

2011

## Top Tens in 2010: Copyright and Trade Secret Cases

Stephen McJohn

---

### Recommended Citation

Stephen McJohn, *Top Tens in 2010: Copyright and Trade Secret Cases*, 9 NW. J. TECH. & INTELL. PROP. 1 (2011).  
<https://scholarlycommons.law.northwestern.edu/njtip/vol9/iss5/1>

This Perspective is brought to you for free and open access by Northwestern Pritzker School of Law Scholarly Commons. It has been accepted for inclusion in Northwestern Journal of Technology and Intellectual Property by an authorized editor of Northwestern Pritzker School of Law Scholarly Commons.

N O R T H W E S T E R N  
JOURNAL OF TECHNOLOGY  
AND  
INTELLECTUAL PROPERTY

**Top Tens in 2010:  
Copyright and Trade Secret Cases**

*Stephen McJohn*



---

February 2011

VOL. 9, NO. 5

## Top Tens in 2010: Copyright and Trade Secret Cases

By Stephen McJohn\*

¶1 The following are notable intellectual property decisions for copyright and trade secret cases in 2010 in the United States. Notable patent and trademark cases were examined in a prior article.<sup>1</sup> Viewed across doctrinal lines, some interesting threads emerge involving the scope of protection, the amount of secondary liability, and ownership of the intellectual property rights.

¶2 The scope of protection was at issue in both areas. *Golan v. Holder* addressed the constitutional limits on the scope of copyright.<sup>2</sup> Several copyright cases analyzed fair use, that elusive boundary around copyright scope. Trade secret protection was held applicable to the concept for a product<sup>3</sup> and to high-frequency trading software.<sup>4</sup>

¶3 The issue of secondary liability remains widely litigated, as rights holders seek both deep-pocket defendants and a means to cut off individual infringers. YouTube was held not liable for its users commonly uploading copyright-infringing videos, provided YouTube responded to knowledge of specific infringements.<sup>5</sup>

¶4 Many of the cases involved disputes over the ownership of intellectual property rights between hiring and hired parties. The Supreme Court took a case on whether professors or universities may assign rights to federally funded inventions. *Massachusetts Museum of Contemporary Art Foundation, Inc. v. Büchel* addressed whether an artist may prevent a museum from showing an unfinished, commissioned work.<sup>6</sup> *Gaylord v. United States* addressed whether a party that commissions a work, but does not obtain the copyright, may use fair use to exploit derivative works.<sup>7</sup> *JustMed, Inc. v. Byce* held that a start-up company may claim ownership over an employee's creation under the work-made-for-hire doctrine, even where the start-up has failed to observe the normal formalities of employee-employer relations.<sup>8</sup> Most of the trade secret cases involved employees. *Bimbo Bakeries USA, Inc. v. Botticella* upheld an injunction against hiring a competitor's employee, where it was likely that the employee would use trade secrets in his new position too.<sup>9</sup> Similarly, *Faiveley Transport Malmo AB v.*

---

\* Professor of Law, Suffolk University School of Law. This listing and analysis are decidedly subjective, and all the usual disclaimers apply. Comments welcome: smcjohn@suffolk.edu.

<sup>1</sup> Stephen McJohn, *Top Tens in 2010: Patent and Trademark Cases*, 9 NW. J. TECH. & INTELL. PROP. 313 (2011).

<sup>2</sup> 609 F.3d 1076 (10th Cir. 2010).

<sup>3</sup> *Contour Design, Inc. v. Chance Mold Steel Co.*, No. 09-cv-451-JL, 2010 WL 174315 (D.N.H. Jan. 14, 2010).

<sup>4</sup> *United States v. Aleynikov*, No. 10 Cr. 96 (DLC), 2010 WL 3489383 (S.D.N.Y. Sept. 3, 2010).

<sup>5</sup> *Viacom Int'l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y. 2010).

<sup>6</sup> 593 F.3d 38 (1st Cir. 2010).

<sup>7</sup> 595 F.3d 1364 (Fed. Cir. 2010).

<sup>8</sup> 600 F.3d 1118 (9th Cir. 2010).

<sup>9</sup> 613 F.3d 102 (3d Cir. 2010).

