

**No. 05-21015**

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**IN THE  
UNITED STATES COURT OF APPEALS  
FOR THE FIFTH CIRCUIT**

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General Universal Systems, Inc.; World Trade Systems, Inc.,  
*Plaintiffs-Appellants,*

Jose S. Lopez,  
*Plaintiff-Intervenor Defendant-Appellant,*

Eli Nassar,  
*Third Party Defendant-Appellant,*

v.

HAL, Inc.; *et al.*,  
*Defendants,*

HAL, Inc.; Joe R. Herrin; Ernest Allen Parkin,  
*Defendants-Third Party Plaintiffs-Appellees,*

Panalpina, Inc.; Fritz Companies, Inc.; Global Southport Services, Inc.;  
United States Crating, Inc.; Transworld Logistics, Inc.,  
*Defendants-Appellees,*

Larry Mason Lee; Larry Mason Lee & Associates,  
*Intervenor Plaintiffs-Appellees.*

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On Appeal from the United States District Court  
for the Southern District of Texas, Houston Division, No. H-95-1582

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**BRIEF FOR APPELLANTS GENERAL UNIVERSAL SYSTEMS, INC.,  
WORLD TRADE SYSTEMS, INC., JOSE S. LOPEZ, AND ELI NASSAR**

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## **STATEMENT REGARDING ORAL ARGUMENT**

Appellants believe oral argument would materially assist the Court in the disposition of this matter. This case has a ten-year procedural history, was the subject of a prior appeal, raises factually complex statute-of-limitations issues, and implicates at least one legal question of first impression in this Circuit. For these reasons, appellants respectfully request oral argument.

## TABLE OF CONTENTS

CERTIFICATE OF INTERESTED PERSONS .....	i
STATEMENT REGARDING ORAL ARGUMENT .....	v
TABLE OF AUTHORITIES .....	viii
STATEMENT OF JURISDICTION .....	xi
STATEMENT OF ISSUES .....	xii
STATEMENT OF THE CASE .....	1
A. Course of Proceedings Below. ....	1
B. Statement of Facts. ....	4
1. Appellants GUS and Lopez developed two software programs (Champion Packer and Lopez COBOL) containing trade secrets useful to the freight-forwarding industry. ....	4
2. GUS licensed the trade secrets in Champion Packer for the internal use of Superior Packing, a business operated by appellees Herrin and Parkin. ....	5
3. Lopez licensed Lopez COBOL for the internal use of Superior Packing through July 1993. ....	6
4. In the fall of 1993, Herrin and Parkin began demonstrating to third parties a software program (MEPAW) that was substantially the same as Champion Packer and Lopez COBOL. ....	7
5. In 1994, Herrin and Parkin began licensing MEPAW to third parties through their new company, appellee HAL, Inc. ....	8
6. In May 1995, GUS filed a trade secrets claim against Herrin, Parkin, HAL, and their licensees. ....	8
STANDARDS OF REVIEW .....	9
APPLICABLE LAW .....	9
SUMMARY OF ARGUMENT .....	11
ARGUMENT .....	13
I. GUS’s trade secrets claim against Herrin, Parkin, and HAL was timely.....	13
A. GUS’s trade secrets claim against Herrin, Parkin, and HAL was timely because those appellees did not misuse GUS’s trade secrets	

until they began licensing MEPAW to third parties in 1994. ....	14
B. Lopez’s trade secrets claim against Herrin, Parkin, and HAL was timely because Herrin and Parkin were licensed to use Lopez COBOL through July 1993. ....	15
1. The district court ignored evidence that Superior Packing’s license agreement had been extended through and including July 1993. ....	17
2. In conflict with Texas law, the district court held that a trade secrets claim may accrue on something less than “actual use” of a trade secret. ....	18
3. Trade secret theft was a “continuing” tort under Texas law when suit was filed. ....	21
III. GUS’s trade secrets claim against the MEPAW licensees remains in this case. ....	29
A. Standards Governing Scope-of-Remand Determinations ....	30
B. GUS appealed the dismissal of its trade secrets claim against the MEPAW licensees. ....	31
C. On appeal, GUS argued that the district court erred in dismissing its trade secrets claim as to all appellees. ....	32
D. This Court reinstated GUS’s trade secret claim in its entirety by vacating the district court’s dismissal on grounds applicable to all appellees. ....	34
CONCLUSION .....	36
CERTIFICATE OF COMPLIANCE .....	37
CERTIFICATE OF SERVICE .....	38
UNPUBLISHED CASES	
<i>Tavana v. GTE Southwest, Inc.</i> (Tex. App.— Dallas July 21, 1999, pet. denied) .....	Tab 1
<i>Skytop Brewster Co. v. Skytop Int’l, Inc.</i> (S.D. Tex. Dec. 20, 1993) .....	Tab 2
<i>Lutheran Assoc. of Missionaries &amp; Pilots, Inc. v. Lutheran Assoc. of     Missionaries &amp; Pilots, Inc.</i> (D. Minn. Mar. 15, 2005) .....	Tab 3

## TABLE OF AUTHORITIES

### Cases

<i>Anaconda Co. v. Metric Tool &amp; Die Co.</i> , 485 F. Supp. 410 (E.D. Pa. 1980) .....	25, 26, 27
<i>Atlantic Richfield Co. v. Misty Prods., Inc.</i> , 820 S.W.2d 414 (Tex. App.—Houston [14th Dist.] 1991, writ denied) .....	10
<i>Avera v. Clark Moulding</i> , 791 S.W.2d 144 (Tex. App.—Dallas 1990, no writ) .....	9
<i>Baker Hughes, Inc. v. Keco R. &amp; D., Inc.</i> , 12 S.W.3d 1 (Tex. 1999) .....	24
<i>Coastal Distrib. Co. v. NGK Spark Plug Co.</i> , 779 F.2d 1033 (5th Cir. 1986) .....	10, 22
<i>Computer Assocs. Int’l, Inc. v. Altai, Inc.</i> , 918 S.W.2d 453 (Tex. 1996) .....	10, 20, 21, 23, 27
<i>In re Continental Gen. Tire, Inc.</i> , 979 S.W.2d 609 (Tex. 1998) .....	25
<i>Erie R.R. v. Tompkins</i> , 304 U.S. 64 (1938) .....	23, 27
<i>Garth v. Staktek Corp.</i> , 876 S.W.2d 545 (Tex. App.—Austin 1994, writ dismiss’d w.o.j.) .....	20, 21
<i>Gen. Universal System, Inc. v. Lee</i> , , 379 F.3d 131 (5th Cir. 2004) (per curiam) .....	3, 31, 32, 33, 34
<i>Herrmann Holdings Ltd. v. Lucent Techs., Inc.</i> , 302 F.3d 552 (5th Cir. 2002) .....	23, 25
<i>Hyde Corp. v. Huffines</i> , 314 S.W.2d 763 (Tex. 1958) .....	25

<i>Johnson &amp; Higgins of Tex., Inc. v. Kenneco Energy, Inc.</i> , 962 S.W.2d 507 (Tex. 1998) .....	10
<i>Lutheran Assoc. of Missionaries &amp; Pilots, Inc. v. Lutheran Assoc. of Missionaries &amp; Pilots, Inc.</i> , No. 03-6173, 2005 U.S. Dist. LEXIS 4176 (D. Minn. Mar. 15, 2005) (unpublished) (copy attached at Tab 3) .....	27
<i>Mabrey v. Sandstream, Inc.</i> , 124 S.W.3d 302 (Tex. App.—Fort Worth 2003, no pet.).....	25
<i>Mauder v. Metropolitan Transit Auth.</i> , 446 F.3d 574 (5th Cir. 2006) .....	9
<i>Mayo v. Hartford Life Ins. Co.</i> , 354 F.3d 400 (5th Cir. 2004) .....	23
<i>Metallurgical Indus. Inc. v. Fourtek, Inc.</i> , 790 F.2d 1195 (5th Cir. 1986) .....	19, 20, 21
<i>Salve Regina College v. Russell</i> , 499 U.S. 225 (1991).....	9
<i>Skytop Brewster Co. v. Skytop Int’l, Inc.</i> , No. H-93-0204, 1993 U.S. Dist. LEXIS 20472 (S.D. Tex. Dec. 20, 1993) (unpublished) (copy attached at Tab 2).....	24
<i>Taco Cabana Int’l, Inc. v. Two Pesos, Inc.</i> , 932 F.2d 1113 (5th Cir. 1991), <i>aff’d</i> , 505 U.S. 763 (1992).....	25
<i>Tavana v. GTE Southwest, Inc.</i> , No. 05-97-00664-C, 1999 Tex. App. LEXIS 5365 (Tex. App.—Dallas July 21, 1999, pet. denied) (not designated for publication) (copy attached at Tab 1) .....	23, 24
<i>Trilogy Software, Inc. v. Callidus Software, Inc.</i> , 143 S.W.3d 452 (Tex. App.—Austin 2004, pet. denied) .....	9, 10

