

Intellectual Property

EXECUTIVE SUMMARY

Protecting trade secrets is a core concern for many companies, and a major challenge in an era of employee mobility. This month's intellectual property roundtable looks at ways that businesses can protect themselves and their secrets, and also at the ever-increasing impact of the Internet on trademark, copyright, and patent law. The panelists are David Bohrer and Daniel Johnson of Morgan, Lewis & Bockius; Joshua Paul of Sedgwick, Detert, Moran & Arnold; Mark Steiner of Townsend and Townsend and Crew; and William Coats and Glenn Trost of White & Case. The roundtable was moderated by freelance legal editor Tracie Thompson and reported for Barkley Court Reporters by Krishanna DeRita.

MODERATOR: Will setting up a protocol regarding trade secrets help companies protect themselves from breaches by former employees?

JOHNSON: The protocols are an absolute requirement in order to prove you have protected your trade secret. They are also very effective tools for dealing with former employees who claim they didn't know what was a trade secret.

It is imperative for most corporations that they give—both in their handbook and in their interviews—an explanation of what is and is not a trade secret. And in an exit interview, it is imperative to go through the checklist to ask all of the questions that need to be asked concerning trade secrets.

PAUL: A first step in the process is to look carefully at the categories of competitive information the company wishes to protect under trade secret law. If there are specific categories of proprietary information about which the company is particularly concerned, they need to be identified and described in language that is crystal clear. You can always use "catch-all" language to cover the rest.

Generally, in order to qualify as a trade secret, the information must be something that is not generally known to the public, and the trade secret owner must use reasonable efforts to keep it that way.

STEINER: That raises an interesting point, because the other side of that coin could be if

an employee were to leave and allegedly take some proprietary information that is not on the trade secret list, the complaining company then could be hard put to now claim that it's protectable.

JOHNSON: I'm a big fan of broad definitions covering categories, because the more particularized you are, the greater the chance that you are going to miss something.

COATS: One concern, though, is if it's too broad a brush, not only can you have judicial problems, you can have employee problems. You really have to train your employees to understand that the broad brush has meaning. You don't want them to get cynical about the process, and you'll see that the idea of a protocol is also one that they need to revisit and regularly train on.

Otherwise, employees just start ignoring the process. They will sign the form, but everybody knows it doesn't mean anything because it includes too much stuff. And a judge may wonder what is not a secret if you have too broad a brush.

TROST: One case that's been in the news is the dispute between Microsoft and Google with respect to Kai-Fu Lee. The operative fact in that scenario was that there was an agreement whereby Lee agreed not to work for a competitor for a period of time, and not to work on subject matters that were the subject of his employment at Microsoft.

That agreement would not be enforceable in California. To the extent that it is enforceable, it was as an agreement governed by Washington state law. And the kinds of protocols we are talking about are not tied to whether there's an agreement not to go to competitors. Generally, employees cannot use trade secrets whether there's a non-compete agreement in place or not.

BOHRER: Where I've seen this issue is particularly with software, where a client has gone ahead and tried to patent the software. And that involves disclosure and losing the right to claim trade secret protection.

What's difficult about the protocols that are being set up is that you have certain IP rights that are not bright lines. They don't fit all the way into a trade secret, or they don't fit all the way into what's appropriate for patent or even copyright.

One of the difficult issues when you are counseling in a software situation is, "Well, am I going to patent my algorithm and then treat the source code as a trade secret, or is my object code going to be copyrighted?" You can have three different lenses of protection, and that isn't usually addressed in these protocols but can be very important in terms of what type of protection you've got.

JOHNSON: You can have a patent covering technology and still retain certain aspects as trade secrets. It depends in large part on what has been

ROUNDTABLE

disclosed and what hasn't. Particularly in software cases where you might have a patent covering a particular method, and the way in which you implement certain parts of the software may not be readily known or available, and as a consequence, you could still have trade secret protection.

TROST: That's true so long as you comply with best-mode disclosure requirements. But then subsequent improvements to your product don't have to be disclosed and can be retained as trade secret.

COATS: In the European Community, there's been a decision against Microsoft that is a scary one for software companies, because the combination of trade secrets and patents is a typical protection nowadays since copyright has become so weakened. But the EC decided that trade secrets did not merit particularly strong intellectual property protection, and the EC felt that it could just force Microsoft to reveal the trade secrets in its source code, unless they were patented or there's a patent pending.

