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DISCOVERY OF TRADE SECRETS

James R. McKown†

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I. INTRODUCTION

Trade secrets pose unique problems for the discovery process, especially in cases between current or potential competitors that allege a misappropriation of trade secrets. When such a case is first filed, the court has no idea whether either party possesses a trade secret, whether a misappropriation has occurred, or whether either party used improper means to obtain the purported trade secret. Those issues will be determined at the time of trial. Discovery disputes, however, normally arise before the court has had the opportunity to determine the merits of either party's claims. In this situation, parties may abuse the legal system: either by falsely claiming a trade secret privilege to obstruct necessary discovery requests, or by filing a frivolous cause of action against a competitor in an effort to misappropriate the defendant's trade secrets through discovery. Although intangible, trade

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secrets and other intellectual property constitute valuable property¹ that require legal protection.²

In considering discovery disputes, courts must balance two conflicting legal principles. On one hand, 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 claims or defense of the party seeking discovery or to the claim or defense of any other party"³ On the other hand, litigants have an interest in preserving the confidentiality of their trade secrets.⁴ Because discovery necessarily precedes the determination of the merits of a trade secret case, courts must implement creative procedures and orders to prevent abuse of the discovery process. This article identifies and discusses the manner in which courts endeavor to prevent the use of the discovery process to misappropriate competitors' trade secrets.

II. DISCOVERY REQUIRES FULL DISCLOSURE

Charles Alan Wright and Arthur J. Miller have noted three distinct purposes and uses for modern discovery:

- (1) To narrow the issues, in order that at the trial it may be necessary to produce evidence only on a residue of matters that are found to be actually disputed and controverted.
- (2) To obtain evidence for use at the trial.
- (3) To secure information about the existence of evidence that may be used at the trial and to ascertain how and from whom it may be procured, as for instance, the existence, custody, and location of pertinent documents or the names and addresses of persons having knowledge of relevant facts.⁵

1. JAMES V. VERGARI & VIRGINIA V. SHUE, FUNDAMENTALS OF COMPUTER - HIGH TECHNOLOGY LAW § 12.01(a)(1), at 507 (1991) ("Items designated as intellectual property, such as information or computer programs, although intangible, are as much assets as are pieces of tangible property such as buildings, equipment, or money.").

2. PAUL GOLDSTEIN, COPYRIGHT, PATENT, TRADEMARK AND RELATED STATE DOCTRINES 28 (Foundation Press 1981) (1973) ("The fact that information is intangible gives special reason for legal protection. Much information has little value to its producer unless it is salable.").

3. FED. R. CIV. P. 26(b)(1); *see also* CHARLES A. WRIGHT & ARTHUR R. MILLER, 8 FEDERAL PRACTICE AND PROCEDURE § 2001, at 15 (1970) ("The basic philosophy of the present federal procedure is 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.").

4. UNIF. TRADE SECRETS ACT § 5 cmt., 14 U.L.A. 461 (1985) ("If reasonable assurances of maintenance of secrecy could not be given, meritorious trade secret litigation would be chilled.").

5. CHARLES A. WRIGHT AND ARTHUR R. MILLER, 8 FEDERAL PRACTICE AND PROCEDURE § 2001, at 15 (1970) (citing *Berry v. Haynes*, 41 F.R.D. 243, 244 (D.C. Fla. 1966); *Broadway & Ninety-Sixth St. Realty Col. v. Loews Inc.*, 21 F.R.D. 347, 353 (S.D.N.Y. 1958); *Great Am. Ins. Co. v. Murray*, 437 S.W.2d 264, 267 (Tex. 1969); *Kaarup v. St. Paul Fire & Marine Ins. Co.*, 436 N.W.2d 17, 19 (S.D. 1989); *Weinstein v. Ehrenhaus*, 119 F.R.D. 355, 357 (S.D.N.Y. 1988); *In re*

Some commentators disagree with these objectives.⁶

In *Seattle Times Co. v. Rhinehart*,⁷ the United States Supreme Court refused to extend the public right of access to discovery materials.⁸ Other courts have limited the public's review of discovery materials.⁹ At common law, pretrial proceedings traditionally were not open to the public.¹⁰ Moreover, in modern practice, pretrial depositions and interrogatories normally occur in private.¹¹ That line of cases clearly establishes that the general public has no absolute right to review trade secret materials produced in discovery but fails to resolve problems concerning discovery of trade secrets in litigation between competitors.

III. TRADE SECRET PROTECTION REQUIRES SECRECY

A. Background on Trade Secrets

Intellectual property encompasses three distinct concepts: patents, copyrights, and trade secrets. A patent is a government grant to an inventor that conveys and secures an exclusive right to make, use,

Halkin, 598 F.2d 176, 207 (D.C. Cir. 1979) (dissenting opinion); *Orion Ins. Co. v. United Tech. Corp.*, 502 F. Supp. 173, 175 (D.C. Pa. 1980); *Lyell Theatre Corp. v. Loews Corp.*, 91 F.R.D. 97, 99 (W.D.N.Y. 1981); *Marmon v. Hodny*, 287 N.W.2d 470, 476 (N.D. 1980); *Rickett v. Hayes*, 473 S.W.2d 446, 448 (Ark. 1971)).

6. *Id.* § 2001, at 19 n. 21 (citing Kenneth B. Hawkins, *Discovery and Rule 34: Whats So Wrong About Surprise?*, 39 A.B.A.J. 1075 (1953); Hocker, *What Price Limitless Discovery?*, 9 Mo. B.J. 172 (1953); Margeson v. Boston & M.R.R., 16 F.R.D. 200, 201 (D.C. Mass. 1954); *Weyman I. Lundquist & H. Stephen Schechter, The New Relevancy: An End to Trial by Ordeal*, 64 A.B.A.J. 59 (1978)).

Justice Brandeis originally did not approve of the adoption of the Rules of Civil Procedure. See *FED. CIV. JUD. PROC. AND RULES 6* (West 1990) (quoting Order of December 20, 1937).

7. 467 U.S. 20 (1984).

8. *Id.* at 33 ("[R]estraints placed on discovered, but not yet admitted, information are not a restriction on a traditionally public source of information.").

9. See, e.g., *Public Citizen v. Liggett Group, Inc.*, 858 F.2d 775, 789-90 (1st Cir. 1988) ("The parties are, therefore, free to disseminate discovery materials, but they are not obligated to make them publicly available by filing them in court." *Id.* at 792, *cert. denied*, 488 U.S. 1030 (1989); *Courier J. v. Marshall*, 828 F.2d 361, 367 (6th Cir. 1987) (limiting public access to membership list of Ku Klux Klan produced during discovery); *In re Alexander Grant & Co. Litig.*, 820 F.2d 352, 355 (11th Cir. 1987) (limiting public access to discovery materials produced in bankruptcy proceedings); *Anderson v. Cryovac, Inc.*, 805 F.2d 1, 13 (1st Cir. 1986) ("There is no tradition of public access to discovery, and requiring a trial court to scrutinize carefully public claims of access would be incongruous with the goals of the discovery process."); *Grundberg v. Upjohn Co.*, 140 F.R.D. 459, 465 (D. Utah 1991); *Simon v. G.D. Searle & Co.*, 119 F.R.D. 683 (D. Minn. 1987); *In re Consumers Power Co. Sec. Litig.*, 109 F.R.D. 45 (E.D. Mich. 1985); *Omega Homes, Inc. v. Citicorp Acceptance Co.*, 656 F. Supp. 393, 403-04 (W.D. Va. 1987). But see *In re "Agent Orange" Prod. Liab. Litig.*, 821 F.2d 139, 146 (2d Cir. 1987), *cert. denied*, 484 U.S. 953 (1987); *United States v. Kentucky Utils. Co.*, 124 F.R.D. 146, 153 (E.D. Ky. 1989).

10. *Gannett Co. v. DePasquale*, 443 U.S. 368, 387-91 (1979).

11. *Id.* at 396 (Burger, C.J., concurring).

and sell an invention for a specified term of years.¹² In order to obtain a patent, the invention must be disclosed to the public.¹³ A copyright similarly is a government grant for the exclusive privilege of multiplying, publishing, and selling certain literary or artistic productions.¹⁴ The value of a copyright is that the owner has a limited monopoly over the work even if it is made public. By contrast, a trade secret is not generally known by others, and its only exclusivity depends on private efforts to maintain its secrecy.¹⁵ An inventor of a new product has three options:¹⁶ obtain a temporary monopoly by filing a patent application, forego a monopoly by publishing the inven-

12. *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186-87 (1933) ("In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but upon the expiration of that period, the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use." (citations omitted)).

13. *See generally id.* at 186 ("In consideration of its disclosure and the consequent benefit to the community, the patent is granted.").

14. The term "copyright" has specifically been defined as:

The right of literary property as recognized and sanctioned by positive law. An intangible, incorporeal right granted by statute to the author or originator of certain literary or artistic productions, whereby he is invested, for a limited period, with the sole and exclusive privilege or multiplying copies of the same and publishing and selling them.

United States v. Smith, 686 F.2d 234, 239 n.5 (5th Cir. 1982) (quoting BLACK'S LAW DICTIONARY 304 (5th ed. 1979)).

15. The Restatement of Torts and the Uniform Trade Secrets Act provide widely accepted, similar definitions for the term "trade secrets." The Restatement provides that:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in ones business, and which gives him 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 manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

RESTATEMENT OF TORTS § 757 cmt. b (1939).

The Uniform Trade Secrets Act provides that:

"Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

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 is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 438 (1985).

The Uniform Trade Secrets Act provides a more expansive definition by deleting the requirement for use in business. The broader definition "includes information that has commercial value from a negative viewpoint, for example the results of lengthy and expensive research which proves that a certain process will *not* work could be of great value to a competitor." *Id.* at 439, cmt.

16. RICHARD I. MILLER, LEGAL ASPECTS OF TECHNOLOGY UTILIZATION 12-14 (1974).

tion, or attempt to maintain an indefinite competitive advantage by keeping the invention secret.¹⁷

Since its founding, the United States has provided express protection for intellectual property. The United States Constitution states that, "The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries"¹⁸ In 1790, the First Congress of the United States enacted the patent¹⁹ and copyright systems.²⁰ American courts have considered trade secret litigation for over one hundred and fifty years.²¹

Courts have enunciated two fundamental policies underlying trade secrets laws. In *Kewanee Oil Co. v. Bicron Corp.*,²² the United States Supreme Court wrote that, "The maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law . . . [The commercial world depends on] 'good faith and honest, fair dealing.'"²³ Invention and advancement may be encouraged by protecting the trade secret²⁴ and punishing those who resort to improper means to acquire a trade secret.²⁵ Commentators have set forth several philosophical arguments supporting exclusive ownership of intellectual property, and, therefore, secrecy concerning trade secrets.²⁶

17. See, e.g., RIDSDALE ELLIS, *TRADE SECRETS* § 166, 233-36 (1953) (If an inventor delays filing a patent application beyond the statutory period, the inventor may forfeit the right to a patent).