<i>Underwater Storage, Inc. v. United States Rubber Co.</i> , 371 F.2d 950 (D.C. Cir. 1966).....	25
<i>United States v. Lee</i> , 358 F.3d 315 (5th Cir. 2004) .....	9, 30, 31, 35
<i>United States Sporting Prods. v. Johnny Stewart Game Calls</i> , 865 S.W.2d 214, 222 (Tex. App.—Waco 1993, writ denied).....	2
<i>Univ. Computing Co. v. Lykes-Youngstown Corp.</i> , 504 F.2d 518 (5th Cir. 1974) .....	19, 20

**Statutes, Rules, and Legislative Materials**

28 U.S.C. § 1291 .....	xi
28 U.S.C. §§ 1331, 1338(a), (b).....	xi
28 U.S.C. § 1367 .....	xi
FED. R. APP. P. 32(a)(7).....	37
FED. R. CIV. P. 15(c)(2).....	2, 8
TEX. CIV. PRAC. & REM. CODE ANN. § 16.010 (Vernon 2002).....	10, 22, 23, 24
Tex. H.B. 368, 75th Leg., R.S., ch. 26, § 1, 1997 Tex. Gen. Laws 26, eff. May 1, 1997 .....	10, 22

**Other Authorities**

5 WILLIAM V. DORSANEO III, TEXAS LITIGATION GUIDE § 72.03[1][c] (2005).....	22
ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 13.04[2] (2006).....	22, 28
HENRY H. PERRITT, JR., TRADE SECRETS: A PRACTITIONERS GUIDE § 10:7.3[A] (Practising Law Institute 2d ed. 2005).....	25
RESTATEMENT (FIRST) OF TORTS § 757 (1939) .....	25, 26

## STATEMENT OF JURISDICTION

The district court had subject matter jurisdiction over appellants' copyright and Lanham Act claims under 28 U.S.C. §§ 1331, 1338(a), (b). The district court had supplemental jurisdiction over appellants' state law claims for conversion, conspiracy, breach of contract, misappropriation, and trade secret misappropriation under 28 U.S.C. § 1367. The district court entered final judgment on October 21, 2005. 3RE8944-47.<sup>2</sup> Appellants filed a timely notice of appeal on November 21, 2005. 2RE8950-53. This Court has jurisdiction over this appeal under 28 U.S.C. § 1291.

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<sup>2</sup> Appellants' record excerpts are cited as xREy, where x designates the numbered tab of those excerpts and y designates the record page.

## STATEMENT OF ISSUES

Appellants GUS and Lopez developed two computer programs (Champion Packer and Lopez COBOL) containing trade secrets useful to the freight-forwarding industry. Lopez licensed Lopez COBOL to Superior Packing, a business operated by appellees Herrin and Parkin. Parkin later developed a derivative of Lopez COBOL known as MEPAW. Although the software license did not prohibit Parkin from developing or using MEPAW in Superior Packing's business, that license expired in July 1993. Thus, subsequent use of Lopez COBOL and MEPAW by Herrin and Parkin, including their licensing of MEPAW to third parties in 1994, was unauthorized by Lopez and also violated a prior agreement with GUS. Lopez assigned his rights in Lopez COBOL to GUS, and in May 1995, GUS filed suit for trade secrets misappropriation against Herrin, Parkin, their new company HAL, and their licensees ("the MEPAW licensees").

The district court dismissed GUS's trade secrets claim against all appellees on the ground that the trade secrets had not been adequately protected or improperly obtained. On appeal, GUS argued that fact issues existed as to whether the secrets had been adequately protected or used in breach of a confidential relationship. This Court agreed, vacated the district court's dismissal, and remanded.

On remand, the district court again dismissed GUS's trade secrets claim. As to GUS's claim against Herrin, Parkin, and HAL, the district court held they were barred by a two-year statute of limitations because in March 1993 Herrin had failed

to return a computer to Lopez that contained Lopez COBOL. As to GUS's claim against the MEPAW licenses, the district court held that those claims no longer existed because they were not in the scope of this Court's remand. This second appeal raises two issues:

1. Under Texas law, a trade secrets claim does not accrue until a trade secret is actually used in breach of confidence for a commercial purpose. Until August 1993, Herrin and Parkin were licensed to use Lopez COBOL and develop MEPAW. In 1994, they began licensing MEPAW to third parties without authorization. In May 1995, GUS filed a trade secrets claim against Herrin, Parkin, and HAL for their licensing of MEPAW to third parties. Is GUS's trade secrets claim barred by the two-year statute of limitations?

2. GUS appealed the district court's original dismissal of its trade secrets claim against all appellees, including the MEPAW licensees. On appeal, GUS argued that all grounds for the district court's dismissal were erroneous. This Court agreed, vacated the district court's dismissal, and remanded for further proceedings. Did this Court's remand reinstate GUS's trade secrets claim against the MEPAW licensees?

## STATEMENT OF THE CASE

### A. Course of Proceedings Below.

This case concerns appellees' misappropriation of trade secrets contained in two computer programs (Champion Packer and Lopez COBOL) developed by appellants General Universal Systems, Inc. ("GUS") and Jose S. Lopez for use in the export packing and international freight-forwarding industry. 2R221; 30R8683.<sup>3</sup> (The trade secrets claim that arose from this misappropriation now belongs solely to GUS because in 1994, Lopez assigned to GUS all rights in Lopez COBOL, included related claims. 30R8678.1,<sup>4</sup> 8686 ¶ 7.)

The original complaint in this matter was filed on May 23, 1995. 1R1-8. Therein, GUS alleged that appellees Joe R. Herrin, Ernest Allen Parkin, and their wholly-owned company appellee HAL, Inc. had licensed a derivative of Lopez COBOL known as MEPAW without authorization to appellees Panalpina, Inc., Fritz Companies, Inc., Global Southport Services, Inc., United States Crating, Inc., and Transworld Logistics, Inc. (collectively, "the MEPAW licensees"). 1R2-5. GUS also alleged that the MEPAW licensees had licensed and used MEPAW while on notice that the program contained GUS's intellectual property. 1R2.

On October 10, 1995, GUS filed its first-amended complaint. 2R212-24.

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<sup>3</sup> The record on appeal is cited as xRy, where x designates the record volume and y designates the record page. Appellants' record excerpts are cited as xREy, where x designates the numbered tab of those excerpts and y designates the record page.

<sup>4</sup> The district court clerk did not number the cited page. Because that page falls between 30R8678

Therein, GUS alleged that the conduct described in the original complaint gave rise to a trade secret misappropriation claim against all appellees. 2R214-19, 222. Because this trade secrets claim “arose out of the conduct, transaction, or occurrence set forth . . . in the original pleading,” it related back to the filing of the original complaint. FED. R. CIV. P. 15(c)(2). GUS’s first-amended complaint also raised claims of breach of contract, conspiracy, conversion, copyright infringement, misappropriation,<sup>5</sup> and Lanham Act violations, 2R213-19, 222, although as next explained, only the trade secrets claim remains at issue in this case.

On June 4, 1998, the district court granted summary judgment to appellees on GUS’s copyright claim. 20R5813-15. On September 29, 1998, the district court granted summary judgment to appellees on GUS’s trade secret misappropriation claim. 21R6194-200. On April 7, 1999, the court granted summary judgment to appellees on GUS’s conversion, misappropriation, and Lanham Act claims. 23R6763-72. On September 13, 1999, trial began on the remaining breach of contract claim. 23R6980. The jury returned a verdict in favor of appellants.

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and 30R8679, it is cited as 30R8678.1.

<sup>5</sup> Although the terminology is similar, a claim for “trade secret misappropriation” is distinct from a claim for “misappropriation.” Unlike trade secret misappropriation, the tort of misappropriation covers a defendant’s competitive use of the product of a plaintiff’s labor, regardless of that product’s status as a trade secret. *See United States Sporting Prods. v. Johnny Stewart Game Calls*, 865 S.W.2d 214, 222 (Tex. App.—Waco 1993, writ denied) (“[T]he elements of misappropriation [are]: (i) the creation of plaintiff’s product through extensive time, labor, skill and money, (ii) the defendant’s use of that product in competition with the plaintiff, thereby gaining a special advantage in that competition (*i.e.*, ‘free ride’) because defendant is burdened with little or none of the expense incurred by the plaintiff, and (iii) commercial damage to the plaintiff.”).

