

## ***Defending the Fortress:***

### **Guarding Your Client's Trade Secrets in Minnesota**

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*A person has a privilege, which may be claimed by the person or the person's agent or employee, to refuse to disclose and to prevent other persons from disclosing a trade secret owned by the person, if the allowance of the privilege will not tend to conceal fraud or otherwise work injustice. If disclosure is directed, the court shall take such protective measures as the interest of the holder of the privilege and of the parties and the interests of justice require.*

Unif. R. Evid. 507.

Alas, if Minnesota had only adopted Rule 507 of the uniform rules, life would be much easier for the lawyer trying to protect her business client's trade secrets. A "privilege" classification is significant, because a litigant can simply object on privilege grounds, provide the proper basis for that privilege, and then withhold the documents from production during discovery. Absent a clearly articulated privilege basis, or an exception to or waiver of the privilege, a party's contention on this issue usually stands.

Unfortunately, when dealing with trade secrets, it is not that easy, and as is often the case, confidential business information is frequently at risk in products liability and insurance coverage litigation. As a result, defense counsel must proactively protect his/her client's trade secrets prior to and throughout discovery, to prevent either inadvertent or compelled disclosure of such proprietary data. Failure to zealously (but ethically) guard a client's trade secrets allows their disclosure not only to other litigants, but possibly to the public as well.

In this article, we will examine the origins of the trade secret privilege, explain its current status in Minnesota, offer a few practical tips, and provide additional analytical tools to consider under federal case law. Due to the fact-specific and somewhat subjective nature of trade secret disputes, the case law in this area is far from settled. However, this discussion will hopefully serve as a guidepost for lawyers trying to prevent their opponents from "opening the flood gates" to such sensitive information.

#### **Proposed Federal Rule of Evidence 508.**

In 1969, the Advisory Committee for the Rules of Evidence proposed Federal Rule 508, which established a trade secret privilege. *See Prop. Fed. R. Evid. 508, available at 46 F.R.D. 161, 270 (1969)*. In 1973, the Supreme Court promulgated Rule 508 as drafted by the Advisory Committee. *See id., available at 56 F.R.D. 183, 249 (1973)*.

However, that same year, Congress expressly rejected proposed Rule 508, due to external pressure from consumer groups, as well as internal concerns over the definition of "person" and the proper treatment and handling of computer trade secrets. *Id. See also 26 Charles Alan Wright & Kenneth W. Graham, Jr., Fed. Prac. & Proc. Evid. § 5641 (1992) (discussing proposed Rule 508)*. Faced with this Gordian knot, Congress apparently decided the various state legislatures and courts were better equipped to deal with the Byzantine maze of trade secret privilege issues. *Id.*

After Congress' rejection of Proposed Rule 508, Alaska, Hawaii, Nebraska, Nevada, New Mexico, Texas and Wisconsin nonetheless adopted Rule 508 *verbatim*. In addition, several states enacted variations of Rule 508, providing for varying degrees of trade secret protection. *Id.* Yet many states, including Minnesota, refused to embrace Federal Rule 508, leaving trade secret privilege status disturbingly unclear. Thus, in Minnesota, the task of addressing trade secret issues is left to state common law.

Under the common law, "a witness has a qualified, but not absolute, privilege of refusing to disclose a trade secret where disclosure will depreciate its value." 98 C.J.S. *Witnesses* § 446(b) (1957 & Supp. 2000). Thus, in most states, the so-called trade secret privilege is actually not a privilege at all, but rather an "equitable procedure to protect against disclosure." 26 Charles Alan Wright & Kenneth W. Graham, Jr., *Fed. Prac. & Proc. Evid.* § 5642 (1992). Interestingly, Professor Wigmore was the only proponent for the argument that the cases established an absolute privilege, although he conceded it *was* limited. *Id.*

As one might expect, trade secret discovery parameters are not uniform across state jurisdictions. J. Watson, *Discovery of Trade Secret in State Court Action*, 75 A.L.R.4th 1009 (1989 & Supp. 2000). The party seeking disclosure of a trade secret must demonstrate the evidence is relevant or material, and necessary. Some courts impose more restrictions, including unavailability of evidence, or the necessity to first establish a *prima facie* case. *Id.* The battle ground for trade secret disclosure is primarily procedural in nature; at present, pertinent evidentiary and civil procedure rules dictate whether and to what degree conditions or restrictions will be imposed upon the manner or scope of trade secret discovery. *See generally* C. Foster, *In Camera Trial or Hearing and Other Procedures to Safeguard Trade Secret or the Like Against Undue Influence in Course of Civil Action Involving Such Secret*, 62 A.L.R.2d 509 (1958 & Supp. 2000).

