against it. It is fair to assume that Household's voluntary production of the communications received from its counsel was prompted by a tacit recognition of this principle.

[3] Household contends, however, that plaintiffs' present attempt to further invade the files of its counsel is not only an unwarranted extension of *Valente* but also is objectionable on grounds of relevancy and work product. I have some difficulty in accepting the work product contention because of the "anticipation of litigation" requirement. There is no indication that a specific claim had arisen at the time the Richards, Layton and Finger work was done even though this suit ultimately was filed. *Hercules, Inc. v. Exxon Corp.*, D. Del., 434 F. Supp. 136, 151 (1977). *Hopkins v. Chesapeake Utilities Corporation*, Del. Super., 300 A.2d 12 (1972). I am satisfied, however, that Household's objection on grounds of relevancy has merit.

While plaintiffs concede that they have been permitted access to all that Richards, Layton and Finger told its client, they argue that they should be permitted to explore the attorneys' files to determine whether, in the process of formulating their opinion, counsel may have considered alternative courses or conditions. In short, plaintiffs wish to plumb the thought behind the opinion. Such an extreme approach seems out of proportion to Richards, Layton and Finger's role in the decision by Household to formulate a takeover defense. As previously noted, the principal formulation of the Plan was the work of Lipton and his firm. He conferred with company personnel and made the presentation to the directors. In the course of his presentation he advised the Board that his opinion that the Plan was "legal" and "its adoption was within the business judgment of the Board" was shared by Richards, Layton and Finger. Plaintiffs note that the opinion of Richards, Layton and Finger while construing the legal validity of the Rights proposal offered under the Plan "assumed" the good faith exercise by the Board of Directors of their business judgment in its adoption. Seizing upon this discrepancy, plaintiffs argue that they should be permitted to inquire further into the activities of Richards, Layton and Finger to determine what other discrepancies may exist.

[4, 7] The limits of relevancy in the discovery process are quite broad since the test is not admissibility but whether the information sought will "lead to the discovery of admissible evidence." Chancery Rule 26(b)(1). An important qualifier of the test, however, is that the information must be "reasonably calculated" to so lead. Plaintiffs are entitled to determine fully the facts which led to the adoption of the Plan including what the Directors were given in the way of legal advice.

The fact, if it be a fact, that its counsel may have considered and discarded other approaches or advised other clients differently has no bearing on the issue of the actuality of the advice given on this occasion. The fact that Lipton may have mischaracterized Richards, Layton and Finger's position, while it may have later significance, does not alter the writing which reflects that opinion or justify going beyond that writing in an attempt to find other unarticulated differences.

[8] The decisions relied upon by plaintiffs in support of its claim to examine counsel's file are distinguishable. In *Garfinkle v. Arcata National Corporation*, S.D. N.Y., 64 F.R.D. 688 (1974), the Court rejected a claim of work product in ordering production of certain supporting documents in an attorney's file. The documents in question, however, were admittedly relevant to an opinion letter which had been disclosed directly to the demanding party before litigation. In *Panter v. Marshall Field & Co.*, 80 F.R.D. 718 (1978), production was required of a large variety of documents bearing upon advice given by counsel to a corporate client. However, the Court appears to have applied a relevancy test as well as a good cause test (in rejection of *Valente, supra*) in requiring production of communications between attorney and client. A review of the documents listed in the appendix of the opinion indicates that production was limited to those documents which directly or indirectly reflected communications between the client and its various attorneys. In *Panter* there appears to have been extensive contact between various employees of the corporate defendant and the law firms employed by it to render advice over a three year period concerning takeover strategy and subsequent litigation. Here the activities of Richards, Layton and Finger were limited to providing advice concerning a proposed issuance of securities over a period of two months and plaintiffs have been provided with all attorney-client communications resulting from that employment. I do not believe they are entitled to more. To the extent *Panter* suggests a different result, I do not find it persuasive.

[9] Finally, while plaintiffs' claim for production may be rejected on grounds of relevancy, it seems an extreme measure to require an attorney to open his file to opposing counsel and, in the process, disclose opinions formulated for other clients simply because they share a common subject matter. The confidential interests of those clients, not parties to these proceedings, should not be so jeopardized. To the extent that such interests are at stake both the work product and confidentiality claims belong not to Household but to Richards, Layton and Finger who may assert them for the benefit of itself and its former clients. *Hercules, Inc. v. Exxon Corp., supra.*

II

The remaining bone of contention involves plaintiffs' effort to secure certain financial data from Goldman Sachs, who is described in the minutes of the August 14 directors' meeting as "the Company's investment banker." The evidential basis for this motion is somewhat fragmentary and the motion itself was not served upon opposing counsel until oral argument on the attorney-client dispute. It appears that at his deposition, Peter Fahey, a Goldman Sachs partner who participated in the August 14 directors' meeting, declined to produce any documents used by Goldman Sachs in its valuation analysis on the ground that such documents reflect work done for Household, whose authority for their production must first be secured. Plaintiffs now contend that such documents may include a valuation study provided to Household's Chief Executive Officer, Donald C. Clark, and intended to be used by him for a separate leveraged buy out. Household vigorously objects to the production of such data as being outside the scope of the present litigation and expresses the fear that plaintiffs might make improper use of such confidential information in a future takeover effort.

I confess to some difficulty in understanding the precise nature of the material which plaintiffs seek to have produced through Goldman Sachs, and I sense that arguing counsel, neither of whom attended the Fahey deposition, share the Court's uncertainty. But in an effort to move the discovery process along, I will attempt to provide a discovery touchstone.

[10] According to the minutes of the August 14 directors' meeting Goldman Sachs, through Gordon McMahon, presented "an analysis of the corporation through the eyes of a potential acquiror." He also discussed the Company's recent performance, its book value and "similar matters" presumably bearing upon its potential as a takeover target. This information was presented to the directors to assist them in making a judgment concerning, among other things, the adoption of the Preferred Shares Plan. The information upon which the Goldman Sachs analysis was based is obviously relevant to any evaluation of the Plan and should be produced at the behest of a party attacking the Plan.

[11] Household's concern that the financial data gathered by Goldman Sachs might contain confidential data which could be used to its disadvantage outside the confines of this litigation is a legitimate one. Even though the individual plaintiff, Moran, is a director of Household and was present at the August 14 meeting, Household views him as an unfriendly director with separate takeover designs. Indeed, it has filed a counterclaim in this action alleging that Moran has "misap-

propriated material non-public information belonging to Household" for his and DKM's benefit. While the merits of the charges and counterchanges in this case must await trial, there is a sufficient basis to require an "eyes of counsel only" limitation on the production of financial data. Counsel for plaintiffs has agreed to such a limitation.

Accordingly, production is ordered by Household, either directly or through Goldman Sachs, of all documents provided to or used by Goldman Sachs in formulating its analysis presented at the August 14 meeting. Such disclosure will be limited to counsel for plaintiffs and, to the extent necessary, retained experts under the usual seal of confidentiality. If counsel experience any difficulty implementing this necessarily broad ruling, I will meet with counsel to rule upon particular problems or to conduct an *in camera* examination of disputed documents.

IT IS SO ORDERED.

PANTRY PRIDE, INC. v. GEORGESON & CO.
No. 7848
Court of Chancery of the State of Delaware, New Castle

November 26, 1984

Plaintiff sought a temporary restraining order to prevent defendant, its former proxy solicitor, from acting on behalf of or disclosing information to the rival faction in a proxy context. The court of chancery, per Vice-Chancellor Hartnett, denied the motion, holding that plaintiff had not met its burden of showing a reasonable probability of ultimate success on the issues of whether: (1) defendant was in breach of an employment contract with plaintiff, (2) defendant had any information about the plaintiff that was not generally known or available, or (3) defendants had violated the Delaware Uniform Trade Secrets Act, DEL. CODE ANN. tit. 6, § 20 (1974). The court also found that plaintiff was not likely to suffer any irreparable harm if an injunction was not entered.

1. Injunction ⟹ 136(1)

A preliminary injunction is an extraordinary remedy which is only granted in order to prevent truly irreparable injury.

2. Injunction ⟹ 132

A preliminary injunction is granted only to maintain the true status quo.

3. Injunction ⟹ 136(1)

In order to obtain a preliminary injunction, the plaintiff must show the reasonable probability of ultimate success on the merits.

4. Injunction ⟹ 152

Even if the possibility of irreparable harm is shown, the court must still balance the competing equities between the parties.

5. Injunction ⟹ 136(3), 137(2)

A preliminary injunction must be denied when hardship outweighs benefit.

6. Injunction ⟹ 151, 135

The burden of proof is always on the applicant for the preliminary injunction, and the court has broad discretion in granting or refusing to grant interim injunctive relief.

7. Principal and Agent ⟹ 48

Where defendant proxy solicitor left plaintiff's employ and began to work for the rival faction in a proxy contest, his general knowledge about how proxy solicitations are conducted could not serve as a basis for injunctive relief.

8. Principal and Agent ⟹ 69(8)

In the absence of an agreement to the contrary, the law does not generally preclude an employee from working for his former employer's competitors.

Edmund N. Carpenter II, Esquire, and Karen L. Johnson, Esquire, of Richards, Layton & Finger, Wilmington, Delaware, for defendant Georgeson & Co., Inc.

Stephen J. Rothschild, Esquire, Edward P. Welch, Esquire, and Stephen E. Jenkins, Esquire, of Skadden, Arps, Slate, Meagher & Flom, Wilmington, Delaware, for defendant Estate of Phillip Devon.

William Prickett, Esquire, John H. Small, Esquire, and Elizabeth M.

McGreever, Esquire, of Prickett, Jones, Elliott, Kristol & Schnee, Wilmington, Delaware, for plaintiff.

HARTNETT, *Vice-Chancellor*

Pantry Pride, Inc., the plaintiff, in connection with an ongoing proxy battle seeks an injunction against defendant-Georgeson & Co., Inc. ("Georgeson"), its former transfer agent, and also against the Estate of Philip Devon and the individual defendants who are waging a proxy battle against management under the name "The Pantry Pride Stockholders Committee".

Plaintiff seeks an order preventing Georgeson from acting on behalf of the Pantry Pride Stockholders Committee; disclosing any information received by it in the course of its relationship with plaintiff; and requiring it to return all written information that it has received from plaintiff. Plaintiff also seeks an order preventing the other defendants from acting in concert with Georgeson, utilizing information received from Georgeson and requiring them to return to plaintiff all written information received from Georgeson. The application must be denied.

Plaintiff's motion sought a temporary restraining order but because all parties were ably represented by counsel the application shall be treated as an application for a preliminary injunction. See Chancery Court Rule 65.

I

This action arises because Georgeson served as plaintiff's sole proxy solicitor from 1981 until September of this year but is now working for The Pantry Pride Stockholders Committee ("Stockholders Committee"), a group challenging the management in a proxy contest in connection with the December 6, 1984, Annual Meeting of Pantry Pride, Inc.

Plaintiff claims Georgeson is still bound by an August 1984 Contract whereby Georgeson agreed to serve as plaintiff's proxy solicitor for the 1984 Annual Meeting. Georgeson claims the plaintiff terminated the Contract in October of 1984 and thereafter Georgeson was free in November of 1984 to contract with the Stockholders Committee to serve as its proxy solicitor.

At this preliminary stage, the only materials before the Court are the pleadings, affidavits submitted by the parties, and the briefs and arguments of counsel.

While I find that Georgeson's acts in switching sides in the middle

of a proxy battle by accepting employment from a group challenging the management of its former employer leaves something to be desired, I do not find that plaintiff is entitled to the extraordinary relief of a preliminary injunction.

