

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### University of California, Hastings College of the Law

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Syllabus, Spring 2013 – Mondays, 4:40-6:50 p.m., Classroom C

Please review the weekly handout and readings before each class. All course readings are available on Westlaw and/or Google Scholar. There are no books to purchase. The weekly handouts – attached below – will note what to focus on within each assigned case reading.

<b>Week One:</b> Definitions of trade secrecy; types of trade secrets; the Uniform Trade Secrets Act; ownership	California Civil Code § 3426.1; <i>Aetna Bldg. Maint. Co. v. West</i> , 39 Cal.2d 198 (1952); <i>Morlife, Inc. v. Perry</i> , 56 Cal. App. 4th 1514 (1997); <i>LinkCo, Inc. v. Fujitsu Ltd.</i> , 230 F. Supp. 2d 492 (S.D.N.Y. 2002).
<b>Week Two:</b> Contrast and comparison with patent and copyright; Supremacy Clause preemption; copyright preemption	U.S. Constitution, Supremacy Clause (Article 1, § 8, cl. 8); <i>Kewanee Oil Co. v. Bicron Corp.</i> , 416 U.S. 470 (1974); <i>Bonito Boats, Inc. v. Thunder Craft Boats, Inc.</i> , 489 U.S. 141 (1989); <i>Sammons &amp; Sons v. Ladd-Fab, Inc.</i> , 138 Cal. App. 3d 306 (1982).
<b>Week Three:</b> Copyright preemption continued; misappropriation; combination trade secrets; negative knowledge and modification	17 U.S.C. § 301(a); <i>AtPac, Inc. v. Aptitude Solutions, Inc.</i> , 787 F. Supp. 2d 1108 (E.D. Cal. 2011); Cal. Civil Code § 3426.1; <i>Mike's Train House, Inc. v. Lionel, LLC</i> , 472 F.3d 398 (6th Cir. 2006); <i>Thermodyne Food Serv. Prod., Inc. v. McDonald's Corp.</i> , 940 F. Supp. 1300 (N.D. Ill. 1996).
<b>Week Four:</b> Defenses to misappropriation; reverse engineering; the public domain; independent derivation; reasonable measures	Cal. Civ. Code § 3426.1(a); <i>Chicago Lock Co. v. Fanberg</i> , 676 F.2d 400 (9th Cir. 1982); <i>Copy Control Ass'n., Inc. v. Bunner</i> , 116 Cal. App. 4th 241 (2004); <i>Silvaco Data Sys. v. Intel Corp.</i> , 184 Cal. App. 4th 210 (2010); <i>Rigging Int'l Maint. Co. v. Gwin</i> , 128 Cal. App. 3d 594 (1982).
<b>Week Five:</b> Remedies; apportionment; injunctive relief; head starts; temporary relief; bad faith	Cal. Civil Code §§ 3426.2, 3426.3, 3426.4; <i>Morlife, Inc. v. Perry</i> , 56 Cal. App. 4th 1514 (1997); <i>Winston Research Corp. v. Minnesota Mining and Mfg. Corp.</i> , 350 F.2d 134 (9th Cir. 1965); <i>FLIR Systems, Inc. v. Parrish</i> , 174 Cal. App. 4th 1270 (2009).