*Wabtec Corp.* held that a company cannot hire a competitor's employees to reverse engineer the competitor's product.<sup>10</sup> The parties often agree on who will own information produced by the employee. The question in *Mattel Inc. v. MGA Entertainment Inc.* was whether an assignment of "inventions" covered the idea for a product.<sup>11</sup>

¶5 A number of cases concerned the relationship between intangible rights and physical works. Notably, in the copyright context, *Vernor* concerned whether someone that bought restricted copies of software could sell them on eBay.<sup>12</sup>

## I. COPYRIGHT

1. *Reed Elsevier, Inc. v. Muchnick*, 559 U.S. \_\_\_, 130 S. Ct. 1237, 176 L. Ed. 2d 17, (2010)

¶6 *Reed Elsevier* addressed a long-standing issue: whether registration of a copyright is a jurisdictional requirement to bring an infringement action—or just a requirement. The distinction has great weight. If a requirement is jurisdictional, then failure to meet the requirement means that the action must be dismissed—even if the case is on appeal when the issue is first raised. It also means that parties (as in *Reed Elsevier*) who have not registered their works may not be parties to a lawsuit. This could considerably complicate resolution of issues that involve large number of copyrights, where some are registered and others are not.

¶7 The copyright statute provides that a copyright owner must register the copyright before bringing an action for infringement. The statute is not clear on whether that requirement is jurisdictional (meaning no infringement action may be brought without registration) or could be excused in some cases. In *Reed Elsevier*, the Supreme Court held that the provision was not jurisdictional.<sup>13</sup> Therefore, a federal district court had jurisdiction over a class action brought by freelance authors claiming infringement by the Google Book Project, even though not all the allegedly infringed works were registered. The Court, however, acknowledged that the statute generally requires registration before litigation, suggesting that the requirement will be relaxed only in unusual cases. *Reed Elsevier*, then, continues the general rule requiring registration, but will allow exceptions where other policies are at work. This will enable courts to resolve otherwise nonjudiciable complex copyright issues.

2. *Golan v. Holder*, 609 F.3d 1076 (10th Cir. 2010)

¶8 *Golan* addressed the possible limits of copyright law. In 1998, Congress added 20 years to the term of existing copyrights. The Supreme Court rejected two constitutional

---

<sup>10</sup> 559 F.3d 110 (2d Cir. 2009).

<sup>11</sup> 616 F.3d 904 (9th Cir. 2010).

<sup>12</sup> *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010). One issue not decided in 2010 was whether a copyright owner can control gray market goods—goods made outside the United States with permission of the copyright owner, but imported without permission. The Supreme Court granted certiorari, but issued no decision because the Court split 4-4. See *Costco Wholesale Corp. v. Omega, S.A.*, 541 F.3d 982 (9th Cir. 2008), *affirmed* (by an equally divided court), 131 S. Ct. 565 (Dec. 13, 2010).

<sup>13</sup> *Reed Elsevier*, 130 S. Ct. at 1249.

challenges to the statute. The Court held that Congress had not exceeded its power to grant copyrights for “limited Times” in order to “promote the Progress of Science.”<sup>14</sup> Nor had Congress violated the First Amendment. Rather, First Amendment scrutiny would not apply where Congress had not “altered the traditional contours of copyright.”<sup>15</sup> Simply extending the term of copyright, in this view, fit within the traditional copyright scheme.

¶9 In *Golan*, a non-traditional expansion of copyright did arise. *Golan* addressed the constitutionality of the restoration provisions, which were enacted when the United States finally joined Berne Convention. Unlike extending the term of existing copyrights, the restoration provisions actually grant copyright to works that had been in the public domain. The restoration provisions restore copyright protection to foreign works that fell into the public domain in the U.S. for failure to meet formality requirements, such as the requirement of a copyright notice. Because restoration takes works out of the public domain, the question arose whether it violated the First Amendment. *Golan* held that the statute passed First Amendment muster, because it was narrowly tailored to serve substantial governmental interests.<sup>16</sup> After *Golan*, Congress retains very broad power to legislate with respect to copyright—even where the legislation is quite different from what copyright law has done in the past, and where it creates conflict with expressive interests.

