

**IN THE CHANCERY COURT FOR THE STATE OF TENNESSEE
TWENTIETH JUDICIAL DISTRICT, DAVIDSON COUNTY,
BUSINESS COURT**

CRYOSURGERY, INC.,)
)
 Plaintiff,)
)
 vs.)
)
 ASHLEY RAINS AND COOL RENEWAL,)
 LLC,)
)
 Defendants.)

AIF
No. 15-871-BC

DAVIDSON COUNTY CHANCERY CT
D.C.&M.

2016 MAY 25 PM 12: 09

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**MEMORANDUM AND ORDER USING DELAWARE PROCEDURE
OF REQUIRING PLAINTIFF TO PROVIDE PRELIMINARY
IDENTIFICATION OF TRADE SECRETS IN ISSUE
BEFORE DEFENDANTS RESPOND TO DISCOVERY**

This case is before the Court on motions of each side to compel responses to initial written discovery.

The context of the motions is that this lawsuit involves claims of misappropriation of trade secrets. The Plaintiff asserts that the Defendant (former Senior Vice President of Plaintiff's Marketing) and Defendant's newly formed LLC have misappropriated Plaintiff's trade secrets in breach of contract and in violation of the Tennessee Uniform Trade Secrets Act ("TUTSA") to unfairly compete with the Plaintiff.

After considering the record, briefs, lengthy oral argument and researching the law, it is ORDERED that Plaintiff must first identify with reasonable particularity and pinpoint the trade secrets it asserts the Defendants have misappropriated before the Defendants are required to respond to Plaintiff's discovery.

TENN. R. CIV. PRO. 26 And Out-Of-State Authority For Preliminary Disclosure

The reasons the Court orders such preliminary disclosure are both: (1) case management/procedural purposes of efficiency/cost reduction and (2) substantive law.

As to cost reduction, “[u]ntil the content and nature of the claimed secret is ascertained it will likely be impossible to intelligently analyze the remaining” elements that constitute the cause of action. *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210, 220, 109 Cal. Rptr. 3d 27, 38 (2010), *as modified on denial of reh'g* (May 27, 2010) *disapproved of by Kwikset Corp. v. Superior Court*, 51 Cal. 4th 310, 246 P.3d 877 (2011) (disapproved on other grounds).

As to substance, requiring a plaintiff to describe its trade secrets before discovery commences prevents a plaintiff from using the discovery process to uncover the defendant’s trade secrets. *Altavion, Inc. v. Konica Minolta Sys. Lab. Inc.*, 226 Cal. App. 4th 26, 43, 171 Cal. Rptr. 3d 714, 727 (2014), *review denied* (Aug. 20, 2014) (citation omitted). This is particularly significant in this state where Tennessee Code Annotated section 48-25-1706 imposes a duty on a court to protect a defendant’s trade secrets.

In an action under this part, 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.

TENN. CODE ANN. § 47-25-1706 (West 2016).

Other substantive reasons for preliminary identification by a plaintiff of the alleged trade secrets in issue are that it separates the identified trade secret “from matters

of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade..." *Altavion, Inc.*, 226 Cal. App. 4th at 43, 171 Cal. Rptr. 3d at 727.

In sum, requiring a plaintiff, preliminary to discovery, to identify its alleged trade secrets at issue serves these case management and substantive law purposes:

- (1) Discourages the filing of meritless claims;
- (2) Prevents plaintiffs from using the discovery process to uncover the defendant's trade secrets;
- (3) Assists the trial court in framing the scope of discovery; and
- (4) Enables defendants to form complete and well-reasoned defenses sufficiently in advance of trial.

Altavion, Inc., 226 Cal. App. 4th at 44, 171 Cal. Rptr. 3d at 728 (2014).