II

[1-5] A preliminary injunction is an extraordinary remedy which is only granted in order to prevent truly irreparable injury. *Gimbel v. Signal Companies, Inc.*, Del. Ch., 316 A.2d 599 (1974); *aff'd*, Del. Supr., 316 A.2d 619 (1974); *Wylain, Inc. v. TRE Corp.*, Del. Ch., 412 A.2d 338 (1979); *Turek v. Tull*, Del. Ch., 139 A.2d 368 (1958); *Sandler v. Schenley Indus., Inc.*, Del. Ch., 79 A.2d 606 (1951). It is granted only to maintain the true status quo. *Smith v. Delaware Coach Co.*, Del. Ch., 70 A.2d 257 (1949); *Thomas C. Marshall, Inc. v. Holiday Inn, Inc.*, Del. Ch., 174 A.2d 27 (1961). The plaintiff must show the reasonable probability of ultimate success on the merits. *Sandler v. Schenley Indus., Inc.*, Del. Ch., 79 A.2d 606 (1951); *Gropper v. North Cent. Tex. Oil Co.*, Del. Ch., 114 A.2d 231 (1955); *Bayard v. Martin*, Del. Supr., 101 A.2d 329 (1953). Even if the possibility of irreparable harm is shown, the Court must still balance the competing equities between the parties. *Thomas C. Marshall, Inc. v. Holiday Inn, Inc.*, Del. Ch., 174 A.2d 27 (1961); *Hollingsworth v. Szczesiak*, Del. Ch., 84 A.2d 816 (1951). It must be denied when hardship outweighs benefit. *Eastern Shore Natural Gas Co. v. Stauffer Chemical Co.*, Del. Supr., 298 A.2d 322 (1972).

[6] The burden is always upon the applicant, *Bayard v. Martin*, Del. Supr., 101 A.2d 329 (1953), and the Court has broad discretion in granting or refusing to grant interim injunctive relief. *Data Gen. Corp. v. Digital Computer Controls, Inc.*, Del. Supr., 297 A.2d 437 (1972).

III

After suit was filed, Georgeson delivered to plaintiff two boxes of documents which it claims, by affidavit, is all the written information which it has received from Pantry Pride, Inc.

I must therefore assume, at this stage of the proceedings, that Georgeson has delivered all of the written materials which plaintiff seeks in its verified complaint for injunctive relief and, therefore, plaintiff's application for an order directing the return of these materials is now moot.

IV

There are conflicting facts in the affidavits as to whether the contract between Pantry Pride, Inc. and Georgeson has been terminated. The burden is, however, upon the plaintiff to establish the reasonable probability of ultimate success on this issue. *Sandler v. Schenley Indus., Inc.*, 79 A.2d 606 *(1951); Gimbel v. Signal Companies, Inc.*, Del. Ch., 316 A.2d 599 (1974), *aff'd. per curiam*, Del. Supr., 316 A.2d 619 (1974). The plaintiff has not borne this burden and therefore I cannot find that it is reasonably probable that the court will ultimately find that the contract was not terminated by the plaintiff in October of this year.

V

Georgeson also claims that it does not have any unwritten confidential information other than information as to the names of stockholders, and it has submitted an affidavit to that effect. I have already ruled in a companion case that a member of The Pantry Pride Stockholders Committee is entitled to receive a list of stockholders.

[7] Based on the limited record before me, I am not convinced that plaintiff has borne its burden of showing the reasonable probability that it will ultimately succeed in showing that Georgeson has any information about Pantry Pride, Inc. that is not generally known or available. Georgeson's general knowledge about how proxy solicitations are conducted is not a basis for injunctive relief. See *Science Accessories Corp. v. Summagraphics Corp.*, Del. Supr., 425 A.2d 957 (1980).

VI

[8] There is, unfortunately, no written agreement between Pantry Pride, Inc. and Georgeson which provides that Georgeson would not accept employment by others after its contract with Pantry Pride, Inc. ended. In the absence of an agreement the law does not generally preclude such employment. See *Restatement of Agency (Second)* § 396.

VII

I also find that the plaintiff has not borne its burden of showing it is reasonably probable that the defendants have violated the Delaware Uniform Trade Secrets Act, 6 *Del. C.* § 20.

VIII

I also find that plaintiff is not likely to suffer any irreparable harm if a preliminary injunction is not entered. As previously indicated, I have in a companion case already ruled that Pantry Pride must make available to the Pantry Pride Stockholders Committee a copy of the stocklist. I am not convinced, from the present record, that Georgeson has in its possession any other information which would give it or the other defendants an unfair advantage in the ongoing proxy battle.

Even if I had found that plaintiff had borne its burden of showing the reasonable probability of success as to its claims, I would still not enter a preliminary injunction because in balancing the equities, I find that it is not in the best interests of the stockholders of Pantry Pride that such an injunction be entered.

The primary consideration in a proxy contest is that there be a free flow of information so that the beleaguered stockholder can have a reasonable chance of making an informed judgment.

There are apparently only four organizations which act as proxy solicitors. One of them is acting on behalf of the plaintiff in the solicitation of proxies for the December 6, 1984 meeting which is but approximately two weeks away. If I were to enjoin Georgeson it might cause a delay to the Pantry Pride stockholders Committee in getting its materials to the stockholders of Pantry Pride. This potential injury to the stockholders outweighs any potential injury to the management of Pantry Pride. I must assume that when the stockholders of Pantry Pride receive all the information and arguments from the competing sides, they will make the correct decision.

Considering all the facts and circumstances in this unfortunate situation, I must therefore decline to enter any order for preliminary injunctive relief.

IT IS SO ORDERED.

PENNZOIL CO. v. GETTY OIL CO.

No. 7425

Court of Chancery of the State of Delaware, New Castle

October 15, 1984

Plaintiff, Pennzoil, sought enforcement of an alleged contract between itself and defendants Getty Oil, and J. Paul Getty Museum, and Gordon P. Getty, whereby Pennzoil would acquire forty-three percent of Getty Oil Co. Defendants subsequently entered into a contract with Texaco for the Getty stock. Pennzoil brought an action for specific performance of the contract or in the alternative monetary damages. The defendants contended that Pennzoil evidenced an intent not to be bound by their agreement, and they were free to contract with Texaco. Defendants moved for summary judgment. The court of chancery, per Chancellor Brown, held that because the ultimate fact to be determined was one of subjective matter, summary judgment was inappropriate.

1. Contracts ⟹ 14

The criteria for deciding if a contract exists is the intention of the parties as evidenced by their objective conduct and manifestations at the critical time.

2. Contracts ⟹ 14

Whether or not a binding agreement exists turns on the intent of the parties at the time as found by the trier of facts.

3. Judgment ⟹ 186

The function of a judge in passing on a motion for summary judgment is not to weigh evidence but to determine whether or not there is any evidence supporting a favorable conclusion to the nonmoving party.

4. Judgment ⟹ 180

When an ultimate fact to be determined is one of motive, intention, or other subjective matter, summary judgment is ordinarily inappropriate.

5. Judgment ⟹ 186

An application for summary judgment is always addressed to the discretion of the trial court and it is improper to deny such an

application if the circumstances indicate that a trial on the merits is advisable.

Michael D. Goldman, Esquire, of Potter, Anderson & Corroon, Wilmington, Delaware, and John L. Jeffers, Esquire, and Susan Roehm, Esquire, of Baker & Botts, Houston, Texas, for plaintiff.

Lawrence C. Ashby, Esquire, of Ashby, McKelvie & Geddes, Wilmington, Delaware, for defendant Getty Oil Company.

William O. LaMotte III, Esquire, of Morris, Nichols, Arsht & Tunnell, Wilmington, Delaware, and William L. Rosoff, Esquire, of Davis, Polk & Wardell, New York, New York, for defendant Gordon P. Getty.

Bruce M. Stargatt, Esquire, and David C. McBride, Esquire, of Young, Conaway, Stargatt & Taylor, Wilmington, Delaware, and Michael Schwartz, Esquire, of Wachtell, Lipton, Rosen & Katz, New York, New York, for defendant The J. Paul Getty Museum.

Rodman Ward, Esquire, of Skadden, Arps, Slate, Meagher & Flom, Wilmington, Delaware, for defendant Texaco, Inc.

BROWN, *Chancellor*

This matter is presently before the Court upon the motions of two of the defendants for summary judgment. A third defendant has joined in these motions without actually participating in the briefing or argument. The fourth defendant is watching with interest.

Because the facts of the case are exceedingly detailed and complicated, and because we have all been through them before during an earlier preliminary injunction application, I shall make no effort to catalogue and recite them here. Counsel are already quite familiar with each and every detail, and I deem a complete recitation of the factual background of the controversy to be unnecessary to the decision to be reached herein. Thus, I deal with the present motions in summary fashion, referring to specific factual matter only where I feel it appropriate to do so.

This action began as one for the specific performance of a contract. A preliminary injunction was sought initially by the plaintiff Pennzoil Company ("Pennzoil") to preserve the status of things until such time as its contract claims could be fully litigated. Pennzoil alleged that a four-party contract had been entered into between it and the defendants Getty Oil Company ("Getty"), the J. Paul Getty Museum, a California charitable trust ("the Museum") and Gordon P. Getty in

his capacity as Trustee of the Sarah C. Getty Trust ("the Trustee") under the terms of which Pennzoil claimed the contractual right to become a 3/7th's owner of Getty along with the Trustee as 4/7th's owner.

At the outset of the dealings between these parties, the Trustee and the Museum owned substantial amounts of Getty stock. After negotiations, the four—Pennzoil, Getty, the Museum and the Trustee—entered into what I understand all to concede was, at the very least, an "agreement in principle" concerning the acquisition of Getty by Pennzoil and the Trustee. Under this plan the Museum was to sell its shares to Getty (it was later proposed for tax reasons to modify this aspect of the plan so as to have Pennzoil purchase the Museum's shares), Pennzoil was to acquire sufficient Getty shares so that it and the Trustee, combined, would have voting voting control of Getty, and the public minority shareholders were to be eliminated thereafter through the merger route at an agreed upon price per share, leaving Pennzoil with 3/7ths of the remaining outstanding Getty shares and leaving the Trustee with a 4/7ths interest. This point of understanding having been reached by the parties, their counsel began the drafting of the paperwork felt necessary by them in order to finalize the transaction.

Thereafter, before the precise terms and language of a formal contract document could be agreed upon, Texaco, Inc. ("Texaco") entered the picture. Texaco offered the Trustee and the Museum substantially more for their shares than they would have been entitled to receive under the plan in which Pennzoil was involved. Likewise, Texaco was prepared to offer the same higher amount per share to Getty's public shareholders. Getty, through its board of directors, gave its approval to the Texaco proposal. The Trustee and the Museum accepted the Texaco offer also. As a result, the final contract document that was intended to reflect the plan whereby Pennzoil and the Trustee were to become the owners of Getty never came into being. In short, the Trustee and the Museum sold their shares to Texaco and Texaco became the sole owner of Getty. In the process, Pennzoil was frozen out.

Pennzoil promptly brought this action to establish the contract rights which it claimed against Getty, the Museum and the Trustee and to compel their enforcement through a decree of specific performance so as to enable Pennzoil to become the owner of a 3/7ths interest in Getty. It sought preliminary injunctive relief against those three defendants as well as against Texaco in an effort to prevent the transfer

of any Getty shares by them to Texaco. As an alternative to equitable relief, Pennzoil sought damages against the Trustee, the Museum and Getty for breach of contract, and against Texaco for its alleged tortious interference with Pennzoil's existing contract rights with the other defendants.

After a lengthy hearing, Pennzoil's application for preliminary injunctive relief was denied, although in the process a preliminary finding was made that under New York law (New York being that situs where the contractual negotiations took place) Pennzoil had demonstrated a likelihood that it could prove at trial that before Texaco appeared on the scene a contract had come into being between it, the Museum, the Trustee and Getty despite the fact that a formal document embodying the particulars of the transaction had never been executed.

Thereafter, Pennzoil voluntarily dismissed Texaco as a defendant in this action and on the same day filed a multibillion dollar damage action against Texaco in Texas, alleging basically the same cause of action it had alleged against Texaco here, but demanding a jury trial. See, *Pennzoil Co. v. Getty Oil Co.*, Del. Ch., 473 A.2d 358 (1984). Texaco was thereafter permitted to intervene in this action as a party defendant as a matter of right, the reason being that Texaco is contractually bound to indemnify the Museum, the Trustee and Getty for any damages recovered against them in this action based upon their breach of a contract with Pennzoil. In the Texas case between Pennzoil and Texaco discovery has apparently been proceeding in earnest in the direction of an early trial date. Such was the status of events at the time that the present summary judgment motions were argued.