### 3. *Viacom Int’l Inc. v. YouTube, Inc.*, 718 F. Supp. 2d 514 (S.D.N.Y.2010)

¶10 *Viacom* is a key case on whether internet service providers must monitor their customers for copyright infringement. Internet service providers are not liable for infringement by their customers, provided they have a program to attend to alleged infringement.<sup>17</sup> The standards required of such programs have been disputed. *Viacom* argued that YouTube should not have immunity, where YouTube failed to take down infringing videos, despite its knowledge of widespread infringement on the site. The court, however, read the provision more narrowly, holding it sufficient that a service provider responds to “knowledge of specific and identifiable infringements of particular individual items,” not just general knowledge of infringement.<sup>18</sup> Because of the widespread allegations of internet copyright infringement, *Viacom* has considerable impact because it does not require internet service providers to actively seek out and take down infringing material. It simply requires them to respond when they gain knowledge of the infringement.

### 4. *Vernor v. Autodesk, Inc.*, 621 F.3d 1102 (9th Cir. 2010)

¶11 *Vernor* bought copies of AutoCAD, sophisticated computer-aided design software, and sold them on eBay. Autodesk objected on the grounds that such sales infringed its exclusive right to distribute copies of the software to the public. After the copyright owner distributes copies for a price, how much control can it retain over the copies? First

---

<sup>14</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>15</sup> *Eldred v. Ashcroft*, 537 U.S. 186, 221 (2003).

<sup>16</sup> *Golan*, 609 F.3d at 1091.

<sup>17</sup> 17 U.S.C. § 512(i).

<sup>18</sup> *Viacom*, 718 F. Supp. 2d at 523.

sale balances the new owner's rights in the object against the copyright owner's interests.<sup>19</sup> For example, if I buy a book, first sale allows me to sell it or display it, notwithstanding the copyright owner's exclusive rights to distribute or display the work. Software companies typically attempt to avoid first sale, by characterizing the transaction simply as a license to use the software, as opposed to a sale of the software. *Vernor* upheld this argument, holding that there was no sale of the software. The court looked at three factors in deciding whether a software user should be classified as a licensee, rather than a copyright owner. The court explained that "[f]irst, we consider whether the copyright owner specifies that a user is granted a license. Second, we consider whether the copyright owner significantly restricts the user's ability to transfer the software. Finally, we consider whether the copyright owner imposes notable use restrictions."<sup>20</sup> All three factors, in the court's view, indicated a license rather than a sale. Autodesk's license stated that the transaction was a license, not a sale of the software and that Autodesk retained title to the software. There were transfer restrictions: the license was nontransferable without Autodesk's written consent, and could not be transferred outside the Western Hemisphere.<sup>21</sup> There were use restrictions: it prohibited use outside the Western Hemisphere; prohibited modifying, translating, or reverse-engineering the software; and prohibited removing trademarks or copy protection devices. In short, *Vernor* appears to hold that a software transaction characterized as a license will be treated only as a license, if the seller so chooses and provides significant restrictive clauses.

¶12 That analysis is notably different from sales law. Where a party delivers goods for a price and the other party is entitled to keep them as long as the price is paid—it is a sale, regardless of what the parties call it.<sup>22</sup> *Vernor* takes the opposite approach with software, essentially making first sale an optional doctrine. But doing so avoids some complicated, yet necessary preemption issues. It avoids the issue of the extent to which the parties can use state law contracts to contract around federal copyright law rules, such as first sale and fair use. In other words, even if the transaction were held to be a sale, there would remain the question of whether those clauses were effective against a transferee of the software.

5. Sony BMG Music Entm't v. Tenenbaum, 721 F. Supp. 2d 85 (D. Mass. 2010) and Capitol Records Inc. v. Thomas-Rasset, 680 F. Supp. 2d 1045 (D. Minn. 2010)

¶13 As *Viacom* shows, one way to address widespread infringement is to seek liability from the internet service providers used by the actual infringers. Another tactic is to seek big judgments against the actual infringers, in order to discourage others. Two district courts overturned big jury verdicts against music downloaders. Actual damages for downloading thirty songs might be thirty dollars, but the Copyright Act authorizes statutory damages in the range of \$750 to \$200,000 per work infringed. The court in *Capitol Records* used a slightly different approach. The court remitted an award, for downloading twenty-four songs, of \$1.92 million down to \$54,000 (reducing the award to

---

<sup>19</sup> 17 U.S.C. § 109 (2006).

<sup>20</sup> *Vernor*, 621 F.3d at 1110–11.

<sup>21</sup> *Id.* at 1111–12.

