

## EFFECTIVE COUNSEL MUST UNDERSTAND POORLY-DEFINED TRADE SECRETS LITIGATION PROCEDURES

*by Kathleen F. Sherman*

When an employee leaves his or her employer to work for a competitor, or when a business venture dissolves or splinters under unhappy circumstances and one of the principals in the venture starts a competing venture, a lawsuit for misappropriation of trade secrets under the Uniform Trade Secrets Act, codified in California at California Civil Code sections 3426, *et seq.*, is a common outcome.


The purpose of this article is to explore some questions left unanswered by a procedural requirement that is unique to trade secrets litigation—the requirement that the trade secret be defined before discovery commences. The unanswered questions present numerous pitfalls for attorneys unaware of the nuances of trade secrets litigation.

### The Trade Secret Identification Requirement

A key issue in trade secrets disputes is the identification of the particular trade secret or secrets allegedly misappropriated. The California Legislature, unique among states that have adopted the Uniform Trade Secrets Act, has enacted a provision requiring plaintiffs to identify their alleged trade secrets with “reasonable particularity” prior to the commencement of any discovery relating to the trade secret. (Cal. Code Civ. Proc., § 2019.210.)

The Legislature’s purpose in requiring the identification of an alleged trade secret with reasonable particularity prior to the commencement of discovery relating to the trade secret is to promote well-investigated claims and dissuade the filing of meritless trade secrets complaints, prevent plaintiffs from using the discovery process as a means to obtain the defendant’s trade secrets, assist the court in framing the appropriate scope of discovery and in determining whether plaintiff’s discovery requests fall within that scope, and enable defendants to form complete and well-reasoned defenses, ensuring that they need not wait until the eve of trial to effectively defend against charges of trade secret misappropriation. (*Advanced Modular Sputtering, Inc. v. Superior Court* (2005) 132 Cal. App.4th 826, 833-34.)

California Civil Code section 3426.5 authorizes courts to issue protective orders in trade secrets cases. Under Civil Code section 3426.5 and Code of Civil Procedure section 2019.210,



KATHLEEN F. SHERMAN

Attorney  
Berliner Cohen, LLP  
(408) 286-5800  
kathleen.sherman@berliner.com

YOUR ADVISOR IN IP LAW  
Visit [www.berliner.com/attorney/kathleen\\_sherman](http://www.berliner.com/attorney/kathleen_sherman)

a plaintiff can provide adequate notice to defendants, even if for the defendants’ attorneys’ eyes only, of the identity of the allegedly misappropriated trade secrets while simultaneously protecting those trade secrets from further disclosure. Thus, the interests of both parties to the litigation are protected.

What has been left undefined in the law is the mechanism for providing the required trade secret identification statement. As a result, numerous questions may arise in the course of litigating a trade secrets case. Is it the plaintiff's burden to produce the statement on its own initiative, or is it the defendant's burden to demand it? If it is the plaintiff's burden, when must the statement be produced? What penalty does the plaintiff suffer if the statement is not timely produced? If it is the defendant's burden, when must the demand be made? What penalty does the defendant suffer if the demand is not timely made? What is the defendant's remedy if the plaintiff never produces a trade secret identification statement? What is the defendant's remedy if a statement, once produced, does not identify the trade secret with "reasonable particularity"? Under what circumstances may a plaintiff amend a trade secret identification statement? This article addresses those questions.

## Whose Burden Is It?

Is it the plaintiff's burden to produce the required trade secret identification statement on its own initiative, or is it the defendant's burden to demand one? The law does not provide a clear answer.

California Code of Civil Procedure section 2019.210 codifies the holding in *Diodes, Inc. v. Franzen* (1968) 260 Cal.App.2d 244, which was as follows:

**"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." (*Id.* at p. 253.)**

Although section 2019.210 does not explicitly say so, the *Diodes* court assumed that the description should be contained within the complaint. (See *id.* at pp. 252-253 [noting that, while the plaintiff "does not have to spell out the details of the trade secret to avoid a demurrer to a complaint," the plaintiff should describe the trade secret with sufficient particularity].) *Diodes* has never been overruled. Thus, under *Diodes*, a complaint alleging misappropriation of trade secrets must identify the alleged trade secret with particularity sufficient to satisfy section 2019.210, and a defendant may challenge the adequacy of that identification by demurrer.

But do modern courts share this view of section 2019.210? It does not appear that they do. Since the Legislature adopted the Uniform Trade Secrets Act in 1984 and simultaneously enacted section 2019.210 (originally numbered 2019(d)), there has not been a single published appellate opinion addressing the issue of whether section 2019.210 requires the alleged trade secret(s) to be identified in the complaint. Neither is

there any published case deciding whether a demurrer is a proper vehicle to challenge a complaint that does not satisfy section 2019.210.<sup>1</sup>

Instead, modern cases are consistent in their implied view that the trade secret identification statement should be served some time *after* service of the complaint but *before* the commencement of discovery relating to the trade secret.<sup>2</sup> But this view still does not answer the question as to which party bears the burden of initiating the transaction. Should the plaintiff serve a trade secret identification statement along with or prior to the first written discovery demand? Or is it the obligation of the defendant to serve an interrogatory asking for the statement?

