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PANEL III: Trade Secrets and Other Avenues for Protection of Advanced Technology

Moderator: Hugh C. Hansen^{*}
Panelists: Roger Milgrim^{**}
George Graff^{***}
Sharon K. Sandeen^{****}
Closing
Remarks: Sonia Katyal^{*****}

MS. GIPP:

Good afternoon, everyone. My name is Michele Gipp, and I am the Managing Editor of the Fordham Intellectual Property, Media & Entertainment Law Journal.

Again, I would like to thank everyone for joining us at our annual symposium as we celebrate our twentieth volume. I would also like to welcome you to our third and final panel of the day, in which our panelists will be discussing other avenues of IP protection for advanced technology.

On that note, I would like to thank our panelists for joining us today, and for taking time out of their busy schedules to come and speak to us at Fordham. I would also like to introduce our moderator for this panel, Professor Hugh Hansen.

A PDF version of this Transcript is available online at <http://iplj.net/blog/archives/volumexx/book3>. Visit <http://iplj.net/blog/archives> for access to the IPLJ archive.

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Professor Hansen is a Professor of Trademarks, Copyright, and European Union IP here at Fordham Law and is also the Founder and Director of Fordham's Annual Conference on IP Law and Policy.

I also know firsthand, as a student in his copyright class, that he has a great sense of humor. So I am sure all of you will find this panel both interesting and entertaining. Without further ado, I will turn it over to Professor Hansen.

PROF. HANSEN:

Thank you very much, and congratulations to the IPLJ for putting on a great symposium.

Okay, so this is going to be, I think, an interesting panel on alternative forms of protection. And I think there will be some disagreement as to some of the issues, so it will be good to ventilate those issues.

What we plan to do is to have our first two speakers speak, and then have some discussion of what they've said. The third speaker, Professor Sandeen, will then give a speech which questions, to some degree, the scope that we should have for these various alternative forms of protection, and we will have a broader discussion on these themes. So, I think it should be an interesting afternoon.

Our first speaker, Roger Milgrim, I mean, he's really Mr. Trade Secrets. So when anyone thinks, literally, of trade secrets, they think of Roger Milgrim. And if you think of anyone else, that's probably trademark dilution, which we don't want.

But we're very fortunate in having him come and join us. He's been practicing in this area for forty-five years. His treatise is the best treatise by far and it's been updated.¹ It's probably—who publishes the treatise?

MR. MILGRIM:

LexisNexis, Matthew Bender. So they probably published—they probably update it every other week.

MR. GRAFF:

¹ ROGER M. MILGRIM & ERIC E. BENSON, MILGRIM ON TRADE SECRETS (2008).

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It's in its ninety-third edition.

MR. HANSEN:

Yes, ninety-third edition. In any case, we're very lucky to have Roger here. Roger, the floor is yours.

MR. MILGRIM:

Thank you. When I hear Mr. Trade Secrets, it makes me think back to my first summer job. I worked in Asbury Park and, on the boardwalk there, they had a huge Planters peanut sign. They had Mr. Peanut. I've now obtained that degree of recognition. I'm very fortunate.

Let me start out by pointing this out, the *Bilski*² inventors went to the wrong lawyers, in my judgment. They should have come to me or George. We could have fashioned terrific protection that would have permitted them to commercialize their idea in advance. We wouldn't have had these enormous and mounting litigation expenses. More significantly, we would not have had to trouble the courts with these sorts of disputes. I put to you that every new advance, *every* new advance, should be first tested against the available forms of IP. The selection, of one or more, should be made in a way that optimizes protection for the developer, inventor, etc., and sometimes patent is the only game in town. It certainly was not in *Bilski*.

Now, I just want to point out what the trade secret in *Bilski* was—it was managing the consumption risk, costs of a commodity, sold by a commodity provider at a fixed price.³ So, it was a particular way of hedging.

Since my theme is the desirability of picking and choosing the right form of IP, let me tell you why American lawyers are uniquely suited to doing that. American lawyers are the only true international lawyers in the world. Why is that?

It's because every time we have a contract, or litigation, the question of which law governs is always a subject of focus. That's

² *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008) (en banc), *cert. granted sub nom.* *Bilski v. Doll*, 129 S. Ct. 2735 (2009), *argued sub nom.* *Bilski v. Kappos*, No. 08-964, 2009 WL 3750776 (Nov. 9, 2009).

³ *Id.* at 949.

because of our federal-state system. There are differences, as I'll point out, in the law of California, New York, New Jersey, etc. So, we always have to think about the governing body of law. The same applies for IP.

Let me tell you what a trade secret is, so that you can decide if you'd like to have some of that. There are basically two versions of the definition of a trade secret. One definition goes back to 1939—it's in the Restatement (First) of Torts, section 757, comment b.⁴

If you don't mind, I would like to read that to you, because it's really instructive. It tells you virtually the entirety of trade secret law.

I could stop at the end of this, and you'd have the benefit of my thoughts. But, I have a few other random observations to make.

“A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.”⁵

Now, the way that the Restatement was structured, it gave some guidelines to help courts determine whether a matter fell within the category of trade secrets. By the way, we're going to get to the Uniform Trade Secrets Act⁶ (“UTSA”) in a couple of minutes, but these same guidelines that were enunciated in 1939 are still used by the courts for purposes of guidelines for the UTSA.

These are the things you want to know under the Restatement guidelines. You want to know the extent to which the matter is known outside the claimant's business.⁷ That tells you that trade secrecy does not require that there only be one claimant, but a relatively small number of people in an industry.⁸

⁴ RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

⁵ *Id.*

⁶ UNIF. TRADE SECRETS ACT, 14 U.L.A. 433 (1985).

⁷ *See* RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

⁸ *See id.*

Second, you may want to know how broadly it is known in the business.⁹ If you tell every single employee in a large company the claimed trade secret, then that may go against you.

You want to know the secrecy measures and that's very important.¹⁰ That's a key issue in the UTSA—the value of the information, the effort and the cost, and the ease or difficulty of others to duplicate it.¹¹

Now, the important thing about the Restatement definition is that it was designed to protect information used in one's business that lends a competitive advantage. Let's spring forward to the UTSA, which was developed in the 1970s¹² and it was adopted by various states, some 45 states,¹³ between say 1983 and 2007.

The UTSA, which the drafters said really captures the common law, actually does not. It goes beyond the common law in this sense. Use in one's business is, for purposes of the Act, not a requisite.¹⁴

Let me read this because my memory never was good and it's worse these days: “Information, including a formula, pattern, compilation, program, device, method, technique, or process”¹⁵—mind you, all of those things are described as information—“that derives independent economic value, actual or potential.”¹⁶ Actual or potential—so now the Uniform Act says that something doesn't have to be proven to have a competitive advantage if it has a

⁹ *Id.*

¹⁰ *Id.*

¹¹ See UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (defining a trade secret as “information . . . that derives independent economic value . . . from not being generally known to, and not being readily ascertainable by proper means by, other persons . . . and is the subject of efforts . . . to maintain its secrecy”).

¹² UNIF. TRADE SECRETS ACT, 14 U.L.A. 541 (1980).

¹³ See, e.g., CAL. CIV. CODE § 3426 (West 2008); FLA. STAT. § 688.001 (2008); WYO. STAT. ANN. § 40-24-101 (2006).

¹⁴ See UNIF. TRADE SECRETS ACT § 1 cmt., 14 U.L.A. 433 (“The definition of ‘trade secret’ contains a reasonable departure from the Restatement of Torts (First) definition which required that a trade secret be ‘continuously used in one’s business.’ The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use.”).

¹⁵ *Id.* § 1(4).

¹⁶ *Id.* § 1(4)(i).

potential one.¹⁷ Also, the UTSA, as part of its definition, requires that the information be subject to reasonable secrecy safeguards.¹⁸

I was fascinated by this morning's panel discussing *Bilski* because the panel identified so many different possibilities about where the *Bilski* claims do or do not fit.¹⁹ Is it a process? Is it a machine? If you can't get over that hurdle, if it doesn't shoehorn into the Act, you have problems.

Look at trade secrecy—"any information."²⁰ Isn't that terrific? "Any"—as long as it has an actual or potential competitive advantage, not generally known in the trade or industry, and subject to reasonable safeguards.²¹

So, let me just point out, by the way, before I leave this point, that the difference actually is that the UTSA has broadened trade secret law in those states where it's in effect. Because, previously, if you had an idea for a new product, you didn't make it. You went to Procter & Gamble and said, "I have this great idea for a soap. We could call it Ivory. It's going to be a runaway winner."

You could not prevail under the Restatement definition of a trade secret because your idea had not been used in your trade or business lending a competitive advantage.²² You might have a contractual claim, but if you were suing on contract for submission of an idea, you had radically different standards in the two states that have most often adjudicated that issue.

In New York, to have consideration, the idea had to be concrete, novel, and submitted pursuant to a specific agreement as to confidentiality.²³

¹⁷ See *id.* § 1 cmt. ("The broader definition in the proposed Act extends protection to a plaintiff who has not yet had an opportunity or acquired the means to put a trade secret to use.").

¹⁸ *Id.* § 1(4)(ii).

¹⁹ See generally Symposium, *The Patent Landscape with Bilski on the Map*, 20 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 715 (2010).

²⁰ RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

²¹ UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433.

²² RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (defining trade secret as "information which is used in one's business, and which gives him . . . an advantage over competitors").

²³ See *McGhan v. Ebersol*, 608 F. Supp. 277, 284 (S.D.N.Y. 1985).

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In California, all you had to prove was that you had submitted in confidence and that the idea proved to have value to the person that used it.²⁴ So, the California idea-submission rule is very different from New York's and that is very important to the movie industry, the radio industry, the television industry, etc.

Now, I want to also steer you clear because we should be careful about the words we use. The phrase "Uniform Act" implies that we're all naive and innocent. The word "uniform" conjures up for us a premise. That is, where adopted, the Act is the same from place to place. Well, that's not the case.

In fact, the Uniform Act is adopted by each state, and the states have adopted it in different ways. The actual definitional phraseology differs. I'm going to give you an example where my partner, my former partner, George Graff, and I conceived that the definition in Colorado looked very good to us for a particular purpose.

I'd like to give you a quick example, however, of how broad information can be and the kinds of things that can be protected as a trade secret. Let me take something that is intended to shock you, I know you don't shock easy, but this may do it.

What if I told you a method of cashing a check was a trade secret? Would you think that I was bereft of my senses, if you don't think that already? Two federal courts,²⁵ and one state court,²⁶ have determined that the method of cashing a check was a trade secret and, in fact, by any standard it was.

I'll shorten my remarks on that type of case by telling you what the method permitted. In the state of New York, by the way, I think that if you maintained a place of business more than a certain distance, I think it's 1,000 yards, from a commercial bank, you're obliged to offer your employees the option of a check or cash.

²⁴ See, e.g., *Mann v. Columbia Pictures, Inc.*, 180 Cal. Rptr. 522, 533-34 (Cal. Ct. App. 1982).

²⁵ Please note that these cases were unreported and were used to illustrate the breadth of trade secret coverage.

²⁶ Please note that this case was unreported and was used to illustrate the breadth of trade secret coverage.

So what all employers do, for example, IBM in Armonk, when there were no banks near it, they had to offer their employees checks and then be prepared to cash it for the employees who wanted cash. The same goes for AT&T, when it was building big facilities there. So, you could have a line of hundreds, and perhaps thousands, of employees waiting for cash.

Now, I will tell you that typically in a bank transaction, for a check of \$756.30, the average period of time to deliver the cash from the cashier to your hands is about two minutes. That's the average—that does not include identification, just the process of counting it and recounting it.

Now, I will tell you that the method, that was found to be the trade secret, guaranteed delivery of the cash in ten seconds or less. And, actually, it was seven seconds, but that wasn't the interesting part. The cash came to the recipient with consecutive last number serial numbers.

So, if you had thirty-five twenty dollar bills, and the last serial number was a six, and the next bill was a ten dollar bill, the last serial number would be seven. And, if it went up to two, and then you got to one dollar bills, they would also have consecutive serial numbers—all in seven seconds. So, you had both rapidity and an audit trail.

That is a prime example of a trade secret—pure information. It was based on a very sophisticated algorithm for how the money was stacked, if you will. And, no one before or since has duplicated it.

So, let's go to this definitional point that I raised. I'll tell you about—by the way, I don't have any PowerPoint slides or anything. But, the wonderful thing about trade secrets is that it's fact intensive, and, therefore, it's all little stories. You put them all together. They sort of form a pattern.

So, let me tell you about an interesting story and it's something that some of you may even have experienced yourselves.

Back in the 1970s, what's called GlaxoSmithKline today, discovered that a particular acid, excreted by a bacteria found in nature, when combined with another substance, created an exceptionally effective antibiotic. In fact, the antibiotic that was

created became one of the world's largest selling antibiotics under the trademark of Augmentin.²⁷

The problem was that nature, while giving us this wonderful substance for free, gave us puny bacteria that created it. These were really feeble little guys that probably were smoking weed or something, but they weren't doing their job.

What happened is that Glaxo spent almost fifteen years breeding a superbug, with a little cape, flying faster than a speeding bullet. It was a great bacteria that produced enormous amounts of the substance, and then Glaxo was able to commercially respond to a market.

What happened is that an employee thought that the product was so good that he'd take a little bit of the dip from one of the vats. And, while there's some dispute as to how he took it, he claims he took it on the sole of his shoes. We know that he took it and he then cultured it, and sold it to third world manufacturers who then produced an Augmentin-like antibiotic.²⁸

Glaxo was not happy about that event and they wanted to do something about it. But, the question is how?

Here you have a finished product on the market, which is in the form of a tablet. It's made from two constituent products plus other things, but one of the constituent products is found in nature. So, how do you prove that your bacteria, with its souped up DNA—which we will call information for these purposes—was involved in a competitive product? And, the answer was, at least at the beginning, you couldn't.

That was the case because of requirements in litigation. When you bring a proceeding, you have to have a foundation—a solid basis for making assertions, which is an obstacle that's even higher in many countries than in our country. There was no way to sue, but that didn't entirely discourage Glaxo because it spent several years and many, many millions of dollars to develop a methodology—a test that would permit examining the finished

²⁷ See Augmentin, <http://antibiotics-online.com> (last visited Feb. 15, 2010).

²⁸ See *Certain Coamoxiclav Prods.*, No. 337-TA-479, 2003 WL 1793272 (U.S. Int'l Trade Comm'n Mar. 6, 2003).

product and discerning the DNA of the bacteria that created this one element. It took years to do that.

There were lawsuits. Now, let me get, if I may, to some of the definitional issues that I think you'll find interesting.