<sup>22</sup> See U.C.C. § 2-401(1) (2001).

\$2,250 per song). With remittitur, the defendant can accept the revised award or go to trial again. On retrial, the next jury awarded \$1.5 million. *Sony* used a different basis, holding that \$675,000 in statutory damages for downloading thirty songs was unconstitutional, as contrary to due process. The court reduced the award to \$67,500, following the \$2,250 per song benchmark of *Capitol Records*. Whether these decisions are upheld on appeal will have considerable meaning for future actions against downloaders.

6. *Maverick Recording Co. v. Harper*, 598 F.3d 193, (5th Cir. 2010), cert. denied, 131 S. Ct. 590 (Nov. 29, 2010)

¶14 *Maverick Recording* addresses another state of mind issue: under what circumstances a defendant's lack of knowledge of copyright can reduce the damages awarded. In *Maverick Recording*, plaintiffs sought just the \$750 minimum statutory damages per song downloaded. The defendant argued that her lack of knowledge of copyright law triggered the lower level of \$200 applicable to an "innocent infringer," one who "was not aware and had no reason to believe that his or her acts constituted an infringement of copyright."<sup>23</sup> The innocent infringer defense is not available where a copyright notice appeared "on the published phonorecord or phonorecords to which a defendant in a copyright infringement suit had access."<sup>24</sup> Because copyright notices appeared on the CD's sold to the public by the music companies, the court reasoned, defendant had access to phonorecords with notice and so could not claim the innocent infringer defense. The case presents a nice issue: whether the innocent infringer defense does not apply where the copyright owner puts copyright notices on distributed copies, or whether an innocent infringer may be one who had actual access to copies from another source.

7. *Massachusetts Museum of Contemporary Art Found., Inc. v. Büchel*, 593 F.3d 38 (1st Cir. 2010)

¶15 *Büchel* provides guidance on the scope of protection under copyright law for an artist's right to protect the integrity of her work. Copyright law in the United States, unlike many jurisdictions, provides little protection for "moral rights," such as rights of integrity and attribution. But the Copyright Act does provide rights of integrity and attribution to works of visual art. *Büchel* addressed how widely to define the protected class of works. An artist had worked on an installation in the Massachusetts Museum of Contemporary Art Foundation. In "Training Ground for Democracy," visitors would play such roles as immigrants, activists, looters, and judges, working their way through installations ranging from a movie theater to an aircraft fuselage. The artist and museum did not manage to finish the project together. When the museum proposed showing the unfinished work, the artist sued. The court held that moral rights do apply to unfinished works, and so the artist had the right to protect his rights of integrity and attribution. As art changes, *Büchel* may have considerable impact. Artists increasingly create works in collaboration with museums and other parties, and those collaborations do not always

---

<sup>23</sup> *Maverick Recording*, 598 F.3d at 198.

<sup>24</sup> *BMG Music v. Gonzalez*, 430 F.3d 888, 892 (7th Cir. 2005).

work out. Under *Büchel*, unfinished works will be provided protection. *Büchel* also represents a court willing to read the moral rights protections broadly, where courts in the United States have often been reluctant to import those policies.<sup>25</sup>

8. *Salinger v. Colting*, 607 F.3d 68 (2d Cir. 2010)

¶16 While *Büchel* illustrates that copyright law in the United States explicitly provides moral rights only for works of visual arts,<sup>26</sup> the general exclusive rights of copyright do provide an author some protection for the integrity of the work. The exclusive right to prepare derivative works, for example, gives the author control over the forms into which her work will be adapted.<sup>27</sup> Fair use may protect some adaptations, such as parodies that comment on the original work. But generally the author gets to decide the artistic fate of her work. *Salinger*, for example, held that it was not fair use for an author to write a sequel to *Catcher in the Rye*. Fair use defies categorical rules, but it permits generalizations, such as one inferred from *Salinger*. Parodies are likely to be fair use; sequels are not.

