A Timely Analysis of Legal Developments

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In This Issue:

December 2009

In a trade secret misappropriation case, a California appellate court creates a new standard for highly technical cases regarding the pre-discovery disclosure of trade secret information.

California Appellate Decision May Have Muddied the Waters Around Preliminary Statements in Trade Secrets Cases

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In *Perlan Therapeutics, Inc. v. Superior Court* (2009) 178 Cal. App. 4th 1333, issued on November 4, 2009, the California Court of Appeal for the Fourth District elaborated on how precise plaintiffs must be in describing their trade secrets at the outset of the case. Unfortunately, in attempting to harmonize the leading decisions on the issue, the court in *Perlan* may have only added confusion to the law regarding this important issue.

Before a plaintiff in a trade secrets misappropriation action is permitted to engage in discovery concerning the alleged trade secrets, California law requires the plaintiff to file a statement describing the trade secrets. Specifically, California Code of Civil Procedure section 2019.210 provides: "In any action alleging the misappropriation of a trade secret ... before commencing discovery relating to the trade secret, the party alleging the misappropriation shall identify the trade secret with reasonable particularity."

Two recent published opinions have elaborated on the section 2019.210 statement requirement: *Advanced Modular Sputtering, Inc. v. Superior Court*[1] and *Brescia v. Angelin*.[2]

The appellate court in *Advanced Modular* reversed the trial court's rejection of a section 2019.210 statement, holding that trade secret identification does not require "every minute detail" of the trade secret or the "greatest degree of particularity possible." But the court in *Advanced Modular* went on to opine that where "the alleged trade secrets consist of incremental variations on, or advances in the state of the art in a highly specialized technical field, a more exacting level of particularity may be required to distinguish the alleged trade secrets from matters already known to persons skilled in that field."

In *Brescia*, issued earlier this year, the plaintiff identified the trade secret with a very high degree of particularity. Nonetheless, the trial court held the section 2019.210 statement was insufficient because it failed to disclose facts showing how the trade secret differed from publicly available knowledge. The appellate court in that case rejected the notion, however, that a section 2019.210 statement must demonstrate that the alleged trade

secrets are not publicly known. Thus, *Brescia* prevented trade secret defendants from attempting to litigate the entire case at the section 2019.210 stage by arguing that the asserted trade secret is generally known to the public and therefore not a trade secret.

Facts and Procedural History

In *Perlan*, several employees ("defendants") of the plaintiff therapeutics company ("Perlan") resigned and formed a rival company. Perlan sued them, alleging they misappropriated Perlan's trade secrets, which included therapeutics processes.

Perlan proceeded to file a section 2019.210 statement. Perlan's section 2019.210 statement was extensive. It included four pages of text, which largely repeated allegations in the complaint and recited technical detail about the therapeutics that was publicly available. The statement failed to identify the specific "peptides" or "reagents" used in the therapeutic process. The statement also incorporated a 75-page document of "dense prose" and 125 pages of grant and patent applications.

Defendants filed a motion for a protective order, asserting Perlan's statement was insufficient. The trial court agreed with the defendants, and Perlan sought appellate relief.

The Court of Appeal's Analysis in *Perlan*

The court first clarified the standard of review on appeal. Although two recent cases had applied a *de novo* standard, Perlan noted that both of those cases involved the trial court's application of an incorrect legal standard. *Perlan* held that as long as a trial court applied the correct legal standard, the decision as to whether the section 2019.210 statement was sufficiently specific was left to the trial court's discretion. "[T]he trial court must exercise its sound discretion in determining how much disclosure is necessary to comply with section 2019.210 under the circumstances of the case."

Next, the court sought to build a harmonized standard for section 2019.210 statements from *Advanced Modular* and *Brescia*. But in attempting to meld these two cases, *Perlan* may have done more harm than good.

On one hand, based on *Brescia*, the court in *Perlan* held that it is "legal error" to require a plaintiff to "convince the court (as a fact finder) that the purported trade secrets are actually secret . . . Perlan is not required to convince defendants or the court in its section 2019.210 statement that its alleged trade secrets are not generally known to the public."

Yet, on the other hand, Perlan cited *Advanced Modular* for the proposition that in a "highly specialized technical field" a plaintiff needs to explain how its trade secrets are "novel," i.e., distinguishable from matters known to persons skilled in the field. In fact, the court in *Perlan* faulted the plaintiff for failing to "describe with a 'more exacting level of particularity' *how its secrets differed from publicly available knowledge*."

Impact of *Perlan*

Perlan significantly alters the *Advanced Modular* decision and has potentially problematic and costly consequences for trade secrets plaintiffs in highly technical fields. While *Advanced Modular* simply required more specificity in a section 2019.210 statement in highly technical fields, *Perlan* appears to require plaintiffs in such fields to describe how their asserted secrets differ from publicly available knowledge. Thus, *Perlan* may open the section 2019.210 statement to an early fight over whether the alleged trade secret is publicly available - contrary to the clear holding in Brescia. Further, the only requirement that the legislature actually made for section 2019.210 was that the statement identify the alleged trade secrets with "reasonable particularity."

Ultimately, the court in *Perlan* held that the trial court did not abuse its discretion in holding that Perlan's section 2019.210 statement lacked sufficient specificity. "Perlan did not identify its trade secrets with absolute precision (the 'recipe' or the 'equations'). Nor did Perlan describe with a 'more exacting level of particularity' how its secrets differed from publicly available knowledge." Again, neither standard identified by the court is found in section 2019.210.

Perlan therefore attempts to identify two types of permissible section 2019.210 statements: the *Brescia* type wherein the trade secret is described with "absolute precision," and an apparent new type, derived from *Advanced Modular*, requiring a description of how the trade secrets differ from publicly available knowledge. In light of *Perlan*, a trade secrets plaintiff's safest course may be to closely follow *Brescia* and provide the description of the trade secret with as much precision as reasonably possible.

The obvious purpose for section 2019.210 is to prevent a competitor from engaging in "fishing expeditions" based on murky or poorly defined 2019.210 statements. However, rather than create a new standard – one that does not exist in the statute – courts can remedy any risks of improper discovery and disclosure of alleged trade secrets through protective orders that limit access to the alleged trade secret.

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[1] 132 Cal. App. 4th 826 (2005).

[2] 172 Cal. App. 4th 133 (2009).