

# IDENTIFICATION OF TRADE SECRETS DURING DISCOVERY: TIMING AND SPECIFICITY

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The following is a hypothetical case provided to illustrate the ambiguity of procedural law as it relates to the discovery of trade secrets. This Article hopes to fill a void by analyzing how a federal district judge might resolve the issue of timing and specificity of discovery in a misappropriation of trade secrets case.<sup>1</sup>

## I. INTRODUCTION: BACKGROUND FACTS

The hypothetical case was brought by Showme, Inc. against Noweigh Corporation for misappropriation of trade secrets. Showme is in the business of research, design, development, manufacture, and sale of liquid inks for use in high speed office copiers. Noweigh develops, manufactures, and sells such copiers.

In 1990, Noweigh called Showme expressing interest in Showme's work on a new ink which Noweigh might incorporate in a new copier then being developed. Representatives of the two companies met and, after signing a Confidential Disclosure Agreement, discussed the technical problems involved in creating an improved ink for the new copier. The parties recognized that the solution to those problems would require a joint effort.

The parties signed a Development Agreement supporting Showme's efforts to product an ink meeting Noweigh's specifications. The Agreement included reciprocal, non-disclosure provisions stipulating that: (1) Noweigh would receive from Showme test samples of ink s, deemed the proprietary information of Showme, for internal use only and would keep in confidence all proprietary information received; (2) Noweigh would not analyze the test samples to determine their compositions; and (3) Noweigh would test the samples with its copier and give Showme the test results. Joint work began in 1992.

Pursuant to the Development Agreement, the parties exchanged information on the performance of Showme's test inks but not on the compositions of those inks. By 1994, both parties agreed that Showme had developed a commercially viable ink, and discussions turned to business issues. Showme and Noweigh both wanted Showme to manufacture and supply ink for Noweigh's copier. As part of the negotiations, Showme gave Noweigh documents concerning Showme's operations and financial condition, including a projection of future business prepared for Noweigh at its request. Showme disclosed confidential information relating to customers, backlog and manufacturing processes and techniques. Noweigh representatives were allowed to inspect Showme's plant facilities, equipment and inventories.

Business discussions proved fruitless. Noweigh notified Showme of its decision not to pursue Showme's ink. Almost immediately thereafter, Noweigh began to market its new copier. Showme bought a copier and analyzed the ink. In all of the tests that

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<sup>1</sup> "In comparison to discourse on the substantive aspects of trade secrets, comment on the special ramifications of procedural law and other litigation aspects of trade secrets is sparse. . . . Thus, whereas there is developed a body of substantive law, the litigator is left largely to his [or her] own devices for many aspects of a trade secret court case." 3 ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 13.01, at 13-1 to 13-2 (1995). See *infra* notes 305-08 and accompanying text for the definition of trade secret.

Showme performed, the ink appeared identical to the one developed by Showme and approved by Noweigh. Unfortunately, no test could precisely identify the composition of the ink without knowledge of the starting ingredients. Given the results of the tests that Showme could run and the short time period between the end of Showme's development work with Noweigh and sales of Noweigh's new copier, however, Showme was convinced that Noweigh had copied Showme's ink and had incorporated that ink in the new copier.

Showme filed its complaint in early 1995. A portion of the complaint states: "Showme fears and suspects that Noweigh has misappropriated the confidential and proprietary trade secret information of Showme obtained during the course of a fiduciary relationship with Showme." Neither the complaint nor any document filed by Showme to date purports to identify the specific subject matter that Showme claims constitutes trade secrets.<sup>2</sup>

During discovery, Showme posed interrogatories, document requests, and deposition notices seeking information about Noweigh's liquid ink and copier. Noweigh strenuously objected to Showme's discovery requests on the ground that Showme failed to identify the particular trade secrets that Noweigh allegedly misappropriated. Noweigh has since served its own discovery requests upon Showme, asking Showme to identify those trade secrets. Such is the basis for the discovery dispute that frames the focus of this Article.

Trade secrets pose unique problems for the discovery process. The typical problem is preservation of the litigants' interest in the confidentiality of their trade secrets; that is not the problem in this case.<sup>3</sup> The parties have agreed to a detailed protective order minimizing the risk that any trade secrets will be disclosed either to third parties or to personnel in the other party's organization who might use the information adversely.<sup>4</sup> Moreover, Noweigh has not taken the position that it will not respond to Showme's discovery requests at all. Rather, the problem here is that Noweigh contends it is not obligated to respond until Showme identifies its trade secrets with particularity.

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<sup>2</sup> The hypothetical facts outlined above were compiled by combining the actual facts of *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30 (Del. Ch. 1986); *Microwave Research Corp. v. Sanders Assoc., Inc.*, 110 F.R.D. 669 (D. Mass. 1986); and the author's imagination and experience.

<sup>3</sup> For an excellent article discussing how courts have attempted to protect trade secrets during litigation, see James R. McKown, *Discovery of Trade Secrets*, 75 J. PAT & TRADEMARK OFF. SOC'Y (BNA) 721 (1993). See also Jerome Doyle & Allen S. Joslyn, Comment, *The Role of Counsel in Litigation Involving Technologically Complex Trade Secrets*, 6 B.C. INDUS. & COM. L. REV. 743 (1965). Fed. R. Civ. P. 26(c)(7) provides that, in certain cases, discovery of trade secrets should be limited or not permitted at all. That question is beyond the scope of this Article. The focus here is on the related but distinguishable question of the timing and specificity of discovery.

<sup>4</sup> A party also may assert that its documents contain the trade secrets of a third party that it has agreed to hold in confidence. The party responding to the discovery request may expose itself to potential third party liability and may move for a protective order under Fed.R.Civ. P. 26(c).

When must a plaintiff, like Showme, who alleges misappropriation of trade secrets, *specifically identify* those trade secrets before obtaining discovery from the defendant?

## II. ORAL ARGUMENT: THE PARTIES PRESENT POLICY

The judge bangs the gavel and is hopeful that the parties have somehow seen reason and have resolved their dispute.<sup>5</sup> As counsel for the parties approach the bench in response to the judge's request, however, hope diminishes. All hope dies when the judge asks for the status of the dispute and receives the following colloquy:

BY SHOWME: We have a right under the discovery rules to know the method that you use to make the ink in your new copier.

BY NOWEIGH: We object to your discovery requests and will maintain our objection at least until you tell us what the trade secrets are that you think we've taken. There's no way for us to determine the relevance of your discovery, to define the scope of discovery, until you do. Don't you understand that?

BY SHOWME: Don't you understand that we cannot and will not list all of the hundreds and hundreds of trade secrets involved in the materials you've seen? It's a physical impossibility. More important, you already stole some of our secrets; now you want us to identify all of them! How are we supposed to tell you what you misappropriated until you tell us precisely how you make your ink? We need discovery.

BY NOWEIGH: Let me make sure I understand you. You aren't sure what trade secrets we allegedly stole? Sounds like a baseless complaint and a Rule 11 violation to me! Anyway, I've got a right to prepare my defense by knowing what you're alleging. And we're not about to let you conduct a "fishing expedition" into our products and processes.

The judge stops the attorneys before they come to blows. Then, with a sigh, the judge waves counsel back to their tables and prepares to hear their formal presentations on Showme's motion under Rule 37 of the Federal Rules of Civil Procedure to compel discovery and on Noweigh's counter-motion under Rule 26(c) for a protective order and under Rule 37 to compel Showme to specifically identify the allegedly misappropriated trade secrets. The cases cited by the parties during their presentations do not focus, however, on the issue of timing (i.e., the propriety of a discovery ruling is sought): immediately after a complaint is filed, following initial discovery, after extensive discovery, or at trial. Instead, the parties simply use the cases to identify policies supporting their respective positions, regardless of the stage at which discovery is sought.

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<sup>5</sup> "Cooperation is hoped for but continued antagonism will represent no surprise." *SI Handling Sys., Inc. v. Heisley*, 658 F. Supp. 362, 269 n.6 (E.D. Pa. 1986).

## A. *The Plaintiff, Showme*

Showme focuses on the three policies, identified by the relevant cases, that support discovery before a plaintiff alleging misappropriation of trade secrets has specified those trade secrets.

### 1. Broad Discovery

Showme begins by reciting its broad right to discovery. Litigants “may obtain discovery regarding any matter, not privileged, which is relevant to the subject matter involved in the pending action, whether it relates to the claim or defense of the party seeking discovery or to the claim or defense of any other party.”<sup>6</sup> Indeed, Showme continues, no lesser authority than the United States Supreme Court emphasized the importance of this broad right when it stated that the purpose of discovery is to “make a trial less a game of blind man’s bluff and more a fair contest with the basic issues and facts disclosed to the fullest practicable extent,”<sup>7</sup> and that “[m]utual knowledge of all the relevant facts gathered by both parties is essential to proper litigation.”<sup>8</sup> “To that end,” remarked a lower court, “a party may compel the other to disclose whatever facts he has in his possession . . . thus reducing the possibility of surprise.”<sup>9</sup> In fact, remarked another, “[t]he maxim that the Federal Rules on deposition and discovery are to be liberally construed is so well established that it bears little discussion.”<sup>10</sup>

In at least two cases, the plaintiff’s broad right to discovery has in part compelled a court to grant a plaintiff’s motion to compel discovery before the plaintiff identified allegedly misappropriated trade secrets with particularity. In the more recent case, *Upjohn Co. v. Hygieia Biological Laboratories*,<sup>11</sup> a California district court granted a

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<sup>6</sup> FED.R. CIV.P. 26(b)(1); *see also* 8 CHARLES A. WRIGHT, ET AL., FEDERAL PRACTICE AND PROCEDURE: CIVIL 2D § 2001, AT 41 (1994) (“The basic philosophy underlying [the liberalization of discovery] was that prior to trial every party to a civil action is entitled to the disclosure of all relevant information in the possession of any person, unless the information is privileged.”).

<sup>7</sup> *United States v. Proctor & Gamble Co.*, 356 U.S. 677, 682 (1958).

<sup>8</sup> *Hickman v. Taylor*, 329 U.S. 495, 507 (1947).

<sup>9</sup> *Uresil Corp. v. Cook Group, Inc.*, 135 F.R.D. 168, 171 (N.D. Ill. 1991).

<sup>10</sup> *Delong Corp. v. Lucas*, 138 F. Supp. 805, 808 (S.D.N.Y. 1956); *see also* *Ray v. Allied Chem. Corp.*, 34 F.R.D. 456, 458 (S.D.N.Y. 1964) (recognizing a “conflict between a plaintiff’s right to discovery and a defendant’s right to be protected against devastating injury which may result if it develops that plaintiff’s claim [of misappropriation] is without substance”); *MicroTech Int’l, Inc. v. Fair*, 1992 WL 239087, at \*2 (Conn. Super. Ct. Sept. 18, 1992) (trade secrets are discoverable and “where the information requested is ‘reasonably calculated to lead to the discovery of admissible evidence,’ discovery is proper”) (quoting *Sanderson v. Steve Snyder Enter., Inc.*, 491 A.2d 389, 392 (Conn. 1985)); *Magnox v. Turner*, 1991 WL 182450, at \*1 (Del. Ch. September 10, 1991) (nothing the broad scope of discovery permitted under Fed. R. Civ. P. 26(b), “the relevance of a discovery request should be viewed liberally and should not be measured by the precise issues of the pleadings”).

<sup>11</sup> 151 F.R.D. 355, 27, U.S.P.Q. 2d (BNA) 1601 (E.D. Cal. 1993).

trade secret-misappropriation plaintiff discovery, stating that, “with respect to discovery requests in general, courts are to broadly construe relevancy requirements.”<sup>12</sup> In the earlier case, *Metal Foil Products Manufacturing v. Reynolds Metals Co.*,<sup>13</sup> a Virginia district court, in granting plaintiff’s discovery, elaborated on the principles underlying Showme’s position:

The liberality with which the discovery rules should be interrupted is apparent. As to whether an issue is relevant, generally if the questions are reasonably calculated to lead to the discovery of admissible evidence, they should be admitted. Coupled with that, however, is the principle that the process of complete discovery must be kept within workable bounds of proper and logical bases for determination of the relevancy of that which is sought to be discovered. . . . It is apparent from the arguments of counsel that defendants are fearful that the divulging of internal marketing information might well fall into the hands of substantial competitors. An understandable position. Nevertheless, that position may not be maintained in such a way as to thwart the purpose of the rules of discovery.<sup>14</sup>

Accordingly, Showme argues that the court must not permit Noweigh to “thwart the purpose of the rules of discovery” in this case.

## 2. The “Need” for Discovery

Showme candidly admits that it is uncertain about which of its trade secrets have been misappropriated. Therefore, counsel pleads that “Showme *needs* to conduct discovery of Noweigh’s material before specifying the allegedly misappropriated trade secrets.” Showme’s need is not unusual; in fact, it arises “often.”<sup>15</sup> Moreover, a number of courts have recognized a trade secret plaintiff’s need for discovery.

In *Microwave Research Corp. v. Sanders Associates, Inc.*,<sup>16</sup> the Massachusetts district court framed the question presented as follows:

In what circumstances can a corporate plaintiff, which alleges misappropriation of trade secrets and confidential information, obtain discovery of trade secrets and confidential information of a corporate

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<sup>12</sup> *Id.* At 359, 27 U.S.P.Q.2d (BNA) at 1604.

<sup>13</sup> 55 F.R.D. 491 (E.D. Va. 1970).

<sup>14</sup> *Id.* At 493 (citations omitted).

<sup>15</sup> *See e.g.*, ROBERT C. DORR & CHRISTOPHER H. MUNCH, PROTECTING TRADE SECRETS, PATENTS, COPYRIGHTS AND TRADEMARKS § 2.21, AT 89-90 (2D ED. 1995) (“Often, the trade secret owner does not know what was taken, and the actual identification of the trade secret may occur only after full and complete discovery of the wrongdoer’s material. . . . When full and complete discovery has occurred, then specific identification of the trade secrets can be made.”).

<sup>16</sup> 110 F.R.D. 669 (D. Mass. 1986).

defendant in order to discover whether or not any of the corporate plaintiff's trade secrets have been misappropriated and used by the corporate defendant.<sup>17</sup>

The court answered that question by requiring the plaintiff to establish a substantial factual basis for its claim before ordering discovery.<sup>18</sup>

An Illinois district court, in *qad. inc v. ALN Associates, Inc.*,<sup>19</sup> went even further than its sister court in *Microwave Research Corp.* Both courts recognized the plaintiff's need for discovery, but the Illinois court stated that the "preferable procedure" is to require the defendant to identify in the first instance the materials it obtained from the plaintiff, because the plaintiff is not supposed to know what the defendant has.<sup>20</sup> Any appeal in the *qad. inc* case would have been taken to the United States Court of Appeals for the Seventh Circuit. Once there, the case would likely have been affirmed, because the Seventh Circuit apparently agrees with the Illinois district court's analysis.<sup>21</sup>

Although of no precedential value in the federal district courts, a number of state courts have also recognized Showme's need for discovery. In *MicroTech International, Inc. v. Fair*,<sup>22</sup> for example, the plaintiff contended that the answers to questions and documents it sought to discover were relevant and necessary to a determination of the plaintiff's claim against the defendant. This was true, the plaintiff argued, because the defendant's misappropriation of trade secrets could be proven only by evidence concerning the defendant's conduct.<sup>23</sup> The Connecticut court agreed, stating that it was "of the opinion that the plaintiff's claim for misappropriation of trade secrets necessitates discovery relative to whether the defendant [misappropriated trade secrets]."<sup>24</sup>

Showme's need is acute because, before discovery, it is relying entirely upon circumstantial evidence to support its case.<sup>25</sup> Especially when a trade secret plaintiff

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<sup>17</sup> *Id.* at 670 (emphasis added).

<sup>18</sup> *Id.* at 675.

<sup>19</sup> 18 U.S.P.Q.2d (BNA) 1122 (N.D. 111. 1990).

<sup>20</sup> *Id.* at 1125.

<sup>21</sup> *See, e.g.,* *Marrese v. American Academy of Orthopaedic Surgeons*, 706 F.2d 1488,1494 (7th Cir. 1983) ("nondisclosure [by the defendants] might make it impossible for [the plaintiffs] to prove their . . . case or even to discover whether they have a meritorious case"), *reh'g*, 726 F.2d 1150 (7th Cir.), *cert. granted in part*, 467 U.S. 1258 (1984), *rev'd*, 470 U.S. 373, *reh'g denied*, 471 U.S. 1062 (1985); *see also* *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 289, 227 U.S.P.Q. (BNA) 18, 19 (D. Del. 1985) (the plaintiffs successfully contended that in order to prevail they needed to discover the complete formula for the Coca-Cola drink, one of the bestkept trade secrets in the world).

<sup>22</sup> 1992 WL 239087 (Conn. Super. Ct. Sept. 18, 1992).

<sup>23</sup> *Id.*

<sup>24</sup> *Id.* at \*2 (emphasis added).

<sup>25</sup> *See* MICHAEL A. EPSTEIN, *MODERN INTELLECTUAL PROPERTY* § 3.01[B][3], at 3-16 (3d ed. 1995) ("In most situations, direct evidence concerning the likelihood of

relies on circumstantial evidence, it needs to discover whether, in fact, its trade secrets have been misappropriated. The information Showme seeks is thus essential to the preparation of its case.

### 3. Plaintiff's "Catch-22"

Until it obtains discovery, Showme does not know which of its trade secrets were misappropriated. Therefore, Showme contends, it must list a myriad of trade secrets that Noweigh *might* have misappropriated to formulate a potentially complete list. And the court may want a still more specific identification of the allegedly misappropriated trade secrets at this stage of the proceedings. A commentator recently and succinctly expressed the difficult position that Showme faces:

Satisfying the requirement of detailed disclosure of the trade secrets without knowledge [of] what the defendant is doing can be very difficult. If the list is too general, it will encompass material that the defendant will be able to show cannot be trade secret. If instead it is too specific, it may miss what the defendant is doing.<sup>26</sup>

Faced with this "Catch-22" dilemma, trade secret plaintiffs often are forced to define broadly the trade secrets that the defendant may have misappropriated.<sup>27</sup> Some courts have found a broad identification of trade secrets acceptable, at least at an early stage of the proceedings.<sup>28</sup> Other courts have not.<sup>29</sup> Showme argues that forcing it at this

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wrongful disclosure or use does not exist. In such instances, a trade secret owner can present circumstantial evidence to demonstrate that the unauthorized use or disclosure of trade secrets is imminently threatened."); *see also* Computer Assocs. Int'l, Inc. v. Altai, Inc., 918 S.W.2d 453, 457 (Tex. 1994) (trade secret violations are not often verifiable by physical evidence).

<sup>26</sup> Lynn H. Pasahow, *Patent and Trade Secret Biotechnology Litigation*, 1993 BIOTECHNOLOGY: BUSINESS, LAW, AND REGULATION 37, 52 (ALI-ABA Course Study Materials).

<sup>27</sup> *See, e.g.*, AMP Inc. v. Fleischhacker, 823 F.2d 1199, 1203 (7th Cir. 1987) (AMP submitted six single-spaced, typewritten pages listing by general item and category hundreds of pieces of AMP internal information); Litton Sys., Inc. v. Sundstrand Corp., 750 F.2d 952, 954, 224 U.S.P.Q. (BNA) 252, 254 (Fed. Cir. 1984) (it would take eight months for plaintiff to list its "thousands" of trade secrets); Struthers Scientific & Int'l Corp. v. General Foods Corp., 51 F.R.D. 149,151-52,168 U.S.P.Q. (BNA) 202,204 (D. Del. 1970) (plaintiff listed 103 items on 54 pages as its trade secrets); Data Gen. Corp. v. SCI Sys., Inc., 1978 WL 22033, at \*1 (Del. Ch. Nov. 27, 1978) ("[i]n answer to the 'each and every' trade secret, etc., requested by SCI, Data General has set forth [in] over 41 pages some 1,120 separate entries").

<sup>28</sup> *See, e.g.*, *Stru hers*, 51 F.R.D. at 153-55, 168 U.S.P.Q. at 204; *Data Gen. Corp.*, 1978 WL 22033, at \*2.

<sup>29</sup> *See, e.g.*, *Diversified Tech. Inc. v. Dubin*, 31 U.S.P.Q.2d (BNA) 1692, 1696 (S.D. Miss. 1994) ("The undersigned finds plaintiff's contentions regarding the physical impossibility of providing an identification of the trade secrets in written form to be completely unpersuasive, and wholly without merit.").



time to specify the trade secrets that Noweigh has misappropriated is burdensome and requires Showme to accept the risk of additional misappropriation.<sup>30</sup>

Showme also expresses a related concern, one addressed by the court in *Pioneer Hi-Bred International v. Holden Foundation Seeds Inc.*<sup>31</sup> Pioneer asserted that Holden's "LH38-39-40" corn seed was genetically bred using trade secrets misappropriated from Pioneer.<sup>32</sup> The district court entered judgment for Pioneer, and the Eighth Circuit affirmed.<sup>33</sup> Noteworthy was the district court's concern that plaintiff, during discovery, secure sufficient information so that defendant could not "play" with the facts.<sup>34</sup>

With these somewhat less-than-veiled attacks on Noweigh's integrity, counsel for Showme thus completes her summary of the three policies supporting Showme's position: a broad right to discovery, a need for discovery, and a Catch-22 dilemma should a requirement for identification of specific trade secrets be imposed before discovery of the defendant is granted. Counsel forcefully requests that Showme's motion for an order compelling discovery of Noweigh be granted *before* the plaintiff has specified which trade secrets Noweigh has allegedly misappropriated.

## **B. *The Defendant, Noweigh***

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<sup>30</sup> One fundamental, basic tension during discovery in a trade secrets case is the desire of the plaintiff to not further educate an allegedly errant defendant in the intricacies of the plaintiff's trade secrets. 3 MILGRIM, *supra* note 1, § 14.02[1], at 14-63.

A plaintiff will often seek to avoid disclosing [its] trade secrets in the process of litigation even though [it] alleges that the defendant knows and has misappropriated them. Although on the surface seemingly illogical, in fact often that is an understandable position. The plaintiff fears that full disclosure in an orderly fashion in discovery will only further "educate" the defendant who plaintiff fears, is improperly (but hopefully imperfectly) using the plaintiff's trade secrets. If indeed the misappropriation has been less than perfect, full disclosure by the plaintiff is apt to be of considerable interest to the defendant. If plaintiff does not prevail, defendant has been given a scholarship to plaintiff's trade secret matter.

