

Ruling Shows How to Identify Trade Secrets for Discovery

By Jens B. Koepke

A fairly new and little-known statute provides that a plaintiff asserting a trade secret claim may not automatically be entitled to discovery about that trade secret. In fact, Section 2019.210 of the Code of Civil Procedure mandates that "before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity." Code of Civil Procedure Section 2019.210.

The Court of Appeal, in a self-described "first impression" decision, has shed light on this important but obscure statute and, in doing so, defined its parameters and explained what "reasonable particularity" means. *Advanced Modular Sputtering Inc. v. Superior Court*, 132 Cal.App.4th 826 (2005). The decision provides valuable guidance to practitioners with trade secrets cases.

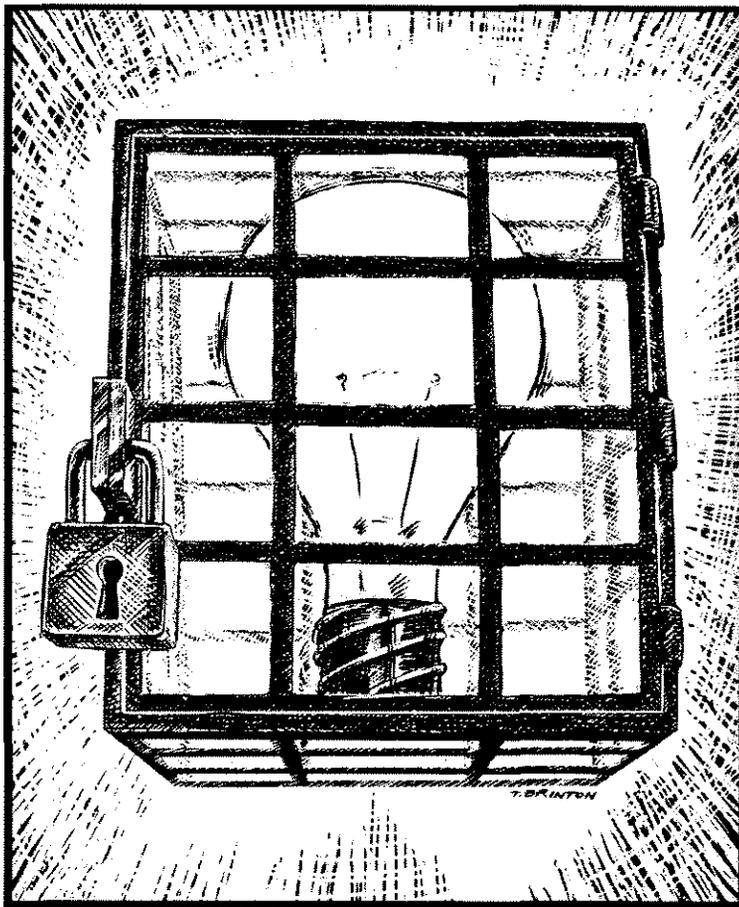
In a nutshell, the decision helps defendants by broadly construing what types of claims trigger the statute, but it also helps plaintiffs by ruling that the "reasonable particularity" requirement should be liberally construed to allow discovery to proceed.

In *Advanced Modular* the plaintiff sued for misappropriation of trade secrets and nine other claims, all based upon two former employees' allegedly improper use of trade secrets to establish a competing company. Relying on Section 2019.210, the trial court blocked the plaintiff from conducting discovery until it had submitted a sufficient designation of the trade secrets, and then held that four different designations were insufficient.

"As a result, the parties have created a voluminous record, expended thousands of dollars on attorney fees and expert witnesses, and consumed considerable judicial resources without ever even beginning to conduct discovery." *Advanced Modular*. The trial court refused to allow discovery to proceed on the misappropriation claim, but did allow it on the other claims, prompting both sides to seek appellate relief.

First, the Court of Appeal held that, "[b]y its own express terms," Section 2019.210 applies not only to a misappropriation claim, but also to any cause of action relating to a trade secret. *Advanced Modular*; see also *Neothermia Corp. v. Ribicor Medical Inc.*, 345 F.Supp.2d 1042 (N.D. Cal. 2004) [Section 2019.210 applies to patent infringement and breach of non-disclosure agreement].