That's on appeal and it won't be decided for a while, but still that puts everyone in a scary position, because you have to worry about the European market as well. And you could have yourself put in a spot relying on what is a typical U.S. way of doing things and finding out that the EC says, "Oh, no, your product is successful, and therefore you should open it up to everybody. You can protect your patents, of course, but all your trade secrets are gone."

JOHNSON: One of the byproducts of establishing trade secret protocols is that, oftentimes, the engineer or salesperson who walked out with the list or the technology has been approached by a prospective employer and asked, either overtly or otherwise, to bring information with them. So one of the very strong strategies available to you is to sue the subsequent employer for inducing breach of an agreement.

PAUL: For the former employer to sue the new employer along with the ex-employee is critical, because that's the way to get complete relief. You have two parties to the action, and you can ask the court to issue an injunction against the new company, which perhaps is easier to package and easier to explain to the court in terms of justice than an injunction to direct against the individual.

Going back to the dispute between Microsoft and Google over Mr. Lee, it's also important to look at the issues from the vantage point of a

company which, like Google, wants to hire away someone else's key employee. How can that company protect itself against the sort of claims we are discussing? For starters, the new company will want to look at the potential hire's employment agreement with his current employer.

STEINER: Perhaps the new company would want to conduct an "entrance" interview with the employee before he or she steps in the door and say, "Okay, here are the boundaries of what you are allowed to do and what we don't want you to do," and document that interview. And also, make sure that the employee is not bringing both physical property as well as what we might characterize as protectable intellectual property with him or her.

TROST: It's important in situations where you have important people going from one competitor to another, that the new employer protect itself by having an explicit acknowledgement in writing signed by the new employee upon entrance that they are not bringing in any materials from the old employer, and that they recognize and acknowledge that they are not going to disclose or use any confidential information of their former employer when working for the new employers.

COATS: Although such a policy has to be carefully drafted, because an error may produce a situation where you might be forced to fire this high-level employee that you just hired for reasons far beyond the confidential information that person brought.

You do see some clients saying, "We've got a policy of automatic firing." When you hire a new CEO, do you want to fire him because of a trade secret dispute? Because once everybody knows how to do that, they know how to get rid of their competitors' senior executives in a hurry if they feel like it. So it's got to be a very, very carefully drafted policy.

MODERATOR: Where are we now in terms of the impact of the Internet on trademark and copyright law?

STEINER: We've lived now with the Internet as we know it for more than 10 years, and we've seen so many permutations on infringement or alleged infringement of trademarks, starting with the aggressive registration of domain names to issues of linking, framing, keywords, and the like.

We've seen new ways of infringing trademarks. The technology has allowed for an easy misdirection of traffic, and hence, the doctrine of initial interest confusion has developed.



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ROUNDTABLE

Keywords are also an unsettled area. One can buy a keyword of another's trademark. Thus, when an Internet user goes in to find that trademark owner's name or mark, the user gets misdirected based on the purchase of the mark as a keyword by someone else. I find it amazing that this practice is not considered trademark infringement or unfair competition. But the law is unsettled at this point.

PAUL: Absolutely, the law on keywords is still unsettled. I handled Estée Lauder's keyword case against Excite@home back in 2000. The most recent decision in this area is in Geico's case against Google. The court said that Google did not violate the Lanham Act simply by making Geico's trademark available for sale as a keyword to generate an advertiser's sponsored link. However, the court also said that likelihood of confusion would exist if the ad or link actually contained the word "Geico." The decision seems to leave no room for legitimate comparative advertising.

JOHNSON: I argued on behalf of Napster in the first round of litigation, and at that point I predicted that the Internet was going to fundamentally change copyright and trademark law as we knew it, and that the courts were not equipped to deal with the new marketplace, and that we needed real legislation and not things like the DMCA [Digital Millennium Copyright Act], which created more problems than it solved.

Once data is bits and bytes, it is possible to do things that nobody ever dreamed of. We are going to have to fundamentally rewrite the way in which we protect, because trying to do it on an ad hoc basis is simply not possible.

TROST: And right now we are basically doing it on an ad hoc basis through the fair use doctrine in copyright law. We get these technologically driven situations and business models where we have rights holders and business enterprises come into conflict, and really, the fair use doctrine is such a blunt instrument to try to resolve those things.

BOHRER: I have a client, Avery Dennison, that sees this on a daily basis on a very practical level, where they sell a product that is the gold standard.

The competitors will say, "Our product is the same size as an Avery Dennison product," which is of course a classic fair use. It's fair to say that Avery Dennison feels a very strong commitment to protecting its IP, but due to the breadth and depth of things that are happening on the Internet, there

is no way for Avery Dennison to continue to do business and challenge everyone who's improperly using their name or mark. They are having to make judgments based on business level.

