

Trade Secrets in Oil & Gas Litigation

Tom Morrow

Yetter, Warden & Coleman, LLP

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Scenarios We'll Examine

- **“How Did They Catch Up So Fast?”**
 - *Proving up trade secret status, and misappropriation*
 - *Additional causes of action to assert*
- **Breaking Up is Hard to Do**
 - *Protecting trade secrets when employees leave*
- **Typhoid Max, Travelin' Engineer**
 - *What to do when a new employee brings our competitors' secrets*
- **“Are They Entitled To That Information?”**
 - *Effective use of Fed. R. Civ. P. 26, 45; Tex. R. Evid. 507*

How Did They Catch Up So Fast?: Proving trade secret status and misappropriation

We (and Competico) are in the aromatics business

Since 2004, we've led the industry in product purity by a wide margin

- High-visibility issue within company since 2001
- In-house R&D, consultants labored 3+ years
- Developed proprietary catalyst

1Q 2009 round-robin testing: Competico's suddenly the new leader

- Composition, impurities strikingly similar to ours
- 4Q 2008: Competico retained the consultant we used



How Did They Catch Up So Fast?:

Proving trade secret status and misappropriation

Management's objectives:

- Resolve whether Competico stole our trade secrets
 - Catalyst formulation
 - Use of the catalyst to produce high-purity aromatic
- If misappropriation occurred, halt it

How Did They Catch Up So Fast?: Proving trade secret status (Article, pages 1-4)

Q1: Do we have a trade secret?

A: Apply the *In re Bass* factors

- To what extent is info. known outside the business?
- To what extent is it known inside the business?
- What measures were taken to guard info.'s secrecy?
- How valuable is info. to us? to competitors?
- What effort/money did we expend to develop info?
- How difficult would it be for others to properly acquire/duplicate info?

In re Bass, 113 S.W.3d 735 (Tex. 2003).

How Did They Catch Up So Fast?: Proving misappropriation (Article, pages 5-8)

Q2: Has our trade secret been misappropriated?

A: Misappropriation requires:

- Acquisition by breach of conf. relationship or improper discovery; and
- Unauthorized use of the wrongly acquired trade secret

***General Univ. Sys. v. HAL*, 500 F.3d 444 (5th Cir. 2007).**

Confidential relationship:

Partnership, joint venture, principal-agent, sometimes employer-employee

Improper discovery:

DuPont (aerial photos); *Frey* (false promises to buy business)

How Did They Catch Up So Fast?:

What isn't misappropriation? (Article, pages 7-8)

Important caveat:

- Competico may be using a different process—permissible
- Competico may have arrived at our process independently—permissible

If our ex-consultant helped Competico...:

- Use of “general knowledge, skill or experience” acquired while working for us, even to compete with us—permissible
 - Example: *SWRI v. Keraplast* case (article, pages 7-8)
- Use of confidential information or trade secrets acquired while working for us--wrongful

How Did They Catch Up So Fast?:

Other claims to assert (Article, pages 8-9)

Game plan for management:

- *In re Bass* analysis of catalyst, process
- Investigate all circs. re possible misappropriation
- Evaluate whether evidence is enough to file suit
- Additional claims to assert (if evidence suggests wrongdoing):
 - Breach of consulting agreement
 - Tortious interference with consulting agreement
 - Misappropriation of confidential information
 - Breach of fiduciary duty

Breaking Up is Hard to Do

Engineer Max, leaving OilCo for Competico:

- Taking same position—chief subsurface tools designer
- Currently working for us on game-changing technology
 - Technology unknown in industry
 - Limited disclosure within the company
 - Need-to-know basis
 - Access restricted to models, computer files
- No non-compete in place
- Exit interview today



Breaking Up is Hard to Do

Management's view:

- technology very valuable
- Competico known to be working on same problems
- highly likely Max will have to use it at Competico
- want to block Max's jump

Questions for legal:

- (1) applicable law?
- (2) game plan for exit interview?
- (3) game plan for investigation?
- (4) response to management?

Breaking Up is Hard to Do:

(1) Applicable law

Departing employee can take experience, skill, general know-how

Cannot use conf./prop. info to detriment of employer

- Common-law duty, survives termination

T-N-T Motorsports (Tex. App.—Hous. 1998)

Can we stop misuse before it starts?

- Inevitable disclosure doctrine

Breaking Up is Hard to Do:

(1) Applicable law (Article, pages 13, 16-17)

Inevitable disclosure doctrine

- Despite best efforts of new employer and employee...
- ...may be impossible to prevent disclosure of secrets

Typical factors considered:

- Is technology a trade secret?
- Did departing employee have access to it?
- Will it inevitably be used in new job?