The court in *Perlan Therapeutics, Inc. v. Superior Court* (2009) 178 Cal. App.4th 1333 opined as to the latter, in dictum, (*id.* at p. 1353), by stating, "Presumably, defendants in a trade secret case will propound interrogatories requesting plaintiffs to identify the trade secrets at issue in the lawsuit..." But dictum is not binding authority.<sup>3</sup> California's Civil Discovery Act as codified in the California Code of Civil Procedure suggests an alternative procedure when it specifically provides that a party's obligation to respond to written discovery requests is subject to certain restrictions, including section 2019.210. (See Cal. Code Civ. Proc., §§ 2025.010, 2030.010(a), 2031.010(a), 2033.010.) Therefore, a defendant would have the option of either propounding the interrogatory suggested by the *Perlan* court (asking the plaintiff to identify its

alleged trade secret) or objecting to any written discovery requests related to the alleged trade secret on the ground that the plaintiff failed to serve the required trade secret identification statement, either because the statement was not served at all or because a statement that was served did not meet the requirements of section 2019.210.

Thus, as long as a defendant is aware of its rights under section 2019.210 and either propounds interrogatories to the plaintiff or objects to discovery requests made by the plaintiff, the plaintiff is put to its burden of providing an adequate trade secret identification statement. But what if a defendant does not do so and the plaintiff obtains discovery related to the trade secret without having served a trade secret identification statement? Does the plaintiff suffer a penalty? Has the defendant waived its right to a trade secret identification statement? Or is there a middle ground?

## Penalties, Waiver, or Neither?

Given the lack of clarity in the law as to whether it is the plaintiff's burden to produce the required trade secret identification statement on its own initiative or the defendant's burden to demand one, it is unlikely that a court would impose a draconian consequence on either party for failing to take steps that are not articulated in the law.

It is fundamental that the only objective of the pretrial discovery rules is to allow a party to obtain all of the

facts relative to a claim or defense. **Neither party may employ the discovery rules with the long-range objective of trapping the other party into the imposition of sanctions, especially the imposition of the most severe sanction – dismissal.** (*Deyo v. Kilbourne* (1978) 84 Cal.App.3d 771, 781.)

Under *Deyo v. Kilbourne*, it seems improbable that a defendant would be permitted to acquiesce without objection to a plaintiff's trade secret-related discovery requests, and then later insist that the trade secrets claim must be foreclosed because the plaintiff propounded its trade secret-related discovery requests without first providing the required identification. Neither does it seem likely that a plaintiff could insist that a defendant that responded to trade secret-related discovery without objection was not entitled to a response to a belatedly-propounded interrogatory asking for identification of the alleged trade secret. That is because a finding that a defendant had waived its right to a trade secret identification statement would have the effect of prohibiting the defendant from obtaining all facts relative to the plaintiff's claim, contrary to *Deyo v. Kilbourne*.

Therefore, if discovery related to a trade secret has proceeded without objection from the defendant and without production by the plaintiff of a trade secret identification statement, the defendant should propound interrogatories regarding the trade secret. It seems unlikely that a court would prohibit a defendant from doing so, assuming that discovery has not yet been closed. But

neither does it seem likely that a court would impose a penalty on the plaintiff for not having responded to a request that the defendant did not make.

## What Remedies Are Available to a Defendant If the Statement Is Inadequate?

As a practical matter, it is the defendant's burden to ensure that the plaintiff complies with section 2019.210. What remedies does a defendant have if a plaintiff serves a trade secret identification statement, but the statement does not satisfy the "reasonable particularity" requirement of section 2019.210?

As discussed above, a demurrer was found to be the appropriate remedy for failure to identify a trade secret with sufficient particularity under *Diodes*, but not under the unpublished portion of *Brescia*. The unpublished portion of the *Brescia* opinion is not citable under the California Rules of Court, rule 8.115(a), leaving *Diodes* as the only citable authority on the question. **Practically speaking, however, a defendant is unlikely to engender much sympathy if it uses a demurrer as a vehicle for demanding a trade secret identification statement, or (in the unlikely event that a trade secret identification statement was served along with a complaint) for challenging the adequacy of the statement.** A court would likely overrule the demurrer on the ground that the defendant has remedies under the Civil Discovery Act.

That leaves defendants with three approaches under the discovery rubric: The first approach, the defensive one discussed above, would be to object to written discovery requests on the ground that the trade secrets identification statement did not comply with section 2019.210. The plaintiff would then be forced to move to compel if it believed that the trade secret had been adequately identified.

The second approach, an offensive one, would be to file a motion for protective order seeking to preclude discovery on the ground that the plaintiff failed to serve an adequate trade secrets identification statement. This is the approach that was taken by the defendants in *Perlan* and *Brescia*.

The third approach, an offensive one where the inadequate trade secret identification statement was served in response to an interrogatory, as suggested in *Perlan*, would be to file a motion to compel a further response to that interrogatory.