<p><b>Week Six:</b> Non-competition and non-solicitation covenants; public policy concerns</p>	<p>Cal. Bus. &amp; Prof. Code § 16600-02; <i>Application Group v. Hunter Group, Inc.</i>, 61 Cal. App. 4th 881 (1998); <i>Edwards v. Arthur Andersen LLP</i>, 44 Cal.4th 937 (2008); <i>UZ Engineered Products Co. v. Midwest Motor Supply Co., Inc.</i>, 770 N.E.2d 1068 (Ohio Ct. App. 2001); <i>Payroll Advance, Inc. v. Yates</i>, 270 S.W.3d 428 (Mo. Ct. App. 2008); Gilson, <i>The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants not to Compete</i>, 74 N.Y.U. L. REV. 575 (1999).</p>
<p><b>Week Seven:</b> Employee mobility; inevitable disclosure; hiring from competitors</p>	<p><i>Reeves v. Hanlon</i>, 33 Cal. 4th 1140 (2004); <i>Metro Traffic Control, Inc. v. Shadow Traffic Network</i>, 22 Cal. App. 4th 853, (1994); <i>Whyte v. Schlage Lock Co</i>, 101 Cal. App. 4th 1443 (2002); <i>PepsiCo, Inc. v. Redmond</i>, 54 F.3d 1262 (7th Cir. 1995).</p> <p><u>Optional:</u> <i>Bimbo Bakeries USA, Inc. v. Botticella</i>, 613 F.3d 102 (3rd Cir. 2010).</p>
<p><b>Week Eight:</b> Invention assignment agreements; holdover clauses</p> <p>[OPTIONAL: Take-home practice exam question]</p>	<p>Cal. Labor Code §§ 2870-71; <i>Cubic Corp v. Marty</i>, 185 Cal. App. 3d 438 (1986); <i>Iconix v. Tokuda</i>, 457 F. Supp. 2d 969 (N.D. Cal. 2006); <i>Mattel, Inc. v. MGA Entertainment, Inc.</i>, 616 F.3d 904 (9th Cir. 2010); <i>Applied Materials, Inc. v. Advanced Micro-Fab. Equip. (Shanghai) Co.</i>, 630 F. Supp. 2d 1084 (N.D. Cal. 2009).</p>
<p><b>Week Nine:</b> Fiduciary duty, preparing to compete; Silicon Valley examples</p>	<p><i>Bancroft-Whitney Co. v. Glen</i>, 64 Cal. 2d 327 (1964); <i>Iconix v. Tokuda</i>, 457 F. Supp. 2d 969 (N.D. Cal. 2006); <i>Midwest Janitorial Supply Corp. v. Greenwood</i>, 629 N.W.2d 371 (Iowa 2001); <i>PFS Dist. Co. v. Raduchel</i>, 332 F. Supp. 2d 1236 (S.D. Iowa 2004).</p>
<p><b>Week Ten:</b> The work for hire doctrine in the employment context</p>	<p>17 U.S.C. § 101 (definition of “work made for hire”), 201(b); <i>Community for Creative Non-Violence v. Reid</i>, 490 U.S. 730 (1989); <i>U.S. Auto Parts Network, Inc.</i> _ F.3d _ (9th Cir. 2012); <i>Genzmer v. Public Health Trust of Miami-Dade County</i>, 219 F. Supp. 2d 1275 (S.D. Fla. 2002); <i>PFS Dist. Co. v. Raduchel</i>, 332 F. Supp. 2d 1236 (S.D. Iowa 2004).</p>

<p><b>Week Eleven:</b> Economic Espionage Act; Computer Fraud and Abuse Act</p>	<p>18 U.S.C. §§ 1831-32, 1839; <i>United States v. Chung</i>, 659 F.3d 815 (9th Cir. 2011); 18 U.S.C. § 1030(a)(4-5), (g); <i>International Airport Centers, LLC v. Citrin</i>, 440 F.3d 418 (7th Cir. 2006); <i>United States v. Nosal</i>, 676 F.3d 854 (9th Cir. 2012).</p>
<p><b>Week Twelve:</b> Current issues in trade secret law, part one – identification of claims</p>	<p>Cal. Civ. Proc. Code § 2019.210; <i>Perlan Therapeutics, Inc. v. Superior Court</i>, 178 Cal. App. 4th 1333 (2009); <i>Brescia v. Angelin</i>, 172 Cal. App. 4th 133 (2009); <i>American Can Co. v. Mansukhani</i>, 742 F.2d 314 (7th Cir. 1984); <i>E.W. Bliss Co. v. Struthers-Dunn, Inc.</i>, 408 F.2d 1108 (8th Cir. 1969).</p>
<p><b>Week Thirteen:</b> Current issues in trade secret law, part two – UTSA preemption</p> <p><u>Time permitting:</u> Trade secrets and the First Amendment.</p> <p><b>Concluding remarks and review for final exam</b></p>	<p>Cal. Civil Code § 3426.7; <i>Silvaco Data Sys. v. Intel Corp.</i>, 184 Cal. App. 4th 210 (2010); <i>BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.</i>, 235 P.3d 310 (Haw. 2010); <i>Burbank Grease Serv., LLC v. Sokolowski</i>, 717 N.W.2d 781 (Wisc. 2006).</p>

### Additional Reading

There are a number of law review articles focusing on topics we will cover during the semester. Some express points of view on issues of controversy, while others provide historical, theoretical, or other information that can help place particular topics in context. These readings are optional, but recommended. In addition, the treatise *Trade Secrets*, by James Pooley, is a good source for additional background information on all of the topics we will cover during the semester.

