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**Top Tens in 2011:
Copyright and Trade Secret Cases**

Stephen McJohn



Top Tens in 2011: Copyright and Trade Secret Cases

By Stephen McJohn*

I. COPYRIGHT

¶1 The biggest development in 2011 may have been the Supreme Court granting certiorari in *Golan v. Holder*.¹ The Court addressed the constitutionality of the 1994 statute that restored copyright protection (and so took works out of the public domain) to foreign authors who had lost their United States copyright due to failure to meet formality requirements or due to lack of copyright relations between their country and the United States² (for example, in the Soviet Union, for authors such as Prokoviev).³ In early 2012, the Court held the restoration provisions constitutional, reasoning that the legislation was within Congress's broad powers to grant copyrights and that First Amendment scrutiny of copyright statutes is unnecessary as long as the statutes contain two "built-in" First Amendment safeguards, fair use and the non-protection of ideas.⁴

1. *Authors Guild v. Google Inc.*, 770 F. Supp. 2d 666 (S.D.N.Y. 2011)

¶2 Judicial concern for orphan works barred a proposed settlement of the Google Books litigation. There is considerable uncertainty about the application of copyright to the planetary copying machine known as the Internet. One way to resolve uncertainty is to settle a lawsuit. The question in the Google Books case was whether settlement of a class action could bind parties who had not joined the affected class.

¶3 Google embarked on an ambitious effort to scan millions of books, working together with several university libraries. The Author's Guild filed a class action against Google, claiming that the wholesale copying of books without permission, and displaying snippets to those searching Google Books, was copyright infringement. Google responded that fair use applied. Before any decision on the merits, the parties reached a

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¹ 609 F.3d 1076, 1080 (10th Cir. 2010), *cert. granted*, 131 S. Ct. 1600 (2011).

² *Id.* ("Plaintiffs brought this action challenging the constitutionality of Section 514 of the Uruguay Round Agreements Act ("URAA") Pub.L. No. 103-465, § 514, 108 Stat. 4809, 4976-81 (1994) (codified as amended at 17 U.S.C. §§ 104A, 109), which granted copyright protection to various foreign works that were previously in the public domain in the United States.").

³ Sergei Prokofiev (sometimes rendered "Prokoviev") (b. 1891 – d. 1953) was a Russian pianist, conductor, and composer, known for writing *Peter and the Wolf*. PROKOFIEV PAGE, <http://www.prokofiev.org> (last visited Feb. 14, 2012).

⁴ See generally *Golan v. Holder*, 132 S. Ct. 873 (2012).

settlement.⁷ The agreement provided that Google could continue scanning books, sell subscriptions to the database of books, and earn advertising revenue in connection with searches of the database. A Books Rights Registry would be established to track use of works and provide royalties to copyright holders. Libraries, universities and other institutions could subscribe for access to the digital library. Google agreed to pay some \$125 million toward establishing the framework. In return, authors would no longer be able to sue Google for infringement, unless they opted out of the agreement by 2012.



8

¶4

The court declined to approve the settlement, on several grounds. The agreement effectively settled the issue of orphan works, books whose copyright holder was not readily identified. This issue, the court reasoned, was one within the powers of Congress to address. The settlement settled disputes far beyond the actual parties to the litigation, as it was binding on anyone who did not opt out. In addition, the named parties were not representative of the class of authors and other copyright holders affected.

2. *Cariou v. Prince*, 784 F. Supp. 2d 337 (S.D.N.Y. 2011)

¶5

Visual expression fits uneasily with law's verbal reasoning. Artist Richard Prince bought several copies of a book of photographs, *Yes, Rasta*. Prince mounted 41 of the photographs on backer board and painted over various portions. Prince displayed his works, collectively called *Canal Zone*. Gagosian Gallery, a named defendant in the case, reproduced the works in an exhibition catalog that it sold. Several of the paintings sold, for a total well into the millions of dollars. Another gallery, which had been planning to show the original photographs, cancelled its exhibition. The second gallery feared the perception that it would be trying to piggy-back on the use of the photos by Prince, a well-known appropriation artist.

⁷ See Stephanie Condon, *Google Reaches \$125 Million Settlement with Authors*, CNET NEWS (Oct. 28, 2008), http://news.cnet.com/8301-13578_3-10076948-38.html.

⁸ George Cruikshank, *Oliver Twist* (illustration), in CHARLES DICKENS, *OLIVER TWIST* (1st ed. 1838) ("Please, sir, I want some more.").