24R7000. In 2000, however, the district court set that verdict aside and granted judgment as a matter of law to appellees. 25R7534-40. In 2001, the district court entered a final judgment from which appellants appealed. 25R7541-43, 7564-65.

On appeal, this Court affirmed the district court's grant of summary judgment on the copyright and Lanham Act claims and affirmed the district court's grant of judgment as a matter of law on the contract claim. *Gen. Universal Sys., Inc. v. Lee*, 379 F.3d 131, 150, 152 (5th Cir. 2004) (per curiam). However, this Court vacated the district court's dismissal of GUS's trade secrets claim and remanded for further proceedings. *Id.*

On remand, the parties consented to the transfer of the case to a magistrate judge. 31R8724-26, 8728. Herrin, Parkin, and HAL moved for summary judgment on GUS's trade secrets claim based on the two-year statute of limitations. 30R8420-24, 8426-531. Herrin, Parkin, and HAL argued that GUS's trade secrets claim was time barred because it accrued in March 1993 and suit had not been filed until May 1995. 30R8523-25. On July 29, 2005, the district court granted summary judgment against GUS, holding that GUS's trade secrets claim against Herrin, Parkin, and HAL had accrued in March 1993 because that is when Herrin had exercised "dominion and control" over a computer system containing the Lopez COBOL software. 4RE8878-91. GUS moved for the district court to reconsider its limitations ruling on the ground that any exercise of control by Herrin in March 1993 was irrelevant given the evidence GUS previously presented that Herrin had

been licensed to use Lopez COBOL through and including July 1993. 31R8914-22. The district court denied GUS's motion for reconsideration. 6RE8948-49.

Herrin, Parkin, and HAL moved for entry of final judgment. 31R8892-911. In opposition, GUS explained that final judgment could not be entered because its trade secrets claim against the MEPAW licensees remained pending. 31R8915-16, 8921. The district court rejected GUS's argument, holding that GUS's trade secrets claim against the MEPAW licensees no longer existed because it was not in the scope of this Court's prior remand. 6RE8948-49. On October 21, 2005, the district court entered final judgment dismissing all of appellants' claims against appellees. 3RE8944-47. On November 21, 2005, appellants filed a timely notice of appeal. 2RE8950-53.

## **B. Statement of Facts.**

### ***1. Appellants GUS and Lopez developed two software programs (Champion Packer and Lopez COBOL) containing trade secrets useful to the freight-forwarding industry.***

Appellant GUS develops, markets, and licenses computer software systems for use in the export packing and international freight-forwarding industry. Between 1978 and 1979, GUS's principal (appellant Eli Nassar) worked with appellant Lopez to develop a software program known as Champion Packer. 30R8687 ¶ 2. Champion Packer contained trade secrets useful to the export packing and freight-forwarding industry. 30R8686 ¶ 6.

GUS licensed Lopez's company (appellant World Trade Systems, Inc.) to use

and improve Champion Packer. 30R8686 ¶ 7. To that end, between 1979 and 1983, Lopez and his son created a derivative of Champion Packer by converting Champion Packer to COBOL. 30R8686 ¶ 7, 8683 ¶ 2. The modified program was known as Lopez COBOL. 30R8686 ¶ 7. Lopez protected the source code of the program as a trade secret. 30R8443-44 ¶¶ 4-5. In addition, because Lopez COBOL was a translation of Champion Packer, it functionally incorporated the same packing and freight-forwarding trade secrets as Champion Packer. 30R8681 ¶ 11.

**2. *GUS licensed the trade secrets in Champion Packer for the internal use of Superior Packing, a business operated by appellees Herrin and Parkin.***

In 1985, GUS licensed Champion Packer to Superior Packing, Inc., a business owned by appellee Joe Herrin with one other employee, appellee Allen Parkin. 30R8588-616, 8686-87 ¶¶ 3-5. Under the license agreement, Herrin and Parkin could use Champion Packer in Herrin's business, but they could not sublicense it to others. 30R8612-13 ¶ F1, 8615 ¶ C2.

This licensing agreement permitted Herrin and Parkin to use GUS's trade secrets contained in Champion Packer in Herrin's business. 30R8616 ¶ A1, 8612-13 ¶ F1. However, Herrin and Parkin could not disclose those secrets to third parties except for the limited purpose of making program modifications (in which case the third party had to agree to the same confidentiality restrictions). 30R8611 ¶ F8, 8612-13 ¶ F1, 8616 ¶ A1. Herrin purported to cancel this agreement in 1990, but that cancellation was ineffective because Herrin did not return GUS's software.

2R218-19 ¶ 21; 30R8611-12 ¶ F5, 8686 ¶ 5; 31R8819-20 ¶ 2.

**3. *Lopez licensed Lopez COBOL for the internal use of Superior Packing through July 1993.***

In 1988, Lopez's company (appellant World Trade Systems, Inc.) leased a computer to Superior Packing and licensed Superior Packing to use Lopez COBOL. 30R8657-64, 8682 ¶¶ 4-5. The license prevented Superior Packing from sublicensing Lopez COBOL by restricting use of the program to its own business. 30R8662 ¶ VII.2. The license did not prohibit Superior Packing from modifying Lopez COBOL but did not commit World Trade Systems to provide any assistance in doing so. 30R8622 ¶ VII.1-.2.

In 1992, Herrin, Parkin, and Lopez formed a three-person partnership to commercialize Lopez COBOL. 30R8680-81 ¶ 15; 30R8624-32, 8628-29 (written agreement between Herrin, Parkin, and Lopez to commercialize Lopez COBOL and split income from venture). The trio planned to incorporate a separate business (appellee HAL, Inc.) to operate the business of their partnership. See 8443 ¶ 6

On February 27, 1993, Herrin gave notice to Lopez that he intended to terminate the license between Superior Packing and World Trade Systems on March 31, 1993. 30R8655, 8682-83 ¶ 3. In March 1993, Lopez's son went to pick up the computer World Trade Systems had leased to Herrin. 30R8682-83 ¶ 3. Rather than return the computer, however, Herrin asked to extend the equipment lease and program license. *Id.* On behalf of his father, Lopez's son agreed. *Id.*; 30R8651-52

(134:25-135:3) (“[W]e [Parkin and Herrin] had a verbal agreement with Mr. Lopez’s son . . . to continue to run Superior Packing on Mr. Lopez’s computer.”); 30R8680 ¶ 18. Lopez continued to invoice Herrin for use of the computer and software, and Herrin continued to pay those charges through July 1993. 30R8644, 8646-47, 8682 ¶¶ 7-9.

In June 1993, Lopez learned that Herrin and Parkin wanted to exclude him from the partnership they had formed to commercialize Lopez COBOL. 30R8680 ¶ 17. Although Lopez had contributed the source code of Lopez COBOL to the partnership, he never received his share of subsequent income from the partnership. 30R8442-43 ¶¶ 6-7.

**4. *In the fall of 1993, Herrin and Parkin began demonstrating to third parties a software program (MEPAW) that was substantially the same as Champion Packer and Lopez COBOL.***

In August or September 1993, Herrin and Parkin began demonstrating a software program known as MEPAW to third parties. 30R8649 (187:17-20), 8680 ¶ 18. Not only was the source code for MEPAW substantially the same as Lopez COBOL, 30R8583, 8586, but “the copying of GUS’s source code in [MEPAW] [was] blatant, obvious, occasionally thinly disguised, and extensive,” according to GUS’s expert; further, “[t]he remarkably high degree of exactness in these codes can only be explained by co-development, cloning or copying.” *Id.* Given the similarity between MEPAW and Lopez COBOL, MEPAW contained most or all of the trade secrets of Lopez COBOL and, in turn, of Champion Packer. 8680 ¶ 17,

8685 ¶ 10.

On May 3, 1994, Lopez and World Trade Systems, Inc. assigned to GUS all their rights in Lopez COBOL, including any trade secrets claim they had against Herrin, Parkin, HAL, or others. 30R8678.1, 8686 ¶ 7.

