LEGAL UPDATE

TRADE SECRETS, THE INTERNET, AND THE FIRST AMENDMENT: *DVD CCA V. BUNNER*

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I. INTRODUCTION

Traditionally, the typical defendant in a trade secret case is a competitor who has misappropriated proprietary information for profit in a business venture.[1] In such cases, the defendant has as much incentive as the plaintiff has to keep the secret from other competitors and out of the public domain.[2] However, the Internet has enabled entire online communities to form around the idea of discovering certain trade secrets and disseminating the information to the world.[3] This scenario presents analytical difficulties for courts that must try to fit this relatively new and growing breed of mis-appropriator into the traditional mold of trade secret law.[4] When there are tens, hundreds, or even thousands of Internet users worldwide using and distributing a trade secret within days of the secret's exposure, how far can misappropriation liability spread? Moreover, when the secret is computer code – which has been held to be expressive and thus a form of speech in many jurisdictions – First Amendment protections are implicated, setting up possible constitutional conflicts between state trade secret law and federal free speech guarantees.[5]

California state courts recently confronted these issues in the case of DVD Copy Control Association v. Andrew Bunner. The California Supreme Court followed the lead of a number of jurisdictions in holding that a preliminary injunction to prevent the distribution of trade secrets on the Internet is not a violation of first amendment rights.[6] On remand the Court of Appeal nevertheless dismissed the trial court's preliminary injunction, holding that widespread distribution had destroyed the information's trade secret status, and

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[1] DVD Copy Control Ass'n v. Andrew Bunner, 116 Cal. App. 4th 241, 254 (2004).

[2] *Id.*

[3] *See generally Mission Statement*, infoAnarchy.org (Last visited April 25, 2004), *at* http://www.infoanarchy.org/special/mission (stating that the mission of the Web site is to establish a community to "fight vigorously against any and all attempts to restrict information freedom. . ."); *Information Wants to be Free*, Fusion Anomaly.net (Last visited April 25, 2004), *at* http://fusionanomaly.net/informationwantstobefree.html ("[I]ntellectual property simply gets in the way of communication and the sharing of ideas.").

[4] *Bunner*, 116 Cal. App. 4th at 254.

[5] *See, e.g.*, Universal City Studios v. Eric Corley, 273 F.3d 429 (2d Cir. 2001).

[6] DVD Copy Control Ass'n v. Andrew Bunner, 75 P.3d 1, 19 (Cal. 2003).

therefore, that a preliminary injunction was improper.[7]

II. BACKGROUND

Digital versatile disks (DVD's) are five-inch discs capable of storing large amounts of data in digital format.[8] Motion pictures stored on DVD's allow improved audio and video quality over those stored on videocassettes.[9] However, the digital format also allows for virtually perfect copying, with no perceptible loss of quality.[10] Recognizing the potential risk for mass piracy, the motion picture industry insisted that a viable protection system be implemented that would prevent users from copying DVD movies.[11]

To this end, Toshiba and Matsushita Electrical Industrial Co, LTD developed the content scrambling system known as CSS.[12] CSS is an encryption scheme that scrambles the data on the disk and then unscrambles it when played on a compliant DVD player or computer.[13] Although compliant devices enable a user to view the data on the disks, CSS disallows any copying of that data.[14]

Naturally, the motion picture industry desired to keep this technology a secret.[15] However, manufacturers needed an understanding of the CSS technology and the "master keys" that it used in order to make compliant DVD playback devices.[16] The motion picture, computer, and consumer electronics industries agreed upon a restrictive licensing scheme in an attempt to satisfy each groups' needs.[17] Under the terms of the agreement, licensees had to maintain the confidentiality of the proprietary information embodied in the technology, including the "master keys" and algorithms.[18] The industries began licensing the technology in October 1996.[19] They later established the DVD Copy Control Association, Inc. (DVD CCA), which was charged with granting and administering the CSS licenses.[20]

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[7] *Bunner*, 116 Cal. App. 4th at 255.

[8] *Id.* at 245.

[9] *Id.*

[10] *Bunner*, 75 P.3d at 6.

