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NOT FOR CITATION
IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF CALIFORNIA
SAN JOSE DIVISION

EXCELLIGENCE LEARNING CORPORATION,
Plaintiff,
v.
ORIENTAL TRADING COMPANY, INC., et al.,
Defendants.

Case Number C-03-4947-JF

ORDER (1) GRANTING
DEFENDANTS' MOTIONS FOR
PARTIAL SUMMARY JUDGMENT
AND (2) DENYING AS MOOT
DEFENDANTS' MOTION TO
STRIKE THE SECOND AMENDED
COMPLAINT

[Doc. Nos. 204, 228, 238]

Before the Court are Defendants' motions for partial summary judgment and motion to strike Plaintiff's second amended complaint. The Court has considered the moving and opposing papers as well as the oral arguments presented at the hearing on November 9, 2004. For the reasons discussed below, the Court will grant Defendants' motions for partial summary judgment, thereby disposing of all remaining claims in the second amended complaint. The Court will deny as moot Defendants' motion to strike Plaintiff's second amended complaint.

I. BACKGROUND

Plaintiff Excelligence Learning Corporation ("Excelligence") develops, manufactures and sells educational products. The business was begun by its CEO, Ron Elliot ("Elliot"), as a retail

1 store in 1985, but shortly thereafter morphed into a catalog operation. Excelligence’s Discount
2 School Supply (“DSS”) catalog, specializing in crafts and school supplies for very young
3 children, soon became a discount industry leader. By 1991 the company had more than \$1
4 million in gross revenue; by 2003 it had more than \$110 million. More than half of the
5 company’s sales derive from the DSS catalog.

6 Defendant Teresa Martini (“Martini”) began working for Excelligence in 1996 and within
7 two years was promoted to vice president of merchandising. In that position she was primarily
8 responsible for producing the DSS catalog. To aid her in this task, she created a “master catalog”
9 for each catalog issue. This master catalog was a copy of the catalog that had been annotated to
10 reflect the sales rank and profit margin for each product in the catalog. Reviewing prior master
11 catalogs helped Martini determine product selection and placement for subsequent issues of the
12 catalog.

13 The relationship between Elliot and Martini was rocky. On several occasions, Elliot
14 made disparaging remarks about Martini, comparing her to Osama Bin Laden and stating after
15 her termination that “the company has just taken a huge laxative.” Elliot fired Martini in
16 November 2001. Approximately eight months later, in July 2002, after interviewing with a
17 number of companies, Martini accepted a position with Defendant Oriental Trading Company
18 (“OTC”) as a director of merchandising. OTC has been in the catalog business for more than
19 fifty years and sells its products through approximately twenty different catalogs as well as web
20 sites. Prior to hiring Martini, OTC had not issued a catalog focusing on early childhood arts and
21 crafts. However, shortly after her arrival Martini was placed in charge of creating OTC’s new
22 Hands on Fun (“HoF”) catalog, featuring discount arts and crafts supplies in direct competition
23 with Excelligence’s DSS catalog. The first HoF catalog was published in May 2003 as an insert
24 in an existing OTC catalog. OTC published several more HoF inserts before publishing the first
25 HoF stand-alone catalog in April 2004.

26 Excelligence filed the complaint in the instant action on November 5, 2003 and filed an
27 amended complaint on November 13, 2003, alleging claims against OTC and Martini for: (1)
28 misappropriation of trade secrets under Cal. Civ. Code §§ 3426 *et seq.*; (2) unfair competition

1 under the Lanham Act, 15 U.S.C. § 1125(a); (3) trademark infringement under the Lanham Act,
2 15 U.S.C. § 1114(1); (4) violation of Cal. Bus. & Prof. Code §§ 17500 *et seq.*; (5) violation of
3 Cal. Bus. & Prof. Code §§ 17200 *et seq.*; and (6) copyright infringement.

4 On June 11, 2004, the Court issued an order granting Excelligence's motion for leave to
5 file a second amended complaint ("SAC") adding two claims: (7) breach of confidentiality
6 agreement; and (8) tortious interference with confidentiality agreement. A copy of the SAC was
7 provided to the Court and defense counsel in connection with Excelligence's motion, but was not
8 formally filed when the Court issued its order, apparently as a result of a clerical error.
9 Excelligence formally filed its SAC on September 27, 2004, after being informed that
10 Defendants were taking the position that Excelligence's failure to file the SAC constituted an
11 abandonment of that pleading.

12 On September 24, 2004, pursuant to a stipulation between the parties, Excelligence
13 voluntarily dismissed with prejudice its third claim for trademark infringement under 15 U.S.C. §
14 1114(1). Defendants now move for summary judgment with respect to all remaining claims,
15 including the contract and interference claims added by the SAC. In the event the Court does not
16 grant summary judgment with respect to these latter claims, Defendants move to strike the SAC
17 or, in the alternative, to reopen discovery with respect to the newly added claims.

18 II. SUMMARY JUDGMENT

19 A. Legal Standard

20 A motion for summary judgment should be granted if there is no genuine issue of
21 material fact and the moving party is entitled to judgment as a matter of law. Fed. R. Civ. P.
22 56(c); *Anderson v. Liberty Lobby, Inc.*, 477 U.S. 242, 247-48 (1986). The moving party bears
23 the initial burden of informing the Court of the basis for the motion and identifying the portions
24 of the pleadings, depositions, answers to interrogatories, admissions, or affidavits that
25 demonstrate the absence of a triable issue of material fact. *Celotex Corp. v. Catrett*, 477 U.S.
26 317, 323 (1986).