#### **Status of Minnesota Trade Secret Privilege Law.**

As stated above, Minnesota does not recognize a *true* privilege for protecting trade secrets. Absent Proposed Federal Rule of Evidence 508, or any of its permutations, state common law provides the pivotal framework to properly analyze trade secret protection issues in Minnesota. Unfortunately, the published case law on this subject is extremely limited. However, those cases reveal that Minnesota recognizes an equitable means to protect trade secret information, deriving from its civil procedural rules, namely, the use of a protective order under Minn. R. Civ. P. 26.03.

Minnesota courts first recognized the use of protective orders in the trade secret context in *Snyker v. Snyker*, 245 Minn. 405, 72 N.W.2d 357 (1955). However, *Snyker* merely *acknowledged* the use of protective orders under the federal rules as a means to protect trade secret manufacturing processes. *Id.* A year later, in *Baskerville v. Baskerville*, 246 Minn. 496, 75 N.W.2d 762 (1956), the Minnesota Supreme Court went beyond mere recognition of this procedural tool when it actually *granted* a protective order. At issue in this divorce action were the disclosure of books, records, and accounts of the stockholder-husband's corporations. *Baskerville* upheld the denial of inquiry into matters relating to internal corporate affairs, thereby validating the trial court's "wide discretion as to the means to be employed in protecting the parties and witnesses." *Id.* at 506, 75 N.W.2d at 769.

However, *Baskerville* found the scope of the lower court's protective order was not without limits and held the trial court erred by not admitting the annual financial statement of one company, stating "[i]t is difficult to understand how this annual financial statement would have revealed information of value to competitors." *Id.* at 509-10, 75 N.W.2d at 771. In *dicta*, *Baskerville* implied trade secrets are not privileged, by observing "there usually is *no absolute protection* against disclosure of trade secrets and practices on the ground that their revelation might result in giving information to a competitor when, if the evidence is not admitted, the issues cannot be fairly tried." *Id.* (emphasis added).

In *Thermorama, Inc. v. Shiller*, 271 Minn. 79, 135 N.W. 43 (1965), the lower court ordered the inspection and production of confidential business records. Plaintiff alleged the defendant had conspired to ruin plaintiff's business by appropriating trade secrets. To prove the conspiracy, plaintiff moved to compel examination of defendant's business records. In affirming the trial court's decision to compel examination of the documents, *Thermorama* again deferred to the lower court's

broad discretion in the realm of managing and resolving difficult discovery issues. *Id.* at 85, 135 N.W.2d at 47.

The most recent Minnesota case relating to disclosure of confidential business information is *State ex rel. Humphrey v. Philip Morris Inc.*, 606 N.W.2d 676 (Minn. Ct. App. 2000), *rev. denied* April 25, 2000. In *Philip Morris*, the defendant tobacco companies were forced to disclose confidential business records during discovery, and argued on appeal that disclosure of certain confidential corporate documents constituted an unjust taking without just compensation. The Minnesota Court of Appeals disagreed, and held the documents were not entitled to protection as "confidential business information" because they were assembled, prepared and compiled for trial purposes, and not in the tobacco companies' ordinary course of business. *Id.* at 695. In addition, another discrete group of documents were not entitled to protection, because they were "not privileged or were tainted by crime-fraud." *Id.*

Therefore, in Minnesota trade secrets are, by default, discoverable at the trial court level because they are not classified as "privileged." *See, e.g., Baskerville*, 246 Minn. at 510, 75 N.W.2d at 771 (suggesting that trade secrets are not privileged). Indeed, under Minn. R. Civ. P. 26.02, parties may obtain discovery of any relevant, non-privileged matter. However, discovery may be denied on the grounds that business secrets are in jeopardy of disclosure, if the party making the claim shows that she is "acting in good faith in refusing to permit examination of [her] records." *Thermorama*, 271 Minn. at 86, 135 N.W.2d at 47.

Minn. R. Civ. P. 26.03 allows a party to move for a protective order to protect that party from "annoyance, embarrassment, oppression, or undue burden or expense." Subdivision (g) of the Rule gives the trial court the opportunity to determine "that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way." *Id.* As always, the trial court has great latitude in structuring and/or limiting the scope of discovery. *Baskerville*, 246 Minn. at 506, 135 N.W.2d at 769; *Thermorama*, 271 Minn. at 86, 135 N.W.2d at 47-48. Moreover, *Baskerville* teaches that where non-privileged trade secret evidence is relevant and essential to fair adjudication, the evidence should be admitted, albeit with protective safeguards. *Baskerville*, 246 Minn. at 510, 135 N.W.2d at 771.

