether considering one finding alone, a judgment should be entered for the plaintiff, while considering the other finding alone, a judgment should be entered for the defendant.[19] Here, the two issues were merely alternative ways of asking whether Arizpe owed a fiduciary duty to Abetter—the first through a formal relationship based on his capacity as Abetter's agent in charge of field operations which would arise largely as a matter of law (raising the question why a jury issue was needed on the point), and the second through an informal relationship which "may arise from a 'moral, social, domestic or purely personal relationship of trust and confidence, generally called a confidential relationship.'"[20] If the jury found either way—and it did find Arizpe was Abetter's agent—then it would still have to answer whether Arizpe breached that duty.

In determining whether the evidence was legally or factually sufficient to support the jury's finding that Arizpe did not breach his fiduciary duty, the real question was what steps an employee/agent who has decided to leave and form his own company may, must, and may not take in preparing to compete with his then-current but soon-to-be-former principal and employer.

Here there is a balance to be struck, between the principal's right to expect his agent to deal openly with him, to disclose fully information regarding matters affecting the company's business, and not to compete unfairly, and the fiduciary/employee's (and society's) legitimate interest in encouraging competition. Clearly this places considerable tension on the fiduciary-who-would-compete, and the surprisingly few cases in this area are necessarily fact-intensive.

Generally this balance is studied in two areas: At what point does "preparation" to compete blur into actual competition, and how much disclosure of this is required? A fiduciary may not compete with his principal while still a fiduciary, but he certainly may prepare to compete, and "such preparations do not *necessarily* constitute a breach of fiduciary

18. *Id.*
19. *Id.* at 509.
20. *Id.* at 508.

duty."[21] Interestingly, the court cited a Massachusetts case, cited earlier by the Texas Supreme Court, for the proposition that an "employee has no general duty to disclose his plans and may secretly join with other employees in the endeavor without violating any duty to the employer."[22] In fact, the court went on to add that "for the right of employees to agree among themselves to compete with an employer," which the court characterized as being "under ordinary circumstances, a constitutional right,"[23] to be meaningful, it must be exercisable without the necessity of revealing the plans to the employer."[24] Distinguishing the case of *Kinzbach* on the grounds that that employee had failed to disclose the *only* relevant information,[25] here the court held that in disclosing to Abetter that he planned to form his own company taking his own and his brothers' trucks, Arizpe had actually disclosed *more* than the minimum legally required of him.[26]

Further, the court held that incorporating his new entity, obtaining permits, and obtaining insurance were permissible preparations to compete, not breaches of Mr. Arizpe's fiduciary duty to Abetter.[27] The court did recall that "the right to prepare to compete notwithstanding, if the nature of a party's preparation to compete is *significant*, it may give rise to a cause of action for breach of a fiduciary duty," especially "if a supervisor-manager acts as a corporate 'pied piper' and lures all his employer's personnel away, thus destroying the business."[28] If he *unfairly* solicited business from Vulcan and *unfairly* lured away Abetter's drivers, as Abetter alleged, these would constitute a breach of his fiduciary duty. The jury concluded that he did not, however, and the court found ample evidence to support the jury's conclusion.

Abetter may be most useful for its listing of four prohibitions on an employee who plans to compete with his former employer. "The employee may not: (1) appropriate the company's trade secrets; (2) solicit his employer's customers while still working for the company; (3) solicit the departure of other employees while still working for his employer; or (4) carry away confidential information, such as customer lists."[29] It is very significant, however, that in this case, there were no trade secrets or confidential information (the Court did not distinguish between the two) for Mr. Arizpe to appropriate.[30] Most departing-employee cases are not so straightforward in that respect.

21. *Id.* at 510 (emphasis added).
22. *Id.* at 510.
23. *Id.* (citing Ledel v. Bill Hames Shows, Inc. 637 S.W.2d 182, 184 (Tex. Civ. App.—Fort Worth 1963, no writ)).
24. *Id.* at 511.
25. *Id.* (emphasis in original).
26. *Id.*
27. *Id.*
28. *Id.* at 511-12 (emphasis added).
29. *Id.* at 512.
30. *Id.*

III. TORTIOUS INTERFERENCE

A. Agency

The *Abetter* case also addressed tortious interference, both as a matter of law and a matter of fact. Interestingly, Mr. Arizpe was both an at-will employee of Abetter—and in effect Abetter's agent—and an independent, third party contractor. The court observed that ordinarily an agent cannot be liable for interference with its principal's contracts because it and the principal are treated as one, but where the defendant is both an agent and a third party who allegedly induces others to breach their contracts, a plaintiff may prevail, provided it proves the agent acted willfully and intentionally to serve the agent's own personal interests at the principal's expense.[31]

Here the jury concluded that Arizpe did not serve his own personal interests at the expense of Abetter. Vulcan's manager testified that Mr. Arizpe just "briefly broached the subject of hauling for Vulcan some day," and never sought or obtained any commitment from him.[32] The drivers testified that Mr. Arizpe never approached them about leaving Abetter, rather they approached him, and found he would offer better working conditions, a more personal relationship, and lower rates.[33] The court concluded that the evidence was legally and factually sufficient to support the jury's verdict. (Interestingly, there was no discussion of whether the drivers' relationships with Abetter—which were presumably at-will—were subject to claims of interference anyway, or whether any cause of action would lie in persuading them to leave, which they had a right to do anyway.)

