ASSOCIATION OF BUSINESS TRIAL LAWYERS

abtl

NORTHERN CALIFORNIA

REPORT

Volume 8 No. 2

MARCH '99

Managing Joint Clients: Protecting Everyone's Interests

There are often very good reasons for an attorney to represent more than one client in a matter. Where clients' interests are aligned – and sometimes even if they are not perfectly aligned – having one lawyer represent all of them is usually more efficient and economical. But whenever a lawyer undertakes the representation of multiple clients in a matter, the lawyer must protect each client's individual interests. In addition, the lawyer should take care to minimize the lawyer's own risks, such as exposure to claims of conflicts of interest and claims of malpractice. Rather than focusing on any one jurisdiction's ethical rules, this article takes a common sense approach and advocates a conservative course designed to maximize protection for the lawyer.

Pamela Phillips

Potential Problems When Representing Multiple Clients

Each time a lawyer represents multiple clients in a matter, the lawyer should consider the following issues:

- Do all of the clients want to be kept equally informed about the matter?
- Who is supposed to give the lawyer instructions about how to proceed?

Continued on Page 4

Also in this Issue

The Evolving Insider Trading Debate

Insider trading, commonly defined as trading in securities while having knowledge of significant undisclosed information about the company, remains an important target in private securities litigation and of the Securities & Exchange Commission ("SEC"). Understanding the evolving legal requirements is critical for corporate insiders and their counsel, because insider-trading violations can result in a disgorgement of profits and a treble penalty. Furthermore, the stigma of an insider trading violation can effectively bar an individual from serving as an officer or director of a public company, even where the SEC has not sought such a bar in an enforcement proceeding. Exploring all the motivating factors for relevant purchases or sales has become increasingly important in counseling clients prior to litigation and in defending pending claims.

Robert Charles Friese

While insider trading charges are usually brought under Section 10(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R. § 240.10b-5, the courts have not been uniform in interpreting certain key statutory language, such as whether a causation element is required. Two recent cases, *SEC v. Adler*, 137 F.3d 1325 (11th Cir. 1998), and *U.S. v. Smith*, 155 F.3d 1051 (9th Cir. 1998), *cert. denied*, 142 L.Ed. 2d 664 (1999), have refined the legal landscape by emphasizing that "use" of the material information is an essential element of an insider trading violation. Under these recent cases, the SEC must show that the material nonpublic information was "used," *i.e.*, caused the alleged wrongdoer to trade. The *Adler* and *Smith* decisions rejected the SEC's position that an insider's mere possession of important nonpublic information taints a trade in

Continued on Page 2

Continued from Page 1

The Evolving Insider Trading Debate

the company's stock. The *Adler* and *Smith* cases shift the factual battleground to whether the inside information was used to buy or sell and what other pre-existing motives may have caused the trade.

Serious civil and criminal penalties can be imposed against alleged illegal traders. Under the Insider Trading Sanctions Act of 1984, 15 U.S.C. § 78u-1, the SEC may seek a civil penalty of up to three times the profit gained (or loss avoided) by parties who unlawfully trade in securities or "tip" others to trade. The SEC has broad authority to investigate possible violations of the federal securities laws and can use its subpoena power to compel witnesses to testify or produce written records or other evidence. In practice, the SEC normally pursues alleged insider traders with injunctive actions that also seek disgorgement of illegal profits and civil penalties. The SEC can also refer a matter to the Department of Justice or the local U.S. Attorney to determine whether criminal proceedings are warranted.

Zesara C. Chan

The Origins of the *Use vs. Possession* Debate

Over the years, the courts have set no uniform standard concerning whether the confidential material information must have some causal relationship to the insider's trade. Senior personnel within a public company are necessarily exposed to nonpublic information in the course of their work, so some courts have suggested that mere knowledge of such information while trading is not enough to show misconduct. Insiders may be motivated to trade for reasons that are separate and unrelated to nonpublic information (*e.g.*, as part of pre-planned, periodic programs to exercise and sell stock options) that may help remove any taint from the trading in question.

Since the 1960's, the SEC has often argued that an insider's mere possession of material nonpublic information prior to trading in the company's stock was enough to make the trades illegal. *See In re Cady, Roberts & Co.*, 40 S.E.C. 907 (1961), and *SEC v. Texas Gulf Sulphur, Co.*, 401 F.2d 833 (2d Cir. 1968), *cert. denied*, 394 U.S. 976 (1969). This position was expressly adopted by the SEC in *In re Sterling Drug Inc.*, [1978 Transfer Binder] Fed. Sec. L. Rep. (CCH) ¶ 81,570 (1978), where the SEC declared that "Rule 10b-5 does not require a showing that an insider sold his securities for the purpose of taking advantage of material non-public information... If an insider sells his securities while in possession of material adverse non-public information, such an insider is taking advantage of his position to the detriment of the public." *Id.* at 80,298.

Since *Cady* and *Texas Gulf Sulphur*, some U.S. Supreme Court decisions have supported a "use" theory by finding that mere possession of inside information while trading is not enough for liability. In *Chiarella v. United States*, 445 U.S. 222 (1980), Chiarella was employed by a printing company that prepared solicitation materials for bidders in tender offers. After deducing codes used to disguise the target company's name, Chiarella profited from the purchase of the target company's stock. The Court repeated the familiar principle that, under Section 10(b), a corporate insider has a duty to disclose material nonpublic information or abstain from trading on the information. *Id.* at 226-228. However, Chiarella's conviction was reversed because he had no fiduciary duty to sellers of the target company's stock. *Id.* at 232-233. The Court thus rejected a liability theory based solely on a person's informational advantage. In fact, the Court stated that "a duty to disclose under Section 10(b) does not arise from the mere possession of nonpublic market information." *Id.* at 235. The Court also stated that the "federal courts have found violations of § 10(b) where corporation insiders used undisclosed information for their own benefit." *Id.* at 229 (emphasis added).

Other Supreme Court cases indicate, at least indirectly, that the use, not the possession, of the confidential information formed the crux of liability. *United States v. O'Hagan*, 521 U.S. 642, S.Ct. 2199 (1997), involved an attorney who misappropriated information relating to an imminent tender offer by Grand Metropolitan to acquire Pillsbury Company. Grand Met had retained O'Hagan's law firm as counsel. In breach of his fiduciary duty to his law firm and its client, O'Hagan purchased call options for Pillsbury stock, which rose dramatically after Grand Met publicly announced its tender offer. The Court ruled that insider trading liability arises "when a corporate insider trades in the securities of his corporation *on the basis* of material, nonpublic information. Trading on such information qualifies as a 'deceptive device' under § 10(b)." 117 S.Ct. at 2207 (emphasis added). In *O'Hagan*, the Court ruled that "the fiduciary's fraud is consummated, not when the fiduciary gains the confidential information, but when, without disclosure to his principal, he uses the information to purchase or sell securities..." *O'Hagan*, 117 S.Ct. at 2209. In finding against the defendant attorney the Court confirms that persons other than literal insiders within a company may still be liable for insider trading where the duty and use elements are present.