We had a stroke of good luck in that particular case because there was a rather special UTSA in a jurisdiction in which the competitor distributed its product. By the way, the competitor in this case was a company that had been acquired by another major pharmaceutical company, Novartis, and its distribution center, in the United States, was in Colorado.

Well, for George Graff, that of course meant great skiing. For me, it meant, I wonder how the Colorado Act defines trade secrets. I'm not a skier, you can tell by that.

This is a good example of how the Uniform Act isn't uniform, and how little nuances are very important.

The definition of a trade secret in Colorado is "the whole or any portion or phase of any scientific or technical information, . . . process, . . . [or] improvement . . . which is secret and of value."²⁹ I'm not sure that really says more than "any information." But, to George and me, it looked like Valhalla because it sounded so much like our little bacteria.

Glaxo brought a trade secret action in Colorado.³⁰ For good measure, we also brought an action in the International Trade Commission ("ITC") to prohibit importation of the product.³¹ I'd like to tell you what the answer was in Colorado, but the action was stayed. So, we have to jump into the ITC—the United States International Trade Commission.

As you may know, section 337 of the Tariff Act of 1930 is designed to prevent the importation of products, goods and products, which are manufactured, or result in unfair

²⁹ COLO. REV. STAT. § 7-74-102(4) (2006).

³⁰ See *Certain Coamoxiclav Prods.*, No. 337-TA-479, 2003 WL 21783061 (U.S. Int'l Trade Comm'n July 11, 2003) (referencing GlaxoSmithKline's parallel action brought in Colorado State Court).

³¹ *Id.*

competition.³² So, Glaxo sued there—in the ITC. The administrative law judge, determining that the Restatement definition of trade secrets should apply, something that surprised, incidentally, both the plaintiffs and defendants, knocked the trade secret claim out on the grounds that there had not been a showing of adequate safeguards of the trade secrets.³³ But, they did say, “look, you have other civil remedies.”³⁴

Glaxo appealed to the full commission and they reversed.³⁵ They reversed in a way that doesn’t really tell us what they thought about the trade secret.

Remember, the bacteria is property. Trade secrets are property, by the way. The Supreme Court has said that,³⁶ and virtually every court in the United States has said that³⁷—although that’s a legal rule that many commentators, other than myself, seem to have difficulty with.

But, the important thing to remember is that the administrative law judge’s ruling, in essence, actually suggests that the “information” in Glaxo’s superbug was a trade secret because he granted summary judgment to the defendants on the grounds that inadequate safeguards had been taken.³⁸ That arguably establishes that they were susceptible of being a trade secret. Therefore, a thing modified, whose DNA was modified, could be, itself, information, and as such, subject to trade secret protection.

Now let me turn to *Bilski*. These are the questions, had *Bilski* come to the right lawyer, that would have been asked.

³² See Smoot-Hawley Tariff Act of 1930, Pub. L. No. 71-361, § 337, 46 Stat. 590 (codified as amended at 19 U.S.C. § 1337(a) (2006)).

³³ See *Certain Coamoxiclav Prods.*, 2003 WL 1793272 (dismissing trade secret claim on summary determination).

³⁴ See *id.* (maintaining, in summary determination, that plaintiff must rely on contract law).

³⁵ *Certain Coamoxiclav Prods.*, 2003 WL 21783061.

³⁶ See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1002–03 (1984).

³⁷ See, e.g., *Phillip Morris, Inc. v. Reilly*, 312 F.3d 24, 32 (1st Cir. 2002); *DTM Research L.L.C. v. AT&T Corp.*, 245 F.3d 327, 332 (4th Cir. 2001); *United States v. Stafford*, 727 F.2d 1043, 1052 (11th Cir. 1984).

³⁸ See *Certain Coamoxiclav Prods.*, 2003 WL 1793272.

Would the method, claimed by *Bilski*,³⁹ had been protectable under any definition of a trade secret? I'm sure we all agree, of course, that it was information. It was a method consisting of information and techniques. But, could it have been retained as a trade secret and commercially exploited? We're getting to the real money question. Could it have been exploited while maintained as a trade secret?

The answer to that is really equally easy. And, the answer is "yes," whether it had been maintained internally to operate the commodity hedging of an Archer Daniels Midland, or whether there had been a desire to license the information.

Finally, are there advantages or disadvantages in comparison to patent protection? That's a very important question because business people in the real world want to know what their options are, and what the consequences of their options are.

Thank you. I'm going to be summarily executed in five minutes.

PROF. HANSEN:

No, actually, it may be not summarily. It might be horrible.

MR. MILGRIM:

Horrible, right. I always take the optimistic view.

So, the important question is, what kind of protection could you have internally? Well, it's really easy—the check cashing/money dispensing method. The money dispensing method that I described a few minutes ago was maintained internally for fifteen years and it was the basis of a highly profitable business.

There'd be no reason why a big hedge fund, or a commodities trader, couldn't maintain this internally. But, if the developer wished to exploit it outside of the enterprise, it is important to keep in mind that trade secrets are susceptible of licensing. That's very important.

³⁹ *In re Bilski*, 545 F.3d 943, 949–50 (Fed. Cir. 2008) (en banc), cert. granted sub nom. *Bilski v. Doll*, 129 S. Ct. 2735 (2009), argued sub nom. *Bilski v. Kappos*, No. 08-964, 2009 WL 3750776 (Nov. 9, 2009).

First of all, let me be fair. The word “licensing,” when applied to trade secrets, is a misnomer because trade secrets provide no exclusionary or exclusive power. Everybody’s at liberty to fairly develop a trade secret.

Actually, one of the strengths in licensing a trade secret is the fact that it is not exclusionary. And, when I say strength, you can do more in your contract because the right has less power. Let me explain that very simply.

Although the case is dead wrong, U.S. patent law, in *Brulotte v. Thys, Inc.*,⁴⁰ says that you cannot “extract,”⁴¹ which means you cannot require. The Supreme Court sometimes uses colorful language, especially when it is not unduly familiar with what it’s talking about—royalty beyond the date of effectiveness of the patent.⁴²

First of all, *Brulotte* is a particularly abysmally reasoned decision. Actually, logically, it’s completely wrong. But, let’s assume it’s a good decision. Now, let’s say, well, what about a trade secret? Can you continue to get royalties once the secret expires?

The answer is, since you had no exclusionary power, you had no power to exhaust or go beyond. If the other side of the license deal will agree, if the other side wants to have the secret disclosed to it enough, you can bargain for that.⁴³

Considerations of time mandate that I wrap up. Let me do so with two points, which go to the efforts that are required of a trade secret owner to maintain protection.

To get a patent is, to begin with, a formal administrative procedure, and it’s an expensive one.⁴⁴ To get a trade secret, all you have to do is use information, or have something susceptible

⁴⁰ 379 U.S. 29 (1964).

⁴¹ *Id.* at 33–34.

⁴² *Id.* at 33.

⁴³ See *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 264 (1979).

⁴⁴ See U.S. Patent and Trademark Office, General Information Concerning Patents, <http://www.uspto.gov/web/offices/pac/doc/general/index.html#app> (last visited Feb. 15, 2010).

of use, and you have to have reasonable safeguards.⁴⁵ So, trade secret protection is relatively easy to obtain.

Now, I'd like to just explore, with you, the way we took the money example—counting money. I'd like to ask you to consider whether the following safeguards would be adequate. And, I took a little time to put this example together but let me try it from memory.

Suppose there is a process manufacturing plant. Suppose the plant practices a secret process. Suppose the process is permitted to be viewed by visitors who don't sign any confidentiality agreement, suppose further that the entire process is in a modern plant with lots of glass windows, and there are no restrictions that would prevent people from peering in. Suppose none of the employees who work there sign confidentiality agreements. How many people think that description deprives the matter of the trade secret, or deprives trade secrecy for inadequacy of safeguards?

QUESTIONER:

You can see all the details?

MR. MILGRIM:

You can see the entire process. Could we have a show of hands for those people that think there is a trade secret here?

MR. MILGRIM:

Yes, the secret is the process. Okay, the answer is that I don't know the answer to that one. The reason I don't know is because I'd need a lot more facts. For example, what if the equipment used to practice the process is commercial equipment that's been specially altered so that it does things that are unique. Suppose, moreover, that there are special raw materials that make the process work and other similarly named ingredients don't, and that those raw materials are not readily perceptible.

Suppose the employees don't sign an employment agreement, but they're cautioned every month that this is a highly confidential process. My point is this—you're dealing with an area of law that is uniquely fact sensitive and fact specific, but it would have done

⁴⁵ See UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 541 (1980).

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the job in *Bilski*. I submit to you that they would have made their money many times over without legal fees, which is not necessarily a good thing. Thank you.

PROF. HANSEN:

Hold on, hold on, hold on. Let's just introduce you first.

MR. GRAFF:

Yes.

PROF. HANSEN:

Okay, thank you very much, Roger. Our next speaker is George Graff, who was a partner at Paul Hastings and was involved in mediation, negotiation, arbitration, licensing, counseling, hardcore litigation, and amicus briefs, including the amicus brief for the IPO—Intellectual Property Owners Association in *Bilski*.

He certainly has done almost everything you can do in the IP and IT fields and also was a clerk in New York for one of our most famous chief judges—Chief Judge Fuld in the New York Court of Appeals.

George?

MR. GRAFF:

Thank you. Not to overlap, Roger, I'm going to talk about other alternatives, not necessarily in *Bilski*, but generally for protection of technology that people often don't think of for that purpose and really for very good reasons that relate to the functionality issues that were discussed this morning. But, it sort of breaks down in this area. That is, protection of technology by copyright and trademarks, and I'll talk about copyright first.

First of all, copyright is a concept that was developed for non-functional expression. If you read the government's brief in the *Bilski* case, they talk about the principal that what is protected by copyright law, and what is protected by patent law, are two fundamentally different things, and you don't protect functional things through copyright law.⁴⁶

⁴⁶ Brief of Respondent at 18–19, *Bilski v. Kappos*, 129 S. Ct. 2735, No. 08-964 (U.S. Sept. 25, 2009).

Nevertheless, starting in 1972 or 1973—Congress appointed a commission that happened to be chaired by Judge Fuld, which I believe was called the National Commission on New Technological Uses of Copyrighted Works, but is abbreviated CONTU.⁴⁷

It was designed to explore how to protect new technology, particularly computer software.⁴⁸ What kinds of intellectual property rights are appropriate? There was a great deal of debate as to whether or not copyright law could protect computer software.⁴⁹ After all, what could be more functional than something that is used, and whose sole purpose is not to entertain, amuse, or educate people, but to control the operation of a machine, which is what computer software does.

Nevertheless, in 1978, the CONTU report recommended that the question be resolved, and it was a hotly debated question, by expressly amending that copyright law to include computer software programs.⁵⁰ Congress responded in 1980 by doing precisely that.⁵¹

So, even though, by most people's definition, computer software is functional, it nevertheless is subject to protection under copyright law.⁵² That protection was extended in 1984 to something called mask works, which is essentially the same thing as computer software, except that it's not embodied in written code.⁵³ It's embodied in the physical design of chips such as microprocessors and the like.⁵⁴

Then, further, in 1998, we have the Digital Millennium Copyright Act, which actually makes it actionable to disable means

⁴⁷ THE NATIONAL COMMISSION ON NEW TECHNOLOGICAL USES OF COPYRIGHTED WORKS, FINAL REPORT ix, 1 (1978).

⁴⁸ *Id.* at 1.

⁴⁹ *See id.*

⁵⁰ *Id.*

⁵¹ *See* Bayh-Dole Act of 1980, Pub. L. No. 96-517, § 10(b), 94 Stat. 3015, 3028 (codified as amended at 17 U.S.C. § 117 (2006)).

⁵² 17 U.S.C. § 117.

⁵³ *See id.* § 902.

⁵⁴ *See id.*

that are intended to protect software from reverse engineering.⁵⁵ And, as a compromise to the other side, it also provided defenses to people who operate websites.⁵⁶ So you have all these developments where copyright law has been extended to apply to something functional, particularly in the area of computer software.

There are a number of advantages to copyright law over patent rights as a means of protecting software. Obviously, long life is not particularly significant to software. Under copyright law, of course, when you're talking about works for hire, we're talking about a period of 95 to 125 years.⁵⁷ Very few pieces of software, I think, will be of any value after that length of time.

More importantly, you can have widespread publication and distribution of your software without losing your protection. Particularly in the area of object code, which is distributed en masse—Microsoft Windows and the like—copyright law provides a means of intellectual property protection to widely disseminated, publicly disseminated software,⁵⁸ which, although it's not subject to trade secret protection in the object code, has the advantage of being very difficult, as a practical matter, to reverse engineer. It provides a good deal of protection to your software, particularly when it's in object code form.

And, of course, you don't have any problems with establishing that it's novel, that it's useful—all of the technical requirements of patents.⁵⁹ It's obviously useful, but novelty and other requirements that we talked about this morning of patent eligibility are not required, as long as it's original.

There are no formalities. There used to be some formalities, but there's no registration required.⁶⁰ There's no marking required

⁵⁵ Digital Millennium Copyright Act, Pub. L. No. 105-304, 112 Stat. 2850 (1998) (codified as amended in scattered sections of 17 U.S.C., 28 U.S.C., and 35 U.S.C. (2006)).

⁵⁶ See 17 U.S.C. § 512.

⁵⁷ See *id.* § 302(c).

⁵⁸ See *id.* § 117.

⁵⁹ In order to be patentable, an invention must be new, useful, and non-obvious. 35 U.S.C. §§ 101–03.

⁶⁰ 17 U.S.C. § 408(a) (stating that registration is permissive).

any more.⁶¹ You write a program, and the minute it's written, it's protected.⁶² So, that's a major advantage of copyright law. You're going through dozens of versions of different pieces of software and all of them are protected automatically.

The major disadvantage of copyright law is that it only protects the expression and not the ideas.⁶³ What this means is that, if people can figure out how your software works, they can write another program that does the same thing. However, they cannot copy your program so they would have to develop it themselves.

It does permit reverse engineering,⁶⁴ but as I mentioned, when you're talking about object code, when you're talking about something that is written in machine language, it is very, very difficult to reverse engineer. When you're talking about source code, that's a different story, and trade secret law becomes much more important to protecting source code, I should say.

I want to move on quickly to something that people don't normally think of because everybody who focuses on computer software recognizes that copyright law provides a major area of protection.

Trademark law is something we don't think about. We talked about trademark law this morning. How it is intended primarily to identify the origin of goods, so how in the world does this provide protection for intellectual property?

Well, as time went on, and it's only really in the twentieth century, the concept of licensing trademarks came into vogue. That means that you can license others to use your trademark.⁶⁵

⁶¹ See *id.* § 405.

⁶² See *id.* § 102.

⁶³ *Id.* § 102(b) (stating that "in no case does copyright protection for an original work of authorship extend to any idea").

