

Explanation Memo

Trade Secret Hypothetical

(Apple Computer)

Question 1

60 minutes

Apple Computers Inc. has filed suit against the editor of an Internet site that the company says published trade secrets illegally obtained from Apple employees, who are bound by confidentiality agreements. The website is run by a student at Harvard University. The website, ThinkSecret.com, has published exclusive stories on Apple products before they were introduced to the public. The website provides an anonymous e-mail form for readers to submit news tips and inside information.

Apple claims that it has been irreparably harmed by the release of the information. "Innovation is what Apple is all about, and we want to continue to innovate and surprise and delight people with great products, so we have a right to protect our innovation and secrecy," Apple's senior vice president of worldwide product marketing told The Associated Press.

The student says "I employ the same legal newsgathering practices used by any other journalist. I talk to sources of information, investigate tips, follow up on leads and corroborate details." In addition, the student, who calls himself an "enthusiastic fan" of Apple products, said he believes Think Secret's reporting helps generate interest in Apple and its products. Finally, the student notes that he is not a competitor and makes no revenue at all from his website.

The relevant statute says the following: To establish misappropriation of a trade secret, a plaintiff must prove: 1) that it possessed a trade secret; 2) that it engaged in reasonable precautions and 3) that defendant is using the trade secret as a result of discovery by improper means. Evaluate Apple's claim.

Issues raised by Question 2:

Please note that the question provides the relevant statute. In answering the question, I will use other authorities to suggest how this statute *might* be interpreted, recognizing that courts in the hypothetical jurisdiction could choose a different interpretation.

1) Does Apple possess a trade secret?

Apple is alleging that information on products before those products have been introduced to market constitutes a trade secret. Is this information a trade secret? Apple

will argue that information on future products falls within the type of information protected under Trade Secret laws. The language used in the old Restatement of Torts, the Uniform Trade Secrets Act and the Restatement 3rd of Unfair Competition is quite broad. For example, the Old Restatement talks about a “formula, pattern, device, or compilation of information,” the Uniform Act talks mentions “a formula, pattern, compilation, program, device, method, technique, or process,” and the Restatement 3rd refers broadly to “any information that can be used in the operation of a business.” In addition, business plans are deemed to be trade secrets. (See notes after the *Metallurgical* case.) Information on products to be released is part of a business plan and could be treated as analogous to the type of business planning information that ought to be protected.

The website might try to argue that the supposed secrets are different from the types of things protected in Trade Secret law. From this perspective, the language listed above seems to focus on information relevant for making the product or carrying on the business, such as formulas, devices, techniques, etc. This language seems to suggest technical information about the creation of your product, not simple information about what the product is. Although the website might raise this argument, it is unlikely to prevail given the range of information that has been protected, from business plans, to customer lists. In particular, if the jurisdiction chooses to follow the Restatement 3rd approach of “any information used in one’s business,” future product releases would be included.

Most important, Apple will argue that the key to all of the Trade Secret definitions of a secret lies in the latter part of the definitions. In defining what a trade secret is, all of the definitions refer to the use of the information and the value of the information. For example, the Old Restatement talks about “any 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.*” Similarly, the Restatement 3rd talks about information “that is sufficiently valuable and secret to afford an actual or potential economic advantage over others” and the Uniform Act speaks of information “which gives him an opportunity to obtain an advantage over competitors who do not know or use it.” Thus, the emphasis is on information that gives an advantage over competitors who do not know about it. If competitors know about Apple’s forthcoming products, they can begin designing products to compete. Without that knowledge, Apple has a larger lead time in the market, which is of economic value. Thus, future product information falls within the notion of things that 1) Apple knows, 2) Apple’s competitors don’t know, and 3) give Apple an advantage because of that knowledge.

The website could also argue that Apple’s information is not truly a secret, or at least not for very long. Information that is of general knowledge is not a trade secret, (See *Metallurgical*), and the nature of Apple’s products will be known to everyone as soon as they are released. This is analogous to the plain view notion we discussed with the *Mobile Mud* hypothetical, in which the elements of the mixed drink were obvious to anyone who drank it. How can product information be a secret when it will be perfectly obvious to the entire viewing public?

Although the website is correct that the information will not be a secret once the product is released, the information is still a secret now. Apple gains a lead time

advantage during the period before the product is released, and the value of that lead time makes the information a trade secret during that period.

Finally, the website may argue that the real advantage Apple gains is not the kind of advantage protected by Trade Secret law. Trade Secret law focuses on information that gives an opportunity over competitors who do not use it. (See the language of the 3 authorities above.) Apple is really interested in teasing the public, which has nothing to do with competitors at all. Apple talks about surprising and delighting the public with new products. That has no relationship to competitors; it is about convincing people to go out and buy. Why should Trade Secret law be invoked as part of an advertizing ploy? The website could analogize to the *Scientology* case, in which the 9th Circuit found that the harm from release of the information was spiritual. Here, the website will argue that the harm of releasing the information cannot be understood in terms of giving some advantage in relation to competitors but rather should be understood in terms of advertizing mystiques. It isn't releasing the information to competitors that causes the information to lose value; it is releasing the information to consumers. In contrast, Trade Secret law is about preventing inappropriate release of information to competitors.