Other courts have supported a "possession" approach to liability. In *United States v. Teicher*, 987 F.2d 112 (2d Cir. 1993), *cert. denied*, 510 U.S. 976 (1993), the Second Circuit affirmed the convictions of tippees who traded while in possession of information that was misappropriated by their tipper. Although the Court affirmed the conviction based on harmless error, the Court supported the "knowing possession" standard advocated by the SEC in dictum. Under the SEC's approach, an insider who trades in securities while having material nonpublic information is liable for securities fraud, whether or not the inside information caused or influenced the trade. The court declined to adopt the alternative "use" approach, because requiring a "causal connection between the information and the trade could frustrate attempts to distinguish between legitimate trades and those conducted in connection with inside information". *Id.* at 121.

Continued on Page 3

Continued from Page 2

The *Adler* and *Smith* Cases Refine the Issue

The Ninth and Eleventh Circuits have rejected the SEC's position that mere possession of material inside information is sufficient to impose liability. In *SEC v. Adler*, the SEC brought a civil action against several current and former executives of Comptronix Corporation for insider trading violations. Certain executives' sales of stock were made only days after a Board of Directors meeting at which negative sales information was discussed. Some defendants contended that their stock sales were made as part of a pre-existing plan and presented evidence of pre-Board meeting discussions with a broker about selling the stock and of a "lock up" restriction that had prevented selling earlier. Defendants secured judgments in their favor. On appeal, the SEC argued that the possession of inside information was sufficient for liability and that no causal relationship between the information and the trade need be proven. *Id.* at 1332. The Eleventh Circuit rejected the SEC's position and adopted a rule that actual "use" of the alleged inside information was necessary, but reversed the judgments in favor of defendants and returned the matter to the trial court for further proceedings. *Id.* at 1343-44. Reviewing the language of Section 10(b) and Rule 10b-5, the Court concluded that the statutory emphasis on "fraud and deception" was more consistent with a "use" standard. *Id.* at 1337-38. *Adler* rejected the SEC's possession test, in part for fear that it would cast too wide a net and would go beyond situations involving actual fraud. *Id.* However, to address the concern that an unduly difficult burden of proof would otherwise be imposed on the SEC, the Court held that a "strong inference of use" arises from proof that an insider traded while in possession of insider information. *Id.* The insider can attempt to rebut the inference with evidence that there was no causal connection between the information and the trade – *i.e.*, that the information was not used. *Id.*

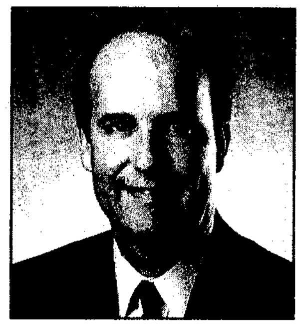
The *Adler* court also noted the possibility that the SEC could promulgate a rule adopting the knowing possession standard, as it had done in the tender offer context. *Id.* at 1337, n. 33. While this comment appears to be dictum, it may give rise to a new controversy over the SEC's authority to overturn precedent through its rulemaking authority.

In *United States v. Smith*, 155 F.3d 1051 (9th Cir. 1998), a criminal action for insider trading was brought against Richard Smith, the Vice President of PDA Engineering. Smith sold all his company stock and shorted 35,000 additional shares after discovering a $1.5 million budget mistake that could cause a stock price decline. The executive's parents also sold and/or shorted a total of 12,000 shares. Smith telephoned the Los Angeles office of PDA and left a voicemail message for a co-employee that revealed his discovery of the budget error and his sale of all his shares because he knew the announcement would cause a price decline. *Id.* at 1053. The damaging telephone message was excluded from evidence at the trial, but Smith was nevertheless found guilty on all eleven counts of insider trading. *Id.* at 1054.

Continued on Page 8

Trade Secret Disclosures in California Federal Courts

If you litigate civil trade secret misappropriation cases in state or federal court, two of the first issues you will undoubtedly face are the timing and requisite particularity of trade secret disclosures. Whether these issues are addressed by the plaintiff's California C.C.P. § 2019(d) disclosure, at an early hearing for preliminary injunctive relief, or in discovery responses, disputes over the timing of and particularity required for trade secret disclosures are likely to be early and repeated flash points in the litigation that can play a significant role in the ultimate outcome of the case. With much of the trade secret litigation in California being conducted in U.S. District Court via diversity or pendent jurisdiction, counsel in such cases must be prepared to address these disclosure issues in federal courtrooms.



William P. Keane

Timing and Particularity in State Court

Under California law, a plaintiff alleging misappropriation of trade secrets must, subject to an appropriate protective order, "identify the trade secrets with reasonable particularity" before commencing discovery relating to the trade secrets. Cal. C.C.P. § 2019(d). While this statute has ended most disputes over which party in discovery must disclose its trade secrets first, disagreements over the meaning and application of the term "reasonable particularity" are commonplace. The statute provides no further clarification. Surprisingly, there is also very little California case law on the issue. In a case decided about twenty years before Section 2019(d) was enacted, the California Court of Appeal required a plaintiff, before embarking on discovery of the defendant's trade secrets, to describe the alleged misappropriated secrets 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." *Diodes v. Franzen*, 260 Cal. App. 2d 244 (1968).

Timing of Trade Secret Disclosures in Federal Court

There is no parallel statute to Section 2019(d) in the Federal Rules of Civil Procedure. Although methods of federal discovery generally can be used in any sequence, the district court maintains wide discretion and authority to order a specific sequence and timing for discovery. *See* Fed. R. Civ. Proc. 26(d). Judge Richard Posner of the Seventh Circuit has encouraged district judges to take a more active role in controlling discovery: "The power granted by Rule 26(d) to control the sequence and tim-

Continued on Page 6

Continued from Page 1

Managing Joint Clients

- What does the lawyer do if members of the group disagree about a particular issue?
- What if one client asks the lawyer to keep confidential some piece of information about the matter?
- What happens if an expected – or worse, unexpected – conflict of interest arises after the representation has begun?
- What if one or more of the clients decide to split off and hire separate counsel?
- What happens if the clients disagree about settlement demands (or offers) after the representation is underway?
- Who is going to pay the lawyer's fees?