18. U.S. CONST. art. I, § 8, cl. 8.

19. 1 Stat. 109-10 (1790).

20. 1 Stat. 124 (1790).

21. See, e.g., *Fowle v. Park*, 131 U.S. 88 (1889) (contract dispute concerning secret medicine); *Peabody v. Norfolk*, 98 Mass. 452 (1868) (employee enjoined from disclosing former employer's manufacturing secret with subsequent employer); *Vickery v. Welch*, 36 Mass. (1 Pick.) 523 (1837) (debt on a bond concerning a secret manner of making chocolate).

22. 416 U.S. 470 (1974).

23. *Id.*, at 481-82 (quoting *National Tube Co. v. Eastern Tube Co.*, 3 Ohio C.C.R. (n.s.) at 462 [13-23 Ohio C.C. Dec. 468] (1902); citing *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 138 (9th Cir. 1965).) See also Steven R. Borgman & William LaFuze, *A General Overview of Trade Secrets - Texas Style*, 53 TEX. B.J. 725, 730 (July 1990).

24. See *Kewanee*, 416 U.S. at 482 (citing *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531, 539 (6th Cir. 1934); *Wexler v. Greenberg*, 160 A.2d 430, 434-35 (Pa. 1960); *Water Services, Inc. v. Tesco Chems., Inc.*, 410 F.2d 163, 171 (5th Cir. 1969)).

25. Though a complete list of proper and improper means would be impossible, the Restatement of Torts provides a partial list of improper tactics: Using physical force, using fraudulent misrepresentations, tapping telephone wires, eavesdropping or other espionage. "In general they are means which fall below the generally accepted standards of commercial morality and reasonable conduct." RESTATEMENT OF TORTS § 757 cmt. f (1939).

26. See, e.g., Alan H. Goldman, *Ethical Issues in Proprietary Restrictions on Research Results*, in OWNING SCIENTIFIC AND TECHNICAL INFORMATION 69-82 (Vivian Weil & John Snapper eds., 1989) (a financial incentive theory); Charles Weiner, *Patenting and Academic Research: Historical Case Studies*, in OWNING SCIENTIFIC AND TECHNICAL INFORMATION, *supra* at

American courts protect trade secrets by prohibiting their misappropriation. Eighteen states have enacted criminal statutes²⁷ applicable to employees who have misappropriated their employers trade secrets. Thirty-six states and the District of Columbia have enacted civil statutes²⁸ authorizing private parties to bring civil actions against others for misappropriating trade secrets.²⁹ Despite no specific statu-

87-109 (a quality control theory); Arthur Kuflik, *Moral Foundations of Intellectual Property Rights, in OWNING SCIENTIFIC AND TECHNICAL INFORMATION, supra* at 219-40 (an exchange for fairness theory); Michael Davis, *Patents, Natural Rights, and Natural Property, in OWNING SCIENTIFIC AND TECHNICAL INFORMATION, supra* at 241-49 (a natural rights theory); EARL W. KUNTNER & JACK LAHR, *AN INTELLECTUAL PROPERTY LAW PRIMER* 206-17 (2d ed. 1983) (property, confidential relationship, unjust enrichment, and contract theories); ROBERT A. CHOATE, *CASES AND MATERIAL ON PATENT LAW* 1-3 (1973) (natural rights).

27. See ARK. CODE ANN. § 5-36-107 (1977); CAL. PENAL CODE § 499(c) (West 1988); COLO. REV. STAT. § 18-4-408 (West 1990); GA. CODE ANN. § 16-8-13 (Michie 1992); ILL. COMP. STAT. ANN. ch. 720 § 5/16-1 (Michie 1993); IND. CODE ANN. § 35-43-4-2 (West 1986); ME. REV. STAT. ANN. tit. 17-A § 353 (West 1983); MASS. GEN. LAWS ANN. ch. 266, § 30 (West 1990); MICH. COMP. LAWS ANN. § 752.772 (West 1991); N.H. REV. STAT. ANN. § 637:3 (1986); N.J. STAT. ANN. § 2C:20-1 (West 1993); N.M. STAT. ANN. § 30-16-24 (Michie 1984); OHIO REV. CODE ANN. § 1333.51 (Anderson 1979); OKLA. STAT. ANN. tit. 21 § 1732 (West 1983); 18 PA. STAT. ANN. § 3930 (1983); TENN. CODE ANN. § 39-14-138 (1991); TEX. PENAL CODE ANN. § 31.05 (West 1989); WIS. STAT. ANN. § 943.205 (West 1993).

28. See ALA. CODE §§ 8-27-1 to 8-27-6 (1993); ALASKA STAT. §§ 45.50.910 to 45.50.945 (1993); ARIZ. REV. STAT. ANN. §§ 44-401 to 44-407 (1993); ARK. CODE ANN. §§ 4-75-601 to 4-75-607 (Michie 1991); CAL. CIV. CODE §§ 3426 to 3426.10 (West 1984); COLO. REV. STAT. ANN. § 7-74-101 to 7-74-110 (West 1990); CONN. GEN. STAT. ANN. §§ 35-50 to 35-58 (West 1990); DEL. CODE ANN. tit. 6, §§ 2001 to 2009 (1992); D.C. CODE ANN. §§ 48-501 to 48-510 (1990); FLA. STAT. ANN. §§ 688.001 to 688.009 (West 1990); HAW. REV. STAT. §§ 482B-1 to 482B-9 (1992); IDAHO CODE §§ 48-801 to 48-807 (1993); ILL. COMP. STAT. ANN. ch. 765, §§ 1065/1 to 1065/9 (Michie 1993); IND. CODE ANN. §§ 24-2-3-1 to 24-2-3-8 (West 1993); IOWA CODE ANN. §§ 550.1 to 550.8 (West 1993); KAN. STAT. ANN. §§ 60-3320 to 60-3330 (1992); KY. REV. STAT. ANN. §§ 365.880 to 365.900 (Baldwin 1992); LA. REV. STAT. ANN. §§ 51:1431 to 51:1439 (West 1987); ME. REV. STAT. ANN. tit. 10, §§ 1541 to 1548 (West 1992); MD. COM. LAW CODE ANN. §§ 11-1201 to 11-1209 (1993); MINN. STAT. ANN. §§ 325C.01 to 325C.08 (West 1993); MISS. CODE ANN. §§ 75-26-1 to 75-26-19 (1991); MONT. CODE ANN. §§ 30-14-401 to 30-14-409 (1993); NEB. REV. STAT. §§ 87-501 to 87-507 (1992); NEV. REV. STAT. 600A.010 to 600A.100 (1991); N.H. REV. STAT. ANN. §§ 350-B:1 to 350-B:9 (1992); N.M. STAT. ANN. §§ 57-3A-1 to 57-3A-7 (Michie 1993); N.D. CENT. CODE §§ 47-25.1-01 to 47-25.1-08 (1993); OKLA. STAT. ANN. tit. 78, §§ 85 to 95 (West 1987); OR. REV. STAT. §§ 646.461 to 646.475 (1991); R.I. GEN. LAWS §§ 6-41-1 to 6-41-11 (1992); S.D. CODIFIED LAWS ANN. §§ 37-29-1 to 37-29-11 (1993); UTAH CODE ANN. §§ 13-24-1 to 13-24-9 (1992); VA. CODE ANN. §§ 59.1-336 to 59.1-343 (Michie 1993); WASH. REV. CODE ANN. §§ 19.108.010 to 19.108.940 (West 1989); W. VA. CODE §§ 47-22-1 to 47-22-10 (1992); WIS. STAT. ANN. § 134.90 (West 1989).

29. "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 disclosure or use, knew or had reason to know that his knowledge of the trade secret was

tory authorization, other states provide a common law remedy for trade secret misappropriation.³⁰

B. *Potential Conflicts Between Trade Secrets and the Discovery Process*

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."³¹ At some point, the plaintiff must identify the specific trade secrets that allegedly have been misappropriated.³² If the plaintiff is uncertain concerning which of its trade secrets have been misappropriated, then the plaintiff may need to conduct discovery of defendants material before specifying the allegedly misappropriated trade secrets.³³

In some instances, trade secret litigation involves a request for a temporary restraining order against use or disclosure of a purported trade secret.³⁴ A temporary restraining order and a preliminary in-

(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 (1985).

30. See generally Restatement of Torts § 757.

31. *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)).

32. See ROBERT C. DORR & CHRISTOPHER H. MUNCH, *PROTECTING TRADE SECRETS, PATENTS, COPYRIGHTS, AND TRADEMARKS* § 1.24, 40-41 (1990).

33. *Id.* ("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 wrongdoers material When full and complete discovery has occurred, then specific identification of the trade secrets can be made.")

34. See MICHAEL D. SCOTT, *SCOTT ON COMPUTER LAW* § 6.18[A], 6-44.4 (2d ed. 1993) ("Because of the ephemeral nature of a trade secret, it is imperative that the secret not be revealed to the public or to competitors. The continued existence of a protectible trade secret often will depend on the owner's success in obtaining an order enjoining the misappropriator from revealing the secret to third parties. Failure to obtain an injunction in the first instance may make further litigation moot.") See also Fed. R. Civ. P. 65(d) ("Every order granting an injunction and every restraining order . . . is binding only upon the parties to the action, their officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation with them who receive actual notice of the order by personal service or otherwise.")

junction frequently result in an expedited proceeding.³⁵ That expedited process gives courts and parties less time to consider potential discovery problems.

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 liability from the trade secret owner.³⁶ In such a situation, the third party may move for a protective order.³⁷

Unless appropriate protective orders are entered, a litigant, in responding to discovery requests, may be forced to disclose its trade secrets.³⁸ One court acknowledged the potential danger, writing that:

[T]he circumstance that a litigant in his complaint alleges that he 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 plaintiffs 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 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.³⁹

In most protective orders, the opposing party, or at least its counsel, becomes aware of the trade secret. In cases between two competitors, or potential competitors, responding to discovery may result in disclosing a trade secret to the person most likely to use or take advantage of that trade secret.⁴⁰ Competitors, therefore, may obtain through a lawsuit knowledge concerning a subject that they are unable to achieve through independent research.

