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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

SKINMEDICA, INC.,

Plaintiff,

v.

HISTOGEN INC., et al.,

Defendants.

CASE No. 09-CV-122 W (NLS)

**ORDER DENYING PLAINTIFF'S
MOTION FOR SUMMARY
JUDGMENT (DOC. NO. 107.)**

On January 22, 2009, Plaintiff Skinmedica, Inc. ("Skinmedica" or "Plaintiff") filed this lawsuit against Defendants for patent infringement, trade secret misappropriation, and unfair competition. Pending now before the Court is a motion for summary judgment on Defendants' liability for misappropriation of trade secrets. The Court decides the matters on the papers submitted and without oral argument. See S.D. Cal. Civ. R. 7.1(d)(1). After a review of the parties' submissions, the Court **DENIES** the motion.

1 **I. BACKGROUND**

2 Plaintiff Skinmedica is a privately-held company that develops and sells products
3 for treating dermatologic conditions and diseases affecting skin appearance. Skinmedica
4 sells its products primarily to dermatologists and plastic surgeons. Its “flagship product
5 line” TNS® (for “Tissue Nutrient System”) serves as the foundation for a family of
6 products that enhance skin appearance. The main ingredient for TNS is NouriCel®.

7 NouriCel was originally developed by Advanced Tissue Science, Inc. (“ATS”).
8 In 2002, ATS filed for bankruptcy. In 2003, through the ATS bankruptcy proceedings,
9 Skinmedica claims to have acquired all of the assets, including all associated intellectual
10 property, related to NouriCel through an Asset Purchase Agreement (“APA”).

11 Defendant Gail Naughton (“Naughton”) was the co-founder, President, Chief
12 Operating Officer, and Chief Scientific Officer at ATS. While working for ATS,
13 Naughton played an integral role in the development of NouriCel. Beginning in 1999,
14 Naughton and ATS began filing patent applications relating to the processes used to
15 produce NouriCel. (Doc. No. 107 at 3:6; see also Doc. No. 119 at 4:10.)

16 Over the subsequent years, Naughton and her ATS colleagues performed
17 experiments with NouriCel, ultimately discovering that NouriCel could possibly
18 stimulate hair growth. By September 2002, Naughton presented a confidential report
19 on NouriCel’s hair growth potential to ATS’ Scientific Advisory Board (the “SAB
20 Report”). The SAB Report contained “detailed descriptions of Defendant Naughton’s
21 test procedures, histology results, and conclusions including that conditioned media
22 produced by three dimensional cell cultures (such as NouriCel) can induce hair growth.”
23 (Doc. No. 107 at 4:4-6.) In her official capacity as Vice Chairman of ATS, Naughton
24 claims to have been authorized to discuss the contents of the SAB Report with outside
25 parties including a former ATS employee who was no longer under a confidentiality
26 agreement, and competing pharmaceutical companies such as Merck & Co., Inc. (Doc.
27 No. 119 at 6:3-7:6.)

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1 Naughton left ATS shortly after it filed for bankruptcy. She is now the Chief
2 Executive Officer and Chairman of the Board for Defendants Histogen Inc.
3 (“Histogen”) and its affiliate Histogen Aesthetics LLC (“Histogen Aesthetics”).
4 Beginning in 2004, Naughton and Histogen began filing patent applications for
5 “conditioned medium” research similar to the NouriCel research Naughton performed
6 at ATS. (Doc. No. 19 at 11:12-12:19.) However, as of January 2009, the U.S. Patent
7 and Trademark Office, as well as the European Patent Office, had rejected all of these
8 claims in light of prior art. (*Id.* at 13:10-14:9.)

9 In October 2008, Skinmedica became aware that Histogen planned to launch a
10 line of skin care products based on a conditioned media called ReGenica™ that sounded
11 “strikingly similar” to Skinmedica’s NouriCel technology. On January 22, 2009,
12 Skinmedica filed the instant lawsuit against Naughton, Histogen, and Histogen
13 Aesthetics (collectively “Defendants”). Skinmedica asserted claims for: (1)
14 infringement of patents ‘494 and ‘746, (2) misappropriation of trade secrets, (3) unfair
15 competition under California state law, and (4) common law unfair competition. After
16 amendment, Skinmedica asserted a fifth claim for breach of contract arising from
17 Naughton’s contracts with ATS. The Court granted an unopposed motion to dismiss
18 the third and fourth causes of action because they are preempted by the trade secrets
19 cause of action.