Have a Written Representation and Fee Agreement

Phyllis A. Jaudes

Many states require lawyers to have written representation and fee agreements, at least in certain situations. But in this litigious day and age, lawyers who represent multiple clients in a matter should, as a matter of self-protection, have a written representation and fee agreement signed by each of the clients, whether or not the law requires one. In the joint-client situation, a representation agreement can lay out the ground rules by which the lawyer and the clients will be governed, help prevent misunderstandings and serve as a "rule book" should disagreements arise. A representation agreement will also impress upon your clients the seriousness of what they are asking you to do. Ideally, the representation agreement should address each of the subjects in this article.

Establish Clear Lines of Communication

An attorney has an ethical obligation to keep a client informed about the status of the matter the attorney is handling, and to give the client sufficient explanations to permit the client to make informed decisions regarding the representation. Yet multiple clients often have differing levels of interest in the subject matter of the representation. Quite often, there is a "leader" who appears to be in charge, while the rest stay in the background. Sometimes, members of a group will tell the lawyer, "Don't bother to send me all of your letters, drafts of documents, etc. I trust [Mr. X] to take care of this for me." In other circumstances, an attorney might be asked to represent a group of clients without meeting all of the members of the group.

In joint-client representations, an attorney needs to clarify lines of communications. If you receive instructions from any member of the group not to send them copies of all of your communications with the others, document that in writing. In addition, if someone else takes responsibility for keeping the group informed, memorialize that in writing. Make sure to explain the communication ground rules to everyone in the group, and do it in writing.

Specify From Whom You Take Your Instructions

Envision yourself, six months into the representation, trying to decide a major issue and every single member of the group has a different opinion about how you should proceed. Such differences of opinion might amount to a conflict of interest that needs to be dealt with in accordance with the rules governing conflicts. But that is not necessarily so, and if it is not, whose instructions do you follow? Wherever possible, describe this possible scenario to your group of clients at the outset, explain the difficulties that such a logjam could create and then get the group to agree upon a decisionmaking mechanism. Specify who has the power to break deadlocks and how that person or persons should do so in a fair manner. Memorialize this in writing, preferably in your representation agreement.

Explain The Rules of Privilege and Confidentiality

It is a good practice to include a paragraph in your representation agreement explaining what the attorney-client privilege is, how it works and how its protection is lost if the client does not honor it. Joint clients may not understand that their discussions with each other, outside your presence, may not be privileged. You may also want to explain the joint-client exception to the attorney-client privilege – that is, should any one of them end up in litigation against the others on the subject of the representation, then none of them will be able to claim the privilege as to their communications with you on the subject of the joint representation.

Confidentiality is another issue you should discuss up front. Most clients have a general understanding that what they tell their attorney will remain confidential. But the rule is different when there are multiple clients in a single matter – what one client tells you about the matter is normally "fair game" for disclosure to all of the other clients on that matter. (Obviously, an attorney has discretion as to what is worth disclosing and what is not, and can take individual personalities into account. For example, the attorney for multiple clients can use common sense in handling clients who "spout off," saying things that they do not really mean or later retract.)

You can use your representation agreement to help multiple clients understand the rules you will follow about confidences. Explain that you must be free, subject to the exercise of your discretion, to disclose to all of them what any one of them tells you about the matter on which you are representing all of them.

Identify and Resolve Conflicts of Interest

Identify conflicts. Lawyers are required to spot and resolve *actual* conflicts among multiple clients whenever they become apparent. But at the outset, lawyers should also explore whether there are any *potential* conflicts, and those can be harder to spot.

You can bring potential or actual problems to the surface by asking broad, open-ended questions: What are the clients' goals? What are their resources? Are they

Continued on Page 5

Continued from Page 4

aware of any disagreements among themselves about how the matter should be handled, or about who is responsible for the situation in which they find themselves? Do any of them feel that they have claims against any of the others, or that they might have claims depending on how things develop? How and when would they like to resolve those actual or potential disputes? Are they willing to defer resolving those disputes until the current matter is resolved? Have any of them consulted with, or retained, another lawyer to advise them on the matter at hand? Do any of them have concerns about sharing a single lawyer and, if so, what are those concerns?

As you probe, listen for signs of discord, domination or reservations and then follow up as appropriate. In addition, explain the pros and cons of joint representation and the fiduciary duties that govern the lawyer's behavior – such as the duty of undivided loyalty.

Resolve conflicts. Once you have identified any actual or potential conflicts, resolve them. Do not assume that they will work out. Do not leave it to the parties to work them out and then forget to ask them what resolution they reached. Make sure that you understand what the resolution is. For example, have they agreed that there really is no dispute after all? Have they agreed that there is a dispute, but that they will solve it by an indemnification agreement, or defer its resolution until later? Are you going to have a role in the indemnification process or in the deferred-resolution process? Do the clients understand that they may, or may have to, hire other counsel to handle any disputes between them? In certain circumstances, you may want to keep your distance from the dispute and refer them to separate counsel. Case law allows your participation in such disputes with appropriate disclosures and consents, but it is advisable to spell this out in advance in writing.

Document the conflict and its resolution. Clients have amazingly short memories when it comes to conflicts. The only practical protection an attorney has is to document what has been discussed and how the conflict has been resolved. (This is especially important if you have not met with all of the clients to discuss conflicts.) Even if not required, you may want to ask the client to sign the document signifying the client's consent to go forward with the representation notwithstanding any conflicts.

Plan Ahead For Future Disagreements

Even harmonious groups of clients can break apart unexpectedly. This can happen due to a conflict of interest, a personality dispute, a disparity in resources or other reasons that could not have been anticipated. If joint clients split up two or three years into the representation, and you have not specified what will happen if this occurs, problems can arise. For example, a departing client could challenge your right to continue to represent the remainder of the group. In this situation, you could risk disqualification and the other clients could experience disruption of their representation, as well as the unanticipated expense of having to educate new counsel.

In many jurisdictions, including California, you can remain in the matter even if some of the clients fire you or you fire them, particularly if you have advance client consent. With appropriate consent, you can even be adverse to the now-former client in the same matter.

It is a good idea to specify up front, in the representation agreement, what will happen if one or more clients leave the group for any reason. The agreement can specify which of the clients will remain as clients, or can simply say "those who choose to continue the representation" may do so.

Establish Payment Responsibilities

Your representation agreement should specify who is responsible for paying your fees and costs. Is it the entire group or only some of the clients? If one agrees to pay all of the fees and costs, but fails to, do you have any remedy against the others? None of this should be left to happenstance – discuss the arrangements and spell them out clearly in the representation agreement.

If you have any fee arrangement other than one in which each client pays its own pro rata share, use your representation agreement to explain the arrangement and ask each client to consent to it. Many jurisdictions specify that the attorney must not let the paying party influence or interfere with the attorney's independent judgment in the matter or the attorney's relationship with the actual clients. The attorney is, of course, obligated to protect the clients' confidences from third-party payors who are not themselves clients.

