Abstract
This case relates to whether Defendant had sufficient notice, following the publication and subsequent database availability, of Plaintiff's PCT application, to start the Statute of Limitations on invention misappropriation complaints (under California law). The court held that, because the publication was locatable via the database by a reasonably diligent person, Defendant had constructive notice of Plaintiff's actions with regards to the invention, thus tolling the Statute of Limitations.

ALAMAR BIOSCIENCES, INC., Plaintiff, v. DIFCO LABORATORIES, INC., et al., Defendants.MICROSCAN, INC., Intervention-Claimant, vs. ALAMAR BIOSCIENCES, INC., et al.,Intervention-Defendants.

CIV-S-94-1856 DFL PAN

UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF CALIFORNIA

October 12, 1995, Decided
October 13, 1995, FILED

COUNSEL: For ALAMAR BIOSCIENCES INC, California Corporation, plaintiff: Daniel J Furniss, Townsend and Townsend and Crew, Palo Alto, CA.$

For MICROSCAN INC, intervenor-plaintiff: Rex-Ann Spickelmier Gualco, Littler Mendelson Fastiff Tichy, Sacramento, CA. Carl Kustin, Christie Parker and Hale, Pasadena, CA.

For DIFCO LABORATORIES INCORPORATED, PASCO LABORATORIES, INC, defendants: James T Fousekis, Judith Bond Jennison, Steinhart and Falconer, San Francisco, CA.

For ALAMAR BIOSCIENCES INC, MICHAEL LANCASTER, intervenor-defendants: Daniel J Furniss, Theodore T Herhold, Townsend and Townsend and Crew, Palo Alto, CA.

For DIFCO LABORATORIES INCORPORATED, PASCO LABORATORIES, INC, intervenor-defendants: Judith Bond Jennison, (See above).

For DIFCO LABORATORIES INCORPORATED, PASCO LABORATORIES, INC, counter-claimants: James T Fousekis, (See above), Judith Bond Jennison, (See above).

For ALAMAR BIOSCIENCES INC, counter-defendant: Daniel J Furniss, (See above).

JUDGES: DAVID F. LEVI, United States District Judge

OPINIONBY: DAVID F. LEVI

OPINION: ORDER

I. Plaintiff Alamar Biosciences, Inc. ("Alamars") brings this diversity action against defendants Difco Laboratories, Inc. ("Difco") and its wholly-owned subsidiary Pasco Laboratories, Inc. ("Pasco"). Alamar alleges that Difco improperly used information obtained from Alamar under a confidentiality agreement to develop a testing kit for identifying bacteria and determining the susceptibility of the bacteria to antibiotic treatment. Alamar variously styles its claims against Difco and Pasco as unfair competition, misappropriation of trade secrets, and breach of the confidentiality agreement.

Intervention-claimant MicroScan, Inc. ("MicroScan") alleges that Michael Lancaster, Alamar's founder and formerly an employee of MicroScan's, misappropriated MicroScan's trade secrets in the test technology prior to any dealings between Alamar and Difco. MicroScan seeks relief from Lancaster and Alamar as well as from Difco and Pasco. Microscan's claims are under state law for misappropriation of trade secrets, breach of Lancaster's employment contract, and unfair competition.

Alamar and Lancaster move for summary judgment against MicroScan on all claims, based on the statute of limitations. Difco and Pasco also seek summary judgment on the basis that MicroScan lost its trade secret protection by failing to take reasonable steps to stop misappropriation by Alamar[1]. MicroScan moves for leave to amend its intervention complaint, and is opposed by Alamar only on the basis that the statutes of limitations dispose of both the current and proposed complaint.

II. This case involves the alleged "double theft" of trade secrets -- first from MicroScan by Alamar's founder Dr. Lancaster, then from Alamar by Difco[2].

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[1] By separate order the court will address Difco's summary judgment motion against Alamar

2 On this motion for summary judgment, the evidence is viewed in the light most favorable to MicroScan

The trade secrets involved relate to the use of the dye resazurin in antibiotic effectiveness test kits for use by hospitals and medical laboratories.