20 Defendants answered and filed counterclaims for: (1) a declaration of patent non-
21 infringement, (2) a declaration of patent invalidity, (3) unfair competition under
22 California state law, and (4) common law unfair competition. The parties commenced
23 discovery and proceeded to file cross motions for summary judgment on Defendants’
24 counterclaims. The Court subsequently denied both motions.

25 Plaintiff has now moved for summary judgment on their second cause of action—
26 misappropriation of trade secrets. After taking all of the evidence into consideration,
27 the Court is prepared to rule on the pending motion.
28

1 **II. LEGAL STANDARD**

2 Summary judgment is appropriate under Rule 56(c) where the moving party
3 demonstrates the absence of a genuine issue of material fact and entitlement to
4 judgment as a matter of law. See Fed. R. Civ. P. 56(c); Celotex Corp. v. Catrett, 477
5 U.S. 317, 322 (1986). A fact is material when, under the governing substantive law, it
6 could affect the outcome of the case. Anderson v. Liberty Lobby, Inc., 477 U.S. 242,
7 248 (1986); Freeman v. Arpaio, 125 F.3d 732, 735 (9th Cir. 1997). A dispute about a
8 material fact is genuine if “the evidence is such that a reasonable jury could return a
9 verdict for the nonmoving party.” Anderson, 477 U.S. at 248.

10 A party seeking summary judgment always bears the initial burden of establishing
11 the absence of a genuine issue of material fact. Celotex, 477 U.S. at 323. The moving
12 party can satisfy this burden in two ways: (1) by presenting evidence that negates an
13 essential element of the nonmoving party’s case; or (2) by demonstrating that the
14 nonmoving party failed to make a showing sufficient to establish an element essential
15 to that party’s case on which that party will bear the burden of proof at trial. Id. at 322-
16 23. “Disputes over irrelevant or unnecessary facts will not preclude a grant of summary
17 judgment.” T.W. Elec. Serv., Inc. v. Pacific Elec. Contractors Ass’n, 809 F.2d 626, 630
18 (9th Cir. 1987).

19 “The district court may limit its review to the documents submitted for the
20 purpose of summary judgment and those parts of the record specifically referenced
21 therein.” Carmen v. San Francisco Unified School Dist., 237 F.3d 1026, 1030 (9th Cir.
22 2001). Therefore, the court is not obligated “to scour the record in search of a genuine
23 issue of triable fact.” Keenan v. Allen, 91 F.3d 1275, 1279 (9th Cir. 1996) (citing
24 Richards v. Combined Ins. Co., 55 F.3d 247, 251 (7th Cir. 1995)). If the moving party
25 fails to discharge this initial burden, summary judgment must be denied and the court
26 need not consider the nonmoving party’s evidence. Adickes v. S.H. Kress & Co., 398
27 U.S. 144, 159-60 (1970).

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1 If the moving party meets this initial burden, the nonmoving party cannot defeat
2 summary judgment merely by demonstrating “that there is some metaphysical doubt as
3 to the material facts.” Matsushita Elec. Indus. Co., Ltd. v. Zenith Radio Corp., 475 U.S.
4 574, 586 (1986); Triton Energy Corp. v. Square D Co., 68 F.3d 1216, 1221 (9th Cir.
5 1995) (citing Anderson, 477 U.S. at 252) (“The mere existence of a scintilla of evidence
6 in support of the nonmoving party’s position is not sufficient.”). Rather, the nonmoving
7 party must “go beyond the pleadings and by her own affidavits, or by ‘the depositions,
8 answers to interrogatories, and admissions on file,’ designate ‘specific facts showing that
9 there is a genuine issue for trial.’” Celotex, 477 U.S. at 324 (quoting Fed. R. Civ. P.
10 56(e)).

11 When making this determination, the court must view all inferences drawn from
12 the underlying facts in the light most favorable to the nonmoving party. See
13 Matsushita, 475 U.S. at 587. “Credibility determinations, the weighing of evidence, and
14 the drawing of legitimate inferences from the facts are jury functions, not those of a
15 judge, [when] he [or she] is ruling on a motion for summary judgment.” Anderson, 477
16 U.S. at 255.