**5. *In 1994, Herrin and Parkin began licensing MEPAW to third parties through their new company, appellee HAL, Inc.***

On October 24, 1994, Herrin and Parkin licensed MEPAW to defendant Panalpina, Inc. through their new company HAL. 30R8563 (74:20-75:20), 8681 ¶ 10. On November 8, 1994, GUS's counsel put Panalpina on notice that Panalpina was about to be using a computer system improperly derived from GUS's "proprietary . . . packing and warehouse system." 30R8559-60, 8685 ¶ 12. Nevertheless, toward the beginning of December 1994, Panalpina began using MEPAW. 30R8562 (141:21-142:18), 8681 ¶ 10.

In addition, numerous other companies have licensed and used MEPAW while on notice of GUS's proprietary rights in Champion Packer, including appellees Fritz Companies, Inc., Global Southport Services, Inc., United States Crating, Inc., and Transworld Logistics, Inc. 2R215-17.

**6. *In May 1995, GUS filed a trade secrets claim against Herrin, Parkin, HAL, and their licensees.***

In May 1995, GUS filed a trade secrets claim against Herrin, Parkin, HAL, and the MEPAW licensees. 1R2-5, 8; 2R214-19, 222; FED. R. CIV. P. 15(c). Ten years later, the district court held that GUS's trade secrets claim against Herrin,

Parkin, and HAL was barred by the two-year statute of limitations and that GUS's trade secrets claim against the MEPAW licensees no longer existed because it had been dismissed before the first appeal and was not in the scope of this Court's remand. 4RE8878-91; 6RE8948-49.

### **STANDARDS OF REVIEW**

This Court reviews *de novo* a district court's (1) grant of summary judgment, (2) interpretation of state law, and (3) determination of the scope of remand from this Court. *See Mauder v. Metro. Transit Auth.*, 446 F.3d 574, 582 (5th Cir. 2006) (grant of summary judgment); *Salve Regina Coll. v. Russell*, 499 U.S. 225, 239 (1991) (interpretation of state law); *United States v. Lee*, 358 F.3d 315, 320 (5th Cir. 2004) (scope of remand).

### **APPLICABLE LAW**

The parties agree that appellants' trade secrets claim is governed by Texas law. Under Texas law, "[a] trade secret is any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." *Avera v. Clark Moulding*, 791 S.W.2d 144, 145 (Tex. App.—Dallas 1990, no writ).

A trade secrets claim comprises four elements: "(1) existence of a trade secret; (2) breach of a confidential relationship or improper discovery of a trade secret; (3) use of the trade secret; and (4) damages." *Trilogy Software, Inc. v. Callidus Software, Inc.*, 143 S.W.3d 452, 463 (Tex. App.—Austin 2004, pet.

denied). For trade secrets claims, the term “use” is a term of art that means “**commercial use**, by which the offending party seeks to profit from the use of the secret.” *Atlantic Richfield Co. v. Misty Prods., Inc.*, 820 S.W.2d 414, 422 (Tex. App.—Houston [14th Dist.] 1991, writ denied) (emphasis added).

Under Texas law, “[a] cause of action generally accrues, and the statute of limitations begins to run, when facts come into existence that authorize a claimant to seek a judicial remedy.” *Johnson & Higgins of Tex., Inc. v. Kenneco Energy, Inc.*, 962 S.W.2d 507, 514 (Tex. 1998). Thus, given the required elements, a trade secrets claim does not accrue until a trade secret is used for a commercial purpose in breach of a confidential relationship. *Id.*; *Trilogy Software*, 143 S.W.3d at 463; *Atlantic Richfield*, 820 S.W.2d at 422. Further, in order for a claim to accrue, such commercial misuse must be **actual** not constructive. *See Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 918 S.W.2d 453, 455 (Tex. 1996) (“A cause of action for misappropriation of trade secrets accrues when the trade secret is **actually** used.” (emphasis added)).

For lawsuits filed in Texas before May 1, 1997, the statute of limitations for a trade secrets claim is two years. *Compare Coastal Distrib. Co. v. NGK Spark Plug Co.*, 779 F.2d 1033, 1038-39 (5th Cir. 1986) (applying two-year statute of limitations for trade secret misappropriation under Texas law), *with* Tex. H.B. 368, 75th Leg., R.S., ch. 26, § 1, 1997 Tex. Gen. Laws 26, eff. May 1, 1997 (codified at TEX. CIV. PRAC. & REM. CODE ANN. § 16.010 (Vernon 2002)) (adopting three-year

statute of limitations for trade secret misappropriation). Because the original complaint in this case was filed on May 23, 1995 and because the first amended complaint related back to that date, any trade secrets claim that accrued on or after May 23, 1993 was timely filed.

### SUMMARY OF ARGUMENT

The district court held that appellants' trade secrets claim against Herrin, Parkin, and HAL was barred by limitations because in March 1993, Herrin failed to return a leased computer containing Lopez COBOL. The district court's holding was incorrect as a matter of law for four independent reasons.

First, the district court ignored summary judgment evidence establishing that Herrin was not obligated to return the leased computer until *August 1993* because the underlying software license agreement had been extended through and including July 1993.

Second, even if Herrin had been obligated to return the computer in March 1993, Herrin's failure to do so did not constitute an actionable misuse of any trade secret because the failure to return a licensed software program (standing alone) is neither an actual nor commercial use of a trade secret under Texas law as interpreted by this Court and the Supreme Court of Texas.

Third, even if Herrin had been obligated to return the computer in March 1993 and even if his failure to do so was somehow an actionable misuse of a trade secret, that would not extinguish Lopez's trade secrets claim against Herrin, Parkin,

and HAL in its entirety because trade secret theft was a “continuing tort” in Texas for suits filed before May 1, 1997.

Fourth, wholly apart from Lopez’s trade secrets claim against Herrin, Parkin, and HAL was the independent trade secrets claim that GUS had against those parties. The district court ignored this claim, however, as well as the summary judgment evidence establishing that this claim did not accrue until Herrin, Parkin, and HAL began licensing MEPAW to others. Because that licensing did not begin until 1994, GUS’s claim was timely, independent of the status of the claim GUS acquired from Lopez.

The district court separately held that GUS’s trade secrets claim against the MEPAW licensees no longer existed because it had been dismissed before the first appeal and was not in the scope of this Court’s remand. This was wrong as a matter of law for the following reasons. Before the first appeal, the district court dismissed the entirety of GUS’s trade secrets claim, including GUS’s claim against the MEPAW licensees. GUS appealed that dismissal in its entirety. On appeal, GUS argued that the district court had erred for two reasons that were common to all appellees, including the MEPAW licensees. This Court accepted both of GUS’s arguments and vacated the district court’s dismissal. Because this Court vacated the district court’s dismissal on grounds common to all appellees, the vacatur necessarily reinstated the entirety of GUS’s trade secret claim, including GUS’s claim against the MEPAW licensees. Consequently, GUS’s claim against the

MEPAW licenses was in the scope of this Court's remand, contrary to the district court's ruling.

For these reasons, the district court's grant of summary judgment in favor of Herrin, Parkin, and HAL on limitations grounds should be vacated. In addition, the district court's ruling that GUS's trade secrets claim against the MEPAW licensees no longer exists should be reversed. This case should then be remanded for further proceedings.

## ARGUMENT

### **I. GUS's trade secrets claim against Herrin, Parkin, and HAL was timely.**

As explained in further detail below, GUS had two different sources of a trade secrets claim against Herrin, Parkin, and HAL. First, GUS had a trade secrets claim against Herrin, Parkin, and HAL based on their misuse of the trade secrets contained in Champion Packer. Second, because GUS was the assignee of Lopez's trade secrets rights, GUS had a trade secret claim against Herrin, Parkin, and HAL that arose from their misuse of the Lopez COBOL source code.

These claims are related but conceptually distinct because the underlying confidentiality obligations are different.<sup>6</sup> Specifically, GUS's claim arose from a licensing agreement between GUS and Superior Packing that was breached when

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<sup>6</sup> In addition, although both claims involve the misappropriation of trade secrets contained in Champion Packer, Lopez's claim further involves the misappropriation of the Lopez COBOL source code. Because that trade secret was not part of Champion Packer, it represents a trade

Herrin, Parkin, and HAL licensed a program (MEPAW) to third parties that contained the trade secrets of Champion Packer.

In contrast, Lopez's claim arose from a licensing agreement between World Trade Systems and Superior Packing that was breached when, *after* that agreement ended (and *after* Lopez learned that Herrin and Parkin wanted to exclude Lopez from their partnership), Herrin, Parkin, and HAL used Lopez COBOL source code to develop MEPAW and license it to third parties. For the following reasons, both of GUS's trade secrets claims against Herrin, Parkin, and HAL were filed within the applicable limitations period.