27 If the moving party meets this initial burden, the burden shifts to the non-moving party to
28 present specific facts showing that there is a genuine issue for trial. Fed. R. Civ. P. 56(e);

1 *Celotex*, 477 U.S. at 324. A genuine issue for trial exists if the non-moving party presents
2 evidence from which a reasonable jury, viewing the evidence in the light most favorable to that
3 party, could resolve the material issue in his or her favor. *Anderson*, 477 U.S. 242, 248-49;
4 *Barlow v. Ground*, 943 F.2d 1132, 1134-36 (9th Cir. 1991).

5 **B. Trade Secrets (Claim 1) And State Law Unfair Competition (Claims 4 And 5)**

6 Under California’s version of the Uniform Trade Secrets Act (“UTSA”), a “trade secret”
7 is defined as “information, including a formula, pattern, compilation, program, device, method,
8 technique, or process” which (1) derives independent economic value, actual or potential, from
9 not being generally known to the public or others who can obtain economic value from its
10 disclosure or use *and* (2) is the subject of efforts that are reasonable under the circumstances to
11 maintain its secrecy. Cal. Civ. Code § 3426.1(d). A person who improperly discloses a trade
12 secret or who acquires a trade secret by improper means may be liable for misappropriation of
13 trade secrets. Cal. Civ. Code § 3426.1(b).

14 In the employment context, California courts have recognized that the UTSA does not
15 preclude former employees from using general knowledge, skill and experience acquired while
16 working for a former employer in order to compete against that employer. *Morlife, Inc. v. Lloyd*
17 *Perry*, 56 Cal.App.4th 1514, 1519 (1997). However, the UTSA does preclude former employees
18 from using trade secrets during such competition, even secrets that have not been reduced to
19 writing and are carried solely in the employee’s mind. *Id.* at 1519, 1522-23. In this manner, the
20 UTSA attempts to balance the important legal rights of persons to engage in occupations of their
21 choosing against “the concomitant right to have the ingenuity and industry one invests in the
22 success of a business or occupation protected from the gratuitous use of that ‘sweat of the brow’
23 by others.” *Id.* at 1520.

24 Claim 1 alleges that Defendants misappropriated “product, marketing, financial and
25 vendor information.” SAC at ¶¶ 58-59, 60. During discovery, Excelligence clarified that its
26 trade secret claim is based upon three categories of information: “financial information, layout
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1 strategies and vendor information.”¹ Johnson Decl. Exh. 26, Excelligence’s Interrog. Responses
2 Nos. 1-2. Claims 4 and 5, asserted under California’s unfair competition law, are based upon the
3 same alleged misappropriation of trade secrets and therefore rise or fall with claim 1.²

4 With respect to financial information, Excelligence claims that Martini had access to all
5 sales, pricing and cost information for the products offered in the DSS catalog, and therefore
6 knew which products constituted Excelligence’s best sellers and what the profit margins were for
7 those products. Additionally, Excelligence claims that Martini took two master catalogs when
8 she left. With respect to layout strategies, Excelligence claims that Martini learned valuable
9 confidential information regarding the most effective way to lay out a catalog (for example, that
10 paints and arts and crafts should be put at the beginning of the catalog and that craft ideas should
11 be included in the catalog). With respect to vendor information, Excelligence claims that Martini
12 knew the identity and business terms of all vendors that produced products for the DSS catalog,
13 and that this knowledge gave her a head start in finding vendors to produce products for OTC’s
14 HoF catalog.

15 **(1) Vendor Information**

16 Taking these categories in reverse order, the Court concludes that Excelligence has made
17 party admissions demonstrating that the vendor information in question does not constitute a
18 trade secret. Elliot prepared a declaration in connection with a prior action in which he stated
19 unequivocally that “vendors will readily provide retailers with product samples, pricing
20 information, delivery and payment terms and the identities of key contacts within their
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22 ¹ In its opposition brief, Excelligence refers to its “financial information, discount pricing
23 techniques and inventory control methods.” It is not clear from the brief whether Excelligence is
24 attempting to assert trade secrets claims based upon these latter two categories of information.
25 Any such claims would be precluded, however, by Excelligence’s failure to disclose these
categories in the second amended complaint or in its discovery responses.

26 ² The parties treat claims 4 and 5 as though they mirror claim 2 (a trade dress claim under
27 the Lanham Act) rather than claim 1 (trade secrets claim). However, claims 4 and 5 clearly state
28 that they are based upon misappropriation of trade secrets. SAC ¶¶ 90-92 (alleging unfair
competitive advantage resulting from alleged misappropriation of trade secret information); ¶¶
98-100 (same).

1 companies upon request and often without even being asked.” Johnson Decl. Exh. 22, Elliot
2 Decl. at ¶ 4. Elliot further stated that retailers are familiar with the identities of most vendors in
3 the marketplace, and that vendors often brag about their customers as a way to boost credibility.
4 *Id.* at ¶ 5. He made similar statements in the instant action. Johnson Exh. 3, Elliot Depo. at 200-
5 201.