B. Applications

In *New York Life Insurance Co. v. Miller*,[34] the court found insufficient evidence to sustain the claimant's allegations of tortious interference. A permanent servicing agent complained that an insurance agent had tortiously interfered with its contract with the insurer, allegedly by violating the rules for client contact by failing to get in touch with the permanent servicing agent once the insurance agent began converting a policy. In this case, however, the court held that the insurer did not breach its agreement with the permanent servicing agent, and where there is no breach, there is no interference. It also repeated an established principle that inducing a contractor or obligor to do what it already has a right to do does not constitute interference.

The *Decorative Center of Houston* case also addressed a claim of tortious inference with prospective business relationships, namely the perspective advertisements the Center hoped its vendors would place.

31. *Id.* at 509.
32. *Id.* at 512.
33. *Id.* at 513.
34. N.Y. Life Ins. Co. v. Miller, 114 S.W.3d 114 (Tex. App.—Austin 2003, no pet.).

Applying the 2000 Texas Supreme Court case of *Wal-Mart Stores, Inc. v. Sturges*,[35] which attempted to bring some level of certainty to this area of the law by requiring the defendant to commit an independently tortious or unlawful act in order to prevent the business relationship from occurring, the court held that there was no material issue as to whether the publisher had committed an independently tortious or unlawful act. The Center claimed that the publisher soliciting the vendors to "update" their information constituted a Lanham Act violation, but the court held that it was not. Further, the court added, there was no issue of material fact suggesting that the publisher had a conscious desire to prevent the tenants from advertising with the Center, or that the publisher knew that its interference was certain or substantially certain to occur as a result of its multi-city publications.[36]

IV. TRADE SECRETS AND CONFIDENTIAL INFORMATION

A. Defining a Trade Secret

Defining what constitutes a "trade secret" has always been a difficult, fact-intensive exercise. In one of the most important cases in this Survey, and in the unusual step of a conditional grant of a mandamus petition, the Texas Supreme Court addressed this issue in *In re Bass.*[37]

In *In re Bass*, non-participating royalty interest owners (McGill) had sued a mineral estate owner (Bass) for breach of an implied duty to develop the land. Bass had hired Exxon to do a geological survey of seismic activity on the land in the mid-1990s, and the McGills believed this seismic data would show that development would be profitable. Bass, however, claimed the seismic data disclosed from the survey was Bass's own trade secret, and refused to produce it. The trial court did not expressly find that the seismic activity data constituted trade secrets,[38] but it did order Bass to produce the seismic data to the plaintiffs subject to a protective order. The Court of Appeals denied Bass's request for a writ of mandamus in a *per curium* opinion, but the Texas Supreme Court agreed to consider it.

The supreme court began with *In re Continental General Tire, Inc.*,[39] which held that the first issue was whether the requested production constitutes a trade secret. Once this is shown, the party seeking production must show a reasonable necessity for its production. If the party seeking production fails to make such a showing, an order mandating its production would be an abuse of discretion.[40] Here, the court held both that Bass met his burden to show that geological seismic data are trade

35. Wal-Mart Stores, Inc. v. Sturges, 52 S.W.3d 711 (Tex. 2001).
36. Decorative Ctr. of Houston v. Direct Response Publ'ns, 264 F. Supp. 2d 535, 556 (S.D. Tex. 2003).
37. *In re* Bass, 113 S.W.3d 735 (Tex. 2003).
38. *Id.* at 738.
39. *In re* Cont'l Gen. Tire, Inc., 979 S.W.2d 609 (Tex. 1998).
40. *In re* Bass, 113 S.W.3d at 738.

secrets, and that the McGills failed to meet their burden of showing necessity (since there was no record of a duty to develop or breach of that duty).

Why and how the court concluded Bass met his burden of showing geological seismic data are trade secrets is significant, and resolves a split among the courts of appeal. Texas has long followed the definition of a trade secret found in the original Restatement of Torts.[41] "Any formula, pattern, device or compilation of information which is used in one's business and presents an opportunity to obtain an advantage over competitors who do not know or use it", and has applied the Restatement's six-factor test in order to determine whether a trade secret exists:

> (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.[42]

These factors have been carried forward into the new Restatement (Third) of Unfair Competition, which treats the factors as relevant, though not dispositive, criteria.[43]

The first issue—on which the courts of appeal appear to have been split—is whether the six factors should merely be weighed as relevant criteria, or whether a person claiming a trade secret privilege must satisfy *all six* factors before trade secret status applies. In *Bass,* the court makes clear that the party claiming a trade secret should not be required to satisfy all six factors of the Restatement of Torts,[44] "because trade secrets do not fit neatly into each factor every time."[45] Nor would the court regard the six factors as exhaustive: "We additionally recognize that other circumstances could also be relevant to the trade secret analysis."[46] Instead, all the factors are to be weighed in the context of the surrounding circumstances, and others may come to the fore.

Interestingly, in this case the court introduced a new factor—namely, how the oil and gas industry typically treats seismic data and other methods for obtaining subsurface geological information—before even proceeding to consider the traditional six factors. It is "undisputed," in the court's view, that the industry typically treats such data as trade secrets, as do other jurisdictions (the court cited Alabama, Indiana and the Fifth

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41. Restatement of Torts § 757 cmt. b (1939)
42. *Id.*
43. *In re* Bass, 113 S.W.3d at 739 (citing Restatement (Third) of Unfair Competition § 39 cmt. d (1995)).
44. Restatement of Torts § 757 cmt. b (1939).
45. *In re Bass*, 113 S.W.3d at 740.
46. *Id.*

Circuit).[47] With this background (or it may be called a "first factor," or perhaps a "surrounding circumstances" in whose context the other six factors may be weighed), it was not surprising that the court concluded the traditional six factors weighed in favor of trade secret status. The record indicated the seismic data was not readily available, had been kept closely held, was expensive and valuable, and would be costly to reproduce.[48]

B. Obtaining Discovery of Trade Secrets

In the second Texas Supreme Court case addressing trade secret privilege, the court revisited the trade secret status of a tire manufacturer's formula for "skim stock" in *In re Bridgestone/Firestone, Inc.*[49] Plaintiffs in the "defective tire" cases again sought the skim stock formula. The trial court found that Firestone had established its trade secret privilege, and under *Continental General Tire*, the burden then fell upon the plaintiffs to establish that the information was necessary or essential for a fair adjudication of their claims.[50] The trial court found the plaintiffs met this burden, and ordered Firestone to produce the formula under a protective order.