¶6 The court rejected the defendants' claim of fair use. The use was commercial, yielding substantial sales. It was held only minimally transformative. *Canal Zone* did not comment on or criticize *Yes, Rasta* (unlike a parody), but rather used the photos as raw material. The cancellation of the exhibition of the photographs showed market harm, along with the demonstrated potential for derivative works.⁹

3. *Righthaven LLC v. Democratic Underground, LLC*, No. 2:10-cv-1356-RLH-GWF, 2011 WL 1457743 (D. Nev. Apr. 14, 2011)

¶7 State law transactions may not give federal rights. An assignment of rights to sue for copyright infringement, without conveyance of actual exclusive rights, does not give standing to sue for infringement. That rule makes it difficult to structure an entity that is solely in the business of enforcing copyright infringement. Copyright holders might be willing to sell their rights to sue for infringements (past and future) for either a specified payment or a percentage of the proceeds. That would allow the copyright holder to have income without playing the role of enforcer, which could be costly, not just financially, but also to its reputation. But the copyright holder may be reluctant to transfer the entire copyright, or even the exclusive rights most likely to be infringed. That would take away its control over the exploitation of the work, and also bar certain forms of exploitation of the work. Rather, the parties would likely prefer to allocate the rights in a way aligned with their respective plans. The copyright holder would assign to the enforcement entity only the rights to enforce infringement or specified categories of infringement, and the copyright holder would retain the exclusive rights generally. That transaction would, however, not give the enforcer sufficient rights to have standing in federal court to sue for infringement. Copyright's standing requirements can bar the effectiveness of state law contracts to assign rights.

¶8 Righthaven purchased rights to sue for many alleged infringements, and filed hundreds of actions. A number of defendants settled. But once defendants started to resist, several courts held that Righthaven had not received transfer of sufficient rights to sue. Some courts awarded attorney's fees against Righthaven. At last report, one of Righthaven's major partners had terminated their agreement, stating on reflection, "It was a dumb idea."¹⁰

⁹ Fair use is an issue in many a copyright case, but not patent—yet. See Katherine J. Strandburg, *Patent Fair Use 2.0*, 1 U.C. IRVINE L. REV. 265 (2011).

¹⁰ David Kravets, "It Was a Dumb Idea": Newspaper Fires Copyright Troll Righthaven, ARS TECHNICA (Sept. 8, 2011, 4:12 PM), <http://arstechnica.com/tech-policy/news/2011/09/it-was-a-dumb-idea-newspaper-chain-fires-copyright-troll-righthaven.ars>.

4. *Capitol Records, Inc. v. MP3tunes, LLC*, No. 07 Civ. 9931(WHP), 2011 WL 5104616 (S.D.N.Y. Oct. 25, 2011)



11

¶9

From Amazon to Zshare, companies are increasingly offering cloud storage. A key question is whether the companies are liable for copyright infringement by their users. Internet service providers have statutory immunity for such liability (as “Information Residing on Systems or Networks at Direction of Users” or “Information Location Tools”).¹² A service provider may only have immunity if it does not have actual knowledge of infringement, is not “aware of facts or circumstances from which infringing activity is apparent,” and responds expeditiously to take-down requests from copyright holders.¹³

¶10

The issue in *Capitol Records* was whether a music locker service qualified for immunity. The service responded to most, but not all, take-down notices. It also did not go beyond the specific infringing material identified in the notices, such as by taking down all of a user’s files where some of that user’s files were identified as infringing. Nor where a file was identified as infringing in the locker of one user did the service take the same file down for other users—even where the service actually stored just one copy of the file and made it available to multiple users, for purposes of efficient storage. The court reasoned that the Digital Millennium Copyright Act does not require such vigilant copyright monitoring as a condition for Internet service provider immunity.¹⁴ Rather, the statute “does not place the burden of investigation on the internet service provider.”¹⁵

¹¹ Jan Vermeer, *View of Delft* (ca. 1660–1661).

¹² *Capitol Records*, 2011 WL 5104616, at *8.

¹³ *Id.*

¹⁴ Although MP3tunes was not required to police the site for infringement, the court did hold that MP3tunes could be liable for infringement with respect to songs specifically identified in take-down notices that MP3tunes did not remove from its site. Another court held that a storage locker service was not liable for direct copyright infringement, because its users, not the service, controlled the making of the copies. See *Disney Enterprises, Inc. v. Hotfile Corp.*, 798 F. Supp. 2d 1303 (S.D. Fla. 2011).

¹⁵ *Capitol Records*, 2011 WL 5104616, at *13.

5. *Barclays Capital Inc. v. Theflyonthewall.com, Inc.*, 650 F.3d 876 (2d Cir. 2011); *Montz v. Pilgrim Films & Television, Inc.*, 649 F.3d 975 (9th Cir. 2011) (en banc)

¶11 The federal copyright statute prohibits some types of copying of information and allows others. Some state laws likewise prohibit copying of information. To what extent does federal law preempt state law? The defendant in *Theflyonthewall.com* collected investment recommendations made by major financial institutions and published the information before the financial institutions themselves made it public. The recommendations were not protected under federal copyright law (being ideas, not creative expression), but could they be protected under state law? Federal copyright law allows copying of facts, non-original expression, and other non-copyrightable elements. The New York state tort of misappropriation, however, imposes liability for copying some valuable information, in order to protect those who invest to produce valuable information. *Theflyonthewall.com* addresses the “ghostly presence” of *International News Service v. Associated Press*, under which misappropriation of “hot news” might supply a cause of action.¹⁶

¶12 In *Theflyonthewall.com*, the Second Circuit held that the “hot news” misappropriation tort might still survive where it is sufficiently different from the federal copyright law. But the tort would be very narrow. It would only apply where the free-riding allowed the defendant to produce a product in direct competition with the plaintiff at lower cost. But the plaintiffs here were financial institutions, making the recommendations as part of a broader business providing financial services. They were not in *direct* competition with the seller of investment tips, nor would their entire business be at risk if the recommendations were prematurely made public. Under *Theflyonthewall.com*, it will be difficult to impose liability simply for copying information, as opposed to using improper means to obtain information, which will still render liability under such theories as trade secret misappropriation or breach of contractual promises not to disclose information.

