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Note

**LOOKING BACK AND FORTH: THE RESTATEMENT (THIRD) OF UNFAIR COMPETITION AND
POTENTIAL IMPACT ON TEXAS TRADE SECRET LAW**

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“For one to reap with impunity the fruits of another’s labor may be reprehensible, but the creation of new species of property interests and new series of monopolies by the courts may be disastrous to free enterprise.”¹

During the past thirty years, protection of trade values from misappropriation has enabled investment and economic growth.² In fact, the growth of trade secret law prompted the American Law Institute (ALI) to remove the widely embraced Section 757 of the Restatement (First) of Torts from the 1979 redraft of the Tort *416 Restatement.³ The ALI council felt that trade secret law had developed into a separate field and had been incorporated into unfair competition.⁴ The purpose of this paper is

to compare Texas trade secret common law to that incorporated in Chapter 4 of the ALI's newly released Restatement (Third) of Unfair Competition.

I. Introduction

Laws governing intellectual property primarily include trade secret law, patent law, copyright law and trademark law.⁵ Trade secret laws provide the protection and flexibility required by many inventors and their businesses. This is primarily accomplished by providing protection from “misappropriation” by others. Many of the tort and contract roots prevalent in today’s trade secret law causes of action stem from Roman law.⁶ Roman law protected secret business information in narrow circumstances by affording “relief against a person who induced another’s employee to divulge secrets relating to the master’s commercial affairs.”⁷

Modern trade secret law unfolded in England during the Industrial Revolution.⁸ Within a three year period, the English courts laid the foundations of current law in dramatic fashion. Initially, a court overturned a lower court’s injunctive protection for a secret that had not been divulged to that court in *Newbery v. James*.⁹ A Chancery court shortly thereafter enforced an injunction citing “breach of trust and confidence” in *Yovatt v. Winyard*.¹⁰ Still another, slightly later English case, *Morison v. Moat*,¹¹ appears to be the first instance in which a third party was enjoined from using trade secret information obtained following a breach of confidence.¹²

***417** The first reported trade secret case in the United States was *Vickery v. Welch*.¹³ There, the court upheld a contract for the sale of rights in a secret chocolate-making process against allegations that the contract was void as a restraint of trade.¹⁴ In another important case, *Peabody v. Norfolk*, the court decided that confidential disclosures did not destroy the secrecy necessary for protection as a trade secret.¹⁵ Thus, the court enforced a nondisclosure contract against the defendant employee.¹⁶

In 1939, the American Law Institute adopted and promulgated the first Restatement of the Law of Torts.¹⁷ Chapter 36 of the Restatement covered miscellaneous trade practices, including section 757, Liability for Disclosure or Use of Another’s Trade Secret—General Principle.¹⁸ Section 757 soon achieved broad acceptance nationally.¹⁹ Texas adopted a misappropriation standard similar to section 757 in *Gilmore v. Sammons*,²⁰ a case whose facts were remarkably similar to *International News Service v. Associated Press*.²¹

***418** Trade secret law in Texas is based upon the Restatement of Torts.²² In the interim between the drafting of the Restatement (Second) of Torts and the incorporation of trade secret law into the Restatement (Third) of Unfair Competition (Restatement), the National Conference of Commissioners of Uniform State Laws published the Uniform Trade Secrets Act (UTSA).²³ The UTSA also received widespread acceptance by the states, largely due to its codification of case law centering around the 1939 Restatement of Torts.²⁴ Texas, however, has not adopted the UTSA.²⁵

II. Misappropriation

A. Section 38—Appropriation of Trade Values

The most significant problem with Texas’ wholesale adoption of the Restatement (Third) of Unfair Competition is that it could eliminate the cause of action for misappropriation adopted in *Gilmore*. The reporters suggested limiting state misappropriation causes of action to those involving trade secrets, identity, copyright, or those expressed in state statutes.²⁶ The reporters postulate that “implementation of enduring and appropriately circumscribed protection is generally ***419** best achieved through legislation rather than common law adjudication.”²⁷ Texas adopted the general misappropriation claims in *Gilmore*²⁸ and recognizes misappropriation as a separate and distinct form of unfair competition.²⁹ Unless the legislature chooses to codify the judicially recognized misappropriation claim, adoption of the Restatement would eliminate this cause of action.³⁰

Instability in employment coupled with intense global competition has increased the conflict between the need for worker mobility and protection of valuable corporate information and technology. This increased conflict is expected to cause a rise in trade secret cases.³¹ Emerging global economies will require normalization of laws protecting intellectual property.³² Corresponding expansion and refinement of the rules will likely be necessary.³³ Section 38 of the Restatement ***420** was

designed to encompass developing rules.³⁴ For example, the new general rule for misappropriation of trade values encompasses liability for trade secrets as covered in sections 39-45³⁵ and misappropriation of the commercial value of another's identity, which is covered in sections 46-49 of the Restatement.³⁶ This general rule is augmented by inclusion of misappropriation actionable under federal laws, including federal copyright and patent laws, applicable state statutes, and international agreements.³⁷ This is accomplished by having the rules automatically update with statute changes, including international agreements.³⁸ The general rule provides a comprehensive and very flexible framework for the global development of this area of law. However, the elimination of common law misappropriation could be a step backward with respect to the need for international normalization and protection of computer-related works and information.³⁹

The inclusion of both federal and state statutory misappropriation causes of action in section 38(c) was required of the reporters of the Restatement to accommodate the "preemptive force of federal patent and copyright law."⁴⁰ State trade secret laws and federal copyright and patent laws are backed by similar public policy goals.⁴¹ This sometimes symbiotic relationship between federal patent and copyright laws and state trade secret laws could turn to conflict.⁴² Although the dualism between state trade secret protection and federal patent laws has "coexisted harmoniously ... for almost 200 years, and Congress has demonstrated its full *421 awareness of the operation of state law in these areas without any indication of disapproval,"⁴³ the Restatement (Third) of Unfair Competition acknowledges the uncertainty of the preemptive scope of federal intellectual property laws and cautions against "broad and indeterminate rights against misappropriation" which could result in proscribed overlap.⁴⁴

The tapestry woven by state and federal intellectual property laws portrays the conflict between the goals of protection and free exchange of ideas.⁴⁵ The conflict between misappropriation of value and free exchange of ideas is reflected in *International News Service v. Associated Press*.⁴⁶ In this case, the Supreme Court, citing unfair competition, upheld a Second Circuit Court of Appeals injunction by focusing upon the relationship between the parties, including direct competition.⁴⁷ The Court noted the dual nature of the news, distinguishing the actual data involved from the manner or style in which it was presented.⁴⁸ The Court further indicated that between the two competitors there was a "quasi property" interest deserving of protection from piracy.⁴⁹ Although *International News* popularized misappropriation, it received much criticism and was hotly debated inside the Court.⁵⁰ The reporters of the Restatement (Third) of Unfair Competition also rejected the "more general claim against misappropriation" derived from *International News*.⁵¹ However, the impact of this change on misappropriation claims involving "unique pecuniary interests" as seen in *U.S. Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc.*⁵² is unclear.

*422 The constitutionally based requirement of originality limits Congress's authority to enact protective laws.⁵³ Referring to originality as the sine qua non of copyright, the Supreme Court in *Feist Publications, Inc. v. Rural Telephone Service Co.*⁵⁴ rejected the "sweat of the brow" theory.⁵⁵ Under the Feist standard, valuable electronic databases might fall short of the originality needed for copyright protection.⁵⁶ If their value derives from access, such as placement on an information superhighway, no trade secret protection is available.⁵⁷ By contrast, the general claim for misappropriation as set forth in *International News* "anticipates the critical legal protection problem of information-based economies: the vulnerability of costly-to-develop and commercially valuable information products to rapid, market-destructive copying."⁵⁸

The factual setting of *International News* is remarkably analogous to electronic theft on today's global networks.⁵⁹ European communities have used the misappropriation claim to protect generally unprotectable databases.⁶⁰ The general misappropriation claim could play an important domestic and international role protecting software and information products with "unique pecuniary interests."⁶¹ The "broad and indeterminate rights against misappropriation" constitute a test of commercial immorality.⁶² However, this flexible standard would be unavailable if Texas adopted the Restatement and if the legislature failed to codify the general right of misappropriation.

***423 III. Trade Secrets**

A. Section 39—Definition of Trade Secret

If Texas adopts the Restatement it will expand the current definition of trade secret to incorporate "negative" information and "potential value," and it will drop the current "use" requirement. Texas adopted in *Hyde Corp. v. Huffines*⁶³ the generally accepted definition of a trade secret taken from the Restatement of Torts as seen in comment b to section 757.⁶⁴ In the interim between the drafting of the Restatement (Second) of Torts and the incorporation of trade secret protection into the

Restatement (Third) of Unfair Competition, the National Conference of Commissioners of Uniform State Laws promulgated the Uniform Trade Secrets Act (UTSA). Section 1 of the UTSA defines “trade secret” as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.⁶⁵

The Restatement’s concept of a trade secret is intended to be consistent with the definition in section 1(4) of the UTSA.⁶⁶ From the UTSA definition, it is evident that the list of examples was updated to include products such as programming.⁶⁷ The Restatement definition is generalized to include “any information ... sufficiently *424 valuable and secret.”⁶⁸ More significant is that “use” was expanded to include “potential use” rather than actual continuous use, as required by the Restatement (First) of Torts.⁶⁹ The addition of potential use expands protection to include results of research that are not directly used by the business, including ideas that did not produce the desired results.⁷⁰ This change acknowledges that information of “what not to do” can have economic value if competitors do not possess the same knowledge.⁷¹

This expanded definition of trade secret also could have made a difference in a troubling Texas case denying relief to an aggrieved inventor.⁷² In *Hurst v. Hughes Tool Co.*, part of the court’s reasoning for denying the inventor’s claim of breach of confidentiality was that “Hurst’s information, while of some benefit, provided only negative, ‘what not to do,’ input to Hughes.”⁷³ This case has sometimes been interpreted to mean that negative information cannot be a trade secret.⁷⁴ However, the key here, according to the Fifth Circuit Court of Appeals, is that the information was not used.⁷⁵ If adopted in Texas, the elimination of the “use” requirement would allow expansion of trade secret protection for inventors who are unable to fully *425 exploit their inventions and would provide enhanced protection during research and development.⁷⁶

The subject matter as originally described in section 757 has been sufficiently flexible to incorporate a wide variety of “products” or discoveries. In Texas, the subject matter of trade secrets has included customer lists,⁷⁷ drawings,⁷⁸ software,⁷⁹ tapes,⁸⁰ processes,⁸¹ equipment,⁸² and forms and procedures.⁸³ Section 39 comment d of the Restatement provides an updated and flexible description of appropriate subject matter, stating “a trade secret can consist of a formula, pattern, compilation of data, computer program, device method, technique, process, or other form or embodiment of economically valuable information.”⁸⁴ If Texas were to drop the “continuous use” requirement, subject matter coverage would expand to include valuable short-lived information such as pricing, sealed bids, and marketing techniques.⁸⁵

The requirement of value from the Restatement of Torts § 757 comment b has been retained in the Restatement (Third) of Unfair Competition and is characterized in section 39 comment e.⁸⁶ Generally, the requirement of value has been coupled with the requirement of secrecy such that it gives the holder a competitive advantage over her competition.⁸⁷ When the Texas Supreme Court adopted the *426 Restatement (First) of Torts § 757 definition of trade secret, it included the requirement of value.⁸⁸

One indicator of value is novelty.⁸⁹ In *Brown*, an inventor was unable to obtain a patent due to apparent lack of novelty.⁹⁰ However, this did not destroy the inventor’s claim for trade secret protection.⁹¹ The court noted:

Processes which are not patentable may be trade secrets. To be patentable, the process must be an invention, resulting from genius or imagination beyond the reach of mere artisanship. A trade secret may be a discovery rather than an invention, and may result from industry or application, or may be merely fortuitous. It may be any secret of a party important to his interest. The means by which the discovery is made may be obvious, and the experimentation leading from known factors to presently unknown results may be simple and lying in the public domain. But these facts do not destroy the value of the discovery and will not advantage a competitor who by unfair means obtains the knowledge without paying the price expended by the discoverer.⁹²

To expand trade secret protection to include “negative” information and information with “potential value,” the “use” requirement must be dropped.⁹³ Outside of this change, little impact is expected.

The requirement of secrecy from section 757 comment b of the Restatement (First) of Torts has been retained in the Restatement (Third) of Unfair Competition and is found in section 39 comment f. This requirement is basically unchanged. It

requires secrecy sufficient to confer an actual or potential competitive advantage.⁹⁴ If a trade secret holder makes an unpatented, uncopyrighted product available for public inspection or purchase, the product can be subject to copying via reverse engineering.⁹⁵ Services may also be copied as illustrated in *Furr's Inc. v. United Specialty Advertising Co.*⁹⁶ Here an advertising company salesman, without indicating any need for confidentiality, discussed a promotional program in *427 sufficient detail to allow the buyer to copy it.⁹⁷ When the advertising agency brought suit, the court, referring to *Hyde Corp. v. Huffines*, said:

The contract was silent as to the secret being kept confidential, but the court held that an express agreement was not necessary where the actions of the parties, the nature of their arrangement, the “whole picture” of their relationship established the existence of a confidential relationship.... *Hyde v. Huffines* says no express agreement is necessary, but it stands to reason that the confidence reposed in the other person must, in some way, be manifest—if not by words, then by the acts of the parties or the whole picture of their relationship. Confidential relationship is a two-way street: if the disclosure is made in confidence, the “disclosee” should be aware of it.⁹⁸

In *Schalk v. State*⁹⁹ the court said, “It is axiomatic that the core element of a trade secret must be that it remain a secret. However, absolute secrecy is not required.”¹⁰⁰ Therefore, when public filings were required or when information became public—such as claims found in patent applications—secrecy was generally not lost.¹⁰¹ To rule otherwise would be to discourage needed disclosures, such as filing of plans to obtain a building and environmental permits.¹⁰² In *Taco Cabana Int'l., Inc. v. Two Pesos, Inc.*, the Taco Cabana restaurant layout, including kitchen design, was copied by Two Pesos.¹⁰³ The court held that voluntary disclosures limited to those needed to obtain the building permit would not ordinarily result in public exposure and would not destroy the requisite secrecy for trade secrecy protection.¹⁰⁴ However, information generally known by the public or inside a particular industry was not suitable for protection as a trade secret.¹⁰⁵

Generally, to protect and maintain the confidentiality of a trade secret, the holder takes precautions to maintain secrecy. The UTSA included these precautions as part of the definition of a trade secret and required them to be “reasonable under the circumstances to maintain its secrecy.”¹⁰⁶ In *Taco Cabana*, the court pointed out *428 that “reasonable under the circumstances” could be inferred from the limited purpose of the plan disclosure.¹⁰⁷ Measures to maintain secrecy commonly utilized by trade secret holders include agreements with employees and licensees, physical security at plants and offices, and warnings or notices on drawings and forms.¹⁰⁸ *Schalk v. State* illustrates the comprehensive measures taken by Texas Instruments to protect its speech research.¹⁰⁹

