Managing Discovery to Prevent Fishing Expeditions in Trade Secret Litigation

by John A. Stone

Businesses, which understandably guard proprietary information that gives them an advantage over their competitors, often enter into joint ventures in which participants bring something to the table to help create new or better product, process or formula. While these ventures have invigorated certain industries, participants often fight over their respective contributions to and ownership of the product and results of these endeavors.

Quarreling joint-venturers often claim the other party misappropriated or improperly used the trade secret or proprietary idea, and will accuse the other of misappropriating their confidential information. In such cases, the plaintiff will want to obtain as much information in discovery as possible before being forced to specifically identify the information or idea upon which its claims are based. However, the defendant will not want to turn over any information until the plaintiff specifically identifies its allegedly misappropriated secrets or ideas to prevent the plaintiff from claiming that information as its own.

Although the timing, sequence and extent of the identification of the trade secrets and novel ideas upon which misappropriation claims are based are critical, there are surprisingly few published New Jersey decisions that address these issues.

The Claims

To prevail on a misappropriation of trade secret claim, a plaintiff must prove that: 1) a trade secret exists; 2) the plaintiff communicated the trade secret to the defendant in confidence and restricted its use; 3) the defendant disclosed or used that trade secret in breach of that confidence and agreement; 4) the trade secret is being used in knowing violation of that breach; 5) the trade secret is being used to the plaintiff's detriment, and 6) the plaintiff took precautions to maintain the secrecy of that trade secret.

A trade secret can be a “formula, pattern, device or compilation of information which is used in one's business” and provides “an opportunity to obtain an advantage over competitors who do not know or use it.” The New Jersey Supreme Court has noted the following additional factors in determining whether certain information is a trade secret: 1) the extent to which the information is known outside the business; 2) the extent to which it is known to employees and others involved in the business; 3) the extent of measures taken by the owner to guard secrecy of the information; 4) the value of the information to the business and its competitors; 5) the effort or money expended on developing the information; and 6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

To win a theft-of-idea claim, a plaintiff must prove it communicated a novel idea to another in confidence, with the intention that the plaintiff be compensated for the use of the idea, but the defendant failed to provide compensation.

While “only a very minimal novelty requirement is imposed for a trade secret,” novelty is essential to enforce rights to a protected idea. However, both causes of action protect “proprietary information that adds value and provides a
competitive advantage because the information is not known to the businesses competitors.\textsuperscript{10}

**The Pleadings**

Plaintiffs in misappropriation-of-trade-secret or theft-of-idea cases are not usually required to precisely identify their allegedly stolen trade secrets in their complaints.\textsuperscript{11}

**Injunctions**

Plaintiffs, who understandably and frequently begin litigation by seeking to enjoin a defendant from using misappropriated trade secrets or ideas, must identify their allegedly stolen proprietary information to obtain an injunction.\textsuperscript{12}Therefore, plaintiffs making such applications should submit supporting papers under seal to preserve the confidentiality of the information they want to remain secret.\textsuperscript{13}

**Discovery**

Trade secret and novel idea cases present challenging problems with respect to the timing and scope of discovery.\textsuperscript{14} Some courts allow a plaintiff to obtain discovery prior to identifying its trade secrets due to a plaintiff's broad right to discovery because a plaintiff may have no way of knowing precisely what trade secrets have been stolen. Generally, this prevents the plaintiff from being placed in a \textit{Catch-22} situation, where it cannot obtain discovery before identifying its trade secrets and cannot make that identification until it obtains discovery.

Other courts require a plaintiff to identify the trade secrets that were allegedly taken before the defendant must provide discovery, so the defendant can: 1) assess whether the plaintiff seeks relevant information, 2) enable the defendant to prepare a defense, and 3) prevent the plaintiff from conducting a "fishing expedition" and then "molding its cause of action around the discovery it receives" and claiming prior ownership or creation of "whatever he finds" in discovery.\textsuperscript{15}