17 18 **III. DISCUSSION**

19 To prevail on its claim for trade secret misappropriation, Plaintiff must satisfy its
20 burden in regards to both essential elements: (1) the existence of a trade secret, and (2)
21 misappropriation of that trade secret. See AccuImage Diagnostics Corp. v. Terarecon,
22 Inc., 260 F.Supp.2d 941 (N.D. Cal. 2003) (citing Cal. Civ. Code § 3426.1(b)). A “trade
23 secret” includes information that was subject to reasonable efforts to keep it secret and
24 had economic value because it was not generally known to the public. Cal. Civ. Code
25 § 3426.1(d). “Misappropriation” includes the disclosure or use of a trade secret by a
26 person who knew or had reason to know that it was acquired under circumstances giving
27 rise to a duty to maintain its secrecy. Cal. Civ. Code § 3426.1(b).

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1 Plaintiff argues that there is no genuine dispute that the hair growth data was a
2 trade secret, or that Naughton and Histogen misappropriated that information. In
3 regards to the trade secret, Plaintiff essentially makes two arguments. First, Plaintiff
4 asserts that Defendants should be estopped from disputing the secrecy of ATS's hair
5 growth research because they filed patent applications on the same subject matter.
6 Second, Plaintiff contends that the evidence presented establishes that the hair growth
7 research meets the statutory definition of a trade secret. Despite the quality of the
8 arguments presented, the Court must disagree with both contentions.

9
10 **A. Defendants Are Not Estopped From Arguing that the Hair Growth Research**
11 **was Not a Trade Secret**

12 As mentioned above, Defendants have attempted to patent portions of the hair
13 growth research. Plaintiff asserts that this patent attempt should serve as a binding
14 admission that the research had not been previously disclosed to the public and thus,
15 *a fortiori*, constitutes a trade secret. Plaintiff argues that the doctrine of judicial estoppel
16 should therefore prevent Defendants from taking a position inconsistent with such an
17 admission.

18 As a general principle, the doctrine of judicial estoppel bars a party from taking
19 inconsistent positions in the same litigation. See Milgard Tempering, Inc. v. Selas Corp.
20 of Am., 902 F.2d 703, 716 (9th Cir. 1990). The purpose of the doctrine is to protect the
21 integrity of the judicial process. Accordingly, the doctrine of judicial estoppel 'is an
22 equitable doctrine invoked by a court at its discretion.'" Morris v. California, 966 F.2d
23 448, 453 (9th Cir. 1992) (quoting Religious Tech. Center v. Scott, 869 F.2d 1306, 1311
24 (9th Cir. 1989) (Hall, J., dissenting)). In the context of trade secrets, where the
25 defendant "in past dealings, regarded the matter as a trade secret . . . the defendant may,
26 as an evidentiary matter, be estopped from denying the trade secret status that he had,
27 himself, previously acknowledged." 15-89-15-92 Roger M. Milgrim, MILGRIM ON
28 TRADE SECRETS § 15.01[1][a][v] (2010).

1 Plaintiff points out that when Defendants filed their patent applications,
2 Naughton attested under penalty of perjury that the subject matter was patentable, and
3 therefore, kept secret from the public prior to the filing of the applications. (Doc. No.
4 107 at 12.) Plaintiff has not, however, provided the court with a controlling Ninth
5 Circuit case that has applied judicial estoppel based on the filing of a patent application.

6 In opposition, Defendants have cited an unpublished Ninth Circuit opinion that
7 directly addressed judicial estoppel in regards to a prior patent application. Devon
8 Indus., Inc. v. Am. Med. Int'l, Inc., 1995 WL 433951 (9th Cir. 1995) (where the court
9 declined to extend judicial estoppel to nonjudicial proceedings, including patent
10 applications, and affirmed that the doctrine of judicial estoppel is discretionary).

11 In Reply, Plaintiff complains that Devon was an unpublished decision and has
12 been expressly discredited. (Doc. No. 125 at n.5.) Instead, Plaintiff offers Rissetto v.
13 Plumbers & Steamfitters Local 343, 94 F.3d 597 (9th Cir. 1996) as an example of
14 judicial estoppel being applied to statements made in administrative/quasi-judicial
15 proceedings. (Doc. No. 125 n.2) Rissetto was decided after Devon.

16 In Rissetto, the Ninth Circuit found that statements made in a workers'
17 compensation proceeding estopped the plaintiff from making conflicting statements in
18 a later wrongful termination suit. Id. at 604-05. The plaintiff in Rissetto had successfully
19 asserted an inability to work in her workers' compensation hearing, and thus, was
20 judicially estopped from later asserting an ability to work at trial. Id.

21 Even if the analysis in Devon—regarding the nonavailability of judicial estoppel
22 in relation to prior patent proceedings—has been discredited, the doctrine of judicial
23 estoppel is still applied at the Court's discretion. And the Court does not find the facts
24 of Rissetto analogous enough to the instant case to justify applying judicial estoppel.