#### The History of Trade Secret Law

Catherine Fisk, *Working Knowledge: Trade Secrets, Restrictive Covenants in Employment, and the Rise of Corporate Intellectual Property, 1800-1920*, 52 HASTINGS LAW JOURNAL 441 (2001)

#### Policies Underlying Trade Secret Law

Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, 86 CALIFORNIA LAW REVIEW 241 (1998)

Charles T. Graves, *Trade Secrets as Property: Theory and Consequences*, 15 GEORGIA JOURNAL OF INTELLECTUAL PROPERTY LAW 39 (2007)

Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STANFORD LAW REVIEW 311 (2009)

Michael Risch, *Why Do We Have Trade Secrets?*, 11 MARQUETTE INTELLECTUAL PROPERTY LAW REVIEW 1 (2007)

Pamela Samuelson and Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 YALE LAW JOURNAL 1575 (2002)

#### Invention Assignment Agreements

Robert P. Merges, *The Law and Economics of Employee Inventions*, 13 HARVARD JOURNAL OF LAW & TECHNOLOGY 1 (1999)

#### The Economic Espionage Act

James H.A. Pooley, Mark A. Lemley, and Peter J. Toren, *Understanding the Economic Espionage Act of 1996*, 5 TEXAS INTELLECTUAL PROPERTY LAW JOURNAL 177 (1997)

#### The Computer Fraud and Abuse Act

Kyle W. Benton, *Trade Secret Law and the Computer Fraud and Abuse Act: Two Problems and Two Solutions*, 2009 UNIVERSITY OF ILLINOIS JOURNAL OF LAW, TECHNOLOGY, AND POLICY 429 (2009)

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week One

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### The Basic Structure of Trade Secret Law

#### **A. Overview:** What is a Trade Secret?

1. Formal definitions: Read California Civil Code section 3426.1(a), (b), (d).
  - (a) Secrecy
  - (b) Independent economic value
  - (c) Reasonable measures
  - (d) Ownership (or other interest sufficient for standing)
2. Practical definitions
3. Policy Background (Property vs. Confidence)

#### **B. An Early Landmark:** Read *Aetna Building Maintenance Co. v. West*, 39 Cal.2d 198 (1952)

Questions for Discussion: What kinds of trade secrets did the former employer claim to have? What was the basis for the employer's claim that the former employee had a duty not to use such trade secrets? How did the Supreme Court analyze these claims? How did it attempt to ascertain whether there was a secret? Did the California precedents the court relied on favor the employer, or the employee? What factors did the dissenting opinion rely on? Was the dissent more concerned about secrecy, or about relationships? Is the dissenting opinion more convincing, or less convincing?

#### **C. Another Basic Illustration:** Read *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514 (1997) (skip the section entitled "Relief" but read the concurring opinion at the end)

Questions for discussion: What was secret and why? What standard did the court apply to determine secrecy? What were the remedies? What could the defendants have done differently to lawfully develop a customer list? Is the concurring opinion more convincing, or less convincing?

#### **D. A Basic Technology Case/the Sale on the Open Market Rule:** Read *LinkCo, Inc. v. Fujitsu Ltd.*, 230 F. Supp. 2d 492 (S.D.N.Y. 2002) (focus only on Sections II ("Factual

Background”) and III.B (“Misappropriation of Trade Secret Claim”), and please note Footnote 5).

Questions for discussion: What did the plaintiff claim as a trade secret? What factors did the court consider in assessing secrecy? What is a combination trade secret? What kinds of software may be protectable as trade secrets? Why did the court rule that there was no trade secret?

## **E. Review and Summary**

# **Intellectual Property under State Law: Trade Secrets and Employee Mobility**

## **Spring 2013, Week Two**

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### **The Constitutional Structure of Trade Secret Law / The Public Domain**

#### **A. Comparing Trade Secrecy to Patent Rights**

1. Information encompassed
2. Temporal differences
3. Identification and publication
4. Potential defendants
5. Goals and policies
6. Uniformity

#### **B. The Supremacy Clause and Trade Secret Law**

1. Read Article 1, section 8, clause 8 of the U.S. Constitution (reprinted in the *Kewanee* case).
2. Read *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974).

**Questions for Discussion:** What is federal preemption in the intellectual property context? What is the test for Supremacy Clause preemption? What kind of trade secret case was *Kewanee*? Why was there a potential conflict between state trade secret law and the patent laws? How did the Supreme Court divide categories of information for its analysis? How many different arguments did the Court raise to rule against preemption? Which arguments were convincing? Were any unconvincing?

#### **C. The Public Domain – What is it?**

1. **Introduction and Policy Background**
2. **A Supreme Court Example:** Read *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989).
3. **A California Example:** *Sammons & Sons v. Ladd-Fab, Inc.*, 138 Cal. App. 3d 306 (1982).

**Questions for Discussion:** What kinds of state laws were at issue in *Bonito Boats* and *Sammons & Sons*? Why did the plaintiffs in both cases argue for protection of their information? Why did the respective courts find a conflict with the Supremacy Clause? What is the public domain? What was the public policy rationale underlying both decisions? How do you feel about the defendants' conduct in both cases? Is there no rationale for protecting one's published, unpatentable technology ideas, even after substantial costs and labor? What is the difference between the holdings in *Bonito Boats* and *Sammons & Sons* and the holding in *Kewanee*?