⁶⁴ See *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1527–28 (9th Cir. 1992) ("We conclude that where disassembly is the only way to gain access to the ideas and functional elements embodied in a copyrighted computer program and where there is a legitimate reason for seeking such access, disassembly is a fair use of the copyrighted work, as a matter of law.").

⁶⁵ See 15 U.S.C. § 1055 (2006) ("Where a registered mark or a mark sought to be registered is or may be used legitimately by related companies, such use shall inure to the benefit of the registrant or applicant for registration, and such use shall not affect the validity of such mark or of its registration, provided such mark is not used in such

So, even though the goods don't come from you, if you have a certain degree of quality control over the product, you can license your trademark to others.⁶⁶ You may make nothing that's subject to that trademark and still own a trademark, and still enforce it.⁶⁷

That idea has been extended into the technology area by using trademarks as a way to ensure compatibility of technological devices to a particular standard that people have developed. This is a totally new concept, at least in the mid-twentieth century, that really has almost nothing to do with the traditional use of trademark law, which is to prevent confusion of customers as to the origin of goods.⁶⁸

The earliest example—I just took some examples at random of the use of this technique—the earliest example that I could find dates back to 1948 when Columbia Records developed the LP record.⁶⁹ I'm sure there were earlier ones. I haven't researched this in depth.

manner as to deceive the public. If first use of a mark by a person is controlled by the registrant or applicant for registration of the mark with respect to the nature and quality of the goods or services, such first use shall inure to the benefit of the registrant or applicant, as the case may be.”); Mark McKenna, *Testing Modern Trademark Law's Theory of Harm*, 95 IOWA L. REV. 63, 79–81 (2009) [hereinafter McKenna, *Testing Modern*] (“In order to distinguish legitimate uses by affiliated companies from infringing uses by third parties, courts gradually loosened the restrictions on licensing. They did so primarily by redefining what it meant to be the source of a product: even when a mark owner did not actually produce the products bearing its mark, courts began to hold, it could still be considered the legal source of those products if it exercised sufficient control over their quality.” (citing *Keebler Weyl Baking Co. v. J.S. Ivins' Son, Inc.*, 7 F. Supp. 211, 214 (E.D. Pa. 1934))); Mark McKenna, *The Normative Foundations of Trademark Law*, 82 NOTRE DAME L. REV. 1839, 1910–11 (2007) [hereinafter McKenna, *The Normative Foundations*].

⁶⁶ See McKenna, *The Normative Foundations*, *supra* note 65, at 1910–11 (“As courts came to view trademarks as designators of relationships other than physical source, such as sponsorship or affiliation, they relaxed the traditional rule to allow licensing as long as the mark owner ensured a consistent level of quality in the products or services offered under its mark. This change reflects the broader notion of goodwill protected under current law. Rather than inhering in the business of a particular producer, goodwill attaches to the mark and travels with it into other markets.” (footnotes omitted)).

⁶⁷ See *id.*; see also McKenna, *Testing Modern*, *supra* note 65, at 80.

⁶⁸ See *Sega Enters.*, 977 F.2d at 1529.

⁶⁹ Gary Marmorstein, *The Music Goes Round: The Record Company That Gave Us the Sound of a Century*, WASH. POST, Apr. 29, 2007, at BW05.

But they developed this system, which they made themselves, but they also had permitted others to make, of extending the duration of phonograph records by turning them at a slower speed, and using narrowed grooves, and adopting other standards.⁷⁰ But those were the two primary ones—slower speeds and narrower groove—to create a method of making phonograph records that allowed you to extend their life by roughly ten times what they were before.⁷¹

So, it was a very, very effective, very important development, and they developed a trademark to describe that particular technology.

Then, when Philips invented the compact cassette, which replaced eight track recording, and I think this happened in the '60s or so, when they first came out⁷²—they're still being used today to some extent—they went further; the compact cassette had a very specific configuration, a very specific design, a very specific type of hardware that could play it.⁷³ And they had patents that protected it.⁷⁴

But if you wanted to make something that would comply with this standard technique that they had developed, you had to get a trademark license. And you would identify your product with that trademark, that compact cassette trademark. And that would let the world know that, whether it was the cassette itself or a player, or a part of your car radio, or whatever, if it was going to be used in connection with compact cassettes, it would bear that trademark. And that would be your indication that the device would be compatible.

Another major one was the compact disc. There's a case that's pending right now in the Federal Circuit that deals with compact

⁷⁰ See Ron Penndorf, *Early Development of the LP* (2001), <http://ronpenndorf.com/journalofrecordedmusic5.html>.

⁷¹ See *id.*

⁷² The compact cassette was created in 1962. DAVID MORTON, *SOUND RECORDING: THE LIFE STORY OF A TECHNOLOGY* 161 (Greenwood Publ'g Group 2004).

⁷³ See *id.*

⁷⁴ Wikipedia, *Compact Cassette*, http://en.wikipedia.org/wiki/Compact_Cassette (last visited Feb. 15, 2010).

discs.⁷⁵ Now, compact discs were developed jointly by two different companies, Sony and Philips.⁷⁶ They formed a patent pool and the validity of that patent pool is now in dispute because there's a claim that they included a patent in the pool and prohibited anybody from using that patent for any other purpose, even though it wasn't necessary for the patent pool.⁷⁷ It's a very big case right now in the Federal Circuit involving a rather old, well-established trademark.

But whether that patent pool stands or falls, that trademark will survive. So you will know that if you buy a CD that has that trademark on it, it will operate in any machine which has the same trademark. Any machine that has that trademark on it will be able to play that compact disc. CD recorders will be able to record and your CDs will be able to be played on all devices which are compatible with the format.

And similar rules have been applied by a number of other companies. I put the Windows thing in the middle of the slide because this is a trademark that is licensed by Microsoft, but only licensed to people who make products that Microsoft doesn't make.⁷⁸ So here we have no Microsoft origin at all, but it is a Microsoft trademark. You can't use that trademark unless you've qualified your product with Microsoft as being compatible with Windows 7.⁷⁹ So that people can look at your computer or people can look at your piece of software, and know it will run on Windows 7.

So we now have people who are using trademarks, with no connection at all to the fundamental historical purposes of the trademark—which is to identify the source and origins of good—but solely as a way of exercising quality control over other

⁷⁵ *Princo Corp. v. Int'l Trade Comm'n*, 583 F.3d 1380 (Fed. Cir. 2009).

⁷⁶ *See Compact Disc Hits 25th Birthday*, BBC NEWS, Aug. 17, 2007, <http://news.bbc.co.uk/2/hi/6950845.stm?lsm>.

⁷⁷ *See, e.g., Princo Corp. v. Int'l Trade Comm'n*, 563 F.3d 1301, 1303 (Fed. Cir. 2009).

⁷⁸ *See* Microsoft, Windows Trademark Guidelines, <http://www.microsoft.com/About/Legal/EN/US/IntellectualProperty/Trademarks/Usage/Windows.aspx> (last visited Mar. 31, 2010).

⁷⁹ *See id.*

people's goods to make sure they comply with a particular standard.⁸⁰

A wonderful example of that—I don't know how many people recognize that little penguin that appears in the bottom of my screen. Does anybody recognize it? Okay, so computer buffs certainly do.

It's the trademark of Linux.⁸¹ Now Linux, and we can talk about this a little bit more in a minute, but Linux is an operating system that was originally developed by an individual by the name of Linus Torvalds. Mr. Torvalds personally owns the trademark, Linux.⁸²

But he didn't write all of Linux. Linux is a classic piece of open source software that has been written, and contributed to, by probably hundreds of individuals who have submitted various pieces of code to Mr. Torvalds, who examines that code and he decides whether it's going to be included in Linux or not, and if it is, then they can use that trademark. And if he decides not to include it, they can't use the trademark. So he uses this Linux trademark as a way of maintaining what Linux is, even though he doesn't write Linux. And he did this as a volunteer for many, many years. He didn't get paid for this and he established the standard of Linux.

The next one I'm going to talk about is UNIX, which is something I had some familiarity with. Also, there's a decision in the end of your book of a case that I worked on involving UNIX. But this is an ongoing story that's still in litigation about a computer program that was originally written in 1970.⁸³

Many people in this room were not around in 1970. I was, but I'm going to talk a little bit about the history of UNIX because it illustrates both of the points that I wanted to make today about the use of trademark law and copyright law, and also trade secrets to

⁸⁰ See, e.g., McKenna, *Testing Modern*, *supra* note 65, at 80.

⁸¹ See Linux Mark Institute, <http://linuxmark.org/index.php> (last visited Feb. 13, 2010).

⁸² See *id.*

⁸³ See *SCO Group, Inc. v. Novell Inc.*, 578 F.3d 1201, 1227 (10th Cir. 2009).

some extent, to protect intellectual property, and in this case, a piece of software that dates back to 1970.

It was the first real interactive, multi-user, multi-tasking operating system,⁸⁴ it was a terrific development. As I said, it is still being used today. I talked about how software would never last for a period of a copyright, but here's a piece of software that is still being used today that dates back to 1970 and it's 2009, so that's almost forty years.⁸⁵

The people who developed UNIX worked for AT&T, which at the time was operating under consent decree, prohibiting it from being in the computer business.⁸⁶ So they didn't make computers, and software in those days was sold with computers.⁸⁷

So the only way they decided they could make money from this development was through licensing.⁸⁸ The first thing they did is they licensed it to every major university in the country that had a computer science program.⁸⁹ So if you wanted to learn computer science, starting in 1970, and it's probably still true today, you learned UNIX. Because they would license their source code as if it were a trade secret, every student in the course had to sign an agreement that he would maintain it in confidentiality, and all of

⁸⁴ See D.M. RITCHIE & K. THOMPSON, *THE UNIX TIME-SHARING SYSTEM 1* (Ass'n for Computing Mach., Inc. 1974).

⁸⁵ See *id.*; Alcatel-Lucent, *The Creation of the UNIX Operating System*, <http://www.bell-labs.com/history/unix> (last visited Mar. 31, 2010) [hereinafter *Creation of the UNIX Operating System*].

⁸⁶ See Susan P. Crawford, *Transporting Communications*, 89 B.U. L. REV. 871, 890–91 (2009) (“[Unix was] constrained by the decree, AT&T could not be seen as operating in the computer business.”).

⁸⁷ See *id.* (“[AT&T] licensed the source code for Unix for a nominal fee—it did not want to appear to be in the software business because of the 1956 decree.”).

⁸⁸ See *The UNIX System—History and Timeline—UNIX History*, http://www.unix.org/what_is_unix/history_timeline/html (last visited Jan. 31, 2010) [hereinafter *UNIX History*] (“Since it began to escape from AT&T’s Bell Laboratories in the early 1970’s, the success of the UNIX operating system has led to many different versions: recipients of the . . . UNIX system code all began developing their own different versions in their own, different, ways for use and sale. Universities, research institutes . . . all began using the powerful UNIX system to develop many of the technologies which today are part of a UNIX system.”).

⁸⁹ See *id.*

the trappings of a trade secret license.⁹⁰ Then they would make it available to you and the teachers would use it as a teaching source, that's how you learned how an operating system worked.⁹¹ So it became totally embedded in the culture of computer science as it was practiced in the United States because everybody came out of school an expert in UNIX.⁹²

One of the licenses they distributed was to the University of California at Berkeley.⁹³ Berkeley issued its own version of UNIX.⁹⁴ Because under AT&T's copyright license, you not only got a copy of the source code, but also the right to modify it, it was okay to modify under the license, and therefore, they did.⁹⁵

So Berkeley issued its first, what they call, "BSD" release of UNIX, and AT&T agreed to license it.⁹⁶ This is where it fits in with the theme of this whole presentation.

⁹⁰ See James R. Maddox & Karl Putnam, *Linux for Accountants*, CPA J., Nov. 1, 1999, at 26 ("But as UNIX became a commercially viable product, AT&T became concerned with protecting its trade secrets and added a proviso to the license . . . barring its use as a teaching tool.").

⁹¹ See *id.* ("During its early years Unix became popular among the academic and scientific community thanks to its simplicity as well as its ability to elegantly handle the demands of multitasking, multiuser, networked computing. The UNIX source code, which was widely available at the time, was used in universities to teach [computer science] classes."); Gwyn Firth Murray, *Categorization of Open Source Licenses: It's More Than Just Semantics*, 954 PLI/Pat 63, 78 (2008) ("'Academic' licenses . . . 'promote a . . . kind of freedom, relating to the mission of an academic institution to promote education and scholarship. Teachers are encouraged to publish their ideas rather than hide them under a cloak of secrecy. Students are expected to take what they learn and apply it to their own work, creating new ideas in turn.'" (quoting LAWRENCE ROSEN, *OPEN SOURCE LICENSING: SOFTWARE FREEDOM AND INTELLECTUAL PROPERTY LAW* 73 (Prentice Hall 2004))).

⁹² See *Creation of the UNIX Operating System*, *supra* note 85 ("As UNIX spread throughout the academic world, businesses eventually became aware of UNIX from their newly hired programmers who had used it in college.").

⁹³ See *Unix Sys. Labs., Inc. v. Berkeley Software Design, Inc.*, 832 F. Supp. 790, 794 (D.N.J. 1993).

⁹⁴ See *id.*

⁹⁵ See *id.*; Raju Mudhar, *The Unix Quagmire*, CHANNEL BUS., Mar. 26, 2001, at 1 (noting that AT&T took a dichotomous approach to marketing UNIX because they were "on the one hand trying to protect it as a trade secret and, on the other, allowing universities such as Berkeley to play with it").

⁹⁶ See *Unix Sys. Labs.*, 832 F. Supp. at 794.

But, AT&T offered two different kinds of licenses; you could get a source code license for UNIX that allowed you access to the source code, the confidential source code.⁹⁷ It allowed you to modify it, it allowed you to develop and market software based on UNIX.⁹⁸ But there was one thing you could not do—you could not call it UNIX.⁹⁹

If you wanted to call it UNIX, then you had to take a different license: a trademark license.¹⁰⁰ And if you took the trademark license, then, although you were free to modify it—it still had to function in a certain way. It was subject to quality control by AT&T to make sure it would act like UNIX is supposed to act.¹⁰¹

It would run programs that were written for UNIX so that there was a certain degree of overlap between all versions of UNIX.¹⁰² And under this program, there were, and have been, and continue to be many versions of UNIX that are still being marketed and used throughout the world.¹⁰³

Now what happened was, in the early '90s, a group of professors—they weren't really professors, they were called investigators because they only did research, they didn't teach—who worked at Berkeley and who were involved in developing BSD, decided that they would go into business for themselves.¹⁰⁴ So they developed a new version of the UNIX operating system, but it contained no AT&T code, or supposedly contained no AT&T code.¹⁰⁵

⁹⁷ See *id.*; Marshall Kirk McKusick, *Twenty Years of Berkeley Unix: From AT&T-Owned to Freely Redistributable*, in OPEN SOURCES: VOICES FROM THE OPEN SOURCE REVOLUTION 31, 40 (Chris DiBona et al. eds., 1999).