For example, in a hypothetical lawsuit between competitors *A Widget, Inc.* and *B Widget Corp.* for misappropriation of trade secrets,

35. See Fed. R. Civ. P. 65(b) ("In case a temporary restraining order is granted without notice, the motion for a preliminary injunction shall be set down for hearing at the earliest possible time and takes precedence of all matters except older matters of the same character . . .").

36. See Scott, *supra* note 34, § 18.06[A], 18-3 (1993).

37. FED. R. CIV. P. 26(e).

38. See SCOTT, *supra* note 34, § 6.17, 6-40 ("It would be of little practical value to file a lawsuit to protect the confidentiality of a trade secret if the secret became part of the publicly available court record and was thereby lost. Loss of trade secrets by disclosure in pleadings, documents, or oral testimony is a constant concern during both discovery and trial.").

39. Ray v. Allied Chem. Corp., 34 F.R.D. 456, 457 (S.D.N.Y. 1964).

40. See Greater Rockford Energy & Technology Corp. v. Shell Oil Co., 138 F.R.D. 530, 536 (C.D. Ill. 1991) (citing Coca-Cola Bottling Co. v. Coca-Cola Co., 107 F.R.D. 288, 293, 299 (D. Del. 1985)) ("Courts have presumed that disclosure of sensitive information to competitors is more harmful than disclosure to a noncompetitor.") See also *infra* note 151 and accompanying text.

several potential problems arise from the discovery process. The general public probably has little or no interest in widget trade secrets. A third hypothetical competitor, *C Widget Company*, may be very interested in learning its competitors' trade secrets. Unless the legal system ensures confidentiality of trade secrets, *A Widget, Inc.* may decide against filing a meritorious claim against *B Widget Corp.* because of concerns that *C Widget Company* may obtain those trade secrets. *A Widget, Inc.* also may be reluctant to file a meritorious claim against *B Widget Corp.* because *A Widget, Inc.* may be forced to disclose unrelated trade secrets to *B Widget Corp.* On the other hand, if *A Widget, Inc.* is struggling unsuccessfully to compete in the widget industry, it may file a lawsuit against *B Widget Corp.* to learn its trade secrets. At the time the lawsuit is filed, the court has no idea whether any trade secrets have been misappropriated, or even whether any trade secrets exist. The problem becomes more complex if the plaintiff relies on circumstantial evidence to support its allegation.⁴¹

The federal courts and most states have adopted specific rules concerning discovery of trade secrets. The rules provide straightforward methods of preventing disclosure to persons not involved in the lawsuit. The rules, however, provide little guidance for courts and practitioners in resolving the unique problems created by cases between competitors.

IV. PROTECTING TRADE SECRETS DURING LITIGATION

A. *Protection from the General Public*

The Federal Rules of Civil Procedure allow protective orders to be issued to protect trade secrets. The Federal Rules expressly provide that a district court may issue a protective order "that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way."⁴² The Federal Rules designate no specific factors for courts to consider in deciding whether a trade secret should be disclosed, place no burden on the courts for protecting trade secrets, and fail to state

41. See MICHAEL A. EPSTEIN, *MODERN INTELLECTUAL PROPERTY* 116-120 (2d ed. 1991) (citing *E.I. Dupont de Nemours & Co. v. American Potash and Chem. Corp.*, 200 A.2d 428, 436 (Del. Ch. 1964); *Electro-Miniatures Corp. v. Wendon Co.*, 771 F.2d 23, 26 (2d Cir. 1985); *Bertotti v. C.E. Shephard Co. Inc.*, 752 S.W.2d 648, 655 (Tex. Ct. App. 1988); *American Can Co. v. Mansukhani*, 621 F.Supp. 111, 112-13 (E.D. Wis. 1985); *AMP Inc. v. Fleischhacker*, No. 84-C-1676 slip op. at 11 (N.D. Ill. March 14, 1986); *National Starch & Chem. Corp. v. Parker Chem. Corp.*, 530 A2d 31, 32-33 (N.J. Super. Ct. App. 1987); *Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'g Corp.*, 255 F.Supp. 645, 654 (E.D. Mich. 1966); *Standard Brands, Inc. v. Zumpe*, 264 F. Supp. 254, 261 (E.D. La. 1967)).

42. FED. R. CIV. P. 26(c)(7).

the "designated ways" that courts may restrict the disclosure of trade secrets. The Federal Rules of Evidence also provide no specific guidance concerning trade secrets.⁴³

The Uniform Trade Secrets Act provides more guidance than the Federal Rules of Civil Procedure for drafting protective orders. The Act states that:

In an action under this Act, 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.⁴⁴

Unlike the Federal Rules of Civil Procedure, the Act places an affirmative duty on courts to preserve trade secrets.

The party seeking a protective order generally has the burden of showing that the protective order is justified.⁴⁵ In order to avoid production of a purported trade secret, a party must establish that the requested material is a trade secret and that its disclosure may be harmful.⁴⁶ Some courts have allowed an attorney, during an oral

43. *But see* Advisory Comm. Note to Rejected Rule 508, reprinted in 26 CHARLES ALAN WRIGHT & KENNETH W. GRAHAM, JR., FEDERAL PRACTICE & PROCEDURE: EVIDENCE 282, 283 (1992) ("The need for accommodation between protecting trade secrets, on the one hand, and eliciting facts required for full and fair presentation of a case, on the other hand, is apparent. Whether disclosure should be required depends upon a weighing of the competing interests involved against the background of the total situation, including consideration of such factors as the dangers of abuse, good faith, adequacy of protective measures, and the availability of other means of proof.").

44. UNIF. TRADE SECRETS ACT § 5, 14 U.L.A. 461 (1985) (emphasis added).

45. *Landry v. Air Line Pilots Assn Intl AFL-CIO*, 901 F.2d 404, 435 (5th Cir.), cert. denied, 498 U.S. 895 (1990); *Public Citizen v. Liggett Group, Inc.*, 858 F.2d 775, 789 (1st Cir. 1988), cert. denied, 488 U.S. 1030 (1989); *Anderson v. Cryovac, Inc.*, 805 F.2d 1, 7-8 (1st Cir. 1986); *Multi-Core, Inc. v. Southern Water Treatment Co.*, 139 F.R.D. 262, 263 (D. Mass. 1991); *Johnston Dev. Group, Inc. v. Carpenters Local Union No. 1578*, 130 F.R.D. 348, 352 (D.N.J. 1990); *United States v. Rayle Coal Co.*, 129 F.R.D. 135, 136 (N.D. W. Va. 1989); *UAI Technology, Inc. v. Valutech, Inc.*, 122 F.R.D. 188, 191 (M.D.N.C. 1988); *BCI Communication Sys., Inc. v. Bell Atlanticom Sys., Inc.*, 112 F.R.D. 154, 159 (N.D. Ala. 1986); *Tavoulareas v. Washington Post Co.*, 111 F.R.D. 653, 658 (D.D.C. 1986); *Cooper v. Welch Foods, Inc.*, 105 F.R.D. 4, 6 (W.D.N.Y. 1984).

46. *Friction Div. Prods., Inc. v. E.I. DuPont de Nemours & Co.*, 658 F. Supp. 998, 1006 (D. Del.), *affd*, 883 F.2d 1027 (1987); *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 292 (D. Del. 1985); *Cutler v. Lewiston Daily Sun*, 105 F.R.D. 137, 140 (D. Me. 1985). *See also* *Duracell, Inc. v. SW Consultants, Inc.*, 126 F.R.D. 576, 578 (N.D. Ga. 1989); *Allen v. G.D. Searle & Co.*, 122 F.R.D. 580, 582 (D. Or. 1988); *Bymes v. Jetnet Corp.*, 111 F.R.D. 68, 73 (M.D.N.C. 1986).

deposition, to instruct a witness not to answer because a question seeks trade secrets or other privileged information.⁴⁷

Courts also may order that the record be sealed to prevent disclosure to the general public. Parties must comply with the requirements of the protective order, or they may disclose a trade secret in a court filing.⁴⁸

Courts may appoint special masters⁴⁹ to determine discovery disputes concerning trade secrets. In addition to the expressly enumerated methods, the official comment to the Act notes that courts also have restricted disclosures to a party's counsel and his or her assistants and have appointed a disinterested expert as a special master to hear secret information and report conclusions to the court.⁵⁰ Courts have broad discretion concerning the powers of a master.⁵¹ Courts have referred discovery disputes concerning trade secrets to special masters.⁵² In many cases, the judge may be unable to determine whether a list of purported trade secrets is sufficient because the judge may not understand the technological terms. Of course, if the special master is

47. See, e.g., *American Hangar, Inc. v. Basic Line, Inc.*, 105 F.R.D. 173, 175 (D. Mass. 1985) (The attorney, however, subsequently must seek a protective order.). See also *Hisaw v. Unisys Corp.*, 134 F.R.D. 151, 152 (W.D. La. 1991); *Nutmeg Ins. Co. v. Atwell, Vogel & Sterling, Inc.*, 120 F.R.D. 504, 508 (W.D. La. 1988); *In re Alexander Grant & Co. Litig.*, 110 F.R.D. 545 (S.D. Fla. 1986) (attorney-client and work product privilege).

48. See *DORR & MUNCH*, *supra* note 32 § 1.24, 41 ("One law firm forgot to stamp and seal its client's trade secrets when a pleading was filed. A trade journal monitoring the lawsuit then published the secrets.").

49. FED. R. CIV. P. 53(a).

50. UNIF. TRADE SECRETS ACT § 5 cmt, 14 U.L.A. 461 (1985).

51. The Federal Rules provide that:

The order of reference to the master may specify or limit the master's powers and may direct the master to report only upon particular issues or to do or perform particular acts or to receive and report evidence only and may fix the time and place for beginning and closing the hearings and for the filing of the master's report. Subject to the specifications and limitations stated in the order, the master has and shall exercise the power to regulate all proceedings in every hearing before the master and to do all acts and take all measures necessary or proper for the efficient performance of the master's duties under the order. The master may require the production before the master of evidence upon all matters embraced in the reference, including the production of all books, papers, vouchers, documents, and writings applicable thereto. The master may rule upon the admissibility of evidence unless otherwise directed by the order of reference and has the authority to put witnesses on oath and may examine them and may call the parties to the action and examine them upon oath. When a party so requests, the master shall make a record of the evidence offered and excluded in the same manner and subject to the same limitations as provided in the Federal Rules of Evidence for a court sitting without a jury.

FED. R. CIV. R. 53(c).

52. See, e.g., *Xerox Corp. v. International Business Machs. Corp.*, 64 F.R.D. 367, 370 (S.D.N.Y. 1974).

a member of the industry, then the parties may view the master as a potential competitor, which may chill meritorious trade secret litigation.