If a plaintiff fails to correct an inadequate trade secret identification after a reasonable opportunity to do so, a defendant has an additional option: file a motion for summary judgment or adjudication of the plaintiff's trade secret claim, based on the plaintiff's failure to adequately identify a trade secret. In *Imax Corp. v. Cinema Technologies, Inc.* (9th Cir. 1998) 152 F.3d 1161, the defendant did just that. The defendant initially served interrogatories asking the plaintiff to identify alleged trade secrets. (*Imax Corp. v. Cinema Technologies, Inc.*, su-

*pra*, 152 F.3d at p. 1165.) After extensive discovery litigation, in which the federal district court agreed with the defendant that the plaintiff's responses were inadequate, the defendant moved for summary adjudication of the trade secrets claim; the trial court granted the motion, and the appellate court affirmed. (*Id.* at p. 1168.) **A motion for summary judgment or adjudication is thus a trade secret defendant's "nuclear option" that a plaintiff should beware of.**

## May a Plaintiff Amend the Trade Secret Identification Statement After Discovery Commences?

Assuming a plaintiff serves a trade secret identification statement that satisfies either the defendant or the trial court after litigation, is the plaintiff permitted to amend that statement after conducting discovery?

If the plaintiff seeks to further define its alleged trade secret, the answer appears to be "no." (See *Perlan Therapeutics, Inc. v. Superior Court*, *supra*, 178 Cal.App.4th at p. 1350 ["Perlan is not entitled to include broad, 'catch-all' language as a tactic to preserve an unrestricted, unilateral right to subsequently amend its trade secret statement. If Perlan does not know what its own trade secrets are, it has no basis for suggesting defendants misappropriated them"]; *Pixion, Inc. v. Placeware Inc.* (N.D.Cal. 2005) 421 F.Supp.2d 1233, 1242 [refusing to allow a plaintiff to amend its trade secret identification state-

ment in order to defeat a motion for summary judgment granted in part on the non-existence of the alleged trade secrets].)

But if through discovery a plaintiff learns that a defendant has misappropriated trade secrets not already identified, the plaintiff may be permitted to amend its trade secret identification statement. (*Perlan Therapeutics, Inc. v. Superior Court*, *supra*, 178 Cal.App.4th at p. 1350; *Neothermia Corp. v. Rubicor Med., Inc.* (N.D.Cal. 2004) 345 F.Supp.2d 1042, 1045.) The *Neothermia* court required a showing of good cause prior to the amendment. However, no appellate court has held that a showing of good cause is required in California courts to amend a trade secret identification statement after discovery has commenced. In fact, the court in *Vacco Industries, Inc. v. Van Den Berg* (1992) 5 Cal.App.4th 34 held to the contrary. In that case, the defendants were found at trial to have misappropriated the plaintiffs' trade secrets. The plaintiffs had amended their trade secret identification statement several times after discovery commenced. (*Id.* at p. 50, fn. 16.) At trial, the defendants moved to limit the plaintiffs to the trade secrets described in the original notice, but the trial court denied the motion. (*Ibid.*) On appeal, without any discussion as to how or why the trade secret identification statement was amended, the court found "no error in this procedure." (*Ibid.*) A savvy plaintiff should not rely on *Vacco*, however. A defendant could very well cite to *Advanced Modular Sputtering's* recitation of the Legislature's purpose in enacting Code of Civil



Procedure section 2019.210 and successfully argue that amendment of a trade secret identification statement after discovery has commenced is improper.

In light of the less than fully-developed record in *Vacco* and the dearth of other relevant cases, a plaintiff wishing to amend its trade secret identification statement would be well-advised to make a showing of good cause at the time of amendment, either through a motion seeking leave from the court to do so or by written notice to the defendant. A defendant should be prepared to seek the court's assistance in limiting any such amendment to appropriate circumstances.

## Conclusion

The requirement that the plaintiff serve an adequate trade secret identification statement in trade secret litigation is a potential pitfall for both plaintiffs and defendants. Both sides are well-advised to heed this requirement. Plaintiffs should particularly note that the requirement for an adequate trade secret identification statement can be used by defendants as both a sword and a shield, and thus this requirement should be ignored only at their peril.

## Endnotes

1 In *Brescia v. Angelin* (2009) 172 Cal.App.4th 133, the parties stipulated that if the trial court determined that the trade secret identification statement was inadequate under section 2019.210, the court could use the defendant's demurrer as a procedural device to dismiss the plaintiff's trade secret misappropriation claim. (*Id.* at p. 142.) The portion of the opinion addressing the propriety of this pro-

cedure was unpublished. (*Id.* at p. 143.) The court explained in the unpublished portion of the opinion that a demurrer is not the proper device to challenge the adequacy of a trade secret identification statement. (Findlaw, <http://tinyurl.com/6mozun>, p. 12.)

2 This view is reinforced by the fact that section 2019.210 is contained within Title 4 of the California Code of Civil Procedure, that is, is part of California's Civil Discovery Act.

3 "An appellate decision is not authority for everything said in the court's opinion but only for the points actually involved and actually decided." (*People v. Knoller* (2007) 41 Cal.4th 139, 154-155 (internal punctuation and citation omitted).)