6 Even if vendor information could be considered a trade secret, it appears from the
7 testimony of Excelligence’s 30(b)(6)³ witnesses Cathy Adams, Kelly Crampton and Renee
8 Farrington that Excelligence does not treat vendor information as confidential. Johnson Decl.
9 Exh. 1, Adams Depo. at 122-24 (no knowledge of any efforts by Excelligence to keep vendor
10 information confidential); Exh. 6, Crampton Depo. at 178 (identities of vendors who make
11 certain products not confidential); Exh. 9, Farrington Depo. at 41-43 (only one vendor treated as
12 confidential). Finally, Martini did not even utilize Excelligence’s vendors for the majority of the
13 products placed in the HoF catalog. OTC’s expert, Brian Dragun (“Dragun”), states that of the
14 thirty-nine vendors OTC uses for its HoF catalog, only 8 also are used for the DSS catalog.
15 Dragun Decl. Exh. A, Report at 8. With respect to those products Dragun identifies as
16 “disputed,” i.e., those products appearing in both catalogs, there are only three vendors in
17 common, *id.*, and Excelligence began working with two of those three vendors after Martini left,
18 Johnson Decl. Exh. 6, Elliott Depo. at 449-51.

19 Excelligence’s opposition brief devotes very little argument to the vendor issue, pointing
20 only to the testimony of Crampton and Elliot, both of whom state that it is not generally known
21 what particular vendors provide products to Excelligence. Conlan Decl. Exh. 1, Elliot Depo. at
22 188; Exh. 21, Crampton Depo. at 178. This evidence is insufficient to create a triable issue of
23 material fact as to whether the vendor information constitutes a trade secret, whether
24 Excelligence treated the information as confidential or, perhaps most importantly, whether OTC
25 actually used the vendor information in preparing the HoF catalog. As a result, no reasonable
26 trier of fact could find for Excelligence on its claim that Defendants misappropriated proprietary
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28 ³ Fed. R. Civ. P. 30(b)(6).

1 vendor information.

2 **(2) Layout Strategies**

3 The Court concludes that the layout strategies identified by Excelligence are apparent
4 from a visual inspection of the DSS catalog and therefore do not constitute trade secrets. For
5 example, anyone examining a DSS catalog can see that arts and crafts are at the beginning of the
6 catalog and that craft ideas are offered. Excelligence’s opposition brief does not devote any
7 argument whatsoever to the issue of layout strategies. Accordingly, the Court concludes that no
8 reasonable trier of fact could find for Excelligence on its claims that Defendants misappropriated
9 proprietary layout strategies.

10 **(3) Financial Information**

11 Excelligence’s theory is that Martini’s knowledge of sales, pricing and cost information
12 for the products offered in the DSS catalog allowed her to “cherry-pick” that catalog’s best
13 sellers for use in the HoF catalog. In addition to the information Martini had in her head as a
14 result of her position, Excelligence claims that Martini took two master catalogs reflecting the
15 sales rank and profit margin for each product in the particular issue of the catalog.

16 OTC asserts that information regarding Excelligence’s best sellers does not constitute a
17 trade secret because such information can be derived from examination of the company’s
18 catalogs and/or is generally known in the industry. OTC cites the testimony of Excelligence’s art
19 director, Lisa Derian (“Derian”), who stated that in the catalog industry the upper right-hand
20 corner of each page typically is used to highlight best selling products. Johnson Decl. Exh. 42,
21 Derian Depo. at 34, 107.⁴

22 In opposition, Excelligence cites Martini’s own testimony that best sellers sometimes
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24 ⁴ OTC also cites the testimony of Excelligence employee Nancy Ficarrotta (“Ficarrotta”) who, in response to being asked whether everyone in the industry knows what the best sellers are, replied “[y]es, yes, yes.” Johnson Decl. Exh. 7, Ficarrotta Depo. at 145. Excelligence objects to citation of this testimony, asserting that on August 30, 2004, Excelligence sent an errata letter to the court reporter, clarifying that Ficarrotta’s affirmative response was not a response to the question about best sellers, but was an agreement with the objection of Excelligence’s counsel that the question was unintelligible. The Court has not considered the disputed testimony in resolving these motions.

1 appear in the upper left-hand corner of the page and that while some assumptions can be made
2 regarding products based upon their placement in a catalog, one would need financial data to
3 know for sure whether a particular product is a bestseller. Conlan Decl. Exh. 2, Martini Depo. at
4 78, 81-82. Excelligence also cites the testimony of its employee Kathy Patton (“Patton”), who
5 states that the position of a best selling product varies depending upon a variety of
6 considerations, such as whether the product is a new one that needs to be given prominence or a
7 staple that does not need special showcasing. Conlan Decl. Exh. 18, Patton Depo. at 101.
8 Excelligence’s expert, Jack Schmid (“Schmid”), states that a product’s placement in a catalog
9 does not disclose whether the product is a best seller. Conlan Decl. Exh. 11, Schmid Depo. at
10 159. OTC’s own CEO, Robert Goldsmith (“Goldsmith”) testified that sales information, e.g.,
11 information as to how well a particular product is selling, is kept highly confidential. Conlan
12 Decl. Exh. 3, Goldsmith Depo. at 231-32. This evidence is sufficient to create a triable issue of
13 material fact as to whether a product’s status as a best seller can be discovered from catalog
14 placement or otherwise is generally known in the industry.

