LITIGATION AND PROTECTION OF TRADE SECRETS AND CONFIDENTIAL INFORMATION

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# Litigation and Protection of Trade Secrets and Confidential Information

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LITIGATION AND PROTECTION OF TRADE SECRETS AND CONFIDENTIAL INFORMATION

I. INTRODUCTION

The violation of agreements or legal obligations regarding the use and disclosure of information is often the subject matter of a lawsuit. Other speakers will deal with the substantive law of confidentiality agreements and trade secret law. However, questions regarding the handling of confidential information and trade secrets may arise in any type of litigation. This paper is concerned with the handling of sensitive information in the context of litigation. The issues that are encountered in dealing with the confidentiality of information are ones with which the trial lawyer needs to be intimately familiar and with which the transactional lawyer should have at least a general familiarity.

This paper will also briefly outline the applicability of the statute of frauds to confidentiality agreements and the measure of damages as it relates to oil and gas leases.

II. PROTECTING TRADE SECRETS AND CONFIDENTIAL INFORMATION

A trade secret is generally defined as a formula, pattern, device, or compilation of information that provides one with the opportunity to gain an advantage over competitors that do not know the information. Computer Assocs., Int’l, Inc. v. Altai, Inc., 918 S.W.2d 453, 455 (Tex. 1996). To constitute a trade secret, the information must not be publicly available or readily ascertainable by independent investigation. Allan J. Richardson & Assocs., Inc. v. Andrews, 718 S.W.2d 833, 837 (Tex. App.–Houston [14th Dist.] 1986, no writ); SCM Corp. v. Trippett Co., 399 S.W.2d 583, 586 (Tex. Civ. App.–San Antonio 1966, no writ). There must be “a substantial element of secrecy” for the information to constitute a trade secret. Rimes v. Club Corp. of Am., 542 S.W.2d 909, 913 (Tex. Civ. App.–Dallas 1976, writ ref’d n.r.e.); Furr’s, Inc. v. United Speciality Advertising Co., 338 S.W.2d 762, 765 (Tex. Civ. App.–El Paso 1960, writ ref’d n.r.e.). The owner of the information is required to have taken efforts to maintain and protect the secrecy of the information. American Precision Vibrator Co. v. National Air Vibrator Co., 764 S.W.2d 274, 276 (Tex. App.–Houston [1st Dist.] 1988, no writ).

Issues regarding confidentiality arise most often in the discovery phase of litigation, but may come up during or as we will see - after trial. There are three rules that are relevant: TEX. R. CIV. P. 192.6, TEX. R. EVID. 507, and TEX. R. CIV. P. 76a.

A. Trade Secret Privilege

The first area that is of importance is that of protection of trade secrets. In the proper case, sensitive information may qualify for the best protection of all, an evidentiary privilege, albeit a somewhat limited one, for trade secrets. The applicable rule is TEX. R. EVID. 507, which provides:

A person has a privilege, which may be claimed by the person or the person’s agent or employee, to refuse to disclose and to prevent other persons from disclosing a trade secret owned by the person, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice. When disclosure is directed, the judge shall take such protective measure as the interests of the holder of the privilege and of the parties and the furtherance of justice may require.

The operation of TEX. R. EVID. 507 was explained by the Texas Supreme Court in In re Continental General Tire, Inc., 979 S.W.2d 609 (Tex. 1998). The supreme court interpreted TEX.R.EVID. 507 to provide that when a party resisting discovery establishes that requested information is a trade secret, the burden shifts to the requesting party to establish that the information is necessary for a fair adjudication of its claim or defense. Continental Gen. Tire, 979 S.W.2d at 610. Balancing the competing interests of the important property value of trade secrets and the importance of adjudication of lawsuits, the supreme court held:

trial courts should apply Rule 507 as follows: The first party resisting discovery must establish that the information is a trade secret. The burden then shifts to the resisting party to establish that the information is necessary for a fair adjudication of its claims. If the requesting party meets this burden, the trial court should ordinarily compel disclosure of the information, subject to an appropriate protective order. In
each circumstance, the trial court must weigh the degree of the requesting party’s need for the information with the potential of disclosure to the resisting party.

*Id.* at 613.

On the merits, the information related to a formula which was conceded to be a trade secret. The party seeking discovery had presented only the opinion of an expert witness that the compound did not contain the right ingredients and could cause a defect. However, this witness conceded that an examination of the compound formula would not provide the final answer to the existence of a defect because the physical product would still have to be examined. The supreme court held that this evidence was insufficient to meet the burden under Rule 507 of demonstrating that the information was necessary for a fair trial.

The supreme court also dealt with an interesting point in passing. The plaintiff argued that because a defendant originally sought a confidentiality order for the protection of other documents, it had implicitly conceded that a protective order would adequately protect the formula that was an issue in this mandamus proceeding. The supreme court held: “However, that Continental was willing to produce certain information under a protective order does not mean that Continental has waived its right to assert Rule 507 about other information which it may regard as more competitively sensitive or less necessary for the plaintiff’s case.” *Id.* at 614.

*In re Leviton Manufacturing Co., Inc.*, 1 S.W.3d 898 (Tex. App.–Waco 1999, orig. proceeding) presents a good summary of the shifting burdens under Rule 507 for protection of trade secrets:

Rule 507 of the Texas Rules of Evidence, provides that a party may refuse to disclose a trade secret owned by the person if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice. TEX.R.EVID. 507. The trade secret privilege seeks to accommodate two competing interests. First, it recognizes that trade secrets are an important property interest, worthy of protection. Second it recognizes the importance of the fair adjudication of lawsuits.

When a party resisting discovery establishes that the requested information is a trade secret under Rule 507, the burden shifts to the requesting party to establish that the information is necessary for a fair adjudication of its claim or defense. . . . The trial judge applied *In re Continental*, and found, by implication, that Leviton had established the trade secret privilege of Rule 507. The burden then shifted to [plaintiff] to establish that the information was necessary for a fair adjudication of its claim. A showing of relevance alone is not adequate.

Where a requesting party meets the burden required by *In re Continental* and Rule 507, that the information is necessary for a fair adjudication of its claim, the trial court should order disclosure of the information, subject to an appropriate protective order. In each circumstance, the trial court must weigh the degree of the requesting party’s need for the information with the potential harm of disclosure to the resisting party.

*Id.* at 902 (citations and footnote omitted).

On the merits, the court of appeals granted the mandamus and ordered the trial court to vacate the order compelling discovery of the trade secret information because the plaintiff’s evidence merely established that the information might be relevant to its claims. The court held: “However, the crucial issue for this hearing was for [plaintiff] to establish that continued protection of Leviton’s trade secret information would ‘. . . tend to conceal fraud or otherwise work injustice.’” *Id.* at 903 (quoting TEX. R. EVID. 507).

In the recent case of *In Re Continental Tire North America, Inc.*, 74 S.W.3d 884 (Tex. App.–Eastland 2002, orig. proceeding), the trial court ordered that plaintiff was entitled to have her attorney and an expert enter Continental’s plant to photograph, videotape, and inspect the premises over Continental’s objection that this motion sought disclosure of trade secrets. Plaintiff contended that good cause existed for inspection and photographing of the premises “in that such information sought is reasonably calculated to lead to relate to (sic) the discovery of evidence admissible at trial.” *Id.* at 886. The court of appeals granted the writ of
mandamus holding that plaintiff’s argument that the information was reasonably calculated to lead to admissible evidence was not sufficient to meet her burden under TEX. R. EVID. 507: “However, Patterson did not indicate what facts she expects to discover from touring Continental’s plant in North Carolina and how it will assist in her cause of action.” Continental Tire, 74 S.W.3d at 886.

In John Paul Mitchell Systems v. Randalls Food Markets, Inc., 17 S.W.3d 721 (Tex. App.–Austin 2000, pet. denied), the court of appeals considered the application of the trade secret privilege under TEX.R.EVID. 507. The court held that in order to meet its burden of establishing trade secret protection in connection with objection to discovery, a party must satisfy a six-factor test set out in Restatement of Torts §757 cmt.b (1939) and recognized in Justice Doggett’s concurring opinion in Chapa v. Garcia, 848 S.W.2d 667 (Tex. 1992):

“(1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of the measures taken by him to guard the secrecy of the information; (4) the value of the information to him and his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”

John Paul Mitchell, 17 S.W.3d 738 (quoting Chapa, 848 S.W.2d at 670 (Doggett, J., concurring)).