It may well be that there's a need for legislative change to address the abuses that can be greater or magnified on the Internet, but, by and large, the traditional concepts of fair use and unfair competition are driving how the courts are deciding things like that.

PAUL: We have to distinguish between the copyright and the trademark areas, and in the copyright area, there has been marked change in the landscape.

With the DMCA, Congress has in effect created an additional exclusive right of copyright. This would be the right to control access to a copyrighted work through the use of a technological measure. This is what the DMCA's anti-circumvention provisions are about. Maybe the key issues for proprietary rights owners are technological in nature, not legal.

COATS: Technology perhaps changes far too quickly for courts, but even more quickly for the elective bodies to try to figure out solutions. So I don't think legislation is going to help us very much. By the time you've compromised enough to create it, technology would have leapfrogged way past it.

So I actually am a fan of using the principles we have, with the flexibility of courts to try and keep things somewhat on an even keel, because technology is, in some ways, its own solution. Maybe Sony's copy protection solution wasn't the best one, but somebody will come up with one that's going to work. CSS [Contents Scramble System] technology for the movie industry, although it was cracked, still is an effective way of releasing movies. How quickly movies go into the marketplace tells you that technology solved the problem well enough to make a nice economic market.

TROST: How does a technological advance protect one of the oldest technologies we have, which is a book? We have a big case now that's been filed against Google, which is basically imaging large university libraries around the world to create a very, very large database that will contain potentially hundreds of thousands or perhaps even millions of books, just by taking their images and doing character recognition and creating electronic text libraries.

Publishers have sued, and Google has even put in an opt-out process where a publisher can



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ROUNDTABLE

opt out of their system. But the publishers have to take the affirmative step of doing that.

STEINER: So they've turned copyright law on its head. Google has said, "We are going to infringe your copyright unless you tell us not to," rather than employing an opt-in system and saying, "May we have your permission to reproduce this copyrighted work?"

TROST: In the recent *Arriba Soft* case, they had an opt-out provision, which the Ninth Circuit found to be a good thing, and it tended to support their finding that it was fair use because of the opt-out.

One of the keys in this case will be, is Google going to make available the entire book or little pieces of the book to those who search the book database? If it's only little pieces of the book, you could find fair use cases that essentially approve of everything they are doing right now.

For example, if you use Google to search *The Picture of Dorian Gray* and find the line, "There is only one thing in the world worse than being talked about and that is not being talked about," and you can pull that quotation up without getting a download of the rest of the book at the same time, there's a pretty good argument to be made based on existing case law that that's a fair use.

PAUL: And carrying that one step further, what if the search result page returned by Google contains a link or several links to authorized publishers. That might impact the fair use issue, because Google in that case arguably isn't undercutting or depriving anyone's revenue stream.

STEINER: Well, the law of fair use has always been very, very nebulous. We have the four statutory factors, but the case law under fair use is very unpredictable, and the analysis is not supposed to be necessarily quantitative, but also qualitative.

If you only take a small portion through the Google search engine, it may be considered fair use. However, if that happens to be a portion of a work that everybody wants, and it's the most important part, that could be considered a significant infringement qualitatively.

TROST: Google has taken one and probably more than one copy of the entire work, because it has to have the entire work in the form of words or some data set that can be used to con-

vert it to the words that are in the book. And under the Copyright Act, those are unauthorized copies, and a court applying the fair use doctrine is going to have to somehow figure out whether that's okay or not.

MODERATOR: Has there been an impact of the Internet on the patent side of intellectual property?

STEINER: The most significant impact on patents with the Internet is the vast increase in business method patents. There have been a lot of patents that have been issued with regard to the procedures for actually searching for and buying products on the Web. A number of those patent holders have tried to enforce their patents against many of the companies that are conducting e-commerce.

BOHRER: A lot of clients, to the extent that they have software developments that would be relevant to the Internet, are looking more to trade secret than to patent. It's an industry that doesn't lend itself well to an 18-month ramp-up before you get a patent.

JOHNSON: There's also been a big change in the way we handle patent litigation, because it's so much easier now to search for prior art in your office as opposed to hiring some search company to do it for you.

BOHRER: Just yesterday I was looking at the 2005 AIPLA survey, and if you are going blue-ribbon in your defense or your prosecution of a patent, and your exposure is over \$25 million, you are spending over \$6 million. The Internet is one of the tools that our clients expect us to use to be efficient, because of how significant these litigations can be and how expensive they are. ■

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