¶17 *Salinger*'s fair use analysis fit comfortably within the existing case law. *Salinger*, however, departed from the beaten path on the issue of the proper remedy for copyright infringement. In intellectual property cases, courts once readily granted injunctions when infringement was shown. The Supreme Court, in *eBay v. MercExchange, L.L.C.*, however, held that the usual equitable standards should apply in a patent case.<sup>28</sup> The Court held that "a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief."<sup>29</sup> A plaintiff must demonstrate: (1) irreparable injury; (2) that remedies available at law are inadequate; (3) that a remedy in equity is warranted after balancing the hardships between plaintiff and defendant; and (4) that it was not contrary to the public interest to grant a permanent injunction.<sup>30</sup> Under *eBay*, if an alternative remedy such as damages is sufficient, then the infringer may continue infringing, but pay damages.

¶18 *Salinger* followed that reasoning in the copyright context. Under *Salinger*, an infringer may be permitted to continue its course of action, provided it can pay whatever damages will make the copyright holder whole. Copyright, however, can involve a different category of damages than patent and other cases. If copyright does protect the equivalent of moral rights for artists, then injunctions may be necessary in cases where the monetary damages are small, but injunctive relief is necessary to protect the author's control over the integrity of the work. In turn, courts may also consider the expressive interest of the infringer in presenting another version of the work. *Salinger* opens up a means for infringers to avoid injunctions, but leaves many questions to be addressed on how to adapt the test to the specific context of copyright.

<sup>25</sup> See generally, Cyrill P. Rigamonti, *Deconstructing Moral Rights*, 47 HARV. INT'L L.J. 353 (2006).

<sup>26</sup> *Büchel*, 593 F.3d at 47 ("[T]he Visual Artists Rights Act, 17 U.S.C. § 106A, was an amendment to the Copyright Act that protects the 'moral rights' of certain visual artists in the works they create.").

<sup>27</sup> See 17 U.S.C. § 106(2) (2006).

<sup>28</sup> 547 U.S. 388 (2006).

<sup>29</sup> *Id.* at 391.

<sup>30</sup> *Id.*

9. *Gaylord v. United States*, 595 F.3d 1364 (Fed. Cir. 2010)

¶19 Fair use is key to copyright because it provides a safety valve that prevents overly formalistic application of the exclusive rights of a copyright holder. It also provides room for expressive use of works, thus making copyright compatible with the First Amendment.<sup>31</sup> But fair use remains a difficult rule to apply to any new set of facts because of its multi-factor, case-specific analysis.

¶20 The United States commissioned a sculpture for the Korean War Veterans Memorial. The sculptor adamantly retained the copyright. The U.S. subsequently put a picture of the sculpture on a postage stamp, and sold millions of copies. The image was used under a license agreement granting permission only from the photographer. The sculptor was not consulted. The Federal Circuit held that fair use did not authorize the U.S. to use the image on the stamp without permission from the sculptor. Transformative works may receive special leeway under fair use, but the U.S. did little to transform the underlying work. The photographer simply made a very fine photograph of the sculpture in the snow. More important, the U.S. itself made no transformative use, simply choosing a work made by another. Nor did the U.S. serve any other use favored by fair use, such as criticism or commentary. The purpose of the stamp, like the sculpture itself, was to commemorate the Korean War.

¶21 The case is unusual among fair use cases, which usually involve someone using the work of a stranger. Here, the U.S. sought to use fair use for a use that it could have bargained for in the original commission agreement. Fair use will rarely serve to allow one party to change the terms of a negotiated agreement. *Gaylord* may have broad applicability because so many copyright cases involve disputes between parties to a cooperative relationship gone litigious.

10. *Righthaven v. Realty One Group Inc.*, No. 10-cv-1036-LRH-PAL, 2010 WL 4115413 (D. Nev., Oct. 19, 2010)

¶22 One reason that fair use remains an unsettled doctrine is that it must constantly be adapted to new types of infringement cases. *Righthaven* has a Tolkienesque name, but is a business built on the convergence between copyright and the internet, that world-wide machine for making and distributing copies. *Righthaven* identifies web sites that have posted material copied from other sites. It purchases the rights to the copied material, and sues for infringement. The question raised is one endemic on the web: what is the scope of fair use? The court in *Righthaven* held that it was fair use, where a real estate company copied some eight sentences from a newspaper article.<sup>32</sup> The court gave great weight to the factual nature of the text. Factual works have much thinner protection than creative works, because facts themselves are not copyrighted. Another strong factor was that the copying was not a market substitute for the originals. In fact, the copier linked to the original story, so may have actually increased its readership.