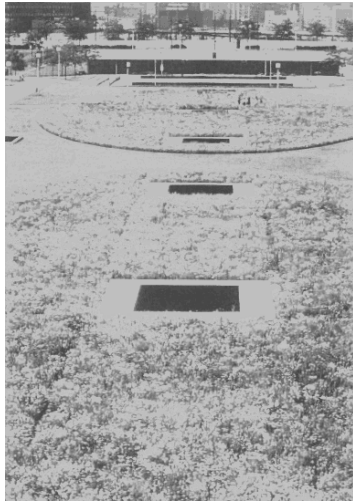
¶13 By contrast, *Pilgrim Films* affirmed the viability of another theory of liability for copying non-copyrightable ideas. Copyright would not protect the “idea for a television show that would follow a team of paranormal investigators conducting field investigations.”¹⁷ But, under California law, where a writer discloses a script idea to a producer, there may be an implied contract that the writer will be compensated if the idea is used. So NBC and others could be liable, if it were proved that they used the proffered idea for their reality series, *Ghost Hunters*. *Pilgrim Films* held that copyright did not preempt the state law claim because it had an “an added element: an agreement to pay for use of the disclosed ideas.”¹⁸

¹⁶ 248 U.S. 215 (1918).

¹⁷ *Pilgrim Films*, 649 F.3d at 977.

¹⁸ *Id.* at 980.

6. *Kelley v. Chicago Park District*, 635 F.3d 290 (7th Cir. 2011)



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¶14 Copyright applies only to the works of humans, not the work of nature or of animals (such as a video made by a camera-stealing seagull or photos triggered by macaques monkeying with a camera). Copyright protection also requires that the work be fixed in tangible form. The fixation requirement is easily met for most works. Fixation is part of the process when a book is written, when a painting is painted, or when a photo is captured on film or on a charge-coupled device. But some works are more ephemeral. *Kelley* held that a “permanent Wild Flower Floral Display” was not copyrighted.²⁰ The court, faintly echoing Chauncey Gardiner, held that the work was neither a work of human authorship nor fixed in tangible form:

A garden's constituent elements are alive and inherently changeable, not fixed. Most of what we see and experience in a garden—the colors, shapes, textures, and scents of the plants—originates in nature, not in the mind of the gardener. At any given moment in time, a garden owes most of its form and appearance to natural forces, though the gardener who plants and tends it obviously assists.²¹

¶15 The case has potential applications in several directions. As the court noted, experts acknowledged that the garden was a work of art. So, especially with nontraditional forms of art, there may increasingly be cases where art is not copyrighted. Fleetingness may be part of the art. The holding that the garden was not a work of human authorship also has potential application in much more technical spheres. We are living in a sort of pancopticon. Increasingly, everything that happens is captured by cameras or other devices.

¹⁹ *Kelley*, 635 F.3d at 293.

²⁰ *Id.* at 292 (internal quotation marks omitted).

²¹ *Id.* at 304.

7. *Innovation Ventures, LLC v. N2G Distributing, Inc.*, 779 F. Supp. 2d 671 (E.D. Mich. 2011); *Nova Design Build, Inc. v. Grace Hotels, LLC*, 652 F.3d 814 (7th Cir. 2011)

¶16 *Innovation Ventures* held it was copyright infringement for a maker of energy drinks to copy the following warning from a competitor's bottle: "Contains about as much caffeine as a cup of coffee. Limit caffeine products to avoid nervousness, sleeplessness, and occasionally rapid heartbeat. You may experience a Niacin Flush (hot feeling, skin redness) that lasts a few minutes. This is caused by Niacin (Vitamin B3) increasing blood flow near the skin."²²

¶17 To qualify for copyright, a work need only reflect a "minimal creative spark."²³ The court held the warning met this standard: "Because the medical caution statements appearing on the energy shots have appreciable differences, and stylistic flourishes may be inserted in the statement, the medical caution label has the minimum level of originality necessary to warrant copyright protection as a matter of law."²⁴ Under such a case, many an email, tweet, or Amazon review will be copyrighted.

¶18 By contrast, *Nova Design* held that insufficient creativity was shown. *Nova Design* held that the architectural work in that case, a design for Holiday Inn Express, did not meet that low standard. The plaintiff took an existing design and added "an extra floor, a larger meeting area, different closet and door placements in the rooms, and different pool, exercise, and laundry areas."²⁵ Those additional features had been requested by the defendant. Merely adding them to an existing design did not qualify for copyright.²⁶

¶19 One could imagine both of those cases decided the other way. The standard for being copyrightable material is hardly clear, and courts may differ on what will be considered to show a minimal spark of creativity.

8. *UMG Recordings, Inc. v. Augusto*, 628 F.3d 1175 (9th Cir. 2011)



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¶20 The copyright holder has the exclusive right to distribute copies of the work to the public. Only Disney can sell or lease copies of *The Lion King*. But the first sale doctrine provides an exception. Someone that owns a lawful copy of *The Lion King* can sell that

²² See *5 Hour Energy 24 Pk Berry Flavor 24/2 oz Shots*, MED ON THE NET, <http://www.medonthenet.com/5-hour-energy-24-pk.html> (last visited Feb. 12, 2012).