25 Setting aside the differences between a workers' compensation hearing and the
26 filing of a patent application, the Court finds that the rejection of Defendants' patents,
27 by both the U.S. and European patent offices distinguish this case from the requirement
28 demonstrated in Rissetto: the conflicting position must have been "successfully adopted"

1 in the prior proceedings before judicial estoppel can be contemporaneously applied. See
2 Yanez v. U.S., 989 F.2d 323, 326 (9th Cir. 1993) (“The majority of circuits recognizing
3 the doctrine hold that it is inapplicable unless the inconsistent statement was actually
4 adopted by the court in the earlier litigation....”)

5 This Court is further persuaded by the 7th Circuit’s reasoning in Bondpro Corp.
6 v. Siemens Power Generation Inc., 463 F.3d 702, 710 (7th Cir. 1996), holding that
7 judicial estoppel was inappropriate because even “if Siemens played fast and loose with
8 the Patent Office-even if it committed a fraud on the Patent Office-this was not a
9 violation of BondPro’s rights if . . . the process that BondPro now claims as a trade secret
10 was known to the trade.” Like in Bondpro, even if Defendants’ patent applications
11 incorrectly stated that the hair growth research was secret, it does not change the fact
12 that the research could not have been misappropriated if it was in fact “known to the
13 trade.” Id.

14 In sum, the Court recognizes that judicial estoppel is potentially available in the
15 present situation. However, the Court does not believe that the facts of this case
16 warrant exercising such discretion.

17
18 **B. There is a Genuine Dispute of Material Fact as to the Secrecy of the Hair**
19 **Growth Research**

20 Plaintiff also argues there is no genuine dispute that the hair growth research was
21 a trade secret that had been maintained in confidence and kept secret from the public.
22 The Court disagrees.

23 The Trade Secrets Act defines a trade secret as “information, including a formula,
24 pattern, compilation, program, device, method, technique or process, that: (1) derives
25 independent economic value, actual or potential, from not being generally known to the
26 public or to other persons who can obtain economic value from its disclosure or use; **and**
27 (2) is the subject of efforts that are reasonable under the circumstances to maintain its
28 secrecy.” Cal. Civ. Code § 3426.1(d) (emphasis added).

1 Here, Plaintiff has defined their trade secret as follows:

2
3 It was and is generally known that hair follicle development
4 normally does not occur after fetal development. **However, ATS**
5 **discovered that subcutaneously injected conditioned media obtained from**
6 **a three-dimensional cell culture induces the formation of new hair**
7 **follicles.** It was also generally known that Wnt proteins may play a role
8 in hair growth by signaling cells to differentiate into dermal papilla,
9 thereby giving rise to new hair follicles. **However, it was not generally**
10 **known that conditioned media obtained from a three-dimensional cell**
11 **culture contained a high concentration of Wnt factors. . . .** Additional
12 details on this trade secret can be found at . . . SKM00000001-12 [**the**
13 **2002 SAB Report**].

14 (Doc. 125 at 7:22-28) (emphasis in original.) Based on this description, the Court finds
15 the 2002 confidential SAB Report (Doc No. 107-6, Ex. U) to be a reliable
16 representation of the trade secret Defendants are accused of misappropriating for the
17 purposes of this motion.

18 To defeat Plaintiff's summary judgment motion, Defendants attempt to
19 demonstrate a genuine issue over: (1) whether Plaintiff's alleged trade secret was a
20 protectable trade secret, (2) whether the alleged trade secret was generally known, (3)
21 whether the alleged trade secret lacked economic value, and (4) whether the subject
22 matter of the SAB Report was subject to reasonable efforts to maintain its secrecy.

23 The Court has chosen to focus on whether the content of the SAB Report was
24 subject to reasonable efforts to maintain its secrecy. Defendants have provided evidence
25 that it was not.

26 For example, Defendants argue that prior to ATS's bankruptcy, Naughton
27 publicly presented and distributed the hair growth research—with ATS's approval—
28 and while acting in her official capacity as Vice Chairman and Chief Scientific Officer.
To demonstrate this lack of secrecy, Defendants first point to a meeting between
Naughton and Dr. Ronda Bartel, a former ATS employee who was no longer under a
confidentiality agreement. Dr. Bartel has submitted a declaration indicating that
Naughton presented a series of Power Point slides to her that were labeled "Induction

1 of Hair Follicle Neogenesis and Hair Regrowth By NouriCel.” (See Doc. No. 119-9, Ex.
2 A; see also Doc. No. 119-5, Ex. 6.)

