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IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA

FIRST APPELLATE DISTRICT

DIVISION FIVE

GENERAL NANOTECHNOLOGY LLC  
et al.,

Plaintiffs and Appellants,

v.

LAWRENCE LIVERMORE NATIONAL  
SECURITY LLC et al.,

Defendants and Respondents.

A129016/A129428

(Alameda County Super. Ct.  
No. VG08384523)

Lawrence Livermore National Security LLC (LLNS) manages and operates the Lawrence Livermore National Laboratory under contract with the U.S. Department of Energy. Victor Kley, and companies which he owned and controlled (General Nanotechnology LLC (GN) & Metadigm LLC (Metadigm)<sup>1</sup>; collectively, appellants), claimed that LLNS misappropriated trade secrets which he developed and owned. Appellants filed suit, additionally alleging breach of a nondisclosure agreement and the implied covenant of good faith and fair dealing, and fraud against LLNS.<sup>2</sup> The trial court found the misappropriation and fraud claims time-barred and granted summary

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<sup>1</sup> Metadigm is a limited liability corporation composed of Kley and members of his family. In turn, Metadigm, which is primarily a patent holding company, owns and is the managing member of GN.

<sup>2</sup> Also named as defendants were the Regents of the University of California, and Robert C. Cook. We generally refer to the defendants collectively as LLNS.

adjudication of those causes of action. A jury returned a verdict in favor of LLNS on the remaining breach of contract claims. LLNS was awarded the attorney fees it incurred in defending the time-barred misappropriation claim under Civil Code section 3426.4,<sup>3</sup> after the trial court found that appellants pursued the claim in bad faith. Appellants challenge the jury verdict, the trial court's rulings on summary adjudication, and the award of attorney fees. We affirm in all respects.

## **I. FACTUAL AND PROCEDURAL BACKGROUND**

Among its projects, LLNS has for many years done research into inertial confinement fusion (ICF), a process involving the use of lasers to raise the temperature of hydrogen isotope fuel (tritium or deuterium), contained in very small target capsules, to extremely high temperatures in order to produce energy from nuclear fusion. LLNS operates the National Ignition Facility (NIF) as part of a major research effort dedicated to achieving ICF. One aspect of the ICF program is research and development of the very small target capsules (about 2000 microns in diameter)<sup>4</sup> that contain the fuel for ICF experiments. ICF shells must be made of a material that has a low atomic number, such as carbon, boron, lithium, and beryllium. The target capsules are also known as ablaters. In 2004, Dr. Robert Cook was the leader of LLNS's ICF capsules group, which developed the target capsules. In 2003 and 2004, the ICF program was working primarily on development of plastic and beryllium capsules.

Kley is an inventor. At trial, he testified that he invented the touch pad, among other things. In the 1990's, Kley became increasingly interested in the field of nanotechnology and began collaborating with a group at Lawrence Berkeley Laboratories. He formed GN and began building tiny diamond nanostructures. In early March 2004, Kley met with various LLNS scientists in the ICF program, during which Kley presented a "basic proposal" for making diamond ICF shells. On March 15, 2004, the parties entered into a nondisclosure agreement (NDA) with GN and Metadigm,

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<sup>3</sup> Unless otherwise indicated, all further statutory references are to the Civil Code.

<sup>4</sup> A micron is one thousandth of a millimeter.

wherein LLNS agreed to maintain in confidence proprietary information relating to appellants' methods for making diamond ICF capsules. Under the NDA, appellants and LLNS agreed "[t]o exchange and use the PROPRIETARY INFORMATION solely for the purpose of evaluation, testing, and development of potential collaborations, joint ventures, and/or license of the technology . . . ." This lawsuit arises from appellants' claim that LLNS violated the NDA and used appellants' proprietary information without authorization or compensation.

### *The Complaint*

Appellants filed suit against LLNS on April 29, 2008. Appellants filed their first amended complaint (FAC) on July 21, 2008, alleging misappropriation of trade secrets, breach of written contract, breach of implied covenant of good faith, and fraud causes of action. In the misappropriation of trade secrets claim, GN and Metadigm pleaded a variety of misappropriations, including "unauthorized disclosure of the trade secrets to others including the Fraunhofer Institute, presenting the trade secrets at a trade conference and publishing the trade secrets in a technical journal, filing patent applications on the trade secrets and representing that [LLNS's] personnel had invented the trade secrets, and continuing to use the trade secrets for their own purposes other than the 'sole purpose' permitted under the NDA." In the fraud claim, Kley alleges four separate misrepresentations by Cook: (1) Cook misrepresented that LLNS was not pursuing, and would not pursue, diamond ICF shell technology independently of appellants, (2) Cook misrepresented that LLNS did not have adequate funds available to pursue diamond ICF shell technology at any reasonable level, (3) Cook misrepresented that diamond ICF shells were not important or worthy of further investigation, and (4) Cook misrepresented that appellants would be granted a contract to make diamond ICF shells if they satisfied LLNS's contractual formalities. Appellants' breach of contract claim alleged that LLNS had breached the NDA by disclosing proprietary information and using it for a purpose other than the sole purpose identified in the NDA.

### *Summary Adjudication*

LLNS moved for summary adjudication, arguing that the fraud, misappropriation, and breach of covenant of good faith claims were barred by the statute of limitations. As we discuss in further detail *post*, the trial court granted the motion with respect to appellants' fraud and misappropriation claims, but denied the motion as to the cause of action for breach of the implied covenant of good faith and fair dealing.

### *Writ Proceedings*

Appellants filed a petition for writ of mandate (No. A126768) seeking review of the order deeming their fraud and misappropriation claims time-barred and granting summary adjudication. After requesting and receiving opposition from LLNS, we denied appellants' petition for writ of mandate.<sup>5</sup>

### *Trial*

The parties proceeded to trial on appellants' breach of contract and breach of the covenant of good faith claims.

Kley contended that he "invented" diamond ICF capsules. LLNS's position was that the concept of diamond capsules for ICF was "quite old." Although no one had attempted to fabricate a diamond ICF shell before March 2004, the ICF group was interested in the potential for making shells from diamond, which is "low-Z carbon," and had been for years. In 1976, an article was published showing the experimental results of simulating diamond ICF shell implosions on a computer. As early as 1998, a panel of outside experts recommended that LLNS investigate fabricating diamond shells via chemical vapor deposition (CVD). CVD is a chemical process that deposits gaseous precursors on a substrate to produce a thin film of solid material. For making shells or tubes, the substrate is typically a spherical object, often referred to as a mandrel. To create a hollow shell, once the CVD produces the film around the mandrel, the mandrel is removed by chemically dissolving it inside the shell. The latter process is known as

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<sup>5</sup> We granted appellants' request to augment the record to include the file from the writ proceedings.

etching. In 1999, scientists at General Electric patented a method for producing diamond tubes by CVD over a mandrel that is etched away.

In December 1998, in response to the outside experts' recommendation, ICF program leader Dr. Bruce Hammel recommended that various LLNS directorates engage in a "strategic initiative" to investigate CVD diamond for ICF purposes. In 1999, LLNS scientist Dr. Thomas Dittrich designed a diamond ICF capsule. Based on this design, Dittrich performed computer simulations of ICF implosions, and demonstrated that diamond was "a very promising material." However, Dittrich's work did not address the methods for actually fabricating a diamond ICF shell.

Between 2000 and early 2003, LLNS scientists maintained interest in diamond ICF shells. Nonetheless, the ICF program did not attempt diamond shell fabrication because they could not resolve how to transfer nuclear fuel into a diamond shell, a problem that would not be solved until March 24, 2004, when it was discovered that they could use a "fill tube."

#### *Introduction of Kley*

On February 23, 2004, Kley approached LLNS cryogenics scientist Dr. Bernard Kozioziemski. Kley told Kozioziemski about Kley's nanomachine technology, which could function at very low temperatures and might be helpful in preparing the hydrogen samples that serve as ICF fuel. Although not interested in this proposal, Kozioziemski asked if Kley could machine (or polish) ICF shells, whether beryllium, plastic, or diamond. Kozioziemski provided Kley with a series of publicly available articles disclosing the specifications that ICF capsules must meet, and asked Kley to look them over. With respect to diamond shells, Kozioziemski wrote: "The diamond capsule[s] are not described anywhere yet. They will have specifications on roughness, dimensions, and grain sizes similar to the beryllium and plastic capsules." Kley responded that he could not work with plastic or beryllium, but that he thought he could make a diamond capsule.

Kozioziemski contacted Cook and told him that Kley had ideas for making diamond capsules. Cook found the concept interesting because "theoretically, diamond

would be a better material than beryllium or plastic . . . because it's harder and contains the hydrogen material better.” Cook's supervisor, Tom Bernat, asked Cook to get more information from Kley.

On March 4, 2004, Kley had an introductory meeting with various LLNS scientists in the ICF program, during which Kley provided a “basic proposal” for making diamond ICF shells. Kley testified that the proposal was a general overview only, and did not contain proprietary information, because there was no NDA in place.

#### *The NDA*

On March 15, 2004, at Kley's insistence, the parties entered into the NDA, which was drafted by LLNS.<sup>6</sup> The NDA provided: “WHEREAS, [LLNS], [GN], and [Metadigm] wish to exchange certain confidential and proprietary information relating to [GN's and Metadigm's] methods for making, measuring, and modifying 2-3 mm diamond hollow spheres and related matters (‘PROPRIETARY INFORMATION’), this Agreement will govern the conditions of mutual disclosure of PROPRIETARY INFORMATION . . . .” To be considered “Proprietary Information,” and thus covered by the NDA, the parties were required to disclose information in writing and clearly mark it “PROPRIETARY INFORMATION” or the equivalent. If proprietary information was disclosed orally or by demonstration, to invoke the NDA's protections, the parties were required to reduce such information to writing or other tangible form, within 30 days, and mark it as proprietary. Paragraph (4) of the NDA made clear that LLNS assumed no liability as to any “PROPIETARY INFORMATION” that:

“(a) the receiving PARTIES can demonstrate by written record was previously known to them;

“(b) is, or becomes, available to the public through no fault of the PARTIES;

“(c) is lawfully obtained by the PARTIES from a third party and is not subject to an obligation of confidentiality owed to the third party; or

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<sup>6</sup> Kley signed the NDA as president of GN and Metadigm.

“(d) is independently developed by or for the PARTIES independent of any disclosure hereunder.”

The NDA designated Cook as LLNS’s technical contact.

After execution of the NDA, appellants provided three written documents to LLNS that were marked as confidential or proprietary: (1) an April 9, 2004 presentation (April Presentation); (2) a September 7, 2004 proposal (September Proposal); and (3) September 2004 clarifications (Clarifications) to the September Proposal.