Computer networks have greatly increased information accessibility.¹¹⁰ The Restatement (Third) of Unfair Competition has taken a position that readily ascertainable information cannot be the subject of protection.¹¹¹ However, if the information is unlikely to come to the attention of others, it may be sufficiently confidential to allow protection.¹¹² Again, the Restatement’s position on secrecy appears aligned with Texas case law.¹¹³

B. Section 40—Appropriation of Trade Secrets

Texas’ adoption of the Restatement would expand trade secret protection by including liability for wrongful possession of a trade secret, lengthening the statute of limitations period, and allowing application of the discovery rule. Currently, liability for the appropriation of another’s trade secret is dependent on the circumstances surrounding the acquisition and the use or disclosure of the secret.¹¹⁴ In Texas, the elements of a trade secret case have been summarized as follows: “(1) the existence of a trade secret, (2) the breach of a confidential relationship or the *429 improper discovery of a trade secret, (3) the use of a trade secret, and (4) the award of appropriate damages.”¹¹⁵

In addition, a trade secret could have been obtained by proper means, but the subsequent use and/or disclosure was wrongful.¹¹⁶ The court in *Hyde Corp.* addressed this issue of subsequent misuse as follows:

One who discloses or uses another’s trade secrets, without a privilege to do so, is liable to the other if (a) he discovers the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him.¹¹⁷

Therefore, even if *Hyde’s* assertions that the information was obtained properly were taken as truth, the use of that information after repudiation of the license was not proper.¹¹⁸

The UTSA departed from section 757 by proposing that misappropriation be held actionable without the required wrongful use of the secret or disclosure following appropriation.¹¹⁹ The Restatement (Third) of Unfair Competition also ***430** endorses liability for improper acquisition independent of use or disclosure.¹²⁰ However, the Restatement (Third) of Unfair Competition further indicates that the tort of misappropriation rules are not applicable to contract actions such as noncompetition agreements, secrecy and nonuse agreements.¹²¹

A comprehensive listing of improper acquisition or improper means of discovery cannot be made.¹²² In Texas, those means of acquisition or discovery that fall below the “generally accepted standards of commercial morality and reasonable conduct” qualify as misappropriation.¹²³ Examples include “fraudulent misrepresentations to induce disclosure, tapping of telephone wires, eavesdropping or other espionage.”¹²⁴

A leading case with respect to trade secret misappropriation in Texas is *E.I. duPont de Nemours & Co. v. Christopher*.¹²⁵ The case entailed an aerial photographer photographing, then selling to an undisclosed third party, pictures of a new methanol plant that duPont was constructing.¹²⁶ The secret process was unpatented and exposed to aerial view during this phase of the construction.¹²⁷ The defendants argued that they performed no actionable wrongs “because they conducted all of their activities in public airspace, violated no government aviation standard, did not breach any confidential relation, and did not engage in any ***431** fraudulent or illegal conduct.”¹²⁸ Nevertheless, the court viewed the conduct as “industrial espionage.”¹²⁹

That case was one of first impression for Texas, and the Fifth Circuit noted the conflict between the Texas Supreme Court’s adoption of the general rule from section 757 in *Hyde Corp. v. Huffines* and a later decision by the State Appellate Court in *El Paso in Furr’s Inc. v. United Specialty Advertising Co.*¹³⁰ The Furr’s court had pronounced a narrow rule requiring that trade secrets be obtained through a breach of confidence in order for a party to be entitled to a remedy.¹³¹ Circuit Judge Goldberg, writing for a unanimous court in *duPont*, stated:

If breach of confidence were meant to encompass the entire panoply of commercial improprieties, subsection (a) of the Restatement [of Torts] would be either surplusage or persiflage, an interpretation abhorrent to the traditional precision of the Restatement [of Torts].

....

The question remaining, therefore, is whether aerial photography of plant construction is an improper means of obtaining another’s trade secret. We conclude that it is and that the Texas courts would so hold.¹³²

As further justification for its strict misappropriation standard, the Fifth Circuit noted that the Texas Supreme Court had declared that the law should uphold higher standards of commercial morality.¹³³ The court also quoted with approval *Brown v. Fowler* decided by the Texas Civil Appellate Court in Fort Worth.¹³⁴ The Fifth Circuit concluded by pronouncing the Texas rule clear, listing reverse engineering and independent discovery as proper methods to discover a trade secret, and citing section 757 comment f for examples of improper methods.¹³⁵

***432** In contrast, the Restatement (Third) of Unfair Competition states a general rule for liability regarding wrongful possession of trade secrets.¹³⁶ A person may learn of a trade secret from a third person, with or without knowledge of the confidential nature of the information. Similar to section 757 of the Restatement (First) of Torts, the Restatement (Third) of Unfair Competition states that one is not subject to liability unless they know or should have known the acquisition was improper.¹³⁷ Therefore, a person who has no reason to realize the confidential nature of the trade secret bears no liability until receiving notice of the confidential nature, and only then if the person continues to make use of the information.¹³⁸

The Restatement rule for liability for wrongful possession of a trade secret may have produced a different result in *Metallurgical Industries Inc. v. Fourtek, Inc.*¹³⁹ In this case, Fourtek proposed to sell a zinc recovery furnace that included modifications they had learned of in confidence from Metallurgical.¹⁴⁰ Taken individually, the modifications were known in the industry.¹⁴¹ However, taken together and in this application, the modifications acting in concert were not known.¹⁴² Fourtek took the stance that the modifications were not a trade secret and assured the buyer, Smith International, of the groundlessness of the claims.¹⁴³ The buyer accepted this assertion and purchased the furnace.¹⁴⁴ The court subsequently held that the modifications did comprise a trade secret.¹⁴⁵ The court held, however, that the buyer was not liable because no use of the furnace was made, even though the buyer knew of the improper acquisition.¹⁴⁶ Under the Restatement approach, this knowledge would have been sufficient to find the buyer liable for misappropriation.

Since effective use of a trade secret usually requires disclosure to a limited number of people, conflict with the secrecy requirement can occur unless disclosures *433 are made in confidence.¹⁴⁷ To facilitate this exchange, Texas trade secret law recognizes implied and express nondisclosure agreements.¹⁴⁸ People typically involved in these disclosures include employees, financiers, licensees, or others needed to help put the trade secret to commercial use.¹⁴⁹ Inadequate precautions to protect a trade secret may result in accidental disclosure.¹⁵⁰ An accidental disclosure may result in liability if the holder does not exercise proper precautions to protect the trade secret.¹⁵¹

Texas cases demonstrating lack of liability due to inadequate precautions taken to protect trade secrets include *Furr's Inc. v. United Specialty Advertising Co.*¹⁵² and *Hurst v. Hughes Tool Co.*¹⁵³ In *Furr's*, an owner of a promotional company testified that she had relied on *Furr's* honesty to make fair use of their program.¹⁵⁴ Perhaps by mistake, a salesman of the promotional company, eager to make a sale and without indicating any need for confidentiality, discussed the promotional program in sufficient detail for *Furr's* to create their own version of the plan.¹⁵⁵ Nevertheless, *Furr's* was not given any notice of confidentiality.¹⁵⁶ The court held that United Specialty Advertising had not taken necessary precautions in order to protect the secret, and as a result *Furr's* was not liable.¹⁵⁷

In *Hurst*, the initial meeting with Hughes Tool was initiated by the holder of the trade secret.¹⁵⁸ *Hurst* never mentioned that the information he was giving to *434 Hughes was confidential.¹⁵⁹ In their last meeting *Hurst* expressed his hope of working with Hughes on a royalty basis.¹⁶⁰ At this meeting Hughes asked to keep a piece of *Hurst's* test equipment, but refused *Hurst's* research notes.¹⁶¹ *Hurst* allowed Hughes to keep the equipment without any apparent restrictions.¹⁶² Hughes tested the equipment and eventually made improvements, which resulted in several patents,¹⁶³ at least one of which the court partially credited to *Hurst's* background work.¹⁶⁴ Nevertheless, the court found “no record evidence that *Hurst* took steps to protect himself, or that Hughes breached *Hurst's* confidentiality or that Hughes improperly discovered *Hurst's* information.”¹⁶⁵ As seen in this case, an owner's failure to take reasonable precautions may result in loss of secrecy required for trade secret law protection of the information, regardless of the owner's investment in the project and his expressed expectation to receive payment.¹⁶⁶ This is consistent with the Restatement (Third) of Unfair Competition.¹⁶⁷

The Restatement (Third) of Unfair Competition's viewpoint on the statute of limitations for misappropriation causes of action is intended to be consistent with UTSA.¹⁶⁸ The UTSA provides a three year limitations period coupled with a discovery rule that tolls the period until the time the appropriation was or should have been discovered.¹⁶⁹ Currently, Texas law holds that a two year limitations period applies to tort actions such as misappropriation.¹⁷⁰ Additionally, in a recent slip opinion, the Texas Supreme Court declined to apply the discovery rule used in *435 the UTSA and Restatement (Third) of Unfair Competition.¹⁷¹ The court reasoned that preclusion of a legal remedy alone was not sufficient to create a judicial exception to the statute of limitations, where the purpose of the exception is to prevent stale or fraudulent claims.¹⁷² Adoption of the Uniform Trade Secrets Act would result in an extended statute of limitations over the current rule.¹⁷³

C. Section 41—Breach of Confidence

The Texas viewpoint concerning breach of confidence is apparently consistent with the Restatement (Third) of Unfair Competition.¹⁷⁴ Both recognize that the basis of confidentiality can be either express or implied.¹⁷⁵ As seen in *Hurst* and *Furr's*, no liability for breach of confidence will be enforced by the Texas courts without the recipient having notice of the confidential nature of the information being received.¹⁷⁶ Examples of express agreements include nondisclosure agreements and confidentiality terms in licenses and employment contracts.¹⁷⁷ Implied agreements are viewed from the overall picture of the relationship between the parties.¹⁷⁸ The Restatement (Third) of Unfair Competition delineates factors which aid in characterizing this relationship.¹⁷⁹ The factors include the nature of the transaction, the customs of the industry, the types of precautions undertaken by the holder of the secret to maintain the secrecy, whether or not the disclosure was solicited, and the extent to which the recipient knew or should have known of the holder's expectation of confidentiality.¹⁸⁰

*436 The Texas rule of implied confidentiality in a contractual relationship is illustrated by *Hyde Corp.*¹⁸¹ The license was entered into during the patent application period.¹⁸² During the negotiations and after signing the agreement, the licensee gained knowledge about the device from the patent application, scale models, and blueprints, as well as from actual manufacture.¹⁸³ *Hyde* asserted during trial that the knowledge was not gained through fraud, deceit, or any inequitable practice, and therefore, that they could not be enjoined from manufacturing the mechanism.¹⁸⁴ The jury believed that the licensing agreement was entered into in good faith, but that despite *Hyde's* obtaining the information in good faith, it breached its duty of confidence.¹⁸⁵ The Texas Supreme Court held:

A breach of confidence under the rule stated in this Clause may also be a breach of contract which subjects the actor to liability under the rules stated in the Restatement of Contracts. But whether or not there is a breach of contract, the rule stated in this Section subjects the actor to liability if his disclosure or use of another's trade secret is a breach of the confidence reposed in him by the other in disclosing the secret to him. The chief example of a confidential relationship under this rule is the relationship of principal and agent. Such is also the relationship between partners or other joint adventurers. But this confidence may exist also in other situations.¹⁸⁶

The court clarified itself saying, "We have not held as a matter of law that the relationship of licensor and licensee in itself created a confidential relationship between the parties."¹⁸⁷ The Restatement (Third) of Unfair Competition also reflects this approach, indicating that "the relationship of licensor-licensee is often characterized as confidential."¹⁸⁸

To reiterate, in Texas, the primary elements of a trade secret case include: "(1) the existence of a trade secret, (2) the breach of a confidential relationship or the improper discovery of a trade secret, (3) the use of a trade secret, and (4) the award *437 of appropriate damages."¹⁸⁹ Some states have recognized breach of confidence as a separate cause of action where the confidential information was found not to constitute a trade secret.¹⁹⁰ Texas is not one of these jurisdictions.¹⁹¹ In Texas, "a n action for unfair competition based upon breach of confidence requires both a confidential relationship—usually by employment, contract, or agency—and confidential material."¹⁹²

A representative case involving a lack of confidential material is *Wissman v. Boucher*.¹⁹³ In *Wissman*, the defendant contracted with the plaintiff to make telescoping fishing poles as samples.¹⁹⁴ As part of the contract they agreed not to make any other poles for sale except those for the plaintiff.¹⁹⁵ The poles were found to be easily copied.¹⁹⁶ Thus, no secret existed.¹⁹⁷ The plaintiff was denied damages awarded by a lower court and the injunction was found unenforceable under contract law concepts covering noncompetition agreements as an unreasonable restraint of trade, in part because the agreement was not unlimited by time or space.¹⁹⁸

D. Section 42—Breach of Confidence by Employees

Adoption of the Restatement (Third) of Unfair Competition by Texas would be seen as favoring the employee more than current Texas trade secret law. Section 42 of the Restatement (Third) of Unfair Competition clarifies overlapping areas of agency, contract, and trade secret law. Breaches of confidentiality made by employees and former employees have been covered by contract or common law *438 rules derived from trade secret and agency law.¹⁹⁹ The duty of loyalty²⁰⁰ owed by employees includes a general obligation not to compete with their employers in the subject matter of employment.²⁰¹ Unless otherwise agreed, employees may not use or disclose confidential information acquired within the scope of the agency in violation of their duties as agents.²⁰² Former employees, absent a noncompetition agreement with the former employer, are free to compete.²⁰³ However, they may not use or disclose trade secrets or "similar confidential matters."²⁰⁴ The proscription against use or disclosure is to prevent harm to the principal and applies irrespective of whether the former employees are in competition with the former employees.²⁰⁵

The Restatement (Third) of Unfair Competition suggests a distinction between application of trade secret and agency rules depending on the employment status of an employee-defendant.²⁰⁶ If the defendant is a current employee, the standards of agency law will apply.²⁰⁷ If the defendant is a former employee, the Restatement (Third) of Unfair Competition recommends that trade secret rules should govern.²⁰⁸ Currently, no separate cause of action for breach of confidence exists in Texas. Adoption of the Restatement could result in a loss of remedy for use or disclosure of confidential information which does not qualify as a trade secret.²⁰⁹

