2009 WL 1346629 (Cal.Superior) (Trial Motion, Memorandum and Affidavit)
Superior Court of California.
Santa Clara County

HANSEN MEDICAL, INC., Plaintiff,
v.
LUNA INNOVATIONS INCORPORATED, and Does 1-10, Defendants.
Luna Innovations Incorporated, Cross-Complainant,
v.
Hansen Medical, Inc., Cross-Defendant.

No. 107CV088551.
January 30, 2009.

Hansen's Opposition to Luna's Motion for Summary Adjudication of a Portion of Hansen's First Cause of Action

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Hon. Joseph H. Huber.

UNLIMITED JURISDICTION

Date: February 20, 2009

Time: 9:00 a.m.

Dept: 8C (Complex Civil Litigation)

Hon. Joseph H. Huber

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INTRODUCTION

Luna's motion for summary adjudication on [Text redacted in copy.] constructs a straw man, separates it from the facts of the case, and then proceeds to knock it down. The trade secret Luna describes bears almost no relation to any contention Hansen makes in the case. The motion is procedurally improper and substantively meritless.

The motion is procedurally improper because the summary judgment statute expressly forbids summary adjudication of issues or allegations. Luna frankly admits, however, that that is exactly what it is seeking here: adjudication of one of Hansen's "trade secret allegations." The motion must be denied on procedural grounds alone.

The motion fails on the merits as well. Luna claims that the concept of [Text redacted in copy.] has been well known in the field of fiber optics. But there is abundant evidence that Luna was perplexed when it encountered an "inexplicable error" in trying to integrate its technology into Hansen's application, and that it took Luna and Hansen engineers weeks of dedicated experimentation and analysis to locate and explain the source of the error. There is further evidence that the work Luna now decries as "obvious" was touted to [Text redacted in copy.] and published in journal articles. It is up to a jury to determine how this conflicting evidentiary record should be resolved. Summary adjudication cannot be granted.

BACKGROUND: HANSEN'S TRADE SECRET CAUSE OF ACTION

Hansen's complaint states a single cause of action for trade secret misappropriation, along with claims for breach of contract, aiding and abetting breach of fiduciary duty, unfair competition, breach of the covenant of good faith, declaratory judgment, and fraud. Declaration of Bryan Wilson ("Wilson Decl.") Ex. 8 (Third Am. Compl.) ¶¶ 18-69. Luna's repeated contention that Hansen has propounded nineteen separate claims for trade secret misappropriation, including one for a [Text redacted in copy.] is contrary to the evidence in the record Luna provides. The support for that statement appears to be based almost entirely on Hansen's supplemental interrogatory response. *See* Luna's Separate Statement of Undisputed Facts ("SUF") at Fact 10, [Text redacted in copy.]

Hansen's interrogatory response does not, however, support Luna's description of the matters at issue in this suit. The interrogatory response is set forth in full in Hansen's response to Luna's separate statement, but is excerpted here: [Text redacted in copy.] Luna App. Ex. C at 4-6.

Several things are clear from the face of this document. First, there are not 19 trade secret allegations (depending on how counted, these could be considered three, fourteen plus, or dozens of categories of information described). Second, there is no standalone [Text redacted in copy.] Hansen's allegations are all premised on the general allegation that [Text redacted in copy.] *Id.* at 4. Third, not only is there no standalone [Text redacted in copy.] but the term [Text redacted in copy.] is mentioned in at least three of the allegations in the second category: specifically items 1, 2 and 3. And fourth, the majority of the trade secrets described (those in the second category) are owned by Hansen under the Hansen-Luna agreement--and are thus a part of this litigation--whether they are trade secrets or not. The foundation of Luna's motion crumbles on inspection.