#### *April Presentation*

On April 9, 2004, Kley made a presentation in which he proposed making a diamond ICF capsule for \$785,000. The presentation lasted about an hour. Bernat testified that Kley’s April Presentation lacked “any type of technical detail.” The presentation suggested “a starting point for pursuing a technical idea.”

On the other hand, Kley believed that the presentation contained his “proprietary information, [which] was the combination of elements that made the invention of a [nanocrystalline] diamond, hollow diamond sphere.” The April Presentation described three methods. First, Kley disclosed a “pedestal and plug” method which involved placing a mandrel on a pedestal and growing a layer of diamond with a portion of the surface missing where the pedestal contacts the mandrel. Subsequent steps in the method included: growing a diamond “plug” to fill the missing portion; removing the plug and etching away the mandrel; and replacing the plug over the missing portion and growing a subsequent layer of diamond.

This “pedestal and plug” concept was a unique idea that temporarily intrigued scientists in the ICF program, even though they “didn’t know if it would work.” Kley conceded at trial that he knows of no instance in which LLNS has actually used this “pedestal and plug” method. Kley’s second and third concepts were a “wafer carrier method” and a “valve method.” Kley also conceded that he knew of no evidence that LLNS ever used either of these methods.

After the April Presentation, Cook advised Kley that they were interested in the concept, but needed “to get . . . buy-in . . . from the folks with the money.” LLNS

introduced an email, dated May 12, 2004, in which Kley claimed that he “invent[ed] diamond [ICF] capsules.” Cook responded: “The concept of diamond capsules for NIF is certainly quite old, there were partial designs done I believe years ago, and certainly there has been discussion of the possibility of diamond capsules both in and out of the National Lab arena long before our interaction with [GN]. But these have always been discussions rather than implementations, in part because we didn’t have a good idea on how to proceed. I believe that what you brought to the table is a possible method for creating diamond capsules, and your methods are certainly protected under the NDA.” Specifically, Cook believed that Kley’s process for removing the mandrel was novel. In July 2004, Cook indicated to Kley that he was trying “to sole source this contract.”

#### *Creation of DiaMEMS*

Kley formed a new company, called DiaMEMS, to handle the diamond ICF capsule project. He hired Jeff Renaud to serve as DiaMEMS’s chief executive officer and negotiate a contract with LLNS.

#### *September Proposal*

On September 7, 2004, DiaMEMS submitted a written proposal in response to an LLNS request for proposal (RFP). DiaMEMS proposed fabricating polished diamond ICF shells for \$1,417,570. Kley intended to use a 10-step procedure, which—as is clear from Kley’s use of the same pictorial diagrams—is based on the same pedestal-and-plug method he described in the April presentation. The 10 steps were described in general terms. Kley represented that he would give a “more detailed description . . . during the execution of the project,” admitting that “[s]uch detailed process information is not known at this point.”

Although the NDA protected only Kley’s *methods* for making ICF shells, Kley did not contend at trial that LLNS misused his 10-step pedestal-and-plug method. Rather, Kley took the position that he invented the *concept* of diamond shells. Kley also claimed that LLNS’s use of deposition, etching, and polishing techniques violated the NDA because they can be found in three steps from the September Proposal: Steps Three, Six,

and Eight.<sup>7</sup> Kley further testified that the method disclosed in the September Proposal eliminated the pedestal and plug, disclosed a rotating track, and the use of a laser to make a hole for removal of the mandrel.

*September Proposal Step Three*

Step Three disclosed that “[a] 25 to 35 micron diamond shell is grown on [a] polished sphere.” But, as discussed above, the evidence showed that growing diamond via CVD had been known to the scientific community “for at least 20 years.”

Kley also asserted at trial that Step Three, as outlined in the September Proposal, eliminated the pedestal and disclosed placing the mandrel on a rotating track (a continuously-moving plate that ensures even deposition). But, Kley’s proposal said nothing about a rotating track. And, Kley eventually admitted as much. Kley claimed that LLNS representatives, including Bernat and Cook, saw a rotating track when they visited appellants’ facility, in April or May 2004.

*September Proposal Step Six*

In Step Six, the September Proposal provided: “[t]he plug or cap is removed and the exposed silicon nitride inner shell etched, followed by a chemical etch of the innermost alumina core.” Again, however, Kley claimed that “[t]he method of etching here is of certain terms that are well-known and well understood.” He likewise acknowledged that the LLNS scientists “really understood” etching, and were “really experienced . . . and were familiar with it.”

*September Proposal Step Eight*

Step Eight explained that “[t]he out-of-round diamond shell is placed in an ultra-precision collet (Levin lathe) or bonded to a precision mandrel and its out-of-round portion is oriented by the stub plug handle. [¶] It is then ground, lapped, chemically lapped or LASER machined to run within 1 or 2 microns concentric and spherical to the

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<sup>7</sup> Kley also argued that LLNS was using Step Ten. Step Ten, however, merely discussed inspecting and delivering diamond shells. Kley never explained how this could possibly be proprietary information under the NDA.

rest of the spherical shell.” But Kley himself again admitted that the technique for polishing an ICF shell was “well-known” and therefore not proprietary.

Instead, Kley testified that Step Eight also proposed “using a laser to machine, in this case, to drill a hole in the diamond shell.” But, the September Proposal itself said nothing about drilling a hole with a laser or any other tool. Indeed, Kley proposed etching the mandrel at Step Six, before Step Eight even mentions a laser.

#### *Clarifications to the September Proposal*

Around September 20, 2004, DiaMEMS submitted a document entitled “CLARIFICATIONS.” This document explained why the estimated cost rose from \$785,000 in April 2004, to \$1.4 million in September 2004.

#### *LLNS’s Ongoing Work on Diamond ICF Technology*

Meanwhile, LLNS scientists in a different group—the Nano Science Characterization Laboratory (NSCL), a subgroup of the Chemistry and Material Sciences Department (Chemistry)—were also working on a method for making diamond ICF shells. In late March 2004—after Kley signed the NDA but *before* he disclosed any information under its terms—LLNS scientist Dittrich made a discovery that dramatically increased LLNS’s interest in diamond ICF capsules. As discussed above, the principal barrier to LLNS using diamond shells for nuclear fusion had been the difficulty of filling a diamond shell with fuel. On March 24, 2004, Dittrich successfully simulated fusion burn after using a “fill tube” as the method for filling an ICF capsule with fuel. Dittrich’s discovery renewed ICF’s interest in developing a diamond shell because now “there was a way to fill it” with nuclear fuel.

Around the same time, NSCL director Dr. Alex Hamza was working on a strategic initiative focusing on high-strength nanostructured materials, which he had planned since 2003. On March 29, 2004, senior lab officials held a meeting to discuss this initiative. Hammel, who was aware of Dittrich’s fill-tube discovery and the now-potential feasibility of diamond ICF shells, suggested Hamza consider working on diamond shells. Hammel provided specifications for the capsules, but never indicated that he had information about diamond shells from any disclosure made by Kley—indeed, Kley had

not yet made any disclosures under the NDA.<sup>8</sup> In fact, Hamza assumed he was the only one working on diamond capsules.

In May 2004, NSCL received funding to work on diamond shells from a “[c]ompletely different funding line[.]” than the ICF program funding that Kley was seeking. Hamza assigned his colleague, Dr. Juergen Biener, to work on the project. Biener enlisted Dr. Christoph Wild, who had over 22 years of experience growing diamond using CVD. Wild worked at Germany’s Fraunhofer Institute (Fraunhofer), which did work in the field of nanodiamond deposition.<sup>9</sup>

In July 2004, Wild sent NSCL a 90 micron thick flat sample of diamond strong enough to maintain its shape under the high pressures exerted by ICF. Biener told Wild he was interested in working together to fabricate a diamond shell for ICF purposes. On July 9, 2004, Wild responded that he believed it was possible to make diamond ICF shells that satisfied LLNS’s specifications and he described four steps he believed necessary to do so: (1) coating silicon mandrels with diamond by constantly moving the mandrels during the coating; (2) polishing the diamond to obtain as smooth and spherical a surface as possible; (3) laser-drilling a hole in the diamond; and (4) removing the silicon mandrel with a wet chemical etch through the drilled hole.

The four steps Wild proposed (deposition, polishing, laser drilling, and etching) are the steps LLNS ultimately adopted as its method for fabricating diamond shells. They were proposed in writing two months before Kley’s September disclosure of Steps Three, Six, and Eight.

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<sup>8</sup> Before April 2004, Kley had disclosed only the concept of making diamond ICF shells, a concept long known to LLNS. Moreover, as discussed *infra*, the NDA protected *methods* for making diamond ICF shells, not the mere concept.

<sup>9</sup> For example, as early as 2000, Wild and his colleagues at Fraunhofer were making tweeter domes for speakers by coating a spherical silicon mandrel with diamond, through CVD, and then etching away the mandrel. Wild and his colleagues at Fraunhofer also accomplished a process of making diamond spherical lenses through CVD.

### *Fraunhofer and NSCL Collaboration*

In the first week of October 2004, Biener and Hamza went to Germany, where they visited Fraunhofer and working together, refined their process for fabricating diamond ICF shells. The method these scientists developed was documented in a technical paper in June 2005, and eventually published (see Biener et al., *Diamond Ablators for Inertial Confinement Fusion* (May 2006) 49 Fusion Sci. & Tech. 737), and fully disclosed in a provisional patent application published May 10, 2007.<sup>10</sup> LLNS agreed to pay Fraunhofer \$50,000 for the exploratory work.<sup>11</sup>

The process developed by NSCL and Fraunhofer involved (a) coating with diamond multiple mandrels on a beveled rotating disk placed within a CVD chamber. To ensure that the mandrel is evenly coated with diamond, the group proposed using a “kicker” on a rotating track, which randomizes the portion of the mandrel facing the deposition source. Next, (b) the diamond coated mandrels are polished in a special apparatus that utilizes a diamond grinding disk; (c) a hole is laser drilled in each structure that penetrates the diamond coating and through which the mandrel can be exposed to chemical etchant; and (d) the mandrels are then “etched” out, aided by ultrasonic agitation, to create a hollow diamond shell.

### *Decision Not to Fund DiaMEMS’s Proposal*

In October 2004, Bernat told Cook there would be no funding of the DiaMEMS proposal. Bernat concluded that the September Proposal posed substantial risk for the estimated cost. On October 13, 2004, Cook told Kley that ICF could not fund the project, but that they were thinking about having Chemistry build the shells.