²³ *Feist Publ'ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340, 363 (1991).

²⁴ *Innovation*, 779 F. Supp. 2d at 678 (internal quotation marks omitted).

²⁵ *Nova Design*, 652 F.3d at 818.

²⁶ *Id.*

²⁷ John Tenniel, *Alice*, in LEWIS CARROLL, *ALICE'S ADVENTURES IN WONDERLAND* (1st ed. 1865).

particular copy. Likewise, first sale allows the sale of used books (and allows libraries to lend out the copyrighted books they own), allows Netflix to rent out copies of *The Lion King*, and allows a collector to sell a copyrighted painting she bought. If you own that lawful copy, you can sell it, give it away, or rent it.

¶21 Copyright holders, in order to maintain control over copies, often seek to make the first sale doctrine inapplicable, by transferring copies without transferring ownership. Software is often transferred under a license. The customer agrees that she gets possession of the copy, and a license to use it, but not ownership of that copy. Although sales law might treat that transaction as a transfer of ownership (the substance of the transaction being “give me the money and you can keep the software”), recent cases have given effect to the terms of service’s characterization of the transaction.

¶22 Another question is whether the copyright holder can unilaterally characterize the transfer. In *Augusto*, a music company mailed promotional CDs of copyrighted music, along with the legend:

This CD is the property of the record company and is licensed to the intended recipient for personal use only. Acceptance of this CD shall constitute an agreement to comply with the terms of the license. Resale or transfer of possession is not allowed and may be punishable under federal and state laws.²⁸

There was no provision for response by the recipient, such as clicking to agree to the terms of use. The court held that, notwithstanding the legend, the recipients were owners of the copies. They had not agreed to the terms and so were not bound. Accordingly, they were not liable for copyright infringement when they sold them on eBay.²⁹

¶23 That modest ruling has a broad application. It means that copyright holders cannot unilaterally characterize the nature of a transfer of property, such as by the labels on the promotional CDs. Rather, in order to make the terms effective, there must be a mechanism to obtain, at least indirectly, the agreement of the other party to the claimed terms, including the characterization of the transaction as a license, prior to giving that party authorization to use the licensed property—for example, through the use of a click-wrap license, where the user must check a box agreeing to the license terms.. One-sided claims are much less likely to be enforced.

9. *Oracle USA, Inc. v. SAP AG*, No. C 07-1658 PJH, 2011 WL 3862074 (N.D. Cal. Sept. 1, 2011); *Sony BMG Music Entertainment v. Tenenbaum*, 660 F.3d 487 (1st. Cir. 2011)

¶24 Lost royalties are more often a measure of damages in patent cases than copyright cases. *Oracle* provides guidance on how courts may address the issue in copyright. A jury awarded Oracle some \$1.3 billion as damages for copyright infringement. The trial court, however, overturned the damages award. The court reasoned that Oracle had not presented sufficient evidence on which to calculate the lost licensing revenue. Oracle was entitled to whatever licensing fee the parties would have agreed to in a hypothetical transaction but “offered no evidence of the type on which plaintiffs ordinarily rely to

²⁸ *Augusto*, 628 F.3d at 1177–78.

²⁹ *Id.* at 1182.

prove that they would have entered into such a license, such as past licensing history or a plaintiff's previous licensing practices.”³⁰ Oracle did not show “actual use of the copyrighted works, and objectively verifiable number of customers lost as a result.”³¹ Nor did Oracle show another basis for calculation, such as licensing practices by other companies in the industry. *Oracle* provides guidance for future litigants, by showing the sort of evidence that will support a damages verdict.³²

¶25 *Sony* also involved a rejection of a damages award. The jury had awarded \$675,000 in statutory damages (\$22,500 per song) against the defendant for downloading and distributing thirty songs online. The trial court reduced the award to \$67,500 (a mere \$2,250 per song) on the grounds that the jury award was so excessive as to offend due process. The appellate court did not reject that reasoning. Rather, it held that before reducing a jury award as unconstitutional, the trial court should have fully considered the application of common law remittitur.

10. *Marvel Worldwide, Inc. v. Kirby*, 777 F. Supp. 2d 720 (S.D.N.Y. 2011)

¶26 Termageddon is nigh. When revising the copyright statute in 1976, Congress provided for a new right of termination. If an author had made any grant of rights in her copyright, she could terminate it after 35 years. So if an author sold the copyright to her book, sold the movie rights to her short story, or signed over the publishing rights to her song, she could get it back after 35 years. The theory was to protect artists, who are likely to be less business savvy and more in need than the parties that buy rights. The new termination provision applied only prospectively, to grants in works that went into copyright after 1976. Termination rights arise after 35 years, so the first terminations will take effect in 2013, which is soon upon us. Holders of works from 1978 and on will soon face a possible wave of terminations each year. Music companies in particular must address the issue, because many works from around 1978 are commercially significant.

