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# Chapter 15

## Trade Secrets

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### 15-1 INTRODUCTION

No longer is a trade secret merely a stack of papers containing a “secret formula” to fried chicken or cola. Instead, the digital age has ushered in a new era of trade secrets that exist, in many cases, in electronic form only. To take but one example from the software industry: computer engineers at a technology company spend long hours designing and developing software products, including authoring tens of thousands of lines of original computer “source code.” So-called “roadmap” documents are compiled that chart the future plans and progress for the products. Lengthy and complex technical documentation is prepared and distributed.

Much of this information, most particularly the source code, is highly sensitive and extremely confidential, and is treated by the company as such. Yet it all can be copied—and misappropriated—on a device the size of a stick of gum. It can be walked out of a company with ease—and this assumes the employee even works at an office. More and more frequently, employees are working and

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logging in remotely to the company's infrastructure and systems, meaning that trade secrets once guarded under physical lock and key reside offsite and even, in some cases, on an employee's personal computer.

## **15-2 DEFINITION OF A TRADE SECRET**

### **15-2:1 No Universally Accepted Definition**

There is no generally accepted definition of a trade secret. However, New York courts have cited with approval the definition from the Restatement (First) of Torts.<sup>2</sup> It defines a trade secret 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 it or use it."<sup>3</sup> This definition has been recognized as "the most comprehensive and influential"<sup>4</sup> and is widely cited by New York courts.

#### **15-2:1.1 The Six-Factor Restatement Test**

In deciding whether information is actually a trade secret, the Restatement suggests that several factors should be considered:

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<sup>2</sup> *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) ("There is no generally accepted definition of a trade secret but that found in section 757 of Restatement of Torts, comment *b* has been cited with approval by this and other courts.").

<sup>3</sup> Restatement (First) of Torts § 757 cmt. b (1939).

<sup>4</sup> *Lehman v. Dow Jones & Co.*, 783 F.2d 285, 297 (2d Cir. 1986).

1. the extent to which the information is known out 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.<sup>5</sup>

New York courts apply this test to determine whether information is or is not a trade secret, and the inquiry is fact-specific.<sup>6</sup> Thus, whether or not information is a trade secret turns not only on the content of the information itself, but also on its context.

### 15-2:1.2 Secrecy Is Required

A trade secret must, first of all, be secret.<sup>7</sup> Courts have deemed this to be an essential element of the trade secret definition.<sup>8</sup>

Whether a trade secret is actually secret is generally a question of fact.<sup>9</sup> Secrecy is used in the Restatement in two related senses: (i) as substantial exclusivity of knowledge of the formula, process,

<sup>5</sup> Restatement (First) of Torts § 757 cmt. b (1939).

<sup>6</sup> *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) (whether information is a trade secret “is generally a question of fact”); see also *Eagle Comtronics, Inc. v. Pico, Inc.*, 453 N.Y.S.2d 470, 472 (N.Y. App. Div. 1982).

<sup>7</sup> See *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) (“a trade secret must first of all be secret”).

<sup>8</sup> See *Delta Filter Corp. v. Morin*, 485 N.Y.S.2d 143, 144 (N.Y. App. Div. 1985) (“An essential requisite to legal protection against misappropriation of such a formula, process, device or compilation of information is the element of secrecy.”); *Ashland Mgmt. Inc. v. Altair Invs. NA, LLC*, 869 N.Y.S.2d 465, 482 (N.Y. App. Div. 2008) (“Most important of all is the defining element of secrecy, which is routinely identified as an essential prerequisite and the most important consideration in trade secrets litigation.” (citation omitted)), *aff’d as modified*, 14 N.Y.3d 774 (2010).

<sup>9</sup> See *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) (whether information is secret is “generally a question of fact”); *MidAmerica Prods., Inc. v. Derke*, 939 N.Y.S.2d 741 (table), 2010 WL 7765577, at \*5 (N.Y. Sup. Ct. 2010) (“[W]hether a trade secret is secret is generally a question of fact.”).

device or compilation of information and (ii) as the employment of precautionary measures to preserve such exclusive knowledge by limiting legitimate access by others.<sup>10</sup>

“Substantial exclusivity” can mean “materially different” or “generally unavailable and not easily assembled.”<sup>11</sup> In analyzing this factor, one court considered, among other things, whether a competitor’s product produces similar results to the purported trade secret, whether the competitor’s product is similar in composition, design and function, whether the purported trade secret has distinctive features and the extent to which it confers a competitive advantage.<sup>12</sup> The fact that samples of the purported trade secret were openly displayed to competitors at trade shows was a factor weighed by another court in concluding that no trade secret status should be conferred.<sup>13</sup> In contrast, the disclosure of a trade secret in promotional literature that contained only a user-oriented description of a product (and not sufficient technical detail) did not constitute disclosure of a product’s architecture.<sup>14</sup> Similarly, the fact that a company obtained a patent on a product did not mean that the product was not secret when the patent did not contain dimensions, specifications and other proprietary information concerning the design and manufacture of the product (in that case, silicone gloves).<sup>15</sup>

In considering the precautionary measures required, courts have looked favorably upon, for example, physical locks<sup>16</sup> and non-disclosure and confidentiality agreements.<sup>17</sup> As more and

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<sup>10</sup> See *Delta Filter Corp. v. Morin*, 485 N.Y.S.2d 143, 145 (N.Y. App. Div. 1985); *Ashland Mgmt. Inc. v. Altair Invs. NA, LLC*, 869 N.Y.S.2d 465, 482-83 (N.Y. App. Div. 2008), *aff’d as modified*, 14 N.Y.3d 774 (2010).

<sup>11</sup> *Delta Filter Corp. v. Morin*, 485 N.Y.S.2d 143, 145 (N.Y. App. Div. 1985).

<sup>12</sup> See *Delta Filter Corp. v. Morin*, 485 N.Y.S.2d 143, 145 (N.Y. App. Div. 1985).

<sup>13</sup> See *Eagle Comtronics, Inc. v. Pico, Inc.*, 453 N.Y.S.2d 470, 472 (N.Y. App. Div. 1982).