⁹⁸ See Mudhar, *supra* note 95, at 1.

⁹⁹ *Id.* (noting that “no one was allowed to use the Unix name, so companies differentiated using catchy brands”).

¹⁰⁰ See UNIX History, *supra* note 88.

¹⁰¹ See *id.*

¹⁰² See *id.*

¹⁰³ See *id.*

¹⁰⁴ See McKusick, *supra* note 97, at 40–41, 44.

¹⁰⁵ See *Unix Sys. Labs., Inc. v. Berkeley Software Design, Inc.*, 832 F. Supp. 790, 794 (D.N.J. 1993).

It wasn't a fully functional operating system; it was about 80% effective.¹⁰⁶ They decided they would release that to the public as being free and open, and available to anyone.¹⁰⁷ Then they quit Berkeley and went off and formed their own company,¹⁰⁸ which was going to develop the other 20% that was going to be proprietary to them. They were going to issue source code licenses for \$1,000 a pop.¹⁰⁹ Well, their business model was defeated by Mr. Torvalds, who went and did the same thing,¹¹⁰ but he gave it away.¹¹¹

But meanwhile the University released its incomplete version that it called BSD 4.4, as a free "UNIX."¹¹² But it wasn't UNIX; it had no AT&T code.¹¹³ Well there was a dispute as to whether or not it contained AT&T code.¹¹⁴ It was eventually—I happened to be involved with—resolved by a settlement, where they deleted some code.¹¹⁵ They modified the other code, and AT&T permitted them to use other things.¹¹⁶

So Berkeley was eventually, with AT&T's blessing, able to come out with a free, though incomplete, version of UNIX and that formed the basis for Linux.¹¹⁷ It also forms the basis for other open source versions of an operating system that can't be called UNIX, but function very much like UNIX.¹¹⁸

¹⁰⁶ McKusick, *supra* note 97, at 42–43 ("Closing the gap from the Networking Release 2 distribution to a fully functioning system did not take long. Within six months of the release, Bill Jolitz had written replacements for the six missing files.").

¹⁰⁷ *See id.* at 40–41.

¹⁰⁸ *See id.* at 41.

¹⁰⁹ *See id.*

¹¹⁰ *See* David Bender, *SCO v. IBM: The Gathering Storm*, 808 PLI/Pat 75, 80–83 (2004) ("Linux is a clone or variant of UNIX System V software and, unlike UNIX software, is distributed free."); Linus Mark Institute, <http://linuxmark.org/index.php> (last visited Feb. 9, 2010).

¹¹¹ Bender, *supra* note 110, at 80.

¹¹² McKusick, *supra* note 97, at 45.

¹¹³ *See* *Unix Sys. Labs., Inc. v. Berkeley Software Design, Inc.*, 832 F. Supp. 790, 795 (D.N.J. 1993).

¹¹⁴ *See id.* at 793.

¹¹⁵ McKusick, *supra* note 97, at 45.

¹¹⁶ *See id.*

¹¹⁷ *See id.* at 46 (discussing how BSD 4.4 set the stage for the open source movement, including Linux).

¹¹⁸ *See* *Unix Sys. Labs.*, 832 F. Supp. at 793–94.

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Novell is a company that used to make networking software.¹¹⁹ They bought all the rights to UNIX, from AT&T.¹²⁰ They decided they were going to split up the trademark and the code rights completely. They took the trademarks and donated them to a foundation called X/Open, now called Open Group, and they own the trademark rights to UNIX.¹²¹

They also, because they were having trouble marketing it and developing it themselves, sold all of the rights to their version of the UNIX operating system, and maybe the copyrights to UNIX, to a company called SCO.¹²²

And from 2001 to 2003, two lawsuits were brought: SCO sued IBM, and a number of other companies, claiming that Linux infringed the UNIX copyrights;¹²³ and Open Group, which is a successor to X/Open, sued Apple Computer for trademark infringement, because Apple Computer had come out with their new OS X operating system, which they claimed was UNIX.¹²⁴

Apple had a license, they had a code license, but they didn't have a trademark license.¹²⁵ So X/Open sued them because they claimed that Apple didn't have the right to use the name UNIX, and, in defense, Apple claimed that UNIX had become generic: everybody applies it to all versions of UNIX,¹²⁶ so we can call it UNIX, even though we don't have a license.

What happened, ultimately, is that Apple settled. They took a license from Open Group, they got certified. So, OS X is now genuine UNIX.

¹¹⁹ Pressroom—Novell Corporate, <http://www.novell.com/news/press/pressroom/history.html> (last visited Feb. 5, 2010).

¹²⁰ See Michael Faulkner & Eric Goldman, *SCO and the Battle over UNIX: A Clear Explanation*, INFORMIT, June 18, 2004, <http://www.informit.com/articles/article.aspx?p=175171&seqNum=2>.

¹²¹ See Ian Fried, *Apple in Court Dispute over UNIX*, CNET NEWS, June 12, 2003, <http://www.zdnetasia.com/news/hardware/0,39042972,39136146,00.htm>.

¹²² See *id.*

¹²³ See Second Amended Complaint at 50–52, *SCO Group, Inc. v. Int'l Bus. Machs. Corp.*, No. 03-CV-0294 (D. Utah Feb. 27, 2004).

¹²⁴ See Fried, *supra* note 121.

¹²⁵ See *id.*

¹²⁶ See *id.*

What happened with the dispute between SCO and IBM? It is still going forward because a dispute arose between SCO and Novell, which claimed they never sold the copyrights.¹²⁷ The district court initially ruled in favor of Novell.¹²⁸ But, in August of this year, the Tenth Circuit reversed and sent the case back.¹²⁹ So, that case from 2003 is still pending,¹³⁰ six years later, with no one knowing who owns the copyrights to the UNIX software.¹³¹

From our point of view, the interesting thing about the case is that you have trademark protection, which is used in the UNIX case to define what a UNIX operating system is. But that is totally separated from the copyright in the source code, which permits people to use UNIX as a source and develop anything they want.

Microsoft, for example, has a license from UNIX and there is UNIX code in Microsoft Windows today. So, it's just an illustration about how trademark law and copyright law can be used effectively, at least in the source software area, to protect technology.

Thank you.

PROF. HANSEN:

Thank you, George. Now we're going to take a little break and time for questions, comments, thoughts. And, then we'll go on to Professor Sandeen.

I have a question. Roger?

MR. MILGRIM:

Yes, I can think standing up.

PROF. HANSEN:

¹²⁷ See *SCO Group, Inc. v. Novell Inc.*, 578 F.3d 1201, 1209 (10th Cir. 2009).

¹²⁸ See *SCO Group, Inc. v. Novell Inc.*, No. 2:04CV139DAK, 2004 WL 4737297, at *11 (D. Utah 2004); see also Ian Bruce, *SCO v. Novell Ruling Is Good News*, NOVELL NEWS, July 21, 2008, <http://www.novell.com/prblogs/?p=488>.

¹²⁹ See *SCO Group*, 578 F.3d at 1227.

¹³⁰ After this Symposium was held, on March 30, 2010, a jury issued a verdict in favor of Novell and decided that Novell "owns the rights to the Unix operating system." Susan Decker, *Novell Owns Unix Copyrights, Not SCO Group, Jury Says (Update 1)*, BUS. WK., Mar. 30, 2010, <http://www.businessweek.com/news/2010-03-30/novell-owns-unix-copyrights-jury-says-in-defeat-for-sco-group.html>.

¹³¹ See Tom Harvey, *SCO Group's Lawsuits Are Back on Track*, SALT LAKE TRIB., Nov. 27, 2009, http://www.sltrib.com/technology/ci_13867657.

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Yes. It always seems to me that one of the problems with trademark protection is the scope of an injunction. And, especially courts that say, “okay we’ll enjoin it for the time it would have taken you to independently develop it.” Or, there seems to be a hostility, of at least some courts, towards granting what I would consider an effective injunction against an infringer.¹³²

Do you agree or disagree with that?

MR. GRAFF:

You mean trade secrets—not trademark.

MR. MILGRIM:

You mean trade secrets.

PROF. HANSEN:

Yes, that’s another thing. When I misspeak, I’m trying to involve you intellectually to figure out what I’m saying so you can actually own part of this thing and feel closer to it. So, just be on the alert for that in the future.

MR. MILGRIM:

First of all, I think it’s a useful question because, particularly for those of you who are students, most of the discussions today have been on what I would call substantive law. Substantive law really doesn’t matter very much. Remedies matter. So, now we’re asking the “so what” question.

You’ve got a trade secret, you prevail. What sort of relief can you get?

It is accurate that, in the typical case, and there are exceptions, the misappropriator will be prohibited—enjoined—from doing the same thing for a period of time that independent development would have taken.

That corresponds to the nature of the right of trade secret because trade secret only protects against tortious development or

¹³² See UNIF. TRADE SECRETS ACT § 2, 14 U.L.A. 433 (1985); see, e.g., *K-2 Ski Co. v. Head Ski Co.*, 506 F.2d 471, 474 (9th Cir. 1974) (indicating that the maximum appropriate duration of both temporary and permanent injunctive relief is the period of time it would have taken defendant to discover trade secrets lawfully through either independent development or reverse engineering of plaintiff’s products).

development in breach of contract, but not genuine independent development.¹³³ George and I could probably talk for quite a while about so called clean room development and the challenges there.

Now, there are some exceptions. And, I will tell you about a case in the Western District of New York, where the trade secret injunction was perpetual and permanent.¹³⁴ That was a case about a French developer of a technology that was based on the Archimedes screw—a technology that was 2,500 years old.¹³⁵

He had perfected it to permit its use in maritime applications in submarines, and in silent operation of equipment in submarines. Silent operation is very important to avoid detection. He licensed it to a major company. I think it was Dresser-Rand.¹³⁶ Some employees at Dresser-Rand misappropriated it,¹³⁷ making a long story very short and because of the overwhelming proof that no one, including the United States Navy, which had tried for almost twenty years, had been able to achieve the result.¹³⁸ No one had been able to master the Archimedes screw principle in a silent operation mechanism. Because of the egregious nature of the misappropriation, the court granted, quite literally, a perpetual injunction—meaning forever.¹³⁹ So, the answer is, in the ordinary case, you're going to get independent development time, which the plaintiff has the burden to prove. But in the exceptional case, you may get a “no, no, never, not that.”

PROF. HANSEN:

Okay, now in terms of: “I’m someone. Should I misappropriate this trade secret? What’s the downside?” I don’t see that there’s a downside because, if I’m not caught, I’m using it. If I’m caught, all I have to do is wait until I could have done it, but I don’t have to pay the expense of doing it. What actually is the

¹³³ See UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 433.

¹³⁴ See *Monovis, Inc. v. Aquino*, 905 F. Supp. 1205 (W.D.N.Y. 1994).

¹³⁵ See *id.* at 1216.

¹³⁶ *Id.* at 1209.

¹³⁷ *Id.* at 1235.

¹³⁸ See *id.* at 1225.

¹³⁹ *Id.* at 1235–36 (“This Court will accordingly permanently enjoin the defendant from not only using and disclosing the plaintiff’s trade secrets, but also from competing in the market for single-screw compressor technology and products.”).

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downside to misappropriating trade secrets? It's rare that you get damages, isn't it?

MR. MILGRIM:

No. It's common that you get damages.

PROF. HANSEN:

It's common?

MR. MILGRIM:

The ordinary form of protection is injunction, but the additional remedy of damages is not only commonplace, it is often the principal remedy.¹⁴⁰

PROF. HANSEN:

And, is it damages just as what a license would have been? Or, what other damages?

MR. MILGRIM:

Well, the theory of damages in the UTSA and in most of the Restatement cases is that, if you can prove misappropriation, then you can recover damages including the actual loss caused by misappropriation and unjust enrichment.¹⁴¹ Suppose you have a unique product and the misappropriation results in a competitor, where before there were none. You could make a reasonable case for the fact that every sale made by the defendant would have been made by you. And, therefore, you get into the damages area also. That's usually a tough case to prove—that you would have sold it yourself or you would have made the profit.

Unjust enrichment, which seems to be little understood by many practicing lawyers, is a burden contest. If the plaintiff understands what it's doing and the defendant doesn't, it can be a disaster for the unwary defendant. The rule for unjust enrichment is, "I can't prove what my damages would have been, but I'm going to take your unfairly gained profits, and they're going to go to me."¹⁴² All a plaintiff has to prove is gross revenues, and the

¹⁴⁰ UNIF. TRADE SECRETS ACT § 3(a) cmt., 14 U.L.A. 433 (1985).

¹⁴¹ *Id.* § 3.

¹⁴² *See id.*

defendant has the burden of establishing legitimate deductions.¹⁴³ And, let me tell you, most defendants are fairly clueless about doing that. By the way, trade secret protection is available under both unfair competition principles and contract law, and unjust enrichment is not a remedy for contract breach.¹⁴⁴ But, keep in mind that wrongfully using or disclosing a trade secret in breach of a contract may also be a violation of the UTSA.¹⁴⁵

PROF. HANSEN:

So, you would conclude that damages are an effective remedy in trade secret?

MR. MILGRIM:

Yes, absolutely.

MR. GRAFF:

And, let me add that the statute permits both, so long as you don't duplicate.

MR. MILGRIM:

Right.

PROF. SANDEEN:

I wanted to add that, under the UTSA, even though a judge might enter what seems to be, on its face, a perpetual injunction, you have the opportunity to go back to the court later and say that the trade secret was subsequently disclosed, and, therefore, to have the injunction rescinded.¹⁴⁶

MR. MILGRIM:

Or, independently developed in the ordinary case.

PROF. HANSEN:

You could disclose it, couldn't you?

MR. MILGRIM:

¹⁴³ See *id.* § 3 cmt.

¹⁴⁴ RESTATEMENT (SECOND) OF CONTRACTS § 345 (1981).

¹⁴⁵ See UNIF. TRADE SECRETS ACT § 1, 14 U.L.A. 433; see, e.g., Roton Barrier, Inc. v. Stanley Works, 79 F.3d 1112, 1118 (Fed. Cir. 1996); Ed Nowogroski Ins., Inc. v. Rucker, 971 P.2d 936, 942–48 (Wash. Sup. Ct. 1999).

¹⁴⁶ See UNIF. TRADE SECRETS ACT § 2(a), 14 U.L.A. 433.

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No, it was disclosed by a third party.

PROF. SANDEEN:

It was disclosed by a third party.

