

No. 05-21015

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

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.

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

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

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SUMMARY

Appellees contend that GUS's trade secrets claim against Herrin, Parkin, and HAL was untimely based on the law of the case doctrine. On the merits, appellees claim that GUS's claim was untimely because (a) Lopez was denied access to a computer containing Lopez COBOL in March 1993; (b) Lopez was excluded from HAL, Inc. in March 1993; and (c) no confidential relationship existed between GUS or Lopez, on the one hand, and Herrin, Parkin, or HAL, Inc., on the other hand, in connection with GUS's trade secrets (as contained in Champion Packer or Lopez COBOL).

Appellees' arguments rest on a misunderstanding of the law of the case doctrine. *Infra* Part I. That doctrine resolves no limitations issue presented by this appeal because no trade secrets limitation issue was previously decided by the district court (or this Court) before this Court's remand and because the non-trade-secrets limitations issues that were previously decided are not determinative of limitations for GUS's trade secrets claim. Conversely, this Court's prior determination that a fact issue precluded summary judgment on GUS's ability to establish a breach of a confidential relationship for its trade secrets claim *is* law of the case. Appellees' contention that no such relationship existed must therefore be rejected.

Appellees' limitations arguments otherwise rely on misunderstandings of Texas law, which holds that the accrual of a trade secret claim requires actual – not

constructive or implied – commercial use of a trade secret in breach of a confidential relationship. *Infra* Part II.A. Thus, even if Lopez had been denied access to a computer containing Lopez COBOL software or excluded from HAL, Inc. in March 1993, that would not demonstrate that any trade secret claim accrued at that time because such events do not evidence actual commercial use of any particular trade secret in breach of any confidential relationship.

In addition, when suit was filed, trade secret theft would have been recognized as a continuing or “repeating” tort because Texas protects trade secrets as a kind of property in addition to protecting them to preserve confidential relationships. *Infra* Part II.B. Appellees dispute this conclusion but have no substantive response other than an uncontrolling case decided under California law, an unpublished Texas case whose rationale was undermined by a subsequent state supreme court decision, and two other cases that do not address the relevant legal issue and are distinguishable on their facts.

Further, on the merits, Lopez was *not* wrongly denied access to a computer containing Lopez COBOL software in March 1993, nor was he excluded from his partnership with Herrin and Parkin at that time. *Infra* Part III.A. (Notably, that *partnership* was the relevant business entity for establishing the existence of a confidential relationship, *not* the related but distinct and later-created corporate entity HAL, Inc.)

In addition, although the on-going partnership between Herrin, Parkin, and

Lopez establishes that GUS's trade secret claim was timely filed and viable on the merits, GUS presented two other agreements evidencing confidential relationships between GUS/Lopez on the one hand and Herrin/Parkin on the other. *Infra* Part III.B.-C. These agreements do not establish a confidential relationship between GUS and HAL, but that is a red herring because HAL's liability is derivative of Herrin's and Parkin's: *i.e.*, HAL is liable not because it entered a confidential agreement with GUS but because it licensed software containing GUS's trade secrets while on notice that such licensing would be in breach of Herrin's and Parkin's confidentiality obligations. *Infra* Part III.D. Further, because appellees point to no record evidence that HAL, Inc. took any official act relevant to claim accrual before late 1994, GUS's trade secrets claim against HAL must be reinstated even if any claim against Herrin and Parkin were found to be untimely.

Finally, GUS pleaded a trade secrets claim against the MEPAW licenses and successfully appealed the district court's dismissal of that claim. This Court's remand thus necessarily embraced that claim. *Infra* Part IV. Appellees contend that no such claim was ever pleaded, but this argument is based on a misunderstanding of federal pleading standards and the failure to realize that the MEPAW licensees' liability (like HAL's) derives not from a confidential relationship with GUS but from the fact that those licensees were on notice that their use of GUS's trade secrets arose from a breach of duty committed by those from whom they were licensing software. For these reasons, this Court should vacate the district court's

grant of summary judgment on GUS's trade secrets claim, reverse that court's determination that GUS's trade secrets against the MEPAW licensees is no longer in this case, and remand for further proceedings.

ARGUMENT

- I. Appellees' arguments misunderstand the law of the case doctrine.**
 - A. The law of the case doctrine does not resolve any limitations issue in this case.**
 - 1. The district court properly declined to apply its prior decisions regarding GUS's non-trade-secrets claims to GUS's trade secrets claim.***

In the district court, Herrin, Parkin, and HAL argued that GUS's trade secrets claim was barred by limitations based on the law of the case. 30R8525-27. They specifically argued that, because the district court previously had determined that GUS's non-trade-secrets claims for conversion and misappropriation had accrued in March 1993, that court had to treat March 1993 as the accrual date for GUS's trade secrets claim as well. *Id.* Although appellees reiterate this argument here (at 5-8, 14-15), it should be rejected, as it was by the district court.