**A. GUS's trade secrets claim against Herrin, Parkin, and HAL was timely because those appellees did not misuse GUS's trade secrets until they began licensing MEPAW to third parties in 1994.**

In 1985, GUS licensed Superior Packing to use Champion Packer. 30R8588-616, 8686-87 ¶¶ 3-5. Under that license, Herrin and Parkin could use GUS's Champion Packer trade secrets so long as they were not provided to third parties (except to make program modifications under identical confidentiality restrictions). 30R8612-13 ¶ F1, 8615 ¶ C2, 8616 ¶ A1. As such, when Herrin and Parkin developed MEPAW using the Champion Packer trade secrets, their development did not violate any confidentiality obligation to GUS because that development did not involve persons beyond Superior Packing. However, when Herrin, Parkin, and

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secret unique to Lopez's claim.

HAL began licensing MEPAW to third parties, they breached their confidentiality obligations to GUS since that use of GUS's trade secrets was unauthorized.<sup>7</sup> Because this third-party licensing did not begin until 1994, *see supra* at p. 8, GUS's trade secrets claim against Herrin, Parkin, and HAL was filed within the limitations period.

Although GUS raised this argument in the district court, 30R8698-700, and reiterated it in a motion for reconsideration, 31R8916-18, the magistrate judge never addressed it in granting summary judgment to appellees, 4RER8878-91, or in denying GUS's motion for reconsideration, 6RE8948-49. Even so, this argument alone requires vacating the summary judgment in favor of Herrin, Parkin, and HAL.

In addition, as next shown, there is another basis for vacating the district court's summary judgment that is independent of this one.

**B. Lopez's trade secrets claim against Herrin, Parkin, and HAL was timely because Herrin and Parkin were licensed to use Lopez COBOL through July 1993.**

Even if Herrin and Parkin did not owe any confidentiality obligations to GUS when they licensed MEPAW to third parties, GUS nevertheless had another trade secrets claim against Herrin, Parkin, and HAL because GUS was the assignee of Lopez's trade secrets claim against those appellees, and, as next explained, that

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<sup>7</sup> In theory, the character of their actions could have become unlawful as early as August or September 1993, when they began demonstrating MEPAW to third parties. However, the summary judgment evidence does not reflect that those demonstrations involved the display of actual trade secrets. Even if August 1993 were used for accrual purposes, however, GUS's trade secrets claim

claim was timely filed as well.

In 1988, Lopez's company World Trade Systems licensed Superior Packing to use Lopez COBOL. 30R8657-64, 8682 ¶¶ 4-5. That license precluded Superior Packing from sublicensing Lopez COBOL to other businesses, although it did not preclude Superior Packing from modifying Lopez COBOL or making other uses of that program in its own business. 30R8662 ¶ VII.1-.2. As explained above, *see supra* at pp. 6-7, that license remained in force through and including July 1993. 30R8644, 8646-47, 8651-52 (134:23-135:3), 8655, 8680 ¶ 18, 8682 ¶¶ 7-9, 8682-83 ¶ 3. In addition, Herrin and Parkin independently were authorized to use Lopez COBOL to develop a derivative program for their partnership with Lopez until at least June 1993, when Lopez learned of their intent to exclude him from that partnership. 30R8624-32, 8680-81 ¶¶ 15, 17.

Before August 1993, Herrin and Parkin used the Lopez COBOL source code to develop MEPAW. 30R8583, 8586, 8649 (187:17-20), 8680 ¶ 18. Insofar as this development occurred before August 1993, it did not violate the World Trade Systems agreement because the use was internal to Superior Packing. Likewise, insofar as this development occurred before June 1993, it was also licensed by Lopez's prior authorization for them to use Lopez COBOL to carry out the parties' partnership agreement. As such, the development of MEPAW was authorized by

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against Herrin, Parkin, and HAL would be timely given the operative filing date of May 23, 1995.

one agreement or the other or both until at least August 1993. Conversely, beginning in August 1993, Herrin and Parkin were not licensed by any agreement to use the Lopez COBOL source code for any purpose, let alone to develop or license a derivative program to third parties as they began doing in 1994 through HAL. Consequently, the unauthorized use of Lopez COBOL source code by Herrin and Parkin did not begin until August 1993 at the earliest. As such, Lopez's trade secrets claim against Herrin, Parkin, and HAL did not accrue before then. Lopez's trade secrets claim against them was thus timely filed.

In conflict with this analysis, the district court held that Lopez's trade secrets claim had accrued in March 1993 because that is when Herrin exercised "dominion and control" over Lopez COBOL by failing to return a computer containing that software. 4RE8878-91. The district court's reasoning was wrong as a matter of law for three different reasons.

- 1. The district court ignored evidence that Superior Packing's license agreement had been extended through and including July 1993.***

Herrin's failure to return Lopez's computer could only be relevant to the claim accrual issue if that failure was wrongful: *i.e.*, in breach of the licensing agreement between Superior Packing and World Trade Systems. Herrin originally intended to terminate that license on March 31, 1993, but (1) Herrin reached an agreement with Lopez through Lopez's son to extend the license, (2) Lopez continued to invoice Herrin for use of the computer and software, and (3) Herrin

continued to pay those invoices through July 1993. 30R8644, 8646-47, 8651-52 (134:23-135:3), 8655, 8680 ¶ 18, 8682 ¶¶ 7-9, 8682-83 ¶ 3. Moreover, under the partnership agreement, Herrin and Parkin were separately authorized to use Lopez COBOL until at least June 1993. 30R8624-32, 8680-81 ¶¶ 15, 17.

GUS presented this evidence to the district court in its response to the motion for summary judgment filed by Herrin, Parkin, and HAL, 30R8706-08, and GUS reiterated this evidence in its motion for reconsideration, 31R8918-19. In ruling that Lopez's trade secrets claim was time barred, however, the district court never addressed this evidence. Instead, the district court ignored it and erroneously stated that "it is undisputed that the business relationship between Defendants and Lopez was effectively terminated in March 1993." 4RE8880. As shown above, however, the evidence GUS presented created a genuine issue of material fact that (1) Herrin was not required to return Lopez's computer until August 1993 and that (2) Lopez's other business arrangements with Herrin and Parkin did not result in any termination of their authorization to use Lopez COBOL for their partnership before June 1993. For these reasons, the district court's grant of summary judgment should be vacated.

**2. *In conflict with Texas law, the district court held that a trade secrets claim may accrue on something less than "actual use" of a trade secret.***

Assuming for the sake of argument that Herrin had to return Lopez's computer and software in March 1993, Herrin's failure to do so, by itself, would not demonstrate that Herrin and Parkin were actually using Lopez's trade secrets at that

time for any commercial purpose. In other words, the fact that an individual possesses particular software at a certain point in time does not alone show that the software is being used *at that time* for a commercial purpose. Consequently, a defendant's failure to return licensed software at a certain time does not itself answer the relevant claim-accrual question: when did the defendant actually begin using some trade secret for a commercial purpose in breach of confidence?

Rather than address that question, the district court held that Herrin's exercise of "dominion and control" over Lopez's computer in March 1993 equated to an actual commercial use of the underlying trade secrets. This was error because under Texas law, a defendant's exercise of control or domination over a trade secret does not constitute an actionable use of the trade secret unless the defendant (1) was *actually using* the trade secret at that time for a commercial purpose or (2) was trying to sell the trade secret to a third party at that time. *See Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195 (5th Cir. 1986) (applying Texas law).

In *Metallurgical Industries*, the plaintiff claimed to have developed trade secrets for improving furnaces used in tungsten carbide reclamation. 790 F.2d at 1197. A defendant (Bielefeldt) allegedly misappropriated those secrets and used them to modify furnaces that he sold to another defendant (Smith). *Id.* at 1198. Although Smith had control over these furnances, he had not "actually used" them for any commercial purpose because he lacked the raw materials to run them. *Id.* at 1198, 1205. Nevertheless, the plaintiff argued that Smith's control over the

furnaces was actionable trade secret theft because the furnaces contained the plaintiff's trade secrets. *Id.* at 1205. In making this argument, the plaintiff relied on *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 535 (5th Cir. 1974), which held that an attempted sale of stolen trade secrets was actionable because it represented an exercise of control and dominion over the secrets. This Court rejected the plaintiff's reliance on *Lykes-Youngstown*, however, and held that the control and dominion standard of that prior case was limited to those unusual situations where a defendant could put a secret to a commercial use without actually using it. *See Metallurgical Industries*, 790 F.2d at 1205 (holding that the "definition of 'use'" should be "the everyday meaning of the term" except in situations where "the trade secret itself was what was to be sold").

