

Texas Trade Secrets After *Computer Associates*

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Texas Trade Secret After *Computer Associates*¹

INTRODUCTION

In the nearly four decades since the Texas Supreme Court adopted Section 757 of the RESTATEMENT OF TORTS in *Hyde Corp. v. Huffines*,² Texas courts have established one of the most well developed bodies of trade secret law in the nation.³ As a result, Texas trade secret laws now “serve the important purposes of promoting standards of commercial morality and encouraging the creation of new technology.”⁴ Those purposes are served by generally flexible rules, grounded in equity, which place burdens on both trade secret owners and the individuals with access to those secrets, whether that access is via employment, other contractual relationships or purely competitive. Given that history, the Texas Supreme Court’s decision in *Computer Associates v. Altai* not to adopt the discovery rule in trade secret misappropriation litigation comes as a surprise to many Texas intellectual property practitioners and trade secret owners. The decision clearly adds to the trade secret owner’s burden in the protection of trade secrets.

PROCEEDINGS LEADING TO THE TEXAS SUPREME COURT’S REVIEW OF COMPUTER ASSOCIATES

The case came to the Court following a long, and now storied, judicial history. Computer Associate’s (CA) initially-filed action included grounds for copyright infringement and trade secret misappropriation. The Eastern District Court of New York held that the Texas state trade secret misappropriation action was pre-empted by federal copyright law.⁵ The Second Circuit Court of Appeals reversed and remanded for further consideration of the misappropriation claims.⁶ The District Court next held that the discovery rule did not apply to the misappropriation claim and that the misappropriation claim was therefore barred by the statute of limitations of the Texas Code.⁷

The Second Circuit Court thereafter concluded that the discovery rule issue was one of first impression in Texas, and certified the following question to the Texas Supreme Court:

(1) whether the discovery rule exception to § 16.003(a) of the Texas Civil Practice and Remedies Code applied to claims for misappropriation of trade secrets.⁸

The certified question was accepted pursuant to TEX. R. APP. P. 114(a),⁹ and in its first, and later withdrawn opinion, the Court declined to judicially invoke the discovery rule for trade secret misappropriation.¹⁰ A motion for rehearing was filed by the plaintiff below, which motion evoked five amicus curiae briefs. In its second and final opinion, the Court again declined to invoke the discovery rule.¹¹

FACTUAL BACKGROUND

Software developer Arney was employed by CA under an agreement requiring that CA’s trade secrets not be disclosed to or used for the benefit of any third party.¹² Arney left CA to accept employment at Altai, a direct competitor whose president was also a former CA employee. When he

left CA, Arney took copies of computer source code with him in breach of both his employment agreement and exit interview promises.

As part of his Altai employment, Arney used a portion of the source code to write a program to compete with CA's product, and to thereby solve a problem which had up to that time eluded Altai. Approximately four years after Arney left CA, and roughly three years after the source code was first used for the benefit of Altai, CA learned of the misappropriation and sued Altai for both misappropriation of the trade secret and copyright infringement. Altai had no knowledge of the misappropriation until the date of the suit. Because CA did not file its suit until more than three years after the misappropriation, it was apparently barred by the two-year statute of limitations unless the discovery rule tolled the statute.

Several additional facts were considered important by the Court: (1) CA and Altai were competitors in the same highly competitive field, (2) both built highly similar products, and (3) Arney was a long-time friend and associate of Altai's president. As is further discussed below, these facts each relate to the question of whether CA's reliance on Arney was reasonable, and whether, immediately after Arney left CA's employment, CA voluntarily accepted an increased burden to protect its commercial position.

LEGAL BACKGROUND ON THE DISCOVERY RULE IN TEXAS

Although the well-recognized, principal purpose of limitation periods is to compel assertion of claims while evidence is fresh, that principal has always been balanced by judicial application of the discovery rule to ensure that diligently-acting, injured parties have access to a remedy.¹³ The theme of pre-*Altai* applications of the discovery rule was to allow exceptions to the limitations period to a plaintiff who would otherwise lose his cause of action before learning of the right to that cause.¹⁴ The philosophy followed by the courts in acknowledging these exceptions has always been clear: the statute of limitations cannot take away a legal remedy before the injury is discovered,¹⁵ provided that the injured party acts in a reasonable and diligent manner.¹⁶ Thus, Texas Courts have established a clear judicial policy providing plaintiffs access to the courts after the statute of limitations would otherwise have expired. The simply stated issue in *Altai* was whether this judicial approach was applicable to a cause of action for trade secret misappropriation.

COMMENT ON THE COURT'S FIRST OPINION

The Court's surprisingly short first opinion¹⁷ left many questions, both with respect to legal argument and with respect to the Court's views on the trade secret owner's duties in controlling use of and access to his trade secrets.

The legal questions raised related to the precedent in Texas for the discovery rule. The Court correctly defined the discovery rule as an exception that tolls the statute of limitations. However, the Court's original position that the "discovery rule has been applied to cases of fraud and fraudulent concealment"¹⁸ did not adequately distinguish those legal principles which underly the discovery rule

from those that support fraud and fraudulent concealment-based defenses.

The discovery rule tolls the statute of limitations until the plaintiff knew or should have known of facts giving rise to the cause of action.¹⁹ Therefore, the rule is an equitable doctrine employed for the benefit of the deserving plaintiff otherwise faced with a statute of limitations defense, and acts to delay commencement of the limitations period. Fraudulent concealment is also an equitable doctrine, but is one which precludes the statute of limitations defense when the cause of action has been concealed from the injured party.²⁰ It, therefore, does not delay commencement of the limitations period, but precludes reliance on it as a defense. Without the doctrine, knowledge of an injury could be withheld from a party through fraud thereby foreclosing a cause of action to the injured party.

Clearly, the policy goals underlying the doctrines are identical. But the fraudulent concealment doctrine is applicable when the defendant is under a duty to make a disclosure²¹, whereas the discovery rule may be invoked in the absence of such a duty.²² The significance of the difference to be recognized in the *Altai* trade secret misappropriation context is that because CA had no direct relationship to Altai, no duty probably existed and the fraudulent concealment doctrine was likely not applicable.

The Court next argued that the discovery rule is applied when “the nature of the injury is inherently undiscoverable and the evidence of the injury is objectively verifiable.”²³ As the dissent pointed out, this statement that a two-part test must be satisfied to support application of the discovery rule is the first such statement in the Court’s jurisprudence.²⁴

Analysis of the Court’s position makes apparent, however, why the Court was forced to make this assertion. By simultaneously requiring both inherent undiscoverability and objective verifiability before allowing application of the discovery rule, the Court provided itself with the opportunity of viewing the trade secret misappropriation class of torts as a whole²⁵ to determine whether the nature of the class warranted the availability of the discovery rule and, because trade secret misappropriation hypotheticals can be drafted which do not meet the objectively verifiable standard, the court could then conclude that the discovery rule should not be applied to that class.

A closer reading of the Court’s precedent indicates that rather than a simultaneous two-part test, the Court has historically relied on a sequential two-step analysis. The first step has been to determine whether the rule was available to the trade secret owner - using only the inherent undiscoverability standard.²⁶ Second, and only after the trade secret owner met that standard, is the determination of whether the facts support application of the test for the benefit of the particular owner. This second step typically includes the analysis of whether the evidence at hand was objectively verifiable.

The facts of *Altai* meet this reading of the Court’s precedent: *Altai*’s own admissions satisfied the inherent undiscoverability standard, and the evidence presented at trial separately satisfied the objectively verifiable standard. Thus, the Court’s reliance on the simultaneous analysis perspective allowed it to view the evidence at issue from the context of the broader class of torts context, a context

not allowed by the sequential analysis perspective.

Perhaps most bothersome to the trade secret owner, however, is the Court's distressing reliance on unsupported assertions regarding trade secrets to support its conclusions. (See discussion of amicus curiae briefs in support of rehearing below). The Court stated without support that the "class as a whole does not normally present such concrete evidence," while being "particularly susceptible to fraudulent prosecution and stale claims," especially since it is "particularly appropriate" to acquire a trade secret through reverse engineering.²⁷ As the dissent noted, the vast majority of states have concluded to the contrary, and given the court's position, substantive support for these statements by the majority opinion should have been provided.²⁸

Finally, the Court indicated concern that "a world of high employee mobility and easy transportability of information" mandates that "vigilance in the area of trade secrets is required."²⁹ The Court here is clearly troubled with the impact the availability the discovery rule may have on the employer-employee balance of responsibilities with respect to the protection of trade secrets, a rightful concern given the Court's role in creating that balance in Texas trade secret law. Nevertheless, the Court provides no argument that its decision does not alter the balance against the owner/employer.

OVERVIEW OF THE AMICUS BRIEFS SUBMITTED WITH THE MOTION FOR REHEARING

The amicus briefs submitted in support of or against rehearing included the following:

FOR REHEARING

- The "Compaq et al." brief, authored in chief by D. Cabello. The amici were Compaq Computer Corp., Dell Computer Corp., Minnesota Mining and Manufacturing Co., SGS-THOMSON Microelectronics, Inc., Texas Instruments, Inc., and Union Carbide Corp.³⁰
- The "HIPLA" brief, authored in chief by the authors of this article (S. McDaniel and S. Koch) and edited by the Amicus Committee of HIPLA, D. Hricik, P. VanSlyke.³¹
- The "*Elf Atochem et al.*" brief, authored in chief by R. Milgrim included amici *Elf Atochem*, *Hughes Electronics*, *Otis Elevator*, *Pratt & Whitney*, and *Proctor & Gamble*.³²
- The "ADOBE Software et al." brief was authored in chief by F. Wang, who also appeared in limited capacity for the Appellant, Computer Associates International, Inc. The amici were ADOBE Software (CA), Borland International, Inc. (CA), Encyclopedia Britannica, Inc. (IL), Encyclopedia Britannica Educational Corp. (TX), First Virtual Corp. (CA), Lucid Corp. (TX), Rosetta Solutions, Inc. (TX), and Saber Software Corp. (TX).³³

The briefs in support of rehearing differed in their approaches, but generally addressed the following key areas.