On application for a writ of mandamus, the court revisited the issue of what would or would not be considered "necessary" for a fair adjudication. In *Continental General Tire*, the court merely said it would depend on the circumstances involved. Firestone argued that once trade secret status is shown, discovery should be precluded unless the plaintiff could not prevail without it. The court refused to read *Continental General Tire* that broadly, repeating that the degree to which information is "necessary" would depend on the nature of the information and the context of the case. It noted that it may be theoretically possible to prevail without access to trade secret information, and yet it would be unfair to put him to much weaker proof without the information.[51] The court did add that "we can say with certainty that the test cannot be satisfied merely by general assertions of unfairness. . . . Just as a party who claims the trade secret privilege . . . must provide detailed information in support of the claim, so a party seeking such information . . . must demonstrate with specificity exactly how the lack of the information will impair the presentation of the case on the merits to the point that an unjust result is a real, rather than a merely possible, threat."[52]

To Justices O'Neill and Schneider, this was not enough guidance. In a concurring opinion, they characterized the court's approach as "ad

47. *Id.*
48. *Id.* at 741-42.
49. *In re* Bridgestone/Firestone, Inc., 106 S.W.3d 730 (Tex. 2003).
50. *Id.* at 731 (discussing *In re* Cont'l Gen. Tire, Inc., 979 S.W.2d 609, 610-13 (Tex. 1998)).
51. *Id.* at 732.
52. *Id.* at 732-33.

hoc,"[53] and urged that determining what evidence is "necessary" should be clearer. As guiding principles, they suggested first that trade secret information be generally discoverable "when not allowing discovery would significantly impair a party's ability to establish or rebut a material element of a claim or defense," as when the information is unavailable from any other source, and no adequate alternative means of proof exists. Second, they suggested that discovery of trade secret information also be deemed necessary when the party seeking it could not otherwise knowledgeably cross-examine the opposing party's witnesses, or formulate its own opinions supported by an adequate foundation.[54]

C. Value of a Trade Secret

The value of a trade secret was at issue in the final chapter of the long-running case of *Alcatel USA, Inc. v. Cisco Systems, Inc.*[55] Here, the court held that after many years of litigation, the plaintiff had finally been unable to advance a theory and non-speculative supporting evidence from which a jury could reasonably value the alleged trade secrets and hence assess damages, and accordingly granted summary judgment for the defense.

Alcatel alleged that in the late 1990's, a California company called Monterey Networks had relocated close to Alcatel's office and methodically hired ten former Alcatel engineers, all of whom possessed highly confidential technical and marketing information of Alcatel. With these engineers (and one in particular), Alcatel alleged Monterey then designed and developed a particular product called the "Wavelength Router," designed specifically to offer to AT&T in competition with Alcatel. According to Alcatel, Monterey was keenly interested in the valuable AT&T contract not only for the contract's own sake, but also because gaining that contract would make Monterey an attractive acquisition target for Cisco Systems, Inc. Indeed, Cisco did invest $19.5 million for a 9.75 percent interest in Monterey in May 1999, and when AT&T selected Monterey as one of the finalists in the competition for its contract, Cisco agreed to buy the rest of Monterey's stock for $517 million in a deal that closed in September 1999.[56]

The timing is significant because in Alcatel's view, Monterey was only worth so many hundreds of millions of dollars because it had been able to pique AT&T's interest with its new "Wavelength Router" product (its *only* product, not incidentally); and Monterey had only been able to develop its product as quickly as it did—and in time for all this to matter—by misappropriating Alcatel's trade secrets (and specifically duplicating at Monterey what the one particular engineer had done at Alcatel). Unfortunately for all but perhaps Monterey's original shareholders, in early

53. *Id.* at 735.
54. *Id.* at 736.
55. Alcatel USA, Inc. v. Cisco Sys., Inc., 239 F. Supp. 2d 660 (E.D. Tex. 2002).
56. *Id.* at 663-64.

2000 AT&T decided not to pursue its potential relationship with Cisco for its "Wavelength Router." In April 2001 Cisco decided to drop the "Wavelength Router" project altogether,[57] but by then this action—to which it had succeeded as a party—had already been pending for a year and a half.

Damages soon emerged as a major, even dispositive, issue. It was clear that the value of the trade secrets was to be measured at the time of the alleged misappropriation. One means of this might be assessing the defendant's unjust enrichment, and Alcatel urged that logically, the starting point in determining how much Cisco had been unjustly enriched should be the $535 million which Cisco had paid to acquire Monterey. Monterey had no other product but this one, and would not have had this one (at least in a relevant time frame) but for the alleged misappropriation; therefore this was the value of the trade secrets at the time of the misappropriation.[58]

