NOTES

COMPARATIVE ANALYSIS OF TRADE SECRET LAW IN PRACTICE IN HIGH-TECH INDUSTRIAL DISTRICTS: A LINK BETWEEN TRADE SECRET PROTECTION, KNOWLEDGE SPILLOVER, AND INDUSTRIAL GROWTH?

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I. INTRODUCTION

On February 28, 2014, the *New York Times* published an article about a class action lawsuit filed in the Northern District of California that accuses industry executives of agreeing between the years 2005 and 2009 not to poach one another's employees.[1] Scattered throughout the article were the names of executives at the highest echelons of the most well known high-tech companies, including Google and Apple, that were all alleged to be directly implicated in a mob-like conspiracy to prevent employment mobility.[2] The lawsuit will likely be closely covered by the media, who will have the opportunity to show the dark side of high-tech companies that are often portrayed as progressive and model employers. Setting aside its shock value, however, the lawsuit also corroborates another unconnected story: Silicon Valley's growth as an industrial cluster has resulted from significant "knowledge spillover" in the area caused by high levels of employment mobility. If top-level executives went to such lengths to restrain the normal free flow of labor, there is a good chance they

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1. David Streitfeld, *Engineers Allege Hiring Collusion in Silicon Valley*, N.Y. TIMES, Feb. 28, 2014, http://www.nytimes.com/2014/03/01/technology/engineers-allege-hiring-collusion-in-silicon-valley.html?_r=1.r=1.

2. *Id.*

were afraid of losing more than talent. They were likely engaging in such practices to prevent departing employees from either intentionally or unintentionally sharing valuable, proprietary information with a competitor.

For nearly twenty years, theorists like AnnaLee Saxenian have argued that Silicon Valley's unique business practices and culture of mobility have given it a regional advantage over other industrial clusters. Legal scholars, such as Professor Ronald Gilson, have tried to determine whether California's legal infrastructure has helped or hindered knowledge sharing by way of employee mobility. Because California is unique in its outright ban on covenants not to compete ("noncompete covenants") in employment agreements, Gilson has argued that Silicon Valley's boom partially resulted from this ban's effect on employee mobility.[3] This Note aspires to paint a fuller picture and determine whether trade secret protection, a legal doctrine affecting how and if a company's former employees can transmit that company's information to a competitor, has helped or hindered knowledge sharing. It seeks to do this by determining whether the protections afforded by trade secret law have been stronger or weaker in Silicon Valley as compared to the Route 128 region of Massachusetts. Route 128 is a similar high-tech industrial cluster that has been frequently used as a point of comparison because of its decline relative to Silicon Valley.[4]

A noncompete covenant in an employment agreement is an arrangement between the employer and employee that prevents the employee from working for the employer's competitor(s) after his or her employment agreement is terminated. Generally, such a noncompete covenant provides that an employee is barred from working for an employer's competitor for a particular period of time within a specified geographic territory.[5] Unlike the majority of jurisdictions in the United States,[6] noncompete covenants between an employer and employee are not enforceable in California.[7]

3. Ronald J. Gilson, *The Legal Infrastructure of High Technology Industrial Districts: Silicon Valley, Route 128, and Covenants Not to Compete*, 74 N.Y.U. L. REV. 575, 578, 606, 607 (1999).

4. *See* Vivek Wadhwa, *The Valley of My Dreams: Why Silicon Valley Left Boston's Route 128 in the Dust*, Tech Crunch (Oct. 31, 2009), http://techcrunch.com/2009/10/31/the-valley-of-my-dreams-why-silicon-valley-left-bostons-route-128-in-the-dust/.

5. LAURENCE H. REECE III, BUSINESS TORTS IN MASSACHUSETTS § 8.1 (MCLE, Inc. 2002).

6. Gilson, *supra* note 3, at 577.

7. CAL. BUS. & PROF. CODE § 16600 (Deering 2014); JENNIFER BALDOCCHI, 4–70 CALIFORNIA EMPLOYMENT LAW § 70.09 (M. Kirby Wilcox & Erica B. Grubb eds., 2013).

On the basis of the theory that firms agglomerate geographically because of the benefits of knowledge spillover in a specific area, Gilson suggests that California's ban on noncompete covenants in the employment context is a causal antecedent to knowledge spillover.[8] Generally, employees transfer to their employers' competitors without restriction, and valuable knowledge is more readily shared with other firms and startups.[9] Gilson illustrates this theory by comparing the California and Massachusetts law on noncompete covenants.[10] He focuses on these two jurisdictions in order to juxtapose the success of Silicon Valley on the San Francisco Peninsula and the decline of Route 128 outside of Boston.[11] In Massachusetts, noncompete covenants are enforceable under the "rule of reason" standard derived from English common law: the duration and geographic area specified in a covenant not to compete must be no greater than necessary to protect an employer's legitimate business interests, and not otherwise contrary to the public interest.[12]

Gilson's argument relies on other theories of economic agglomeration and growth, including AnnaLee Saxenian's theory of Route 128's decline.[13] Saxenian, a distinguished scholar of Urban Planning,[14] attributes the respective success and decline of Silicon Valley and Route 128 to differences in business cultures.[15] Gilson does not displace Saxenian's theory, but argues that the legal rules governing employee mobility have contributed to the Silicon Valley business culture that Saxenian describes.[16] Silicon Valley's legal rules support a business culture of job-hopping, while Route 128's legal rules support a business culture that discourages it.[17]

Nonetheless, Gilson's theory does not take into account differences in trade secret protection in the two states.[18] Trade secrets are governed by

8. Gilson, *supra* note 3, at 578.

9. *Id.*

10. *Id.*

11. *Id.* at 577.

12. *Id.* at 603–04. This formulation is commonplace in Massachusetts covenant cases and dates to the late nineteenth century. *See* Boulanger v. Dunkin' Donuts, Inc., 815 N.E.2d 572, 577 (2004).

13. Gilson, *supra* note 3, at 578.

14. *AnnaLee Saxenian*, U. CAL. BERKELY, http://people.ischool.berkeley.edu/~anno (last visited Oct. 4, 2014).

15. Gilson, *supra* note 3, at 578.

16. *Id.*

17. *Id.*

18. Gilson does not ignore trade secrets. He considers Professor Alan Hyde's theory discussed later in this Note, which discusses the role of trade secret enforcement in Silicon Valley. However, Gilson ultimately concludes that Hyde's theory presumes a business culture that supports high-velocity

state law,[19] and they can cover a wide range of information that a firm has. Since a trade secret claim is a way for an employer to prevent knowledge spillover, the strength and breadth of trade secret protection also determines whether knowledge spillover can occur between firms in a region.

Thus, based on a case study of trial court orders deciding trade secret claims, this inquiry seeks to determine whether differences in trade secret protection exist. The case study will compare cases where an employee leaves an employer and is alleged to have misappropriated trade secrets in order to determine (1) whether there are differences in trade secret protection afforded by the two high-tech industrial districts and (2) whether courts in Silicon Valley do in fact give employees more freedom to share valuable proprietary information with competing employers. Ultimately, this Note will illustrate why trade secret protection in the two districts does not differ in any meaningful way, and discuss the implications of this finding for Gilson's thesis.

This note will in some ways mirror Gilson's article, with two important differences. First, this Note will focus on the legal infrastructure surrounding trade secrets in the aforementioned high-tech industrial districts, not the legal infrastructure surrounding noncompete agreements. Second, the goal of this Note is to analyze the application of trade secret law in the trial courts serving the high-technology districts of Route 128 and Silicon Valley, and determine the differences in trade secret protection afforded in practice. While substantive trade secret law will inevitably be implicated, this Note will not be a study of the governing state law.

In Part II, I will provide a succinct overview of theories of agglomeration in general. First, I will explore the central economic theory that explains how agglomerations occur and grow: Alfred Marshall's *Industrial Organization Continued: The Concentration of Specialized Industries in Particular Localities*. Second, I will describe more recent, non-legal theories that link the growth of high-tech districts to knowledge spillover. I will also include a theory that challenges this hypothesis. Part II will contextualize the importance of understanding whether the legal

employment, but does not explain how the legal infrastructure contributed to that business culture. Ultimately, he argues, differences in the law on noncompete covenants still remain the most likely causal antecedent in the legal infrastructures of Silicon Valley and Route 128 to the two districts' different paths and cultures. *Id.* at 612–14.

19. "Unlike patent, copyright, and trademark law, trade secret regulation is a creature of state law." HENRY H. PERRITT, JR., TRADE SECRETS: A PRACTITIONER'S GUIDE 1 (2d ed. 2013).

infrastructure in a certain region helps or hinders an employee's ability to act as a conduit for knowledge spillover.

In Part III, I will briefly summarize the differences between California's substantive trade secret law and Massachusetts's trade secret law. In Part IV, I will get to the heart of this Note and complete my case study. This case study will compare trade secret claims in the two aforementioned frequently compared high-tech industrial districts. The scope of the study will be limited to federal courts because trade secret claims are frequently joined with federal claims. While findings at the state trial court level might differ, the explicit reasoning in United States District Court ("U.S.D.C.") opinions and equivalent procedural standards employed allow for a useful comparison between the two districts. The analysis will also be limited to the following federal courts in the high-tech districts of Silicon Valley and Route 128 outside Boston: (1) U.S.D.C. for the District of Massachusetts, which hears claims in the greater Boston area, and (2) U.S.D.C. for the Northern District of California, which hears claims in the greater Silicon Valley area (San Francisco, San Mateo, and Santa Clara counties). My research will be limited to situations where an employee left his or her employer and is alleged to have taken the employer's trade secret information upon departure**.** I will group the analysis by motions filed, qualitatively comparing and contrasting (1) motions for injunctions or temporary restraining orders, (2) motions to dismiss, and (3) motions for summary judgment. My analysis will include a chart of successes and failures, and a descriptive analysis of the differences.

Finally, in Part V, I will conclude this case study by highlighting key similarities and differences in trade secret protection in the two jurisdictions. Based on my findings, I will demonstrate why trade secret protection in the two jurisdictions does not differ in any meaningful way, and the implications of my findings for Gilson's thesis. I will also briefly analyze other theories discussing the utility of trade secret law in the high-tech sector, and discuss how my findings relate to these theories.

II. THEORIES OF AGGLOMERATION

In Book IV, Chapter X of his Principles of Economics, Alfred Marshall developed the concept of an industrial district—the special concentration of firms in the same or a related industry.[20] The original

20. Gilson, *supra* note 3, at 576.

rationale for the industrial district rests on the creation of external economies of scale, which are economies that are external to the firm but internal to the area, for groups of small firms.[21] The atmosphere of industrial districts can enhance the ability of small firms to acquire tacit knowledge and other forms of informal skills in order to support the development, adoption, and diffusion of innovations.[22] Marshall describes the benefits of industrial districts:

> When an industry has thus chosen a locality for itself, it is likely to stay there long: so great are the advantages which people following the same skilled trade get from near neighborhoods to one another. The mysteries of the trade become no mysteries; but are as it were in the air, and children learn many of them unconsciously. Good work is rightly appreciated, inventions and improvements in machinery, in processes and the general organization of the business have their merits promptly discussed: if one man starts a new idea, it is taken up by others and combined with suggestions of their own; and thus it becomes the source of further new ideas.[23]

Recent scholarship has not ceased to focus on the dynamics of industrial districts and the location of these clusters.[24] The school of "New Economic Geography," and the most prominent contributor to this school, Paul Krugman, are centrally concerned with determining why manufacturing activity concentrates in certain selected regions while others remain largely undeveloped.[25] But with history and progress, the familiar examples of industrial concentration and localization have changed.[26] As described by Krugman in his book GEOGRAPHY AND TRADE, "one rarely now hears about Motown, Iron City, or the Garment District . . . instead it is all high-tech."[27] While the 1970s and 1980s were characterized by deindustrialization, 1990 to 2008 was considered by many to be a period of widespread economic growth that had less to do with the production of

21. THE OXFORD HANDBOOK OF ECONOMIC GEOGRAPHY 415 (Gordon L. Clark, Maryann P. Feldman & Meric S. Gertler eds., 2001).

22. *Id.* at 416.