First, the law of the case doctrine only "comes into play only with respect to issues previously determined." *Quern v. Jordan*, 440 U.S. 332, 347 n. 18 (1979). Yet prior to this Court's remand, the only limitations issue the district court had previously determined was the accrual date for GUS's non-trade-secrets claims. Indeed, as appellees themselves admit, the district court had never previously "consider[ed] whether [any] trade secret cause of action was time-barred."

30R8529. Because the district court had never decided any trade secrets limitations issue, the district court had no legal basis to invoke the law of the case on that issue.

Any other view could be justified only if the accrual date for a conversion/misappropriation claim was necessarily the same as for a trade secrets claim arising from related facts. But a finding that a conversion or misappropriation claim accrued on one date does not necessarily mean that a factually related but legally distinct trade secrets claim necessarily accrued on that same date. This is because such claims have different elements.

Here, for example, GUS's trade secrets claim included at least two elements that GUS's conversion and misappropriation claims did not: namely, the existence and breach of a confidential relationship. Appellees' Br. 7-8. To see why this matters, suppose that (1) Herrin had been obliged to return Lopez's computer and software at the end of March 1993 under the lease agreement between World Trade Systems and Superior Packing but (2) Herrin failed to return those materials at that time and continued to use them to run Superior Packing's operations. Such facts might show that Herrin had converted or misappropriated Lopez's computer and software by violating the general possession and usage terms of the equipment lease and software license. By itself, however, such facts would not necessarily mean that Herrin had *also* breached any confidentiality restrictions that applied to the underlying trade secrets (such as restrictions on providing those secrets to third parties), let alone any confidentiality restriction that may have been in place under

other agreements (such as the partnership agreement between Herrin, Parkin, and Lopez). Rather, *those issues* would depend on the scope of the confidentiality restrictions in questions and whether Herrin's actions constituted a breach of them. Indeed, according to appellees (at 17), Herrin's actions in this example would not have breached any confidentiality restrictions under the World Trade Systems lease because that agreement did not give rise to such duties. While GUS disputes appellees' position that this agreement imposed no such duties, *infra* Part III.C., appellees' position does demonstrate why the law of the case doctrine is inapplicable here: there is simply no necessary relationship between the accrual dates for GUS's non-trade-secrets claims and trade secrets claim given the different elements of GUS's trade secrets claim.¹

Second, even if the district court *could* have invoked the law of the case doctrine based on its prior rulings, it was not obliged to do because that doctrine is discretionary when a court is considering its own prior orders. *Perillo v. Johnson*, 205 F.3d 775, 780-81 (5th Cir. 2000). But appellees make no argument that the district court abused its discretion in declining to apply the law of the case. Moreover, given GUS's un rebutted evidence that Herrin's initial refusal to return

¹ The standard for trade secrets claim accrual also differs from that of other claims: *e.g.*, control/dominion (absent actual use) may establish conversion for accrual purposes, *Hofland v. Elgin-Butler Brick Co.*, 834 S.W.2d 409, 414 (Tex. App.—Corpus Christi 1992, no writ), but ordinarily it does not for trade secret theft. *Infra* Part II.A.

Lopez's computer and software had been excused by an agreement to extend the underlying lease, the district court had good reason to not invoke the law of the case doctrine: its prior basis for dismissing GUS's misappropriation and conversion claims was manifestly wrong. *United States v. Becerra*, 155 F.3d 740, 752-53 (5th Cir. 1998) (holding that law of the case does not apply, even when otherwise mandatory, if "the evidence on a subsequent trial was substantially different" or "the [prior] decision was clearly erroneous and would work a manifest injustice"). Thus, although the law of the case doctrine was not justified (and certainly not mandatory), the fact that relevant evidence was different and the prior decision was wrong also demonstrate that there was no abuse of discretion by the district court.

In addition, because GUS's trade secrets claim had been erroneously dismissed by the district court *before* any limitations issue was heard on any claim, it would be especially unwarranted to treat the district court's later limitations decision as "law of the case" as to a previously dismissed claim. Indeed, once the trade secrets claim had been erroneously dismissed, GUS had no basis to submit – let alone any ability to seek additional discovery of – evidence that might have been relevant to that dismissed claim in connection with GUS's other claims.²

² Indeed, even after this Court's remand, the district court did not re-open discovery on GUS's trade secrets claim despite GUS's request for a continuance in the event that the court decided to grant summary judgment against GUS on the merits of its trade secrets claim. 30R8696.