Absent a contract not to compete, "[a] former employee may ... use the general knowledge, skills, and experience acquired during his prior employment to compete with a former employer and even do business with the former employer's customers, *439 provided that such competition is fairly and legally conducted."²¹⁰ The Restatement (Third) of Unfair Competition mirrors this position.²¹¹ When employees are regularly exposed to trade secrets in the scope of their employment this may "permit greater restrictions than those usually required."²¹² However, confidentiality and noncompetition clauses can also severely limit a workers mobility, inhibit the use of acquired skills, and stifle economic growth.²¹³

The Texas Court of Civil Appeals in Dallas in *Johnston v. American Speedreading Academy, Inc.*²¹⁴ struck a paragraph from

an injunctive order restricting competition by former employees as being too broad and general.²¹⁵ The court's reasoning coupled the accepted rule allowing use of general knowledge, skill, and experience with Texas Rule of Civil Procedure 683 requiring injunctions to be specific in terms and reasonably detailed with respect to acts.²¹⁶

***440** The Restatement (Third) of Unfair Competition suggests factors for use in distinguishing general skill and knowledge from trade secrets.²¹⁷ Application of similar factors aided the court's analysis in *Weed Eater, Inc. v. Dowling*.²¹⁸ *Weed Eater* illustrates the erroneous assumption of equality in bargaining positions in employment situations.²¹⁹ After Emerson Electric bought *Weed Eater*, it presented new employment contracts to all of *Weed Eaters'* vice-presidents. Seven months after signing his new contract, Dowling, the vice-president of manufacturing, resigned to work for a competitor.²²⁰ The "negotiated" employment contract with Emerson had included broad secrecy provisions related to the cost, uses, methods, applications or customers, trade accounts, or suppliers of products made, produced or sold by Emerson or its subsidiaries, or regarding any secret or confidential apparatus, process, system, manufacturing or other method at any time used, developed or investigated by or for Emerson or its subsidiaries.²²¹ On appeal, the temporary injunction issued by the trial court was modified to prevent Dowling from continuing employment as long as his duties involved "activities related to developing, manufacturing and marketing lawn and garden trimmers, lawnmowers and similar products."²²² This result could be seen as adverse to the Restatement (Third) of Unfair Competition position that employment agreements should not deprive an employee of the ability to obtain comparable employment "commensurate with the employee's general qualifications."²²³

In an attempt to balance employee mobility, free competition, and protection of confidential information, courts generally limit noncompetition agreements to reasonable restrictions.²²⁴ However, in *Weed Eater*, the court did not address ***441** overbreadth as related to information covered. Nor did the court address complications in determining the scope of such provisions as applied to a large parent company and its subsidiaries. It did address the limited time duration of the agreement and the lack of any area restrictions, as covenants not to compete are generally restricted with respect to time and area.²²⁵ The court scrutinized the global perspective of the company's competitive situation and noted eighteen U.S. companies and two foreign firms in competition with *Weed Eater's* trimmers; thus, the court found the field to be highly competitive.²²⁶ Therefore, the contract provision was held "not unreasonable as to time or, under the circumstances, area."²²⁷

The Restatement (First) of Torts conditionally states that customer lists may qualify for trade secret protection.²²⁸ The Restatement (Second) of Agency specifies written lists as qualifying confidential information not to be used or disclosed by a former employee.²²⁹ The Restatement (Third) of Unfair Competition rejects this distinction, stating that written lists are not protectable as trade secrets. However, it also states that a misappropriated written list may support an inference of trade secret status.²³⁰

Texas approximates the position of the Restatement (Third) of Unfair Competition on trade secret subject matter.²³¹ In Texas, trade secret status depends ***442** on the facts of the case.²³² The Restatement (Third) of Unfair Competition and Texas law differ with respect to protecting a customer list. The Restatement (Third) of Unfair Competition suggests that if a customer list or related information does not qualify for trade secret status, the employer should execute a suitable noncompetition agreement.²³³ On the other hand, Texas law implies an agreement not to release confidential information.²³⁴ Thus, although both Texas and the Restatement acknowledge the need to balance the interests of protection and mobility of workers, the Restatement (Third) of Unfair Competition may be seen to favor employees over employers as compared to Texas trade secret law.

E. Section 43—Improper Acquisition of Trade Secrets

With the exception of liability for improper acquisition without use or disclosure, which is still required in Texas, there is little difference between the Restatement (First) of Torts § 757 comment f and section 43 of the Restatement (Third) of Unfair Competition.²³⁵ The writers of the Restatement (Third) of Unfair Competition intended to emphasize that independent discovery and reverse engineering are not improper methods of obtaining a trade secret.²³⁶ These areas ***443** have been problematic when states pass laws to protect their industries.²³⁷ Attempts to prevent confusion as to the source of manufacture have also resulted in problems.²³⁸

Texas is aligned with the Restatement (Third) of Unfair Competition with respect to proper acquisition, as exhibited in

Wissman.²³⁹ This case concerned a collapsible fishing pole that doubled as a walking stick.²⁴⁰ The court found that countless machinists could duplicate the plaintiff's pole, and therefore, could see "no reasonable social interest ... served by allowing the plaintiff to restrict the defendants in so doing."²⁴¹

An illustration of proper acquisition found in the Restatement (Third) of Unfair Competition is based on a variation of a Texas case, *E.I. duPont de Nemours & Co. v. Christopher*.²⁴² The reporters suggest that if a party discovers a secret process under construction because the owner has not taken adequate precaution to screen the site from bypassers, it is not improper.²⁴³ A competitor may send photographers to record the secret portions of a plant that are clearly visible to the public, and if their engineers are able, to reverse engineer in this manner.²⁴⁴ Contrast this illustration with the facts of *E.I. duPont*, where aerial photographs taken of a plant *444 under construction were held as an "improper" acquisition.²⁴⁵ In *E.I. duPont*, the court's reasoning focused on the level of precautions that would be required to prevent such an incident.²⁴⁶

E.I. duPont may seem in conflict with *Wissman*.²⁴⁷ The reporters of the Restatement (Third) of Unfair Competition attempted to reconcile these divergent results.²⁴⁸ The reporters distinguished between information that is not protectable and conduct by the defendant that is actionable.²⁴⁹ In *E.I. duPont*, all of the defendants' activities were allegedly conducted in public airspace, violated no government aviation standard, and did not involve any fraudulent or illegal conduct.²⁵⁰ Nevertheless, the court classified the conduct as "industrial espionage."²⁵¹ By contrast, the plaintiff in *Wissman* sold his fishing poles publicly.²⁵² The Restatement reporters indicated that the "propriety of the acquisition must be evaluated on the basis of all the circumstances of the case."²⁵³ Difficulty of accessibility and cost of acquisition of the information are factors to be considered.²⁵⁴ These factors differentiate results like *E.I. duPont* and *Wissman*.²⁵⁵ If *445 a trade secret is acquired through a manner that in itself is tortious or criminal, it will ordinarily be seen as an improper acquisition.²⁵⁶ Texas law follows this philosophy, as seen in several tort, larceny and conspiracy cases.²⁵⁷

F. Section 44—Injunctions in Trade Secret Actions

The Restatement's position that injunctive relief should be of limited duration could eliminate use of permanent injunctions in Texas. Equitable remedies such as injunctive relief should be granted where damages alone are inadequate to compensate.²⁵⁸ In Texas, "it is well settled that injunctive relief may be granted when one breaches his confidential relationship in order to unfairly use a trade secret."²⁵⁹ Consistent with improper acquisition as defined in section 40, the Restatement (Third) of Unfair Competition has added "threatened appropriation" as an obvious situation where injunctive relief is appropriate.²⁶⁰ The Restatement (Third) of Unfair Competition has also added "the nature and extent of the appropriation" as a factor to be examined in looking at the appropriateness of an *446 injunction.²⁶¹ With respect to trade secret law, the goal of injunctive relief and other remedies is to place the parties in the same position as before the misappropriation.²⁶²

In Texas, injunctions cannot be issued on a mere surmise of injury.²⁶³ "A permanent injunction must not grant relief which is not prayed for, nor be more comprehensive or restrictive than justified by the pleadings, the evidence, and the usages of equity."²⁶⁴ Additionally, Texas Rule of Civil Procedure 683 requires *447 injunctions to be specific in terms and reasonably detailed with respect to the acts restrained.²⁶⁵

In trade secret cases an award of both monetary and injunctive relief is prevalent.²⁶⁶ Both remedies are generally needed to adequately compensate the holder of the trade secret.²⁶⁷ The reporters of the Restatement (Third) of Unfair Competition propose a standard that couples reasonable royalty and injunctive relief for innocent defendants that make a significant investment in the trade secret before notice of the improper acquisition.²⁶⁸ This position could change results as seen in *Elcor Chemical*, where a permanent injunction prohibiting use of the trade secrets was upheld on appeal despite the fact that the plaintiff was no longer in the business.²⁶⁹

The question of how long an injunction should run is controversial²⁷⁰ and bears directly on fairness and effectiveness.²⁷¹ Historically, injunctions issued for misappropriation of trade secrets were perpetual.²⁷² Later, two lines of thought formed.²⁷³ First was the historical viewpoint that the wrongdoer should not benefit *448 from his evil deed as represented by *Shellmar Products Co. v. Allen-Qualley Co.*²⁷⁴ In *Shellmar*, the court deprived the wrongdoer of using information he misappropriated even though it was disclosed to the public, for example, through issue of a patent.²⁷⁵ The more modern viewpoint is represented by *Conmar Products Corp. v. Universal Slide Fastener Co.*,²⁷⁶ which limited an injunction protecting a trade secret upon grant of a patent.²⁷⁷

The UTSA modified this idea to extend the injunction to eliminate the commercial advantage of any “lead time” gained by the misappropriation.²⁷⁸ The Restatement (Third) of Unfair Competition incorporates lead time as an appropriate reason to enforce an injunction beyond the time the defendant could have obtained the information by proper means.²⁷⁹ The Texas Supreme Court has considered this concept in dicta,²⁸⁰ but the question was not properly before the court and remains an open question.²⁸¹

Difficulty also exists with implementation of compensatory injunctions.²⁸² Different proposals have been made for ways to estimate the time required.²⁸³ In *Gonzales v. Zamora*, the Corpus Christi Court of Appeals supported a three year injunction prohibiting the use of information and materials by former employees as ***449** “reflecting the approximate amount of time that it took Zamora to research and develop his trade secrets.”²⁸⁴ Indefinite injunctions could allow for termination once the information is public. However, the requirements for termination are generally not described.²⁸⁵

To avoid punitive injunctions that are too broad in scope, the Restatement (Third) of Unfair Competition suggests carefully restricting their boundaries “to avoid encroachment on the public domain.”²⁸⁶ Texas law and the Restatement (Third) of Unfair Competition are philosophically aligned as seen in *Gonzales*.²⁸⁷ Here, the appellate court reviewed the scope of the trial court’s injunction and concluded that some of the prohibited materials were related to the former employer’s trade secrets, whereas other information was publicly available.²⁸⁸ Accordingly, the court modified the injunction to allow use of the public materials.²⁸⁹ On the other hand, the Restatement (Third) of Unfair Competition suggests that where it is very difficult to distinguish between improper use, a broader scope may be required.²⁹⁰ *Weed Eater* is an example of a broad injunction expanded further by a court on appeal.²⁹¹

G. Section 45—Monetary Relief in Trade Secret Actions

With regard to monetary relief, the Restatement approximates the Texas position by rejecting the UTSA limit on punitive damages of twice the compensatory and restitutionary damages. Both Texas and the Restatement refuse to establish any set rule or ratio. As a result, difficulty in estimating a damage award may result in a ***450** grant of equitable relief.²⁹² The Fifth Circuit has explained the relationship between the legal and equitable remedies saying, “Under Texas law, the irreparable harm required for a permanent injunction is defined as ‘an injury which cannot be compensated or for which compensation cannot be measured by any certain pecuniary standard.’”²⁹³ Section 45 of the Restatement (Third) of Unfair Competition supplements relevant sections in the Restatement (Second) of Torts and section 136 of the Restatement of Restitution covering monetary damages.²⁹⁴

The Restatement (Third) of Unfair Competition suggests monetary damages be awarded based upon the injury to the plaintiff, as in tort law.²⁹⁵ Alternatively, as in contract law, the damage award could be based on the “pecuniary gain resulting from the appropriation” or unjust enrichment.²⁹⁶ The Restatement (Third) of Unfair Competition has tried to address this dichotomy by permitting the plaintiff to prove either his losses, the defendant’s gain, or both. However, it suggests that the plaintiff be permitted to recover only the greater of the two measures rather than recovery for both.²⁹⁷ This could reduce awards in Texas as noted in *Sikes v. McGraw-Edison Co.*²⁹⁸ The appellant in this case protested the trial court’s charge, claiming that by permitting submission of both measures, the charge authorized a “double recovery.”²⁹⁹ The appellate court, after acknowledging some overlap could exist, upheld the jury verdict.³⁰⁰

***451** Methods for calculation of past damages differ to the point of disagreement.³⁰¹ Because the burden of proving damages with accuracy is so difficult, a standard of reasonableness is appropriately suggested by the Restatement (Third) of Unfair Competition.³⁰² In addition to a flexible standard of proof, the Restatement (Third) of Unfair Competition has detailed four of the most recognized measures of damages.³⁰³ The first method involves measuring the loss to the plaintiff.³⁰⁴ This usually consists of a combination of lost sales, lost royalties, or the value of the trade secret if disclosed to the public by the defendant.³⁰⁵ The second measure is to account for the defendant’s profits earned from the appropriation of the secret.³⁰⁶ A third method is to account for any savings attributable to use of the trade secret.³⁰⁷ The fourth method is to award a plaintiff a “reasonable royalty” for the defendant’s use of the secret.³⁰⁸ The reasonable royalty is a hypothetical calculation of what a willing buyer and seller would settle upon as the value of the secret.³⁰⁹

Selection of the calculation method has been the subject of appeal in Texas.³¹⁰ Once a method has been chosen, courts often encounter practical difficulties in utilizing it.³¹¹ Of particular concern is the fourth method, calculation of a reasonable ***452** royalty.³¹² Reasonable royalty is not simply a percentage of defendant’s profits from the misappropriation.³¹³ It should approximate the “actual value of what has been appropriated.”³¹⁴

Outside of a breach of an existing license,³¹⁵ difficulties exist in arriving at the rate per unit.³¹⁶ Many times the holder of the secret does not have the manufacturing facility, marketing, or other resources available to make a commercial success of the discovery.³¹⁷ The misappropriator usually has these resources.³¹⁸ Therefore, if courts look to compensation as measured by the plaintiff's losses, they may leave the wrongdoer unjustly enriched.³¹⁹ Turning to restitution, if courts measure the *453 damages by looking at the defendant's gain, they may convey a windfall upon the plaintiff.³²⁰