In *Nixon v. Warner Communications, Inc.*,⁵³ the United States Supreme Court noted that American courts operate pursuant to a presumption that the general public has a right to inspect public records and documents.⁵⁴ American courts encompass within that right judicial records and documents.⁵⁵ Unlike the British courts,⁵⁶ American courts do not require a proprietary interest in the document or a need for the document as evidence in a lawsuit for asserting the right.⁵⁷

The *Nixon* court, however, also wrote "that the right to inspect and copy judicial records is not absolute. Every court has supervisory power over its own records and files, and access has been denied where court files might have become a vehicle for improper purposes."⁵⁸ In addition to divorce cases⁵⁹ and suits involving libelous statements,⁶⁰ the *Nixon* court noted that the "courts have refused to permit their files to serve as . . . sources of business information that

53. 435 U.S. 589 (1978).

54. *Id.* at 597 n.7 (citing *McCoy v. Providence J. Co.*, 190 F.2d 760, 765-66 (1st Cir. 1951), *cert. denied*, 342 U.S. 894 (1951); *Fayette County v. Martin*, 130 S.W.2d 838, 843 (Ky. 1939); *Nowack v. Auditor Gen.*, 219 N.W. 749, 750 (Mich. 1928); *In re Egan*, 98 N.E. 467, 469 (N.Y. 1912); *State ex rel. Nev. Title Guar. & Trust Co. v. Grimes*, 84 P. 1061, 1072-74 (Nev. 1906); *Brewer v. Watson*, 71 Ala. 299, 303-06 (1882); *People ex rel. Gibson v. Peller*, 181 N.E.2d 376, 378 (Ill. 1962); ILL. REV. STAT., ch. 116, § 43.7 (1975)).

55. *Id.* at 598 n. 8 (citing *Sloan Filter Co. v. El Paso Reduction Co.*, 117 F. 504 (C.C. Colo. 1902); *In re Sackett*, 136 F.2d 248 (C.C.P.A. 1943); *C. v. C.*, 320 A.2d 717, 724-27 (Del. 1974); *State ex rel. Williston Herald, Inc. v. O'Connell*, 151 N.W.2d 758, 762-63 (N.D. 1967); *Ex parte Uppercu*, 239 U.S. 435 (1915); *Ex parte Drawbaugh*, 2 App.D.C. 404 (1894); *United States v. Burkea*, 289 A.2d 376 (D.C. App. 1972)). *See also* *United States v. Hickey*, 767 F.2d 705, 708 (10th Cir. 1985), *cert. denied*, 474 U.S. 1022 (1985); *United States v. Guzzino*, 766 F.2d 302, 303-04 (7th Cir. 1985); *United States v. Rosenthal*, 763 F.2d 1291, 1294 (11th Cir. 1985); *United States v. Martin*, 746 F.2d 964, 968 (3d Cir. 1984); *In re Continental Ill. Sec. Litig.*, 732 F.2d 1302, 1308-09 (7th Cir. 1984); *Newman v. Graddick*, 696 F.2d 796 (11th Cir. 1983); *Belo Broadcasting Corp. v. Clark*, 654 F.2d 423, 429 (5th Cir. 1981); *In re Nat'l. Broadcasting Co.*, 653 F.2d 609, 612 (D.C. Cir. 1981)).

56. *Id.* at 597 (citing *Browne v. Cumming*, 10 B.&C. 70, 109 Eng.Rep. 377 (K.B. 1829)).

57. *Id.*

58. *Nixon*, 435 U.S. at 598. Other courts have noted that courts have discretion concerning court records. *See, e.g.*, *United States v. Mann*, 829 F.2d 849, 853 (9th Cir. 1987); *United States v. Davis*, 702 F.2d 418, 423 (2d Cir. 1983), *cert. denied*, 463 U.S. 1215 (1983); *Crystal Growers Corp. v. Dobbins*, 616 F.2d 458, 461 (10th Cir. 1980).

59. *Id.* ("The common-law right of inspection has bowed before the power of a court to insure that its records are not 'used to gratify private spite or promote public scandal through the publication of the painful and sometimes disgusting details of a divorce case.") (quoting *In re Caswell*, 29 A. 259 (R.I. 1893); quoting *C. v. C.*, 320 A.2d 717, 723, 727 (Del. 1974); *King v. King*, 168 P. 730 (Wyo. 1917)).

60. *Id.* (citing *Park v. Detroit Free Press Co.*, 40 N.W. 731, 734-35 (Mich. 1888); *Cowley v. Pulsifer*, 137 Mass. 392, 395 (1884); *Munzer v. Blaisdell*, 48 N.Y.S.2d 355, 356 (1944); *Sanford v. Boston Herald-Traveler Corp.*, 61 N.E.2d 5, 6 (Mass. 1945)).

might harm a litigant's competitive standing."⁶¹ The *Nixon* court refused to delineate the parameters on the public's right of access.⁶² The *Nixon* decision also only considered public access to confidential documents filed with the court rather than a private litigant's access to an adverse party's confidential materials.

B. *Protecting Trade Secrets From Parties to the Litigation*

In addition to the methods expressly outlined by statute, courts have issued creative protective orders to preserve the confidentiality of trade secrets. Many courts have required a specification of the trade secrets and the identification of the method for the misappropriation. Other courts have deferred trade secret discovery to better protect the party. Still other courts have required proving, or making some factual showing of, a misappropriation before ordering disclosure of trade secrets. The existence of a trade secret may determine the scope of relevant discovery requests.

1. Specification Of The Trade Secrets And Identification Of The Method for the Misappropriation

Some courts have required parties alleging a misappropriation of trade secrets to identify two items: the specific trade secret that allegedly has been misappropriated and the misappropriation. If a plaintiff has filed an unmeritorious lawsuit, then this approach prevents him or her from using the legal system to learn a competitor's trade secrets. Such an approach is similar to the production of a privileged document log that lists all attorney-client and work-product documents before requiring their production.

In *Struthers Scientific & International Corp. v. General Foods Corp.*,⁶³ the court required a party to identify the specific trade secrets that had allegedly been misappropriated before allowing discovery of the defendant's trade secrets. At an earlier hearing the court in *Struthers* required a listing of confidential information.⁶⁴

61. *Id.* (citing *Schmedding v. May*, 48 N.W. 201, 202 (Mich. 1891); *Flexmir, Inc. v. Herman*, 40 A.2d 799, 800 (N.J. Ch. 1945)).

62. *Id.* at 599.

63. 51 F.R.D. 149 (D. Del. 1970) (The *Struthers* court focused on the validity and infringement of six patents.).

64. The court had ruled that:

The Court is unable pending further clarification and study of the present record to conclude that *Struthers* should be able to delve into plaintiff's [General Foods'] confidential industrial processes and operations without restriction on the scope of inquiry until the Court is satisfied that there has been an adequate delineation or particularization of the disclosures of the confidential information — including inventions, trade secrets, know-how and technology — that *Struthers*

The *Struthers* court first focused on the sufficiency of the specification of trade secrets. Struthers and General Foods disputed whether Struthers had specified any trade secrets as opposed to specifying public information.⁶⁵ The *Struthers* court made no determination concerning whether the specified items constitute trade secrets.

Compliance with this portion of the *Struthers* decision merely requires preparation of a list that may include trade secrets or public information. By merely requiring the creation of a trade secrets list, the *Struthers* decision affords no protection regarding the contents of that list.

After determining that the trade secrets must be specified on a list, the *Struthers* court then addressed the specification of the method of the misappropriation. The *Struthers* court required Struthers to specify whether any of its trade secrets were disclosed by the extensive discovery⁶⁶ already had before continuing with additional discovery.⁶⁷ The *Struthers* court then limited discovery to the identified misappropriations. In *Struthers*, it was undisputed that Struthers sought discovery of relevant information.⁶⁸ The *Struthers* court required clarification of the trade secret and the identification of misappropriated trade secrets from previously produced documents "before Struthers discovery under its motion takes place."⁶⁹ The *Struthers* court limited discovery "to those specific trade secrets which it [Struthers] claims were disclosed to General Foods."⁷⁰

In *Xerox Corp. v. International Business Machines Corp.*,⁷¹ the court similarly required Xerox to identify the specific trade secrets

alleges were made to General Foods pursuant to a confidential relationship between the parties.

Id. at 152.

65. Struthers had provided a 54-page list containing 103 separate items, sworn to be trade secrets that it disclosed to General Foods. Struthers purported "to identify the persons who made the disclosures, the persons to whom they were disclosed and the time period and means of disclosure." *Id.* General Foods responded that "the present answer is a sham because it characterizes a mishmash of obviously public information as Struthers trade secrets." *Id.* The *Struthers* court wrote that it "cannot on any valid basis, from its own knowledge or otherwise, at this time determine whether or not the 103 separate items of information listed in the answer are bona fide trade secrets of Struthers. To rule on these questions now would require a fullblown hearing on each separate item." *Id.* The *Struthers* court concluded that "Struthers answer is responsive in specifying separate items of information alleged to be trade secrets." *Id.* at 153.

66. The *Struthers* court noted that Struthers had acquired a mass of information regarding General Foods commercial operations and had deposed more than twenty General Foods witnesses. *Id.*

67. *Id.* at 154.

68. *Struthers*, 51 F.R.D. at 154.

69. *Id.*

70. *Id.*

71. 64 F.R.D. 367 (S.D.N.Y. 1974).

that it alleged IBM had misappropriated. In resolving various discovery disputes,⁷² a special master required Xerox “to furnish to counsel for IBM and to the Special Master a list of those documents, whether or not previously furnished to IBM, which contain or comprise the data and information claimed to be confidential information or trade secrets and which form the bases of the Xerox claims.”⁷³ The *Xerox* court wrote that “[b]ecause Xerox’s list refers to documents in their entirety and not to the specific information contained therein, IBM wants Xerox to specify which of the information contained, referred to, or incorporated by reference in these documents are the trade secrets or confidential information alleged by Xerox to have been misappropriated by IBM.”⁷⁴

Like the *Struthers* court, the *Xerox* court required specification of the trade secrets that allegedly had been misappropriated, and the establishment of a link between specific documents and the allegedly misappropriated trade secrets. 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.⁷⁵

The *Xerox* court specifically ordered that Xerox shall:

- (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

72. The special master in *Xerox* identified four discovery problems: the production of documents previously produced to the FTC and the SCM Corporation, deposition questions involving allegedly confidential information, the application of an order, and production of certain notes. *Id.* at 369.

73. *Id.* at 370.

74. *Id.* at 371.

75. *Id.* at 371-72.