The summary judgment motions have been brought by the Museum and the Trustee. Getty has joined in the motions without actively participating. Texaco, which now owns Getty and which is obligated to indemnify the Museum and the Trustee to the extent that Pennzoil may obtain a money judgment against them, is understandably monitoring the outcome.

In view of the mass of deposition testimony and documentation that has been lodged in the case so far, it would seem at first glance that the Museum and the Trustee could not truly be serious in their belief that the case could be in a posture for disposition by summary judgment. The underlying question, of course, is whether or not there was a contract, and to this end it seems conceded that through their various representatives the parties (other than Texaco) did reach agreement on something prior to the time that Texaco appeared with its

higher per-share offer. But the inquiry into this legal issue breaks down into two component questions: Did Pennzoil, Getty, the Museum and the Trustee intend to be bound at the time that they agreed to the plan that would make Pennzoil and the Trustee the owners of Getty, with the document setting forth the detailed terms of the agreement to be prepared and executed later as a mere formality? Or did the four parties, while being in agreement to the proposed transaction and its basic terms, intend not to be bound until they had executed a formal document embodying their agreement?

Normally, the contractual intention of parties at a given time is a conclusion to be drawn by the trier of the facts after considering all the relevant evidence. And since there is now a serious dispute between the parties here as to just what was agreed upon initially between Pennzoil, the Museum, the Trustee and Getty, it would seem that there is a strong basis for saying that a genuine dispute as to material facts exists at this point, thus rendering summary judgment inappropriate. The Museum and the Trustee, however, approach this pivotal issue of contractual intent from a slightly different tack.

In an effort to circumvent what would appear to be the obvious and at the same time to satisfy the summary judgment requirement that no material facts be in dispute, the Museum and the Trustee take the position that for the purpose of their summary judgment motion only they will concede that the evidence against them reveals an intent by the Museum and the Trustee, as well as by Getty, to be contractually bound to the plan whereby Pennzoil was to become a 3/7ths owner of Getty prior to the preparation and execution of a formal contract document and prior to Texaco coming forth with its higher offer. They say, however, that even if this be accepted as true, it is of no consequence since the undisputed facts clearly reveal that Pennzoil did not consider itself to be firmly bound by any contract with the Museum, the Trustee and Getty prior to Texaco's arrival on the scene, and that as a consequence it obviously could not have intended to be bound prior to the execution of a formal contract document. If Pennzoil did not intend itself to be bound until a formal contract document was executed, then no contract between it, the Museum and the Trustee ever came into being and thus, say the moving defendants, summary judgment should be entered in their favor as to Pennzoil's contract claims against them.

In other words, the moving defendants rely solely on what they view to be the factually undisputed, objective manifestations of Pennzoil between the date on which Pennzoil claims that a meeting of the

minds was reached between the four parties and the time at which the Museum, the Trustee and Getty renounced the Pennzoil plan in favor of entering into a different arrangement with Texaco so as to permit Texaco to acquire all of Getty. In short, the moving defendants argue that at no time during that three-day span did Pennzoil publicly take the position that a final contract had been entered into between them, but rather it gave every indication to the contrary. In support of this proposition the Museum relies primarily upon four factors. The Trustee relies upon these plus another. I summarize the argument as briefly as I can as follows.

An agreement or understanding of some type was unquestionably reached on January 3, 1984 between Pennzoil, the Museum, the Trustee and Getty. This came at the conclusion of a hectic two-day meeting of the Getty board at which various proposals and counterproposals had passed back and forth. Immediately following the conclusion of this meeting of the Getty board a press release was prepared on behalf of all of the parties to the negotiations setting forth a rough outline of the plan whereby Pennzoil and the Trustee were to become the owners of Getty and indicating that an "agreement in principle" had been reached. This press release appeared publicly on the following day, January 4. Counsel for the parties immediately began work on drafting what they have referred to as the "transaction agreement," that apparently being the contractual document that was to be executed by the parties so as to formalize the agreement.

On January 4, 1984 Pennzoil came up with its first draft of its proposed transaction agreement. Previously, by a written "Memorandum of Agreement" executed by Pennzoil, the Museum and the Trustee on January 2, 1984 prior to the submission of the proposal of Pennzoil and the Trustee to the Getty board, it had been agreed, among other things, that the Museum would have the benefit of a "top up" with regard to the sale of its substantial Getty shareholdings. That is to say, that if at any time before the closing of the proposed transaction a higher price would be offered by another party for Getty shares the Museum would be entitled to receive that higher price for the sale of its shares over and above the per-share price called for in the Memorandum of Agreement. There is no dispute that this "top up" provision for the benefit of the Museum formed an integral part of the proposed transaction. Yet despite this fact, and despite the fact that language concerning this "top up" was specifically included in the January 2 Memorandum of Agreement, the first draft of the transaction agreement, as prepared by Pennzoil on January 4

and forwarded to the Museum, omitted any reference to the "top up" whatever. A second draft of the proposed transaction agreement by Pennzoil on January 5 contained language pertaining to the "top up," but purported to add to it additional terms and qualifications which had not been contained in the January 2 Memorandum of Agreement and to which the Museum had not agreed previously.

Also on January 4, 1984 Pennzoil made a filing with the Securities And Exchange Commission (the "SEC"). Pennzoil had initially commenced its effort to obtain an interest in Getty by means of a public tender offer for Getty shares. Pursuant to this it had made the required filings with the SEC. Because the understanding reached between Pennzoil and the others on January 3 contemplated an eventual merger so as to permit Pennzoil and the Trustee to acquire all Getty shares, the outstanding tender offer of Pennzoil, which was at a lower price per share than was contemplated for the merger, became inconsistent with the agreed-upon plan of acquisition. Thus, under SEC regulations, Pennzoil was required to immediately amend and update its SEC filing with regard to the tender offer. It did so on January 4. In so doing, however, Pennzoil stated that "*if* a definitive merger agreement is executed" it intended to withdraw its outstanding tender offer. (Emphasis added.) Likewise, in its drafts of the proposed transaction agreement Pennzoil made it clear that its tender offer would be withdrawn "promptly" upon the execution of the transaction agreement.

Thirdly, in the press release that was issued on January 4, 1984 advising the public that an agreement in principle had been reached between Pennzoil, the Museum the Trustee and Getty, it was stated specifically that the announced transaction "is *subject to* execution of a definitive merger agreement." (Emphasis added.) Pennzoil, of course, participated in the selection of the language employed in the press release.

Finally, the Museum points to events that took place on January 4 and January 5 in a California probate court immediately following release of the word that Pennzoil and the Trustee were negotiating to mutually acquire complete ownership of Getty. In that matter a beneficiary of the Sarah C. Getty Trust as then being administered by the Trustee brought an action to immediately restrain the Trustee from entering into any legally binding agreements concerning the Getty stock owned by the Trust. Although Pennzoil was not a party to that proceeding, its lawyers appeared and, with leave of the Court, were permitted to speak briefly in support of the Trustee's position that

no such restraint should be imposed upon him. The Museum notes that at no place in the transcript of those proceedings does it appear that Pennzoil's lawyers took the position that a binding agreement involving the Trustee had already been reached despite the fact that this would have been an obvious defense to a prayer to enjoin the Trustee from entering into such an agreement in the first place. Nor did counsel for the Trustee do so.

From all of these factors (which they view to be undisputed matters of fact) the Museum and the Trustee take the position that based upon evidence of record as to which there can be no dispute it is clear beyond a doubt that Pennzoil, as evidenced by its public conduct and manifestations, did not consider that it was bound by any contract with the Museum, the Trustee and Getty on either January 4 or January 5 despite its present contention in this litigation that a contract came into being between the four of them at the conclusion of the Getty board meeting on January 3. The failure of its lawyers to take a position in favor of a preexisting agreement in the California probate court proceedings when it would have been the natural thing to do so if Pennzoil truly felt a contract to be in place, Pennzoil's public announcement in its SEC filing that it would withdraw its tender offer for Getty shares only "if" a definitive merger agreement was executed by the parties, and the public statement in the press release approved by its representatives that the intended acquisition of Getty by it and the Trustee was "subject to" a definitive agreement being reached by the parties, all indicate conclusively to the moving defendants that at the time Pennzoil did not consider that it would be legally bound until such time as a formal contract covering all of the details of the proposed transaction could be prepared and executed. Moreover, the moving defendants suggest that the deletion of the Museum's "top up" provision from Pennzoil's first proposed draft of the transaction agreement and the addition of new terms and conditions to the "top up" in its second draft point to only one conclusion, namely, that Pennzoil was still attempting to negotiate terms of the proposed transaction which would be more favorable to it, thus further revealing its true position at that point that no final agreement had been reached.

Because the foregoing factors all point to the conclusion that Pennzoil did not consider itself to be bound contractually on either January 4 or January 5, the moving defendants argue that it follows naturally that Pennzoil could have had no intent to become legally bound on January 3. If Pennzoil never had the intent to be bound during that three-day period, it is argued that there could have been

no meeting of the minds between the parties and thus no legally enforceable agreement could have come into being between them even if it is conceded for the purpose of argument that Getty, the Museum and the Trustee had themselves intended to be bound prior to the execution of the formal contract document and even if they thought that they had solidified the deal at the conclusion of the Getty board meeting on January 3. If there was no legally enforceable agreement between them despite what the Museum, the Trustee and Getty might have thought, then all three of these defendants would have been free to enter into the agreement with Texaco on January 6, 1984, as they did, and Pennzoil would have no legal basis for its complaint in this action, or so the argument goes.

[1] In the earlier decision in this case in which Pennzoil's application for a preliminary injunction was denied, I drew heavily upon the language of *Reprosystem, B.V. v. SCM Corporation*, 522 F. Supp. 1257 (S.D.N.Y. 1981) in setting forth the basis for my preliminary finding that Pennzoil had demonstrated a likelihood that it could prove at a final hearing that a contract had come into being between it, the Museum, the Trustee and Getty despite the absence of an executed final agreement. *Reprosystem* contained a comprehensive summary of New York contract law concerning the point in issue here. It was also a case involving a complicated buy-sell agreement between two corporations in which an "agreement in principle" had been announced in a mutual press release but as to which a final contract document had not been executed. In that case the District Court had found that a contract had come into existence. The basis for the decision was the intention of the parties as evidenced by their objective conduct and manifestations at the critical time.

Four days prior to the decision on the preliminary injunction application in this case—but then unbeknownst to the Court and counsel—the decision of the District Court in *Reprosystem* was reversed by the United States Court of Appeals for the Second Circuit. *Reprosystem, B.V. v. SCM Corporation*, 727 F.2d 257 (2d Cir. 1984). The Court of Appeals found on a review of the entire evidentiary record that both of the parties in that case intended not to be bound prior to the execution of a formal, written contract, and that accordingly they did not become legally bound by their announced "agreement in principle," by any proposed final draft of a contract document circulated back and forth between them, or by any claimed oral understanding reached during the course of the extended negotiations.

The Second Circuit also noted in its *Reprosystem* decision that it

was of "equal importance" that the result reached by it was consistent with the realities of the complex transaction there in issue. It noted that the proposed deal involved a $4 million sale of six subsidiary companies that were incorporated in five different countries and that completing the transaction would have required the approval of foreign governments, the sale of both securities and assets, and the transfer of almost one thousand foreign employees, among other things. As to this the Court stated as follows at 727 F.2d 262:

> "Thus, the magnitude and complexity of the deal as reflected in the numerous written contract drafts not only reinforce the parties' stated intent not to be bound until written contracts were signed, but also reflect a practical business need to record all the parties' commitments in definitive documents."

From this the moving defendants would extract a legal principle under New York law that where the proposed transaction is a particularly large and complex one, the practical business need to have the commitments of all the parties reduced to a signed, definitive documents supports an inference that the parties have no intent to be bound in the absence of such an executed final document. They suggest that the magnitude and complexity of the transaction that gave rise to such an inference in *Reprosystem* pales by comparison to the magnitude and complexity of the proposed transaction in issue here, it having been a planned multibillion dollar acquisition (the largest in corporate history at the time) of a large oil company based upon a somewhat unusual and tenuous four-cornered arrangement between four parties who were mutually suspicious and not on the best of terms with each other. Under the logic of the Second Circuit in *Reprosystem* the moving defendants urge that the magnitude and complexity of the transaction in issue here reinforces the conclusion that they would have the Court draw from their version of the undisputed facts recited previously, namely, that Pennzoil had no intent to be bound in the absence of a final transaction agreement executed by all four parties.