Since all of the claims were "factually dependent on the misappropriation [of trade secrets] allegation," the statute applied to all the claims. *Advanced Modular*.



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Second, the Court of Appeal held the trial court had "taken a rather stingy view of the trade secret designations," and used an "inappropriately strict construction" of reasonable particularity in the statute. The basic gist of any designation should be to distinguish the "trade secret" from "matters of general knowledge in the trade or of special knowledge of those persons ... skilled in the trade." *Advanced Modular* (internal quotations omitted); See also *Imax Corp. v. Cinema Technologies Inc.*, 152 F.3d 1161 (9th Cir. 1998).

The court explained that a plaintiff does not have "to define every minute detail of its claimed trade secret," but instead must simply "make some showing that is reasonable, i.e., fair, proper, just and rational." *Advanced Modular*.

What is reasonable "will differ, depending on the alleged trade secrets" involved, and in some cases (particularly in industries where competition is based on incremental variations on existing technology) "a more exacting level of particularity may be required," but generally the designation does not need "to reach such an exacting level."

Finally, although the court approved of the use of expert testimony at this pre-discovery stage, it explained that "[w]here, as here, credible experts declare that they are capable of understanding the designation and of distinguishing the alleged trade secrets from information already known to persons in the field; the designation should, as a general rule, be considered adequate to permit discovery to commence."

Advanced Modular provides important guidance to both trade secrets plaintiffs and defendants. First, any claim factually dependent on misappropriation of trade secrets — whether a Uniform Trade Secrets Act claim or not — will have to leap the Section 2019.210 hurdle before discovery can commence. The key is whether the essential factual claim is that defendants misused plaintiffs' trade secret.

Second, a plaintiff's designation of the trade secrets under the statute does not have to rise to the level of expert testimony that can survive cross-examination at trial. It is enough if it describes why the trade secret is not general knowledge in the industry.

And if there is credible expert testimony describing why the trade secret is not generally known, the trial court should accept this as sufficient, even if the defendant supplies countervailing expert testimony. A mini-trial — with all its attendant expenses — is no longer required. If the trade secret, however, arises in an industry founded upon incremental variations in known processes, the trial court may require a more precise showing.

The court's holdings in *Advanced Modular* make sense when one understands the statute's origins and purposes. In 1968, in a case where a company sued former directors for breach of fiduciary duty for leaving and forming a competing company allegedly using trade secrets, the court affirmed the sustaining of a demurrer, but ruled in dictum that:

"Before a defendant is compelled to respond to a complaint based upon claimed misappropriation or misuse of a trade secret and to embark on discovery which may be both prolonged and expensive, the complainant should describe the subject matter of the trade secret with sufficient particularity to separate it from matters of general knowledge in the trade or of special knowledge of those persons who are skilled in the trade, and to permit the defendant to ascertain at least the

boundaries within which the secret lies." *Diodes Inc. v. Franzen*, 260 Cal.App.2d 244 (1968).

This pronouncement was what the Legislature expressly intended to codify when it enacted Section 2019.210 in 1983 (formerly Section 2019(d)). *Computer Economics Inc. v. Gartner Group Inc.*, 50 F.Supp.2d 980 (S.D.Cal. 1999). Interestingly, although 42 states have adopted the Uniform Trade Secrets Act, California is the only one with the special statutory discovery hurdle.

The purposes behind the statute have been described as: (1) dissuading the filing of meritless trade secret complaints by promoting well-investigated claims; (2) preventing plaintiffs from using discovery to obtain the defendant's trade secrets; (3) assisting the court in framing the appropriate scope of discovery; and (4) giving defendants adequate notice to form complete and well-reasoned defenses. *Computer Economics*; see also *Advanced Modular*.

Broadly construing what types of claims Section 2019.210 applies to helps further the purposes of the statute by preventing plaintiffs from pleading around the law. But giving the "reasonable particularity" designation a liberal reading prevents defendants from using the statute to essentially block the litigation before plaintiffs even receive rudimentary discovery or to force plaintiffs to expend a fortune on an expert-witness mini-trial to substantiate their trade secret designation.

The decision in *Advanced Modular* seems designed to balance both plaintiffs' and defendants' needs in trade secrets cases. As such, it should be carefully studied before wading too deep into trade secrets discovery.

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