ARGUMENT

I. LUNA'S MOTION FOR SUMMARY ADJUDICATION OF AN "ALLEGATION" IS PROCEDURALLY IMPROPER

A motion for summary adjudication can only be granted "if it completely disposes of a cause of action, an affirmative defense, a claim for damages, or an issue of duty." Cal. Civ. Proc. Code § 437c(f)(1). The legislature enacted this provision in 1990 "to stop the practice of piecemeal adjudication of facts that did not completely dispose of a substantive area." *Catalano v. Super. Ct.*, 82 Cal. App. 4th 91, 97 (2000). The parties agree that a pleading is not necessarily determinative as to what constitutes a "cause of action." But Luna's effort to claim that each trade secret allegation constitutes a separate cause of action, subject to summary adjudication, would render the term meaningless.

Luna cites two decisions by the Court of Appeal in support of its theory: *Lilienthal & Fowler v. Super. Ct.*, 12 Cal. App. 4th 1848 (1993) and *Edward Fineman Co. v. Super. Ct.*, 66 Cal. App. 4th 1110 (1998). Luna Brf. at 5-6. As Luna acknowledges, neither decision dealt with trade secret misappropriation. *Id.* Both are factually inapposite because they were cases in which multiple causes of action were combined into one.

In *Lilienthal*, two plaintiffs jointly filed an action for legal malpractice. 12 Cal. App. 4th at 1850. The plaintiffs had been represented at different times and in different actions. Nonetheless, their complaint combined their individual claims against the defendants in two causes of action, one for breach of contract and one for negligence. *Id.* Claims by the two plaintiffs were entirely unrelated, arising from different facts and circumstances. *Id.* Unlike this case, in *Lilienthal*, "[t]here [wa]s no dispute that the two matters have no relation to each other." *Id.* at 1854.

In *Edward Fineman Co.*, the plaintiff alleged three causes of action for a bank's allegedly improper payment of 83 checks over a seven year period. Summary adjudication, based on the statute of limitations, was granted as to only 23 of those checks. 66 Cal. App. 4th at 1116-18. The ruling, however, was based on the statute applicable to a bank's handling of canceled checks. Under the express terms of that statute, the court noted, "each altered, forged, or unauthorized check stands on its own as a separate claim, independently subject to such affirmative defenses as may be applicable." *Id.* at 1118.

The California UTSA includes no such provision. To the contrary, the statute of limitations for the CUTSA provides that "[f]or purposes of this section, a continuing misappropriation constitutes a single claim." Cal. Civ. Code § 3426.6. In other words, "at least absent unusual circumstances, when the statute of limitations begins to run on some of a plaintiff's trade secret claims against given defendants, the statute also begins to run at that same time as to other trade secret claims against those same defendants. . . ." *See Intermedics, Inc. v. Ventritex, Inc.*, 822 F. Supp. 634, 657 (N.D. Cal 1993); *cited with approval in Glue-Fold, Inc. v. Slautterback Corp.*, 82 Cal. App. 4th 1018, 1027 (2000). As courts in California have repeatedly affirmed, trade secret claims cannot be parsed into individual trade secrets, each subject to different statutes of limitation: "What California trade secret law protects is 'the relationship between the parties at the time the secret is disclosed' and . . . the 'fabric of the relationship once rent is not torn anew with each added use or disclosure, although the damage suffered may thereby be aggravated.' " *Intermedics*, 822 F. Supp. at 651-52 (*quoting Monolith Portland Midwest Co. v. Kaiser Alum. and Chem. Corp.*, 407 F.2d 288, 293 (9th Cir. 1969)); *Cadence Design Sys., Inc. v. Avant! Corp.*, 29 Cal. 4th 215, 220-21 (2002).

Luna's reliance on the jury verdict in *O2 Micro Int'l. Ltd. v. Monolithic Power Sys., Inc.*, 399 F. Supp. 2d 1064, 1069 (N.D. Cal. 2005), is not persuasive either. The Judicial Council of California Civil Jury Instructions make it clear that a trade secret claim is a single cause of action, even where the jury is instructed that there are multiple trade secrets at issue. The "Directions for Use" for the first instruction on trade secrets, CACI No. 4400, directs:

> In the first sentence, provide only a general description of the alleged trade secrets. . . . The items that are alleged to be trade secrets will be described with more specificity in CACI No. 4401, *Misappropriation of Trade Secrets--Essential Factual Elements*.