A. Overview of science

Bacteria testing kits are designed to achieve one or both of two goals: (1) identification of the particular strain of bacteria under study and (2) determination of the susceptibility of the bacteria to an antibiotic at different doses. The susceptibility portion of a test is referred to as a "minimum inhibitory concentration" test ("MIC"), because it tests for the minimum level of antibiotics necessary for a complete "kill. " It is also referred to as a "susceptibility" test, since it measures the susceptibility of a given bacterial strain various levels and types of antibiotics.

Various companies compete now in the testing market using several different technologies. There are three main types of MIC tests currently used: "turbidity," "fluorogenic," and "fluorometric/colorimetric." Turbidity testing relies on the cloudiness or turbidity produced by bacteria that are alive and growing. The turbidity can be observed after the bacteria sample is incubated. Turbidity testing is the current method used by Pasco. "Fluorogenic" testing measures the enzymatic activity of bacteria that are alive and growing MicroScan markets a fluorogenic system.

The third type of MIC test is the one at issue in this case. Alamar markets a test for MIC based on resazurin. Resazurin is a "redox" dye -- it changes to resorufin in an "oxidation-reduction" reaction. When grown in a medium containing resazurin, living bacteria use up the oxygen. This causes a redox reaction, and the resazurin dye is converted to resorufin (the resazurin molecule minus one oxygen atom). The change from resazurin to resorufin is apparent in two ways. First, there is a color change from resazurin (blue) to resorufin (red). Thus, the redox MIC test is "colorimetric." Second, there is a fluorescence change from resazurin (slightly fluorescent) to resorufin (highly fluorescent). The test is therefore "fluorometric" (capable of measurement by fluorescence). The redox reaction takes place whenever metabolism occurs, and can be accurately detected using resazurin sometimes in as little as two hours.

The aim of much research, apparently unrealized, is to develop a testing kit that will both identify the bacteria and determine MIC; that will do so rapidly (within four hours), reliably, and cheaply; and that can be read by a machine reader. Alamar contends that the resazurin system offers the best possibility of such a system primarily because it is both colorimetric and fluorometric[3]. A

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B. Alleged theft # 1: Lancaster from MicroScan

Dr. Michael Lancaster worked for MicroScan from 1984 to February, 1987. While there, he supervised a research project on the use of resazurin for a colorimetric MIC test and for use in MicroScan's enzyme-based fluorogenic test. Lancaster claims he brought the idea of a colorimetric MIC test using resazurin to MicroScan from his prior work at LFB Research. After several months of preliminary tests, Lancaster presented the results to his supervisor. At that time, MicroScan decided not to pursue a colorimetric MIC system using resazurin.

A year after leaving MicroScan, Lancaster and his wife Dr. Rebecca Fields (who had also worked at MicroScan) formed Alamar. Alamar picked up where MicroScan had left off -- exploring the use of resazurin in a olorimetric/fluorometric MIC test.

C. Alleged theft # 2: Difco from Alamar

Alamar quickly developed a prototype of an MIC test based on resazurin. In mid-1988, Alamar began to look for a larger company that could help with the capital needed to develop and market the test. Difco and Alamar agreed to explore the possibility of a joint venture. In order to facilitate the discussions, Alamar disclosed some of its technology under the terms of a confidentiality agreement that required Difco not to use or disclose the information for three years. When talks with Alamar collapsed in February of 1989, Difco allegedly did not stop using Alamar's information but improved upon it, ultimately developing a "dual dye" system for which it received a patent in 1992. The dual dye system described in Difco's patent application uses resazurin as one of the dyes. Alamar also sought patent protection. In January 1990, Alamar filed an International Patent Cooperation Treaty ("PCT") application for the use of resazurin in MIC testing and on July 26, 1990, Alamar's international patent application was published.