The Restatement (Third) of Unfair Competition's guidance in allowing the greater of the proven measures is consistent with the Texas Supreme Court's logic as applied to injunctions.³²¹ Similar to determining the appropriate length of an injunction, the estimate of damages using the reasonable royalty method needs a "license term."³²² The Restatement (Third) of Unfair Competition proposes following normal licensing procedures by setting a period that ends before or after any public disclosure.³²³ However, the difficulty with this concept is that unlike licenses involving patented material provisions, trade secret longevity may extend indefinitely.³²⁴

Section 3(b) of the UTSA limits punitive damages to twice the compensatory and restitutionary damages awarded. The Restatement (Third) of Unfair Competition³²⁵ more accurately reflects the Texas position by rejecting any set rule or ratio:

There can be no set rule or ratio between the amount of actual and exemplary damages which will be considered reasonable. This determination must depend upon the facts of each particular case. Factors to consider in determining whether an award of exemplary damages is reasonable include (1) the nature of the wrong, (2) the character of the conduct involved, (3) the degree of culpability of the wrongdoer, (4) the situation and sensibilities *454 of the parties concerned, and (5) the extent to which such conduct offends a public sense of justice and propriety.³²⁶

Nevertheless, punitive and exemplary damages are limited by chapter 41 of the Texas Civil Practice and Remedies Code.³²⁷

When punitive or exemplary damages are involved, normally proof of malice or willful behavior is a prerequisite.³²⁸ U.S. Sporting Products, discussed various standards for the award of exemplary damages and held "that implied or legal malice is the appropriate standard for assessing exemplary damages for misappropriation."³²⁹ Under section 4 of the UTSA, reasonable attorney's fees may be awarded by the court if the defendants' conduct is willful and malicious or if bad faith is involved.³³⁰

IV. Conclusion

Texas adopted the Restatement (First) of Torts' definition of a trade secret in *Hyde Corp. v. Huffines*³³¹ and has been recognized as a "Restatement state."³³² Texas has not adopted the UTSA.³³³

Many of the differences between the Restatement (First) of Torts and the UTSA have been adopted by the Restatement (Third) of Unfair Competition. The more significant of these include expanding protection to include misappropriation without use or disclosure of the trade secret and imposing a less restrictive statute of limitations. For rapidly advancing technologies such as computers, software, biotechnology and pharmaceuticals, trade secret protection has proven to be more *455 valuable than patent protection.³³⁴ This is due largely to the short-lived nature of the subject matter protected.³³⁵ The expansion of protection for misappropriation without use or disclosure should encourage investment in these fields. However, the elimination of the general misappropriation cause of action seems premature considering growing concerns over protection of software and electronic data.

The discovery rule applied to the statute of limitations as provided in the Restatement (Third) of Unfair Competition could provide advantages for hard-to-detect misappropriation cases, as seen in *Computer Associates International, Inc. v. Altai, Inc.*³³⁶ Despite implications discussed, the question remains whether Texas will adopt the new Restatement (Third) of Unfair Competition.

***456 Appendix A: Selected Excerpts Restatement (Third) of Unfair Competition**

§ 38. Appropriation of Trade Values

One who causes harm to the commercial relations of another by appropriating the other's intangible trade values is subject to liability to the other only if:

(a) the actor is subject to liability for an appropriation of the other's trade secret under the rules stated in §§ 39-45; or

(b) the actor is subject to liability for an appropriation of the commercial value of the other's identity under the rules stated in §§ 46-49; or

(c) the appropriation is actionable by the other under federal or state statutes or international agreements, or is actionable as a breach of contract, or as an infringement of common law copyright as preserved by federal copyright law.

§ 39. Definition of Trade Secret

A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.

§ 40. Appropriation of Trade Secrets

One is subject to liability for the appropriation of another's trade secret if:

(a) the actor acquires by means that are improper under the rule stated in § 43 information that the actor knows or has reason to know is the other's trade secret; or

(b) the actor uses or discloses the other's trade secret without the other's consent and, at the time of the use or disclosure,
(1) the actor knows or has reason to know that the information is a trade secret that the actor acquired under circumstances creating a duty of confidence owed by the actor to the other under the rule stated in § 41; or

(2) the actor knows or has reason to know that the information is a trade secret that the actor acquired by means that are improper under the rule stated in § 43; or

(3) the actor knows or has reason to know that the information is a trade secret that the actor acquired from or through a person who acquired it by means that are improper under the rule stated in § 43 or whose disclosure of the trade secret constituted a breach of a duty of confidence owed to the other under the rule stated in § 41; or

*457 (4) the actor knows or has reason to know that the information is a trade secret that the actor acquired through an accident or mistake, unless the acquisition was the result of the other's failure to take reasonable precautions to maintain the secrecy of the information.

§ 41. Duty of Confidence

A person to whom a trade secret has been disclosed owes a duty of confidence to the owner of the trade secret for the purposes of the rule stated in § 40 if:

(a) the person made an express promise of confidentiality prior to the disclosure of the trade secret; or

(b) the trade secret was disclosed to the person under circumstances in which the relationship between the parties to the disclosure or other facts surrounding the disclosure justify the conclusions that, at the time of the disclosure,
(1) the person knew or had reason to know that the disclosure was intended to be in confidence, and

(2) the other party to the disclosure was reasonable in inferring that the person consented to an obligation of confidentiality.

§ 42. Breach of Confidence by Employees

An employee or former employee who uses or discloses a trade secret owned by the employer or former employer in breach of a duty of confidence is subject to liability for appropriation of the trade secret under the rule stated in § 40.

§ 43. Improper Acquisition of Trade Secrets

“Improper” means of acquiring another’s trade secret under the rule stated in § 40 include theft, fraud, unauthorized interception of communications, inducement of or knowing participation in a breach of confidence, and other means either wrongful in themselves or wrongful under the circumstances of the case. Independent discovery and analysis of publicly available products or information are not improper means of acquisition.

§ 44. Injunctions: Appropriation of Trade Secrets

(1) If appropriate under the rule stated in Subsection (2), injunctive relief may be awarded to prevent a continuing or threatened appropriation of another’s trade secret by one who is subject to liability under the rule stated in § 40.

(2) The appropriateness and scope of injunctive relief depend upon a comparative appraisal of all the factors of the case, including the following primary factors:

*458 (a) the nature of the interest to be protected;

(b) the nature and extent of the appropriation;

(c) the relative adequacy to the plaintiff of an injunction and of other remedies;

(d) the relative harm likely to result to the legitimate interests of the defendant if an injunction is granted and to the legitimate interests of the plaintiff if an injunction is denied;

(e) the interests of third persons and of the public;

(f) any unreasonable delay by the plaintiff in bringing suit or otherwise asserting its rights;

(g) any related misconduct on the part of the plaintiff; and

(h) the practicality of framing and enforcing the injunction.

(3) The duration of injunctive relief in trade secret actions should be limited to the time necessary to protect the plaintiff from any harm attributable to the appropriation and to deprive the defendant of any economic advantage attributable to the appropriation.

§ 45. Monetary Relief: Appropriation of Trade Secrets

(1) One who is liable to another for an appropriation of the other’s trade secret under the rule stated in § 40 is liable for the pecuniary loss to the other caused by the appropriation or for the actor’s own pecuniary gain resulting from the appropriation, whichever is greater, unless such relief is inappropriate under the rule stated in Subsection (2).

(2) Whether an award of monetary relief is appropriate and the appropriate method of measuring such relief depend upon a comparative appraisal of all the factors of the case, including the following primary factors:

(a) the degree of certainty with which the plaintiff has established the fact and extent of the pecuniary loss or the actor’s pecuniary gain resulting from the appropriation;

(b) the nature and extent of the appropriation;

- (c) the relative adequacy to the plaintiff of other remedies;
- (d) the intent and knowledge of the actor and the nature and extent of any good faith reliance by the actor;
- (e) any unreasonable delay by the plaintiff in bringing suit or otherwise asserting its rights; and
- (f) any related misconduct on the part of the plaintiff.

Footnotes

- ^{a1} J.D. candidate, University of Houston Law Center, May 1996.
- ¹ Milton Handler, *Unfair Competition*, 21 IOWA L. REV. 175, 189 (1936).
- ² See, e.g., A1 J. Daniel, Jr., *Intellectual Property in the Uruguay Round: The Dunkel Draft and a Comparison of United States Intellectual Property Rights, Remedies, and Border Measures*, 25 N.Y.U. J. INT'L L. & POL. 751, 751 (1993).
- ³ Generally, section 757 covers liability for disclosure or use of another's trade secret. It is part of Chapter 36 of the Restatement (First) of Torts which concerns miscellaneous trade practices.
- ⁴ Holly Emrick Svetz, Note, *Japan's New Trade Secret Law: We Asked for It—Now What Have We Got?*, 26 GEO. WASH. J. INT'L L. & ECON. 413, 417-18 (1993).
- ⁵ John G. Byrne, *Changes on the Frontier of Intellectual Property Law: An Overview of the Changes Required by GATT*, 34 DUQ. L. REV. 121, 122 (1995).
- ⁶ RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. a (1993).
- ⁷ *Id.*
- ⁸ *Id.*
- ⁹ 35 Eng. Rep. 1011, 1012-13 (Ch. 1817). The higher court denied enforcement of the lower court's injunction, asking: "If a secret, what means did the Court possess of interfering so as to enforce its own orders?" *Id.* at 1012.
- ¹⁰ 37 Eng. Rep. 425, 426 (Ch. 1820). After copying some recipes and instructions for use for various medicines, the defendant later started a competing veterinary practice. When challenged by the plaintiff, the defendant offered to not divulge the recipes for a small salary. The injunction forbade the veterinarian journeyman from using or revealing the recipes or instructions copied from the plaintiff. *Id.*
- ¹¹ 68 Eng. Rep. 492 (Ch. 1851).
- ¹² *Id.* at 501.

13 36 Mass. (19 Pick.) 523 (1837).

14 Id. at 527.

15 98 Mass. 452, 461 (1868).

16 Id.

17 RESTATEMENT (FIRST) of TORTS (1939).

18 Id. § 757.

One who discloses or uses another's trade secret, without privilege to do so, is liable to the other if

(a) he discovered the secret by improper means, or

(b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or

(c) he learned of 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 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.

Id.

19 See, e.g., Pamela Samuelson, *Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?*, 38 CATH. U. L. REV. 365, 400 n.53 (1989).

20 269 S.W. 861 (Tex. Civ. App.—Dallas 1925, writ ref'd).

[A]ppellee has taken from the columns of appellant's paper news items possessing a property value that were obtained by appellant at the expenditure of great labor and money, and that the news items thus appropriated were published and sold by appellee in business competition with appellant, thereby diminishing the profits which appellant would otherwise have garnered. This, in our opinion, constituted an unfair and illegal interference with appellant's business, and could have but one effect; that is, to deprive appellant of a portion of his fairly earned profits and to divert the same to the coffers of appellee.

Id.

21 248 U.S. 215 (1918) (popularizing improper acquisition, or misappropriation). For more discussion of this case, see *infra* note 46.

22 *Taco Cabana Int'l, Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1123, 19 U.S.P.Q.2d (BNA) 1253, 1261 (5th Cir.1991), *aff'd*, 505 U.S. 763, 23 U.S.P.Q.2d (BNA) 1081 (1992) (recognizing adoption of section 757 in *Hyde Corp. v. Huffines*). See also *Computer Assocs. Int'l, Inc. v. Altai, Inc.*, 832 F.Supp. 50, 52 (E.D.N.Y. 1993).

23 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (1993). The RESTATEMENT (THIRD) OF UNFAIR COMPETITION incorporated changes made in the UTSA. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. a (1993) (asserting that, except as noted, the rules stated are intended to be consistent with the UTSA). Compare *id.* § 39 cmt. d (1993) (establishing no requirement of duration for information's economic value) with UNIF. TRADE SECRETS ACT § 1(4) (1985). Compare RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1993) (renouncing requirement of use by trade secret owner) with UNIF. TRADE SECRETS ACT § 1(4) (1985). Compare RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (1993) (adopting liability for improper acquisition of a trade secret) with UNIF. TRADE SECRETS ACT § 1(2)(i) (1985). Compare RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. d (1993) (encompassing liability for use or disclosure that occurs before loss of secrecy) with UNIF. TRADE SECRETS ACT §§2, 3 (1985). Compare RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40, notes (1993) (adopting material and prejudicial changes of position prior to notice as relevant to remedies for subsequent use) with UNIF. TRADE SECRETS ACT § 3 cmt. (1985). Compare RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. f (1993) (denying injunction terms longer than that required to obtain the information by proper means except for any lead time unjustly attributable to the appropriation) with UNIF. TRADE SECRETS ACT § 2(a) (1985).

- 24 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b. (1993) (“In 1979, the National Conference of Commissioners on Uniform State Laws promulgated the Uniform Trade Secrets Act. The Prefatory Note states that the ‘Uniform Act codifies the basic principles of common law trade secret protection.’ The original Act or its 1985 revision has been adopted in a majority of the states.”).
- 25 FMC Corp. v. Varco Int’l, Inc, 677 F.2d 500, 502-03, 217 U.S.P.Q. (BNA) 135, 136-37 (5th Cir.1982). See also Computer Assocs. Int’l, Inc. v. Altai, Inc., No. 94-0433, 1996 WL 112172, at *5 (Tex. Mar. 14, 1996).
- 26 Id. § 38(c). See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. c (1993) (stating that many decisions are effectively superseded by the 1976 Copyright Act and that availability of other unfair competition rules such as trademark and trade dress may more directly apply in the International News type situations).
- 27 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. c (1993).
- 28 269 S.W. at 863. See also U.S. Sporting Prods., 865 S.W.2d at 217.
- 29 McCoy v. Mitsubishi Cutlery, Inc., 67 F.3d 917, 925 n.2, 36 U.S.P.Q.2d (BNA) 1289, 1295 n.2 (Fed. Cir.1995), cert. denied, 64 U.S.L.W. 3623 (U.S. Mar. 18, 1996).
- 30 See infra notes 40, 47 and accompanying text. Although the reporters have rejected the general misappropriation claim said to derive from International News, in eliminating what they feel is a very narrow cause of action, they invite state legislatures to fill any voids. RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38, Reporter’s Notes, cmt. b (1993). The reporters indicate that only a small number of successful actions, generally involving direct competition, have been maintained. Id. § 38 cmts. b, c. In addition, they recite the need for balancing protection versus free exchange of ideas and information as justification for leaving this issue to the legislatures. Id. § 38, Reporter’s Notes, cmt. b.
As set out in Aldridge v. The Gap, Inc., 866 F.Supp. 312 (N.D. Tex. 1994), the Texas common law elements of misappropriation, are:
(1) creation of plaintiff’s product through extensive time, labor, skill, and money,
(2) the defendant’s use of that product in competition with the plaintiff, thereby gaining a special advantage in that competition (i.e., a “free ride”) because defendant is burdened with little or none of the expense incurred by the plaintiff, and
(3) commercial damage to the plaintiff.
Aldridge, 866 F.Supp. at 312.
These elements appear to achieve this balance for directly competitive acts. Aldridge, 866 F.Supp. at 313 (citing U.S. Sporting Prods., 865 S.W.2d at 218).
In examining the elements, one notes that use of the same product (“that product”) is required to have caused damage to the plaintiff. These elements protect the owner from directly competitive acts while leaving information in the public domain to be copied, built upon, and used to make non-competing products.
- 31 Cf. Hillary Durgin, Suits Over Secrets Becoming More Common, HOUSTON CHRONICLE, July 30, 1995, at D1, D3. But see Walter R. Brookhart, Recent Developments Related to Trade Secrets, Unfair Competition and Covenants not to Compete for the Texas Practitioner, 2 TEX. INTELL. PROP. L.J. 271 (1994).
- 32 Svetz, supra note 4, at 413. Indicating a strong need for international rules protecting intellectual property, Honeywell donated \$1 million of a \$96 million award from Japan’s Minolta to enable protection for entrepreneurs. Id. (citing Award of \$95 Million in Lawsuit “Victory” for Patents, Honeywell Executive Says, 9 INT’L TRADE REP. (BNA) No. 7, at 270 (Feb. 12, 1992)).
- 33 Daniel, supra note 2, at 751.
- 34 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38(c). The reporters have written the rules to automatically update by incorporating federal and state statutes and international agreements by reference.

