

The Pendulum Swings to Trade Secret Defendants: 2010 Best Practices for Identifying Trade Secrets in Discovery



RANDALL E. KAY
Jones Day

THE DROUGHT HAS ENDED for trade secret defendants. After five years of court decisions favoring plaintiffs on the sufficiency of trade secret designations, an appellate court has leveled the playing field by ruling for the defense.

Why did this happen and what does this mean? It happened because an appellate court accepted a case that counterbalanced the existing law. It means that trade secret plaintiffs cannot pursue trade secret claims without identifying and disclosing the specifics of the asserted trade secrets. It also reminds trial courts of the wide latitude they have to regulate the sufficiency of a plaintiff's trade secret designation.

The new law does not reverse existing law. Rather, litigants now have a series of three important cases—*Perlan*, *Brescia* and *Advanced Modular Sputtering*—that together guide litigants and courts on the process for identifying trade secrets in discovery. No single factor compels the outcome on the sufficiency of a trade secret disclosure.

To provide guidance on best practices for handling trade secret disclosures, this article:

- ▶ Reports the breakthrough case of *Perlan Therapeutics, Inc. v. Superior Court (NexBio)*;¹
- ▶ Explains the legal framework for trade secret designations; and
- ▶ Provides practical tips for litigants handling trade secret designations.²

THE STEREOTYPICAL EMPLOYEE MOBILITY TRADE SECRET CASE: *PERLAN V. NEXBIO*

The facts giving rise to this new court decision typify trade secret litigation. Two employees moved from one company (Perlan) to another (NexBio) by exercising their legal right to change employers within their field. The former employer sued the new company and the two individuals for trade secret misappropriation.

Perlan provided a trade secret designation under California Code of Civil Procedure section 2019.210. NexBio argued that Perlan's trade secret designation fell short of the legal requirements by not identifying the trade secrets with "reasonable particularity."

Perlan's trade secret statement consisted of a full page of "preliminary statement" and "general objections" and four pages of text that, among other things, repeated the narrative from the publicly filed complaint and provided additional publicly available information.

The trial court granted NexBio's motion for a protective order precluding Perlan from pursuing discovery on the claimed trade secrets. The court based its ruling on a finding that Perlan's trade secret designation lacked reasonably particularity for the circumstances. The court's ruling shielded the defendants from having to respond to Perlan's discovery relating to the alleged trade secrets.

Perlan petitioned the appellate court for a writ of mandate directing the trial court to accept its trade secret identification. The appellate court denied Perlan's petition and stated that Perlan's trade secret designation did not provide adequate specifics of the purported trade secret processes, technologies and inventions.³

SECTION 2019.210—PURPOSES AND PROVISIONS

Courts have long held that trade secret designations serve many purposes. The case *Computer Economics, Inc. v. Gartner Group, Inc.*⁴ contains a comprehensive discussion of the policies behind section 2019.210. This opinion cites four primary purposes of section 2019.210: (1) it promotes well-investigated claims and dissuades the filing of meritless trade secret complaints; (2) it prevents plaintiffs from conducting "fishing expeditions" in discovery as a means to obtain the defendant's trade secrets; (3) it assists the court in framing the appropriate scope of discovery; and (4) it enables defendants to form complete and well-reasoned defenses and ensures that defendants need not wait until the eve of trial to defend effectively against trade secret claims.⁵ The decision in *Computer Economics* details the many reasons why the California legislature adopted section 2019.210, such as trade secret claims being "especially prone to discovery abuse since neither the



court nor the defendant can delineate the scope of permissible discovery without an identification of plaintiff's alleged trade secrets.⁶

Section 2019.210 codifies the principles from the seminal case *Diodes, Inc. v. Franzen*.⁷ Section 2019.210 provides:

In any action alleging the misappropriation of a trade secret under the Uniform Trade Secrets Act (Title 5 (commencing with Section 3426) of Part 1 of Division 4 of the Civil Code), before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity subject to any orders that may be appropriate under Section 3426.5 of the Civil Code.⁸

Section 2019.210 requires sufficient identification of trade secrets as a condition to a plaintiff commencing discovery.