*Id.* § 14.02[2], at 14-73 to 14-74. Moreover, the court might, upon requiring the plaintiff to specify its trade secrets, "enable a seemingly wrongdoing defendant to fabricate loopholes to support an independent development defense." *Id.* § 14.02[3][a], at 14-94 (citations omitted).

<sup>31</sup> 35 F.3d 1226, 31 U.S.P.Q.2d (BNA) 1385 (8th Cir. 1994).

<sup>32</sup> *Id.* at 1229, 31 U.S.P.Q.2d (BNA) at 1386-87.

<sup>33</sup> *Id.* at 1246, 31 U.S.P.Q.2d (BNA) at 1402.

<sup>34</sup> "During discovery, the district court decided, at Pioneer's request, that the nature of this dispute required that Holden 'freeze in' a particular story regarding the development of LH38-39-40. The court did so to prevent Holden from altering its story to conform to the scientific evidence eventually introduced." *Id.* at 1229, 31 U.S.P.Q.2d (BNA) at 1387.

Counsel for the defendant, Noweigh, approaches the lectern. He focuses on the three policies, identified by the relevant cases, that require a plaintiff alleging misappropriation of trade secrets to specifically identify those trade secrets before the defendant is compelled to respond to the plaintiff's discovery requests.

### 1. Caught In A "Fishing Expedition"

Noweigh begins by boldly asserting that Showme has absolutely no case and is merely on a fishing expedition.<sup>35</sup> Unless Showme is required to identify the alleged trade secrets that it claims were misappropriated, counsel declares, the court "would signal an open season for [Showme] to roam through [Noweigh's] own confidential and technical trade secret information by virtue of having merely filed a complaint alleging improper use or disclosure of trade secrets."<sup>36</sup> Noweigh's counsel continues with a quote from the United States Court of Appeals for the Seventh Circuit: "The use of the liberal discovery provisions of the Federal Rules of Civil Procedure to harass opponents is common, and requires the vigilance of the district judges to prevent."<sup>37</sup> Noweigh beseechingly asks for the court's vigilance. More specifically, Noweigh requests a favorable ruling on its motion to compel Showme to specifically identify the alleged trade secrets that it is accused of misappropriating.

The federal district courts have recognized the validity of Noweigh's position. For example, the Southern District of New York has long been especially sensitive to the defendant's concern. In *DeLong Corp. v. Lucas*,<sup>38</sup> the defendant successfully objected to the plaintiff's discovery requests on the grounds that the plaintiff was really seeking to inquire into the secrets of the defendant's business, that such discovery would reveal the defendant's trade secrets, and that such revelation would be devastating to his business.<sup>39</sup> Somewhat more recently, the court stated:

[T]he circumstance that a litigant in [its] complaint alleges that [it] disclosed confidential and secret processes to a defendant, which the latter in turn denies, does not automatically entitle the plaintiff to obtain disclosure of the alleged offending processes in aid of plaintiff's pretrial discovery--otherwise it would be a simple matter to obtain one's trade secret by the mere assertion of a claim. The end result of disclosure, where

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<sup>35</sup> "[I]nstead of using rod and reel, or even a reasonably sized net, [Showme] would drain the pond and collect the fish from the bottom. This exercise goes beyond the bounds set by the discovery rules." *In re IBM Peripheral EDP Devices Antitrust Litig.*, 77 F.R.D. 39, 42 (N.D. Cal. 1977).

<sup>36</sup> *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30, 32 (Del. Ch. 1986). "If plaintiff is not forced to define [its] alleged disclosure before [it] gets into defendant's files, [it] may simply claim whatever [it] finds there." *Doyle & Joslyn, supra* note 3, at 747.

<sup>37</sup> *Marrese v. American Academy of Orthopaedic Surgeons*, 706 F.2d 1488, 1495 (7th Cir. 1983), *reh'g*, 726 F.2d 1150 (7th Cir.), *cert. granted in part*, 467 U.S. 1258 (1984), *rev'd*, 470 U.S. 373, *reh'g denied*, 471 U.S. 1062 (1985).

<sup>38</sup> 138 F. Supp. 805 (S.D.N.Y. 1956).

<sup>39</sup> *Id.* at 808.

ultimately it develops that the asserted claim is without substance, may be so destructive of the interests of the prevailing party that more is required than mere allegation to warrant pretrial disclosure.<sup>40</sup>

Likewise, state courts have been sensitive to the defendant's concern.<sup>41</sup>

The defendant's position is especially compelling when the plaintiff is a competitor. Under most protective orders, the opposing party, or at least its counsel, becomes aware of the trade secrets disclosed during discovery. In cases between two competitors, or potential competitors, discovery responses may disclose a trade secret to the party most likely to use or take advantage of that trade secret. Therefore, competitors may obtain through a lawsuit knowledge of a subject that they are unable to achieve through independent research.<sup>42</sup>

## 2. Relevancy

Countering Showme's expressed need for discovery, Noweigh argues that it needs Showme to identify its trade secrets more specifically before Noweigh can determine the scope and relevancy of the requested discovery.<sup>43</sup> The United States Supreme Court discussed the definition of "relevant," as that term is used in Rule 26(b)(1), in *Oppenheimer Fund, Inc. v. Sanders*:<sup>44</sup>

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<sup>40</sup> *Ray v. Allied Chem. Corp.*, 34 F.R.D. 456,457 (S.D.N.Y. 1964) (cited with approval in *Microwave Research Corp. v. Sanders Assocs., Inc.*, 110 F.R.D. 669, 672 (D. Mass. 1986)).

<sup>41</sup> *See, e.g., MBL (USA) Corp. v. Diekman*, 445 N.E.2d 418, 426, 221 U.S.P.Q. (BNA) 725, 731 (Ill. App. Ct.), *appeal denied*, 94 Ill. 2d 553 (Ill. 1983) (defendant successfully argued that plaintiff would be unjustly enriched and defendant irreparably harmed if plaintiff were allowed to examine defendant's methods, designs, and processes); *Data Gen. Corp. v. SCI Sys., Inc.*, 1978 WL 22033, at \*1 (Del. Ch. Nov. 27, 1978) ("SCI has resisted Data General's discovery efforts on the grounds that unless Data General first designates the trade secrets it allegedly provided SCI . . . its discovery efforts can be used to roam through SCI's own otherwise confidential business information, thus giving Data General an unfair business advantage.").

<sup>42</sup> *See Puritan-Bennett Corp. v. Pruitt*, 142 F.R.D. 306, 310 (S.D. Iowa 1992) ("most courts recognize that disclosure to one's competition is more harmful than disclosure to non-competitors"); *Greater Rockford Energy & Tech. Corp. v. Shell Oil Co.*, 138 F.R.D. 530, 536 (C.D. 111. 1991) (citing *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 293, 299, 227 U.S.P.Q. (BNA) 18, 20, 26 (D. Del. 1985)) ("Courts have presumed that disclosure of sensitive information to competitors is more harmful than disclosure to a noncompetitor."); *see also McKown, supra* note 3, at 729-730; 3 MILGRIM, *supra* note 1, § 14.02[3], at 14-89 ("If [the parties] are not competitors, discovery is apt to be more liberally allowed.") (citations omitted).

<sup>43</sup> "Relevancy is, in the context of discovery, a somewhat flexible term. Basically, the examining party has the burden of establishing that the information requested is relevant *at the stage of the proceedings at which it is sought.*" 3 MILGRIM, *supra* note 1, § 14.02[3], at 14-83 (emphasis added) (citations omitted).

<sup>44</sup> 437 U.S. 340, 351 (1978).

The key phrase in this definition--"relevant to the subject matter involved in the pending action"--has been construed broadly to encompass any matter that bears on, or that reasonably could lead to other matter that could bear on, any issue that is or may be in the case.<sup>45</sup>

Despite recognizing the Court's broad definition of relevancy,<sup>46</sup> Noweigh presents a list of cases which, it contends, illustrates that many courts have decided that a plaintiff must specify something about its trade secrets before obtaining discovery from the defendant in order to satisfy the relevancy requirement.

For example, in *Xerox Corp. v. International Business Machines Corp.*,<sup>47</sup> IBM argued successfully that it could not properly define the scope and relevancy of discovery unless Xerox specified the trade secrets that IBM allegedly misappropriated. The *Xerox* court found that:

[A] defendant is entitled to know the bases for plaintiff's charges against it. The burden is upon the plaintiff to specify those charges, not upon the defendant to guess at what they are. Thus, after nearly a year of pre-trial discovery, Xerox should be able to identify in detail the trade secrets and confidential information alleged to have been misappropriated by IBM. Clearly until this is done, neither the court nor the parties can know, with any degree of certainty, whether discovery is relevant or not; and it is doubtful whether Xerox can undertake a meaningful discovery program, which includes its attempt to trace the flow of trade secrets and confidential information through IBM, without first identifying which trade secrets and what confidential information IBM has misappropriated.<sup>48</sup>

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<sup>45</sup> Id. at 351; see *Hickman v. Taylor*, 329 U.S. 495, 501 (1947); see also 4 JAMES W. MOORE, MOORE'S FEDERAL PRACTICE ¶ 26.07[1], at 26-119 (1996) (courts have interpreted "relevant" broadly during discovery).

<sup>46</sup> In *Microwave Research Corp. v. Sanders Associates, Inc.*, 110 F.R.D. 669, 671 (D. Mass. 1986), Sanders objected to Microwave's discovery requests on the ground that they called for the disclosure of highly sensitive trade secret information "which is irrelevant to any good faith allegation of the complaint." The court responded, upon considering the objection, that the requested discovery was certainly "relevant" as defined in Fed. R. Civ. P. 26(b)(1). Cf. FEDERAL CIVIL JUDICIAL PROCEDURE AND RULES 109, 123-28 (West 1996) (1993 Amendments to FED. R. Civ. P. 26(a)(1) and Advisory Committee comments regarding "relevant" discovery).

<sup>47</sup> 64 F.R.D. 367 (S.D.N.Y. 1974).

<sup>48</sup> Id. at 371-72. Noweigh also quotes *Leucadia, Inc. v. Applied Extrusion Technologies, Inc.*, 755 F. Supp. 635, 637 (D. Del. 1991), for the proposition that "[D]isclosure of plaintiff's trade secrets prior to discovery may be necessary to enable the defendant and ultimately the [c]ourt to ascertain the relevance of plaintiff's discovery."

Hearing the quotation from the Delaware District Court reminds the judge of the famous *Coca-Cola* case.<sup>49</sup> The Coca-Cola Company contended that the trade secrets plaintiffs sought to discover--the formulae for its Coca-Cola drinks--were irrelevant, and their disclosure was therefore inappropriate<sup>50</sup> The argument was unsuccessful; the court found the trade secret formulae “certainly relevant” to the case.<sup>51</sup> Analyzing the relationship between relevancy and need, the court went on to find that “the necessity of the discovery of the complete formulae follows logically from the determination that the formulae are relevant.”<sup>52</sup>

In the present case, it is the defendant (Noweigh) who seeks to discover trade secrets from plaintiff (Showme), but the relevance argument is the same: as the *Xerox* Court pointed out, “until [Showme identifies its allegedly misappropriated trade secrets], neither the court nor the parties can know . . . whether discovery is relevant or not.”<sup>53</sup>

Counsel for Noweigh continues by noting that the Court of Chancery of Delaware has been especially active in the area of trade secret discovery and has ruled favorably for Noweigh. In *Magnox v. Turner*,<sup>54</sup> Turner successfully contended that Magnox must first designate the trade secrets it claimed Turner had misappropriated before the relevance of the discovery sought by Magnox could be determined.<sup>55</sup>

The purpose of this requirement is to set the outer boundaries of discovery in order to avoid the needless exposure of a defendant’s trade secrets. Only after a plaintiff has identified the trade secret that has allegedly been misappropriated can the relevance, and therefore the scope, of discovery be determined.<sup>56</sup>

In *Engelhard Corp. v. Savin Corp.*,<sup>57</sup> Savin contended, also successfully, that “only after Engelhard identifies the specific trade secret information it claims to be in issue, can the relevance (if any), of its proposed discovery of Savin’s . . . technology be assessed and determined.”<sup>58</sup> The court ordered Engelhard to identify its trade secrets with “reasonable particularity.”<sup>59</sup> The purpose of its requirement, the court stated, “is to

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<sup>49</sup> *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288,227 U.S.P.Q. (BNA) 18 (D. Del. 1985).

<sup>50</sup> *Id.* at 292, 227 U.S.P.Q. (BNA) at 20.

<sup>51</sup> *Id.* at 297, 227 U.S.P.Q. (BNA) at 25.

<sup>52</sup> *Id.* at 297-98, 227 U.S.P.Q. (BNA) at 25.

<sup>53</sup> *Xerox*, 64 F.R.D. at 371.

<sup>54</sup> 1991 WL 182450 (Del. Ch. Sept. 10, 1991).

<sup>55</sup> *Id.* at \*1.

<sup>56</sup> *Id.*

<sup>57</sup> 505 A.2d 30 (Del. Ch. 1986).

<sup>58</sup> *Id.* at 32.

<sup>59</sup> *Id.* at 33.

enable the parties, and, if necessary, the court, to determine the outside parameters of discovery.”<sup>60</sup>

Even the Delaware Chancery Court has not consistently ruled in Noweigh’s favor, however, on the issue of relevancy. In *Data General Corp. v. SCI Systems, Inc.*,<sup>61</sup> SCI resisted Data General’s discovery efforts on the ground that Data General must first designate the trade secrets it allegedly provided SCI to set the limits for the issues to be tried.<sup>62</sup> The court noted that the reason for SCI’s protective order application was “to establish the bounds for discovery by Data General.”<sup>63</sup> Nevertheless, the court refused to compel (at least at the time of the ruling) additional identification of the trade secrets by Data General.<sup>64</sup>

Noweigh also expresses a related concern, at least partially in response to Showme’s assertion that discovery was required to prevent Noweigh from “playing” with the facts thereby “freezing” Noweigh to a particular story regarding the development of its copier ink. Noweigh’s concern has been characterized by one commentator as follows:

There is general agreement that it is appropriate to require a trade secret owner to state its claimed trade secrets before it engages in discovery from the defendant about the defendant’s use of the trade secrets. This both limits the opportunity for a plaintiff to shape its claimed trade secrets to meet what the defendant is doing and limits discovery to appropriate bounds.<sup>65</sup>

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<sup>60</sup> *Id.*

<sup>61</sup> 1978 WL 22033, at \*2-3 (Del. Ch. Nov. 27, 1978).

<sup>62</sup> *Id.* at \*2-3.

<sup>63</sup> *Id.* at \*2.

<sup>64</sup> *Id.*; see also *Miles Inc. v. Cookson Am., Inc.*, 1992 WL 136381, at \*1 (Del. Ch. June 16, 1992) (granting trade secret-misappropriation plaintiff’s motion to compel discovery, over defendant’s objection that the relevancy of the discovery requests could not be determined because Miles had not adequately identified the trade secrets it claimed Cookson misappropriated). In *Upjohn Co. v. Hygieia Biological Laboratories*, 151 F.R.D. 355, 359, 27 U.S.P.Q.2d (BNA) 1601, 1604 (E.D. Cal. 1993), Hygieia sought to require Upjohn to identify the trade secret information it alleged was misappropriated to provide “a baseline for determining the relevance of requested discovery.” Although sensitive to Hygieia’s arguments, the court decided that Upjohn was entitled to its requested discovery without further identification of its trade secrets. *Id.*

<sup>65</sup> Pasahow, *supra* note 26, at 52. See generally 1 MELVIN F. JAGER, TRADE SECRETS LAW § 5.06[1] (1996); Doyle & Joslyn, *supra* note 3, at 747 (“If plaintiff is not forced to define [its] alleged disclosures before [it] gets into defendant’s files, [it] may simply claim whatever [it] finds there”). The defendant is often concerned that it will be forced to disclose subject matter not known to the plaintiff and which is the defendant’s trade secret. 3 MILGRIM, *supra* note 1, § 14.02[1], at 14-63.

Thus, Noweigh wants Showme to specify its trade secrets to prevent Showme from “playing” with the facts thereby “freezing” Showme to a particular story regarding the trade secrets that were allegedly misappropriated.

### 3. Ability To Defend

Finally, Noweigh argues that it has a need, indeed a right, to prepare its defense. Unless Showme is required to identify its allegedly misappropriated trade secrets in detail, Noweigh is “deprived of an adequate opportunity to prepare [its] defense.”<sup>66</sup> Identification is critical to avoid placing Noweigh in the same position as the defendant in *Vermont Microsystems, Inc. v. Autodesk, Inc.*<sup>67</sup> In that case, Vermont Microsystems (“VMI”) sued Autodesk, alleging that a former VMI computer programmer, Otto Berkes, subsequently employed by Autodesk, had appropriated VMI’s trade secrets.<sup>68</sup> Counsel for Mr. Berkes contended that “[t]here were 10 identified trade secrets in the case and they were only described one year after discovery had begun.”<sup>69</sup> By then, counsel stated, VMI’s lawyers had been given a chance to analyze Berkes’ work at Autodesk. By contrast, Autodesk “had the burden of identifying and avoiding [trade secrets] without the benefit of VMI specifying what those secrets were.”<sup>70</sup> Clearly, Autodesk was placed at a great disadvantage since VMI was privy to information from Berkes, and had a significant amount of time to determine which trade secrets to reveal. Autodesk, on the other hand, had neither the benefit of time nor information before having to show its hand.

In summary, Noweigh sets forth three policies supporting its position: (1) the unfairness to the defendant of subjecting it to a fishing expedition in the form of discovery by a plaintiff with a baseless complaint; (2) the need to ascertain the scope and relevancy of that discovery in order to appropriately respond to it; and (3) the right to prepare a defense. For these reasons, Noweigh argues that its motions--for a protective order and to compel Showme to specifically identify the allegedly misappropriated trade secrets before taking discovery--should be granted.

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<sup>66</sup> *Cromaglass Corp. v. Ferm*, 344 F. Supp. 924, 927, 174 U.S.P.Q. (BNA) 469, 472 (M.D. Pa. 1972), *appeal dismissed*, 500 F.2d 601 (3d Cir. 1974); *see also* *Litton Sys., Inc. v. Sundstrand Corp.*, 750 F.2d 952, 954, 224 U.S.P.Q. (BNA) 252,253 (Fed. Cir. 1984) (“Sundstrand [successfully] demanded that Litton identify its trade secrets so that it could defend by showing that those asserted trade secrets are either not secrets or not used by Sundstrand.”).

<sup>67</sup> No. 92-CV-309 (D. Vt. Dec. 23, 1994), *vacated in part*, 88 F.3d 142, 39 U.S.P.Q.2d (BNA) 1421 (2d Cir. 1996) (district court erred in measuring damages).

<sup>68</sup> *Id.* slip 1-2.

<sup>69</sup> David Gram, *Software Hardball Computer Tech Firm Wins \$25.5 Million from Rival in Suit over Theft of Trade Secrets*, FORT WORTH STAR-TELEGRAM, March 19, 1995, at 10.

<sup>70</sup> *Id.*

### III. BACK TO CHAMBERS: POSSIBLE SOLUTIONS

Although the issue is relatively common, a standard solution is not. Courts have resolved the issue in a variety of ways along a broad continuum. Resolutions have ranged from requiring the plaintiff to specify its trade secrets in detail at a preliminary stage of the proceedings, before the defendant responds at all, to requiring the defendant to respond fully at the outset of discovery.<sup>71</sup> Nine of the more frequent approaches taken by the courts are outlined below.

#### A. *Require Plaintiff To Specify The Trade Secrets*

Some courts have required parties alleging a misappropriation of trade secrets to identify specifically both the trade secrets and the improper acts of misappropriation. They have done so at various stages of the pretrial process.

Perhaps the strongest case in support of Noweigh's position is *Leucadia, Inc. v. Applied Extrusion Technologies, Inc.*<sup>72</sup> Apparently before any discovery, Leucadia filed with the court, under seal, a list itemizing trade secrets and measures used to protect them.<sup>73</sup> Applied Extrusion Technologies ("AET") claimed that the list did not adequately identify the trade secrets and asked the court to postpone Leucadia's discovery of AET pending Leucadia's more specific identification ("pinpoint") of the trade secrets allegedly misappropriated by AET.<sup>74</sup> The court agreed and granted AET's motion, giving AET two months to conduct discovery of Leucadia to inquire into the details of Leucadia's trade secrets before Leucadia could proceed with discovery of AET.<sup>75</sup>

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<sup>71</sup> In *Liberty Folder v. Curtiss Anthony Corp.*, 90 F.R.D. 80 (S.D. Ohio 1981), the defendants asked the court, faced with the plaintiffs' motion for an order compelling discovery, to do one of the following:

- (1) foreclose discovery altogether;
- (2) allow the information to be filed, herein, under seal;
- (3) order that disclosure only be allowed at the time of trial;
- (4) order that the determination on whether disclosure should be allowed be made at the time of trial;
- (5) order that disclosure not be allowed until Plaintiffs have made a prima facie showing of Defendants' liability; or
- (6) delay the decision on Plaintiffs' motion until Plaintiffs answer certain document demands concerning Defendants' confidential information, which Plaintiffs obtained through the proposed Third-Party Defendant.

*Id.* at 82. The court refused to adopt any of the defendants' suggestions, stating that the case "does not . . . justify any of the various, extraordinary protective measures which Defendants seek." *Id.*

<sup>72</sup> 755 F. Supp. 635 (D. Del. 1991).

<sup>73</sup> *Id.* at 636.

<sup>74</sup> *Id.*

<sup>75</sup> *Id.* at 637. Notably, the court found that Leucadia "seems to concede that [it] has not described its trade secrets with particularity." *Id.* This distinguishing fact notwithstanding, *Leucadia* lends considerable support to Noweigh's position.