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<sup>10</sup> Hamza testified that the conception date was October 4, 2004.

<sup>11</sup> After the exploratory work was relatively successful, LLNS expanded the scope of the project. Eventually, a private spinoff company from Fraunhofer, called Diamond Materials, was created to commercially manufacture diamond products—a part of which was the continued work on diamond shells with LLNS. The company received about \$300,000 per year for work with LLNS. At the time of trial, Hamza believed that LLNS had paid approximately \$500,000, in total.

On October 15, 2004, Hammel asked Kass when Chemistry first began work on diamond shells. On October 21, 2004, Bernat sent an email to those in his group, in an attempt to recreate an attendance list for the April 9, 2004 meeting. Bernat testified: “I wanted to establish who was at that meeting because this was after e-mail exchanges that were between [Kley] and [Cook], and I thought we need to know who was at that meeting . . . [¶] . . . [¶] [t]o make sure I had a record of who . . . had been exposed to the proprietary information . . . .”

In July 2007, Kley attended a trade conference at which he was directed to Biener and Hamza’s paper regarding diamond ablaters. Kley read the paper and testified: “I read about my invention. [¶] . . . [¶] Even some of the words and terms were part of things I had said in presentations.” In the paper, the authors thanked Cook “for helpful discussions.”<sup>12</sup> Kley then located Hamza’s patent application. Kley testified: “[T]his is an invention for making hollow diamond shells and diamond ball bearings and that is [my] invention . . . .”

#### *Comparison of the Two Methods*

LLNS’s expert witness, Dr. John Carlisle,<sup>13</sup> testified that the conceptual process formulated by NSCL and Fraunhofer was substantially different at every stage from appellants’ proposed method. Kley himself admitted, with respect to the first step, that he did not disclose to the ICF program a rotating substrate holder with a beveled disk and kicker. LLNS’s expert confirmed that “[t]here is nothing in the [appellants’] proposal that is even remotely proposing to do that.” As to the second step, Kley admitted that, although he proposed the idea of polishing, he did not offer any particular method for doing so. Moreover, Kley’s process proposed polishing the diamond after the mandrel had been etched out. According to LLNS’s expert, Kley’s idea of etching first and

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<sup>12</sup> Biener testified that Cook did not suggest any methods for fabricating diamond shells.

<sup>13</sup> Carlisle founded a company that specializes in making diamond products via CVD technology.

polishing second was “dangerous”; without the mandrel to absorb the force of polishing, the diamond shell could be crushed by the process. Third, as discussed, Kley’s proposal did not disclose laser drilling. Instead, Kley proposed leaving a hole for etching through a “pedestal and plug” method. Fourth, the NSCL and Fraunhofer scientists realized that, because the laser-drilled hole was so small, a normal chemical etch would take an inordinate amount of time. Accordingly, they conceived of using ultrasonic agitation, which would speed up the etching process. Kley admitted that he never disclosed ultrasonic etching.

After examining the two methods side-by-side, Carlisle opined that: (1) the portions of Kley’s proposed process alleged to be proprietary under the NDA are “obvious and known in the field”; (2) the fabrication process proposed by Kley is not the same process conceived by NSCL; and (3) Kley’s proposed method “presented significant scientific technical and developmental risk.” In sum, Carlisle found no evidence suggesting that the Fraunhofer/NSCL team used any proprietary information disclosed by Kley.

#### *Direct Evidence of Disclosures in Violation of NDA*

Although many of the ICF program scientists never saw a copy of the NDA, they were informed of its existence. The testimony at trial was uniform; the ICF program scientists who had access to appellants’ proprietary information never disclosed any of it to the NSCL scientists. In fact, in 2004, Cook believed that the NDA prevented him from disclosing appellants’ proprietary information to anyone at LLNS outside of his group.

Appellants did not present any contradictory testimony. They presented testimony from former LLNS scientist Dr. Michael McElfresh, who was a member of the Chemistry group and had regular meetings with Hamza, but had been assigned to Cook’s capsules group. Part of McElfresh’s job was to promote cooperation between the groups. McElfresh’s office was down the hall from Cook’s and he heard about “a guy from Berkeley” who was working on diamond ICF capsules. However, McElfresh (who, at the time of trial, was represented by appellants’ trial counsel in employment litigation against LLNS) never went to any of Kley’s presentations and therefore “didn’t have any

information” about his proposal. The only thing that McElfresh communicated to Hamza in the NSCL group was that “there was a person who claimed . . . he could make diamond capsules.” McElfresh did not know there was a NDA with Kley. On questioning from the court, McElfresh testified: “I wasn’t at the presentations. I never saw the presentations. The only information I had was the discussions that came up in the beryllium target group meetings about issues related to things like removing mandrel and drilling holes.” These concepts were not attributed to anyone.

Appellants also suggested the possibility that their proposed methods were shared with NSCL scientists in September 2004. On September 1, 2004, Paul Mirkarimi, who worked for Hamza in NSCL, and Bernat exchanged emails. Bernat wrote: “[B]y all means, let’s get together. Diamond capsules are of great interest to us and I’d love to be caught up. [¶] As you mentioned, we have been trying to get a project with a small, outside firm going but the contract has been hard to put together. We do have a nondisclosure agreement with the company. . . . Please propose a time on meeting maker . . . .” There was a September 10, 2004 meeting between scientists from NSCL and the ICF program. At that meeting, Biener, from NSCL, gave a presentation to ICF scientists about his group’s progress with diamonds. But Biener testified that the meeting “was a pure one way communication.” Biener presented his results, the ICF scientists “listened and that was basically it.” The ICF scientists did not tell Biener or other representatives from NSCL about ICF’s work with Kley. After the meeting, Mirkarimi sent Cook an email asking for a diamond film sample “from the company.” Cook could not remember if he asked Kley for a sample.

#### *Verdict*

The jury deliberated for less than an hour before rendering a unanimous defense verdict. According to the special verdict forms, the jury rejected appellants’ breach of contract claim because Kley’s disclosure of information in the April Presentation, September Proposal, and Clarifications did not constitute “a disclosure of Proprietary Information under the NDA.” The jury rejected appellants’ breach of covenant claim, concluding that LLNS did not unfairly interfere with appellants’ right to receive benefits

under the NDA. The trial court entered judgment in LLNS's favor. Appellants filed a timely notice of appeal from the judgment (Appeal No. A129016). The court thereafter denied appellants' motion for a new trial.

#### *Attorney Fees*

On LLNS's motion, the trial court awarded LLNS \$189,565.50 in attorney fees it incurred in defending the misappropriation claim, pursuant to section 3426.4. Statutory costs were also awarded, in the amount of \$121,706.49. Appellants filed a timely notice of appeal from this postjudgment order (Appeal No. A129428). The two appeals were consolidated.

## **II. DISCUSSION**

Appellants contend the trial court erred by granting summary adjudication with respect to their misappropriation and fraud causes of action. Appellants also argue that, regardless of whether we uphold the trial court's summary adjudication ruling, the trial court's award of attorney fees constituted an abuse of discretion. Finally, appellants argue that the jury verdict must be reversed because the trial court committed instructional and evidentiary errors. We address each argument in turn.

### *A. Summary Adjudication*

Appellants concede that their fraud and misappropriation claims are subject to three-year statutes of limitation. (See Code Civ. Proc., § 338, subd. (d) ["action for relief on the ground of fraud or mistake" to be brought within three years, but "[t]he cause of action in that case is not deemed to have accrued until the discovery, by the aggrieved party, of the facts constituting the fraud or mistake"]; § 3426.6 ["[a]n 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".]) The issue is when Kley had the requisite actual or constructive notice to start the three-year clock. Appellants filed suit in April 2008. Thus, their misappropriation and fraud causes of action are time-barred if they accrued before April 2005.

"[T]he party moving for summary judgment [or summary adjudication] bears the burden of persuasion that there is no triable issue of material fact and that he is entitled to

judgment as a matter of law.” (*Aguilar v. Atlantic Richfield Co.* (2001) 25 Cal.4th 826, 850, fn. omitted; accord Code Civ. Proc., § 437c, subd. (c).) Ordinarily, on review of an order granting summary adjudication, “we independently examine the record in order to determine whether triable issues of fact exist . . . .” (*Wiener v. Southcoast Childcare Centers, Inc.* (2004) 32 Cal.4th 1138, 1142.) “On appeal, we determine de novo whether there is a triable issue of material fact and whether the moving party is entitled to summary [adjudication] as a matter of law. [Citations.]” (*Republic Indemnity Co. v. Schofield* (1996) 47 Cal.App.4th 220, 225.) We resolve any doubts in favor of the party opposing the motion and are not bound by the trial court’s reasons for its ruling. (*Conte v. Wyeth, Inc.* (2008) 168 Cal.App.4th 89, 97; *Knapp v. Doherty* (2004) 123 Cal.App.4th 76, 85.) We will affirm an order granting summary adjudication if it was correct on any ground that the parties had an adequate opportunity to address in the trial court. (*Securitas Security Services USA, Inc. v. Superior Court* (2011) 197 Cal.App.4th 115, 120.)

#### 1. *Background*

In moving for summary adjudication, LLNS argued that “[appellants] knew of their alleged causes of action for fraud and misappropriation as early as October 13, 2004, and certainly no later than November 12, 2004.” But, appellants’ original complaint was filed on April 29, 2008, more than three years later.

With respect to appellants’ misappropriation cause of action, LLNS presented evidence suggesting that appellants should have been suspicious of any misappropriation by October or November 2004. Specifically, LLNS relied on emails exchanged between Kley and Cook in October 2004. For example, on October 14, 2004, Kley sent an email to Cook stating: “Thank you for your email of 10/14/04, 10:14 a.m. We take this email to mean that neither the Chemical Division, [LLNS] nor anyone in or associated with [LLNS] or the ICF Program will proceed with the diamond capsule approach. . . . Since no one at or associated with [LLNS] will be proceeding, the issues we discussed by phone yesterday about [LLNS] rights/obligations are moot. We do remind you that our detailed process flow description and other info disclosed under a [NDA] must be held

strictly confidential and not be used in any way. Respond by email if [LLNS] disagrees with any of the foregoing.”