35 Id. § 38(a).

36 Id. § 38(b) (discussion of Topic 3, the Right of Publicity, is omitted from this paper).

37 Id. § 38(c).

38 Id.

39 Cf. Michael D. McCoy & Needham J. Boddie, II, *Cybertheft: Will Copyright Law Prevent Digital Tyranny on the Superhighway?*, 30 WAKE FOREST L. REV. 169, 180 (1995) (noting that European countries have applied misappropriation for unauthorized use of computer databases for commercial purposes).

40 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38, Reporter's Notes, cmt. b (1993).

41 *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 485, 181 U.S.P.Q. (BNA) 673, 680 (1974). In *Kewanee*, the Supreme Court posed the question of abolishing trade secret protection but noted:
Even as the extension of trade secret protection to patentable subject matter that the owner knows will not meet the standards of patentability will not conflict with the patent policy of disclosure, it will have a decidedly beneficial effect on society. Trade secret law will encourage invention in areas where patent law does not reach and will prompt the independent innovator to proceed with the discovery and exploitation of his invention.
Id.

42 See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 232-33, 140 U.S.P.Q. (BNA) 524, 528 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237, 140 U.S.P.Q. (BNA) 528, 530 (1964). (These two cases, both decided on the same day with majority opinions written by Justice Black, held that federal patent law preempts state laws that prohibit copying unpatented or uncopyrighted articles.)

43 *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 142-43, 9 U.S.P.Q.2d (BNA) 1847, 1849 (1989) (citation omitted).

44 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 cmt. e (1993).

45 Cf. David S. Welkowitz, *Preemption, Extraterritoriality, and the Problem of State Antidilution Laws*, 67 TUL.L.REV. 1, 11 (1992).

46 248 U.S. 215 (1918). *International News Service (INS) copied information from Associated Press (AP) news dispatches from eastern newspapers.* Id. at 238. International News then provided these stories, sometimes verbatim, mostly to clients in the west. Id. The majority and minority opinions in *International News* diverge sharply in their recounting of the facts. The majority opinion reports AP employees taking bribes to phone or telegraph reports to INS clients on the west coast, inducing AP employees into giving preliminary reports and advance issues to INS reporters, and purchase of AP affiliated papers, reading of posted news articles on bulletin boards and use of the news therein. Id. at 231. Curiously, the minority opinions discuss the purchase of AP affiliated papers and use of the bulletin boards. Id. at 253.

47 Id. at 235-36. The Court indicated that waiver of copyright protection would not preclude a cause of action for unfair competition when rights between direct competitors concerning the facilities and processes of publication were concerned. Id. at 236.

48 Id. at 234. It was uncontested in the case that the stories were uncopyrighted. Id. at 233.

49 Id. at 236-37.

50 Justices Holmes and Brandeis dissented separately, while Justice McKenna concurred with Holmes' dissent.

51 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 38 (1993).

52 865 S.W.2d 214, 217 (Tex. App.—Waco 1993, writ denied) (establishing liability for copying and selling uncopyrighted tapes of animal sounds in their natural habitats).

53 McCoy, *supra* note 39, at 180.

54 499 U.S. 340, 18 U.S.P.Q.2d (BNA) 1275 (1991) (holding that a telephone directory containing an alphabetical listing of names, addresses, and telephone numbers was not protected under federal copyright laws).

55 *Id.* at 364, 18 U.S.P.Q.2d at 1285; McCoy, *supra* note 39, at 178.

56 McCoy, *supra* note 39, at 179. McCoy also notes that new technologies will most likely increase the ability to interject creativity and expression into tomorrow's databases. *Id.*

57 See UNIF. TRADE SECRETS ACT § 1(4) (1985) (Definition of a trade secret requires that a trade secret “derive independent economic value ... from not being generally known ... or ... readily ascertainable.”).

58 Pamela Samuelson et al., A Manifesto Concerning the Legal Protection of Computer Programs, 94 COLUM.L.REV. 2308, 2423-24 (1994).

59 See *id.* at 2424.

60 McCoy, *supra* note 39, at 180.

61 See Samuelson, *supra* note 58, at 2423.

62 Cf. L. Ray Patterson & Craig Joyce, Monopolizing the Law: The Scope of Copyright Protection for Law Reports and Statutory Compilations, 36 UCLA L. REV. 719, 779-80 (1989).

63 314 S.W.2d 763, 776, 117 U.S.P.Q. (BNA) 44, 53 (Tex.), cert. denied, 358 U.S. 898 (1958). See also *Brown v. Fowler*, 316 S.W.2d 111, 114 (Tex. Civ. App.—Fort Worth 1958, writ ref'd n.r.e.); *Gonzales v. Zamora*, 791 S.W.2d 258, 263 (Tex. App.—Corpus Christi 1990, no writ); *American Precision Vibrator Co. v. National Air Vibrator Co.*, 764 S.W.2d 274, 276, 10 U.S.P.Q.2d (BNA) 1129, 1130 (Tex. App.—Houston [1st Dist.] 1988); *BPI Sys., Inc., v. Leith*, 532 F.Supp. 208, 211 (W.D. Tex. 1981); *Furr's Inc. v. United Specialty Advertising Co.*, 385 S.W.2d 456, 459, 144 U.S.P.Q. (BNA) 513, 515 (Tex. Civ. App.—El Paso 1964, writ ref'd n.r.e.).

64 RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939). This section reads, in pertinent part:
A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.
Id. Comment b goes on to distinguish trade secrets from secret business information whose value is short-lived, like sealed bids, and adds that the trade secrets must be in “continuous use in the operation of the business.” *Id.*

65 UNIF. TRADE SECRETS ACT § 1 (1985).

66 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. b (1993).

67 UNIF. TRADE SECRETS ACT § 1(4) (1985).

68 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1993) (“A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”).

69 Compare RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (stating that trade secrets require continuous use in the operation or business rather than a “single or ephemeral” use) with RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1993) (rejecting the requirement that trade secrets provide “continuous or long-term advantage”) and UNIF. TRADE SECRETS ACT § 1 (1985).

70 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1995) (“[A] use requirement ... imposes unjustified limitations on the scope of trade secret protection. ... The requirement ... places in doubt protection for so-called ‘negative’ information that teaches conduct to be avoided, such as knowledge that a particular process or technique is unsuitable for commercial use.”).

71 *Id.*

72 *Hurst v. Hughes Tool Co.*, 634 F.2d 895, 209 U.S.P.Q. (BNA) 284 (5th Cir.), cert. denied, 454 U.S. 829 (1981). In this case, Hurst voluntarily released an embodiment of his invention, a hardened boronized oil well drilling cone, after Hurst made remarks concerning “sharing of royalty of some sort.” *Id.* at 898, 209 U.S.P.Q. at 287. Although Hughes refused Hurst’s data, Hughes’ Director of Research set up a sub-program concerning the cone. *Id.* at 899, 209 U.S.P.Q. at 287. Using the cone, the Research group was able to improve on the process and received at least one patent that used the Hurst’s cone information as “what not to do.” *Id.*, 209 U.S.P.Q. at 288. The court denied protection for the disclosed information, stating that no breach of confidentiality occurred. In addition, the court noted the information was not used and the value of the information unwittingly passed by the inventor encompassed what “not to do.” *Id.* Assuming confidentiality, the UTSA and the RESTATEMENT (THIRD) OF UNFAIR COMPETITION protects both of these situations. See *supra* text accompanying notes 68-71. See also *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1202-03, 229 U.S.P.Q. (BNA) 945, 950 (5th Cir.1986).

73 *Hurst*, 634 F.2d at 899, 209 U.S.P.Q. at 288 (emphasis added).

74 See, e.g., *Metallurgical Indus.*, 790 F.2d at 1202-03, 229 U.S.P.Q. at 950 (declaring *Hurst* to be misinterpreted to mean that negative know-how cannot constitute a trade secret).

75 *Id.*

76 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1993) (“The [use] requirement can deny protection during periods of research and development and is particularly burdensome for innovators who do not possess the capability to exploit their innovations.”). The reporters propose that use be evidence of a secret’s value, but not a requirement to gain protection. *Id.*

77 See *American Precision Vibrator*, 764 S.W.2d at 276, 10 U.S.P.Q.2d at 1129-30; *Collins v. Ryon’s Saddle & Ranch Supplies, Inc.*, 576 S.W.2d 914, 915 (Tex. Civ. App.—Fort Worth 1979, no writ); *Numed, Inc. v. McNutt*, 724 S.W.2d 432, 435 (Tex. App.—Fort Worth 1987, no writ).

78 Taco Cabana, 932 F.2d at 1123, 19 U.S.P.Q.2d at 1261; American Precision Vibrator, 764 S.W.2d at 278, 10 U.S.P.Q.2d at 1131.

79 Schalk v. State, 823 S.W.2d 633, 640, 21 U.S.P.Q.2d (BNA) 1838, 1843 (Tex. Crim. App. 1991), cert. denied, 503 U.S. 1006 (1992); BPI Sys., 532 F.Supp. at 211.

80 Schalk, 823 S.W.2d at 635, 21 U.S.P.Q.2d at 1839.

81 E.I. duPont de Nemours & Co. v. Christopher, 431 F.2d 1012, 1015, 166 U.S.P.Q. (BNA) 421, 424 (5th Cir.1970), cert. denied, 400 U.S. 1024, 168 U.S.P.Q. (BNA) 385 (1971).

82 K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv., 314 S.W.2d 782, 790, 117 U.S.P.Q. (BNA) 54, 59 (Tex.), cert. denied, 358 U.S. 898, 119 U.S.P.Q. (BNA) 501 (1958).

83 Gonzales, 791 S.W.2d at 265-66.

84 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. d (1993).

85 Id.

86 Id. § 39 cmt. e.

87 See Metallurgical Indus., 790 F.2d at 1201, 229 U.S.P.Q. at 949. See also BPI Sys., 532 F.Supp. at 210; American Precision Vibrator, 764 S.W.2d at 276, 10 U.S.P.Q.2d at 1130; Taco Cabana, 932 F.2d at 1123, 19 U.S.P.Q.2d at 1261; U.S. Sporting Prods., 865 S.W.2d at 219.

88 Hyde Corp., 314 S.W.2d at 776 (on motion for rehearing).

89 See Brown, 316 S.W.2d at 114.

90 Id. at 112.

91 Id. at 115.

92 Id. at 114.

93 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. e (1995), see supra text accompanying note 70.

94 Id. § 39 cmt. f.
To qualify as a trade secret, the information must be secret. The secrecy, however, need not be absolute. The rule stated in this Section requires only secrecy sufficient to confer an actual or potential economic advantage on one who possesses the information. Thus, the requirement of secrecy is satisfied if it would be difficult or costly for others who could exploit the information to acquire it without resort to the wrongful conduct proscribed under § 40.
Id.

95 See *Compco*, 376 U.S. at 237, 140 U.S.P.Q. at 530; *Sears*, 376 U.S. at 232-33, 140 U.S.P.Q. at 528.

96 385 S.W.2d 456, 144 U.S.P.Q. (BNA) 513 (Tex. Civ. App.—El Paso 1964, writ ref’d n.r.e.).

97 *Id.* at 460, 144 U.S.P.Q. at 515.

98 *Id.* at 459, 144 U.S.P.Q. at 515.

99 823 S.W.2d 633, 21 U.S.P.Q.2d (BNA) 1838 (Tex. Crim. App. 1991), cert. denied, 503 U.S. 1006 (1992).

100 *Id.* at 640, 21 U.S.P.Q.2d at 1843.

101 See, e.g., *Hyde Corp.*, 314 S.W.2d at 768, 117 U.S.P.Q. at 48. See also *Brown*, 316 S.W.2d at 115 (upholding a judgment for royalties and an injunction for misappropriation of a trade secret where information was obtained during license negotiations and subsequent manufacture under license of a pedal actuated merry-go-round device for which patent was denied).

102 See *Taco Cabana*, 932 F.2d at 1124, 19 U.S.P.Q.2d at 1261-62.

103 *Id.* at 1123, 19 U.S.P.Q.2d at 1260.

104 *Id.* at 1124, 19 U.S.P.Q.2d at 1261-62.

105 See *Wissman v. Boucher*, 240 S.W.2d 278, 279 (Tex. 1951, reh’g denied); *Hallmark Personnel of Texas, Inc. v. Franks*, 562 S.W.2d 933, 936 (Tex. Civ. App.—Houston [1 Dist.] 1978, no writ); *Gonzales*, 791 S.W.2d at 264; *U.S. Sporting Prods.*, 865 S.W.2d at 218.

106 UNIF. TRADE SECRETS ACT § 1(4) (ii) (1985).

107 *Taco Cabana*, 932 F.2d at 1124, 19 U.S.P.Q.2d at 1261-62.

108 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. g (1993).

109 *Schalk*, 823 S.W.2d at 637, 21 U.S.P.Q.2d at 1841. A detailed analysis of the secrecy measures taken and the interrelationship with the limited disclosures was made by the court. *Id.* at 638-42, 21 U.S.P.Q.2d at 1842-46. The measures included nondisclosure agreements upon hiring and termination, plant security including closed-circuit television monitors, physical separation and further restricted access to the speech lab, night-time security checks to make sure data was not left on desks or tabletop, restricted computer access including locked directories, etc. *Id.* The case was complicated by the fact that Texas Instruments also chose to participate in programs which involved sharing information with schools and government institutions and at trade meetings, thus showing leadership in the field. *Id.* at 640, 21 U.S.P.Q.2d at 1843.