<sup>14</sup> See *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990).

<sup>15</sup> *Sylmark Holdings Ltd. v. Silicone Zone Int’l Ltd.*, 783 N.Y.S.2d 758, 771 (N.Y. Sup. Ct. 2004) (“The patent consists solely of six line drawings; it does not contain the precise dimensions, specifications, or other proprietary information with respect to the actual final design and manufacture of the gloves, as well as the marketing plans, sales projections, and legal analyses that were specified in Sylmark’s papers as trade secrets.”).

<sup>16</sup> See *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990) (“The doors to the premises were kept locked.” (citation omitted)).

<sup>17</sup> See *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990) (“ICM has taken measures to protect the secrecy of its product architecture. ...

more information is stored exclusively electronically, the domain of physical access restrictions is likely to be replaced by electronic restrictions: password protection, secure encryption and other means to prevent unauthorized users from accessing trade secrets.<sup>18</sup>

### 15-2:1.3 Retained Knowledge or “Casual Memory”

Generally, the use of information based on “casual memory” is not actionable.<sup>19</sup> In the absence of a restrictive covenant prohibiting competition, the fact that an individual retains and uses some knowledge about an alleged trade secret is not actionable if the trade secret has not been physically taken or misappropriated.<sup>20</sup> This doctrine limits the ability of an employer to sue a departing employee for use of information that the employee knows upon his or her departure. One solution is the use of a confidentiality agreement, which can confer an additional measure of protection over the employer’s trade secrets: “if the parties entered into a confidentiality agreement ... whether [the] defendant’s use of that information was the result of casual memory is irrelevant.”<sup>21</sup>

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Employees, including Newlin and Vafa, were required to sign nondisclosure agreements. ...”); *Sylmark Holdings Ltd. v. Silicone Zone Int’l Ltd.*, 783 N.Y.S.2d 758, 771 (N.Y. Sup. Ct.) (“[I]t is important to note that Silicone Zone acknowledged in its agreements with Sylmark that the various confidential materials and information Sylmark was providing to it were secret. ...”).

<sup>18</sup> See *Shaw Creations Inc. v. Galleria Enters., Inc.*, 918 N.Y.S.2d 400 (table), 2010 WL 4156452, at \*7 (N.Y. Sup. Ct. 2010) (finding that the misappropriation defendants failed to make a prima facie case that a customer list was not a trade secret in part because “the list was password-protected”).

<sup>19</sup> *Falco v. Parry*, 775 N.Y.S.2d 675, 675 (N.Y. App. Div. 2004) (finding that former employees’ communication with former employer’s customers was a non-actionable use of casual memory (citing *Arnold K. Davis & Co. v. Ludemann*, 559 N.Y.S.2d 240, 241 (N.Y. App. Div. 1990))); see also *Levine v. Bochner*, 517 N.Y.S.2d 270, 271 (N.Y. App. Div. 1987) (“The use of information about an employer’s customers which is based on casual memory is not actionable.”).

<sup>20</sup> *Falco v. Parry*, 775 N.Y.S.2d 675, 675 (N.Y. App. Div. 2004) (finding that former employees’ retention of information in casual memory did not establish misappropriation of trade secrets because “they engaged in no wrongful conduct such as physically taking or copying plaintiffs’ files” (citing *Arnold K. Davis & Co. v. Ludemann*, 559 N.Y.S.2d 240, 241 (N.Y. App. Div. 1990))); see also *Metal & Salvage Ass’n, Inc. v. Siegel*, 503 N.Y.S.2d 26, 27 (N.Y. App. Div. 1986) (“solicitation of plaintiff’s customers as a product of defendants’ casual memory is permissible”).

<sup>21</sup> *Ashland Mgmt. Inc. v. Altair Invs. NA, LLC*, 869 N.Y.S.2d 465, 470 (N.Y. App. Div. 2008), *aff’d as modified*, 14 N.Y.3d 774 (2010).

### 15-2:1.4 Confidential Does Not Mean Trade Secret

While every trade secret must be kept confidential, not everything that is kept confidential is a trade secret.<sup>22</sup> As one court has explained, the mere fact that it suits a party to keep information from others does not confer trade secret status upon it.<sup>23</sup> Instead, the evaluation of information pursuant to the six-factor Restatement is required.<sup>24</sup>

### 15-2:1.5 Ephemeral Information Is Not a Trade Secret

A few courts in New York have concluded that ephemeral information is not a trade secret. According to these courts, a trade secret does not include information as to single or ephemeral events in the conduct of a business; rather, it is a process or device for continuous use in the operation of a business.<sup>25</sup>

For instance, a manufacturer's secret automobile production process may be considered a trade secret (assuming it satisfies the six-factor Restatement test<sup>26</sup>) because it will guide the manufacturer's production of automobiles going forward. However, the isolated fact that the manufacturer produced a certain number of products in a certain year is likely ineligible for trade secret status because it merely describes a single ephemeral event.

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<sup>22</sup> *Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62, 67 (N.Y. App. Div. 2003) (critiquing the lower court for adopting an "overly expansive definition of 'trade secret' so as to encompass nearly all confidential business documents"); see also *Wiener v. Lazard Freres & Co.*, 672 N.Y.S.2d 8, 15 (N.Y. App. Div. 1998) ("The mere fact that it suited plaintiff that the information be kept from other bidders does not confer trade secret status upon the information.").

<sup>23</sup> *Wiener v. Lazard Freres & Co.*, 672 N.Y.S.2d 8, 15 (N.Y. App. Div. 1998) ("The mere fact that it suited plaintiff that the information be kept from other bidders does not confer trade secret status upon the information.").

<sup>24</sup> See *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993).

<sup>25</sup> *Softel, Inc. v. Dragon Med. & Scientific Commc'ns, Inc.*, 118 F.3d 955, 968 (2d Cir. 1997) (citations omitted) (internal quotation marks omitted); accord *Member Servs., Inc. v. Sec. Mut. Life Ins. Co. of N.Y.*, No. 3:06-cv-1164, 2010 WL 3907489, at \*8 (N.D.N.Y. Sept. 30, 2010).

