

## Is the Proof in the Pudding?

By Stuart P. Jasper

The image of Sylvester Stallone that first comes to mind is not of him in the kitchen. But it was Stallone's role as chairman of a producer of high-protein pudding that was the subject of an important recent Court of Appeal opinion. See *Brescia v. Angelin*, 2009 DJDAR 4051. The issue in *Brescia*, how trade secrets must be designated, has been the focus of debate in the trade secrets bar.

In *Brescia*, the court construed the trade secrets identification statute, Code of Civil Procedure Section 2019.210. The statute requires a plaintiff under the Uniform Trade Secrets Act to "identify the trade secret with reasonable particularity" before starting to take discovery. The act defines the key element of a trade secret as being "information ... that [d]erives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use."

To date, California state courts construing the statute (federal courts split over its use) have combined a requirement for describing the putative trade secret with particularity with a requirement for demonstrating that the trade secret is not a matter of general knowledge in the trade or of special knowledge to those skilled in the trade. In the leading case construing the statute, *Advanced Modular Sputtering Inc. v. Superior Court*, 132 Cal.App.4th 826 (2005), the court stated: "[t]he letter and spirit of section 2019.210 require the plaintiff, subject to an appropriate protective order, to identify or designate the trade secrets at issue with sufficient particularity to limit the permissible scope of discovery by distinguishing the trade secrets from matters of general knowledge in the trade or of special knowledge of those persons skilled in the trade. *IMAX Corp. v. Cinema Technologies Inc.*, 152 F.3d 1161 (1998). See also *Diodes Inc. v. Franzen*, 260 Cal.App.2d 244 (1968)." The court in *Sputtering* had also held that the identification requirement applied broadly to any cause of action "factually dependent on the misappropriation allegation."

The statute is the codification of the seminal opinion by Justice Shirley Hufstедler in *Diodes v. Franzen*.

There the court stated that before a defendant must "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."

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The statute's legislative history expresses concern about possible use of the trade secrets action as a predatory, anti-competitive device, as shown in *Computer Economics v. Gartner Group Inc.*, 50 F. Supp. 2d 980 (S.D. Cal. 1999): "One area not addressed by the Uniform Act is the area of plaintiffs' abuse in initiating trade secrets lawsuits for the purpose of harassing or even driving a competitor out of business by forcing a competitor to spend large sums in defending unwarranted litigation. For example, where a plaintiff's employee quits and opens a competing business, a plaintiff often files a lawsuit for trade secret misappropriation which states that the defendant took and is using plaintiff's trade secrets, but does not identify the trade secrets. The plaintiff can then embark upon extensive discovery which the new business is ill equipped to afford. Furthermore, by not informing the defendant with any degree of specificity as to what the alleged trade secrets are, [the] defendant may be forced to disclose its own business or trade secrets, even though those matters may be irrelevant, and the defendant may not learn the exact nature of the supposedly misappropriated trade secrets until the

eve of trial."

Although practitioners differ about the extent of the problem, most would admit that the Legislature's concern about such misuse of the Uniform Trade Secrets Act was well founded. The statute's provisions for awarding attorney fees to victims of bad faith or malicious conduct are sometimes employed. See Civil Code Section 3426.4. But most cases settle, and settle on terms where each side pays its own attorney fees.

While antitrust law, armed with treble damages under the Sherman Act, can be used against sham litigation brought as an anti-competitive stratagem, the theory is narrow and the practical application virtually non-existent. See *BE&K Construction Co. v. NLRB*, 536 U.S. 516 (2002), in which the court stated that "[f]or a suit to violate the antitrust laws, then, it must be a sham both objectively and subjectively."

Practitioners complain that plaintiffs routinely evade identifying their trade secrets, often by providing a mass of documents and saying the secrets are reflected in the documents. When confronted with a motion for a protective order because of the vague identification, the bad faith plaintiff uses the "shifting sands" or "moving target" approach of narrowing the trade secrets identifications a bit and of continually amending the claim without being required to show good cause to the court or arbitrator. (Some courts require good cause; some do not.)

In *Sputtering* ("sputtering" is the process of coating a silicon wafer or other substrate with a thin film), departing employees were alleged to have produced knock-off sputtering machines by misappropriating trade secrets. The court granted a protective order barring discovery until the plaintiff did a better job of specification. A referee was appointed.

After the order was granted, the plaintiff filed three revised identifications. Expert witnesses opined on the adequacy of the designations. The referee recommended a further stay of discovery until a better identification was filed. The court agreed.

On appeal, the court found that the trial court's standard was too stringent. The court felt constrained from citing details of the designations in order to avoid disclosing the secrets. It said: "Reasonable



particularity' ... does not mean that the party alleging misappropriation has to define every minute detail of its claimed trade secret at the outset of the litigation." It added: "Nor does it require ... a miniature trial." The showing must be "reasonable, i.e., fair, proper, just and rational."

The foregoing standards were no doubt legally correct, but they were of scant help to a trial court. Presumably the trial court thought it was following that very standard. Perhaps aware of this, the court sought to provide guidance: "Where, as here, 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." The court held: "Where, 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."

In *Brescia*, a case involving pudding instead of electronics, the mundane nature of the trade secrets enabled the court to furnish more specific guidance. The opinion describes the details of three successive designations. The first two relied on voluminous document productions. The trial court ruled that the documents "obscured rather than refined the description." The third listed 15 ingredients by

common name, percent, supplier and brand name and each step in mixing, testing and code marking the pudding.

The defendants contended that Patent Office records showed that the alleged trade secrets were matters of common knowledge in the commercial food science industry. The court agreed and rejected this designation as well.

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On appeal, the court found the third designation adequate despite its failure to differentiate the trade secrets from matters of common knowledge in the industry. It stated: "whether a trade secret designation adequately distinguishes the allegedly protected information from the general knowledge of skilled persons in the field is a function of

the particularity of the designation — that is, a function of whether the stated details themselves 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 matters already known, and to permit the court to fashion appropriate discovery."

If the details of the designation meet the standard, then the plaintiff "need not particularize how the alleged secret differs from matters already known to skilled persons in the field."

Of equal importance, the court held that the identification statute does not authorize a mini pre-trial hearing on the merits. "The statute ... does not create a procedural device to litigate the ultimate merits of the case — that is, to determine as a matter of law on the basis of evidence presented whether the trade secret actually exists."

*Brescia* is important. It omits as a requisite component of a trade secrets designation an element going back to *Diodes*, the decision that the act codified. It holds that the identification process is not to become a mini-trial on whether there is a trade secret. Finally, it uses three sets of trade secrets designations to provide needed guidance on the adequacy of designations.

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