Application of the Discovery Rule Enhances Commercial Morality

The amicus briefs noted that the public policy underlying other state trade secret laws establishes certain standards of business ethics and commercial morality.³⁴ Thus, it was argued, the Supreme Court's initial decision was contrary to these public policies and thereby risked economic injury to the state's technology-based industries.³⁵

Pro-Competitive Nature of Trade Secrets Favors Discovery Rule Application

Amici pointed out the pro-competitive nature of trade secret protection. Namely, they emphasized that “[t]rade secret law will encourage invention in areas where patent law does not reach, and will prompt the independent innovator to proceed with discovery and exploitation of his invention. Competition is [thus] fostered”³⁶ It was also argued by these amici that universal recognition of the pro-competitive nature of trade secret protection stems from the fact that the property right of the trade secret owner is not a monopoly, since all others are free to acquire the trade secret owner's innovation through legitimate, independent means.³⁷

Roger Milgram, who was the chief author of the *Elf Atochem et al.* brief and who was intimately involved in the drafting of the Uniform Trade Secrets Act (“UTSA”), it was argued that the express adoption by the UTSA of the discovery rule is significant over and above the adoption of the UTSA in 39 states.³⁸ First, in deciding between adoption of a discovery rule exception to the statute of limitations versus a “continuing tort” approach,³⁹ the UTSA drafters concluded that, without a discovery rule, dubious trade secret litigation would be more, not less, likely. This was because parties with even a hint of misappropriation would be forced to bring suit first and investigate later. It was noted that the UTSA acted to discourage reckless lawsuits by awarding attorneys' fees to prevailing parties.⁴⁰ Finally, the UTSA drafters apparently sought to promote the innovation of subject matter which is protectable only, or at least for some period of time, by trade secret protection.⁴¹

Trade Secret Misappropriation Is Often Inherently Undiscoverable

Certain amici pointed out that not all misappropriation of trade secret cases involve prior employment relationships, and in those that do not, it is often very difficult to discover the misappropriation.⁴² Even in cases involving a former employee, discovering whether the new employer is using a trade secret may be difficult.⁴³ Thus, if a prudent trade secret owner reasonably and diligently protects its trade secrets and investigates instances of potential misappropriation, and yet cannot discover the cause of action, the statute should be tolled.⁴⁴ They further argued that when the misappropriation by an ex-employee of a trade secret owner goes undetected by both the owner and the innocent recipient (typically the subsequent employer of the same employee), the misappropriation should be presumed by the court to be undetectable.⁴⁵

Objectively Verifiable Evidence of Misappropriation Is Almost Always Available

Several amici pointed out that there generally is objective, verifiable evidence of trade secret misappropriation.⁴⁶ It was also pointed out that courts have recognized that trade secret misappropriation is usually proven using circumstantial objective evidence.⁴⁷ In addition, Texas courts routinely issue temporary injunctions based upon evidence deemed sufficient to indicate that a trade secret existed and was in the possession of the alleged misappropriation.⁴⁸

Other amicus briefs supported this position by noting that there are a large number of reasons for American businesses to keep objective, verifiable records outside the realm of trade secret law. These include a heavy industrial reliance on data, processes, and formulae, the necessity to keep other records in order to support patents, address product liability, environmental liability, and other regulatory concerns, as well as the more-or-less mindless entry and backup of computer records.⁴⁹ Other objectively verifiable evidence routinely found in trade secret misappropriation cases include evidence of an ex-employee's responsibilities at the competing new employer, as well as the competing employee's own records of development (or lack thereof).⁵⁰

Discovery Rule Application Would Not Promote Stale Misappropriation Claims

It was pointed out by certain amici that the fact that the Texas Supreme Court had never addressed a stale trade secret misappropriation claim was at least some indication that there should be little concern of increases in such litigation.⁵¹ Other amici took the position that one of the premises upon which the Supreme Court relied - namely, that applying the discovery rule to trade secrets would open the flood gates to stale, suspect trade secret litigation - was simply incorrect. According to the Elf Atochem amici, out of over 6,000 reported trade secret decisions (stated to represent virtually every reported trade secret decision prior to July 1993), much less than one percent (43 cases) involved allegedly stale trade secret misappropriation claims.⁵² Because the Supreme Court, in its balancing of the equities, gave considerable credence to likely proliferation of "stale" trade secret cases, and because the underlying premise is argued to be incorrect, the *Elf Atochem et al.* amici believed the Supreme Court erred.⁵³

Moreover, it was noted that there is very little incentive for trade secret owners to delay

instituting trade secret misappropriation lawsuits. To the contrary, because trade secrets are so critical to their owners, and because they are so easily lost through disclosure, businesses have every incentive to bring their claims immediately (seeking injunctive relief) and aggressively upon discovery of the misappropriation.⁵⁴ Lack of diligence on the part of trade secret owners can be policed as it is in other business torts through application of laches, estoppel, and waiver.⁵⁵ It was also argued that trade secret owners have the obligation, as do all injured parties requesting the discovery rule exception, to file suit timely upon the discovery of a cause of action.⁵⁶

Rejection of the discovery rule for trade secret misappropriation will likely cause the filing of more fraudulent claims, argued certain of the amici in favor of rehearing. Without the discovery rule exception, companies with even a hint of wrongdoing will be forced to bring their relatively unsubstantiated claims quickly or risk losing them forever, fomenting a “sue first, inquire later” policy by businesses at risk to the loss of their trade secrets.⁵⁷ It was also noted that unlike most other torts in which the exception is applied (medical and professional malpractice, etc.), the conscious wrongdoing of trade secret tortfeasors penalizes the trade secret owners and may tacitly or explicitly send the message to tortfeasors that such conduct is acceptable.⁵⁸

It was also pointed out that a trade secret owner is only required to take reasonable precautions to preserve the secrecy of a trade secret.⁵⁹ By requiring vigilance even when no overt threat exists, the Court is requiring that trade secret owners actively pursue, track and monitor all current and previous employees, or even more onerously, surveil competitors to detect misappropriation before the statute runs. Disagreement was also noted with the Court’s conclusion that because trade secret owners use methods to protect trade secrets *a fortiori* these same owners expect misappropriation.⁶⁰

Certain amici noted that although the Texas Supreme Court has strongly supported policies favoring employee mobility, *citing DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 680-85 (Tex. 1990), *cert. denied*, 498 U.S. 1048 (1991), it has not stood for the view that a trade secret owner should expect to lose trade secrets to competitors via former employees.⁶¹ To the contrary according to these amici, Texas law is clear: “The function of trade secret law is that of ‘condemning the employment of improper means to procure the trade secret.’”⁶² Given that the balance of public policy is between an employee bettering his career and an employer protecting his trade secrets, it was argued that Texas trade secret laws prevent competitors from using trade secrets that the former employee is forbidden from divulging.⁶³

It was argued that it is generally recognized under such circumstances that so long as the innocent recipient maintains the ill-gotten trade secret as a secret, then the value of the trade secret to its rightful owner is not lost.⁶⁴ It was also noted by certain amici that the mere fact that a trade secret does not have value when the cause of action is brought, does not necessarily mean that it did not have value at the date of accrual of the cause of action. Recovery for such past harm was noted to be an important element of damage to the trade secret owner in Texas.⁶⁵

Adequate Protection Against Misuse of Discovery Rule Already Exists

Certain amici maintained that adequate protection against misuse of the discovery rule in trade secret misappropriation torts is already in place in Texas jurisprudence. These mechanisms include the two-prong test as previously promulgated by the Court (i.e., is misappropriation inherently undiscoverable?; is misappropriation objectively verifiable by physical evidence?), summary judgment against parties failing the test or bringing fraudulent claims, the defendant's ability to prove legitimate reverse-engineering, as well as barring and sanctioning bad faith claims (Tex. R. Civ. Pro. 13).⁶⁶

Similarity of Trade Secret Misappropriation to Other Torts Where the Discovery Rule is Applied

Unlike professional negligence cases in which the discovery rule has been applied, trade secret misappropriation almost always involves a conscious effort to conceal the tort.⁶⁷ The amici point out that "the Court has recognized that the discovery rule has been applied to cases of fraud and fraudulent concealment," and, therefore, the Court should extend the exception to trade secret torts.⁶⁸ Other of the amici indicated that fraudulent concealment is a separate equitable estoppel-based doctrine which precludes the statute of limitations defense when the cause of action was concealed from the injured party, and which is sometimes incorrectly viewed as a part of the discovery rule. Thus, these amici argued that the policy goal behind the discovery rule is well-recognized in Texas.⁶⁹

Application of the Discovery Rule is Consistent with Treatment of the Closely Aligned Tort of Conversion

Certain of the amici in favor of rehearing noted that the discovery rule apparently applies to the tort of conversion, a tort analogous to, if not identical with trade secret misappropriation, except for the difference between tangible and intangible property subject matter.⁷⁰ It was pointed out that an inconsistent ruling could easily be envisioned where an ex-employee is found to have converted an electronic storage medium (i.e., diskettes, tapes, CD-ROMs, etc.), yet be exonerated for the theft of the valuable trade secrets embodied therein, due simply to the recognition by the court of the discovery rule exception to the limitations period for the first tort and not for the second tort.⁷¹

