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## Texas Trade Secrets Law Gets 1st Test In Schlumberger Fight

By **Jess Davis**

Law360, Dallas (January 12, 2016, 9:52 PM ET) -- A Texas Supreme Court case being argued Wednesday will give the high court its first chance to set parameters for how the recently enacted Texas Uniform Trade Secrets Act can be used, as a Schlumberger subsidiary aims to keep rival National Oilwell Varco out of the courtroom during a key trade secrets hearing.



The Schlumberger case stems from the departure of a business development manager, who joined NOV and then sued his former employer in April 2014 seeking to void a noncompete agreement he signed. (Credit: AP)

Schlumberger subsidiary M-I LLC is arguing that under the TUTSA, **enacted in 2013**, trial judges have relatively broad power to protect trade secrets during litigation, including the temporary removal of a corporate representative from the courtroom during an injunction hearing or trial when the trade secrets at issue are being discussed. NOV has said it's **nonsensical** that a company sued for stealing trade secrets wouldn't be able to defend itself during trial.

Trade secrets litigators say they're hoping the high court will use **the Schlumberger-NOV dispute** to lay out for the first time parameters for how the TUTSA can be used to protect confidential and proprietary information. The statute gives trial courts the power to use "reasonable measures" to protect trade secrets but doesn't define the boundaries of what's permissible.

"The intellectual property bar is eager to see the TUTSA put into action," Mike Schonberg of Thompson & Knight LLP said. "The court has an opportunity to send the message to Texas trial judges that procedural protection is a serious matter and needs to be given serious thought, not just a hand wave at the trial court level."

Schonberg said if the high court were to adopt the position advocated by NOV — that a party cannot present evidence of alleged trade secret infringement without the defendant present — it could have a chilling effect on trade secret litigation, as companies would steer clear of litigation out of concern they could end up giving their competitors more information. And doing that would “completely frustrate the policy the Texas Legislature was trying to promote” when it passed the TUTSA, he said.

He said as a practical matter, litigants can often describe a trade secret matter without disclosing the contents of those trade secrets, sufficient to give the opposing party a general understanding of the allegations and technology at issue without hearing testimony from the plaintiff.

The Schlumberger case stems from the departure of a business development manager for the company's M-I SWACO unit, Jeff Russo, who joined NOV and then sued his former employer in April 2014 seeking a declaration that would void a noncompete agreement he signed. Schlumberger counterclaimed for breach of contract and misappropriation of trade secrets and added NOV as a defendant.

During a hearing on Schlumberger's request for an injunction barring disclosure of trade secrets, the company asked the judge to temporarily clear the courtroom of everyone except the parties' counsel, experts and Russo, arguing it should not have to share its proprietary information with the representative of its competitor.

But the judge said: “You sued them. They stay, period,” and issued a gag order that barred NOV's corporate representative from disclosing or using trade secret information, according to court records. M-I SWACO suspended the hearing and filed an appeal.

Schlumberger has a high bar to meet in order to convince the Supreme Court to remove NOV from the courtroom: It must prove the trial judge abused his discretion in denying the company's request, and that's one of the most difficult appellate standards to meet, according to Joe Cleveland of Brackett & Ellis PC.

Cleveland said he thinks the trial judge's gag order is defensible as a reasonable measure to protect the trade secrets at issue in the case, but the court could have done more — like preventing NOV's corporate representative from taking notes during that portion of the testimony or requiring a corporate representative from a different part of the business instead of one who was intimately familiar with the trade secrets at issue.

“I think the Supreme Court is going to find he did not abuse his discretion because it's within the purview of what he could do,” Cleveland said. “I don't think the court is going to say he's required to do more.”

Cleveland, who helped lobby for the adoption of the TUTSA, said he thinks there is a time and a circumstance in which it would be appropriate for a trial judge to remove a party representative from the courtroom. Though such a measure isn't spelled out in the TUTSA, Cleveland said, it's contemplated within the act as one of the things a court could do, but it should be narrow in scope.

“I would think they might say excluding a witness from the courtroom needs to be for specific time and testimony and that the person seeking to exclude must meet a high burden to show why that person has to be excluded,” Cleveland said.

Far from being limited to the energy field, Schlumberger's case will affect every trade secret litigation matter going forward in Texas, said Rex Mann of Fish & Richardson PC. And because there is so much variance in trade secret litigation, he said, he wouldn't expect the court to issue a bright-line rule that corporate representatives could always or never be excluded.

Mann said many factors influence the propriety of excluding corporate representatives, like the type of information allegedly misappropriated, the size and sophistication of the parties litigating, whether they're using outside counsel, what part of a business the corporate representative works in, and whether that representative is familiar with the information at issue in the suit, and he would prefer to see the court give litigants and judges a multifactor test to determine whether a corporate representative should be temporarily removed from a proceeding.

Robert Radcliff of Weinstein Radcliff Pipkin LLP said that although the TUTSA gives courts new latitude to protect trade secrets, he'd like to see a balancing test applied before removing a corporate representative from the courtroom. Radcliff said while it's not unprecedented to remove a party from the courtroom for parts of a hearing or trial, doing so raises questions of "fundamental fairness."

"You're dealing with the visceral reaction of, 'That's not fair my lawyer has to sit there without a party representative to move forward with the case,'" Radcliff said. "It's a tough issue for the court to deal with."

And while it is common practice in discovery to delineate certain documents as for attorneys' eyes only, the dynamics of protective orders change during live testimony, and a defendant may find that defense counsel's ability to effectively cross-examine a witness or understand what they're talking about is undermined when the party representative is removed from the room, he said.

Klemchuk LLP's Gary Sorden said courts already have a number of different procedural mechanisms available, like in camera inspection of the trade secret material or appointing a neutral expert to help the court understand the trade secrets at issue.

And in some cases clients will be able to evaluate the strength of a claim with only a high level of understanding about what trade secret information is alleged to have been stolen, instead of needing access to every detail of the technology or information at issue, he said.

"The key to this is that any trade secret that's being litigated has value, and sometimes significant value for a plaintiff," Sorden said. "If the court says anytime you sue on a trade secret, you're required to share all the secrets you're suing on with the opposing company, that could be a significant procedural issue."

The lawyers say that even if the TUTSA does inherently give courts the ability to bar corporate representatives during portions of the trial, state court trial judges would likely be more willing to do so if the high court endorses that as an option.

"The right to confront the evidence against you is something that has long held to be sacrosanct," Schonberg said. "Trial judges need to get comfortable that there's more than one way to confront the evidence against you in a way that balances the need for trade secret protection."

Schlumberger is represented by Ed Friedman and Cody Vasut of BakerHostetler, and Wallace B. Jefferson, Doug Alexander, Amy Warr and Anna Baker of Alexander Dubose Jefferson & Townsend LLP.

NOV is represented by John Zavitsanos, Lizzie Fletcher and Neal Sarkar of Ahmad Zavitsanos Anaipakos Alavi & Mensing PC, and Tom Wright and Bradley Snead of Wright & Close LLP.

The case is In re: M-I LLC, case number 14-1045, in the Supreme Court of the State of

Texas.

--Editing by Jeremy Barker and Kelly Duncan.

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