Because the party resisting discovery satisfied the six-factor test, it established trade secret protection and the burden then shifted to the party seeking discovery to show that the information was necessary for a fair adjudication of its claims. The court of appeals held:

Trade secrets should only be disclosed when the information is both “material and necessary to the litigation and unavailable from any other source.” Automatic Drilling Machs., Inc. v. Miller, 515 S.W.2d 256, 259 (Tex. 1974). The requesting party must describe with particularity how the protected information is required to reach conclusions in the case. See Continental Gen. Tire, 979 S.W.2d 611(citing Bridgestone/Firestone, 9 Cal. Rptr.2d at 716). The requested information must be necessary, not merely useful. See Id.

Id. at 738-39. Because the court of appeals found that the trial court could have determined that there were other methods of obtaining the information, it held that the trial court did not abuse its discretion in refusing to compel disclosure of the information. Id. at 739.

B. Confidentiality Agreements, Protective Orders, and Sealing Orders

In the usual case, in addition to asserting the trade secret privilege where applicable, the trial lawyer will also seek protection under TEX. R. Civ. P. 192.6, which states:

To protect the movant from undue burden, unnecessary expense, harassment, annoyance, or invasion of personal, constitutional, or property rights, the court may make any order in the interest of justice and may - among other things - order that:

(1) the requested discovery not be sought in whole or in part;
(2) the extent or subject matter of the discovery be limited;
(3) the discovery not be undertaken at the time or place specified;
(4) the discovery be undertaken only by such method or upon such terms and conditions or at the time and place directed by the court;
(5) the results of the discovery be sealed or otherwise protected, subject to the provisions of Rule 76a.

The motion for protection is easy and straightforward. You need to be specific about three things: the information or other interest that needs to be protected; the reason that it needs to be protected; and the specific means by which the court is asked to provide this protection. The movant bears the burden of persuasion, so make sure that you can support the reasons that you give the court for the relief that you are seeking.

The area that is not so simple and not generally well-understood is the last clause of Rule 192.6 which provides that orders regarding the sealing or
protection of discovery are “subject to the provisions of Rule 76a.”

TEX. R. CIV. P. 76a provides:

1. **Standard for Sealing Court Records.**

   Court records may not be removed from court files except as permitted by statute or rule. No court order or opinion issued in the adjudication of a case may be sealed. Other court records, as defined in this rule, are presumed to be open to the general public and may be sealed only upon a showing of all of the following:

   (a) a specific, serious and substantial interest which clearly outweighs:

   (1) this presumption of openness;

   (2) any probable adverse effect that sealing will have upon the general public health or safety;

   (b) no less restrictive means than sealing records will adequately and effectively protect the specific interest asserted.

2. **Court Records.**

   For purposes of this rule, court records means:

   (a) all documents of any nature filed in connection with any matter before any civil court, except:

   (1) documents filed with a court in camera, solely for the purpose of obtaining a ruling on the discoverability of such documents;

   (2) documents in court files to which access is otherwise restricted by law;

   (3) documents filed in an action originally arising under the Family Code.

   (b) settlement agreements not filed of record, excluding all reference to any monetary consideration, that seek to restrict disclosure of information concerning matters that have a probable adverse effect upon the general public health or safety, or the administration of public office, or the operation of government.

   (c) discovery, not filed of record, concerning matters that have a probable adverse effect upon the general public health or safety, or the administration of public office, or the operation of a government, except discovery in cases originally initiated to preserve bona fide trade secrets or other intangible property rights.

3. **Notice.**

   Court records may be sealed only upon a party’s written motion, which shall be open to public inspection. The movant shall post a public notice at the place where notices for meetings of county governmental bodies are required to be posted, stating: that a hearing will be held in open court on a motion to seal court records in the specific case; that any person may intervene and be heard concerning the sealing of court records; the specific time and place of the hearing; the style and number of the case; a brief but specific description of both the nature of the case and the records which are sought to be sealed; and the identity of the movant. Immediately after posting such notice, the movant shall file a verified copy of the posted notice with the clerk of the court in which the case is pending and with the Clerk of the Supreme Court of Texas.

4. **Hearing.**

   A hearing, open to the public, on a motion to seal court records shall be held in open court as soon as practicable, but not less than fourteen days after the motion is filed and notice is posted. Any party may participate in the hearing. Non-parties may intervene as a matter of right for the limited purpose of participating in the proceedings, upon payment of the fee required for filing a plea in intervention. The court may inspect records in camera when necessary. The court may determine a motion relating to sealing or unsealing court records in accordance with the procedures prescribed by Rule 120a.

5. **Temporary Sealing Order.**

   A temporary sealing order may issue upon motion and notice to any parties who have answered in the case pursuant to Rules 21 and 21a upon a showing of compelling need from specific facts shown by affidavit or by verified petition that immediate and irreparable injury will result to a specific interest of the applicant before notice can be posed and a hearing held as otherwise provided herein. The temporary order shall set the time for the hearing required by paragraph 4 and shall direct that the movant immediately give the public notice required by paragraph 3. The court may modify or withdraw any temporary order upon motion by any
party or intervenor, notice to the parties, and hearing conducted as soon as practicable. Issuance of a temporary order shall not reduce in any way the burden of proof of a party requesting sealing at the hearing required by paragraph 4.

6. Order on Motion to Seal Court Records.

A motion relating to sealing or unsealing court records shall be decided by written order, open to the public, which shall state: the style and number of the case; the specific reasons for finding and concluding whether the showing required by paragraph 1, has been made; the specific portions of court records which are to be sealed; and the time period for which the sealed portions of the court records are to be sealed. The order shall not be included in any judgment or other order but shall be a separate document in the case; however, the failure to comply with this requirement shall not affect its appealability.

7. Continuing Jurisdiction.

Any person may intervene as a matter of right at any time before or after judgment to seal or unseal court records. A court that issues a sealing order retains continuing jurisdiction to enforce, alter, or vacate that order. An order sealing or unsealing court records shall not be reconsidered on motion of any party or intervenor who had actual notice of the hearing preceding issuance of the order, without first showing changed circumstances materially affecting the order. Such circumstances need not be related to the case in which the order was issued. However, the burden of making the showing required by paragraph 1, shall always be on the party seeking to seal records.

8. Appeal.

Any order (or portion of an order or judgment) relating to sealing or unsealing court records shall be deemed to be severed from the case and a final judgment which may be appealed by any party or intervenor who participated in the hearing preceding issuance of such order. The appellate court may abate the appeal and order the trial court to direct that further public notice be given, or to hold further hearings, or to make additional findings.


Access to documents in court files not defined as court records by this rule remains governed by existing law. This rule does not apply to any court records sealed in an action in which a final judgment has been entered before its effective date. This rule applies to cases already pending on its effective date only with regard to:

(a) all court records filed or exchanged after the effective date;
(b) any motion to alter or vacate an order restricting access to court records, issued before the effective date.

Because Rule 76a is involved in the discovery process by the reference in Rule 192.6, it is important to understand the interplay between the two rules. Several cases provide instructive information and guidance.

In General Tire, Inc. v. Kepple, 970 S.W.2d 520 (Tex. 1998), a product liability action, the trial court had issued a protective order that restricted the dissemination of trade secrets and other confidential information designated as such by the defendant. Several months after the protective order was issued, the court on its own initiative stated that any order limiting dissemination of the documents must comply with TEX. CIV. P. 76a and indicated that it would vacate the protective order. Defendant filed a motion for protective order and alternative temporary sealing order. Before this motion could be ruled upon, the lawsuit was settled. Thereafter, plaintiff’s attorney sought relief from the interim protective order contending that the document affected public safety and therefore should be made public. At a hearing, the court determined that the documents were court records and based on evidence at the hearing in an in-camera review of the documents, determined that the defendant had not met its burden for sealing the documents and ordered that they be made public with certain redactions. The court of appeals affirmed this order General Tire, Inc. v. Kepple, 917 S.W.2d 444 (Tex. App.–Houston [14th Dist.] 1996), rev’d, 970 S.W.2d 520 (Tex. 1998).