PRE-PERLAN CASE LAW HAD FAVORED PLAINTIFFS

When Perlan and NexBio went to court to dispute the sufficiency of Perlan's trade secret designation, the two recent governing cases both favored Perlan. The 2005 *Advanced Modular Sputtering* case and the 2009 *Brescia* decision seemed to indicate that California courts would not strictly interpret the requirements for identifying trade secrets.

In *Advanced Modular Sputtering, Inc. v. Superior Court*,⁹ the court held that "reasonable particularity" in section 2019.210 means "that the plaintiff must make some showing that is reasonable, *i.e.*, fair, proper, just and rational" under all of the circumstances to "allow the trial court to control the scope of subsequent discovery, protect all parties' proprietary information, and allow them a fair opportunity to prepare and present their best case or defense at a trial on the merits."¹⁰ The court further stated that "reasonable particularity" does not mean that the claimant has to define every

minute detail of its claimed trade secret at the outset of the litigation. The *Advanced Modular* court specifically stated that the statute does not require a miniature trial on the merits of a misappropriation claim before discovery may commence.¹¹

In *Brescia v. Angelin*,¹² the court held that section 2019.210 does not necessarily require that a trade secret claimant explain in its designation how the trade secret differs from the general knowledge of skilled persons in the relevant field. The court held that such an explanation is only required when the nature of the claimed trade secret or the technical field render such information necessary to permit the defendant to learn the boundaries of the trade secret and to investigate defenses, or to permit the court to understand the designation sufficiently to fashion discovery. The court further held that a trade secret designation under section 2019.210 should be construed liberally and reasonable doubts regarding its adequacy should be resolved in favor of allowing discovery to go forward.

Then came NexBio. NexBio typified the conundrum that trade secret defendants faced. In denying Perlan the extraordinary relief it sought, the California appellate court broke ground in a published decision to protect defendants from the abuse they suffer when facing vague, nonspecific and undefined trade secret claims.

TIPS FOR TRADE SECRET PLAINTIFFS (HOW DID PERLAN LOSE?)

- ▶ *Spell out the trade secrets.* Plaintiffs ought to identify the actual trade secrets in narrative form by providing detail of the equation, the recipe, the formula, the process, the method or other trade secret information. Many courts will not accept any less in response to a challenge to the sufficiency of a designation under Section 2019.210. Courts frown

on a plaintiff asserting that "defendants know what they took." Strive to draft a designation that a court would find "clear and non-evasive."

- ▶ *Limit "surplusage."* Recognize that a court will see preliminary statements, general objections and other qualifications as boilerplate jargon that does not comply with Section 2019.210. In *Perlan*, the court criticized the plaintiff for hiding alleged trade secrets in "plain sight" by burying the information in surplusage and voluminous attachments.
- ▶ *Avoid catch-all phrases.* Avoid identifying trade secrets by vague statements such as "all related research, development, advancements, improvements and processes related thereto."
- ▶ *Avoid general concepts.* Define a trade secret rather than a general concept. A plaintiff who tries to define a trade secret as information "including the concept of 'x, y, z'" does not identify the actual trade secret. Some courts will find this type of phraseology only refers to general concepts involved in the technology rather than identifying the actual trade secret information.
- ▶ *Avoid generally known information.* Distinguish the trade secrets from matters generally known in the scientific field. A plaintiff's failure to identify the specific trade secret information constitutes a failure to distinguish the information from matters generally known in the field.
- ▶ *Distinguish the asserted trade secrets from general knowledge.* Explain how to distinguish the claimed trade secret information from



general knowledge in the field if circumstances render that information necessary to understanding the boundaries of the claimed trade secrets. Recognize that in a highly specialized field the court may require a more exacting level of particularity than in a broader field of technology.