#### **D. Comparing Trade Secrecy to Copyright**

1. Information encompassed
2. Temporal differences
3. Registration (sometimes)
4. Potential defendants
5. Overlaps (software)

#### **E. Review and Summary**



## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013 Week Three

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### Copyright Preemption; Trade Secret Misappropriation

#### **A. Copyright Preemption**

1. Discussion of copyright vs. trade secrecy, continued
2. Read 17 U.S.C. § 301(a) (reprinted in the *Firoozye* case).
3. Read *AtPac, Inc. v. Aptitude Solutions, Inc.*, 787 F. Supp. 2d 1108 (E.D. Cal. 2011) (skip Section I – Read Sections II-III).

Questions for Discussion: What is copyright preemption? What is the test? Are trade secret claims preempted by the Copyright Act? What does this mean for trade secret cases where some of the information at issue is copyrighted?

#### **B. Trade Secret Misappropriation**

1. Introduction. Deliberate Theft. Lawful acquisition, subsequent misuse. Mistakes in judgment.
2. California's Definition: Read California Civil Code § 3426.1(b).

Questions for Discussion: What are all the ways in which a trade secret can be misappropriated under California law? Can there be a negligent misappropriation?

3. Additional Considerations. Memorized information. Vicarious liability? Downstream buyers.
4. Establishing Misappropriation can be Difficult: Read *Mike's Train House, Inc. v. Lionel, LLC*, 472 F.3d 398 (6th Cir. 2006) (focus on Section I ("Background") and III.A ("Expert Testimony")).

Questions for Discussion: What was the alleged misappropriation? How had the original defendants gained access to the information at issue? How did the expert witness try to find misappropriation in the model train design drawings? How did he err? How did the court rule in response? What kind of analysis might better indicate whether there had been trade secret misappropriation? How might similar problems affect the analysis of software code, computer chip designs, and other complex technology?

5. The Modification Rule: Read *Thermodyne Food Service Products, Inc. v. McDonald's Corp.*, 940 F. Supp. 1300 (N.D. Ill. 1996) (focus on Section I (“Background”), III.A., and III.A.3 (“Misappropriation”)).

Questions for Discussion: How did the defendants obtain the information at issue? What exactly did the plaintiffs claim as their trade secret? How can an “interrelationship” be a valuable secret? What was the defendants’ primary argument that they had not engaged in trade secret misappropriation? On what basis did the court reject that argument? Did the court articulate two tests for modification of a trade secret, or one? Do you agree with the holding? Would there be a misappropriation if the defendants’ final product were 80% different from the plaintiffs’ oven? What if it were 99% different?

6. Negative Knowledge: Definition. Difficulties with the concept.

### **C. Review and Summary**

# Intellectual Property under State Law: Trade Secrets and Employee Mobility

## Spring 2013, Week Four

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### Defenses to Misappropriation

#### **A. Introduction**

1. Read California Civil Code section 3426.1(a). What are the proper means to access a trade secret? Why does the law permit these exceptions?

#### **B. Reverse Engineering.**

1. Introduction

2. Read *Chicago Lock Co. v. Fanberg*, 676 F.2d 400 (9th Cir. 1982).

Questions for Discussion: What exactly is reverse engineering? What if it costs millions and requires difficult-to-obtain equipment to perform reverse engineering? What if the reverse engineer consults someone who works for the company which makes the product being disassembled? In *Chicago Lock*, what improper means did the plaintiff allege? What did the defendants do to discover the key codes? Did the court explain why reverse engineering is permissible? How did the court justify its holding?

#### **C. Independent Derivation**

1. Introduction

2. The Case of Pre-existing Knowledge. Read *Rigging International Maintenance Co. v. Gwin*, 128 Cal. App. 3d 594 (1982) (skim the background facts, and focus on the heading "Twist-lock Interlock System").

Questions for Discussion: If the interlock system could well have been a trade secret, why was the defendant not liable for using it? Would the result have been different if the defendant had assigned the system to the plaintiff when he worked for the plaintiff? What would happen if a person knows certain information before taking a job, but makes improvements to that information while on the job?

3. Other types of Independent Derivation

#### **D. Non-Secrecy.**

1. Introduction

2. A Memorable Illustration: Read *DVD Copy Control Association, Inc. v. Bunner*, 116 Cal. App. 4th 241 (2004).

Questions for Discussion: What information was alleged as a trade secret, and how had it been discovered and disseminated? What happened when the case was first in the trial court? How did the court distinguish this fact pattern from a more typical trade secret case? Would the result have differed if the defendant had been the one to first disclose the DeCSS code? What might be done to prevent the special issues posed by Internet postings of information that may be secret?

### **E. Knowledge, Acquisition, and Downstream Liability**

1. An Unusual Case: Read *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210 (2010) (read only “Background” and “I. Misappropriation of Trade Secrets,” sections A-C).