<sup>26</sup> See § 15-2:1.1.

## 15-2:2 Commonly Asserted Trade Secrets

### 15-2:2.1 Customer Lists

While most businesses stridently protect their customer lists from competitors as a matter of practice, whether a customer list actually is protectable as a trade secret depends, to a large degree, on whether the customers for the particular industry are generally known.

Some courts have stated that customer lists are “generally” not considered even confidential information.<sup>27</sup> More broadly, a customer list will be not be treated as a trade secret where the information contained in the list is readily ascertainable from non-confidential sources<sup>28</sup> or where a business’s customers can be easily determined.<sup>29</sup> Similarly, a contact list based on knowledge of the industry and on information publicly available does not qualify as a trade secret;<sup>30</sup> and the use of information about an employer’s customers which is based on casual memory is not actionable in the absence of a restrictive covenant.<sup>31</sup>

On the other hand, a customer list may be treated as a trade secret where the names and addresses of the customers are not known in the trade or can be obtained only through extraordinary effort.<sup>32</sup> This is particularly so if the customers’ patronage had been secured

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<sup>27</sup> *H. Meer Dental Supply Co. v. Commisso*, 702 N.Y.S.2d 463, 465 (N.Y. App. Div. 2000); *Arnold K. Davis & Co. v. Ludemann*, 559 N.Y.S.2d 240, 241 (N.Y. App. Div. 1990); *Cool Insuring Agency, Inc. v. Rogers*, 509 N.Y.S.2d 180, 182 (N.Y. App. Div. 1986).

<sup>28</sup> *Ronald W. Freeman, P.C. v. Zhu*, 618 N.Y.S.2d 316, 316 (N.Y. App. Div. 1994); *Shaw Creations Inc. v. Galleria En ers., Inc.*, 918 N.Y.S.2d 400 (table), 2010 WL 4156452, at \*7 (N.Y. Sup. Ct. 2010).

<sup>29</sup> *Novus Partners, Inc. v. Vainchenker*, 938 N.Y.S.2d 228 (table), 2011 WL 4031521, at \*4 (N.Y. Sup. Ct. 2011).

<sup>30</sup> *Buhler v. Maloney Consulting*, 749 N.Y.S.2d 867, 868 (N.Y. App. Div. 2002).

<sup>31</sup> *Leo Silfen, Inc. v. Cream*, 29 N.Y.2d 387, 391 (1972); *Levine v. Bochner*, 517 N.Y.S.2d 270, 271 (N.Y. App. Div. 1987); *Arnold K. Davis & Co. v. Ludemann*, 559 N.Y.S.2d 240, 241 (N.Y. App. Div. 1990).

<sup>32</sup> *Stanley Tulchin Assocs., Inc. v. Vignola*, 587 N.Y.S.2d 761, 763 (N.Y. App. Div. 1992) (finding that client lists containing substantially more than contact information were sufficiently “unique and confidential” to constitute protected trade secrets under a restrictive covenant); *McLaughlin, Piven, Vogel, Inc. v. W.J. Nolan & Co.*, 498 N.Y.S.2d 146, 152 (N.Y. App. Div. 1986) (“Such customer lists, the result of effort and expense on the plaintiff’s part, and containing information which the defendants would not have obtained absent their former employment with the plaintiff, are deserving of protection.”); *Woodie v. Azteca Int’l Corp.*, 806 N.Y.S.2d 449 (table), 2005 WL 2171181, at \*6 (N.Y. Sup. Ct. 2005) (“Plaintiff has sufficiently alleged that the list was a trade secret, i.e., a valuable compilation of business information, developed through significant effort over many years....”).



by years of effort and advertising effected by the expenditure of substantial time and money.<sup>33</sup> As with any trade secret, New York courts require the proponent of trade secret status for a customer list to show that it employed precautionary measures to preserve the list as a secret.<sup>34</sup>

### 15-2:2.2 Pricing and Costs Information

The basic prices that a company charges its customers, particularly for fungible goods, are generally not considered to be trade secrets.<sup>35</sup> This is because such pricing information is exposed to the public when the product is sold.<sup>36</sup> New York courts have also declined to confer trade secret protection on the "mark-up" added to costs from which a seller derives a profit.<sup>37</sup> However, where a company's prices are not known to the public and vary from customer to customer, pricing data may be considered a trade secret.<sup>38</sup> This is especially true where competitors could use pricing data to undercut a company's prices.<sup>39</sup> If a software

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<sup>33</sup> *Leo Silfen, Inc. v. Cream*, 29 N.Y.2d 387, 393 (1972); *Town & Country House & Home Serv., Inc. v. Newbery*, 3 N.Y.2d 554, 560 (1958) (house-cleaning service's list of customers was a trade secret, where it had expended considerable effort to identify homemakers who were interested in such services). For example, one court found an oil company's customer list to be a trade secret when it contained information such as the fuel oil capacity of customers' tanks, and the amount certain customers were willing to pay, that aided in establishing prices and that could only be achieved through personal solicitation. *Giffords Oil Co. v. Wild*, 483 N.Y.S.2d 104, 105-06 (N.Y. App. Div. 1984).

<sup>34</sup> See, e.g., *Precision Concepts, Inc. v. Bonsanti*, 569 N.Y.S.2d 124, 125-26 (N.Y. App. Div. 1991).

<sup>35</sup> *H.D. Smith Wholesale Drug Co. v. Mittelmark*, 941 N.Y.S.2d 538 (table), 2011 WL 5964555, at \*7 (N.Y. Sup. Ct. 2011); *1-800 Postcards, Inc. v. AD Die Cutting & Finishing Inc.*, No. 101882/2010, 2010 WL 3020705, at \*2 (N.Y. Sup. Ct. 2010).

<sup>36</sup> *Belth v. Ins. Dep't*, 406 N.Y.S.2d 649, 650 (N.Y. Sup. Ct. 1977).