Because there is no evidence that Herrin or Parkin tried to sell the Lopez COBOL source code to a third party *in March 1993*, there is no basis to apply the concept of "dominion and control" to find that Herrin was misusing Lopez's trade secrets at that time absent an actual, commercial, and contemporaneous use of those same secrets.

In addition, applying the notion of "dominion and control" to say that Herrin was making a commercial use of Lopez's trade secrets absent actual use of those secrets would conflict with the *Altai* decision by the Supreme Court of Texas, which held that a trade secrets claim accrues upon actual not constructive use. 918 S.W.2d at 455 ("A cause of action for misappropriation of trade secrets accrues when the

trade secret is actually used.”).

To avoid the holding of *Altai*, the district court (at 4RE8880) relied on *Garth v. Staktek Corp.*, 876 S.W.2d 545, 548 (Tex. App.—Austin 1994, writ dismissed w.o.j.). *Garth*, however, had no occasion to hold that actionable use of a trade secret can arise on something less than actual use because the evidence there demonstrated that the defendant had ***actually used*** the plaintiff’s trade secret for three different commercial purposes within the relevant time frame: to produce a product design, to complete a patent application, and to procure product financing. *Id.*

Moreover, *Garth* cannot be read to suggest that actionable use of a trade secret may arise upon something less than actual use because that would be inconsistent with both *Altai* and *Metallurgical Industries*, decisions that are controlling in this Court on this issue of Texas law, unlike *Garth*, which is a state court of appeals’ decision. Because the district court applied the “actual” and “commercial” use requirements of Texas law in conflict with *Altai* and *Metallurgical Industries*, its decision should be vacated.

**3. *Trade secret theft was a “continuing” tort under Texas law when suit was filed.***

Even if Herrin and Parkin had actually used Lopez COBOL in breach of confidence for a commercial purpose in March 1993, that would not mean that Lopez’s trade secrets claim was extinguished in its entirety by the statute of limitations. Rather, the answer to that question depends on whether trade secret

misappropriation was a “continuing tort”<sup>8</sup> in Texas when suit was filed. If it was, then any misuse of trade secrets within two years of suit would be actionable, even if prior misuses were not.

On this question, the relevant time period is when suit was filed (May 1995) because the Texas Legislature made several changes to the statute of limitations for trade secret theft in 1997.

First, the Legislature extended the limitations period from two years to three years. *Compare Coastal Distributing*, 779 F.2d at 1038-39 (5th Cir. 1986) (two-year period), *with* Tex. H.B. 368, 75th Leg., R.S., ch. 26, § 1, 1997 Tex. Gen. Laws 26, eff. May 1, 1997 (codified at TEX. CIV. PRAC. & REM. CODE ANN. § 16.010

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<sup>8</sup> Courts and commentators usually describe trade secret theft as a “continuing” tort, although in some cases, it might better be classified as a “repeating” tort. This distinction does not always make a practical difference, but conceptually the distinction is as follows: If a defendant commits one tortious act that causes a single but ongoing injury (such as an act of false imprisonment), the tortious act is considered a “continuing tort” and the statute of limitations does not begin until the wrong ceases (*e.g.*, when the imprisoned victim is freed in the case of false imprisonment). In contrast, a repeating tort arises when a defendant commits a series of acts and each act is a tort in itself that causes additional harm. In such a situation, each tortious act is viewed as a separate cause of action with its own limitations period. *See generally* 5 WILLIAM V. DORSANEO III, TEXAS LITIGATION GUIDE § 72.03[1][c] at 35 (2005). One reason trade secret theft might be more accurately classified as a “repeating” tort is because each additional misuse of a trade secret satisfies all elements for a trade secrets claim while causing additional harm beyond that which was caused by prior misuse. *See* ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 13.04[2] at 101 (2006) (“[I]n a case of on-going, unauthorized use, each such use, although short of destruction, further jeopardizes secrecy status and consequently increases the risk of impairing the plaintiff’s competitive advantage. In combination, repeated uses may diminish the status of previously confidential information to nonsecret. . . . Consequently, while an initial wrongful use may in and of itself have no significant adverse impact upon the rightful owner, over time repeated wrongful uses may result in damage to the legal status.”). Because courts and commentators generally use the term “continuing tort” in discussing trade secrets claims, that term will be used here for consistency.

(Vernon 2002)) (three-year period).

Second, the legislature added a discovery rule that tolled limitations until a plaintiff knew or had reason to know of the initial misappropriation. *Compare* TEX. CIV. PRAC. & REM. CODE Ann. § 16.010(a) (statutory discovery rule), *with Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 918 S.W.2d 453, 457-58 (Tex. 1996) (no common-law discovery rule).

Third, the statute classified trade secret theft as an indivisible tort rather than a continuing tort. *See id.* § 16.010(b).<sup>9</sup> Because the statute did not indicate whether this classification was a change in the law and because this aspect of the statute could not be applied retroactively to pending suits if it *was* a change in the law (see *infra* at pp. 24-25), the question remains whether trade secret theft was a continuing tort in Texas before § 16.010 became effective.

Because the Supreme Court of Texas has not addressed this issue, this Court must make an “*Erie* guess” as to how that state court would answer it. *See Mayo v. Hartford Life Ins. Co.*, 354 F.3d 400, 406 (5th Cir. 2004) (citing *Erie R.R. v. Tompkins*, 304 U.S. 64 (1938)). In making that determination, this Court “defer[s] to intermediate state appellate court decisions unless convinced by other persuasive data that the highest court of the state would decide otherwise.” *Herrmann Holdings Ltd. v. Lucent Techs., Inc.*, 302 F.3d 552, 558 (5th Cir. 2002) (internal

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<sup>9</sup> As explained below, *see infra* at pp. 27-28, it is unnecessary to treat trade secret theft as a

quotation marks omitted).

In an unpublished opinion, one Texas court of appeals has held that trade secret theft was not a continuing tort in a suit filed before § 16.010 became effective. *See Tavana v. GTE Southwest, Inc.*, No. 05-97-00664-CV, 1999 Tex. App. LEXIS 5365 at \*10 (Tex. App.—Dallas July 21, 1999, pet. denied) (not designated for publication) (copy attached at Tab 1).<sup>10</sup> However, that holding was based on a retroactive application of TEX. CIV. PRAC. & REM. CODE ANN. § 16.010(b) (Vernon 2002), which, as noted above, classified trade secret theft as an indivisible tort but did not become effective until May 1, 1997.

Since *Tavana*, the Supreme Court of Texas held that § 16.010 cannot be applied retroactively where that “would destroy or impair rights which had become vested before [the statute] became effective.” *Baker Hughes, Inc. v. Keco R. & D., Inc.*, 12 S.W.3d 1, 4 (Tex. 1999). As such, if trade secret theft was a continuing tort in Texas before May 1, 1997, its classification as an indivisible tort by § 16.010 could not be applied to pending suits that were timely when filed because that

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continuing tort to prevent unfair outcomes when a discovery rule is available.

<sup>10</sup> The magistrate judge held (at 4RE8879 n.3) that trade secret theft was not a continuing tort in Texas when suit was filed based on *Tavana*. The magistrate judge also cited *Skytop Brewster Co. v. Skytop Int'l, Inc.*, No. H-93-0204, 1993 U.S. Dist. LEXIS 20472, at \*8 (S.D. Tex. Dec. 20, 1993) (unpublished) (copy attached at Tab 2), which stated that “Texas has not recognized the applicability of the continuing tort doctrine to a trade secrets claim.” That is true but does not answer the question. The issue is not whether the Supreme Court of Texas has ever recognized trade secret theft as a continuing tort; the question is whether that court would hold that trade secret theft was a continuing tort under Texas law as it existed before May 1, 1997.

would destroy a vested right. *Baker Hughes* thus undermines the sole basis for *Tavana's* holding. As such, *Tavana* provides no persuasive authority for the relevant question: whether trade secret theft was a continuing tort before May 1, 1997.

Because no other Texas intermediate courts have addressed the issue, this Court “may . . . refer to rules in other states that Texas courts might look to.” *Herrmann Holdings*, 302 F.3d at 558. In the present case, such rules suggest that the Supreme Court of Texas would hold that trade secret theft was a continuing tort before the Legislature’s 1997 changes.