Watch Out For Conflicts at Settlement

Even when all of your joint clients get along during most of the representation, new problems may arise when the end is in sight – at the settlement stage. Various ethical issues come into play here. First, each state has rules requiring lawyers to inform their clients about settlement demands and offers; some jurisdictions make a distinction between oral and written offers. The lawyer representing multiple clients should make certain that all of the clients are promptly informed about settlement demands and offers, whether by telling them directly or through their agreed-upon intermediary.

Second, aggregate settlement offers can pit the joint clients' interests against each other. In many states, including California, a lawyer representing multiple clients in a matter may not enter into an aggregate settlement without all of the clients' written consent. If disputes arise at that point, then the attorney may need to

Continued on Page 12

Continued from Page 3

Trade Secret Disclosures

ing of discovery is one of the district court's too little used tools...." *Marrese v. American Academy of Orthopedic Surgeons*, 706 F.2d 1488, 1495 (7th Cir. 1983). The district courts, therefore, have ample authority to order a result equivalent to Section 2019(d).

Likewise, the Federal Rules grant the district courts authority to issue a protective order to allow a trade secret to be "revealed only in a designated way." Fed. R. Civ. Proc. 26(c)(7). As a practical matter, as most litigators in this area are fully aware, the parties usually negotiate and stipulate to a protective order that is then submitted to the court for signature. That there is usually very little, if any, judicial modification to stipulated protective orders highlights the importance of counsel drafting a comprehensive and unambiguous protective order. In reality, many counsel-negotiated protective orders contain poorly drafted, confusing terms and do not contemplate issues that are likely to arise during the litigation. While an in-depth discussion of stipulated protective orders is beyond the scope of this article, a few points on such orders are worth making here.

First, most protective orders suffer simply from a lack of attention when being drafted. When was the last time you actually read the boilerplate protective order you regularly print from your computer? How many times have you signed opposing counsel's proposed protective order after only glancing at it? Of course, the appropriate terms for a protective order will vary depending on the case, but the following issues should be addressed in most standard, two-tier "Confidentiality" and "Attorneys' Eyes Only" ("AEO") orders: (a) What is the deadline, if any, for objecting to a party's designation of a particular tier, usually AEO? (b) Will designated party representatives, in addition to outside litigation counsel, be given access to AEO material? (c) How will material from subpoenaed non-parties be handled when at least one of the parties or the subpoenaed party claims that the subpoenaed material contains trade secrets? (d) Will the parties be required to notify the other side of any proposed expert to whom a party wishes to grant access to AEO material? If expert notification is contemplated, what are the grounds for a legitimate objection? What is the deadline for a motion to deny access to a particular expert and which party bears the burden of filing the motion? If judicial intervention is sought, what standard will the court apply in deciding whether access under the protective order should be granted to the proposed expert? These are all issues upon which many protective orders are silent, resulting in needless delays and haggling.

With a well-crafted protective order in place, the litigants can next turn to the issue of timing of trade secret disclosures: Can the plaintiff in federal court be required to identify expressly the trade secrets at issue? If you have a case or discovery matter pending before U.S. Magistrate Judge Patricia V. Trumbull in San Jose, the Section 2019(d) disclosure statute will apply in trade secret cases governed by California law. In a recent case, Judge Trumbull granted the defendant's motion to compel the plaintiff's compliance with Section 2019(d). *Canter v. West Publishing Co.*, 1999 WL 11701, at *8 (N.D. Cal. Jan. 6, 1999). Judge Trumbull's application of Section 2019(d) in her courtroom dates back at least to 1995. *See Calif. Micro Devices v. Universal Semi-Conductor*, 1995 WL 705144, at *1 (N.D. Cal. Nov. 21, 1995). There is no other reported decision in the Northern District addressing the timing of trade secret disclosures or the application of Section 2019(d). The Ninth Circuit has also yet to weigh in on the issue.

There is only one other reported decision in the remaining California district courts that addresses the timing issue, and it rules against requiring the plaintiff to identify the trade secrets at issue before commencing discovery. In *Upjohn Co. v. Hygieia Biological Laboratories*, U.S. Magistrate Judge Gregory G. Hollows of the Eastern District rejected a defense request to require the plaintiff to identify the alleged misappropriated trade secrets before enforcing the plaintiff's subpoena duces tecum directed at a non-party in possession of defense trade secrets. Although Judge Hollows applied California law to the case on other issues, application of Section 2019(d) was not addressed. Judge Hollows noted, however, that the subpoena was limited in scope to a single vaccine that the parties agreed was in dispute. The Judge implied that a different decision on timing might have resulted if the subpoena sought a wider range of documents. *Upjohn Co. v. Hygieia Biological Laboratories*, 151 F.R.D. 355, 359 (E.D. Cal. 1993).

Given the current lack of definitive Ninth Circuit law on the subject, the issue of the timing of trade secret disclosures remains unsettled in California federal courts (unless, of course, the case is pending before Judge Trumbull). In reliance on Judge Trumbull's *per se* application of Section 2019(d), defense counsel have a reasonable basis to insist on an initial plaintiff disclosure when their cases are pending in other California federal courtrooms, especially in the Northern District. As a practical matter, defendants can also require a *de facto* Section 2019(d) disclosure by serving an early interrogatory on the issue. Other federal district courts outside the state have ordered a plaintiff to provide sufficient interrogatory responses identifying the trade secrets at issue before plaintiff discovery has commenced or continued.

In one case, the District of Delaware agreed with the defense that the plaintiff's initial list purporting to identify the allegedly misappropriated trade secrets was lacking in detail. The court granted a motion to compel and gave the defendant two months to conduct discovery of the plaintiff to inquire into the details of the trade secrets before plaintiff could commence discovery against the defendant. *See Leucadia v. A.E.T.*, 755 F. Supp. 635 (D. Del. 1991). In a second case, the Southern District of Mississippi granted a motion to compel the plaintiff to produce a written trade secret disclosure before conducting discovery of the defendant. "[E]xact and specific identification of trade secrets should have been the starting point of discovery...." *Diversified Technology v. Dublin*, 31 U.S.P.Q.2d (BNA) 1692, 1695

Continued on Page 8

RACHEL KREVANS

On PATENTS

At the end of 1998, the United States Supreme Court decided the latest in a series of patent cases, *Pfaff v. Wells Electronics*, 119 S.Ct. 304 (1998). Earlier cases concerned judicial function questions such as whether a judge or a jury decides key issues in patent litigation, *Markman v. Westview Instruments*, 517 U.S. 370 (1996), or fundamental questions of patent law such as the existence of the doctrine of equivalents, *Warner-Jenkinson v. Hilton Davis*, 520 U.S. 1153 (1997). In contrast, *Pfaff* addresses the intersection of invention and commerce: the "on-sale bar" rule of 35 U.S.C. § 102.