In the court's view, however, this was all "simply too speculative."[59] The court concluded that Alcatel's theory—that had Monterey not misappropriated any of the alleged trade secrets, it would not have developed a prototype in time for the big trade show, and without being shown at the trade show, AT&T would not have selected Monterey as a finalist, and if AT&T had not selected it as a finalist, Cisco would never have bought Monterey—was "contingent upon numerous dubious and tenuous inferences. . . . A break or non-occurrence in any of the above chain of events would eviscerate the foundation of Alcatel's damages, and consequently, Alcatel's damage theory is rendered exceedingly uncertain."[60] The court further criticized the use of Monterey's purchase price as a foundation for the trade secret valuation on the basis of its timing (the acquisition in September 1999 came six months after the last act of alleged misappropriation, and a year and a half after the first).[61] Additionally, it failed to apportion any of the purchase price to Monterey technology it did *not* allege Monterey had misappropriated, or to any other value of Monterey as a company.[62] This did "not logically follow," in the court's view, and was "not reasonable or reliable evidence from which a jury [could] properly value the rights that Cisco allegedly obtained."[63]

Neither Monterey nor Cisco had made any direct sales, and Alcatel had suffered no direct damages. Where the plaintiff is unable to prove specific injury from a trade secret misappropriation, and the defendant has gained no actual profits by which to value the worth to the defendant of what has been misappropriated, the court observed that the Fifth Cir-

57. *Id.* at 665.
58. *Id.* at 666.
59. *Id.* at 668.
60. *Id.* at 668.
61. *Id.* at 670.
62. *Id.* at 670-71.
63. *Id.* at 671.

cuit has recognized the "reasonable royalty" method of measuring damages, citing the seminal case of *University Computing Co. v. Lykes-Youngstown Corp.*[64] Under this method—largely a creation so that "the absence of lost profits by a plaintiff or gained profits by a defendant does not, nor should not, insulate a defendant 'from being obliged to pay for what they wrongfully obtained in the mistaken belief their theft would benefit them'"[65]—the court awards damages based on a reasonable royalty the parties would have hypothetically agreed upon, had they been negotiating for a license at the time of the alleged misappropriation.

Nevertheless, as the court further noted, a plaintiff must introduce evidence "by which the jury can value the rights the defendant has obtained."[66] Here, the court held that Alcatel's evidence was insufficient in this respect as well, being almost entirely focused on Monterey's sales price to Cisco. The court distinguished this situation from that in *Youngstown* in that there was no evidence of other licenses granted or contemplated by the plaintiff for the same technology, of Alcatel's development costs for it, or how much would have been sold. These were some of the factors approved in *Youngstown* to be considered.[67]

Finding no sufficient evidence to support the plaintiff's damages theory—after, as it pointedly observed,. it had afforded ample opportunity for the purpose[68]—the court concluded there was no further relief available, and granted summary judgment.

D. Trade Secrets and Preliminary Injunctions

In a preliminary injunction setting, the case of *Cisco Systems, Inc. v. Huawei Technologies Co.*,[69] was an interesting application of familiar principles for handling trade secret claims. In addition to copyright claims, Cisco alleged that Huawei had obtained some of Cisco's source code through improper means, and sought a broad preliminary injunction against its use, disclosure, or distribution. Huawei denied that it had obtained the source code through improper means in the first place, but also argued that no injunction was appropriate because the plaintiff had not sufficiently identified that portion of its source code which it claimed was entitled to trade secret protection, and that no injunction was necessary because it would agree not to use code derived from what source code of Cisco's was understood to be at issue.[70]

In a manner somewhat similar to that employed by the Texas Supreme Court in *In Re Bass*, the court first noted that both courts and the industry "generally recognized that a company's source code *can* constitute a

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64. *Id.* at 667 (citing Univ. Computing Co. v. Lykes-Youngstown Corp., 504 F.2d 518 (5th Cir. 1974)).
65. *Id.* at 672 (citing *Youngstown*, 504 F.2d at 536).
66. *Id.*
67. *Id.* at 672-73 n.10.
68. *Id.* at 668.
69. Cisco Sys., Inc. v. Huawei Techs. Co., 266 F. Supp. 2d 551 (E.D. Tex. 2003).
70. *Id.* at 555.

trade secret."[71] There was sufficient affidavit evidence that the plaintiff maintained its source code under secrecy and used reasonable methods to preserve its trade secret status, as well as sufficient proof that the defendants used some of the plaintiff's source code in connection with development of one module of its software.[72]

"The difficult question," in the court's view, was "whether the defendants had acquired the trade secret by any improper means."[73] Mindful of the procedural posture of the case, however, the court concluded it was unnecessary to determine exactly how this had come about. The defendants had agreed not to distribute the portion of their code containing the disputed code. Weighing the balance of harms, the court concluded the defendants would face little harm from being enjoined from doing something they had agreed not to do anyway, while the plaintiff could face a serious injury if its confidential source code were publicly disclosed. Significantly, under the venerable *Canal Authority of Florida v. Callaway*,[74] the plaintiff must still show it is likely to win on the merits, but the court recalled that "[a]lthough a showing that plaintiff will be more severely prejudiced by a denial of the injunction than defendant would be by its grant does not remove the need to show some probability of waning on the merits, it does lower the standard that must be met."[75] Applied here, the low risk of harm to the defendant coupled with the more serious threat to the plaintiff lowered the showing the court felt was necessary on the merits enough to warrant a preliminary injunction.