2. *The district court properly declined to apply this Court's opinion because that opinion decided no limitations issue.*

To the extent appellees' argument might be read (at 5) to separately suggest that the district court somehow erred by not invoking law of the case based on *this* Court's decision on the first appeal of this matter, such an argument should also be rejected. In the district court, appellees failed to argue that this Court's decision constituted law of the case on any limitations issue, thus waiving the issue. 30R8525-27; *Miller v. Nationwide Life Ins. Co.*, 391 F.3d 698, 701 (5th Cir. 2004) (“[A] district court cannot have erred as to arguments not presented to it.”).

And even if such an argument were considered on the merits, it is clear that this Court's prior decision did not create law of the case on any limitations issue because this Court did not address or discuss – let alone decide – any such issue. *Signal Oil & Gas Co. v. The Barge W-701*, 654 F.2d 1164, 1169 (5th Cir. 1981) (“[L]aw of the case does not operate to bar subsequent consideration of matters that could have been, but were not, raised and resolved in the earlier proceeding.”). Indeed, the law of the case doctrine does not always apply even when a prior proceeding *does* resolve an issue. For example, the doctrine does not apply if a court's prior resolution of an issue did not result from an actual hearing on the merits of the issue. *United States v. Hatter*, 532 U.S. 557, 566 (2001). Since this Court's prior opinion resolved no limitations issue, let alone after hearing the merits of any such issue, it cannot be considered law of the case on any such issue.

Likewise, since the district court's original determinations as to GUS's

conversion and misappropriation claims did not establish law of the case as to GUS's trade secrets claim, this Court's prior decision could not have established law of the case either. Moreover, as explained above, the district court had authority to decline to apply law of the case doctrine (even if that doctrine was somehow mandated by this Court's prior decision) based on the additional evidence GUS presented and the manifest error of the district court's prior decision. *Becerra, supra*. For these reasons, the district court properly declined to apply the law of the case doctrine on any trade secret limitations issue.

B. Conversely, the law of the case doctrine does defeat appellees' arguments regarding confidential relationships.

In the first appeal of this matter, this Court held that “[t]he district court erred in not considering whether GUS might prevail by demonstrating a breach of a confidential relationship. On the present record, there is a genuine issue of material fact and summary judgment was inappropriate.” *Gen. Universal Sys.*, 379 F.3d at 152. Although appellees do not acknowledge it, this Court's holding is law of the case as to whether summary judgment is appropriate as to the existence and breach of a confidential relationship. After all, unless this Court had determined that fact issues existed on those questions, this Court could not have made the holding above. Thus, although GUS will address appellees' contentions on the merits, *infra* Part III, this Court may apply the law of the case doctrine if it wishes to refrain from re-examining issues pertaining to the existence and breach of confidential relationships.

II. Appellees' arguments misunderstand Texas trade secrets law.

A. A trade secrets claim does not accrue until a trade secret is actually used for a commercial purpose.

Appellees claim (at 9-10) that GUS's trade secrets claim accrued in March 1993 because that is when Herrin exercised "control" or "dominion" over Lopez computer and software by refusing to return them to Lopez's son. In making this argument, appellees ignore GUS's un rebutted evidence that Herrin's initial refusal was immediately excused by Lopez's agreement to extend the computer/software lease through July 1993. Appellants' Br. 6-7.

Apart from ignoring this evidence, appellees equate control/dominion over a trade secret with actual use of the secret. As explained before, such a view conflicts with controlling precedent: the most recent case from the Supreme Court of Texas requires "actual use," *Altai*, 918 S.W.2d at 455, and every other case that appellees cite characterizing a defendant's actions as "control" or "dominion" does so in a context where a defendant was actually using the trade secret in question. *Garth*, 876 S.W.2d at 548 (defendant actually used plaintiff's trade secret to produce a product design, to complete a patent application, and to procure product financing); *Tavana*, 1999 Tex. App. LEXIS 5365 at *11 ("[The defendant] presented evidence . . . that it was using the power supply tester alleged by [the plaintiff] to be an 'updated copy' of [the trade secret device] as early as 1989."); *Coastal Distributing*, 779 F.2d at 1036 (holding that the defendant's "use of [the plaintiff's] confidential information contrary to [the plaintiff's] purposes was . . . wrongful"); *id* at 1036 n.4

(upholding determination that defendant’s “wrongful use of the customer information . . . occurred prior to [the relevant limitations] date”).

Finally, this Court has held that the control/dominion concept under Texas law only allows commercial use to be shown on something less than actual use in the limited situation where a party is trying to sell a trade secret. Appellants’ Br. 19-20 (discussing *Metallurgical Industries*, 790 F.2d at 1205, which held 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”). Such a view creates a reasonable exception to the general rule (although that exception is not at issue here) because the sale of a secret is commercial yet not a “use” in the ordinary sense of the word. Appellees fail to discuss *Metallurgical Industries*, yet try to cloud the issue (at 13) by mischaracterizing GUS’s position as equating “actual use” with “sale.” This is not so. GUS’s position is simply that a commercial use must be an actual use – not constructive or implied – except in the limited circumstance where a trade secret claim is based on a sale or attempted sale of a trade secret.