Accrual of Trade Secret Misappropriation Causes of Action by Court is Questionable

The issue of when an action for trade secret misappropriation accrues was also addressed by amici.⁷² It was pointed out that the district court and the court of appeals (S.D.N.Y. and 2nd Cir., respectively) both have held that the cause of action for misappropriation accrues as of the date the computer codes (embodying the trade secrets) were first copied (in 1984). The Texas Supreme Court, it was noted on the other hand, held in its first CA decision that the cause of action accrued when the stolen codes (previously copied) were "used" as "a component of several of computer programs that competed with [plaintiff's] programs" (in 1985).⁷³ Certain amici concluded that a "first commercial use" test is unworkable because it fails to recognize other types of accrual provided by the Restatement (First) of Torts (i.e., first use, first disclosure), which has been adopted to guide Texas courts in trade secret misappropriation cases.⁷⁴ It was also noted that the latest Restatement, which has not yet been adopted in Texas, provides for accrual when an actor acquires information he knows

or should know is the trade secret of another.⁷⁵ These amici recommend that although the Court must determine a general rule of accrual (i.e. first use) for a class of torts under its decision in *Willis v. Maverick*, 760 S.W.2d 642, 644 (Tex. 1988), it should distinguish between those acts of trade secret misappropriation for which the rule would be proper and those acts for which the rule would not be proper, using the list provided in the Restatement (First) of Torts (i.e., when discovered by improper means, when use or disclosure constitutes a breach of confidence owed the trade secret owner, when a trade secret is learned from a third person known to have acquired the trade secret by improper means, or when a trade secret is mistakenly disclosed).⁷⁶

Limitations Periods of More Than Two Years Are Desirable

Certain of the amici in favor of rehearing argued that the Court's holding that the two-year statute of limitations period was applicable, was inappropriate or incorrect.⁷⁷ It was pointed out that the questions certified to the Court by the Second Circuit did not require a determination as to which statutory period applied to trade secret misappropriation. These amici argued that the instances of application of two-year statutes of limitations to trade secret misappropriation were rare,⁷⁸ and even so were based on reasoning expressly rejected by the Court, which had held a four-year statute was applicable.⁷⁹ A perceived legal anomaly was also noted: while the Supreme Court takes the position that civil prosecution of a claim for trade secret misappropriation more than two years after the initial misappropriation was unfair, the Texas legislature had enacted a five-year statute of limitations for criminal prosecution of theft of trade secrets.⁸⁰

AGAINST REHEARING

· The "TCJ League" brief was authored by N. Johnson and S. Goode.⁸¹

The amicus brief against the discovery rule was offered by the Texas Civil Justice League.

Lack of Discovery Rule Exception is Pro-Business

The TCJ League brief pointed out that the Supreme Court in its first opinion was doing nothing more than maintaining the status quo - merely keeping in place the legal regime under which all technology-based companies in Texas have grown and prospered over the past quarter of a century. The brief took the position that, although in the short-term some businesses might benefit from application of a discovery rule for trade secret misappropriation, in the long-run Texas businesses would be adversely impacted because the application of the discovery rule in such torts would expose businesses to many untimely, stale and fraudulent claims. This would result in increasing costs of doing business, undermine long-range business planning, and diminish employee mobility.⁸²

The TCJ League brief also pointed out that a shift to the discovery rule, even if the courts are able to weed out the undeserving claims, will require litigating whether each trade secret misappropriation claim is inherently undiscoverable and whether it is supported by objectively verifiable evidence of the injury.⁸³ Moreover, it is argued, such lawsuits could well become a tool for unfair

competition by which a previous employer, years after departure of its employee, brings suit claiming misappropriation, adversely affecting infusion of investment capital into entrepreneurial businesses.⁸⁴

Few Misappropriations Are Inherently Undiscoverable

TCJ League argued that it is true, as claimed by amici in support of rehearing, that most trade secret misappropriations are quickly discovered, and therefore are not inherently undiscoverable.⁸⁵ It also argued that because most such misappropriations are quickly discovered, with due caution, such misappropriations may be avoided or discovered readily. It contrasted the misappropriation tort with those of legal malpractice victims,⁸⁶ faulty vasectomies,⁸⁷ or false credit reports,⁸⁸ whose victims are not expected to suspect they will be so injured in such fashions, and are not positioned to prevent or promptly discover such conduct.⁸⁹

Misappropriations Are Rarely Supported by Objectively Verifiable Evidence

On the topic of “objectively verifiable evidence,” the TCJ League brief emphasized again that the Court must look to the class, not any individual case, in order to determine the presence or absence generally of such evidence. Moreover, the TCJ League argued that because it is the manner in which the alleged misappropriator obtains the alleged trade secret information that is key to establishing the injury (i.e., legitimate means such as reverse-engineering obviate a claim of misappropriation), and because the manner of obtaining the information is very likely going to be difficult to determine with objectively verifiable evidence, trade secret cases as a whole fail to meet this second criterion as well.⁹⁰

Preclusion of Discovery Rule for Trade Secrets is Consistent with Prior Rulings of Court

The TCJ League brief pointed out that the Texas Supreme Court must follow its own precedents and analyze exceptions to the statute of limitations for classes of cases, and not on the merits of any individual case.⁹¹ To do otherwise, argues TCJ League would result in the application of the discovery rule in every instance in which a litigant successfully asserted inherent undiscoverability.⁹²

COMMENTS ON THE SUBSTITUTE OPINION

After reviewing the Motion for Rehearing and the amicus curiae briefs, the Texas Supreme Court overruled the motion, withdrew its original opinion, and substituted that opinion.⁹³ A concurring opinion was offered by Justice Owen and joined by Justice Abbott.

In many respects, including identity of result, the substitute opinion mirrored the original opinion. However, where the two opinions differed is important.

The Court distinguished between the various means for avoiding the dire consequences of the

statute of limitations. It recognized the exception afforded by the discovery rule (deferring accrual until the plaintiff knew or, exercising reasonable diligence, should have known of the facts giving rise to the cause of action),⁹⁴ as distinct from the remedy available to plaintiffs alleging fraud (deferring accrual until the plaintiff knew or should have known of the fraud),⁹⁵ and those asserting fraudulent concealment (deferring accrual until the time the fraud was discovered or could have been discovered).⁹⁶ Importantly, the Court recognized that the discovery rule exception and the deferrals based on fraud or fraudulent concealment, although similar in effect, exist for different reasons.⁹⁷ The Court noted that the deferrals afforded under fraud or fraudulent concealment resemble equitable estoppel, estop the defendant from relying on the statute of limitations defense (as opposed to the exceptional character of the discovery rule).⁹⁸

This distinction is an important one, and one that is not lost on the concurring justices, and therefore one that should not be lost on the careful trade secret litigator. The concurring opinion noted that the two-prong analysis employed by the Court to preclude the application of the discovering rule exception to trade secret misappropriation as a class, “should not govern at least some cases where fraud or fraudulent concealment is alleged.”⁹⁹ It also noted that “[t]he two-part inquiry set out [in the majority opinion] is not appropriate in some cases where fraud, fraudulent concealment, a fiduciary duty, or other special relationship is implicated.”¹⁰⁰ And, in keeping with the majority's analysis, the concurring opinion noted that, “[i]n other cases the “inherently undiscoverable, objectively verifiable” analysis should be the threshold inquiry.”¹⁰¹ The concurrence does not view the two-step inquiry as an “acid test” whenever the discovery rule is invoked,¹⁰² but is less than clear as to when it believes “other countervailing considerations”¹⁰³ should be taken into account.

The Court then returned to its two-prong test for instances where a plaintiff seeks to toll the statute of limitations by application of the discovery rule—allowing application only in the limited circumstances where the nature of the injury incurred is inherently undiscoverable and the evidence of injury is objectively verifiable.¹⁰⁴

The Court also focused its analysis on the inherently undiscoverable prong. The Court added to the definition of inherently undiscoverable in the substitute opinion over that found in the original opinion. For example, where the Court previously held that a fiduciary relationship enhanced the likelihood of finding the injury to be inherently undiscoverable, it provided that the fiduciary relationship may be said to raise a presumption that the injury is inherently undiscoverable.¹⁰⁵ Further, the Court notes that inherently undiscoverable encompasses the requirement that the existence of the injury is not “ordinarily discoverable,” even though due diligence has been used.¹⁰⁶

The Courts then reiterated, with minor embellishments, that trade secret misappropriation is not an inherently undiscoverable injury deserving of the application of the discovery rule exception. As best summarized by the concurring opinion, the Court concluded that: owners of a trade secret are in the best position to guard against its misappropriation in the first place and should be required to do so; many owners of trade secrets take extensive precautions to prevent misappropriation (and, presumably so should all trade secret owners); because of the present business environment of high employee mobility, the prospect of misappropriation is not remote; and vigilance by trade secret owners is

required in particular because all ownership value in the property is lost once it is made public.¹⁰⁷ The Court also noted the facts known to the plaintiff are relevant to whether it was reasonable in relying on the ex-employee's non-disclosure agreements.¹⁰⁸

In the insightful concurrence of Judge Owen, it is pointed out that there may be many instances where in a tort such as a trade secret misappropriation the injury will be both inherently undiscoverable and objectively verifiable.¹⁰⁹ Even so, the concurring opinion points to the factors enumerated by the majority opinion and recited above that mitigate against application of the exception. The concurrence went further, though, recognizing that it is not possible to reconcile certain of the Court's prior decisions in which the discovery rule was applied with the two-prong analysis, which analysis the concurrence whole-heartedly adopted.¹¹⁰

Unlike the original opinion, the Court did not reach the question of whether trade secret misappropriation may be verified by objective evidence,¹¹¹ but referred to its contemporaneously rendered decision in *S.V. v. R.V.*, 39 Tex. Sup. Ct. J. 386 (March 14, 1996) for a discussion of the objectively verifiable standard in a non-trade secret misappropriation context.