#### **Practical Guidelines for Analyzing Trade Secret Issues.**

The first *apparent* need to protect a trade secret in products liability or insurance coverage litigation typically arises when defense counsel is served with discovery requests, which may demand that counsel produce documents revealing substantive processes behind a specific product's design or make-up. As previously demonstrated, if pressed, defense counsel may move the trial court for a protective order to prevent disclosure of sensitive and proprietary trade secret information. In seeking a protective order, counsel must establish four specific elements to prevail, and prove that (1) the information is by definition a "trade secret"; (2) defendant requires protection from "annoyance, embarrassment, oppression, or undue influence or expense" under Rule 26.03 (which includes the category of trade secrets in subdivision (g)); (3) defendant is refusing to disclose the secret in good faith; and (4) disclosure is not essential to the fair adjudication of the case at trial. *See generally Baskerville*, 246 Minn., 135 N.W.2d; *Thermorama*, 271 Minn., 135 N.W.2d; Minn. R. Civ. P. 26.03, subd. (g).

However, exceptional trade secret protection begins well in advance of the discovery phase of a particular case. During initial fact investigation, counsel should insert into the discovery plan a process for determining what the company's trade secrets actually are in relation to the product(s) and/or claim(s) at issue. Counsel should confer with company engineers, specialists and/or scientists, as needed or appropriate, to help identify the pertinent trade secrets likely to be "at risk."

This practical, hands-on approach ensures that counsel will be able to identify a trade secret when it surfaces throughout litigation. Failure to take this step may result in inadvertent disclosure of a highly confidential secret process or product component. For instance, a scientific test result summary may look foreign and "unreadable" to unsophisticated (in the scientific sense) defense lawyer. Upon close examination by a scientist familiar with the data, however, the information may reveal the product's secret formula or design configuration. Intrinsic to mastering this critical step is the lawyer's ability to define what a "trade secret" is, and

perhaps more importantly, what it is *not*, in order to competently and effectively represent his client. That discussion follows.

### What is a Trade Secret?

Minnesota has adopted the Uniform Trade Secrets Act. See Minn. Laws 1980, Chap. 594, § 3, eff. Aug. 1, 1980 (currently codified at Minn. Stat. §§ 325C.01-.08 (2000)). The term *trade secret* is defined as "information, including a formula, pattern, compilation, program, device, method, technique, or process" that (1) has independent economic value from its secrecy, and (2) is the subject of reasonable efforts to maintain its secrecy. Minn. Stat. § 325C.01, subd. 5 (2000). The Minnesota Supreme Court has not expressly defined the term "confidential business information." However, in the trade secret context, the court has stated:

Knowledge gained at an employer's expense, which takes on the characteristics of a trade secret and which would be unfair for the employee to use elsewhere, is deemed confidential and is not to be disclosed or used.

*Jostens, Inc. v. National Computer Sys., Inc.*, 318 N.W.2d 691, 702 (Minn. 1982) (citing *Cherne Indus., Inc. v. Grounds & Assocs., Inc.*, 278 N.W.2d 81 (Minn. 1979)); see also *Electro-Craft v. Controlled Motion, Inc.*, 332 N.W.2d 890 (Minn. 1983). Moreover, *Rehabilitation Specialists, Inc. v. Koering*, 404 N.W.2d 301 (Minn.App. 1987), added a third component to the concept of what constitutes a "trade secret" - the information must not be "generally known or readily ascertainable." *Id.* at 306 (citing Minn. Stat. § 325C.01, subd. 5 (1986), and *Jostens*, when dealing with alleged misappropriation of confidential business information).

### Additional Considerations — a Federal Perspective.

Analogous to Minn. R. Civ. P. 26.03 (g), the Federal Rules of Civil Procedure provide a mechanism for the protection of trade secrets and confidential commercial information within the framework of discovery. Fed. R. Civ. P. 26(c)(7) — which replaced Rule 30(b) in 1970 — parallels the language of Minn. R. Civ. P. 26.03 (g) in almost identical fashion; the only semantic difference between the two rules is that Federal Rule 26(c)(7) employs the terms *reveal* and *revealed* in place of Minnesota's use, in 26.03 (g), of the words *disclose* and *disclosed*. It is uncertain (at least to these authors) whether this stylistic nuance in terminology has spawned any legal decisions of comparative significance.