The on-sale bar rule requires an inventor to file a patent application no later than a year after the invention was first on sale in the United States. If the inventor does not meet the deadline, the patent is invalid. This rule has spawned numerous court decisions, generally focusing on two key aspects of when the intention was "on sale." First, what is a sale, *e.g.*, is an offer to sell a sale before it is accepted? What about advertising, or a booth at a trade show? Second, is an invention on sale when prototypes are provided to potential customers for on site testing?

Many of those in intellectual-property geared industries (and many courts) had become comfortable with the idea that the product embodying the invention had to exist to be "on-sale" for purposes of the on-sale bar. In patent terms, the assumption was that the invention had to be "reduced to practice." The *Pfaff* case has proved any such assumptions wrong.

Pfaff was an individual who designed a new computer chip socket. He made detailed drawings of the socket and sent them to a manufacturer to be made according to his specifications. Before any sockets or even a prototype had been made, *Pfaff* showed his drawings to Texas Instruments and offered to supply them with the product. Texas Instruments placed an order for sockets, which Pfaff accepted and then filled with chip sockets made by his manufacturer. Pfaff filed a patent application on his chip socket design *less* than a year after the manufacturer first produced the sockets, but *more* than a year after he took the order from Texas Instruments.

After Pfaff's patent issued, he sued Wells for infringement. Wells raised an on-sale bar defense, but the district court rejected it because Pfaff had filed his application less than a year after his chip socket was reduced to practice by the manufacturer. The Federal Circuit reversed. Focusing on the word "invention" in section 102(b), the Federal Circuit looked to its precedent – not limiting that precedent to section 102(b) cases – to determine when an invention is complete. The court found that an "invention" is complete when the inventor has conceived of the idea with enough clarity and completeness that he can describe it in sufficient detail to enable others to make the invention (a so-called "enabling description"). The Federal Circuit found no reason in the text of section 102(b) to apply a different definition of "invention" in the on-sale bar context. Pfaff's invention plainly met the "enabling description" test when he offered it for sale, because he had already sent drawings to the manufacturer which it then used to make the product.

Pfaff sought review by the Supreme Court. The thrust of his complaint was that he (and many others) reasonably believed that the deadline for filing a patent application was a year after the date when an invention *which had been reduced to practice* was offered for sale. In essence, Pfaff argued that, because he and the industry reasonably relied on this "rule," the courts could not "change" the rule retroactively to invalidate his patent. Pfaff bolstered this argument with case law on the development of the on-sale bar doctrine which emphasized the need to provide inventors with a clear standard identifying when the on-sale bar period starts to run.


Rachel Krevans

While the Supreme Court agreed that a clear standard is necessary, it was unimpressed with Pfaff's argument. The Court held that, because the patent system embodies a "carefully crafted bargain" between the interests in public disclosure of new ideas and a limited monopoly for the inventor of those ideas, the statute must be construed strictly so as not to alter the bargain. Pfaff's argument required creating a judicial exception to the terms of the statute, which the Court refused to do.

Under *Pfaff*, the one-year period for on-sale bar purposes starts to run when two conditions are met:

(1) the invention is "ready for patenting," which may be shown *either* by an enabling description of the invention *or* by proof that it was actually made; and

(2) the invention has been offered for sale.

Notably, although the Supreme Court affirmed the judgment of the Federal Circuit, it criticized its formulation of the test for when the on-sale bar starts to run, and established a different standard.

The *Pfaff* decision is of great practical importance to companies whose products embody internally developed intellectual property. Every company in that position has (or ought to have) a system for calendaring deadlines for filing patent applications. *Pfaff* makes it clear that to be absolutely certain the deadline is met, companies should (with very rare exceptions) treat the one-year period as starting with the first offer for sale, regardless of the status of development of the invention. Clearly under *Pfaff* there can be no reliance on the fact that the actual product is not ready when the offer is made.

Ms. Krevans is a partner in the firm of Morrison & Foerster.

Continued from Page 3

The Evolving Insider Trading Debate

On appeal, the federal appellate court affirmed the conviction, but held that the government must prove that "the suspected insider trader actually used material nonpublic information in consummating his transaction." *Id.* at 1069.

Under *Smith*, the material nonpublic information must be a "significant factor" in the trading decision. *Id.* at 1070, n. 28. If the insider possesses, but does not use such information, the insider arguably is not trading to the disadvantage of other parties. *Id.* at 1068. For example, to the extent that the insider was simply implementing a previously formed financial strategy, the insider was not "using" the information to the detriment of other shareholders. While the SEC has argued that this use standard would pose difficulties of proof, the *Smith* court indicated that in criminal actions, the government could use circumstantial evidence to prove causation, as it normally does in insider trading actions.

The "use vs. possession" controversy remains an evolving area of insider trading law, and the United States Supreme Court has yet to squarely address this distinction. While the SEC has consistently refused to accept the "use" argument as valid in practice, it has sometimes declined to bring cases where a strong use argument is present.

Going forward, the *Adler* and *Smith* cases will be helpful in defending insider trading claims by the SEC or civil plaintiffs, but they should not be viewed as a solid shield against liability. Insider trading cases will continue to be predominantly fact-driven. In the meantime, corporate insiders should consider a regular periodic sale-of-shares program within "window" periods (*i.e.*, the periods during the year, generally after quarterly financial announcements, in which corporate insiders are allowed to trade their companies' shares). This may help undermine any subsequent assertion of improper "use" of confidential information. Courts may find, however, that such preexisting plans should not immunize particular sales while in possession of significant negative information about the company's near term prospects. Even trades caused by a unique personal need for liquidity may be suspect in light of the insider's other financial options, such as borrowing funds or liquidating other assets. In addition, class plaintiffs' counsel usually weigh heavily any sales by insiders in deciding which companies to sue and which individual defendants to name. Any trades that fall within an alleged class period can trigger an individual's inclusion in a class-action complaint (and the resulting expense and publicity), regardless of the personal justification.

In practice, *Adler* and *Smith* should increase the chances of successfully defending against insider trading claims. Clients should realize, however, that the prospect of having to explain their trades to the SEC or a court should still dictate a conservative approach. The only riskless strategy remains to abstain from trading until the arguably material information is disclosed to the investing public.

Mr. Friese and Ms. Chan are partners in the firm of Shartsis, Friese & Ginsburg, LLP.

Continued from Page 6

Trade Secret Disclosures

(S.D. Miss. 1994) (withdrawn from F.R.D. at the court's request).