TEXAS TRADE SECRET LAW AFTER *COMPUTER ASSOCIATES V. ALTAI*

THE TRADE SECRET DISCOVERY RULE CONFLICT WITH OTHER TEXAS TORTS

As noted by the concurrence, courts have long recognized that inconsistent methodologies of analysis have been followed in determining 1) whether to employ the discovery rule, and 2) if the discovery rule is to be employed, how it is to be employed with respect to a given class of torts. Despite that inconsistent history, a review of the underlying policies which the courts have considered, particularly when statutes of limitations and/or fraudulent concealment issues have also been raised, provides evidence that the trade secret setting of *Altai* placed new factual and policy issues in front of the Court. Analysis of these issues suggests that the Court is placing a higher standard on the harmed owner of intangible trade secret intellectual property, as compared to the party harmed in more traditional tort actions.

The Nature of the Evidence

A consistent aspect of discovery rule jurisprudence is that the injured party has access to the evidence supporting the allegation that a tort has occurred. For that reason, the analysis employed by the court has historically focused on whether a reasonable person would recognize the existence of that evidence, and whether the injured party acted in timely fashion from the time at which such evidence would have been reasonably discovered. For example, the discovery rule was employed in *Gaddis v. Smith*¹¹² to delay the accrual of the cause of action until the time at which "the patient learns of, or, in the exercise of reasonable care and diligence, should have learned of the presence of such foreign object in his body."¹¹³ The Court noted in *Gaddis* that the patient had an "inability to know of the negligent act,"¹¹⁴ and therefore delayed accrual until the time at which such an ability could reasonably be imposed on the patient.

On the other hand, the Court has generally been less receptive to allowing the discovery rule to work for the benefit of the patient in medical misdiagnosis cases, holding essentially that no such “inability to know” existed. First, in the misdiagnosis setting the patient is charged with the responsibility for recognizing the continuation of at least some of the symptoms which preceded the misdiagnosis. The presence of such continued symptoms negate the justification which otherwise supports application of the rule, i.e. no inability to know can be argued.

Second, if no such continued symptoms are present, the proof of the misdiagnosis cause of action requires reliance on expert testimony, not physical evidence, and therefore the “primary issue relevant to past liability concerns the correctness of past judgment.”¹¹⁵ The inability to support the misdiagnosis action with physical evidence, and the resulting requirement that judgmental evidence be relied on to support use of the discovery rule forces a direct confrontation between the purpose underlying the discovery rule on the one hand and the purpose underlying statutes of limitations on the other.¹¹⁶ Texas courts faced with that confrontation have generally held in favor of limitations and against application of the rule.

Although *Altai's* factual setting, and the factual setting of most trade secret disputes, differs from the factual setting of medical discovery rule decisions, it can be argued that *Altai's* facts more closely correlate to the medical negligence category, and depart from the medical misdiagnosis category. Specifically, in the trade secret setting at issue in *Altai*, the injured party had no access to the knowledge of the misappropriation, and had no ability to learn of the misappropriation through reasonable investigation of evidence in its control. That lack of access is likely to be typical in a former employee trade secret misappropriation, the Court's protestations to the contrary notwithstanding.¹¹⁷ In addition, once discovered, Arney's misappropriation was supported by physical evidence, not judgmental expert testimony as in the misdiagnosis line of cases. By not allowing the discovery rule to apply to trade secret misappropriation, the Court has implicitly imposed a higher burden on the owners of trade secrets than it has imposed in the past on other types of injured parties.

The Nature of the Litigation

In historic tort actions involving the discovery rule, typically two parties were involved in the litigation - the harmed plaintiff and a defendant who caused that harm. One factor arguably leading to the Court's decision was that CA's action was against the “third party beneficiary” of the misappropriation. Although CA could have initiated its action against the former employee who had caused the harm, the action before the Court was between the harmed party and a third party not having an existing or prior relationship with the harmed party.

The significance of the third party beneficiary nature of this action is that estoppel-based arguments for imposing liability are not available to the harmed party. The Courts have frequently relied on estoppel-based arguments, such as the doctrine of fraudulent concealment, to invoke liability without requiring reliance on the discovery rule, thereby avoiding overbroadening the reach of the rule and to some extent limiting the discovery rule/statute of limitations conflict. As noted above, estoppel-

based arguments such as the doctrine of fraudulent concealment require that the party who caused the harm has a duty to disclose the cause of action to the harmed party.¹¹⁸ In the trade secret misappropriation third party beneficiary action, no such duty will generally exist. As a result, the trade secret third party beneficiary action plaintiff by the nature of the litigation chosen therefore limits the remedy justifications available to the court. And when faced with equitable arguments which support application of the discovery rule, and separate equitable arguments which support application of the statute of limitations, Texas courts have always recognized the burden on the harmed party advocating the discovery rule.¹¹⁹

Because third party beneficiary actions are most likely to be the norm in former employee trade secret misappropriation cases,¹²⁰ for such reasons as protection of a marketplace position and deeper pockets for damage recovery, the failure of the Court to invoke the discovery rule in *Altai* challenges the Texas trade secret owner's ability to protect his commercial position when employees leave his organization. Without access to either the discovery rule or estoppel-based doctrines, the trade secret owner now has a narrow opportunity, once damaged, to obtain a judicial remedy.

The Nature of the Analytic Process Employed by the Court

In previous applications of the discovery rule, courts have first considered the nature of the tort to determine whether the rule was available to the harmed party, and then determined whether the harmed party acted sufficiently reasonably under the circumstances to warrant application of the rule to toll the limitations period. The consideration of the nature of the cause of action is considered mandated by the Court's decision in *Willis v. Maverick*, which held that (1) the question of when a cause of action accrues is a judicial one, and (2) that question is to be answered for a class of cases.¹²¹ However, classes of cases can be defined from varying perspectives and with varying breadth, and it can be argued that the class of cases the Court used in *Altai* is broader than the classes it has considered in its other discovery rule decisions.

For example, the Court has distinguished foreign object surgical negligence from negligent surgical vasectomy, applying the rule to both causes of action, and has further distinguished both those lines of cases from the medical misdiagnosis cause of action, for which the rule has not been applied. It would seem apparent that all three categories could fall into the broader and more simply stated category of medical malpractice. The equally simplified stated trade secret misappropriation cause of action could distinguish former employee misappropriation from competitor misappropriation, thereby potentially limiting the present ruling to the former category.

Of additional significance is that the arguably broader category allows the court to hypothesize actions the trade secret owner could have taken, and rely on historic data not necessarily directly correlating to the former employee misappropriation scenario, to determine that misappropriation of trade secrets is not an inherently undiscoverable cause of action and thus not a class of torts for which the discovery rule exception is available. Clearly, a broader category of medical malpractice would be subject to hypothesized actions and historic data not supporting the application of the discovery rule.

This analytic process raises questions as to the strength of *stare decisis* of previous discovery rule decisions, or alternately, raises questions as to the difference between the trade secret owner and the harmed party in other discovery rule exception actions. For example, *Kelley v. Rinkle*¹²² involved the application of the discovery rule for the benefit of a harmed party until such time as a defamed person learns of, or should by reasonable diligence have learned of the existence of a defamatory credit report. The Court's analysis did not hypothesize, as it did in *Altai*, the actions which the harmed party could have taken to learn of the defamatory report at an earlier date. Given the present availability to consumers of credit report monitoring services, it seems apparent that an equally likely result from the present Court would be to impose the duty on consumers of regularly obtaining credit reports¹²³ so as to avoid the limitations bar.¹²⁴ This is particularly the case in situations in which the harmed party is aware of a financial dispute with the other party, as was the case in *Kelley v. Rinkle*.

ESTABLISHING AN EQUITABLE DEFERRAL OF LIMITATIONS

The Court in its substitute opinion has apparently left open the door for application of deferrals of the limitations period other than the discovery rule exception for trade secret misappropriation, i.e. equitable deferrals provided on the basis of the misappropriation's breach of fiduciary duty, fraud, or fraudulent concealment.¹²⁵ Where there is a fiduciary duty or other special relationship (e.g., joint research and development agreement, technical supplier agreement, technology license, confidentiality agreement, etc.) between the trade secret owner and the misappropriator, the prudent trade secret owner will want to attempt to establish the equitable deferral on the basis of such relationship (constructive fraud).¹²⁶ Where there is no such relationship, it will be necessary to establish common law fraud.¹²⁷

Under the formulation of the Restatement (First) of Torts for misappropriation of trade secrets as adopted by the Court in *Hyde Corp. v. Huffines*¹²⁸, "One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if (a) he discovered the secret by improper means, (b) his use or disclosure constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or (d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake."¹²⁹ Clearly, the enumerated causes of action for trade secret misappropriation in Texas share elements with common law fraud. Of course, any trade secret owner wishing to assert such an equitable deferral should study the elements enumerated above with care in light of the facts of his or her own case. However, by way of example, a hypothetical application of such an equitable deferral is offered using the facts of the case under discussion.