110 See generally Richard E. Wiley, *The Media and the Communications Revolution: An Overview of the Regulatory Framework and Developing Trends*, at 469 (PLI Patents, Copyrights, Trademarks and Literary Property Course Handbook Series No. G4-3868, 1991).

111 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 cmt. f (1993) (“Information that is generally known or readily

ascertainable through proper means (see § 43) by others to whom it has potential value is not protectable as a trade secret.”).

112 Id.

113 See, e.g., Gonzales, 791 S.W.2d at 264.

114 RESTATEMENT (FIRST) OF TORTS § 757 cmt. a (1939).

115 Hurst, 634 F.2d at 896, 209 U.S.P.Q. at 285 (emphasis added).

116 Hyde Corp., 314 S.W.2d at 769, 117 U.S.P.Q. at 48-49.

117 Id. at 769, 117 U.S.P.Q. at 49 (emphasis added) (quoting section 757 of the RESTATEMENT (FIRST) OF TORTS). The Hyde Corporation licensed technology from Huffines for a mechanism to compact garbage and enable trucks to carry larger loads. Id. at 766-67, 117 U.S.P.Q. at 46-47. Hyde obtained information needed to manufacture them during and after negotiations of the license agreement. Id. at 768, 117 U.S.P.Q. at 48. After the second year of operation, Hyde canceled the agreement according to the license terms. Id. at 767-68, 117 U.S.P.Q. at 47-48. However, it continued manufacturing the device. Hyde asserted that the knowledge was not gained through fraud, deceit, or any inequitable practice and therefore, it could not be enjoined from manufacturing the mechanism. Id. at 768, 117 U.S.P.Q. at 48.

118 Id. at 768-69, 117 U.S.P.Q. at 48-49.

119 UNIF. TRADE SECRETS ACT § 1(2)(i) (1985). The UTSA defines “misappropriation” as:

(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or

(ii) disclosure or use of a trade secret of another without express or implied consent by a person who

(A) used improper means to acquire knowledge of the trade secret; or

(B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was

(I) derived from or through a person who had utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

(C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

120 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. b (1993) (“A defendant’s willingness to resort to improper means in order to acquire a trade secret is itself evidence of a substantial risk of subsequent use or disclosure. Subsection (a) of this Section follows the rule adopted in § 1(2)(i) of the Uniform Trade Secrets Act, which imposes liability for the acquisition of a trade secret by improper means.”).

121 Id. § 40 cmt. a.

122 See RESTATEMENT (FIRST) OF TORTS § 757 cmt. f. (1939) (“A complete catalog of improper means is not possible.”) and RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. c (1993). According to note c:

It is not possible to formulate a comprehensive list of the conduct that constitutes “improper” means of acquiring a trade secret. ... The propriety of the acquisition must be evaluated in light of all the circumstances of the case, including whether the means of acquisition are inconsistent with accepted principles of public policy and the extent to which the acquisition was facilitated by the trade secret owner’s failure to take reasonable precautions against discovery of the secret by the means in question.

RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. c (1993).

123 RESTATEMENT (FIRST) OF TORTS § 757 cmt. f. (1939).

124 Id.

125 431 F.2d 1012, 166 U.S.P.Q. (BNA) 421, (5th Cir.1970), cert. denied, 400 U.S. 1024, 168 U.S.P.Q. (BNA) 385 (1971).

126 Id. at 1013, 166 U.S.P.Q. at 422.

127 Id.

128 Id. at 1014, 166 U.S.P.Q. at 422-23.

129 Id. at 1016, 166 U.S.P.Q. at 424.

130 Id. at 1014-15, 166 U.S.P.Q. at 423 (discussing Hyde, 314 S.W.2d 763, 117 U.S.P.Q. (BNA) 44 (Tex. 1958) and Furr's, 338 S.W.2d 762 (Tex. Civ. App.—El Paso 1960, writ ref'd n.r.e.)).

131 See id. at 1015, 166 U.S.P.Q. at 423.

132 Id.

133 Id.

134 Id. at 1015, 166 U.S.P.Q. at 423-24.
The means by which the discovery is made may be obvious, and the experimentation leading from known factors to presently unknown results may be simple and lying in the public domain. But these facts do not destroy the value of the discovery and will not advantage a competitor who by unfair means obtains the knowledge without paying the price expended by the discoverer. Id. (quoting Brown, 316 S.W.2d at 114).

135 Id. at 1016, 166 U.S.P.Q. at 424.

136 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 (1993) (“One is subject to liability for the appropriation of another’s trade secret if ... the actor acquires by means that are improper under the rule stated in § 43 information that the actor knows or has reason to know is the other’s trade secret....”).

137 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40(b)(2)-(3) (1993).

138 Id. § 40 cmt. d.

139 790 F.2d 1195, 229 U.S.P.Q. (BNA) 945 (5th Cir.1986).

140 Id. at 1198, 229 U.S.P.Q. at 946.

141 Id.

142 Id.

143 Id. at 1204, 229 U.S.P.Q. at 951.

144 Id.

145 Id. at 1203, 229 U.S.P.Q. at 950. However, before this ruling, a shortage of salvageable material for use by the furnaces resulted in their not being put into commercial operation. Id. at 1198, 229 U.S.P.Q. at 946.

146 Id. at 1205, 229 U.S.P.Q. at 952. See also *Gonzales v. Zamora*, 791 S.W.2d 258 (Tex. App.—Corpus Christi 1990, no writ).

147 See *Kewanee*, 416 U.S. at 475, 181 U.S.P.Q. at 676.

148 *Hyde Corp.*, 314 S.W.2d at 770, 117 U.S.P.Q. at 49.

149 See *Kewanee*, 416 U.S. at 475, 181 U.S.P.Q. at 676.

150 See *Furr's*, 385 S.W.2d at 459, 144 U.S.P.Q. at 514-15 (“The owner of the secret must do something to protect himself. He will lose his secret by its disclosure unless it is done in some manner by which he creates a duty and places it on the other party not to further disclose or use it in violation of that duty.”).

151 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. e (1993). Comment e explains:
An accidental or mistaken disclosure of the trade secret to the actor ... may result from a mistake by the owner of the trade secret, the actor, or a third person. If the disclosure to the actor is not the result of the owner’s failure to take reasonable precautions to protect the trade secret, an actor who knows or has reason to know that the information is a trade secret that has been disclosed to the actor through an accident or mistake is subject to liability for subsequent use or disclosure.
Id.

152 385 S.W.2d at 459-60, 144 U.S.P.Q. at 514-15.

153 634 F.2d at 898, 209 U.S.P.Q. at 286.

154 *Furr's*, 385 S.W.2d at 460, 144 U.S.P.Q. at 515.

155 Id.; For examples of accidental disclosure see RESTATEMENT (FIRST) OF TORTS § 758 (1939) and RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. e (1993).

156 Id., 144 U.S.P.Q. at 515.

157 Id. at 459-60, 144 U.S.P.Q. at 514-15.

158 Hurst, 634 F.2d at 898, 209 U.S.P.Q. at 286.

159 Id.

160 Id., 209 U.S.P.Q. at 287.

161 Id.

162 Id.

163 Id. at 899, 209 U.S.P.Q. at 287.

164 Id. at 898-99, 209 U.S.P.Q. at 287-88.

165 Id. at 899, 209 U.S.P.Q. at 288.

166 See id. at 897-98, 209 U.S.P.Q. at 286-87. The court noted the thorough and workmanlike manner in which Hurst conducted his fifteen to twenty thousand dollar experiment. Hurst, 634 F.2d at 897, 209 U.S.P.Q. at 286. Yet, despite Hurst's expressed desire to work with Hughes on a royalty basis, the court found "no record evidence" to support a breach of confidentiality as the expression was made following surrender of the cone. Id. at 899, 209 U.S.P.Q. at 288. The result illustrates lack of precautions taken by an owner to protect potentially valuable information. However, Hughes was most likely aware of the investment made by Hurst and that their exploitation of his work product potentially conflicted with the RESTATEMENT (THIRD) OF UNFAIR COMPETITION'S "knows or should know" standard for creation of a duty of confidence as seen in § 40(b)(1).

167 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. e (1993).

168 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 40 cmt. a (1993) ("Except as otherwise noted, the rules governing trade secrets as stated in this Restatement are also intended to be consistent with and applicable to actions under the Uniform Trade Secrets Act.").

169 UNIF. TRADE SECRETS ACT § 6 (1985).

170 First Nat'l Bank v. Levine, 721 S.W.2d 287, 289 (Tex. 1986).

171 Computer Assocs., No. 94-0433, 1996 WL 112172, at *2 (declining to apply a discovery rule to misappropriation claims in response to a certified question from the Second Circuit).

172 Id. at *4.

173 Id. at *5. Cf. Gale R. Peterson, Trade Secrets in an Information Age, 32 HOUS.L.REV. 385, 386 (1995) (noting the trade secret laws provide the most effective protection for the computer field as it is inherently broader, potentially unlimited in duration, and does not impose government action).

174 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b (1993). However, the expressed "know or should have known" standard coupled with reasonable inferences of consent to confidentiality as the basis of liability might be subject to more

liberal interpretation.

175 Compare Hyde Corp., 314 S.W.2d at 770, 117 U.S.P.Q. at 49 (noting that express agreements of confidentiality are not required) with RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 (1993) (recognizing confidentiality based upon express promise or disclosure under circumstances where intention of confidentiality and inference of consent to the obligation of confidentiality are reasonable).

176 See Hurst, 634 F.2d at 898, 209 U.S.P.Q. at 286; Furr's, 385 S.W.2d at 459-60, 144 U.S.P.Q. at 515.

177 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. d (1993) (describing contractual protection of trade secrets).

178 Hyde Corp., 314 S.W.2d at 777, 117 U.S.P.Q. at 468.

179 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b (1993).

180 Id.

181 314 S.W.2d at 770, 117 U.S.P.Q. at 49. This exclusive license included manufacturing, use and sales in the United States and any foreign country for the new garbage compacting mechanism. Id. at 767, 117 U.S.P.Q. at 47. It was automatically annually renewed and cancelable with sixty days notice to licensee. Id. at 768, 117 U.S.P.Q. at 47. After the second year of operation, the Hyde Corporation canceled the agreement per the license terms, but continued manufacturing the device. Id., 117 U.S.P.Q. at 48.

182 Id. at 766, 117 U.S.P.Q. at 46.

183 Id. at 768, 117 U.S.P.Q. at 48.

184 Id.

185 Id. at 769, 117 U.S.P.Q. at 48.

186 Id. at 769-70, 117 U.S.P.Q. at 49 (quoting the RESTATEMENT (FIRST) OF TORTS § 757 cmt. j (1939)) (citations omitted).

187 Id. at 777, 117 U.S.P.Q. at 467. See also Metallurgical Indus. Inc. v. Fourtek, Inc., 790 F.2d 1195 (5th Cir.1986) (upholding a jury finding of confidentiality between owner and contractor as reasonable, based on testimony of the plaintiff's president that he informed a defendant "of the confidentiality Metallurgical expected."). However, it should be noted that additional evidence of the confidential relationship was held improperly excluded by the Court of Appeals. Metallurgical Indus. at 1207.

188 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. b, Reporters' Note (1993) (emphasis added).

189 Hurst, 634 F.2d at 896, 209 U.S.P.Q. at 285.

190 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. c (1993). Some courts have recognized liability in tort for the unauthorized disclosure of confidential business information found to be ineligible for protection as a trade secret. In some cases the claim is designated as one for "breach of confidence," while in others it is described as one for "unfair competition." Many of these cases rest on a narrow definition of "trade secret" that excludes

non-technical information such as customer identities or information that is not subject to continuous, long-term use. Such information is now subsumed under the broader definition of “trade secret” adopted in § 39.
Id.

191 See Hyde Corp., 314 S.W.2d at 777, 117 U.S.P.Q. at 467 (“[I]t matters not whether the suit be designated as a ‘trade secret’ case or as a suit for breach of confidence.”).

192 Synercom Technology, Inc. v. Universal Computing Co., 474 F.Supp. 37, 44, 204 U.S.P.Q.2d (BNA) 29, 37 (N.D. Tex. 1979) (emphasis added).

193 240 S.W.2d 278 (Tex. 1951).

194 Id. at 279.

195 Id.

196 Id. at 279-80.

197 Id. at 280.

198 Id. at 280-81.

199 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. a (1993). See also RESTATEMENT (SECOND) OF AGENCY §§ 387-398 (1957); RESTATEMENT (SECOND) OF CONTRACTS § 186 (1979).

200 RESTATEMENT (SECOND) OF AGENCY § 387 (1957). Section 387 states the general principle and encompasses applications found in sections 388-398.

201 RESTATEMENT (SECOND) OF AGENCY § 393 (1957).

202 Id. § 395.

203 Id. § 396(a).

204 Id. § 396(b). See also American Precision Vibrator Co. v. National Air Vibrator Co., 764 S.W.2d 274, 278, 10 U.S.P.Q.2d (BNA) 1129, 1131 (Tex. App.—Houston [1st Dist.] 1989, no writ) (indicating, in dicta, that former employees’ knowledge of industry could have been used to develop sales contacts, but instead a misappropriated customer list was used).

205 RESTATEMENT (SECOND) OF AGENCY § 396 cmt. d (1957).

206 See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. b (1993) (contrasting employees’ duties to employers during and after the employer-employee relationship).

207 Id.

208 Id.

209 Compare RESTATEMENT (SECOND) OF AGENCY § 396 (1957) (charging former employees with the duty not to injure principal by use or disclosure of “trade secrets, written lists of names or other similar confidential matters” unless otherwise agreed) with RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 (1993) (restricting former employees’ duty to use or disclose trade secrets).

210 Numed Inc. v. McNutt, 724 S.W.2d 432, 434 (Tex. App.—Fort Worth 1987, no writ). See also Wissman, 240 S.W.2d at 279 (holding that “[m]atters of general knowledge in an industry cannot be appropriated by one as trade secret”); Hallmark Personnel, Inc. v. Franks, 562 S.W.2d 933, 936 (Tex. Civ. App.—Houston [1st Dist.] 1978, no writ) (finding that information claimed as a trade secret could be developed by any experienced employment counselor); Welex Jet Servs., Inc. v. Owen, 325 S.W.2d 856, 858, 122 U.S.P.Q. (BNA) 300, 301 (Tex. Civ. App.—Fort Worth 1959, writ ref’d n.r.e.) (noting that an employee is not obligated to refrain from using his inventive powers even if his expertise was “gained in the performance of his contractual duties”).

211 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1993) (“Information that forms the general skill, knowledge, training, and experience of an employee cannot be claimed as a trade secret by a former employer even when the information is directly attributable to an investment of resources by the employer in the employee.”).