Questions for Discussion: Who were the defendants? What was the alleged trade secret? How were the defendants accused of engaging in misappropriation? How did the defendants argue that there was no misappropriation under the text of the UTSA? What is the policy result of the decision?

### **F. Absence of Reasonable Measures**

1. Introduction

2. The Case of Sales on the Open Market. (Think back to *LinkCo, Inc. v. Fujitsu Ltd.* from Week One).

Questions for Discussion: What if a product on the market discloses only some of its internal information?

### **G. Review and Summary**

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week Five

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### Remedies in Trade Secret Cases

#### **A. Introduction**

#### **B. Monetary Relief**

1. Read California Civil Code section 3426.3.
2. Actual Loss.
3. Unjust Enrichment. Read *Morlife, Inc. v. Perry*, 56 Cal. App. 4th 1514 (1997) (focus on the section entitled "Relief").

Questions for Discussion: What injury did the plaintiff suffer? What category of damages was awarded? How was the calculation made? Is the court's calculation reasonable? How might the same calculation principle apply in complex technology cases? What kind of injunction did the court issue?

4. Reasonable Royalty.
5. Exemplary Damages.

#### **C. Injunctive Relief**

1. Read California Civil Code section 3426.2.
2. Temporary Restraining Order.
3. Preliminary Injunction.
4. Impoundment and Return of Property.
5. Permanent Injunction.
6. The Head-Start Injunction and the Overbroad Injunction: Read *Winston Research Corp. v. Minnesota Mining and Mfg. Corp.*, 350 F.2d 134 (9th Cir. 1965) (focus on Section IV); California Civil Code section 3426.2(a).

Questions for Discussion: What is a head start injunction? What is the test for calculating the appropriate head start period? What can be a problem in the

wording of a trade secret injunction? What is the public policy concern with an overbroad trade secret injunction?

#### **D. Attorneys' Fees and Bad Faith**

1. Introduction. Read California Civil Code section 3426.4.
2. Fees and costs for the plaintiff.
3. Fees and costs for the defendant: Read *FLIR Systems, Inc. v. Parrish*, 174 Cal. App. 4th 1270 (2009).

Questions for Discussion: What is bad faith? What is the two-part test, and how is each element established? What were the problems with the plaintiff's claims and conduct in *FLIR Systems*?

#### **F. Review and Summary**

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week Six

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### Non-Competition and Non-Solicitation Covenants: California's Unusual Approach and the Public Policy Debate

#### **A. Introduction**

1. The non-competition covenant.
2. The two types of non-solicitation covenants.
3. The general rules elsewhere. Skim *UZ Engineered Products Co. v. Midwest Motor Supply Co., Inc.*, 770 N.E.2d 1068 (Ohio Ct. App. 2001) (skip everything starting with headnote 21). Skim *Payroll Advance, Inc. v. Yates*, 270 S.W.3d 428 (Mo. Ct. App. 2008) (stop reading at "Appellant's second point . . ." on page 436).

Questions for Discussion: How long were the restrictions in *UZ*? What is the general test for the enforceability of non-competition covenants in Ohio (a state with very typical rules)? What are the "legitimate interests" of the employer deemed to be? Is non-competition law merely a different category of trade secret law, with a different emphasis? On what basis did the court find the new employer's argument to be hypocritical? Should the court have instead paid more attention to the interests of the individual affected employees? Did you find the court's reasoning convincing, or unconvincing? Why?

As for *Payroll Advance*, is Missouri's test different from Ohio's test? Why is the result different from the result in *UZ*?

#### **B. California: The Great Exception**

1. Introduction. Read California Business & Professions Code section 16600; skim sections 16601 and 16602.
2. The latest word from the California Supreme Court. Read *Edwards v. Arthur Andersen LLP*, 44 Cal.4th 937 (2008) (focus on "Facts," read the "Procedural History" only for portions relating to section 16600, and focus on "Discussion" sections A and B).

Questions for Discussion: What exactly were the terms of the non-competition covenant in *Edwards*? Why did the employer argue that the covenant was lawful, despite California's section 16600? Why did the Supreme Court disagree? What does this decision tell us about the degree to which California differs from most other states?

3. The reach of section 16600: Read *Application Group, Inc. v. Hunter Group, Inc.*, 61 Cal. App. 4th 881 (1998) (Read the facts and procedural background, the introduction to Section II, and Section II.B. Don't worry about the choice of law discussion and focus instead on how the court described California's public policy under section 16600).

Questions for Discussion: Where were the plaintiff, the defendant, and the employees in question located? How do California and Maryland differ with respect to employee mobility rules? How did the court describe California's public policy in this area? What exactly was the basis for applying 16600 when a California company recruits an out-of-state employee for employment in California?