- ▶▶ *Makes smart use of experts.* Consider involving expert witnesses in the articulation of the specific trade secrets as well as in any briefing on the sufficiency of the trade secret designation. Detail the foundation for the experts' opinions in any expert declaration to guard against a court rejecting the declaration as conclusory. Explain the novelty of the trade secret information in the expert declaration. Describe in the expert declaration how the claimed trade secret information differs from publicly available knowledge in the trade.
- ▶▶ *Plan, organize and coordinate the documentation.* List the claimed trade secrets numerically in the designation. Make an effort to synchronize the nature of trade secrets claimed in the complaint, the trade secret designation and any expert declaration. Disparities will lead to questions by opposing parties and the court.
- ▶▶ *Include the substance in the designation itself.* Courts may reject the portion of a trade secret designation referring the reader to other documents to find the substance of the trade secrets, such as attached documents. The designation itself should provide that substance.
- ▶▶ *Avoid arguing for discovery in order to draft the designation.* This puts the cart before the horse. The statute itself (Section 2019.210) pre-

cludes discovery until the plaintiff identifies the trade secret information with reasonable particularity.

- ▶▶ *Review the purposes of Section 2019.210.* Courts will look to the four purposes for the "reasonable particularity" requirement that this article recites. Plaintiffs ought to review those purposes in connection with preparing a trade secret designation to spot-check the sufficiency of the designation.
- ▶▶ *Require a protective order.* Prior to any disclosure of existing trade secrets, counsel ought to ensure that the court enters a suitable protective order to govern access to the trade secret disclosure itself.
- ▶▶ *Think before requesting sealing of court records.* Think twice before insisting upon the sealing of court records containing the information. If the plaintiff's position is that the allegedly trade secret information has been made public, courts may view a request to seal the court records as imposing unnecessary costs on defendants and the courts.
- ▶▶ *Amend as allowable.* For good cause, seek timely amendment of the trade secret disclosure.

THE FUTURE

With the issuance of the *Perlan* decision, three important cases now guide the process for designating trade secrets in discovery. *Perlan* stands as the barometer of the protection that defendants have needed for years. While the outcomes in *Perlan*, *Brescia* and *Advanced Modular Sputtering* differ, parties can reconcile the decisions and apply all of the principles in future cases. All three decisions support the overall goal of the fair and efficient administration of justice for all. ◀◀

The views expressed in this article are personal to the author and do not necessarily reflect the views of the author's firm, the State Bar of California, or any colleagues, organization, or client.

© 2010 Randall E. Kay.

Randall E. Kay is with the firm of Jones Day. He specializes in representing technology and biotech companies in trade secret, patent, idea submission, copyright, unfair competition, and business lawsuits. Mr. Kay has served as an expert witness on trade secret litigation. He can be reached at rekay@jonesday.com.

Endnotes

1. 178 Cal. App. 4th 1333 (2009).
2. For a more comprehensive guide to the identification of trade secrets in discovery, with tips for plaintiffs and defendants, see Rebecca Edelson and Randall E. Kay, eds., TRADE SECRET LITIGATION AND PROTECTION IN CALIFORNIA (State Bar of California 2009) at Chapter 9, available at www.ipsection.org.
3. At press time, *Perlan's* petition for review at the California Supreme Court had not been ruled upon.
4. *Computer Econ., Inc. v. Gartner Group, Inc.*, 50 F. Supp. 2d 980 (S.D. Cal. 1999).
5. *Id.* at 985.
6. *Id.* at 992.
7. 260 Cal. App. 2d 244 (1968).
8. Cal. Civ. Proc. Code § 2019.210 (West 2010).
9. 132 Cal. App. 4th 826, 835 (2005).
10. *Id.* at 836.
11. *Id.* at 835–36.
12. 172 Cal. App. 4th 133 (2009).