15 Alternatively, OTC argues that Excelligence failed to treat financial information as
16 confidential. However, Excelligence introduces evidence that such information was treated as
17 confidential, Conlan Exh. 22, Ficarrota Depo. at 61, that is sufficient to create a triable issue of
18 material fact as to this point.

19 Assuming that the best seller information does constitute a trade secret, OTC argues that
20 there is no evidence that Martini used such information in creating the HoF catalog. Martini
21 testified that she did not keep any sales information at home and did not retain any such
22 information after leaving Excelligence. Johnson Reply Decl. Exh. D, Martini Depo. at 36. The
23 DSS catalog contains approximately 2,700 products, while the HoF catalog contains several
24 hundred products. Given these numbers, is difficult to see how Martini would have been able to
25 determine solely from memory which of the DSS products were its best sellers and fill the HoF
26 product almost exclusively with those products, as Excelligence contends she did.

27 Excelligence concedes that there is no direct evidence of misappropriation, but contends
28 that there is circumstantial evidence that Martini took the May 2000 and August 2001 master

1 catalogs. The record indicates that Excelligence’s vice president of operations Crampton
2 discovered the absence of these two catalogs after commencement of the instant lawsuit - more
3 than two years after Martini was fired. Johnson Decl. Exh. 6, Crampton Depo. at 65-67. The
4 May 2000 master catalog since has been found, and there is evidence that there never was an
5 August 2001 master catalog. Johnson Decl. Exh. 44, Patton Depo. at 111-112. Accordingly, the
6 is no evidence from which a reasonable trier of fact could conclude that the master catalogs were
7 taken at all.

8 Even assuming that there is an August 2001 master catalog, and that it is missing, there is
9 no evidence that Martini took it. Excelligence points to the testimony of Martini’s sister, Mary
10 Lynn Brinkman (“Brinkman”), as evidence that Martini kept master catalogs at home. However,
11 the cited testimony does not establish this point. While Brinkman testified that Martini worked
12 on catalog layouts at home and that sometimes these catalogs were “marked up,” Conlan Decl.
13 Exh. 9, Brinkman Depo. at 27, she never stated that Martini had master catalogs at home and in
14 fact testified that she had never seen anything called a “master copy,”⁵ Johnson Reply Decl. Exh.
15 C, Brinkman Depo. at 28-29. Additionally, Brinkman testified that she never saw any
16 Excelligence papers at the home after Martini was fired. *Id.* at 36-37. Based upon this record, no
17 reasonable trier of fact could conclude that Martini stole master catalogs when she left
18 Excelligence.

19 Excelligence nonetheless asserts that Martini *must* have taken copies of master catalogs
20 or other financial information when she left, because there is no other way to account for the
21 rapidity with which Martini was able to create the HoF catalog and the overlap in products
22 between the DSS and HoF catalogs. With respect to the speed of production, Excelligence’s
23 expert, Schmid, testified that it should take nine to twelve months to launch a new catalog similar
24 to the initial sixteen-page HoF insert. Johnson Reply Decl. Exh. A, Schmid Depo. at 180. It is
25 undisputed that the first HoF insert was published a little more than nine months after Martini
26 started at OTC. Schmid further testified that it should take sixty to ninety days to select
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28 ⁵ The parties use the terms “master catalog” and “master copy” interchangeably.

1 approximately 150 products for a catalog. Johnson Reply Decl. Exh. A, Schmid Depo. at 74.
2 When he made this statement, Schmid was under the impression that Martini had made such a
3 selection within a few weeks of starting work at OTC, and believed that indicated that Martini
4 must have used Excelligence’s trade secrets. *Id.* at 58-59, 74. However, it is not at all clear from
5 the record that Martini did make such a selection in so short a time frame.

6 Excelligence asserts in its opposition brief that “[w]ithin a month after her arrival at OTC,
7 Martini already had put together a list of 144 products that she had decided to include in a new
8 catalog.” Excelligence Opp. at 8. However, the evidence cited in support of this statement is
9 problematic. Excelligence cites the deposition of OTC’s CEO, Goldsmith. In the portion of the
10 transcript referenced, Goldsmith was presented with a document prepared by Martini (“Recap”)
11 dated September 2002, which recapped an August 2002 trip to Southeast Asia. The attorney
12 questioning Goldsmith noted that one of several bullet points appearing on the Recap stated
13 “[c]reated a list of 144 product concepts for the NPS category.” Conlan Decl. Exh. 3, Goldsmith
14 Depo. at 159.⁶ Goldsmith was asked what Martini meant by “NPS category” and stated that he
15 did not know. *Id.* Accordingly, it is entirely unclear from this evidence whether the 144
16 “product concepts” mentioned in the Recap were in fact product selections for the HoF catalog.

17 Excelligence’s trade secrets case thus turns essentially on its claim that there is such an
18 extraordinary degree of overlap between the two catalogs that Martini must have cherry-picked
19 products from the DSS catalog. Excelligence contends that 90% of the products in the HoF
20 catalog also appeared in the DSS catalog, and that 90% of those overlapping products were DSS
21 best sellers. At first blush, this statement appears rather damning. However, once again
22 Excelligence’s evidence is problematic. Excelligence’s vice president of operations, Crampton,
23 states in his declaration that he performed a comparison between the DSS and HoF catalogs and
24 found a 90% overlap. Crampton Decl. ¶ 3. Crampton also compared the DSS catalog with five

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26 ⁶ The document the attorney referenced is Exh. 37 to the Conlan Declaration.
27 Excelligence’s brief erroneously cites Exh. 24 to the Conlan Declaration, which is a similar
28 document recapping an October 2002 trip. The text of the Goldsmith deposition makes clear,
however, that the document referenced therein was the September 2002 Recap provided as Exh.
37.

