

CALIFORNIA SUPREME COURT FINDS TRADE SECRET PROTECTION MAY OUTWEIGH FREE SPEECH CLAIMS

A preliminary injunction prohibiting a web site operator from posting the source code for a DVD decrypting program containing another party's trade secrets does not violate the First Amendment of the U.S. Constitution or the free speech clause of the California Constitution, the California Supreme Court unanimously ruled. *DVD Copy Control Association, Inc. v. Bunner* (S102588, Aug. 25, 2003).

The case resulted from the Internet publication of the source code for a computer program called "DeCSS." DeCSS defeats certain encryption/decryption technology called the "content scramble system" (CSS) that is designed to prevent the unauthorized use of motion pictures stored on DVDs. DeCSS was allegedly first published online in October 1999 by a Norwegian teenager named Jon Johansen, and soon proliferated on other web sites, including that of California computer programmer Andrew Bunner. The DVD Copy Control Association (DVDCCA), a trade association that licenses CSS to hardware and software manufacturers, then filed a claim against Bunner and others who had divulged DeCSS on the

Internet or linked to sites that did, alleging trade secrets misappropriation under California's Uniform Trade Secrets Act, Cal. Civ. Code § 3426 *et seq.* (the Act). The Santa Clara County Superior Court granted a preliminary injunction to prevent future disclosure of DeCSS.

Bunner appealed, leading California's Sixth District Court of Appeal to find that the DeCSS source code constituted "pure" speech (*i.e.*, speech without conduct) and that the trial court's injunction amounted to an unconstitutional prior restraint on pure speech. Accordingly, the Court of Appeal reversed the lower court's order, holding that the preliminary injunction, even if justified under the Act, violated the First Amendment of the U.S. Constitution. Distinguishing trade secrets from other interests for which courts have upheld speech injunctions, such as copyrights and contractual obligations, the Court of Appeal held that the right to protect a trade secret is not an interest more fundamental than the First Amendment right to free speech.

INJUNCTION PASSES SCRUTINY UNDER U.S., CALIFORNIA CONSTITUTIONS

The California Supreme Court's analysis of whether the preliminary injunction violated defendant's right to free speech under the U.S. and California Constitutions differed from that of the Court of Appeal.

The Supreme Court agreed that computer code such as DeCSS, as a means of expressing an idea, is language that deserves First Amendment protection and that any restrictions on its dissemination is subject to scrutiny under the First Amendment. However, the Court determined that the trial court's order prohibiting the dissemination of DeCSS was a

content-neutral prohibition (*i.e.*, not based on the communication's subject matter) and, as such, was subject to a lesser level of scrutiny than that applied to content-based injunctions. Therefore, the Court applied an intermediate level of scrutiny and examined whether the injunction burdened more speech than was necessary to serve a significant government interest. This required that the governmental interest be weighed against the degree of the speech restriction, under the test set forth by the United States Supreme Court in *Madsen v. Women's Health Center* (1994) 512 U.S. 753, 765.

The Court held that the injunction did not overburden speech, since prohibiting the disclosure of the DeCSS source code was the least restrictive measure to (a) preserve the plaintiff's property interest in its trade secret information, thereby serving the government's interest in encouraging innovation and (b) prevent Bunner, who knew or had reason to know that CSS was improperly acquired, from disclosing those trade secrets, thereby upholding the commercial ethics standards of trade secret law.

The Court also found that DeCSS did not concern a matter of public importance or implicate the core purpose of the First Amendment since the DeCSS is simply technical information that was posted so that others can use DVDs and for improvement of the DeCSS code, not for the purpose of commenting on any public issue or to participate in any public debate. The Court stated that the fact that the DeCSS was

linked to a public issue (that of the DVD industry's use of encryption software to limit copying) did not create a legitimate public interest in disclosure.

The Court next determined that the injunction was not a prior restraint because the injunction was content-neutral and based on the defendant's prior unlawful conduct (*i.e.*, the defendant's disclosure of trade secrets in violation of the Act).

Lastly, the Court rejected the plaintiff's contention that the injunction violated the free speech clause of the California Constitution, finding no evidence to suggest that the clause would warrant a different conclusion than under the First Amendment of the U.S. Constitution.

Thus, the Supreme Court unanimously held that the preliminary injunction prohibiting Bunner's Internet posting of DeCSS did not violate his free speech rights, so long as the injunction was proper under the Act.

CASE REMANDED FOR FACTUAL DETERMINATION AS TO TRADE SECRET STATUS

While the California Supreme Court's decision represents a victory for trade secret owners since it affirms their right to protect against wrongful disclosure of their trade secret information, it does not resolve whether the injunction itself was properly granted. The Court emphasized that its decision was limited in scope since the Court relied on the trial court's findings of fact – *e.g.*, that CSS was a trade secret, that publication of DeCSS over the Internet had not destroyed CSS's trade secret status, that the creator of DeCSS acquired the

trade secrets of CSS through improper means, and that Bunner knew or should have known that DeCSS disclosed trade secrets acquired by improper means – and merely assumed that the plaintiff was likely to prevail on the merits of its trade secret case against the defendant. The Court remanded the case to the Court of Appeal to review the evidence in the record independently and determine whether it warranted an injunction under the Act.

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