First, in 1958, Texas adopted the definition of trade secret misappropriation from the RESTATEMENT (FIRST) OF TORTS § 757 (1939). See *Taco Cabana Int’l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1123 (5th Cir. 1991) (citing *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 776 (Tex. 1958)), *aff’d*, 505 U.S. 763 (1992). As courts and commentators have recognized, Restatement § 757 views trade secret misappropriation as a continuing tort. See *Underwater Storage, Inc. v. United States Rubber Co.*, 371 F.2d 950, 954 (D.C. Cir. 1966); *Anaconda Co. v. Metric Tool & Die Co.*, 485 F. Supp. 410, 426 (E.D. Pa. 1980); HENRY H. PERRITT, JR., TRADE SECRETS: A PRACTITIONERS GUIDE § 10:7.3[A] (Practising Law Institute 2d ed. 2005).

Second, Texas law “recognizes that trade secrets are an important property interest, worthy of protection.” *In re Continental Gen. Tire, Inc.*, 979 S.W.2d 609,

612 (Tex. 1998) (orig. proceeding); *see also Mabrey v. Sandstream, Inc.*, 124 S.W.3d 302, 310 (Tex. App.—Fort Worth 2003, no pet.) (“Trade secrets are in the nature of property rights that the law protects through both tort and contract principles.”). As courts have recognized, jurisdictions classify trade secret misappropriation as a continuing tort if they protect trade secrets as a form of property rather than solely as an attribute of a confidential relationship. *See Anaconda*, 485 F. Supp. at 425-26. In that case, the Eastern District of Pennsylvania had to decide whether Pennsylvania would recognize trade secret theft as a continuing tort. The court concluded that Pennsylvania would do so because that jurisdiction, like Texas, protected trade secrets as a form of property and followed § 757 of the Restatement of Torts:

There are two competing views on the theoretical basis for legal protection of trade secrets: the “property” view and the “confidential relationship” view. . . . [Under the “property”] view, the theoretical basis for recovery on a trade secret claim is not merely the breach of a confidential relationship, but also the adverse use of the plaintiff’s intellectual property. . . .

Pennsylvania trade secret law follows [§] 757 of the Restatement of Torts. That section creates a cause of action against a person “who discloses *or uses* another’s trade secret.” (emphasis added). The American Law Institute’s comments explicitly state that “The rule stated in this Section protects the interest in a trade secret against both disclosure *and adverse use*.” Restatement of Torts § 757, Comment c at 8 (1939) (emphasis added). Thus the protection of trade secrets under [§] 757 and Pennsylvania law is not limited to protection against the initial disclosure, but embraces protection against subsequent unauthorized use as well.

These basic principles of Pennsylvania trade secret law – the treatment of trade secrets as intellectual property and the recognition

of a separate cause of action for wrongful use of a misappropriated trade secret – control our decision on the statute of limitations issue. Since recovery may be premised not merely on the breach of the confidential relationship when the secret was disclosed, but also on subsequent wrongful use of the secret, the statute of limitations for the tort of wrongful use begins to run at the time of the wrongful use, and not at the time of the initial misappropriation. In other words, under Pennsylvania law, wrongful use of a misappropriated trade secret is a continuing tort.

*Anaconda*, 485 F. Supp. at 425-26.

Appellees may argue that Texas also protects trade secrets to preserve associated confidential relationships, but the relevant question is whether a jurisdiction protects trade secrets as a form of property, regardless of whether it *also* protects such associated relationships. *See id.* (“[Under the “property”] view, the theoretical basis for recovery on a trade secrets claim is *not merely* the breach of a confidential relationship, *but also* the adverse use of the plaintiff’s intellectual property.” (emphasis added)). Indeed, the District of Minnesota recently made this very point when making the same type of *Erie* guess at issue here:

Because Minnesota law protects both the confidentiality and the proprietary nature of a trade secret, the Court finds that Minnesota courts would hold that the statute of limitations commences to run anew with each wrongful use of the trade secret.

*Lutheran Ass’n of Missionaries & Pilots, Inc. v. Lutheran Ass’n of Missionaries & Pilots, Inc.*, No. 03-6173, 2005 U.S. Dist. LEXIS 4176, at \*36-37 (D. Minn. Mar. 15, 2005) (unpublished) (copy attached at Tab 3).

Finally, there is a sound policy reason for the Supreme Court of Texas to

recognize trade secret theft as a continuing tort. As explained above, trade secret theft in Texas was subject to a two-year limitations period before May 1, 1997. Moreover, because no discovery rule was available at that time, *see Altai*, 918 S.W.2d at 458, that limitations period was not tolled even if a plaintiff had no reason to know of a misappropriation. Under such circumstances (a short limitations period and no discovery rule), if trade secret theft were also treated as an indivisible tort, a wrongdoer would get to steal and use another's trade secrets *forever* so long as he kept his initial misappropriation under wraps during a relatively short limitations period. In contrast, if trade secret theft were treated as a continuing tort, the plaintiff in such a situation would at least retain the right to enjoin future misuse of those trade secrets that were rightfully his. Moreover, recognizing trade secret theft as a continuing tort in such circumstances would not negate the short statute of limitations because that statute would still serve as a substantial limit on the recovery of past damages. This reasoning thus suggests that trade secret theft should be recognized as a continuing tort in jurisdictions where the discovery rule is unavailable. And indeed, the soundness of this conclusion is reflected by the fact that "the mainstream view" across the country is to either treat trade secret theft as a continuing tort *or* provide a discovery rule. *See* ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 13.04[2] at 100 (2006).

For these reasons, this Court should hold that the Supreme Court of Texas would have recognized trade secret theft as a continuing tort in suits filed before

May 1, 1997. As such, even if limitations barred recovery for trade secret misuse that occurred before May 23, 1993, GUS could still enjoin, and recover damages for, subsequent trade secret misuse.

### **III. GUS's trade secrets claim against the MEPAW licensees remains in this case.**

Because the MEPAW licensees used MEPAW while on notice of GUS's proprietary rights, GUS filed a trade secrets claim against them. 2R214-16, 222. Further, because the MEPAW licensees began using MEPAW within two years of suit, it is undisputed that this trade secrets claim was timely filed. Nevertheless, the district court dismissed GUS's trade secrets claim against the MEPAW licensees, holding that GUS's claim no longer existed against them because it had been dismissed before the first appeal and was not within the scope of this Court's remand. 6RE8948-49.

The district court did not give an explanation for its scope-of-remand holding, but as a matter of procedural logic, the district court's conclusion could only be correct if (1) GUS did not appeal the original dismissal of its trade secrets claim against the MEPAW licensees, *or* (2) GUS did not argue on appeal that the district court's dismissal was error, *or* (3) this Court upheld the basis for the district court's dismissal.<sup>11</sup> As shown below, *see infra* III.B-.D, none of these scenarios

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<sup>11</sup> In the district court, appellees also argued that appellants did not plead a trade secrets claim against the MEPAW licensees. 31R8777-78. The district court properly ignored this argument because it is meritless. For one, appellants expressly pleaded a trade secrets claim against all

applies and so the district court's ruling regarding the scope of remand should be reversed.

**A. Standards Governing Scope-of-Remand Determinations**

On remand, a district court must “take into account the appellate court’s opinion and the circumstances it embraces” as well as “implement both the letter and the spirit of the appellate court’s mandate.” *United States v. Lee*, 358 F.3d 315, 320-21 (5th Cir. 2004) (internal quotation marks omitted). Further, apart from “exceptional circumstances,” the district court must comply with the appellate court’s resolution of factual and legal issues, whether “decided expressly” or “by necessary implication.” *Id.* This Court reviews a district court’s determination of the scope of remand *de novo*. *Id.* at 320

As next shown, the district court’s scope-of-remand determination in this case was erroneous as a matter of law because (1) GUS appealed the original dismissal of its trade secrets claim against the MEPAW licensees, (2) GUS argued on appeal that the district court’s dismissal was error on grounds applicable to all appellees, including the MEPAW licensees, and (3) this Court agreed with GUS’s

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appellees, including the MEPAW licensees: “This is an action . . . for *defendants* unfair competition under the common law of the State of Texas, specifically *defendants* misappropriation of trade secrets . . . .” 2R222 ¶ 15 (First Amended Complaint) (emphasis added). In addition, appellants pleaded specific facts giving rise to a trade secrets claim against the MEPAW licensees: (1) that Herrin, Parkin, and HAL misappropriated appellees’ software (2R217-18 ¶¶ 23-24); (2) that Herrin, Parkin, and HAL sold and licensed that misappropriated software to the MEPAW licensees (2R216-17 ¶¶ 24, 26); and (3) that the MEPAW licensees “knew or should have known that the Software System they were acquiring[] was the property of the Plaintiffs.” (2R214-15

arguments.