<sup>37</sup> *Video Projects Co. v. N.Y. Racing Ass'n, Inc.*, No. 16564/96, 2001 WL 1586903, at \*3 (N.Y. Sup. Ct. 2001), *aff'd*, 754 N.Y.S.2d 342 (2003); *Richard M. Krause, Inc. v. Gardner*, 99 N.Y.S.2d 592, 595 (N.Y. Sup. Ct. 1950) ("There is nothing secret in the decision of how much of a mark-up percentage is necessary for a good profit.").

<sup>38</sup> *DoubleClick Inc. v. Henderson*, No. 116914/98, 1997 WL 731413, at \*4-5 (N.Y. Sup. Ct. 1997) (holding that "DoubleClick's confidential information about its pricing and customers constitutes trade secrets" because the pricing information was not publicly available and was "deal driven" and tailored to the needs of individual clients"); see *Repair Tech Inc. v. Zakarin*, 803 N.Y.S.2d 20, at \*4-5 (N.Y. Sup. Ct. 2005) (granting a preliminary injunction protecting a trade secret "price lists of extended warranty services as adjusted for specific clients").

<sup>39</sup> *Support Sy. Assocs., Inc. v. Tavolacci*, 322 N.Y.S.2d 604, 605 (N.Y. App. Div. 1987) ("The pricing and cost information provided to the appellant was also confidential because if it were known to competitors, they would be in a position to underbid the plaintiff and consequently to win the contracts that plaintiff was competing for."); *DoubleClick Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*4-5 (N.Y. Sup. Ct. Nov. 7, 1997) (finding

company charges a standard rate for software licenses its pricing information is generally not entitled to trade secret protection. In contrast, where a software company's license prices are negotiated and tailored to individual clients (and not publicly disclosed), its pricing information can be considered a trade secret.

Similarly, information about costs can be protectable as a trade secret. This is true particularly when costs depend not upon the purchase of open market commodities or the use of easily obtainable labor rates, but upon statistical assumptions, income derived from investments or other factors.<sup>40</sup> Courts have decided that these "internal" metrics can, in certain circumstances, be worthy of protection, especially if that information could be used by competitors to compromise a competitive position.<sup>41</sup>

### 15-2:2.3 Compilation of Public Data

Because a trade secret must be secret, publicly available data generally cannot qualify as a trade secret.<sup>42</sup> Moreover, privately assembled compilations of public data generally do not qualify as a trade secret.<sup>43</sup> Nevertheless, New York courts have suggested that compilations of publicly available data may qualify for trade secret protection where the data is processed using proprietary methods.<sup>44</sup> Thus, to best protect a compilation of publicly available

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that defendants "were prepared to use [trade secret pricing information] to compete directly for DoubleClick's web site clients").

<sup>40</sup> *Belth v. Ins. Dep't*, 406 N.Y.S.2d 649, 650 (N.Y. Sup. Ct. 1977).

<sup>41</sup> See *City of Schenectady v. O'Keefe*, 856 N.Y.S.2d 281 (N.Y. App. Div. 2008) (cost and inventory data used by a utility company to track property assets that was costly to compile can have significant commercial value and can be protected from disclosure under New York's public records law).

<sup>42</sup> See *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) ("a trade secret must first of all be secret").

<sup>43</sup> *Sunset Energy Fleet L.L.C. v. N.Y. State Dep't of Envtl. Conservation*, 728 N.Y.S.2d 279, 281 (N.Y. App. Div. 2001) ("the fact that petitioner had to compile, verify and analyze the data does not make the compiled information" a trade secret); *Schripteck Mktg. Inc. v. Columbus McKinnon Corp.*, 589 N.Y.S.2d 656, 658-59 (N.Y. App. Div. 1992) (declining to extend trade secret protection to a private compilation of publicly available data regarding the tire shredding industry); *U.S. Coachways, Inc. v. Silverman*, 836 N.Y.S.2d 490 (table), 2007 WL 218728, at \*5 (N.Y. Sup. Ct. 2007) ("Moreover, notwithstanding the alleged expenditure of time and money to compile its customer and vendor lists, they would not be entitled to any [trade secret] protection if, as has been alleged, the vendors' identities and contact information are publicly available ... and the customers are public companies or members of the public at large.").

<sup>44</sup> *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990) ("[A] trade secret can exist in a combination of characteristics and components,

data, a business should analyze the raw data or assemble it in a unique manner. For instance, a compilation of publicly available demographic data likely does not qualify for trade secret protection. However, that same compilation if accompanied with a secret quantitative analysis of likely purchasing patterns might qualify for trade secret protection.

The application of trade secret law to one type of compilation of publicly available data—customer lists—is well-established in New York.<sup>45</sup>

#### 15-2:2.4 Software and Algorithms

Software, algorithms and related technologies are a fast-growing area of trade secret law (though trade secret protection for software has been recognized for many years).<sup>46</sup> Computer source code, so long as it is kept confidential and is not publicly accessible (as, for example, “open source” code), is generally viewed to be a trade secret.<sup>47</sup> Other aspects of and related to software, such as algorithms, metadata, record layouts and documentation, can also be protectable if they satisfy the test for trade secrets.<sup>48</sup>

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each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable secret.” (alteration in original) (citation omitted)); *Sunset Energy Fleet L.L.C. v. N.Y. State Dep’t of Envtl. Conservation*, 728 N.Y.S.2d 279, 281 (N.Y. App. Div. 2001) (finding that a compilation of publicly available information was not a trade secret in part because “petitioner did not apply unique or proprietary methods to the data”); *Schripteck Mktg. Inc. v. Columbus McKinnon Corp.*, 589 N.Y.S.2d 656, 659 (N.Y. App. Div. 1992) (explaining that a compilation of publicly available information did not qualify for trade secret protection because “there is no evidence that this compilation of information was novel or unique (citation omitted)).

<sup>45</sup> See § 15-2:2.1.

<sup>46</sup> *Belth v. Ins. Dep’t*, 406 N.Y.S.2d 649, 650 (N.Y. Sup. Ct. 1977) (“[I]here is no doubt that the computer programs, the mathematical models, procedures and statistical assumptions constitute trade secrets.”).