1 other catalogs in the field, and concluded that the overlap between the DSS catalog and those
2 catalogs was between 19% and 42%. *Id.* at ¶ 4. However, Crampton does not state his criteria
3 for finding overlap. In his deposition, he testified that he believed misappropriation had occurred
4 based upon the fact that the HoF catalog offers products “similar” to those offered in the DSS
5 catalog. Johnson Decl. Exh. 6, Crampton Depo. at 227. He also testified that he found overlap if
6 he considered the product “concept” to be the same, even if there was not an exact match
7 between the products themselves. Liang Reply Decl. Exh. G, Crampton Depo. at 293. He stated
8 that “in my opinion, a conceptual match is a match.” *Id.* Because Crampton found overlap not
9 only when products were identical but also when they were merely similar, or a “conceptual
10 match,” serious questions arise as to the 90% figure set forth in his declaration.

11 Excelligence cites the report of OTC’s expert, Dragun, for the proposition that 90% of the
12 overlapping products were Excelligence’s best sellers. As just discussed, however, it is not clear
13 that Crampton and Dragun were considering the same set of overlapping products. Perhaps more
14 troubling is the fact that Excelligence appears to be defining “best seller” as a product that ranks
15 *in the top two-thirds* with respect to sales. The cited portion of the Dragun report states that 59%
16 of the overlapping products were ranked by DSS as category “A,” while 31% were ranked as
17 category “B.” Dragun Decl. Exh. A, Report at 4. DSS considers any product ranked in
18 categories A or B to be best sellers. Johnson Reply Decl. Exh. B, Crampton Depo. at 311.
19 Categories A and B together represent 66% of the DSS products.⁷ *Id.*

20 Based upon the above evidence, Excelligence has demonstrated that approximately 90%
21 of the 200-300 products in the HoF catalog are *the same or conceptually similar* to one of the
22 2,700 products in the DSS catalog, and that approximately 90% of these overlapping products
23 were in DSS’s *top two-thirds* with respect to sales. These numbers hardly provide a reasonable
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25 ⁷ It appears that Excelligence recently revised its ranking system. Under the current
26 system, the top 33% of the products are ranked as “A,” the next 33% are ranked as “B” and the
27 last 33% are ranked as “C.” Johnson Reply Decl. Exh. B, Crampton Depo. at 311. Any product
28 in category A or B is considered a best seller, even though this represents the top 66% of
products. *Id.* It is not clear that this is the ranking system that was in place when Dragun
performed his analysis. The Court concludes that whatever discrepancies might exist because of
the change in ranking system are immaterial to its analysis.

1 circumstantial case of trade secret misappropriation.

2 OTC's expert, Dragun, concludes that, using Excelligence's own rankings of the
3 products in its May 2001 DSS master catalog, the rank of the overlapping products ranged from 3
4 to 3,565. Dragun Decl. Exh. A, Report at 4. The average rank of the overlapping products was
5 684 and the median rank was 553. *Id.* OTC also presents evidence that when Martini was
6 selecting products for the HoF catalog, she reviewed OTC's existing catalogs and drew 81% of
7 the products for the HoF catalog from those existing catalogs. Johnson Exh. 2, Martini Depo. at
8 107; Scott Decl. Exh. A, Report at 3-4. Finally, OTC presents evidence that the percentage
9 overlap of products between the DSS and HoF catalogs is roughly the same as the overlap of
10 products between the DSS catalog and others in the field. Scott Decl. Exh. A, Report at 9.

11 Based upon this record, viewing the evidence in the light most favorable to Excelligence,
12 and drawing every reasonable inference in Excelligence's favor, the Court concludes that no
13 reasonable juror could find that Martini misappropriated protected trade secrets. What appears
14 initially to be a colorable claim based upon statistical analysis and other circumstantial evidence
15 appears upon closer examination to be nothing more than speculation fueled by Elliot's obvious
16 and intense dislike of Martini. Accordingly, the Court will grant OTC's motion with respect to
17 the portion of claim 1 based upon alleged misappropriation of financial information, and with
18 respect to the portions of claims 4 and 5 based upon such alleged misappropriation.

19 **C. Breach Of Contract (Claim 7) And Interference With Contract (Claim 8)**

20 Claim 7 alleges that at various times throughout her employment with Excelligence,
21 Martini signed an acknowledgment form stating that she was aware of and agreed to be bound by
22 the terms of the employment manual; that the employment manual prohibited use or
23 dissemination of confidential company information; and that Martini breached this agreement.
24 Defendants point to the absence of any signed acknowledgment forms or any evidence that
25 Martini ever signed such a form. Apparently, Excelligence destroyed Martini's entire personnel
26 file at some point after firing her. Martini testified that she cannot remember whether she signed
27 such a form. Even if the form proffered by Excelligence had been signed by Martini, the form
28 states on its face that it is not intended to constitute a contract. Accordingly, Defendants are

1 entitled to judgment with respect to the contract claim.