How broad an injunction was a different matter. The plaintiff sought a worldwide preliminary injunction that would prevent any disclosure or transfer of *any* Cisco source code.[76] The preliminary record, however, did not persuade the court that the similarities between the defendant's and the plaintiff's codes other than the specific module at issue warranted such a broad injunction. Mindful that a preliminary injunction is "an extraordinary remedy, not available unless the plaintiff carries his burden of persuasion as to all of the four prerequisites,"[77] the court limited the preliminary injunction to the specific module at issue, and required a surety bond of $5,000,000.[78]

E. Customer Lists

Customer lists are fertile ground for trade secret claims. They *may*

71. *Id.* at 555 (emphasis supplied). (Note the distinction between a view that an industry and other jurisdictions generally do regard data as trade secrets, such as the seismic data in *Bass*, and the view that the data "can" constitute trade secrets, presumably if the proper showing is met.)
72. *Id.* at 556.
73. *Id.*
74. Canal Auth. of Fla. v. Callaway, 489 F.2d 567 (5th Cir. 1974).
75. *Cisco Sys., Inc.*, 266 F. Supp. 2d at 556 (citing *Canal Auth.*, 489 F.2d at 578).
76. *Id.* at 557 (emphasis in original).
77. *Id.* at 557 (citing *Canal Auth.*, 489 F.2d at 575).
78. *Id.*

constitute trade secrets,[79] but as the Fifth Circuit reminds, "not all customer lists are trade secrets under Texas law . . . they must be *secret*. . . . A customer list of readily ascertainable names and addresses will not be protected as a trade secret."[80] In *Provenzale*, though former employer Carpenter had taken steps to protect its customer list, and former reinsurance broker Provenzale had acknowledged it was confidential, it was readily ascertainable by proper means, and the court concluded it was therefore not a trade secret.[81]

F. Texas Theft Liability Act

The Texas Theft Liability Act[82] provides a civil cause of action for statutory damages, attorneys' fees, and court costs where theft is proven. The *Alcatel* case also addressed this Act, both in determining whether statutory damages may be available even in the absence of satisfactory proof of actual damages, and also whether a party who has not been able to show such actual damages may recover attorneys' fees as a "prevailing party" under the Act. In both respects the *Alcatel* court concluded it could not. Reading the plain language of the statute, which makes an award of $1,000 statutory damages contingent upon an award of actual damages, the court concluded that Alcatel's inability to recover *actual* damages precluded its recovery of *statutory* damages.[83]

The attorneys' fees issue was somewhat more complex. The Act provides that a prevailing party in a suit under that chapter "shall" be awarded attorneys' fees.[84] *Alcatel* relied on *Johns v. Rem-Forwarding, Inc.*,[85] which awarded attorneys' fees to a plaintiff who had received a monetary award for conversion, though the jury had not awarded any damages under the claim directly through the Act. Declining to read *Johns* "to its logical extreme," the court observed that the plaintiff in *Johns* did obtain an enforceable monetary award that arose from the same body of facts comprising its civil theft claim, and was vindicated by the trial court's judgment. In this case, however, there was no material relief left available to Alcatel under any theory, and the court refused to hold a trial just to potentially recover nominal damages as a predicate for an attorneys' fee award.[86]

The case of *Tom James of Dallas, Inc. v. Cobb*[87] emphasized the importance of the statutory language "at the time the agreement is made" in noncompetition covenant analysis. Initially, it presented an interesting

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79. *See* Restatement of Torts § 757 cmt. b (1939).
80. Guy Carpenter & Co. v. Provenzale, 334 F.3d 459, 467 (5th Cir. 2003).
81. *Id.* at 468.
82. Tex. Civ. Prac. & Rem. Code Ann. §§ 134.001 *et seq.* (Vernon 1997).
83. Alcatel USA, Inc. v. Cisco Sys., Inc., 239 F. Supp.2d 660, 674 (E.D. Tex. 2002).
84. Tex. Civ. Prac. & Rem. Code Ann. § 134.005(a).
85. Johns v. Rem-Forwarding, Inc., 29 S.W.3d 635 (Tex. App.—Houston [1st Dist.] 2000, no pet.).
86. *Alcatel*, 239 F. Supp. 2d at 675-76.
87. Tom James of Dallas, Inc. v. Cobb, 109 S.W.3d 877 (Tex. App.—Dallas 2003, no pet.).

procedural question; it came to the Dallas Court of Appeals as an interlocutory appeal from the trial court's denial of the temporary injunction application. *Tom James* alleged that the trial court went beyond the limited probable success/probable harm standard of a temporary injunction and made a decision on the merits, so the court of appeals should conduct *de novo* review (rather than abuse of discretion) and hold the noncompetition enforceable. The court did review legal issues *de novo*, but did not agree that the trial court had reached the ultimate issue of enforceability, and declined to do so itself. Instead the court declined to regard the language of the trial court's order denying the application as containing findings and conclusions under Texas Rules of Civil Procedure Section 296, and decided to uphold the trial court's determination "on any legal theory supported by the record."[88]

In this case, departing employees were subject to two-year noncompetition covenants and nondisclosure agreements. The employees argued that the noncompetition covenant lacked consideration, because the allegedly "otherwise enforceable agreement" was not "ancillary to or part of" that agreement "at the moment the agreement is made."[89] Three times in only two pages, the court emphasized in italics that the point in time relevant to this determination "is *the moment the agreement is made*," once citing an earlier case with emphasis in the original, and twice providing the emphasis itself.[90] Applied to the facts of this case, there were three allegedly "otherwise enforceable agreements": an agreement to provide sales aids, an agreement to provide confidential information, and an agreement to provide specialized training. But the court of appeals determined the trial court could have concluded that none of these were enforceable or non-illusory "at the time [they were] made," because Tom James could have avoided its obligation to provide sales aids simply by terminating the employees, and the agreements recited that the employees "[had] received" the confidential information and specialized training, which—being past—would not provide consideration for a fresh commitment.[91]

Whether customer lists and other sales information would be protectable was also an issue. Most of the employer's printed forms contained a confidentiality legend, but there was conflicting testimony as to how strictly that was honored in practice. There was testimony that the employer did not treat such materials as confidential in practice, even encouraging salespeople to take potential sales recruits along with them on sales calls, observing customers, prices, and the like. With those facts, the Court of Appeals determined the trial court could have concluded the employer had lost all control of that information and had lost its trade

88. *Id.* at 885 (citing Davis v. Huey, 571 S.W.2d 859, 862 (Tex. 1978)).