3 Nowhere on the Power Point slides is there any indication that the information
4 should be kept confidential. Nevertheless, a large portion of the research in the
5 presentation has been pulled directly from the SAB Report. Slide number H069561 is
6 titled “Fibroblast Conditioned Medium Induces New Hair Follicle Formation in Adult
7 SCID Mice” (Id. at 70), a title noticeably similar to Plaintiff’s description of the trade
8 secret as research discovering “conditioned media obtained from a three-dimensional
9 cell culture induces the formation of new hair follicles.” (Doc. 125 at 7:24.)
10 Furthermore, slides H069568 and H069569 labeled “Histological Comparison After 14
11 Days” (Doc. No. 119-5 at 77-78) appear to contain the same microscopic imaging data
12 found on page SKM00000008 of the confidential SAB Report (Doc No. 107-6 at 475.)
13 Finally, starting on slide H069575, the last 7 pages of the Power Point presentation are
14 devoted to applications for NouriCel’s “high concentration of Wnt factors,” another
15 component of the hair growth trade secret that Plaintiff claims was misappropriated.

16 It appears, however, that Dr. Bartel was never identified as witness. Thus, her
17 declaration is not admissible unless the failure to identify Bartel was substantially
18 justified or harmless. See Fed. R. Civ. P. 37(c)(1).

19 But even if the Court does not consider Bartel’s declaration, Defendants have
20 cited two other major instances where the data from the SAB report was presented in
21 public to other members of the scientific community without the protection of a non-
22 disclosure agreement. First, Defendants allege that in June 2002, Naughton provided
23 an electronic copy of the same Power Point slides to representatives of Merck & Co.,
24 Inc. (“Merck”) during a telephonic business development meeting. (*Naughton Decl.* ¶
25 14.) Second, Defendants assert that in late 2002, only weeks before ATS’s bankruptcy,
26 Naughton presented the SAB report data to scientists at City of Hope, an NCI-
27 designated comprehensive cancer center. (*Naughton Decl.* ¶ 22.) Naughton claims to
28 have made this presentation as part of her job at ATS, and with the knowledge and

1 consent of ATS's board of directors. (*Id.*)

2 Plaintiff has objected to Naughton's declaration. They assert that Naughton's
3 description of these communications materially contradicts her deposition testimony,
4 and thus, should not be given effect. (Doc. No. 125 at 8.) The Court has compared the
5 documents and does not agree that Naughton's declaration regarding her meetings with
6 Merck and City of Hope are a direct contradiction of her deposition testimony. (See
7 Doc. No. 107, Exh A at 161, 173–174 (where Naughton, in part, explains that slides she
8 showed Merck were identical to the slides she showed Pfizer).) Thus, Defendants have
9 presented evidence that the allegedly confidential information was shared multiple times
10 with parties that had no obligation to keep it secret.

11 Considering this evidence in the light most favorable to the Defendants, the
12 Court believes that genuine issues of material fact exist regarding whether the alleged
13 trade secrets were subject to reasonable efforts to maintain their secrecy. This
14 conclusion prohibits the Court from granting summary judgment for the
15 misappropriation of trade secrets. Cal. Civ. Code § 3426.1(d)(2); see also Morton v.
16 Rank America, Inc., 812 F.Supp. 1062, 1075(explaining that a trade secret may only
17 exist if reasonable steps were taken to maintain its secrecy).¹

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27 ¹ This determination is also consistent with a Ninth Circuit comment indicating
28 that the determination of the reasonable efforts to ensure secrecy are issues of fact that
should only be determined on summary judgment in extreme cases. At&T Commc'n of
Cal., Inc. v. Pacific Bell, 2000 WL 1277937 at *2 (9th Cir. 2000); citing Rockwell
Graphic Sys., Inc. v. DEV Indus., Inc., 925 F.2d 174, 179 (7th Cir. 1991).

1 **IV. CONCLUSION**

2 In light of the foregoing, the Court **DENIES** Plaintiff's motions for summary
3 judgment. (Doc No. 107.)

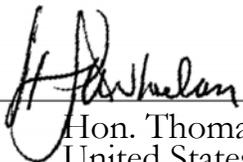
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5 **IT IS SO ORDERED.**

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7 DATED: July 22, 2010

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Hon. Thomas J. Whelan
United States District Judge

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