The Texas Supreme Court held first that under its express language, Rule 166b(5)(c), the precursor to current Rule 192.6, expressly made any protective order subject to the requirements of Rule 176a, thus leaving “no leeway for interpretation.” General Tire, 970 S.W.2d at 524. The supreme court found however that the rules did not specifically set forth a standard by which the trial
court should be guided in making the threshold determination of whether particular unfiled discovery is a court record under Rule 76a. The supreme court held that the trial court erred in using the “full range of Rule 76a procedures” in making this threshold determination, i.e. requiring the posting of public notice and allowing any party to intervene with regard to the determination of whether the unfiled discovery constituted a court record. The supreme court held the “special procedures of Rule 76a” applied only to the sealing of court records, and not to the threshold determination of whether particular unfiled discovery is a court record subject to the rule. The court held that applying the Rule 76a procedures would unduly burden trial courts and litigants by requiring an elaborate, expensive process for this determination. The court noted however that the interest of the public in obtaining information also had to be considered but found that the provisions of Rule 76a(8) which allowed for immediate appeal of any order relating to the sealing or unsealing of court records did apply to this threshold determination. However, the supreme court held that third parties should not be allowed immediate access to the records until a determination has been made that they are court records that cannot be sealed.

The supreme court stated the rule as follows:

In summary, we hold that when a party seeks a protective order under Rule 166b(5)(c) to restrict the dissemination of unfiled discovery, and no party or intervenor contends that the discovery is a “court record,” a trial court need not conduct a hearing or render any findings on that issue. If a party or intervenor opposing a protective order claims that the discovery is a “court record,” the court must make a threshold determination on that issue. However public notice and a Rule 76a hearing are mandated only if a court finds that the documents are court records. While a trial court is not required to determine whether unfiled discovery constitutes a court record until requested to do so by a party or intervenor, the court may raise this issue on its own motion. However, as previously discussed, a trial court may not apply the special procedures of Rule 76a (except for intervention) until it determines if the documents are court records. The district court in this case erred in applying the full range of Rule 76a procedures to the threshold “court records” determination.

Id. at 525.

The court then considered the applicable standard of review for Rule 76a determinations. Noting that an abuse of discretion standard was applied to a trial court’s discovery rulings, including rulings on protective orders, the court held that while a sealing order under Rule 76a is governed by stricter standards, it is akin to a protective order in that it requires the court to make a determination regarding the proper restriction of information and the abuse of discretion standard is therefore applicable to Rule 76a decisions as well. Id. at 526.

On the merits, the court first disposed of a procedural question holding that the submission of the document for in camera review by the trial court did not mean that these documents have been “filed” and therefore become “court records.” Id. The supreme court considered the documents in question in two categories in determining whether these documents were “discovery, not filed of record, concerning matters that have a probable adverse effect upon the general public health or safety, or the administration of public office, or the operation of government.” TEX. R. CIV. P. 76a(2)(c). With regard to the first category of documents which related to design specifications, testing, and miscellaneous documents, the supreme court held that a party cannot demonstrate that a manufacturer’s proprietary design, research, and testing records have a probable adverse effect on the public health and safety, as Rule 76a requires before documents are “court records,” merely by producing evidence of a defect in the manufacturer’s products. Rather, the party must, at a minimum, demonstrate some nexus between the alleged defect and the documents at issue.

General Tire, 970 S.W.2d at 577. The court held that because the plaintiff failed to demonstrate this connection, the district court abused its discretion in finding these documents to be court records under Rule 76a(2)(c). Id. With regard to the second category of documents, which dealt with returns under a warranty program, the court also held that
plaintiff had failed to meet its burden of showing that these data could adversely affect public health and safety, even though there was some evidence that these records had not been provided to the National Highway Traffic Safety Administration during a 1993 investigation of tire safety. *Id.* at 528.

The Texas Supreme Court’s opinion in *In re The Dallas Morning News, Inc.*, 10 S.W.3d 298 (Tex. 1999), is interesting because it profiles a problem that may arise frequently in the future, but does not provide any real answers. This situation should be of particular interest to lawyers that handle environmental cases. In the underlying case, the parties had executed and filed with the court pursuant to Rule 11 a confidentiality agreement under which the plaintiff agreed not to disclose documents designated by defendant as confidential. The case was then settled. Several months later, and after the trial court’s plenary jurisdiction had expired, the Dallas Morning News intervened in the case under Rule 76a and moved for access to documents produced in the lawsuit, including some of the unfiled discovery that was the subject of the Rule 11 agreement. The trial court held a hearing and concluded that despite the fact that it had not entered a sealing order, it had continuing jurisdiction under Rule 76a(7) to determine whether documents were “court records.” Defendant filed a petition for mandamus in the court of appeals and a notice of appeal. The court of appeals held that the filing of a motion seeking access to the documents governed by the Rule 11 agreement did not give the district court jurisdiction under Rule 76a and therefore directed the district court to vacate its order setting a hearing on the Rule 76a motion and to take no further action on the motion.

In a *per curiam* opinion, the Texas Supreme Court held that the court of appeals should not have granted mandamus relief and ordered the court of appeals to withdraw its order and deny the petition for mandamus. However, the supreme court’s *per curiam* opinion was accompanied by three concurring opinions. In the first concurring opinion, Justice Abbott, joined by Justices Enoch, Hankinson, and O’Neill, expressed the view that the court should consider whether the trial court had jurisdiction to set and conduct the hearing, even though its order was issued after the final judgment and after the expiration of its plenary power. Justice Abbott indicated that he would hold that Rule 76a(7) provides trial courts with continuing jurisdiction over an intervenor’s attempt to gain or prevent access to court records at any time after judgment and that a court necessarily has jurisdiction to determine whether unfiled discovery made confidential by Rule 11 agreements constituted court records.

Justice Gonzalez, joined by Chief Justice Phillips and Justices Hecht and Owen, was of the view that the real party in interest had an adequate remedy by appeal and mandamus was therefore inappropriate. Justice Gonzalez, however, was also of the opinion that the appeal was not ripe until the trial court issued an order granting or denying the relief that the Dallas Morning News had requested under Rule 76a.

In his concurrence, Justice Baker also expressed the view that mandamus relief was inappropriate because of the availability of the appeal, but indicated that he would hold that Rule 76a(8) was broad enough to permit an immediate appeal from any type of order relating to Rule 76a.

*Compaq Computer Corp. v. Lapray*, 75 S.W.3d 669 (Tex. App.–Beaumont 2002, no pet.), involved the conflict between discovery agreements and Rule 76a. This was an action against Compaq alleging that a defect in the storage ability of the computers caused damage. The case was originally filed in federal court, but was dismissed for want of jurisdiction. Plaintiff filed suit in state court and the trial court entered a protective order regarding the handling of protected information during the pre-trial phase of the case and an agreed order incorporating an agreed discovery control plan. The protective order required that protected information, which included confidential documents, discovery responses, or depositions, be filed with a motion for a temporary sealing order under Rule 76a(5). The discovery control order provided that discovery in the federal case would be treated as if it had occurred in the state action, subject to the discovery control order, the protective order, and applicable Texas rules.

The plaintiffs moved for class certification and filed a Rule 76a(5) motion for temporary sealing order requesting that their motion for class certification and supporting exhibits be temporarily sealed, because they included information that Compaq claimed was confidential. Public notice was posted and the trial court granted a sealing request and set a hearing. Compaq responded with a request that in their motion for class certification,
plaintiffs be required to cite to specific pages of documents and that they attach only those pages, and file under seal only those confidential documents on which they relied, rather than all confidential documents attached to any document upon which they relied. The trial court denied this request and commenced the Rule 76a hearing.

Compaq appealed, contending that the trial court abused its discretion by refusing to adjudicate Compaq’s challenge to the discoverability of the documents before it conducted the 76a hearing. Compaq contended that the trial court abused its discretion by failing to conduct discovery in accordance with the discovery agreement between the parties. The court of appeals affirmed the order, noting that the protective order itself provided that documents were to be filed with the request for a temporary sealing order under Rule 76a(5), and that “all activities thereafter with respect to said motion shall comply with Rule 76a.” The court of appeals noted that Rule 76 contains no requirement that the trial court determine the discoverability of court records prior to determining whether to seal or unseal those records, except in the situation provided for by Rule 76a(2)(a)(1) in which documents filed in camera for the purpose of obtaining a ruling on the discoverability of such documents, in which case the issue of discoverability must be decided before the documents become court records. The court held that the documents in question were court records and that was, therefore, a conflict between provisions of the discovery plan and a protective order, but noted that the discovery plan itself provided that discovery in the state case would be governed by the protective order. On that basis the court held that the trial court did not err in following the provisions of the protective order rather than those of the discovery plan.