2 Excelligence asserts that the contract could have been an implied contract, and therefore
3 that the absence of evidence of an express written contract is not fatal. However, Claim 7 clearly
4 alleges an express written contract created by the acknowledgment forms and cannot be fairly
5 read to allege another form of contract. The Court therefore will grant Defendants’ motion with
6 respect to claim 7.

7 Claim 8 alleges OTC’s tortious interference with the confidentiality agreement alleged in
8 the seventh claim. Without a viable agreement, the interference claim cannot stand.
9 Accordingly, the Court will grant Defendants’ motion with respect to claim 8.

10 **D. Unfair Competition (Claim 2)**

11 Claims 2 alleges trade dress infringement under the Lanham Act, 15 U.S.C. § 1125(a).
12 “Trade dress refers generally to the total image, design, and appearance of a product and may
13 include features such as size, shape, color, color combinations, texture or graphics.” *Clicks*
14 *Billiards, Inc. v. Sixshooters, Inc.*, 251 F.3d 1252, 1257 (9th Cir. 2001). To prevail on a claim
15 for trade dress infringement, the plaintiff must prove that: (1) its claimed dress serves a
16 source-identifying role either because it is inherently distinctive or has acquired secondary
17 meaning; (2) its claimed dress is nonfunctional; and (3) the defendant’s product or service creates
18 a likelihood of customer confusion. *Id.* at 1258. Excelligence claims trade dress rights in the
19 overall “look and feel” of its DSS catalog and identifies approximately 140 elements that
20 allegedly contribute to this look and feel.

21 **(1) Identification Of Source**

22 Excelligence does not claim that the look and feel of its DSS catalog is inherently
23 distinctive but rather that the appearance of the DSS catalog has acquired secondary meaning.
24 “Secondary meaning” is “a term of art for identification of source.” *Clicks*, 251 F.3d at 1262. In
25 other words, “[t]he trade dress of a product or service attains secondary meaning when the
26 purchasing public associates the dress with a particular source.” *Id.* (internal quotation and
27 citation omitted). “[A] product feature whose only impact is decorative and aesthetic, with no
28 source-identifying role, cannot be given exclusive rights under trade dress law.” *Id.* (quoting 1

1 McCarthy § 8:1).

2 OTC submits a survey conducted by its expert, Carol Scott (“Scott”), a professor of
3 marketing at the Anderson Graduate School of Management at UCLA. Surveys are a routine and
4 well-established method for presenting evidence as to secondary meaning, although they often
5 are subject to criticism and varying interpretations. *Clicks*, 251 F.3d at 1262. Treatment of
6 surveys is a two-step process. *Id.* at 1263. First, the Court must determine whether the survey is
7 admissible, i.e., whether it is relevant, supported by a proper foundation and conducted according
8 to accepted principles. *Id.* “Once the survey is admitted, however, follow-on issues of
9 methodology, survey design, reliability, the experience and reputation of the expert, critique of
10 conclusions, and the like go to the weight of the survey rather than its admissibility.” *Id.*

11 Scott initially surveyed 200 grade school teachers in Dallas and Los Angeles, two of the
12 top five markets for the DSS catalog. The participants were screened to ensure that they
13 purchase arts and crafts products using direct mail catalogs. Participants were shown five
14 catalogs with all indicia of origin redacted: one DSS catalog, one HoF catalog, and catalogs of
15 three other competitors in the field. The participants were asked to identify the company they
16 associated with each catalog. Only 8% of the participants associated the DSS catalog with
17 “Discount School Supply,” “DSS” or “Discount.” In fact, 23% of the participants thought the
18 DSS catalog was produced by a competitor other than OTC. In contrast, 76% of the participants
19 correctly identified the Lakeshore catalog, and 43% correctly identified the HoF catalog. Scott
20 subsequently surveyed 50 additional individuals in Philadelphia and updated her results to reflect
21 their responses.

22 Excelligence does not present its own survey evidence but instead attacks the Scott
23 Survey. First, Excelligence contends that the Scott Survey sampled the wrong universe. Scott
24 surveyed teachers for a variety of grade levels from pre-kindergarten (“pre-K”) through grade 3
25 (age eight). Excelligence contends that the DSS catalog’s target market is made up of pre-K
26 teachers, or those teaching children five years old or younger. However, both Excelligence’s
27 CEO and its vice president of operations testified that the DSS catalog’s target market includes
28 children through age seven. Liang Reply Decl. Exh. B, Elliott Depo. at 38-39; Liang Reply Decl.

1 Exh. G, Crampton Depo. at 301. Excelligence’s COO, Judy McGuinn, testified that the target
2 market is pre-K through age eight, although the primary market is age three to five. Liang Reply
3 Decl. Exh. A, McGuinn Depo. at 41. Excelligence’s 2003 year-end 10-K states that its Early
4 Childhood segment, which is made up of DSS and other brands, targets teachers and education
5 professionals of children from infancy through age eight. Liang Reply. Decl. Exh. J, 10-K at
6 001076. Given these party admissions, Scott’s sampling clearly was appropriate. Only one of
7 the 250 teachers surveyed did not teach children in the pre-K to grade 3 range; that teacher taught
8 fourth grade. Moreover, pre-K teachers made up the largest group of those tested.