¶27 Termination rights do not apply to works made for hire. In addition, if the grant was made by joint authors, a majority of the grantors must join in the termination. So an issue in many cases will be whether the work was an individual work (where termination applies), joint work (multiple grantors must join), or work made for hire (termination not applicable). This may require resolving questions of fact based on works created in 1978. A work made for hire is one made by an employee, as opposed to a freelancer. In making this distinction, the court must look to multiple factors. So courts may be asked to determine the precise working arrangement of rock bands working in the 1970s, where the memories of key witnesses are likely to be affected by narcissism, narcotics, or necromancy (especially in the case of drummers, per Spinal Tap).³³

³⁰ *Oracle*, 2011 WL 3862074, at *7.

³¹ *Id.* at *11.

³² See also *Mirror Worlds, LLC v. Apple, Inc.*, 784 F. Supp. 2d 703 (E.D. Tex. 2011) (overturning \$208.5 million jury award against Apple for patent infringement, on ground that evidence did not support the verdict).

³³ Where an artist succeeds in gaining back the copyright in musical work and the sound recording, there may be an obstacle to exploiting it. The music company will still own the master recording. See Mike Madison, *Termination Rights and Master Recordings*, MADISONIAN.NET (Aug. 18, 2011), <http://madisonian.net/2011/08/18/termination-rights-and-master-recordings/> (suggesting the possible applicability of “an implied easement of necessity”) (internal quotation marks omitted).

¶28 These many possible “work-made-for-hire” disputes are prefigured by *Marvel Worldwide*. The case involved another right of termination introduced by the 1976 revision. The Act added 19 years to the copyrights in pre-1978 works, lengthening the total term from 56 to 75 years. The author of such a work, even if she had transferred interest in the copyright, could get the benefit of the extra 20 years by terminating the transfer. As with the other termination right, it does not apply to works made for hire. Jack Kirby sought to regain the copyrights in works created around 1960, such as the X-Men, the Avengers, Iron Man, and the Incredible Hulk. The court held, however, that the works were works made for hire, and so there was no termination right.³⁴

¶29 The test for whether a work is made for hire is different for works governed by the 1909 and 1976 Act. The former asks, at least in the Second Circuit, only if it was created at the instance and expense of the hiring party, whereas the test for more recent works uses a multi-factor test drawn from agency law. But the case gives a nice example of how large commercial and artistic stakes may turn on the details of working arrangements long in the past.

11. *Apple Inc. v. Psystar Corp.*, 658 F.3d 1150 (9th Cir. 2011)

¶30 Apples come in many varieties, Yeovil Sour to Peasgood's Nonsuch, but not Apple. Apple's software licenses do not allow the usage of Snow Leopard on non-Apple computers. Psystar builds and sells computers that run Apple's software for Macs. Psystar bought a copy of the Mac operating system, Mac OS X Snow Leopard. Psystar then added a bootloader and kernel extension, so the software would run on non-Apple computers. Psystar then loaded the adapted Snow Leopard on the computers built by Psystar and sold them as Open Computers (OpenMacs, until Apple objected on trademark grounds). With each computer, Psystar included an unopened copy of Snow Leopard, purchased from Apple.³⁵ Apple sued for copyright infringement, because Psystar made copies of Snow Leopard, adapted it, and distributed copies to the public. Even though Psystar purchased a copy of Snow Leopard for each computer it sold, its actions violate the Snow Leopard license, which limits the use of Snow Leopard to Apple computers. Psystar raised the defense of copyright misuse, arguing that Apple cannot hinder competitors by limiting the use of copies it has sold.³⁶ The court held that Apple had not misused its copyright. The court first held that Apple had not sold copies of Snow Leopard, but had merely licensed them, so its license terms were valid restrictions. The court next concluded that, unlike the cases where misuse had been applied, Apple did not attempt to “stifle” competition:

Apple's SLA does not restrict [a] competitor's ability to develop their own software, nor does it preclude customers from using non-Apple components with Apple computers. Instead, Apple's SLA merely restricts the use of Apple's own software to its own hardware. . . . Psystar produces its own computer hardware and it is free to develop its own computer software.³⁷

³⁴ *Marvel Worldwide*, 777 F. Supp. 2d at 750.

³⁵ *Psystar*, 658 F.3d at 1153–54.

³⁶ *Id.* at 1154.

³⁷ *Id.* at 1160.

¶31 The court's analysis seemed to consider other factors: Apple might have valid reasons to seek to control the quality of computers using Apple's software, and Apple does not have market power in the market for personal computers. Along with the first sale cases involving software licenses, *Psystar* gives considerable leeway to copyright holders in placing restrictions on the use of their works, provided that buyers agree to those restrictions.

II. TRADE SECRET

¶32 Trade secret cases reflected its interplay with patent law. An inventor may patent an invention, requiring publication of the information, or keep it a trade secret, requiring prevention of publication. That boundary, cases show, is porous. The cases also reflect the increasing international flow of goods and information.