When the software developer Arney left the employ of CA in January of 1984, CA should and did conduct an exit interview. Arney should have been reminded in writing that he was under an agreement requiring that CA's trade secrets not be disclosed to or used for the benefit of any third party. Because Arney left CA to accept employment at Altai, a direct competitor whose president was also a former CA employee, CA had an obligation to investigate, exercising ordinary care required of a

trade secret owner. In its exercise of ordinary care, CA should notify Altai in writing of its concerns and of Arney's obligations.

An example of such a notice is attached in the appendix. The letter is preferably sent via certified mail-return receipt requested. The letter includes a reference to common law obligations owed ex-employers by ex-employees as well as certain obligations arising out of contractual relationships with an employee. It is pointed out that these obligations continue after termination of employment with the former employer. A disclaimer is added to recite the recognition by the former employer of the right that the employee has to practice his common calling.

There is also a specific reference to the trade secrets (the source code for the ADAPTER operating system compatibility component of its marketed software). The more specific this section can be made without disclosure of confidential information to the new employer, who is under no obligation of confidence to the trade secret owner, the more likely it is that a subsequent misappropriation will be found to have been made with the requisite knowledge of the new employer. It may be advisable to include copies of his signed exit interview so long as such document does not disclose confidential information.

Recall that when Arney left CA, he took copies of computer source code with him in breach of both the employment agreement and exit interview promises. Altai is now on notice of Arney's continuing obligations, his access to trade secret information, and the general nature of the trade secret information. Whether it returns the fully executed letter or not (and if it is wise, it will not), the existence of the letter is at least some evidence that Altai has an obligation to protect against trade secret misuse. Assuming under the facts of the case that there was no further reason for CA to investigate until it learned of the misappropriation four years later, it may have to do nothing further except maintain the diligence required by the Court of trade secret owners in Texas.¹³⁰ However, it might be prudent to send a second such letter, shorter than the first, approximately 18-22 months after the departure of the ex-employee confirming the first letter.

This hypothetical scenario involves both risks and potential rewards for CA. The risk is that the letter may lead the new employer to investigate and learn of knowledge held by Arney that is not protectable as a trade secret, but which can be used to the new employer's benefit. The potential reward is that Arney's work product, if unreasonably similar to the subject matter noted in CA's letter, may force the new employer to exercise diligence to avoid the possibility of being subject to an actionable fraud charge under *Moore & Moore Drilling v. White*.¹³¹ This latter scenario thereby creates a reverse obligation on the new employer, and therefore should be considered by former employers who have few other options left post-*Altai*.

IMPACT ON THE EMPLOYER-EMPLOYEE RELATIONSHIP

As noted above, Texas courts have historically balanced the trade secret protection burden between obligations placed on the owner/employer and obligations placed on his current and former employees. The Court's *Altai* decision clearly alters that balance; the extent of the alteration is difficult

to assess at best.

Under Texas law, an employer may consider a broad range of types of information to be its trade secrets, so long as that information gives it an advantage over competitors who do not have that information,¹³² and so long as it accepts the obligation of taking measures to guard the information from release.¹³³ When determining whether trade secrets exist, Texas courts have ultimately been guided by “simple fairness” and the “equitable underpinnings of this area of the law.”¹³⁴ Furthermore, as noted above, Texas courts have strongly supported policies favoring employee mobility,¹³⁵ but never to the point that a trade secret owner could expect to lose trade secrets to competitors via former employees. Texas courts have always strived to prevent competitors from using trade secrets that the former employee of another is forbidden from divulging.¹³⁶

Although the Court is striving to do so, it is difficult to understand how this opinion maintains that public policy balance. By requiring trade secret owner vigilance even when no reasonable basis exists to indicate a likelihood of threatened misappropriation, the Court has altered that balance. Potential conflict with the overriding purpose of statutes of limitations¹³⁷ notwithstanding, perhaps a more rigorous argument in support of that alteration should have been provided if this decision is to stand. In particular, the Court could address outstanding issues regarding continuing tort, extensions of the limitations period, and equitable deferrals of the limitations when based upon fraud, fraudulent concealment and fiduciary duty.

In addition, a trade secret owner has only been required to take reasonable precautions to preserve the secrecy of a trade secret.¹³⁸ For example, these precautions have included: plant security,¹³⁹ restricting visitors,¹⁴⁰ locking up information,¹⁴¹ and other reasonable measures to prevent industrial espionage.¹⁴² By requiring trade secret owner vigilance even when no reasonable basis exists to indicate a threatened misappropriation, the Court has added a potential, and perhaps unreasonable, requirement that owners actively track and monitor former employees.

On the other hand, no similar alteration on the employee’s burden can be gleaned from this decision. When an employment relationship involving trade secrets is implicated, whether explicitly or implicitly¹⁴³, the employee is under an obligation, both during employment and thereafter, not to divulge trade secrets of his employers.¹⁴⁴ Although the employee’s responsibility of distinguishing between the general knowledge, skills and experience acquired in the course of his employment, which can be freely used, and the trade secrets of his employer, which cannot,¹⁴⁵ remains unchanged, the risk of error in making that distinction has now been reduced.¹⁴⁶

In addition, despite the Court's stale claim concerns, it would seem reasonable to conclude that the likelihood of trade secret litigation has been increased, given the owner/employer’s difficulty in obtaining a remedy from an *Altai*-type situation. Although injunctive restraints have been available in Texas as one remedy for providing a full and complete “equitable cloak of protection” against those who would act wrongfully in a trade secret relationship,¹⁴⁷ the likelihood of litigation on “inevitable disclosure”¹⁴⁸ grounds has undoubtedly increased. Specifically, the employer is now faced with an immediate assessment of the likelihood that a former employee will misuse his trade secret, and when the assessment provides an unclear outlook at least some employers will no doubt look to rely on the equitable protection of the courts.¹⁴⁹ Under a discovery rule approach, those unclear situations could be routinely monitored well past the two year statute of limitations without risk of loss of access to the

courts.

It is also true, however, that whether the employer-employee balance of responsibilities has been altered or not, Texas trade secret owners have operated in the 38 years since *Huffines* without reliance on the discovery rule.¹⁵⁰ The Court's opinion only reinforces that operating basis. Recent clarifications in the ability of an inventor to obtain a patent for software-implemented inventions may reduce the need for trade secret protection of subject matter such as that at issue in *Altai*.¹⁵¹ Perhaps trade secret owners should reevaluate the decision to protect software as a trade secret over the option of filing for a patent, since the latter intellectual property protection method negates both the discovery rule issue and the need to increase diligence to detect misappropriation in light of *Altai*.

On the other hand, preserving the post-*Huffines* status quo may only be warranted if the nature of Texas industry remains unchanged. Change is not just a political watchword, but rather is a telling parameter in Texas industry - witness the evolution in just the ten years since the oil price shock of 1986. In that period, the dynamics of Texas industry has evolved from being founded in traditional oil and gas technologies, to being highly dependent on the highly technical computer industry. Basing a judicial rule to be employed in the future on the experience of the past is therefore not necessarily appropriate. Note for example that as a result of the evolution of Texas industry, not only has the type of information which is important to industry changed, but also the methods in which information is exchanged have changed. Today's trade secrets are generally maintained in digital computer-accessible form, and can be circulated to other parties via the internet literally at the push of a key. For that reason, owners of technical information know well that protection of information, and discovering information loss, may be nearly impossible, regardless of the Court's inherent undiscoverability view.

Nevertheless, the high-tech nature of Texas' developing industry does suggest arguments that the Court's decision was preferable to industry. The ability of large employers to police staff members to ensure that the proprietary information of former employers are not being inappropriately employed is difficult, at best. Thus the Court's decision maintains employee mobility, a long-standing Texas judicial and legislative objective, without burdening employers, thus maintaining industry's ability to benefit from that mobility.

On the other hand, small employers, who may have a better ability to police their relatively smaller staffs, will also be the employers who are at most risk in the event of a misappropriation,¹⁵² and who may therefore have benefitted most from having the rule available. Since the creation of business is generally recognized to hinge on such small employers, the Court's decision challenges Texas otherwise strong position as a center of startup technology-based businesses.¹⁵³

THE LEGISLATIVE RESPONSE

A legislative effort has been mounted to address the Texas Supreme Court holding, spearheaded by State Representative Brian McCall of the 66th State Congressional District. Rep. McCall is still working to perfect the bill which he anticipates introducing during the pre-filing period beginning on November 11, 1996 (the final deadline for submissions of bills being March 2, 1997). The Texas State Legislature will convene January 14, 1997. He welcomes comment on the proposed legislation from the bar and from industry. The proposed legislation is appended to this paper, but is subject to change in every regard prior to filing in view of the need to obtain maximum input.

The proposed statute is presently drafted to contain four sections. Section 1 would amend Subchapter A, Chapter 16, of the Civil Practice and Remedies Code, by adding Section 16.010. This new statute is essentially an adoption of the analogous statute from the Uniform Trade Secrets Act. The

following paragraph shows the additions (underlined) and deletions (bracketed) over the UTSA text made by the proposed statute.

A person must bring suit [An action] for misappropriation of trade secrets not later than two [must be brought within three] years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. [For the purposes of this section, a continuing misappropriation constitutes a single claim.]¹⁵⁴

It is noted that the only other states to alter the limitations period from 3 years have increased, not decreased, the period (Illinois-five years; Maine-4 years).¹⁵⁵

In addition, the bill at Section 2 amends the present Section 16.003(a) of the Civil Practice and Remedies Code to reference the new Section 16.010. Section 16.003(a) presently mandates a two-year statute of limitations for the enumerated torts. Section 16.003(a) was last amended in 1995 to except from the enumerated torts and the two-year limitations period civil actions for personal injury arising from sexual assault or aggravated sexual assault (as Section 16.0045, adopting instead a five-year limitations period for these torts).¹⁵⁶

The proposed legislation presently includes at Section 3(a) an effective date of September 1, 1997. It applies only to suits for misappropriation that accrue after the effective date. The application of the proposed statute in Section 3(b) also excludes from its application suits for misappropriation accruing before the effective date and which misappropriation is discovered or should have been discovered on or after the effective date. Thus, under the rule of the Supreme Court holding presently being discussed, if competitive use was made of the trade secret before September 1, 1997, regardless of when such use is discovered or should have been discovered, the statute will not be applied and *Altai VI* will control. Under Section 3(c) of the proposed legislation, the law promulgated by the Texas Supreme Court in its recent decision as to limitations would govern all such misappropriation accruing prior to the effective date.

