



Tenth Circuit Affirms \$25 Million Judgment in Seismic Data Case

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On May 11, 2009, the Tenth Circuit Court of Appeals affirmed a \$25,266,381 award for M.D. Mark, Inc. against Kerr-McGee Corporation and Oryx Energy Company. A U.S. District of Colorado jury had found that Kerr-McGee Corporation (Kerr-McGee) and Oryx Energy Company (Oryx) breached terms of license agreements and misappropriated trade secrets regarding seismic data owned by M.D. Mark, Inc. (Mark).

The case involved 26,000 miles of seismic data developed by Mark's predecessor-in-interest, Professional Geophysics, Inc. (PGI). This seismic data fell into three categories: (1) Category 1 Data, consisting of 15,745 miles of seismic data that PGI or Mark had licensed to Oryx before Oryx merged into Kerr-McGee; (2) Category 2 Data, consisting of 775 miles of seismic data that PGI/Mark had licensed to Kerr-McGee and that its subsidiary Kerr-McGee Oil & Gas Corporation (KMOG) had used; and (3) Category 3 Data, consisting of 3,175 miles of seismic data that appears not to have been covered by any license agreement and that was discovered to be in Kerr-McGee's possession during the course of the litigation.

The dispute over the licensing of the seismic data began in 1998, when Kerr-McGee and Oryx agreed to merge Oryx into Kerr-McGee, a merger consummated on February 26, 1999. Aware of the pending merger, Mark told Oryx that Kerr-McGee would need to pay a transfer fee to have the benefit of license agreements previously executed between Oryx and PGI/Mark. Oryx and Kerr-McGee took the position that, as the surviving corporation in their statutory merger, Kerr-McGee had the right to retain and use the data licensed by Oryx without paying a transfer fee. After Kerr-McGee declined to pay an invoice for a \$3,000,000 transfer fee, Mark filed suit.

The district court found liability as to each category of data. With respect to Category 1 Data, Oryx and PGI/Mark had entered into two types of form contracts: Type A provided that “the data covered thereunder was for the sole use of Purchaser and was not to be sold, traded, disposed of or otherwise made available to other parties;” Type B authorized the licensee “to disclose the Data by providing copies thereof to a surviving company in the event of a complete merger by Licensee” only after the surviving company executed a sublicense for the data and paid a “group rate fee” for it. The district court instructed the jury, consistent with Colorado law, that “a merger between a licensee and another entity will breach the terms of the licensee’s agreement with a licensor only if the license agreement so provides.” However, the district court also allowed Mark to introduce opinion evidence that both types of agreements precluded the licensee from transferring the license agreements via merger. The jury found that Oryx breached its license agreements with PGI/Mark by transferring them to Kerr-McGee without prior approval. It also found that Kerr-McGee committed misappropriation by wrongfully transferring the Category 1 Data to its subsidiary, KMOG, after the merger.

With respect to the Category 2 Data, the jury found that Kerr-McGee had breached its license agreements with PGI/Mark by transferring them to KMOG. Although Kerr-McGee presented evidence that the Category 2 Data had not been transferred to KMOG, there was also evidence that Kerr-McGee itself did not engage in any oil and gas exploration, that it believed seismic data information could be shared with its affiliates and subsidiaries, and that the persons who were actually using the seismic data were at KMOG’s headquarters, not Kerr-McGee’s.


With respect to the Category 3 Data, the jury found that Kerr-McGee “gained access to and possessed PGI data through improper means.” The jury was instructed that “improper means” include theft, bribery, misrepresentation, or breach or inducement of a breach of a duty to maintain secrecy or not to disclose a trade secret. Mark did not produce any direct evidence that Kerr-McGee had acquired the Category 3 Data by any of these means. However, Kerr-McGee could not produce any evidence explaining how it obtained the data or validating its possession, and poor quality of the data films may have allowed the jury to conclude they were not originals provided directly by Mark to Kerr-McGee.

The Court of Appeals affirmed. It held that the evidence permitted the jury to conclude that Oryx could not transfer its license agreements to Kerr-McGee via merger without Mark’s approval, such that Kerr-McGee was not entitled to

judgment as a matter of law on this issue. It held that the district court did not abuse its discretion in denying Kerr-McGee's motion for a new trial on whether Category 1 Data and Category 2 Data were wrongfully transferred to KMOG or whether Kerr-McGee acquired Category 3 Data through improper means.

Kerr-McGee and Oryx have petitioned the Court of Appeals for rehearing by the panel or en banc on two points. First, they argue that the Court of Appeals' panel opinion contravenes and allows witness testimony to overturn the principle of merger law that the surviving entity in a merger is not an "other" party, but is one with the merging parties. Second, they argue that the panel opinion disregards the principle that mere unauthorized possession of trade secrets (i.e., the Category 3 Data) does not prove misappropriation.

The Colorado Oil & Gas Association, represented by Beatty & Wozniak, and the National Association of Manufacturers have filed amicus curiae briefs in support of the petition for rehearing with respect to a merger's effects on the rights of the merging parties. Amici explain the principle of merger law that the rights of merging entities vest in the surviving entity as a matter of law without constituting a conveyance, transfer, or assignment. They express the concern that the panel opinion creates a cloud on the legal rights of surviving entities after a merger by turning this clear and established legal principle into a fact question.



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