Compaq also contended that the trial court abused its discretion in not determining whether the documents were “court records” under Rule 76a before conducting the hearing regarding whether the documents should be sealed. The court of appeals noted that Rule 76(2)(c) provides that unfiled discovery becomes a court record only if the documents contain matters having a “‘probable adverse effect upon the general public health or safety, or the administration of public office, or the operation of government.’” Id. at 673 (quoting TEX. R. CIV. P. 76a(2)(c)). The rule then requires that the trial court determine the “probable adverse effect” issue regarding the questioned documents and thus determine whether the documents are court records. However, the rule requires no such determination in a case or filed documents, but provides simply that “documents of any nature” are court records if they are filed in the matter before a civil court and are not accepted by another provision of the rule.

The court also held that the trial court did not abuse its discretion in finding that many documents submitted by plaintiffs had no connection with the issues on class certification and thus were not court records. The court of appeals held that Rule 76a(2)(a) provided support for the trial court’s ruling and thus it did not abuse its discretion. Finally, the court of appeals held that Compaq had failed to meet its burden under Rule 76a(1) of showing that its interest in protecting its trade secrets clearly outweighed any presumption of openness. The court noted:

Rule 76a(1), (7) mandates that Compaq, the party seeking to seal records, had the burden to show both that (a) it had a “‘specific, serious and substantial interest’” clearly outweighing (1) the presumption of openness afforded by the rule of court records, as well as (2) any probable adverse effect that sealing would have on the general public health or safety and that (b) there was no less restricted means other than sealing the records that would adequately and effectively protect its specific, asserted interest.

Id. at 674.

The court of appeals characterized Compaq’s argument as “if it’s a trade secret, it must be sealed as a matter of law.” Relying in part on In re Continental General Tire, Inc. 979 S.W.2d 609 (Tex. 1998), the court of appeals held that Compaq was required to make a showing of “no less restricted means” of protecting its interest.

In re Temple-Inland, Inc., 8 S.W.3d 459 (Tex.App.–Beaumont 2000, orig. proceeding), is instructive on the scope of the interests that may be subject to protection under Rule 192.6. In this case, defendant sought a protective order under TEX. R. CIV. P. 192.6 regarding certain documents, which it produced for in-camera inspection by the trial court. The trial court ordered certain of the documents to be produced, and ordered that others not be
produced because of the attorney-client privilege. The court of appeals held that the documents that the trial court ordered to be produced were not trade secrets and not protected by any privilege. However, the court noted that the documents, which included a list of individuals who were barred from certain premises and the reasons for such bar presented an additional issue under Rule 192.6. The court of appeals stated:

While we are in full agreement with the trial court as to the discoverability of the documents ordered produced, we cannot agree that, at this point in the litigation, said documents . . . may be used by the plaintiffs for any purpose they see fit. Rule 192.6 clearly provides the opportunity to “any other person affected by the discovery request” to request that the trial court protect said affected person from “harassment” “annoyance” or “invasion” of a variety of rights including, we believe, a right to complete privacy. The trial court’s order as it currently stands ignores what we find to be a compelling public interest manifested in the language contained in Rule 192.6 vis a vis unwitting third parties. We believe a discovery order affecting the privacy interests of persons who do not have notice of the litigation, while providing plaintiffs with the documents previously ordered, must also include protective language, e.g.:

1. The documents in question be provided in sealed envelopes marked confidential.
2. Only the counsel of parties to the instant lawsuit may have access to the documents in question.
3. The information contained in the documents in question shall not be shared with or disclosed to any other person, either directly or indirectly, unless otherwise ordered by the trial court.
4. No party, their agents or representatives, shall directly or indirectly contact any named individual nor undertake further discovery regarding such named individuals until permitted to do so by further order of the trial court.
5. The produced documents in question shall be returned to the producing party after final disposition of the instant lawsuit.

Accordingly, the court of appeals held that the trial court abused its discretion and directed the trial court to modify the order in accordance with the opinion.

An unfortunate, but not uncommon, set of facts was presented in In re Marketing Investors Corp., 1998 WL 909 895 (Tex. App.–Dallas Dec. 31, 1998, orig. proceeding). There, an officer of relator executed a confidentiality agreement regarding trade secrets, and proprietary and confidential information. When the individual was terminated, he removed certain documents that were allegedly covered by his confidentiality agreement. The corporation filed suit against the former officer for fraud, breach of fiduciary duty, and other torts, and learned during discovery that he had possession of the documents in question. The parties then entered into an agreed protective order to maintain the confidentiality of properly obtained discovery. The corporation then requested that the individual return the documents and agree not to use them. The individual returned the originals, but kept copies. The corporation then filed a motion to stay and sealed the documents. The trial court granted a stay pending determination of the protective order, but denied the motion to seal. The corporation then sought a protective order requesting return of the documents, sanctions, and disqualification of the individual’s counsel. The trial court denied the motion for protective order and the corporation sought a writ of mandamus. The court of appeals held that the non-disclosure covenant was valid and applied to the documents in question. The court of appeals held first that the individual could not justify his possession of the document under the agreed protective order, because the fact that he had absconded with the documents meant that the corporation had had no opportunity to assert any privilege or lodge any objection to the production of the documents due to the manner in which they were taken. The court held that the protective order did not make his possession of the documents proper or constitute a waiver of the corporation’s right to confidentiality or privilege. The court of appeals concluded that the trial court abused its discretion in not ordering return of the copies of the documents, and in not disqualifying his counsel because of his conduct in the case relating to documents. Id. at 909 895 *5.
In *Upjohn Corp. v. Freeman*, 906 S.W.2d 92 (Tex. App.–Dallas 1995, no writ), the court of appeals confronted the conflict between the trade secrets protection provided by the rules and the disclosure requirements of Rule 76a. There, plaintiff sued Upjohn for injuries resulting from his use of a sleeping pill. The defendant asked the trial court to limit disclosure of documents under Rule 76a and posted the public notices required by Rule 76a(3). The Dallas Morning News, Inc. and Public Citizen intervened. After a hearing, the trial court granted in part and denied in part Upjohn’s request for a sealing order. The court sealed the portion of the discovery documents containing protocols for testing and analyzing the drug in question based upon a finding that these protocols constituted trade secrets. The trial court did not seal the remaining documents, and Upjohn appealed. The court of appeals’ opinion sets out a good summary of Rule 76a:

Rule 76a (1) provides that “court records . . . are presumed to be open to the general public.” TEX. R. CIV. P. 76a(1). “Court records” include “discovery, not filed of record, concerning matters that have a probable adverse effect upon the general public health or safety . . . except discovery in cases originally initiated to preserve bona fide trade secrets or other intangible property rights.” TEX. R. CIV. P. 76a(2)(c).

The trial court may not presume a document or particular group of documents are court records if a party in a Rule 76a motion contests whether the discovery in question constitutes court records as defined in the rule. . . . When the issue is raised, the trial court must determine whether a specific document or category of documents are court records. If the character of the discovery documents is disputed, it is the burden of the party claiming the documents are open to the public to prove by a preponderance of the evidence that the documents are court records as defined by Rule 76a. . . .

If the trial court finds that the documents are court records, the documents are presumed to be open to the general public. The party moving for the sealing order then has the burden to rebut the presumption and order to seal the records. TEX. R. CIV. P. 76a(1). . . . A party may rebut the presumption of openness by proving the following:

(a) a specific, serious and substantial interest which clearly outweighs:
   (1) this presumption of openness;
   (2) any probable adverse effect that sealing will have upon the general public health or safety;
(b) no less restrictive means than sealing records will adequately and effectively protect the specific interest asserted. TEX. R. CIV. P. 76a(1) (a), (b). The party seeking to seal the court records must prove the elements of Rule 76 by a preponderance of the evidence.

*Id.* at 95-96 (citation omitted).

The court then noted: “A properly proven trade secret interest may constitute a specific, serious, and substantial interest which would justify restricting access to the documents in question.” *Id.* It is interesting to note that although Upjohn offered to tend to the documents for in-camera inspection, it appears that neither the trial court nor the court of appeals inspected all of the documents. The court of appeals stated however that an in-camera inspection of the documents is not required since Rule 76 provides that the trial court may inspect records in-camera or may base its decision on pleadings, stipulations, affidavits, discovery requests, and oral testimony.