Section 4 of the draft bill requests that the bill be placed on the "fast-track" (obviating the need for three separate day readings).

It is apparent that this bill would have several effects on trade secret law in Texas. It would first and foremost legislatively overturn that portion of the holding of the Texas Supreme Court in *Altai VI* which precludes the application of the discovery rule to trade secret misappropriation. Even so, at least for those suits filed on the basis of misappropriation accruing before September 1, 1997, the law of that case as to limitations will still govern and the commentary thereon in this paper may be useful. It also adopts that portion of the *Altai VI* holding that applies a two-year statute of limitations period for trade secret misappropriation.¹⁵⁷ It declines for the first time to adopt the text in the analogous UTSA statute which affirmatively rejects a continuing tort theory for such misappropriation, leaving open the question of whether or not such a theory exists in Texas.¹⁵⁸ Finally, should the statute become law, a substantial body of law from other jurisdictions which have adopted the UTSA in relevant regard will be available to Texas courts.

CONCLUSION

"May you live in interesting times," goes a curse attributed to the ancient Chinese. There is little doubt that interesting times surround us as they relate to trade secret misappropriation in Texas. To some, *Altai VI* is such a curse, to others it is a blessing. Regardless of their perspective, all would have to admit that the Texas Supreme Court has grappled with a thorny question and has come up with a novel approach to statute of limitations defenses for trade secret owners. Whether this approach will work remains to be seen. Legislation may end at least some of the uncertainty. In any case, it will be critical for trade secret owners and their counselors to keep a watchful eye on this area of trade secret law.

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APPENDIX

1. The opinions expressed in this paper are those of the authors and do not necessarily reflect the opinions of their firms or corporations. The authors wish to thank Charles Thomasian for his assistance.
2. 314 S.W.2d 763 (Tex. 1958)
3. M.F. JAGER, TRADE SECRET LAW § Tx.01 (1990).
4. Steven R. Borgman & William LaFuze, *A General Overview of Trade Secrets - Texas Style*, TEX. B.J., July 1990, at 725.
5. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 775 F.Supp. 544, 563-66 (E.D.N.Y. 1991) ("*Altai I*").
6. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 982 F.2d 693, 720-21 (2d Cir. 1992) ("*Altai II*").
7. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 832 F.Supp. 50, 54 (E.D.N.Y. 1993) ("*Altai III*"), citing TEX. CIV. PRAC. & REM. CODE ANN. § 16.003(a) (Vernon 1986).
8. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 22 F.3d 32, 36-37 (2d Cir. 1994) ("*Altai IV*") (The second question certified to and accepted by the Court, not discussed in detail in this article, was: if not, whether the application to such claims of the two-year limitations period provided by section 16.003(a) contravened the "open courts" provision of Article I, § 13 of the Texas Constitution.)
9. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 37 Tex. Sup. Ct. J. 1055 (June 22, 1994).
10. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 38 Tex. Sup. Ct. J. 740, 743 (June 8, 1995) ("*Altai V*").
11. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 918 S.W.2d 453, 454 (Tex. 1996) ("*Altai VI*").
12. The Court summarized the factual history underlying the case in both of its opinions. The summary which follows is derived from the second opinion. *Altai VI* at 454-455.
13. Statutes of limitation ensure claims are asserted within a reasonable period of the occurrence of a tort, enabling litigation to proceed when evidence and witnesses are readily available. For that reason, Texas cases have long indicated that a cause of action accrues, and the statute of limitations begins to run, when facts come into existence which give a plaintiff the right to seek a remedy. *Robinson v. Weaver*, 550 S.W.2d 18, 19 (Tex. 1977). If a cause of action is not known or is not discoverable at accrual, limitations periods can act to bar legal action. Therefore, Texas courts have allowed limited exceptions to the statute of limitations to apply when a plaintiff is unable to know of his injury at the time of accrual. *Moreno v. Sterling Drug, Inc.*, 787 S.W.2d 348, 351 (Tex. 1990). *Gaddis v. Smith*, 417 S.W.2d 577, 578 (Tex. 1967).
14. *Melendez v. Beal*, 683 S.W.2d 869, 872-73 (Tex. App.--Houston [1st Dist.] 1984, no writ); *Kelley v. Rinkle*, 532 S.W.2d 947, 949 (Tex. 1976).
15. *Melendez*, 683 S.W.2d at 873.
16. *Gaddis*, 417 S.W.2d at 578; *Melendez*, 683 S.W.2d at 872.
17. This withdrawn opinion is not citeable as precedent. The authors review it to provide insight into the Court's analyses leading up to its final opinion, and because certain of the arguments were repeated in the substitute published opinion.

18. *Altai V* at 741. (citations omitted).
19. *Gaddis* at 578 (citation omitted).
20. *Borderlon v. Peck*, 661 S.W.2d 907, 908 (Tex. 1983).
21. *Id.* As the Court recognized, in *Altai V* at 741.
22. For example, the physician-defendant in a medical liability action has a duty to disclose a negligent act or the fact that an injury has occurred. Failure to do so is a breach of the physician-patient relationship. *Nichols v. Smith*, 507 S.W.2d 518, 519 (Tex. 1974). Although the authors believe this statement is a clear statement of the difference between the two doctrines, a brief review of relevant Texas opinions makes equally clear that the doctrines are not always viewed with such clarity, a point reiterated in the concurrence to the final opinion. *Altai VI* at 464-65 (Owen concurring).
23. *Altai V* at 741-742.
24. *Altai V* at 747 (Hightower dissenting).
25. The Court apparently considered that viewing the class as a whole was required by its holding in *Willis v. Maverick*, 760 S.W.2d 642, 646 (Tex. 1988).
26. As noted by the dissent “at the time that the injury arose, the injured party did not, and could not, know of his injury.” *Altai V* at 749 (Hightower dissenting).
27. *Altai V* at 742.
28. A response to the majority position, not discussed by the dissent, would be to more forcefully recognize that reverse engineering is an affirmative defense to a misappropriation allegation. Although as the Court notes the passage of time may make difficult the determination of the manner in which a trade secret is obtained, that burden would not be difficult for the plaintiff if the reverse engineer is charged with the responsibility of bringing forward evidence of the manner in which the trade secret was acquired. From that perspective, the reverse engineering argument has less weight than the Court attributed to it.
29. *Altai V* at 742.
30. Brief Amicus Curiae In Support of Petition for Rehearing, *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 918 S.W.2d 453 (Tex. 1996) (No. 94-0433).
31. Supplemental Amicus Curiae Brief of the Houston Intellectual Property Law Association In Support of Computer Associates International, Inc.’s Motion for Rehearing, *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 918 S.W.2d 453 (Tex. 1996) (No. 94-0433).
32. Brief Amicus Curiae of Elf Atochem N.A., Inc., Hughes Electronics, Otis Elevator Company, Pratt & Whitney and the Proctor & Gamble Company In Support of Petition for Rehearing, *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 918 S.W.2d 453 (Tex. 1996) (No. 94-0433).
33. Brief Amicus Curiae In Support of Petition for Rehearing, *Computer Assocs. Int’l, Inc. v. Altai, Inc.*, 918 S.W.2d 453 (Tex. 1996) (No. 94-0433).
34. *Elf Atochem et al.* at 1.

35. *Id.*

36. *Elf Atochem et al.* at 5, citing, *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 485 (1974).

37. *Elf Atochem et al.* at 5.

38. *Id.* at 8.

39. The *Elf-Altochem* brief notes that the Texas Supreme Court was not asked whether Texas recognizes trade secret misappropriation as a continuing tort (a concept that would allow a trade secret owner redress for each use of his trade secret by the misappropriator during the applicable statutory period preceding the filing of the action). See discussions of pending legislation below. It was also noted that at least one court which had initially acknowledged a continuing tort theory has now replaced that theory with a discovery rule. *C.f.*, *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chem. Co.*, 407 F.2d 288 (9th Cir. 1969), with *Whittaker Corp. v. Execuair Corp.*, 736 F.2d 1341 (9th Cir. 1984), and *Ashton-Tate Corp v. Ross*, 916 F.2d 516, 523-24 (9th Cir. 1990).

40. *Elf Atochem et al.* at 9, n. 5.

41. *Id.* at 10-11.

42. *HIPLA* at 7-9, citing, *E.I. duPont deNemours & Co. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971) (aerial photographs taken of plaintiff's facility); *Continental Data Sys., Inc. v. Exxon Corp.*, 638 F. Supp. 432 (E.D. Pa. 1986) (trade secrets obtained by using false name at software demonstration).

43. *HIPLA* at 8, citing, *Phillips v. Frey*, 20 F.3d 623, 628 (5th Cir. 1994) (manufacturing process unknown before method disclosed in a video tape); *FMC Corp. v. Varco Int'l, Inc.*, 677 F.2d 500, 501 (5th Cir. 1982)(examination of product did not reveal manufacturing process); *Schalk v. State*, 823 S.W.2d 633 (Tex. Crim. App. 1991) (at least two year period before informant discovered defendant using trade secret).