PROF. HANSEN:

But you could take care of that, by just—

MR. ROGER MILGRIM:

That doesn't permit you to either alter the injunction or to get relief.

MR. SHARON SANDEEN:

And, that was one of the things that the UTSA added, which the Restatement did not recognize.

PROF. HANSEN:

Sir, you had a question?

MR. HOFFBERG:

Yes.

PROF. HANSEN:

And, please just give your name and affiliation.

MR. MILGRIM:

Before you do, could we just finish one part to the answer to this question, would you mind? Your question, really, in a sense, leads into a topic that will come up later in our panel. Because, what you're saying is, the concern is that someone will use your trade secret in a way that you can't detect, and, therefore, effectively, you won't have a remedy because you won't bring a cause of action. That is the great dilemma when choosing between patents and trade secrets, for example, for processes. How are you going to prove that a third party is using your process?

So, putting that into the decisional equation: do you want to keep it secret and minimize the risk? Or, do you want to comply with the Patent Act, disclose the best, most insufficient way to enable one to practice the invention,¹⁴⁷ and then hope that you'll be able to discover the wrongdoer?

¹⁴⁷ 35 U.S.C. § 112 (2006).

There are lots of things that may escape detection. But let me tell you what happens. You usually work with people. People are very unreliable. They leave an employment sometimes with hard feelings. They trudge off to a competitor, and what you thought was a perfect secret—that no one would know your skull-drudgery—becomes known to the owner of the intellectual property within a matter of a few months. It happens a lot.

MR. GRAFF:

Let me ask on damages also. Because you're dealing in state courts and misappropriation is inherently willful, the statute permits treble damages and attorneys' fees as well,¹⁴⁸ so that, there is significant damage exposure. Those of you who read about the recent SMIC case, where the plaintiff prevailed on the merits, and they settled the case for \$200 million, that's not an insignificant sum.¹⁴⁹

PROF. HANSEN:

No, I don't think that is insignificant.

MR. MILGRIM:

Sorry, we didn't mean to interrupt your question.

MR. HOFFBERG:

That's okay. I wanted to go back to—

PROF. HANSEN:

Name?

MR. HOFFBERG:

Steve Hoffberg of Hoffberg & Associates. Going back to *Bilski*, I believe the District Court decision was the first disclosure of Bilski's patent application.¹⁵⁰ So, I think you could say he had his cake and ate it too—that it was a trade secret until the District Court published it. Now, with respect to the use of that, I think the

¹⁴⁸ See UNIF. TRADE SECRETS ACT § 4, 14 U.L.A. 433.

¹⁴⁹ Posting of Zisha Elinson to Legal Pad, *TSMC-SMIC Trade Secrets Case Settles for \$200 Million*, http://legalpad.typepad.com/my_weblog/2009/11/tsmcsmic-trade-secret-case-settles-for-200-million.html (Nov. 9, 2009, 12:47 PST).

¹⁵⁰ See *In re Bilski*, 545 F.3d 943, 949–50 (Fed. Cir. 2008) (en banc), cert. granted sub nom. *Bilski v. Doll*, 129 S. Ct. 2735 (2009), argued sub nom. *Bilski v. Kappos*, No. 08-964, 2009 WL 3750776 (Nov. 9, 2009).

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method required disclosing to the various counter-parties what exactly the transaction was that they were entering into. So, I don't think it could be practiced while maintaining the underlying method as a secret.

MR. GRAFF:

It's going to be disclosed if the patent is issued. If it's not limited to the United States, it's going to be disclosed after eighteen months, if you file a patent application.¹⁵¹

MR. HOFFBERG:

Right, but he probably requested non-publication.

MR. GRAFF:

So, if the patent is ever issued, it wouldn't be secret any more.

MR. HOFFBERG:

That's true, but I don't think that method could be practiced without disclosing what transaction people are entering into.

MR. GRAFF:

Well that's—

MR. MILGRIM:

There are actually a lot of ways of not disclosing what you're licensing, if it's a trade secret. There is a traditional form of licensing, in the chemical process and related areas, frequently called "Black Box Licensing." And, what that consists of is that the licensor doesn't say how the technology works, but rather, how it will perform. It will give you this output with this much raw material, this utilization of energy, this effluent blah-blah-blah, and it describes, almost as representations and warranties, what it will do. You can either disclose or not disclose. That technique in licensing is frequently used in so-called "Turnkey plant licensing."

MR. HOFFBERG:

Right, but *Bilski* involved transferring risk from one party to the other. So, it was a central person who would figure out what the deal was. He would then match a buyer and a seller, basically, and you had to tell them what it was that they were transferring.

¹⁵¹ See 35 U.S.C. § 122(b).

MR. GRAFF:

In hedging transactions, if you ever work with hedge funds or people like that, you'll find that they have all kinds of techniques to conceal what they're doing—they have to. They work through different brokers. They use small transactions through many different brokers so that you can't really tell what they're doing. They use anonymous names for one transaction and different—there's lots of ways they can maintain secrecy in these kinds of things.

MR. MILGRIM:

Just as in chemical processing, by way of analogy, it is common, where a raw material is a critical ingredient that the process will work with a raw material supplied by supplier A, but not by B, C or D. The critical raw material is commonly sent to a third party. It's relabeled, it's disguised, and it ultimately comes back. That's used in foods too, and beverages. There are a lot of ways that people can avoid your knowing so easily, and that's what they do.

PROF. HANSEN:

I think we're going to have to cut it off now. Thanks, that was an interesting interchange. Is there anyone else with questions on these issues?

I have one final thing, before we go on. What is the role—first of all, what is the role of the UTSA? Does it create any uniformity? And, to what extent are courts really common law even though there's this guiding, or maybe even enacted statute? And, are there any states that are more protective or less protective of trade secrets than others?

In two sentences.

PROF. SANDEEN:

I think we might have a difference of opinion on that. Mr. Milgrim and I might have a difference of opinion on that.

PROF. HANSEN:

Well fine, good.

MR. MILGRIM:

Well, let me put it this way; the UTSA has, not in all adopted versions, but it has a specific provision to the effect that: “The decisions of sister states shall be accorded respect, for the purpose of achieving uniformity.”¹⁵² Because trade secret law is so fact-intensive, it is the facts that relate to the recognition or non-recognition of a trade secret that are critical.¹⁵³ That really isn’t so much a focus of law, as advocacy. Having said that, I would say that the most important state under the UTSA—the law of the most important state is California.¹⁵⁴ California is overwhelmingly the most significant commercial and economic state in the union. It represents about 13% or more of gross domestic product,¹⁵⁵ and a lot of trade secret law emanates from California.¹⁵⁶ It’s by and large quite protective of trade secret owners.¹⁵⁷

In its abysmal decision last year in *Arthur Andersen*,¹⁵⁸ the Supreme Court of California managed to interpret a statute, California Business and Professions Code 16600, without adequately or deeply dealing with its pertinent provisions.¹⁵⁹ But, putting that aside, aside from its poor performance with restrictive covenants where it arguably underanalyzes and perhaps misreads its own statute, California law, and the UTSA, it has been reasonably good. The most difficult thing in a trade secret case is

¹⁵² UNIF. TRADE SECRETS ACT § 8, 14 U.L.A. 433 (“This [Act] shall be applied and construed to effectuate its general purpose to make uniform the law with respect to the subject of this [Act] among states enacting it.”).

¹⁵³ See *CDI Energy Servs., Inc. v. W. River Pumps, Inc.*, 567 F.3d 398, 402 (8th Cir. 2009) (stating that in some cases, but not in this one, the information at issue may be considered a trade secret); see also *Advanced Modular Sputtering, Inc. v. Superior Court*, 33 Cal. Rptr. 3d 901, 908 (Cal. Ct. App. 2005) (stating that the burden of proof to determine whether something is a trade secret varies case-by-case).

¹⁵⁴ See *infra* notes 155–57 and accompanying text.

¹⁵⁵ Gross State Product (2010), http://www.statemaster.com/red/pie/eco_gdp-gross-state-product-current-dollars (last visited Feb. 14, 2010). California contributes 13.2% of the total Gross Domestic Product, by far the largest proportion of any state in the union. *Id.*

¹⁵⁶ See Karl F. Jorda, *Federalizing Trade Secret Law: A Cause Whose Time Has Come*, GERMESHAUSEN CENTER NEWSL. (Franklin Pierce Law Ctr., Concord, N.H.), Summer/Fall 2008, at 11, 13, available at <http://www.piercelaw.edu/assets/pdf/germeshausen-newsletter-08-sf-editor.pdf> (stating that most federal trade secret cases come from Northern California).

¹⁵⁷ See CAL. PENAL CODE § 499c(b) (West 2009).

¹⁵⁸ *Edwards v. Arthur Andersen LLP*, 189 P.3d 285 (Cal. 2008).

¹⁵⁹ See *generally id.* at 298–99 (Kennard, J., dissenting).

early on, and that is identifying the trade secret with particularity.¹⁶⁰ California has a unique statute: California Code of Civil Procedure 2019.1,¹⁶¹ I think.

MR. GRAFF:

No, they've changed the number.

MR. MILGRIM:

They changed the number, they have an "a" or something, but it's in 2019. If you get that far, you're there. And there's been decades of litigation of, "how much is enough?" That is a tough one because protective orders are a ducky thing, and we all know that all attorneys are ethical and will never disclose your trade secret—until they do.¹⁶² So, everybody's reluctant to reveal their trade secrets in a trade secret litigation.¹⁶³ And, that's one of the difficulties, in pragmatic terms.

MR.. HUGH HANSEN:

Sharon, were you saying that you disagree on something?

PROF. SANDEEN:

I think the issue of how uniform is trade secret law, based on the UTSA, depends on how you look at that issue. Is it an issue of application, which I think Mr. Milgrim is talking about. Or, is it an issue of—

PROF. HANSEN:

I think you can call him Roger.

PROF. SANDEEN:

¹⁶⁰ *Advanced Modular Sputtering, Inc. v. Superior Court*, 33 Cal. Rptr. 3d 901, 907–08 (Cal. Ct. App. 2005) (“‘Reasonable particularity’ . . . does not mean that the party alleging misappropriation has to define every minute detail of its claimed trade secret at the outset of the litigation. . . . Rather, it means that the plaintiff must make some showing that is reasonable The degree of ‘particularity’ that is ‘reasonable’ will differ, depending on the alleged trade secrets at issue in each case.”).

¹⁶¹ CAL. CIV. PROC. § 2019.210 (West 2010).

¹⁶² *See Westinghouse Elec. Corp. v. Newman & Holtzinger, P.C.*, 46 Cal. Rptr. 2d 151, 153 (Cal. Ct. App. 1995) (noting that plaintiff’s complaint alleged defendant attorneys unlawfully disclosed secret information).

¹⁶³ *See* Darin W. Snyder & David S. Almeling, *The Identification Issue in Trade Secret Litigation*, TRADE SECRET BLOG, Aug. 26, 2008, http://www.tradesecretsblog.info/2008/09/the_identification_issue_in_tr.html.

Roger. Or, is it—

MR. MILGRIM:

You can call me anything you want, really.

PROF. SANDEEN:

Or, is it an issue of the wording of the statute? Certainly, in the UTSA—it's been adopted in 45 of the 50 states,¹⁶⁴ there are some differences in the language. For instance, in California, “readily ascertainable” was put—the burden, basically, was shifted on that issue in the way they set up the statute.¹⁶⁵

MR. MILGRIM:

Well, the California legislature deleted that phraseology from the statute in the form that California adopted.¹⁶⁶ If you read the statutory history, which I've done on a few occasions, they did it because they thought the presence of that phraseology would make it easier to attack a trade secret.¹⁶⁷ That may or may not have been the case, but it was not intended to weaken trade secret law. It was intended to strengthen it.

PROF. SANDEEN:

Right. But, it has the effect of basically shifting the burden on that particular issue. On the issue of the discovery of trade secrets—I'm a California lawyer, by the way, and I've practiced law in California for over fifteen years. I was on the downside of trade secret cases where the plaintiff refused and refused and refused and refused and refused to disclose any details about the trade secret, and it cost literally millions of dollars to litigate the issue.

¹⁶⁴ See Uniform Law Commissioners, A Few Facts About the . . . Uniform Trade Secrets Act, http://www.nccusl.org/Update/uniformact_factsheets/uniformacts-fs-utsa.asp (last visited Apr. 8, 2010); see also David S. Almeling, *Four Reasons to Enact a Federal Trade Secrets Act*, 19 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 769, 773 (2009) (noting that Massachusetts, New Jersey, New York, and Texas have not adopted the UTSA); James P. Flynn, *Whatsa UTSA? New Jersey and the Uniform Trade Secrets Act*, 196 N.J. L.J. 72, 72 (2009), available at <http://www.ebglaw.com/showarticle.aspx?Show=10659>.

¹⁶⁵ See CAL. CIV. CODE § 3426.1(d) (West 2010).

¹⁶⁶ *Id.* at cmt. 5.

¹⁶⁷ See *id.*

So, we can debate whether the California rule is good or not, but they obviously drew the line more in favor of the defendant in those cases. If you make a trade secret claim in California, you have to, at some point, not at the pleading stage, but you have to identify it with more particularity than just saying “my business information” or “my customer list.”¹⁶⁸ The other thing I’ll say is, and I’m proud of this fact, California is much more solicitous of employees than any other state in the country. That’s reflected in its laws and rulings on restrictive covenants.¹⁶⁹

PROF. HANSEN:

Well, with that, why don’t we introduce Sharon formally? She’s currently at Hofstra out in Long Island. How do you like it over there?

PROF. SANDEEN:

Great.

PROF. HANSEN:

How do you like Long Island?

PROF. SANDEEN:

I like it. I get to see the Atlantic Ocean.

PROF. HANSEN:

Pardon me?

PROF. SANDEEN:

I get to see the Atlantic Ocean.

PROF. HANSEN:

Oh yes, there you go. What do you do in Minnesota besides freeze? Do you like Minnesota?

PROF. SANDEEN:

No, I like Minnesota, it’s fun. I go to the Guthrie a lot and watch basketball.

¹⁶⁸ See *Advanced Modular Sputtering, Inc. v. Superior Court*, 33 Cal. Rptr. 3d 901, 908 (Cal. Ct. App. 2005) (requiring sufficient particularity in trade secret cases while leaving open the question to future courts to determine what constitutes sufficient particularity).

¹⁶⁹ See, e.g., CAL. BUS. & PROF. CODE § 16600 (West 2008) (establishing California’s policy against restrictive covenants in employment agreements).

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PROF. HANSEN:

You were 15 years in practice, I think, in California, roughly?

PROF. SANDEEN:

Right.

PROF. HANSEN:

Then you were at Hamline University in St. Paul, Minnesota, in 2002. You've written—I think you have a book coming out on trade secrets. Isn't that true?