For these reasons, *Metallurgical Industries* and *Altai* compel a ruling in GUS’s favor, nor can there be any dispute that these cases are controlling on this point, unlike any intermediate or unpublished state court cases such as *Garth* or *Tavana*. Consequently, this Court should hold that no trade secret claim accrued during March 1993 as appellees contend.

B. When this suit was filed, trade secrets theft was a continuing or

“repeating” tort.

As previously explained, the Supreme Court of Texas would hold that trade secret theft was a continuing or “repeating” tort for suits filed before the Legislature adopted a discovery rule for such claims in 1997. Appellants’ Br. 21-29. Appellees take issue with this conclusion but do not dispute that:

- No controlling Texas case has directly addressed this issue.
- Jurisdictions that protect trade secrets both as a type of property and to protect the underlying confidential relationships treat trade secret theft as a continuing tort if a discovery rule is unavailable.
- Texas protects trade secrets as a type of property as well as to protect the underlying confidential relationships.

Under such circumstances, this Court should hold that Texas law would treat trade secret theft as a repeating tort when suit was filed.

Against this, appellees cite four cases, but none provides support for their position.

In *Tavana*, the Dallas court of appeals held in an unpublished opinion that trade secret theft was not a continuing tort on a pre-1997 claim based on a retroactive application of TEX. CIV. PRAC. & REM. CODE ANN. § 16.010 (Vernon 2002). 1999 Tex. App. LEXIS 5365 at *10. *Tavana* is unpersuasive, however, because the Texas Supreme Court subsequently held that § 16.010 could not be applied retroactively in this fashion. Appellants’ Br. 24-25; *see* Appellees’ Br. 19 (admitting that § 16.010 is not retroactive).

In *Baker Hughes* and *Reynolds-Southwestern*, two Texas courts held that pre-1997 trade secrets claim were “barred” by limitations. *Baker Hughes*, 12 S.W.3d at 5; *Reynolds-Southwestern*, 438 S.W.2d at 140. Appellees thus argue (at 20) that trade secret theft is not a continuing tort because limitations does not “bar” continuing torts; rather, it just limits damages to those that “continue” into the limitations period. Generally speaking, that may be true, but it makes a difference only where damages actually continue into the limitations period and neither of the cited cases discusses if that was the situation, let alone addresses whether trade secret theft is a continuing tort. *Baker Hughes*, 12 S.W.3d at 5; *Reynolds-Southwestern*, 438 S.W.2d at 140. As such case, the persuasive value of these cases does not even rise to the level of *obiter dictum* on this issue.

Further, although limitations ordinarily may not bar *continuing* torts, the proper nomenclature here is actually “repeating” tort, Appellants’ Br. 22 n.8, and for repeating torts, the relevant claim accrual question is whether a tortious act occurred within the limitations period, not whether damages from some prior tortious act continued into the limitations period. As such, limitations often *will* be a bar to trade secret claims (when treated as repeating tort): specifically, whenever no trade secret misuse occurs within the limitations period. In this respect, the dismissals in *Baker Hughes* or *Reynolds-Southwestern* are consistent with trade secret theft being a repeating tort, as there is no discussion that any particular act of trade secret theft

occurred within the limitations period therein.³ *Baker Hughes*, 12 S.W.3d at 5 (describing defendant's most recent alleged act of trade secret misuse as occurring in April 1991, more than two years before suit was filed); *Reynolds-Southwestern*, 438 S.W.2d at 140 (describing defendant's predecessor-in-interest's alleged trade secret misappropriation as occurring within a joint venture that ended in May 1957, more than than two years before suit was filed).

Appellees finally cite a California case decided under California law in which the district court stated in *dicta* that it would not have found that trade secret theft was a continuing tort under Texas law (if Texas law had applied) because Texas follows the RESTATEMENT (FIRST) OF TORTS § 757 and because Texas law protects trade secrets to protect underlying confidential relationships. That court's reasoning is unpersuasive, however, because the majority view is that § 757 adopts a continuing tort approach and the determinative question is whether state law protects trade secrets as a kind of property, regardless of whether it also protects them to protect underlying confidential relationships. Appellants' Br. 27.

III. GUS's trade secrets claim against Herrin, Parkin, and HAL was timely filed and meritorious.

A. The Herrin, Parkin, Lopez partnership created confidentiality obligations that were first breached within the limitations period.

1. The agreement between Herrin, Parkin, and Lopez formed a

³ *Reynolds-Southwestern* is also inapposite because it involved the application of a discovery rule, 438 S.W.2d at 140, which mitigates short limitations periods, thus obviating the need to treat trade secret theft as a repeating tort.

partnership that created confidentiality obligations.