23. ALFRED MARSHALL, *Industrial Organization Continued: The Concentration of Specialized Industries in Particular Localities*, *in* PRINCIPLES OF ECONOMICS VOL. 1 332 (3d ed. 1895), *available at* http://books.google.com/books?id=7yxBAAAAIAAJ&printsec=frontcover&source=gbs_ge_summary_r&cad=0#v=onepage&q&f=false.

24. ANDREW WOOD & SUSAN ROBERTS, ECONOMIC GEOGRAPHY, PLACES NETWORKS AND FLOWS 131 (2011).

25. *Id.* at 47.

26. PAUL KRUGMAN, GEOGRAPHY AND TRADE 63 (1991).

27. *Id.*

tangible commodities, but rather more to do with the deployment of knowledge.[28]

As the world shifted to this "New Economy,"[29] Silicon Valley and Boston's Route 128 attracted international acclaim as the world's leading centers of innovation in electronics.[30] Policymakers and planners around the world looked to these fast-growing regions as models of industrial revitalization.[31] However, in the 1980s, the performance of these two regional economies diverged, and by the end of the 1980s, Route 128 producers had ceded its longstanding dominance in computer production to Silicon Valley.[32]

It is against this background that both Gilson and Saxenian studied the culture and legal infrastructure that gave rise to the extreme growth of Silicon Valley, and stagnation of Route 128. While Saxenian's study of the two regions' divergence is comprehensive and discusses a wide range of contributing factors, she emphasizes the differences in the labor markets of the two regions.[33]

According to Saxenian, Silicon Valley was quickly distinguished by unusually high levels of job-hopping: engineers shifted between firms so frequently that mobility was not only socially acceptable, but became the norm.[34] This occupational mobility was facilitated by the geographic proximity of the region's firms.[35] In addition, the region was home to various social and professional networks, which served as efficient job search links and conduits for technical and market information.[36] This decentralized and fluid environment accelerated the diffusion of technological capabilities and know-how within the region.[37] Although, while departing employees were typically required to sign nondisclosure statements that prevented them from revealing company secrets, much of

28. WOOD & ROBERTS, *supra* note 24, at 134–35.

29. *Id.* at 135.

30. ANNALEE SAXENIAN, REGIONAL ADVANTAGE: CULTURE AND COMPETITION IN SILICON VALLEY 1 (1994).

31. *Id.*

32. *Id.* at 1–2.

33. *Id.* at 34, 35, 62, 75, 77, 78, 80.

34. *Id.* at 34.

35. *Id.* During the 1970s, average annual employee turnover exceeded 35 percent in local electronics firms and was as high as 59 percent in small firms. It was rare for a technical professional in Silicon Valley to have a career in a single company. *Id.*

36. *Id.*

37. *Id.* at 35.

the useful knowledge in the industry came out of the experience of developing technology rather than a company's secrets.[38] By the early 1970s, Silicon Valley was distinguished by the speed with which technical skill and know-how diffused within a localized industrial community.[39]

Conversely, employees in the Route 128 area tended to be loyal to the firm and generally expected to stay for the long term, working their way up the corporate hierarchy and retiring with a comfortable pension.[40] The Route 128 system, with its emphasis on centralization, corporate secrecy, and formal hierarchies, provided critical stability in an environment of numerous sales and transactions, but was inadequate for the accelerating pace of technological and market change in, for example, semiconductors.[41] Thus, employment mobility has been part and parcel of Silicon Valley's success: its industrial system built on a regional network is more flexible and technologically dynamic than Route 128's industrial system, which limits movement and confines the process of technological change within corporate boundaries.[42]

Other theories unrelated to employment mobility have also tried to explain the growth of Silicon Valley and decline of Route 128. For instance, in *Technology, Entrepreneurship and Path Dependence: Industrial Clustering in Silicon Valley and Route 128*, Martin Kenney and Urs Von Burg emphasize that a technology's trajectory and potential are critical to understanding the fates of industrial districts based on that technology.[43] The article argues that the evolution of each region displays important path dependent characteristics; Route 128 became the center of the minicomputer industry and Silicon Valley became the center of the semiconductor industry.[44] According to Kenney and Von Burg, semiconductors had a stronger potential as a component than the minicomputer's potential as an assembled machine.[45] When used as part of

38. *Id.* at 37.

39. *Id.*

40. *Id.* at 77.

41. *Id.* at 80. Semiconductors were the first electronic industry in Silicon Valley that set the stage for the development of the high-tech boom. *Id.*

42. *Id.* at 61.

43. Martin Kenney & Urs Von Burg, *Technology, Entrepreneurship and Path Dependence: Industrial Clustering in Silicon Valley and Route 128*, 8 Indus. and Corporate Change 67, 68 (1999).

44. *Id.*

45. *Id.* at 77. A minicomputer is a "small computer that is intermediate between a microcomputer and a mainframe in size, speed, and capacity" that emerged in the 1960s.

a transistor, which is a small device used to control the flow of electricity in, for example, radios and computers,[46] the semiconductor was a simple component.[47] But as part of an integrated circuit, the semiconductor was a complex device embodying sophisticated knowledge in an inexpensive physical material.[48] Consequently, in the postwar electronics industry, transistors and subsequently integrated circuits were an enabling technology for nearly every important innovation.[49]

By contrast, the minicomputer was only a segment of the entire computer industry.[50] The minicomputer was a $200,000 computer that could be purchased and used by corporate departments.[51] When workstations offered computing power for thirty percent of a minicomputer's cost, the minicomputer's market niche stymied its greater diffusion.[52] By the beginning of the 1990s, due to the severe competition from workstations, the market for minicomputers stagnated along with the Route 128 area.[53]

This is a simplified explanation of Kenney and Von Burg's theory: the article discusses a complex web of additional factors that followed these initial differences in industry and helped Silicon Valley surpass Route 128.[54] Nonetheless, what is interesting about their theory is that it seems to abandon explanations involving labor mobility and knowledge spillover, and provides a compelling alternative explanation of the two regions' respective growth and decline.[55] Thus, it challenges the Saxenian and Gilson dynamic of a more fluid Silicon Valley labor force supported by legal rules that promote employment mobility.

It is tempting to abandon the theory of knowledge spillover through employment mobility and instead attribute growth to the type of industry

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Microcomputer, MERRIAM-WEBSTER.COM, http://www.merriam-webster.com/dictionary/minicomputer (last visited Oct. 4, 2014).

46. *Transistor*, MERRIAM-WEBSTER.COM, http://www.merriam-webster.com/dictionary/transistor (last visited Oct. 9, 2014).

47. Kenney & Von Burg, *supra* note 43, at 77.

48. *Id.* at 77–78.

49. *Id.* at 78.

50. *Id.* at 79.

51. *Id.*

52. *Id.*

53. *Id.*; *see also* Paul A. Herbig & James E. Golden, *Analysis Note: The Fall of Innovative Hotspots*, 10.6 INT'L MARKETING REV. 13, 17 (1993).

54. Kenney & Von Burg, *supra* note 43, at 98–99.

55. *See id.* at 68.

present in the region, particularly since the Route 128 area has gained new industries and renewed growth in recent years.[56] After the decline of a handful of large minicomputer manufacturers like Apollo, DEC, and Data General, in the early 1990s,[57] the area now has clusters of biotech and bioinformatics firms, software companies, telecoms-equipment makers, and data storage firms.[58] Nevertheless, there is convincing statistical evidence that employment mobility in the computer industry is higher in California, and within California, higher in Silicon Valley.[59] While this evidence does not necessarily confirm that higher employment mobility is related to the legal infrastructure, it does provide support to the thesis that employment mobility can promote localized industrial growth.

In *Job-Hopping in Silicon Valley: Some Evidence concerning the Microfoundations of a High Technology Cluster*, Bruce Fallick, Charles A. Fleischman, and James B. Rebitzer, utilized economic data on employment mobility to answer three questions that tested Saxenian and Gilson's hypotheses.[60] The study's first conclusion was that intra-industry mobility is higher in the computer industry in Silicon Valley than in computer industries located elsewhere in California, thereby confirming Saxenian's hypothesis.[61] In its second conclusion, the study found that when looking at California as compared to other states, there was also an overall "California effect" in the computer industry,[62] or heightened employment mobility in

56. *See Revenge of the Brahmins*, THE ECONOMIST,(Feb. 7, 2002), http://www.economist.com/node/976946.

57. *Id.*

58. *Id.*

59. Bruce Fallick, Charles A. Fleischmann & James B. Rebitzer, *Job-Hopping in Silicon Valley: Some Evidence Concerning the Microfoundations of a High-Technology Cluster*, 88 REV. ECON. & STAT. 472, 478-81 (2006).

60. *Id.* at 475–76. There were three questions presented: (1) Whether interfirm mobility of employees in the computer industry is higher in Silicon Valley than in industrial clusters in states that do not enforce noncompete agreements? (2) Whether is there a California effect on interfirm mobility for computer industry employees, as one might expect if the agglomeration economies are due to features of California state law? (3) Because the conjectured agglomeration economies in Silicon Valley are manifest most strongly under special circumstances, do the mobility patterns we observe in the computer industry hold true in the same location for those who are not employed in the computer industry?

61. *Id.* at 478–79, 481.

62. Although limited to the computer industry, the study found similar results using both a broad and narrow definition of "computer industry," and both definitions constitute a large section of what we mean by the high-tech industry. The researchers first use the following "broad" definition of computer industry in their first study in table 1: industrial commercial machinery and computer equipment; electronic and other electrical equipment and components, except computer equipment. *Id.* at 477 n.18. They then use the following "narrow" definition of computer industry in their second study in table 2:

the California computer industry.[63] Thus, there is clearly evidence of a high-velocity labor market in Silicon Valley's high-tech industry, which reemphasizes the importance of understanding whether the trade secret protections granted by California courts are indirectly promoting or limiting knowledge spillover in this high velocity labor market.

III. CURRENT SUBSTANTIVE TRADE SECRET LAW

A. CALIFORNIA

The California Uniform Trade Secrets Act (CUTSA), Cal. Civ. Code § 3426 et seq., was adopted effective January 1, 1985 and is based on the Uniform Trade Secrets Act (UTSA).[64] Before the CUTSA's enactment, California courts relied heavily on section 757 of the Restatement of Torts ("the Restatement" or "section 757"), which failed to provide uniform or satisfactory guidelines in the employer-employee context.[65] Section 757 of the Restatement has been generally recognized to have three limitations:[66] First, its practicality is questionable because the principles and illustrations are derived from cases decided before 1939 and do not account for the technical innovations and industrial developments affecting trade secret law today.[67] Second, while it provides general guidelines for trade secret misappropriation, the Restatement is void of important definitions relating to trade secrets; some areas of trade secrets are regulated, but others are not.[68] Lastly, the Restatement alone is meaningless and must be read in conjunction with its comments in order to be understood completely.[69] Courts exercise great discretion in interpreting and dissecting the Restatement and adopting or rejecting it in whole or in part.[70]

computers and related equipment and electrical machinery; and equipment and supplies, not elsewhere classified. *Id.* at 479 n.23. They ultimately conclude however that the results in table 2 are quantitatively and qualitatively close to those in table 1, and thus that the findings are not likely to be an artifact of the way "computer industry" is defined. *Id.* at 479.