### **C. The Public Policy Debate**

1. Arguments in favor of non-competition covenants.
2. Arguments against non-competition covenants.

3. An interesting theory: Skim Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants not to Compete*, 74 N.Y.U. L. REV. 575 (1999) (Read the introduction, and skim Section III.A, B, and C.)

Questions for Discussion: If intellectual property rules in general are intended to promote innovation, does it logically follow that strong IP protection always leads to the most innovation? What, in a nutshell, is Gilson's theory about section 16600? Can you think of counter-arguments that might undermine his theory? If Gilson's theory were correct, can increasing the risk of trade secret misappropriation be justified by an appeal to regional economic growth? Where would you draw the line in balancing the interests of mobile employees, protecting innovative companies, and promoting regional economies?

### **D. Review and Summary**



## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week Seven

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### Employee Mobility, Continued; Inevitable Disclosure

#### **A. Employee Mobility**

1. The basic question, again: what information can a departing employee take and use at the next job?
2. The employer's perspective.
3. The departing employee's perspective.
4. The big picture: innovation policy, venture funding, start-up formation.
5. How employee mobility problems arise in Silicon Valley.

#### **B. Hiring from Competitors in California**

1. A colorful example: Read *Metro Traffic Control, Inc v. Shadow Traffic Network*, 22 Cal. App. 4th 853 (1994) (focus on "Factual Background" and "Merits of Metro's Claims").

Questions for Discussion: What was the plaintiff's theory in its effort to prevent its competitor from hiring its employees? What distinction did the court draw between personal characteristics or personal skill-sets and trade secrets?

2. The test for unlawful hiring: Read *Reeves v. Hanlon*, 33 Cal.4th 1140 (2004).

Questions for Discussion: When is it unlawful to hire from competitors in California? Did the court really give us a useful test? What did the defendants do wrong in this case?

#### **C. Inevitable Disclosure**

1. Introduction: Inevitable disclosure and threatened misappropriation
2. Read *Whyte v. Schlage Lock Co*, 101 Cal. App. 4th 1443 (2002) (focus on pages 1457-1464); and *PepsiCo, Inc. v. Redmond*, 54 F.3d 1262 (7th Cir. 1995). Also, think back to *FLIR Systems, Inc. v. Parrish* from Week 5.
3. For optional (but entertaining) reading, skim pages 104-09 of *Bimbo Bakeries USA, Inc. v. Botticella*, 613 F.3d 102 (3rd. Cir. 2010).

Questions for Discussion: What is “inevitable disclosure”? What public policy issues does it highlight? Why have some states accepted or rejected the theory? What is different about California’s employee mobility laws? What are the best arguments for and against the theory? What effect on innovation might adopting or rejecting “inevitable disclosure” have in a given jurisdiction?

#### **D. Review and Summary**

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week Eight

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### Invention Assignment Agreements; Holdover Clauses

#### **A. Invention Assignment Agreements**

1. Introduction. Ubiquity. Public policy background.
2. California's Statute: Read California Labor Code sections 2870-71.

Questions for Discussion: What are the three ways an employer can own an employee invention under Section 2870? What kind of disclosure can the employer require?

3. A well-known example: Read *Cubic Corporation v. Marty*, 185 Cal. App. 3d 438 (1986) (focus only on "Facts" and Sections V and VI).

Questions for Discussion: Why did the invention belong to the employer even though the employee created the manuscript for it on his own time? What evidence did the court cite to justify its holding? Do you agree with the result – why or why not?

4. A contemporary example: Read *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969 (N.D. Cal. 2006) (focus only on "Background," Section 1.b ("Breach of Contract"), and "Conclusion").

Questions for Discussion: Did the defendants comply with Labor Code section 2871? On what grounds did the court find, for purpose of the preliminary injunction, that the defendants breached the invention assignment contract?

4. A rare case that did not go in the employer's favor: Read *Mattel, Inc. v. MGA Entertainment, Inc.*, 616 F.3d 904 (9th Cir. 2010). Focus on Section I and II, but lightly skim Section III.

Questions for Discussion: What was the problem with the wording of the former employer's assignment agreement? What problem did the court find with the way the lower court awarded ownership to the former employer? With respect to Section III, does the decision reflect a deep analysis of section 2870? Why or why not?

5. The holdover clause: Read *Applied Materials, Inc. v. Advanced Micro-Fabrication Equipment (Shanghai) Co.*, 630 F. Supp. 2d 1084 (N.D. Cal. 2009) (Read sections IV.A and B.)

Questions for Discussion: What was controversial about the terms of the invention assignment clause in this case (see section quoted in IV.A)? What are the practical and policy concerns with holdover clauses? What did the court do with the clause in *Applied Materials*? What role did section 16600 play? How might the clause have been lawfully drafted?