In response, Cook wrote an email to Kley (apparently also on Oct. 14, 2004) stating: “I don’t have the authority to speak for [LLNS] in general, and certainly not for the Chemi[c]al Sciences Division. [¶] Further I can not say that no-one at [LLNS] or elsewhere will pursue diamond deposition technologies aimed at ICF shells. What I have said is that the ICF Program has decided not to fund your proposal at this time, in large part because of limited resources. As we have discussed I don’t think that the concept of diamond shells for ICF purposes belongs to DiaMems. But clearly I don’t have the authority to make that statement for [LLNS]. *What I will also say is that I will honor our non-disclosure agreement and will not reveal your methodology to anyone at this time.*”

In an October 15, 2004 email responding to the above email from Cook, Kley wrote: “We should also get straight now whether [LLNS] is not proceeding with us ‘because of limited resources’ in whole or just ‘in part’ and whether this is really just a ruse to try to misappropriate our technology for free and deceive us. It is too late in the game, after the NDA and after disclosure of our detailed process flow and other confidential information to large numbers of people at [LLNS] to claim any clean room invention at [LLNS]. [¶] I am the inventor of the Diamond Capsule and the concepts/processes involved for ICF use. As you have said many times, you do not understand the IP issues. . . . [¶] When you and [LLNS] committed to the NDA it was expected and required that the concept of a polycrystalline diamond capsule and development processes not be discussed with anyone not party to the NDA. *Anyone who is a party to the NDA or their agent is prohibited from using the knowledge including the concept of a polycrystalline diamond capsule in any way without compensation to Metadigm and DiaMems* and is responsible for use by third parties to whom any disclosure was made. [¶] You were earlier concerned about being able to make small quantities of capsules at [LLNS]. Did you not discuss polycrystalline (CVD) diamond capsules (including the concept of one at all) with the Chemical Division at that time? Are you claiming that the concept of a diamond capsule was somehow totally

independently developed there despite the large attendance at the two presentations I gave the lab? Do you claim no one ever talked to anyone at the Chemical Division? This would not be credible. [¶] *Either no one at [LLNS] nor anyone in or associated with [LLNS] or the ICF Program will proceed with the diamond capsule approach or we will have to be fairly compensated for our IP rights being used.*” (Italics added.)

LLNS also relied on Kley’s deposition testimony. Kley testified that Cook’s statement that “I cannot say that no-one at [LLNS] or elsewhere will pursue diamond technologies aimed at ICF shells” was false, because “[t]he truth is they were already working on it.” Defendants’ counsel immediately asked, “And when did you suspect that that was the case?” Kley replied: “I suspected from this e-mail and the one before that I was dealing with someone who wasn’t honest, who had misrepresented it all along the way. [¶] I said it here, okay. We made a large investment, it’s true, we did. We got promises, they were ignored. [¶] And then at the end, . . . we’re told—you know, we are going down the road and we are told the funds are there, the funds are there, then we finish the process and the funds aren’t there. Imagine that. [¶] So, Mr. Cook didn’t know about that? Is that what you contend? He’s the—he’s the honest soldier in this? [¶] Look, I’m telling you, this smelled and looked and was a lie. . . .” When asked, “[w]hy would you believe Dr. Cook’s statement that diamond ICF shells were not important or worthy, if you also knew that [LLNS] was continuing to pursue ICF diamond shell technology,” Kley’s counsel objected “Misstates—okay,” and Kley replied, “I only suspected that.”

Finally, LLNS pointed to events that transpired in November 2004. At Kley’s deposition, Kley admitted approaching LLNS’s partner General Atomics (GA), in November 2004, in hopes of entering into a contract to develop diamond ICF shells. On November 12, 2004, while Kley was visiting GA, Kley was handed a LLNS document, dated October 14, 2004, showing an apparent timeline for future development of diamond ICF shells. Kley was told that the LLNS document had been provided to GA by Cook. At the time of Kley’s deposition and appellants’ response to interrogatories, Kley

believed that LLNS's sharing of this document with GA was a breach of the NDA and act of trade secret misappropriation.

Appellants opposed the motion for summary adjudication, asserting that they had no knowledge or suspicion of actual wrongdoing before April 29, 2005. Appellants argued that LLNS had failed to meet their burden to show appellants had knowledge or suspicion, before that date, of each element of fraud or misappropriation. Appellants submitted their own separate statement of undisputed facts, which conceded that Kley was suspicious in October 2004. However, in reliance on a declaration from Kley, appellants asserted that Kley "did not believe that [LLNS] had committed fraud or misappropriated his proprietary information," but "was concerned about a future event—that, if in the future [LLNS] were to go with diamond ICF shells, Metadigm and or DiaMEMS would be entitled to compensation for the use of [his] invention." Appellants also relied on Cook's deposition testimony, wherein Cook testified that, at the time he wrote the October 14 email, he "had no information" that anyone at LLNS was going to work on diamond ICF shells.

Appellants asserted that Kley first obtained knowledge that LLNS was doing something improper in July 2007. While attending a trade show in San Francisco, Kley learned that LLNS had sought a vendor to make diamond ICF shells, and was informed of the technical paper, written by Biener, Hamza, and Wild, which disclosed LLNS's method for fabricating diamond shells. Kley believed that "some of the words and terms" he used in presentations to the ICF group found their way into the paper.

Appellants' opposition conceded that "Mr. Kley *suspected*, in November 2004, that [LLNS] had disclosed [appellants'] proprietary information to GA in violation of the NDA," but asserted that Kley's "investigation of that claim revealed that no such misappropriation had occurred . . . under the terms of the NDA between the parties . . . ." (Italics added.) In his declaration, Kley stated that he later realized that LLNS was entitled to share the information with GA.

In its order, the trial court stated: "In light of Kley's deposition admissions that he knew or suspected the falsity of each of [the] alleged misrepresentations by

October 2004, the Court finds that Kley’s subsequently proffered declaration to the effect that he ‘did not believe that [LLNS] had committed fraud’ or that he ‘believed, based on Dr. Cook’s representations, that [LLNS] would not pursue diamond ICF shells’ . . . do not give rise to a triable issue as to Kley’s suspicion of the elements of his fraud cause of action against Cook by October 2004 (See, e.g., *D’Amico v. Board of Medical Examiners* (1974) 11 Cal.3d 1, 22 [(*D’Amico*), disapproved on other grounds by *Woodland Hills Residents Assn., Inc. v. City Council* (1979) 23 Cal.3d 917, 944].) [¶] As discussed above, it is not necessary that Kley know or have solid evidence of the falsity of the alleged misrepresentations, or to have actual knowledge of each of the remaining elements of a cause of action, for such cause of action to accrue. Instead, it is sufficient if the plaintiff has ‘reason to at least suspect that a type of wrongdoing has injured’ him. (*Fox [v. Ethicon Endo-Surgery, Inc.]* (2005) 35 Cal.4th [797,] 807 [(*Fox*).]) Kley admitted in his deposition that he had a suspicion of wrongdoing as of October 2004 . . . . While not all harm arising therefrom may have been known at the time . . . [t]here is no dispute that at least some of such alleged harm and detrimental reliance occurred by the end of 2004.”

With respect to appellants’ misappropriation claim, the trial court’s order provided: “As [appellants] acknowledge, ‘[t]he unanimous conclusion of courts considering the issue . . . is that it is the first discovered (or discoverable) misappropriation of a trade secret which commences the limitation period.’ (*Glue-Fold, Inc. v. Slautterback Corp.* (2000) 82 Cal.App.4th 1018, 1026 . . . .) ‘Misappropriation’ includes not just ‘disclosure’ but also ‘use’ of a trade secret of another without consent by one who ‘had reason to know that [its] knowledge of the trade secret was . . . [a]cquired under circumstances giving rise to a duty to maintain its secrecy or limit its use . . . .’ ( . . . § 3426.1[, subd. ](b)(2)(B)(ii).) [¶] In this case, based on [appellants’] allegations and the evidence presented on this motion, such ‘use’ includes [LLNS’s] ‘use’ of [appellants’] diamond ICF shell technology in pursuing development of such technology for its own purposes. As discussed in section (1), above, Kley—who is GN’s and Metadigm’s agent—admitted that he suspected such use as early as October 2004, even if

he didn't 'know' of such use at that time." The trial court also stated that its ruling was "not based on the evidence regarding [appellants'] contention in discovery that the disclosure of information to [GA] was an instance of misappropriation" because it was "not persuaded that [appellants] are bound by this previous contention."

## 2. *Analysis*

Appellants argue that the trial court erred by "concluding that [LLNS] had met [its] initial burden of introducing evidence that both statutes of limitation began to run in October 2004." Appellants contend that Kley's deposition testimony was ambiguous and that the trial court misapplied *D'Amico, supra*, 11 Cal.3d 1, erroneously concluding that they had not established triable issues of material fact. Appellants also complain that the trial court erred by "refusing to consider whether [appellants] had raised a triable issue regarding what, if any, additional evidence would have been disclosed by a reasonable investigation." Appellants argue that "[t]he [trial court] further erred in failing to consider whether [LLNS's] statements constituted fraudulent concealment of the causes of action." Appellants ask this court to focus solely on October 2004. But, as we discuss below, appellants' arguments miss the mark when taking into consideration what Kley suspected, or should have suspected, in November 2004.

Generally, a cause of action accrues for purposes of the statute of limitations, and the applicable limitations period begins to run, when the plaintiff has suffered damages from a wrongful act. (*Norgart v. Upjohn Co.* (1999) 21 Cal.4th 383, 397 (*Norgart*)). However, this rule has an important exception, referred to as the discovery rule, that "postpones accrual of a cause of action until the plaintiff discovers, or has reason to discover, the cause of action. [Citations.]" (*Ibid.*) "[U]nder the delayed discovery rule, a cause of action accrues and the statute of limitations begins to run when the plaintiff has reason to suspect an injury and some wrongful cause, unless the plaintiff . . . proves that a reasonable investigation at that time would not have revealed a factual basis for that particular cause of action." (*Fox, supra*, 35 Cal.4th at p. 803.) "[T]he discovery rule may extend the statute of limitations, but it cannot decrease it, and a statute of limitations does not accrue until a cause of action is 'complete with all of its elements,' including injury.

[Citation.]” (*Cleveland v. Internet Specialties West, Inc.* (2009) 171 Cal.App.4th 24, 32 (*Cleveland*)). “Under the discovery rule, suspicion of one or more of the elements of a cause of action, coupled with knowledge of any remaining elements, will generally trigger the statute of limitations period. [Citations.] . . . In so using the term ‘elements,’ we do not take a hypertechnical approach to the application of the discovery rule. Rather than examining whether the plaintiffs suspect facts supporting each specific legal element of a particular cause of action, we look to whether the plaintiffs have reason to at least suspect that a type of wrongdoing has injured them.” (*Fox*, at p. 807.)