63. *Id.* at 479, 481.

64. BRIAN M. MALSBERGER, TRADE SECRETS: A STATE-BY-STATE SURVEY 153 (David J. Carr et al. eds., 4th ed. 2011), *available at* http://www.bloomberglaw.com/document/2781646888.

65. Gloria Mae Wong, *The Secret's Out: California's Adoption of the Uniform Trade Secrets Act*, 20 LOY. L.A. L. REV. 1167, 1169 (1987).

66. *Id.*

67. *Id.* Note that Massachusetts still relies on this section of the *Restatement* in its trade secret definition. *See* Stark v. Advanced Magnetics, Inc., 736 N.E.2d 434, 440 (Mass. App. Ct. 2000).

68. Wong, *supra* note 65, at 1170.

69. *Id.*

70. *Id.*

Not only did the CUTSA correct the deficiencies of the Restatement by providing precise and clear guidelines for determining when trade secret liability exists in the employer-employee context,[71] it is also comprehensive.[72] The CUTSA is divided into ten different subsections, which in addition to providing the substantive law, provide procedural rules and identify remedies available.[73] In addition, the CUTSA preempts all claims that are based on the same nucleus of facts as the misappropriation of trade secrets claim for relief.[74]

The CUTSA defines a trade secret as "information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and (2)" efforts to maintain its secrecy are reasonable under the circumstances.[75]

Misappropriation is defined as "acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means," or, alternatively,

> (2) disclosure or use of a trade secret of another without express or implied consent by a person who:
>
> (A) Used improper means to acquire knowledge of the trade secret; or
>
> (B) At the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was:
>
> (i) Derived from or through a person who had utilized improper means to acquire it;
>
> (ii) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
>
> (iii) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or

71. *Id.* at 1171.

72. *Id.*

73. *Id.* at 1171–72. These subsections discuss: definitions; injunctions; damages; bad faith; preservation of secrecy in a judicial proceeding; the time for bringing an action; construction with other statutes; application and construction of title, severability of provisions; misappropriation occurring prior to January 1, 1985; and privileged communications or trade secrets disclosed in official proceedings. CAL. CIV. CODE §§3426.1–3426.11 (Deering 1984).

74. K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc., 90 Cal. Rptr. 3d 247, 261 (Ct. App. 2009).

75. CIV. § 3426.1(d).

> (C) Before a material change of his or her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.[76]

B. MASSACHUSETTS

In Massachusetts, the UTSA has not been adopted, and there is no state civil statute defining trade secrets.[77] However, section 42 in chapter 93 of the Massachusetts General Laws provides a definition of trade secret misappropriation:

> Whoever embezzles, steals or unlawfully takes, carries away, conceals, or copies, or by fraud or by deception obtains, from any person or corporation, with intent to convert to his own use, any trade secret, regardless of value, shall be liable in tort to such person or corporation for all damages resulting there from. Whether or not the case is tried by a jury, the court, in its discretion, may increase the damages up to double the amount found. The term "trade secret" as used in this section shall have the same meaning as is set forth in section thirty of chapter two hundred and sixty-six.[78]

Section 30 of chapter 266 of the Massachusetts General Laws is a criminal statute that governs crimes against property. This section provides the following definition of a trade secret: "a trade secret means and includes anything tangible or intangible or electronically kept or stored, which constitutes, represents, evidences or records a secret scientific, technical, merchandising, production or management information, design, process, procedure, formula, invention or improvement."[79] In addition to the above General Law, trade secrets are defined in common law as:

> [A]ny formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. The subject matter of a trade secret must be secret. Matters of public knowledge

76. *Id.* § 3426.1(b)(2).
77. MALSBERGER, *supra* note 64, at 1144.
78. MASS. GEN. LAWS ch. 93, § 42 (1967).
79. *Id.* ch. 266 § 30(4).

> or of general knowledge in an industry cannot be appropriated by one as his secret.[80]

This definition is derived from comment (b) of Section 757 of the Restatement.[81] *Jet Spray Cooler, Inc. v. Crampton*, an oft cited Massachusetts trade secret case, also provides the test for confidentiality that is cited to in Massachusetts trade secret cases:[82]

> (1) the extent to which the information is known outside of the business; (2) the extent to which it is known by employees and others involved in the business; (3) the extent of measures taken by the employer to guard the secrecy of the information; (4) the value of the information to the employer and to his competitors; (5) the amount of effort or money expended by the employer in developing the information; and (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.[83]

C. COMPARISON OF SUBSTANTIVE LAW

Moving on, at first glance, the trade secret laws of California and Massachusetts appear to affirm Gilson's position that the protection provided by trade secret law in California and Massachusetts are roughly the same.[84] Like trade secret law in most jurisdictions, the laws of both states have similar broad definitions of trade secrets, which do not refer to specific types of information, but the nature of the information.[85] The laws of both states also appear to have very broad definitions of misappropriation.[86] It is worth noting, however, that the Massachusetts definition of misappropriation focuses on unlawful means of taking, while the California definition adds another dimension by focusing on the taker's knowledge of the information's improper acquisition.[87] While there are likely many other slight differences in the substantive law, the following study of trade secret claims at the federal trial court level will elucidate the differences between California and Massachusetts trade secret protection afforded in practice. Rather than attempt to conduct a rigorous statistical

80. Swartz v. Schering-Plough Corp., 53 F. Supp. 2d 95, 100 (D. Mass. 1999); J.T. Healy & Son v. James A. Murphy & Son, 260 N.E.2d 723, 729 (Mass. 1970) (quoting RESTATEMENT OF TORTS § 757, cmt. b (1939)).

81. RESTATEMENT OF TORTS § 757, cmt. b (1939).

82. *See* Harvard Apparatus, Inc. v. Cowen, 130 F. Supp. 2d 161, 175 (D. Mass. 2001).

83. Jet Spray Cooler, Inc. v. Crampton, 282 N.E.2d 921, 925 (Mass. 1972).

84. Gilson, *supra* note 3, at 601–02.

85. *See* CAL. CIV. CODE § 3426.1(d) (Deering 1984); *J.T. Healy & Son* 260 N.E.2d at 729.

86. *See supra* notes 64–83 and accompanying text.

87. CIV. § 3426.1(b)(2).

analysis, this paper will aim to conduct a qualitative comparison of a sample[88] of representative trade secret cases in the two jurisdictions, in order to ascertain any practical differences in trade secret protection.

IV. CASE STUDY

As noted earlier, the following case study will be limited to fifteen trial court orders from the U.S.D.C. for the Northern District of California and fifteen trial court orders from the U.S.D.C. for the District of Massachusetts that meet certain criteria: First, they must be federal trial court orders decided between the years 2000 and 2014. Second, they must involve (1) a motion for preliminary injunction, (2) a motion to dismiss, or (3) a motion for summary judgment. Third, the cases' facts must involve a departing employee being accused of trade secret misappropriation or inevitable trade secret disclosure[89] by a former employer.

This case study will provide a qualitative analysis of the selected cases and thus highlight notable aspects of trade secret enforcement in the two jurisdictions. The tables in Appendices A and B note the cases studied, the type of motion decided in each case, and whether each case was decided in favor of the trade secret plaintiff. Interestingly, in both California and Massachusetts, trade secret plaintiffs have won the majority of motions studied.

The federal trial court decisions chosen for a quantitative comparison in Appendices A and B all meet the above criteria.[90] The cases discussed in

88. *See infra* Part IV for the criteria in choosing the cases.

89. Three Massachusetts cases involving claims to enforce noncompete or nondisclosure agreements have been included because they implicate trade secret protection and the trade secret doctrine of inevitable disclosure. Aspect Software, Inc. v. Barnett, 787 F. Supp. 2d 118 (D. Mass. 2011); Avaya, Inc. v. Ali, No. 12-10660-DJC, 2012 U.S. Dist. LEXIS 97240 (D. Mass. July 13, 2012); Corporate Techs., Inc. v. Harnett, No. 12-12385-DPW, 2013 U.S. Dist. LEXIS 63598, at *18 (D. Mass. May 3, 2013). The basis for enforcement of the noncompete agreement is the idea that trade secrets will inevitably be disclosed. Because the inevitable disclosure doctrine is not recognized in California, it was of course impossible to find comparable cases. Bayer Corp. v. Roche Molecular Sys., 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999). However, since the cases discuss disclosure of trade secrets by a former employee, they ultimately seemed appropriate to include because they illustrate trade secret protection in Massachusetts.

90. Although at least seventeen decisions in California met the criteria, only fifteen decisions in Massachusetts met the criteria, and thus a sample of fifteen decisions allowed for a useful quantitative comparison of the trial court orders within a certain time frame between the two jurisdictions. The two additional cases not included in the following chart are AirDefense, Inc. v. AirTight Networks, Inc., No. C 05-04615JF, 2006 U.S. Dist. LEXIS 55364 (N.D. Cal. July 26, 2006), and Western Directories, Inc. v. Golden Guide Directories, Inc., No. C 09-1625 CW, 2009 U.S. Dist. LEXIS 52023 (N.D. Cal. June 8,

the qualitative comparison below are discussed for two reasons. First, the greater level of description in the following decisions allows for a better understanding of the court's reasoning and perception of trade secret claims. Other decisions do not involve the same level of clear reasoning for a variety of reasons; for instance, because the order involves a default judgment,[91] because the merits of the case were already discussed in an inaccessible prior order,[92] or because portions of the text have been redacted for confidentiality reasons.[93] Second, because this is a comparative project, the cases discussed illustrate a difference or similarity between the two jurisdictions.

A. CALIFORNIA

1. Preliminary Injunctions

Most of the federal trial court orders studied from the Northern District of California granted preliminary injunctions to trade secret plaintiffs.[94] Though the terms of these injunctions varied, all plaintiffs seeking an injunction were required to establish that they were likely to succeed on the merits, they were likely to suffer irreparable harm in the absence of preliminary relief, the balance of equities tipped in their favor, and the injunction was in the public interest.[95] This test is the procedural standard for injunctions in federal court, and thus it appears in both the Massachusetts and California cases studied.[96] Because this test goes to the merits of the case, it foreshadows the likely outcome of the case and serves

2009). I omitted *Air Defense, Inc.* since it is a motion to dismiss that only affirms the principles of CUTSA preemption. AirDefense, Inc., 2006 U.S. Dist. LEXIS 55364 at *6. I omitted *Western Directories, Inc.*, because the defendant in the case was not a former employee akin to the "former employees" in the other cases discussed herein. In *Western Directories, Inc.*, the defendant founded a company, and when the company went bankrupt, the company's creditors exercised their right to remove him from the company's board of directors. *Western Directories, Inc.*, 2009 U.S. Dist. LEXIS 52023 at *2–3. He then proceeded to establish a new company to compete with his former company. *Id.* at *3–6. In addition, *Western Directories, Inc.* does not provide any insight on trade secret preliminary injunctions in California that is not already illustrated by the other cases in the section.

91. SolarBridge Techs., Inc. v. Ozkaynak, No. C 10-cv-03769-EJD, 2012 U.S. Dist. LEXIS 81403 (N.D. Cal. June 12, 2012).

92. Advanced Micro Devices, Inc. v. Feldstein, 951 F. Supp. 2d 212 (D. Mass. 2013).

93. Verigy US, Inc. v. Mayder, No. C-07-04330 RMW, 2008 U.S. Dist. LEXIS 28315 (N.D. Cal. Feb. 29, 2008).

94. *See infra* Appendix A.