9 Excelligence next contends that Scott asked the wrong questions. The survey tested
10 whether the participants could identify the source of each catalog from its appearance. This is
11 *exactly* the appropriate question to ask when attempting to determine whether a particular
12 catalog’s trade dress has secondary meaning. As stated above, “[s]econdary meaning” is “a term
13 of art for identification of source.” *Clicks*, 251 F.3d at 1262. Excelligence contends that name
14 recognition is not necessary to establish secondary meaning, and that secondary meaning can be
15 established if customers recognize a particular catalog as “the one from which they had a good
16 positive experience purchasing products in the past without necessarily having to remember the
17 specific name of the catalog.” Excelligence Opp. at 18. Excelligence cites no legal authority for
18 this proposition, which is contrary to the controlling case law cited above.

19 Since the Scott Survey is the only direct evidence in the record regarding secondary
20 meaning, Excelligence has the burden of presenting sufficient circumstantial evidence of
21 secondary meaning to create a triable issue of material fact on this issue. Factors that may be
22 considered in determining secondary meaning include: (1) whether actual purchasers associate
23 the dress with the source, (2) the degree and manner of advertising by the plaintiff, (3) the length
24 and manner of use of the dress, and (4) whether the use by the plaintiff has been exclusive.
25 *Clamp Mfg. Co. v. Enco Mfg. Co.*, 870 F.2d 512, 517 (9th Cir. 1989). Moreover, the intentional
26 copying of trade dress may raise an inference of secondary meaning. *Clicks*, 251 F.3d at 1264.

27 Excelligence offers substantial evidence that it has been producing the DSS catalog for
28 almost twenty years; the DSS catalog is considered to be a leader in the market; almost two

1 million catalogs are mailed out every year; and the DSS catalog generates 1000 sales per day.
2 OTC does not dispute these facts, but it contends that they do not establish secondary meaning.
3 The Court agrees. In the face of the Scott Survey, which establishes that customers do not
4 associate the catalog's trade dress with its source, the fact that DSS is an industry leader with a
5 high volume of sales simply is insufficient to create a triable issue of material fact as to
6 secondary meaning. "Proof of secondary meaning requires at least *some* evidence that consumers
7 associate the trade dress with the source. Although evidence of the pervasiveness of the trade
8 dress may support the conclusion that a mark has acquired secondary meaning, it cannot stand
9 alone. To find otherwise would provide trade dress protection for any successful product, or for
10 the packaging of any successful product." *Yankee Candle Co., Inc. v. Bridgewater Candle Co.,*
11 *LLC*, 259 F.3d 25, 43 (1st Cir. 2001) (affirming summary judgment for defendant on issue of
12 secondary meaning despite plaintiff's extensive evidence regarding advertising, exclusive use
13 and high volume of sales).

14 Excelligence asserts that OTC's intentional copying of the look and feel of the DSS
15 catalog raises an inference of secondary meaning. Excelligence does not introduce any direct
16 evidence of copying, but points to the fact that Martini had access to the DSS catalogs (as would
17 anyone who looked at one), was motivated to succeed in her new position, and created a catalog
18 that competed with the DSS catalog in the same target market. Excelligence also cites the
19 opinions of its expert, Schmid, and its employee, Adams,⁸ who state that the HoF has the same
20 look and feel of the DSS catalog. While the degree of similarity between the two catalogs is a
21 hotly disputed issue in this lawsuit, the Court concludes that even assuming that the two catalogs
22 do have a similar look and feel, this evidence is insufficient to raise a triable issue of material
23 fact as to secondary meaning. Martini was responsible for creating the DSS catalog for several
24

25 ⁸ OTC objects to the declaration of Cathy Adams, asserting that the declaration contains
26 expert opinion despite the fact that Adams was not disclosed as an expert. The Court concludes
27 that Adams may opine as to the similarity between the DSS and HoF catalogs in her role as a lay
28 and percipient witness pursuant to Fed. R. Evid. 701. The opinions given do not require any
special scientific knowledge or expertise and therefore do not fall into the ambit of Fed. R. Evid.
702. Accordingly, OTC's objection to the declaration is overruled.

1 years. It is not surprising that a subsequent catalog she created, aimed at the exact same market,
2 would have some things in common with the DSS catalog. Under these circumstances,
3 Excelligence's evidence fails to raise a triable issue of material fact as to secondary meaning.

4 Because the Court concludes that OTC has established that the asserted trade dress lacks
5 secondary meaning, the Court need not reach the remaining factors of functionality and
6 likelihood of confusion. The Court notes, however, that the evidence in the record strongly
7 favors OTC with respect to the latter category. It is undisputed that both catalogs are
8 prominently labeled, which may account for the fact that there is no evidence of actual customer
9 confusion despite the fact that approximately 480,000 DSS orders were placed during the
10 relevant time frame. Excelligence presents the declaration of one of its employees, Coleman,
11 who states that a customer service representative told Coleman about approximately twenty
12 instances of actual customer confusion during this time frame. However, Coleman could not
13 identify the customer service representative or provide any detail regarding these instances.
14 Accordingly, Coleman's statements are inadmissible hearsay.⁹ Moreover, the Scott survey
15 affirmatively demonstrates the absence of customer confusion. Only one percent of the
16 individuals surveyed believed that the HoF catalog came from DSS, and none of the individuals
17 surveyed believed that the DSS catalog came from OTC.