As a result, when this Court “revers[ed] . . . the district court’s dismissal of General Universal’s trade secret claim in Case Number 01-21114” and “remand[ed] that claim to the district court for further proceedings not inconsistent with this opinion,” *Gen. Universal System, Inc. v. Lee*, 379 F.3d 131, 159 (5th Cir. 2004) (per curiam), this Court reinstated the entirety of GUS’s claim, including GUS’s claim against the MEPAW licensees, by “necessary implication.” *United States v. Lee*, 358 F.3d at 320.

**B. GUS appealed the dismissal of its trade secrets claim against the MEPAW licensees.**

On September 29, 1998, the district court granted appellees’ motion for summary judgment on appellants’ trade secrets claim. 21R6194-200. The court held that the trade secrets at issue had not been adequately protected and had not been improperly discovered. 21R6196. After resolving appellants’ other claims through summary judgment and trial, the district court on September 14, 2000 entered a final judgment. 24R7279-82. In that judgment, the court expressly reiterated that “[o]n September 29, 1998, the Court granted *defendants*’ motion for partial summary judgment on the trade secret theft claim.” 24R7281 (emphasis added). The court later entered two amended final judgments. 24R7297-300; 25R7541-43. Appellants filed a notice of appeal of all three judgments. 25R7564-

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¶ 29).

65. As such, appellants properly appealed the district court’s dismissal of their trade secrets claim against *all* defendants, including the MEPAW licensees.

**C. On appeal, GUS argued that the district court erred in dismissing its trade secrets claim as to all appellees.**

In the first appeal, GUS contended that the district court had “erred in granting partial summary judgment on GUS’s misappropriation of trade secrets claim.” Appellants’ Amended Brief at xxi, *Gen. Universal Sys, Inc. v. Lee*, No. 01-21114, 2002 WL 32714145 (5th Cir. Jul. 15, 2002) (statement of issues). The scope of this issue necessarily embraced GUS’s trade secrets claim against the MEPAW licensees because – as GUS made clear on the first page of its brief – GUS had “sued Appellees for . . . misappropriating trade secrets,” *id.* at 1 (emphasis added), and the MEPAW licensees were appellees in that appeal, *see id.* at iv.

Then, in the body of its brief, GUS specifically argued that the district court had made two mistakes in dismissing GUS’s trade secret claim. *See id.* at 30-34. First, GUS argued that the district court erred in finding that the Lopez COBOL source code was not properly protected as trade secret. *Id.* at 30-33. On this point, GUS explained that the record evidence gave rise to a fact issue as to whether that source code had been adequately protected. *Id.* Second, GUS argued that the district court erred in finding that HAL’s use of the source code was not actionable because HAL had properly obtained the source code. *Id.* at 33-34. On this, GUS explained that the record evidence gave rise to a fact issue showing that, even if

HAL initially had obtained the source code properly, its continued use of the source code ultimately breached one or more confidential relationships. *Id.*

Finally, in its prayer, GUS asked “that this Court reverse the District Court[’s] grant of summary judgment on GUS’s Lanham Act and misappropriation of trade secrets claims and remand these claims for trial on the merits or such further other proceedings as the Court deems appropriate.” *Id.* at 50-51. GUS thus raised the issue, arguments, and request for relief needed to obtain a reversal of the district court’s dismissal of its trade secrets claim against the MEPAW licenses.

Appellees may argue that GUS did not make two separate arguments: *e.g.*, “(1) The district court erred in dismissing GUS’s trade secrets claim against Herrin, Parkin, and HAL.” and “(2) The district court erred in dismissing appellants’ trade secrets claim against the MEPAW licensees.” That is true but beside the point. GUS had no reason to make two separate arguments because its trade secrets claim had been dismissed in its entirety against all appellees on the same erroneous basis: the district court’s threshold determination that GUS had no trade secrets claim against anyone because the underlying trade secrets had not been adequately protected or improperly obtained.

In contrast, if the district court had dismissed GUS’s trade secrets claim against the MEPAW licensees on a different basis from its dismissal of GUS’s trade secrets claim against the other appellees, GUS would have had to have made two different arguments on the first appeal. Since the district court’s dismissal of GUS’s

trade secrets claim was premised on bases common to all appellees, however, it sufficed for GUS to argue on appeal that the district court's dismissal of its trade secrets claim was error.

**D. This Court reinstated GUS's trade secret claim in its entirety by vacating the district court's dismissal on grounds applicable to all appellees.**

In the first appeal, this Court accepted both of GUS's arguments and held that fact issues existed as to whether the Lopez COBOL source code had been adequately protected or used in breach of a confidential relationship. *Gen. Universal Sys.*, 379 F.3d at 150-52. This Court then vacated the district court's grant of summary judgment on GUS's trade secret claim. *Id.* By vacating the district court's dismissal on grounds applicable to all appellees, this Court necessarily reinstated the entirety of GUS's trade secrets claim, including GUS's trade secrets claim against the MEPAW licensees.

To be sure, in vacating the district court's grant of summary judgment, this Court did not dissect GUS's trade secrets claim and discuss GUS's claim against Herrin, Parkin, and HAL separately from GUS's claim against the MEPAW licensees. For the same reasons as above, however, such an analytical division was unnecessary because GUS's trade secrets claim against all appellees had been dismissed by the district court on the same erroneous basis: the district court's threshold determination that the source code had been inadequately protected and properly obtained. Because the district court's threshold determination resulted in

the erroneous dismissal of GUS's trade secrets claim against all appellees, including the MEPAW licensees, the Fifth Circuit's rejection of the district court's determination necessarily reinstated GUS's trade secrets claim in its entirety. As such, this Court's remand of "General Universal's trade secrets claim in Case Number 01-21114," 379 F.3d 131 at 159, necessarily reinstated and remanded GUS's claim against all appellees, including the MEPAW licensees.

\* \* \*

In sum, (1) GUS appealed the district court's dismissal of GUS's trade secrets claim against all appellees, (2) GUS argued that each asserted basis for the district court's dismissal was error and asked for that dismissal to be reversed, and (3) this Court agreed and granted that request, reversing that dismissal on grounds common to all appellees and remanding GUS's trade secret claim. Consequently, this Court's remand necessarily reinstated the entirety of GUS's claim, including GUS's claim against the MEPAW licensees, by "necessary implication." *United States v. Lee*, 358 F.3d at 320. For these reasons, GUS's trade secrets claim against the MEPAW licensees remains pending in this case, and the district court's contrary ruling should be reversed. Moreover, because the MEPAW licensees have never claimed that GUS's trade secrets claim against them is barred by limitations, GUS's claim against them must be remanded for further proceedings, regardless of the status of GUS's trade secrets claim against Herrin, Parkin, and HAL.

## CONCLUSION

For the foregoing reasons, appellants request the following relief:

- (1) the district court's third amended final judgment should be vacated;
- (2) the district court's summary judgment on limitations in favor of appellees on appellants' trade secrets claim should be vacated;
- (3) the district court's determination that appellants' trade secrets claim against the MEPAW licensees no longer exists should be reversed; and
- (4) this cause should be remanded for further proceedings.

Appellants also request such other and further relief to which they may be entitled.

JULY 24, 2006

Respectfully submitted,

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## CERTIFICATE OF COMPLIANCE

This brief complies with the type-volume limitation of FED. R. APP. P. 32(a)(7)(B) because this brief contains **9,868** words, excluding the parts of the brief exempted by FED. R. APP. P. 32(a)(7)(B)(iii).

This brief complies with the typeface requirements of FED. R. APP. P. 32(a)(5) and Cir. R. 32.1 and the type style requirements of FED. R. APP. P. 32(a)(6) because this brief has been prepared in a proportionally spaced typeface using Word 2002 in Times New Roman using 14 point font for body text and 12 point font for footnotes.

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Counsel for Appellants	

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing **BRIEF FOR APPELLANTS GENERAL UNIVERSAL SYSTEMS INC., WORLD TRADE SYSTEMS INC., JOSE S. LOPEZ, AND ELI NASSAR** and computer disk containing same was served on July 24, 2006 by certified mail, return receipt requested on the counsel of record listed below.

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