However, having considered these arguments of the moving defendants, as well as the legal authorities and record references on which they are based, I find that I am not persuaded by their contention that they are entitled to the entry of summary judgment in their favor. To begin with, Pennzoil, as might be expected, has an explanation for each of the various factors on which the defendants rely.

For instance, Pennzoil says that it was perfectly logical from a

business standpoint for it to technically leave its existing tender offer open and to indicate in its amended SEC filing that the tender offer would be withdrawn at such point as a final contract document was signed. Pennzoil says that the tactical purpose of this was to attempt to discourage others, such as Texaco, from making a higher and competing tender offer in an effort to break Pennzoil's deal. Pennzoil says that with its tender offer already in place it could have amended its offer and increased its tender offer price if it so chose without having to start anew. Because its tender offer was filed first, and because there is a period that all tender offers must remain open under SEC regulations, it was thus left with the ability to amend its offer price so as to top a competing offer and take down the shares tendered before the time that a competitor could have done so under its later tender offer. The fact that this strategy did not work against Texaco because of Pennzoil's inability to totally compete with Texaco financially does not, Pennzoil says, detract from the logic and explanation of the strategy, and therefore it argues that its SEC filing of January 4 cannot be read to mean that Pennzoil did not consider itself bound to a contract with the Museum, the Trustee and Getty at the time.

As to the January 4 press release Pennzoil points out that the Delaware statutes technically require the execution and filing of a written merger agreement in order to accomplish a merger under Delaware law. Therefore, Pennzoil says, the press release, by stating that the transaction was subject to the execution of a "definitive merger agreement," did no more than acknowledge the technical requirements of Delaware law. Therefore, Pennzoil argues that by agreeing to such language in the press release it certainly cannot be said to have conceded that no overall agreement between the parties as to the entire transaction had been reached as of that date.

As to the transcript of the California probate court proceedings, Pennzoil suggests that it would be a bit extreme to base a finding of summary judgment against it on things that were not said by one of its attorneys at a legal proceeding to which it was not even a party. Moreover, it disputes the interpretation of the transcript advocated by the moving defendants.

Finally, as to its drafts of the proposed transaction agreement, it says that it omitted any reference to the "top up" provision in the first draft on the assumption that the Museum's attorneys would want to supply the appropriate language since the "top up" was solely for the benefit of the Museum. As to its suggestion for additional terms and qualifications to the "top up" in its second draft, it notes that

under New York law negotiations on new provisions do not serve to defeat the original agreement of the parties if in fact one has already been made. *V'Soske v. Barwick*, 404 F.2d 495 (S.D.N.Y. 1968). Thus, it says that its suggestion as to additional terms to the "top up" is not necessarily evidence of a lack of intent on its part to be bound to the agreement which it says came into being on January 3.

[2] The foregoing does not necessarily address all of the arguments and counterarguments advanced by the parties. But it will suffice for present purposes. I say this because I think it should be quite obvious by now that the answer to whether or not a binding agreement was reached between Pennzoil, Getty, the Museum and the Trustee on January 3 turns on the intent of the parties at the time as found by the trier of the facts. And in view of the conflicting inferences and explanations that can be drawn from the various factors on which the moving defendants rely, I think that it should be equally obvious that in order to find a lack of intention to be bound on the part of Pennzoil the Court would be compelled to weigh the various evidentiary factors and accept as true that which would appear to have the greater weight. This, of course, is an impermissible exercise on a summary judgment motion.

[3] As stated in *Continental Oil Company v. Pauley Petroleum, Inc.*, Del. Supr., 251 A.2d 824, 826 (1969),

> " . . . the function of the judge in passing on a motion for summary judgment is not to weigh evidence and to accept that which seems to him to have the greater weight. His function is rather to determine whether or not there is any evidence supporting a favorable conclusion to the nonmoving party. When that is the state of the record, it is improper to grant summary judgment."

See also, *Data General Corp. v. Digital Computer Controls, Inc.*, Del. Supr., 297 A.2d 437 (1972).

[4] Even more to the point, it was further stated as follows in *Continental Oil Company v. Pauley Petroleum, Inc.* at 251 A.2d 826:

> "When an ultimate fact to be determined is one of motive, intention or other subjective matter, summary judgment is ordinarily inappropriate."

I think that I appreciate the niceties of the moving defendants' approach. As I understand it, they are saying that the Court does not have to weigh the evidence here in the sense of balancing facts

relied upon by one side against certain undisputed facts put forth by the other for the purpose of accepting those which seem to have the greater weight. They are saying that the Court has only to look at certain factual matter which undisputably exists, i.e., the printed word of various documents attributable in one way or the other to Pennzoil, and that these facts lead conclusively to only one result, namely, that Pennzoil did not consider itself to be contractually bound to the moving defendants at the time that it now claims that a contract existed between them. Thus, they are suggesting that the rule proscribing the weighing of evidence upon a summary judgment motion has no application here.

But it seems to me that this is an attempt to limit the Court's consideration to only certain isolated facts to the exclusion of others which may also have a bearing on the question of the intention of the parties. As Pennzoil points out, representatives of the moving defendants displayed conduct which, as experienced businessmen, they arguably would not have manifested unless they were satisfied that Pennzoil had also intended to be bound on January 3 and that "the deal was done." For example, Harold Williams, president and chief executive officer for the Museum, remained in New York but out of communication with everyone concerned with the transaction on January 4 and, as characterized by Pennzoil, "resurfaced" in Los Angeles on January 5. Pennzoil suggests that this is not the reaction that one would expect from a knowledgeable and responsible person such as Mr. Williams unless he was satisfied that the deal had been concluded. This, suggests Pennzoil, can be viewed as an acknowledgment on behalf of the Museum of Pennzoil's intent to be bound on January 3 and thus it constitutes evidence of Pennzoil's intent which must be weighed against the factors relied upon by the moving defendants.

Similarly, on January 4, the Trustee, Gordon P. Getty, suggested to J. Hugh Liedtke, Pennzoil's chief executive officer, that they immediately tour Getty's California offices so as to give appropriate assurances to Getty's key personnel. Again, Pennzoil says that this suggests an awareness on the part of the Trustee that he and Pennzoil had accomplished their mutual goal of acquiring Getty which, says Pennzoil, constitutes further evidence of Pennzoil's intention to be bound on January 3. Pennzoil also points to the minutes of a special meeting of its board of directors held on January 5, one day after the January 4 press release and one day before Texaco's involvement became known, in which reference was made to "the terms of agree-

ment finally concluded" by Pennzoil's management. This and other factors, Pennzoil argues, must be weighed by the Court before the underlying question of the mutual intention of the parties can be judicially resolved, thus making summary judgment inappropriate even aside from the conflicting inferences that arguably may be drawn from the isolated factors on which the moving defendants attempt to rely. As to this, I also find myself in agreement with Pennzoil's position.

[5] An application for summary judgment is always addressed to the discretion of the trial Court, *Brunswick Corporation v. Bowl-Mor Company, Inc.*, Del. Supr. 297 A.2d 67 (1972), and it is proper to deny such an application if the circumstances indicate that a trial on the merits is advisable. In this important case, I conclude that the conflicting interpretations and inferences to be drawn from the factors on which the moving defendants rely, the existence of other factual matter which surely should be weighed in the overall balance in order for the decision to be fully considered, and the inescapable realization that the ultimate fact to be determined is one of subjective intention of the parties, all serve to indicate that disposition by summary judgment is not appropriate here despite the artful effort by the moving defendants to maneuver the case under the guise of that procedure.

As mentioned previously, the Trustee offers an additional reason in support of his motion for summary judgment. Prior to the submission of their joint proposal (as to which the Museum gave its initial consent) to the Getty board on January 2, Pennzoil and the Trustee entered into a separate letter agreement whereby the Trustee (who individually was a director of Getty) obligated himself to support their plan before the Getty board and to oppose any alternative proposals or arrangements submitted to the Getty board that did not provide for a 3/7ths ownership interest in Getty by Pennzoil. However, before executing this document the Trustee inserted language so as to make such a commitment on his part "[s]ubject only to my fiduciary obligations."

Because of this the Trustee argues that as one standing in a fiduciary relationship to others he expressly reserved the right to abandon the plan whereby he and Pennzoil hoped to become the owners of Getty in the event that a third party should make an offer that he, as trustee, might be required to accept as being in the best interests of the beneficiaries of the Trust. He says that this is precisely what he did when the higher Texaco offer emerged and that under the circumstances he had not only a contractual right as against Pennzoil but also a legal duty to do so. Accordingly, he argues that it is clear

as a matter of law that he is entitled to summary judgment against Pennzoil on its breach of contract claim against him.

Additional, the Trustee argues that there is nothing in any contract that might have come into being on January 3—even if there was an agreement on the terms advocated by Pennzoil—which expressly prohibited him from selling the Getty shares owned by the Trust to Texaco or anyone else. Since he was not specifically prohibited from selling his Getty shares, then he takes the position that he could not have breached any contractual right of Pennzoil by changing his mind and selling his shares to Texaco. For this reason also he urges that he is entitled to summary judgment in his favor.

Again, however, I feel that these arguments turn on whether or not a contract did come into being between the parties at the conclusion of the Getty board meeting on January 3. Certainly, if the lack of an executed final document meant that no contract was in existence when Texaco appeared on the scene on January 6, then it would seem quite likely that the Trustee had at least a right, if not a legal duty, to withdraw from the plan in favor of what he viewed to be the increased benefit to the Trust represented by the higher Texaco offer. On the other hand, if a binding legal contract had already come into being on January 3, then I think that it would be a different matter.

As I see it, the separate commitment of the Trustee to Pennzoil was to support the plan before the Getty board at its January 2 meeting and to oppose any alternative plan submitted to the board which would not make Pennzoil a 3/7ths owner of Getty, unless for some reason his fiduciary status as Trustee prevented him from doing so. But I do not read his conditional commitment to support the plan before the Getty board, and to urge its acceptance by Getty, to mean that the Trustee was also reserving a right to rely on his fiduciary status as a means to withdraw from the deal later in favor of a better offer in the event that the proposal was accepted by Getty and an agreement converting the proposal into a binding contract was reached. Thus, it seems to me that the availability of the fiduciary escape mechanism on which the Trustee attempts to rely is dependent upon whether a contract had already come into being between Pennzoil, the Museum, the Trustee and Getty on January 3.

Similarly, if a contract had come into being, then it is debatable whether the Trustee, in view of his separate commitment to Pennzoil, would have had a right to dispose of his Getty shareholdings in such a manner as to knowingly frustrate and destroy Pennzoil's rights under that contract even if there was no express prohibition against his sell-

ing the shares of the Trust to another. In short, I think that both of these related additional arguments by the Trustee are inextricably tied to the question of the intent of the parties prior to the involvement of Texaco, and that accordingly they too are matters which are not realistically susceptible to disposition by the summary judgment.

For the reasons given the motions of the defendants for summary judgment are denied. An appropriate form of order may be submitted.

PFIZER, INC. v. ICI AMERICAS, INC.
No. 7785
Court of Chancery of the State of Delaware, New Castle

November 21, 1984

Plaintiff, a pharmaceutical company, moved for a preliminary injunction in an action to enjoin the alleged improper use or disclosure of trade secrets. The action was brought against a competing pharmaceutical company and one of plaintiff's former employees who had agreed to accept employment with the competitor. The court of chancery, per Chancellor Brown, held: (1) that plaintiff did not demonstrate a likelihood that upon a final hearing it would be able to prove that confidential business information known to its former employee constituted trade secrets, and (2) that plaintiff would not suffer immediate irreparable injury if its former employee were permitted to use such information to benefit plaintiff's competitor, pending a final hearing. Motion for preliminary injunction denied.

1. Injunction ⟹ 151

The court will not exercise its discretion to grant preliminary injunctive relief unless it is satisfied that the moving party has shown a likelihood of success on the merits of its claim and that it will suffer immediate irreparable harm in the event that the motion is denied.