212 Reading & Bates Constr. Co. v. O’Donnell, 627 S.W.2d 239, 242 (Tex. App.—Corpus Christi 1982, writ ref’d, n.r.e.). See also Weed Eater, Inc. v. Dowling, 562 S.W.2d 898, 203 U.S.P.Q. (BNA) 635 (Tex. Civ. App.—Houston [1st Dist.] 1978, writ ref’d, n.r.e.) (upholding and expanding an injunction to prevent former employee from competing with previous employer). Note that in Reading no expressed noncompetition or nondisclosure agreements existed, whereas in Weed Eater express agreements were signed following company takeover. See Reading, 627 S.W.2d at 239; Weed Eater, 562 S.W.2d at 900.

213 See generally Weed Eater, 562 S.W.2d at 898, 203 U.S.P.Q. at 635. See also Elcor Chem. Corp. v. Agri-Sul, Inc., 494 S.W.2d 204 (Tex. Civ. App.—Dallas 1973, writ ref’d n.r.e.) (upholding prohibition against former employees from using personally any innovation to a process as the company owned all rights in inventions made during employment).

214 526 S.W.2d 163 (Tex. Civ. App.—Dallas 1975, no writ).

215 Id. at 166. The stricken paragraph prohibited the defendants from engaging [i]n any business endeavor of whatsoever nature which has among its purposes and/or endeavors the selling, counseling, advising, teaching, soliciting or dissemination of information concerning speedreading, accelerated learning or any topic related thereto, within any State of the United States of America in which American Speedreading Academy, Inc. has licensees or schools that are in existence at this time, or that are in the process of being set up at this time....

Id.

216 Id. The trial court listed twenty-four states that fell under the restriction.

217 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 Reporter’s Note, cmt. d (1993). The RESTATEMENT suggests factors including: (1) whether or not the information is general to a trade or peculiar to the former employer; (2) whether the employees derive the knowledge needed to make the former employers products from their employment or from their general knowledge of the arts of manufacturing; and (3) whether the former employees could proceed as they did without the knowledge gained in their former employment. Id.

218 562 S.W.2d 898, 902, 203 U.S.P.Q. (BNA) 635, 637 (Tex. Civ. App.—Houston [1st Dist.] 1978, writ ref’d, n.r.e.). The appellate court’s analysis did not differentiate between general manufacturing knowledge that is generally known to a trade, versus knowledge peculiar to the former employer. Id. However, the court did look at how the former employee’s knowledge would affect the competitor’s relative position in the flexible line trimmer business. Id.

219 Mark B. Baker & Andre J. Brunel, Restructuring the Judicial Evaluation of Employed Inventors' Rights, 35 ST. LOUIS U. L.J. 399, 404 (1991).

220 Weed Eater, 562 S.W.2d at 900, 203 U.S.P.Q. at 635-36.

221 Id., 203 U.S.P.Q. at 636 (emphasis added).

222 Id. at 902, 203 U.S.P.Q. at 637.

223 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. d (1993) (“If the information is so closely integrated with the employee’s overall employment experience that protection would deprive the employee of the ability to obtain employment commensurate with the employee’s general qualifications, it will not ordinarily be protected as a trade secret of the former employer.”).

224 As comment d to section 41 of the RESTATEMENT (THIRD) OF UNFAIR COMPETITION provides:
[S]ince such agreements can reduce or eliminate potential competition, they are subject to the traditional rules governing contracts in restraint of trade and are accordingly enforceable only when ancillary to a valid transaction and otherwise reasonable. As a general matter, a restraint is unreasonable if it is greater than necessary to protect the legitimate interests of the promisee or if the promisee’s interest in protection is outweighed by the likely harm to the promisor or the public.
RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 41 cmt. d (1993) (citations omitted).

225 Weed Eater, 562 S.W.2d at 902, 203 U.S.P.Q. at 637.

226 Id.

227 Id.

228 RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939) (“[A trade secret may] relate to ... a list of specialized customers....”).

229 RESTATEMENT (SECOND) OF AGENCY § 396(b) (1957).

230 According to comment f to section 42 of the RESTATEMENT (THIRD) OF UNFAIR COMPETITION:
A customer list is not protectable as a trade secret ... unless it is sufficiently valuable and secret to afford an economic advantage.... [A] written list or ... an attempt to memorize customer information prior to terminating the employment may justify an inference that the information is valuable and not readily ascertainable by proper means.
RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. f (1993).

231 Allan J. Richardson & Assoc. v. Andrews, 718 S.W.2d 833, 837 (Tex. App.—Houston [14th Dist.] 1986, no writ).
It is obvious from the conditional language in the definition ‘[A trade secret] may be ... a list of customers,’ that trade secret status does not automatically attach to a client list. To be accorded the court’s protection the proprietary information must be more than merely of a kind and character encompassed by the definition. It must be information that is not publicly available or readily ascertainable by independent investigation.
Id.

232 Hyde Corp., 314 S.W.2d at 776, 117 U.S.P.Q. at 467 (listing customer lists as an example of a potential trade secret); Collins, 576 S.W.2d at 915 (finding a customer list made by the defendant a trade secret); American Precision Vibrator, 764 S.W.2d at 277-78, 10 U.S.P.Q.2d at 1131 (holding customer cards taken a trade secret even though accessible by proper means); Numed, 724 S.W.2d at 435; Hallmark Personnel, 562 S.W.2d at 935 (finding that a stolen notebook did not have the customer list in it, yet the list was

found to be accessible); Reading, 627 S.W.2d at 243 (recognizing an exception to trade secret status that exists for general knowledge within a trade that was secret at the time it was acquired).

233 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 42 cmt. f (1993).
The public and private interests that are implicated in the protection of customer information are best accommodated through application of the traditional rules governing trade secrets, covenants not to compete, and the duty of loyalty owed to an employer by a current employee.... If the customer list or related information does not qualify for protection as a trade secret, the former employer should ordinarily be limited to the protection available through a reasonable covenant not to compete.
Id.

234 Gonzales, 791 S.W.2d at 265 (“Protection is available even in the absence of an express agreement not to disclose materials; when a confidential relationship exists, the law will imply an agreement not to disclose trade secrets.”).

235 See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 Reporters’ Note (1993).

236 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 (1993) (“Independent discovery and analysis of publicly available products or information are not improper means of acquisition.”).

237 See *Bonito Boats*, 489 U.S. at 157, 9 U.S.P.Q.2d at 1854; but cf. *Goldstein v. California*, 412 U.S. 546, 571, 178 U.S.P.Q. (BNA) (1973) (the Supreme Court held that a California statute protecting sound recordings fixed prior to February 15, 1972, was not preempted).

238 See *Sears*, 376 U.S. at 232, 140 U.S.P.Q. at 528; *Compco*, 376 U.S. at 237-38, 140 U.S.P.Q. at 530. Both of these cases are examples of reverse engineering being sanctioned by the Supreme Court. Both involved the copying of a product that was available to the public in which the copies were good enough to cause confusion as to the source of manufacturer. In *Compco*, the court stated:
Today we have held in *Sears, Roebuck & Co. v. Stiffel Co.*, supra, that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Art. I, § 8, cl. 8, of the Constitution and in the implementing federal statutes, of allowing free access to copy whatever the federal patent and copyright laws leave in the public domain.
Compco, 376 U.S. at 237, 140 U.S.P.Q. at 520.

239 *Wissman v. Boucher*, 240 S.W.2d 278 (1951). See also *Kewanee*, 416 U.S. at 476, 181 U.S.P.Q. at 676 (supporting independent discovery, reverse engineering and accidental disclosure as possible proper ways of obtaining a trade secret); *Phillips v. Frey*, 20 F.3d 623, 629, 30 U.S.P.Q.2d (BNA) 1755, 1759 (5th Cir.1994) (supporting independent discovery, accidental disclosure, or reverse engineering as proper means unless unauthorized by either express or implied restriction of nondisclosure or otherwise improper acquisition of knowledge).

240 *Wissman*, 240 S.W.2d at 279.

241 Id. at 280.

242 431 F.2d 1012, 166 U.S.P.Q. (BNA) 421 (5th Cir.1970), cert. denied, 400 U.S. 1024, 168 U.S.P.Q. (BNA) 385 (1971). See RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. b, illus. 2 (1993).

243 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. b, illus. 2 (1993).

244 Id.

245 E.I. duPont, 431 F.2d at 1016-17, 166 U.S.P.Q. at 424-25.

246 Id. at 1016, 166 U.S.P.Q. at 424-25.

247 Both involved secrets that were reproducible upon inspection, but the duPont information was held to be protectable whereas Wissman's was not. See E.I. duPont, 431 F.2d at 1013-14, 166 U.S.P.Q. at 422; Wissman, 240 S.W.2d at 280.

248 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. d (1993).

249 Id.
Information that is readily ascertainable by proper means is not protectable as a trade secret and the acquisition of such information even by improper means is therefore not actionable.... In some circumstances the actor's decision to employ improper means of acquisition is itself evidence that the information is not readily ascertainable through proper means and is thus protectable as a trade secret. Because of the public interest in deterring the acquisition of information by improper means, doubts regarding the status of information as a trade secret are likely to be resolved in favor of protection when the means of acquisition are clearly improper.
Id. (citations omitted).

250 E.I. duPont, 431 F.2d at 1014, 166 U.S.P.Q. at 423.

251 Id. at 1016, 166 U.S.P.Q. at 424.

252 Wissman, 240 S.W.2d at 280.

253 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. c (1993).

254 Id. § 43 cmt. d.

255 E.I. duPont, 431 F.2d at 1016-17, 166 U.S.P.Q. at 424 (finding liability in a case illustrating relative inaccessibility and large investment in the "secret").
The market place must not deviate far from our mores. We should not require a person or corporation to take unreasonable precautions to prevent another from doing that which he ought not do in the first place. Reasonable precautions against predatory eyes we may require, but an impenetrable fortress is an unreasonable requirement, and we are not disposed to burden industrial inventors with such a duty in order to protect the fruits of their efforts. "Improper" will always be a word of many nuances, determined by time, place, and circumstances. We therefore need not proclaim a catalogue of commercial improprieties ... thou shall not appropriate a trade secret through deviousness under circumstances in which countervailing defenses are not reasonably available.
Id. at 1017. Compare with Wissman, 240 S.W.2d at 280 (finding no liability in a case representing public access and low investment in the "secret"). But see U.S. Sporting Prods., 865 S.W.2d at 216-17 (finding liability in a case illustrating input of labor, skill and money); Hurst, 634 F.2d at 897, 209 U.S.P.Q. at 286 (finding no liability in a case representing a fifteen to twenty-thousand dollar investment).

256 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 43 cmt. c (1993).

257 E.g., Hyde Corp. v. Huffines, 314 S.W.2d 763, 117 U.S.P.Q. (BNA) 44 (Tex.), cert. denied, 358 U.S. 898 (1958) (breach of confidentiality); U.S. Sporting Prods., Inc. v. Johnny Stewart Game Calls, Inc., 865 S.W.2d 214 (Tex. App.—Waco, 1993, writ denied) (misappropriation and copying of audio tapes in competition with plaintiff); Schalk v. State, 823 S.W.2d 633, 21 U.S.P.Q.2d (BNA) 1838 (Tex. Crim. App. 1991), cert. denied, 503 U.S. 1006 (1992) (larceny and tort case involving theft of copied computed files); Falcone v. State, 682 S.W.2d 418 (Tex. App.—Houston [1st Dist.] 1984, no writ) (larceny case that should

have involved theft of trade secrets); *Gonzales v. Zamora*, 791 S.W.2d 258 (Tex. App.—Corpus Christi 1990, no writ) (breach of confidence, conspiracy and use of misappropriated trade secrets in competition with former employer); *Elcor Chem. Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204 (Tex. Civ. App.—Dallas 1973, writ ref'd n.r.e.) (tort case involving breach of fiduciary relationship, misappropriation, conspiracy and use of trade secrets in competition with their former employer).

258 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. b (1993) (“In many trade secret cases, both injunction and monetary relief are appropriate: monetary relief to compensate the plaintiff for existing losses and injunctive relief to prevent future loss through further use or disclosure of the trade secret.”).

259 *Thermotics, Inc. v. Bat-Jac Tool Co.*, 541 S.W.2d 255, 260, 193 U.S.P.Q. (BNA) 249, 252 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ). See also *K & G Oil Tool*, 314 S.W.2d at 790, 117 U.S.P.Q. at 59 (“The protection of a trade secret [by injunction] is a well-recognized objective of equity....”).

260 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44(1) (1993) (“If appropriate . . . , injunctive relief may be awarded to prevent a continuing or threatened appropriation of another’s trade secret by one who is subject to liability....”) (emphasis added).

261 *Id.* Injunctive relief for trade secrets was governed by chapter 4 of the RESTATEMENT. The major factors to be weighed in the decision to grant an injunction are found in section 936 of the Restatement (First) of Torts; as shown below.

§ 936 FACTORS OF APPROPRIATENESS OF INJUNCTION

(1) The appropriateness of injunction against tort depends upon a comparative appraisal of all of the factors in the case, including the following primary factors:

- (a) the character of the interest to be protected (§ 937),
- (b) the relative adequacy to the plaintiff of injunction and of the remedies listed in §§ 944-951 (§ 938),
- (c) plaintiff’s delay in bringing suit (§ 939),
- (d) plaintiff’s misconduct (§ 940),
- (e) the relative hardship likely to result to defendant if injunction is granted and to plaintiff if it is denied (§ 941),
- (f) the interests of third persons and of the public (§ 942), and
- (g) the practicability of framing and enforcing the order or judgment (§ 943).

(2) The appropriateness of interlocutory injunction against tort depends upon a comparative appraisal of all of the factors in the case, including those listed in Subsection (1), as presented prior to final hearing, but with their respective weights adjusted in the light of the character of the emergency and of the probable ultimate adjudication of the merits.

RESTATEMENT (FIRST) OF TORTS § 936 (1939).

262 See *Hyde Corp.*, 314 S.W.2d at 773, 117 U.S.P.Q. at 59. The Texas Supreme Court addressed the problem as follows:
The injunction should ordinarily operate as a corrective rather than a punitive measure, but when, through inadequacies in the processes and methods of the law, a choice must be made between the possible punitive operation of the writ and the failure to provide adequate protection of a recognized legal right, the latter course seems indicated and the undoubted tendency of the law has been to recognize and enforce higher standards of commercial morality in the business world.
Hyde Corp. v. Huffines, 314 S.W.2d 763, 773 (1958). See also RESTATEMENT (THIRD) OF UNFAIR COMPETITION (Tentative Draft No. 4) p. xxiv (1993).

263 *Camp v. Shannon*, 348 S.W.2d 517, 519 (Tex. 1961) (“The applicant has, and in equity and good conscience ought to have, the burden of offering some evidence which, under applicable rules of law, establishes a probable right of recovery.... If he cannot or does not discharge his burden he is not entitled to extraordinary relief [a temporary injunction].”).