The documents were clinical studies, internal memoranda, adverse reaction reports, and analyses and miscellaneous documents including correspondence all of which dealt with the drug Halcion. The court of appeals reviewed the evidence regarding whether the documents concern matters that had a probable adverse effect upon public health or safety and found that the trial court did not abuse its discretion in determining that the documents should be unsealed. The opinion contains a good discussion of the manner in which a trial court should weigh the evidence and the factors that should be considered in determining whether unfilled discovery is a court record.

*Eli Lilly & Co. v. Biffle*, 868 S.W.2d 806 (Tex. App.–Dallas 1993, no writ), was an appeal from a trial court’s order denying a manufacturer’s motion to seal certain documents under Rule 76a in a product liability issue relating to the use of Prozac. In discovery, the manufacturer objected to production of documents regarding Prozac and the plaintiff filed
a motion to compel. The manufacturer then filed a motion for protective order and an order sealing certain documents pursuant to Rules 166b and 76a alleged to contain trade secrets relating to Prozac. Because of a dispute as to whether Rule 76a applied to trade secrets, the trial court declined to consider the request to seal the documents under Rule 76. However, the trial court ordered production of most of the documents and denied the manufacturer’s request for a protective order under Rule 166b restricting public dissemination of the documents it was ordered to produce. After a mandamus in which the supreme court ordered the trial court to conduct a hearing, Eli Lilly & Co. v. Marshall, 829 S.W.2d 157 (Tex. 1992) (orig. proceeding) (per curiam), the trial court held a hearing and denied the manufacturer’s motion for an order to seal the documents under Rule 76a. At the hearing, the trial court apparently stated that it presumed the documents were “open” to the public and told the manufacturer that the burden was on it to go forward. The court of appeals held that the trial court erred in presuming that unfiled discovery constituted a court record.

Rule 76a does not contain a presumption that discovery documents not filed with the trial court are court records. The rule provides only that court records are presumed to be open to the general public. Under rule 76a, discovery not filed with the trial court is open to the public only if it is a court record as defined by the rule. A trial court may not presume a particular document or group of documents are court records if the party in a rule 76a motion raises the issue of whether the discovery in question constitutes court records as defined in the rule. When the issue is raised, the trial court must make a factual determination of whether a specific document or category of documents constitutes court records.

The burden to prove that all or some of the discovery documents sought to be sealed are “court records” properly rests on the party urging that the documents should receive the benefit of the presumption of openness described in rule 76a. In effect, the burden of proof rests with the party opposing the motion to seal because it is that party who contends the discovery is open to the general public. If the character of the discovery documents that are the subject of the motion to seal is disputed, we hold it the burden of the party asserting that the documents are open to the public to prove by a preponderance of the evidence that the documents are court records as defined by rule 76a.

Because only court records are presumed open to the general public, we conclude that the trial court, by presuming the discovery documents in question were “open,” necessarily presumed the documents were court records. As we have already determined, rule 76a does not permit the trial court to make such a presumption if the character of the documents is placed in issue. The trial court must determine whether the documents are court records based upon evidence presented, which may inescapably include the documents themselves submitted in-camera for the trial court’s examination.

By presuming the documents in question were court records, the trial court allocated to [the manufacturer] the burden of proving the documents were not court records. No such burden exists. Because the burden of proof on the issue of whether the documents are court records rests with the party contending the documents are not court records, [the manufacturer was] entitled to have the trial court determine whether [plaintiffs’] evidence showed the documents were court records as defined by rule 76a (2)(c). [The manufacturer was] not obligated and should not have been required to present evidence on this issue. If [plaintiffs] did not discharge their burden of proof, the documents in question would not be subject to being sealed and [the manufacturer's] rule 76a motion would become moot.

Id. at 808-09.

III. STATUTE OF FRAUDS
In oil and gas transactions, the issue of confidentiality often arises in connection with a voluntary disclosure of otherwise confidential information to a competitor, usually as an inducement to a proposed transaction. Several
unique issues arise in connection with confidentiality agreements executed under these circumstances. The first problem is the definition or description of the area to which the confidentiality agreement applies. Often these agreements are prepared by landmen or other operating personnel. They often use a form confidentiality agreement and—at best—merely attach a map, diagram, or generic list of properties or leases. The difficulty for the lawyer arises when he or she is asked to enforce such an agreement. If the remedy provided by the agreement is a right of the disclosing party to receive a transfer of any leases or other interests acquired by the other party in violation of the agreement, a question that may arise is whether the agreement complies with the statute of frauds.\(^1\)

The statute of frauds, codified in Texas as TEX. Bus. & COMM. CODE §26.01 (Vernon 2002), provides that certain types of agreements must be in writing to be enforceable. Among these are “a contract for the sale of real estate.” Id. at §26.01(a)(4). It is well-established that an agreement to assign an interest in an oil and gas leasehold estate “is subject to the statute of frauds as set out in section 26.01 of the Texas Business & Commerce Code.” Westland Oil Dev. Corp. v. Gulf Oil Corp., 637 S.W.2d 903, 905 (Tex. 1982). A contract regarding the acquisition of oil and gas leases in the future within an area of mutual interest “is in the nature of a contract to convey interests in oil and gas leases.” Id. at 908.

In Westland Oil Development Corp. v. Gulf Oil Corp., a contract that described the area of mutual interest as “any of the lands covered by said farmout agreement, or any additional interest from Mobil Oil Corporation under lands in the area of the farmout acreage” was not sufficient. The court rejected the plaintiff’s argument that ‘the area’ meant the area of the production reservoir in question, holding that to do so would be an impermissible inference. Id.; see also Swinehart v. Stubbeman, McRae, Sealy, Laughlin & Browder, Inc., 48 S.W.3d 865, 875 (Tex. App.–Houston [14th Dist.] 2001, pet denied) (contract requiring oil company to assign to geologist percentage of any prospect that was subsequently leased lacked specific property description and was thus unenforceable under statute of frauds).

To comply with the statute of frauds, the written agreement “must furnish within itself, or by reference to some other existing writing, the means or date by which the particular land to be conveyed may be identified with reasonable certainty.” Morrow v. Shotwell, 477 S.W.2d 538, 539 (Tex. 1972). The property description in Morrow v. Shotwell, was held to be insufficient as a matter of law because “there are no means or data in the description to tell a surveyor on what courses or for what distances he will run after intersecting the west boundary of highway no. 277.” Id. at 540.

Similarly in Reagan v. Kiniec, 551 S.W.2d 525, 528 (Tex. Civ. App.–Waco), aff’d in part and rev’d in part on other grounds, 556 S.W.2d 567 (Tex. 1977), the court of appeals held that a “tract of approximately seven (7) acres lying adjacent to said County Road between Steel’s Creek and the west boundary line of Section Number 32 of said Grant” did not comply with the statute of frauds because “we have no beginning point, no courses or distances by which to fix the location of said tract,” noting that “[d]escriptions without boundary lines, beginning points, or other means by which the acreage can be located have often been held to be insufficient to meet the Statute of Frauds.” Id. at 529-30 (citations omitted).

In U.S. Enterprises, Inc. v. Dauley, 535 S.W.2d 623 (Tex. 1976), the supreme court held that “[a]n attached map becomes a part of the written contract and can aid a defective written description if the map contains enough necessary descriptive information. . . . Whether a map is helpful in remedying defective parts of the contract depends on whether the missing details are shown on the map.” Id. at 628 (citations omitted); see also Sabine Inv. Co of Tex., Inc. v. Stratton, 549 S.W.2d 247, 250 (Tex. Civ. App.–Beaumont 1977, no writ) (contract for conveyance of lot invalid because “no valid legal description could be arrived at by using the contract and plat together. . . . [T]he courses as well as the distances would [also] be needed.”).

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\(^1\) Non-disclosure covenants are generally not considered to be restraints on trade, and are therefore not subject to the same restrictions on enforcement that are encountered with a covenant not to compete. CRC-Evans Pipeline Int’l, Inc. v. Myers, 927 S.W.2d 259, 265 (Tex. App.–Houston [1st Dist.] 1996, no writ); see Zep Mfg. Co. v. Harthcock, 824 S.W.2d 654, 663 (Tex. App.–Dallas 1992, no writ).
The use of extrinsic evidence to supply the necessary certainty to a property description is strictly limited:

“The certainty of the contract may be aided by parol only with certain limitations. The essential elements may never by supplied by parol. But the parol must not constitute the framework or skeleton of the agreement. That must be contained in the writing. Thus, resort to extrinsic evidence, where proper at all, is not for the purpose of supplying the location or description of the land, but only for the purpose of identifying it with reasonable certainty from the data in the memorandum.”