89. *See* TEX. BUS. & COM. CODE ANN. § 15.50(a); Light v. Centel Cellular Co., 883 S.W.2d 642, 645-47 (Tex. 1994).

90. *Tom James of Dallas*, 109 S.W.3d at 886-87.

91. *Id.* at 886-87.

secret status.[92]

A trial court's decision to grant a temporary injunction enforcing a noncompetition covenant was reversed in *Strickland v. Medtronic, Inc.*[93] Strickland was a sales representative whose noncompetition covenant would restrict her from selling competitive products in her old sales territory (as it existed during her last year of employment) for up to 360 days following her resignation or termination for cause.[94] She asserted that the covenant not to compete was unenforceable because it was not ancillary to an otherwise enforceable agreement, and was unreasonably broad in scope.[95]

The initial issue was whether she was really an at-will employee at all, since her agreement required Medtronic to give her at least ninety days notice before terminating her without cause. The court disagreed with Medtronic's assertion that this provided, in effect, at least a three-month term of employment, holding that it was clear that she could be terminated anyway at Medtronic's election, and thus the agreement did "not limit Medtronic's ability to terminate Strickland in any meaningful way," as it held would be required in order to alter the presumption of at-will employment.[96] Ordinarily, an at-will employment relationship would not constitute an "otherwise enforceable agreement" because it is not binding on either party,[97] and the court disagreed that the employer's promise to provide confidential information or the employee's agreement not to misuse or disclose it would constitute "otherwise enforceable agreements" either, again because they would not have been enforceable "at the time the agreement is made."[98]

Interestingly, however, the court did conclude that Medtronic's promise to provide ninety days notice of termination if she was to be terminated without cause, and its promise to compensate Strickland if the noncompete agreement resulted in economic hardship to her, would at least constitute consideration. But these promises still would not satisfy the other prong of the *Light v. Centel* test: "A covenant not to compete is ancillary to an otherwise enforceable agreement only when (1) the employer's consideration in the otherwise enforceable agreement gives rise to the employer's interest in restraining the employee from competing, and (2) the covenant is designed to enforce the employee's consideration in the otherwise enforceable agreement."[99] Here, in essence, the employer was only obligating itself to pay compensation to the employee during this period, and that alone would not give rise to an interest to be protected by a noncompetition covenant.

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92. *Id.* 888-89.
93. Strickland v. Medtronic, Inc., 97 S.W.3d 835 (Tex. App.—Dallas 2003, pet. dism'd).
94. *Id.* at 837.
95. *Id.* at 838.
96. *Id.*
97. *Id.*
98. *Id.* at 838-39.
99. *Id.* at 839 (citing Light v. Centel Cellular Co., 883 S.W.2d 642 (Tex. 1994)).

It is understood that the Covenants Not to Compete Act provides the criteria for enforceability of a covenant not to compete. In *Norlyn Enterprises, Inc. v. APDP, Inc.*,[100] the court of appeals considered whether the traditional elements of probable injury (including imminent harm, irreparable injury, and no adequate remedy at law)[101] must also be shown. Noting that Section 15.52 of the Covenants Not to Compete Act, entitled "Preemption of Other Law," provides that, "the criteria for enforceability of a covenant not to compete provided by Section 15.50 of the Code and the procedures and remedies . . . provided by Section 15.51 of this Code are exclusive and preempt any other criteria for enforceability of a covenant not to compete or procedures and remedies in an action to enforce a covenant not to compete under common law or otherwise."[102] Accordingly, the court concluded that it is not necessary for a promissee to show irreparable injury for which it has no adequate legal remedy. The trial court had denied the plaintiff's request for a temporary injunction because the plaintiff failed to show an irreparable injury and a lack of an adequate remedy at law. Since the court concluded these were not necessary, it determined the trial court abused its discretion in misapplying the law to the established facts of the case, reversed the trial court's order denying the temporary injunction, and remanded it to the trial court for a new hearing "in conformance with the Covenants Not to Compete Act."[103]

The Beaumont Court of Appeals disagreed. In *NMTC Corp. v. Conarroe*,[104] Matco Tools sought to restrain a former distributor from selling tools in his former territory. In denying Matco Tools's application for a temporary injunction, the trial court applied the common-law prerequisites for temporary injunctions, including a probable right to recover, and probable, imminent, and irreparable injury with no remedy at law, and found that Matco already had an adequate remedy at law and no substantial risk of imminent or irreparable harm.[105]

On appeal, Matco argued—just as the First Court of Appeals in Houston had determined in *Norlyn*—that the Covenants Not to Compete Act was entirely preemptive on this issue, and that it would provide the exclusive criteria under which the enforceability must be judged, no matter what the stage of the proceedings. Not, however, *in the context of a temporary injunction proceeding* in the view of the Beaumont Court of Appeals, since the preemption section of the Act was silent on the subject of temporary injunctions or other procedures available to a litigant in the short term, and appeared by its terms to apply only in the context of a

100. Norlyn Enters., Inc. v. APDP, Inc., 95 S.W.3d 578 (Tex. App.—Houston [1st Dist.] 2002, no pet.).
101. *See T-N-T Motor Sports*, 965 S.W.2d 18, 24 (Tex. App.—Houston [1st Dist.] 1998, pet. dism'd).
102. *Norlyn Enters.*, 95 S.W.3d at 583.
103. *Id.* at 585.
104. NMTC Corp. v. Conarroe, 99 S.W.3d 865 (Tex. App.—Beaumont 2003, no pet.).
105. *Id.* at 866-67.