CACI No. 4401 in turn directs the court to describe a list of trade secrets as an essential factual element of a single claim:

> In element 1, specifically describe all items that are alleged to be the trade secrets that were misappropriated. If more than one item is alleged, include 'the following' and present the items as a list.

Id. California law does not cast individual trade secret "items" as separate causes of action.

Nor has Luna provided any specific justification for taking such an extraordinary step here. Hansen's supposed [Text redacted in copy.] on which this motion is premised is nowhere pled or described as a separate trade secret, arising from a distinct set of facts and circumstances, much less a distinct primary right. Luna's motion recites the first item in the second section of Hansen's supplemental interrogatory response. *See* SUF ¶ 10. But that item, even as summarily described in Hansen's interrogatory response, arises from the same facts and circumstances as the rest of the items on Hansen's list, including the development relationship between Hansen and Luna, and the auspices of the Hansen-Luna agreement. Moreover, there are at least two other items on the list that are expressly related to the idea of [Text redacted in copy.] and yet others that arose in the same time period, involving the same individuals, and the same transactions. Luna App. Ex. C at 4-6.; Declaration of William Spillman, Jr. ("Spillman Decl.") ¶ 2.).

Finally, both *Lilienthal* and *Fowler* justified the decision to parse pled causes of action by noting that doing so would be consistent with the statutory goal of promoting time and cost saving. *See, e.g., Lilienthal*, 12 Cal. App. 4th at 1854. Here,

by contrast, disposing of a trade secret "allegation" will not remove the issue from the case. *See Catalano*, 82 Cal. App. 4th at 97-98 (trial court order granting summary adjudication disposing of factual allegations improper where punitive damages claim remained to be tried); *Hood v. Super. Ct.*, 33 Cal. App. 4th 319, 323-24 (1995) (summary adjudication of declaratory relief cause of action improper where underlying issues remained to be tried). The facts regarding the claimed trade secret are subject to Hansen' breach of contract, declaratory judgment, tortious interference, and fraud claims. Luna's request for piecemeal adjudication of a portion of the facts underlying Hansen's trade secret cause of action must be denied.

II. LUNA'S MOTION MUST BE DENIED ON THE MERITS BECAUSE SUBSTANTIAL DISPUTES OF FACT PRECLUDE SUMMARY ADJUDICATION OF HANSEN'S FIRST CAUSE OF ACTION

Assuming for purposes of argument that Luna's motion is procedurally proper, it still cannot be granted. Luna argues that the concept of [Text redacted in copy.] is and has been well known in the field of fiber optics, and further argues that Hansen did not maintain the secrecy of the information. But the jury will not be presented with the question of whether the concept Luna labels [Text redacted in copy.] is a trade secret because Luna's label captures almost nothing of Hansen's actual trade secret allegations. Instead, Hansen's trade secret allegations are based on the technology that the parties actually developed and exchanged during their collaboration. Luna App. Ex. C at 4:2-16. [1]

The jury will hear evidence that before its work with Hansen, Luna did not know that [Text redacted in copy.] *Id.* at 4:17-5:4. The jury will also hear that although the solution of [Text redacted in copy.] *Id.* at 5:5-6:13. And, although [Text redacted in copy.] would solve the accuracy problem, accommodating the design required system-level solutions by Hansen that ultimately took advantage of the new characteristics of the fiber to optimize other aspects of the system as well. *Id.* at 6:14-7:22. These are the elements of Hansen's claims insofar as they relate specifically to [Text redacted in copy.]