2. Injunction ⟹ 56

Where employees have expressly agreed as one of the terms of their contract of employment that they will not disclose to their

employer's detriment any trade secrets or confidential information which they have acquired in the course of their employment, the employer is entitled to an injunction against a threatened use or disclosure of such confidential information by its former employees for their own benefit or for the benefit of a third person.

3. Injunction ⟹ 128

Information falling within the classification of "know-how" can be protected by injunction where it is of sufficient novelty and where it has been maintained in secrecy to such an extent as to give rise to a claim of property right.

4. Injunction ⟹ 56

In order to be protected from disclosure by injunction, information must be such that it derives independent economic value, actual or potential, from not being generally known to others, and from not being readily ascertainable through proper means by others. DEL. CODE ANN. tit. 6, § 2001(4) (1983).

Paul E. Crawford, Esquire, and Henry E. Gallagher, Jr., Esquire, of Connolly, Bove, Lodge & Hutz, Wilmington, Delaware, for plaintiff.

Andrew B. Kirkpatrick, J., Esquire, Richard D. Allen, Esquire, Donald F. Parsons, Jr., Esquire, and Thomas C. Grimm, Esquire, of Morris, Nichols, Arsht & Tunnell, Wilmington, Delaware, for defendants.

BROWN, *Chancellor*

This is the decision on plaintiff's motion for a preliminary injunction in an action brought to enjoin the alleged improper use or disclosure of that which plaintiff contends to be its trade secrets and proprietary information.

Plaintiff, Pfizer, Inc. ("Pfizer"), a Delaware corporation, has brought this action against ICI Americas, Inc. ("ICI"), also a Delaware corporation, and Dr. Charles Laudadio, a former employee of Pfizer who has now agreed to accept employment by ICI. Pfizer sought initially, and the Court granted, a restraining order which, in its effect, has temporarily prohibited ICI from using Laudadio's services in connection with a research program similar to that in which he had participated at Pfizer prior to his voluntary termination of his employment with that company. The parties have since taken depositions and have engaged in some initial discovery. They have also sup-

ported their positions with detailed affidavits. Thus, the present application is before the Court on a more expanded record than was presented at the restraining order hearing.

[1] The question for decision at this preliminary injunction stage is whether Pfizer has demonstrated, first, a likelihood that upon a final hearing it will be able to prove that confidential business information of Pfizer which is known to Dr. Laudadio as a direct result of his employment with Pfizer constitutes trade secrets of Pfizer and, second, that Pfizer will suffer immediate irreparable injury if Laudadio is permitted to use his knowledge of that information on behalf of ICI, a competitor of Pfizer, pending a final hearing. This, of course, is but an application to the facts of this case of the settled preliminary injunction standard, namely, that the Court will not exercise its discretion to grant preliminary injunctive relief unless it is satisfied that the moving party has shown a likelihood of success on the merits of its claim and that it will suffer immediate irreparable harm in the event that the motion is denied. *Gimbel v. Signal Companies, Inc.*, Del. Ch., 316 A.2d 599, *aff'd*, Del. Supr., 316 A.2d 619 (1984). Moreover, even if Pfizer meets this burden, the Court must also consider the comparative hardships to ICI and Laudadio in the event that the injunction is entered as well as, in this case, whether the public interest would be served by the granting of such relief.

As is often true in trade secrets cases, the issue is difficult to define with any degree of precision for the simple reason that the so-called trade secrets are not disclosed with specificity in the course of the litigation. Carefully worded generalities often provide the prevailing criteria in such cases. This is particularly true in this case since it deals with method rather than with a process or formula. Some brief recitation of the background is necessary to a meaningful understanding of the decision to be reached, although I make no effort at this stage to set forth the controversy in full detail.

Pfizer is a pharmaceutical company with research facilities located in Groton, Connecticut. ICI, through its Stuart Pharmaceutical Division, is also engaged in pharmaceutical development and sales, and within the industry it is a competitor of Pfizer. Both companies engage in the research and development of new drugs. Presumably, the ultimate goal for any new drug is at least twofold. First it should have curative capabilities without harmful side effects to the users. Secondly, it should be reasonably marketable so as to enable the company to recoup its development costs and realize a profit on its continued sale and usage. Thus, viewed from the standpoint of the phar-

maceutical company, the bottom line as to a new drug project is measured in money. Such is the root of the controversy here.

In 1977 Pfizer embarked on a program designed to develop a drug to combat the degenerative effects of diabetes. Diabetes is a disease which is said to have no known cause and no known cure. It is said to afflict about 5 million persons in the United States alone. Diabetics suffer from a variety of long-term secondary effects from the disease, involving principally loss of nerve function, kidney disease and eye disease. It is estimated that as many as 90% of all diabetics will eventually suffer a loss of nerve function, and that a significant percentage of such cases will involve a painful nerve condition of the feet and legs which makes walking difficult. As many as 50% of all diabetics suffer from kidney disease, which is a common cause of death in diabetics. And it is estimated that eye disease attributable to diabetes is responsible for 15% of all blindness. Cardiovascular disease is also above average in diabetics.

Studies have indicated that the impairment of the function of the nerves, kidneys and eyes in diabetics is related to a build up in human tissues of a substance known as sorbitol. Sorbitol is formed from glucose, an excess of which is the hallmark of diabetes. Glucose is chemically converted in the body to sorbitol by the action of a human enzyme known as aldose reductase. It is theorized that increased levels of sorbitol in the body cause tissues to swell, thereby impairing their function. Accordingly, research has been directed to the development of substances which would inhibit the action of the aldose reductase enzyme. These substances are referred to generically as aldose reductase inhibitors.

One such inhibitor is a drug now under investigation by Pfizer known as sorbinil. As indicated, Pfizer began its clinical study of this drug in 1977. The object of this study is to determine the effectiveness and safety of sorbinil in reducing the production of aldose reductase as well as the impact of such reduction upon the diabetic patient. No new drug such as sorbinil can be marketed in this country until it has received the approval of the federal Food and Drug Administration, and such approval requires extensive and well-controlled clinical studies so as to satisfy the federal administrative agency of its safety and efficacy. This is a costly and time-consuming procedure, it having been estimated in 1980 that the average time and cost required for the research, clinical testing and approval of a new drug being introduced into the United States market was 10 years and $70 million, respectively, With a completely new class of drugs such as aldose reduc-

tase inhibitors, the time and cost elements can be expected to be substantially higher. At the same time the potential market for such a new drug, should it be approved—and particularly the market for the first such drug—can run into as much as a billion dollars annually.

It is the method and mechanics for the required clinical testing of such a new drug which lies at the heart of the present dispute. While a direct measurement of the reduction of aldose reductase in animals can be made by dissection and analysis of the animal tissue, such an approach is obviously not feasible with humans, and government approval of sorbinil cannot be obtained without proof as to the effect and safety of the drug as measured by the human standard. Therefore, indirect measurement of the effect of sorbinil on humans is the only means of determining the effectiveness of the drug. Such indirect measurements of aldose reductase inhibition must therefore be done by analyzing subjective symptoms such as nerve pain and nerve velocity. It is the know-how involved in the identification, execution and analysis of such measurement of humans that Pfizer claims to be its trade secrets and which it seeks to protect through this litigation. This contention comes about as follows.

A clinical study of new drugs, of necessity, is conducted at various teaching hospitals, through private physicians, or in public clinics or other health facilities which have access to patients who are willing to cooperate in the testing of new drugs. The testing is done through physicians who are willing to cooperate with the drug companies in monitoring and reporting the results of the clinical testing. The physicians agreeing to perform such tests are referred to as "investigators."

Pfizer's approach to the clinical testing of sorbinil has followed this generally accepted pattern. It has recruited investigators and, under a requirement of confidentiality, it has furnished them with an investigator's manual explaining the area of inquiry as well as with a detailed, written protocol to be followed by the investigators in administering the drug to the patients. The investigators are required to measure and record patient reaction and to report such information back to Pfizer. Each investigator works with 10 to 20 patients, and overall there are more than 200 patients involved in Pfizer's current study. Other patients, and possibly some investigators, have been eliminated from the program over the years.

Testing of the drug is done on a "blind" basis. That is, the investigators are furnished medication by Pfizer and are directed to administer it to the patients on a prescribed schedule. The medication comes in two identical forms, one of which is the drug and the other

of which is a placebo. Neither the patient nor the investigator knows when the placebo is being administered, and thus there is no way that the investigators can make an accurate subjective evaluation of the effect of the drug on their own. Moreover, a code is employed which is known by Pfizer but not by the investigator. Thus, it is only when the coded information is received by Pfizer from the various investigators that the results of the "blind" administration of the drug can be deciphered by Pfizer and the ongoing progress of the overall clinical study evaluated.

The defendant Laudadio was employed by Pfizer in 1981. He worked as a key figure for Pfizer in its aldose reductase inhibitor study until late September 1984, at which time he advised Pfizer that he was resigning in favor of a new research position being offered to him by ICI. At ICI he is being asked to head up a clinical study for a new aldose reductase inhibitor drug now under development by ICI. Apparently, the drug being developed by ICI is of a different chemical compound than the drug being developed by Pfizer. Nonetheless, its goal is the same, namely, to reduce the effect of the aldose reductase enzyme in diabetics. As a competitor of Pfizer, ICI would naturally like to obtain government approval for its drug as fast as possible and thereby get into the potentially lucrative market area with all due speed. Since ICI is just starting on the clinical study of its drug, anything that would serve to cut down the seven-year lead time that Pfizer has over it in the clinical testing of its drug could translate into an element of great value to ICI. Also, as ICI readily concedes, knowledge of the most efficient and expeditious means for testing its new drug could result in the savings of many millions of dollars to ICI.

It is not disputed that the only experience Dr. Laudadio has with aldose reductase inhibitors is that which he has gleaned through his employment with Pfizer. While he had apparently engaged in some drug research with his only other previous employer, that research was in other areas. Thus, as Pfizer contends, whatever knowledge Laudadio has as to the best means to test the effects of an aldose reductase inhibitor has been gained at Pfizer's expense, and overall Pfizer claims to have expended some $20 million in its clinical study of sorbinil over the past seven years.

Finally, as might be expected, Dr. Laudadio executed an agreement with Pfizer upon the commencement of his employment with that company in which he acknowledged that he would acquire knowledge of "certain secret or confidential information not previously known to him, and not known or used generally" during his employ-

ment with Pfizer and in which he agreed that he would not, while in Pfizer's employ or thereafter, "disclose or use such information" without Pfizer's written permission.

Having thus given the general background of the matter, it is significant to note what the case is not about. Pfizer is not contending, as I understand it, that Laudadio is about to disclose to ICI his knowledge of the makeup of sorbinil, its side effects, its effectiveness, etc. ICI is not seeking this information from Laudadio and he is apparently well aware that such information, i.e., the results of the clinical testing of sorbinil to date, does fall within the category of trade secrets belonging to Pfizer and that he has a contractual obligation not to disclose it to Pfizer or anyone else. What the case is about is Laudadio's knowledge of the best ways to conduct the clinical testing of an aldose reductase inhibitor. Pfizer contends that this know-how also constitutes trade secrets belonging to it. ICI and Laudadio disagree.

Pfizer contends that its knowledge of how to test for the effectiveness and safety of an aldose reductase inhibitor (no established and approved testing procedure for such a drug having heretofore existed) is derived from a compilation of data gleaned by its research personnel as a result of seven years of clinical testing. This, it says, is a compilation of information developed through trial and error over a period of seven years and at a cost of some $20 million as to the most efficient means of testing such a new drug, i.e., the types of patients to use, the dosage sequence, the means for measuring individual reaction, etc., as well as the things to be avoided as not being beneficial to the testing program.

Pfizer says that it has purposely kept this compilation of information confidential and secret. Since in Pfizer's view it is therefore information which is not generally known to and is not readily ascertainable by proper means by others, it is information from which Pfizer contends it derives independent economic value and that accordingly it falls within the statutory definition of a trade secret as found at 6 *Del. C.* § 2001(4).