<sup>47</sup> See, e.g., *Jamison Bus. Sys., Inc. v. Unique Software Support Corp.*, No. CV 02-4887(ETB), 2005 WL 1262095, at \*18 (E.D.N.Y. May 26, 2009) (finding misappropriation of trade secrets based on copying of source code and noting that “[g]enerally, computer programs are protectable as trade secrets under New York law”); *People v. Robinson*, 860 N.Y.S.2d 159, 167 (N.Y. App. Div. 2008) (source code of a breathalyzer machine was a copyrighted trade secret).

<sup>48</sup> *Hearst Corp. v. State*, 882 N.Y.S.2d 862, 877 (N.Y. Sup. Ct. 2009) (upholding trade secret protection for information relating to Oracle database when the information was treated as confidential and proprietary, when access was not available to the public and was limited to licensees and other persons in a contractual relationship with Oracle and when the information would function as a “blueprint” of the architecture of the system and how it managed and stored data).

Of course, only the portions of software not exposed to the public qualify for trade secret protection.<sup>49</sup> For instance, the user interface of a piece of software generally does not qualify for trade secret protection, but the underlying code used to generate the software does as long as it is kept secret (*i.e.*, is not "open source").<sup>50</sup> This is comparable to trade secret protection extending to a secret manufacturing method but not to the products produced using the method, because the products are exposed to the public when they are sold. Similarly, the portions of software publicly available on a company's website are not secret, and therefore do not receive trade secret protection.<sup>51</sup>

Like compilations of public data,<sup>52</sup> combinations of publicly available software can qualify for trade secret protection under certain conditions. Specifically, software constructed using multiple publicly available constituent pieces of software can be a trade secret if the manner in which the programs interact is the key to the combined software's success.<sup>53</sup> Thus, the compilation theory of trade secrets (namely, that "[a] trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process, design and operation of which, in unique combination, affords a competitive advantage and is a protectable secret") applies to software in New York.<sup>54</sup>

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<sup>49.</sup> *Ashland Mgmt., Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993) (six-factor algorithm used in financial software was not a trade secret where the six factors were publicly known and others could easily deduce the related algorithm from publicly available information).

<sup>50.</sup> *Jamison Bus. Sys., Inc. v. Unique Software Support Corp.*, No. CV 02-4887(ETB), 2005 WL 1262095, at \*18 (E.D.N.Y. May 26, 2009) ("Castro copied the source code and menu screens from Davella's program. However, since any user of the program is privy to the menu screens, the menu screens can not be considered trade secrets. Accordingly, the Court will consider the plaintiff's trade secret cause of action only with regard to defendants' misappropriation of Davella's source code. ...").

<sup>51.</sup> *Midsummer Fin. Prods., Inc. v. Rapid Filing Servs. LLC*, 836 N.Y.S.2d 486 (table), 2006 WL 3833658, at \*2 (N.Y. Sup. Ct. 2006) (finding no trade secret protection when a company's online content, including the questions it asks customers, advertising slogans, and the website's "general look and functionality" were publicly exhibited on its website).

<sup>52.</sup> See § 15-2:2.3.

<sup>53.</sup> *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990).

<sup>54.</sup> *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 174 (2d Cir. 1990) (citation omitted).

### 15-2:2.5 Business Methods, Plans and Strategic Information

As a general matter, knowledge of the intricacies of a former employer's business operation is not a trade secret, even if such matters are considered confidential.<sup>55</sup> However, certain kinds of business information, such as revenue projections, plans for future projects, pricing and product strategies and customer information can be trade secrets, as discussed elsewhere in this chapter.<sup>56</sup> General strategic business information—*i.e.*, brand strategies, product development and marketing plans—can be considered trade secrets also.<sup>57</sup>

Here, again, the six-factor test is employed to cull out what is or is not a trade secret. One plaintiff's failure to demonstrate that a marketing program was unique meant that it was not entitled to trade secret protection.<sup>58</sup> Likewise, a sales method that was made available to attendees of a half-day presentation was not a trade secret.<sup>59</sup> And the use of publicly available, third-party software to process client data for conversion to tax forms meant that the plaintiff's method of doing so was not a trade secret.<sup>60</sup>

## 15-3 MISAPPROPRIATION OF TRADE SECRETS

### 15-3:1 Elements of Misappropriation

Where trade secrets are accessed and used without authorization, the trade secret owner's primary recourse is a

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<sup>55</sup> See *Reed, Roberts Assocs., Inc. v. Strauman*, 40 N.Y.2d 303, 309 (1976) ("A contrary holding would make those in charge of operations or specialists in certain aspects of an enterprise virtual hostages of their employers."); *Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62, 66-67 (N.Y. App. Div. 2003) (confidential business data and strategies are not necessarily trade secrets); *L-3 Commc'ns Corp. v. Kelly*, 809 N.Y.S.2d 482 (table), 2005 WL 3304130, at \*5 (N.Y. Sup. Ct. 2005) ("[A] former employee's knowledge of the intricacies of a former employer's business operation is not a protectable interest sufficient to justify enjoining an employee from utilizing his knowledge and talents in an area."), *aff'd*, 829 N.Y.S.2d 568 (N.Y. App. Div. 2007).

<sup>56</sup> See *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*4-5 (N.Y. Sup. Ct. 1997).

<sup>57</sup> See *Ring v. Estee Lauder, Inc.*, 702 F. Supp. 76, 77 (S.D.N.Y. 1988) (the defendant also "was knowledgeable about confidential products currently under development and product innovations scheduled for the coming years [and had] confidential information about the stage of development of products in the pipeline"), *aff'd*, 874 F.2d 109 (2d Cir. 1989).

<sup>58</sup> *Foods Plus, Inc. v. Frankel*, 387 N.Y.S.2d 449, 450 (N.Y. App. Div. 1976).

<sup>59</sup> *Sales Strategies Grp., Inc. v. Fenton*, 838 N.Y.S.2d 856, 858 (N.Y. Sup. Ct. 2007).