44. *HIPLA* at 9, citing *Gaddis v. Smith*, 417 S.W.2d 577 (Tex. 1967); *Melendez v. Beal*, 683 S.W.2d 869 (Tex. App.--Houston [1st Dist.] 1984, no writ).

45. *Compaq et al.* at 8.

46. *ADOBE et al.*, at 6, citing *University Computing Co. v. Lykes-Youngstown Corp.* 504 F.2d 518 (5th Cir. 1974)(trade secret misappropriation by bribery); *Disckerman Assocs., Inc. v. Tilverton Bottled Gas Co.*, 594 F. Supp. 30 (D.C. Mass. 1984)(identity of computer code, access by defendant, speed of development by defendant); *Cybertek Computer Products, Inc. v. Whitfield*, 203 U.S.P.Q. 1020 (Cal. Super. Ct. Los Angeles County 1977)(access and copying).

47. *ADOBE et al.* at 7, n. 11, citing *Metallurgical Industries, Inc. v. Fourtek, Inc.*, 229 U.S.P.Q. 945 (5th Cir. 1986).

48. *HIPLA* at 11, citing, *Rugen v. Interactive Business Sys.*, 864 S.W.2d 548, 552 (Tex. App.--Dallas 1993, no writ) (evidence established that information was confidential and in possession of defendant); *Weed Eater, Inc. v. Dowling*, 562 S.W.2d 898, 901-902 (Tex. Civ. App.--Houston [1st Dist.] 1978, writ ref'd n.r.e.)(evidence established confidential methods in possession of defendant); *Thermotics, Inc. v. Bat-Jac Tool Co., Inc.*, 541 S.W.2d 255, 261 (Tex. Civ. App.--Houston [1st Dist.] 1976, no writ)(evidence established improvements by plaintiff were trade secrets).

49. *ADOBE et al.* at 7; *Elf Atochem et al.* at 14.
50. *ADOBE et al.* at 7, n. 12.
51. *HIPLA* at 12.
52. *Elf Atochem et al.* at 2, 7, n.2.
53. *Id.* at 7.
54. *ADOBE et al.* at 8-9.
55. *Id.* at 9.
56. *HIPLA* at 14, citing *Coody v. A.H. Robins*, 696 S.W.2d 154, 155-56 (Tex. App.—San Antonio 1985, writ dismissed by agr.).
57. *ADOBE et al.* at 13, citing *Intermedics, Inc. v. Ventritex*, 775 F.Supp. 1258 (N.D. CA 1991)(“We cannot apply statute of limitations law in a way that pressures litigants to file suits based merely on suspicions and fears”).
58. *ADOBE et al.* at 14.
59. *HIPLA* at 8, citing, *E.I. duPont de Nemours & Co.*, 431 F.2d at 1017.
60. *HIPLA* at 12-13.
61. *Id.*
62. *HIPLA* at 12-13, citing, *FMC*, 677 F.2d at 500 (quoting *K&G Oil Tool & Serv. Co., Inc. v. G&G Fishing Tool Serv.*, 314 S.W.2d 782, 788 (Tex. 1958) cert. denied, 358 U.S. 898 (1958)).
63. *Id.* citing *FMC*, 677 F.2d at 505.
64. *Compaq et al.* at 8, n. 7, citing RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 39 cmt. f (1995)(“Even limited non-confidential disclosure will not necessarily terminate protection if the recipients of the disclosure maintain the secrecy of the information,” argued by amici to be especially relevant where only object code and not source code is disclosed without obligation of confidence).
65. *HIPLA* at 13-14.
66. *ADOBE et al.* at 10-11.
67. *Id.* at 12.
68. *ADOBE et al.* at 12, citing *Nicholas v. Smith*, 507 S.W.2d 518, 519 (Tex. 1974), *Quinn v. Press*, 140 S.W.2d 438 (Tex. 1940).
69. *HIPLA* citing *Owen v. King*, 111 S.W.2d 695 (Tex. 1938); *Borderlon v. Peck*, 661 S.W.2d 907 (Tex. 1983).
70. *Compaq et al.* at 6, citing TEX. JUR. LIMITATIONS § 72, and *Hofland*.
71. *Compaq et al.* 6-8.

72. *Id.* at 3-6.

73. *Id.* at 3-4, citing *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 38 Tex. Sup. Ct. J. 740, 741 (June 8, 1995).

74. *Compaq et al.* at 5, citing RESTATEMENT (FIRST) OF TORTS, § 757 (1939).

75. *Compaq et al.* at 5, n. 4, citing RESTATEMENT (THIRD) OF UNFAIR COMPETITION, § 40(a).

76. *Compaq et al.* at 6., citing *Hofland v. Elgin-Butler Brick Co.*, 834 S.W.2d 409 (Tex. App. 1992)(interpreting *Willis* and concluding that as to conversion torts, courts are permitted to make distinctions within a class of torts as to when accrual occurs).

77. *HIPLA* at 5-6.

78. Citing, *First National Bank v. Levine*, 721 S.W.2d 287 (Tex. 1986); *Coastal Distributing Co. v. NGK Spark Plug Co.*, 779 F.2d 1033 (5th Cir. 1986).

79. *HIPLA* at 5, citing *Williams v. Khalaf*, 802 S.W.2d 651 (Tex. 1990)(holding that such misappropriation are more closely akin to actions for fraud, actions for debt, or quasi-contract than to other torts and trespass causes of action).

80. *Elf Atochem et al.* citing, TEX. PENAL CODE ANN. § 31.05 (Vernon 1995); Tex. Code Crim. Proc. Ann. art. 12.01 (Vernon 1995). *Id.* at 3.

81. Brief of Amicus Curiae Texas Civil Justice League, *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 918 S.W.2d 453 (Tex. 1996) (No. 94-0433).

82. *TCJ League* at 4-7.

83. *Id.* at 6.

84. *Id.* at 7.

85. *Id.* at 8.

86. *Id.* at 9.

87. *Id.*

88. *Id.*

89. *Id.*

90. *Id.* at 10.

91. *Id.* at 2, citing *Trinity River Auth. v. URS Consultants, Inc.*, 889 S.W.2d 259, 264 (Tex. 1994).

92. *TCJ League* at 2.

93. *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 918 S.W.2d 453, 454 (Tex. 1994). Where a certified question is put before the Court, the published answer is post-dated to the year of the argument before the certifying federal court. In this case, the original argument before the Court of Appeals for the Second Circuit occurred on September 22,

1994.

94. *Id.* at 455 citing *Trinity River Auth. v. URS Consultants*, 889 S.W.2d 259, 262 (Tex. 1994); *Moreno v. Sterling Drug, Inc.*, 787 S.W.2d 348, 351 (Tex. 1990).

95. *Id.* at 455 citing *Ruebeck v. Hunt*, 142 Tex. 167, 176 S.W.2d 738, 739 (1943), and *Quinn v. Press*, 135 Tex. 60, 140 S.W.2d 438, 440 (1940).

96. *Id.* at 455, citing *Estate of Stonecipher v. Estate of Butts*, 591 S.W.2d 806, 809 (Tex. 1979); *Owen v. King*, 130 Tex. 614, 111 S.W.2d 695, 697 (1938).

97. *Id.* at 456.

98. *Id.*, citing *Borderlon v. Peck*, 661 S.W.2d 907, 908 (Tex. 1983).

99. *Id.* at 464.

100. *Id.* at 465.

101. *Id.* at 465-66.

102. *Id.* at 463.

103. *Id.*

104. *Id.* at 456.

105. *Id.*, citing *Courseview, Inc. v. Phillips Petroleum Co.*, 158 Tex. 397, 312 S.W.2d 197, 205 (Tex. 1957).

106. *Id.* at 456.

107. *Id.* at 463.

108. *See* Factual Background, above.

109. *Id.* at 463.

110. *Id.* at 464-465. *Weaver v. Witt*, 561 S.W.2d 792 (Tex. 1977) (medical malpractice not inherently undiscoverable where nerves and muscles were damaged during surgery causing loss of bowels control); *Hays v. Hall*, 488 S.W.2d 412 (Tex. 1972) (faulty vasectomy not inherently undiscoverable); *Nelson v. Krusen*, 678 S.W.2d 918 (Tex. 1984) (negligent medical misdiagnosis in failure to test for genetic disorders neither inherently undiscoverable nor objectively verifiable).

111. *Id.* at 458.

112. 417 S.W. 2d 577 (Tex. 1967)

113. *Id.* at 580.

114. *Id.*

115. *Robinson v. Weaver*, 550 S.W.2d 18, 21 (Tex. 1977).

116. *Id.* at 22.

117. *Altai VI* at 457.

118. Estoppel-based arguments such as the doctrine of fraudulent concealment require that the defendant have a duty to disclose the cause of action to the plaintiff. *Borderlon v. Peck*, 661 S.W. at 908. A duty exists where a confidential or fiduciary relationship exists between the parties, *Tempo Tamers, Inc. v. CrowHouston Four, Ltd.* 715 S.W.2d 658, 669 (Tex. App.--Dallas 1986, writ ref'd n.r.e.), and the determination of its existence is a question of law for the court, *Greater Houston Transp. v. Phillips*, 801 S.W.2d 523, 525 (Tex. 1990).

119. As the Court admitted in *Altai VI* “The discovery rule, in application, proves to be a very limited exception to statutes of limitations.” *Altai VI* at 455.

120. Except in cases in which the former employee established a new commercial organization directly competing with the former employer.

121. *Willis*, 760 S.W.2d at 644.