For the defense, two policy arguments in favor of an initial plaintiff disclosure are most likely to find acceptance with the court. First, the most common argument is that a plaintiff should not be allowed to engage in a "fishing expedition" through a defendant's trade secrets in an effort to make its case. A person appearing at the "lost and found" claiming to have lost a wallet is first asked to describe the wallet. That person should not be allowed simply to rummage through all of the lost wallets to find the one containing the most money and claim that it is the one supposedly lost. Second, the defense can argue that, without an initial plaintiff disclosure, it is difficult, if not impossible, for the relevancy of the plaintiff's discovery requests to be judged. Until the plaintiff identifies the trade secrets at issue, "neither the court nor the parties can know, with any degree of certainty, whether discovery is relevant or not[.]" *Xerox v. I.B.M.*, 64 F.R.D. 367, 371 (S.D.N.Y. 1974) (a frequently cited case on timing and particularity issues).

Finally, defense counsel should explore the possibility, even if a Section 2019(d) or equivalent disclosure is made, of seeking bifurcated discovery, *i.e.*, a court order under Federal Rule of Civil Procedure 26(c)(7) that limits the parties' initial discovery to non-trade secret issues when those issues might be dispositive. That was the result ordered in the antitrust decision referenced above by Judge Posner. The Seventh Circuit ordered that discovery of the defendant's confidential information should be deferred until after discovery on potentially dispositive issues had been completed. *Marrese*, 706 F.2d at 1497. In the trade secret context, the Southern District of Iowa has initially limited discovery to a potentially dispositive statute of limitations question and deferred discovery on trade secret misappropriation. *See Puritan-Bennett Corp. v. Pruitt*, 142 F.R.D. 306, 309-10 (S.D. Iowa 1992).

For plaintiff's counsel arguing against an initial trade secret disclosure, Judge Hollows' decision in *Upjohn* is the best counter to the Judge Trumbull authority. In *Upjohn*, the court did not apply Section 2019(d) and did not require the plaintiff to disclose a trade secret list before commencing discovery. Judge Hollows' express acknowledgment that the initial discovery sought by plaintiff was narrowly tailored to the product admittedly at issue suggests a prudent strategy for plaintiffs seeking to avoid initial disclosures.

To the extent possible, the more narrow in scope a plaintiff's initial discovery requests the less susceptible the discovery will be to attack on the grounds that it was not preceded with a trade secret list. A reasonably narrowed discovery request is the best response to defense arguments of a "fishing expedition" and uncertainty over relevance. Discovery requests limited to a particular subject matter or product, or component part of the product, are likely, at a minimum, to withstand "relevancy" attacks given the liberal discovery rules in federal court.

Continued on Page 10

BARRY P. GOODE

On ENVIRONMENTAL LAW

True or false? "It is a fundamental principle of Anglo-Saxon jurisprudence that guilt is personal and that it ought not lightly be imputed to a citizen who...has no evil intention or consciousness of wrongdoing."

A clue may be that Justice Murphy wrote that – in dissent – in a 1943 case affirming the conviction of a citizen whose company shipped adulterated drugs in interstate commerce. That case, *United States v. Dotterweich*, 320 U.S. 277, retains remarkable vitality in two related areas of environmental law: the "responsible corporate officer" doctrine and the field of "public welfare offenses."

As to the first, the question in *Dotterweich* was whether the president of the corporation could be held criminally liable for what was, arguably, the act of the corporation. Justice Frankfurter said "yes":

> The offense is committed...by all who do have such a responsible share in the furtherance of the transaction which the statute outlaws...

The other question was whether the corporate officer could be liable even though he may not have known that the corporation was lacking a certain guaranty which would have made his act innocent. Again, Justice Frankfurter said "yes":

> The prosecution...is based on a now familiar type of legislation whereby penalties serve as effective means of regulation. Such legislation dispenses with the conventional requirement for criminal conduct – awareness of some wrongdoing. In the interest of the larger good it puts the burden of acting at hazard upon a person otherwise innocent but standing in responsible relation to a public danger...

At bottom, the question is what a statute means. Congress may define who is a "responsible corporate officer" and create "public welfare offenses," eliminating *mens rea*. To interpret such statutes, the Supreme Court has often invoked *Dotterweich. See, e.g., United States v. Park*, 421 U.S. 658 (1975)(an opinion which should be read by every environmental counselor), and *United States v. International Minerals Corp.*, 402 U.S. 558 (1971). The latter reinstated a dismissed information that charged a "knowing" violation of a hazardous materials regulation, even though there was no assertion that defendant knew it was violating the regulation. The Court wrote:

> Where as here...dangerous or...obnoxious waste materials are involved, the probability of regulation is so great that anyone who is aware that he is in possession of them or dealing with them must be presumed to be aware of the regulation.

But more recent Supreme Court cases may give pause. *United States v. Liparota*, 471 U.S. 419 (1985) and *Staples v. United States*, 511 U.S. 600 (1994), involved food stamps and semi-automatic rifles respectively. In both, the Court reversed convictions on the grounds that the defendant did not have sufficient knowledge to be held criminally liable. In *Staples* particularly, the Court questioned the breadth of the doctrine. ("Close adherence to the early cases...might suggest that punishing a violation as a felony is simply incompatible with the theory of the public welfare offense.")

These are important concepts in environmental law. Two recent cases illustrate that. The latest is *United States v. Iverson*, __F.3d __ (9th Cir. December 11, 1998). Iverson had "officially" retired, but remained active in the affairs of his company. He challenged a jury instruction that permitted conviction under the Clean Water Act based simply on his "authority and capacity to prevent the discharge of pollutants." Supported by *Dotterweich* and *Park*, the Court held the instruction adequate.

> ...[A] person is a 'responsible corporate officer' if the person has authority to exercise control over the corporation's activity that is causing the discharges. There is no requirement that the officer in fact exercise such authority or that the corporation expressly vest a duty in the officer to oversee the activity.

Barry P. Goode

Dotterweich also supported *United States v. Kelley Technical Coatings, Inc.* 157 F.3d 432 (September 16, 1998). That case upheld the conviction, under RCRA, of a defendant who claimed he did not know his acts were illegal. Citing *Liparota*, *Staples* and other cases, defendant claimed the jury should have been instructed that it could not convict unless he "knew that the material in question was regulated hazardous waste and knew that a permit was required." The Sixth Circuit rejected this "knowledge of illegality" defense. It cited *United States v. Weitzenhoff*, 35 F.3d 1275 (9th Cir. 1993), and *United States v. Hopkins*, 53 F.3d 533 (2d Cir. 1995), which embraced the "public welfare offense" doctrine, to determine what must be known under the Clean Water Act to constitute a criminal offense.