(3) key all documents or portions thereof to the specific trade secrets and confidential information alleged to have been misappropriated by IBM.⁷⁶

Based on the *Xerox* and *Struthers* decisions, parties may be required to identify the specific trade secrets and documents that they allege have been misappropriated before conducting discovery of the opposing party's trade secrets. Parties may be required to list all documents from the opposing party's confidential document log that contain, refer to, or incorporate their trade secrets. Parties also may be required to explain the connection between each document and the specific trade secret.

In *Engelhard Corp. v. Savin Corp.*,⁷⁷ the court also required the plaintiff to identify the specific trade secret before discovering defendants trade secrets. The *Engelhard* court found that:

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 adversarys trade secrets.⁷⁸

The *Engelhard* court further wrote that "the purpose of the requirement is to clarify the issues involved in the dispute so as to assure that there will be no disclosure of an adversary litigant's trade secrets beyond what is necessary for the prosecution of the litigation."⁷⁹

In *Litton Systems, Inc. v. Sundstrand Corp.*,⁸⁰ the district court also required the plaintiff to identify the allegedly misappropriated trade secrets. The plaintiff in *Litton* resisted providing a specific trade secret list.⁸¹ The parties disagreed "whether Litton ever specified any

76. *Xerox*, 64 F.R.D. at 372.

77. 505 A.2d 30 (Del. Ch. 1986).

78. *Id.* at 33 (citing *Data General Corp. v. SCI Systems, Inc.*, Del. Ch., C.A. No. 5662, Brown, V.C. (November 27, 1978); *Xerox Corp. v. International Business Machs. Corp.*, 64 F.R.D. 367, 371-72 (S.D.N.Y. 1974); *Struthers Scientific & Int. Corp. v. General Foods Corp.*, 51 F.R.D. 149, 154 (D. Del. 1970)).

The *Engelhard* court refused to allow any delay in providing the list identifying the purported trade secrets. Engelhard agreed to provide a "trade secret statement," but argued "that Savin should not be permitted access to the contents of that trade secret statement for 90 days, during which time Engelhard would take its discovery, albeit in a somewhat pared down form." *Id.* In rejecting that argument, the *Engelhard* court wrote that such a proposal "would defeat the very purpose of the trade secret disclosure requirement, which is to enable the parties, and, if necessary, the Court, to determine the outside parameters of discovery." *Id.*

79. *Id.*

80. 750 F.2d 952 (Fed. Cir. 1984).

81. In *Litton*, the plaintiff contended that "it would take eight months to list its thousands of secrets. The district court twice ordered Litton to identify its trade secrets." *Id.* at 954.

trade secrets, and if it did, whether they numbered 2, 6, or 17.”⁸² Though the *Litton* decision leaves unclear whether Litton provided a more specific list, the *Litton* court affirmed the district court’s denial of Litton’s motion for a preliminary injunction and dissolution of the temporary restraining order.

In *AMP, Inc. v. Fleischhacker*,⁸³ the court rejected a claim of unfair competition and misappropriation of trade secrets in an action against a former employee and a corporate competitor. After a trial on the merits, the district court denied AMP’s requested injunctive relief, and issued a clarifying order “that AMP had demonstrated the existence of ‘protectible business secrets.’ ”⁸⁴ In considering the appeal,⁸⁵ the *AMP* court noted that:

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.⁸⁶

The *AMP* court further stated that, “[i]n its principal brief to this Court, AMP has again refused to specify precisely what trade secrets it believes to be at risk by identifying particular documents or other sources of information, relying on its by now familiar refrain that Mr. Fleischhacker has misappropriated ‘confidential business and technical information.’ ”⁸⁷

Because of the failure to identify specific trade secrets, the *AMP* court found against AMP. The *AMP* court held that “the district court erred as a matter of law when it held that the general confidential information identified by AMP constituted protectible business secrets.”⁸⁸ The *AMP* court explained that “Illinois courts have not

82. *Id.*

83. 823 F.2d 1199 (7th Cir. 1987).

84. *Id.* at 1203. The district court further ruled that “no relief was warranted because AMP had not shown any likelihood that Mr. Fleischhacker would compromise any of the information known to him.” *Id.*

85. On appeal, AMP argued that the district court’s clarifying order “precludes the defendants from contesting the existence of trade secrets and that under Illinois law irreparable harm is presumed to follow if a protectible interest is not protected.” *Id.*

86. *Id.* at 1203 (citing *Litton Systems, Inc. v. Sundstrand Corp.*, 750 F.2d 952, 954, 956-57 (Fed. Cir. 1984)).

87. *Id.* The *AMP* court also noted that “[a]t oral argument AMP finally attempted to identify three specific documents allegedly authored by Mr. Fleischhacker which contained trade secret information at risk of misappropriation. Such argument comes too late.” *Id.* at 1203 n.2.

88. *AMP*, 823 F.2d at 1203.

extended protection under the common law of trade secrets to the kind of generalized confidential business information on which AMP relies."⁸⁹

In *Leucadia, Inc. v. Applied Extrusion Technologies, Inc.*,⁹⁰ the court required a listing of allegedly misappropriated trade secrets and efforts to maintain their confidentiality. The *Leucadia* court "ordered Leucadia to furnish AET sufficient details of its trade secrets, upon entry of an appropriate protective order, to enable AET to identify the information Leucadia claims was misappropriated."⁹¹ Leucadia produced under seal an "itemization of trade secrets and list of measures used to protect the secrets."⁹² AET asserted "that Leucadia's list still does not adequately identify the trade secrets at issue or the measures Leucadia used to protect them."⁹³ The *Leucadia* court "postponed Leucadia's discovery of AET to permit AET to conduct discovery of Leucadia to ascertain the trade secrets which AET allegedly misappropriated."⁹⁴

In *Cromaglass Corp. v. Ferm*,⁹⁵ the court sanctioned a plaintiff for evasive responses to interrogatories seeking specific identification of allegedly misappropriated trade secrets.⁹⁶ The defendant in *Cromaglass* had served four interrogatories requesting identification of the "confidential and specialized knowledge and information" referred to in the complaint.⁹⁷ The *Cromaglass* court ordered the plaintiff and its attorney to pay the defendant's reasonable expenses.⁹⁸ Though the

89. *Id.* at 1204.

90. 755 F. Supp. 635 (D. Del. 1991) (The *Leucadia* court considered a claim for injunctive relief and damages).

91. *Id.* at 636.

92. *Id.*

93. *Id.*

94. *Id.*

95. 344 F. Supp. 924 (M.D. Pa. 1972), *appeal dismissed*, 500 F.2d 601 (3d Cir. 1974).

96. *Id.* at 926.

97. The plaintiff Cromaglass identified the information requested as:

[T]hat information accumulated by plaintiff and its predecessor at great cost and expense 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 [p]laintiff and plaintiff's predecessor.

Id. at 926.

The other interrogatory responses referred to that response. The *Cromaglass* court, therefore, found that "Plaintiff's answers to Interrogatories . . . are wholly evasive and nonresponsive." *Id.* at 927. The *Cromaglass* court further found "that \$4,000.00 constitutes reasonable expenses, including attorney's fees, caused by the failure of Plaintiff to answer the interrogatories." *Id.* at 928.

98. *Id.* at 928.

Cromaglass court only issued a monetary sanction, it mentioned the possibility of dismissing the action.⁹⁹

In *Uresil Corp. v. Cook Group, Inc.*,¹⁰⁰ the court considered the sufficiency of interrogatory responses concerning experts in a trade secrets dispute.¹⁰¹ The *Uresil* court wrote that "the term 'summary of the grounds for each opinion' [used in the expert interrogatories] speaks to the reasons or rationale behind the opinions and not to merely a recitation of documents or *general statement* of the expert's intended testimony."¹⁰² After reviewing the interrogatory responses, the *Uresil* court found that "the answers furnished by Uresil are very general in nature containing broad, open-ended technical statements"; "that it is impossible for a reader of these answers to ascertain any of the specifics to which Uresil's experts will testify or from where Uresil's expert witnesses derived their conclusions"; that "Uresil's answers are evasive and repetitive and, most importantly, without explanation of the basis for any of the expert witnesses' theories"; and "that the answers do not adequately specify which products the expert witnesses' answers address."¹⁰³

The *Uresil* court required a high level of specificity. Although some of Uresil's interrogatory responses provided references to spe-

99. *Id.* at 927.

100. 135 F.R.D. 168 (N.D. Ill. 1991) (The parties in *Uresil* competed in the design, manufacture and sale of medical catheters.).

101. "Cook argues that Uresil's responses to the expert witnesses' interrogatories it pro-pounded were insufficient and therefore should either be stricken or it should be permitted to depose the experts prior to trial." *Id.* at 170.

102. *Id.* at 172. The *Uresil* court further wrote that:

[I]n order to sufficiently answer expert witness interrogatories one must provide, the theories which the experts will use when testifying, a precise statement of the subject matter upon which the answer is based, an explanation of the terms used by the expert, and the rationale or reasons behind the expert's answers. All of this information must be furnished keeping in mind the underlying purpose of interrogatories: to allow the opposing party to prepare a rebuttal or cross-examination of the testimony presented.

Id. at 173.

103. *Id.* The *Uresil* court provided specific examples of deficient interrogatory responses. The *Uresil* court noted that, "The answers for all of Uresil's experts state that each 'is prepared to evaluate the Cook catheters in relation to the Uresil products that are involved in the instant case.'" *Id.*

The *Uresil* court found three defects in that response:

First, we are left with no specifics in understanding the generality "to evaluate . . . in relation to." Next, to be sufficient, Uresil must at least identify which of Cooks [sic] catheters will be evaluated, as well as the particular aspects of those catheters, that will be evaluated by Uresil's expert witnesses. Additionally, Uresil's answers are found deficient in their identification of which of Uresil's products will be evaluated in relation to Cook's catheters.