<sup>60</sup> *Midsummer Fin. Prods., Inc. v. Rapid Filing Servs. LLC*, 836 N.Y.S.2d 486 (table), 2006 WL 3833658, at \*2 (N.Y. Sup. Ct. 2006).

suit for misappropriation of trade secret. In simple terms, a misappropriation claim asserts that the information at issue is a legitimate trade secret and that the defendant used the trade secret information without authorization.<sup>61</sup> Specifically, the elements of a cause of action for misappropriation of trade secrets are that (i) the plaintiff possessed a trade secret and (ii) the defendant used that trade secret in breach of an agreement, confidence or duty, or as a result of discovery by improper means.<sup>62</sup> These elements are explained below.

### 15-3:1.1 Possession of Trade Secret

The first element of a misappropriation claim requires that the plaintiff possess a valid trade secret.<sup>63</sup> The definition of a trade secret is well-established in New York law.<sup>64</sup> Whether a plaintiff possessed a valid trade secret should be evaluated based on the criteria discussed above.

### 15-3:1.2 Improper Use or Acquisition of Trade Secret

The second element of a misappropriation claim requires that the defendant used the plaintiff's trade secret in breach of an agreement, confidence or duty, or as a result of discovery by improper means.<sup>65</sup> Thus, a defendant's use of information given freely by the plaintiff or that is publicly available is insufficient to prove misappropriation of trade secrets. Rather, misappropriation requires that the defendant acquired and used a plaintiff's trade secret without permission and without a legal right to do so.

New York courts have found the improper use element satisfied where, for example, a former employee or agent retained and used an

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<sup>61</sup> *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990); *Sylmark Holdings Ltd. v. Silicone Zone Int'l Ltd.*, 5 Misc. 3d 285, 297 (N.Y. Sup. Ct. 2004); *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*3 (N.Y. Sup. Ct. 1997).

<sup>62</sup> *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990); *Sylmark Holdings Ltd. v. Silicone Zone Int'l Ltd.*, 783 N.Y.S.2d 758, 770-71 (N.Y. Sup. Ct. 2004); *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*3 (N.Y. Sup. Ct. 1997).

<sup>63</sup> *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990).

<sup>64</sup> See § 15-2.

<sup>65</sup> *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990).

employer's trade secret in violation of a confidentiality agreement;<sup>66</sup> where a former employee or agent retained and used an employer's trade secret in the absence of a confidentiality agreement;<sup>67</sup> where a company retained and used another company's trade secret in violation of a confidentiality agreement;<sup>68</sup> and where a defendant copied a plaintiff's proprietary software.<sup>69</sup> Although New York courts have not explicitly addressed literal theft of trade secret information (*i.e.*, physical or electronic theft of documents) by a third party, such a situation would also satisfy the improper use element. In sum, where a defendant has accessed or retained information without authorization, the plaintiff has a strong argument that the improper use element is satisfied.

### 15-3:2 Specific Identification Required

Plaintiffs alleging misappropriation of trade secrets bear the burden of identifying the alleged trade secrets with sufficient specificity in the litigation to inform the defendant what is alleged to have been misappropriated.<sup>70</sup> In determining whether plaintiff's description of alleged trade secrets was sufficiently specific, one court considered the accuracy of the description, the use of undefined or approximate terms, designation of materials too voluminous to allow for identification of secret content, and

<sup>66</sup> *E.g.*, *DoubleClick, Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*5 (N.Y. Sup. Ct. 1997); *see, e.g.*, *Integrated Cash Mgmt. Servs., Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990); *cf.* *1-800 Postcards, Inc. v. AD Die Cutting & Finishing Inc.*, 28 Misc. 3d 1216(A) (table), 2010 WL 3020705, at \*2 (N.Y. Sup. Ct. 2010) ("To establish a claim of misappropriation of trade secrets where there is no employment contract expressly restricting the former employees from competing ... plaintiff must demonstrate: (1) it possessed a trade secret; and (2) that defendants are using such trade secret in breach [of] a duty of loyalty.").

<sup>67</sup> *E.g.*, *Marcone APW, LLC v. Servall Co.*, 925 N.Y.S.2d 752, 756 (N.Y. App. Div. 2011); *Shaw Creations v. Galleria Enters., Inc.*, 918 N.Y.S.2d 400 (table), 2010 WL 4156452, at \*7-8 (N.Y. Sup. Ct. 2010).

<sup>68</sup> *E.g.*, *Sylmark Holdings Ltd. v. Silicone Zone Int'l Ltd.*, 783 N.Y.S.2d 758, 771-72 (N.Y. Sup. Ct. 2004).

<sup>69</sup> *E.g.*, *Novus Partners, Inc. v. Vainchenker*, 938 N.Y.S.2d 228 (table), 2011 WL 4031521, at \*7 (N.Y. Sup. Ct. 2011) ("A claim for misappropriation of software that is a trade secret requires 'evidence that plaintiffs copied or used [defendant's] software in order to prepare their own software.'" (alteration in original) (citation omitted)).

<sup>70</sup> *See Member Servs., Inc. v. Sec. Mut. Life Ins. Co. of N.Y.*, No. 3:06-cv-1164(TJM/DEP), 2010 WL 3907489, at \*8-9 (N.D.N.Y. Sept. 30, 2010) ("Plaintiffs also bear the burden of describing the alleged trade secret with adequate specificity to inform Defendants what is alleged to have been misappropriated."); *Sit-Up Ltd. v. IAC/InterActiveCorp.*, No. 05 Civ. 9292(DLC), 2008 WL 463884, at \*11 (S.D.N.Y. Feb. 20, 2008) ("Every court to have opined on this issue has ruled that specificity is required.").

whether the description is vague or ambiguous in general.<sup>71</sup> Thus, misappropriation plaintiffs should describe alleged trade secrets as accurately as possible to avoid dismissal. Courts are unlikely to grant plaintiffs leeway to conduct broad discovery in the hope of finding a trade secret that a defendant has misappropriated; plaintiffs generally must specify the misappropriated trade secret from the outset.

However, where an alleged trade secret is a compilation of various pieces of information, plaintiffs are not required to show that each constituent piece of information is itself a trade secret.<sup>72</sup> This is because, as explained in Section 15-2:2.4, the individual pieces of information forming a compilation trade secret need not be trade secrets themselves. Thus, a plaintiff alleging misappropriation of a compilation trade secret should thoroughly and precisely describe the compilation as a whole, but need not provide information showing that the constituent components of the compilation meet the definition of trade secrets individually.