264 *Gonzales*, 791 S.W.2d at 267 (quoting *Morgan v. Morgan*, 657 S.W.2d 484, 494 (Tex. App.—Houston [1st Dist.] 1983, writ dismissed)).

265 TEX. R. CIV. P. ANN. Rule. 683 (West 1995) (“Every order granting an injunction and every restraining order shall set forth the reasons for its issuance; shall be specific in terms; shall describe in reasonable detail and not by reference to the complaint or other document, the act or acts sought to be restrained....”)

266 See *Hyde Corp.*, 314 S.W.2d at 773, 117 U.S.P.Q. at 51; *K & G Oil*, 314 S.W.2d at 782, 117 U.S.P.Q. at 59; *Furr’s*, 385 S.W.2d at

459, 144 U.S.P.Q. at 514; Metallurgical Indus., 790 F.2d at 1208.

267 See Hyde Corp., 314 S.W.2d at 773, 117 U.S.P.Q. at 51 (Walker, J., dissenting); Metallurgical Indus., 790 F.2d at 1208. Accord Elcor Chem., 494 S.W.2d at 212-14 (holding damage award in addition to injunctive appropriate but no evidence was on record to support award).

268 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. c (1993) (“Although it may sometimes be inequitable to prohibit the [innocent] defendant from continued use of the secret after notice, it may be appropriate to impose other remedies such as a injunction conditioning further use on the payment of a reasonable royalty.”).

269 Elcor Chem., 494 S.W.2d at 208. Although not “innocents,” as the employees deliberately withheld knowledge from their employer, a punitive perpetual injunction was granted where employees of a failing business developed in their garage an improved process for making fertilizer. These employees later created a new corporation and used the process after obtaining a legal opinion that there was “little chance for exposure.” Id. at 208.

270 See D. Kirk Jamieson, Just Deserts: A Model to Harmonize Trade Secret Injunctions, 72 NEB.L.REV. 515, 516-19 (1993).

271 Luccous v. J.C. Kinley Co., 376 S.W.2d 336, 338, 141 U.S.P.Q. (BNA) 78, 79 (Tex. 1964). In this case, secret information was learned under confidentiality provisions of a license agreement. Id. at 338, 141 U.S.P.Q. at 79. Later a patent was obtained covering the same material as the license expired. Id. Following expiration of the patent, the patent holder sued the defendant for subsequent use of the information. Id. The Texas Supreme Court noted that no trade secret exists following expiration of a patent covering the same material even though the information was originally learned under a licensing agreement. Id. at 340, 141 U.S.P.Q. at 81-82. The court dissolved the temporary injunction, noting that the lower court did not have the power to issue an injunction as no trade secret existed. Id.

272 Jamieson, supra note 270, at 530.

273 Id. at 530-35.

274 87 F.2d 104, 109-10 (7th Cir.1936), cert. denied, 301 U.S. 695 (1937).

275 Jamieson, supra note 270, at 532.

276 172 F.2d 150, 80 U.S.P.Q. (BNA) 108 (2d Cir.1949).

277 Id. at 156, 80 U.S.P.Q. at 113-14.

278 UNIF. TRADE SECRETS ACT § 2 cmt. (1985).

279 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. f (1993) (“Injunctions extending beyond [the period a defendant could have acquired the information by proper means] are justified only when necessary to deprive the defendant of a head start or other unjust advantage that is attributable to the appropriation.”).

280 Hyde Corp., 314 S.W.2d at 773, 117 U.S.P.Q. at 51. The Texas Supreme Court considered these viewpoints from several angles and then pronounced:

Undoubtedly if an injunction were lifted upon the issuance of a patent (which may or may not afford protection for all the trade secrets contained in the original application or amendments thereto), the licensee who had abused a confidence would thus obtain a

marketing advantage or head start as compared to the patentee or any manufacturer or processor licensed by him after the issuance of the patent. An award of damages for patent infringement might well prove inadequate to fully protect the one whose confidence had been violated.

Id.

281 Id. at 781, 117 U.S.P.Q. at 470. The Texas Supreme Court affirmed the Civil Appeals Court's permanent injunction though it raised the question of limited duration injunctions by stating, "[Petitioner] has not raised an alternative contention that an injunction, if issued, should be of limited duration, such as two or three years after the issuance of patent, rather than being perpetual in nature." Id. at 476, 117 U.S.P.Q. at 53. "The all-important question in this litigation is whether the injunction should extend beyond the date of the issuance of patent." Id. at 477, 117 U.S.P.Q. at 468.

282 Jamieson, *supra* note 270, at 517.

283 Id. at 542-44.

284 Gonzales, 791 S.W.2d at 267-68.

285 Jamieson, *supra* note 270, at 545-47.

286 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. f (1993).

287 Gonzales, 791 S.W.2d at 267-68.

288 Id.

289 Id.

290 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 44 cmt. d (1993).
[I]n some cases, although liability may be clear, the exact boundaries of the trade secret may be difficult to define.... [I]f the trade secret is an essential component of a larger process or product, other aspects of which are in the public domain, in some cases the only effective means of protecting the trade secret may be an injunction against the use of the process or manufacture of the product.

Id.

291 Weed Eater, 562 S.W.2d at 902, 203 U.S.P.Q. at 637 (prohibiting the defendant from working in any capacity related to power lawn tools and similar products). Cf. FMC Corp., 677 F.2d at 504-05, 217 U.S.P.Q. at 138-39.

292 Jeter v. Associated Rack Corp., 607 S.W.2d 272, 278 (Tex. Civ. App.—Texarkana 1980, writ *ref'd n.r.e.*), cert. denied, 454 U.S. 965 (1981); see also Keystone Life Ins. Co. v. Marketing Management, Inc., 687 S.W.2d 89, 92 (Tex. App.—Dallas 1985, no writ).

293 Molex, Inc. v. Nolen, 759 F.2d 474, 477 (5th Cir.1985) (quoting Parkem Indus. Servs., Inc. v. Garton, 619 S.W.2d 428, 430 (Tex. Civ. App.—Amarillo 1981, no writ)).

294 Comment a to section 45 of the RESTATEMENT (THIRD) OF UNFAIR COMPETITION suggests examining potentially relevant sections as follows: RESTATEMENT (SECOND) OF TORTS §§ 902, 903, 907, 908, 909, 912, 435A, and 435B and the RESTATEMENT OF RESTITUTION § 136 (1937).

295 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. d (1993) (discussing appropriate measures of monetary relief).

296 Id.

297 Id. § 45 cmt. c.

298 665 F.2d 731, 213 U.S.P.Q. (BNA) 983 (5th Cir.1982), cert. denied, 458 U.S. 1108 (1982).

299 Id. at 736, 213 U.S.P.Q. at 987. The Court noted that the jury charge could be technically construed to support a double recovery and that the contention was not wholly without merit. Id. However, the court reasoned that it was clear that the jury was not misled. Instead, it seems apparent that it followed a reasonable, layman's view of the instruction: that it should award to Mr. Sikes compensation for any actual losses suffered by him as a result of McGraw-Edison's breach of faith plus a reasonable amount as compensation for the unauthorized use of his device....
Coming, then, to the amount of the verdict, we do not find it "monstrous" or excessive at all. There was testimony that as of shortly before trial McGraw-Edison had sold 1,536,226 Graswhips. Dividing the \$900,000 award by this figure produces a hypothetical royalty of 59 cents per unit. There was, as we have noted, evidence that Mr. Sikes had proposed a 50-cent per unit royalty and received a reaction from McGraw-Edison that this was "about right." Expert testimony as to what a reasonable royalty would have been ranged from over a dollar per unit to ten cents. The jury verdict is well within that range.
Id. at 736-37, 213 U.S.P.Q. at 987-88.

300 Id.

301 Cf. Paul M. Janicke, Contemporary Issues in Patent Damages, 42 AM. U. L. REV. 691 (1993) (discussing the problems of estimating damages in a patent context).

302 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. b (1993) (appropriate monetary relief should be determined using a balancing test between the amount of loss to the plaintiff and the knowledge and intent of the defendant).

303 Id. § 45 cmt. d.

304 Id.

305 Id. § 45 cmt. e.

306 Id. § 45 cmt. d.

307 Id.

308 Id.

309 Id. § 45 cmt. g.

310 Taco Cabana Int'l, Inc. v. Two Pesos, Inc., 932 F.2d 1113, 19 U.S.P.Q.2d (BNA) 1253 (5th Cir.1991), aff'd 505 U.S. 763, 23

U.S.P.Q.2d (BNA) 1081 (1992). The appellant in *Taco Cabana* argued that “only diverted sales provide a proper measure of damages.” *Id.* at 1126, 19 U.S.P.Q.2d at 1263. The court disagreed. After addressing trade-dress remedies, the court noted that diverted sales was only one way to approach the problem, “[b]ecause we embrace the ‘headstart’ theory as the apt framework for monetary recovery, we need not pursue the issue of actual diverted sales.” *Id.* The court further noted that trade secret misappropriation usually embrace a form of royalty. *Id.* at 1128, 19 U.S.P.Q.2d at 1265.

311 *Thermotics, Inc. v. Bat-Jac Tool Co.*, 541 S.W.2d 255, 258-59, 193 U.S.P.Q. (BNA) 249, 251 (Tex. Civ. App.—Houston [1st Dist.] 1976, no writ). A soft market in oil and gas drilling equipment confused attempts to estimate plaintiff’s loss in sales. *Id.* After noting that only two of the twenty drilling jars with the misappropriated information had been rented and none were sold, the court found that plaintiff’s business dropped because a severe drop in drilling and the increased competition from the defendant. *Id.* See also *Taco Cabana*, 932 F.2d at 1126-27, 19 U.S.P.Q.2d at 1263-64. (employing multiple models to calculate damages including plaintiff’s losses, in franchise fees and continuing royalties, foreclosure from the market and in calculating defendant’s profits). In *Taco Cabana*, no point of error was raised on appeal with respect to overlap.

312 *Taco Cabana*, 932 F.2d at 1128, 19 U.S.P.Q.2d at 1265 (citing *Metallurgical Indus.*, 790 F.2d at 1208 (which held that reasonable royalty aptly defines damages)); *Sikes*, 665 F.2d at 737, 213 U.S.P.Q. at 988 (affirming damages award based on reasonable royalty).

313 *Metallurgical Indus.*, 790 F.2d at 1208 (stating that a reasonable royalty “does not mean a simple percentage of actual profits”). But cf. *Janicke*, supra note 301, at 718 (“Statistically, it is usually twenty five to thirty three percent of the profit earned by the defendant.”).

314 *Metallurgical Indus.*, 790 F.2d at 1208 (quoting *Vitro Corp. v. Hall Chem.*, 292 F.2d 678, 683 (6th Cir.1961)).

315 See *Hyde Corp.*, 314 S.W.2d at 767, 117 U.S.P.Q. at 47 (involved a license that spelled out the cost per unit of the licensed products).

316 *Sikes*, 665 F.2d at 737, 213 U.S.P.Q. at 988 (noting that expert testimony for a reasonable royalty ranged from ten cents to one dollar). Cf. *Metallurgical Indus.*, 790 F.2d at 1208 (quoting *University Computing Co. v. Lykes-Youngstown Corp.*, 504 F.2d 518, 539, 183 U.S.P.Q. (BNA) 705, 716 (5th Cir.1974)), decided under Georgia law: [T]he proper measure is to calculate what the parties would have agreed to as a fair price for licensing the defendant to put the trade secret to the use the defendants intended at the time the misappropriation took place. In calculating what a fair licensing price would have been had the parties agreed, the trier of fact should consider such factors as the resulting and foreseeable changes in the parties’ competitive posture; the prices past purchasers or licensees may have paid; the total value of the secret to the plaintiff, including the plaintiff’s development cost and the importance of the secret to the plaintiff’s business; the nature and extent of the use the defendant intended for the secret, and finally whatever other unique factors in the particular case might have affected the parties’ agreement, such as the ready availability of alternative processes. *Metallurgical Indus.*, 790 F.2d at 1208.

317 *Janicke*, supra note 301, at 717.

318 *Id.*

319 See *id.*

320 See *id.* at 718.

321 See *Hyde Corp.*, 314 S.W.2d at 773, 117 U.S.P.Q. at 52. In *Hyde Corp.*, the court stated: through inadequacies in the processes and methods of the law, a choice must be made between the possible punitive operation of the writ and the failure to provide adequate protection of a recognized legal right, the latter course seems indicated and the undoubted tendency of the law has been to recognize and enforce higher standards of commercial morality in the business world.

Id. (footnote omitted).

322 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. h (1993).

323 Id. § 45 cmt. h.

324 See Sikes, 665 F.2d at 737, 213 U.S.P.Q. at 987. In this case the defendant argued that the damage award should be limited to the two years since the parties had agreed that McGraw-Edison would be free to use Sikes' trade secret. Id. at 737, 213 U.S.P.Q. at 987. The court responded:

The argument ... must be rejected on several grounds. In the first place, McGraw-Edison did not comply with the two-year clause that it seeks to press into service but rather breached it.... [S]econd, no man can say with certainty what might have happened had McGraw-Edison complied with the clause in either of the two modes open to it [I]t seems exceedingly unlikely that any such per-unit royalty as the parties might have agreed upon would have been so arranged as to terminate after two years or have been payable for any term other than the life of the Graswhip's saleability.
Id.

325 RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 45 cmt. i (1993).

326 Alamo Nat'l Bank v. Kraus, 616 S.W.2d 908, 910 (Tex. 1981) (citations omitted).

327 TEX. CIV. PRAC. & REM. CODE ANN. §§ 41.002, 41.008 (West 1996) (citing applicability of the chapter to any action in which a claimant seeks exemplary damages relating to a cause of action with listed exceptions and limiting exemplary damages). Section 41.008 limits exemplary damages to the greater of:

(1) (A) two times the amount of economic damages; plus

(B) an amount equal to any noneconomic damages found by the jury, not to exceed \$750,000; or

(2) \$200,000.

Id. § 41.008(b).

328 RESTATEMENT (FIRST) OF TORTS § 908 cmt. c (1939) (“[T]he improper motive of the tortfeasor is both a necessary element in the cause of action and a reason for awarding punitive damage.”).

329 U.S. Sporting Prods., 865 S.W.2d at 222.

330 UNIF. TRADE SECRETS ACT § 4 (1985).

331 314 S.W.2d at 769, 117 U.S.P.Q. at 48.

332 FMC Corp., 677 F.2d at 503, 217 U.S.P.Q. at 137.

333 Computer Assocs., No. 94-0433, 1996 WL 112172, at *5 (Tex. Mar. 18, 1996, no writ).

334 Svetz, *supra* note 4, at 414.

335 Id.

336 No. 94-0433, 1996 WL 112172, at * 5 (Tex. Mar. 18, 1996, no writ).

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