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[California Court of Appeal Clarifies What Constitutes "Use" of a Trade Secret](#)

Silvaco Data Systems v. Intel Corp., 184 Cal.App.4th 210 (April 29, 2010)

In a recent case, *Silvaco Data Systems v. Intel Corp.*, 184 Cal.App.4th 210 (April 29, 2010), the California Court of Appeal clarified what constitutes use of a trade secret in the software context. At issue in *Silvaco* was whether defendant, Intel, was liable for trade secret misappropriation based on its use of software it had purchased from a third party, that was derived from plaintiff's trade secret source code, which in turn, had been misappropriated by a third party.

Computer programs are originally written in a high-level programming language called source code. Source code cannot yield a functioning computer application itself, but must be compiled into machine readable executable code before it can be used by a consumer. Executable code incorporates the same information as the source code from which it is compiled, but the executable code text is not readily intelligible to human beings. Therefore, the source code used in commercial software products may remain a secret despite the widespread distribution of the executable program, which is essentially an unintelligible translation of the source code.

In a prior case, *Silvaco* successfully sued third party, Circuit Semantics, Inc. ("CSI"), for misappropriating the trade secret source code used in *Silvaco*'s "SmartSpice" software which it incorporated into its own product named DynaSpice. Next, *Silvaco* brought actions against several purchasers of CSI's DynaSpice software, including Intel, alleging that by using DynaSpice, the purchasers had misappropriated the *Silvaco* trade secrets that had been incorporated into DynaSpice.

After establishing *Silvaco*'s source code as the only actionable trade secret at issue, the court rejected *Silvaco*'s claim that Intel had used *Silvaco*'s trade secret source code. The court clarified the meaning of "use" as it relates to end-users, explaining that use is not present when the conduct "consists entirely of possession, and taking advantage of, *something that was made* using the secret." *Id.* at 224. The court further illustrated its holding through a useful analogy that compared Intel's use of the executable code to someone who eats a pie made by a baker who has misappropriated the recipe. The consumer of the pie does not, by virtue of his consumption, make use of the misappropriated recipe. Similarly, one who runs software compiled from allegedly stolen source code does not make use of the source code. In sum, using a product does not constitute "use" of any trade secrets employed in its manufacture.

Though *Silvaco* correctly argued that a defendant need not comprehend the trade secret at issue to be liable for trade secret misappropriation, as was true of Intel, the court rejected this argument as a basis for imposing liability on Intel. The court agreed that "one who knowingly possesses information constituting a trade secret cannot escape liability merely because he lacks

the technical expertise to understand it, or does not speak the language in which it was written." *Id.* at 225 n.7. The court, however, found that Intel did not merely lack comprehension of the trade secret, but had never possessed the trade secret source code. To know a fact, regardless of one's comprehension of that fact, is also to possess information of that fact. Therefore, liability for use of Silvaco's trade secret presupposes Intel's possession of misappropriated information. Given that there was no evidence that Intel ever possessed any source code connected with SmartSpice, Intel could not be said to have knowledge of the trade secret. *Id.* at 226. Returning to the pie consumption analogy, the court explained that the customer does not, by eating the pie, necessarily gain knowledge of the recipe used to make it.

Throughout its decision, the court continued to emphasize the public policy implications of its holding. Had the court defined Intel Corp.'s conduct as misappropriation, it would require "any end user of a software application [to] desist from its use [...] the moment anyone *claims* that the application was compiled from stolen source code." *Id.* at 230. Such a result would certainly limit technological development and business activity, even where such activities are not tied to the actual act of misappropriation.

As a result, a business need not fear trade secret litigation for innocent use of software compiled from misappropriated source code if the business never possessed the source code itself. Trade secret owners, on the other hand, must be vigilant in protecting their secrets and preventing others from using them.

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