The authority in California for requiring preliminary identification by a plaintiff of the alleged trade secrets in issue prior to discovery, at one time, was contained in a rule of procedure, CAL. CODE CIV. PRO. § 2019.210. Tennessee does not have such a rule. Nevertheless, the absence of a special TUTSA rule does not cause the preliminary identification procedure to be inapplicable to Tennessee. Both federal courts and the Delaware Chancery Court have used their counterpart to Tennessee Rule of Civil Procedure 26. This Rule vests discretion in a trial court to sequence discovery, which includes ordering the preliminary disclosure. *Leucadia, Inc. v. Applied Extrusion Techs., Inc.*, 755 F. Supp. 635, 637 (D. Del. 1991); see also *Rock Ivy Holding, LLC v. RC Properties, LLC*, 464 S.W.3d 623, 635 (Tenn. Ct. App. 2014), *appeal denied* (June 20, 2014) ("Moreover, in matters of corporate law, Tennessee courts look to Delaware law

due in part because Delaware has become the most popular state in which to incorporate businesses, and, as a result, its judiciary have become specialists in the field.”).

As explained by the Delaware Chancery Court, a claim of misappropriation of trade secrets is a special case. It does not adhere precisely to the standard that the relevancy of a discovery request should be viewed liberally:

The plaintiff, Magnox, sells magnetic iron oxides which it produces according to its customers' specifications. The individual defendant, Jeffrey D. Turner (“Turner”), was an employee of Magnox until August of 1990. Turner is now the sole director and officer of defendant Cambiar Corporation (“Cambiar”), a Delaware corporation that sells magnetic iron oxide products through a license from Sakai Trading Company of New York.

Magnox, in its complaint, alleges that Turner, on behalf of Cambiar, solicited Magnox customers by using trade secrets and proprietary information of Magnox revealed to him as a Magnox employee. On the same date that suit was filed, Magnox filed interrogatories and a request for the production of documents. The requests for discovery are extremely broad. For example, Magnox's Document Request # 9 seeks the production of “[a]ll financial statements, loan applications or sales or cost projections given in connection with any request for financing or request for loans.” The document production requests and the interrogatories seek access to most, if not all, of defendants' business records.

Defendants have objected to Magnox's interrogatories and request for the production of documents on the grounds that the discovery requests are not relevant to the subject matter of this lawsuit. They argue that Magnox must first designate the trade secrets it claims defendants have misappropriated before the relevance of Magnox's discovery requests can be determined. They further claim that unless the outer parameters of relevance are defined, Magnox could use its discovery efforts to gain an unfair business advantage by examining defendants' own trade secrets and proprietary information.

Magnox responds that defendants have taken a too narrow view of relevance. Chancery Court Rule 26(b)(1), which establishes the scope of discovery, it points out, has been construed to allow discovery of “any matter ... which is relevant to the subject matter involved or which is

reasonably calculated to lead to the discovery of admissible evidence.” *Delmarva Drilling Co., Inc. v. American Water Well Systems, Inc.*, Del.Ch., C.A. No. 8521-NC, Hartnett, V.C. (Jan. 26, 1988) at 4. Magnox is correct in its contention that the relevance of a discovery request should be viewed liberally and should not be measured by the precise issues of the pleadings. Magnox, however, has stopped one step short of completing a correct relevancy analysis.

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.” *Engelhard Corp. v. Savin Corp.*, Del.Ch., 505 A.2d 30, 33 (1986). *See also Data General Corp. v. SCI Systems, Inc.*, Del.Ch., C.A. No. 5662-NC, Brown, V.C. (Nov. 16, 1978). 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.

Magnox has not made the prerequisite identification of the trade secrets it claims the defendants have misappropriated. Magnox merely alleges that defendant Turner solicited some of its customers and that his knowledge of Magnox's confidential, proprietary information about customer specifications put him in the unique position of knowing which competing products to offer those customers. Magnox, however, has failed to further identify this confidential information. Defendants are therefore entitled to a more particularized statement of the trade secrets at issue before they will be compelled to respond to Magnox's discovery requests. *Xerox Corp. v. International Business Machines Corp.*, 64 F.R.D. 367, 371 (S.D.N.Y.1974).

Because Magnox has failed to state with particularity the trade secrets defendants allegedly misappropriated, its motion to compel discovery is denied. IT IS SO ORDERED.

Magnox v. Turner, No. CIV. A. 11951, 1991 WL 182450, at *1-2 (Del. Ch. Sept. 10, 1991).