Morrow, 477 S.W.2d at 541 (quoting O’Herin v. Neal, 56 S.W.2d 1105 (Tex. Civ. App.–Texarkana 1932, writ ref’d)) (emphasis omitted). Thus, the fact that a surveyor might be able, after a search of abstract records and with direction from the owner or an attorney, to locate and survey the property does not cure the defective description. Texas law requires that the surveyor be able to identify the land “with reasonable certainty from the data in the memorandum.” Id. at 541 (emphasis added). However, a surveyor may not resort to extrinsic evidence such as leases or deeds to locate the land. Id. at 540.

Also, the description is not saved by the fact that the parties may have known exactly what property the agreement was intended to cover. “The record leaves little doubt that the parties knew and understood what property was intended to be conveyed. . . . However, the knowledge and intent of the parties will not give validity to the contract,. . . and neither will a plat made from extrinsic evidence.” Id. at 540. In Phillips v. Burns, 252 S.W.2d 927, 928 (Tex. 1952), the land was described as “‘[o]ne certain farm located about 6 miles south of [town] . . . and known as the old Whipple Place, together with several tracts of land adjoining it; amounting in all to about 500 acres, now owned by the lessor herein.’” The court ruled that the inclusion of the phrase “several tracts adjoining it” made the instrument uncertain, indefinite, and unenforceable under the statute of frauds. The court reasoned: “How many of the additional tracts are there? What is the acreage of each of them? Where do they adjoin the old Whipple place?” Id.
The court further held that it could not hold the description valid as to only the old Whipple Place, disregarding the several tracts of land adjoining it, as “[t]hat would be writing a new lease or contract for the parties.” Id.

When a description of the real property covered by a confidentiality agreement is inadequate, the agreement is unenforceable, and the disclosing party may neither enforce it by specific performance nor recover damages for its breach. Wilson v. Fisher, 188 S.W.2d 150 (Tex. 1945).

IV. REMEDIES

A. Injunction

Injunctive relief is available and is commonly sought in cases involving the misuse of confidential information or trade secrets. Luccous v. J.C. Kinley Co., 376 S.W.2d 336 (Tex. 1964); Daily Int’l Sales Corp. v. Eastman Whipstock, Inc., 662 S.W.2d 60 (Tex. App.– Houston [1st Dist.] 1983, no writ). Injunctive relief is proper to prevent a party, which has appropriated another’s trade secrets, from gaining an unfair market advantage. Oftentimes the only effective relief available is to restrain the use of alleged trade secrets and confidential information pending trial, particularly where the loss of good will would be immeasurable and the potential damage to the applicant’s business cannot be readily calculated and the legal remedy of damages is therefore inadequate. T-N-T Motorsports, Inc. v. Hennessey Motorsports, Inc., 965 S.W.2d 18, 24 (Tex. App.– Houston [1st Dist.] 1998, pet. dism’d).

The rules applicable to a temporary injunction are well-established. At the preliminary hearing, the applicant is not required to prove it will prevail at final trial. Sun Oil Co. v Whitaker, 424 S.W.2d 216, 218 (Tex. 1968). To be entitled to a temporary injunction, an applicant must plead a cause of action, show a probable right to recover on that cause of action, and show a probable injury in the interim. Id. at 218; Manufacturers’ Hanover Trust Co. v. Kingston Investors Corp., 819 S.W.2d 607, 610 (Tex. App.– Houston [1st Dist.] 1991, no writ). The applicant also must show that no adequate legal remedy exists. Manufacturers’ Hanover, 819 S.W.2d at 610. A probable right of success on the merits is shown by alleging a cause of action and
B. Measure of Damages

The measure of damages in an action for misuse of confidential information is well-established in Texas. In *Chandler v. Mastercraft Dental Corp. of Texas, Inc.*, 739 S.W.2d 460 (Tex. App.–Fort Worth 1987, writ denied), an action for breach of a covenant not to compete in the sale of a business, the jury found that the covenant not to compete had been violated and the court entered a permanent injunction and awarded damages. The special issues submitted to the jury asked the jury to find the amount of damages sustained as a result of the breach of contract, and instructed the jury to consider loss of profits, profits made by the breaching party to the extent not included in lost profits, and the normal increase in business which might have been expected in light of past developments and existing conditions. The court of appeals affirmed, holding that this was a proper submission of lost profits in connection with the breach of a covenant not to compete pursuant to the sale of the business. *Id.* at 466. The court of appeals also affirmed the jury finding as to the fair market value of the converted trade secrets, holding: “The proper measure of damages for conversion is the value of the value of the property at the time and place of conversion.” *Id.* at 469 (citing *Pruitt v. Branham*, 643 S.W.2d 122, 123 (Tex. 1982)).

*Sikes v. McGraw-Edison Co.*, 665 F.2d 731 (5th Cir. 1982), was an action by an engineer and “tinkerer” for damages for misappropriation of trade secrets concerning a device he invented and demonstrated to McGraw-Edison pursuant to a confidentiality agreement. McGraw-Edison ultimately decided not to purchase the device, and shortly thereafter began to market its own. The jury awarded Sikes $900,000 in actual damages. On appeal, the Fifth Circuit held that the district properly instructed the jury “to compensate Mr. Sikes in that amount shown by a preponderance of the evidence to represent his ‘actual damages, if any, caused by the Defendant’s infringement and the amount of money by which the Defendant was unjustly enriched, if any, as a consequence of Defendant’s infringement.’” *Id.* at 736. The Fifth Circuit reasoned that the instruction properly caused the jury to award the actual losses suffered by the plaintiff and a reasonable amount as compensation for the unauthorized use of his device. *Id.* at 737. The Fifth Circuit also held that the district court did not err in not limiting the damage award to the two-year confidentiality period specified in the agreement, because McGraw-Edison had not complied with the agreement and the question of what compensation would have been provided to Mr. Sikes had an agreement been reached was speculative. *Id.* Finally, the court found that the amount of the award was reasonable in that it was based upon a royalty similar to that proposed by Mr. Sikes with which McGraw-Edison did not disagree, and was supported by expert testimony.

*Elcor Chemical Corp. v. Agri-Sul, Inc.*, 494 S.W.2d 204 (Tex. Civ. App.–Dallas 1973, writ ref’d, n.r.e.), was an action by Elcor Chemical against former employees for an injunction against use or disclosure of confidential information and trade secrets relating to a chemical manufacturing process and for damages. The trial court granted a permanent injunction and awarded damages. Although the court of appeals reversed the award of damages because of the absence of evidence, it agreed with Elcor’s assertion that reasonable royalty on sales of the product resulting from the breach of confidence, the cost of research and development to the owner of the trade secret, the profits lost by the owner from being deprived of the trade secrets, and the profits obtained by the breaching party at the expense of the owner were all proper elements of damage in a case involving the wrongful use of the trade secret. *Id.* at 214.

In the oil and gas field, the confidential information that finds itself the subject of litigation usually relates to the location of what someone thinks is a promising play and the subject of the damage award is often a lease that someone has taken by allegedly using confidential information. Given the fluctuation in energy prices and lease costs, not to mention the possibility of a dry hole, the case of *Whiteside v. Trentman*, 141 Tex. 46, 170 S.W.2d 195 (1943), illustrates an interesting aspect
of the problem of defining the proper method of damages. In *Whiteside v. Trentman*, the owner of a number of oil and gas leases farmed out a few of the leases to defendant, who agreed to drill two test wells at specified locations. Defendant drilled the first well, which was a dry hole, and refused to drill a second well. Whiteside, the plaintiff, contended that his retained leases would have increased in value during the time the second well was being drilled and the jury found that he lost an increased market value of the retained acreage in the amount of approximately $1,400. The jury also found that the second well would have been a dry hole. The trial court entered a judgment for Whiteside. The court of civil appeals reversed and the case was appealed to the supreme court, which stated the following description of the question presented for review:

Does the amount which the retained leases would have increased in market value during the process of drilling the second well, had same been drilled, measure the damage the same by Whiteside? The Court of Civil Appeals held that it did not and we are of the opinion that this holding is correct. The only damage which Whiteside suffered, if any, was from loss of profits.

*Id.* at 196.

