

Employment Alert: Court of Appeals Ruling Potentially Streamlines Trade Secret Litigation

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Whether on the complaining or defending end of a trade secret complaint, employers can agree on one thing: trade secret litigation is *expensive*. Over the past several years, what was already a costly process had become even more burdensome, as litigants expended tens of thousands of dollars bringing and defending against motions — even holding full-blown “mini trials” — to determine whether the trade secrets at issue had been identified with sufficient particularity to allow the plaintiff *to begin* trade secret discovery. Companies with trade secrets at risk faced a dilemma: on the one hand, trade secret law demands that companies use “reasonable efforts” (including litigation, if necessary) to protect their trade secrets; on the other hand, early trade secret procedural maneuvers threatened to break the bank. Likewise, companies defending against complaints had to carefully assess the very high potential costs of the “trade secret identification” battle against allowing a competitor early access to their confidential information.

Now, it appears that certain companies — particularly (but not exclusively) those outside of high-tech or other complex industries — may have a much less expensive path to taking discovery about alleged misappropriated trade secrets. A recent California Court of Appeals ruling, *Brescia v. Angelin*, should eliminate a lot of the gamesmanship and expense associated with designating trade secrets prior to commencing trade secret discovery.

Brief Background

California Code of Civil Procedure Section 2019.210 provides that discovery relating to a trade secret claim may not commence until the plaintiff first identifies its trade secrets with “reasonable particularity.” In *Advanced Modular Sputtering, Inc. v. Superior Court*,¹ the Court held that where a qualified expert is capable of understanding the designation and of distinguishing the alleged trade secrets from information already known to persons in the field, the trade secrets designation should, as a general rule, be considered adequate. In recent years, companies engaged in litigation in California involving former employees or competing companies allegedly stealing trade secrets often had to undertake a painstakingly expensive and time-consuming procedural process of trade secret identification, before discovery commenced, in order to satisfy the Section 2019.210 “reasonable particularity” standard.

The Proof is in the Pudding

In *Brescia v. Angelin*, William Brescia claimed that he developed a pudding product called Pro Pudding Pak with the help of a food scientist he employed named Christopher Scinto (“Scinto”).

Brescia contracted with two companies, Performance Worldwide USA, Inc. (“Performance”) and Instone, LLC (“Instone”), for the sale and distribution of the pudding. Subsequently Scinto and a Performance employee started a new company called Freedom Foods, Inc. (“Freedom”). Brescia claimed that Scinto, Instone and Freedom conspired with a former executive of Performance and Instone to produce and sell a pudding based on Brescia’s formula. A lawsuit soon followed.

At the trial court level, Brescia attempted to obtain documents from, and depose the Chairman of the Board and CEO of, Instone, claiming that his trade secrets were sufficiently identified in his cross-complaint and in already produced documents. In response, Instone’s executives sought protective orders, contending that Brescia had failed to identify his alleged trade secrets with the “reasonable particularity” required by CCP § 2019.210.

Brescia amended the identification of his trade secrets as “Marketing Strategies,” “Budget and Finance,” “Formula,” and “Manufacturing Process,” which referred to 305 pages of documents that had already been produced. Still, the trial court ruled that his descriptions of his trade secrets were inadequate because he obscured the trade secrets by citing to voluminous documents. Brescia then provided an amended identification of his trade secrets that included the 15 specific ingredients of the pudding formula and step-by-step details of the manufacturing process, including each step in the mixing, testing, and code marking of the pudding.

The Instone executives again contended that Brescia’s trade secrets were not “reasonably particular,” because he failed to essentially *prove* that the identified information constituted “trade secrets,” by explaining how the information differed from matters within the general knowledge of persons skilled in the commercial food science field. In support of this argument, the Instone executives cited a patent application for a pudding formula that Scinto had filed, but which the U.S. Patent and Trademark Office rejected on the basis that the formula would be obvious to those of ordinary skill in the culinary arts. The trial court agreed, and entered a judgment dismissing Brescia’s entire trade secret misappropriation claim.