122. 532 S.W. 2d 947, 949 (Tex. 1976), cited by the Court in *Altai VI* at 456.

123. At least annually, under the one year statute of limitations for libel of a credit reputation. TEX. CIV. PRAC. & REM. CODE ANN. § 16.002(a)(Vernon's Supp. 1996).

124. With respect to the *stare decisis* strength of *Kelley v. Rinkle*, note the Court of Appeals explicit statement not relying on *Kelley* in its decision not to invoke the discovery rule in a Post-*Altai* libel claim action. 1996 WL 457433 (Tex. App.--Dallas), Subject to Revision or Withdrawal. *Ellert v. Lutz*, No. 05-95-00530-CV.

125. *Altai VI* at 456.

126. *See*, WILLIAM V. DORSANEO III, TEXAS LITIGATION GUIDE § 336.03[2][b] (45th Release 1995) (“Dorsaneo”).

127. The elements constituting actionable fraud based upon misrepresentation are: (1) a material misrepresentation was made; (2) it was false; (3) when the representation was made, the speaker knew it was false or the statement was made recklessly without any knowledge of its truth and as a positive assertion; (4) the speaker made the representation with the intent that it should be acted upon by the other party; (5) the other party acted in reliance upon the representation; and (6) the party thereby suffered injury. Dorsaneo §336.04[1]. Actionable fraud has been characterized as requiring that: (1) there must be a misrepresentation as to the material facts, either positive untrue statements, or concealment or failure to disclose facts within the knowledge of the parties sought to be charged, and as to which the law imposed upon such party a duty to disclose; (2) the complaining party must be shown to have relied upon the misrepresentation to his damages; and (3) the complaining party must, himself, not have failed to exercise reasonable care to protect himself--other words, in a ‘caveat emptor’ situation he must not have shut his eyes and ears to matters equally open and available to him upon reasonable inquiry and investigation. *Moore & Moore Drilling Co. v. White*, 345 S.W.2d 550, 555 (Civ. App.--Dallas 1961, ref n.r.e.).

128. 314 S.W.2d 763, 769 (Tex. 1958).

129. RESTATEMENT (FIRST) OF TORTS § 757 (1939).

130. In *Pilkington Bros., P.L.C. v. Guardian Indus. Corp.*, 230 U.S.P.Q. 300 (E.D. Mich. 1986), a case cited by the Court in its initial opinion, the district court from the Eastern District of Michigan relied upon Texas caselaw in

applying the discovery rule. *Id.* at 301 (citing *Reynolds-Southwestern Corp. v. Dresser Indus.*, 438 S.W.2d 135, 140 (Tex. App.--Houston [14th Dist.] 1969, writ ref'd n.r.e.)). It is instructive for trade secret owners to review *Pilkington* for the sorts of acts and omissions which courts may consider in determining when a misappropriation is one that was discoverable by a diligent plaintiff. The *Pilkington* court weighed the plaintiff's case against factors such as: (1) the hiring away of multiple employees of plaintiff; (2) the extent to which such employees were in possession of the trade secret information; (3) the fact that the plaintiff had required the employees to enter confidentiality agreements; (4) the fact that the plaintiff had sufficient enough suspicions that its trade secrets were being misappropriated to warn defendant that it would enforce its rights as to trade secret information; (6) the fact that plaintiff had unsuccessfully requested that a licensor of its trade secrets bring suit against the ex-employees; (7) the fact that plaintiff told defendant that its ex-employees could not do certain work for defendant without breaching their confidentiality agreements; (8) the fact that plaintiff had consulted counsel and was making executive decisions concerning asserting its rights in the trade secrets; (9) the fact that plaintiff asked its suppliers not to supply defendant; (10) public source awareness of a potential trade secret misappropriation cause of action between the parties; (11) the fact that defendant repeatedly attempted to license the trade secret technology from plaintiff; (12) the fact that plaintiff failed to investigate to confirm its suspicions when afforded opportunities to do so; (13) the fact that plaintiff stated to defendant prior to the limitations period running that it was unrealistic that defendant had reverse-engineered the technology; (14) the fact that publications of defendant showed plaintiff's trade secrets were being used; (15) the fact that plaintiff was capable of and in fact had monitored defendant's products, and in doing so confirmed that its trade secrets were being used; (16) past evidence of defendant's willingness to infringe patents owned by plaintiff; (17) the fact that plaintiff knew that defendant was able to begin production within a much shorter time than reasonable had defendant not had access to the trade secrets; as well as actual knowledge on the part of the plaintiff of its injury. *Pilkington*, 230 U.S.P.Q. at 302-303.

It is also instructive to consider that the *Pilkington* court gave no credence to the plaintiff's assertions of fraud on the part of the defendant in view of the overwhelming evidence that plaintiff did not rely on or believe the misrepresentations. It concluded that plaintiff should not have relied on such misrepresentations in view of the value of its trade secrets. . *Pilkington*, 230 U.S.P.Q. at 303.

It is also instructive to review the Texas case upon which the *Pilkington* court relied. In *Reynolds-Southwestern*, defendants raised the statute of limitations defense to trade secret misappropriation claims of both the plaintiff and the cross-plaintiff. In the case brought by the plaintiff, the *Reynolds-Southwestern* court held that the statute of limitations was tolled by virtue of fraud and fiduciary duty equitable considerations. However, the court found that statutes of limitations defenses could be asserted by defendants in the cross-action. The court determined that the limitations period was properly two years. *Reynolds-Southwestern* 438 S.W.2d at 140. As to the applicability of the discovery rule to a cause of action for trade secret misappropriation, the *Reynolds-Southwestern* court stated that:

This two-year limitation period began to run when the cross-plaintiffs knew of the alleged wrongdoing or knew of facts sufficient to excite such inquiry as would have been made in the exercise of reasonable diligence.

Id. (citing *Ruebeck v. Hunt*, 176 S.W.2d 738 (Tex. 1943); *Jenkins v. Kimbro*, 380 S.W.2d 189 (Tex. Civ. App.--Austin 1964, writ dismissed)). Where a corporate party is involved, the limitations run when a disinterested officer or director had knowledge of facts sufficient to require him to exercise diligence in discovering the injury. *Reynolds-Southwestern* 438 S.W.2d at 140. Like the court in *Pilkington*, however, the *Reynolds-Southwestern* court found that the plaintiff in the cross-action had "heard ... that [defendants] were manufacturing [his trade secret device]." It, therefore, precluded him from application of the discovery rule in order to toll the statute of limitations that ran against him from the time he was on notice. *Id.*

131. See note 127 above.

132. *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1201 (5th Cir. 1986).
133. *Auto Wax Co., Inc. v. Byrd*, 599 S.W.2d 110, 112-13 (Tex. Civ. App.--Dallas 1980, no writ).
134. *Fourtek*, 790 F.2d at 1201-1202.
135. See *DeSantis v. Wackenhut Corp.*, 793 S.W.2d 670, 680-85 (Tex. 1990), *cert. denied*, 498 U.S. 1048 (1991).
136. *FMC*, 677 F.2d at 505.
137. *Altai VI* at 455.
138. *Christopher*, 431 F.2d at 1017.
139. *Schalk v. State*, 823 S.W.2d 633, 637 (Tex. Crim. App. 1991).
140. *cf. Auto Wax*, 599 S.W.2d 110.
141. *cf. id.*
142. *Christopher*, 431 F.2d at 1017.
143. *Auto Wax* at 113; *see also, Borgman*, at 726, listing factors considered by Texas courts in determining whether a confidential relationship exists.)
144. *Johnston v. American Speedreading Academy, Inc.*, 526 S.W.2d 163,166 (Tex. Civ. App.--Dallas 1975, no writ).
145. *Auto Wax* at 112.
146. The employee's rights extend to the increased skills acquired in the course of employment, independent of the complexity involved. *Reading & Bates Const. Co. v. O'Donnell*, 627 S.W.2d 239 (Tex. App.--Corpus Christi 1982, writ ref'd n.r.e.). Employees may even go into a competitive business against former employers as long as the employee engages in such competition without use of trade secrets of his former employer. *Auto Wax* at 112.
147. *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204, 212 (Tex. Civ. App.--Dallas 1973, writ ref'd n.r.e).
148. *Weed Eater*, 562 S.W.2d at 898.
149. And no doubt the parties that employers go to the courts against will respond with tortious interference with business counterclaims, thereby further increasing litigation dockets.
150. And presumably on the presumption that the two year statute of limitations governed trade secret misappropriation.
151. U.S. Patent and Trademark Office, U.S. Dept. of Commerce, Guidelines on the Examination of Software Related Patents (1996).
152. Because such small employers often have fewer, perhaps only one, principal product on which their commercial position depends. Loss of the fundamental trade secret inherent to that product risks loss of the entire commercial position.

153. One interesting, though unanswerable hypothetical, is as follows: Given all other factors being equal, would a startup enterprise now choose Dallas as a corporate headquarters, or Tulsa, Oklahoma, given Oklahoma is a state which has adopted the discovery rule via the Uniform Trade Secrets Act?

154. Uniform Laws Annotated, Vol. 14 Civil Procedural and Remedial Laws, 1995 Cum. Ann. Pocket Part.

155. *Id.*

156. TEX. CIV. PRAC. & REM. CODE ANN. § 16.003(a) Vernon's Texas Codes Annotated, Cum. Annual Pocket Part, 1996.

157. This portion of the holding may be dicta, as it was not a question certified to the Court.

158. The Second Circuit Court of Appeals failed to find any clear presence for a continuing tort theory in Texas trade secret jurisprudence. *Altai IV* at 35.