Moreover, Luna's collection of documents referring to bits and pieces of these elements, even if accepted at face value, cannot dispose of the issue of whether the information is a trade secret. As a leading treatise notes, "[i]nformation will not be denied trade secret status merely because each bit of it can be found somewhere in the public domain. Courts have consistently held that there can be discovery and value in the act of combining available ideas and data into something useful." Pooley, J., *Trade Secrets*, § 4.03[2] (1997); *see also San Jose Constr., Inc. v. S.B.C.C., Inc.*, 155 Cal. App. 4th 1528 (2007) (lower court erroneously granted summary judgment that compilation of publicly known information was not a trade secret); *Metallurgical Indus. Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1202 (5th Cir. 1986) ("trade secret here was the application of known techniques and the assembly of available components to create the first successful system in the industry"). The question of whether Luna's accumulation of references adds up to proof that the trade secret was known is a disputed issue for trial.

A. There Is Substantial Evidence That The Trade Secrets Claimed By Hansen In The Suit Were Not Known To Luna Or The Industry

Luna ignores the facts underlying the development of the information Hansen claims in this suit. These facts alone put Luna's contention that Hansen's trade secrets were generally known to the public or to Luna into dispute.

1. Substantial Evidence Shows That Until Its Work With Hansen, Luna Did Not Know [Text redacted in copy.]

Hansen and Luna began working to integrate Luna's shape sensing system with Hansen's robotic catheter in the Fall of 2006. Early in this work, Hansen engineers Neal Tanner and Randy Schlesinger were testing the system and discovered that the Luna system could accurately detect the shape of a fiber, but that [Text redacted in copy.]. Because Hansen's primary goal was to detect the location of the tip of a catheter, this was a significant problem. Ex. 1 (Tanner Dep., July

16, 2008) at 45:21-48:1; Ex. 2 (Schlesinger Dep., Nov. 11, 2008) at 50:24-52:12; Ex. 3 (Ramamurthy Dep., Nov. 18, 2008) at 15:2-23, 97:2-20.

In the weeks that followed Hansen's identification of the issue, the effort to solve the [Text redacted in copy.] became a focus of Luna's efforts and the subject of extensive communication between Hansen and Luna. As documented in Tanner's notes, Duncan's notebook, and the email exchange between the parties, finding a solution was a major topic of discussion and research in which both companies participated. Exs. 9-18. For example, on Oct. 31, 2006, Ramamurthy e-mailed Duncan regarding the accuracy problem, asking "Are you any closer to solving this issue?" Ex. 11 (LUNA 9047-51) at Luna 9048. Duncan responded, [Text redacted in copy.] *Id.* at LUNA 9047. In that e-mail, Duncan proposed three "potential solutions": [Text redacted in copy.] *Id.* In an internal memo to Ken Ferris, Duncan stated that the problem would take [Text redacted in copy.] Ex. 12 (LUNA 53400-01) at 53400.

On or around November 25, 2006, Duncan sent an email to the Hansen team, describing the tests he was performing. Ex. 13 (HAN 33953-58); Ex. 14 (HAN 39959-60). Two days later, Duncan emailed Tanner at 11:00 p.m., [Text redacted in copy.] Ex. 14 at HAN 39959. The following day, Duncan sent his [Text redacted in copy.] Ex. 15(HAN) 40004-06) at HAN 40004. Duncan's email described the key that finally confirmed the source of error. [Text redacted in copy.] As Luna described in the "Final Report" presented to Hansen in June 2007:

Figure 5 is a plot of the phase derivative of the Fourier transform signal data for one of the cores of the tri-core fiber. The phase derivative of the transform signal is directly proportional to the wavelength returned by the FBGs. thus changes in the phase derivative are linearly proportional to strain ^{2}. The plot focuses on the area where the fiber enters the partial loop. The noisy sections are the spaces between FBGs and the flat sections are the FBGs themselves; nominally phase increases linearly in a FBG. so its first derivative is flat. The interesting thing is that a strain gradient can clearly be seen as the fiber enters the loop (area where the phase derivative has a slope). Also worth noting is how quickly the strain changes over the length of one FBG. The data indicates that the strain changes approximately 700 MuEpsilon between FBGs. Clearly in this case the spatial frequency content of the fiber is being under-sampled; the Nyquist criteria is being violated.

