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Intersection of Trade Secret Protection, Reporter's Privilege in N.Y.

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In a recently decided California case, *Apple Computer Inc. v. Doe 1*, 2005 WL 578641, at *5 (Cal. Super. Ct. March 11, 2005), Apple Computer Inc. sought to uncover the source of a trade secret leak by subpoenaing the e-mail service providers of several Internet Web logs or "blogs"[1] that had published the company's confidential information.

Several nonparty bloggers moved for a protective order blocking the subpoena, asserting that state reporter's shield laws and a federal constitutional reporter's privilege protected the communications between the bloggers and their confidential sources.[2]

Judge James Kleinberg of the Superior Court denied the motion for a protective order and held that reporters and their confidential informants involved in criminal conduct are not entitled to constitutional or statutory protection. He found that California's civil and criminal statutes prohibiting trade secret misappropriation reflected the state's "strong commitment to the protection of proprietary business information." Id at *4. The court also ruled that civil discovery might, "in the proper civil case, outweigh First Amendment rights." Id. Citing the Supreme Court in *Branzburg v. Hayes,* 408 US 665 (1972), Judge Kleinberg concluded that "[r]eporters and their sources do not have a license to violate criminal laws." Id. at *5. The case is now being appealed to the California Court of Appeal.

National, N.Y. Implications

Although *Apple Computer* was decided under California statutes and case law, it has national implications. Given the popularity of blogs, particularly those that focus on the high-tech products of industry leaders, it seems likely that such a case could arise again in any number of jurisdictions.

If a similar fact pattern arose here, New York courts would have to address several novel

questions. First, does the publication of a company's trade secrets on a blog by a nonemployee constitute trade secret misappropriation? And second, given that trade secret misappropriation in New York is not prohibited by criminal statutes (as it is in California) can the publisher of confidential trade secrets invoke the protection of New York's reporter's shield law?[3]

N.Y. Trade Secret Protection

Unlike California, New York has no criminal statutes prohibiting the disclosure of confidential trade secrets. Nevertheless, New York's common law recognizes a cause of action for misappropriation of trade secrets.

Under New York law, a trade secret is defined as "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." *Ashland Mgmt., Inc. v. Janien,* 82 NY2d 395, 407 (1993).

In determining whether information is a trade secret, New York courts examine several factors, including:

(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 business to guard the secrecy of the information;

(4) the value of the information to the business and its competitors;

(5) the amount of effort or money expended by the business in developing the information; [and]

(6) the ease or difficulty with which the information could be properly acquired or duplicated by others. *EarthWeb, Inc. v. Schlack,* 71 FSupp2d 299, 314 (S.D.N.Y. 1999).

A claim of misappropriation requires that a plaintiff plead and prove that (1) it possessed a trade secret, and (2) the defendant used, or threatened to use, that trade secret in breach of an agreement, confidential relationship or duty, or as a result of discovery by improper means. See *Hudson Hotels Corp. v. Choice Hotels Int'l,* 995 F2d 1173, 1176 (2d Cir. 1993). Particularly in today's high-tech market, a company's fortunes may be made by developing and protecting confidential trade information. Moreover, with the proliferation of Internet use, trade secrets can be disseminated to competitors and the world at lightning speed. As such, for a company to maintain its competitive advantage, the protection of trade secrets is more important than ever.

A claim for trade secret misappropriation arises most often in actions brought by

employers against employees, particularly where an employee resigns and begins working for a competitor.

In *Apple Computer,* however, the nonparties challenging the subpoena were not former employees of Apple, but bloggers who posted online the information communicated to them by confidential sources. In New York, bloggers may argue that — in contrast to an employee's disclosure of information in violation of an employment agreement or duty to the employer — their use of such information was not in breach of any agreement, confidential relationship or duty, or as a result of discovery by improper means.

This argument, however, is unlikely to be an absolute defense to trade secret misappropriation under New York law. Bloggers would be liable for trade secret misappropriation if they had noticed that the trade secrets were misappropriated by the confidential informant. Federal courts interpreting New York law have adopted the reasoning of the Restatement (First) Torts §757, which states that "[o]ne who discloses or uses another's trade secret, without a privilege to do so, is liable to another if . . . (c) he learned the secret from a third person with notice of the fact that it was secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to another." *Anacomp, Inc. v. Shell Knob Servs., Inc.,* 1994 WL 9681, at *13 (SDNY Jan. 10, 1994) (quoting *Computer Assocs. Int'l, Inc. v. Altai Inc.,* 982 F2d 693 (2d Cir.1992)). Following this reasoning, a blogger who receives trade secrets from a company's current or former employee with the knowledge that the employee is disclosing the information in violation of a contract or duty to his employer may be liable under New York's misappropriation of trade secrets law.