There are cases in tension with these. *See, e.g., United States v. Ahmad*, 101 F.3d 386 (5th Cir. 1996). Yet in environmental law, Justice Frankfurter's views still seem to prevail over Justice Murphy's. It appears, generally, that a defendant may be convicted if he knows certain facts, even if he does not know that his act is illegal. For environmental lawyers who counsel clients, these cases – and those that are sure to follow – bear close reading.

Mr. Goode is a partner in the firm of McCutchen, Doyle, Brown & Enersen.

Continued from Page 8

Trade Secret Disclosures

See Fed. R. Civ. Proc. 26(b)(i). That is the persuasive lesson of the *Upjohn* decision.

The policy argument most likely to merit serious judicial consideration against an initial plaintiff disclosure is when a plaintiff can legitimately argue that it is in a "Catch-22" situation: plaintiff filed a complaint in good faith against a party that had access to plaintiff's trade secrets, but plaintiff is without sufficient pre-litigation information about the defendant's business operations to identify specifically what was misappropriated. The success of this argument will likely turn on plaintiff counsel's ability to convince the court that the facts about which plaintiff has knowledge establish its good faith in believing misappropriation occurred.

Particularity of Trade Secret Disclosures in Federal Court

As trade secret litigators know, timing of trade secret disclosures is only one of the first likely flash points to arise after a case is filed. The issue of particularity in the plaintiff's identification of alleged misappropriated trade secrets is often disputed throughout the duration of the litigation. Particularity is likely first to come up if the plaintiff seeks preliminary injunctive relief. In discovery, the parties often dispute the level of detail plaintiff is required to provide, whether it be in a Section 2019(d) disclosure or in answers to interrogatories. Finally, particularity can be a determinative factor in a summary judgment motion or at trial. In the Ninth Circuit and the California district courts, not surprisingly, there is little reported discussion on the particularity required for a Section 2019(d) initial disclosure when the statute is applied in federal court. Both the Ninth Circuit and the district courts, however, have addressed particularity at other stages of litigation.

In deciding an application for a TRO or motion for preliminary injunction, the district court is likely to insist that the plaintiff establish a high level of particularity in its trade secret identification. Judges are reluctant to wield the often-devastating hammer of injunctive relief, especially for a preliminary injunction, unless the plaintiff can specifically identify its trade secrets manifested in the defendant's product. A "Catch-22" plaintiff, as described above, has little chance for injunctive relief unless court-ordered, expedited discovery immediately fills the holes in plaintiff's trade secret identification.

U.S. District Judge Fern Smith of the Northern District recently denied a motion for preliminary injunction after a "Catch-22" plaintiff received in expedited discovery the source code for the defendant's unfinished software program, but did not present to the Court an actual comparison of the architecture of the parties' programs. Judge Smith noted that the plaintiff's failure to identify "specific similarities" between the parties' programs "considerably" undermined the plaintiff's claim. *Cinebase Software v. Media Guarantee Trust*, 1998 WL 661465, at *9 (N.D. Cal. Sept. 22, 1998). Judge Smith relied in part on a 1991 preliminary injunction denial by U.S. District Judge D. Lowell Jensen, also of the Northern District, who found that the plaintiff's failure to identify "specific confidential information" misappropriated by the defendant resulted in a "failure to link" the alleged trade secrets to a "specific manifestation" in defendant's product. This "failure" was "alone a sufficient basis" for the Court's denial of the preliminary injunction motion. *Integral Systems v. PeopleSoft*, 1991 WL 498874, at *14 (N.D. Cal. July 19, 1991).

Judge Trumbull, not surprisingly, is the sole source for published discussions on the particularity required for Section 2019(d) disclosures. In the *Canter* decision, noted above, Judge Trumbull rejected a Section 2019(d) disclosure that consisted primarily of a reference to other discovery materials that the plaintiff claimed contained a description of the secrets at issue. Referring to a related order in the case that required the plaintiff's disclosure to "delineate specifically" the claimed trade secrets, Judge Trumbull rejected the plaintiff's purported disclosure because the statement or designation itself did not expressly list the secrets. *Canter*, 1999 WL 11701, at *8.

The risk a plaintiff runs by failing to provide sufficient particularity in response to trade-secret-identification interrogatories was highlighted in the Ninth Circuit's most recent decision on particularity. In *Imax Corp. v. Cinema Technologies*, the Ninth Circuit expressed a detailed approval of San Jose U. S. Magistrate Judge Edward A. Infante's discovery rulings in a trade secret case involving the technology for "rolling loop" movie projector systems. Judge Infante presided over the discovery disputes on the case, while Judge Jensen ultimately decided summary judgment on the trade secret issues in favor of the defense. In response to defense interrogatory Nos. 1 and 2 asking for identification of "the entire content" of the allegedly misappropriated trade secrets, the plaintiff responded by referring to 459 documents pursuant to Federal Rule of Civil Procedure 33(d), which allows a party to respond to an interrogatory by reference to specific business records. Judge Infante, on the defendant's motion to compel, ordered the plaintiff to provide "complete written responses" without reliance on Rule 33(d). On a motion for reconsideration, Judge Infante rejected without comment the plaintiff's argument that its expert deposition provided a complete identification of the trade secrets at issue and that the defense was not entitled to a written description of its trade secrets "to the level of 'x feet, y inches.'" *Imax Corp. v. Cinema Technologies*, 152 F.3d 1161, 1165 (9th Cir. 1998).

In response to Judge Infante's order, the plaintiff in its fourth supplementary responses to interrogatory Nos. 1 and 2 identified 138 and 136 trade secrets, respectively. The plaintiff included an objection that the interrogatories were premature because discovery and investigation were continuing. The plaintiff claimed to "not yet know" all secrets that were misappropriated and reserved the right to supplement or amend its response. Judge Infante upheld these responses, rejecting a second defense motion to compel, but ordered the plaintiff to comply with Federal Rule of Civil Procedure 26(e) by supplementing its trade secret identification by a given date. In its final supplemental responses, the plaintiff narrowed its trade secrets list to 80, but did not include the precise dimensions and tolerances of the components at issue.

Continued on Page 12

On SECURITIES

Securities litigators have been waiting for the California Supreme Court to decide whether out-of-state stock purchasers can sue California companies for market manipulation under the California Securities Laws. This issue, never firmly resolved in the 30 years since these laws were passed, suddenly became important when the Private Securities Litigation Reform Act imposed new constraints on federal suits in December 1995.

Plaintiffs' counsel responded by bringing parallel actions in state court, under Corporations Code sections 25400 and 25500, for the same nation-wide classes as the federal actions. These state court actions, with quicker discovery, non-unanimous juries and other advantages, threatened to frustrate the federal reforms, at least in California.