---

<sup>31</sup> See generally, *Eldred v. Ashcroft*, 537 U.S. 186, 219–20 (2003).

<sup>32</sup> *Righthaven*, 2010 WL 4115413, at \*3.

11. <sup>33</sup> Statement of the Librarian of Congress Relating to Section 1201 Rulemaking (July 27, 2010), and *MDY Industries v. Blizzard Entertainment*, No. 09-15932, No. 09-16044, 2010 WL 5141269 (9th Cir. Dec. 14, 2010)

¶23

These two matters concern the interpretation of the anti-circumvention provisions, which give legal protection to anti-copying and anti-access technology on copyrighted works.<sup>34</sup> The first matter could be styled as *Apple v. Jailbreakers*. The Librarian of Congress authorized “jailbreaking” of smartphones, bypassing access measures on the phone to allow them to run applications (“apps,” in common parlance) that have not been authorized by the phone’s maker. For example, iPhone users may now enable their phones to use applications not authorized by Apple. The Librarian reasoned that “the person engaging in jailbreaking is doing so in order to use Apple’s firmware on the device that it was designed to operate, which the jailbreaking user owns . . . favors a finding that the purpose and character of the use is innocuous at worst and beneficial at best.”<sup>35</sup> The reasoning was also supported by the statutory exemption for reverse engineering, as well as the general copyright policy in favor of reverse engineering and against allowing copyright to limit functional features of works.<sup>36</sup>

¶24

The exemption, by itself, helps only the rather technologically sophisticated phone owner. It authorizes the phone’s owner to open it to other applications, but does not authorize anyone else to perform that work for the phone owner. The owner of a smartphone may jailbreak it, but the exemption does not authorize others to offer their services or software to jailbreak phones. But it may be the case that courts would interpret the anti-trafficking provisions not to prohibit the offering of jailbreaking services or software, given the trend among some courts to hold that only circumvention that supports copyright infringement is prohibited (and therefore the offering of circumvention services that do not lead to copyright infringement is not prohibited).<sup>37</sup> Notably, however, *MDY Industries v. Blizzard Entertainment* explicitly rejected that trend, holding that the provisions create a new anti-circumvention right, distinct from copyright infringement.<sup>38</sup> *MDY* creates a distinct split among the circuits on how broadly the anti-circumvention provisions apply.

---

<sup>33</sup> Cf. THIS IS SPINAL TAP (Metro-Goldwyn-Mayer 1984) (“[Nigel Tufnel:] The numbers all go to eleven. Look, right across the board, eleven, eleven, eleven and . . . [Marty DiBergi:] Oh, I see. And most amps go up to ten?”).

<sup>34</sup> See 17 U.S.C. § 1201 (2006).

<sup>35</sup> Exemption to Prohibition on Circumvention of Copyright Protection Systems for Access Control Technologies, 75 Fed. Reg. 43,825, 43,829 (July 27, 2010), available at <http://www.copyright.gov/fedreg/2010/75fr43825.pdf>.

<sup>36</sup> *Id.*

<sup>37</sup> See *Chamberlain Group, Inc. v. Skylink Techs., Inc.*, 381 F.3d 1178, 1203 (Fed. Cir. 2004); *Storage Tech. Corp. v. Custom Hardware Eng’g & Consulting, Inc.*, 421 F.3d 1307 (Fed. Cir. 2005); see also *MGE UPS Sys. v. GE Consumer & Indus. Inc.*, 96 U.S.P.Q.2D (BNA) 1123 (5th Cir. 2010) (holding that there is anti-circumvention liability only where there is a showing that party engaged in circumvention, as opposed to used work after circumvention).

<sup>38</sup> 2010 WL 5141269, at \*17.

## II. TRADE SECRET

1. *Contour Design, Inc. v. Chance Mold Steel Co.*, No. 09-cv-451-JL, 2010 WL 174315 (D.N.H. Jan. 14, 2010)

¶25 *Contour Design* showed that trade secret protection may attach to information before it has yielded any income. Trade secrets are usually information used in making or selling: manufacturing processes, customer lists, chip designs, software, etc. The value is shown by an existing market for the goods or services. *Contour Design* shows that protection may attach, however, early in the product cycle. A concept not yet made into a product (an ergonomic roller as alternative to computer mouse) had sufficient commercial value to be a trade secret. *Contour Design* gives some protection to start-ups and other entrepreneurial thinkers, providing legal protection for valuable ideas.