Defendants' Motion To Compel

Applying the foregoing to the pending motions to compel in this case, the Court determines that preliminary identification by Plaintiff of the alleged trade secrets it asserts the Defendants have misappropriated can be achieved by granting Defendants' *Motion To Compel* Plaintiff to respond to Defendants' Interrogatories 5, 6, 7, 8, 9, 10, 11, 13, 19, 20, 21 and Requests for Production 2, 3, 4, 5, 6, 13, 17, 18, 19, 20, 21. This discovery of the Defendants will identify the alleged trade secrets in issue.

It is therefore ORDERED that by May 31, 2016 Plaintiff shall provide the discovery requested in the above listed Interrogatories and Requests for Production of Defendant under the terms of the Protective Order entered May 17, 2016.

With respect to the remainder of Defendants' *Motion To Compel*, which is not directly related to Plaintiff preliminarily identifying the trade secrets in issue, it is further ORDERED that Defendants' *Motion To Compel* production in response to Request 22 is granted to the extent that Plaintiff shall state the following information: (1) how long www.cryosurgeryinc.com [the website] and previous versions have existed; (2) the number of iterations including previous and archived, of the website during Ms. Rains' employment; and (3) whether providing the information requested will be burdensome and, if so, why.

It is additionally ORDERED that by May 31, 2016, Plaintiff shall respond to Defendants' Interrogatory 22 and Requests for Production 7, 8, 9, 10, 11, 12, 14, 15, 16. The Court overrules Plaintiff's objections to these. The Court concludes the discovery (a) is calculated to lead to the discovery of admissible evidence; and (b) is sufficiently

specific as required by Rule 34.02 so as not to be vague, overly burdensome, too broad. The discovery shall be produced under the terms of the May 17, 2016 Protective Order.

Plaintiff's Motion To Compel

With respect to Plaintiff's *Motion to Compel*, the Court holds in abeyance Defendant Rains responding to Interrogatory 1; and Defendants Rains and Cool Renewal LLC responding to Requests for Production 1, 2, 3, 5, 6, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 25, 26, 27, 28; and Defendant Cool Renewal responding to Interrogatory 1 until Plaintiff has made its preliminary identification of the trade secrets in issue as ordered above. The reason is that responses to the foregoing discovery would result in Defendants revealing their alleged trade secrets before the Plaintiff identifies its alleged trade secrets in issue in this case contrary to the case management and substantive law provided above.


Additionally, with respect to the remainder of Plaintiff's *Motion To Compel*, the Court, pursuant to its Tennessee Civil Procedure Rule 26 authority, holds in abeyance ruling on Defendants' objections to responding to Plaintiff's Requests for Production 4, 7, 8, 20, 21, 22, 23, 24, 29, 30, 31 on the basis that the Court will have more context to make an informed ruling after Plaintiff's preliminary identification of the trade secrets in issue.

As to Defendant Rains' answer to Interrogatory 3, the Court ORDERS that the answer is sufficient, and Plaintiff's *Motion To Compel* on that Interrogatory is denied.

As to Defendant Cool Renewal LLC's answer to Interrogatory 3, inquiring about expert witnesses, that answer shall be held in abeyance, and a deadline for expert disclosures shall be addressed in the June 9, 2016 hearing scheduled as follows.

It is ORDERED that on June 9, 2016 at 11:30 a.m. the Court shall contact counsel by telephone to conduct a hearing on the status of: (a) the discovery Plaintiff has been ordered to produce by May 31, 2016; (b) additional information the Defendants seek to discover regarding their Request for Production 22; and (c) whether to proceed with Defendants responding to Plaintiff's discovery that has been held in abeyance, and, if so, ruling on Defendants' objections. If Counsel retain a court reporter to transcribe the June 9, 2016 hearing, the reporter shall be located in the Judge's chambers.

Lastly, as to both the Plaintiff's and Defendants' Request for Admissions, the Court documents that it was announced those disputes have been resolved.



ELLEN HOBBS LYLE
CHANCELLOR
TENNESSEE BUSINESS COURT
PILOT PROJECT

cc: Adam Dread
Joshua Hedrick
Jacob B. Kring
Michael C. Wurtz
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 **MAILED** + faxed
5-25-16