NON-COMPETE AND TRADE SECRETS

Who Stays in the Courtroom?: the Texas Supreme Court Delivers its First Uniform Trade Secrets Act Opinion

MAY 24, 2016 BY JEFF BARNES

Last Friday (May 20), the Texas Supreme Court delivered its first opinion interpreting the Texas Uniform Trade Secret Act.[i] M-I Swaco, an oilfield services company, alleged that a former employee and his current employer, National Oilwell Varco (NOV), misappropriated M-I Swaco's trade secrets. At the temporary injunction hearing, before M-I Swaco's witness testified about the trade secret information, M-I Swaco asked the trial judge to exclude NOV's corporate representative from the courtroom.

In support of its request, M-I Swaco relied on the following provision in the Texas Uniform Trade Secrets Act:

> [A] court shall preserve the secrecy of an alleged trade secret by reasonable means. There is a presumption in favor of granting protective orders to preserve the secrecy of trade secrets. Protective orders may include provisions limiting access to confidential information to only the attorneys and their experts, holding *in camera* hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

The trial judge believed it would be a "total violation" of NOV's due process rights to exclude the corporate representative from the courtroom. The trial judge's message to M-I Swaco was: "You sued them. They stay, period." The trial judge did, however, instruct NOV's corporate representative not to disclose or use any trade secret information he

heard. Rather than put on detailed testimony about its trade secrets in front of NOV's corporate representative, M-I Swaco recessed the hearing to file a petition for writ of mandamus, which eventually made its way to the Texas Supreme Court.

Both sides had understandable positions. From M-I Swaco's perspective, the judge "put a Texas business in an impossible position: Reveal your trade secrets to your competitor in open court, or forego the injunction required to protect those very secrets." How can the judicial system effectively protect trade secrets if a plaintiff can't sue a trade secrets thief without publicizing the very information the lawsuit seeks to keep secret? From NOV's perspective, how can it develop a defense that the information does not rise to the trade secrets standard if critical evidence is hidden from NOV's key employees involved in the litigation?

The Texas Supreme Court recognized that both sides had valid points and, ultimately, did not decide whether NOV's corporate representative should have been excluded from the courtroom. But the Texas Supreme Court faulted the trial judge for summarily rejecting M-I Swaco's request without balancing each side's competing interests. Although there is a presumption in favor of allowing a party to be present during courtroom proceedings, courts have the discretion to exclude parties "in limited circumstances when countervailing interests overcome this presumption." One countervailing interest that may overcome this presumption is the protection of trade secrets.

The Texas Supreme Court cited various factors the trial judge should have considered when balancing M-I Swaco and NOV's interests:

- The value of the alleged trade secrets and the degree of competitive harm M-I Swaco would have suffered from the disclosure of its alleged trade secrets to NOV.
- The opportunity for NOV's corporate representative to make use of the information he learned about M-I Swaco's alleged trade secrets, even if he tried in good faith to compartmentalize the information from leaking into his work.
- The degree to which the exclusion of NOV's corporate representative would impair NOV's defense, including whether the corporate representative possessed specialized expertise essential to the defense that was not available to NOV's attorneys and outside experts.

- Whether the proceeding is merely preliminary or involves a final adjudication on the

merits.

There is tension in every trade secrets case between the plaintiff's interest in protecting the secrecy of the information and the defendant's interest in understanding the details of the information it allegedly misappropriated. The Texas Supreme Court's first take on the Uniform Trade Secrets Act tells us that neither interest is absolute. When the parties' counsel cannot reach an agreed protective order that compromises their competing interests, the trial judge must balance each parties' interests before deciding whether to exclude a party representative from the courtroom.

This balancing process will generally start with the plaintiff presenting affidavits for *in camera* review to establish the trade secret status of the information and the various ways that the defendant could use the information to gain an unfair competitive advantage. Typically, at this stage, only the defendant's attorneys will have access to this evidence. The defendant's counsel will then challenge the trade secret status of the information (as best they can since their client, not having heard the plaintiff's evidence, will not be in a position to offer assistance). The defendant's counsel may also rely on the other factors cited by the Texas Supreme Court, for instance that the party representative would not be in a position to use the information and/or that the corporate representative's specialized expertise makes it essential that he hear the testimony and assist counsel with defending the case. These two factors are often in tension with one another. The defendant's personnel who are best positioned to explain to counsel the nature of the trade secrets are usually the same ones who can exploit it if so inclined.

There is one common dynamic in trade secrets cases that could factor into a trial court's balancing process that was not discussed by the Texas Supreme Court. Plaintiffs in trade secret cases often sue two defendants, the former employee and the competitor that currently employs him. This was indeed the case in the matter before the Texas Supreme Court. Generally, plaintiffs will not seek to exclude the former employee because he already knows the alleged trade secret information by virtue of his past employment (*i.e.*, he won't hear anything he already doesn't know). If the former employee and his current employer have an aligned interest in challenging the trade secret status of the information (which they almost always do), it will be more difficult for the defendant company to convince a judge that its corporate representative's presence during the testimony is essential to the defense.

The balancing test factors go to the heart of the merits of every trade secrets case: Is the

information commercially valuable? Is the information unknown to competitors? Are competitors in a position to use the information to the detriment of the plaintiff? Many cases will be won or lost during this balancing process before the parties even put on their temporary injunction evidence. If the judge sides with the defendant, the plaintiff may, as M-I Swaco did, forego its request for preliminary injunctive relief altogether. Even if the plaintiff does not completely abandon its request for preliminary injunctive relief, it may be forced to water down its evidence proving up its trade secrets to avoid disclosing valuable competitive information to a competitor. If, on the other hand, the judge sides with the plaintiff during the balancing test process, the plaintiff will have effectively proven that its information is entitled to trade secret protection at the preliminary injunction stage, which is a key if not dispositive issue in most cases. Viewed in this light, the Texas Supreme Court's decision will transfer the primary battleground in some trade secret cases from the temporary injunction hearing to the court's *in camera* review.

---

[i] *In Re M-I L.L.C. d/b/a M-I Swaco*, No. 14-1045, --- S.W.3d --- (Tex. May 20, 2016).

Trade Secrets | Tags: Texas, Trade Secrets, Uniform Trade Secrets Act