Diversified Technology Inc. v. Dubin likewise supports Noweigh's position.<sup>76</sup> Diversified Technology ("DTI") sued Dubin for misappropriation of trade secrets. In response to Dubin's motion to compel DTI to specifically identify the allegedly misappropriated trade secrets, the court required DTI to provide Dubin with a written disclosure of trade secrets before DTI conducted discovery of Dubin.<sup>77</sup> The court stated:

It is painfully obvious . . . that identification of the trade secrets at issue is the most fundamental and basic aspect of this case. Indeed, after entry of an appropriate protective order, exact and specific identification of trade secrets should have been the starting point of discovery in this cause, not a matter for disclosure at the eleventh hour. At a minimum, plaintiff must identify those trade secrets which it alleges have been disclosed or are in imminent danger of disclosure . . . .<sup>78</sup>

*Cromaglass Corp. v. Ferm* also supports Noweigh's position to some extent.<sup>79</sup> Cromaglass sued for patent infringement and misappropriation of trade secrets. Ferm posed interrogatories to the plaintiff, asking for identification of the allegedly misappropriated trade secrets. Following a series of court orders that Cromaglass apparently ignored, Cromaglass filed answers to the interrogatories identifying the trade secrets as:

[Information] pertaining to all of the materials, and suppliers thereof, utilized in the fabrication of aerobic sewage treatment equipment and to the names and addresses of customers and potential customers, dealers and distributors and health department officials, all accumulated at great cost and expense to plaintiff during the period of employment of Carl Ferm by plaintiff and plaintiff's predecessor.<sup>80</sup>

The court found Cromaglass' response "wholly evasive and nonresponsive."<sup>81</sup> Indeed, in response to Ferm's motion for sanctions, the court accepted as "established fact" that Ferm did not acquire any trade secrets from the plaintiff, and that Ferm did not use any of the plaintiff's trade secrets in its business.<sup>82</sup>

Although the court's ruling favors Noweigh, the case is distinguishable because many judges would likely have sanctioned Cromaglass, regardless of the merits of the discovery dispute, simply because Cromaglass had ignored the court's orders. Thus, the

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<sup>76</sup> 31 U.S.P.Q.2d (BNA) 1692 (S.D. Miss. 1994).

<sup>77</sup> *Id.* at 1693.

<sup>78</sup> *Id.* at 1695.

<sup>79</sup> 344 F. Supp. 924, 174 U.S.P.Q. (BNA) 469 (M.D. Pa. 1972), *appeal dismissed*, 500 F.2d 601 (3d Cir. 1974).

<sup>80</sup> *Id.* at 926, 174 U.S.P.Q. (BNA) at 471.

<sup>81</sup> *Id.* at 927, 174 U.S.P.Q. (BNA) at 471.

<sup>82</sup> *Id.* at 928, 174 U.S.P.Q. (BNA) at 473.

issue in *Cromaglass* was not timing (i.e., whether the plaintiff had to identify its trade secrets before it could obtain discovery from the defendant), but whether the plaintiff had adequately complied with the court's order to respond to Ferm's interrogatories. Nevertheless, the decision lends support to the proposition that a trade secret-misappropriation plaintiff must supply more than just a cursory statement about which trade secrets have been allegedly misappropriated.

In *Struthers Scientific & International Corp. v. General Foods Corp.*,<sup>83</sup> Struthers sued General Foods ("GP) for patent infringement and misappropriation of trade secrets. After massive discovery (20 depositions of GF's witnesses and myriad pages of documents), GF asked that Struthers specify the trade secrets that Struthers had disclosed to GF (Interrogatory No. 119) and the trade secrets that Struthers alleged GF had individually used in its operations (Interrogatory No. 120).<sup>84</sup> In response to Interrogatory No. 119, Struthers listed 103 items on 54 pages. Struthers objected to Interrogatory No. 120.<sup>85</sup> GF's motion to compel additional information or itemization of the separate trade secrets allegedly disclosed by Struthers to GF was denied.<sup>86</sup> GF's subsequent motion, however, to compel Struthers to specifically describe the particular combinations of known components it alleged were uniquely combined to create trade secrets, was granted.<sup>87</sup> Moreover, based on the mass of information already disclosed by GF, the court granted GF's motion to compel Struthers to specifically identify each feature in GF's operations that Struthers contended embodied a trade secret disclosed by Struthers to GF.<sup>88</sup> The case is of limited value to this court, however, because GF did not ask for specific identification of trade secrets until Struthers had already obtained massive discovery. Still, the case supports the general proposition that a plaintiff alleging trade secret misappropriation must specifically identify the trade secrets at some point during discovery.

In *Xerox Corp. v. International Business Machines Corp.*,<sup>89</sup> Xerox sued IBM for patent infringement and misappropriation of trade secrets. After a year in which both parties engaged in "extensive discovery," a special master directed Xerox to list

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<sup>83</sup> 51 F.R.D. 149,168 U.S.P.Q. (BNA) 202 (D. Del. 1970).

<sup>84</sup> *Id.* at 151,168 U.S.P.Q. (BNA) at 203.

<sup>85</sup> *Id.*

<sup>86</sup> *Id.* at 153,168 U.S.P.Q. (BNA) at 204.

<sup>87</sup> *See, e.g., Rivendell Forest Prods., Ltd. v. Georgia-Pacific Co.*, 28 F.3d 1042,1046, 31 U.S.P.Q.2d (BNA) 1472,1476 (10th Cir. 1994) (holding trade secret can exist even when all the elements of the alleged trade secret are in the public domain, because the elements' combination, integration, and implementation are protectable); 2 RUDOLF CALLMAN & LOUIS ALTMAN, *THE LAW OF UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES* § 14.07, at 14-36 (4th ed. 1994) ("A trade secret can exist in the unique combination of otherwise known components; although each of its parts, by itself, may be in the public domain, the unified process, design, or combination may be the essence of the secret."). The courts seem to scrutinize such "trade secrets" more than others.

<sup>88</sup> *Struthers*, 51 F.R.D. at 154,168 U.S.P.Q. (BNA) at 205.

<sup>89</sup> 64 F.R.D. 367 (S.D.N.Y. 1974).

documents, whether or not already given to IBM, that contained the allegedly misappropriated trade secrets.<sup>90</sup> IBM was then ordered to answer discovery directed to marketed and unmarketed products that bore any relevance to the materials listed.<sup>91</sup> Xerox provided IBM with the required list of documents.<sup>92</sup> IBM asked that Xerox specify which information contained in the documents constituted allegedly misappropriated trade secrets.<sup>93</sup> The special master instructed Xerox to specify the data and information that formed the basis of its cause of action. The district court agreed.<sup>94</sup> Thus, like the court in *Struthers*, the court required specification of the trade secrets that allegedly had been misappropriated but only after extensive discovery had already taken place.

In *Litton Systems, Inc. v. Sundstrand Corp.*,<sup>95</sup> Litton alleged patent infringement and misappropriation of trade secrets. The court entered a temporary restraining order, precluding Sundstrand from disclosing anything about the technology at issue to third parties, and considered Litton's motion for a preliminary injunction to block production and sales of allegedly infringing items.<sup>96</sup> During the next five months, the parties filed more than 2,200 pages of briefs, exhibits, and deposition testimony.<sup>97</sup> The court ordered Sundstrand to produce any documents relating to technology that had been disclosed to third parties.<sup>98</sup> Litton took 100 photographs of Sundstrand's facility.<sup>99</sup> At that point, Sundstrand demanded that Litton identify the trade secrets that were allegedly misappropriated, and the court twice ordered Litton to do so.<sup>100</sup> Litton listed over 200 trade secret "areas" (e.g., "data analysis method") and provided boxes of documents containing still other trade secrets.<sup>101</sup> The parties disputed whether Litton ever specified any trade secrets.<sup>102</sup> The district court denied Litton's motion for a preliminary injunction and dissolved the temporary restraining order.<sup>103</sup> The Federal Circuit affirmed.<sup>104</sup> Once again, the court ruled on the motion to compel plaintiff's disclosure of

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<sup>90</sup> *Id.* at 370.

<sup>91</sup> *Id.*

<sup>92</sup> *Id.*

<sup>93</sup> *Id.* at 371.

<sup>94</sup> *Id.* at 374.

<sup>95</sup> 750 F.2d 952,224 U.S.P.Q. (BNA) 252 (Fed. Cir. 1984).

<sup>96</sup> *Id.* at 954, 224 U.S.P.Q. (BNA) at 253.

<sup>97</sup> *Id.*

<sup>98</sup> *Id.*

<sup>99</sup> *Id.*

<sup>100</sup> *Id.*

<sup>101</sup> *Id.*

<sup>102</sup> *Id.*

<sup>103</sup> *Id.*

<sup>104</sup> *Id.* at 961-62,224 U.S.P.Q. (BNA) at 259.

allegedly misappropriated trade secrets only after extensive discovery had already taken place.

In *AMP Inc. v. Fleischhacker*,<sup>105</sup> an action against a former employee and a corporate competitor, the district court entered judgment for defendants after a trial on the merits, denying relief for unfair competition and trade secret misappropriation.<sup>106</sup> AMP had failed to meet its burden of proving that the products it manufactured constituted protectable trade secrets.<sup>107</sup> The Seventh Circuit affirmed, concluding that AMP “failed to establish the existence of any particularized trade secrets.”<sup>108</sup> The appellate court stated:

AMP has consistently failed throughout this litigation to identify any particularized trade secrets actually at risk. Prior to trial, AMP submitted six single-spaced, typewritten pages listing by general item and category hundreds of pieces of AMP internal information. Other courts have warned plaintiffs of the risks they run by failing to identify specific trade secrets and instead producing long lists of general areas of information which contain unidentified trade secrets.<sup>109</sup>

This case is distinguishable from the present dispute, between Showme and Noweigh, because it was decided in the context of the burden of proof following a full trial. Nevertheless, in its opinion, the court stressed the potential adverse consequences to a plaintiff of not setting forth its allegations of misappropriated trade secrets with particularity.

The approach taken in the decisions outlined above appears to favor the three policies supporting Noweigh’s position. For example, if Showme has filed a baseless complaint, this approach would prevent it from using the legal system to learn Noweigh’s trade secrets. Most of the decisions requiring a plaintiff to specify allegedly misappropriated trade secrets have imposed this requirement, however, only after the plaintiff has had an opportunity to conduct at least some discovery of the defendant.

#### **B. *Require A “Trade Secret Statement”***

At least one state court, the Court of Chancery of Delaware, has required the plaintiff to identify allegedly misappropriated trade secrets in a “trade secret statement” before permitting discovery of the defendant’s trade secrets. The seminal case taking this

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<sup>105</sup> 1986 WL 3598 (N.D. Ill. Mar. 18, 1986), *aff’d*, 823 F.2d 1199, 3 U.S.P.Q. (BNA) 1421 (7th Cir. 1987).

<sup>106</sup> *Id.* at \*11.

<sup>107</sup> *Id.* at \*8.

<sup>108</sup> *AMP Inc. v. Fleischhacker*, 823 F.2d 1199, 1206, 3 U.S.P.Q. (BNA) 1421, 1427 (7th Cir. 1987), *aff’g* 1986 WL 3598 (N.D. Ill. Mar. 18, 1986).

<sup>109</sup> *Id.* at 1203, 3 U.S.P.Q. (BNA) at 1424.

approach appears to be *Engelhard Corp. v. Savin Corp.*<sup>110</sup> Engelhard sued Savin for misappropriation of trade secrets.<sup>111</sup> The court expressly found that the plaintiff had not disclosed anything about its trade secrets, when it requested discovery of the defendant, and required the plaintiff to identify the trade secrets allegedly misappropriated with “reasonable particularity,” in a “trade secret statement,” before permitting such discovery.<sup>112</sup>

The same court cited *Engelhard* with approval in *Magnox v. Turner*.<sup>113</sup> The court stated:

Magnox has not made the prerequisite identification of the trade secrets it claims the defendants have misappropriated. Magnox merely alleges that defendant Turner solicited some of its customers and that his knowledge of Magnox’s confidential, proprietary information about customer specifications put him in the unique position of knowing which competing products to offer those customers. Magnox, however, has failed to further identify this confidential information. Defendants are therefore entitled to *a more particularized statement* of the trade secrets at issue before they will be compelled to respond to Magnox’s discovery requests.<sup>114</sup>

The court had earlier, in *Data Gen. Corp. v. SCI Systems, Inc.*,<sup>115</sup> considered an action brought by Data General against SCI for misappropriation of trade secrets.<sup>116</sup> SCI moved for a protective order to compel Data General to list and identify all trade secrets before SCI responded to discovery requests.<sup>117</sup> The court noted that *Struthers* and *Cromaglass* had both required an initial disclosure of trade secrets by the plaintiff before the plaintiff could proceed with its discovery of the defendant.<sup>118</sup> The court thought that Data General had met that requirement, however, by filing a “bare-bones response” (listing 1,120 entries on 41 pages) to SCI’s request that it identify “each and every” trade secret.<sup>119</sup> Thus, the court allowed SCI to review Data General’s list and to file with the

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<sup>110</sup> 505 A.2d 30 (Del. Ch. 1986).

<sup>111</sup> *Id.* at 30-31.

<sup>112</sup> *Id.* at 33.

<sup>113</sup> 1991 WL 182450, at \*1 (Del. Ch. Sept. 10, 1991) (citing *Engelhard*, 505 A.2d at 33).

<sup>114</sup> *Id.* at \*2 (emphasis added); *see also* *Miles Inc. v. Cookson Am., Inc.*, 1992 WL 136381, at \*1 (Del. Ch. June 16, 1992) (granting the plaintiff’s motion to compel discovery because its statement of trade secrets set forth with reasonable particularity the processes it claimed were the trade secrets that Cookson misappropriated, citing *Engelhard Corp.* and *Magnox*).

<sup>115</sup> 1978 WL 22033 (Del. Ch. Nov. 27, 1978).

<sup>116</sup> *Id.* at \*2-3.

<sup>117</sup> *Id.* at \*1.

<sup>118</sup> *Id.*

<sup>119</sup> *Id.* at \*2 (citing *Struthers Scientific & Int’l Corp. v. General Foods Corp.*, 51 F.R.D. 149, 152, 168 U.S.P.Q. (BNA) 202, 204 (D. Del. 1970)) (plaintiff submitted a list of 103

court an application identifying those of the 1,120 entries which it could not comprehend.<sup>120</sup> The court opined that it might ask Data General to further clarify those listed items identified by SCI.<sup>121</sup>

Although apparently not yet adopted by a federal district court, the approach of requiring Showme to file a trade secret statement identifying the trade secrets that Noweigh allegedly misappropriated has some appeal. Therefore, the next logical question is, what level of detail must Showme's statement provide? The same court required "reasonable particularity," a "particularized" statement, and a "bare-bones response," in *Engelhard Corp., Magnox, and Data Gen. Corp.*, respectively.<sup>122</sup>

### C. *Defer Defendant's Responses*

Still other courts have chosen to defer consideration of the question of disclosure of trade secrets by the defendant until trial, at which time the substance of the plaintiff's contention may more appropriately be determined. As one commentator has characterized this approach:

[D]efendant may be anxious to defer plaintiff's discovery until plaintiff has defined the nature of [its] trade secrets . . . [and] it may also be appropriate to defer discovery into defendant's secrets until plaintiff has defined the secrets [it] expects to find in defendant's files; in most cases this would involve deferring discovery until trial.<sup>123</sup>

A proponent of this approach is the District Court for the Southern District of New York. In *Ray v. Allied Chemical Corp.*,<sup>124</sup> the court considered Allied Chemical's ("ACC") motion to vacate Ray's interrogatories directed at discovering ACC's secret process. ACC asked the court to defer the answers until ACC completed discovery of Ray.<sup>125</sup> The court held that "the motion of the defendant is granted to the extent of

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separate items, covering 54 typewritten legal pages, and the court denied the defendant's request for additional information).

<sup>120</sup> *Id.*

<sup>121</sup> *Id.*

<sup>122</sup> See Pasahow, *supra* note 26, at 52 ("Whether a plaintiff's trade secret list contains the necessary specificity is often litigated.").

<sup>123</sup> Doyle & Joslyn, *supra* note 3, at 747 (citing *Ray v. Allied Chem. Corp.*, 34 F.R.D. 456 (S.D.N.Y. 1964); *Remington Rand v. Control Instrument Co.*, 7 F.R.D. 18,73 U.S.P.Q. (BNA) 285 (E.D.N.Y. 1947); and *Grasselli Chem. Co. v. National Aniline & Chem. Co.*, 282 F. 379 (S.D.N.Y. 1920)). The authors characterize "[t]his approach [as] an application of the general reluctance of courts to order disclosure of party's trade secrets until it clearly appears that they are necessarily relevant." *Id.* at 747 & n.15 (citing *International Nickel Co. v. Ford Motor Co.*, 15 F.R.D. 357, 100 U.S.P.Q. (BNA) 308 (S.D.N.Y. 1954); *Cities Serv. Oil Co. v. Celanese Corp. of Am.*, 10 F.R.D. 458 (D. Del. 1950); and *Lever Bros. Co. v. Procter & Gamble Mfg.*, 38 F. Supp. 680 (D. Md. 1941)).

<sup>124</sup> 34 F.R.D. 456 (S.D.N.Y. 1964).

<sup>125</sup> *Id.*

deferring consideration of the question of disclosure of secret processes by the defendant or its employees until the trial, at which time the substance of plaintiff's contention may more appropriately be determined."<sup>126</sup> Perhaps an important consideration in the court's analysis was the existence of "a question as to whether any disclosure of confidential matter was ever made to the defendant by . . . the plaintiff."<sup>127</sup> No such question is present in the Showme-Noweigh dispute.

In *DeLong Corp. v. Lucas*,<sup>128</sup> the plaintiff sued its former employee for alleged violation of a covenant not to compete. DeLong filed a motion seeking an order compelling Lucas to answer certain deposition questions and to produce certain documents.<sup>129</sup> Although the court directed the production of some correspondence relevant to the question of whether Lucas actually competed with DeLong, the court elected to defer discovery into Lucas' confidential information:

I believe that it would be best to leave the question of the propriety of production of these patent applications and other papers relevant to these applications to the trial judge who can, after the evidence unfolds, decide whether there is relevancy to the papers. The trial judge can then grant a brief adjournment and permit inspection if he sees fit.<sup>130</sup>

A patent infringement complaint was at issue in *International Nickel Co. v. Ford Motor Co.*<sup>131</sup> Specifically, the court considered cross motions for the production of documents under Rule 34 in which each party sought information on the other's manufacturing processes.<sup>132</sup> The parties responded to each other's request for extensive production by objecting on the grounds that the information was privileged (because it required revelation of confidential information and trade secrets to a competitor) and irrelevant.<sup>133</sup> The court noted that the suit related to a product (as opposed to a process) patent, which might render probing into each other's processes unnecessary.<sup>134</sup> Therefore, the court ruled: "I shall deny the motions for such material at this time and

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<sup>126</sup> *Id.* at 458.

<sup>127</sup> *Id.* at 457.

<sup>128</sup> 138 F. Supp. 805 (S.D.N.Y. 1956).

<sup>129</sup> *Id.* at 806.

<sup>130</sup> *Id.* at 809. "There are situations which may justify a protective order postponing discovery as to certain issues until other issues have been decided." *Id.* (citation omitted).

<sup>131</sup> 15 F.R.D. 357, 100 U.S.P.Q. (BNA) 308 (S.D.N.Y. 1954).

<sup>132</sup> *Id.*

<sup>133</sup> *Id.*

<sup>134</sup> *Id.* at 358, 100 U.S.P.Q. (BNA) at 309.

leave the matter open for determination by the trial judge when it may more clearly appear how much of this production, if any, is required.”<sup>135</sup>

The Maryland district court adopted its sister court’s approach in *Lever Bros. Co. v. Procter & Gamble Manufacturing*.<sup>136</sup> Lever Brothers sued Procter & Gamble (P&G) for patent infringement and obtained leave to take depositions before P&G filed its answer.<sup>137</sup> When the witness declined to answer certain questions on the ground that proper answers required a disclosure of the defendant’s secret trade process, Lever Brothers filed a motion for an order to compel.<sup>138</sup> The question presented, as stated by the court, was “whether the bona fide claim of privilege from public disclosure of a secret process should be granted or denied to the defendant at this stage of the case.”<sup>139</sup>

The court noted that the nature of the secret trade process may go “to the heart of the controversy between the parties, at a very preliminary stage of the case,” but “the court is not adequately informed as to the ultimate relevancy or materiality of the point in issue.”<sup>140</sup> Thus, the court deferred consideration of the question of disclosure of trade secrets by P&G until the trial.<sup>141</sup> The court cautioned P&G, however, that its “refusal to compel present disclosure is not final, because it may develop at the trial on the merits that the defendant’s claimed secret process is both relevant, material and necessary to a decision.”<sup>142</sup> In fact, the court suggested that the “defendant should be required to make the records and documents referred to in the motion available at the trial of the case on the merits, at which time their relevancy and admissibility can be more advisedly determined.”<sup>143</sup>

None of the cases in which discovery was deferred were decided more recently than thirty years ago. At least one commentator has advised that deferred consideration of trade secret discovery has disadvantages:

In many cases, deferring consideration of trade secrets discovery until the time of trial may not be a feasible option. Trade secret objections and

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<sup>135</sup> *Id.*; see also *Wagner Mfg. v. Cutler-Hammer Co.*, 10 F.R.D. 480,485 (S.D. Ohio 1950) (disclosure not required until knowledge of secret process is essential to determination of controversy); *Western States Mach. Co. v. S.S. Hepworth Co.*, 1 F.R.D. 766, 767 (E.D.N.Y. 1941) (“[W]here patents and patent infringements are involved, the discretion of the court should be exercised to prevent disclosure of trade secrets in advance of the trial.”).

<sup>136</sup> 38 F. Supp. 680 (D. Md. 1941).

<sup>137</sup> *Id.* at 681.

<sup>138</sup> *Id.*

<sup>139</sup> *Id.* at 683 (emphasis omitted).

<sup>140</sup> *Id.*

<sup>141</sup> *Id.* at 684.

<sup>142</sup> *Id.* at 683.

<sup>143</sup> *Id.* at 684.



related instructions to not answer may render depositions of fact and expert witnesses virtually useless. The facts often depend on the existence of trade secrets. Without a prior ruling on the trade secrets issues, the parties may be unable to prepare for trial.<sup>144</sup>

Despite having directly addressed the defendants' suggestion that the court defer defendants' responses until trial (or at least until the plaintiff established a prima facie case of liability), a court in a more recent case, *Liberty Folder v. Curtiss Anthony Corp.*,<sup>145</sup> refused to defer disclosure. The defendants cited *Ray*, *International Nickel Co.*, and *Lever Bros. Co.* in support of their position. The court stated that these "exceptional" cases failed to establish an unalterable rule; instead, they merely indicated that deferred discovery was warranted under the facts presented in those particular cases.<sup>146</sup>

The *Liberty Folder* court then distinguished each of the cited cases. The court reviewed the record in *Ray* and determined that the *Ray* court had examined evidence indicating that the defendant did not have the specific confidential information that formed the basis of the plaintiffs' claim of misappropriation.<sup>147</sup> Other factors supporting deferred discovery in *Ray* were: (1) no possibility of prejudicial delay because the court (not a jury) was to try the case and (2) a protective order limiting access to discovered information only to the plaintiff's counsel was not viable because the plaintiff was proceeding pro se.<sup>148</sup> Thus, the *Liberty Folder* court found that the *Ray* court properly deferred discovery until trial under the specific facts of that case.<sup>149</sup>

Similarly, the *Liberty Folder* court characterized *International Nickel* as a case in which the court had deferred discovery because the relevance of the defendants' secret processes, about which the plaintiff inquired, had not been demonstrated.<sup>150</sup> The plaintiff's alleged need for discovery was also inconsistent with its claim that the processes were not secret, i.e., that they had previously been made available to the public.<sup>151</sup>

Finally, according to the *Liberty Folder* court, deferred discovery was appropriate in *Lever Bros.* because the plaintiff failed to inform the court of the relevancy of the point in issue or any disadvantage that the plaintiff might suffer upon deferral.<sup>152</sup>

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<sup>144</sup> McKown, *supra* note 3, at 742.