1. *TianRui Group Co. v. International Trade Commission*, 661 F.3d 1322 (Fed. Cir. 2011)



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¶33 *TianRui* may have the effect of extending the reach of trade secret law internationally. If someone uses information outside the United States, that will not violate trade secret law in the United States. But, under *TianRui*, the trade secret holder may be able to block importation of goods made using the trade secret. The International Trade Commission (ITC) has authority over “[u]nfair methods of competition and unfair acts in the importation of articles . . . into the United States.”³⁹ *TianRui* interpreted the provision to mean that the “Commission has authority to investigate and grant relief based in part on extraterritorial conduct insofar as it is necessary to protect domestic industries from injuries arising out of unfair competition in the domestic marketplace.”⁴⁰ In short, the ITC may block importation of goods produced using the trade secrets of a domestic business, even if the misappropriation and use of the trade secret occurred outside the United States.

³⁸ *Listening Before Radar*, RETRONAUT, (July 17, 2011), <http://www.retronaut.co/2011/07/listening-before-radar/>.

³⁹ 19 U.S.C. § 1337(a)(1)(A) (2006).

⁴⁰ *TianRui*, 661 F.3d at 1324.

2. *Taylor v. Babbitt*, 760 F. Supp. 2d 80 (D.D.C. 2011); *Watkins v. United States Bureau of Customs & Border Protection*, 643 F.3d 1189 (9th Cir. 2011)

¶34 Information loses its value as a trade secret if it becomes accessible to competitors. *Taylor v. Babbitt* showed that trade secret holders who have disclosed information to a government agency may be able to prevent its disclosure to the public, but only if timely action is taken to prevent disclosure. Parties subject to government regulation may have to submit valuable information to the government. If others seek that information through Freedom of Information Act requests, the government may withhold “trade secrets and commercial or financial information obtained from a person and privileged or confidential.”⁴¹ Where design specifications dating from the 1930s for the Fairchild F-45 airplane had been disclosed in decades past, however, the manufacturer was no longer able to prevent disclosure under the Freedom of Information Act. So an airplane enthusiast, who owned one of the few remaining Fairchild F-45s, was entitled to obtain its design specifications.⁴²

¶35 By contrast, in *Watkins*, a competitor was not entitled, under the Freedom of Information Act, to receive commercial information that a trademark owner disclosed to the customs bureau with respect to goods seized at ports of entry.⁴³

3. *PhoneDog v. Kravitz*, No. C 11-03474 MEJ, 2011 WL 5415612 (N.D. Cal. Nov. 11, 2011)

¶36 *PhoneDog* held that the password to a Twitter account, along with the list of followers, may be protected as trade secret. PhoneDog, an “interactive mobile news and reviews web resource,”⁴⁴ gave an employee a Twitter account, @PhoneDog_Noah, to use and maintain to promote PhoneDog’s services. When the employee left, PhoneDog asked that he relinquish use of the account. Instead, he allegedly changed the handle to @noahkravitz and continued to use it, to the detriment of PhoneDog’s business.⁴⁵ The *PhoneDog* court denied the former employee’s motion to dismiss, pending fuller development of the record to determine whether the account and list of followers qualified for trade secret protection (value from secrecy, protected by reasonable security measures) and whether retention of the account and the list of followers constituted misappropriation.⁴⁶

⁴¹ 5 U.S.C. § 552(b)(4) (2006).

⁴² *Taylor*, 760 F. Supp. 2d at 89–90.

⁴³ *Watkins*, 643 F.3d at 1196.

⁴⁴ *PhoneDog*, 2011 WL 5415612, at *1 (internal quotation marks omitted).

⁴⁵ *Id.*

⁴⁶ *Id.* at *7.

4. *Tewari De-Ox Systems, Inc. v. Mountain States/Rosen, L.L.C.*, 637 F.3d 604 (5th Cir. 2011)

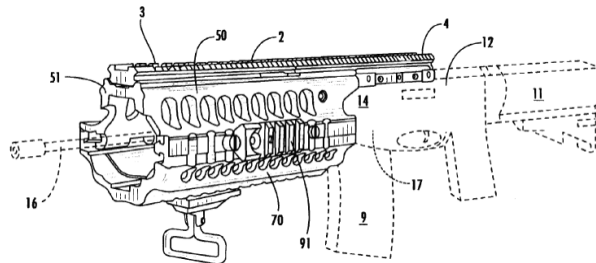


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An inventor must often choose whether to patent her invention, which requires disclosing it to the public, or try to keep it a trade secret, which carries the risk that the information may become public anyway with no patent protection for the inventor. *Tewari De-Ox Systems* shows that an inventor may have it both ways if two inventions are related. Tewari filed a patent application on a zero-oxygen meat-packing method. Tewari disclosed information about how to implement its patented method to a potential partner, subject to a non-disclosure agreement. The joint venture failed, but the other party used the information about how to implement the method from Tewari.⁴⁸ Tewari sued for trade secret misappropriation; the defendant argued that all the implementation information could be garnered from the published patent application for the method. The court held, however, that even if the individual elements were public information, the knowledge of how to combine those elements could remain a protected trade secret.⁴⁹

5. *Atlantic Research Marketing Systems, Inc. v. Troy*, 659 F.3d 1345 (Fed. Cir. 2011)



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Atlantic Research presented a logic problem reminiscent of Raymond Smullyan,⁵¹ with considerable practical implications for the overlap between patent and trade secret protection. Atlantic Research patented a free-floating handguard for military rifles, which allowed devices like laser targeting systems to be attached to the rifle without the hazards of direct attachment to the rifle barrel. Atlantic Research sued a former

⁴⁷ Photograph of a two-car Stock Yards train led by South Side Elevated car 157 passing over livestock pens near Exchange station in 1911, CHICAGO "L".ORG, <http://www.chicago-l.org/operations/lines/stockyards.html> (last visited Feb. 26, 2012).