95. Winter v. Natural Res. Def. Council, 555 U.S. 7, 20 (2008).

96. Optos, Inc. v. Topcon Med. Sys., 777 F. Supp. 2d 217, 238 (D. Mass. 2011); Richmond Techs., Inc. v. Aumtech Bus. Solutions, No. 11-CV-02460-LHK, 2011 U.S. Dist. LEXIS 71269, at *47 (N.D. Cal. July 1, 2011).

as a strong incentive for the defendant to settle instead of going to trial. In the real world of litigation, if a plaintiff can persuade the federal trial court to grant a preliminary injunction—with potentially significant delays for discovery, for a plenary trial, or for appeal of the grant or denial of the preliminary injunction—doing so may be tantamount to near complete success.[97]

The following analysis demonstrates why courts in the Northern District of California were able to grant injunctions with ease in most of the cases studied. First, injunctions make sense in the trade secret context because property rights can be preserved without significant harm to business interests. In order to prevent use or disclosure of a trade secret, courts generally do not have to prohibit a defendant from working at a new company. Instead, a court may grant a tailored injunction that does not appear to cause serious economic harm, because it does not interfere with a defendant's freedom to work or a company's ability to employ. Second, because discovery has yet to occur, assumptions are inevitably made in a trade secret claim about the trade secret nature of the information at the injunction stage.

Third, since irreparable harm can be presumed when proprietary information is misappropriated, California courts are not required to consider the actual irreparable harm to the plaintiff. Though the presumption of irreparable harm is an uncontroversial assumption in a variety of property right regimes,[98] a trade secret involves intangible property that generally is not claimed through evidence of title, patent, license or purchase, but rather through the company's assertion that it is proprietary and confidential. There is no requirement that the plaintiffs show that they lost an exclusive right, since both parties can technically still use the information. Moreover, the value of a trade secret is usually dependent on industry-specific information and the employer's own valuation. Thus, this presumption of irreparable harm makes a significant difference in trade secret injunctions: in some cases the only harm a trade secret misappropriation causes is competition, which might not constitute

97. ROGER M. MILGRIM & ERIC E. BENSEN, MILGRIM ON TRADE SECRETS § 14.01 (2013).

98. Mark P. Gergen et al., *The Supreme Court's Accidental Revolution? The Test for Permanent Injunctions*, 112 COLUM. L. REV. 203, 222 (2012) ("From long before the advent of the twentieth century up to the time of the Supreme Court's eBay decision, there have been presumptions of irreparable injury for various types of violations of property, contract, and intellectual property rights").

irreparable harm since both plaintiff and defendant can use the information simultaneously. This is not usually the case with tangible property.

TMX Funding, Inc. v. Impero Techs., Inc., illustrates the ease and propensity with which courts may grant an equitable remedy instead of monetary relief in trade secret cases.[99] In *TMX Funding*, *Inc.*, although the court acknowledged that the claim could be compensated by damages that would minimize the reputational harm to the defendants, it nevertheless decided that an injunction was appropriate.[100] Injunctive relief was appropriate because it only extended to proprietary information held by TMX, and the balance of hardships weighed in favor of preserving TMX's potential property rights over preserving the viability of defendants' business.[101] As such, even though the court could have minimized the net harm by ordering monetary instead of injunctive relief and removing the reputational harm to the defendant, equitable relief appeared to be the more just remedy since it ensured the preservation of property rights.

TMX Funding, Inc. and *Bank of America, N.A. v. Immel*[102] also illustrate how California courts can justify equitable relief because they are able to precisely tailor the injunctive relief given and generally avoid significant business interests. In *Bank of America, N.A.*, the defendants were employed by a subsidiary of the plaintiff, U.S. Trust, but resigned in order to pursue employment with a rival bank.[103] Upon departure from U.S. Trust, defendants informed the plaintiff that they were lawfully taking client information with them pursuant to the Protocol for Broker Recruiting.[104] However, the court found that the plaintiffs had sufficiently shown that the information was not covered by the Protocol and could therefore be a trade secret.[105] As such, the balance of the equities favored the plaintiffs because the requested order only asked the defendants to return and not use the potential trade secret information.[106] It did not prevent defendants from beginning their new employment or soliciting

99. TMX Funding, Inc. v. Impero Techs., Inc., No. C 10-00202 JF(PVT), 2010 U.S. Dist. LEXIS 37064, at *26 (N.D. Cal. Mar. 18, 2010).

100. *Id.* at *24, 26.

101. *Id.* at *24–25.

102. Bank of Am., N.A. v. Immel, No. C 10-02483 CRB, 2010 U.S. Dist. LEXIS 65358 (N.D. Cal. June 11, 2010).

103. *Id.* at *1–2.

104. *Id.* at *2.

105. *Id.* at *3.

106. *Id.* at *8.

former clients through the use of non trade secret information.[107] In *TMX Funding, Inc.*, the court similarly reasoned that the balance of hardships weighed in favor of defendants because "the injunctive relief sought [was] specific to the use of proprietary information" and did not extend to Defendants' business activities or relationships.[108] In addition, although defendants argued that irreparable harm (the second prong of the injunction test) could not be demonstrated,[109] the court nonetheless concluded that irreparable could be presumed since proprietary information was misappropriated.[110]

Finally, *TMX Funding, Inc.* and *Richmond Techs., Inc. v. Aumtech Bus. Solutions* illustrate the inevitable assumptions made in favor of trade secret plaintiffs because full discovery has yet to occur. In *TMX Funding, Inc.*, the defendants argued that most of the information at issue was not proprietary because it had been shared with third-party vendors.[111] Nevertheless, after acknowledging that publicized information could not constitute a trade secret, the court ultimately reasoned that the information to which defendants had access on their laptops was more detailed and *likely* to include trade secret information.[112]

Similarly, in *Richmond Techs., Inc.*, plaintiffs who brought an injunction based on a breach of an unenforceable noncompetition agreement received the benefit of the court's view that there was likely trade secret information at hand that merited protection.[113] The court noted that there were serious doubts as to "the merits of plaintiff's claims for breach of the non-compete and confidential information clauses."[114] Nonetheless, it held that while the agreement on its face was too broad to be enforceable, it could be enforced if construed to only bar use of trade

107. *Id.*

108. *TMX Funding, Inc.*, 2010 U.S. Dist. LEXIS 37064, at *25.

109. *Id.* at *22–23. Defendants argued that irreparable harm could not be demonstrated because their new business—providing support services for telecommunications to broadband products—was distinct from TMX's role as a manufacturer of hotel telecommunications solutions. They offered evidence that they were approached by TMX with offers of money in exchange for covenants not to compete, and argued that TMX's real interest was to "corner the market."

110. *Id.* at *24.

111. *Id.* at *15. This shared information included customer lists and product pricing information.

112. *Id.*

113. Richmond Techs., Inc. v. Aumtech Bus. Solutions, No. 11-CV-02460-LHK, 2011 U.S. Dist. LEXIS 71269, at *63–64 (N.D. Cal. July 1, 2011).

114. *Id.* at *63.

secrets.[115] Although the agreement did not mention trade secrets, and the plaintiffs did not claim that trade secrets were misappropriated, the court granted a temporary restraining order based on its own view that trade secrets were *likely* involved.[116]

2. Motions to Dismiss

The trial court decisions on motions to dismiss provided less insight on trade secret protection than the decisions involving preliminary injunctions and temporary restraining orders. Nonetheless, it is insightful to see how flexible the definition of "trade secret" is and how little it takes to demonstrate a plausible trade secret claim. In addition, the orders on motions to dismiss illustrate a notable distinction between California's trade secret regime and other trade secret regimes: the CUTSA preempts most claims based on the same nucleus of facts as the trade secret claims.

Under Rule 12(b)(6) of the Federal Rules of Civil Procedure,[117] a court may dismiss a complaint when it does not state sufficient facts to state a claim for relief that is plausible on its face.[118] In *PhoneDog v. Kravitz*, the plaintiffs claimed that a company's twitter account and its password was a trade secret.[119] Despite the fact that everything on the outside of the account was accessible to the public, such as the followers and the tweets issued from the account,[120] and defendant alleged that a twitter account had no independent economic value,[121] the court held that the trade secret was proprietary and identified with sufficient particularity to survive a motion to dismiss.[122] The password was intended to be confidential, the twitter account was proprietary because it generated approximately 17,000 followers, and the plaintiff company could identify damages.[123] As such, the twitter account and password could be a trade secret. This illustrates the practical consequences of having trade secrets be broadly defined: courts are not at liberty to exclude new forms of information that arise because they are unprecedented. Any kind of

115. *Id.* at *62.
116. *Id.* at *63–64, 75.
117. FED. R. CIV. P. 12(b)(6).
118. PhoneDog v. Kravitz, No. C 11-03474 MEJ, 2011 U.S. Dist. LEXIS 129229, at *14 (N.D. Cal. Nov. 8, 2011) (citing Bell Atl. Corp. v. Twombly, 550 U.S. 544, 570 (2007)).
119. *Id.* at *1.
120. *Id.* at *15–16.
121. *Id.* at *16.
122. *Id.* at *19–20.
123. *Id.* at *8–11.

information that meets the general terms of the trade secret test can, in theory, survive a motion to dismiss, especially because reasonable doubts are to be resolved in favor of allowing discovery to go forward.[124]

In *Sunpower Corp. v. SolarCity Corp.*,[125] plaintiffs alleged that shortly before leaving Sunpower to join its competitor, SolarCity, defendants used various means to store Sunpower files containing "confidential and non-confidential" proprietary information.[126] The court held that claims for breach of confidence and conversion based on misappropriation of the "non-confidential" and therefore "non-trade secret" information were preempted under the CUTSA.[127] Sunpower's non-trade secret claims were dismissed because they were based on the same nucleus of facts and were thus superseded by the concurrent trade secret misappropriation claim.[128] In deciding to dismiss the claims, the court reasoned that no Supreme Court of California decision had confirmed that non-trade secret claims could survive preemption, and a property right must be present in the information to constitute wrongdoing.[129] As such, if the basis of the information is that it is not generally known to the public, then the claim is sufficiently close to a trade secret claim that it should be superseded notwithstanding the fact that the information fails to meet the definition of trade secret.[130]

3. Motions for Summary Judgment

The orders deciding motions for summary judgment illustrate the difficulties defendants face when attempting to resolve the ambiguities of a trade secret claim in their favor without a trial. They also illustrate the type of evidence that can defeat a trade secret claim before trial. The prongs of a trade secret claim are fairly easy to meet: to prove that the information is not generally known, a plaintiff need only show that they took steps to

124. *See* Vasonova Inc. v. Grunwald, No. C 12-02422, 2012 U.S. Dist. LEXIS 133380, at *6 (N.D. Cal. Sep. 18, 2012).

125. Sunpower Corp. v. SolarCity Corp., No. 12-CV-00694-LHK, 2012 U.S. Dist. LEXIS 176284 (N.D. Cal. Dec. 11, 2012).

126. *Id.* at *3.

127. *Id.* at *3–4.

128. *Id.* at *12, 51.

129. *Id.* at *16.

130. *Id.* The Court further noted that allowing the non-trade secret claims "would subvert CUTSA's purpose of providing a 'uniform set of principles for determining when one is—and is not—liable for acquiring, disclosing, or'" using information of value. *Id.* at *17 (citing Silvaco Data Sys. v. Intel Corp., 109 Cal. Rptr. 3d 27, 53, n.22 (Ct. App. 2010)).

maintain confidentiality.[131] To prove that the information derives independent economic value from being not generally known, a plaintiff need only argue how this information is useful from an economic perspective, instead of a financial perspective.[132] Moreover, misappropriation need not be shown by actual evidence of a taking; it can be shown by circumstantial evidence.[133] Finally, the motion for summary judgment also illustrates the role of "moralistic"[134] decision-making in trade secret enforcement, which takes into account, for example, the plaintiff's intentions in filing a law suit.