<sup>145</sup> 90 F.R.D. 80 (S.D. Ohio 1981).

<sup>146</sup> *Id.* at 83.

<sup>147</sup> *Id.*

<sup>148</sup> *Id.*

<sup>149</sup> *Id.*

<sup>150</sup> *Id.*

<sup>151</sup> *Id.*

<sup>152</sup> *Id.* (*Lever Bros.* was a non-jury case).

The court in *Coca-Cola Bottling Co. v. Coca-Cola Co.*<sup>153</sup> also considered the defendant's suggestion that disclosure of its trade secrets be postponed until trial. The court refused to adopt the defendant's suggested approach and instead ordered earlier discovery.<sup>154</sup> At issue was one of the best-kept trade secrets in the world: the formula for Coca-Cola soft drinks.<sup>155</sup>

After distinguishing each of the cases cited by the defendant on the basis that none of those cases supported deferral of discovery when relevance and need had been established,<sup>156</sup> the court found "no good reason to delay discovery at this stage . . . [because] [t]he issues have already been developed through two years of discovery . . . [and] postponing the disclosure of the formula information until trial is not supported by the case law and is not warranted in this situation, where relevance and need have been established."<sup>157</sup>

The court ordered disclosure of the trade secrets under a protective order.<sup>158</sup>

In view of the dated nature of the cases supporting deferred discovery, the commentary warning of the dangers inherent in the approach, and the more recent cases--which have both distinguished the earlier cases and refused to follow the suggested deferral procedure--the option to defer discovery until trial appears to have limited utility for district court judges.

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<sup>153</sup> 107 F.R.D. 288,227 U.S.P.Q. (BNA) 18 (D. Del. 1985) (action by bottlers seeking relief against The Coca-Cola Company for, among other claims, alleged breach of contract).

<sup>154</sup> *Id.* at 299, 227 U.S.P.Q. (BNA) at 26 (defendant cited *Hartley Pen Co. v. United States Dist. Ct.*, 287 F.2d 324, 129 U.S.P.Q. (BNA) 152 (9th Cir. 1961); *Ray v. Allied Chem. Corp.*, 34 F.R.D. 456 (S.D.N.Y. 1964); *DeLong Corp. v. Lucas*, 138 F. Supp. 805 (S.D.N.Y. 1956); *Cities Serv. Oil Co. v. Celanese Corp. of Am.*, 10 F.R.D. 458,86 U.S.P.Q. (BNA) 439 (D. Del 1950); and *Lever Bros. Co. v. Procter & Gamble Mfg. Co.*, 38 F. Supp. 680 (D. Md. 1941), to support its position).

<sup>155</sup> *Coca-Cola*, 107 F.R.D. at 289, 227 U.S.P.Q. (BNA) at 18.

<sup>156</sup> The Delaware court distinguished each of the cases as follows. The court distinguished *Lever Brothers* on the ground that discovery was sought before the defendant had filed its answer and discovery was denied because the court could not determine at that early stage whether the information the plaintiff sought was relevant. *Id.* at 299, 227 U.S.P.Q. (BNA) at 26. In *Hartley Pen*, the Delaware court stated, "[T]he Ninth Circuit reversed a district court disclosure order because the movant had failed to demonstrate relevance and necessity." *Id.* The appellate court's decision was "without prejudice to the moving party's right at a later time to initiate discovery of trade secret information." *Id.* In both *Ray* and *DeLong Corp.*, "the information was sought by competitors, and, at least in *Ray*, the court was unable to prevent disclosure of the trade secrets to the party-competitor." *Id.* Finally, in *Cities Service*, the court "deferred acting on the motion only until the moving party had examined some new material produced by the defendant and informed the court whether further discovery would be necessary." *Id.* (citation omitted).

<sup>157</sup> *Coca-Cola*, 107 F.R.D. at 299-300, 227 U.S.P.Q. (BNA) at 27.

<sup>158</sup> *Id.*

#### D. *Fashion A Discovery Order*

Rule 26(c)(7) expressly provides that a district court may issue a protective order requiring “that a trade secret or other confidential research, development, or commercial information not be revealed or be revealed only in a designated way.”<sup>159</sup> The Federal Rules fail to identify any specific factors, however, for courts to consider in deciding whether a trade secret should be disclosed, or the “designated ways” in which courts may restrict the disclosure of trade secrets. The Federal Rules of Evidence also provide no specific guidance concerning the admissibility of trade secrets. Thus, although a discovery order referring to the parties’ protective order and outlining a schedule for prospective discovery has some appeal, the rules provide little guidance on how to fashion such an order.

In *Liberty Folder v. Curtiss Anthony Corp.*,<sup>160</sup> the plaintiff moved under Rule 37(a) to compel the defendants to produce certain information. The court considered a number of options suggested by the defendants;<sup>161</sup> it found none of them necessary: “[T]he Court concludes that Plaintiffs’ proposed protective order adequately guards against unnecessary and potentially injurious disclosure of the kind of sensitive information at issue.”<sup>162</sup> Accordingly, the court granted the plaintiff’s motion to compel the defendants to produce, subject to the protective order, in its entirety.<sup>163</sup> This case seems to support Showme’s position with the caveat that the court may want to review the parties’ detailed protective order to ensure that it adequately protects Noweigh’s interests.<sup>164</sup>

A protective order alone was also found adequate to protect the defendant’s interest and to warrant granting the plaintiff’s motion to compel discovery in *Coca-Cola*

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<sup>159</sup> FED. R. CIV. P. 26(c)(7); *see also* UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 461 (1990) (“a court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings”). The Illinois Supreme Court Rules provide that “the court may supervise all or any part of any discovery procedure” and enter protective orders “as justice requires, denying, limiting, conditioning, or regulating discovery to prevent unreasonable annoyance, expense, embarrassment, disadvantage, or oppression.” *See* *MBL (USA) Corp. v. Diekman*, 445 N.E.2d 418, 427, 221 U.S.P.Q. (BNA) 725, 732 (111. App. Ct.), appeal denied, 94 Ill. 2d 553 (Ill. 1983).

<sup>160</sup> 90 F.R.D. 80 (S.D. Ohio 1981).

<sup>161</sup> *Id.* at 82; *see supra* note 71 & accompanying text.

<sup>162</sup> *Liberty Folder*, 90 F.R.D. at 82.

<sup>163</sup> *Id.*

<sup>164</sup> *See also* *Puritan-Bennett Corp. v. Pruitt*, 142 F.R.D. 306, 308-09 (S.D. Iowa 1992) (setting forth the parameters of a protective order as one way to reconcile the competing interests in trade secret discovery disputes); *cf.* *Marrese v. American Academy of Orthopaedic Surgeons*, 706 F.2d 1488, 1498 (7th Cir. 1983) (Stewart, J., dissenting) (would have affirmed district court’s decision to allow plaintiff’s discovery, as critically important to its case, after imposing a protective order strictly limiting access to the confidential information), *reh’g*, 726 F.2d 1150 (7th Cir.), *cert. granted in part*, 467 U.S. 1258 (1984), *rev’d*, 470 U.S. 373, *reh’g denied*, 471 U.S. 1062 (1985).

*Bottling Co. v. Coca-Cola Co.*<sup>165</sup> The court ordered discovery, despite “great” risk of harm to the defendant, because “virtually all of that harm can be eliminated with stringent protective orders and other safeguards.”<sup>166</sup> Such protective orders, the court opined, might “limit the disclosure of the formulae to plaintiff’s trial counsel and independent experts.”<sup>167</sup>

In *Uresil Corp. v. Cook, Group, Inc.*,<sup>168</sup> Uresil answered Cook’s interrogatories relating to Uresil’s claims of misappropriation. Cook viewed those answers as insufficient, however, and moved for an order to compel further responses.<sup>169</sup> After noting that “[t]he discovery in this case has been lengthy,” the court addressed Cook’s motion and stated, “[i]t now appears we’ve reached the point where this court cannot realize an amicable resolution to the current discovery impasse without a ruling on Uresil’s motion and, if appropriate, the imposition of a well-fashioned discovery order.”<sup>170</sup>

Accordingly, the court reviewed Uresil’s answers and stated:

Uresil has not identified the components and/or concepts incorporated in the products Uresil claims Cook misappropriated. Nor does Uresil identify all information and documents alleged by Uresil to be confidential and to have been misappropriated by the defendant. It must so indicate whether there are or [are] not such information or documents.<sup>171</sup>

The court thus required Uresil to supplement its answers to Cook’s interrogatories.

Although a detailed discovery order may be just what Showme and Noweigh need, courts hesitate to get involved in discovery disputes--for good reason. Moreover,

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<sup>165</sup> 107 F.R.D. 288,298-99,227 U.S.P.Q. (BNA) 18,26 (D. Del. 1985).

<sup>166</sup> *Id.* at 299, 227 U.S.P.Q. (BNA) at 26.

<sup>167</sup> *Id.* at 300, 227 U.S.P.Q. (BNA) at 27; *see also* Metal Foil Prods. Mfg. v. Reynolds Metals Co., 55 F.R.D. 491, 493 (E.D. Va. 1970) (“Fortunately, Federal Rule 26(c) gives the court much leeway in effecting a protective order.”); Upjohn Co. v. Hygieia Biological Lab., 151 F.R.D. 355, 360, 27 U.S.P.Q.2d (BNA) 1601, 1605 (E.D. Cal. 1993) (“In balancing the need for disclosure against the harm that could ensue from disclosure, the court is able to accommodate both considerations by the issuance of a protective order.”). Because unauthorized use of court-protected trade secrets could be the basis for contempt proceedings, the practical protection afforded by court protective orders should not be underestimated. In ordering disclosure, the court can limit the nature of the disclosure that must be made and can impose strict protective orders to assure that trade secrets will not be misappropriated. 3 MILGRIM, *supra* note 1, § 14.02[4], at 14-98 to 14-99.

<sup>168</sup> 135 F.R.D. 168 (N.D. Ill. 1991).

<sup>169</sup> *Id.* at 170.

<sup>170</sup> *Id.*

<sup>171</sup> *Id.* at 174.

the *Uresil* decision is another corollary precedent in which the court ruled only after extensive discovery had already taken place.<sup>172</sup>

*E. Bifurcate Discovery*

Some courts bifurcate discovery and allow discovery of nonconfidential documents before confidential documents. For example, in

*Marrese v. American Academy of Orthopaedic Surgeons*,<sup>173</sup> an antitrust case, the court bifurcated discovery and allowed discovery of non-confidential documents before allowing discovery of confidential ones.<sup>174</sup> At the start of discovery, Marrese asked the Academy to produce certain confidential information.<sup>175</sup> The Academy refused, even after the district court ordered it to produce the requested documents, and was held in criminal contempt.<sup>176</sup> The Seventh Circuit reversed, stating:

The district court should not in these circumstances have ordered discovery of the Academy's membership files before there was any discovery on the issue of competitive effect. It was not enough for the court to observe that "nothing in the Federal Rules of Civil Procedure or the case law requires the imposition of such a bifurcation [of discovery] on plaintiffs." As we have pointed out, a district court has the power under Rules 26(c) and (d) of the Federal Rules of Civil Procedure, and in a clear case the duty, to defer a burdensome discovery request pending completion of discovery on an issue that may dispose of the entire case and thereby make the request moot. We are speaking here only of postponement, and not of denial, of discovery. There would have been no hardship to the plaintiffs in requiring them to conduct their discovery on competitive effect before getting into the Academy's membership files. The sequence of discovery may well have been intended to coerce the Academy to settle but in any event the balance of hardships is clear enough to make us conclude that in refusing to postpone discovery of the membership files the able district judge committed clear error.<sup>177</sup>

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<sup>172</sup> See also *Leucadia, Inc. v. Applied Extrusion Tech., Inc.*, 755 F. Supp. 635, 637 (D. Del. 1991) (giving AET two months to conduct discovery of Leucadia to inquire into the details of Leucadia's trade secrets before Leucadia could proceed with discovery of AET).

<sup>173</sup> 706 F.2d 1488 (7th Cir. 1983), *reh'g*, 726 F.2d 1150 (7th Cir.), *cert. granted in part*, 467 U.S. 1258 (1984), *rev'd*, 470 U.S. 373, *reh'g denied*, 471 U.S. 1062 (1985).

<sup>174</sup> *Id.* at 1494.

<sup>175</sup> *Id.* at 1492.

<sup>176</sup> *Id.*

<sup>177</sup> *Id.* at 1497 ("The hardship to the party seeking discovery is less if [it] is just being told to complete [its] other discovery first (or just to let the other party have some discovery first) than if [it] is being told to do without forever.").

In *Microwave Research Corp. v. Sanders Associates, Inc.*,<sup>178</sup> the court denied Microwave's motion to compel further discovery of Sanders: "[B]efore a plaintiff is entitled to the type of broad discovery into a defendant's trade secrets, it must show that *other* evidence which it has gathered through discovery provides a substantial factual basis for its claim."<sup>179</sup>

Finally, in *Puritan-Bennett Corp. v. Pruitt*,<sup>180</sup> Puritan-Bennett ("P-B") sued Pruitt, a former employee, for misappropriation of trade secrets. Pruitt did consulting work for a competitor of P-B, Nitrous Oxide Corporation ("NOC"), which was not a party to the litigation, and P-B sought discovery of NOC.<sup>181</sup> Citing *Marrese*, the court bifurcated discovery. The court initially limited discovery of NOC to a statute of limitations question and deferred discovery into the issue of misappropriated trade secrets.<sup>182</sup> If Pruitt were to succeed on his statute of limitations defense, the court reasoned, then P-B's need for additional discovery might be moot.<sup>183</sup>

This approach appears particularly well-suited to a certain type of case. Specifically, discovery might be bifurcated when (1) the case involves a number of separate issues; (2) a decision on one of those issues will dispose of the entire case; (3) discovery can be segregated as directed to the separate issues; and (4) it appears reasonable to defer a burdensome discovery request pending completion of discovery on the issue that may dispose of the entire case, thereby making the burdensome request moot. Unfortunately, the present dispute between Showme and Noweigh does not meet these criteria.

#### F. *Order Simultaneous Discovery*

In at least one case, *Cataphote Corp. v. Hudson*,<sup>184</sup> the court ordered simultaneous discovery by both parties:

Defendants were directed thirty days before [their] plant was put in operation to file with the Court and plaintiff a report revealing in detail the processes and procedures to be used by defendants in the manufacture of glass beads, together with detailed drawings. As pointed out by this Court it became obvious . . . that there could be no effective restraint against defendants until such time as the alleged trade secrets could be specifically identified and compared with the processes and procedures of defendants.

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<sup>178</sup> 110 F.R.D. 669, 672 (D. Mass. 1986).

<sup>179</sup> *Id.* at 674 (emphasis added).

<sup>180</sup> 142 F.R.D. 306 (S.D. Iowa 1992).

<sup>181</sup> *Id.* at 307.

<sup>182</sup> *Id.* at 309-10.

<sup>183</sup> *Id.* at 310.

<sup>184</sup> 316 F. Supp. 1122, 168 U.S.P.Q. (BNA) 19 (S.D. Miss. 1970), *aff'd*, 444 F.2d 1313, 170 U.S.P.Q. (BNA) 437 (5th Cir. 1971).

Accordingly, . . . this Court directed that each side make a visual inspection of the other's plant, while in operation.<sup>185</sup>

Apparently, the procedure worked well. The plaintiff provided a detailed identification of the allegedly misappropriated trade secrets after viewing the defendants' plant:

From the court-afforded opportunity to inspect defendants' plant, plaintiff selected six phases of defendants' operation, . . . describing the techniques and processes used therein in highly technical language, and alleging them as secret procedures misappropriated by defendants.<sup>186</sup>

This procedure was previously suggested by commentators: "[P]rotection against subsequent claims of prior discovery can be afforded by requiring each party, before disclosure of the other's process, to file a detailed statement of the process he is presently using."<sup>187</sup> As the commentators noted, the procedure may be limited: "If anything more than a few fairly narrow and clearly defined processes are involved, however, such a device would become unworkable."<sup>188</sup> Moreover, regardless of its limitations, especially "in cases where both parties entertain some doubt as to the strength of their relative positions, there is a strong incentive to avoid reciprocal disclosure if possible."<sup>189</sup> The commentators' cautionary remarks, the clear limitations on the procedure, and the fact that only one case seems to have adopted the procedure--all advise against applying that procedure in this case.

### **G. *Assign A Neutral Expert To Control Discovery***

Another potential procedure is for the parties to agree on the appointment of an independent expert or experts. The parties might do so, for example, if they consider the judge unable to determine whether a list of purported trade secrets is sufficient because he or she may not understand the technology, the technological terms, or both. Two commentators have outlined this technique:

[T]he parties may find it advantageous to agree to the use of court-appointed impartial experts in controlling the areas of discovery. In one case, with the consent of the parties, the court appointed two independent experts to inspect both parties' plants and papers and to report which aspects of plaintiff's plants were substantially similar to defendant's. The experts were also directed to identify those aspects which, although substantially similar, they considered to be in the public domain and to set forth the basis for their opinion. On the basis of such a report, the court could confine discovery to those aspects found to be substantially similar,

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<sup>185</sup> *Id.* at 1123, 168 U.S.P.Q. (BNA) at 20.

<sup>186</sup> *Id.*

<sup>187</sup> Doyle & Joslyn, *supra* note 3, at 745.

<sup>188</sup> *Id.*

<sup>189</sup> *Id.* at 746.

and, if no important areas of similarity were found, the parties would be spared the considerable expense of further litigation.<sup>190</sup>

Clearly, the parties would have to agree to the appointment of experts.<sup>191</sup> Courts may appoint special masters, however, to resolve discovery disputes concerning trade secrets. In addition to the expressly enumerated methods in the Uniform Trade Secrets Act,<sup>192</sup> the official comment to the Act notes that courts have appointed a disinterested expert as a special master to hear secret information and report conclusions to the court.<sup>193</sup> The Federal Rules of Civil Procedure also expressly authorize appointing a master to handle discovery disputes.<sup>194</sup> Courts have broad discretion concerning the

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<sup>190</sup> *Id.* at 747 (footnotes omitted) (cited in *Microwave Research Corp. v. Sanders Assocs., Inc.*, 110 F.R.D. 669, 673 (D. Mass. 1986)). Of course, implementing this procedure assumes that the parties can bear the expense and “that experts unconnected with any competitor can be found.”

*Id.* at 744 n.3.

<sup>191</sup> *See, e.g.*, *Upjohn Co. v. Hygieia Biological Lab.*, 151 F.R.D. 355, 358 n.4, 27 U.S.P.Q.2d (BNA) 1601, 1604 n.4 (E.D. Cal. 1993).

Defendants’ unilateral suggestion that the matter be resolved by neutral parties . . . ignores the reality that the parties, with the filing of their pleadings, seek judicial resolution of this case. The parties may, of course, agree to pursue any available administrative procedures that will narrow the issues presented to the court, including the appointment of stipulated experts. However, the court cannot and will not compel the parties to so stipulate.

*Id.*

<sup>192</sup> 192 UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 461 (1990):

[A] court shall preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.

<sup>193</sup> *Id.* *See, e.g.*, *Xerox Corp. v. International Bus. Mach. Corp.*, 64 F.R.D. 367,370 (S.D.N.Y. 1974); but see *Upjohn Co. v. Hygieia Biological Lab.*, 151 F.R.D. 355, 360, 27 U.S.P.Q.2d (BNA) 1601, 1605 (E.D. Cal. 1993) (stating that Hygieia failed to show that the action was one of those “rare cases” justifying the appointment of a special master, the court refused Hygieia’s request--over Upjohn’s objection--for appointment of a Magistrate Judge as a special master, pursuant to Fed. R. Civ. P. 53 and 28 U.S.C. § 636(b)(2), to determine the relevancy of discovery). *See also* 3 MILGRIM, *supra* note 1, § 14.02[3], at 14-82 (“A simple expedient for a court to determine relevancy before ordering discovery is to require preliminary disclosure to the judge or to a master for a threshold relevancy determination.”).

<sup>194</sup> FED. R. CIV. P. 53(a).



power of a special master,<sup>195</sup> and the court's decision to refer the case to a special master is also considered discretionary.<sup>196</sup>

A related but distinct option is to appoint a U.S. magistrate judge.<sup>197</sup> Any non-dispositive, pre-trial matter may be referred to a magistrate judge.<sup>198</sup> The magistrate judge provides the district court with a written order setting forth proposed findings and a recommended disposition of the matter. The judge then considers that order, focusing on those portions of the report to which objection was made. Several courts have appointed magistrate judges to resolve discovery disputes in trade secret cases.<sup>199</sup>

#### **H. Examine Materials, Then Decide**

The judge always has the option of tackling the parties' discovery dispute directly. At least one state supreme court has required a trial court to do so. In *Automatic Drilling Machines, Inc. v. Miller*,<sup>200</sup> Automatic Drilling Machines ("ADM") sued Drilling Systems International, Inc. and The Offshore Company for wrongfully claiming to be the owners of trade secrets formerly used solely by ADM. ADM sought a writ of mandamus directing the trial judge to vacate an order in which he required discovery, and to grant ADM's motion for a protective order.<sup>201</sup> The Texas Supreme Court ordered the trial court to "examine the several documents and, with such expert assistance as may be required, determine the relevance and need for discovery of each and the extent to which disclosure should be made."<sup>202</sup> The writ of mandamus would issue if the trial court failed to do so promptly.