[11] *Id.*

[12] *Id.*

[13] *Id.; see also* Gregory Kesden, *Lecture 33*, Operating Systems: Design and Implementation (Dec. 6, 2000) *at* http://www-2.cs.cmu.edu/~dst/DeCSS/Kesden/.

[14] *Bunner*, 116 Cal. App. 4th at 245.

[15] *Id.*

[16] *Id.*

[17] *Id.* at 246.

[18] *Bunner*, 75 P.3d at 7.

[19] *Id.*

[20] *Id.*

However, it was not long before a number of people had become interested in unraveling the CSS system.[21] Much to the dismay of many computer enthusiasts, DVD CCA did not license CSS to any companies making DVD drives for the Linux computer operating system.[22] Thus, computers running Linux were incapable of playing DVD's.[23] CSS was also widely discussed in the academic cryptography community.[24] Comments posted on technology news Web sites from July 1999 revealed a worldwide interest in cracking CSS.[25]

Later that year a Norwegian resident named Jon Johansen realized this goal when he acquired the proprietary information embodied in CSS – including the master keys and algorithms – by reverse engineering software created by a licensee, Xing Technology Corporation.[26] Johansen used the proprietary information culled from Xing's software to write a program called DeCSS that decrypts movies stored on DVD's and enables users to copy and distribute these movies.[27] DVD CCA alleged that DeCSS incorporated trade secret information that was obtained in breach of a license agreement,[28] and that DeCSS allows users to illegally pirate the copyrighted motion pictures contained on DVD's, "activity which is fatal to the DVD video format and the hundreds of computer and consumer electronics companies whose businesses rely on the viability of this digital format."[29]

Johansen posted the DeCSS source code on an Internet Web site in October 1999.[30] Soon thereafter, DeCSS appeared on other Web sites, including one maintained by Andrew Bunner.[31] Although Bunner first became aware of DeCSS on or about October 26, 1999,[32] there was no evidence as to the date Bunner first posted the program on his Web site.[33] Beginning November 4, 1999, counsel for the motion picture industry sent letters to Web site operators and Internet service providers hosting Web pages that contained DeCSS or links to DeCSS and demanded the information be taken down.[34] However,

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[21] *Bunner*, 116 Cal. App. 4th at 247.

[22] *Id.*

[23] *Id.*

[24] *Id.*

[25] *Id.*

[26] *Bunner*, 75 P.3d at 7.

[27] *Id.*

[28] *Bunner*, 116 Cal. App. 4th at 246.

[29] *Id.*

[30] *Bunner*, 75 P.3d at 7.

[31] *Id.*

[32] *Bunner*, 116 Cal. App. 4th at 248.

[33] *Id.*

[34] *Id.*

Bunner never received any such letter.[35]

DVD CCA filed for injunctive relief on December 27, 1999, alleging that Bunner and the other defendants had misappropriated trade secrets by posting DeCSS or links to DeCSS on their Web sites knowing that DeCSS had been created by improper means.[36] DVD CCA sought to prevent defendants from using DeCSS, from disclosing DeCSS or other proprietary CSS technology on their Web sites or elsewhere, and from linking their Web sites to other Web sites that disclosed DeCSS or other CSS technology.[37]

The trial court issued a preliminary injunction on January 21, 2000, enjoining defendants from "[p]osting or otherwise disclosing or distributing, on their Web sites or elsewhere, the DeCSS program, the master keys or algorithms of [CSS], or any other information derived from this proprietary information."[38] The injunction did not expressly prohibit defendants from "using" DeCSS, nor did it prohibit linking to other Web sites.[39]

The trial court issued the preliminary injunction based upon several findings.[40] First, it held that CSS is DVD CCA's trade secret and for nearly three years prior to the posting of DeCSS on defendants' Web sites, DVD CCA had exerted reasonable efforts to maintain the secrecy of CSS.[41] Second, the court found that the defendants, including Bunner, knew or should have known that Johansen acquired these trade secrets by improper means when they posted DeCSS on their Web sites.[42] Third, the balancing of equities favored DVD CCA because, while the harm to defendants in being compelled to remove DeCSS from their Web sites was minimal, the harm to plaintiff was irreparable because otherwise DVD CCA would lose the right to protect CSS as a trade secret and to control unauthorized copying of DVD content.[43] Finally, the court found that posting the CSS technology to the Web did not destroy its status as a trade secret.[44]

Of the many defendants, only Bunner appealed the decision.[45] The Court of Appeal reversed on the grounds that the preliminary injunction, even if justified under California's trade secret law, violated the First Amendment of the U.S. Constitution.[46] The court, while assuming the trial court's findings to

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[35] *Id.*

[36] *Id.* at 246.