In *Brocade Communs. Sys. v. A10 Networks, Inc.*, the defendants attempted to argue that the plaintiffs could not provide sufficient evidence to meet the trade secret criteria as set out by the CUTSA.[135] The trade secret consisted of confidential customer related information including customer lists and contact information, pricing guidelines, historical purchasing information, and customers' business needs and preferences.[136] The defendant argued that the information was too broad, resided only in the heads of Brocade employees, and failed to meet the definition of trade secret since customer names are public knowledge.[137] Nonetheless, the court denied the motion for summary judgment because it was not dispositive that the information was in the employees' minds instead of a written list and recognized that previous cases considered "customer lists where plaintiff has expended time and effort identifying customers with particular needs or characteristics" to be trade secrets.[138] Moreover, although the evidence of the misappropriation was purely circumstantial,

131. A confidentiality agreement is usually wholly sufficient to meet this prong. Bank of Am., N.A. v. Immel, No. C 10-02483, 2010 U.S. Dist. LEXIS 65358, at *5 (N.D. Cal. June 11, 2010).

132. *See, e.g.*, Corporate Express Office Prods., Inc. v. Van Guelpen, No. C 02-04588, 2002 U.S. Dist. LEXIS 27642, at *18–19 (N.D. Cal. Dec. 12, 2002) ("It also is clear that plaintiff's trade secrets (for instance, plaintiff's customer lists, customer contact information, cost or pricing information, supplier information, marketing materials, customer proposals) had economic value. Access to the information would allow a competitor to target businesses and purchase certain types of products without expending the costs of obtaining information as to that business' specific needs.").

133. Brocade Communs. Sys. v. A10 Networks, Inc., 873 F. Supp. 2d 1192, 1212 (N.D. Cal. 2012).

134. *See infra* note 141 and accompanying text.

135. Brocade Communs. Sys., 873 F. Supp. 2d at 1214. More specifically, the defendants attempted to argue that the first trade secrets were not generally known to the public and did not have independent economic value from not being generally known to the public.

136. *Id.*

137. *Id.* at 1215.

138. *Id.*

this did not prevent the court from deciding that a reasonable jury could infer that misappropriation had occurred from the facts.[139]

In *Excelligence Learning Corp. v. Oriental Trading Co.*,[140] the defendants managed to obtain a motion for summary judgment because of the problematic basis for the plaintiff's claim. The defendant company entered the plaintiff's market immediately after the plaintiff's former employee started working at the defendant's company.[141] Both companies were in the business of compiling catalogs,[142] and the plaintiff relied on the extraordinary degree of overlap between the two catalogs to suggest that the former employee misappropriated trade secret information.[143] Nonetheless, this claim faltered because the plaintiff's circumstantial evidence was defeated by the defendants' evidence that the overlap between catalogs was not unusual,[144] and its evidence that, when previously working for the plaintiff, the employee regularly drew from the defendant's catalogs.[145] The court was further compelled to believe that the claim was fruitless because it appeared to be propelled by personal disdain and "speculation fueled by [the former employer's] obvious and intense dislike of [the former employee]."[146] Thus, it was apparent that in addition to issues with the merits of the plaintiff's claim, moral judgments about the plaintiff's intentions helped propel dismissal of the claim.

In sum, unless the claim is similar to the one in *Excelligence Learning Corp.*, where the evidence of misappropriation was flawed and an alternative explanation for the claim existed, the claim must go to the jury, who determine whether the information constitutes a trade secret and whether it has been misappropriated. The central substantive prongs of a trade secret, that the trade secret is not generally known and derives

139. *Id.* at 1216.

140. Excelligence Learning Corp. v. Oriental Trading Co., No. C-03-4947-JF, 2004 U.S. Dist. LEXIS 30370 (N.D. Cal., Dec. 20, 2004).

141. *Id.* at *4.

142. *Id.* at *2–4.

143. *Id.* at *20–21. Excelligence contended that ninety percent of the products in the defendant's catalog also appeared in its allegedly copied catalog, and that ninety percent of those overlapping products were its best sellers.

144. *Id.* at *24. "OTC presents evidence that the percentage overlap of products between the DSS and HoF catalogs is roughly the same as the overlap of products between the DSS catalog and others in the field." *Id.*

145. *Id.* "OTC also presents evidence that when Martini was selecting products for the HoF catalog, she reviewed OTC's existing catalogs and drew 81% of the products for the HoF catalog from those existing catalogs." *Id.*

146. *Id.* at *24–25.

independent economic value from being not generally known,[147] are determined with reference to industry-specific information. Nevertheless, despite this dependence on industry-specific information, the decision remains in the hands of lay jurors.

B. MASSACHUSETTS

1. Preliminary Injunctions

Like in California, courts in the District of Massachusetts are likely to grant preliminary injunctions to trade secret plaintiffs. Though the terms of these injunctions might vary, as noted earlier, plaintiffs seeking an injunction in Massachusetts federal trial court must pass the same procedural standard as in California.[148] The substantive law in Massachusetts governing what constitutes a trade secret does not differ significantly from the substantive law in California. In addition, some of the assumptions that benefit trade secret plaintiffs in California trial court orders also appear in Massachusetts trial court orders, and both jurisdictions can grant injunctions in part because of their ability to tailor the injunctive relief.

However, the two jurisdictions differ in their recognition and of the inevitable disclosure doctrine. The inevitable disclosure doctrine allows a plaintiff to prove a claim of trade secret misappropriation by demonstrating that a former employee's new employment will inevitably result in the employee relying on plaintiff's trade secret.[149] In California, the inevitable disclosure doctrine is prohibited as an excessive restraint on competition.[150] In Massachusetts, as Gilson predicted, the existence of the inevitable disclosure doctrine affects an employee's ability to move to a new employer, and thus hinders knowledge spillover by way of employee mobility.[151]

Nevertheless, the Massachusetts cases applying the inevitable disclosure doctrine mostly arose in the context of the breach of a noncompete agreement.[152] It does not appear that the Supreme Judicial

147. CAL. CIV. CODE § 3426.1(d) (Deering 1984).

148. Optos, Inc. v. Topcon Med. Sys., 777 F. Supp. 2d 217, 238 (D. Mass. 2011).

149. Bayer Corp. v. Roche Molecular Sys., 72 F. Supp. 2d 1111, 1117 (N.D. Cal. 1999).

150. *Id.* at 1112, 1120.

151. Gilson, *supra* note 3, at 622.

152. Marcam Corp. v. Orchard, 885 F. Supp. 294 (D. Mass. 1995); Lombard Med. Techs., Inc. v. Johannessen, 729 F. Supp. 2d 432 (D. Mass. 2010); Aspect Software, Inc. v. Barnett, 787 F. Supp. 2d

Court of Massachusetts, or any other Massachusetts court, has endorsed or rejected the inevitable disclosure doctrine in the context of a stand-alone common law trade secret claim that is independent from a contractual claim.[153]

As such, although it might appear that the inevitable disclosure doctrine is being used to broaden the scope of trade secret claims, it is not: since noncompete agreements are only enforceable in Massachusetts to the extent that they protect legitimate business interests,[154] the inevitable disclosure doctrine has been used as a stepping-stone to "legitimate business interests."[155] Thus, inevitable disclosure is being used under the assumption that the parties have already agreed to such a burden.[156] In addition, the impact of the doctrine is further limited by the fact that the evidence of inevitable disclosure has to be very strong in order to prove its "inevitability" over mere likelihood or possibility.

In *Optos, Inc. v. Topcon Med. Sys.*, defendant Barry Schafer left his employment position at Optos to work for Topcon, a rival manufacturer of retinal imaging devices.[157] After his departure, Optos received unconfirmed reports that Schafer was using Optos' confidential information in his new position.[158] Upon Optos's motion for a preliminary injunction, as in the California case of *TMX Funding, Inc.*,[159] the court presumed irreparable harm once the plaintiff made a showing of trade secret misappropriation.[160] In addition, and also similar to *TMX Funding, Inc.*, the Massachusetts

118 (D. Mass. 2011); Avaya, Inc. v. Ali, No. 12-10660-DJC, 2012 U.S. Dist. LEXIS 97240 (D. Mass. July 13, 2012).

153. U.S. Elec. Servs. v. Schmidt, No. 12-10845-DJC, 2012 U.S. Dist. LEXIS 84272, at *23–25 (D. Mass. June 19, 2012).

154. *Aspect Software, Inc.*, 787 F. Supp. 2d at 128.

155. *See id.*

156. "Non-competition agreements by their nature impose some burden on former employees. That fact alone does not make such covenants unenforceable [citation omitted]. [The departing employees] entered into the contract freely, and they may work for innumerable companies other than the seven that are in direct competition with [the plaintiff]. Or they may indeed work for [a competitor]; they just must wait six months to do so." *Lombard Med. Techs., Inc.*, 729 F. Supp. 2d at 442–43.

157. Optos, Inc. v. Topcon Med. Sys., 777 F. Supp. 2d 217, 223-25 (D. Mass. 2011).

158. *Id.* at 225.

159. In *TMX Funding, Inc.*, irreparable harm was presumed where proprietary information was misappropriated. TMX Funding, Inc. v. Impero Techs., Inc., No. C 10-00202 JF (PVT), 2010 U.S. Dist. LEXIS 37064, at *24 (N.D. Cal. Mar. 18, 2010).

160. "When a plaintiff demonstrates likelihood of success on a misappropriation of trade secrets claim, it need not prove irreparable injury because such harm is presumed." *Optos, Inc.*, 777 F. Supp. 2d at 241.

court's ability to limit the scope of the injunction to the use of proprietary information allowed it to provide seemingly "fair" equitable relief.[161] The court allowed defendants to contact Optos' customers regarding devices that did not compete with Optos' devices, but enjoined the defendants from using the trade secret information for the purposes of soliciting customers regarding devices that competed with Optos.[162] Thus, in Massachusetts as well as California, trade secret plaintiffs benefit from the presumption of irreparable harm and the court's ability to precisely tailor injunctive relief.

Aspect Software, Inc. v. Barnett[163] and *Avaya, Inc. v. Ali*,[164] are two analogous cases that both involved senior employees leaving their employment positions to work at rival corporations.[165] In both cases, the defendants had significant access to trade secret information and the former employers moved for preliminary injunctions to prevent this information from being disseminated.[166] The court granted both injunctions by relying on the theory of inevitable disclosure, stating that it was difficult to conceive how the information stored in the defendants' memories could be set aside.[167] Nonetheless, in both cases, the inevitable disclosure doctrine was only used to enforce the valid noncompete agreements that both

161. The court was able to "tailor" the injunction by granting it in part and denying it in part:

> Accordingly, to the extent that Optos has sought an order to enjoin Defendants' contact with Optos customers outside of solicitation regarding retinal imaging devices, that order is DENIED. Also, to the extent that Optos seeks an order barring Schafer from working for Topcon or barring Topcon from employing Schafer, that order is DENIED as moot. The Court shall issue an order that enjoins Topcon from using or disseminating Optos' trade secret information (namely, the customer list information); requires Topcon and Schafer to provide a complete accounting of all the trade secret information that Schafer gave to Topcon and to return same to Optos; and enjoins Topcon and Schafer from actively soliciting current Optos customers identified in the customer list for the purpose of retinal imaging device business during the pendency of this litigation.

Id. at 243.

162. *Id.*

163. *Aspect Software, Inc.*, 787 F. Supp. 2d at 121.