In early January, the California Supreme Court finally ruled that non-California purchasers can sue under sections 25400 and 25500. *Diamond Multimedia Systems, Inc. v. Superior Court*, 99 CDOS 84 (1/5/99). The decision was anti-climactic, however, because it came two months after the Securities Litigation Uniform Standards Act of 1998 preempted both state law and state court jurisdiction in most securities class actions filed from now on. (The final Act is very close to the Senate bill described in my July '98 column.)

The *Diamond Multimedia* Decision

Diamond Multimedia and various officers and directors were sued in both state and federal court for making misleading public statements and selling stock while knowing negative inside information. The state trial court denied the defendants' demurrer, which argued that plaintiffs must plead that their purchases had occurred in this state in order to sue under state law.

The Supreme Court treated the case as a matter of statutory construction. Section 25400 makes it "unlawful for any person...in this state" to engage in certain forms of stock market manipulation. Section 25500 provides a damage remedy, without any express territorial limitation, for any person whose trades are affected by such conduct. The Court concluded that these statutes could not "reasonably be read" to mean that the "in this state" requirement refers to both the stock purchase and the misconduct. *Id.* at 86.

The securities defense camp had hoped that the Court would give more weight to the federal securities reforms and to the California legislative purpose of "regulating securities in the intrastate market not reached by federal securities regulation." *Id.* at 89. But the Court dismissed such policy arguments as more properly addressed to the legislative branch, even if "the burden on California courts and corporate defendants may increase." The Court also declined to give more deference to the federal reforms than expressly required, pointing out that Congress made neither the Reform Act nor the Uniform Standards Act retroactive.

The Court emphatically rejected the defense argument that the California Legislature could not have intended to provide a forum for non-residents. California has a "clear and substantial interest in preventing fraudulent practices in this state, which may have an effect both in California and throughout the country." *Id.* Even if the legislative intent was to prohibit only intrastate conduct, the Court noted that extending a damages remedy to *all* persons affected by such conduct "has a far greater deterrent impact than limiting a defendant's exposure to civil liability for in-state transactions would have done." *Id.* As Justice Brown's dissent points out, rhetoric aside, the practical question before the Court was

> whether a small population of securities issuers [*i.e.*, those sued in state court after the Reform Act in December 1995 but before the Uniform Standards Act in November 1998]...has been marooned: deprived of the benefits of Congress' dual policy of furthering a national securities market while deterring abusive securities class action litigation.

Charles R. Rice

Id. at 94. The answer, to put it bluntly, is "yes."

Aside from these "marooned" defendants, whose parallel state and federal cases will eventually work their way through the system, the new federal legislation should force almost all securities class actions into federal court, where state law will be pre-empted. Plaintiffs' counsel, however, will continue to look for creative ways to get into state court, using exceptions in the Uniform Standards Act, for example, claims by groups of less than 50 investors or claims involving stock (such as an IPO) that wasn't listed at the time of the alleged misrepresentation.

Conclusion

It's hard to be impressed with the results of securities litigation reform. Federal class action filings are back to pre-Reform Act levels. Cases are being litigated more aggressively and expensively. And now we will have a three-tiered system, with different rules for cases filed before December 1995, between December 1995 and November 1998, and after November 1998. So far, the chief beneficiaries of securities reform have been the busy and well-compensated lawyers on both sides.

Something's wrong with this picture, but I have no brilliant ideas for how to make the reforms work. And even if I did, history teaches us not to underestimate the considerable intelligence and energy that we lawyers would inevitably bring to bear on finding ways to get around any further reforms.

Mr. Rice, Editor of ABTL Report Northern California, is a partner in the firm of Shartsis, Friese & Gingsburg

Continued from Page 10

Trade Secret Disclosures

Instead, the plaintiff referred to the design of specific components with a general qualifier: "including every dimension and tolerance that defines or reflects that design." *Id.* at 1166.

In affirming Judge Jensen's granting of summary judgment and dismissal of the trade secret claims, the Ninth Circuit in *Imax* agreed that the plaintiff failed to carry its burden of identifying the misappropriated trade secrets because its fourth supplementary interrogatory responses did not include the exact dimensions and tolerances. The court expressly noted that Judge Infante rejected the plaintiff's contention, in its motion for reconsideration, that such particularity was not required. Summary judgment was proper because the plaintiff's "catch-all" phrase of "including every dimension and tolerance that defines or reflects that design" did not constitute the "reasonable specificity" required, given the technology at issue. Such specificity, according to the Ninth Circuit, could only have been accomplished by identifying "precise numerical dimensions and tolerances as trade secrets." *Id.* at 1166-67.

In addition to including a good review of discovery practice on the particularity issue in trade secret disclosures, the *Imax* decision also illustrates the significance that the plaintiff's trade secret disclosures in discovery can have at the summary judgment stage of a case in the Ninth Circuit. In *Imax*, the focus was on the express identifications made in the plaintiff's interrogatory responses. Judge Jensen's ruling that the plaintiff's failure to provide "sufficient particularity" in its interrogatory responses caused a concomitant effect on summary judgment was upheld. The Ninth Circuit rejected the plaintiff's contention that Judge Jensen erred by not considering any trade secret material that was not specifically listed in the fourth supplemental interrogatory responses. The Ninth Circuit equated the argument to an attempt to modify Judge Infante's discovery orders, which the appellate court would not do. *Imax*, 152 F.2d at 1167-68.

In the context of an insufficient Section 2019(d) disclosure, Judge Trumbull in *Canter* also equated the plaintiff's failure on particularity in discovery to the same issue on summary judgment. In granting summary judgment for the defense, Judge Trumbull held that the plaintiff's failure to designate its trade secrets in the Section 2019(d) disclosure resulted in the same failure to carry its burden on summary judgment to identify the misappropriated trade secrets. *Canter*, 1999 WL 11701, at *8.

Conclusion

While in most California federal courtrooms the timing of trade secret disclosures is an open issue, there is ample Ninth Circuit authority on the particularity required for such disclosures and the significant risks faced by plaintiffs that do not provide sufficient particularity in discovery.

Mr. Keane is Special Counsel with the firm of Farella Braun & Martel LLP.

Continued from Page 5

Managing Joint Clients

step back from advising the clients and, instead, recommend that the clients engage in some separate process to resolve the dispute (such as mediation or arbitration). The lawyer may also need to recommend that the clients obtain separate counsel to advise them on the settlement.

Conclusion

Representing multiple clients in a single matter requires a great deal of attention to issues other than the merits of the matter. But with some careful planning up front, the lawyer can steer a course around the obstacles so that joint representation works well for the clients, and for the lawyer representing them.

Pamela Phillips and Phyllis A. Jaudes specialize in representing lawyers and law firms on legal ethics and legal malpractice matters at the law firm of Rogers, Joseph, O'Donnell & Quinn in San Francisco, California. Ms. Phillips chairs the firm's Professional Liability Practice Group.