⁴⁸ *Tewari*, 637 F.3d at 607.

⁴⁹ *Id.* at 615.

⁵⁰ U.S. Reissued Patent No. 39,465 (Feb. 1, 2002).

⁵¹ See, e.g., RAYMOND SMULLYAN, WHAT IS THE NAME OF THIS BOOK?: THE RIDDLE OF DRACULA AND OTHER LOGICAL PUZZLES (1978).

employee for selling a competing rifle, which featured a free-floating handguard with a single clamp.⁵² Atlantic Research claimed both patent infringement, on the theory that the single clamp handguard fell within the scope of its patent, and trade secret misappropriation, on the theory that the single clamp handguard was a trade secret subject to the employee's nondisclosure agreement. In short, Atlantic Research contended both that it had published the single clamp invention and that it had maintained the single clamp invention as a trade secret. The defendant made symmetrically inconsistent arguments that the patent had disclosed the single clamp invention and that the patent failed to sufficiently disclose the single clamp invention. As the court wryly put it, "These conflicting positions left little room for either party to prevail on both claims."⁵³ The court held that the invention was not sufficiently disclosed to be covered by the patent but, by the same token, could qualify as a trade secret.⁵⁴ The practical impact of the case is that it supports the use of both patent and trade secret protection for related technology.

6. *Pacesetter Inc. v. Nervicon Co.*, BC424443, 2011 WL 2714864 (Cal. Super. Ct. Apr. 22, 2011)



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This case provides an instructive example of jury dynamics. A sympathetic plaintiff (a division of St. Jude's Medical, Inc.) alleged that a former employee had misappropriated trade secrets (technical information on an implantable medical device) and set up another company in China to take advantage of the huge potential market there.⁵⁶ The defendants did not appear for trial.⁵⁷ The plaintiff sought some \$1.2 billion in damages comprising past, future, and punitive damages. The jury, however, reportedly

⁵² *Atlantic Research*, 659 F.3d at 1349.

⁵³ *Id.* at 1357.

⁵⁴ *Id.*

⁵⁵ Simone Martini, *Saint Jude Thaddeus* (ca. 1320).

⁵⁶ *Pacesetter*, 2011 WL 2714864.

⁵⁷ See Todd Sullivan, *St. Jude Medical Wins \$2.3 Billion Trade Secret Verdict—But Defendants Didn't Attend the Trial*, TRADE SECRETS BLOG (Apr. 25, 2011), <http://wombletradesecrets.blogspot.com/2011/04/st-jude-medical-wins-23-billion-trade.html>.

found the expert witness “a little too conservative” and awarded \$2.4 billion in damages.⁵⁸

7. *United States v. Nosal*, 642 F.3d 781 (9th Cir. 2011), *reh’g en banc granted*, 661 F.3d 1180 (9th Cir. 2011); *Grant Manufacturing & Alloying, Inc. v. McIlvain*, No. 10-1029, 2011 WL 4467767 (E.D. Pa. Sept. 23, 2011)

¶40 Most trade secret cases involve employees. To wring value from information, the business must disclose it to the employees. This knowledge is like tools that workers take home with them at night, unlike a typical factory worker. Johnny Cash sang of taking an entire car home from the factory, one piece at a time. A software engineer might fit a company’s entire product line on a flash drive.

¶41 Trade secret law provides state law protection to information, provided the plaintiff can show the information is subject to reasonable security measures and is valuable because it is not available to competitors. In recent years, the federal Computer Fraud and Abuse Act (CFAA) has become an alternative theory for employers seeking to protect “proprietary” information.⁵⁹ A CFAA claim can cover more fact patterns than trade secret law. The CFAA requires that the defendant have accessed a computer⁶⁰ without authority, causing damage. The requirement that the defendant used without authority covers hackers but, broadly interpreted, also covers employees using their work computers in a manner not permitted by the employer. So the CFAA can be read (courts have varied) to cover use of computers in a manner contrary to the employer’s interest. Needless to say, computer use is standard in almost every workplace today.⁶¹ In *Nosal*, employees accessed data on the corporate network, ignoring a prominent warning that employee use and disclosure of information on the network was restricted. It sufficed to uphold criminal violations of the CFAA as use that “exceeds authorized access.”⁶² The Ninth Circuit has granted rehearing en banc in the case, so its interpretation of the statute may change.

¶42 In *Grant Manufacturing*, by contrast, an employee that changed customer records before leaving the company did not make illegal unauthorized access. Even if the damage breached the employee’s duties, his access was not unauthorized for purposes of CFAA liability.⁶³ A key difference was that Grant Manufacturing did not have the kind of clear policies and notices the company did in *Nosal*. So, employers appear to have considerable legal protection, provided that computer usage policies are in place.

⁵⁸ *Id.* (internal quotation mark omitted).

⁵⁹ 18 U.S.C. § 1030 (2006).