final trial on the merits. Instead, the court observed that temporary injunctions precede a final determination on the merits and serve the very different purpose of merely preserving the status quo in the meantime, that the Act did not eliminate the distinction between temporary and permanent injunctions in this context, and that the principles of equity "must control the pretrial remedy."[106]

Significantly, in assessing whether the trial court had abused its discretion in denying the application, the court balanced both "the equities of the parties and the resulting hardships from issuance or denial of the temporary injunction," and concluded based on supporting evidence that it had not.[107]

In *Guy Carpenter & Co. v. Provenzale*,[108] the U.S. Court of Appeals for the Fifth Circuit, applying Texas law in a diversity case, appears not to have focused on the requirement of "at the time the agreement is made" (or the requirement of a geographic limitation, unless part of the agreement at issue was omitted). There, a reinsurance broker left his old firm for a new one, where he solicited former clients. His nondisclosure/noncompetition agreement had provided for a one-year nonsolicitation period as to anyone he had served with while his former employer. The district court held the former employer did not show a likelihood of success on the merits because the covenants were unenforceable, and the former employer had not fully developed its claim of what constituted trade secret misappropriation.[109]

By the time the matter reached the Fifth Circuit, the one-year period after Mr. Provenzale's departure had long since expired. The court held that this did not make the injunction issue moot, however, since the court's equitable power could extend to craft an injunction extending beyond the expiration of the period (and adding that "exercising this equitable power might be particularly appropriate" in this case given the year-long delay in ruling on a motion for reconsideration).[110]

Substantively, the court noted that nondisclosure agreements are not governed or impaired by the Covenants Not to Compete Act, and concluded that the district court's assumption that the Act would apply to nondisclosure agreements "erroneously tainted its conclusion that [movant] did not have a likelihood of success on the merits of this claim."[111] With respect to the noncompetition covenant itself, the court also observed that the former employer's unequivocal commitments to pay Mr. Provenzale $35,000 to execute the agreement, and more if it terminated him before a certain time without cause were non-illusory and "otherwise enforceable."

106. *Id.* at 867-68.
107. *Id.* at 869.
108. Guy Carpenter & Co. v. Provenzale, 334 F.3d 459, 459 (5th Cir. 2003).
109. *Id.* at 462-63.
110. *Id.* at 464.
111. *Id.* at 465.

Interestingly, the court insisted that the agreement clearly satisfied the "ancillary to or part of" requirement, insisting (twice) that the arrangement between Mr. Provenzale and his former employer—that it would give him confidential information in exchange for his promise not to disclose them or compete—is "the precise type of arrangement that the Texas Supreme Court believes satisfies [the] test."[112] Mr. Provenzale argued, however, that because his employer's promise to provide trade secrets was illusory (as based on continued employment), it must fail the "ancillary to or part of" test. The court "decline[d] to adopt this construction of *Light's* 'ancillary to or part of' test. . . . To hold otherwise would pin the enforceability of non-solicitation agreements on whether an employer discloses confidential information at the time the employee signs an employment contract. This is not what *Light*, or Section 15.50, intends or requires."[113]

VI. BUSINESS DISPARAGEMENT

What constitutes "truth" in the context of a mixed claim of libel, slander, business disparagement, tortious interference, and other claims arose in the case of *Gustafson v. City of Austin*.[114] There, a former CPR instructor for the American Heart Association complained of an email from a City of Austin employee to several of her co-workers, stating that Mr. Gustafson was "no longer a valid American Heart Association instructor, that his instructor status had been 'officially revoked,' and that he could still teach CPR but no longer hand out American Heart Association certificates."[115]

The principal issue on appeal was whether this was "substantially true," which it would be "if its 'gist' or 'sting' is not substantially worse than the literal truth [would have been]" in the mind of the average person reading it and in the light of surrounding circumstances.[116] Here, the court held that the "gist" of the email was that Mr. Gustafson could no longer teach AHA-approved courses or deliver the certificates,[117] and that whether he had been *officially* revoked or terminated was of "'secondary importance' because the gist of the email is not substantially worse than the literal truth."[118] Accordingly, the accused statements were held to be substantially true, and the causes of action based on them could not be sustained. It was not necessary for the court to reach the distinction between a cause of action for libel and slander and one for business disparagement.[119]

112. *Id.* at 465-66.
113. *Id.* at 466.
114. Gustafson v. City of Austin, 110 S.W.3d 652 (Tex. App.—Austin 2003, pet. denied).
115. *Id.* at 655.
116. *Id.* at 656.
117. *Id.* at 657 (which was what the court believed students taking CPR courses wanted).
118. *Id.*
119. *See* Hurlbut v. Gulf Atl. Life Ins. Co., 749 S.W.2d 762, 766 (Tex. 1987).

VII. CIVIL CONSPIRACY

In *San Antonio Credit Union v. O'Connor*,[120] the court reiterated that civil conspiracy is a derivative tort requiring specific intent and a meeting of the minds. For specific intent to exist, said the court, the parties must be aware of the harm or wrongful conduct at the beginning of their agreement and intend to cause that harm; and to have had a meeting of the minds, there must be an agreement among them and each must have a specific intent to commit the act. In this case, some homeowners had sought a criminal indictment against their former house contractor for alleged felonious misapplication of funds. The indictment was dismissed, but the contractor evidently was furious and brought an action against the homeowners for a variety of issues related to defamation, malicious prosecution and the like. It had joined the homeowners' lender in the suit, claiming the lender was jointly and severally liable with the homeowners through what it characterized as a conspiracy to commit those torts.