PROF. SANDEEN:

Right, a casebook.¹⁷⁰

PROF. HANSEN:

A casebook. Recently, also, a property deskbook for business lawyers.¹⁷¹ What type of stuff is in that?

PROF. SANDEEN:

It's published by the ABA. It has eighteen chapters which are based on different business transactions, giving a summary of the IP issues that arise in different business transactions.¹⁷²

PROF. HANSEN:

You went to Berkeley, undergraduate. Then you left to go to McGeorge.

PROF. SANDEEN:

Yes.

PROF. HANSEN:

Then you went back to Berkeley for an LLM. What is it about Berkeley that particularly attracts you there?

PROF. SANDEEN:

Well, I was born in Oakland. So, it's like—it's my place.

¹⁷⁰ SHARON SANDEEN & ELIZABETH A. ROWE, *CASES AND MATERIALS ON TRADE SECRET LAW* (forthcoming West 2011).

¹⁷¹ SHARON K. SANDEEN, *INTELLECTUAL PROPERTY DESKBOOK FOR THE BUSINESS LAWYER, A TRANSACTION BASED GUIDE TO INTELLECTUAL PROPERTY LAW* (ABA 2d. ed. 2009).

¹⁷² *Id.*

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PROF. HANSEN:

I think we've probably explored your personal life a little more than anyone else. Oh no, okay, you're in Chicago.

MR. MILGRIM:

I am?

PROF. HANSEN:

I thought you were originally. Never?

MR. MILGRIM:

Philadelphia.

PROF. HANSEN:

Philadelphia? Same thing, alright.

PROF. SANDEEN:

It's the East Coast versus the West Coast here.

PROF. HANSEN:

George, where are you based?

MR. GRAFF:

New York.

PROF. HANSEN:

Where were you born?

MR. GRAFF:

New York City.

MR. MILGRIM:

Just George and I, and a handful of others.

PROF. HANSEN:

Basically, New York is the center of the universe, and we send out people to continue this center. Alright. Go ahead.

PROF. SANDEEN:

Thank you. I just want to echo all the thanks that people gave to the organizers earlier. This has been a great opportunity. I want to say, sincerely, that I'm very honored to be on the panel with Roger Milgrim and George Graff. When I started practicing law, actually twenty-four years ago next month, and I got my first trade

secret case, of course *Milgrim on Trade Secrets*¹⁷³ was the source to go to for information, and it still is. When I decided to change professions and become a law professor and I surveyed the landscape and said, “Gee, where should my area of scholarship be?,” I decided to pick trade secret law because of that experience and because I thought it was an area of law that is under-explored “in the academy” as we say. I want to thank the organizers for including a trade secret session in this symposium because it hasn’t been until the last few years that trade secret has, as I like to say, “changed from being the ugly step-sister of IP to being the Cinderella of IP.”¹⁷⁴

I want to talk about the pros and cons of multiple forms of protection. I definitely agree with what was stated earlier about the need to look at all different forms. In fact, and my students are hopefully at home studying, I always give a final, the hypothetical of which is: a client walks into your office with some invention, creativity, etc., and you have to advise them how to protect it.

I tell my students, if you do not talk about the four disciplines that we learn in IP,¹⁷⁵ in the IP survey course, then you’re not serving your client well. You have to examine all four disciplines, so I agree with that. As a lawyer, I try to follow my own advice. So, when I was wearing my lawyer hat, it was my job to consider all of those forms of protection. I would add an additional form of protection that I think was alluded to with the reference to licensing: contract law and the use of contract law.

Now, I think the general assumption may be that the greater the forms of protection, the better it is for the client. But, I don’t think that is necessarily true because of costs and other factors. Now, when I’m wearing my professor hat—and the general difference between a lawyer and a law professor is, of course, that lawyers are

¹⁷³ See MILGRIM & BENSON, *supra* note 1.

¹⁷⁴ Sharon K. Sandeen, *The Cinderella of Intellectual Property Law: Trade Secrets*, in 2 INTELLECTUAL PROPERTY AND INFORMATION WEALTH: ISSUES AND PRACTICES IN THE DIGITAL AGE 399, 399 (Peter K. Yu ed., Praeger Perspectives 2007).

¹⁷⁵ Generally, the four main areas of intellectual property law are considered to be trade secret law, patent law, copyright law, and trademark law. LYDIA PALLAS LOREN & JOSEPH SCOTT MILLER, INTELLECTUAL PROPERTY LAW: CASES & MATERIALS 4 (Semaphore Press 2009).

very concerned with what the law is, and law professors are very concerned with what the law should be. In looking at the issue of the impact of overlapping protection, I'm concerned about what is happening to the dissemination of knowledge and to the principle of free competition. I'm also concerned, and I think most IP professors are concerned, about whether the asserted goals of the various forms of IP are actually true. Then, with respect to state law disciplines, of which trade secret is one, of course, we have to be concerned about preemption problems, federal preemption.¹⁷⁶

Now, there are different functions of "functionality," and one of them is to channel protection from one form of IP to another form of IP.¹⁷⁷ For instance, the useful article doctrine in copyright¹⁷⁸ channels protection to patent law,¹⁷⁹ same with the functionality doctrine in trademark.¹⁸⁰ But another way to look at the functionality doctrine is that it defines the types of things that should never be protected. Or, what I should say, is not the functionality doctrine, but the different principles of functionality. For instance, the idea-expression dichotomy in copyright,¹⁸¹ and the patent doctrine that prevents the patenting of abstract ideas¹⁸² obviously has identified ideas as things that should not be protectable.

¹⁷⁶ See Scott Feldmann, *Preemption Defenses in IP Litigation*, ORANGE COUNTY LAWYER, Sept. 2008, at 26, 27, available at http://www.crowell.com/documents/Preemption-in-IP-Cases_Feldmann.pdf.

¹⁷⁷ See Mark P. McKenna, *An Alternate Approach to Channeling?*, 51 WM. & MARY L. REV. 873, 877-78 (2009) [hereinafter McKenna, *An Alternate Approach*].

¹⁷⁸ 17 U.S.C. § 101 (2006) ("[T]he design of a useful article, as defined in this section, shall be considered a pictorial, graphic, or sculptural work only if, and only to the extent that, such design incorporates pictorial, graphic, or sculptural features that can be identified separately from, and are capable of existing independently of, the utilitarian aspects of the article.").

¹⁷⁹ McKenna, *An Alternate Approach*, *supra* note 177, at 873.

¹⁸⁰ 15 U.S.C. § 1052(e); McKenna, *An Alternate Approach*, *supra* note 177, at 876.

¹⁸¹ 17 U.S.C. § 102(b); see ROGER E. SCHECHTER & JOHN R. THOMAS, *INTELLECTUAL PROPERTY: THE LAW OF COPYRIGHTS, PATENTS AND TRADEMARKS* 32 (2003) ("[C]opyright protects only the *expression* contained within a work and not the underlying plot, or theme, or insight of the work.").

¹⁸² See *Rubber-Tip Pencil Co. v. Howard*, 87 U.S. 498, 507 (1874) ("An idea of itself is not patentable, but a new device by which it may be made practically useful is.").

One of the ways this has been expressed is that certain information should be as free as the air for all to use.¹⁸³ So, one of the things that I wanted to address today, and particularly since I knew there would be students and practicing lawyers, is: why should attorneys and their clients care about the limits that are placed on IP protection, including the limits that are placed on trade secret protection? Now, this debate is often presented as a balance between the interests of the IP owner and the public with the public interest, I think, being valued far less than the business interest. Often, this debate is expressed as a contest between IP protection and public access, or between private property rights and the public domain. But, I think there's another way to look at the debate. And, this is certainly something that I experienced in my years of practice, which was: IP law has a push-me-pull-you quality. Every time you give IP protection, or more IP protection, to one business or one business is able to acquire that, you're basically reducing the ability of other companies to compete, to innovate, and to hire without fear of a lawsuit.

Then, the other way to look at it—and again, this was my experience practicing in Sacramento—is that a lot of times this competition is between the big companies that can afford to acquire IP rights, and, more importantly, particularly when we're talking about trade secrets, those who can afford to enforce their IP rights as opposed to the mom-and-pop store on the corner, that, although they might be perfectly within their rights to do what they're doing, and in fact they might own IP rights, they don't have the wherewithal to actually enforce them.

¹⁸³ The general rule of law is, that the noblest of human productions—knowledge, truths ascertained, conceptions, and ideas—become, after voluntary communication to others, free as the air to common use. Upon these incorporeal productions *the attribute of property is continued after such communication only in certain classes of cases where public policy has seemed to demand it*. These exceptions are confined to productions which, in some degree, involve creation, invention, or discovery. But by no means all such are endowed with this attribute of property.

Int'l News Serv. v. Associated Press (*INS*), 248 U.S. 215, 250 (1918) (Brandeis, J., dissenting) (emphasis added).

My concern is really about what I refer to—but I wasn't the first one to do so—as the first principle of intellectual property law: free competition.¹⁸⁴ What I've put up on the slide, this is actually the first line of the comments of section 757 of the Restatement (First) of Torts.¹⁸⁵ The first line of section 757 of the Restatement (First) of Torts is that: "The privilege to compete with others . . . includes a privilege to adopt their business methods, ideas or processes of manufacture. Were it otherwise, the first person in the field with a new process or idea would have a monopoly which would tend to prevent competition."¹⁸⁶ So, free competition is a rule, IP protection is the exception.

So, how did we move from a strong principle of free competition to the development of more and more IP protection? Well, we did that, theoretically at least, by defining or attempting to define, a public interest that is greater than the principle of free competition. In the *INS v. Associated Press*¹⁸⁷ case, which for the students in the audience, hopefully you've been exposed to that and hopefully the lawyers in the audience as well, that's where a cause of action was basically found to protect information which was not otherwise protected by copyright.¹⁸⁸

In the dissent, Justice Brandeis referred to this principle of free competition.¹⁸⁹ In commenting on why we sometimes make exceptions to it, [he said] it's because we think that there is a public policy that is greater than the principle of free competition.¹⁹⁰ Now, obviously, in the case of patent law, what we think is more important is the idea of encouraging innovation.¹⁹¹

¹⁸⁴ See, e.g., *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 161 (1989) (striking down a Florida statute that was found to be "eroding the general rule of free competition upon which the attractiveness of the federal patent bargain depends").

¹⁸⁵ RESTATEMENT (FIRST) OF TORTS § 757 cmt. a (1939).

¹⁸⁶ *Id.*

¹⁸⁷ *Int'l News Serv. v. Associated Press*, 248 U.S. 215 (1918).

¹⁸⁸ *Id.* at 245–46 (holding that International News Service's practice of appropriating for commercial use early editions of competitor Associated Press publications constituted unfair competition in trade).

¹⁸⁹ *Id.* at 250–51.

¹⁹⁰ *Id.*

¹⁹¹ U.S. CONST. art. I, § 8, cl. 8 ("To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."); see ROBERT P. MERGES, PETER S. MENELL &

The secondary purpose of patent law is to enhance the dissemination of knowledge.¹⁹² In the case of copyright law, it's to promote creativity in the arts, enhance the store and dissemination of knowledge, and increase public access to information.¹⁹³ In trade secret law, the principal reason for trade secret law is to prevent acts of unfair competition.¹⁹⁴ I know there's a debate about property versus not property and so forth. In the Restatement, the Restatement's very explicit, in that it says that trade secrets are not a property right.¹⁹⁵

When the UTSA was adopted, it says, basically: "we don't have to decide whether it was a property right or not."¹⁹⁶ We have determined what the elements of the claim are, and you need to have both a trade secret and misappropriation.¹⁹⁷ So, labels are not important, according to the UTSA.

A secondary reason for trade secret law, and what I would say a more modern reason, is to encourage innovation.¹⁹⁸ Also, interestingly or not, it has been noted by the U.S. Supreme Court that trade secret law enhances the dissemination of knowledge

MARK A. LEMLEY, *INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE* 127 (2006) ("Patent law provides a market-driven incentive to invest in innovation, by allowing the inventor to appropriate the full economic rewards of her invention."); *see also* BARTHA MARIA KNOOPERS, *POPULATIONS AND GENETICS: LEGAL AND SOCIO-ETHICAL PERSPECTIVES* 378-79 (2003) ("The primary purpose of patent law is to encourage inventors by rewarding them for their time, money, and energy and for taking risk.").

¹⁹² KNOOPERS, *supra* note 191, at 379 ("A secondary purpose of patent law is to encourage the full and timely disclosure of the invention to the public as a way to spur innovation and overall public good.").

¹⁹³ *See* U.S. CONST. art. I, § 8, cl. 8; *Twentieth Century Music Corp. v. Aiken*, 422 U.S. 151, 156 (1975) (stating that copyright protection "must ultimately serve the cause of promoting broad public availability of literature, music, and the other arts").

¹⁹⁴ MERGES ET AL., *supra* note 191, at 38 (arguing that a goal of trade secret law is to uphold reasonable standards of commercial behavior by punishing wrongful acts).

¹⁹⁵ RESTATEMENT (FIRST) OF TORTS § 757 cmt. a (1939) ("The suggestion that one has a right to exclude others from the use of trade secret because he has a right of property in the idea has been frequently advanced and rejected.").

¹⁹⁶ *See generally* UNIF. TRADE SECRET ACT prefatory note, 14 U.L.A. 443 (1985).

¹⁹⁷ *See id.* § 1 (defining the elements required to find a trade secret).

¹⁹⁸ *See Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 485 (1974) (noting that trade secret law can encourage innovation in areas that patent law cannot).

through licensing and it also prevents the inefficient use of security measures.¹⁹⁹

Trade secret law does not have a functionality doctrine per se, but it does have a number of limiting doctrines that serve the channeling function, and that recognize that not all business information is or should be protected.

The channeling function of trade secret law is the result of the weakness of trade secret protection. In *Kewanee*, the U.S. Supreme Court held that trade secret law, as narrowly defined by Ohio law, is not preempted by federal patent law because, where patent law acts as a barrier, trade secret law functions relatively as a sieve.²⁰⁰

Now, one of the things I want to contribute to the discussion today, and to share with you, is that I've done extensive research into the historical context of both the *Kewanee* case and the UTSA.²⁰¹ It's important to understand that, in the lead-up to *Kewanee*, and in the lead-up to the UTSA, there were a series of Supreme Court cases, and several of them have been referred to today—the *Brulotte*²⁰² case, the *Sears-Compco*²⁰³ cases, the *Lear*²⁰⁴ case, and so forth—that caused great consternation and fear among the patent bar, in particular, but with lawyers, in general, about whether or not state principles of unfair competition would be held preempted by federal law. After the *Sears-Compco* cases, there was concern that trade secret law would be held to be preempted. In fact, there was a whole effort, which I believe was sponsored by Congressman Lindsay, for years and years and

¹⁹⁹ See *id.* at 485–87; see also *E.I. du Pont de Nemours & Co. v. Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970) (arguing that trade secret law prevents the need for plaintiff to incur enormous expenses “to prevent nothing more than a school boy’s trick”).