The latter group of courts protects defendants from over-reaching plaintiffs, and enables defendants to evaluate the relevance of and make appropriate objections to plaintiffs' discovery demands, by preventing plaintiffs from merely contending that "[e]verything you got from us was a trade secret."\textsuperscript{16} Instead, plaintiffs are required to identify their allegedly stolen trade secrets with reasonable particularity before they will be allowed access to a defendant's adversary's trade secrets.\textsuperscript{17}

The information required to satisfy the "reasonable particularity" standard depends on the particular trade secret, and is fact sensitive.\textsuperscript{18} However, at a minimum, "reasonable particularity" means being sufficient to enable the defendant to understand what is claimed to be a trade secret, evaluate the relevance of the plaintiff's discovery demands, and present their best case or defense at trial.\textsuperscript{19}

**Protective Orders**

Once the sequence and particularity of the disclosure of confidential information is resolved, the terms of that disclosure, including any limits on who can see and use such discovery, must be addressed. As the Appellate Division explained:

In a technological trade secret case where a party has discovered information or developed a procedure after sifting through vast quantities of potentially efficacious possibilities, the courts must prevent competitors from ever seeing the area from which the successful result was obtained. The principal was likened to the cartoon (game "Where's Waldo?"). In some cases, even an indication of the general portion of the puzzle area can greatly reduce the competitor's time to locate the result "independently."

In fact, even indicating that the competitor should be looking for "Waldo," might reveal too much information.\textsuperscript{20}

A plaintiff will contend that it must see the defendants' trade secret information to be able to prosecute its claims, while the defendant will want to limit the disclosure to the plaintiff's attorneys to preserve confidentiality and defendant's resulting competitive advantage, and to prevent the plaintiff from ever using that proprietary material.\textsuperscript{21}

Therefore, New Jersey's courts often balance litigants' conflicting desires to review their opponents' trade secrets while protecting their own proprietary information by entering protective orders that allow a party to produce its confidential material to the opposing party's outside counsel and litigation expert, but not to the opposing party, because a litigant cannot unlearn or forget the confidential information it obtains in litigation.\textsuperscript{22}

Typically umbrella protective orders are issued, which enable parties to designate the materials they produce as being provided for attorneys' eyes only, subject to subsequent challenge of that designation by the party to whom those materials are produced. While the challenging party must file and win such a motion to see the materials that were provided for its attorneys only, the party opposing the request has the burden of establishing that higher level of confidentiality.

**Conclusion**

Given the inherently critical importance of maintaining the confidentiality of trade secrets and other proprietary information, and the death of New Jersey cases governing the timing, extent and requirement of disclosing trade secrets in related litigation, counsel are well advised to think proactively about
these issues. Plaintiff's counsel must avoid a pyrrhic victory in which they reveal the very trade secret they seek to protect. Defendants' attorneys must prevent a plaintiff from reviewing a defendant's trade secrets as a means to claim them as their own. Creative and strategic thinking may prove decisive in trade secret and other intellectual property litigation.  

Endnotes
2. See, e.g., Robert P. Merges, A New Dynamism in the Public Domain, 71 U. Chi. L. Rev. 183, 189 (Winter 2004) (“The biotechnology industry...comprises both large and small firms interacting through a wide array of joint ventures and licensing deals—an industry structure that at least some economists argue is responsible for its overall success”); Lois Levine, *Big Bang Of Biotech,* New Jersey Monthly, Jan. 29, 2009, at http://njmonthly.com/articles/lifestyle/health_and_wellness/big-bang-of-biotech.html. (“Like the Energizer Bunny,” New Jersey’s “biotech industry just keeps going...and going...” including some “New Jersey-based companies that have been flying beneath the radar,” as well as government and academic forces”.
6. Id.
13. See, e.g., *Brandport, Inc. v Virgin Mobile, USA,* LLC, 2006 WL 1737867, *5 (Ch. Div. Somerset, Hunterdon and Warren Counties 2006); *Vista India, Inc. v Raaga, LLC,* 2008 WL 834399, *2 (D.N.J. 2008)(“Courts will generally grant Motions to seal when materials contain ‘trade secrets and other confidential research, development, or commercial information’ to prevent harm to a litigant’s standing in the market place”). Note, however, that prior approval of submission under seal may be required. *Compare, U.S. Food Service, Inc. v Raad,* 2006 WL 1029653, *7 n.19 (Ch. Div. Bergen County) (Declining to seal filings because “[n]o order permitting” filings under seal “was either applied for or granted”), and *Vista India,* 2008 WL 834399 at *3 (Following L. Civ. R. 5.3 regarding applications to file under seal).
17. *Leucadia, Inc. v Applied Extrusion Techs., Inc.,* 755 F. Supp. 635, 637 (D. Del. 1991) (Granting motion for protective order to allow defendant to conduct discovery of plaintiff regarding the details of plaintiff’s trade secret prior to plaintiff proceeding with discovery of defendant); *Magnox v Turner,* 1991 WL 182450, *1 (De. Ch. 1991) (The purpose of requiring a plaintiff to disclose its trade secrets at the outset of
the litigation “is to set the outer limits of discovery in order to avoid the needless exposure of a defendant’s trade secrets”; *Thomas v Soft Sheetz Product Co., Inc., 500 N.Y.S. 2d 108-09 (A.D. 1st Dept. 1986) (Plaintiff was not entitled to discovery a manufacturer’s trade secret formula because plaintiff had not “attempted by alternative means to analyze the products” or “had a chemist consider the formulation of the ingredients”).