Appellees do not dispute that Herrin, Parkin, and Lopez agreed to commercialize Lopez COBOL and split the profits or that these individuals entered that agreement months before HAL, Inc. was formed. Under Texas law, this agreement created a partnership. TEX. REV. CIV. STAT. ANN. art. 6132b-2.02(a) (Vernon Supp. 2004-2005) (regardless of whether the term “partnership” is used, “an association of two or more persons to carry on a business for profit as owners creates a partnership”). This distinguishes appellees’ primary authority (*Schlumberger*), where there was “no evidence of an agreement to share profits.” 959 S.W.2d at 176. Appellees also do not dispute that Lopez contributed Lopez COBOL to his venture with Herrin and Parkin months before HAL, Inc. was formed. As a result, the parties’ agreement not only created a partnership but also gave rise to confidentiality obligations covering the Lopez COBOL software. Appellees’ Br. 21 (citing *Mizell*, 904 S.W.2d at 618).⁴

Appellees’ only substantive response is that *HAL, Inc.* was not a partnership. That is true, but beside the point because the agreement at issue did not create HAL, Inc. Rather, the agreement at issue predated the existence of HAL, Inc. by several months and created a partnership because it reflected a present agreement to commercialize Lopez COBOL and split eventual profits. To be sure, the terms of

⁴ Appellees suggest (at 25) that a partnership agreement does not form a confidential relationship because such a relationship must exist “before . . . the agreement made the basis of the suit.” But

that agreement contemplated the future formation of a corporation (HAL, Inc.) to carry out some aspects of the partnership's business, but a partnership's decision to create, own, or employ additional business entities to carry out parts of its business does not change the character of an already-formed partnership, nor do appellees cite any authority that a partnership cannot chose to conduct its business in this fashion, which is unsurprising, since a partnership's ownership and use of other business entities (including non-partnership entities) is commonplace.

2. *There is no evidence that Lopez was excluded from this partnership more than two years before suit was filed.*

Appellees insinuate that Lopez was excluded from the partnership with Herrin and Parkin in March 1993, but there is no evidence suggesting that Lopez was excluded from any partnership at that time. At best, the record indicates that (a) Lopez did not receive any shares in *HAL, Inc.* in March 1993 after that corporation was formed and that (b) Herrin sent Lopez a letter March 22, 1993 suggesting that *HAL, Inc.* was not going to employ Lopez for future services. 23R6900; 30R8677. These events may or may not reflect breaches of the underlying partnership agreement, but neither reflects (let alone constitutes) an exclusion of Lopez from any *partnership*. For one, both concern Lopez's status vis-à-vis HAL, Inc. rather than the pre-existing and separate partnership with Herrin and Parkin. More fundamentally, neither Herrin nor Parkin (whether alone or in

that language covers agreements that *fail* to form partnerships. *Schlumberger*, 959 S.W.2d at 177.

conjunction) possessed any inherent authority to exclude Lopez from their partnership. TEX. BUS. ORGS. CODE § 152.501 (2005) (providing limited bases for removing partner from general partnership, none of which are at issue here); 59A AM.JUR.2D PARTNERSHIP § 324 (2006) (partners do not have “an inherent right to expel or dismiss another partner from the partnership”).

Nor is the fact that Lopez was not excluded from any partnership in March 1993 inconsistent with GUS’s pleadings regarding “ouster,” as appellees suggest (at 6, 15-16). Specifically, although the facts discussed above do not suggest that Lopez was excluded from any partnership in March 1993, they do suggest that Lopez may have been excluded from receiving shares in HAL, Inc. and that Lopez may have been excluded from participating in HAL, Inc.’s future operations. Thus, it is entirely consistent for GUS to claim that Lopez was ousted from further participation in the corporate entity (HAL, Inc.) as early as March 1993, even though Lopez was not effectively excluded from any partnership until some later date, if at all. Finally, as appellees acknowledge (at 22), the formation of HAL, Inc. did not create any freestanding confidential relationships. Thus, any “ouster” of Lopez in connection with HAL, Inc. is irrelevant for claim accrual purposes.