The Uniform Trade Secrets Act peripherally supports this approach, suggesting that a court hold in-camera hearings.<sup>203</sup> Two commentators' characterization of judges'

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<sup>195</sup> See FED. R. CIV. P. 53(c). A master is a "referee, an auditor, an examiner, a commissioner, and an assessor." *Id.*

<sup>196</sup> See CHARLES A. WRIGHT, THE LAW OF FEDERAL COURTS § 97 (4th ed. 1983) (although certain circumstances should exist).

<sup>197</sup> FED. R. CIV. P. 72-76; 28 U.S.C. §§ 631-39 (1994). Although a district court judge may designate a magistrate judge to serve as a special master, 28 U.S.C. § 636(b)(2), the titles identify separate appointments. Unlike the master, for example, magistrate judges are not protected in their fact-finding function by the clearly erroneous standard of Fed. R. Civ. P. 53(e). The circuits increasingly approve full civil trials before magistrate judges under Section 636 by party consent.

<sup>198</sup> See FED. R. CIV. P. 72(a); 28 U.S.C. § 636(b).

<sup>199</sup> See, e.g., *Vermont Microsystems, Inc. v. Autodesk, Inc.*, No. 92-CV-309 (D. Vt. Dec. 23 1994); *Upjohn Co. v. Hygieia Biological Lab.*, 151 F.R.D. 355, 27 U.S.P.Q.2d (BNA) 1601 (E.D. Cal. 1993); *Uresil Corp. v. Cook Group, Inc.*, 135 F.R.D. 168 (N.D. Ill. 1991); *Microwave Research Corp. v. Sanders Assocs., Inc.*, 110 F.R.D. 669 (D. Mass. 1986).

<sup>200</sup> 515 S.W.2d 256 (Tex. 1974).

<sup>201</sup> *Id.*

<sup>202</sup> *Id.* at 260.

<sup>203</sup> UNIF. TRADE SECRETS ACT § 5,14 U.L.A. 461 (1994).

reluctance to become involved with discovery disputes suggests, however, that asking for a court's direct hand in resolving such disputes may prove to be an imprudent strategy:

Litigators must bear in mind, however, that no matter how important their own discovery disputes may seem, judges and magistrates have the same enthusiasm for mediating discovery spats that kindergarten teachers have for deciding whose crayon is whose. The judge does what any good kindergarten teacher would do if presented with such a quarrel: He wearily instructs [the plaintiff] to file supplemental answers [further specifying the allegedly misappropriated trade secrets] within 30 days, sending both parties back to their respective offices to ponder further mayhem against one another.<sup>204</sup>

Indeed this rather distasteful option seems viable only as a last resort.

### **I. Grant Plaintiff Discovery**

Finally, a number of cases simply grant the plaintiff's motion to compel discovery. These cases apparently find the policies supporting Showme's position dispositive, but tend to short-change those policies favoring the defendant's position.

Showme's position is most ably supported by *qad. inc. v. ALN Associates, Inc.*<sup>205</sup> The plaintiff charged ALN with theft of trade secrets relating to its computer software programs. When qad filed suit, the court held, it certainly had a good faith basis for believing that ALN was encroaching on its rights.<sup>206</sup> The court then addressed discovery, stating:

[T]he discovery process is not supposed to be a memory test--that is, plaintiffs are not supposed to remember what it was that was turned over to ALN and therefore what constitutes trade secrets. And that's why the preferable procedure (although ALN has resisted this) is for ALN to identify to qad in the first instance the things that it has from qad . . . . And then promptly after that's done qad would then be obligated to identify which aspects of those delivered materials they are characterizing as trade secrets. . . . qad is going to have an obligation to identify for [ALN] what it is they are claiming as trade secrets. But the precondition to that ... is that in the first instance ALN must identify to qad all of the things that are in ALN's possession derived from qad. At that point, qad is going to have the burden of saying, "Out of these things, here are the

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<sup>204</sup> Jerold S. Solovy & Robert L. Byman, *Hardball Discovery*, LITIGATION, Fall 1988, at 8, 11.

<sup>205</sup> 18 U.S.P.Q.2d (BNA) 1122 (N.D. 111. 1990).

<sup>206</sup> *Id.* at 1124.

things that we claim are trade secrets.” They are going to have to give [ALN] chapter and verse on that.<sup>207</sup>

Thus, the court compelled the defendant (ALN) to respond to the plaintiff’s (qad’s) discovery requests before it finally required qad to provide the particularized showing called for by a trade secret claim.<sup>208</sup>

Another case on point is *Upjohn Co. v. Hygieia Biological Laboratories*.<sup>209</sup> Upjohn sued Hygieia for misappropriation of trade secrets. Pursuant to Rule 45, Upjohn served a subpoena duces tecum on two government agencies, seeking material “referring or relating to any J-5 Vaccine or any E. coli antigen-based vaccine for mastitis.”<sup>210</sup> Hygieia, on the other hand, sought to require Upjohn to identify the trade secret information it alleged Hygieia had misappropriated. The court noted that Upjohn’s discovery requests implicated Hygieia’s trade secrets and stated:

Accordingly, the burden shifts to Upjohn to demonstrate that the requested discovery is relevant and essential to a judicial determination of its case. Significantly, the parties’ interests converge on the single most important factual issue of this case, and which forms the backbone of the parties’ complaint and counter-claim: whether the vaccines are distinct, that is, whether the production of Hygieia’s “J-5 E. coli” vaccine relies on trade secret or confidential information misappropriated from PHL/Upjohn? The court agrees with plaintiff that judicial resolution is not possible without permitting the requested discovery. To conclude otherwise would contravene Cal. Evid. Code § 1060, by insulating from judicial inquiry matters of alleged injustice simply by a party’s assertion of trade secrets.<sup>211</sup>

The court distinguished *Xerox Corp.* on the ground that the alleged misappropriation in *Upjohn* was already narrowly defined as that information pertaining to a singular vaccine which may have been taken by one of the defendants during employment with Upjohn’s predecessor (PHL), and misapplied to the production of Hygieia’s own vaccine.<sup>212</sup> Thus, the court required the government agencies to produce documents in accordance with the subpoenas (pursuant to a protective order).<sup>213</sup>

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<sup>207</sup> *Id.* at 1125-26.

<sup>208</sup> *Id.* at 1124.

<sup>209</sup> 151 F.R.D. 355,27 U.S.P.Q.2d (BNA) 1601 (E.D. Cal. 1993).

<sup>210</sup> *Id.* at 357,27 U.S.P.Q.2d (BNA) at 1602.

<sup>211</sup> *Id.* at 358-59, 27 U.S.P.Q.2d (BNA) at 1603-04.

<sup>212</sup> *Id.* at 359, 27 U.S.P.Q.2d (BNA) at 1604.

<sup>213</sup> *Id.* at 362,27 U.S.P.Q.2d (BNA) at 1607.

The court also granted the plaintiff discovery in *Metal Foil Products Manufacturing v. Reynolds Metals Co.*<sup>214</sup> In an antitrust action by Metal Foil against Reynolds, Metal Foil moved to compel discovery into Reynolds' trade secrets. Citing *Ray v. Allied Chemical Corp.*,<sup>215</sup> the defendants suggested that the issue of discovery into its trade secrets should be deferred until trial.<sup>216</sup> The court held that it was "in accord" with the principle enunciated by the judge in Ray: "The Court recognizes, however, that if the interests of all parties are to be properly protected, [full] discovery should be granted."<sup>217</sup> Accordingly, the court directed the defendants to provide "full discovery" to Metal Foil.<sup>218</sup>

State courts have likewise provided support for trade secret misappropriation plaintiffs like Showme. In *MicroTech International, Inc. v. Fair*,<sup>219</sup> Microtech sued Fair for misappropriation of trade secrets. The court addressed Microtech's motion to compel discovery and Fair's motion for a protective order precluding Microtech's discovery until "the plaintiff can first show probable cause that the defendant has engaged in wrongdoing."<sup>220</sup> The court denied Fair's motion (except to the extent that discovery would be conducted in private), reasoning that the motion:

disregard[s] the fact that in order for the plaintiff to demonstrate any wrongdoing on the part of the defendant, the plaintiff must first discover the very information which the defendant seeks to preclude. The court is of the opinion that the plaintiff's claim for misappropriation of trade secrets necessitates discovery relative to whether the defendant [misappropriated trade secrets]. Thus, the plaintiff's discovery requests, related as they are to defendant's conduct . . . , bear directly upon the issue of wrongdoing raised by the plaintiff's claim.<sup>221</sup>

The court unequivocally granted the plaintiff's motion to compel discovery.

Thus, there are at least nine different approaches for resolving the issue presented, and the "proper" approach is clearly fact-dependent.<sup>222</sup>

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<sup>214</sup> 55 F.R.D. 491 (E.D. Va. 1970).

<sup>215</sup> 34 F.R.D. 456 (S.D.N.Y. 1964).

<sup>216</sup> *Metal Foil Prods.*, 55 F.R.D. at 493.

<sup>217</sup> *Id.*

<sup>218</sup> *Id.* at 494.

<sup>219</sup> 1992 WL 239087 (Conn. Super. Ct. Sept. 18, 1992).

<sup>220</sup> *Id.* at \*1, \*3.

<sup>221</sup> *Id.* at \*3.

<sup>222</sup> See, e.g., *Vigoro Indus. v. Cleveland Chem. Co.*, 866 F. Supp. 1150, 1162 (E.D. Ark. 1994) ("The cases . . . are very fact-dependent"), *aff'd in part, rev'd in part sub nom.*, *Vigoro Indus. v. Crisp*, 82 F.3d 785 (8th Cir. 1996); *Microwave Research Corp. v. Sanders Assocs., Inc.*, 110 F.R.D. 669, 672 (D. Mass. 1986) ("courts have implemented various procedures, depending upon the facts of a given case"); *Lever Bros. Co. v.*

#### IV. RESOLUTION: A BALANCED APPROACH

To resolve the dispute between Showme and Noweigh, an approach should satisfy as many of the policy arguments presented by the parties as possible. A district judge must attempt to accommodate, to the extent possible, both parties.<sup>223</sup> In the wake of their soured relationship, neither party wants to disclose more than it must to the other. At some point, however, Showme, as the plaintiff, must identify the specific trade secrets that it alleges Noweigh has misappropriated. Therefore, the real questions in this case are specificity (how detailed must Showme's identification of its trade secrets be?) and timing (at which stage of the litigation?). In view of the equally compelling policies supporting each party's position in this case, the recommendation is a balanced approach. Such an approach may be developed by attempting to synthesize the cases.

Courts clearly possess the "power to compel pretrial discovery of a litigant's secret processes, but whether it should be exercised and under what protective conditions is governed by the facts of each case."<sup>224</sup> Perhaps the starting point for a resolution is the identification of the source of power and authority for decision, Rule 26(d), Timing and Sequence of Discovery:

Unless the court upon motion, for the convenience of the parties and witnesses and in the interests of justice, orders otherwise, methods of discovery may be used in any sequence, and the fact that a party is conducting discovery, whether by deposition or otherwise, shall not operate to delay any other party's discovery.<sup>225</sup>

This Rule empowers the court "to control by order the sequence and timing of discovery."<sup>226</sup>

In *Marrese v. American Academy of Orthopaedic Surgeons*, Judge Posner of the Seventh Circuit stated:

In ruling on a motion to limit discovery [under Fed. R. Civ. P. 26(c)] the district judge must compare the hardship to the party against whom discovery is sought, if discovery is allowed, with the hardship to the party

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Procter & Gamble Mfg., 38 F. Supp. 680, 683-84 (D. Md. 1941) ("the exercise of the court's discretion is much affected by the facts of the particular cases").

<sup>223</sup> See, e.g., 3 MILGRIM, *supra* note 1, § 14.02[1], at 14-63 ("The arguments to justify the position of either [party during discovery in a trade secrets case] are persuasive. The rules which the courts have developed attempt to accommodate, to the extent practicable, both parties' concerns.").

<sup>224</sup> Ray v. Allied Chem. Corp., 34 F.R.D. 456, 457 (S.D.N.Y. 1964) (citing *Claude Neon Lights, Inc. v. Rainbow Light, Inc.*, 31 F.2d 988,989 (S.D.N.Y. 1927)).

<sup>225</sup> FED. R. CIV. P. 26(d).

<sup>226</sup> *Marrese v. American Academy of Orthopaedic Surgeons*, 706 F.2d 1488, 1493 (7th Cir. 1983), *reh'g*, 726 F.2d 1150 (7th Cir.), *cert. granted in part*, 467 U.S. 1258 (1984), *rev'd*, 470 U.S. 373, *reh'g denied*, 471 U.S. 1062 (1985).

seeking discovery if discovery is denied. . . . He must go through the same analysis under Rule 26(d) except that obviously an order merely postponing a particular discovery request should be granted more freely than an order denying the request altogether.<sup>227</sup>

Judge Posner further counseled that a judge's power under Rule 26(d) to control the sequence and timing of discovery "cannot be questioned. Nor, we think, *duty*, in an appropriate case."<sup>228</sup> He went on to encourage use of that power in compliance with that duty:

The power granted by Rule 26(d) to control the sequence and timing of discovery is one of the district court's *too little used tools* for preventing the predatory abuse of discovery and we are at a loss to understand why the power was not used here. "[J]udges should not hesitate to exercise appropriate control over the discovery process."<sup>229</sup>

Thus, Rule 26(d) provides authorization for exercise of power in formulating a procedural approach to the question presented. Rule 26(d) also "provides a method of accommodating the competing interests with minimal damage to either."<sup>230</sup> This balanced, accommodation-oriented approach seems to have merit. Moreover, ample support for a balanced approach can be found in the case law.

The court in *Coca-Cola Bottling Co. v. Coca-Cola Co.*,<sup>231</sup> for example, considered "the legal standard applicable to discovery of trade secrets" and established a balanced approach. The plaintiffs moved for an order to compel discovery under Rule 37(a), which the court granted.<sup>232</sup> The court held that the movant must show that the material sought is both *relevant* and *necessary* for the movant to prepare its case for trial: "Once relevancy and need have been established, the Court must balance the need for the information against the injury that would ensue if disclosure is ordered."<sup>233</sup> Finding that the cola formulae were "certainly relevant,"<sup>234</sup> and that the plaintiff's need to discover the complete formulae followed logically from the determination that the formulae were relevant, the court considered the potential injury to the defendant following disclosure: "The potential harm that would come from public disclosure of the formulae is great."<sup>235</sup>

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<sup>227</sup> *Id.*

<sup>228</sup> *Id.* at 1495 (emphasis added). See 8 WRIGHT, ET. AL., *supra* note 6, §§ 2040, 2047.

<sup>229</sup> *Marrese*, 706 F.2d at 1495 (quoting *Herbert v. Lando*, 441 U.S. 153, 177 (1979)) (emphasis added); *see also* *Puritan-Bennett Corp. v. Pruitt*, 142 F.R.D. 306, 309 (S.D. Iowa 1992) (quoting the "power" and "duty" to control the sequence and timing of discovery and following *Marrese*).

<sup>230</sup> *Marrese*, 706 F.2d at 1494.

<sup>231</sup> 107 F.R.D. 288, 227 U.S.P.Q. (BNA) 18 (D. Del. 1985).

<sup>232</sup> *Id.* at 300, 227 U.S.P.Q. (BNA) at 27.

<sup>233</sup> *Id.* at 293, 227 U.S.P.Q. (BNA) at 21.

<sup>234</sup> *Id.* at 297, 227 U.S.P.Q. (BNA) at 25.

<sup>235</sup> *Id.* at 298-99, 227 U.S.P.Q. (BNA) at 26.

Nevertheless, the court held that the “[p]laintiffs’ need for this information outweighs the harm that disclosure under protective order would cause. Disclosure will be ordered.”<sup>236</sup>

In *DeLong Corp. v. Lucas*,<sup>237</sup> the court focused on one discovery technique, depositions. The court found that the protective order provisions of former Rule 30(b), which have since been transferred to Rule 26, “specifically enumerate the instances in which the court’s discretion should be exercised in circumscribing the examination sought or the production of documents desired.”<sup>238</sup> These provisions require a balancing approach:

In balancing the respective rights in deposition and discovery proceedings, the court must weigh on the one hand the right of the plaintiff to examine with respect to everything relevant, . . . and on the other hand, the right of the defendant to be protected against oppression, and as justice demands, Rule [26(c)], in [its] trade secrets.<sup>239</sup>

The court set forth its holding “[w]ith these conflicting equities in mind.”<sup>240</sup>

Other examples of cases adopting a balanced approach abound.<sup>241</sup> A district judge thus clearly has the authority to develop a balanced procedural approach that takes into consideration the various policies supporting each party’s position. Because the question involves the timing of discovery and because the weight accorded the various policies changes depending upon the stage of the proceeding (i.e., the weights are dynamic, not static), a district judge can break the procedural march to trial into four, discrete time periods (along an obvious continuum) and balance the weight of the various policies at each stage: (1) upon filing the complaint; (2) at the start of discovery; (3) after extensive discovery; and (4) at trial.

#### A. ***Complaint: “Notice Pleading”***

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<sup>236</sup> *Id.*

<sup>237</sup> 138 F. Supp. 805 (S.D.N.Y. 1956).

<sup>238</sup> *Id.* at 808; *see also id.* at 809 (Fed. R. Civ. P. 26 “empowers the court in the interest of justice to control the degree of disclosure of information by a weighing of the respective rights”).

<sup>239</sup> *Id.* at 808.

<sup>240</sup> *Id.*

<sup>241</sup> *See, e.g.,* *Microwave Research Corp. v. Sanders Assocs., Inc.*, 110 F.R.D. 669, 672 (D. Mass. 1986) (“the Court must strike a balance” and weigh the right of the plaintiff to discover everything relevant against the right of the defendant to be protected) (citing *DeLong Corp. v. Lucas*, 138 F. Supp. 805, 808 (S.D.N.Y. 1956)); *Lever Bros. Co. v. Procter & Gamble Mfg.*, 38 F. Supp. 680, 684 (D. Md. 1941) (“One great advantage of the new F.R.C.P. is the flexibility of application made possible in many cases by the exercise of sound discretion by the judge. . . . The use of the rules, where discretion is permissible, should be in conformity with the needs of the particular case.”).

Modern pleading systems have reduced the importance of the pleading process; we now rely on discovery, pre-trial conference, and summary judgment to crystallize the issues and identify the relevant facts. These systems are designed to eliminate legally defective contentions and to *notify* the parties and the court of each party's contentions regarding a case. The term "notice pleading" thus refers to current pleading practice in the federal courts and in those state courts which have adopted procedures similar to the Federal Rules of Civil Procedure.

The complaint allows the court to dismiss alleged claims that have no legal significance, thus avoiding the unnecessary expenditure of time, energy, and money. The complaint informs the defendant of what the plaintiff intends to prove, thereby eliminating surprise and allowing the parties a fair opportunity to prepare for trial. Under Rule 8(a), and its state counterparts, the plaintiff need only set forth "a short and plain statement of the claim showing that the [plaintiff] is entitled to relief."<sup>242</sup> There is no requirement of pleading facts or stating a cause of action.<sup>243</sup>

How much detail is required in a complaint for misappropriation of trade secrets? The Federal Rules of Civil Procedure require only a general statement of the case; *no* detail is required. The level of acceptable generality is illustrated by the forms appended to the Federal Rules of Civil Procedure. Unfortunately none of the forms illustrates a complaint for misappropriation of trade secrets.<sup>244</sup>

Cases support applicability of the general rule that no detail is required in the complaint, however, to the particular situation where the plaintiff asserts trade secret misappropriation. In *Leucadia, Inc. v. Applied Extrusion Technologies, Inc.*,<sup>245</sup> for example, the court stated: "Courts are in general agreement that trade secrets need not be disclosed in detail in a complaint alleging misappropriation for the simple reason that such a requirement would result in public disclosure of the purported trade secrets."<sup>246</sup>

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<sup>242</sup> FED. R. CIV. P. 8(a).

<sup>243</sup> See, e.g., *Conley v. Gibson*, 355 U.S. 41, 47-48 (1957):

[T]he Federal Rules of Civil Procedure do not require a claimant to set out in detail the facts upon which [it] bases [its] claim. To the contrary, all the Rules require is "a short and plain statement of the claim" that will give the defendant fair notice of what the plaintiff's claim is and the grounds upon which it rests. The illustrative forms appended to the Rules plainly demonstrate this. Such simplified "notice pleading" is made possible by the liberal opportunity for discovery and the other pre-trial procedures established by the Rules to disclose more precisely the basis of both claim and defense and to define more narrowly the disputed facts and issues.

<sup>244</sup> See, e.g., FED. R. CIV. P. App. OF FORMS, Form 16 & Form 17.

<sup>245</sup> 755 F. Supp. 635 (D. Del. 1991); see Ronald M. Senio, *Protection of Trade Secrets in Litigation: Guarding Against the "Infinite Mischief" of Unrestricted Disclosure*, in 4 MILGRIM, *supra* note 1, at app. I-1 to 1-8.

<sup>246</sup> *Leucadia*, 775 F. Supp. at 636.



The court in *Microwave Research Corp. v. Sanders Associates, Inc.*,<sup>247</sup> considered a complaint nearly identical to the one filed by Showme. Microwave filed a complaint stating that it “fears and suspects that Sanders is utilizing confidential and proprietary information of [Microwave] obtained during the course of its acquisition negotiations to obtain a competitive advantage over [Microwave].”<sup>248</sup> The court accepted that a “factual basis” existed for Microwave’s “fears and suspicions” that Sanders had misappropriated trade secrets and stated:

Sanders’ employees were given access to the information and canceled (with no good faith basis for doing so) an agreement for acquisition shortly after gaining access. These circumstances and the inferences which may be drawn from them may be sufficient under the provisions of Rule 11, F.R.Civ.P. (as amended August 1, 1983) to support a “belief” by the plaintiff which is “well-grounded in fact” that trade secrets have been misappropriated . . . .<sup>249</sup>

Thus, at least in a federal district court--because Showme’s complaint meets the minimal standards of notice pleading under Rule 8(a)--there is no allegation, nor could there be, that Showme’s complaint is insufficient. There are limitations, however, on the complaint: “[A]n arguably nonmeritorious trade secret action could serve as the predicate for an antitrust complaint [or counterclaim] or imposition of Rule 11 sanctions.”<sup>250</sup>

Before filing a complaint, the plaintiff and its counsel are obligated by Rule 11(b)<sup>251</sup> to have conducted an “inquiry reasonable under the circumstances” and to determine that (1) the trade secrets claim “is not being presented for any improper purpose, such as to harass or to cause unnecessary delay or needless increase in the cost of litigation”; (2) the claim is “warranted by existing law or by a nonfrivolous argument

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<sup>247</sup> 110 F.R.D. 669 (D. Mass. 1986).