“The discovery rule only delays accrual until the plaintiff has, or should have, inquiry notice of the cause of action. The discovery rule does not encourage dilatory tactics because plaintiffs are charged with presumptive knowledge of an injury if they have ‘ “ ‘information of circumstances to put [them] on inquiry’ ” ’ or if they have ‘ “ ‘the opportunity to obtain knowledge from sources open to [their] investigation.’ ” ’ [Citations.] In other words, plaintiffs are required to conduct a reasonable investigation after becoming aware of an injury, and are charged with knowledge of the information that would have been revealed by such an investigation.” (*Fox, supra*, 35 Cal.4th at pp. 807–808, fn. & italics omitted.) “A plaintiff need not be aware of the specific ‘facts’ necessary to establish the claim; that is a process contemplated by pretrial discovery. Once the plaintiff has a suspicion of wrongdoing, and therefore an incentive to sue, [he] must decide whether to file suit or sit on [his] rights. So long as a suspicion exists, it is clear that the plaintiff must go find the facts; [he] cannot wait for the facts to find [him].” (*Jolly v. Eli Lilly & Co.* (1988) 44 Cal.3d 1103, 1111.) “[I]gnorance of the legal significance of known facts or the identity of the wrongdoer will not delay the running of the statute.” (*Id.* at p. 1112, fn. 8.)

“Resolution of the statute of limitations issue is normally a question of fact.” (*Fox, supra*, 35 Cal.4th at p. 810.) In a summary adjudication case, we consider whether the only reasonable inference to be drawn from the undisputed facts is that the plaintiff should have learned the facts essential to his claims by some date within the limitations period. (*Cleveland, supra*, 171 Cal.App.4th at p. 31.) It is the plaintiffs’ burden to

produce evidence supporting the assertion that they could not have reasonably discovered the wrongful conduct at an earlier point. (See *Investors Equity Life Holding Co. v. Schmidt* (2011) 195 Cal.App.4th 1519, 1533; *Fox, supra*, 35 Cal.4th at p. 808; *Gryczman v. 4550 Pico Partners, Ltd.* (2003) 107 Cal.App.4th 1, 6.)

a. *Misappropriation of Trade Secrets*

We begin with some background on the scope of appellants' misappropriation cause of action. "[A] prima facie claim for misappropriation of trade secrets requires the plaintiff to demonstrate: (1) the plaintiff owned a trade secret, (2) the defendant acquired, disclosed, or used the plaintiff's trade secret through improper means, and (3) the defendant's actions damaged the plaintiff. [Citations.]" (*Sargent Fletcher, Inc. v. Able Corp.* (2003) 110 Cal.App.4th 1658, 1665, fn. omitted (*Sargent Fletcher*), citing § 3426.1.) Appellants' FAC stated that they "were in possession of trade secrets including diamond ball bearings and diamond ICF shells and methods of making and using diamond ball bearings and diamond ICF shells and related know-how."

Appellants' FAC alleged that LLNS misappropriated appellants' trade secrets by various acts, including "unauthorized disclosure of the trade secrets *to others including* the Fraunhofer Institute . . . [and] continuing to use the trade secrets for their own purposes and for purposes other than the 'sole purpose' permitted under the NDA." (Italics added.) The gravamen of appellants' misappropriation claim is that LLNS continued to pursue development of diamond ICF shells without paying appellants.

The Legislature has incorporated the discovery rule directly into the statute of limitations for such a cause of action. Section 3426.6 provides: "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. For the purposes of this section, a continuing misappropriation constitutes a single claim." The effect of the second sentence of section 3426.6 is that "the first discovered (or discoverable) misappropriation of a trade secret commences the limitations period. (*Glue-Fold, Inc. v. Slaughterback Corp.*[, *supra*, 82 Cal.App.4th at p. 1026].)" (*Cypress Semiconductor Corp. v. Superior Court* (2008) 163 Cal.App.4th 575, 582.) "[A] claim

for misappropriation of a trade secret arises for a given plaintiff against a given defendant only once, at the time of the initial misappropriation, subject to the discovery rule provided in section 3426.6. Each new misuse or wrongful disclosure is viewed as augmenting a single claim of continuing misappropriation rather than as giving rise to a separate claim.” (*Cadence Design Systems, Inc. v. Avant! Corp.* (2002) 29 Cal.4th 215, 223, italics omitted.) Thus, in this case, we review the undisputed facts to see whether the only reasonable inference is that appellants suspected or had reason to suspect, before April 2005, at least one instance of LLNS’s disclosure of, or continued use of, the diamond ICF shell concept.

We first address whether LLNS carried its burden, under Code of Civil Procedure section 437c, subdivision (p)(2), in moving for summary adjudication.<sup>14</sup> Appellants suggest that LLNS failed to show that a reasonable investigation by Kley, at any time before April 2005, would have put him on notice that LLNS was using or disclosing appellants’ trade secrets. Although the trial court focused on October 2004, we think the better reference point is November 2004. For purposes of analyzing this issue on appeal, we assume, as appellants suggest, that, in October 2004, Kley could have only suspected LLNS might use his diamond ICF shell technology *in the future* without compensation.<sup>15</sup> But, regardless of what Kley suspected or should have suspected in October 2004, LLNS met its burden to show that the misappropriation cause of action accrued no later than November 2004.

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<sup>14</sup> Code of Civil Procedure section 437c, subdivision (p)(2), provides in relevant part: “A defendant . . . has met his or her burden of showing that a cause of action has no merit if that party has shown that one or more elements of the cause of action, even if not separately pleaded, cannot be established, or that there is a complete defense to that cause of action. Once the defendant . . . has met that burden, the burden shifts to the plaintiff . . . to show that a triable issue of one or more material facts exists as to that cause of action or a defense thereto.”

<sup>15</sup> Accordingly, we do not discuss in any great detail, Kley’s declaration in opposition to summary adjudication on this point, LLNS’s objections thereto, the trial court’s ruling on the objections, or appellants’ arguments with respect to *D’Amico, supra*, 11 Cal.3d 1 and *Scalf v. D. B. Log Homes, Inc.* (2005) 128 Cal.App.4th 1510.

LLNS presented Kley's deposition testimony, in which Kley admitted approaching LLNS's partner GA, in November 2004, in hopes of entering into a contract to develop diamond ICF shells. On November 12, 2004, while Kley was visiting GA, Kley was handed a LLNS document, dated October 14, 2004, showing an apparent timeline for future development of diamond ICF shells. Kley was told that the LLNS document had been provided to GA by Cook. At the time of Kley's deposition and appellants' response to interrogatories, Kley believed that LLNS's sharing of this document with GA was a breach of the NDA and an act of trade secret misappropriation.<sup>16</sup> Kley even sent a "cease and desist" letter to GA—accusing them of being "material witnesses" to LLNS's actions in violation of the parties' NDA.

If Kley believed, as he apparently did, that, after contract negotiations fell apart, any continued pursuit of diamond ICF shell technology by LLNS was misappropriation, Kley had notice no later than November 2004 that he had been injured. Thus, LLNS met its burden of showing that, by November 2004, appellants suspected, or should have suspected, both wrongdoing and injury.

The trial court correctly granted summary adjudication because appellants did not show the existence of a triable issue of material fact. The only evidence they presented was the Kley declaration, which provided: "The document [provided to GA] was [LLNS's] timeline planner to show when *we* could begin producing diamond ICF shells. . . . [¶] . . . When I was presented with the document [by GA], I initially was concerned that it might be a violation of the NDA. However, when I reviewed the NDA, I realized that [LLNS] had the right to provide this document to GA, and it was not a violation of the NDA." (Italics added.) Kley's declaration attempts to recast his prior admission of actual suspicion. But, it cannot establish a triable issue regarding what a reasonable person would have suspected because it rests on an unreasonable reading of both the

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<sup>16</sup> As noted above, according to Kley, the very idea of diamond ICF shells originated with him; therefore, LLNS could not even attempt to fabricate a diamond ICF shell without misusing his trade secrets.

NDA and the LLNS timeline that was in GA's possession. In their reply brief, appellants suggest that Kley thought LLNS was merely discussing diamond ICF shell work with DiaMEMS. But, the document, dated October 14, 2004, discussed diamond shell development in future years. By October 14, 2004, it was clear that there would be no contract or collaboration between LLNS and DiaMEMS. For the same reason, we cannot agree with Kley's belated suggestion that LLNS's disclosure to GA did not breach the NDA because the parties were only prohibited from disclosing "to others except to their employees, agents, consultants, subcontractors having a need to know in order to accomplish the sole purpose [of the NDA]." (Italics added.) The trial court properly disregarded Kley's implicit self-serving description of the two documents. (Evid. Code, § 1523.) Kley's purported ignorance of the legal significance of the facts does not delay accrual of the cause of action. (*Jolly v. Eli Lilly & Co*, *supra*, 44 Cal.3d at p. 1112, fn. 8.)

Kley's declaration does not defeat the only reasonable inference from his receipt of the LLNS document from GA—Kley suspected, or should have suspected, that LLNS had disclosed the diamond shell concept and was continuing to pursue the concept for its own purposes. Even if appellants are not *bound* by their interrogatory responses and Kley's deposition testimony, it remains undisputed that Kley obtained information, in November 2004, from which he could only reasonably suspect that LLNS continued to pursue the use of ICF diamond target shells and was purportedly using appellants' trade secrets in doing so. Thus, appellants had notice of their misappropriation cause of action no later than November 2004. (See *Fox*, *supra*, 35 Cal.4th at pp. 806–809.) It is irrelevant that, at that time, Kley did not have all the details regarding Fraunhofer's involvement. (See *Jolly v. Eli Lilly & Co.*, *supra*, 44 Cal.3d at p. 1111; *Cypress Semiconductor Corp. v. Superior Court*, *supra*, 163 Cal.App.4th at p. 582; *Cadence Design Systems, Inc. v. Avant! Corp.*, *supra*, 29 Cal.4th at p. 223.)

Our analysis explicitly considers what a reasonable investigation would have uncovered in November 2004. Simply put, the undisputed facts showed that a reasonable reading of the documents available to Kley in November 2004 revealed a factual basis for appellants' misappropriation cause of action. (See *Fox*, *supra*, 35 Cal.4th at p. 803.)

b. *Fraudulent Concealment*

Appellants also suggest that they established a triable issue of material fact with respect to whether LLNS had fraudulently concealed the misappropriation cause of action until at least April 2005. Appellants point to Cook's statements that LLNS would not pursue diamond ICF shells, LLNS had insufficient funding to do so, and that LLNS did not consider diamond ICF shells to be important. The FAC alleged that these statements were made "because [Cook] wanted to induce Mr. Kley to abandon efforts to obtain a contract with [LLNS], and because [Cook] did not want Mr. Kley to learn that [LLNS] was either breaching or would be breaching the NDA."