Pfizer says that the same holds true for its knowledge of which physicians and medical personnel are the most effective investigators. It points out that not all doctors, including those in research fields, are good investigators. Some did not maintain proper records or follow up with patients as they should. Consequently, the information sent to Pfizer by such investigators is virtually worthless to its clinical study efforts. Pfizer says that through its seven-year trial and error effort it has ascertained who are the best investigators for an aldose reductase inhibitor and which investigators' results should be ignored. It

says that the compilation of information that it has accumulated which provides the basis for this determination also fits within the statutory definition of a trade secret and thus is entitled to protection.

Pfizer says, and it is not denied, that Dr. Laudadio has this knowledge of the identity of the most efficient investigators, and of the most efficient means of measuring patient reaction, and of the dead ends to to pursue, etc., and that regardless of how honorable his intentions may be (and it seems to concede that Laudadio is an honorable professional) it will be impossible for him to properly fulfill his obligation to ICI in assisting in the administration of its testing program without calling upon this body of proprietary knowledge and information developed by Pfizer at considerable expense and effort. Pfizer argues that the inevitability that Laudadio will use or disclose this knowledge on behalf of ICI regardless of any good intentions he may have brings the situation squarely within the holding of the leading case of *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*, Del. Ch., 200 A.2d 428 (1964), a case in which injunctive relief was upheld on behalf of a former employer against its former employee under strikingly similar circumstances.

For its part, ICI does not dispute that it wants Laudadio's services for the express purpose of having him lend his experience to its aldose reductase inhibitor research study, nor does it deny that it hopes to save considerable time and money in getting its drug into the market by hiring him. It argues strenuously, however, that Laudadio's knowledge as to the most efficient and effective means for testing such a new drug cannot rise to the level of trade secrets owned by Pfizer. ICI contends that this is so because the methods and devices for evaluating an aldose reductase inhibitor are generally known within the medical research community, as are the the identities of the investigators working on behalf of Pfizer.

ICI points out that one category of trade secrets claimed by Pfizer in its complaint included "[t]he physical devices and measuring techniques used by Pfizer to quantitatively assess the medical effectiveness" of aldose reductase inhibitors, but that Pfizer has not pressed this aspect of its claim at this preliminary injunction stage. The obvious reason, says ICI, is that the equipment and measuring devices being used by Pfizer are readily available in the market place and in fact are being used by others in similar research studies even though they are of relatively recent origin. Thus, ICI suggests that Pfizer has been forced to abandon its claim that Laudadio's knowledge of the measuring devices used by Pfizer constitutes a trade secret belonging

to Pfizer for the simple reason that knowledge of these measuring devices is in the public domain. This, argues ICI, is illustrative of the weakness of Pfizer's entire case.

In opposition to Pfizer's motion for a preliminary injunction, ICI has offered the affidavits of three independent research doctors, and the deposition of a fourth, all of whom have been participating in Pfizer's clinical study of sorbinil on a consulting basis, and, as to at least two of them, as investigators as well. All four of these doctors have been working in the area of painful or diabetic neuropathy, i.e., the study of complications deriving from the impairment of the function of the nerves. All four have been participating in studies being made by others as well as the study being conducted by Pfizer. All four indicate that they are fully familiar with the techniques and equipment used in such studies to measure sensory reaction, and that such information is generally known to persons working int he field of clinical research on aldose reductase inhibitors. Moreover, they state that such information is readily ascertainable by legitimate means from sources independent of Pfizer.

Two of these doctors state that they have worked personally with Dr. Laudadio in connection with Pfizer's study and that they believe that as to many aspects of the clinical testing of an aldose reductase inhibitor their knowledge is as great, if not greater, than his. All four of these doctors assisted in designing the protocols for Pfizer's study, two advised Pfizer on the available physicians who were best suited as investigators for its study, and one assisted Pfizer in selecting the physical devises and measuring techniques to be used in the study. Of the four, the doctor who appears to have had the closest connection with Pfizer's study has never been required to execute a confidentiality agreement with Pfizer, and Pfizer agrees that all four are free to work with other, including competitors of Pfizer, on similar studies of aldose reductase inhibitors. ICI argues that all of these factors serve to indicate that Pfizer will be unable to prove upon a final hearing that the clinical testing methods used by it constitute proprietary and trade secret information.

Moreover, ICI argues and asserts through its affidavits that it would be contrary to the public interest as well as to the interests of Pfizer itself to clamp a proprietary lid of secrecy on information which would tend to promote the most efficient means of such clinical testing. The ultimate purpose of clinical testing is to secure approval by the Food and Drug Administration of a new drug. ICI points out that to achieve such approval it is essential that the tests performed and

the equipment and measuring techniques used be recognized as valid by both the medical community and the federal administrative agency. Thus, the more widespread the use of such techniques, the more likely that they will be accepted as proof of the safety and effectiveness of such new drugs and the quicker the drugs can be made available in the market place to those diabetic patients who need them.

In addition, there is the human factor. ICI points out that the clinical testing here is performed on real people who have real diabetic problems. If during the past seven years Pfizer has subjected patients to testing programs which have proven to be ineffective, then why, asks ICI, should Pfizer be entitled claim knowledge of these ineffective programs as its trade secret and thereby force ICI and other pharmaceutical companies to possibly put other diabetic patients through the same ineffective tests for no good reason. Moreover, ICI says that to the extent Laudadio's knowledge may save it time and money by preventing it from going down wrong testing trails, it will cause no real harm to Pfizer. Everyone knows, says ICI, that Pfizer is very near to obtaining approval for sorbinil from the Food and Drug Administration. By contrast, ICI is only in the early stages of testing an inhibitor of an entirely different chemical compound, and very likely it is years away from obtaining approval for its drug even if it is permitted to avail itself of Laudadio's clinical testing experience and knowledge. Under these circumstances ICI argues that it is not in the public interest to enjoin it from using Laudadio's services.

Pfizer's position in response to this is that it has used all reasonable in-house effort under the circumstances to keep its information secret, and that regardless of what others might be able to piece together from the knowledge and know-how available within the medical community so as to ultimately duplicate Pfizer's present clinical testing approach, the fact is that Laudadio has this knowledge now. As Pfizer terms it, while others may have knowledge of bits and pieces, Laudadio knows the "big picture" as developed by Pfizer.

That Laudadio has knowledge of something valuable, Pfizer says, is illustrated by Laudadio's letter to ICI's representatives during the course of efforts by ICI to obtain Laudadio's services in which Laudadio indicated that he was confident that he could save ICI "years of development and millions of dollars" in its aldose reductase inhibitor program and by the fact ICI has offered him a 30% increase in salary over that formerly paid him by Pfizer, thus bringing his salary to some $90,000 per year plus additional benefits. Laudadio's value to ICI, says Pfizer, derives solely from that which ICI wants now and cannot

obtain otherwise, namely, the clinical testing approach to aldose reductase inhibitors that has been developed by Pfizer. This clearly indicates, says Pfizer, that what ICI wants is that which comprises the trade secrets of Pfizer.

The foregoing constitutes a summary of the primary arguments put forth by the parties. It is sufficient to illustrate, I think that the issue thus presented is a close one, this again being attributable in large part to the fact that the nature of the action requires the Court to deal in generalities, at least as I perceive the situation. Nonetheless, on the present record I reach the conclusion that Pfizer's motion for a preliminary injunction should be denied.

[2-4] The law is settled in this State that where an employee has expressly agreed as one of the terms of his contract of employment that he will not disclose to his employer's detriment any trade secrets or confidential information which he has acquired in the course of his employment, the employer is entitled to an injunction against a threatened use or disclosure of such confidential information by its former employee for his own benefit or for the benefit of a third person. *E.I. duPont de Nemours & Co. v. American Pat. & Ch. Corp., supra* It has also been held that information falling within the classification of "know-how" can be protected by injunction where it is of sufficient novelty and where it has been maintained in secrecy to such an extent as to give rise to a claim of property right. *Gronemeyer v. Hunter Mfg. Corp.*, Del. Ch., 106 A.2d 519 (1954). The key to these settled principles, however, is that the information, in order to be protected from disclosure by injunction, must be such that it derives independent economic value, actual or potential, from not being generally known to others, and from not being readily ascertainable through proper means by others. See the statutory codification of this concept at 6 *Del. C.* § 2001(4). It is here that I think Pfizer's case has a flaw, at least when measured against the standard prevailing at the preliminary injunction stage.

The status of the record here is such that when the general nature of the alleged trade secrets sought to be protected by Pfizer are weighed against the sworn statements of what appears to be four qualified and experienced research physicians, all of whom have worked with Pfizer's study to some degree as well as with other clinical studies and all of whom state that what Pfizer is claiming as its trade secrets is nothing more than the application of measuring and testing techniques known generally in the medical profession, or which are readily ascertainable through published or available medical information, then it is difficult

to conclude that Pfizer has convincingly demonstrated that upon a final hearing it will be able to prove that its current clinical testing methods are so novel, secret and proprietary to it as to qualify for trade secret classification. Since Laudadio's contract with Pfizer prohibited him only from disclosing information learned by him while in Pfizer's employ which was confidential and secret to Pfizer and which was not "known or used generally," it would seem that to the extent that Pfizer is seeking injunctive relief based upon the employment contract its case is no stronger.

In addition, I am further satisfied on the present record that a balancing between the parties of the hardships that would flow from either a grant or denial of preliminary injunctive relief, particularly when weighed in light of the obvious public interest involved, further points to a denial of Pfizer's application as being the proper result.

As noted at the outset, the root of this controversy is money. Boiled down, Pfizer is contending that it will suffer irreparable injury if the injunction is not granted because in that event ICI, with Laudadio's help, is likely to get federal approval for its version of an inhibitor several years earlier than it would otherwise, and thus cut down on the time during which Pfizer is likely to have an inhibitor on the market without competition from ICI. If this occurs, it will serve several years from now to reduce the economic advantage which Pfizer feels that it now has over any competing effort from ICI. Thus, the irreparable injury element translates into a loss of future profits.

On the other hand, if the injunction is granted, ICI will be compelled to develop its own clinical testing protocol through persons not having Laudadio's experience, and one possible result will be that ICI will be forced to needlessly expend millions of dollars and perhaps waste considerable amounts of research time and patient involvement in the clinical testing of its prospective inhibitor.

This latter result would seem to guarantee a substantial loss of time and money to ICI in the event that it should turn out at final hearing that Pfizer is unable to establish that its information qualifies for trade secret protection. Conversely, Pfizer always has a remedy in damages available to it in the event that the preliminary injunction is denied now, but it is able to prove at final hearing that the testing procedures it is attempting to protect truly are trade secrets. See, 6 *Del. C.* § 2003. In the meantime, it is nothing out of pocket immediately and it appears on the present record that its aldose reductase inhibitor is likely to be on the market far ahead of ICI's product anyway.

I think it significant too that we are not dealing here with a

competitive rush to develop a new luxury or creature comfort item, or to make a better widget. The competition here is to develop and market a totally new drug intended to ease human pain and suffering; to provide a possible aid to diabetics where none has existed before. Certainly, if Dr. Laudadio's intention was to simply walk across the street, so to speak, and give Pfizer's formula to ICI, plus all that goes with it so as to put ICI instantly on a par with Pfizer, it would be a different story. In such a case an injunction would be appropriate and the granting of it would in no way inhibit research for a needed medical remedy.

But here the search is ongoing, and to grant the preliminary injunctive relief sought by Pfizer in order to protect its anticipated future economic interests would serve to impair the medical research now being sponsored by ICI as to a different form of inhibitor and thus deprive the public, to a degree, of ICI's best effort to develop a needed medical remedy. I feel that under such circumstances the equities of the situation require Pfizer to make a particularly clear showing that it will be able to prove at a final hearing that what it seeks to protect through a restraint on Laudadio's services is trade secret or proprietary information, and on the status of the present record I find that it has not done so.

In summary, I must confess that I have found this a difficult decision to make. Certainly, there is much to be said for Pfizer's position. On balance, however, I conclude that the motion for the preliminary injunction should be denied and that the restraining order previously entered must be dissolved. Counsel for ICI may submit an appropriate form of order to this effect.