18 Based upon the foregoing analysis, the Court will grant OTC's motion for summary
19 judgment with respect to claim 2.

20 **E. Copyright Infringement (Claim 6)**

21 The elements of a copyright infringement claim are: (1) ownership of a valid copyright
22 and (2) copying of expression protected by that copyright. *Triad Systems Corp. v. Southeastern*
23 *Express Co.*, 64 F.3d 1330, 1335 (9th Cir. 1995). Because direct evidence of copying rarely is
24 available, copying may be shown by circumstantial evidence of (1) the defendant's access to the
25 copyrighted work prior to the creation of the defendant's work and (2) substantial similarity of
26

27 ⁹ Even if the statements were considered, twenty instances of customer confusion out of
28 480,000 is so statistically insignificant (approximately .00417%) as to support a finding of no
actual customer confusion.

1 both general ideas and expression between the copyrighted work and the defendant’s work.
2 *Apple Computer, Inc. v. MicroSoft Corp.*, 35 F.3d 1435, 1442 (9th Cir. 1994).

3 In demonstrating substantial similarity, the plaintiff may not place any reliance upon
4 similarities resulting from unprotected elements. *Apple Computer*, 35 F.3d at 1446.
5 Accordingly, unprotected elements must be identified and filtered out before the works are
6 compared. *Id.* The Ninth Circuit has stated that this requirement is particularly important in
7 catalog cases, because:

8 Catalogs, by definition, are saturated with facts, numbers, and literal depictions of
9 concrete objects. As we emphasized in an only slightly different context,
10 copyright law considers factual works to be fundamentally different from more
11 artistic works: similarity of expression may have to amount to verbatim
reproduction or very close paraphrasing before a factual work will be deemed
infringed.

12 *Cooling Systems and Flexibles, Inc. v. Stuart Radiator, Inc.*, 777 F.2d 485, 491 (9th Cir. 1985)
13 (internal quotation and citation omitted), *overruling on other grounds recognized by Jackson v.*
14 *Axton*, 25 F.3d 884 (9th Cir. 1994) (addressing attorney fee issue). At the hearing, counsel for
15 Excelligence asserted that the DSS catalog is so whimsical that it should not be treated like other
16 catalogs, but should be treated more like a novel for copyright infringement analysis. However
17 creative and appealing the DSS catalog might be, it is at the end of the day a catalog and
18 therefore will be analyzed under the above authority.

19 For the most part, the 140 elements identified by Excelligence are unprotectable. OTC
20 divides the unprotectable elements into eleven categories and cites authority as to why each type
21 of element is unprotectable at pages 18-23 of its motion brief. The categories are as follows:
22 literary techniques, words and short phrases, products and product names, placement of products
23 on catalog covers, comparative pricing, inclusion of product-related editorials and accessories,
24 freight or shipping offers, inclusion of a “sand and water” section, overall product choices,
25 product numbers and miscellaneous items. Excelligence does not dispute OTC’s assertion that
26 these elements are unprotectable, but contends that the DSS catalog must be considered in its
27 entirety - that is, without filtering out the unprotectable elements - because copyright protection
28 may exist for combinations of unprotectable elements. The cases Excelligence cites for this

1 proposition¹⁰ involved a sculpture and a musical composition, and therefore have little relevance
2 to the instant analysis. In catalog actions, the Court must “look not to the substantial similarity of
3 the entire catalog, but at the substantial similarity of the very small amount of protectable parts.”
4 *Haan Crafts Corp. v. Craft Masters, Inc.*, 683 F.Supp. 1234, 1243 (N.D. Ind. 1988).

5 The Court concludes that when the unprotectable elements are filtered out, and only the
6 protectable elements are considered, no reasonable trier of fact could find that the catalogs are
7 substantially similar. For example, the particular photographs and copy used in the DSS catalog
8 are not substantially identical to those used in the HoF catalog. Accordingly, while DSS justly
9 may be proud of the fact that its catalog presents children’s products in fun and whimsical ways,
10 featuring bright colors and fun craft ideas, DSS does not own a copyright in these features. As is
11 stated above, advertising copy or other protectable elements of a catalog must be reproduced
12 almost identically for infringement to be found. The fact that the HoF catalog also introduces an
13 element of whimsy, uses bright colors and the like is simply not enough to render OTC liable for
14 copyright infringement.

15 III. MOTION TO STRIKE SECOND AMENDED COMPLAINT

16 In light of the Court’s ruling granting summary judgment with respect to claims 7 and 8,
17 OTC’s motion to strike the second amended complaint is moot.

18 IV. ORDER

- 19 (1) Defendants’ motions for partial summary judgment are GRANTED;
- 20 (2) Defendants’ motion to strike the second amended complaint is DENIED AS
21 MOOT; and
- 22 (3) Because the foregoing rulings dispose of all remaining claims, judgment will be
23 entered in favor of Defendants. The trial and pretrial dates are hereby vacated,
24 and the Clerk shall close the file.

25 DATED: 12/20/04

/s/ (electronic signature authorized)

26 JEREMY FOGEL

United States District Judge

27
28 ¹⁰ *Swisky v. Carey*, 376 F.3d 841 (2004); *Satava v. Lowry*, 323 F.3d 805 (9th Cir. 2003).

1 This Order has been served upon the following persons:

2
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