⁶⁰ The class of protected computers is broad, including cell phones, so the reach of the CFAA is very broad. See *United States v. Kramer*, 631 F.3d 900 (8th Cir. 2011). Researchers are developing location-based technology to prevent cell phones from transporting proprietary data. See Sean Gallagher, *Researchers Lock Down Android To Keep Data from Walking out the Door*, ARS TECHNICA (Oct. 17, 2011, 4:55 PM), <http://arstechnica.com/business/news/2011/10/researchers-lock-down-android-to-keep-data-from-walking-out-the-door.ars>.

⁶¹ See generally Orin S. Kerr, *Vagueness Challenges to the Computer Fraud and Abuse Act*, 94 MINN.L. REV. 1561(2010).

⁶² *Nosal*, 642 F.3d at 788–89.

⁶³ *Grant Mfg.*, 2011 WL 4467767, at *8.

8. *Mobile Mark, Inc. v. Pakosz*, No. 11 C 2983, 2011 WL 3898032 (N.D. Ill. Sept. 6, 2011); *Animators at Law, Inc. v. Capital Legal Solutions, LLC*, 786 F. Supp. 2d 1114 (E.D. Va. 2011)



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¶43 There is CFAA liability only if there are sufficient damages. But the range of damages may be construed broadly. *Mobile Mark* held that the costs of investigating the unauthorized access to data, along with business losses such as lost sales opportunities, would meet the damages requirement.⁶⁵ *Animators at Law* likewise held that the damages requirement could be met by fees paid for an analysis of a laptop computer to see whether confidential files had been accessed after an employee took and used the laptop after leaving the firm.⁶⁶

9. *SyncSort Inc. v. Innovative Routines, International, Inc.*, Civ. No. 04-3623 (WHW), 2011 WL 3651331 (D.N.J. Aug. 18, 2011)

*****This video is not available due to a trade secret claim by [redacted].*****

¶44 Can a SyncSort UNIX command language remain a trade secret if its Reference Guide has been posted on an open web site? Yes, if it is taken down quickly enough, so that it does not become readily available to competitors.⁶⁷

10. *Litigation Management, Inc. v. Bourgeois*, No. 95730, 2011 WL 2270553 (Ohio Ct. App. June 9, 2011)

¶45 Courts are becoming slightly more reluctant to grant injunctions in intellectual property cases after the Supreme Court's decision in *eBay, Inc. v. MercExchange, L.L.C.*⁶⁸ *Litigation Management*, however, reversed the trial court's denial of an injunction. The appellate court held an injunction appropriate in order for the plaintiff to recover the "kick-start" advantage a competitor gained by using the plaintiff's former employees, in violation of agreements of confidentiality and agreements not to

⁶⁴ *Miniature Pigeon Cameras, 1903*, RETRONAUT (Sept. 15, 2011), <http://www.retronaut.co/2011/09/dr-neubronners-miniature-pigeon-camera-1903/>.

⁶⁵ *Mobile Mark*, 2011 WL 3898032, at *3.

⁶⁶ *Animators at Law*, 786 F. Supp. 2d at 1118.

⁶⁷ *Syncsort*, 2011 WL 3651331, at *15. *SyncSort* relied on another brief posting case, *Silicon Image, Inc. v. Analogix Semiconductor, Inc.*, No. C-07-00635 JCS, 2008 WL 166950 (N.D. Cal. Jan. 17, 2008).

⁶⁸ 547 U.S. 388 (2006).

compete.⁶⁹ Monetary damages, the court held, would be too difficult to assess and may not adequately make the plaintiff whole.

11. *Seng-Tiong Ho v. Taflove*, 648 F.3d 489 (7th Cir. 2011)

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Seng-Tiong Ho v. Taflove illustrates that in trade secret, as in patent, scientists often do not have a legal claim for behavior that might violate academic principles. A physicist alleged that a colleague and a former graduate student of the plaintiff physicist misappropriated valuable information, namely a “4-level 2-electron atomic model with Pauli Exclusion Principle for simulating the dynamics of active media in a photonic device.”⁷⁰ The trade secret claim did not succeed because the information was not secret, having been published in a conference proceeding and a master’s thesis.⁷¹ The plaintiff argued that misappropriation was applicable because the defendants did not give proper attribution for the idea. Lack of attribution may constitute plagiarism or violate scientific ethics. Publicly available information, however, is not a trade secret, even if the defendant inaccurately claims to have originated the information.⁷²

⁶⁹ *Litig. Mgmt.*, 2011 WL 2270553, at *7. *See also* Aspect Software, Inc. v. Barnett, 787 F. Supp. 2d 118 (D. Mass. 2011) (granting injunction where employee joined competitor in breach of covenant not to compete, despite new employer’s good faith efforts to protect integrity of trade secret information); *Int’l Bus. Machs. Corp. v. Visentin*, No. 11 Civ. 399 (LAP), 2011 WL 672025 (S.D.N.Y. Feb. 16, 2011), *aff’d*, 437 F. App’x 53 (2d Cir. 2011) (deciding not to subject Hewlett Packard to injunction under inevitable disclosure doctrine where it took steps to keep employee from working in areas he covered previously at IBM).

⁷⁰ *Seng-Tiong Ho*, 648 F.3d at 493 (internal quotation mark omitted).

⁷¹ *Id.* at 495.

⁷² *Id.* at 504–05.