N.Y. Reporter's Shield Law

As in California, journalists in New York are afforded protection by a reporter's shield law. Pursuant to New York's shield law, N.Y. Civil Rights Law §79-h(b), "professional journalists and newscasters" have the benefit of an absolute protection against contempt findings for refusal to disclose confidential information or the source of confidential information. A qualified privilege exists as to nonconfidential materials obtained by journalists during newsgathering, which may be overcome only if the party seeking disclosure demonstrates that the news "(i) is highly material and relevant; (ii) is critical or necessary to the maintenance of a party's claim, defense or proof of an issue material thereto; and (iii) is not obtainable from any alternative source." N.Y. Civil Rights Law §79-h(c); See *Application of CBS Inc.,* 648 NYS2d 443, 443-44 (1st Dept. 1996).

As interpreted by New York courts, the shield law "embodies the Legislature's intent to grant a broad protection" to reporters and their sources. *Beach v. Shanley,* 62 NY2d 241, 250 (1984). When the reporter's shield law was passed by the New York Legislature, Governor Nelson Rockefeller explained the policy behind the strong protection: "Freedom of the press is one of the foundations upon which our form of government is based. A representative democracy, such as ours, cannot exist unless there is a free press both willing and able to keep the public informed of all the news . . . .The threat to a newsman of being charged with contempt and of being imprisoned for failing to disclose his

information or its sources can significantly reduce his ability to gather vital information." (Quoted in *Beach,* 62 NY2d at 249-50.) Whether these policy considerations, which are grounded in freedom of speech and freedom of the press, are applicable in the context of blogs is an issue that is yet to be decided.

In contrast to California's shield law (at least as interpreted by Judge Kleinberg in the *Apple Computer* case), New York's reporter's shield law protects a reporter from disclosing his or her confidential sources even where the act of communicating the information was illegal. In *Beach,* 62 NY2d at 251-52, a confidential source turned over to a journalist a sealed report detailing a grand jury investigation of the local county sheriff's office. If the confidential informant was a grand juror or public official, the act of turning over the report would have been in violation of criminal laws. In its investigation of the leak, another grand jury subpoenaed the journalist to disclose his confidential source. Agreeing with the reporter on his motion to quash, the New York Court of Appeals held that even if a grand jury investigation was thwarted by the invocation of the reporter's privilege, a reporter could retain his or her information, "even when the act of divulging the information was itself criminal conduct." Id.

A party seeking confidential information may be more successful if, rather than serving a subpoena directly on a reporter, it instead seeks the reporter's phone or Internet records. New York courts have not yet ruled on whether the reporter's shield law extends to third-party sources, such as telephone companies and e-mail service providers. In *Greenfield v. Schultz,* 660 NYS2d 624, 630 (Sup. Ct. 1997), aff'd in relevant part, 673 NYS2d 684 (1st Dept. 1998), the Supreme Court of New York County declined to extend the reporter's privilege to protect against the subpoenaing of "third-party sources of *non-confidential information."* (Emphasis added.) The court reasoned that "[t]o do so would be to put off limits to government investigators routine access to sources of evidence such as hotel, taxi or airline flight records of reporters anytime access to these types of records might peripherally disclose their nonconfidential sources of the news." Id. Given New York's strong commitment to protecting reporters' sources, it is not at all certain that courts here would follow the reasoning of *Greenfield* where the reporter's sources are confidential.

Conclusion

Apple Computer, taking place as it does at the intersection of trade secrets law and the reporter's shield law, presents an intriguing set of questions not yet addressed by New York courts. It is clear that any plaintiff seeking to identify a reporter's confidential sources will have a difficult time overcoming New York's strong reporter's shield law. Where trade secret misappropriation and publication is at issue, however, a plaintiff may be aided by a competing public policy that recognizes and rewards a company's significant economic investment in research and development of confidential information. If the *Apple Computer* holding withstands appeal, plaintiffs may flock to California to find out a blogger's source, leaving the novel issues unanswered here. Nevertheless, given the prevalence of high-stakes trade secrets and industry-focused blogs, it seems likely that a case such as this will arise in New York. How the New York courts will address these novel

issues remains an open question and an area of significant policy debate.

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Endnotes:

1. The court offered the following definition of "blog": "on-line diary: a personal chronological log of thoughts published on a Web page; also called Weblog, Web log." Id. at *2 n.4.

2. The bloggers also asserted that the Federal Stored Communications Act, 15 USC §2701, et seq., prevented enforcement of the subpoena, but the court did not rule on that portion of the bloggers' motion.

3. A question mentioned but not decided by Judge Kleinberg was whether a blogger can be considered a journalist or reporter for purposes of invoking the reporter's shield. Although this article does not focus on that inquiry, a New York court would have to find that a blogger qualified as a professional journalist or newscaster in order to invoke the protection of New York's shield law. N.Y. Civil Rights Law §79-h(a)(6).