164. Avaya, Inc. v. Ali, No. 12-10660-DJC, 2012 U.S. Dist. LEXIS 97240 (D. Mass. July 13, 2012).

165. *See Aspect Software, Inc.*, 787 F. Supp. 2d at 121; *Avaya, Inc.*, 2012 U.S. Dist. LEXIS 97240 at *13.

166. *Aspect Software, Inc.*, 787 F. Supp. at 123; *Avaya, Inc.*, 2012 U.S. Dist. LEXIS 97240 at *13.

167. *Aspect Software, Inc*., 787 F. Supp. 2d at 130. (holding that given the extent of the defendant's experience, it was difficult to see how all the information stored in the defendant's memory could be set aside despite the defendant's efforts to preserve the secrecy of his prior employer's information); *Avaya, Inc*., 2012 U.S. Dist. LEXIS 97240, at *24 (holding that given the level of control the defendant had over the plaintiff's customer contact center business, it was difficult to see how all the information stored in the defendant's memory could be set aside).

defendants had agreed to.[168] Similarly, *Corporate Techs., Inc. v. Harnett*,[169] the court referred to the inevitable disclosure doctrine to demonstrate breach of a nonsolicitation and nondisclosure agreement, after the plaintiff former employer alleged that the defendant disclosed the plaintiff's confidential client information and used it to solicit the plaintiff's former clients.[170] The court reasoned that inevitable disclosure was proper because it was not being used to establish liability based on future conduct alone; it was likely that the defendant would inevitably disclose confidential client information because he had *already* solicited and consummated deals with former clients.[171] Moreover, this case, like other Massachusetts cases that invoke the inevitable disclosure doctrine, arose in the context of a breached agreement.[172]

In *U.S. Elec. Services v. Schmidt*, the defendants Schmidt and Colon were former employees of U.S. Electrical Services, Inc. ("USESI").[173] While working for USESI, defendants were responsible for a particular company account.[174] After their departure from USESI to Munro, a competitor, USESI moved for a preliminary injunction based on trade secrets to preclude Munro from competing with USESI with respect to the account in question, in light of the defendants' intimate knowledge of USESI's competitive information.[175] The court rejected the applicability of the inevitable disclosure doctrine in the context of an injunction based on trade secret misappropriation for two reasons:[176] First, the court pointed out that in cases like *Aspect Software, Inc.*, the inevitable disclosure of trade secrets was only used in the context of establishing the "irreparable harm" prong of a preliminary injunction, not the "likelihood of success on the merits" prong, which is what was used in this case.[177] Second, the court

168. *Id.* at 122.

169. Corporate Techs., Inc. v. Harnett, No. 12-12385-DPW, 2013 U.S. Dist. LEXIS 63598, at *18 (D. Mass. May 3, 2013).

170. *Id.* at *18–20.

171. *Id.* at *19–20.

172. *Id.* at *18–20.

173. U.S. Elec. Servs. v. Schmidt, No. 12-10845-DJC, 2012 U.S. Dist. LEXIS 84272, at *9-10 (D. Mass. June 19, 2012).

174. *Id.* at *1, 6, 11.

175. *Id.* at *1.

176. *Id.* at *25. Note that the plaintiffs were not requesting an injunction based on breach of a noncompetition clause, unlike the other cases discussed. *Id.*

177. *Id.* at *25–26 ("However, in each case, the plaintiff established the likelihood of success on the merits of a breach of contract claim based on a non-competition agreement, not (as here) a pure trade secrets claim").

pointed out that, even if inevitable disclosure could be used to establish likelihood of success on the merits, the departing employees were not close enough to the alleged information, or critical enough to the employer's operations, to create a threat of inevitable disclosure.[178] The court reasoned that, in all the other cases applying the inevitable disclosure, a certain level of intimacy and control had been established, which was lacking in this case.[179] Thus, without the same level of intimacy and control over the information in dispute, disclosure was not inevitable.[180]

In sum, the assumptions that benefit trade secret plaintiffs in the Northern District of California trial court orders also benefit trade secret plaintiffs in the District of Massachusetts trial court orders, and both courts can grant injunctions in part because of their ability to tailor the injunctive relief. While Massachusetts differs in that its federal trial courts recognize the inevitable disclosure doctrine, the doctrine only arises in the limited context of enforcing noncompete agreements. The inevitable disclosure doctrine may affect the *de facto* protection of trade secrets, since a court can preemptively assert trade secret protection before misappropriation has occurred. Nonetheless, the court can only apply the doctrine in a limited set of circumstances: (1) where the employee *ex ante* agrees to not compete, (2) where an enforceable agreement between an employer and employee exists, and (3) where the former employee is undeniably close to and aware of the alleged proprietary information.

2. Motions to Dismiss

While the decisions in the two districts involving motions to dismiss were also the least insightful for the purposes of determining the limits of trade secret protection, they also illustrate how little it takes to allege a plausible trade secret claim.

In *Scansoft v. Voice Signal Techs., Inc.*,[181] the defendant company Voice Signals Techs., Inc. ("VST") had recently settled a trade secret

178. *Id.* at *28–35, 37–39.

179. *Id.* at *34–35. In its analysis of Aspect, the court stated that at Aspect the departing employee was responsible for managing all aspects of the customer contact center business, had wide authority in the company, and had access to thirteen separate categories of information described by Aspect as trade secrets. It then concluded that Schmidt, one of the departing employees, did not have nearly the same intimacy or level of control with regard to the Dollar Tree Account (the alleged trade secret information) that Barnett had with Aspect's customer call center business.

180. *See id.* at *35–36, 38–39.

181. Scansoft, Inc. v. Voice Signal Techs., Inc., No. 04-CV-10353-PBS, 2004 U.S. Dist. LEXIS 31348 (D. Mass. Dec. 28, 2004).

misappropriation claim brought against it by a software company named L & H.[182] L & H claimed that its former employees took confidential and proprietary information to VST.[183] After Scansoft purchased this proprietary information from L & H,[184] Scansoft then filed an identical claim against VST in federal court, claiming identical misappropriation of the information by VST.[185] The defendants attempted to show that the claim should be dismissed because it was based on the conduct alleged in state court that did not involve Scansoft and occurred *prior* to Scansoft's acquisition of L & H proprietary information.[186] Nonetheless, the court denied the motion to dismiss because Scansoft met the basic pleading requirements in its complaint by alleging *continued* use and disclosure of the trade secret.[187]

3. Motions for Summary Judgment

The trial court orders in the District of Massachusetts on motions for summary judgment are informative. *Diomed v. Vascular Solutions,*[188] for example, illustrates how potential ambiguities or doubts in a trade secret claim, like in California, tend to be resolved in favor of the plaintiff. Admittedly, however, a motion for summary judgment in federal court must be viewed in the light most favorable to the non-moving party.[189] Nonetheless, it is apparent that in trade secret cases, because of the broad and unspecific nature of the underlying claim, any doubt generally causes a court to find that the trade secret claim should go to trial. In addition, *Fibermark, Inc. v. Merrimac Paper Co.* [190] illustrates the "moralistic"[191] characteristics of trade secret enforcement. Finally, *Harvard Apparatus, Inc. v. Cowen* illustrates the differences between a jurisdiction that allows

182. *Id.* at *4–5.
183. *See id.*
184. *Id.* at *3–4.
185. *Id.* at *5.
186. *Id.* at *5–6.
187. *Id.* at *10–11.
188. Diomed, Inc. v. Vascular Solutions, Inc., 417 F. Supp. 2d 137 (D. Mass. 2006).
189. Barbour v. Dynamics Research Corp., 63 F.3d 32, 36 (1st Cir. 1995) (stating that the court views "the facts in the light most favorable to the non-moving party, drawing all reasonable inferences in that party's favor").
190. Fibermark, Inc. v. Merrimac Paper Co., No. 01-CV-11159-DPW, 2003 U.S. Dist. LEXIS 26866 (D. Mass. Mar. 11, 2003).
191. Alan Hyde, Real Human Capital: The Economics and Law of Shared Knowledge 105 (May 1998) (unpublished manuscript) (on file with the New York University Law Review) (taking into account, for example, plaintiff's intentions in filing a trade secret claim).

non-trade secret claims based on the same nucleus of facts and one that does not.[192]

In *Diomed*, Diomed alleged that its former employee disclosed trade secret information concerning its marked sheath technology, as well as the marketing strategy for such technology, to a competitor after commencing employment with said competitor.[193] Although the information had been made public by virtue of a patent application by the time of the lawsuit, the court reasoned that because the information was published in a patent after the alleged misappropriation began, there could still be a viable trade secret claim.[194] The plaintiff had no obligation to prove the trade secret's current independent economic value and confidential nature; it was sufficient that at the time of the misappropriation, the information was allegedly confidential and valuable.[195] The court further reasoned that the claim included not just the alleged trade secret technology, but also the marketing plan for that technology, which was confidential and not generally known and thus a trade secret.[196] As such, summary judgment was improper.[197] This decision illustrates how a trade secret claim can include various kinds of information, any of which can prevent a defendant from succeeding on a motion for summary judgment.

In *Fibermark, Inc. v. Merrimac Paper Co.*,[198] Fibermark alleged that its former employee misappropriated trade secrets by taking and disclosing confidential information about Fibermark products, business strategies, and pricing to her new employer, a Fibermark competitor.[199] The defendant argued that summary judgment was appropriate because there was no evidence that the plaintiff was monetarily damaged in any way, and any injunctive relief would be stale.[200] However, in response to this argument, the court emphasized that the "proper focus is on the wrongful conduct of the defendants as opposed to the value of the misappropriated trade secrets."[201] Even though causation needed to be established between the

192. Harvard Apparatus, Inc. v. Cowen, 130 F. Supp. 2d 161 (D. Mass. 2001).
193. *Diomed, Inc.*, 417 F. Supp. 2d at 140, 143.
194. *Id.* at 144.
195. *Id.*
196. *Id.* at 144–45.
197. *Id.* at 147.
198. Fibermark, Inc. v. Merrimac Paper Co., No. 01-CV-11159-DPW, 2003 U.S. Dist. LEXIS 26866 (D. Mass. Mar. 11, 2003).
199. *Id.* at *76–84.
200. *Id.* at *90.
201. *Id.*

misappropriation and damages, it did not need to be established by expert testimony.[202] While the court acknowledged that the bulk of the lost profits appeared to be caused by the alleged trade dress infringement,[203] not trade secret misappropriation, it nonetheless found that summary judgment was inappropriate.[204] The alleged trade secret information taken by a former employee theoretically could have helped the defendant company solidify a key account, thus making the claim valid.[205]

Harvard Apparatus, Inc. v. Cowen illustrates how, in the absence of legislative preemption, non-trade secret claims based on the same nucleus of facts can persist.[206] In *Harvard Apparatus, Inc.*, the plaintiff claimed trade secret misappropriation based on misappropriation of the "source code" of one of plaintiff's products, but also concurrently filed an "improper use of confidential and business proprietary information" claim.[207] The court described this claim as one for plaintiffs "who cannot obtain trade secret protection either because the information does not technically fall within the definition of a trade secret and/or the possessor of the trade secret failed to take reasonable measures to protect the secrecy of the trade secret."[208] The court refused to grant summary judgment on this claim for the same reasons as the trade secret claim,[209] thereby making the claim a useful fallback for the plaintiffs.

V. CONCLUSION

A. SIMILARITIES AND DIFFERENCES

In sum, the federal district courts serving the two high-tech industrial clusters of Route 128 and Silicon Valley appear to enforce trade secret law in similar ways. In addition, since the underlying trade secret law in California and Massachusetts does not appear to differ significantly, it appears that trade secret protection in both areas is roughly the same. Nonetheless, it must be noted that this conclusion is based on a sample of federal trial court orders; it neither reflect differences in the incidence of

202. *Id.* at *91, 93.