Figure 5: The phase derivative for a single core of the tri-core fiber in a left-hand and a right-hand disposition. Clearly the spatial frequency content of the fiber is being under-sampled in the region where the fiber enters the partial loop.

Ex. 19 (LUNA 6305-17) at LUNA 6310.

Once the source of the problem had been identified, the proposed solution was [Text redacted in copy.]. As Luna describes in the Final Report:

> The obvious result of under-sampling the spatial frequency content is that accuracy will be negatively impacted. An obvious solution to the problem is to create more dense sensor arrays. Having less 'blank' space between sensors would mean more information is captured which could be used in deducing shape. In order to test the

Id. at LUNA 6311.

Luna's claim that either the identification of the problem or the solution was obvious is belied by the record of how much effort it took Duncan and Tanner to identify the source of the problem. The jury will hear additional evidence on this point: [Text redacted in copy.] Ex. 20 (LUNA 9342-54) at LUNA 9344 (emphasis added). Under a heading for [Text redacted in copy.]: *Id.* at LUNA 9351.

Luna's description of these ideas in [Text redacted in copy.] is not the only admission the jury will hear that these concepts were new. Shortly after he disclosed the solution to Hansen, Duncan laid out the idea to another medical robotics

company [Text redacted in copy.]. Ex. 21 (LUNA 48369-71). A few months later, Luna published the information described the same discovery in a published conference paper. Ex. 22 (Duncan Article).

2. Substantial Evidence Shows That Until Its Work With Hansen, Luna Did Not Know How To Design A Fiber [Text redacted in copy.] And Did Not Know How To Design A System With Such Gratings

It is one thing to note that the solution to an undersampling error is to add more sensors, it is another thing to determine how this can be accomplished to optimize the idea for a robotic surgical application in a cost effective way. In the [Text redacted in copy.] described above, Duncan describes the idea of making the gratings not only [Text redacted in copy.] but of making them [Text redacted in copy.] In an internal email to another Luna engineer, Duncan writes, contrary to Luna's current argument that making this kind of fiber was well known, that: [Text redacted in copy.] Ex. 23 (LUNA 44779-81) at LUNA 44779 (emphasis added). These concepts fall within the ambit of what Luna is calling the [Text redacted in copy.] but substantial evidence shows that they were not known publicly or to Luna. Spillman Decl. ¶¶ 13-15.

Meanwhile, Hansen engineers realized that making the [Text redacted in copy.] could solve other problems as well. For example, the "perturbed path" test had determined that Luna's [Text redacted in copy.], but the test did not determine what spacing would be sufficient. Spillman Decl. ¶ 18; *see also* Ex. 2 (Schlesinger Dep.) at 49:12-55:8. Making the [Text redacted in copy.]. By the same token, making the [Text redacted in copy.]. Spillman Decl. ¶ 19. These concepts are all captured in Hansen's claimed trade secret cause of action. There is substantial evidence that they were not generally known. Based on the evidence, a jury is entitled to find that Hansen's trade secrets building on the [Text redacted in copy.] concepts were not generally known and derived value from that secrecy.

3. The Trade Secret Is Not In The Public Domain

The bulk of Luna's motion is devoted to describing publications that purportedly show that the trade secret was in the public domain (Luna Brf. at 9-11) or known to Luna (*id.* at 11-13). The evidence of the transactions between Hansen and Luna should be sufficient, in and of itself, to create a material dispute of fact on this point. However, Hansen also disputes the specifics of each item that Luna relies on; these disputes are detailed in Hansen's opposition to Luna's Statement of Undisputed Facts, and in the accompanying declaration of Professor William Spillman. As Dr. Spillman explains, most of the references are irrelevant to the application Hansen and Luna were trying to implement, to the problem they were trying to solve, or to the technology they were using. These references thus create a disputed issue of fact, they do not resolve one.

