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TRADE SECRETS – HOW TO KEEP A SECRET!

Recently, in a mandamus action styled *In Re Union Pacific Railroad Company*, 2009 Tex. LEXIS 725; 52 Tex. Sup. J. 1273, the Texas Supreme Court clarified how to assert a trade secret. The Court held that once a trade secret has been established, the burden shifts to the party requesting disclosure of a trade secret to establish that the information is “necessary or essential to the fair adjudication of the case, weighing the requesting party’s need for the information against the potential harm to the resisting party from disclosure.”

FACTS OF THE CASE

In 2004, a Union Pacific Railroad Company train was involved in a collision which resulted in the release of chlorine gas. Kathleen Constanzo and others alleged injury from inhalation of the gas. In the lawsuit against Union Pacific, the Plaintiffs sought the confidential rate schedules of Union Pacific, with respect to hazardous cargo, in connection with various allegations, including the allegation that placing the hazardous cargo at the rear of the train would have increased Union Pacific’s costs.

RULE 507 – TRADE SECRET

Rule 507 of the Texas Rules of Evidence allows a party to refuse to disclose and prevent other persons from disclosing a trade secret, if the allowance of the privilege would not tend to conceal fraud or otherwise work injustice. Moreover, when disclosure of a trade secret is directed, the Judge shall take such protective measures as the furtherance of justice may require.

A trade secret should be asserted by resisting a discovery request through an appropriate mechanism, such as an objection or Motion to Quash, combined with the filing of a Motion for a Protective Order.

THE SUPREME COURT’S RULING

The Supreme Court provided the following directive to trial courts analyzing an assertion of a trade secret privilege:

When a trade secret privilege is asserted as the basis for resisting production, the trial court must determine: (1) whether the requested production constitutes a trade secret and, if so, (2) the Court must require the parties seeking production to show reasonable necessity for the requested materials. If the information is a trade secret and the requesting parties do not need it, an order that requires trade secret disclosure is a clear abuse of discretion.

Union Pacific's claims of trade secret privilege were overruled by the trial court and Union Pacific was ordered to produce its hazardous cargo rate schedules. The Court of Appeals denied Union Pacific's Petition for Writ of Mandamus.

The Supreme Court concluded that the Plaintiffs failed to meet their burden of establishing that the rate schedules were "material and necessary" to the case. Therefore, the Court conditionally granted Union Pacific's Petition for Writ of Mandamus and directed the trial court to vacate its order compelling production of the hazardous cargo rate schedules.

In its ruling, the Supreme Court commented that, "We note that we would have difficulty concluding that evidence of damages, even punitive damages, could not be found anywhere but through trade secrets." With its ruling in this case, the Texas Supreme Court has strongly supported a party's right to maintain trade secrets. Moreover, the Court has provided notice to requesting parties that establishing disclosure of information constituting a trade secret is "necessary or essential to the fair adjudication of the case" will be a heavy burden.

KEEPING A TRADE SECRET

The three steps to maintain a trade secret are as follows:

1. A party asserting trade secret privilege should timely resist the discovery requests for privileged information through the appropriate procedures, such as an objection or Motion to Quash. Additionally, a party should also timely file a Motion for Protective Order seeking the entry of an Order protecting the trade secret;
2. When a trade secret privilege is asserted, the resisting party must demonstrate that the requested information constitutes a trade secret; and
3. If so, the Court must require the party seeking the trade secret to show that the requested materials are necessary or essential to the adjudication of the case.

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