" 'It has long been established that the defendant's fraud in concealing a cause of action against him tolls the applicable statute of limitations, but only for that period during which the claim is undiscovered by plaintiff or until such time as plaintiff, by the exercise of reasonable diligence, should have discovered it.' [Citation.]" (*Bernson v. Browning-Ferris Industries* (1994) 7 Cal.4th 926, 931.) "A defendant's fraud in concealing a cause of action against him will toll the statute of limitations, and that tolling will last as long as a plaintiff's reliance on the misrepresentations is reasonable. . . . '[W]hether reliance was reasonable is a question of *fact* for the jury, and may be decided as a matter of law only if the facts permit reasonable minds to come to just one conclusion.' [Citation.]" (*Grisham v. Phillip Morris U.S.A.* (2007) 40 Cal.4th 623, 637–638.)

Although a triable issue of material fact may have existed about whether Kley reasonably relied on Cook's representations before November 2004, the undisputed facts show Kley's reliance on such representations was no longer reasonable after November 2004. "The fraudulent concealment doctrine ' "does not come into play, whatever the lengths to which a defendant has gone to conceal the wrongs, if a plaintiff is on notice of a potential claim." ' (*Rita M. v. Roman Catholic Archbishop* (1986) 187 Cal.App.3d 1453, 1460.)" (*Snapp & Associates Ins. Services, Inc. v. Robertson* (2002) 96 Cal.App.4th 884, 890–891, parallel citation omitted; accord, *Sanchez v. South Hoover Hospital* (1976) 18 Cal.3d 93, 99.) Kley could not have reasonably relied on

Cook's representations after he was put on notice that LLNS had disclosed the diamond shell concept and was continuing to pursue the concept for its own purposes. Although we have analyzed the facts differently, we conclude the trial court properly granted LLNS's motion for summary adjudication on the misappropriation claim.

c. *Fraud Cause of Action*

Appellants also contend that they established a triable issue of material fact with respect to whether the statute of limitations began running on Kley's fraud cause of action before April 2005. Code of Civil Procedure section 338, subdivision (d), provides in relevant part: "The cause of action . . . is not deemed to have accrued until the discovery, by the aggrieved party, of the facts constituting the fraud or mistake." The discovery triggering the statute of limitations is "the discovery by the aggrieved party of the fraud *or* facts that would lead a reasonably prudent person to *suspect* fraud. [Citation.]" (*Debro v. Los Angeles Raiders* (2001) 92 Cal.App.4th 940, 950.)

On appeal, appellants admit, for the first time, that three out of the four alleged misrepresentations relate only to whether LLNS fraudulently concealed the misappropriation cause of action, which is discussed above. Thus, we consider only whether summary adjudication was properly granted with respect to Kley's claim that Cook fraudulently represented, in April 2004, that DiaMEMS would be granted a contract to make diamond ICF shells if it satisfied contractual formalities.

Contrary to appellants' assertion, LLNS met its burden in moving for summary adjudication. In moving for summary adjudication, LLNS presented evidence, in the form of emails produced during discovery and testimony from Kley's deposition, that appellants' fraud cause of action accrued no later than October 2004. At his deposition, Kley was asked when he knew that Cook's representation was false; he answered, "I believe I knew that on the second day after I had tried to talk through—that is to say, it was like [October] 14th."

Putting aside Kley's deposition testimony, the October 14 emails themselves clearly show that Kley knew there would be no contract as of that date. Kley's declaration conceded as much. Nonetheless, appellants argue: "As in *Cleveland*, . . . a

reasonable jury could come to a different conclusion than the trial [c]ourt as to when [appellants] suspected fraud, as opposed to simply not getting a contract.” Appellants’ reliance on *Cleveland, supra*, 171 Cal.App.4th 24 is misplaced.

In *Cleveland*, the plaintiff provided \$75,000 to the defendant, ISI, which was to be invested in a new internet service business, called Central Connection. By late 1995, the plaintiff became aware of facts indicating that Central Connection was in “ ‘financial crisis.’ ” By 1996, the plaintiff’s inquiries were directed to counsel, who told him to hire his own attorney. (*Cleveland, supra*, 171 Cal.App.4th at pp. 27–28.) In 1999 or 2000, the plaintiff was told that Central Connection had gone out of business and his investment had been lost. It was not until May 2005, that the plaintiff learned that Central Connection had been incorporated as IS West and was generating millions of dollars per year in revenue. In December 2005, the plaintiff filed suit, alleging causes of action for, inter alia, breach of contract and fraud. Summary judgment was granted, in favor of the defendants, on the ground that the claims were barred by the statute of limitations. (*Id.* at pp. 29–30.)

On appeal, the Second District considered whether the only reasonable inference from the undisputed facts was that Cleveland should have learned the facts essential to his claims by mid-1996. (*Cleveland, supra*, 171 Cal.App.4th at pp. 30–31.) The court answered “no.” First, it observed: “[N]one of Cleveland’s causes of action—whether for fraud, breach of contract, or anything else—could have accrued ‘by mid-1996, at the latest,’ because Cleveland had suffered no injury at that point. IS West did not even start doing business until 1997, and could not have owed Cleveland any return on his investment until it actually had ‘net cash receipts’ as defined in the parties’ agreement.” (*Id.* at pp. 31–32.) Next, the court noted that it was irrelevant that, no later than mid-1996, Cleveland had reason to believe his investment had been lost. The court reasoned: “[T]he loss of an investment is not necessarily a legal injury, as many investors have good reason to know. An injury requires a wrongful cause for the loss, and Cleveland was not wronged until . . . the year 2000, when IS West had accrued some \$100,000 in net revenue (and therefore had ‘net cash receipts’ it did not pay to Cleveland). But the

trial court, in concluding the statutes began to run in mid-1996, was in effect saying that Cleveland was on notice that ISI *intended* to breach the contract and defraud him in mid-1996, and therefore had a duty to monitor their subsequent activities . . . . This is not the law. Indeed, if Cleveland had sued ISI in mid-1996, or investigated the possibility of suit in mid-1996, he would have found nothing.” (*Id.* at p. 32.) The Second District concluded that triable issues of material fact existed as to when a prudent person, in Cleveland’s shoes, would have suspected his investment was lost because of “a wrongful cause, rather than the ordinary vagaries of information-age businesses.” (*Id.* at pp. 32–33.)

Here, unlike in *Cleveland*, there is no dispute that Kley had knowledge, by October 14, 2004, that he suffered injury from a wrongful cause. In reliance on Cook’s representation, appellants had incurred expenses—forming DiaMEMS and hiring personnel—in anticipation of an executed contract to produce diamond ICF shells. One can only reasonably infer that Kley learned that these expenses would not be recouped when he learned there would be no contract. We agree with the trial court that the only reasonable inference to be drawn is that Kley had knowledge of facts sufficient to make a reasonably prudent person suspicious of fraud no later than the end of 2004.

#### B. *Award of Attorney Fees*

Next, appellants argue that, even if we affirm the trial court’s ruling on summary adjudication, we should reverse its award of attorney fees, pursuant to section 3426.4, as an abuse of discretion. Section 3426.4 provides: “If a claim of misappropriation is made in bad faith, . . . the court may award reasonable attorney’s fees and costs to the prevailing party. Recoverable costs hereunder shall include a reasonable sum to cover the services of expert witnesses, who are not regular employees of any party, actually incurred and reasonably necessary in either, or both, preparation for trial or arbitration, or during trial or arbitration, of the case by the prevailing party.”

##### 1. *Background*

Following trial, LLNS moved for an award of attorney fees and costs incurred in defending the misappropriation claim. LLNS argued: “[A]mong other things,

[appellants] brought a trade secret claim with full knowledge that their claim was barred by the relevant statute of limitation.” LLNS originally requested \$2,371,076 in attorney fees and costs, on the basis that apportionment between the misappropriation and other claims was impossible. In support of its motion, LLNS submitted a copy of a letter, dated July 21, 2009, that LLNS’s counsel sent to appellants’ counsel. The letter explained why the misappropriation claim was barred and warned: “[A]bsent the immediate dismissal of these claims with prejudice, we also intend to move under California Code of Civil Procedure Section 128.7 for sanctions in the amount of [LLNS’s] attorney[] fees incurred in defending these causes of action to date.” The letter also provides: “Indeed, that [appellants’] complaint attempts to ‘plead around’ the statute of limitations by alleging discovery of the misappropriation in later years strongly suggests that you and your clients were fully aware that these causes of actions were barred by the statutes of limitations, but elected to file this lawsuit anyway . . . .” Appellants did not respond. Thereafter, LLNS filed its motion for summary adjudication.

Appellants opposed the motion for attorney fees and costs, arguing that their misappropriation claim was not “specious.” In support, appellants pointed to this court’s request for opposition briefing with respect to appellants’ petition for a writ of mandate. Appellants also argued that, any award of fees should not reimburse work done after October 26, 2009, when the motion for summary adjudication was granted.

On August 12, 2010, the trial court granted, in part, LLNS’s motion for fees and costs. The trial court concluded: “[Appellants’] misappropriation claim was objectively specious and was maintained in bad faith after July 21, 2009. Leaving aside questions of the claim’s ultimate validity, the Court finds that it was initiated at a point well past the running of the applicable limitations period. Moreover, it was doggedly maintained thereafter, despite Victor Kley’s knowledge—as admitted in his deposition—of the existence of the elements of the claim well before the limitations period ran. On July 21, 2009, [LLNS] notified [appellants] that the misappropriation claim was completely time-barred and therefore procedurally invalid, spelling out the reasons therefore. . . . Although a plaintiff is not required simply to accept the arguments of a defendant, at this point it

was manifestly clear, based on [appellants'] own admissions, that the misappropriation claim could not be maintained. [LLNS was] forced to prosecute the motion for summary adjudication nonetheless and [is] entitled to be compensated for the fees incurred in doing so. . . . [A]lthough [appellants] may not have *filed* this claim in bad faith, they *maintained* it in bad faith after [LLNS's] July 21, 2009 letter to counsel. [¶] . . . [¶] [T]he Court concludes that a reasonable and appropriate award would be the fees incurred in prosecuting the motion for summary adjudication and opposing the Petition for Writ of Mandate after July 21, 2009.” Accordingly, the trial court awarded LLSN \$189,565.50 in attorney fees.

