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## Other Developments in Intellectual Property: Trade Secret Law

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## TRADE SECRET LAW

### *SILVACO DATA SYSTEMS V. INTEL CORP.*

*184 Cal. App. 4th 210 (Cal. Ct. App. 2010)*

In *Silvaco Data Systems v. Intel Corp.*, the Court of Appeal of California shed light on trade secret infringement by a customer of a party that misappropriated a trade secret. The court held a customer does not, by obtaining and executing machine-readable code, “acquire” or “use” the underlying source code under the California Uniform Trade Secret Act (CUTSA).

A successful trade secret claim under CUTSA would require that Intel “acquired” or “used” the trade secret. Intel received and ran executable software code, compiled from source code that was allegedly misappropriated by a third party. Compiling source code produces binary or hexadecimal text characters, constituting what is called executable code. Such text is not readily intelligible to human beings. It is decodable into source code, but the duration of such decoding is so long that it would be unreasonable to do. Thus, acquisition of the executable code, which cannot be “untangled” by the average user, is not acquisition of the protected source code.

Moreover, Intel did not “use” the source code simply by executing the executable code. The court reasoned that one who eats a pie (the executable code) prepared by allegedly stolen recipe (the source code), does not use the secret, only the pie. The court went on to hold that even if the acts did constitute use of the source code, the CUTSA required knowledge of the secret in addition to use, which, due to the unintelligible nature of the executable code as noted above, was not obtained by Intel.

### *JUSTMED, INC. V. BYCE*

*600 F.3d 1118 (9th Cir. 2010)*

In *JustMed, Inc. v. Byce*, the Ninth Circuit affirmed the district court’s decision in part, holding that the copyright of the source code in question belongs to JustMed under the works made for hire doctrine, but reversed the district court’s finding that Byce was liable for misappropriation of trade secrets.

JustMed is a small technology start-up company based in Oregon. JustMed hired Byce, a computer programmer, to replace an employee who had moved out of state. Byce, working remotely from home in Idaho, wrote the source code in the development of JustMed’s software. JustMed compensated Byce by giving him shares of JustMed’s stock on a monthly

basis. Concerned that he was not seen as an equal in the corporation, Byce changed the software's copyright notice to state that he, rather than JustMed, was the owner. He also deleted copies of the source code from JustMed's computers to gain leverage over JustMed two days before an important merger and buy-out meeting. Among other things, JustMed sued Byce for misappropriation of trade secrets. Byce counterclaimed, seeking a judgment declaring him the sole owner of the software.

Under the Copyright Act, copyright ownership vests initially in the author of the work. An exception exists for works made for hire, in which "the employer or other person for whom the work was prepared is considered the author, unless there was a written agreement to the contrary." The court applied a multifactor test to determine whether Byce was an employee of JustMed or an independent contractor. Despite JustMed's failure to provide benefits, failure to fill out employment forms and its tax treatment of Byce as an independent contractor, the court held that Byce was an employee of JustMed. The court relied on the fact that Byce was hired for an extended period of time, was paid a monthly salary, performed various tasks for JustMed and, most importantly, the nature of JustMed's business as a start-up.

In reversing the district court's finding that Byce was liable for misappropriation of trade secrets, the Ninth Circuit concluded that Byce did not acquire the source code through improper means because he already had possession of it as an employee. In addition, the court held that there was no misappropriation because Byce had neither "used" nor "disclosed" JustMed's trade secrets, despite the fact that he filed for a copyright and threatened to withhold the source code. The court reasoned that his actions did not rise to the level of misappropriation.

The Ninth Circuit applied a more expansive rule to determine who is considered an employee in the context of work for hire. As a result, the traditional factors for determining an employment relationship will no longer carry the same weight for start-up businesses as they did for more established businesses. This decision will create a higher burden for engineers working for start-up companies to assert their intellectual property rights.