[37] *Bunner*, 116 Cal. App. 4th at 246.

[38] *Id.*

[39] *Id.*

[40] *Id.* at 249.

[41] *Id.*

[42] *Bunner*, 75 P.3d at 8.

[43] *Bunner*, 116 Cal. App. 4th at 249.

[44] *Bunner*, 75 P.3d at 8.

[45] *Id.*

[46] *Id.*

be true, held that DeCSS was "pure speech," and that the injunction was an invalid prior restraint on pure speech.[47] The Supreme Court of California then granted review to resolve the constitutional question.[48]

III. THE CALIFORNIA SUPREME COURT'S FIRST AMENDMENT RULING

Like the Court of Appeal before it, the Supreme Court of California assumed as true the trial court findings in support of the preliminary injunction.[49]

A. The Standard of Review

The Supreme Court first concluded that restrictions on the dissemination of computer code in the form of DeCSS are subject to First Amendment scrutiny.[50] Because it is an expressive means to convey information and ideas, computer code, and the computer programs constructed from code, can merit First Amendment protection.[51]

The court next determined that the preliminary injunction issued by the trial court was content-neutral because it regulated Bunner's speech without regard for the speech's subject matter or message, and therefore should be reviewed under the standard articulated in *Madsen*.[52] The inquiry under *Madsen* is whether challenged provisions of a content-neutral injunction "burden no more speech than necessary to serve a significant government interest."[53]

B. The Free Speech Argument

The court began its inquiry by noting that, as a threshold matter, a preliminary injunction properly issued under California's trade secret law undoubtedly serves significant government interests.[54] These interests include maintaining standards of commercial ethics[55] and providing incentives for investment in innovation by creating limited property rights in information.[56]

The court then concluded that the preliminary injunction, if properly

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[47] *Id.*

[48] *Id.* at 6.

[49] *Bunner*, 75 P.3d at 9.

[50] *Id.* at 10.

[51] *Id.* (citing Junger v. Daley, 209 F.3d 481, 485 (6th Cir. 2000)).

[52] *Id.* at 11 (citing Madsen v. Women's Health Center, 512 U.S. 753, 763 (1994)).

[53] *Id.* at 13 (quoting *Madsen*, 512 U.S. at 765).

[54] *Id.*

[55] *Bunner*, 75 P.3d at 13 (citing Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 481 (1974)).

[56] *Id.* (quoting Andrew Beckerman-Rodau, *Prior Restraints and Intellectual Property: The Clash Between Intellectual Property and the First Amendment from an Economic Perspective*, 12 FORDHAM INTELL. PROP. MEDIA & ENT. L.J. 1, 60 (2001)).

granted, burdens no more speech than necessary to serve these significant government interests.[57] First, the only way to preserve the property interest created by trade secret law and its attendant ability to encourage invention is by prohibiting the disclosure of trade secrets acquired by improper means.[58] Neither the court nor Bunner could conceive of a less restrictive way to protect an owner's property interest in its trade secrets.[59] Second, because Bunner knew or should have known that the trade secrets were acquired by improper means, prohibiting him from disclosing those secrets upholds the standard of commercial ethics maintained by trade secret law.[60]

Furthermore, the content of the trade secrets encompassed in DeCSS neither involves a matter of public concern nor implicates the core purpose of the First Amendment.[61] Bunner posted the secrets so Linux users could enjoy and use DVD's and so others could improve the functional capabilities of the DeCSS program.[62] He did not post them to comment on a public issue or to participate in a public debate.[63] The expressive content of the trade secrets was not inextricably intertwined with – and therefore did not substantially relate to – a legitimate matter of public concern.[64]

The court finally held that the preliminary injunction was not a prior restraint because the injunction was content neutral and was issued in response to Bunner's prior unlawful conduct, and therefore did not violate the First Amendment.[65] Additionally, the court found no reason to believe that an analysis under the free speech provision in California's Constitution would yield a different result. [66]

The California Supreme Court stressed that its holding in this case was quite limited. [67] The injunction did not violate the free speech clauses of either the United States, or the California Constitutions, assuming it was properly issued under California's trade secret law.[68] The case was then remanded to the Court of Appeal to examine whether the evidence in the record supported the issuance of the preliminary injunction.[69]

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[57] *Id.* at 14.