III. Alamar moves for summary judgment against MicroScan on all its claims, arguing that all claims are barred by the relevant statutes of limitations. MicroScan has three substantive claims: (1) misappropriation of trade secrets under the Uniform Trade Secrets Act ("UTSA"), Cal. Civ. Code §§ 3426 et seq.; (2) breach of contract; and (3) unfair competition under Cal. Bus. & Prof. Code §§ 17200 et seq., all arising out of the alleged use of MicroScan's trade secrets in the Alamar susceptibility test. The statute of limitations for misappropriation is

three years; the statutes for unfair competition and breach of written contract[4] allow the plaintiff four years to file the claim. The intervention complaint was filed May 1, 1995, and relates back to the motion for intervention April 12. The longest statutes of limitations therefore reach back to April 1991.

[4] MicroScan's current complaint claims Lancaster breached an implied contract not to use confidential information obtained during his employment at MicroScan; the proposed amended complaint (for which MicroScan seeks leave to amend) alleges that Lancaster signed certain agreements on his notebooks at MicroScan which prohibited use of the information in the notebooks without MicroScan's consent. The statute of limitation for breach of implied contract is two years

Under both the California common law "discovery rule" and the UTSA, the limitations period begins when the plaintiff has actual or constructive notice of the facts giving rise to the claim. Wilshire Westwood v. Atlantic Richfield, 20 Cal. App. 4th 732, 740, 24 Cal. Rptr. 2d 562, 566 (1993); Cal. Civ. Code § 3426.6 ("An action for misappropriation must be brought within three years after the misappropriation is discovered or by the exercise of reasonable diligence should have been discovered. There is constructive notice when a reasonably diligent plaintiff would have discovered the facts. "If a person becomes aware of facts which would make a reasonably prudent person suspicious, he or she has a duty to investigate further and is charged with knowledge of matters which would have been revealed by such an investigation." Wilshire, 20 Cal. App. 4th at 740, 24 Cal. Rptr. at 566. Thus, when there is reason to suspect that a trade secret has been misappropriated, and a reasonable investigation would produce facts sufficient to confirm this suspicion (and justify bringing suit), the limitations period begins, even though the plaintiff has not conducted such an investigation. Intermedics, Inc. v. Ventritex, Inc., 804 F. Supp. 35, 44 (N.D.Cal. 1992) ("Intermedics II"). On the other hand, if certain facts necessary to the claim are unavailable even to a reasonably diligent plaintiff, the limitations period is tolled until the facts do become available. Id. Fraudulent concealment of the facts giving rise to a cause of action will toll the limitations period.

Where the record could not lead a rational trier of fact to find for the non-moving party, there is no genuine issue for trial and summary judgment must be granted. Matsushita, 475 U.S. 574, 585-87, 89 L. Ed. 2d 538, 106 S. Ct. 1348. Since it is undisputed that misappropriation took place outside the limitations period, MicroScan has the burden of proving the facts necessary to toll the statute. California Sansome Co. v. U.S. Gypsum, 55 F.3d 1402, 1406 (9th Cir. 1995).

There is no question that MicroScan was suspicious that Dr. Lancaster had misappropriated its secrets. When Lancaster left MicroScan in 1987, MicroScan's president was "concerned" and "suspicious" that Lancaster would take proprietary information with him. At least one MicroScan employee testified that it was "common knowledge" within the MicroScan research division that Lancaster was interested in the resazurin technology. The same employee testified that it was his understanding at the time that Alamar was formed to exploit the prior resazurin research. Another MicroScan employee told MicroScan's president that he was leaving to join Alamar for the purpose of developing a competitive MIC system.

In May 1990, Alamar exhibited its product at the American Society for Microbiology's ("ASM") annual convention. MicroScan's employees had

specific directions to go around to competitors' booths and report on competing technology. At least four MicroScan employees saw Alamar's presentations either at the May 1990 ASM convention or later that year at the October 1990 ICAAC convention. Alamar's display included two technical posters and three abstracts, which contained specific technical information describing the major aspects of Alamar's technology The display specifically showed that Alamar's product employed a redox dye that changed color from blue to red in response to bacterial growth.