19. *Id.; DeRubais*, 244 F.R.D. at 680-81; *Compare, Storagecraft Technology Corp. v Symantec Corp.*, 2009 WL 361282, *2-4 (D. Utah 2009) (Identification of “all source codes received under the License Agreement or derived or created from such code minus the publicly available code” is sufficient at beginning of discovery), and *Dura Global Technologies, Inc. v Magna Donnelly Corp.*, 2007 WL 4303294 (E.D. Mich. 2007) (Plaintiff who alleged that the defendant misappropriated trade secrets “relating to” “sliding window assemblies for motor vehicles,” had to do more than describe its trade secrets as “control plans” and thereby force defendant to “review over 8500 sheets of paper” to “discern” the “allegedly stolen trade secrets”).

20. *AII Assoc. v Multimodal App. Sys.*, 276 N.J. Super. 310, 317 (App. Div. 1994); *Brandport*, 2006 WL 1737867 at *3 (“A trade secret’s only value consists of it being kept private. If it is disclosed or revealed, it is destroyed;” internal bracketing omitted).


22. *Alk Assoc.*, 276 N.J. Super. at 312; *see, also, Uniroyal Chemical Company Inc. v Syngenta Crop Protection*, 224 F.R.D. 53, 58 (D. Conn. 2004)(Limiting disclosure of trial research data to the requesting party’s “outside counsel and outside experts”)

23. See, *e.g.*, *BASF Corp. v the United States*, 321 F. Supp. 2d 1373, 1380 (Ct. Int. Trade 2004)(Denying an expert access to particular documents because it “is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well-intentioned the effort may be to do so”); *Arista Records, Inc. v Lounge Media Inc.*, 2002 WL 31458228, *2 (S.D.N.Y.2002)(Denying access to documents “notwithstanding the good faith requirement of compartmentalization that [the requesting party] doubtless would endeavor to honor, inasmuch as they would hereafter unquestionably be in innumerable situations where such knowledge could create conflict, consciously or subconsciously”); *Micon Technology Inc. v Mosel Vitelic Corp.*, 1999 WL 458168, *6 (D. Idaho 1999)(An “important reality in determining the appropriateness of a Protective Order is the realization that ‘it is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well-intentioned the effort may be to do so’”); *Brown Bag Software v Symantec Corp.*, 960 F.2d 1465, 1470-71 (9th Cir. 1992)(Affirming a protective order that requires “source codes, development plans, and beta tester” information to be viewed by the requesting party’s “independent consultant,” but not by in-house counsel because the producing party’s trade secrets “could be locked up in cabinets,” but not in the in-house attorney’s “mind, safe from inadvertent disclosure to his employer once he had read the documents”); *FTC v Exxon Corp.*, 636 F.2d 1336, 1350 (D.C. Cir. 1980)(Holding that it “is very difficult for the human mind to compartmentalize and selectively suppress information once learned, no matter how well-intentioned the effort may be to do so”).


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