3. *Even if Lopez had been excluded from a partnership, that would not demonstrate that GUS’s trade secrets claim was time barred.*

Even if Lopez had been excluded from the partnership with Herrin and Parkin, that would not demonstrate that any Lopez COBOL trade secrets were

actually being used by Herrin and Parkin for a commercial purpose in breach of confidence more than two years before suit was filed. For one, the exclusion of a partner does not necessarily mean that a breach of confidence is simultaneously being committed by the remaining partners. Instead, those partners may choose to keep rather than breach all required confidences (*e.g.*, while winding up the partnership). Appellees suggest (at 9-10) that such an exclusion would have constituted a breach of confidence here because Herrin was exercising dominion and control over Lopez COBOL at the same time. But as previously explained, such control does not establish by itself any actual use of a trade secret for limitations purposes and, in any event, such “control” had been expressly permitted by the extended lease agreement between World Trade Systems and Superior Packing.⁵

Moreover, even if the exclusion of Lopez from the partnership had been contemporaneous with a commercial use of Lopez COBOL, that would not establish that any relevant breach of confidence had occurred. For example, if Herrin and Parkin were using Lopez COBOL to run Superior Packing’s operations after March 1993, that could be classified as a commercial use of Lopez COBOL (as well as a licensed use until August 1993), but it would not have breached any

⁵ In addition, any use of Lopez COBOL permitted under the World Trade Systems license would not have breached any confidentiality obligations under the partnership because it did not cancel pre-existing Lopez COBOL licenses.

confidentiality obligation under the partnership agreement, which was directed at the development and licensing of MEPAW and did not terminate pre-existing Lopez COBOL licenses.

Appellees may contend that Herrin and Parkin might have used Lopez COBOL source code to develop MEPAW *after* formally excluding Lopez from the partnership, but they have cited no evidence of this (let alone evidence that Lopez was ever effectively excluded, as explained above), and otherwise contend (at 11) that the development of MEPAW was “completed” when Lopez was ousted, further showing that any “ouster” is not relevant to any claim accrual issue because MEPAW had been developed ahead of time (and licensing of MEPAW did not begin until late 1994).

B. The agreement between GUS and Superior Packing imposed confidentiality obligations on Herrin and Parkin that were first breached during the limitations period.

For purposes this appeal, it suffices for this Court to recognize that the Herrin, Parkin, Lopez agreement created a partnership and that no summary judgment evidence indicates that any confidentiality obligation to Lopez under that partnership was necessarily breached more than two years before suit.⁶ Wholly apart from that partnership agreement, however, was a pre-existing software license between GUS and Superior Packing pertaining to Champion Packer. As to that,

⁶ This Court may also hold that trade secret theft was a repeating tort when suit was filed.

appellees do not dispute that

- GUS licensed Champion Packer to Superior Packing for use in Superior Packing's internal operations.
- Superior Packing's internal operations were carried out by Herrin and Parkin.
- The Champion Packer license imposed confidentiality duties covering the trade secrets within that software.
- Any attempt to cancel those confidentiality duties was ineffective because the software was never returned.
- Champion Packer contained the same freight-forwarding trade secrets as Lopez COBOL and MEPAW.
- Herrin, Parkin, and HAL did not begin licensing MEPAW to third parties until late 1994.

Appellees insinuate (at 16-17) that Herrin and/or Parkin were not bound by the above confidentiality obligations because the contract was between GUS and Superior Packing. But if Herrin (as Superior Packing's president) and Parkin (as Superior Packing's other employee) were not impliedly bound as Superior Packing's agents (so as to prevent the underlying confidentiality obligations from being illusory),⁷ they would have been bound as third parties who could only use the software under identical confidentiality restrictions. Appellants' Br. 14-15. Because these obligations prevented dissemination of GUS's trade secrets to other parties, *id.*, GUS's trade secrets claim against Herrin and Parkin was timely because

⁷ *Rockwell Int'l Corp. v. Riddick*, 633 F. Supp. 276, 280 (N.D. Ga. 1986); *Wilson v. Melrath*

they did not began licensing MEPAW through HAL until late 1994. *Id.* at 8.

Appellees make several arguments against this conclusion, but none suffices to avoid it. Appellees claim (at 15) that GUS's pleadings and evidence are inconsistent on the cancellation issue because GUS's pleadings state that the software license was cancelled, while GUS's evidence state that the license was not terminated. But it is not inconsistent to claim that Herrin purported to cancel the software license, yet failed to do so in such a way that effectively terminated all of his obligations under that license, since his failure to return the licensed software meant that the associated confidentiality obligations (which precluded the dissemination of the underlying trade secrets to third parties) remained intact.

Appellees claim (at 16) that "no one contends HAL stole trade secrets from Champion Packer." But that is not what GUS contends. GUS contends that Herrin and Parkin breached confidentiality obligations to GUS by licensing MEPAW to third-parties (through HAL) when Herrin and Parkin knew or had reason to know that MEPAW contained GUS's trade secrets.

Appellees claim (at 16) that GUS's software license with Superior Packing did not permit HAL to use Champion Packer to develop MEPAW. But GUS does not contend that HAL developed MEPAW. GUS contends that Herrin and Parker developed MEPAW and only used HAL later in licensing MEPAW to third parties.

Supply & Gasket Co., 45 F. Supp. 748-49 (E.D. Pa. 1942).