[58] *Id.*

[59] *Id.*

[60] *Id.*

[61] *Bunner*, 75 P.3d at 15.

[62] *Id.*

[63] *Id.* at 16.

[64] *Id.*

[65] *Id.* at 17.

[66] *Id.* at 19; s*ee also* CAL. CONST. art. I, § 2(a).

[67] *Bunner*, 75 P.3d at 19.

[68] *Id.*

[69] *Id.* at 20.

IV. THE COURT OF APPEAL RULES AGAINST DVD CCA

A. Background

Charged with the task of deciding whether the Supreme Court's assumption – that the preliminary injunction was properly issued – was correct, the Court of Appeal examined the record to determine whether the information DVD CCA wanted to protect was in fact a trade secret.[70] A trade secret is defined as information (1) that is valuable because it is unknown to others and (2) that the owner has attempted to keep secret.[71] The court considered the first element to be the crucial one.[72] Here, the information "must be secret, and must not be of public knowledge or of a general knowledge in the trade or business."[73] Therefore, anonymous and widespread publication of information over the Internet may destroy its status as a trade secret unless the information has retained its value to the creator in spite of the publication.[74] In other words, if the publication is sufficiently limited so that it does not become generally known, then it does not necessarily destroy the secret.[75]

The secrecy element was crucial in this case at two points.[76] First, if the information contained in DeCSS was already public knowledge when Bunner posted the program to his Web site, Bunner was not disclosing trade secrets, and therefore, could not be liable for misappropriation for republishing them.[77] Second, even if "the information was not generally known when Bunner posted it, if it had become public knowledge by the time the trial court granted the preliminary injunction, the injunction (which only prohibits disclosure) would have been improper because DVD CCA could not have demonstrated interim harm."[78]

B. The Likelihood of Prevailing on the Merits

As to the first crucial point, the court found that there was no evidence to support a finding that the proprietary information contained in DeCSS was not generally known at the time Bunner published it.[79] Although he became aware of the program around October 26, 1999, there was no evidence as to when he

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[70] *Bunner*, 116 Cal. App. 4th at 251.

[71] *Id.* (citing ABBA Rubber Co. v. Seaquist, 235 Cal. App. 3d 1, 18 (1991)).

[72] *Id.*

[73] *Id.* (quoting *Kewanee*, 416 U.S. at 475).

[74] *Id.* (citing Religious Tech. Center v. Netcom On-Line Co., 923 F. Supp. 1231, 1256 (N.D. Cal. 1995)).

[75] *Id.*

[76] *Bunner*, 116 Cal. App. 4th at 251.

[77] *Id.*

[78] *Id.*

[79] *Id.* at 252.

actually posted it, nor was his name included in the 66 cease and desist letters DVD CCA sent in November.[80] Furthermore, when DeCSS was released, there was already a worldwide audience waiting to download and re-publish it.[81]

DVD CCA argued that Bunner should not be able to rely upon the general availability of the information to the rest of world in order to avoid application of the injunction to him, given that Bunner knew or should have known that DeCSS was obtained through improper means.[82] The court dismissed this argument on three grounds.[83] First, the defendant does not escape judicial sanction through a trial on the merits simply because a preliminary injunction is denied.[84] Second, the evidence that DeCSS was actually created by improper means was very sparse.[85] There was only thin circumstantial evidence to show how the program was created, and whether an enforceable contract was ever actually formed.[86] Finally, even if the information had been acquired by improper means, it does not necessarily follow that every single person who re-publishes publicly available information would be liable under trade secret laws simply because they knew about its "unethical origins."[87] In a highly publicized situation such as this where anyone who knows of the contested information also knows of its origins, DVD CCA's construction of the law could theoretically extend liability for misappropriation to every member of the general public who simply discloses the information to someone else.[88]