PFIZER, INC. v. ICI AMERICAS, INC.
No. 7785
Court of Chancery of the State of Delaware, New Castle

November 28, 1984

In a trade secret case, Chancellor Brown initially entered a restraining order giving Pfizer the immediate protection it sought. Later on

a more fully developed record, he denied Pfizer's application for a preliminary injunction and, correspondingly, vacated the restraining order. It is from that last decision, and order entered thereon, that Pfizer sought to take an interlocutory appeal.

The court of chancery, per Chancellor Brown, certified an interlocutory appeal pursuant to Supreme Court Rule 42. The court held that requirements of Rule 42 had been satisfied in that a substantial issue had been determined and that a legal right had been established. However, the court declined to enter a stay of order from which the interlocutory appeal is sought to be taken.

1. Appeal and Error ⟹ 93, 68

The court interpreted the recent amendment of Supreme Court Rule 42(b), which added thereto a new subparagraph (iii) while retaining the former subparagraph (iii) as a new paragraph (iv), to mean that one of the necessary criteria for an interlocutory appeal is met when a trial court vacates by interlocutory order an order or judgment that was previously entered in the case.

2. Actions ⟹ 67, 68

The court would not grant a stay since to grant a stay would be the equivalent of granting a party a continuation a temporary injunctive relief after the court had found on the record that the party had not made a sufficient showing to warrant the continued protection that it sought.

Paul E. Crawford, Esquire, and Henry E. Gallagher, Esquire, of Connolly, Bove, Lodge & Hutz, Wilmington, Delaware, for plaintiff Pfizer.

Richard D. Allen, Esquire, and Donald F. Parsons, Jr., Esquire, of Morris, Nichols, Arsht & Tunnell, Wilmington, Delaware, for defendant ICI Americas, Inc.

Lawrence Ashby, Esquire, of Ashby, McKelvie & Geddes, Wilmington, Delaware, for defendant Dr. Laudadio.

BROWN, *Chancellor*

I have concluded that there is a reasonable basis for certifying an interlocutory appeal pursuant to Supreme Court Rule 42. However, I decline to enter a stay of the order from which the interlocutory appeal is sought to be taken.

Whether an interlocutory order determines a substantial issue and establishes a legal right is almost always a difficult question. Here, in this trade secrets case, I initially entered a restraining order giving Pfizer the immediate protection it was seeking, but later, on a more fully developed record, I denied Pfizer's application for a preliminary injunction and, correspondingly, vacated the restraining order. It is from this last decision, and the order entered thereon, that Pfizer seeks to take the interlocutory appeal.

I think that a substantial issue has been determined by the decision denying Pfizer's application for a preliminary injunction, namely, that all clinical testing information accumulated and maintained by Pfizer, under arguably reasonable efforts of secrecy given the nature of the activity, does not qualify for trade secret protection through a preliminary injunction despite the fact that all such information claimed to be proprietary by Pfizer can arguably fall within the broad definition of a trade secret found at 6 *Del. C.* § 2001(4).

Furthermore, while perhaps a legal right has not been established in the final sense by the denial of the preliminary injunction and the vacating of the restraining order, a legal right has certainly been established in the interim, namely, Dr. Laudadio's right to legally use his knowledge of the testing methods for an aldose reductase inhibitor on behalf of ICI and ICI's right to legally avail itself of Laudadio's knowledge and experience gained while in the employ of Pfizer between the present time and the time of a final determination on the merits. Given the nature of the controversy, a subsequent finding in favor of Pfizer on all the evidence could not eradicate the knowledge imparted to ICI legally during the interim.

[1] As to the third requirement for an interlocutory appeal, I can only conclude that the recent amendment of Supreme Court Rule 42(b) to add thereto a new subparagraph (iii) while restraining the former subparagraph (iii) as a new subparagraph (iv) means that one of the necessary criteria for an interlocutory appeal is met when a trial court, such as this one, vacates by interlocutory order an order or judgment that was previously entered in the case.

I concede that the Supreme Court may disagree with any or all of the foregoing conclusions. However, they provide the basis at this level for my decision to certify the appeal.

[2] At the same time, since the ultimate decision as to whether or not to accept the interlocutory appeal is reposed in the Supreme Court under Rule 42, and since the granting of a stay would be the equivalent of granting Pfizer a continuation of temporary injunctive

relief after I have found on the record that it has not made a sufficient showing to warrant the continued protection that it seeks, I decline to grant its motion to stay pending appeal. Should the Supreme Court decide to accept the appeal, I think that it would be in a better position to evaluate the wisdom of a stay pending the outcome of appellate proceedings before it.

An order of certification can be signed. The motion to stay is denied. As to the latter, IT IS SO ORDERED.

RADWICK PTY., LTD. v. MEDICAL, INC.

No. 7610

Court of Chancery of the State of Delaware, New Castle

November 7, 1984

Plaintiff, an Australian holding company created to hold defendant Medical, Inc.'s stock, brought an action pursuant to DEL. CODE ANN. tit. 8, § 220 to inspect stockholder lists and certain books and records of the privately held defendant. This action was commenced following unsuccessful attempts, including a formal demand letter by plaintiffs, to learn of the defendant's efforts to undertake an expansion program in Australia. The court of chancery, per Vice-Chancellor Berger, held that plaintiff's demand letter met the formal requirements as to the form and matter of making demand and that plaintiff's intent to value its shares was a proper purpose for the inspection of corporate books and records. The court ordered that the plaintiff be given access to those documents that would be essential and sufficient in valuing its stock but refused to allow disclosure of confidential information about the pending Australian transaction.

1. Corporations ⟹ 181(8)

A stockholder seeking books and records of a corporation has the burden of establishing that the demand was made in the form and manner required and that the inspection is sought for a proper purpose reasonably related to the stockholder's interest as stockholder. DEL. CODE ANN. tit. 8, § 220 (1974).

2. Corporations ⟹ 181(8)

With respect to a demand for a stockholder list, the burden is on the resisting corporation to establish that the inspection is sought for an improper purpose. DEL. CODE ANN. tit. 8, § 220 (1974).

3. Corporations ⟹ 181(1)

It is settled law in Delaware that valuation of one's shares is a proper purpose for the inspection of corporate books and records.

4. Corporations ⟹ 181(1)

Once a proper purpose for seeking inspection of corporate books and records has been established, any secondary purpose of ulterior motive of the stockholder becomes irrelevant.

5. Corporations ⟹ 181(1)

Valuation of one's shares is a proper purpose for inspection of corporate books and records notwithstanding whether there was a secondary purpose on the part of the stockholder not reasonably related to its interest as a stockholder. DEL. CODE ANN. tit. 8, § 220 (1974).

6. Corporations ⟹ 181(1)

Where the purpose for seeking inspection of corporate books and records is to value the stock of a privately held corporation, only those records which are essential and sufficient to perform the valuation must be provided. DEL. CODE ANN. tit. 8, § 220 (1974).

7. Corporations ⟹ 181(2)

In deciding the extent of the stockholder's rights to inspect corporate books and records, the court should consider both the information previously provided by the company and the certainty of the stockholder's intention to buy or sell the subject company's stock.

8. Corporations ⟹ 181(1)

A stockholder may not use DEL. CODE ANN. tit. 8, § 220 as a means to invade the corporate board room and a shareholder's rights to inspect corporate books and records may be limited where production of certain documents would be adverse to the interests of the corporation. DEL. CODE ANN. tit. 8, § 220 (1974).

9. Corporations ⟹ 181(8)

Where an Australian holding company of defendant corporation's

stock sought to inspect documents relating to a transaction being negotiated by the defendant in Australia, the potential benefit to the plaintiff in performing a stock valuation is outweighed by the potential harm to the defendant of untimely disclosure of confidential information about the pending transaction and the defendant is not required to produce those documents. DEL. CODE ANN. tit. 8, § 220 (1974).

Michael Hanrahan, Esquire, of Prickett, Jones, Elliott, Kristol & Schnee, Wilmington, Delaware, for plaintiff.

A. Gilchrist Sparks III, of Morris, Nichols, Arsht & Tunnell, Wilmington, Delaware, for defendant.

BERGER, *Vice-Chancellor*

Plaintiff, Radwick Pty., Ltd. ("Radwick") holds 200,000 shares of defendant, Medical Incorporated ("Medical") and brought this action pursuant to 8 *Del. C.* § 220 to inspect defendant's stockholder lists and certain of its books and records. Although § 220 actions are considered summary proceedings and usually are handled expeditiously, the parties chose to present their positions on a rather expanded record with both pre- and post-trial briefing followed by oral argument. In light of plaintiff's willingness to conduct this litigation at less than breakneck pace, I am satisfied that the time that has elapsed since submission of this matter does not offend the mandate that this Court provide prompt relief under the statute.

Medical, a Delaware corporation, is a privately held company engaged in the development, manufacture and sale of artificial human implantable organs and physiological support systems. Radwick, a subsidiary of a Western Australian conglomerate known as Bond Corporation Holdings, Ltd. ("Bond"), is a holding company created under the laws of Western Australia to hold Medical stock, among other assets. Radwick acquired its Medical stock in the spring of 1982. Shortly thereafter, James Barris Lepley, Jr. ("Lepley"), Radwick's U.S. financial advisor, made the first of a series of visits to Medical to learn more about the company. Lepley developed a cordial working relationship with Medical's Chief Operating Officer and was given financial information including confidential internal projections of Medical's earnings.

Sometime during the spring of 1983, Radwick became concerned about the dilution of its holdings as a result of private placements being made by Medical. That summer, Radwick learned, through independent sources, that Medical was planning to establish a substan-

tial research facility in Western Australia (the "Western Australian transaction"). Radwick was puzzled or, in Medical's view, distressed, that Medical would undertake a major expansion program in Radwick's "backyard" without discussing its plans with Radwick and seeking the assistance of well placed and influential people connected with Radwick and its parent company.

Early in 1984, when Medical's Chief Operating Officer was in Australia, he met with several of Radwick's directors at their request. At that meeting, Radwick was unsuccessful in its effort to learn more about the Western Australian transaction. In April, 1984 Lepley and two of the three Radwick directors met and decided that a formal demand for information should be addressed to Medical. The demand letter, dated April 12, 1984, requested the following:

> (1) Medical, Inc.'s stock ledger and most recent list of stockholders, with names, addresses and number of shares held in each name, including any list of persons holding Medical, Inc. shares in a nominee's name;
>
> (2) A list of Medical, Inc.'s transactions in its own shares or securities convertible into its own shares made within the past 24 months;
>
> (3) Medical, Inc.'s quarterly, annual, and any other financial statements or reports, whether audited or not, prepared within the past 24 months;
>
> (4) Any information or material distributed to any purchasers or potential purchasers of Medical, Inc shares from the company within the past 24 months;
>
> (5) Any information regarding proposals, negotiations, projections, or other plans in connection with a contemplated transaction by Medical, Inc. in Western Australia.

The stated purpose of the demand was:

> . . . to enable Radwick to ascertain the value of its shares, and to communicate with other Medical, Inc. shareholders with respect to the possible purchase by Radwick of additional Medical, Inc. shares or, in the alternative, the possible disposition by Radwick of the shares which it currently owns.

Medical provided the information in categories (2) and (3) of Radwick's demand but refused to produce the remaining documents.

[1, 2] A stockholder seeking books and records of a corporation has the burden of establishing that the demand was made in the form

and manner required and that the inspection is sought for a proper purpose—one reasonably related to the stockholder's interest as a stockholder. With respect to a demand for a stockholder list, the burden is on the resisting corporation to establish that the inspection is sought for an improper purpose. 8 *Del. C.* § 220.

In its answer, Medical denied that the demand letter was authorized by Radwick. The demand letter, dated April 12, 1984, was executed by Radwick's attorney under oath and referred to an attached letter from Radwick's Secretary dated April 3, 1984 (the "authorization letter") as authority for the demand letter. Medical contends that the demand letter exceeds the authorization given to the extent that the demand letter states, as one of Radwick's purposes, the desire to communicate with other Medical stockholders about the possible purchase or sale of their or Radwick's stock. That issue will be discussed in resolving the demand for a stocklist. For present purposes, it is sufficient to note that the demand letter meets the formal requirements as to the form and matter of making demand.