203. *Id.* at *92. The plaintiffs concurrently filed a trade secret infringement claim with the trade secret claim.

204. *Id.* at *95.

205. *Id.* at *93, 95.

206. Harvard Apparatus, Inc. v. Cowen, 130 F. Supp. 2d 161 (D. Mass. 2001).

207. *Id.* at 164.

208. *Id.* at 177 (citing USM Corp. v. Marson Fastener Corp., 393 N.E.2d 895 (Mass. 1979)).

209. *Id.*

trade secret disputes in the relevant jurisdictions, nor reflects rate of settlement of filed cases in those jurisdictions. These differences may or may not be significant; in fact, as will be discussed below, Professor Alan Hyde argues that the pursuit of trade secret claims has generally been avoided in California because it achieves nothing, and harms the plaintiffs more than the defendants.[210]

While the similarities in the cases have been discussed at length above, two salient features of trade secret enforcement in both jurisdictions discussed must be highlighted. First, in light of the broad definitions of "trade secrets" in both states, the jurisdictions seem to be more willing than not to find that information can be a trade secret, particularly at early stages in the litigation.[211] In *Brocade Communs. Sys.*,[212] a Northern District of California case, it is apparent that the broad definition of a trade secret makes it difficult to prove that information does not qualify as a trade secret. Moreover, because plaintiffs can allege multiple trade secrets, the defendant must prove that none of the information qualifies to obtain dismissal of the claim.

Further, both jurisdictions tend to enforce trade secret law in a moralistic[213] way, where the "wrong" matters more than the actual harm stemming from the "wrong." This tendency was apparent in the Northern District of California in *Excelligence Learning Corp.*,[214] when the court granted a motion for summary judgment dismissing a claim that a jury might find viable,[215] in part because it appeared to be motivated by a soured relationship and personal disdain from the plaintiff.[216] In the District of Massachusetts, moralistic enforcement was visible in *Fibermark, Inc.*,[217]

210. Hyde, *supra* note 191, at 131, 133.

211. *See* Optos, Inc. v. Topcon Med. Sys., 777 F. Supp. 2d 217, 239 (D. Mass. 2011). PhoneDog v. Kravitz, No. C 11-03474 MEJ, 2011 U.S. Dist. LEXIS 129229, at *14 (N.D. Cal. Nov. 8, 2011).

212. Brocade Communs. Sys. v. A10 Networks, Inc., 873 F. Supp. 2d 1192, 1213 (N.D. Cal. 2012).

213. Hyde, *supra* note 191, at 105.

214. Excelligence Learning Corp. v. Oriental Trading Co., No. C-03-4947-JF, 2004 U.S. Dist. LEXIS 30370 (N.D. Cal., December 20, 2004).

215. *Id.* at *24–25. It was after all supported by statistical evidence, and evidence of the defendant employer entering the plaintiff's market shortly after one of plaintiff's former employees started working for them. *Id.* at *4, 20–21.

216. "What appears initially to be a colorable claim based upon statistical analysis and other circumstantial evidence appears upon closer examination to be nothing more than speculation fueled by Elliot's obvious and intense dislike of Martini.". *Id.* at *24–25.

217. Fibermark, Inc. v. Merrimac Paper Co., NO. 01-CV-11159-DPW, 2003 U.S. Dist. LEXIS 26866 (D. Mass. Mar. 11, 2003).

when the court responded to defendants' claim that there were no damages and injunctive relief was stale by emphasizing that "the proper focus is on the wrongful conduct of the defendants," not the value of the trade secrets.[218]

Overall, two differences in the underlying law were illustrated in the case study: First, the presence of the inevitable disclosure doctrine used in the enforcement of noncompete covenants in Massachusetts, and second, preemption of claims based on the same nucleus of facts by the CUTSA in California. The presence of inevitable disclosure in Massachusetts does affect the level of trade secret protection since it protects trade secrets before any misappropriation has even occurred. Nonetheless, the doctrine has only been triggered in Massachusetts as a way of enforcing noncompete or nondisclosure agreements.[219] In addition, as *U.S. Elec. Servs.* illustrates,[220] the doctrine has been further limited by the fact that it has been used sparingly, in situations where there is strong evidence of the departing employee's proximity to the trade secret information.[221] Also, as noted in aforementioned case, the doctrine is usually used to establish irreparable harm in the absence of direct evidence of trade secret misappropriation, not likelihood of success on the merits.[222]

The second difference is in the availability of remedies for misappropriation of "non-trade secret" information. Under California law, the CUTSA provides the exclusive remedy for trade secret misappropriation.[223] Claims based on the same nucleus of facts are preempted.[224] Other civil remedies that are not based upon

218. *Id.* at *90.

219. *See* Aspect Software, Inc. v. Barnett, 787 F. Supp. 2d 118 (D. Mass. 2011); Avaya, Inc. v. Ali, No. 12-10660-DJC, 2012 U.S. Dist. LEXIS 97240 (D. Mass. July 13, 2012); Corporate Techs., Inc. v. Harnett, NO. 12-12385-DPW, 2013 U.S. Dist. LEXIS 63598 (D. Mass. May 3, 2013).

220. U.S. Elec. Servs. v. Schmidt, No. 12-10845-DJC, 2012 U.S. Dist. LEXIS 84272, (D. Mass. June 19, 2012).

221. *See id.* at *26–35.

222. *U.S. Elec. Servs.*, 2012 U.S. Dist. LEXIS 84272, at *26; Margo E. K. Reder & Christine Neylon O'Brien, *Managing the Risk of Trade Secret Loss Due to Job Mobility in an Innovative Economy With The Theory of Inevitable Disclosure*, 12 J. HIGH TECH. L. 373, 396 (2012).

223. Silvaco Data Sys. v. Intel Corp., 109 Cal. Rptr. 3d 27, 50–51 (Ct. App. 2010) ("We thus reaffirm that CUTSA provides the exclusive civil remedy for conduct falling within its terms, so as to supersede other civil remedies based upon misappropriation of a trade secret").

224. K.C. Multimedia, Inc. v. Bank of Am. Tech. & Operations, Inc., 171 Cal. App. 4th 939, 958 (2009) (holding that CUTSA preempts all claims that are "based on the same nucleus of facts as the misappropriation of trade secrets claim for relief").

misappropriation of trade secrets, and contractual or criminal remedies, are not preempted.[225]

The effects of this preemption doctrine are best illustrated when comparing *Sunpower Corp.*, a California case, and *Harvard Apparatus, Inc.*, a Massachusetts case. In *Sunpower Corp.*, the court dismissed a claim based on misappropriation of "non-trade secret" information on the basis that allowing such a claim would subvert the CUTSA's goal of uniformity and predictability.[226] In *Harvard Apparatus, Inc.*, the plaintiff alleged that the same underlying acts of a trade secret claim also constituted "improper use of confidential and proprietary business information."[227] The court did not dismiss this secondary claim on summary judgment, confirming that such a claim existed and remained valid under Massachusetts law, unlike in California.[228] Thus, it could be said that, in California, the law is more predictable for the departing employee and less protective since the CUTSA preempts other claims that exist in Massachusetts. Nonetheless, this difference does not appear in any other cases and thus does not appear to be particularly significant.

B. IMPLICATIONS FOR GILSON'S THESIS

This study has a wide range of potential implications for Gilson's thesis. Recall that, broadly speaking, Gilson's thesis is that the ban on noncompete covenants in California is a causal antecedent to the higher employment mobility in Silicon Valley, which Saxenian describes as a reason for the region's success over Route 128. Underlying these ideas is the notion that job-hopping leads to knowledge spillover, which in turn leads to industrial growth.

On the one hand, the finding that trade secret protection in the two jurisdictions is roughly the same casts doubt on Gilson's thesis that the legal infrastructure of California has contributed to Silicon Valley's growth as a high-tech industrial district. If trade secret protection in the two districts is roughly the same, then California does not necessarily allow more knowledge spillover even if it does not enforce noncompete

225. CAL. CIV. CODE § 3426.7(b) (Deering 1984); MALSBERGER, *supra* note 64, at 158.

226. To allow such a claim "would subvert of a uniform set of principles for determining when one is, and is not liable for acquiring, disclosing or using information of value." Sunpower Corp. v. SolarCity Corp., No.: 12-CV-00694-LHK, 2012 U.S. Dist. LEXIS 176284, at *17 (N.D. Cal. Dec. 11, 2012) (citing Silvaco Data Systems v. Intel Corp., 109 Cal. Rptr. 3d 27, 53, n.22 (Ct. App. 2010)).

227. Harvard Apparatus, Inc. v. Cowen, 130 F. Supp. 2d 161, 174 (D. Mass. 2001).

228. *Id.*

agreements: the employer has an equivalent ability to prevent information spilling over by his former employee when the employee begins working for a competitor. If the former employer can restrict the information's disclosure or use with a trade secret claim and injunction, regardless of whether the employee can work for the competitor, information is protected and spillover prevented. The fact that courts in both jurisdictions were more willing than not to find potential trade secret misappropriation, and tend to give the broad trade secret definition deference, supports this idea. If courts allow more trade secret claims to persist through various stages of litigation, then more information is being protected by trade secret claims. Marshall's vision of "the mysteries of the trade becoming no mysteries, and a new idea being taken up by others" is restricted by trade secret protection in both regions.[229]

On the other hand, this finding could support Gilson's thesis that the law on noncompete agreements is relevant to knowledge spillover, while the law on trade secrets is not. There is an apparent difference in the substantive law on noncompete agreements, but also a lack of meaningful difference between substantive trade secret law and its application in the two districts. As such, it is arguable that if there is any legal causal antecedent to knowledge spillover by way of employment mobility in Silicon Valley, it is noncompete agreements.

The roughly equal trade secret protection in the two jurisdictions could hypothetically prove that trade secrets only constitute a small sliver of the information transmitted by way of an employment transfer to a competitor, which does not happen as frequently in jurisdictions that enforce noncompetes. Moreover, the fact that Massachusetts recognizes inevitable disclosure but California does not, even if only in the context of noncompete agreements, could further confirm Gilson's thesis that both noncompete agreements and inevitable disclosure are harmful.[230] It is arguable that the inevitable disclosure doctrine is broadening the limited enforceability of noncompete agreements in Massachusetts by allowing courts to assume legitimate business interests will inevitably be harmed, thus further restricting knowledge spillover.

229. MARSHALL, *supra* note 23, at 332.

230. Although not discussed earlier, Gilson spends a substantial portion of his article discussing the threat of the inevitable disclosure doctrine transforming trade secret law into a mechanism for creating judicially imposed de facto covenants not to compete. Gilson, *supra* note 3, at 575, 620, 622–23.

C. OTHER PERSPECTIVES ON THE RELATIONSHIP BETWEEN TRADE SECRET PROTECTION AND KNOWLEDGE SPILLOVER

According to Hyde,[231] trade secret law is problematic for knowledge spillover and the industrial growth it can lead to because the law is mainly concerned with balancing the employer's proprietary interest in its trade secrets against the employee's interest in freedom of job mobility, but does not factor in economic productivity and the benefits to society of shared information.[232] Hyde explains that since trade secrets do not require the technical inquiries into originality that typifies the patent field, moralism tends to be a key factor in most trade secret decision-making.[233] He also relies on interviews with top-level practitioners to support this theory.[234] The finding in this study is that in both jurisdictions courts tend to enforce trade secret claims in a moralistic way, which gives support to Hyde's thesis.