Appellees' Br. 11 (citing evidence that Herrin and Parkin developed MEPAW before shares in HAL, Inc. issued). As such, HAL is liable for trade secret misappropriation not because it developed MEPAW without authorization but because it licensed MEPAW to third parties while knowing or having reason to know that it was doing so in violation of GUS's or Lopez's trade secret rights. *Infra* Part IV at 27 (discussing such liability under RESTATEMENT (FIRST) OF TORTS § 757).

C. The agreement between World Trade Systems and Superior Packing imposed confidentiality obligations on Herrin and Parkin that were first breached during the limitations period.

Appellees do not dispute that

- Lopez's company World Trade Systems licensed Lopez COBOL to Superior Packing for use in its internal operations.
- Superior Packing's internal operations were carried out by Herrin and Parkin.
- The software license did not preclude Herrin and Parkin from modifying Lopez COBOL.
- The software license *did* preclude Herrin and Parkin from licensing Lopez COBOL to third parties.
- The software license was extended through July 1993.
- Lopez COBOL contained the same freight-forwarding trade secrets as MEPAW.
- Herrin, Parkin, and HAL did not begin licensing MEPAW to third parties until late 1994.

Because this software license allowed modifications but prevented sublicensing, it

imposed confidentiality restrictions by preventing third-party licensing of MEPAW. Moreover, as explained above, those restrictions would be imposed on Herrin and Parkin as Superior Packing's agents to avoid making the sublicensing prohibition illusory.⁸ Indeed, as Herrin previously testified in this case, he did not even have the right to produce the manual under this license because of the proprietary nature of the underlying Lopez COBOL software. 30R8701-02. Likewise, because HAL had reason to know of these obligations, it bound HAL as well in that HAL could not license MEPAW to third parties without incurring liability for trade secret misappropriation. *Infra* Part IV. As such, Herrin and Parkin would not have violated any confidentiality obligations under this agreement before August 1993 (when this license expired) because no third-party licensing or activity had occurred by then. Thus, any trade secrets claim against them based on such actions would have been timely filed.

Appellees contend (at 16) that this software license did not permit Lopez COBOL to be used so that HAL, Inc. could develop its own software, but as explained above, GUS does not contend that HAL, Inc. developed MEPAW. GUS contends that Herrin and Parkin developed MEPAW, and appellees have cited no evidence that HAL, Inc. performed any development in its own name (or that it took any other "official" action relevant to claim accrual before it licensed MEPAW

⁸ See *supra* note 7. Of course, for the same reason, Herrin and Parkin were impliedly authorized to use the licensed software without the need for some assignment as appellees suggest (at 16).

to Panalpina in December 1994).

Appellees claim (at 16) that Lopez's contribution of Lopez COBOL to the partnership with Herrin and Parkin would have breached the agreement between World Trade Systems and Superior Packing because that agreement was non-assignable. Assuming for the sake of argument that the non-assignability of the World Trade Systems agreement could affect Lopez's ability to contribute Lopez COBOL to the partnership, the principals behind the two parties to the World Trade Systems agreement (Lopez and Herrin) obviously had the power to waive any such restriction in connection with the partnership they formed with Parkin.

Herrin and Parkin also attempt (at 17) to back-date their wrongdoing by suggesting they were never authorized to develop MEPAW using Lopez COBOL because Lopez COBOL was an unauthorized derivative of Champion Packer. Appellees lack standing to make any such claim, however, which would belong to GUS as the owner of Champion Packer and Lopez COBOL.

Appellees otherwise claim (at 18) that the World Trade Systems agreement did not authorize Herrin or Parkin to use Lopez COBOL trade secrets, but appellees do not dispute that the agreement allowed Superior Packing to use and modify Lopez COBOL and that necessarily includes the ability to use the underlying trade secrets – otherwise the software could never be used, let alone modified – nor do they dispute Superior Packing necessarily was expected to act through its agent employees, Herrin and Parkin.

D. GUS's trade secrets claim against HAL was timely because the first official act of HAL relevant to claim accrual was licensing MEPAW to third parties in late 1994.

As explained above, HAL's liability for trade secret theft arose from its imputed knowledge that Herrin and Parkin owed confidentiality obligations to GUS and Lopez, rather than because of any formal confidentiality relationship with GUS or Lopez. Likewise, as explained above, no record evidence indicates that HAL did anything in own name before licensing MEPAW to third parties in late 1994. As such, GUS's trade secrets claim against HAL was timely filed. Indeed, this would be true even if this Court were to hold that GUS's trade secrets claim against Herrin or Parkin was not timely filed. GUS's trade secrets claim against HAL thus should be remanded irrespective of this Court's conclusion regarding GUS's trade secrets claim against Herrin and Parkin.