Id.

cific products, the *Uresil* court found that those answers also were too vague and general.¹⁰⁴ The *Uresil* court emphasized two particular responses to interrogatories related to the misappropriation claims. First, the *Uresil* court noted that:

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 not such information or documents.¹⁰⁵

The *Uresil* court also noted that "Uresil has failed to identify any of Cook's agents who entered into an agreement or 'acknowledged an agreement' limiting Cook's use of information obtained from Uresil."¹⁰⁶ The *Uresil* court ordered Uresil to make its expert witnesses available for deposition within 45 days of the order or for those witnesses to be barred from testifying. It further ordered Uresil to supplement its response to the two referenced interrogatories.¹⁰⁷

The existence of a trade secret, and its specific designation, may determine whether a court has jurisdiction over the issue. In *Gabriel International, Inc. v. M & D Industries of Louisiana, Inc.*,¹⁰⁸ the court found that the court's jurisdiction depends on the existence of a trade secret. The plaintiff in *Gabriel* had filed an action for damages and injunctive relief pursuant to Louisiana's Uniform Trade Secret Act.¹⁰⁹ The *Gabriel* court found that "there was absolutely no evidence or affidavit attached [to the complaint] to support plaintiff's allegation

104. For example, for certain experts, Uresil responded that their experts "will testify to the uniqueness of the Uresil endoscopy balloons and the similarities of the Cook tamponade balloons." *Id.* The *Uresil* court found that "Uresil totally fails to indicate what its experts mean by the term 'uniqueness' in relation to the 'endoscopy balloons' and exactly to which similarities of the Cook tamponade balloons they are referring." *Id.* The *Uresil* court further noted that responses for other experts indicated that "each [expert] will 'testify about the Uresil central venous hyperalimination catheters. . .'" *Id.* The *Uresil* court wrote that:

It is unclear what the phrase "testify about" means, thus essentially making this an inadequate answer having within it no statement of the grounds, basis, or reasons to form the necessary degree of disclosure contemplated by the rules. Uresil further fails to explain the open ended statement, in the context of a sufficient answer, what it referred to "as to the merits of Uresil research and development as they relate to these products and as they relate to the Uresil/Cook controversy." How Cook could discern the substance of the fact or opinions to which an expert is expected to testify, as contained in such an answer, is anybody's guess.

Id.

105. *Uresil*, 135 F.R.D. at 174.

106. *Id.*

107. *Id.* at 174-75.

108. 719 F. Supp. 522 (W.D. La. 1989).

109. *Id.*

that a trade secret or secrets existed or that the plaintiff was the owner thereof.”¹¹⁰ The *Gabriel* court rejected plaintiff’s argument “that the trade secret issue is an issue of fact which should be submitted to and decided only by jury and that it is inappropriate that it be submitted to the Court for decision.”¹¹¹ The *Gabriel* court found that:

[I]f a trade secret or secrets exist and that plaintiff is the owner, the plaintiff necessarily, and without the need to resort to depositions, interrogatories or any other form of discovery is now in a position to present in secrecy the evidence required to determine that a trade secret or secrets exist and that plaintiff is the owner thereof.¹¹²

The *Gabriel* court ruled that the “[p]laintiff must be the owner of a trade secret or secrets. This is a jurisdictional limitation inherent in the statute.”¹¹³

In *Miles, Inc. v. Cookson America, Inc.*,¹¹⁴ the court considered discovery requests concerning trade secrets that had allegedly been misappropriated. One of the parties “submitted with its motion to compel a ‘Statement of Miles’ Trade Secrets,’ a document generally outlining the processes that Miles utilizes in producing the pigments at issue.”¹¹⁵ The *Miles* court wrote that the “motion to compel discovery must be granted because its Statement of Trade Secrets sets forth with ‘reasonable particularity’ the processes it claims are the trade secrets that Cookson misappropriated.”¹¹⁶

2. Deferring Discovery Of Trade Secrets

In *Ray v. Allied Chemical Corp.*,¹¹⁷ the court provided a detailed analysis concerning discovery of trade secrets. The *Ray* court ruled that “the issue of discovery of processes, whether by interrogatories or otherwise, should be deferred until the trial, to be resolved by the Trial Judge who would be in a better position to evaluate plaintiff’s claim.”¹¹⁸ The *Ray* court ultimately held that “the motion [to vacate certain interrogatories] of the defendant is granted to the extent of

110. *Id.* at 523.

111. *Id.*

112. *Id.*

113. *Gabriel*, 719 F. Supp. at 523. The *Gabriel* court ordered an evidentiary hearing regarding the existence of a trade secret before ruling on defendant’s Motion for Protective Order. *Id.* at 525.

114. No. 12,310, 1992 WL 136381 (Del. Ch. June 16, 1992).

115. *Id.* at *1.

116. *Id.*

117. 34 F.R.D. 456 (S.D.N.Y. 1964).

118. *Id.* at 457. *See also* *Metal Foil Prods. Mfg. Co. v. Reynolds Metals Co.*, 55 F.R.D. 491, 493 (E.D. Va. 1970) (“This Court is in accord with the principle enunciated by Judge Weinfield in [the *Ray*] case. This Court recognizes, however, that if the interests of all parties

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 plaintiffs contention may more appropriately be determined."¹¹⁹ The *Ray* court further ordered the defendant "to prepare and collate, sufficiently in advance of trial, all the material and data in answer to the propounded interrogatories so that in the event they should be upheld or other discovery permitted by the Trial Judge the answers will be readily available and thus delay will be kept to a minimum."¹²⁰

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

In *Marrese v. American Academy of Orthopaedic Surgeons*,¹²¹ the court allowed discovery of non-confidential documents before confidential documents. The *Marrese* court noted that courts "must compare the hardship to the party against whom discovery is sought, if discovery is allowed, with the hardship to the party seeking discovery if discovery is denied."¹²² The *Marrese* court also wrote that:

[O]bviously an order merely postponing a particular discovery request should be granted more freely than an order denying the request altogether. The hardship to the party seeking discovery is less if he is just being told to complete his other discovery first (or just to let the other party have some discovery first) than if he is being told to do without forever.¹²³

The *Marrese* court further wrote that:

If there is other discovery that the plaintiffs must complete in order to be able to resist a motion by the defendant for summary judgment, and thus a significant chance that the plaintiffs' case will fail

are to be properly protected, discovery should be granted. Fortunately, Federal Rule 26(c) gives the Court much leeway in effecting a protective order.").

119. *Id.* at 458.

120. *Id.*

121. 706 F.2d 1488 (7th Cir. 1983), *appeal after remand*, 726 F.2d 1150 (7th Cir. 1984), *rev'd*, 470 U.S. 373 (1985). Though the *Marrese* decision did not involve an allegation of misappropriation of trade secrets, it considered a similar discovery dispute. In *Marrese*, two orthopedic surgeons filed an antitrust action against a private association because they were denied membership. In particular, the defendant refused to produce confidential documents relating to denials of membership applications, and the district court held the defendant in criminal contempt.

122. *Id.* at 1493.

123. *Id.*

regardless of what the internal files that they are seeking may show, the district judge should use his power under Rule 26(d) to require the plaintiffs to complete the other, nonsensitive discovery first.¹²⁴

The *Marrese* court concluded that:

The power granted by Rule 26(d) to control the sequence and timing of discovery is one of the district courts' 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."¹²⁵

The *Marrese* decision offers helpful policy arguments. Discovery of a party's trade secrets often imposes a significant hardship. The hardship to the requesting party from delaying its discovery obviously would be less than foregoing discovery altogether.

A court may avoid disclosure of trade secrets by bifurcating the case between liability and damages and initially restrict discovery to liability. In *Self Directed Placement Corp. v. Control Data Corp.*,¹²⁶ the court considered liability before ordering disclosure of trade secrets concerning damages. The *Self Directed* court found that:

Self Directed's pending motion to compel production of documents was related solely to the issue of damages. The district court's order granting summary judgment for Control Data was rendered on liability. Additional information regarding damages would not have altered the district court's finding of no liability. Thus, the district court did not abuse its discretion by ruling on Control Data's liability before discovery was completed.¹²⁷

At least one court has ruled against bifurcating discovery in a misappropriation of trade secrets case. In *Microtech International, Inc. v. Fair*,¹²⁸ the court considered a motion to compel and a motion

124. *Id.* at 1494. Rule 26(d) provides that:

Unless the court upon motion, for the convenience of 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 party's discovery.

FED. R. CIV. P. 26(d).

125. *Marrese*, 706 F.2d at 1495 (quoting *Herbert v. Lando*, 441 U.S. 153, 177 (1979)). The *Marrese* court ultimately reversed the criminal contempt judgment. *Id.* at 1497-98.

126. 908 F.2d 462 (9th Cir. 1990). In *Self Directed*, the district court granted defendant's motion for summary judgment while plaintiff claimed adequate discovery was not permitted before the summary judgment was heard. *Id.* at 463.

127. *Id.* at 465 (citing *Century 21 Real Estate Corp. v. Sandlin*, 846 F.2d 1175, 1181 (9th Cir. 1988)).

128. No. 32-83-08, 1992 WL 239087 (Conn. Super. Ct. 1992).

Microtech alleged that its former employee misappropriated its "customer account names, pricing and marketing strategies, and product information." *Id.* at *1.

for a protective order concerning "documents relating to customer contacts and product sales made by the defendant as an employee with Loviel Computer Corporation ("Loviel") [apparently a competitor of Microtech] after leaving the plaintiff's employment." The former employee claimed that an agreement with his current employer barred him from disclosing the information, and that he would be subject to civil liability under the Uniform Trade Secret Act for disclosing the requested information.¹²⁹ The *Microtech* court wrote that "plaintiff's claim for misappropriation of trade secrets necessitates discovery relative to whether the defendant solicited customers for Loviel by utilizing confidential information he obtained while in the employ of the plaintiff."¹³⁰ The defendant in *Microtech* requested a protective order precluding "further inquiry into matters that are relevant only to damages until a later point in time when the plaintiff first can show that the defendant has engaged in wrongdoing"; and precluding discovery of "customer specific information of the defendant [and] his employer until the plaintiff first can show probable cause that the defendant has engaged in wrongdoing."¹³¹

The *Microtech* court refused to grant the protective orders. The *Microtech* court wrote that, "Both of these proposed protective orders disregard 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."¹³² The *Microtech* court further wrote that:

Thus, the plaintiff's discovery requests, related as they are to the defendant's conduct in the solicitation of customers shared by the plaintiff and the defendant's employer, do not merely affect the amount of damages that may be recouped in the plaintiff's action, but rather, bear directly upon the issue of wrongdoing raised by the plaintiff's claim.¹³³

The *Microtech* court entered a protective order concerning disclosures to the public, but denied defendant's other requested relief.¹³⁴

129. *Id.* (citing CONN. GEN. STAT. § 35-51).

130. *Id.* at *2.

131. *Id.* at *3.

132. *Id.*

133. *Microtech*, No. 32-83-08, 1992 WL 239087 at *3.

134. *Id.* ("Therefore, the defendant's motion for protective order is granted only to the extent that any discovery is to be conducted in private with only those persons involved in the litigation being present, the court file in this case is ordered sealed, and any person involved in this litigation is not to disclose any alleged trade secret without prior court approval.").