2. *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102 (3d Cir. 2010)

¶26 *Bimbo Bakeries* represents an important expansion in the scope of trade secret protection. In recent years, some courts had adopted the doctrine of “inevitable disclosure,” enjoining a competitor from hiring a key employee where trade secrets would inevitably be used in the new position. *Bimbo Bakeries* lowered the bar, holding an injunction appropriate where there is “sufficient likelihood, or substantial threat” that trade secrets will be disclosed or used. The rule requires no showing of misappropriation or intent to use trade secrets. In *Bimbo Bakeries*, the employee had repeatedly accessed confidential information shortly before leaving to join the competitor, showing his intent to use the information in his new position. His new position was substantially similar to his old one, meaning that the information (such as market information) would be valuable in that position. There was no showing that he had actually used the information for the competitor—and in fact at that time signed a statement that the competitor did not intend him to use any confidential information from his former employer. But given his recent efforts to access the information and likelihood he would use it in his new position, the court held a temporary injunction appropriate. *Bimbo Bakeries* shows that employees remain the most important data storage devices.

3. *United States v. Aleynikov*, No. 10 Cr. 96(DLC), 2010 WL 3489383 (S.D.N.Y. Sept. 3, 2010)

¶27 *Aleynikov* held that a bank’s high-frequency trading software qualified as a trade secret, meaning that taking the software to a new employer violated the Economic Espionage Act. It was not necessary that the bank be marketing the software to others for it to be protected. *Aleynikov* provides a reminder that intellectual property may also have strong protection under criminal laws.

4. *Nationwide Mut. Ins. Co. v. Mortensen*, 606 F.3d 22 (2d Cir. 2010)

¶28 *Nationwide Mutual* reflects the many ways in which intellectual property law adapts to new technologies—often by not extending protection. A trade secret must be information not readily available to others. Compiling a valuable database does not a trade secret make, where the same information is publicly available, albeit on paper. The

database in *Nationwide Mutual Insurance* was valuable to the business, especially because it was in electronic form. An electronic base is quicker to search, easier to organize, and can serve the business in many ways. The value to the business did not derive from the customer information being secret. To the contrary, the same information was available from public sources. Simply adapting old methods to new technologies does not vest them with legal protection.<sup>39</sup>

5. *JustMed, Inc. v. Bryce*, 600 F.3d 1118 (9th Cir. 2010)

¶29 *JustMed* provided several examples of behavior concerning a trade secret that the court deemed inappropriate, but not misappropriation. A disgruntled employee deleted copies of the source code of the company's crown jewel software. Then, he deposited portions of the software as part of an attempt to register the software's copyright and threatened to withhold the software from the company. Misappropriation, however, requires wrongful acquisition, use, or disclosure of the trade secret. Deleting it, withholding it, and submitting partial copies in confidence to the Copyright Office fall outside those categories.

¶30 *JustMed* also had an important holding on a related copyright issue. Just whose code was it anyway? The software developer, after all, was accused of trade secret misappropriation for taking code that he himself had written. If he were the author of the code, he would hold the copyright in the code. Under the work-made-for-hire doctrine, however, if he wrote the code as an employee, the employer would be deemed to be the author. So the key question was, whether he was working as an employee or an independent contractor.

¶31 Several factors weighed toward independent contractor status. He worked at home, not at the office. He set his own hours and had great freedom in setting his working conditions. He did not receive a salary, but instead was paid in stock. The company did not list him as an employee for tax purposes or employee benefits.<sup>40</sup> Under older case law, those factors would have been decisive.<sup>41</sup> In particular, courts are very leery where a company fails to treat a person as an employee for tax and other filing purposes, then claims the person as an employee, to claim ownership of the copyright. But *JustMed* took a more practical approach, emphasizing that the dispute arose in a small, start-up company. Start-up companies often pay insufficient attention to formalities. The software developer worked under the supervision and direction of the company; took on additional tasks, that were assigned as to an employee, as opposed to the specific projects that an independent contractor took on; and appeared to regard himself as an employee in his dealings with the company. The court held that he was an employee and thus the company, *JustMed*, owned the software under the work-made-for-hire doctrine.<sup>42</sup> This case has considerable applicability in today's dynamic employment market.