<sup>248</sup> *Id.* at 674.

<sup>249</sup> *Id.* For another example complaint, see *Cromaglass Corp. v. Ferm*, 344 F. Supp. 924,174 U.S.P.Q. (BNA) 469 (M.D. Pa. 1972). The complaint alleged that defendant:

utilizing all of the confidential and specialized knowledge and information respecting the fabrication and sale of aerobic sewage treatment acquired by Defendant Carl Ferm while in the employ of The Cromar Company, Plaintiff’s predecessor, initiated the manufacture and sale of a house-hold aerobic sewage treatment unit incorporating the design and construction features of a unit which Carl Ferm had designed for The Cromar Company while employed by it.

*Id.* at 925,174 U.S.P.Q. (BNA) at 471.

<sup>250</sup> 3 MILGRIM, *supra* note 1, § 13.01, at 13-4; see, e.g., *CVD, Inc. v. Raytheon Co.*, 769 F.2d 842, 851, 227 U.S.P.Q. (BNA) 7, 10 (1st Cir. 1985) (“the assertion of a trade secret claim in bad faith, in an attempt to monopolize, can be a violation of the antitrust laws”) (citation omitted), *cert. denied*, 475 U.S. 1016 (1986).

<sup>251</sup> FED. R. CIV. P.11(b).

for the extension, modification, or reversal of existing law or the establishment of new law”; and (3) the allegations “have evidentiary support or, if specifically so identified, are likely to have evidentiary support after a reasonable opportunity for further investigation or discovery.”<sup>252</sup> Thus, at this point in the proceedings, Showme is required only to have a good faith basis for its trade secrets misappropriation claim and the allegations supporting that claim.<sup>253</sup>

Allegations under Rule 8(a) are sufficient if they adequately inform the defendant about the nature of a legally cognizable claim. If the allegations fail to do so, the complaint may be challenged as insufficient. A complaint also may be so vague about some details that the defendant cannot frame a required answer. Only in this relatively unusual situation will the defendant be able to move successfully, using Rule 12(e), for a more definite statement and secure greater specificity.

Dismissal under Rule 12(b)(6) is proper if the plaintiff fails to allege either a cognizable legal theory or sufficient facts to support a cognizable legal theory. To survive a motion to dismiss under Rule 12(b)(6), therefore, the plaintiff must allege facts, not conclusory allegations, to outline the cause of action.<sup>254</sup> This standard is easily met.<sup>255</sup> It is certainly met by Showme’s complaint.

In contrast to the practice of notice pleading in the federal courts and in many state courts, some states require “fact” pleading. Such states follow the “code pleading” system first adopted in New York and California in the middle of the nineteenth century and followed in most state jurisdictions until the late 1930’s. Under the typical code pleading standard, the complaint must allege “a statement of the facts constituting a cause of action.”<sup>256</sup> Perhaps no question has been subject to more litigation, with less definitive or satisfactory results, than the determination of what “facts” suffice for code pleading

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<sup>252</sup> 3 MILGRIM, *supra* note 1, § 13.01, at 13-4 (emphasis added). Every jurisdiction requires that a complaint be made in good faith. Bar Association Canons of Ethics invariably state that attorneys may not file false pleadings for any reason—including harassment, delay, or tactical advantage. See, e.g., AMERICAN BAR ASSOCIATION, CANONS OF PROFESSIONAL ETHICS Canon 30 (1969) (“The lawyer must decline to conduct a civil cause . . . when convinced that it is intended merely to harass or to injure the opposite party or to work oppression or wrong.”). See also AMERICAN BAR ASSOCIATION, MODEL CODE OF PROFESSIONAL RESPONSIBILITY EC 2-30 & DR 2-109A (1980) (“Employment should not be accepted by a lawyer when . . . he [or she] knows or it is obvious that the person seeking to employ him [or her] desires to institute or maintain an action merely for the purpose of harassing or maliciously injuring another.”).

<sup>253</sup> See, e.g., *qad. inc v. ALN Assocs., Inc.*, 18 U.S.P.Q.2d (BNA) 1122, 1124 (N.D. Ill. 1990) (stating that only a “good faith basis” is required for filing a misappropriation of trade secrets complaint).

<sup>254</sup> See, e.g., *Kjellvander v. Citicorp*, 156 F.R.D. 138,141 (S.D. Tex. 1994).

<sup>255</sup> See, e.g., *Leucadia, Inc. v. Applied Extrusion Tech., Inc.*, 755 F. Supp. 635, 636 (D. Del. 1991) (denying a motion for a more definite statement specifying the trade secrets at issue on the ground that trade secrets need not be disclosed in detail in a complaint).

<sup>256</sup> See, e.g., S.C. CODE ANN. § 15-13-220 (Law Co-op 1977) (repealed 1985).

purposes.<sup>257</sup> Because of this uncertainty, litigators should be aware that a state court operating under a fact pleading system might require Showme's complaint to plead facts supporting its claim for trade secrets misappropriation in greater detail than is required by the federal rules.<sup>258</sup>

For example, the court in *Diodes, Inc. V. Franzen*,<sup>259</sup> specifically discussed the sufficiency of Diodes's complaint and affirmed the superior court's holding that the third amended complaint failed to allege facts sufficient to show the existence of a secret process. The appellate court distinguished federal cases, which use notice pleading, from California cases, which require fact pleading. Moreover, the court acknowledged finding no cases that discuss the sufficiency of the allegations of a complaint in an action based upon a misuse or misappropriation of a secret process.<sup>260</sup> Stepping into that vacuum, the court stated:

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<sup>257</sup> Indeed, this is one reason why many jurisdictions have switched to the federal notice pleading system. For a more extensive discussion of the problem of pleading "facts," see CHARLES E. CLARK, HANDBOOK OF THE LAW OF CODE PLEADING § 38, at 225-26 (3d ed. 1947); Richard A. Epstein, *Pleadings and Presumptions*, 40 U. CHI. L. REV. 556 (1973); Clarence Morris, *Law and Fact*, 55 HARV. L. REV. 1303 (1942); Walter W. Cook, "Facts" and "Statements of Fact," 4 U. CHI. L. REV. 233 (1937); Bernard C. Gavit, *Legal Conclusions*, 16 MINN. L. REV. 378 (1932); Walter W. Cook, *Statements of Fact in Pleading Under the Codes*, 21 COLUM. L. REV. 416 (1921).

<sup>258</sup> The substantive aspects of trade secret claims in the federal courts are governed by state law, because there is no federal common law. *Erie R.R. Co. v. Tompkins*, 304 U.S. 64, 78, *cert. denied*, 305 U.S. 637, *reh'g denied*, 305 U.S. 673 (1938). This is true regardless of whether jurisdiction is based upon diversity of citizenship, *Pecheur Lozeng Co. v. National Candy Co.*, 315 U.S. 666,667 (1942), or on pendency to a patent claim under 28 U.S.C. § 1338(b) (1994). *See Rohm & Haas Co. v. Adco Chem. Co.*, 689 F.2d 424, 429,215 U.S.P.Q. (BNA) 1081,1084 (3d Cir. 1982):

The district court never considered the question of which state's law governs the trade secret claim in this case. To make this choice of law, a federal court whose jurisdiction over a state claim is based on diversity, *Klaxon Co. v. Stentor Elec. Mfg. Co.*, 313 U.S. 487,496, 49 U.S.P.Q. (BNA) 515, 516 (1941), or on pendency to a federal claim, *Systems Operations Inc. v. Scientific Games Dev. Corp.*, 555 F.2d 1131, 1136 (3d Cir. 1977), must apply the conflicts of law principles of the forum state.

In contrast, the procedural aspects of a trade secrets case brought in federal court, including the timing and sequence of discovery, are governed by the Federal Rules of Civil Procedure. *See, e.g.*, 3 MILGRIM, *supra* note 1, § 14.02[5], at 14-156 (suggesting that a plaintiff who intends to rely extensively upon discovery (and who is prepared to be subjected to extensive discovery) seek a federal forum in which the liberal Federal Rules of Civil Procedure apply--or a state forum where the state has equally broad rules of discovery--rather than a state forum). *See also* WILLIS L. M. REESE & MAURICE ROSENBERG, CONFLICT OF LAWS 392 (7th ed. 1978) (classifying "rules of discovery" as procedural).

<sup>259</sup> 67 Cal. Rptr. 19 (Cal. Dist. Ct. App. 1968).

<sup>260</sup> *Id.* at 22.

The difficulty with the third amended complaint is the failure of plaintiff to plead facts showing that it ever had any trade secret to protect. The complaint does not directly aver that Stump and Franzen, or any other employee of plaintiff, developed any secret process or possessed any allied confidential information during the association of Stump and Franzen with the plaintiff. The plaintiff's third amended complaint speaks in circumlocutions and innuendoes. The subject matter of the so-called "secret process" is not stated, except to hint that it had something to do with the manufacture of diodes. The allegations amount to this: Stump and Franzen told the board of directors of plaintiff that they had developed a metallurgical process in manufacturing diodes, but did not tell the board the details of that process. Plaintiff never found out whether or not Stump and Franzen were telling the truth about their work, because they concealed their knowledge from the board of directors and removed all information about their "secret process" when they left the plaintiff.<sup>261</sup>

The court conceded that a trade secret owner can protect its trade secrets from wrongful use or disclosure without spelling out the details of the trade secret to avoid a demurrer to a complaint.<sup>262</sup> Nevertheless, the plaintiff must allege the ultimate facts, under California law, showing the existence of a trade secret or other confidential data to state such a cause of action. The court provided the following guidance:

The complainant should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit the defendant to ascertain at least the boundaries within which the secret lies. If the subject matter of the claimed trade secret is a manufacturing process, the plaintiff must not only identify the end product manufactured, but also supply sufficient data concerning the process, without revealing the details of it, to give both the court and the defendant reasonable notice of the issues which must be met at the time of trial and to provide reasonable guidance in ascertaining the scope of appropriate discovery. No more comprehensive rules for pleading can be generally enunciated because no inclusive definition of trade secrets is possible.<sup>263</sup>

Interestingly, in earlier complaints, the plaintiff had alleged that the defendants, using plaintiff's funds, facilities, materials, and employees, developed for plaintiff's sole and exclusive use, secret, unique, and novel processes with respect to: (1) a P-N junction formed of silicon and (2) metalizing of ceramic tubes for encapsulation of the diode rectifier. The court refused to pass upon the sufficiency of that description to withstand

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<sup>261</sup> *Id.* at 23.

<sup>262</sup> *Id.* at 24.

<sup>263</sup> *Id.*

demurrer because the complaints containing that description were superseded by the third amended complaint.<sup>264</sup>

It seems clear, therefore, that Showme need not disclose its trade secrets with any specificity at the time of filing its complaint--at least in federal court. Showme is required only to have a good faith basis for filing its complaint. The policy supporting this procedural ruling, at this stage of the litigation, is the plaintiff's need for discovery. In fact, the allegations which Showme makes in its complaint are only required, under the notice pleading rules, to be likely to have evidentiary support after a reasonable opportunity for further investigation or discovery.

**B. Start Of Discovery: "Reasonable Particularity"**

The "start" of discovery is the time in the case just after the parties have complied with the initial disclosure requirements mandated by Rule 26(a). For those courts which do not have such requirements, this time follows the parties' exchange (if any) of the preliminary information outlined in the Rule. Otherwise, any time early in the discovery period (i.e., before extensive discovery has occurred) is suitable. Such preliminary information should advise the plaintiff generally of the defendant's products or processes which might incorporate its trade secrets, the people who might have misappropriated those trade secrets, and the time period during which misappropriation and the defendant's own development occurred.

Some courts require the plaintiff, after having received some preliminary discovery from the defendant, to identify the trade secrets which it alleges the defendant misappropriated with "reasonable particularity." In *Engelhard Corp. v. Savin Corp.*,<sup>265</sup> for example, the Court of Chancery of Delaware required the plaintiff to identify the specific trade secrets allegedly misappropriated before permitting discovery of the defendant's trade secrets. The court stated:

Where a party litigant seeks discovery that its adversary contends is not relevant, the party seeking discovery may, given a proper and timely objection, be required to establish that the proposed discovery is reasonably calculated to lead to the discovery of admissible evidence. That basic discovery principle is applicable to trade secret cases as with any other case, but with one additional twist. Where, as here, a plaintiff in a trade secret case seeks to discover the trade secrets and confidential proprietary information of its adversary, the plaintiff will normally be required first to identify with *reasonable particularity* the matter which it claims constitutes a trade secret, before it will be allowed (given a proper showing of need) to compel discovery of its adversary's trade secrets.<sup>266</sup>

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<sup>264</sup> *Id.*

<sup>265</sup> 505 A.2d 30, 33 (Del. Ch. 1986).

<sup>266</sup> *Id.* at 32-33 (emphasis added).

The court required Engelhard to file a “trade secret statement” setting forth the technology disclosed by it to Savin before extensive discovery proceeded against Savin.<sup>267</sup> Under the holding in *Engelhard*, then, Showme would be required to identify its trade secrets with “reasonable particularity” near the start of the discovery process.<sup>268</sup> Once Showme has complied with this requirement, however, Noweigh would have to respond to Showme’s discovery requests.

The remaining task, of course, is to define “reasonable particularity.” A workable definition might be that the plaintiff should provide the defendant with a general outline of its trade secrets sufficient to allow the defendant to assess the relevancy of the requested discovery and to assure the defendant (and the court) that the defendant is not the victim of a fishing expedition. Such a definition would, at this stage of the proceeding, balance two policies favoring the defendant (the need to assess relevancy and the right to avoid a fishing expedition) with two countervailing policies favoring the plaintiff (the right to broad discovery and plaintiff’s need to avoid a “Catch-22” dilemma).

Some courts have used alternative language to describe the “reasonable particularity” requirement in a manner consistent with the definition proposed above. At the start of discovery in *Marrese*, the appellate court cautioned that:

As a threshold matter, the court should be satisfied that a claim is not frivolous, a pretense for using discovery powers in a fishing expedition. In this case, plaintiff should show that it can *establish jury issues* on the essential elements of its case not the subject of the contested discovery.<sup>269</sup>

Similarly, in a second trade secret misappropriation case, the state trial court denied the plaintiff’s motion for a preliminary injunction.<sup>270</sup> On appeal, the plaintiff contended that the trial court had abused its discretion by granting the defendant’s motion in limine requesting that plaintiff establish a prima facie case of the existence and misuse of a trade secret before allowing discovery into the defendant’s secret methods,

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<sup>267</sup> *Id.*; see also *Magnox v. Turner*, 1991 WL 182450, at \*2 (Del. Ch. Sept. 10, 1991):

When the subject matter of a suit is a claim of misappropriation of trade secrets, the plaintiff will normally be required first to identify with reasonable particularity the matter which it claims constitutes a trade secret, before it will be allowed (given a proper showing of need) to compel discovery of its adversary’s trade secrets.

<sup>268</sup> Apparently, the “reasonable particularity” requirement made sense to at least one state legislature as well. California Code of Civ. Proc. § 2019(d) requires the plaintiff to “identify its trade secret with reasonable particularity” before it may commence discovery. See *Pasahow*, *supra* note 26, at 52.

<sup>269</sup> *Marrese v. American Academy of Orthopaedic Surgeons*, 706 F.2d 1488,1495 (7th Cir. 1983) (emphasis added), *reh’g*, 726 F.2d 1150 (7th Cir.), *cert. granted in part*, 467 U.S. 1258 (1984), *rev’d*, 470 U.S. 373, *reh’g denied*, 471 U.S. 1062 (1985).

<sup>270</sup> *MBL (USA) Corp. v. Diekman*, 445 N.E.2d 418,221 U.S.P.Q. (BNA) 725 (Ill. App. Ct. 1983).

techniques, and processes.<sup>271</sup> The appellate court refused to modify the order, holding that there was no affirmative showing of abuse of discretion.<sup>272</sup> Thus, the “reasonable particularity” requirement might be understood as requiring Showme to show that it can establish jury issues or that it has a *prima facie* case at this stage of pre-trial discovery.

In *Struthers Scientific & International Corp. v. General Foods Corp.*,<sup>273</sup> the defendant served an interrogatory on the trade secret-misappropriation plaintiff asking the plaintiff to “describe in detail each trade secret which Struthers has disclosed to General Foods.”<sup>274</sup> In response, the plaintiff identified the people who made the disclosures, the people to whom the disclosures were made, the means of disclosure (meeting, document, telephone call), and the time period during which disclosures were made, and listed 103 items on 54 pages as its trade secrets.<sup>275</sup> The court found that response sufficient.<sup>276</sup>

In *AMP Inc. v. Fleischhacker*,<sup>277</sup> AMP was permitted to conduct both discovery and a full trial, contending that it had protectable trade secrets “in a host of confidential information to which Mr. Fleischhacker had access during the course of his employment at AMP.”<sup>278</sup> This information, AMP alleged, included “business and strategic planning information for the Components & Assemblies Division; new product development information; manufacturing information, including equipment, processes, cost and capacity information; financial information, including product-line profitmargin, sales, and budget information; and marketing and customer information.”<sup>279</sup> Apparently, AMP’s general identification of its trade secrets was sufficient to support compliance with its discovery requests.

The defendant in *Microwave Research Corp. v. Sanders Associates, Inc.*,<sup>280</sup> served an interrogatory on the trade secret-misappropriation plaintiff asking the plaintiff “for an identification of each trade secret misappropriated by the defendant.”<sup>281</sup> The plaintiff answered, in pertinent part:

[Between June 8th and June 22nd, 1983] ... Sander’s employees conducted a detailed and extensive physical inspection of all of the facilities at [Microwave] including the tooling and equipment used for the

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<sup>271</sup> *Id.* at 426, 221 U.S.P.Q. (BNA) at 731.

<sup>272</sup> *Id.* at 427, 221 U.S.P.Q. (BNA) at 732.

<sup>273</sup> 51 F.R.D. 149, 168 U.S.P.Q. (BNA) 202 (D. Del. 1970).

<sup>274</sup> *Id.* at 150, 168 U.S.P.Q. (BNA) at 203.

<sup>275</sup> *Id.* at 151, 168 U.S.P.Q. (BNA) at 204.

<sup>276</sup> *Id.* at 152-53, 168 U.S.P.Q. (BNA) at 204.

<sup>277</sup> 823 F.2d 1199 (7th Cir. 1987).

<sup>278</sup> *Id.* at 1203.

<sup>279</sup> *Id.*

<sup>280</sup> 110 F.R.D. 669 (D. Mass. 1986).

<sup>281</sup> *Id.* at 673.

manufacture of [Microwave's] microwave and millimeterwave components and the prototypes, drawings, and documents supporting [Microwave's] product designs. In addition, such persons asked questions and were educated as to [Microwave's] operations by [Microwave's] employees engaged in the production and testing departments. As a result, Sanders gained the necessary knowledge regarding [Microwave's] production, manufacture, fabrication, and testing methods to permit Sanders to duplicate [Microwave's] microwave and millimeterwave components. The designs and methods of production, manufacture, fabrication, and testing which [Microwave] considers as trade secrets (and to which Sanders had access) include those related to the following products manufactured by [Microwave]:

1. Filters--Absorptive and reflective filters for applications in waveguide, coaxial and stripline components.
2. High-power couplers and dividers.
3. Special waveguide to coaxial transitions.
4. Matrices--matrices for phased array and for power combining and dividing.
5. Transitions--transitions between waveguide and coaxial and stripline components.
6. Antennas--Feeds and multifeed structures and corrugated and high-gain antennas.
7. High power terminations--terminations for waveguide, coaxial, and stripline components.
8. High power ferrite broadband circulators/ isolators.<sup>282</sup>

The court found that the plaintiff had not listed any trade secrets; rather, it had listed products that it claimed contained trade secrets.<sup>283</sup> "A list of products is perhaps helpful," the court stated, "to the extent that the discovery possibly could be limited to documents relating to those of the defendant's products which compete with plaintiff's products."<sup>284</sup>

Likewise, the court in *Data Gen. Corp. v. SCI Systems, Inc.*,<sup>285</sup> held that Data General had met its requirement to provide an initial disclosure of trade secrets before

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<sup>282</sup> *Id.* at 673-74.

<sup>283</sup> *Id.* at 674.

<sup>284</sup> *Id.*

<sup>285</sup> 1978 WL 22033 (Del. Ch. Nov. 27,1978).



proceeding with its discovery of the defendant, SCI.<sup>286</sup> The court thought that Data General's "bare-bones response," listing 1,120 entries on 41 pages, was sufficient to satisfy SCI's request for identification of "each and every" trade secret.<sup>287</sup>

The problem with requiring Showme to identify its trade secrets more specifically at this early stage of the litigation, at least under the present facts, is that Showme is unable to identify the trade secrets at issue (much less prove a misappropriation of those trade secrets) unless it receives the discovery that it seeks from Noweigh. This problem also renders the delay of discovery until trial impractical, as neither party would appear to have sufficient information to prepare its case. Moreover, with little or no available information on the relevance of the voluminous discovery materials of either party, the judge has virtually no interest in reviewing these materials, and the feasibility of finding and appointing experts to whom such a task could be delegated is not easily determined. Indeed, from a taxpayer's standpoint, it appears rather inappropriate to devote public funds to such a Herculean task when the likely return appears to be so low.

### C. *After Extensive Discovery: "Substantial Factual Basis"*

From the foregoing, it appears that a federal district court would likely require Showme to identify the allegedly misappropriated trade secrets with "reasonable particularity" near the start of discovery. Assuming that Showme did so, it would then be permitted to conduct "extensive" discovery of Noweigh. Such discovery would give Showme the opportunity to depose Noweigh's employees who might have had access to Showme's trade secrets, and to obtain information regarding Noweigh's products or processes, which might include such trade secrets. Showme would not yet have had the opportunity, however, to obtain broad discovery into Noweigh's own trade secrets.

Once this "extensive" discovery of Noweigh has occurred, Showme would be required to identify its trade secrets in sufficient detail to demonstrate both to Noweigh and the court that Showme has a "substantial factual basis" for its claim that Noweigh misappropriated trade secrets. The test adopted for this third time period was set forth by the *Microwave Research* court. After Microwave had conducted extensive discovery, Microwave remained unable to point to any inclusion of its trade secrets in any of

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<sup>286</sup> *Id.* at \*1.

