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Court Shifts Balance Between Trade Secrets and Public Interest

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Are all trade secrets equally deserving of relevant discovery to enforce their protection? Not if the confidential business information is sufficiently "newsworthy," and thus infused with public interest, according to a recent decision by the Sixth District of the California Court of Appeal. *O'Grady v. Superior Court*, 139 Cal.App.4th 1423 (2006). Furthermore, in an effort to distinguish other cases addressing the newsworthiness issue, *O'Grady* also appears to characterize some types of trade secrets as less deserving of protection.

The *O'Grady* court directed the trial court to grant a protective order preventing Apple Computer from enforcing subpoenas that sought to uncover the source of its leaked trade secrets. In reversing the lower court, *O'Grady* held, among other things, that the conditional privilege afforded journalists under state and federal guarantees of a free press (which protect confidential sources) trumped a civil litigant's interest in protecting trade secrets that were not technical in nature.

In November 2004, the company's confidential plans—including illustrations, marketing plans, and product details—for a new device that facilitated the production of digital audio recordings appeared in articles on two websites dedicated to news about Apple's products. Much of this information appeared to have originated from an internal slide presentation marked "Apple Need-to-Know Confidential." Indeed, one published drawing was nearly identical to an image in the confidential presentation and other parts were paraphrased or copied verbatim in the published articles.

The company filed suit against Doe defendants, claiming that unidentified persons had misappropriated the company's trade secrets. Simultaneously, the company sought the authority to serve discovery requests upon the websites, internet service providers, and others. The company contended that the true identities of the Doe defendants could not be ascertained without the requested discovery. The trial court agreed.

The targets of the discovery requests, however, moved for a protective order on multiple grounds, including that the requested information was protected by the reporter's privilege provided by constitutional free press guarantees. The trial court denied the motion: the assertion of a constitution privilege was "overstated" because reporters and their sources do not have license to violate criminal laws and they could be compelled to reveal information relating to a crime. Finding that no public interest was served by the publications, the trial court noted that "an *interested public* is not the same as the public interest."

The Appellate Court, however, found otherwise. In balancing the factors relevant to whether a conditional constitutional privilege applied and was overcome by the company, *O'Grady* held that the company's failure to exhaust all alternative sources of the necessary information was dispositive. Because the company did not depose under oath all relevant employees and third-parties, and did not conduct an air-tight computer forensic investigation, it could not obtain the information from journalists. At the same time, however, *O'Grady* held that even when the trade secret owner has no other means of obtaining essential information, the court may refuse to require disclosure when the trade secret relates to matters of great public importance; that is, when newsworthy. *O'Grady* stakes out a new position on the intersection of free speech and trade secret law, and its resolution of the conflicting interests will burden the ability of trade secret owners to uncover leaks and enforce their rights in the digital age.

O'Grady appears to extend free speech protections further than existing precedent by imbuing trade secrets with public interest. In a case pitting the privacy of intercepted communications against free speech, the Supreme Court refused to penalize the publication of truthful information of public concern. *Bartnicki v. Vopper*, 532 U.S. 514 (2001). But the court expressly declined to extend "public interest" to trade secrets, calling their disclosure a "purely private concern."

California's Supreme Court is no different. In *DVD Copy Control Ass'n, Inc. v. Bunner,* 31 Cal. 4th 864 (2003), a website operator published the trade secrets of another party — an encryption scheme designed to protect digital media — by posting them online despite knowing that the secrets were acquired by improper means. The court held that a preliminary injunction could prohibit the website operator from disclosing the trade secrets without violating free speech guarantees. Finding that the trade secrets only conveyed technical information about the method used by private parties to protect their intellectual property, and that they were not posted online to comment on any public issue or engage in any public debate, the court found that the trade secrets involved matters of "purely private concern and not matters of public importance." The core purpose of the First Amendment was therefore not implicated. Further, the court expressly found that just because the trade secrets may have "some link to a public issue does not create a legitimate public interest in their disclosure."

By contrast, *O'Grady* found a public interest in trade secrets. The trade secret owner had argued there could be no public interest in the disclosures by the websites because "the public has no right to know a company's trade secrets." The court rejected this argument. When considering the importance of preserving the confidentiality of a news source, the court stated that mere labels cannot determine whether the information involves a compelling public interest, thus justifying the protection. Pointing to recent business scandals involving secret practices, *O'Grady* noted that timely disclosure of business matters labeled "trade secret" might have avoided much harm to companies and the public welfare, while serving the traditions and functions of a free press. In this light, *O'Grady* viewed the intersection of free speech and trade secrets as a choice between a statutory created property-like right (which may provide a net public benefit) and the more fundamental constitutional judgment that "free and open disclosure of ideas and information serves the public good."

Finding no accommodation, *O'Grady* held that trade secret protection must give way to the constitutional right to acquire and share information: "This case involves not a purely private theft of secrets for venal advantage, but a journalistic disclosure to, in the trial court's words 'an interested public.'" *O'Grady* went on to describe — in the style of "six degrees of separation" — that what might appear to be a disclosure about a "mere gizmo," is actually part of an epic cultural dialogue involving much that is newsworthy. Thus, First Amendment values are threatened when authorities "declare what technological disclosures are newsworthy and what are not." Other courts may reasonably disagree that jumping-the-gun on a new product is sufficiently newsworthy to trump all trade secret rights just because the maker is well known and the product is in an important or topical industry.

Just as *O'Grady* seems to allow an "interested public" to create a public interest sufficient to protect the illegal disclosure of a trade secret, its broad language may also erode the justifications for some trade secret protection. In distinguishing *Bunner* (which found that plaintiff's trade secret rights overcame the publisher's expressional rights), *O'Grady* noted that the information there was solely technical in nature. By contrast, the Appellate Court did not find that Apple's leaked trade secrets involved proprietary technology that was compromised by the leak.

O'Grady also asserted that Apple's trade secrets are of greater public interest and thus closer to the heart of First Amendment protection than the trade secrets at issue in *Bunner*. Likening the encryption code in *Bunner* to a secret recipe for a breakfast cereal, *O'Grady* found that what happened in its case was "more like publicizing a secret *plan to release* a new cereal." Acknowledging that a secret plan still may be a trade secret, *O'Grady* distinguished it from a secret product recipe and found that an impending product release carries a legitimate public interest that a recipe is unlikely to possess.

In making its point, however, *O'Grady* overreaches when stating regarding confidential marketing plans that "it cannot be seriously held that their protection has any direct and obvious tendency to serve the central purposes of the law." This, after just reciting that trade secret law promotes and rewards innovation and technological development and maintains commercial ethics. *O'Grady* makes these characterizations to distinguish its situation from *Bunner*. But, *Bunner* spoke in terms of "technical" information only to explain why the First Amendment interest was weak, not why the trade secret interest was particularly strong as compared to other types of trade secrets. Trade secrets need not be technical to deserve equal protection.

Although *O'Grady* ruled against the trade secret owner on multiple grounds, the holding on exhaustion of alternative sources — that seeking discovery from journalists was not the company's last resort — could have gone the other way on a different factual record. However, the stance by *O'Grady* on the intersection of the First Amendment

and trade secret law—that there is a public interest in the disclosure of non-technical trade secrets—is more fundamental. This would leave trade secret owners little, if no chance, of obtaining essential discovery from a "journalist" to prosecute a trade secret thief, except in cases involving the detrimental exposure of pure technical information.

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