## **B. Review and Summary**

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week Nine

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### Fiduciary Duty and Preparing to Compete

#### A. Fiduciary Duty and Preparing to Compete

1. Introduction. Fiduciary duty. The duty of loyalty.

2. Silicon Valley examples.

3. “The fine line between investigating it and doing it”: Read *Midwest Janitorial Supply Corp. v. Greenwood*, 629 N.W.2d 371 (Iowa 2001).

Questions for Discussion: At a practical level, how did the dispute arise? What does this tell us about the background of many employee mobility disputes? What exactly did the fiduciary do to prepare to compete before he left? What did he not do before he resigned? What might be a practical reason for permitting fiduciaries some latitude to prepare to compete?

4. Crossing the “fine line”: *PFS Distribution Company v. Raduechel*, 332 F. Supp. 2d 1236 (S.D. 2004) (read the background facts and section II.A.1).

Questions for Discussion: On what basis did the plaintiffs allege that the defendants breached their fiduciary duties? How did the court distinguish the case from *Midwest Janitorial Supply*?

5. California’s landmark example: read *Bancroft-Whitney Co. v. Glen*, 64 Cal.2d 327 (1964).

Questions for Discussion: What did the California Supreme Court say about preparations to compete? Specifically, what did the court hold in terms of the obligation to disclose such preparations? With *Midwest Janitorial Supply* in mind, how might the defendant have gone about things differently? What would happen if the defendant had resigned first, and only afterwards revealed to his new employer the salaries of his former co-workers?

6. *Iconix* revisited: re-read *Iconix, Inc. v. Tokuda*, 457 F. Supp. 2d 969 (N.D. Cal. 2005) (focus on the background facts and section D.1.a.ii (page 982) (“Evidence that Tokuda Breached his Fiduciary Duty”)).

Questions for Discussion: How did the fiduciary duty claim in *Iconix* differ from the claims in *Midwest Janitorial Supply*, *PFS*, and *Bancroft-Whitney*? What is a corporate opportunity? What is the difference between an opportunity belonging to the employer and a lawful plan to compete?

## **B. Review and Summary**

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week Ten

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### The Work for Hire Doctrine in the Employment Context

#### **A. Works Made for Hire and the Basic Work for Hire Test**

1. Introduction.

2. Works for hire under the Copyright Act: read the definition of “works made for hire” in 17 U.S.C. section 101; read 17 U.S.C. section 201(b) (“Works Made for Hire”).

Questions for Discussion: Think back to Week Eight and California’s invention assignment statute, Labor Code sections 2870-71. Could a Copyright Act work for hire and a state law invention assignment ever overlap?

3. The basic test: skim *Community for Creative Non-Violence v. Reid*, 490 U.S. 730 (1989).

Questions for Discussion: What kind of contract did the activist group have with the sculptor? What did they forget to cover in their agreement? In the absence of a contract describing who will own the copyright in a work, what is the basic test for determining whether the work is a work for hire? What are the factors to consider? Why should it matter whether the author is an employee?

#### **B. Works for Hire and the Scope of Employment Test**

1. Introduction. Employment alone insufficient.

2. The scope of employment test: read *U.S. Auto Parts Network, Inc.* \_\_ F.3d \_\_ (9th Cir. 2012); *Genzmer v. Public Health Trust of Miami-Dade County*, 219 F. Supp. 2d 1275, 1280 (S.D. Fla. 2002).

Questions for Discussion: Focusing on the manner in which the employee developed the software, would the employer own it under Labor Code section 2870 if that had been the applicable test? What is the three-part scope of employment test for a work for hire under the Copyright Act? Why did the court find in favor of the employer? Is the scope of employment test more favorable to the employee than the invention assignment test, or vice versa? Why?

3. Combining trade secret, work for hire, and invention assignment claims: re-read *PFS Distribution Company v. Raduechel*, 332 F. Supp. 2d 1236 (S.D. Iowa 2004) (skim the background facts and then read sections II.3.a and II.3.b.).

Questions for Discussion: What kinds of written agreements did the defendants have with the plaintiff? What types of employee creations was the assignment clause intended to capture? How did the court apply the three-part scope of employment test? In Section II.3.b, how did the court then apply the invention assignment contract? Would the result in II.3.b have differed if California's Labor Code section 2870 were the standard?

### **C. Review and Summary**



## **Intellectual Property under State Law: Trade Secrets and Employee Mobility**

### **Spring 2013, Week Eleven**

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### **Two Relevant Federal Statutes**

#### **A. The Economic Espionage Act**

1. Introduction. Read 18 U.S.C. sections 1831-32, 1839 (definition of “trade secret”).

Questions for Discussion. How is the definition of a trade secret similar to, or dissimilar to, the definition of a trade secret under California’s Uniform Trade Secrets Act?