## 2. *Analysis*

“Although the Legislature has not defined ‘bad faith,’ our courts have developed a two-prong standard: (1) objective speciousness of the claim, and (2) subjective bad faith in bringing or maintaining the action, i.e., for an improper purpose. [Citation.] Section 3426.4 authorizes the trial court to award attorney fees as a deterrent to specious trade secret claims. [Citation.] Because the award is a sanction, a trial court has broad discretion in awarding fees. [Citation.]” (*FLIR Systems, Inc. v. Parrish* (2009) 174 Cal.App.4th 1270, 1275.) “[S]ection 3426.4 does not contain the word ‘frivolous.’ Moreover, in enacting section 3426.4 the Legislature was concerned with curbing ‘specious’ actions for misappropriation of trade secrets, and such actions may superficially appear to have merit.” (*Gemini Aluminum Corp. v. California Custom Shapes, Inc.* (2002) 95 Cal.App.4th 1249, 1262 (*Gemini*).

“On appeal from such an order [awarding fees under section 3426.4], the appellant has an ‘uphill battle’ and must overcome both the ‘sufficiency of evidence’ rule and the ‘abuse of discretion’ rule. . . . We do not retry cases on appeal and we do not substitute our discretion for that of the trial court.” (*FLIR, supra*, 174 Cal.App.4th at pp. 1275–1276.) “ ‘Assuming some evidence exists in support of the factual findings, the trial court’s exercise of discretion will not be disturbed unless it exceeds the bounds of reason. [Citation.] [¶] In reviewing the facts which led the trial court to impose sanctions, we must accept the version thereof which supports the trial court’s determination, and must

indulge in the inferences which favor its findings. [Citations.]’ [Citation.]” (*Gemini, supra*, 95 Cal.App.4th at pp. 1262–1263.) In examining an order awarding fees on appeal, we review the trial court’s actual ruling, not its reasons. (*RiverWatch v. County of San Diego Dept. of Environmental Health* (2009) 175 Cal.App.4th 768, 776.)

“Nevertheless, trial court discretion is not unlimited. ‘The discretion of a trial judge is not a whimsical, uncontrolled power, but a legal discretion, which is subject to the limitations of legal principles governing the subject of its action, and to reversal on appeal where no reasonable basis for the action is shown. [Citation.]’ [Citations.]” (*Westside Community for Independent Living, Inc. v. Obledo* (1983) 33 Cal.3d 348, 355.)

Appellants argue: “Even if the court declines to reverse the summary adjudication [ruling], [appellants’] misappropriation claim had more than a superficial appearance of merit [citation], and the Court should reverse the award of attorney fees.” Contrary to appellants’ assertion, we find ample evidence in the record to support the trial court’s fee order. “If a claim is clearly time-barred, then asserting the claim is frivolous and sanctionable.” (*Alamar Biosciences, Inc. v. Difco Laboratories, Inc.* (E.D. Cal. 1996) 40 U.S.P.Q.2d 1437, 1442.) Appellants contend that “the legal issues regarding the statute of limitations are extremely complex, as demonstrated by the extensive briefing both here and in the trial court.”

While the technology underlying this case may be complex, whether the misappropriation claim is time-barred has been complicated only by appellants’ attempts to play cat and mouse with the issue. As we noted previously, appellants clearly had reason to suspect, by November 2004, a cause of action for misappropriation of their trade secrets. LLNS’s July 21, 2009 letter pointed these simple facts out. Appellants did not respond to the letter, but waited until LLNS had filed a motion for summary adjudication and then attempted to reinterpret the NDA, sought to effectively amend their discovery responses, and made a baseless argument that a reasonable investigation would not have put them on notice of the cause of action. Appellants’ arguments are meritless and do not suggest that the trial court abused its discretion.

Appellants' bad faith can be inferred from the fact that they pressed on with their misappropriation claims long after the July 21, 2009 letter was received and have continuously tried to confuse the issues. (Cf. *FLIR, supra*, 174 Cal.App.4th at pp. 1280, 1282 [subjective bad faith can be established by contradictory testimony and dilatory tactics].) “ “[B]ad faith” means simply that the action or tactic is being pursued for an improper motive. Thus, if the court determines that a party had acted with the intention of causing unnecessary delay, or for the sole purpose of harassing the opposing side, the improper motive has been found, and the court’s inquiry need go no further.” [Citation.]” (*Gemini, supra*, 95 Cal.App.4th at p. 1263.) “ ‘Bad faith may be inferred where the specific shortcomings of the case are identified by opposing counsel, and the decision is made to go forward despite the inability to respond to the arguments raised.’ [Citation.]” (*Id.* at p. 1264.)

The trial court was clearly concerned with appellants’ attempt to avoid the effect of Kley’s deposition testimony. And, although we have taken a different approach to analyzing the issue, it remains true that, after Kley’s deposition and the July 21, 2009 letter, appellants could not have reasonably believed that their misappropriation cause of action was not time-barred. If anything, the trial court was too forgiving of appellants’ shifting interpretation of what constituted misappropriation. In deciding that appellants were not bound by their discovery contention that the disclosure to GA constituted a misappropriation, the trial court also chose to ignore particularly damaging evidence of Kley’s 2004 state of mind. The trial court did not abuse its discretion in awarding attorney fees.

C. *Jury Instructions: Burden of Proof*

Next, appellants argue that the jury verdict in favor of LLNS must be reversed because the trial court improperly placed the burden of proof on appellants to show the inapplicability of three out of four of the NDA’s “propriety information” exclusions. As noted above, the NDA provided: “The PARTIES hereby agree: [¶] . . . [¶] (4) [t]hat none of the PARTIES will have any obligation . . . with respect to any portion of the PROPRIETARY INFORMATION that: [¶] (a) the receiving PARTIES can demonstrate

by written record was previously known to them; [¶] (b) is, or becomes, available to the public through no fault of the PARTIES; [¶] (c) is lawfully obtained by the PARTIES from a third party and is not subject to an obligation of confidentiality owed to the third party; or [¶] (d) is independently developed by or for the PARTIES independent of any disclosure hereunder.”

The jury was instructed that appellants had the burden to prove, by a preponderance of the evidence, that the information they provided to LLNS did *not* fall within the exclusions in categories (b), (c), or (d), above. With respect to all of the above conditions, the jury was also instructed: “To the extent [appellants] do not prove by a preponderance of the evidence that all or part of the information they provided to [LLNS] meets the requirement[s] above, [LLNS] was not required to treat that information as proprietary and cannot be found to have breached the NDA.” With respect to category (a), the jury was instructed: “In order to prove that the information [appellants] provided to [LLNS] was ‘Proprietary Information’ and protected by the NDA, [LLNS] must demonstrate by written record that the information it received was previously known to it. [¶] To the extent [LLNS] can demonstrate the requirement above, [LLNS] was not required to treat that information as proprietary and cannot be found to have breached the NDA.”

Appellants raise no argument with respect to the “previously known” information instruction, but contend that the trial court improperly placed the burden of proof on appellants with respect to the other three exclusions. Appellants’ claim was for breach of contract. Generally, in breach of contract cases, the plaintiff has the burden of proof with respect to conditions precedent to the defendant’s duty to perform, while the defendant has the burden of proof with respect to conditions subsequent. (See *Consolidated World Investments, Inc. v. Lido Preferred Ltd.* (1992) 9 Cal.App.4th 373, 380 [“where defendant’s duty to perform under the contract is conditioned on the happening of some event, the plaintiff must prove the event transpired”]; *Kadner v. Shields* (1971) 20 Cal.App.3d 251, 269–270; Evid. Code, § 500 [“[e]xcept as otherwise provided by law, a party has the burden of proof as to each fact the existence or nonexistence of which is

essential to the claim for relief or defense that he is asserting”].) But, appellants do not cite this rule or explicitly argue that exclusions (b), (c), and (d) constituted conditions subsequent to LLNS’s duty to perform.

Instead, in their opening brief, appellants merely cite two insurance cases and state: “In cases involving insurance policies that contain exclusions, similar to the NDA, courts typically place the burden on defendant to prove that one of the exclusions applies. (*Dart Industries, Inc. v. Commercial Union Ins. Co.* (2002) 28 Cal.4th 1059, 1070; *Searle v. Allstate Life Ins. Co.* (1985) 38 Cal.3d 425, 437.)” Appellants’ failure to provide us with adequate legal analysis forfeits the contractual issue. (Cal. Rules of Court, rule 8.204(a)(1)(B); *300 DeHaro Street Investors v. Department of Housing & Community Development* (2008) 161 Cal.App.4th 1240, 1257.) Thus, appellants are limited to contending that the trial court should have shifted the customary burden of proof because “the evidence regarding those exclusions was peculiarly within the possession of [LLNS.]”<sup>17</sup>

But, even if we assume that either of the above arguments was preserved for appeal, and that the trial court erred by instructing the jury as it did, we would still find the error harmless in this case. Instructional error in a civil case is harmless when “it is not reasonably probable [the losing party] would have obtained a more favorable result in its absence. [Citations.]” (*Soule v. General Motors Corp.* (1994) 8 Cal.4th 548, 570

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<sup>17</sup> Neither argument was raised before the instructions were given to the jury. However, the absence of an objection in the trial court is not necessarily determinative. (See *Butler-Rupp v. Lourdeaux* (2005) 134 Cal.App.4th 1220, 1230 [“ ‘[i]nstructions requested by an adverse party “are deemed to have been excepted to” . . . even though the complaining party made no objection thereto”]; *Carrau v. Marvin Lumber & Cedar Co.* (2001) 93 Cal.App.4th 281, 296–297 [“ ‘failure to object to civil jury instructions will not be deemed a waiver where the instruction is prejudicially erroneous as given, that is, which is an incorrect statement of the law,” but “a jury instruction which is incomplete or too general must be accompanied by an objection or qualifying instruction to avoid the doctrine of waiver’ ”]; Code Civ. Proc., § 647 [“the following [is] deemed excepted to: . . . giving an instruction, refusing to give an instruction, or modifying an instruction requested”].)

(*Soule*.) “[W]hen deciding whether an error of instructional omission was prejudicial, the court must also evaluate (1) the state of the evidence, (2) the effect of other instructions, (3) the effect of counsel’s arguments, and (4) any indications by the jury itself that it was misled.” (*Id.* at pp. 580–581, fn. omitted.) “When the sole contention on appeal concerns a jury instruction, we do not view the evidence in a light most favorable to the prevailing party. Rather, to assess the instruction’s prejudicial impact, we assume the jury *might have* believed appellant’s evidence and, if properly instructed, might have decided in appellant’s favor. [Citation.]” (*Mayes v. Bryan* (2006) 139 Cal.App.4th 1075, 1087, italics added; accord, *Bowman v. Wyatt* (2010) 186 Cal.App.4th 286, 304.)