One MicroScan employee, Robert Badal, after looking at the exhibit, said to Lancaster, "Looks like you are using resazurin here." Lancaster smiled and said, "It's a redox test." Badal "didn't press him beyond that." Badal had a "personal feeling" that resazurin was being used, based on the color change, the fact that Lancaster admitted it was a redox test, and the prior work done by Lancaster at MicroScan. He shared this feeling with others at MicroScan.

Other trade shows ensued, with Alamar continuing to publicly demonstrate its colorimetric system. MicroScan employees and management discussed how Alamar's technology "looked very much like what we thought our system would have looked like had we developed colorimetric." MicroScan's management committee "looked at the possibility" of bringing a lawsuit against Alamar. In January 1991, an internal report was prepared, documenting Lancaster's work on a colorimetric MIC system at MicroScan.

The Vice President of Research & Development at MicroScan met with MicroScan's president to discuss the investigation They discussed the possibility of misappropriation by Lancaster, and decided to take no further action. There were two reasons they stopped: they were unsure of whether Alamar was actually using resazurin, and they had also determined that the research done by Lancaster while at MicroScan had not been substantial.

Thus, by January of 1991, MicroScan's top officers knew all the facts necessary to bring suit except one -- whether the particular redox dye used by Alamar in its colorimetric MIC test was resazurin -- and even as to this they had strong circumstantial evidence that the dye indeed was resazurin. Other MicroScan employees had known as much as the president for over a year. But faced with this awareness, MicroScan did not take the steps that any reasonable plaintiff would have taken to confirm whether Alamar had stolen its secrets.

Since at least 1987, MicroScan had retained Franklin Beninsig as an independent consultant. Among Beninsig's duties was to obtain copies of technical publications, including patents, when requested by MicroScan. MicroScan had done patent searches on the technology of its competitors before;

but did not do so on Alamar, purportedly because it did not consider Alamar to be a competitor.

Published PCT patent applications can be identified and obtained by a number of techniques, such as searching databases which continuously compile such information based on either a company's name or an inventor's name. On July 26, 1990, Alamar's PCT application was published and became publicly available. By August 1990, the application was available on a patent search database. The application presented a complete description of Alamar's technology, including the fact that resazurin was the redox indicator used. In short, the "one fact" MicroScan purportedly did not "know"--although had every reason to suspect--was readily available to the public by August 1990.

Alamar relies on General Electric Co. v. Brandon, 1992 U.S. Dist., 25 U.S.P.Q.2D (BNA) 1885 (N.D.N.Y. 1992), which holds that an issued (published) U.S. patent constitutes constructive notice to anyone claiming that the subject matter of the patent was misappropriated. MicroScan attempts to distinguish this case by emphasizing that the PCT application was published in Geneva, Switzerland. Nevertheless, MicroScan has the burden of showing that a reasonable plaintiff would not have found it. Despite its emphasis on the geographical distance of Geneva, MicroScan admits that PCT patent applications can be located by using a computer database search. MicroScan presents no evidence that the time or cost involved in a database search should not be expected of a reasonably diligent plaintiff. Microscan does not contradict the declaration of David A. Sadewasser[5], which states that a database search using "Alamar," "Lancaster," "Fields," or "resazurin" would have revealed the existence of the patent application within ten minutes. The title of the database record itself is revealing, and would have provided Microscan with the one missing fact necessary to proceed against Alamar: "Antimicrobial Susceptibility Testing of Microorganisms -- Using Resazurin Conversion to Resorufin and Light or Fluorescence Detection."

MicroScan was familiar with the patent search procedure and strongly suspected that Lancaster was using resazurin. In these circumstances, a reasonable plaintiff is required to take the elementary step of checking all readily available patent applications.