Leading case: *PepsiCo v. Redmond* (7th Cir. 1995)

- Enjoined exec from taking new job for 5 months

Breaking Up is Hard to Do:

(1) Applicable law (Article, pages 13-16)

Texas has not officially adopted inevitable disclosure doctrine

FMC v. Varco (5th Cir. 1982):

- *“Even assuming the best of good faith, Witt will have difficulty preventing his knowledge of [swivel joint trade secrets] from infiltrating his work.”* [Citing *Weedeater*, Tex. App. 1978]
- Enjoined new employer from “placing or maintaining Witt in a position that poses an inherent threat of disclosure or use of FMC’s trade secrets.”

Union Carbide v. UGI (5th Cir. 1984):

- Enjoined new employer from using employee in some situations

Breaking Up is Hard to Do: (2) Exit interview game plan

Exit interview:

- **Remind Max of conf. obligations**
- **Ask if he has taken our trade secrets**
 - Copied documents, downloaded files?
 - Emailed anything to home (or Competico) email address?
- **Assess honesty**

Breaking Up is Hard to Do: (3) Investigation game plan

Investigate:

- Typically, look for noncompete, NDA, IP assignments
- Interview co-workers and supervisor
- Consider forensic copy of computer
 - Looking for recent downloads of trade secrets . . .
 - . . . emails to home email, or Competico email
- Notify insurer?
- Are trade secrets implicated? (*In re Bass* analysis)

Breaking Up is Hard to Do: (4) Response to mgmt

Continuum: lost playbook vs. mere disappointment

Facts may support injunctive relief

Enjoining Max's jump:

- **Texas: Good precedent to limit Max's job at Competico**
- **Other jx.: Inevitable disclosure doctrine may be available**
 - will require strict proof

Typhoid Max: Travelin' Engineer

We are counsel for Newco

Max (of Oilco and Competico) wants to join Newco

- Newco's founder, Doc, knew Max in grad school

Our mission: protect Newco if Doc hires Max



Typhoid Max: Travelin' Engineer

Protecting Newco:

- **What have Max and Doc discussed to date?**
- **What agreements (Oilco/Competico) is Max party to?**
- **Get reps and warrants from Max**
- **Plan to “prove up” Max’s work at Newco**
- **Keep Max out of discussions/meetings re Oilco/Competico**
- **Notify insurer?**
- **If sued, get Max separate counsel**

Are They Entitled To That Information? Effective Use of Discovery Rules / Tools

We represent ThirdCo

- **ThirdCo received discovery request in Oilco v. Newco suit**
- **Request appears to cover ThirdCo's trade secrets**

What can ThirdCo do to minimize impact of the request?

Are They Entitled To That Information?

Effective Use of Discovery Rules / Tools (Article, pages 18-22)

Federal Court:

- **Fed. R. Civ. P. 26(c): Protective Order**
- **Fed. R. Civ. P. 45(c)(3): Modify/Quash Subpoena**
 - **45(c)(3)(B): court may quash/modify subpoena that requires disclosing trade secrets or other conf. information**
 - **45(c)(3)(C): party seeking discovery may show subst. need, undue hardship**
 - **Good cases for ThirdCo about harm when competitor seeks discovery**

Are They Entitled To That Information?

Effective Use of Discovery Rules / Tools (Article, pages 20-22)

State Court:

- **Tex. R. Evid. 507** privilege to protect trade secrets
- **Assert privilege; no need for protective order (TRCP 192.6)**
- **Many oil/gas states have adopted similar privilege**
 - See Article, p. 20, note 126 for a list of states

Are They Entitled To That Information?

Effective Use of Discovery Rules / Tools (Article, pages 20-22)

State Court, Tex. R. Evid. 507

Be prepared to satisfy *In re Bass* factors

- *Bass* was a TRE 507 case
- Avoid *In re Lowe's* outcome

If ThirdCo proves trade secret status...

- ...burden shifts to proponent to prove ...
- ...materials necessary for fair adjudication of claim/defense
 - Where shown, production normally ordered under protective order

Wrap-up

How Did They Catch Up So Fast?

6-factor test for trade secrets

Breaking Up is Hard to Do

Inevitable disclosure doctrine

Typhoid Max—Travelin' Engineer

Checklist of items to minimize risk to new employer

Are They Entitled To That Information?

Federal, State Rules/tools useful to protect trade secrets in discovery

Tom Morrow
Yetter, Warden & Coleman, LLP
909 Fannin, Suite 3600
Houston, TX 77010

713.632.8070
tmorrow@yetterwarden.com