As shown, GUS possessed a timely trade secrets claim against Herrin, Parkin, and HAL when suit was filed based on Lopez's partnership agreement; the GUS-Superior Packing (Champion Packer) licens; and the World Trade Systems-Superior Packing (Lopez COBOL) license because each created confidentiality obligations first breached during the limitations periods. As explained in Part I.B, this Court may hold that a relevant confidentiality relationship existed under the law of the case; alternatively, it may rule on the merits of these contentions. Moreover, even if this Court does not find that each of these agreements gave rise to a relevant confidentiality relationship, GUS's trade secrets claim must still be reinstated and

remanded so long as this Court determines that at least one such relationship existed and was breached (or first breached) within the limitations period.

Finally, so long as the Court finds that a relevant confidentiality obligation arose between GUS or Lopez, on the one hand, and Herrin and Parkin, on the other hand, this Court must reinstate and remand GUS's trade secrets claim against HAL, Inc. because there is no evidence that HAL performed any relevant claim accrual action in its own name before the licensing of MEPAW to third parties in late 1994.

IV. GUS's trade secrets claim against the MEPAW licensees remains in this case because that claim was pleaded, erroneously dismissed, and then reinstated by GUS's successful appeal of that dismissal.

Before the first appeal in this case, the district court dismissed GUS's trade secrets claim against all defendants, including the MEPAW licensees, on grounds common to all claims: namely, that no trade secret existed. 6RE8948-49. As to that ruling, appellees do not dispute that GUS

- appealed the dismissal in its entirety;
- stated on appeal that GUS's trade secrets claim ran against all appellees;
- argued that all bases for the district court's dismissal were wrong; and
- prevailed in this Court on all aspects of that argument.

Under such circumstances, this Court's vacatur and remand necessarily reinstated GUS's trade secret claims against all appellees. Appellants' Br. 29-36.⁹

⁹ Appellees suggest (at 32) this issue is reviewed for abuse of it discretion, but it is reviewed *de novo*. Appellants' Br. 9.

Indeed, the only way this Court would *not* have remanded the entirety of GUS's trade secrets claim would have been if appellees had raised and prevailed on some argument that GUS's trade secrets claim against the MEPAW licensees should not be remanded. Although appellees present two such arguments now, neither was presented during the first appeal and should be considered waived. Appellees' Br. 34-36, No. 01-21114 (5th Cir. Sept. 30, 2002); *Miller v. Nationwide Life Ins. Co.*, 391 F.3d 698, 701 n.1 (5th Cir. 2004) ("As a general matter, arguments raised in the district court but omitted from the appellate brief are waived."). Alternatively, appellees' arguments should be rejected on the merits for the following reasons.

Appellees claim (at 30-31) that GUS pleaded no trade secrets claim against the MEPAW licensees. But as shown, GUS's complaint both stated the intention to plead a trade secret claims against all appellees *and* pleaded specific facts that gave rise to such a claim against the MEPAW licensees based on their licensing of software while on notice of GUS's superior rights. Appellants' Br. 30 n.11. This easily exceeds federal notice-pleading standards. *Swierkiewicz v. Sorema N.A.*, 534 U.S. 506, 514 (2002).

Appellees argue (at 32-33) that trade secret liability cannot attach to the MEPAW licensees because they did not stand in a confidential relationship with GUS. But under the RESTATEMENT (FIRST) OF TORTS § 757 (which Texas

follows),¹⁰ such liability attaches to anyone who “uses another’s trade secret, without a privilege to do so” if “he learned the secret from a third person with notice of the facts that it was a secret and . . . that the third person’s disclosure of it was . . . a breach of his duty to the other.” Because GUS may establish liability against the MEPAW licensees on this theory (and it is supported by the pleaded facts), GUS’s trade secrets claim against them cannot be dismissed for failure to plead a cognizable claim. *Swierkiewicz, supra*.

Alternatively, if this Court were to find that GUS has not adequately pleaded a claim against the MEPAW licensees, it should not dismiss GUS’s complaint but should remand for GUS to seek leave to replead, since GUS was never on notice of any need to plead its claim more specifically, as the district court did not accept appellees’ prior argument (raised before the first appeal) that GUS had not pleaded a trade secrets claim against the MEPAW licensees, 31R8777-78, and appellees did not re-urge their argument on that first appeal. For these reasons, this Court should reverse the district court’s determination that GUS’s trade secrets claim against the MEPAW licensees is no longer in this case.

CONCLUSION

For these reasons and those previously stated, appellants request all relief

¹⁰ *Hyde Corp. v. Huffines*, 314 S.W.2d 763, 776 (Tex. 1958).

sought in their opening brief.

SEPTEMBER 5, 2006

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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 6,996 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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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing **REPLY 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 September 5, 2006 by certified mail, return receipt requested on the counsel of record listed below.

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