*Sargent Fletcher, supra*, 110 Cal.App.4th 1658, cited by LLNS, presented a similar situation. In *Sargent Fletcher*, an aerospace manufacturer disclosed trade secrets to an engineering company (Able), with whom it had subcontracted to develop a new in-flight refueling system. After the relationship between the two disintegrated, Able contracted with the Air Force to develop the device. The manufacturer sued Able for misappropriation of trade secrets. Able claimed it reverse engineered and independently developed the device. (*Id.* at pp. 1663–1664.) After a seven-week trial, the jury returned a verdict in favor of Able. (*Id.* at pp. 1663, 1666, 1668.)

The reviewing court determined that the Legislature did not intend independent derivation or reverse engineering to be proved by the defendant as new matter or an affirmative defense. (*Sargent Fletcher, supra*, 110 Cal.App.4th at pp. 1669–1670.) It reasoned: “The statutory design indicates that the Legislature did not intend independent derivation or reverse engineering to be new matter or an affirmative defense. The references to independent derivation and reverse engineering are embedded within the definition of improper means. (. . . § 3426.1, subd. (a).) They are not set off as separate defenses or even separate definitions. It is the plaintiff’s burden to show improper use as a part of its prima facie case.” (*Sargent Fletcher*, at p. 1669.) The court also concluded that the defendant’s greater access to relevant evidence, in a trade secrets case, did not necessitate reversal of the burden of proof. (*Id.* at p. 1673.) But, the *Sargent Fletcher* court went on to observe that any error was harmless. It reasoned: “Even though, as a

matter of law, the *burden of proof* to demonstrate independent derivation and reverse engineering did not lie with Able, in its opening statement, summation, and throughout the trial, Able argued and presented evidence that it independently developed and reverse engineered the device. The jury was instructed that Able bore the burden of proof for all the defenses it raised. It is highly unlikely that in such a complex case the jury would find the evidence to be in equipoise. Rather, it had to be persuaded one way or the other. Under the instructions it received, the jury would have to find for Sargent Fletcher unless it was convinced of the validity of Able's claims of independent derivation and reverse engineering by a preponderance of the evidence, or unless it refused to credit Sargent Fletcher's case-in-chief. Given the substantial prima facie showing made by Sargent Fletcher, the strong inference is that it was persuaded by a preponderance of the evidence that Able did not use Sargent Fletcher's trade secrets. The only other inference . . . is hardly helpful to Sargent Fletcher, as it could only lead to a defense verdict. Thus, no matter where the trial court placed the burden of proof, the verdict would have been the same." (*Id.* at p. 1675.)

Although this case does not involve other instructions that minimized the prejudice, we remain convinced that, as in *Sargent Fletcher*, any error here was harmless. No matter how we frame the facts, the evidence presented at trial was hardly in equipoise. LLNS presented expert testimony that the conceptual process it used in the manufacture of the diamond shells was formulated by NSCL and Fraunhofer and was substantially different at every stage from appellants' proposed method. Appellants' evidence was largely contradictory and based on speculative inferences. Furthermore, similar to the defendants in *Sargent Fletcher*, LLNS argued and presented overwhelming evidence that: (1) the CVD, polishing, and etching methods disclosed by appellants were publicly available; (2) that the rotating track and laser-drilling methods ultimately employed by LLNS and Fraunhofer were obtained lawfully from a third party/independently developed; and (3) that the rotating track and laser-drilling methods were never disclosed by appellants in any document marked "proprietary" or "confidential." Defense counsel's closing argument did not exacerbate any error.

LLNS’s counsel only mentioned the burden of proof once during closing argument. And, when LLNS’s counsel did so, he also insisted: “Even without having the burden [of proof], we disproved their case.”

The jury answered “no” when asked, “Was [appellants’] alleged disclosure of information in [the April Presentation, the September Proposal, or the Clarifications] a disclosure of Proprietary Information under the NDA?” As a result, the jury did not even reach the subsequent special verdict questions regarding the exclusions. Further, when considering the claim for breach of the covenant of good faith and fair dealing, the jury found that the defendants did not unfairly interfere with appellants’ right to receive benefits under the NDA. As in *Sergeant Fletcher, supra*, 110 Cal.App.4th at pp. 1669–1670, 1673, the parties’ positions were opposite sides of the same coin. The jury’s unanimous verdict suggests that it either wholly discredited appellants’ version of events or that it was persuaded, by LLNS’s evidence, that any information appellants disclosed was publicly available, lawfully obtained from a third party, or independently developed. Neither inference aids appellants’ argument on appeal. The speed with which the jury reached its unanimous verdict is further evidence that this was not a close case. It is not reasonably probable that appellants would have obtained a better result if the burden of proof had been placed on LLNS. (*Soule, supra*, 8 Cal.4th at p. 576; *Sargent Fletcher, supra*, 110 Cal.App.4th at p. 1674.)<sup>18</sup>

D. *Ruling on Motion in Limine*

In their final assertion, appellants contend that the trial court erred by granting, in part, LLNS’s motion in limine No. 3, barring appellants from introducing evidence regarding disclosure of alleged proprietary information that was not reduced to writing

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<sup>18</sup> *Nizam-Aldine v. City of Oakland* (1996) 47 Cal.App.4th 364 (*Nizam-Aldine*) does not persuade us to reach a different result. In *Nizam-Aldine*, an erroneous instruction regarding the burden of proof was deemed prejudicial when the evidence was in substantial conflict, the respondents’ trial counsel repeatedly emphasized the faulty instruction during argument, the jury deliberated for seven days, and the verdict was split nine to three. (*Id.* at pp. 379–381.)

within 30 days of disclosure.<sup>19</sup> Appellants also complain that the trial court refused to give CACI No. 318, which provides: “In deciding what the words in a contract meant to the parties, you may consider how the parties acted after the contract was created but before any disagreement between the parties arose.”

The trial court precluded appellants from introducing evidence or eliciting testimony that “refers to pre-NDA disclosures, oral disclosures made at any time, or any post-NDA written disclosures not marked ‘Proprietary’ (or its equivalent) as constituting ‘proprietary information’ under the NDA.” Thus, the jury was limited to considering whether information contained in the April Presentation, the September Proposal, or the Clarifications constituted Proprietary Information. Appellants complain that this improperly foreclosed the jury from considering whether the alleged observation by LLNS representatives of appellants’ use of a rotating track during their visit to appellants’ facility in April or May 2004, constituted a protected disclosure of proprietary information.

As discussed earlier, the NDA provides: “The PARTIES hereby agree: [¶] . . . [¶] That PROPRIETARY INFORMATION disclosed by the PARTIES will be in writing and clearly marked ‘PROPRIETARY INFORMATION’ or its equivalent. If such PROPRIETARY INFORMATION is initially disclosed orally or by demonstration, it will be identified as PROPRIETARY INFORMATION or its equivalent at the time of disclosure. The disclosing PARTY will, within thirty (30) days thereafter: (a) reduce such PROPRIETARY INFORMATION to writing or other tangible form, referencing the date and type of PROPRIETARY INFORMATION disclosed, and mark it as PROPRIETARY INFORMATION or its equivalent; and (b) deliver a copy to the

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<sup>19</sup> The jury was also instructed: “The parties agreed in the NDA that to be Proprietary Information, information must be: [¶] 1. Reduced to writing or other tangible form, referencing the date and type of proprietary information disclosed; [¶] 2. Marked as ‘Proprietary Information’ or its equivalent; and [¶] 3. Delivered in a copy to [LLNS] within thirty (30) days if initially disclosed orally or by demonstration. [¶] [Appellants] must prove by a preponderance of evidence that each of these requirements is met before you conclude any particular piece of information is Proprietary Information.”

receiving PARTIES. All protections and restrictions as to use and disclosure will apply during such thirty (30) day period.” Appellants assert: “[Al]though the NDA by its terms appears clearly to require written follow-up when proprietary information is disclosed as part of a demonstration . . . , the course of conduct of the parties showed a *different* interpretation following the NDA’s execution.” (Italics added.) In the trial court, appellants claimed that the parties’ course of dealing showed that the parties intended the NDA to “protect all information the [appellants] disclosed.”

“Parol or extrinsic evidence is admissible to resolve an ambiguity. [Citations.] In such cases, the court engages in a two-step process: ‘First, the court provisionally receives (without actually admitting) all credible evidence concerning the parties’ intentions to determine “ambiguity,” i.e., whether the language is “reasonably susceptible” to the interpretation urged by a party. If in light of the extrinsic evidence the court decides the language is “reasonably susceptible” to the interpretation urged, the extrinsic evidence is then admitted to aid in the second step—interpreting the contract. [Citation.]’ [Citation.] The trial court’s determination of whether an ambiguity exists is a question of law, subject to independent review on appeal. [Citation.]” (*WYDA Associates v. Merner* (1996) 42 Cal.App.4th 1702, 1710.)

In this case, appellants were given an opportunity to provide the trial court with extrinsic evidence to allow the court to determine whether the NDA was reasonably susceptible to their interpretation. The trial court properly rejected appellants’ attempt to rewrite the terms of the NDA. None of the authority relied on by appellants supports the rule they urge we adopt—that the jury must be allowed to consider parole evidence that directly contradicts the terms of a written agreement. (See *Crestview Cemetery Assn. v. Dieden* (1960) 54 Cal.2d 744, 747, 752–753 [course of conduct revealed meaning of ambiguous oral contract]; *Kennecott Corp. v. Union Oil Co.* (1987) 196 Cal.App.3d 1179, 1189 & fn. 8 [course of conduct evidence supported same meaning shown by plain terms of written contract]; *Wolf v. Superior Court* (2004) 114 Cal.App.4th 1343, 1350 [“ ‘[w]here the meaning of the words used in a contract is disputed, the trial court must provisionally receive any proffered extrinsic evidence which is relevant to show whether

the contract is reasonably susceptible of a particular meaning’ ”]; *Southern Cal. Edison Co. v. Superior Court* (1995) 37 Cal.App.4th 839, 851 [same].) In fact, the law is to the contrary. “[W]hen . . . the claimed oral agreement is a direct contradiction of the written instrument, it is clear that the issue has already been resolved. . . . ‘Testimony of intention which is contrary to a contract’s express terms . . . does not give meaning to the contract; rather it seeks to substitute a different meaning. It follows . . . that such evidence must be excluded.’ [Citations.]” (*Banco Do Brasil, S.A. v. Latian, Inc.* (1991) 234 Cal.App.3d 973, 1008, fn. omitted.) Appellants have shown no error.

**III. DISPOSITION**

The judgment and order awarding attorney fees are affirmed.

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Bruiniers, J.

We concur:

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Simons, Acting P. J.

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Needham, J.