In the resulting trial, the jury found that the lender and the homeowners conspired to defame and intentionally inflict emotional distress on the contractor. The court of appeals reversed on this point, however, concluding that although the lender provided the homeowners with documentation which the homeowners used in pursuing a criminal complaint against the contractor, there was no evidence that the lender intended, by providing this documentation, to cause the contractor emotional distress or to slander him.[121]

VII. TRADEMARK AND TRADE DRESS INFRINGEMENT

Moseley v. V Secret Catalogue, Inc.,[122] is the defining case to date on the elusive concept of federal trademark "dilution." The federal anti-dilution statute, 15 U.S.C. § 1125(c), provides that:

> The owner of a famous mark shall be entitled, subject to the principles of equity and upon such terms as the court deems reasonable, to an injunction against another person's commercial use in commerce of a mark or trade name, if such use begins after the mark has become famous *and causes dilution* of the distinctive quality of the mark. . . . (emphasis added).[123]

The Federal Trademark Dilution Act defines dilution as "the lessening of the capacity of a famous mark to identify and distinguish goods or services, regardless of the presence or absence of (1) competition between the owner of the famous mark and other parties, or (2) likelihood of confusion, mistake, or deception."[124]

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120. San Antonio Credit Union v. O'Connor, 115 S.W.3d 82 (Tex. App.—San Antonio, 2003, no pet.).
121. *Id.* at 88-94.
122. Moseley v. V Secret Catalogue, Inc., 537 U.S. 418 (2003).
123. 15 U.S.C. § 1125(c) (2000).
124. 15 U.S.C. § 1127 (2000).

In *Moseley*, Mr. and Mrs. Moseley had opened a retail store in Kentucky selling women's lingerie and adult materials, under the name of "Victor's Secret." The owner of the famous trademark VICTORIA'S SECRET objected, claiming that Moseley's use would likely confuse, and also would dilute the distinctiveness of their mark. The issue before the U.S. Supreme Court was whether objective proof of actual injury to the economic value of a famous mark—as opposed to a presumption of harm arising from a subjective "likelihood of dilution" standard—is required.[125]

Reading the exact language of the definition, which defines dilution as an actual "lessening of the capacity" of the mark in contrast to the later reference to a "likelihood of confusion," led the Court to conclude that *actual* dilution must be established.[126]

Exactly what that would mean in practice, however, would be somewhat elusive. The Court held that it would not be necessary to prove an actual loss of sales or profits. But it would be necessary to show more than the "mere fact that consumers mentally associate the junior user's mark with a famous mark." Referring to the Fourth Circuit's opinion in *Ringling Brothers-Barnum & Bailey Combined Shows, Inc. v. Utah Division of Travel Development*,[127] the Court observed that "even though Utah drivers may be reminded of the circus when they see a license plate referring to the 'greatest snow on earth,' it by no means follows that they will associate 'the greatest show on earth' with skiing or snow sports, or associate it any less strongly or exclusively with the circus."[128]

In this case, the record showed no evidence that the famous Victoria's Secret mark had suffered any actual dilution. There was evidence of an army colonel who had made the association between an ad for Victor's Secret and Victoria's Secret and had been offended by the adult materials, but his opinion of Victoria's Secret was unaffected. Nor did any expert testimony establish any impact on the strength of the Victoria's Secret mark. The Court did realize that establishing such an impact may be difficult and expensive to prove, as Victoria's Secret and others who had filed *amicus curiae* briefs had argued, but the Court was unwilling to dispense with proof requirements of what it viewed as an essential element of a statutory violation.[129]

IX. COMMON LAW UNFAIR COMPETITION

At common law, the term "unfair competition" usually meant specifically the tort of "passing off" (or "palming off") one's own goods or services as those of another. More recently, however, in Texas a claim for

125. *Moseley*, 537 U.S. at 422.
126. *Id.* at 433.
127. Ringling Bros.-Barnum & Bailey Combined Shows, Inc. v. Utah Div. of Travel Dev., 170 F.3d 449 (4th Cir. 1999) ("Greatest Snow on Earth").
128. *Moseley*, 537 U.S. at 433-34.
129. *Id.* at 434.

unfair competition "is the umbrella for all statutory and non-statutory causes of action arising out of business conduct which is contrary to honest practice in industry or commercial matters."[130] Something more than mere ugliness is required, however: "[T]he tort [of unfair competition] requires that the plaintiff show an illegal act by the defendant which interfered with the plaintiff's ability to conduct its business. . . although the illegal act need not necessarily violate criminal law, it must at least be an independent tort."[131]

Applied to the *Decorative Center of Houston*[132] facts, the "illegal act" would have been a Lanham Act violation by the publisher, but since the court concluded that the Center had not established a Lanham Act violation by the publisher, the unfair competition claim must fail for lack of underpinning.[133]

A similar result, based on a similar analysis, occurred in *Laughlin Products, Inc. v. ETS, Inc.*,[134] There, the "illegal act" would again have been a Lanham Act infringement, but in the absence of any specific elements or theories that would require a different analysis than the court followed to conclude that the plaintiff could not make out a Lanham Act claim, the court granted summary judgment for the defendant.

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130. Taylor Publ'g Co. v. Jostens, Inc., 216 F.3rd 465, 486 (5th Cir. 2000).
131. *Id.* at 486.
132. Decorative Ctr. of Houston v. Direct Response Publ'ns, 264 F. Supp. 2d 535, 556-57 (S.D. Tex. 2003).
133. *Id.* at 557.
134. Laughlin Prods., Inc. v. ETS, Inc., 257 F. Supp. 2d 863 (N.D. Tex. 2002).