Trade Secret Plaintiff Does Not Automatically Have to Explain how The Trade Secrets at Issue Differ from General Knowledge of Skilled Persons in the Relevant Industry

On review, the Court of Appeals reversed the trial court, holding that Brescia’s trade secret designation met the “reasonable particularity” requirement of Section 2019.210, “given the nature of the alleged trade secret and the technology in which it arises.” Brescia was not, for purposes of a pre-discovery Section 2019.210 identification, required to show how the alleged trade secrets differed from the knowledge of skilled persons in the industry.

The appellate court found that while Brescia’s prior identifications failed to meet the requirements of Section 2019.210, his final attempt was sufficient since it listed the 15 ingredients as well as the details of the manufacturing process. As a result, it was adequate

enough to permit Instone to investigate the trade secret claim and prepare its defense, which it seemingly did by locating and producing the rejected patent application.

In effect, the Court of Appeals clarified the prior standard laid out in *Advanced Modular Sputtering*, involving companies in the far more complex “sputtering” industry — the process of depositing a thin and even film of material onto a silicon wafer — making it clear that such a standard was not a requirement for *all* trade secret cases. The *Brescia* Court made several important clarifications and affirmations about the role of Section 2019.210 in trade secret lawsuits, which collectively show that it is *not* to serve as a procedural device to litigate conclusively whether the information at issue actually constitutes a trade secret:

- First, whether a trade secret description is “reasonably particular” is a function of whether the stated details are sufficient — given the *nature* of the alleged secret and the *technology* in which it arises — to permit the defendant to ascertain whether and in what way the information is distinguished from matter already known, in order to develop a defense and to permit the trial court to shape discovery.
- Second, if the details identifying the trade secret *alone* are not sufficient to reasonably permit the defendant to discern the boundaries of the trade secrets, the plaintiff may have to show how the alleged trade secrets differ from matters already known to skilled persons in the field.
- Finally, the trade secret identification is to be liberally construed, and reasonable doubts regarding the adequacy are to be resolved in favor of allowing the case to proceed, and discovery to go forward.

Lessons Learned

The *Brescia* case will, in many industries, likely reduce some of the procedural expense that has become common in trade secret disputes. In light of this, companies should again focus their energies on protecting their trade secrets and ensuring against unlawfully obtaining trade secrets from others, in order to best position themselves for success in litigating those secret disputes, in at least the following minimum ways:

- Ensure that all employees and vendors/independent contractors agree to preserve and protect trade secrets through properly drafted proprietary information agreements.
- In anticipation of potential trade secret claims, ensure that new employees or vendors have contracts prohibiting the disclosure or use of another party’s trade secrets.
- For both prospective plaintiffs and defendants, put in place a robust intellectual property protection plan, electronic usage policy and data/electronic equipment collection process that can identify when employees are copying, downloading or

otherwise accessing trade secrets during or after employment and also enables the quick identification of misappropriated trade secrets afterwards.

If already involved in litigation, companies should be mindful of the following:

- If a plaintiff in a non-high-tech or complex industry, breathe a small sigh of relief about the *Brescia* case, in that, so long as the alleged trade secrets are identified with enough detail to provide the defendant with sufficient information about the allegedly misappropriated trade secrets to develop its defenses, courts will grant more deference in allowing trade secret discovery to proceed.
- If a defendant in a non-high-tech or complex industry, recognize that it will be more difficult to use Section 2019.210 as a tool to defeat misappropriation claims before discovery commences; therefore, it may be more efficient to focus efforts on preparing to engage in discovery with a view to adjudicating the dispute on the merits.
- For companies in high-tech or other complex industries, *Brescia* technically leaves open the door for Section 2019.210 procedural battles. In such instances, allocate a substantial portion of your litigation budget for pre-discovery motion practice, during which: (a) the plaintiff will have to identify its trade secrets with such particularity as to show how the trade secrets differ from matters already known to experts in the industry; (b) the parties will have to engage experts to prepare declarations in support of, or in opposition to, the trade secrets identification; and (c) the parties will potentially engage in numerous motions, hearings and perhaps mini-trials on the adequacy of the identification of the trade secrets at issue. All before the actual trade secret discovery begins.

Endnotes

¹ 132 Cal. App. 4th 826 (2005).

For assistance in this area, please contact one of the attorneys listed below or any member of your Mintz Levin client service team.

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