

ADDITIONAL DEVELOPMENTS—TRADE SECRET

DVD COPY CONTROL ASS'N, INC. V. BUNNER

10 Cal. Rptr. 3d 185 (Ct. App. 2004)

A California court of appeal reversed a preliminary injunction that barred the defendant from posting, disclosing, or distributing plaintiff's alleged trade secrets and held that the evidence was insufficient to justify the injunction under the Uniform Trade Secrets Act (UTSA).

The motion picture industry adopted a content scrambling system (CSS) to prevent unauthorized reproduction of motion pictures on DVDs by encrypting the film data. The industry agreed upon a restrictive licensing scheme to keep CSS secret, with DVD Copy Control Association (DVD CCA) as the sole licensing agent. Despite these efforts, software decrypting CSS (DeCSS) appeared on the Internet in October 1999. The industry sent cease-and-desist letters to website operators offering DeCSS or links to the program. DVD CCA filed suit seeking a preliminary injunction in December 1999, naming Bunner as a defendant even though Bunner had not received a cease-and-desist letter. DVD CCA alleged that DeCSS contained CSS trade secret information, and that DeCSS was created by reverse engineering CSS in breach of a license agreement. Therefore, DVD CCA reasoned that the website operators misappropriated trade secrets by posting DeCSS with the knowledge that it had originated through improper means. The trial court issued the preliminary injunction and Bunner appealed, claiming that the injunction violated his free speech rights; the appellate court agreed and reversed. The California Supreme Court granted review and held that the injunction did not violate free speech, as long as the trial court properly issued the injunction under California's trade secret law.

On remand, the California court of appeal determined whether the injunction was warranted by considering the likelihood that the moving party would prevail on the merits and the relative harm to the parties vis-à-vis the injunction. The court stated that the plaintiff's first burden is to show that the information it seeks to preserve is a trade secret. The court noted that online publication will not destroy the trade secret as long as the publication is "sufficiently obscure or transient or otherwise limited" so that the information is not generally disclosed to economically interested parties. However, the court held that information in the public domain cannot be subjected to trade secret protection. The court ruled that the plaintiff was unlikely to prevail on the merits, since DeCSS was widely distributed over the Internet and the record was unclear as to when Bunner posted the program. With respect to the allegations of reverse engineering, the court held that even if the information was acquired improperly with everyone's knowledge thereof, third party publication is not automatically illegal if the information becomes publicly available. Because the court concluded that the facts demonstrated the information entered the public domain at some time after the initial publication, the court ruled that if the online distribution of DeCSS disclosed CSS to the public domain before Bunner posted, then no trade secret existed for Bunner to misappropriate.

Even if Bunner posted before the widespread dissemination, the court held that if the information became general knowledge before the trial, a preliminary injunction would be improper because DVD CCA would not be able to demonstrate interim harm. The court ruled that the injunction would be ineffective in prohibiting future disclosures, given the existing availability of the information online, and therefore DVD CCA would

not be able to satisfy the interim harm requirement. Furthermore, the court held that the preliminary injunction burdened more speech than was necessary to protect DVD CCA's property interest. Therefore, the court found the injunction to be an unlawful prior restraint on Bunner's free speech rights and subsequently reversed the lower court's grant of preliminary injunction.