B. Luna's Claim That Hansen Did Not Take Reasonable Steps To Protect The Secrecy Of Its Trade Secrets Is Disputed

Luna offers two items of evidence in support of its contention that Hansen did not take steps that were reasonable under the circumstances to maintain the secrecy of its trade secrets: (1) a trip report by Hansen engineer Randy Schlesinger reporting a discussion of [Text redacted in copy.] and (2) patent applications filed by Hansen on inventions related to "continuous gratings." Neither of these allegations can support summary adjudication of Hansen's trade secrets.

1. The Schlesinger Trip Report Does Not Disclose Hansen's Trade Secrets

The first item is the Schlesinger memorandum, reporting on a March 2006 preliminary meeting with Luna engineers at a trade show. Luna App. Ex. J. Schlesinger's memo reports the following conversation with a Luna field engineer named Bob Fielder: [Text redacted in copy.] *Id.* at HAN 91308; Ex. 2 (Schlesinger Dep.) at 35:25-36:6. This discussion, however, does not constitute indisputable evidence of disclosure of the trade secret by Hansen; it does not encompass, for example [Text redacted in copy.] *See* Luna App. Ex. C at 4-6.

Luna's evidence shows at most that the concept of placing continuous gratings in an optical fiber is publicly known and has been discussed in the relevant literature. But that is not Hansen's trade secret. What was not obvious, publicly known, or known to Luna prior to working with Hansen, [Text redacted in copy.] Ex. 3 (Ramamurthy Dep.) at 95:25-102:14.

2. Hansen's Patent Applications Do Not Preclude Testimony

Luna also argues that Hansen's alleged publication of the trade secret in its patent applications eliminates any trade secret status, and thus, presumably, Luna's liability. Luna Brf. at 14. Luna misunderstands the law. California defines "misappropriation" as "[d]isclosure or use of a trade secret of another without express or implied consent by a person who . . . *[a]t the time of the disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was . . . [a]cquired under circumstances giving rise to a duty to maintain its secrecy or limit its use*." Cal. Civ. Code § 3426.1(b)(2)(B)(ii) (emphasis added). Thus, what matters is the trade secret status of Hansen's information when Luna "acquired" it. "California does not treat trade secrets as if they were property. It is the relationship between the parties *at the time the secret is disclosed that is protected*." *Monolith*, 407 F.2d at 293 (emphasis added). To escape liability for misappropriation, Luna must prove not only that Hansen's published patent applications contain the trade secret at issue, but also that Luna obtained their knowledge of the trade secrets from the publications and not from Hansen. *See Abba Rubber Co. v. Seaquist*, 235 Cal. App. 3d 1, 21 (1991) (Defendants must "convince the finder of fact at trial . . . (3) that the Defendants' knowledge of the plaintiff's customers resulted from the identification process [that is, their own efforts to identify potential customers] and not from the plaintiff's records").

Luna alleges that the trade secret was first published in a Hansen patent application in September 2007. Luna Brf. at 14. Since the publication occurred after this litigation commenced and well after Hansen disclosed the trade secret to Luna, it cannot serve as a defense to misappropriation.

CONCLUSION

There is no procedural justification for summary adjudication here and no substantive justification either. Luna's motion for summary adjudication on part of Hansen's first cause of action should be denied.

Dated: January 30, 2009

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Footnotes

1 Hansen further alleges that it owns these trade secrets under the terms of the Hansen-Luna agreement whether the ideas came from Hansen or from Luna. Luna App. Ex. C at 4:11-16; Luna App. Ex. A ¶¶ 45-46.

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