²⁰⁰ See *Kewanee*, 416 U.S. at 490, 493.

²⁰¹ See generally Sharon K. Sandeen, *Kewanee Revisited: Returning to First Principles of Intellectual Property Law to Determine the Issue of Federal Preemption*, 12 MARQ. INTELL. PROP. L. REV. 299, 301 (2008); Sharon K. Sandeen, *The Evolution of Trade Secret Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act*, 33 HAMLINE L. REV. (forthcoming 2010).

²⁰² *Brulotte v. Thys Co.*, 379 U.S. 29 (1964).

²⁰³ *Day-Brite Lighting, Inc. v. Compco Corp.*, 376 U.S. 234 (1964); *Stiffel Co. v. Sears, Roebuck & Co.*, 376 U.S. 225 (1964).

²⁰⁴ *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

years—and see, I’m old enough to know who he was—to actually adopt a federal law of unfair competition. There was so much fear that the existing state unfair competition laws would go away completely, including trade secret law, that that’s what was going on.

This is an important perspective, I think, because when the parties in the *Kewanee* case—which was a U.S. Supreme Court case that held that state trade secret law is not preempted²⁰⁵—when they were arguing that state trade secret law should not be preempted, they characterized state trade secret law as being very weak and very narrow.²⁰⁶ They did that on purpose. They didn’t want to characterize trade secret law as being broad because the broader they made it, the more of a conflict there was between trade secret law and patent law.

Thus, all the briefs that I read from the *Kewanee* case made the following argument—that trade secret law is so weak, so narrow, etc.²⁰⁷ The reason it’s so weak and so narrow is because, like copyright law,²⁰⁸ it does not preclude independent development. It does not prohibit reverse engineering or other methods of “properly” acquiring information.²⁰⁹ That would be, for instance, by gift, or by purchase, or by licensing. It cannot be used to convert publicly available information into secret information. This is something that I think a lot of lawyers don’t understand. You can’t make a contract to make something a trade secret. It’s either a trade secret or it isn’t. A contract won’t turn information into a trade secret.

²⁰⁵ *Kewanee*, 416 U.S. at 474.

²⁰⁶ *Id.* at 489–90.

²⁰⁷ See generally Brief of Petitioner-Appellant, *Evans Cooling Sys., Inc. v. Gen. Motors Corp.*, 522 U.S. 1115 (1998) (No. 97-1038).

²⁰⁸ See Clarisa Long, *Information Costs in Patent and Copyright*, 90 VA. L. REV. 465, 526–33 (2004) (discussing the independent creation defense in copyright).

²⁰⁹ *Kewanee*, 416 U.S. at 476 (“A trade secret law, however, does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backward to divine the process which aided in its development or manufacture.”).

Unlike patent, copyright and trademark law, trade secret misappropriation is not a strict liability tort.²¹⁰ What I mean by that is that there is a knowledge element that requires you to know you're misappropriating.²¹¹ As a result of the last point, trade secret law provides limited recourse against third parties who come to possess misappropriated trade secrets.²¹²

The trade secret eligibility or ineligibility function is the result of the definition of a trade secret. According to the UTSA, there are three basic requirements: substantial secrecy, economic value, and reasonable efforts.²¹³ This is one area where I disagree with Roger.

The conventional observation is made that the UTSA broadened the scope of information that's protected under trade secret law.²¹⁴ I don't disagree with that. My argument is that it did not broaden it as much as people think.

The reason is that my research—which consists of actually reading the transcripts of the NCCUSL²¹⁵ hearings that led to the adoption of the UTSA—indicates to me that these three requirements were meant to limit the type of information that could actually qualify for trade secret protection, if and when a trade secret case was brought.

My concern here is that, based on existing law and the way trade secrets are defined by some courts, that we've created a situation where there's a great risk that trade secret assertions and trade secret litigation are used in anti-competitive ways. I think it's important, in light of that, that we might want to have a more nuanced and pro-competitive view of trade secret law, which

²¹⁰ Robert G. Bone, *Secondary Liability for Trade Secret Misappropriations: A Comment*, 22 SANTA CLARA COMPUTER & HIGH TECH. L.J. 529, 538 (2006).

²¹¹ *Kewanee*, 416 U.S. at 475–76.

²¹² Bone, *supra* note 210, at 538.

²¹³ UNIF. TRADE SECRETS ACT § 1(4), 14 U.L.A. 433 (1985).

²¹⁴ Sharon K. Sandeen, *A Contract by Any Other Name Is Still a Contract: Examining the Effectiveness of Trade Secret Clauses to Protect Databases*, 45 IDEA 119, 129 (2005) [hereinafter Sandeen, *A Contract by Any Other Name*].

²¹⁵ NCCUSL is the acronym for the National Conference of Commissioners of Uniform State Laws, which is now also known as the “Uniform Law Commission.” The National Conference of Commissioners of Uniform State Laws, Uniform Law Commission, <http://www.nccusl.org/Update/> (last visited Apr. 12, 2010).

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actually looks at whether or not the type of information that is sought to be protected needed that protection, and if you could match that protection with the asserted purposes of trade secret law. In other words, I'll give you an example. Do companies really need an incentive to create a customer list? I understand why they might want to protect a customer list, but I don't understand where the incentive rationale comes in. So, I would like to see, in order to make sure that trade secret law is not overly asserted and not used in an anti-competitive way, that we would look beyond the labels to see whether there's pro-competitive or anti-competitive effects going on.

Just referring to a quote from an article by Paul Goldstein in 1971, "[A] proper decision requires, then, that there be exercised in every case a discriminating appraisal of the federal and state law monopolies involved to determine whether they serve to advance or retard the federal mandate."²¹⁶ Along those lines, I think I'll end there.

PROF. HANSEN:

You'll have two more words.

PROF. SANDEEN:

Okay.

PROF. HANSEN:

We're not going to be too harsh here, okay?

PROF. SANDEEN:

Well anyway, I'll end there and wait for questions. Thank you very much.

PROF. HANSEN:

Let me just say, even though I'm the moderator, occasionally I do say things that aren't moderate. I'm immoderate, usually, when I'm here. But I have to say, Sharon, we disagree on some very fundamental principles. The first is that we have a history where the first rule is free competition and IP is the exception. I think that history shows it's exactly the opposite. We had common law

²¹⁶ Paul Goldstein, *The Competitive Mandate: From Sears to Lear*, 59 CAL. L. REV. 873, 886 (1971).

copyright, which certainly wouldn't come up if that were the rule. Our first Copyright Act was maps, charts and books, including protecting those already in existence and all that's factual information.²¹⁷ So the idea that facts have to be free, and we have to compete, I don't think was part of the deal at all.

Common law copyright then, after the Copyright Act of 1790, existed in state court, for a while and then we fought it out.²¹⁸ Finally, the Supreme Court says "no."²¹⁹ But the fact that it could have existed at the same time, which it did in England,²²⁰ shows that there's a strong view of this as a property right—not as some sort of incentive. Because common law copyright automatically attached, it wasn't whether there was an incentive or anything else.

Then we go on to the *INS* case, which Sharon's discussed of course. She's quoting Justice Brandeis, who is the dissent. The majority, I think, is really—what we're really dealing with in this country has been a Lockean view of effort and property and it should be protected. We can find this in trademark law, copyright law, unfair competition law. But there is a situation, clearly a situation, of reporting news, and someone was simply rewriting it²²¹ so copyright didn't apply. So, if free competition was the default drive, and IP was the exception, the court wouldn't then come up, for the first time, with the misappropriation doctrine.²²² It's because effort, a Lockean view of effort, creates a property right at least of some kind that's the default drive that we've had in this country all along, I think.

Then what happens, *Erie v. Tompkins*²²³ says, "no federal common law."²²⁴ So did we lose it? No. Rather than limit it to hot news, competition, and these factual distinctions, we get

²¹⁷ See Copyright Act of 1790, ch. 15, 1 Stat. 124.

²¹⁸ Edward C. Walterscheid, *Understanding the Copyright Act of 1790: The Issue of Common Law Copyright in America and the Modern Interpretation of the Copyright Power*, 53 J. COPYRIGHT SOC'Y U.S.A. 313, 333–35 (2006).

²¹⁹ *Wheaton v. Peters*, 33 U.S. 591, 658 (1834) (noting that "there can be no common law"); see Walterscheid, *supra* note 218, at 333–35.

²²⁰ Walterscheid, *supra* note 218, at 318.

²²¹ *Int'l News Serv. v. Associated Press*, 248 U.S. 215, 243–44 (1918).

²²² *Id.* at 242.

²²³ *Erie R.R. Co. v. Tompkins*, 304 U.S. 64 (1938).

²²⁴ *Id.* at 78.

“sweat-of-the-brow” doctrine,²²⁵ which takes that concept and puts it into copyright, in a very broad sense, without those limitations, which is really protecting effort, collection. Then we get *Feist*²²⁶ and the *Feist* people say, “Oh, well it’s *Feist*, overrule that.” *Feist*, I don’t think, has had that effect. And one thing, *Feist* wasn’t a “sweat-of-the-brow” case. *Feist* was telephone directories. So, as you put in a thing, a computer did it, and it wasn’t free-riding because *Feist* was actually willing to pay for these things.²²⁷ So, it was a hypothetical which didn’t produce, usually, the doctrine of tremendous amount of effort and someone taking it for free. But, in talking about preemption, Justice Sandra Day O’Connor says that even though this is not protected by copyright, it could be protected by state unfair competition law.²²⁸ So, this is a broad view of preemption, theoretically, certainly the Warren Court wanted to preempt everything. So, I think you’re right, the cases in that period, *Sears* and *Compco*, *Lear*, were very anti-IP. But that was just like the Warren Court was in many areas—an exception to what was going on.

The Restatement, Sharon. Who pays attention to the Restatement? A Restatement is—what is a Restatement? I’m going to spend five years doing a Restatement. You think I’m going to restate? No. I’m going to try to put in what I think the law should be. I mean, I’m not going to waste my time with restating. So, Restatements are really hidden, if not explicit, policy preferences, which can be valuable. That’s not saying they’re not valuable, but I think that Restatements are rarely a restatement. If I were doing a Restatement, I certainly wouldn’t just restate.

So, I think what we have then is a strong academic view—in which I think you are in the mainstream of the academic view of IP. But, we also have a very real-world view, which is opposite of that. The question is: when these collide, what is going to happen? To some extent, when, God forbid, you go on the bench, Sharon,

²²⁵ See Denise R. Polivy, *Feist Applied: Imagination Protects, but Perspiration Persists—the Basis of Copyright Protection for Factual Compilations*, 8 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 773, 775–76 (1998).

²²⁶ *Feist Publ’ns, Inc. v. Rural Tel. Serv. Co.*, 499 U.S. 340 (1991).

²²⁷ See *id.* at 363–64.

²²⁸ See *id.* at 354.

and are a judge—no, you’d be a great judge, I’m just joking. I just joke sometimes like that and people take it seriously. I mean this could change. If information has to be free, it’s what I call the public domain. If “culture of the public domain or cult of the public domain” becomes into—or, our judges, things may actually change. But right now, Congress—what does Congress do?

MR. MILGRIM:

That’s a good question.

PROF. HANSEN:

Congress really can do anything. But what does it do when we say—okay, preemption of what *Bonito Boats*²²⁹ holds in a far Florida law. What does Congress do? It actually passes a national law that overruled that.²³⁰ It’s not like this view is accepted in various places. I think it actually is the academic view. It might have merit. It might not have merit, but I don’t think it reflects what is actually going on. It might be reflected more in trade secrets. You have the expertise, but I think as a general rule, I would disagree with you the way it is patterned right now between protection and free competition.

PROF. SANDEEN:

If I could respond. There is this debate—and thank God there is because it makes these panels more interesting and it gives us something to write about and so forth and so on. But, every case on functionality, whether it’s trademark or copyright or patent or trade secret, has sentences or paragraphs about the principle of free competition and how important it is. I’m not citing it to argue that we shouldn’t have any IP. What I wanted to get across, and if I didn’t get it across, I’ll try to do it now, is that we have IP principles in order to fix what we thought were imperfections in the market economy to provide inventors, creators, etc., incentives and to prevent unfair competition. But if we go too far, then all of a sudden we’re creating an environment where we’ve reintroduced

²²⁹ *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 144 (1989) (holding that a Florida statute prohibiting the use of a process for duplicating boat hulls was preempted by the Patent Act).

²³⁰ See Vessel Hull Design Protection Act, 17 U.S.C. § 1301 (2006) (providing specific protection for boat hull designs).

the anti-competitiveness that we were trying to prevent. I want to suggest that's what we've done; we've gone too far. If we start looking at the issues more from the point of view of another business that is being attacked by the IP rights of somebody else, or if it's a small business—

PROF. HANSEN:

Who's being attacked?

PROF. SANDEEN:

Another business. In other words, it's not IP versus the public interest. It's competitors—it's the competitive environment of the United States that I'm concerned about and I think it's become anti-competitive.

The comment I wanted to make at the end is that I find it extremely ironic that at basically the same time, roughly 1970, people were commenting on and criticizing antitrust policy in the United States and saying, "hey, we shouldn't have per se rules because they don't really look at what's actually going on in the marketplace. Let's have an equitable rule of reason."²³¹ We have substituted that situation for a series of IP—a ratcheting up of IP rights—in a way where, it's a per se assumption that the benefits we say we're getting from these IP regimes, we're actually getting. What I'm suggesting is, we should actually require courts to see if that's happening. If you say that encouraging innovation is one of the reasons for trade secret protection, then when you're the plaintiff, prove that you needed that incentive in order to create your trade secret.

PROF. HANSEN:

You guys are going to respond. Let me just respond—two seconds. I think the premise is wrong. Nobody, I think, who's driving IP policy thinks "it has to be, because innovation. And if it doesn't indicate innovation, you're not going to have it." It's a property right. It's a Lockean property right. Trademark's viewed in that—goodwill and trademarks. Copyright's viewed in that—

²³¹ See, e.g., ROBERT BORK, *THE ANTITRUST PARADOX: A POLICY AT WAR WITH ITSELF* 18–19 (Basic Books, Inc. 1978).

sweat-of-the-brow²³² is certainly an indication of that. Idea/expression? Come on. Idea/expression is a fallacy. It's a phantom. Whenever there's something of value there—theories, psychological tests, or anything else—courts protect it. The only time idea/expression is used is when it's sort of a junky thing and it shouldn't be protected. You can't think of—almost every case finds a way to protect when there's something of value. It's only used when it's not of value. So, if you're right, if everything has to have a test of “should we protect this because otherwise we won't have innovation?,” a lot of things would be different. But, the reason it's not that way is that's not what we do. It is true, there's some language of that in Supreme Court cases, but the results reach something differently. I think what we have to do is look at the result and look at what's happening. I think it's a very strong thumbs down on the side of protection.