The United States Supreme Court addressed the use of Rule 26 (c)(7) in *Fed. Open Mkt. Committee v. Merrill*, 443 U.S. 340 (1979). In *Merrill*, pursuant to federal regulation, the Federal Open Market Committee of the Federal Reserve System ("the Committee") delayed disclosure of its Domestic Policy Directives ("the Directives"), which summarized the economic and monetary background of the Committee's deliberations, and indicated in general terms whether the Committee wished to follow an expansionary, deflationary, or unchanged monetary policy in the upcoming fiscal period. *Merrill*, 443 U.S. at 342-43. The Directives included tolerance ranges for the growth in the money supply and the federal funds rate. *Id.* at 342.

After plaintiff Merrill successfully challenged the regulation permitting delayed disclosure of the Directives, the Committee appealed, and advanced three arguments for a privilege classification for the Directives. Although Justice Blackmun, writing for the majority, conceded that "the most plausible of the three privileges" asserted by the Committee fell within the parameters of Fed. R. Civ. P. 26 (c)(7), Justice Blackmun also flatly stated "[a]s with most evidentiary and discovery privileges recognized by law, 'there is no absolute privilege for trade secrets and similar confidential information.'" *Id.* at 362 (quoting 8 Charles Alan Wright & Kenneth W. Graham, Jr., Fed. Prac. & Proc. § 2043, at 300 (1970)). *Cf. United States v. Nixon*, 418 U.S. 683, 705-07 (1974). Nonetheless, Blackmun, recognizing the utility of Rule 26(c)(7) to prevent, in limited fashion, the "immediate disclosure" of potentially sensitive information as contained in the Directives, also stated "we see no reason why the Government could not, in an appropriate case, obtain a protective order under Rule 26(c)(7)." *Merrill*, 443 U.S. at 357.

More recently, the Eighth Circuit held a trial court abused its discretion by ordering

disclosure of alleged trade secret material, without first affording the party resisting discovery the opportunity to establish that the material constituted trade secrets. See *In re Remington Arms Company, Inc.*, 952 F.2d 1029 (8th Cir. 1991). Significantly, the *Remington Arms* court acknowledged a party's property interest in its trade secrets: "[c]onfidential business information has long been recognized as property." *Id.* at 1032 (quoting *Carpenter v. United States*, 484 U.S. 19, 26 (1987)). However, *Remington Arms* also pointed out "[b]ecause of the intangible nature of a trade secret, the extent of the property right therein is defined by the extent to which the owner of the secret protects his interest from disclosure to others." *Id.* (quoting *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002 (1984)).

In the final analysis, the *Remington Arms* court realized that "[p]ublic disclosure of trade secrets extinguishes the owner's property rights." *Id.* As a result, the court crafted a burden-shifting rule to balance the parties' disparate interests. Once a party resisting discovery shows the material at issue constitutes trade secret, the burden shifts to the party seeking discovery to demonstrate the information is relevant and necessary to prepare the case for trial. *Id.* at 1032-33. If the party seeking discovery meets its burden, the court must weigh the potential injury disclosure may cause to the owner's property interest against the moving party's need for the information. *Id.* at 1033.

Significantly, if the moving party fails to demonstrate either relevance or need, "there is no reason" to permit discovery, and trade secrets "are not to be revealed." *Id.* at 1032. *Remington Arms* also advised the lower court, as appropriate, "to utilize its authority to issue an appropriate protective order to safeguard the rights of the parties." *Id.* at 1033 (citing *Seattle Times v. Rhinehart*, 467 U.S. 20, 35 (1984) (stating "discovery may seriously implicate privacy interests of the litigants")). *Remington Arms* recommended the trial court to "take into account" the following considerations in crafting its protective order: (1) the order should limit disclosure to the particular lawsuit at issue; (2) the number of persons given access to the trade secrets should be restricted; (3) the protective order should limit, or prohibit entirely, the reproduction of confidential documents; (4) a bond could be utilized to protect against the risk of injury from trade secret disclosure; and (5) the order should designate an attorney as custodian for all confidential documents. *Id.* Finally, the *Remington Arms* court strongly suggested that if the trial court could not draft an effective protective order, the best solution was to simply withhold production of the documents entirely, pursuant to the discretion afforded the trial court under Fed. R. Civ. P. 26 (c)(7). *Id.*

### **Conclusion.**

Given the absence of a codified trade secret privilege, and taking into account the broad discretion left to the judiciary in regulating such matters, guarding your client's stronghold of trade secret information against a determined antagonist may prove to be a daunting task. However, all is not lost: defense counsel's detailed review of the relevant case law, diligent preparation of an intelligent discovery plan, and erudite presentation of a carefully drafted and well-briefed motion for a protective order will hopefully persuade the trial judge in *your* case that the trade secret information at issue must be protected at all costs, and shielded from disclosure. Good luck!

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