3. Requiring Some Factual Showing Before Permitting Discovery

In *Microwave Research Corp. v. Sanders Associates, Inc.*,¹³⁵ the court required a substantial factual showing of misappropriation before permitting discovery of trade secrets.¹³⁶ The *Microwave* court wrote that:

[W]hen discovery of a defendant's alleged trade secrets and confidential information is sought in litigation regarding misappropriation by a defendant of a plaintiff's trade secrets or confidential information, it is not enough to analyze the requested discovery in terms of relevance. In order to protect a corporate defendant from having to reveal its trade secrets and confidential information to a competitor during discovery, a plaintiff must demonstrate that there is a factual basis for its claim.¹³⁷

The *Microwave* court specifically rejected the approaches taken by the *Ray*, *Marrese*, and *Xerox* courts.¹³⁸

The *Microwave* court set forth a standard for discovery of trade secrets. In particular, the *Microwave* court ruled that:

In these circumstances, when a plaintiff cannot specify the trade secrets and/or confidential information which it claims were misappropriated, the test of whether or not such a plaintiff is entitled to the kind of broad discovery which *Microwave* seeks in the instant case . . . is whether there is a substantial factual basis for plaintiff's claim that the defendant has misappropriated its trade secrets.¹³⁹

The *Microwave* court further ruled that meeting the test "requires something more than what is required in order to file a count alleging misappropriation of trade secrets."¹⁴⁰ The *Microwave* court noted that to file a misappropriation of trade secrets claim, a party must only have a "belief" which is "well-grounded in fact" that trade secrets have been misappropriated.¹⁴¹ The *Microwave* court further wrote

135. 110 F.R.D. 669 (D. Mass. 1986).

136. The *Microwave* court specifically considered the issue "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 defendant in order to discover whether or not any of the corporate plaintiff's trade secrets have been appropriated and used by the corporate defendant." *Id.* at 670. The *Microwave* court found that the requested discovery was relevant to the claim. *Id.* at 672.

137. *Id.* at 672.

138. *Id.* at 672-73 (citing *Ray v. Allied Chem. Corp.*, 34 F.R.D. 456, 458 (S.D.N.Y. 1964), *Marrese v. American Academy of Orthopedic Surgeons*, 706 F.2d 1488, 1494 (7th Cir. 1983) and *Xerox Corp. v. International Business Machs. Corp.*, 64 F.R.D. 367, 371 (S.D.N.Y. 1974)).

139. *Id.* at 674.

140. *Microwave*, 110 F.R.D. at 674.

141. *Id.* (citing Fed. R. Civ. P. 11).

that "before 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."¹⁴²

The *Microwave* court favored two possible methods for making a substantial factual showing of a misappropriation under the facts of the case. First, a plaintiff may rely on depositions of the defendant's employees and affidavits of the plaintiff's employees. The *Microwave* court wrote that:

While a plaintiff is not required to accept testimony of a defendant's employees that they did not misappropriate any confidential information and/or trade secrets, it would seem that the plaintiff, after interviewing its own employees and deposing [defendant's] employees, would be able to point to some circumstances which would support an inference that [defendant's] employees were interested in obtaining confidential information for purposes of misappropriation.¹⁴³

The *Microwave* court also noted that an inference of misappropriation may be shown by a comparison of the products. The *Microwave* court wrote that:

[Plaintiff] has received discovery regarding [defendant's] products which compete with those which [plaintiff] produces. Yet [plaintiff] has been unable to point to any inclusion of its trade secrets or confidential information in any of those products. It would seem that if trade secrets were misappropriated, some would be found in [defendant's] products which compete with [plaintiff's] products. But [plaintiff] is not able to point to anything in [defendant's] products with which it competes which would indicate that any trade secrets have been misappropriated.¹⁴⁴

The *Microwave* court ultimately found that "plaintiff has not demonstrated that there is a substantial factual basis for its claims of misappropriation of trade secrets and/or confidential information."¹⁴⁵

In *Puritan-Bennett Corp. v. Pruitt*,¹⁴⁶ the court considered whether to allow the deposition of William Zimmerman, an employee of Nitrous Oxide Corporation, a non-party and Puritan-Bennett's (P-B's) only competitor.¹⁴⁷ The *Puritan-Bennett* court relied on the *Mi-*

142. *Id.*

143. *Id.* at 674-75.

144. *Id.* at 675.

145. *Microwave*, 110 F.R.D. at 675.

146. 142 F.R.D. 306 (S.D. Iowa 1992).

147. The *Puritan-Bennett* court originally quashed the deposition subpoena. The *Puritan-Bennett* court specifically considered three motions: Puritan-Bennett's Motion to Reconsider, the

crowave decision in writing that “the party seeking discovery of trade secrets from another must first provide a substantial factual basis for its claim.”¹⁴⁸ The *Puritan-Bennett* court further wrote that:

Thus, it is incumbent upon P-B to make a showing that there is a substantial basis for its claim. If this can be done, discovery should be denied unless P-B establishes the relevance of the trade secrets it seeks to inquire into of Nitrous Oxide Corporation, P-B demonstrates a true need for the information, and P-B establishes that the potential harm to Nitrous Oxide Corporation is outweighed by P-B’s need for discovery.¹⁴⁹

The *Puritan-Bennett* court found that the requested discovery would require the disclosure by a non-party competitor to disclose trade secrets.¹⁵⁰

The *Puritan-Bennett* court permitted limited discovery but imposed strict limits on Mr. Zimmerman’s deposition. It noted that P-B and Nitrous Oxide Corporation “are the only two manufacturers in the United States of nitrous oxide—and obviously compete directly and exclusively with each other for the sales of nitrous oxide. In this regard, most courts recognize that disclosure to one’s competition is more harmful than disclosure to non-competitors.”¹⁵¹ The *Puritan-Bennett* court ruled that it would “allow very limited discovery of Nitrous Oxide Corporation and William Zimmerman [its employee], solely related to the statute of limitations question.”¹⁵² The *Puritan-Bennett* court also ruled, should any questions require the disclosure of any confidential trade secrets then, that “[n]o representative of P-B other than its legal counsel will be allowed to attend the deposition”; “the deposition shall remain sealed”; and “[n]either P-B nor counsel for P-B will be allowed to retain a copy of the deposition.”¹⁵³ The *Puritan-Bennett* court explained that:

non-party’s Resistance to P-B’s Motion to Reconsider, and the non-party’s Motion for Protective Order. *Id.* at 307.

148. *Id.* at 308 (citing *Microwave Research Corp. v. Sanders Assocs.*, 110 F.R.D. 669, 674 (D. Mass. 1986)).

149. *Id.* at 308-09 (citing *In re Remington Arms Co.*, 952 F.2d 1029, 1033 (8th Cir. 1991)).

150. *Id.* at 310 (The *Puritan-Bennett* court based this finding largely on the affidavit submitted by the president of the non-party).

151. *Puritan-Bennett*, 142 F.R.D. at 310 (citing *United States v. United Fruit Co.*, 410 F.2d 553, 556 (5th Cir.), *cert. denied*, 396 U.S. 820 (1969); *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 291 (D. Del. 1985); *Amsted Indus., Inc. v. National Castings, Inc.*, No. 88 C 924, 1988 WL 90022, at 1 (N.D. Ill. Aug. 19, 1988); *Duracell, Inc. v. SW Consultants, Inc.*, 126 F.R.D. 571, 579 (N.D. Ga. 1989); *American Standard, Inc. v. Pfizer*, 828 F.2d 734, 739-41 (Fed. Cir. 1987); *Waelde v. Merck, Sharp & Dohme*, 94 F.R.D. 27, 29 (E.D. Mich. 1981)).

152. *Id.*

153. *Id.*

The conditions concerning the deposition of William Zimmerman are restrictive indeed. This is based upon the court's belief that disclosure of trade secrets of Nitrous Oxide Corporation to their only United States competitor, P-B, would have a drastic impact on their ongoing corporate viability. Given these representations by Nitrous Oxide Corporation, the court deems the restrictions imposed to be the least restrictive method to allow discovery by P-B.¹⁵⁴

Courts have repeatedly held that the relevance of requested discovery depends on the existence of a trade secret. Courts may require a showing of relevance before permitting discovery of trade secrets. In *Automatic Drilling Machines, Inc. v. Miller*,¹⁵⁵ the court wrote that "public disclosure of trade secrets should not be required . . . except in such cases and to such extent as may appear to be indispensable for the ascertainment of truth."¹⁵⁶ The *Automatic Drilling* court also wrote that the "information conceivably could be obtained by eliciting from the witness a description of the secret processes and devices in terms sufficiently general to protect relator and yet enable respondents to make further investigation concerning any use to which the new systems and procedures may have been put."¹⁵⁷ The *Automatic Drilling* court ruled that the district court "should not have ordered full disclosure of all the material without first making further inquiry to determine relevance and need."¹⁵⁸

In *Lever Bros. Co. v. Proctor & Gamble Mfg. Co.*,¹⁵⁹ the court deferred ruling on the discovery request.¹⁶⁰ The *Lever* court wrote that "very possibly the decision on the particular point goes to the heart of the controversy between the parties, at a very preliminary stage of the case when the court is not adequately informed as to the

154. *Id.* at 311.

155. 515 S.W.2d 256 (Tex. 1974). The *Automatic Drilling* court considered a mandamus action concerning a discovery order in a patent infringement and trade secrets case.

156. *Id.* at 259 (quoting 8 JOHN HENRY WIGMORE, EVIDENCE IN TRIALS AT COMMON LAW § 2212(3) (1961)).

157. *Id.* at 260.

158. *Id.* See also *Firestone Photographs Inc. v. Lamaster*, 567 S.W.2d 273, 278 (Tex. Civ. App. 1978) ("[T]he claim of trade secrets . . . even if correct, does not necessarily defeat the right of discovery. It simply imposes upon the trial court the obligation to weigh the need for discovery against the desirability for preserving secrecy, and to protect the material from unnecessary public disclosure.").

159. 38 F. Supp. 680 (D. Md. 1941).

160. The *Lever* court considered whether a defendant must disclose its trade secrets in a patent infringement action between competitors. The *Lever* court noted that a trade secret "privilege is not absolute but conditioned upon the circumstances of the particular case." *Id.* at 683.

ultimate relevancy or materiality of the point in issue.”¹⁶¹ The *Lever* court also wrote that:

[T]he refusal to compel present disclosure is not final, because it may develop at the trial on the merits that the defendants claimed secret process is both relevant, material and necessary to a decision, and the defendant’s rights, if any, can be very much better safeguarded if a decision on the point is reserved until the trial of the case.¹⁶²

The *Lever* court ultimately refused to order a witness to answer questions and refused to require defendant to produce documents at that time.¹⁶³

In *De Long Corp. v. Lucas*,¹⁶⁴ the court considered the discovery of trade secrets in an action by a company against its former employee. The *De Long* court found that:

[T]he injury which can flow to the defendant in the event of a failure on the part of the plaintiff to sustain its case would be irreparable, for the plaintiff would have learned of the defendant’s new processes and would thus be in a position to adopt these new methods.¹⁶⁵

The *De Long* court ruled that:

[I]t 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. It seems to me that to grant the discovery of these documents at this juncture of the case would be to give the plaintiff more than his action seeks.¹⁶⁶

In *International Nickel Co. v. Ford Motor Co.*,¹⁶⁷ the court required both parties to establish the relevance of its requested discov-

161. *Id.*

162. *Id.*

163. *Id.* at 684. *Accord*, *Western States Mach. Co. v. S.S. Hepworth Co.*, 1 F.R.D. 766, 767 (E.D.N.Y. 1941) (“[T]he rules were undoubtedly intended to make examinations liberal but where 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.”); *see also* *Wagner Mfg. Co. v. Cutler-Hammer, Inc.*, 10 F.R.D. 480, 485 (S.D. Ohio 1950) (“[D]efendant should not be required to disclose what its Vice President swears is a secret process unless and until it should appear, in the sound discretion of the court that such disclosure is essential to the determination of the controversy presently before it.”).