Hyde questions reliance on moral obligations in a world where the relevant values seem entirely endogenous and dependent on changing economic systems.[235] He further questions the utility of current trade secret law by demonstrating how Silicon Valley has promoted a high-velocity labor market precisely because its practitioners and employers have *abstained* from using trade secret law.[236] Hyde argues that such suits have been avoided because they achieve nothing and harm plaintiffs more than the defendants.[237] The crux of his argument is that such cases can lead to reputational sanctions[238] that cause firms to lose more than gain,[239] and that in the high-tech sector, the utility of current trade secret law is questionable, since employees are rarely hired for a "known formula," but rather are hired for their ability to solve problems.[240]

231. Hyde, *supra* note 191.
232. *Id.* at 104.
233. *Id.* at 123.
234. For example, Hyde quotes the chairman of the technology group, Weil Gotshal, as saying "I only have to show something was taken improperly… That's very different from an infringement analysis that is so very technical." *Id.* at 123.
235. *Id.* at 124.
236. *Id.* at 131.
237. *Id.* at 131, 133.
238. *Id.* at 137–39.
239. *Id.* at 137.
240. *Id.* at 134.

Hyde is not alone in questioning the utility of trade secret law. Professor Robert Bone has suggested that trade secret law is a collection of other legal norms or "host theories" of contract, theft and the like, and that cases imposing liability without violation of another legal norm are misguided.[241] Bone argues that courts should not recognize confidential relationships apart from those created by express contract, or justified as contract default rules, since nothing about trade secrets as they exist in society justifies broader protection.[242]

While these commentaries paint a bleak picture of the utility of trade secret claims in the high-tech sector, all hope for trade secret law is not lost. In *The Surprising Virtues of Treating Trade Secrets as IP Rights*, Professor Mark A. Lemley provides several justifications for trade secret law in a modern high-tech environment. He argues, among other things, that trade secrets are useful because unlike patents, they are cheaper and quicker to obtain, since they do not require government approval, and extend to protection of types of business and process information that likely would not be patentable.[243] Without legal protection, Lemley argues, companies in certain industries would invest too much in keeping secrets.[244] He supports this argument by pointing out that studies have shown that as a "cheaper" IP right, start-ups rely heavily on the incentive to invent provided by trade secrets.[245] Moreover, he argues, studies have also shown that countries without strong trade secret protections do not foster innovation.[246]

Ultimately, Lemley sees the benefits of current trade secret law, but does not concede that it is perfect. According to Lemley, trade secrets are most beneficial when conceived as an exclusive right to the possessor of valuable secret information.[247] In order to maintain the right balance, the requirement that the trade secret be "secretive" should be rigorously enforced.[248] Based on this case study, it is conceivable that trade secrets could likely be improved by taking Lemley's recommendation and treating

241. Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of* Justification, 86 CAL. L. REV. 241, 243, 246 (1998).

242. *Id.* at 246.

243. Mark A. Lemley, *The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STAN. L. REV. 311, 312 (2008).

244. *Id.* at 313.

245. *Id.* at 331.

246. *Id.* at 334 (referring to Mexico and Brazil); ROBERT M. SHERWOOD, INTELLECTUAL PROPERTY AND ECONOMIC DEVELOPMENT 111–17 (1990) (referring to Mexico and Brazil).

247. Lemley, *supra* note 243, at 329.

248. *Id.* at 342–44.

trade secrets as intellectual property rights in which secrecy is critical to the existence of a legal right. This would prevent decisions like *Diomed* that do not serve the trade secret purpose of protecting proprietary information, and only serve to allow the employer to avenge his or her perceived wrong.[249]

Moreover, if secrecy is critical like in *Sunpower Corp.*,[250] then it makes sense to preempt fallback claims for misappropriation of confidential, non-secret, information. A fallback confidential misappropriation claim like in *Harvard Apparatus, Inc.*[251] becomes counterintuitive, because secrecy is the threshold for determining when there is a proprietary right to information worth protecting. This is independent of any breach of contract or other civil claim. A stronger and consistent emphasis on the information's secrecy, not just confidential treatment by the employer, across the board in different jurisdictions would render it more like an exclusive intellectual property.

D. LOOKING FORWARD

Although this study does not aim to provide a normative proposal as to how trade secret law could be improved, it does raise important questions as the utility of trade secret law in high-tech industrial districts. Since trade secret protection afforded in both districts appears to be largely the same, we *cannot* claim that trade secret protection is a causal antecedent to knowledge spillover and growth in Silicon Valley as opposed to Route 128. Nonetheless, if trade secret protection is roughly the same, then doubt exists as to whether the legal infrastructure makes any difference at all to knowledge spillover, even with the unique ban on noncompete agreements in California. Conversely, as noted earlier, it is also arguable that the protection being roughly the same signals that trade secret law is in fact irrelevant to knowledge spillover.

Knowledge spillover may involve sharing trade secrets, but it could also involve sharing a different kind of tacit knowledge, one that is valuable and helps another company grow, but does not qualify as a trade secret. Under this line of reasoning, it is possible that because of their lack

249. In *Diomed*, there was no valuable information worth trying to protect with a trade secret claim per se, because the claim was brought after the allegedly misappropriated information had been disclosed to the public in a patent application. *Id.* at 144, 147.

250. Sunpower Corp. v. SolarCity Corp., No. 12-CV-00694-LHK, 2012 U.S. Dist. LEXIS 176284, at *17 (N.D. Cal. Dec. 11, 2012).

251. Harvard Apparatus, Inc. v. Cowen, 130 F. Supp. 2d 161, 177 (D. Mass. 2001).

of utility, trade secret claims are used infrequently because the costs outweigh the benefits, as Hyde suggests.[252] It is also possible that noncompete agreements are in fact much more potent in promoting or hindering knowledge spillover, as Gilson suggests, since noncompete agreements can prevent the transmission of *all* information by an employee, even if only for a limited and reasonable period of time.[253] Based on the rapid evolution of technology, this period of time could be long enough to preclude the spillover of information for the length of that information's utility. If information is not being directly or indirectly shared while it is useful, then it is hard to see how knowledge spillover would lead to industrial growth.

252. *See* Hyde, *supra* note 191, at 131, 133.

253. *See* Gilson, *supra* note 3, at 578.

APPENDIX A: California Cases

	Name and Citation of Northern District of California Case	Motion for Preliminary Injunction	Motion to Dismiss	Motion for Summary Judgment	Granted or Denied in Favor of Trade Secret Plaintiff?
1	SolarBridge Techs., Inc. v. Ozkaynak, 2012 U.S. Dist. LEXIS 81403 (N.D. Cal. Jun. 12, 2012).	X			Yes
2	PQ Labs, Inc. v. Qi, 2012 U.S. Dist. LEXIS 79354 (N.D. Cal. Jun. 7, 2012).		X		Yes
3	Bank of Am., N.A. v. Immel, 2010 U.S. Dist. LEXIS 65358 (N.D. Cal. Jun. 11, 2010).	X			Yes
4	PhoneDog v. Kravitz, 2011 U.S. Dist. LEXIS 129229 (N.D. Cal. Nov. 8, 2011).		X		Yes

5	Sunpower Corp. v. SolarCity Corp., 2012 U.S. Dist. LEXIS 176284 (N.D. Cal. Dec. 11, 2012).		X		No
6	TMX Funding, Inc. v. Impero Techs., Inc., 2010 U.S. Dist. LEXIS 37064 (N.D. Cal. Mar. 17, 2010).	X			Yes
7	Richmond Techs., Inc. v. Aumtech Bus. Solutions, 2011 U.S. Dist. LEXIS 71269 (N.D. Cal. Jul. 1, 2011).	X			Yes
8	Brocade Communs. Sys. v. A10 Networks, Inc., 873 F. Supp. 2d 1192 (N.D. Cal. 2012).			X	Yes
9	Vasonova Inc. v. Grunwald, 2012 U.S. Dist. LEXIS 133380 (N.D. Cal. Sep. 18, 2012).[254]		X		Yes

254. Note that in this case, the trade secret plaintiff was technically a defendant in the case who brought a trade secret counterclaim.

10	Vinyl Interactive, LLC v. Guarino, 2009 U.S. Dist. LEXIS 41498 (N.D. Cal. May 1, 2009).	X			Yes
11	Verigy US, Inc. v. Mayder, 2008 U.S. Dist. LEXIS 28315 (N.D. Cal. Feb. 29, 2008).	X			Yes
12	Posdata Co. v. Seyoung Kim, 2007 U.S. Dist. LEXIS 48359 (N.D. Cal. Jun. 27, 2007).	X			Yes
13	Corporate Express Office Prods., Inc. v. Van Guelpen, 2002 U.S. Dist. LEXIS 27642 (N.D. Cal. Dec. 12, 2002).	X			Yes
14	KLA-Tencor Corp. v. Murphy, 717 F. Supp. 2d 895 (N.D. Cal. 2010).			X	No
15	Excelligence Learning Corp. v. Oriental Trading Co., 2004 U.S. Dist. LEXIS 30370 (N.D. Cal. Dec. 20, 2004).			X	No

APPENDIX B: Massachusetts Cases

	Name and Citation of Massachusetts Case	Motion for Preliminary Injunction	Motion to Dismiss	Motion for Summary Judgment	Granted/Denied in Favor of Trade Secret Plaintiff?
1	Aspect Software, Inc. v. Barnett, 787 F. Supp. 2d 118 (D. Mass. 2011).	X			Yes
2	Me. Pointe, LLC v. Starr, 2011 U.S. Dist. LEXIS 10442 (D. Mass. Feb. 3, 2011).	X			Yes
3	Optos, Inc. v. Topcon Med. Sys., 777 F. Supp. 2d 217 (D. Mass. 2011).	X			Yes
4	Corporate Techs., Inc. v. Harnett, 943 F. Supp. 2d 233 (D. Mass. 2013).	X			Yes
5	U.S. Elec. Servs. v. Schmidt, 2012 U.S. Dist. LEXIS 84272 (D. Mass. June 19, 2012).	X			No

6	Avaya, Inc. v. Ali, 2012 U.S. Dist. LEXIS 97240 (D. Mass. Jul. 13, 2012).	X			Yes
7	Advanced Micro Devices, Inc. v. Feldstein, 951 F. Supp. 2d 212 (D. Mass. 2013).		X		Yes
8	Envisn, Inc. v. Davis, 2013 U.S. Dist. LEXIS 173918 (D. Mass. Dec. 12, 2013).			X	Yes
9	Diomed, Inc. v. Vascular Solutions, Inc., 417 F. Supp. 2d 137 (D. Mass. 2006).			X	Yes
10	Fibermark, Inc. v. Merrimac Paper Co., 2003 U.S. Dist. LEXIS 26866 (D. Mass. Mar. 11, 2003).			X	Yes
11	Patriot Funding, LLC v. Lefort, 2006 U.S. Dist. LEXIS 40427 (D. Mass. Jun. 19, 2006).	X			Yes

12	Scansoft, Inc. v. Voice Signal Techs., Inc., 2004 U.S. Dist. LEXIS 31348 (D. Mass. Dec. 28, 2004).		X		Yes
13	Enargy Power Co. v. Xiaolong Wang, 2013 U.S. Dist. LEXIS 170193 (D. Mass. Dec. 3, 2013).	X			No[255]
14	Harvard Apparatus, Inc. v. Cowen, 130 F. Supp. 2d 161 (D. Mass. 2001).			X	Yes
15	Dialogo, LLC v. Bauza, 456 F. Supp. 2d 219 (D. Mass. 2006).			X	No

255. The injunctive relief requested based on the trade secret misappropriation was denied, because it failed to pass the "likelihood of success on the merits" prong of the injunction standard.