Plaintiffs concerned that providing specific descriptions of trade secrets may reveal sensitive information have some recourse in the form of confidentiality orders and *in camera* review. These options are discussed in Section 15-4.

### 15-3:3 Statute of Limitations

Under New York law, a misappropriation of trade secrets claim must be brought within three years of its accrual.<sup>73</sup> In New York, a cause of action generally accrues "at the time and in the place of the injury."<sup>74</sup> Therefore, a misappropriation claim accrues when a defendant either makes use of or publicly discloses a trade secret.<sup>75</sup>

<sup>71</sup> *Sit-Up Ltd. v. IAC/InterActiveCorp.*, No. 05 Civ. 9292(DLC), 2008 WL 463884, at \*10-11 (S.D.N.Y. Feb. 20, 2008).

<sup>72</sup> *Sit-Up Ltd. v. IAC/InterActiveCorp.*, No. 05 Civ. 9292(DLC), 2008 WL 463884, at \*11 (S.D.N.Y. Feb. 20, 2008).

<sup>73</sup> CPLR 214(4); *Andrew Greenberg, Inc. v. Svane, Inc.*, 830 N.Y.S.2d 358, 362 (N.Y. App. Div. 2007); see also *Synergetics USA, Inc. v. Alcon Labs., Inc.*, No. 08 CIV. 3669(DLC), 2009 WL 2016872, at \*2 (S.D.N.Y. July 9, 2009).

<sup>74</sup> *Global Fin. Corp. v. Triarc Corp.*, 93 N.Y.2d 525, 529 (1999).

<sup>75</sup> *Synergetics USA, Inc. v. Alcon Labs., Inc.*, No. 08 CIV. 3669(DLC), at \*2 (S.D.N.Y. July 9, 2009); *Galet v. Carolace Embroidery Prods. Co.*, No. 91 Civ. 7991(SS), 1994 WL 542275, at \*4 (S.D.N.Y. Oct. 5, 1994), *aff'd mem.*, 122 F.3d 1056 (2d Cir. 1995); *Lemelson v. Carolina Enters., Inc.*, 541 F. Supp. 645, 659 (S.D.N.Y. 1982).



### 15-3:3.1 Misappropriation as a Continuing Tort

Under the continuing tort doctrine, the date of accrual of a misappropriation claim may be extended where a defendant keeps a trade secret confidential but nonetheless uses it for commercial advantage.<sup>76</sup> “[E]ach successive use constitutes a new, actionable tort for the purpose of the running of the Statute of Limitations.”<sup>77</sup> Thus, where a defendant misappropriates a plaintiff’s trade secret and uses it in his business, the statute of limitations will not run as long as the defendant continues to use the secret. However, if and when the defendant ceases to use the misappropriated trade secret, the statute of limitations begins to run and the plaintiff must file suit within three years.

The continuing tort doctrine ceases to toll the statute of limitations if and when a plaintiff learns of a defendant’s misappropriation.<sup>78</sup> That is, the statute of limitations begins to run at the point of discovery even if the defendant continues to use the trade secret. As such, a plaintiff that discovers misappropriation of its trade secret must sue within three years.

Moreover, if and when a defendant publicly discloses a misappropriated trade secret, the continuing tort doctrine ceases to toll the statute of limitations.<sup>79</sup> This rule is based on the principle that disclosure destroys a trade secret, and therefore leaves a plaintiff with no property to protect.<sup>80</sup> Courts in New York have repeatedly explained this rule using the following analogy:

A continuing right may exist where there is an interference with but not destruction or conversion of property. This is aptly illustrated in the example set forth in the brief submitted on behalf of defendant: “If defendant hits plaintiff’s horse

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<sup>76</sup> *Synergetics USA, Inc. v. Alcon Labs., Inc.*, No. 08 CIV. 3669(DLC), at \*2 (S.D.N.Y. July 9, 2009); *Andrew Greenberg, Inc. v. Svane, Inc.*, 830 N.Y.S.2d 358, 362 (N.Y. App. Div. 2007).

<sup>77</sup> *Lemelson v. Carolina Enters., Inc.*, 541 F. Supp. 645, 659 (S.D.N.Y. 1982).

<sup>78</sup> *Synergetics USA, Inc. v. Alcon Labs., Inc.*, No. 08 CIV. 3669(DLC), at \*2 (S.D.N.Y. July 9, 2009) (“[W]here the plaintiff had knowledge of the defendant’s misappropriation and use of its trade secret, the continuing tort doctrine does not apply.”).

<sup>79</sup> *Synergetics USA, Inc. v. Alcon Labs., Inc.*, No. 08 CIV. 3669(DLC), at \*2 (S.D.N.Y. July 9, 2009) (“Where, however, the defendant ‘discloses the secrets revealed to him, there can be no continuing tort of unlawful use.’” (quoting *Lemelson v. Carolina Enters., Inc.*, 541 F. Supp. 645, 659 (S.D.N.Y. 1982))).

<sup>80</sup> *Architectronics, Inc. v. Control Sys., Inc.*, 935 F. Supp. 425, 433 (S.D.N.Y. 1996) (citation omitted).

repeatedly, plaintiff has a new cause of action upon each striking; but if defendant destroys plaintiff's horse, ... plaintiff's right accrues immediately and he must sue within the period of limitation measured from that date—or never.”<sup>81</sup>

Thus, where a defendant misappropriates a plaintiff's trade secret and discloses it to the public, the plaintiff must sue within three years of the disclosure. This is the case even if the defendant continues to use the information after disclosure, because once the information ceases to be secret, it necessarily ceases to be a trade secret, and therefore there can be no continuing tort. Indeed, a defendant who publicly discloses a trade secret may continue using the underlying information because the trade secret is destroyed. The apparent injustice of this result is mitigated by the damages the defendant must pay to compensate the plaintiff for its destruction of the trade secret.<sup>82</sup>

#### 15-3:4 Remedies

Defendants who misappropriate trade secrets are liable for damages.<sup>83</sup> However, federal and state courts have split on the appropriate measure of damages. New York state courts have held that the proper measure is compensatory damages for lost profits caused by the misappropriation.<sup>84</sup> But these courts have held that the profit earned by a defendant through the use of trade secret information is not an appropriate measure of damages.<sup>85</sup>

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<sup>81</sup> *M & T Chems., Inc. v. Int'l Bus. Machs. Corp.*, 403 F. Supp. 1145, 1149 (S.D.N.Y. 1975), *aff'd mem.*, 542 F.2d 1165 (2d Cir. 1976); see also *Lemelson v. Carolina Enters., Inc.*, 541 F. Supp. 645, 659 (S.D.N.Y. 1982).