In short, MicroScan failed to take the steps a reasonably diligent plaintiff would take in investigating its claims. MicroScan did not call Beninsig to have him search the database for an Alamar patent, a step that MicroScan admits would

[5] Sadewasser operates a professional patent search company called "Desert Patent Search." Alamar's attorney contacted Sadewasser and asked him to search for all published records of patent applications and patents held by "Alamar." His declaration describes the procedure and results of his search

have revealed Alamar's use of resazurin. It did not have its attorneys, or any other MicroScan personnel, contact Lancaster and ask whether he was using resazurin. The closest MicroScan came to investigating was when Badal said, "Looks like you're using resazurin here" His decision not to "press further," or have someone else from MicroScan do so, cannot be characterized as reasonably diligent. Moreover, Lancaster's answer to Badal, which MicroScan considers to have been evasive, appeared to confirm that resazurin was in use.

MicroScan contends that the statute should be tolled because Alamar concealed its use of resazurin. MicroScan points to Dr. Lancaster's admission that he did not freely announce that resazurin was used, despite the fact that the information was available through the PCT. MicroScan further contends that the use of the trade name "alamarBlue," and Lancaster's oblique answer to Badal's inquiry constituted a conscious attempt to conceal Alamar's wrongdoing. But MicroScan points to no evidence suggesting that anyone at MicroScan was fooled by Lancaster's statement or the use of the trade name "alamarBlue." In fact, Badal believed that Alamar was using resazurin as did others at MicroScan, and Lancaster's refusal to confirm it was as good as confirmation in the circumstances.

In sum, on the facts of this case, MicroScan's failure either to proceed against Alamar based on the information known to it or to undertake readily available means of confirming Alamar's use of resazurin was so unreasonable that summary judgment is appropriate. In January 1991, MicroScan's management evaluated legal action against Alamar for misappropriation. MicroScan decided not to investigate further, in part because it thought that any secrets stolen were of little value. Over four years later, MicroScan has changed its mind, but this reassessment comes too late.

IV. Difco and Pasco have also moved for summary judgment against MicroScan, on the ground that MicroScan's failure to bring timely suit against Alamar constitutes a failure to protect its trade secrets. MicroScan responds by referring the court to the Alamar summary judgment motion, apparently contending that its failure to bring suit earlier against Alamar was reasonable. MicroScan's Opposition to Difco Motion, 2.

To qualify for protection as a trade secret, information must be "the subject of efforts that are reasonable under the circumstances to maintain its secrecy." Cal. Civ. Code § 3426.1(d)(2). Thus, "one who claims that he has a trade secret must exercise eternal vigilance. This calls for constant warnings to all persons to whom the trade secret has become known and obtaining from each and agreement, preferably in writing, acknowledging its secrecy and promising to respect it." Future Plastics, Inc. v. Ware Shoals Plastics, Inc., 340 F. Supp. 1376,

1383 (D.S.C. 1972). Summary judgment must be granted if no reasonable juror could conclude that MicroScan took adequate steps to protect its trade secret.

It is undisputed that MicroScan strongly suspected Lancaster of misappropriating its trade secrets, but did nothing. As discussed above, its suspicions concerning Alamar's use of resazurin arose to the level of knowledge based on strong circumstantial evidence. MicroScan's failure to bring suit, or even approach and warn Lancaster establishes that MicroScan did not take reasonable steps to protect its trade secrets. Summary judgment is appropriate against MicroScan in light of its inactivity in the face of strong evidence of Alamar's use of what MicroScan now claims were its trade secrets.

V Accordingly, Alamar's motion for summary judgment against MicroScan is granted. Difco and Pasco's motion for summary judgment against MicroScan is also granted. MicroScan's motion to amend its complaint to add a cause of action for breach of written contract is denied, since the cause of action is time-barred for the reasons described above. MicroScan's intervention complaint against all defendants is dismissed with prejudice.

IT IS SO ORDERED.

Dated: 12 October 1995.

DAVID F. LEVI

United States District Judge