The court then quoted from the court of civil appeals’ opinion: “It is obvious, under the jury finding that such well would have been a dry hole, that after the completion of such well had it been drilled, plaintiff’s retained leases would have had less value than before.” *Id.*

The supreme court stated that the plaintiff’s argument was incorrect because “[t]here were no special issues submitted to the jury calling for findings on the question of whether or not Whiteside would have sold his leases while the drilling was in progress and, without such findings, there is no basis for determining that he suffered any loss at all.” *Id.* The supreme court relied on its previous decision in *Riddle v. Lanier*, 136 Tex. 130, 145 S.W.2d 1094 (1941):

In the Riddle-Lanier case, as here, the jury found, in effect, that the well would have been a dry hole, and there, as here, there was no finding that plaintiff would have sold his retained leases while the well was being drilled. In short, the two cases are almost identical in fact and in the findings by the jury. The rule for measuring the damages relied upon by Whiteside in this case was expressly rejected in that case, the basis of the opinion being that the plaintiff would not have been affected by a rise or fall in the market value unless he had sold his leases, since his damage, if any, was loss of profits.

*Id.*

In anticipation of a new trial, the supreme court added:

We recognize that it will be a somewhat unusual proceeding to try the issue of what Whiteside would have done had Trentman not breached its contract, but it cannot be said, as a matter of law, in advance of a hearing that he will be unable to make a satisfactory showing that loss of profits resulted from the breach. If he makes such showing, no reason is perceived why he should not be awarded a recovery therefor. Such profits might reasonably have been foreseen as a probable consequence of the breach, and that, in the final analysis is the applicable test.

*Id.* at 197.

It is therefore important to undertake a careful economic analysis to determine whether the plaintiff has suffered any economic damage, regardless of what the defendant may have done.
CONFIDENTIALITY AGREEMENT
(Long Form)

IT IS HEREBY STIPULATED AND AGREED BY Plaintiff ___and Defendant ___that this Confidentiality Agreement shall govern the handling of all Produced Information, as defined herein, and all Confidential Information, as defined herein, that is produced or obtained by either party or any person bound by this agreement.

1. Definitions.

The following definitions shall apply to this Confidentiality Agreement:

a. “Action” shall mean the above-styled and numbered cause.
b. “Party” or “Parties” shall mean and refer to the named Plaintiff and Defendant in the Action. A Party which produced information in the Action, either directly (such as by a production of its own documents) or indirectly (such as through the testimony of its employees, consultants or agents) is the “Producing Party” as to that information and each of the other Parties receiving that information is a “Receiving Party” with respect to it.
c. “Attorney for a Party” shall mean any partner, member, associate, of-counsel, special counsel or other attorney of a law firm, general counsel or in-house counsel, representing any Party in the above-entitled action and paralegals, legal assistants and legal secretaries working with such persons.
d. “Designating Party” shall mean the Party designating documents or other information as “Confidential” or as “Confidential-Attorney Only” in this action.
e. “Confidential Information” (including Confidential-Attorney Only Information) shall mean and refer to any materials which contain or disclose proprietary (i.e., not publicly available) information of a commercially valuable or otherwise sensitive nature the disclosure of which to the Designating Party’s competitors or the public would potentially have adverse implications on the Designating Party’s legitimate business interests and expectations or which otherwise is entitled to confidential status under criteria that have been or are hereafter established by the Court or under applicable law. Material which has been designated by a Party as Confidential, and the information in that material, shall be entitled to the protection afforded such material under this Confidentiality Agreement unless and until such designation either has been abandoned or modified by the Designating Party or has been set aside or modified by the Court.
f. “Confidential-Attorney Only Information” shall mean and refer to any materials which contain or disclose Confidential Information which also (i) is of such commercially sensitive nature that it should not be used, disclosed or disseminated beyond the use, disclosure and dissemination provided for such information in this Confidentiality Agreement, and (ii) disclosure of which beyond the Attorney for a Party or Expert is not reasonably necessary for establishing any matter in dispute in this Action and is otherwise such that the use restrictions provided for in this order do not materially impair the prosecution or defense of any claim in this action. Material which has been designated by a Party as Confidential-Attorney Only, and the information in that material, shall be entitled to the protection afforded such material under this Confidentiality Agreement unless and until such designation either has been abandoned or modified by the Designating Party or set aside or modified by the Court.
g. “Expert” shall mean, include and refer to persons in the following positions with respect to each Receiving Party to whom Confidential-Attorney Only Information has been produced: an attorney for a Party in the Action, and with respect to each Receiving Party to whom specific designated Confidential-Attorney Only Information has been produced, an in-house or retained individual with special skill and training (i.e., an expert) whose
review of and participation in the evaluation of specific Confidential Attorney Only Information is reasonably believed by counsel of record to be necessary for a proper understanding and evaluation of such specific information and of either its potential significance to establishing any matter in dispute in this Action or whether it is otherwise of such a nature that its restriction as provided herein will materially impair such Party’s prosecution of defense of this Action.

h. “Document” shall refer to the original or copies of any written, printed, typed, recorded or graphic matter whatsoever, however produced or reproduced, including, without limitation, data stored on electronic, magnetic, or mechanical devices, of any kind or description, including, but not limited to affidavits, certificates, letters, facsimiles, correspondence, telegrams, memoranda, records, minutes, contracts, conferences, bulletins, circulars, pamphlets, studies, notices, summaries, reports, books, invoices, purchase orders, work sheets, tape recordings, bookkeeping, accounting and tax records, balance sheets, canceled checks, check stubs, photographs, videotapes, and all things similar to the foregoing.

i. “Produced Information” means, refers to and includes all material and information produced in this Action by any Party.

j. “Qualified Persons” are limited to the following:
   (1) Attorneys for the Parties;
   (2) Deponents and attorneys for any non-party deponents, provided, however, that before disclosing any Confidential Information to any non-party deponent or his or her attorney, counsel shall advise them of the terms of this Confidentiality Agreement, and shall endeavor to have each such deponent and his or her attorney execute an Acknowledgment to be bound by the terms of this Confidentiality Agreement in the form attached as Exhibit A (all such Acknowledgments to be retained by the deposition officer and included as exhibits to the deposition transcript); provided further, that if any non-party deponent or his or her attorney refuses to execute an Acknowledgment, or otherwise refuses to be bound by this Confidentiality Agreement, then in no event shall they or any of them be allowed to take from the deposition room any documents containing Confidential Information and the deponent will be required to review and execute the transcript of the deposition in the offices of the deposition officer, and, notwithstanding any other provision of law, neither the deponent nor the deponent’s counsel shall be provided a copy of the transcript (or of the videotape or audiotape) of such deposition, any deposition exhibit, or any other document containing Confidential Information, unless and until they shall have executed such an Acknowledgment and provided the executed original thereof to the deposition officer and a copy of the executed original thereof to each party (or counsel for each party) who attended the deposition;
   (3) Non-technical and clerical staff employed by the Attorneys for the Parties in connection with the preparation for, and the trial of, this Action;
   (4) Independent personnel retained or consulted by counsel to furnish technical litigation support services or consulting expert services or advice or to give expert testimony; provided, however, that before disclosing any Confidential Information to any such personnel, counsel shall advise them of the terms of this Confidentiality Agreement, and each such person shall execute an Acknowledgment to be bound by the terms of this Confidentiality Agreement in the form attached as Exhibit A (all such Acknowledgments to be retained by counsel for the Party obtaining the Acknowledgment and available to opposing counsel by agreement or by order of the Court in the event of a controversy involving improper use or disclosure);
   (5) Officers of and personnel employed by a Party, where needed for the preparation for, and trial of, this Action.
6. Court reporters and deposition officers who execute an Acknowledgment to be bound by the terms of this Confidentiality Agreement on the form attached as Exhibit A (each Acknowledgment shall be retained by the executing court reporter or deposition officer and included as an exhibit or attachment to the transcript prepared by them);

7. The Court in which the Action is then pending court personnel and the trier of fact; and

8. Experts for each of the Parties.

2. Designation as Confidential.

At the time of providing copies of any materials requested by any party, the producing Party shall designate as Confidential Information any such material by placing the word “Confidential” on each page of such document of other material, and shall designate as Confidential-Attorney Only Information and such material by placing the words “Confidential-Attorney Only” on each page of such document or other material; provided, however, that if it is not practicable to so label the material, by such other means as will identify the material (whether Confidential or Confidential-Attorney Only) with sufficient specificity to permit discovering counsel to adhere to the provisions of this Confidentiality Agreement.