The court stressed that it was not assuming that the alleged trade secrets in DeCSS became part of the public domain simply by having been published on the Internet.[89] Rather, in this case, DeCSS and the trade secrets it contained quickly and rapidly became available to anyone interested in obtaining them, and further, that there was no evidence as to when Bunner began posting them. For these reasons, the court concluded that DVD CCA did not demonstrate a likelihood that it would prevail in its misappropriation claim.[90]

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[80] *Id.*

[81] *Id.*

[82] *Bunner*, 116 Cal. App. 4th at 252.

[83] *See id.* at 253.

[84] *Id.*

[85] *Id.*

[86] *Id.*

[87] *Id.*

[88] *Id.*

[89] *Bunner*, 116 Cal. App. 4th at 253.

[90] *Id.*

C. Interim Harm

The element of secrecy also played an important role in determining the question of interim harm.[91] Even if Bunner was liable for misappropriation, if the information had subsequently become generally known then the trade secret would have ceased to exist, and hence, the injunction prohibiting disclosure would serve no purpose.[92] The court noted that a preliminary injunction against the *use* of the information might still have been appropriate in this case, however.[93]

It was undisputed that hundreds of Web sites had posted DeCSS by the time this lawsuit was filed, allowing untold numbers of people to download and use it.[94] Furthermore, DVD CCA presented no evidence that it would suffer any more or different harm in addition to that suffered due to the initial disclosure of the information.[95] Therefore, the CSS technology likely had lost its status as a trade secret, and hence, the record did not support the trial court's finding that the balance of harms favored DVD CCA.[96]

The Court of Appeal concluded that, because DVD CCA could not show a likelihood to prevail on the merits, nor could it prove interim harm, the preliminary injunction burdened more speech than was necessary to protect DVD CCA's property interests and was an unlawful prior restraint on Bunner's right to free speech.[97]

V. CONCLUSION

Although the Supreme Court of California held that a properly issued preliminary injunction against distribution of a trade secret was not a violation of the first amendment,[98] the California Court of Appeal subsequently ruled that the injunction in question was improper for two reasons.[99] First, DVD CCA did not show a likelihood of success on the merits of its misappropriation claim because it could not prove that Bunner posted DeCSS before CSS lost its trade secret status.[100] Second, it appeared that widespread distribution of DeCSS had already destroyed CSS's trade secret status by the time DVD CCA sought the injunction, and therefore, prohibiting distribution of DeCSS would

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[91] *See id.*

[92] *Id.* at 254.

[93] *Id.*

[94] *Id.* at 255.

[95] *Bunner*, 116 Cal. App. 4th at 255.

[96] *Id.*

[97] *Id.* at 256.

[98] *Bunner*, 75 P.3d at 19.

[99] *Bunner*, 116 Cal. App. 4th at 255.

[100] *Id.*

unnecessarily burden Bunner's free speech.[101]

While many in the Internet community hailed *Bunner* as a victory,[102] the decision itself is somewhat limited. The Court of Appeal stressed that the decision only applied to the preliminary injunction, and was not a decision on the merits.[103] Furthermore, *Bunner* would not apply to those individuals who publish trade secrets *before* the secret has become part of the public domain. Moreover, CSS may remain protected under other laws, such as the Digital Millennium Copyright Act, regardless of its trade secret status.[104]

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[101] *Id.*

[102] *See, e.g.*, *DeCSS Trade Secret Case Comes to an End – Again*, Slashdot.org, (Feb. 27, 2004) *at* http://yro.slashdot.org/article.pl?sid=04/02/27/2123206.

[103] *Bunner*, 116 Cal. App. 4th at 256. ("It is important to stress that our conclusion is based upon the appellate record filed in this court. It is *not* a final adjudication on the merits. The ultimate determination of trade secret status and misappropriation would be subject to proof to be presented at trial.").

[104] *Recent Cases*, ENT. L. REP., Vol. 25, No. 11 (Apr., 2004).