The Days of Spilling Trade Secrets in Litigation Could Be Numbered

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The following exchange is fit for a cartoon, but it illustrates the state of trade secret litigation in Texas today: Plaintiff sues defendant for allegedly using misappropriated trade secrets, but does not want to reveal any details due to legitimate fears of sharing confidential information; rightly so. On the other hand, the defendant needs to know what constitutes a plaintiff's trade secret in order to mount a defense. And so, the parties spar until a judge renders a decision, which frequently varies widely from case to case and from judge to judge.

The Texas Supreme Court can finally resolve this dilemma in *In re: M-I, LLC, d/b/a M-I SWACO*, a trade secrets misappropriation case involving two direct competitors in the oil and gas industry. The court is expected to set the ground rules on how

to balance the competing interests of parties involved in these types of disputes.

The background for the case involves M-I seeking a temporary injunction against its former employee, Russo, and his new employer, NOV, for trade secret misappropriation.

During the temporary injunction hearing, M-I asked for NOV's corporate representatives to be excused so that only NOV's lawyers and experts could hear testimony regarding what exactly M-I claimed as trade secrets. As one would expect, NOV objected, and the trial judge ordered that its representatives could stay, subject to an order not to use any of the information they were about to hear. Rather than proceed with the testimony, M-I filed for a mandamus.

During the Jan. 13 oral arguments before the Texas Supreme Court, the Justices acknowledged the problem of revealing trade secrets to a competitor during litigation and questioned the parties about a possible middle-ground. Justice Eva Guzman questioned why the Supreme Court should limit the trial court's discretion in determining what constitutes "reasonable means" of protecting trade secrets under the Texas Uniform Trade secrets Act. M-I argued that in this situation, a gag order was not a "realistic" way of protecting trade secrets because it could not overcome human nature. It advocated that allowing only experts and attorneys of either party to see the other side's trade secrets would provide a sensible compromise.

Justices Jeff Boyd and Phil Johnson expressed a concern about how limiting access to information could hamper the defense, in the event that it could rely only on lawyers and experts without providing clients the right to contribute information that only they know about the case. M-I argued that "skillful" lawyers and experts could build a good case without revealing any trade secrets to their clients. Thus under M-I's suggested approach, a party's choice of lawyers and experts in a trade secret case would carry even more weight than in other types of cases, creating a system where a client would have to blindly rely on its attorneys.

Justice Nathan Hecht acknowledged that, "clearly," there was a problem with giving one's trade secrets to the other side in litigation and asked

counsel for NOV what solution it proposed. NOV argued that M-I's position was contrary to the American way of justice where a defendant must be given notice and an opportunity to be heard.

Justice Debra Lehrmann questioned why having experts and attorneys in court would not provide the necessary balance. NOV's attorney fell back on the age-old argument that, if the Texas legislature wanted to limit trade secret cases in such a way, it would have done so in TUTSA.

If the justices' questions are any indication, it appears that the court recognizes that granting unfettered access to a competitor's trade secrets during litigation is not a viable option. So the court will be left with the unenviable task of defining "reasonable means" of protecting trade secrets during litigation that would also allow a defendant to properly defend itself against the claim of misappropriation.

The court's ruling will have an effect on the strategic decisions of whether a trade secrets misappropriation case is worth pursuing; how a protective order should be structured in terms of access to trade secret information produced during the lawsuit; how discovery is structured and, most importantly, which attorneys and experts should be engaged to prosecute and defend such claims.

The court's ruling will have far-reaching repercussions on trade secret litigation strategy, generally, and in the energy sector in particular, which is replete with widely recognized trade secrets such as leasing terms, customer lists, pricing strategy, and seismic & geological data for developing prospects.

Ahead of the court's ruling, any company facing trade secret litigation should consider the risk of exposing trade secrets to a competitor when bringing a misappropriation claim and whether the risk is worth the reward. If that were not difficult enough, a party should also consider whether failing to bring a lawsuit could constitute a waiver of trade secret status. As they say in East Texas, "damned if you do, damned if you don't." At least until the Texas Supreme Court weighs in.

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