3. Dealing with Confidential Information During Depositions.

To the extent that a Party utilizes documents designated as containing Confidential Information in any deposition, said documents shall be so identified on the record in the deposition transcript before the Confidential Information is introduced into the record. Any document containing Confidential Information which is made an exhibit during the deposition shall be marked “Confidential” and maintained in accordance with the terms of this Confidentiality Agreement.

4. Limits on Use and Photocopying of Material.

Produced Information shall be used solely and exclusively for purposes of the prosecution and/or defense of this Action; provided, however, that with respect to any part or portion of any Produced Information that is already within the public domain or subsequently becomes within the public domain through any means other than a violation of this Confidentiality Agreement by or for a Party receiving that Produced Information, then there shall thereafter be no limitation on the further use or public disclosure of that specific part or portion of the Produced Information. For example, if the specific Produced Information has not been designated Confidential Information of Confidential-Attorney Only Information, and is included in a filing with the Court in compliance with this Confidentiality Agreement, then such information will have become available to the public and there would subsequently be no limitation with respect to the use or disclosure of that specific Produced Information under this Confidentiality Agreement. Material designated as Confidential Information shall not be made public and shall be used solely and exclusively for purposes of the prosecution and/or defense of this Action, and will be disclosed only to Qualified Persons. Material designated as Confidential-Attorney Only Information shall not be made public and shall be disclosed only to Attorneys for the Parties and Experts, or to the Court in connection with a motion or application concerning it under paragraph 7, below. Nothing in this Confidentiality Agreement shall limit in any way the use or dissemination of any produced Information (including Confidential Information and Confidential-Attorney Only Information) by the Party who produced the same in this Action.


No Confidential Information received by any Party in this Action may be revealed by a Receiving Party to the public or to any person or entity not described in Paragraphs 1(j) (1 through 8). No Confidential-Attorney Only Information received by any Party in this Action may not be revealed by a Receiving Party to any person or entity not included in Paragraph 1(j)(1), 1(j)(7), or 1(j)(8).

6. Objection to Designation as Confidential.
If a Party disagrees with a designation of Confidential Information or of Confidential-Attorney Only Information by a Designating Party, counsel for the objecting Party shall notify counsel for the Designating Party of such objection in writing requesting the withdrawal or a specified modification of such designation. The Designating Party shall provide a written explanation as to why the Designating Party believes each item of material should be treated as designated by it or a written withdrawal or modification of such designation promptly upon receipt of the written objection (with the understanding that the time to so respond to such an objection may depend upon the number, length and variety of materials that are the subject of the objection and other factors). Both the Designating Party and the objecting Party shall then meet and confer in good faith within ten business days after receipt of the written explanation. If either the objecting Party or the Designating Party concludes that the Parties are unable to resolve the dispute, the objecting Party or the Designating Party may thereafter seek a determination from the Court as to whether the disputed materials should be protected as designated. In any event, the disputed material shall remain Confidential Information or Confidential-Attorney Only Information until the Court has ruled or the designation has been withdrawn or modified. Upon any such motion or application, and regardless of the moving or applying party, the Designating Party shall have the burden of establishing the propriety of its designation with respect to the particular Produced Information in question.

7. Filing Confidential Information.

If, in connection with any motion, hearing or other proceeding before the Court, any party intends to file a brief, memorandum, affidavit or other paper or any documents, exhibits, or other materials that reveal Confidential Information or Confidential Attorney Only Information, the materials filed with the Court shall be submitted in a sealed, opaque envelope bearing the caption of this Action, identifying the motion, hearing or other proceeding before the Court, and the name of the party filing the sealed items. The envelope shall state: “This envelope is sealed pursuant to a Confidentiality Agreement and is not to be opened except by the Court.”

8. Exhibits.

Any Party designating their exhibits for trial, shall indicate if any exhibit designated by them or any portion thereof has been identified as Confidential Information, or Confidential Attorney Only Information. Prior to the commencement of trial, the Parties shall attempt to establish agreed upon procedures for the use of Confidential Information, or Confidential Attorney Only Information at trial, subject to the approval of the Court.

9. Jurisdiction to Enforce This Agreement.

All Parties, and all persons who have executed a copy of the Acknowledgment of Confidentiality or who are otherwise bound by this Confidentiality Agreement, shall be subject to the jurisdiction of the courts of the State of Texas for purposes of enforcing this Confidentiality Agreement, which shall continue to be binding after the conclusion of this Action, and the Court shall retain jurisdiction for purposes of enforcing it.

10. Dealing with Confidential Information after the Conclusion of Action.

Upon final resolution of this Action, each Party or other person or entity subject to the terms and provisions of this Confidentiality Agreement shall be obliged (a) to return to the Party providing such materials all Confidential Information and Confidential-Attorney Only Information, or (b) to destroy all Confidential Information and Confidential-Attorney Only Information, and to certify in writing such destruction. The return or destruction of Confidential Information and Confidential-Attorney Only Information shall not relieve said persons or entities from the obligations imposed upon them under this Confidentiality Agreement.


The parties agree that they will be bound by applicable Texas law with respect to the handling of any documents that are claimed to have been inadvertently produced attorney-client privileged or attorney work product materials.
[Plaintiff]

By: ______________________________

[Defendant]

By: ______________________________

APPROVED AND AGREED:

By: ______________________________
   Attorneys for [Plaintiff]

By: ______________________________
   Attorneys for [Defendant]

ACKNOWLEDGEMENT OF
CONFIDENTIALITY

I hereby acknowledge that I have been provided with a copy of the Confidentiality Agreement that is in effect in the above-styled and numbered cause, and that I agree to be bound by the terms thereof.

____________________________

Dated: _________________________
CONFIDENTIALITY AGREEMENT  
(Short Form)

IT IS HEREBY STIPULATED AND AGREED BY [Plaintiff] and [Defendant] that this Confidentiality Agreement shall govern the production of confidential documents and information.

1. Counsel for [Plaintiff] or [Defendant] may designate any documents or things produced in the course of discovery in this case as “confidential” when such party or counsel for such party in good faith believes that such document or material contains proprietary or confidential information.

2. The parties shall so designate a document or thing by marking it “CONFIDENTIAL.”

3. No document shall be designated “confidential” if it can be reasonably determined, from the face of the document, that the document has been distributed to persons not obligated to maintain the confidentiality of the information contained therein.

4. Confidential documents and materials will be used by the receiving party solely for purposes of preparing for and conducting the trial of this case.

5. Documents and things designated CONFIDENTIAL, except with the prior written consent of the other party or prior order of a court or other tribunal with jurisdiction, shall not be disclosed to any person or entity other than the following: (a) counsel for the party to which they are produced, and their representatives involved in the case; (b) outside experts and/or consultants who are retained to assist counsel for the party in connection with the case, and the employees of such persons (“Outside Experts”); (c) outside photocopying, data processing, document imaging or graphic production services employed by the parties or their counsel to assist in the arbitration; or (d) stenographers, if any, transcribing any testimony whether by deposition or at the above-referenced arbitration.

6. Any person receiving a document or thing designated as Confidential shall not disclose, disseminate, divulge or discuss such information to or with any other person who is not entitled to receive such information under this agreement. Any copies made of Confidential material are also confidential. Any person who is given access to the Confidential material as permitted herein shall first be informed of the provisions of this agreement.

7. If the parties or their counsel receive a subpoena or other request for documents from any person or entity seeking disclosure of the Confidential material, they shall promptly give written notice by overnight delivery or facsimile to counsel for the other party enclosing a copy of the subpoena, and shall also inform the party issuing the subpoena that the documents sought are subject to this agreement and may not be disclosed without the consent of the other party or upon the order of a court with jurisdiction.

8. After the conclusion of the above-referenced arbitration and all related proceedings, [Plaintiff] and [Defendant] and their counsel, shall return all copies of material designated “CONFIDENTIAL” to counsel for the other party.

[Plaintiff]  
By: ____________________________

[Defendant]  
By: ____________________________
APPROVED AND AGREED:

By: ______________________________
   Attorneys for [Plaintiff]

By: ______________________________
   Attorneys for [Defendant]

ACKNOWLEDGMENT OF CONFIDENTIALITY

I hereby acknowledge that I have been provided with a copy of the Confidentiality Agreement that is in effect in the above-styled and numbered cause, and that I agree to be bound by the terms thereof.

________________________________________
Dated: ________________________________