---

<sup>39</sup> Similar issues arise in patent law. See *Western Union Co. v. MoneyGram Payment Systems Inc.*, 626 F.3d 1361, 1370 (Fed. Cir. 2010) (holding that a claimed invention was obvious, and so not patentable, where it consisted simply of replacing telephone and fax methods with an internet method).

<sup>40</sup> *JustMed*, 600 F.3d at 1121–22.

<sup>41</sup> *Community for Creative Non-Violence v. Reid*, 490 U.S. 730, 750–51 (1989); see also RESTATEMENT (SECOND) OF AGENCY § 220(2) (1958).

<sup>42</sup> *JustMed*, 600 F.3d at 1131.

6. *R.C. Olmstead, Inc. v. CU Interface, LLC*, 606 F.3d 262 (6th Cir. 2010)

¶32 In *JustMed*, the court gave leeway for the informal practices of a start-up company. But informality may not be forgiven where it undercuts the relevant policy for protection. Trade secret law helps those who help themselves. Valuable information, unknown to competitors who could derive value from it, may not be a trade secret. To have the legal protection of trade secret law, a party itself must take reasonable measures to keep the information secret.<sup>43</sup> In *R.C. Olmstead*, the court held that a user interface was not a trade secret, because the claimant showed it to others without requiring a confidentiality agreement or imposing restrictions against third party access. To have trade secret protection, one cannot rely simply on the discretion of others. Legal and practical restrictions must be used to trigger the additional protection of trade secret law.

7. *MGE UPS Sys. v. GE Consumer & Indus. Inc.*, 96 U.S.P.Q. 2D (BNA) 1123 (5th Cir. 2010)

¶33 As in patent and copyright, trade secret can present vexing questions about remedies. Showing that a competitor had access to trade secrets and sold a competing product is not enough to recover damages. Rather, the plaintiff must prove that competitor sales were attributable to the use of the purloined information. Here, the competitor was able to use software because it had access to an external hardware security key (called a “dongle”). The competitor subsequently used the software in a product. Even if there was misappropriation, the trade secret holder failed to show that any particular profits were attributable to the misappropriation. Ideas may be a key asset in the information age, but to recover for misappropriation of that information will require hard market evidence.

8. *Silvaco Data Systems v. Intel Corp.*, 109 Cal. Rptr. 3d 27 (2010)

¶34 Intel was not liable for trade secret misappropriation for using code that was created using trade secrets, where code supplied to Intel did not contain the trade secret information. This case emphasizes the limited nature of trade secret protection. A party that misappropriates information may be liable, but subsequent good faith parties that use the information are not. If a trade secret is wrongfully published, for example, it nevertheless becomes information free for anyone to use.

9. *Mattel Inc. v. MGA Entm’t Inc.*, 616 F.3d 904 (9th Cir. 2010)

¶35 An idea is not protected by copyright or patent. Rather, a party must rely on trade secret law and contracts for legal protection. As with other forms of intellectual property, care must be taken when drafting contracts. *Mattel* held that an assignment of “inventions” in an employment contract may not include an assignment of ideas. The employer would thus not have the rights to control product ideas of an employee, once the employee had moved to another company. The stakes may be considerable. In

---

<sup>43</sup> See UNIFORM TRADE SECRETS ACT § 1 (1985) (requiring that the information be “the subject of efforts that are reasonable under the circumstances to maintain its secrecy”).

*Mattel*, the question involved the idea of Bratz dolls, a product that produced many millions in revenue.

10. *Faiveley Transport Malmo AB v. Wabtec Corp.*, 559 F.3d 110 (2d Cir. 2009)

¶36

*Faiveley* is a 2009 case, with a lesson worth stretching the calendar a little. If an inventor has a patent on brakes for subway trains, no one can make or use such brakes without a license. But if the inventor has no patent and relies on trade secret protection, someone else may use reverse engineering. The competitor may not get the information by bribing employees or other industrial espionage, but may examine the product and figure out how it was made. That is what the competitor attempted in *Faiveley*. But attempts to reverse engineer the brake design were unsuccessful. The competitor then enlisted help from an employee of the brake-maker, one who had frequent access to drawings of the brakes. Not surprisingly, the competitor managed to copy the brakes. *Faiveley* held that this was not permitted reverse engineering, this was prohibited misappropriation of a trade secret.