164. 138 F. Supp. 805 (S.D.N.Y. 1956).

165. *Id.* at 808-09.

166. *Id.* at 809 (emphasis added).

167. 15 F.R.D. 357 (S.D.N.Y. 1954).

ery. In *International Nickel*, both parties requested "data on the other's manufacturing processes, but each claim[ed] its own processes [were] confidential and irrelevant to the action."¹⁶⁸ The *International Nickel* court noted that "[s]erious prejudice might well result if the court required production and revelation of these materials."¹⁶⁹ The *International Nickel* court concluded that:

I am hesitant to order such production unless it shall appear to be necessary for the determination of the merits of the case.

Therefore, I shall deny the motions for such material at this time and 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.¹⁷⁰

In *Hartley Pen Co. v. United States District Court*,¹⁷¹ the court required a showing of relevance before requiring disclosure of a trade secret. The *Hartley* court wrote that:

[T]he requirements of relevance and necessity must be established where disclosure of a trade secret is sought whether sought under Rule 33 or 34, and that the burden rests upon the party seeking disclosure to establish that the trade secret sought is relevant and necessary to the prosecution or defense of the case before a court is justified in ordering disclosure.¹⁷²

The *Hartley* court found that the requesting party "did not sustain the burden that rested upon it of establishing that the trade secrets sought were relevant and necessary to its proper defense of the main action."¹⁷³ The *Hartley* court ultimately set aside the district court's order without prejudice pending a showing of relevance.¹⁷⁴

In *Pioneer Hi-Bred International Inc. v. Holden's Foundation Seeds, Inc.*,¹⁷⁵ the court required a higher showing of relevance before allowing discovery from a non-party competitor, Fred Gutwein &

168. *Id.* at 358.

169. *Id.*

170. *Id.* (citing *Lever Bros. v. Procter & Gamble Mfg. Co.*, 38 F. Supp. 680 (D. Md. 1941); *Western States Mach. Co. v. S.S. Hepworth Co.*, 1 F.R.D. 766 (E.D.N.Y. 1941); and *Wagner Mfg. Co. v. Cutler-Hammer, Inc.*, 10 F.R.D. 480, 485 (S.D. Ohio 1950)). See also *Western Elec. Co. v. Solitron Devices, Inc.*, 306 N.Y.S.2d 624, 626 (N.Y. App. Div. 1970) ("[T]he interests of justice dictate that the issues of validity of the patents, whether plaintiff was entitled to royalties prior to, and whether there was, a valid termination, be determined before it is decided whether and to what extent appellant is entitled to disclosure.").

171. 287 F.2d 324 (9th Cir. 1961).

172. *Id.* at 331.

173. *Id.*

174. *Id.*

175. 105 F.R.D. 76, 77 (N.D. Ind. 1985). (Pioneer alleged that its hybrid seed corn had been misappropriated.).

Sons, Inc. The *Pioneer* court wrote that, “[d]isclosure of the information Pioneer seeks could seriously jeopardize Gutwein’s position in the hybrid seed corn industry.”¹⁷⁶ The *Pioneer* court further wrote that, “Pioneer’s general, conclusory assertions that the documents and information it seeks from Gutwein are relevant to this case are not sufficient in the face of Gutwein’s challenges to those assertions.”¹⁷⁷ The *Pioneer* court explained that “Pioneer must meet a higher standard. Pioneer must establish that the additional information it wants is sufficiently relevant and necessary to outweigh the harm disclosure of the information would cause Gutwein.”¹⁷⁸ The *Pioneer* court concluded that “Pioneer has not carried this burden.”¹⁷⁹

In *Magnox v. Turner*,¹⁸⁰ the court ruled that “the relevance of [Magnox’s discovery] requests cannot be determined until Magnox identifies the trade secrets that it claims have been misappropriated by defendant.”¹⁸¹ The *Magnox* court wrote that:

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.”¹⁸²

The *Magnox* court explained that:

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.¹⁸³

176. *Id.* at 81. The *Pioneer* court noted that, “Gutwein is particularly concerned about the possibility that its competitors will learn of its present supplier and customer relationships, which could be jeopardized if they were disclosed.” *Id.*

177. *Id.* at 82 (citing *Hartley Pen Co. v. U.S. District Court*, 287 F.2d 324 (9th Cir. 1961); *Home Ins. Co. v. Ballenger*, 74 F.R.D. 93 (N.D. Ga. 1977); *Struthers Scientific & Int’l Corp. v. General Foods Corp.*, 45 F.R.D. 375 (S.D. Tex. 1968)).

178. *Id.* at 82-83 (citing CHARLES A. WRIGHT & ARTHUR R. MILLER, 8 FEDERAL PRACTICE & PROCEDURE § 2043, p. 301 (1970)).

179. *Id.* at 83.

180. No. 11951, 1991 W.L. 182450 (Del. Ch. Sept. 10, 1991).

181. *Id.* at *1.

182. *Id.* at *1-2 (quoting *Engelhard Corp. v. Savin Corp.*, 505 A.2d 30, 33 (Del. Ch. 1986); citing *Data General Corp. v. SCI Systems, Inc.*, C.A. No. 5662-NC, Brown, V.C. (Del. Ch. Nov. 16, 1978)).

183. *Id.* at *2.

The *Magnox* court found that Magnox failed to identify its allegedly misappropriated trade secrets.¹⁸⁴ The *Magnox* court, therefore, denied Magnox's motion to compel.¹⁸⁵

The *Magnox* court also discussed the standards for obtaining a protective order against disclosure of trade secrets. The *Magnox* court noted that after Magnox specifies the allegedly misappropriated trade secrets, then defendant may seek a protective order.¹⁸⁶ The *Magnox* court explained that:

In order to obtain a protective order, a defendant must show that the information the plaintiff seeks is confidential or a trade secret and that the defendant will be harmed by the disclosure of that information. If such a showing is made, the burden will then shift to the plaintiff to show that the information sought is sufficiently relevant and necessary to its case to outweigh any harm disclosure would cause to the defendant.¹⁸⁷

In concluding that the defendant had failed to meet its burden for a protective order, the *Magnox* court wrote that, "It is not sufficient to merely claim that the information is a trade secret; defendants must show why such information should be accorded trade secret protection."¹⁸⁸

Other courts have refused to follow this approach. In *Liberty Folder v. Curtiss Anthony Corp.*,¹⁸⁹ the court wrote that "the [defendant's] cited authorities do not establish an unalterable rule in that regard, but only indicate that such course was warranted *under the facts presented in each particular case.*"¹⁹⁰ The *Liberty Folder* court also wrote that "unlike *Ray*, *International Nickel*, and *Lever Bros.*, . . . the confidential commercial information at issue, herein, is not a secret process, ingredient or formula, which might be patentable and which would, therefore, lose value if disclosed at all."¹⁹¹ In *Coca-Cola Bot-*

184. *Id.* ("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.")

185. *Magnox*, No. 11951, 1991 W.L. 182450 at *2.

186. *Id.*

187. *Id.* (citing *Coca-Cola Bottling Co. v. Coca-Cola Co.*, 107 F.R.D. 288, 292-93 (D. Del. 1985); CHARLES A. WRIGHT & ARTHUR R. MILLER, 8 FEDERAL PRACTICE & PROCEDURE § 2043 (1970)).

188. *Id.*

189. 90 F.R.D. 80 (S.D. Ohio 1981).

190. *Id.* at 83 (citing *Ray v. Allied Chem. Corp.*, 34 F.R.D. 456, 457 (S.D.N.Y. 1964); *International Nickel Co. v. Ford Motor Co.*, 15 F.R.D. 392, 394 (S.D.N.Y. 1954); and *Lever Bros. Co. v. Proctor & Gamble Mfg. Co.*, 38 F. Supp 680, 683-84 (D. Mich. 1941)). The confidential information in *Liberty Folder* included customer information.

191. *Id.*

ting Co. v. Coca-Cola Co.,¹⁹² the court distinguished the *De Long* and *Ray* decisions because "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."¹⁹³

A court may order the parties to disclose their trade secret information on a "counsel's eyes only" basis. The *Xerox* court ordered Xerox "to make available for inspection by defendant (IBM), on a counsel only basis . . . the 21 cartons of documents previously produced by Xerox to the Federal Trade Commission and the SCM Corporation."¹⁹⁴

CONCLUSION

Cases between competitors that allege a misappropriation of trade secrets pose unique problems for courts and practitioners. Based merely upon the complaint and answer, courts often are unable to determine whether trade secrets exist or whether a misappropriation has occurred. The fundamental principles of full disclosure through the discovery process and of preserving trade secrets conflict. There is a risk that under the guise of legitimate litigation, a party could use the discovery process to misappropriate its competitors' trade secrets.

Based on the foregoing survey of the ways in which courts have handled this conflict, it appears that three different approaches, used either independently or in conjunction with the other approaches, come closest to solving this dilemma. First, courts can require parties to specify the trade secret that has allegedly been misappropriated or identify the method for the misappropriation. Based on the specification and identification, the parties and courts can narrow the proper scope of discovery and limit the risk of disclosing trade secrets. Second, courts can defer ruling on the discovery of trade secrets until after resolving other matters. If a case can be resolved on a dispositive matter that does not concern trade secrets, then there may be no reason to risk a misappropriation. Third, courts can require some factual showing or some showing of relevance before permitting discovery. By a careful application of these methods, courts may protect trade secrets while preserving the right to pursue meritorious trade secret litigation.

192. 107 F.R.D. 288 (D. Del. 1985).

193. *Id.* at 299.

194. *Xerox Corp. v. International Business Machs. Corp.*, 64 F.R.D. 367, 370 (S.D.N.Y. 1974).