<sup>287</sup> *Id.* at \*2. *See also* Upjohn Co. v. Hygieia Biological Lab., 151 F.R.D. 355, 359, 27 U.S.P.Q.2d (BNA) 1601, 1604 (E.D. Cal. 1993) (granting discovery to the plaintiff, despite the defendant's objection and request that plaintiff's trade secrets be defined more narrowly, based upon the plaintiff's definition of the trade secrets allegedly misappropriated "as that information pertaining to a singular vaccine which may have been taken by defendant Wallis during her employment with PHL, and misapplied to the production of defendants' own vaccine"); *Miles Inc. v. Cookson Am., Inc.*, 1992 WL 136381, at \*1 (Del. Ch. June 16, 1992) (Miles' trade secret statement supported its motion to compel, which the court granted over Cookson's objection that relevancy could not be determined, because its "general outline" of the processes that Miles used in producing the high performance organic pigments at issue met the "reasonable particularity" test.).

Sanders's products.<sup>288</sup> Because Microwave could not demonstrate that there was a substantial factual basis for its claim, the court denied Microwave's motion to compel further discovery of Sanders.<sup>289</sup> The court established the following "test": before a plaintiff is entitled to the type of broad discovery into a defendant's trade secrets sought by Microwave, it must show a "substantial factual basis" for its claim that the defendant has misappropriated its trade secrets.<sup>290</sup>

At least one other court, *Puritan-Bennett Corp. v. Pruitt*,<sup>291</sup> adopted this test verbatim. The court addressed the issue of discovery of a non-party under Rule 45. It is not clear how much discovery Puritan-Bennett (P-B) had conducted, but the court stated that it was "not yet persuaded that P-B has demonstrated 'a substantial factual basis for its claim' as required by the court in Microwave."<sup>292</sup>

Several courts have applied the same rationale embodied in this test, but they have used different language to define the test. In so doing, these courts have provided additional insight into the level of detail that Showme must provide when identifying its trade secrets at this stage (i.e., after extensive discovery).<sup>293</sup>

After "extensive" discovery in *Xerox Corp.*, the court specifically ordered Xerox to:

(1) identify in detail all trade secrets and confidential information alleged to have been misappropriated by IBM; (2) list all documents which contain, refer to, or incorporate by reference Xerox trade secrets or confidential information; and (3) key all documents or portions thereof to the specific trade secrets and confidential information alleged to have been misappropriated by IBM.<sup>294</sup>

Similarly, after lengthy discovery in *Uresil Corp. v. Cook Group, Inc.*,<sup>295</sup> the court ordered Uresil to identify the components and/or concepts incorporated in the products Uresil claimed Cook misappropriated.<sup>296</sup> Uresil was also required to identify all

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<sup>288</sup> *Microwave Research Corp. v. Sanders Assocs., Inc.*, 110 F.R.D. 669,675 (D. Mass. 1986).

<sup>289</sup> *Id.*

<sup>290</sup> *Id.* at 674.

<sup>291</sup> 142 F.R.D. 306 (S.D. Iowa 1992).

<sup>292</sup> *Id.* at 308-09.

<sup>293</sup> See also 3 MILGRIM, *supra* note 1, § 15.01[1], at 15-69 ("Once discovery is commenced, and surely once it has been substantially undertaken, a plaintiff may properly be required to specify what precise features of defendant's activities constitute misappropriation.") (citations omitted).

<sup>294</sup> *Xerox Corp. v. International Bus. Machs. Corp.*, 64 F.R.D. 367, 372 (S.D.N.Y. 1974).

<sup>295</sup> 135 F.R.D. 168 (N.D. Ill. 1991).

<sup>296</sup> *Id.* at 173-74; see also *qad. inc v. ALN Assocs., Inc.*, 18 U.S.P.Q.2d (BNA) 1122, 1124 (N.D. 111. 1990) (*qad*, the plaintiff, was required to specify its trade secrets only

information and documents alleged by Uresil to be confidential and to have been misappropriated by the defendant.”<sup>297</sup>

Finally, in *Struthers Scientific & International Corp. v. General Foods Corp.*,<sup>298</sup> the court ordered Struthers on the basis of a mass of information already supplied by General Foods, to identify specifically each feature in General Foods’ operations which Struthers contended embodied any trade secret which Struthers had previously disclosed to General Foods.<sup>299</sup> Moreover, with respect to trade secrets comprising a combination of otherwise known components, the court ordered Struthers “to specifically describe the particular combinations of components it has in mind, the manner in which these components are combined[,] and how they operate in unique combination.”<sup>300</sup> The court then limited Struthers’ additional discovery “to those specific trade secrets which [Struthers] claims were disclosed to General Foods.”<sup>301</sup>

The policy supporting the decision to require Showme to identify its trade secrets with sufficient particularity to show that it has a “substantial factual basis” for its trade secret misappropriation claim is Noweigh’s need, indeed right, to prepare its defense for trial at this late stage of the proceeding.<sup>302</sup> Discovery is intended to crystallize the issues and identify the relevant facts for trial. Having had the opportunity to conduct extensive discovery, Showme must now crystallize its misappropriation case and specifically identify the relevant facts--the most important of which are the trade secrets allegedly misappropriated--for Noweigh.

#### **D. At Trial: “Specific Identification”**

At trial, Showme must prove its trade secret misappropriation case by a preponderance of the evidence.<sup>303</sup> Assuming that the district court will apply the trade secret law of a “typical” state, Showme must prove that: (1) it owns trade secrets; (2)

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after two years of discovery from the defendant; “[b]y then qad was in a position to know what qad property ALN had obtained.”).

<sup>297</sup> *Uresil*, 135 F.R.D. at 174; see also *Diversified Tech. Inc. v. Dubin*, 31 U.S.P.Q.2d (BNA) 1692, 1695 (S.D. Miss. 1994) (at the “late stage” of the “eleventh hour” of pre-trial proceedings, with one week to go before trial, the court required a written disclosure of the exact trade secrets at issue).

<sup>298</sup> 51 F.R.D. 149, 168 U.S.P.Q. (BNA) 202 (D. Del. 1970).

<sup>299</sup> *Id.* at 153-54, 168 U.S.P.Q. (BNA) at 205. For a comparison, consider *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 291, 227 U.S.P.Q. (BNA) 18, 20 (D. Del. 1985) (“After extensive discovery, plaintiffs filed the instant motion that, in essence, seeks to compel the Company to produce the complete formulae, including secret ingredients, for Coca-Cola.” Plaintiffs’ motion to compel was granted.). Note that Coca-Cola was not a trade secrets case.

<sup>300</sup> *Struthers*, 51 F.R.D. at 153-54, 168 U.S.P.Q. (BNA) at 205.

<sup>301</sup> *Id.* at 154, 168 U.S.P.Q. (BNA) at 206.

<sup>302</sup> *Doyle & Joslyn*, *supra* note 3, at 747 n.15 (“In any case it is generally advisable that plaintiff’s alleged trade secrets be defined prior to trial.”).

<sup>303</sup> See, e.g., 3 MILGRIM, *supra* note 1, § 15.01[1], at 15-3 to 15-4 (citations omitted).

Noweigh has the trade secrets, either because Showme disclosed the trade secrets to Noweigh or because Noweigh wrongfully took them; (3) Noweigh and Showme were in a legal relationship requiring Noweigh not to disclose or use the trade secrets; and (4) Noweigh has used or disclosed, or will use or disclose, the trade secrets to Showme's detriment.<sup>304</sup>

The Restatement of Torts and the Uniform Trade Secrets Act provide widely accepted definitions for the term "trade secrets." Most of the common law states use the definition in Section 757 of the Restatement of Torts, which provides that:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him [or her] an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of

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<sup>304</sup> See, e.g., MISS. CODE ANN. §§ 75-26-3(a)-(d), 75-26-5 (1972); Pioneer HiBred Int'l v. Holden Found. Seeds, Inc., 35 F.3d 1226, 31 U.S.P.Q.2d (BNA) 1385 (8th Cir. 1994) (citing Iowa law); 3 MILGRIM, *supra* note 1, § 15.01 [11, at 15-10 to 15-22 (citations omitted). The four factors might be collapsed into two: the plaintiff owns trade secrets and the defendant has misappropriated them. "Misappropriation" may be defined as:

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who
  - (A) used improper means to acquire knowledge of the trade secret; or
  - (B) at the time of the disclosure or use, knew or had reason to know that his [or her] knowledge of the trade secret was
    - (I) derived from or through a person who had utilized improper means to acquire it;
    - (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
    - (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
  - (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

UNIF. TRADE SECRETS ACT § 1(2), 14 U.L.A. 438 (1990); see, e.g., CAL. CIV. CODE § 3426.1(b) (West Supp. 1996). The Uniform Trade Secrets Act defines "improper means," as "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means." UNIF. TRADE SECRETS ACT § 1(1), 14 U.L.A. 437 (1990); see, e.g., CAL. CIV. CODE § 3426.1 (a) (West Supp. 1996).

manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.<sup>305</sup>

A majority of the states have adopted the Uniform Trade Secrets Act, which defines a trade secret as:

[I]nformation, including a formula, pattern, compilation, program, device, method, technique, or process, that:

- (1) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and
- (2) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>306</sup>

Further, the Restatement lists six factors for the court to consider in determining whether given information constitutes a trade secret:

(1) the extent to which the information is known outside of his [or her] business; (2) the extent to which it is known by employees and others involved in his [or her] business; (3) the extent of measures taken by him [or her] to guard the secrecy of the information; (4) the value of the information to him [or her] and to his [or her] competitors; (5) the amount of effort or money expended by him [or her] in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.”<sup>307</sup>

Commenting on the Restatement, the Fourth Circuit has pointed out that “[a]lthough all of the Restatement’s factors no longer are required to find a trade secret,

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<sup>305</sup> RESTATEMENT OF TORTS § 757 cmt. b (1939). Section 757 of the Restatement of Torts has been adopted as the law of New York, *see, e.g.*, Julie Research Lab., Inc. v. Select Photographic Eng’g, Inc., 810 F. Supp. 513 (S.D.N.Y. 1992), *aff’d in part, vacated in part*, 998 F.2d 65, 27 U.S.P.Q.2d (BNA) 1394 (2d Cir. 1993). Indeed, portions of Section 757 have been cited with approval in virtually every U.S. jurisdiction. *See* 1 MILGRIM, *supra* note 1, § 1.01[1], at 1-4 n.2.

<sup>306</sup> UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 438 (1990); *see, e.g.*, CAL. CIV. CODE § 3426.1(d) (West Supp. 1996). Legislation based on the Uniform Trade Secrets Act has been enacted in thirty-nine states and the District of Columbia. EPSTEIN, *supra* note 25, § 1.02[A], at 1-5 & n.5 (listing the states). For a comparison between the definitions provided in the Uniform Trade Secrets Act and in the Restatement, *see id.* § 1.02[C], at 1-12 to 1-15.

<sup>307</sup> Restatement of Torts § 757 cmt. b (1939).

those factors still provide helpful guidance to determine whether the information in a given case constitutes ‘trade secrets’ within the definition of the statute.”<sup>308</sup>

Proof of trade secret status requires evidence of a sufficiently specific nature to establish the trade secret and to serve as the basis for injunctive or other relief.<sup>309</sup> Therefore, Showme, as the plaintiff, must specify the trade secrets allegedly misappropriated in some detail at trial in order to meet its burden of proof. What level of detail is necessary to meet the “sufficiently specific nature” requirement?

In *Trandes Corp. v. Guy F. Atkinson Co.*,<sup>310</sup> Trandes sued Atkinson for misappropriation of trade secrets relating to a “Tunnel System” computer program. The district court found Atkinson liable, and the Fourth Circuit affirmed.<sup>311</sup> With respect to the specific engineering formulas and methods of calculation embodied in the program, and the structure and organization of the program modules, the appellate court noted that “Trandes bore the burden of producing *some* evidence that these items met the definition of a trade secret.”<sup>312</sup> The court continued:

Although it was not necessary for Trandes to disclose all of the details of its trade secrets, it had to do more than merely allege that it had a “secret.”

Here, Trandes averred nothing more than that it possessed secret “formulas.” At trial, Trandes refused to provide any information whatsoever about the formulas but instead chose to rely on mere conclusory allegations. . . . [C]onsequently, Trandes did not sustain even a *prima facie* case of misappropriation.<sup>313</sup>

Even though Trandes failed to prove that the structure and organization of the program qualified as a trade secret, the court held that Trandes had produced sufficient evidence for the jury to conclude that the Tunnel System software itself constituted a trade secret.<sup>314</sup>

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<sup>308</sup> *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655, 661, 27 U.S.P.Q.2d (BNA) 1014, 1019 (4th Cir. 1993) (quoting *Optic Graphics v. Agee*, 591 A.2d 578,585 (Md. Ct. Spec. App. 1990)), *cert. denied*, 114 S. Ct. 443 (1993).

<sup>309</sup> *See, e.g.*, 3 MILGRIM, *supra* note 1, § 15.01[1], at 15-44 (plaintiff need not meet its burden of proof at preliminary proceedings, “and thus might postpone until trial such matters as specifying the characteristics of the matter alleged as secret”) (citations omitted).

<sup>310</sup> 996 F.2d at 657, 27 U.S.P.Q.2d (BNA) at 1016.

<sup>311</sup> *Id.* at 664, 27 U.S.P.Q.2d (BNA) at 1022.

<sup>312</sup> *Id.* at 661, 27 U.S.P.Q.2d (BNA) at 1019.

<sup>313</sup> *Id.* at 661-62, 27 U.S.P.Q.2d (BNA) at 1019-20 (citation omitted) (footnotes omitted).

<sup>314</sup> Some cases hold, in certain instances, that the plaintiff need not identify its trade secrets even at trial. For example, if it is clear that the plaintiff disclosed a trade secret to the defendant in confidence and that the defendant is using the secret, the court may dispense with any disclosure requirement in deference to the plaintiff’s desire to avoid

A large number of cases define situations in which the trade secret-misappropriation plaintiff failed to sufficiently specify its trade secrets. One such case is *Julie Research Laboratories, Inc. v. Select Photographic Engineering, Inc.*<sup>315</sup> Julie Research sued Select for misappropriation of trade secrets. The district court granted the plaintiff a preliminary injunction even though the plaintiff defined the trade secrets at issue in “wholly conclusory terms.”<sup>316</sup> The court ultimately dismissed the claims against Select, however, citing *Struthers* and *Xerox Corp.* for the principle that the burden *at trial* “is on the plaintiff to define or identify in detail the trade secret or proprietary information it alleges has been misappropriated by defendants.”<sup>317</sup> The court found that Julie Research was unable to define its trade secrets at trial: “At the hearing on the merits, . . . the court sought *ad nauseam* to have the plaintiff explain what was proprietary about the Diamond [PC system]. That question was never answered.”<sup>318</sup> By contrast, when a trade secret-misappropriation plaintiff has specified its trade secrets sufficiently, courts have not hesitated to grant plaintiffs relief.<sup>319</sup>

Perhaps the most candid and accurate assessment of the level of specificity required at trial is “it depends.” This answer is suggested by the court in *Rohm & Haas Co. v. Adco Chemical Co.*<sup>320</sup> Rohm & Haas sued Adco for patent infringement and trade secret misappropriation. The district court denied relief on the trade secrets claim, and Rohm & Haas successfully appealed. The district court supported its decision on the ground that Rohm & Haas failed to adequately define its alleged trade secret.<sup>321</sup> The Third Circuit criticized the trial court’s standard: “[t]he district court cited no Pennsylvania or New Jersey law imposing any particular standard for definition.”<sup>322</sup> The appellate court further stated that the only case cited by the district court, *Atlantic Wool*

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the public or potentially public disclosure that litigation risks. 3 MILGRIM, *supra* note 1, § 14.02[21, at 14-76 (citations omitted).

<sup>315</sup> 810 F. Supp. 513 (S.D.N.Y. 1992), *aff’d in part, vacated in part*, 998 F.2d 65, 27 U.S.P.Q.2d (BNA) 1394 (2d Cir. 1993).

<sup>316</sup> *Id.* at 519.

<sup>317</sup> *Id.*

<sup>318</sup> *See also* AMP Inc. v. Fleischhacker, 823 F.2d 1199, 1203, 3 U.S.P.Q.2d (BNA) 1421, 1424 (7th Cir. 1987) (affirming judgment for the defendant because the plaintiff failed to establish the existence of any particularized trade secrets; AMP contended that it had protectable trade secrets in business and strategic planning information for the Components & Assemblies Division; new product development information; manufacturing information, including equipment, processes, cost and capacity information; financial information, including product-line profitmargin, sales, and budget information; and marketing and customer information)

<sup>319</sup> *See, e.g.*, SI Handling Sys., Inc. v. Heisley, 753 F.2d 1244, 225 U.S.P.Q. (BNA) 441 (3d Cir. 1985); Rohm & Haas Co. v. Adco Chem. Co., 689 F.2d 424, 215 U.S.P.Q. (BNA) 1081 (3d Cir. 1982).

<sup>320</sup> 689 F.2d 424, 215 U.S.P.Q. (BNA) 1081 (3d Cir. 1982).

<sup>321</sup> *Id.* at 428, 215 U.S.P.Q. (BNA) at 1084.

<sup>322</sup> *Id.* at 432, 215 U.S.P.Q. (BNA) at 1087.

*Combing Co. v. Norfolk Mills, Inc.*,<sup>323</sup> expressed no legal requirement for the definition of trade secrets, and that its own search failed to uncover any Pennsylvania or New Jersey cases mandating a minimum level of definition.<sup>324</sup> Moreover, the Third Circuit examined the record and held that Rohm & Haas had put “detailed descriptions” of its process in evidence, and these descriptions were incorporated by reference in its trial testimony.<sup>325</sup> The court found further support for reversal in Adco’s expert’s testimony that he understood the plaintiff’s statement of its claimed trade secret.<sup>326</sup>

The appellate court’s review of the record also uncovered additional damning evidence. For example, Rohm & Haas’s ex-employee, Mr. Harvey, admitted that his swift “discovery” of the “Harvey process” at Adco was the result not of any heightened chemical prowess, but of his recollection of Rohm & Haas’s process.<sup>327</sup> “On this record,” the appellate court stated, “*regardless of the specificity of plaintiff’s definition of its trade secret*, the legal conclusion drawn by the district court is without basis, and is thus an error of law.”<sup>328</sup> In the Third Circuit’s view, the district court denied the plaintiff’s claim only on the basis of imposing an additional and incorrect legal standard.<sup>329</sup> Accordingly, the appellate court reversed the district court and remanded for the entry of judgment for plaintiff.<sup>330</sup>

#### **E. On Appeal**

Although it perhaps goes without saying, a trade secret plaintiff that waits until appeal before specifically identifying its trade secrets has waited too long. It is often difficult to find cases to support such obvious and well-accepted propositions. Fortunately, the Seventh Circuit took the time, in a footnote, to state the proposition explicitly in *AMP Inc. v. Fleischhacker*.<sup>331</sup> During appellate oral argument, AMP attempted to identify, for the first time, three specific documents that contained trade secret information at risk of misappropriation. Clearly, the court held, “[s]uch argument comes too late.”<sup>332</sup>

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<sup>323</sup> 357 F.2d 866, 148 U.S.P.Q. (BNA) 571 (1st Cir. 1966).

<sup>324</sup> *Rohm & Haas*, 689 F.2d at 432 n.8, 215 U.S.P.Q. (BNA) at 1087 n.8.

<sup>325</sup> *Id.* at 433, 215 U.S.P.Q. (BNA) at 1087.

<sup>326</sup> *Id.*

<sup>327</sup> *Id.* at 432, 215 U.S.P.Q. (BNA) at 1087.

<sup>328</sup> *Id.* at 433, 215 U.S.P.Q. (BNA) at 1087 (emphasis added).

<sup>329</sup> *Id.*, 215 U.S.P.Q. (BNA) at 1088.

<sup>330</sup> *Id.* at 434, 215 U.S.P.Q. (BNA) at 1089.

<sup>331</sup> 823 F.2d 1199, 3 U.S.P.Q.2d (BNA) 1421 (7th Cir. 1987).

<sup>332</sup> *Id.* at 1203 n.2, 3 U.S.P.Q.2d (BNA) at 1430 n.2.



**F. *The Ruling***

A balanced procedural approach is summarized in the Appendix.<sup>333</sup> Applied to Showme's and Noweigh's pending motions in this case, the approach results in the following ruling:

Order On Pending Discovery Motions

Dated February 1, 1997

1. The parties are reminded of the existing Protective Order and of the risk of sanctions should any provision of that Order be violated.
2. By March 1, 1997, the parties shall comply with the initial disclosure requirements mandated by Fed. R. Civ. P. 26(a).
3. Following the parties' exchange of the preliminary information outlined in Fed. R. Civ. P. 26(a), Noweigh's motions for a protective order under Fed. R. Civ. P. 26(c) and to compel Showme to specifically identify the alleged trade secrets under Fed. R. Civ. P. 37 will be granted, and Showme's motion under Fed. R. Civ. P. 37 to compel discovery will be denied, to the following extent: Showme's pending discovery requests shall be held in abeyance until the completion of the events set forth in Paragraph 4, below.
4. Showme shall serve and file, pursuant to the terms of the Protective Order previously agreed to between the parties and entered by the court, a Trade Secret Statement in which Showme shall identify its trade secrets with "reasonable particularity." Specifically, Showme must provide Noweigh with a general outline of its trade secrets sufficient to allow Noweigh to assess the relevance of Showme's requested discovery and to assure Noweigh (and the court) that Noweigh is not ensnared in the net of a fishing expedition undertaken by Showme. Unless the parties otherwise agree in writing, such Statement shall be served and filed on or before May 1, 1997.
5. Except as the parties may otherwise agree in writing, Noweigh shall have thirty (30) days, from the service and filing of Showme's Trade Secret Statement, in which to file responses to Showme's pending discovery requests. Noweigh's responses shall contain its objections, if any, to Showme's pending discovery requests.
6. After Noweigh files its responses, the parties shall confer in a good faith effort to resolve any disputes concerning the scope of the discovery sought by Showme and any other objections of Noweigh.

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<sup>333</sup> See Appendix *infra*.