Turning to the demand for books and records, Medical raises three arguments against production of any records in addition to those provided voluntarily: (1) Radwick's true purpose is not to value its shares but to harass Medical; (2) Radwick already has received sufficient information to value its shares; and (3) disclosure of documents relating to the Western Australian transaction may jeopardize sensitive negotiations and thereby harm Medical.

[3, 4] It is settled law in Delaware that valuation of one's shares is a proper purpose for the inspection of corporate books and records. *CM & M Group, Inc. v. Carroll*, Del. Supr., 453 A.2d 792 (1982); *Mills v. Fruit Auction Sales Co.*, Del. Ch., C.A. 6468, Marvel, C. (October 1, 1983); *Neely v. Oklahoma Publishing Co.*, Del. Ch., C.A. 5293, Brown, V.C. (June 30, 1977). Furthermore, once a proper purpose is established, any secondary purpose or ulterior motive is irrelevant. *Skouras v. Admirality Enterprises, Inc.*, Del. Ch., 386 A.2d 674, 678 (1978).

The evidence establishes that, as stated in its demand letter, Radwick seeks the enumerated books and records in order to value its stock. Radwick acknowledges that it has not yet determined whether it will attempt to buy or sell Medical stock and that, depending on the prices offered, it may decide to do nothing. However, the fact that Radwick is holding open these options is only a reflection of the business realities of any possible transaction where the party is not forced to accept the deal regardless of its terms. Lepley testified that Radwick intends to "sit with" its Medical stock only if it is unable

to buy or sell at what it determines to be a reasonable price. Trial Transcript p. 89.

[5] Medical argues that the valuation purpose is a pretext. Medical points out that Lepley was hired as Radwick's U.S. financial advisor and that his duties include the valuation of Radwick's investments. Yet Lepley has not been asked to value the Medical stock and his suggestion that Radwick seek Medical information on a friendly and informal basis wa rejected. In addition, the evidence suggests that Radwick is interested in finding out as much as it can about the Western Austrialian transaction not only because of its effect on the value of Medical's stock but also because Radwick is curious about Medical's invasion of Radwick's home turf. I am satisfied that Radwick's valuation purpose is bona fide. Radwick's claim is not defeated by the fact that it may have secondary motives which are not reasonably related to its interest as a Medical stockholder.

[6-8] Although I have concluded that Radwick stated a proper purpose, a question remains as to the specific information Radwick will be permitted to inspect. Where, as here, the purpose is to value the stock of a privately held corporation, only those records' which are "essential and sufficient" to perform the valuation must be provided. *State ex rel Rogers v. Sherman Oil Co.*, Del. Super., 117 A. 122 (1922). In deciding the extent of the stockholder's inspection rights, the Court should consider both the information previously provided by the company and the certainty of the stockholder's intention to buy or sell the subject company's stock. *Neely v. Oklahoma Publishing Co., supra* at p. 7. A stockholder may not use § 220 as a means to invade the corporate board room and inspection rights may be limited where production of certain documents would be adverse to the interests of the corporation. *See Skoglund v. Ormand Industries, Inc.*, Del. Ch., 372 A.2d 204 (1976).

Radwick already has received Medical's annual reports for 1982 and 1983, its quarterly reports for the first three quarters of 1983 and the first two quarters of 1984, a draft confidential private placement memorandum dated January 3, 1982 and various correspondence and memoranda, primarily generated during 1981 and 1982, relating to Medical's operations and financial position as well as a list of Medical's transactions in its own shares during the past two years. Radwick contends that this data, some of which is stale, should be supplemented by the information requested in categories (4) and (5) of the demand letter—private placement materials and documents relating to the Western Australian transaction.

[9] It seems obvious that the private placement information would be of assistance to Radwick in valuing its Medical stock inasmuch as a private placement memorandum is designed to provide information about the company's background and financial prospects for the purpose of attracting a potential investor. However, Medical's expert testified that the information contained in a private placement memorandum is not necessary to do a valuation. In addition, Medical argues that private placement memoranda are confidential and access to those documents would constitute the type of corporate intermeddling that the *Neely* case found to be inappropriate.

On this issue, I find each side's position to have some merit. It does not follow from the fact that Medical's annual and financial reports are as complete as those of a public company that Radwick should be unable to receive any additional information. On the other hand, a stockholder's demand to obtain confidential information should be closely scrutinized. On balance, I conclude that Radwick should be provided any private placement memoranda actually distributed to potential investors during 1983 and 1984 on the condition that Radwick agree to the same confidentiality terms generally imposed upon a prospective purchaser before being given those documents.

[10] The requested documents relating to the Western Australian transaction raise additional problems. Radwick's interest in this information is understandable. The Western Australian facility may double the size of Medical's operations and undoubtedly is material to Medical's future revenues. In addition, it is natural for Radwick to be curious about a venture that will be undertaken in Radwick's home territory where it and its parent company apparently have great influence and substantial investments of their own. However, this second factor has no relationship to Radwick's interest as a stockholder of Medical.

The Western Australian transaction is still being negotiated, at least in some respects. The very fact that Radwick has been unable to learn very much about Medical's plans through its own sources is evidence of the confidential nature of the negotiations. Moreover, inasmuch as Medical's plans have not been finalized yet, production of the documents relating to the Western Australian transaction would be of limited assistance in valuing Medical stock. Radwick would have to speculate as to what the final arrangements will be and derive a value based on those assumptions.

Radwick has made no definite commitment to buy or sell its Medical stock and is under no particular time constraint in making

that decision. Medical, by contrast, is in the midst of sensitive negotiations which they fear may be disrupted if Radwick is brought into the picture. Considering all of these factors, I am satisfied that the potential benefit to Radwick in performing a stock valuation is outweighed by the potential harm to Medical of untimely disclosure of confidential information about a pending transaction. Accordingly, the documents sought in category (5) relating to the Western Australian transaction are not required to be produced.

As noted earlier, Medical contends that Radwick's demand for a stock list is deficient because the purpose of communicating with stockholders about the purchase or sale of Medical stock wa not included as a purpose in Radwick's authorization letter. Medical also argues that (1) such a communication purpose is speculative and premature and (2) to the extent that the stocklist is being sought as part of Radwick's valuation purpose, the evidence demonstrates that the stocklist will not assist Radwick in valuing its Medical stock.

I find Medical's technical objection to be without merit. The authorization letter specifically identifies Medical's stocklist as one of the desired documents and refers generally to Radwick's interest in purchasing additional stock from Medical's existing stockholders. Lepley testified:

> We wanted to communicate with the shareholders, the other shareholders of Medical, Inc. to review with them what their view of the company was to help us establish a value for the company. . . .We wanted to talk to them about at what prices they might be willing to sell their shares, or at what prices they might like to buy our shares.
>
> And further, as I think I've stated before, we would like to know who the shareholders are because it might have a substantial effect on our views as to whether or not we should—how we should value the shares. Trial Transcript p. 57.

Although the authorization letter did not explicitly address the communication purpose, the trial testimony establishes that Radwick did, in fact, authorize its counsel to seek the stocklist for the purpose stated in the demand letter.

Medical relies upon several recent decisions for the proposition that a stocklist demand is insufficient where the substance of the intended communication with the company's stockholder is not explicity stated and there is no impending event which would, by inference,

indicate the nature of the intended communication. *See Hatleigh Corporation v. Lane Bryant, Inc.*, Del. Ch., C. A. No. 6259, Hartnett, V.C. (October 20, 1980); *Haber V. Harnischfeger Corp.*, Del. Ch., C. A. No. 6930, Hartnett, V.C. (February 3, 1983); *Shamrock Associates v. The Dorsey Corporation*, C. A. No. 7678, Brown, C. (July 24, 1984). However, those cases are distinguishable on their facts. The demands in *Hatleigh* and *Shamrock* involved communication with stockholders about possible representation on the board of directors and the purpose in the *Haber* demand was to communicate about the affairs of the corporation and, possibly, remedies available to the company's stockholders. Radwick's communication purpose, by contrast, is to buy or sell Medical stock. This Court has found such a purpose to be proper, *Mite Corporation v. Heli-Coil Corporation*, Del. Ch., 256 A.2d 855 (1969), even where the stockholder's plan to purchase or sell is tentative. *Bethlehem Copper Corporation v. Valley Camp Coal Company*, Del. Ch., C.A. 4942, Quillen, C. (December 14, 1975).

The reference in the Radwick demand letter to the *possible* purchase or disposition of Medical stock does raise a question as to whether the stocklist demand is premature. However, paragraph 9 of the complaint as well as the trial testimony establishes that Radwick does intend to change its Medical holdings. Accordingly, I find that Radwick has stated a proper purpose for inspection of the stocklist.

In light of the limited number of documents to be produced pursuant to this decision, it seems reasonable to require that Radwick be given access to those documents no later than the close of business on Tuesday, November 13, 1984.

IT IS SO ORDERED.

SAFECARD SERVICES, INC. v.
CREDIT CARD SERVICE CORP.
No. 6426
Court of Chancery of the State of Delaware, New Castle

September 5, 1984

Plaintiff, SafeCard Services, Inc., a one percent shareholder of the defendant, Credit Card Service Corp. (CCSC), sought produc-

tion of certain financial records of the defendant. CCSC resisted the plaintiff's request for inspection contending that the action, by an admitted competitor, was intended for harassment and the securing of commercial advantage.

CCSC moved for summary judgment on the ground that the record fully supported its argument of improper purposes and that it was entitled to judgment as a matter of law.

The court of chancery, per Vice-Chancellor Walsh, denied CCSC's motion for summary judgment holding that: (1) shareholders have a right to inspect the corporate books and records if the purpose is genuine, and (2) these were factual allegations which must avail resolution at trial or upon an enlarged record.

1. Judgment ⟹ 181(2)

In the context of summary judgment, it is incumbent upon the movant to demonstrate that no material question of fact exists.

2. Judgment ⟹ 185(2)

In the context of summary judgment, the facts must be viewed in the manner most favorable to the nonmovant with all factual inferences resolved in this favor.

3. Corporations ⟹ 181(1)

The establishment of a shareholder's right to inspection of corporate books and records under statute depends upon the propriety of the shareholder's stated purpose. DEL. CODE ANN. tit. 8, § 220(b) (1974).

4. Corporations ⟹ 181(8)

Unlike a stock list request which places the burden upon the corporation to demonstrate an improper purpose, the burden in a books and records situation rests upon the shareholder to show that the purpose of the inspection is proper. DEL. CODE ANN. tit 8, § 220(c) (1974).

5. Corporations ⟹ 181(1)

To satisfy the burden in a books and records inspection situation, the shareholder must demonstrate that this purpose is reasonably related to his interest as a stockholder.

6. Corporations ⟹ 181(1)

The shareholder's purpose in seeking inspection must not be adverse to the interests of the corporation.

7. Corporations ⟹ 181(1)

The court's task is to determine whether the alleged purpose of the shareholder's request is its genuine purpose, and, if so, whether that stated purpose is proper. Having found a proper purpose, any secondary purposes or ulterior motives of the shareholder become irrelevant and may not be the basis for denying the shareholder's inspection rights.

8. Corporations ⟹ 181(1)

The corporation may seek protection from abuse by the shareholder of its inspection right.

9. Corporations ⟹ 181(1)

Secondary purposes and ulterior motives can serve as a basis for circumscribing the exercises of the shareholder's otherwise valid right to inspection. DEL. CODE ANN. tit. 8, § 220(c) (1974).

10. Corporations ⟹ 181(1)

If the court determines that the corporation's legitimate interests are threatened by the production of books and records, it may restrict the inspection to protect those legitimate interests.

11. Corporations ⟹ 181(3)

The mere fact that a shareholder is a competitor cannot preclude a right to inspect corporate records, nor does the filing of a lawsuit against the corporation defeat the right of inspection.

12. Corporations ⟹ 181(1)

Although inspection rights may be denied where the shareholder's purpose in obtaining the information is to file harassing and vexations litigation, generally, the right of inspection exists separate and apart from other pending litigation filed by the shareholder against the corporation.

13. Corporations ⟹ 181(1)

Stockholders purposes to investigate possible waste and mismanagement and to value its shares of stock are not adverse to a corporation's best interests.

14. Corporations ⟹ 181(1)
Mandamus ⟹ 167

In a mandamus action, the court is afforded a wide range of discre-