2. An EEA example: read *United States v. Chung*, 659 F.3d 815 (9th Cir. 2011) (Read only Background, Section A (“Investigation and Conviction”) and Discussion, Section A.2 (“Violations of the EEA”).

Questions for Discussion: Note the fact pattern – was the employee trying to use the information at a new job? What might this tell us about when the federal government gets involved in trade secret cases? What questions of statutory interpretation did the court face?

#### **B. The Computer Fraud and Abuse Act**

1. Introduction. Read 18 U.S.C. section 1030(a)(4), (a)(5), (g).

2. Split in authority among federal circuits

3. Applying the CFAA to an employee mobility problem: read *International Airport Centers, LLC v. Citrin*, 440 F.3d 418 (7th Cir. 2006).

Questions for Discussion: What did the defendant do to the employer’s computer before resigning? What exactly did the court hold about exceeding authorized access?

4. Limiting the reach of the CFAA in employee cases: read *United States v. Nosal*, 676 F.3d 854 (9th Cir. 2012).

Questions for Discussion: In the Ninth Circuit, can a civil litigant bring a CFAA claim with a trade secret-type fact pattern? What would the employer need to show?

## **C. Review and Summary**

## Intellectual Property under State Law: Trade Secrets and Employee Mobility

### Spring 2013, Week Twelve

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### Current Issues in Trade Secret Law: Identification of Separate Trade Secret Claims

#### **A. California's Approach**

1. Introduction. Read California Code of Civil Procedure § 2019.210.

Questions for Discussion. What is “reasonable particularity”? Might the definition change depending on what needs to be identified?

2. The latest word: skim *Brescia v. Angelin*, 172 Cal. App. 4th 133 (2009) and *Perlan Therapeutics, Inc. v. Superior Court*, 178 Cal. App. 4th 1333 (2009).

Questions for Discussion: In *Brescia*, the plaintiff made three efforts to comply with section 2019.210. What were they, and how did the trial court (and the appellate court) respond? What defense argument did the reviewing court reject, and why? Is *Perlan* consistent with *Brescia*? What conduct by the plaintiffs frustrated the appellate court?

#### **B. Identification in Court Orders**

1. Introduction.

2. The terms of a preliminary injunction: read *E.W. Bliss Co. v. Struthers-Dunn, Inc.*, 408 F.2d 1108 (8th Cir. 1969) (focus on the court's criticism of the wording of the injunction).

3. The difficulties of precision: read *American Can Co. v. Mansukhani*, 742 F.2d 314 (7th Cir. 1984) (focus on Section III, pages 326-31).

Questions for discussion: Should the required specificity for trade secret claims differ at different stages of the case? What practical difference does it make whether a trade secret claim is identified with precision? What are some problems with vague or overbroad descriptions in injunctions? What effect on innovation might adopting or rejecting a practice of requiring detailed identification have in a given jurisdiction?

#### **C. Review and Summary**

## **Intellectual Property under State Law: Trade Secrets and Employee Mobility**

### **Spring 2013, Week Thirteen**

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### **Current Issues in Trade Secret Law: UTSA Preemption and Alternative Claims**

#### **A. The UTSA's Displacement Provision**

1. Introduction. Read California Civil Code § 3426.7(b).

Questions for Discussion. What types of claims does the UTSA preempt? What does "not based upon misappropriation of a trade secret" mean?

#### **B. The Majority View on UTSA Preemption**

1. California's approach: re-read *Silvaco Data Sys. v. Intel Corp.*, 184 Cal. App. 4th 210 (2010) (focus on Section II, and pay special attention to Footnote 22).

2. An example of the majority approach: read *BlueEarth Biofuels, LLC v. Hawaiian Elec. Co.*, 235 P.3d 310 (Haw. 2010) (focus on the certified questions to the court and Section III, especially Section III.B.2).

Questions for Discussion: What tests did the courts in *Silvaco* and *BlueEarth Biofuels* decide upon for UTSA preemption of alternative claims? What dangers did the courts point to if the UTSA did not displace alternative claims?

#### **C. The Minority View**

1. Wisconsin's approach: read *Burbank Grease Services, LLC v. Sokolowski*, 717 N.W.2d 781 (Wisc. 2006) (focus on Section II.B and the dissenting opinion).

Questions for discussion: By what reasoning did the majority arrive at its holding? What was the thrust of the dissenting opinion? Which do you agree with, and why? Were there other considerations the majority and dissent should have addressed? What might be the effect on innovation in a given jurisdiction if the UTSA does not displace alternative claims for information said to be confidential but not a trade secret? Should there be a two-tier system of trade secret law, for highly protectable information and for less valuable, "confidential" information?

#### **D. Concluding Remarks and Review for Final**