7. Thereafter, Showme shall respond fully to Noweigh's pending discovery requests. As part of that response, Showme shall provide a "sufficient factual basis" for its trade secret misappropriation claim. Showme shall (1) identify in detail all trade secrets alleged to have been misappropriated by Noweigh; (2) list all documents that contain, refer to, or incorporate by reference Showme's trade secrets; and (3) key all documents or portions thereof to the specific trade secrets alleged to have been misappropriated by Noweigh.
8. Subject to the limitations upon the scope of discovery and to any other limitations agreed upon by the parties (or, in the absence of agreement, as ordered by the court), the parties shall thereafter be entitled to proceed with all other discovery. Specifically, Showme shall be entitled to take discovery to determine whether Showme's trade secrets (as previously identified by Showme) were misappropriated by Noweigh.

#### V. WARNING: COMPLY WITH THE ORDER!

Compliance with the order provided above is another matter that seems to go without saying but nevertheless deserves mention. Showme and Noweigh are fully expected to comply with the order. In fact, they had better comply. Surprisingly, however, litigants often treat court orders as mere suggestions. Therefore, a quick review of the sanctions imposed by the courts on trade secret litigants who delay or refuse to comply with court orders regarding discovery is appropriate.<sup>334</sup>

First, it is in the parties' best interests to comply because, absent compliance, they may lose the case.<sup>335</sup> In *Litton Systems, Inc. v. Sundstrand Corp.*,<sup>336</sup> for example, the trial court twice ordered the plaintiff to identify its trade secrets and then subsequently denied a motion for preliminary injunction when the plaintiff's evidence failed to meet the appropriate standard.<sup>337</sup> The appellate court affirmed.<sup>338</sup>

In *Cromaglass Corp. v. Ferm*, Ferm served the plaintiff with interrogatories asking for identification of all allegedly misappropriated trade secrets.<sup>339</sup> Cromaglass

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<sup>334</sup> See 3 MILGRIM, *supra* note 1, § 14.02[4], at 14-159 ("The courts are increasingly inclined to enforce stern measures when a party or its counsel are dilatory, misleading, or disingenuous.") (citations omitted).

<sup>335</sup> "Were a court to order a party to produce and were it not to comply, its pleadings can be struck." *Id.* § 14.02[4], at 14-100 to 14-101 (citation omitted). "A party subject to discovery which does not comply with a properly authorized demand for documents, may find its pleadings struck for such refusal to comply." *Id.* at § 14.02(5), at 14-158 (citations omitted).

<sup>336</sup> 750 F.2d 952,224 U.S.P.Q. (BNA) 252 (Fed. Cir. 1984).

<sup>337</sup> *Id.* at 954-55, 224 U.S.P.Q. (BNA) at 253-54.

<sup>338</sup> *Id.* at 962, 224 U.S.P.Q. (BNA) at 259.

<sup>339</sup> 344 F. Supp. 924,924-25, 174 U.S.P.Q. (BNA) 469, 470 (M.D. Pa. 1972), *appeal dismissed*, 500 F.2d 601 (3d Cir. 1974).

objected to the interrogatories without filing a brief. The court ruled that, unless a brief were filed, the objections would be deemed withdrawn.<sup>340</sup> Plaintiff never filed a brief. Ferm then moved to compel a response.<sup>341</sup> The court asked the parties to submit proposed conditions, to be approved by the court, designed to minimize unnecessary disclosure.<sup>342</sup> Cromaglass never filed any proposals whatsoever.<sup>343</sup> The court ordered Cromaglass to answer Ferm's interrogatories and directed the parties to submit specific proposals for the inspection and photographing of Cromaglass's facilities.<sup>344</sup> Cromaglass filed purported answers to the interrogatories that merely identified the allegedly misappropriated trade secrets in general terms.<sup>345</sup> The court found Cromaglass's response "wholly evasive and non-responsive."<sup>346</sup> Accordingly, the court granted Ferm's motion for sanctions: it ordered Cromaglass and its attorney to pay Ferm's reasonable expenses and accepted certain facts against Cromaglass as "established."<sup>347</sup>

In *Diversified Technology Inc. v. Dubin*,<sup>348</sup> the court precluded what may have been critical evidence as a sanction for failure to comply with the court's order. The court ordered Diversified Technology ("DTI") on a number of occasions to provide Dubin with a written disclosure of trade secrets before DTI conducted discovery on that subject. DTI failed to comply with the court's orders. The court, obviously annoyed, remarked: "Now despite having been ordered [again] at this late stage to cease resistance and finally provide a written disclosure of the trade secrets in contention, plaintiff has failed to do so. With trial of this matter set for less than a week from today, the prejudice to defendants is immeasurable."<sup>349</sup> The court granted Dubin's motion for sanctions, pursuant to Rule 37(b)(2), and precluded DTI from offering any evidence at trial of trade secrets that it had failed to disclose in writing as previously ordered by the court.<sup>350</sup>

Not only may a party lose its case if it fails to comply with the court's orders, monetary sanctions may be imposed as well. Such sanctions were directed by the court in *qad. inc v. ALN Assocs., Inc.*<sup>351</sup> After the court compelled the defendant to respond to the plaintiff's discovery requests, the defendant asked qad to identify the specific trade secrets that assertedly formed the gravamen of its misappropriation claim.<sup>352</sup> qad did not

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<sup>340</sup> *Id.*

<sup>341</sup> *Id.* at 925,174 U.S.P.Q. (BNA) at 470.

<sup>342</sup> *Id.*

<sup>343</sup> *Id.*

<sup>344</sup> *Id.*

<sup>345</sup> *Id.* at 925-27,174 U.S.P.Q. (BNA) at 471-72.

<sup>346</sup> *Id.* at 927,174 U.S.P.Q. (BNA) at 471.

<sup>347</sup> *Id.* at 928,174 U.S.P.Q. (BNA) at 472.

<sup>348</sup> 31 U.S.P.Q.2d (BNA) 1692 (S.D. Miss. 1994).

<sup>349</sup> *Id.* at 1695.

<sup>350</sup> *Id.* at 1697.

<sup>351</sup> 18 U.S.P.Q.2d (BNA) 1122 (N.D. Ill. 1990).

<sup>352</sup> *Id.* at 1123.

respond for two years, leading the court to dismiss its claim.<sup>353</sup> The court characterized qad's action as "qad's persistent and long-protracted failure or refusal (or both) to identify the specific trade secrets."<sup>354</sup> ALN then moved for attorneys' fees and expenses. Under Rule 11 the court awarded ALN its legal fees incurred in dispatching the claim from the complaint.

## VI. EPILOGUE: THE SPECIAL CASES OF PRELIMINARY INJUNCTIVE RELIEF AND SUMMARY JUDGMENT

In some instances, trade secret litigation involves a request for a temporary restraining order, a preliminary injunction, or both, against use or disclosure of a purported trade secret. One or both parties may move for summary judgment. Such actions frequently result in an expedited proceeding. The expedited process gives courts and parties less time to consider potential discovery problems. Although the recommended procedural approach outlined in the Appendix may still be applicable to such expedited processes, the time frames will certainly be compressed.<sup>355</sup>

### A. *Pre-Trial Injunctive Relief*

Pre-trial injunctive relief often ends a trade secret case, because if such relief is granted the defendant "may find himself [or herself] virtually enjoined from carrying on his [or her] business."<sup>356</sup> In order to succeed on its motion, however, a plaintiff that requests a temporary restraining order or a preliminary injunction may be forced to disclose its allegedly misappropriated trade secrets in some detail.

For example, in *Litton Systems, Inc. v. Sundstrand Corp.*,<sup>357</sup> the Federal Circuit, quoting the district court, stated that "ordinarily a preliminary injunction will not issue in a trade secrets case until the alleged trade secrets have been identified with sufficient particularity to satisfy Rule 65 of the Federal Rules of Civil Procedure."<sup>358</sup> Accordingly, the Federal Circuit affirmed the district court's denial of Litton's motion for a preliminary injunction, at least in part because "the broad categories of information

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<sup>353</sup> *Id.*

<sup>354</sup> *Id.*

<sup>355</sup> *See Appendix infra.*

<sup>356</sup> Doyle & Joslyn, *supra* note 3, at 749. Moreover, following trial, the plaintiff may be more interested in a permanent injunction than in the damages that it might receive.

[I]f defendant is found guilty of misappropriation, the damages may be severe, if not ruinous. It is, nevertheless, in the injunctive prohibitions that the most serious long-term effect of the suit may be felt, and the far-reaching form which such relief may take distinguishes trade secret litigation from the more usual type of lawsuit.

*Id.* at 748. *See also* 3 MILGRIM, *supra* note 1, § 15.01[1], at 15-71 ("the objective in most trade secret litigation is injunctive relief").

<sup>357</sup> 750 F.2d 952,224 U.S.P.Q. (BNA) 252 (Fed. Cir. 1984).

<sup>358</sup> *Id.* at 958 n.3, 224 U.S.P.Q. (BNA) at 256 n.3.

referred to by Litton as constituting its trade secrets could well be found at trial to constitute matters of public knowledge.”<sup>359</sup> An argument for a preliminary injunction that relies on “implications and assumptions,” said the court, is unpersuasive.<sup>360</sup> The court must be made aware of the precise basis for the plaintiff’s motion before granting the “extraordinary relief” of a pre-trial injunction<sup>361</sup> and to be able to properly frame its relief.<sup>362</sup>

Whether a temporary restraining order or a preliminary injunction should issue typically turns on four factors: (1) the movant’s reasonable likelihood of success on the merits, (2) the irreparable harm the movant will suffer if preliminary relief is not granted, (3) the balance of hardships tipping in its favor, and (4) the adverse impact on the public interest. Before granting a preliminary injunction, a district court must consider and balance all four factors to determine whether the moving party has carried its burden to establish each of the four.<sup>363</sup> In order to carry its burden, the moving party (typically the plaintiff) may have to disclose its allegedly misappropriated trade secrets in some detail.

Although the plaintiff risks having its motion for pre-trial injunctive relief denied absent a detailed disclosure of its trade secrets, some courts have granted such relief without requiring much detail. In *Tracer Research Corp. v. National Environmental*

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<sup>359</sup> *Id.* at 958, 224 U.S.P.Q. (BNA) at 257.

<sup>360</sup> *Id.* at 957, 224 U.S.P.Q. (BNA) at 256.

<sup>361</sup> *See, e.g.*, *High Tech Med. Instrumentation, Inc. v. New Image Indus.*, 49 F.3d 1551, 1554, 33 U.S.P.Q.2d (BNA) 2005, 2008 (Fed. Cir. 1995) (a preliminary injunction is “not to be routinely granted”); *Intel Corp. v. ULSI Sys. Tech., Inc.*, 995 F.2d 1566,1568, 27 U.S.P.Q.2d (BNA) 1136, 1138 (Fed. Cir. 1993) (preliminary injunction is a “drastic and extraordinary” remedy), *cert. denied*, 510 U.S. 1092 (1994); *New England Braiding Co. v. A.W. Chesterton Co.*, 970 F.2d 878, 882, 23 U.S.P.Q.2d (BNA) 1622, 1625 (Fed. Cir. 1992) (preliminary injunction is “extraordinary relief”); 2 J. THOMAS MCCARTHY, TRADEMARKS & UNFAIR COMPETITION § 30:14, at 482 (2d ed. 1984) (a preliminary injunction is an “extraordinary and far-reaching remedy”) (citations omitted). Thus, a plaintiff which stands to suffer irreparable harm from disclosure of its trade secrets to third parties is entitled to a preliminary injunction prohibiting such disclosure, but not to prevent its use by the defendant when such use is compensable in damages. *Hodge Bus. Computer Comm. Inc. II*, 910 F.2d 367,369-70,15 U.S.P.Q.2d (BNA) 1903,1904-05 (6th Cir. 1990).

<sup>362</sup> Fed. R. Civ. P. 65 requires: “Every order granting an injunction and every restraining order shall set forth the reasons for its issuance; shall be specific in terms; [and] shall describe in reasonable detail . . . the act or acts sought to be restrained.” The U.S. Court of Appeals for the Federal Circuit, for one, will vacate or reverse a trial court’s issuance of a preliminary injunction unless the trial court makes comprehensive findings of fact under Rule 52(a) to justify its ruling. *See, e.g.*, *Atlantic Thermoplastics Co. v. Faytex Corp.*, 5 F.3d 1477,28 U.S.P.Q.2d (BNA) 1343 (Fed. Cir. 1993); *Conair Group Inc. v. Automatik Apparate-Maschinenbau GmbH*, 944 F.2d 862,20 U.S.P.Q.2d (BNA) 1067 (Fed. Cir. 1991); *Nutrition 21 v. United States*, 930 F.2d 867, 18 U.S.P.Q.2d (BNA) 1347 (Fed. Cir. 1991).

<sup>363</sup> *See, e.g.*, *Reebok Int’l Ltd. v. J. Baker, Inc.*, 32 F.3d 1552, 1554, 31 U.S.P.Q.2d (BNA) 1781, 1782 (Fed. Cir. 1994) (affirming denial of preliminary injunction when district court found only that the moving party failed to establish irreparable, harm).

*Service Co.*,<sup>364</sup> for example, Tracer sought injunctive relief to enjoin the defendants from misappropriating trade secrets that Tracer had developed. The trade secrets concerned a process for detecting, locating, and quantifying leaks in underground and above-ground petroleum and chemical storage tanks and pipelines.<sup>365</sup> The defendants asserted, in opposition to Tracer’s allegations, that a preliminary injunction should be denied because Tracer failed to identify and prove its trade secrets with specificity.<sup>366</sup> The court disagreed, finding that the “evidence presented demonstrates that Tracer’s process, taken as a whole, constitutes a protected trade secret.”<sup>367</sup> Specifically, the court found that certain essential elements of Tracer’s confidential information and proprietary equipment and supplies, as set forth in Tracer’s “Outline of the Tracer Tight Trade Secret Process” (Plaintiff’s Exhibit 38), indeed characterized Tracer’s leak detection system process as a whole.<sup>368</sup>

The desirability of preliminary injunctive relief to the plaintiff may dictate the amount of risk, which the plaintiff is willing to accept, that the court will deny its motion. In turn, that risk will be affected by the degree of specificity with which the plaintiff defines its trade secrets.

## **B. Summary Judgment**

Although the plaintiff is typically the party who brings a motion for pre-trial injunctive relief, either party is likely to file a motion for summary judgment under Rule 56. In fact, Noweigh might very well file such a motion in this case. The possibility at least exists that, if Showme does not respond to Noweigh’s summary judgment by specifying its trade secrets, a district judge will grant Noweigh’s motion. As noted above, Showme’s risk of an adverse ruling will be affected by the degree of specificity with which it defines its trade secrets.

The case of *Universal Analytics, Inc. v. MacNeal-Schwendler Corp.*,<sup>369</sup> illustrates Showme’s risk. The court considered Universal Analytics’s (“UAI”) allegations of trade secret misappropriation as the basis for its antitrust claim.<sup>370</sup> The court granted MacNeal-Schwendler’s (“MSC”) motion for summary judgment because UAI failed to produce

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<sup>364</sup> 843 F. Supp. 568 (D. Ariz. 1993), *rev’d*, 42 F.3d 1292, 33 U.S.P.Q.2d 1221 (9th Cir. 1994), *cert. dismissed*, 116 S. Ct. 37 (1995).

<sup>365</sup> *Id.* at 570-71.

<sup>366</sup> *Id.* at 581.

<sup>367</sup> *Id.* at 582.

<sup>368</sup> *See also* Julie Research Lab., Inc. v. Select Photographic Eng’g, Inc., 810 F. Supp. 513, 519 (S.D.N.Y. 1992) (court granted plaintiff a preliminary injunction without focusing “on the fact that plaintiff defined its trade secret in wholly conclusory terms, i.e., that the Diamond was a very fast PC electronic photographic retouching and imaging system that could do anything the larger systems could do at modest costs”), *aff’d in part, vacated in part*, 998 F.2d 65 (2d Cir. 1993).

<sup>369</sup> 707 F. Supp. 1170 (C.D. Cal. 1989), *aff’d*, 914 F.2d 1256 (9th Cir. 1990).

<sup>370</sup> *Id.* at 1177.

evidence sufficient to raise a genuine issue of material fact in support of its allegations.<sup>371</sup> Specifically, “UAI [failed] to inform MSC or the Court precisely which trade secret it alleges was misappropriated.”<sup>372</sup> The court held that:

UAI’s trade secrets claim is based purely on the speculation that since the former UAI employees are working in similar areas at MSC and that after the employees began working for MSC, MSC announced improvements in its Nastran products, therefore MSC must be misappropriating UAI trade secrets. There is no logic to UAI’s theory. . . . Absent *any* . . . evidence of trade secret misappropriation, UAI’s trade secret allegations cannot form the basis of its Section 2 monopoly claim.<sup>373</sup>

The court also noted that UAI “expressly conceded that the thrust of its case does not lie in its allegations regarding misappropriation of trade secrets.”<sup>374</sup>

The *Universal Analytics, Inc.* decision may be of little comfort to Noweigh, however, for a number of reasons. First, it may be limited to the facts that MSC failed to present any evidence of trade secret misappropriation and conceded that its misappropriation allegation was of secondary importance to its antitrust claim. Second, Noweigh must address a more pertinent case, which denied the defendant’s motion for summary judgment asserting that the plaintiff had failed, at that point in the litigation, to specify its claimed trade secrets.

In *SI Handling Systems, Inc. v. Heisley*,<sup>375</sup> the court considered the defendant’s motion for summary judgment in SI’s suit for, among other claims, misappropriation of trade secrets relating to SI’s CARTRAC materials handling product. The motion was filed after the trade secret issues had been subject to a twenty-nine day hearing on the plaintiff’s application for a preliminary injunction.<sup>376</sup> In support of its motion, the defendant contended that SI could not or would not identify and specify the trade secrets it claimed the defendants had misappropriated. The court held that the defendants had failed to establish the absence of genuine issues of material fact:

Defendants do not support their argument that plaintiff’s alleged failure, to date, to specify their claimed trade secrets to defendants’ satisfaction entitles them to judgement as a matter of law. Such a requirement has not been imposed by Pennsylvania law, or by the Third Circuit. Thus, even if true, defendants are not entitled to summary judgement on that basis. . . . At trial, . . . the jury will have to decide whether CARTRAC contains trade secrets without necessarily specifying

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<sup>371</sup> *Id.* at 1182.

<sup>372</sup> *Id.* at 1177.

<sup>373</sup> *Id.* at 1177-78 (emphasis added).

<sup>374</sup> *Id.* at 1177 n.9.

<sup>375</sup> 658 F. Supp. 362 (E.D. Pa. 1986).

<sup>376</sup> *Id.* at 364.

in precise detail what they are. It will, of course, be the Court's task to be certain that the plaintiff has put into the trial record sufficient evidence from which the jury can properly find that CARTRAC contains trade secrets which the defendants misappropriated. . . .<sup>377</sup>

This holding--that the plaintiff's failure to identify and specify its trade secrets does not entitle the defendant to summary judgment on the plaintiff's trade secrets misappropriation claim--suggests that a minimal level of identification of the plaintiff's trade secrets at an early stage in the case suffices to avoid a defendant's motion for summary judgment.

Finally, Noweigh must face the fact that, even if Showme could not resist a motion for summary judgment at this stage, such a position does not doom Showme's case. In fact, Noweigh's motion for summary judgment may permit Showme to obtain the very discovery of Noweigh that Showme seeks and Noweigh opposes. If Showme successfully argues that it cannot defeat Noweigh's summary judgment motion without its requested discovery, then Rule 56(f) states that a court "may refuse the application for judgment or may order a continuance to permit affidavits to be obtained or depositions to be taken or discovery to be had or may make such other order as is just." Accordingly, Noweigh may "open the door" to discovery by Showme if it files a motion for summary judgment.

Of course, the tables are turned if Showme brings a motion for summary judgment. Showme may be required to specify its trade secrets to prevail on its motion. In *MAI Systems Corp. v. Peak Computer, Inc.*<sup>378</sup>, for example, MAI sued Peak for copyright infringement, trademark infringement, false advertising, unfair competition, and misappropriation of trade secrets relating to computer software. The district court granted summary judgment in favor of MAI on its misappropriation of trade secrets claims and issued a permanent injunction against Peak on these claims.<sup>379</sup> The permanent injunction prohibited Peak from "misappropriating, using in any manner in their business, including advertising connected therewith, and/or disclosing to others MAI's trade secrets," including: (1) MAI Customer Database; (2) MAI Field Information Bulletins; and (3) MAI software."<sup>380</sup> The Ninth Circuit reversed the grant of summary judgment and vacated the permanent injunction, stating: "A plaintiff who seeks relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist."<sup>381</sup> Although MAI asserted that it had trade secrets in its diagnostic software and operating system, MAI failed to identify specifically those trade

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<sup>377</sup> *Id.* at 368 (citation omitted).

<sup>378</sup> 991 F.2d 511, 26 U.S.P.Q.2d (BNA) 1458 (9th Cir. 1993), *cert. dismissed*, 510 U.S. 1033 (1994).

<sup>379</sup> *Id.* at 515, 26 U.S.P.Q.2d (BNA) at 1459-60.

<sup>380</sup> *Id.* at 520, 26 U.S.P.Q.2d (BNA) at 1465.

<sup>381</sup> *Id.* at 522, 26 U.S.P.Q.2d (BNA) at 1467.



secrets. The appellate court could not determine whether Peak misappropriated any trade secrets because the trade secrets were not specifically identified.<sup>382</sup>

Regardless of Showme's likely success on its motion for summary judgment, Noweigh may be able to use Rule 56(f) to its advantage in response to Showme's motion. Noweigh might argue successfully that it cannot "present by affidavit facts essential to justify [its] opposition" unless Showme specifically identifies its trade secrets.

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<sup>382</sup> *Id.* at 522-23, 26 U.S.P.Q.2d (BNA) at 1467.

## VII. APPENDIX

### A BALANCED PROCEDURAL APPROACH

<u>STAGE</u>	<u>Specificity of H's Trade Secret ("T/S") Identification</u>
1. Complaint	No obligation to disclose T/S in <u>any</u> detail; general allegation of T/S misappropriation suffices  <u>REASONS:</u> Notice Pleading; II's Need for Discovery
2. Start of Discovery	II must give $\Delta$ general outline of its T/S; stating T/S only with "reasonable particularity"  <u>REASONS:</u> $\Delta$ can assess relevancy of discovery & avoid a "fishing expedition"; II can assert its right to broad discovery & avoid "catch 22" dilemma
3. Extensive Discovery	II must identify T/S which it alleges was misappropriated to establish a "substantial factual basis" for its claim  <u>REASON:</u> $\Delta$ can prepare for trial
4. Trial	II must disclose T/S with precise detail  <u>REASON:</u> II has burden to prove its T/S case at trial