MR. MILGRIM:

I really wonder whether our courts are at all qualified to even consider the question Professor Sandeen would have them raise—a question they have no interest in hearing or answering. They don't have the expertise.

Unfortunately, the people that are most commonly making these arguments—the academic community—have even less expertise. Look at the country that you live in. We are a country that has benefited from innovation, more than any country on the globe and in the history of the human race. That's almost an unchallengeable statement. So, while our IP laws may not be absolutely perfect in every respect—God knows our judicial system is awkward and cumbersome—it is a system in which the seeds of innovation have flourished remarkably. If you look at any other system, there's no comparison. So, at least from 60,000 feet we can look down and say, “Gosh, it seems to have worked.”

I want to add one other point. The words “unfair competition,” used as a catch all to describe trade secret law, are a misapplication. Most trade secret cases—I can't give you an exact percentage, but I want to say 85% to 95% or maybe more—

²³² See Polivy, *supra* note 225, at 775.

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actually have a lot of contractual elements.²³³ I'm one of those old-fashioned people who believes that enforcing contracts is a good and noble thing. In that sense, I've aligned myself with the Romans, with the civilians, and with people everywhere else. Why should we recoil from enforcing contracts? Let me reiterate that most of the cases in the trade secret area, unlike patent and unlike copyright, in fact have contractual bases as well.

PROF. SANDEEN:

I agree with that.

PROF. HANSEN:

We have time. If George is not going to—do you want to respond? Or, do we go to the audience?

MR. MILGRIM:

You all would like the afternoon.

MR. GRAFF:

I want to say one thing. Reading the *Bilski* briefs, for example, you'll find numerous briefs, which discuss the kind of policy issues that you talk about—about what is needed to encourage innovation and what is not needed to encourage innovation.²³⁴ They are all over the lot. From a lawyer's point of view, in determining what the law ought to be, it is impossible to make that determination. It's simply not something that courts can do. I can tell you that the diagnostics industry, for example, and the people who invest the millions of dollars in developing new diagnostic techniques say, "We need patent protection if we're going to make this kind of investment to get any kind of return from it. If we don't get that protection, we're not going to make the investment." That's a legitimate argument, but you can argue on the other side.

²³³ See, e.g., *Kewanee v. Bicon*, 416 U.S. 470 (1974).

²³⁴ See, e.g., Amici Curiae Brief of Internet Retailers in Support of Respondent, *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2009) (No. 2007-1130) (contending that a finding of patent rights in business methods will support innovation); Brief of the Intellectual Property Section of the Nevada State Bar, as Amicus Curiae in Support of Respondent, *Bilski*, 545 F.3d 943 (No. 2007-1130) (same). But see Brief of Amicus Curiae Timothy F. McDonough, Ph.D., *Bilski v. Doll*, No. 08-964 (U.S. July 22, 2009) (suggesting that an expansion of patent rights would not support innovation); Brief Amicus Curiae of Red Hat, Inc., *Bilski*, 545 F.3d 943 (No. 2007-1130) (same).

Well, do you really want to prevent doctors from reaching a conclusion based upon observed facts because of a patent? So, you have all these policy issues. These are not judicial issues. These are legislative issues to me. The law is where it is, and I don't see that it's a productive debate to determine in every individual case whether or not protecting this particular patent or trade secret or anything else, is justified in order to protect investment, or is simply something that isn't. I mean, we have all the troll cases. You have arguments on both sides, but it's not the way judges can deal with the law, I don't think.

PROF. HANSEN:

Let me just add, I'm on Sharon's side—I think—on the patent side, a little bit. I do think that is an area where you really do have to take incentives in a case. I'm against business method patents because I think everyone's going to do it, and I think it's much more problematic to grant the protection. So, I think that is an area of the law, which should have that sort of a guide. But, I'm arguing the premise that the rest of the law has been driven by this and I don't think it has. Unfortunately, patents, to some degree haven't been driven by it, and I would agree with you that perhaps they should be driven by it more. Do we go to the audience? Sharon?

MR. SHARON SANDEEN:

Well, quickly, on the contract issue that Roger brought up, I agree with that, but it is part of the element of misappropriation. In other words, you misappropriate a trade secret when you breach some duty.²³⁵ The duty may arise from either an express or an implied contract;²³⁶ so I agree with that.

The other observation I will make is that you can't confuse a breach of contract claim, and the remedies for a breach of contract claim, with a trade secret claim.²³⁷ So, if you have a contract to protect information, and the information is not a trade secret, your remedies are contract remedies. They're not trade secret remedies.

²³⁵ RESTATEMENT (FIRST) OF TORTS § 757 (1939).

²³⁶ 86 C.J.S. *Torts* § 62 (2009).

²³⁷ See Sandeen, *A Contract by Any Other Name*, *supra* note 214, at 145–48.

MR. MILGRIM:

May I just add one point? A thought occurred to me, Sharon, where we actually have a mini-laboratory that tests some of the propositions we're all interested in. In Italy, for many years, I don't know if it's still true, but for many decades for reasons of public policy, patent protection was denied to pharmaceutical products.²³⁸ Italy, at the time that law was passed, was not either a major manufacturer or developer. But what's interesting is that in the thirty or forty years after the patent law in Italy was modified so that you could now protect a new drug, or a similar pharmaceutical product, there was limited development in Italy of a pharmaceutical product.²³⁹ So again, you're tampering with a system when you say, "let's do away with protection for advances in development." That can have very material, direct consequences. I don't suggest that's a perfect test. Unfortunately, we can't have alternative universes and measure them. But really, I work with businesses all the time. I've been a director of large companies. These forms of protection are what drive us, we don't do it case-by-case. We decide a budget at the beginning of a year—we're going to spend \$42 million. We do that because of a framework that we have confidence in, to protect the output. We won't do it otherwise.

PROF. SANDEEN:

Right. Just to be clear, I'm not advocating for getting rid of any form of IP. What I'm advocating is not to keep expanding to a point where it's used as an anti-competitive tool.

PROF. HANSEN:

We have time for a couple of minutes for your basic audience, final audience questions. Thoughts?

MR. MOSCHOLEAS

Hi, my name is Dimitrios Moscholeas. I respectfully disagree with what you said. Although, of course, I'm not even a duly

²³⁸ See Taiwo A. Oriola, *Against the Plague: Exemption of Pharmaceutical Patent Rights as a Biosecurity Strategy*, 2007 U. ILL. J.L. TECH. & POL'Y 287, 337.

²³⁹ MICHELE BOLDRIN & DAVID K. LEVINE, *AGAINST INTELLECTUAL PROPERTY* 219 (Cambridge Univ. Press 2008).

experienced litigator, but all these policy considerations are part of the judicial process. Just that, it depends on which policy you are referring to. Of course, they might not always be intellectually honest and admit the policy that drove their decisions, but I'm sure that's what interests them. Two days ago, Chief Judge Michel was here, in the same auditorium, and basically what he alluded to was that they do know the doctrine, and what they need to see more in lawyers' briefs, is to see the practical impact that a decision might or might not have. He actually said that they might not actually acknowledge it in their decision—it was the policy that drove them and that's what interested them the most. But, that's what he alluded to—to be less doctrinal and think about the policy implications and the practical impacts in the real world. Of course, he didn't specify which policy. Like, it could either be a policy favoring more the public domain people, or a more Lockean view. That's a different issue, but I think it is part of the judicial process, even if it's acknowledged or not, explicitly or impliedly. Thank you.

PROF. HANSEN:

Anyone?

MR. HOFFBERG:

Hi, Steve Hoffberg. Sharon—your proposal to test, on a case-by-case basis,²⁴⁰ the incentive, on one hand may have the effect of excluding protection for certain things that might otherwise be protectable. But, the other side of that is, you're going to create protection for things whose only incentive is that there was some protection so I'm going to go get it. How does that promote competition, if all you're doing is creating a form of protection based on the protection?

PROF. SANDEEN:

To be clear about what I was saying, if you look at the definition of a trade secret in the Restatement (First) of Torts, which Roger referred to earlier, it's a list of factors.²⁴¹ Hugh's comment about Restatements was that perhaps the people who

²⁴⁰ See *supra* text accompanying note 216.

²⁴¹ RESTATEMENT (FIRST) OF TORTS § 757 cmt. b (1939).

wrote the Restatement in 1939 were projecting their own point, but I think what they were intending was it to be, in an odd way, a flexible definition so that the courts could make an equitable determination whether the information was deserving of protection. What happened was, that isn't the way the courts applied those factors and so there was a lot of inconsistency. And, when it came around to the UTSA, the drafters said—and they were mainly patent attorneys—they said: “Trade secret law is too confusing. We don't know what a trade secret is. We have to be clearer about that.” So, they tried to be clearer about what it is. But I think the idea that there's some information that's deserving of protection and some that isn't, was in the original—in the early cases.²⁴² So I'm just suggesting—

MR. HOFFBERG:

What I was addressing is the fact that you want to look, not going forward, as to what the framework is, but on a retrospective—was there incentive in a given case, as a factor in, whether there should have been protection. What I'm saying is that there are two sides to that. One is that you're going to deny protection of certain things that would otherwise be protectable, but you're also going to incentivize people to seek protection for things that might not otherwise have been protectable.

PROF. SANDEEN:

Another way to look at this, and I didn't have time to go into it and I'm continuing my research, but, one of the speakers this morning referred to the concept of “commercial value,” which I think is a well-known term among patent lawyers. The patent lawyers who drafted the UTSA obviously used that term with that meaning in mind so that whatever the meaning was in 1970 of the term, they put that in the UTSA. In my opinion, they included it in order to limit what type of information would be protected.²⁴³ That particular prong of trade secret law has not been fully examined. But, that would be another place or another way, I think, that we could prevent the over-assertion of trade secret rights, which is what I'm mainly concerned about.

²⁴² See, e.g., *Heyman v. AR. Winarick, Inc.*, 325 F.2d 584, 590 (2d Cir. 1963).

²⁴³ See UNIF. TRADE SECRETS ACT § 1(4)(i), 14 U.L.A. 433 (1985).

PROF. HANSEN:

Okay.

MR. MILGRIM:

Just one moment, please. Because the UTSA reporters, in fact, told us what they were intending to do, in their notes that are published, this is not a background report. They said that the purpose of the UTSA was to codify “the basic principles of common law trade secret protection, preserving its essential distinctions from patent law.”²⁴⁴ That’s what they said. So, either they were misstating, or we’re looking for an intent that is not an expressed one.

PROF. HANSEN:

Thank you, that was a good final addition. I’m glad that you persisted.

MR. MILGRIM:

Me too.

PROF. HANSEN:

I think there is now going to be a coda. Is that what you’d call it? The end. But, I want to thank this panel for a very interesting presentation.

PROF. KATYAL:

Hi, everyone. I’m Professor Sonia Katyal, and I’m going to give just a few closing remarks for today. As I was sitting through the panels today, I kept coming back to a central and very obvious question that we’ve all been struggling with, which is the question about what functionality actually comprises. I think that we’ve been exploring this question of functionality through a whole variety of different lenses, and we’ve come to some very surprising and very insightful results. We’ve explored the question of functionality through the lenses of patent law and the theme of novelty. We’ve explored the question of functionality through the lens of copyright law, through the doctrines of originality and aesthetic functionality, and the limitations and possibilities of both.

²⁴⁴ *Id.* at prefatory note.

We've also explored the question of functionality through the world of trademark and trade dress.

As the last panel explored, we have also been discussing this question intensely through the domain of trade secret law, raising the question of whether or not there are powerful alternatives to patent law available in protecting against misappropriation.

Underlying these subject matter areas, we've also explored the underlying theme, perhaps indirectly, of where the appropriate institutional locus should be for making these relevant determinations on functionality. Should it be the courts? Should it be Congress, and enlarging the role of legislative interpretation, and statutory redrafting? Or, perhaps, would we prefer deferring to the realm of administrative decision making instead, either at the state or at the federal level? Lastly, is the issue of unfair competition—as I think our last panel raised—is the issue of unfair competition really an issue that is appropriate for intellectual property law to decide at all?

Finally, underneath all of these different questions that we've been exploring, either directly or indirectly, is the powerful theme of proprietary boundaries, and its effect on innovation. I think perhaps this is the most powerful underlying theme that we have explored today in the context of functionality. I think what's so interesting about this issue, however, especially regarding this conference, is that, I think most conferences deal with the question of innovation and property through the lens of copyright. I think what's particularly unique and special about this conference is how we have explored this question, either directly or indirectly, through a whole variety of other subject areas, and allowed them to take center stage—so, patent, trade dress, trade secret, all of these other areas and how they impact the role of innovation and the growth of technology.

I want to end today's conference by reflecting on some of the unanswered questions that we've been lightly treading on today, and to just really ask, as we close, us to all reflect upon some of the overall implications that I think the question of functionality has offered us.

So, I think, one of the questions that I'm struggling with at the end of these very insightful panels is whether or not we should start thinking about patent law and wanting it to look a little bit more like copyright law, in terms of the preservation of innovation? Or, as a related question, should we want trademark law and trade dress law to look a little bit more like the way copyright law has dealt with questions of originality and functionality?

I guess there's a larger question. This is the question that I want to leave you with. Should intellectual property law exist as a body of common principles that unite every subject-matter area? Or, should it be a disparate series of tests instead? To reframe the question: is the answer greater convergence in the areas of IP? Or, is the answer greater divergence instead? In exploring these questions, one might argue that the function of functionality is to both capture and also illustrate, profoundly, the kind of richness and complexity of these questions, and ask ourselves whether or not the ideal standard should be an objective, fixed one, or whether it should be a more malleable, subjective standard?

I want to end by asking these questions, but also suggest that the issue of functionality really can't be divorced from questions about protecting competition—as we just saw in our last panel, questions of innovation, particularly given the fact that we live in an age, as the second panel emphasized, an age of creative design. But, we also live in an age of design within reach. That also presents us with some interesting questions that will continue to unfold. I think *Bilski* remains a key part of how these questions are going to be answered in the future.

In closing, I want to thank all of you for coming today. I want to extend a very special and huge thank-you to the amazing staff and the Board of the IPLJ for putting together this event. I also want to really thank our incredibly distinguished panels of speakers and moderators today. It's really been an incredible group, and I would say that this has been a really wonderful and powerful way to mark our twentieth year anniversary of the IPLJ. I want to thank all of you for coming, and I hope to see many of you at Fordham again soon. So, thank you.