Apple could respond that mystique and advertizing advantages are within the types of things contemplated in Trade Secret law. Creating buzz and hype increases consumers' interest in buying Apple's products. That is an economic value, and releasing the information diminishes that value. In addition, Apple could go back to the notion of lead time advantages. Even if some of the value of releasing the product information early relates to consumers rather than competitors, releasing the information also gives competitors more time to develop competing products, which is clearly an interest protected by trade secret law.

Reasonable Precautions

The relevant statute, along with the 3 authorities we have studied, requires that the trade secret holder have taken reasonable precautions to maintain the secrecy of their information. They hypothetical mentions that employees are bound by confidentiality contracts, which would constitute precautions. (See *Rockwell*.) In order to determine whether those and any other precautions were sufficiently reasonable, one would need further information on the contracts and other steps taken to ensure that sensitive information is handled.

Improper Means

The relevant statute also requires that the "defendant is using the trade secret as a result of discovery by improper means." The Apple employees who revealed the information to the website have certainly engaged in improper activity by violating their employment agreements, and Apple could have a cause of action against the employees. This *website* is the defendant, however, not the Apple employees.

The Improper Means prong of Trade Secret Law reflects Trade Secret Law's emphasis on maintaining standards of commercial morality. The language of the relevant statute is not clear as to who must have discovered the information by improper means. The website could argue that the language should be read to say "defendant is using the

trade secret as a result of [defendant's] discovery by improper means." In other words, the defendant, itself, must have engaged in the improper means. In this case, the website has not stolen any documents, breached any confidentiality agreements, broken into the Apple plant, engaged in any misrepresentation, etc. These are the types of activities that traditionally violate standards of commercial morality, and the types of activities of concern in Trade Secret law. In contrast, the website has simply posted information that is submitted, which is perfectly proper in a digital age.

Apple could argue that the statutory language "using the trade secret as a result of discovery by improper means" should be read differently. It includes the notion that someone else discovered the information improperly, not just the defendant. In other words, the language could be read to say that the trade secret was discovered by improper means by a third party and the defendant is using the information as a result of that improper discovery by the third party. With this interpretation, the bad acts by the employees would constitute improper means, satisfying the third prong of the test. In support of Apple's interpretation of the statute, Apple could point to the Uniform Act language which explicitly notes that "acquisition of a trade secret by a person who knows or has reason to know that the information was acquired by improper means" constitutes misappropriation. (See Uniform Trade Secrets Act p. 36 of casebook).

The website could respond that if the legislature had intended to include third-party liability, it could have chosen explicit language, such as the language used in the Uniform Act. In addition, if Apple's interpretation of the language is accepted, the language will not have the Uniform Act's limiting language of "knows or has reason to know." Thus, the relevant statute would make defendants liable for bad acts by third parties, even if the defendants did not or could not have known about the bad acts. It is hard to imagine that a legislature truly intended to create such draconian liability.

If Apple cannot succeed in convincing the court to read the statute to make the website liable for actions by third parties, Apple could try to argue that the website's actions constitute direct "improper means." Apple can argue that by asking for "tips" and "inside information" and providing anonymity for those who submit information, the website is inducing people to engage in bad acts, such as breaching their confidentiality obligations. Thus, the website has directly engaged in its own improper actions. The website could respond that this interpretation would simply provide a back door to making individuals liable for the actions of third parties.

Defenses

The facts of the hypothetical hint at 2 other defenses that the website intends to offer. First, the website intends to argue that it is not a competitor and does not receive any revenue from its activities. Thus, the website does not gain any commercial benefit from publishing the information. The website will argue that if Trade Secret law is focused, in part, on maintaining standards of commercial morality in the competitive market place, it is not about third party commentators. Perhaps those who have no economic interests should be exempt from Trade Secret law.

The weakness of this defense can be understood by looking at the various definitions of a trade secret. The secret is defined in terms of its value to the holder of the trade secret. It is described as something that gives the trade secret holder an opportunity

to gain an advantage (Old Restatement) and something that derives value from not being generally known (Restatement 3rd). Such language suggests that Trade Secret law looks from the perspective of the economic value to the holder of the secrets. From that perspective, the question of whether or not revelation of the secret results in economic value to the one who revealed it would be irrelevant.

From another perspective, Apple could simply argue that theft is theft. Would we exonerate a thief just because the thief did not get any economic value out of the activity?

As a final defense, the website seems to intend to argue that it is engaging in journalistic activity that should be protected by freedom of the press. Although the class did not provide authorities on any journalistic exceptions for Trade Secret law or on the definition of a journalist, one might at least note the issue of the First Amendment defense and briefly explore it. For example, other intellectual property rights must yield to first amendment rights. See *Matel* (discussing the need for Trademark to yield to First Amendment rights) and *Campbell v. Acuff-Rose* (discussing copyright's deference to First Amendment rights). Shouldn't Trade Secret law also contain first amendment protections?

Even if Trade Secret law ought to have a journalistic exception, the *Harper & Row* case would offer a useful analogy. In *Harper & Row* the Court rejected a fair use defense for a magazine that published excerpts of a forthcoming book prior to the release of the book. The case is analogous to our hypothetical facts in that a news outlet revealed information immediately prior to the Intellectual Property owners planned release of the information. In the *Harper & Row* case, the Supreme Court noted that the benefit of allowing authors the leisure to develop their ideas outweighs any short-term news value to be gained by premature publication. (See *Harper & Row* at p. 525 of the casebook.) Similarly, Apple could argue that any journalistic interest should yield to the IP holder's right to develop and reveal information on its own timetable, particularly when that information will be revealed shortly in any event.