<sup>82</sup> See § 15-3:4.

<sup>83</sup> See *Suburban Graphics Supply Corp. v. Nagle*, 774 N.Y.S.2d 160, 163-64 (N.Y. App. Div. 2004); *Robert Plan Corp. v. Onebeacon Ins.*, 809 N.Y.S.2d 483 (table), 2005 WL 3193700, at \*1-2 (N.Y. Sup. Ct. 2005).

<sup>84</sup> See *Suburban Graphics Supply Corp. v. Nagle*, 774 N.Y.S.2d 160, 163 (N.Y. App. Div. 2004) (holding that lost profits are the appropriate form of relief for misappropriation); *Robert Plan Corp. v. Onebeacon Ins.*, 809 N.Y.S.2d 483 (table), 2005 WL 3193700, at \*1-2 (N.Y. Sup. Ct. 2005) (“The law of New York on damages for misappropriation and misuse of confidential information is clear and well settled. The injured party may recover the profits it lost as a result of the defendant's misuse or misappropriation of confidential material.”).

<sup>85</sup> See *Robert Plan Corp. v. Onebeacon Ins.*, 809 N.Y.S.2d 483 (table), 2005 WL 3193700, at \*2 (N.Y. Sup. Ct. 2005) (“Robert Plan asserts that it has the option of recovering either the profits it lost or the profit One Beacon earned through the use of Robert Plan's confidential or privileged material. Robert Plan does not have such an election.”).

For instance, defendants often use misappropriated trade secrets to manufacture products that compete with a plaintiff's products. Where competition caused by this type of misappropriation causes a plaintiff to lose sales, the defendant is liable to the plaintiff for the profits the plaintiff would have made on the lost sales. The defendant, however, need not disgorge profits it earned using the misappropriated secrets. Thus, if the defendant earns a higher profit on each sale than the plaintiff does (e.g., if the defendant has lower manufacturing costs), the defendant could profit from its misappropriation despite paying compensatory damages to the plaintiff.

One New York state court has further suggested that damages are limited to "lost profits *resulting from the defendant's actual diverting of customers*" from the plaintiff.<sup>86</sup> A court following this precedent literally arguably would be unable to award damages not directly stemming from sales lost to the defendant. For instance, where increased competition from a misappropriation defendant forces a plaintiff to lower prices on its products, a defendant arguably would not be liable for the profits lost due to the price decrease. It is questionable whether New York courts would actually limit damages in this manner.

By contrast, federal courts applying New York law have set forth a broader definition of appropriate compensatory damages. These courts explain that New York law allows for damages based on either (1) compensatory damages for the plaintiff's lost profits; (2) an accounting of the defendant's profits generated by the misappropriated trade secret; or (3) a reasonable royalty based on "what the parties would have agreed to as a fair licensing price at the time that the misappropriation occurred."<sup>87</sup> However, these courts explain that the reasonable royalty calculation should be used only where the other methods provide "inadequate compensation."<sup>88</sup>

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<sup>86</sup>. *Suburban Graphics Supply Corp. v. Nagle*, 774 N.Y.S.2d 160, 163 (N.Y. App. Div. 2004) (emphasis added) (citation omitted).

<sup>87</sup>. *Member Servs., Inc. v. Sec. Mut. Life Ins. Co. of N.Y.*, No. 3:06-cv-1164(TJM/DEP), 2010 WL 3907489, at \*27 (N.D.N.Y. Sept. 30, 2010) (citation omitted) (internal quotation marks omitted); see also *LinkCo, Inc. v. Fujitsu Ltd.*, 232 F. Supp. 2d 182, 186-87 (S.D.N.Y. 2002).

<sup>88</sup>. *Member Servs., Inc. v. Sec. Mut. Life Ins. Co. of N.Y.*, No. 3:06-cv-1164(TJM/DEP), 2010 WL 3907489, at \*28 (N.D.N.Y. Sept. 30, 2010) (internal quotation marks omitted); see also *LinkCo, Inc. v. Fujitsu Ltd.*, 232 F. Supp. 2d 182, 186 (S.D.N.Y. 2002).

Neither federal courts nor New York state courts appear to have recognized this split and there is little indication of when it may be resolved. Plaintiffs may wish to consider bringing misappropriation claims in federal court where possible to preserve their ability to compute damages broadly.

Injunctive relief is also available to misappropriation plaintiffs where a defendant has *privately* used a misappropriated trade secret.<sup>89</sup> For instance, courts routinely grant injunctions forbidding misappropriation defendants from manufacturing products protected by trade secrets and ordering misappropriation defendants to return trade secret documents to plaintiffs.<sup>90</sup> However, if and when a defendant publicly discloses a trade secret, injunctive relief is no longer available because the disclosed information ceases to be a trade secret.<sup>91</sup> Consequently, where a defendant misappropriates and privately uses a trade secret, a plaintiff can seek to enjoin the defendant from continuing to use the trade secret. However, if the defendant publicly discloses the trade secret information, then the trade secret is destroyed and the plaintiff can sue only for damages.

#### 15-3:4.1 Preliminary Injunctive Relief

Preliminary injunctions are available in misappropriation cases where the plaintiff can satisfy the generally applicable New York preliminary injunction standard.<sup>92</sup> Specifically, a misappropriation plaintiff must establish (i) a likelihood of success on the merits; (ii) a danger of irreparable harm; and (iii) a balance of the equities in

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<sup>89</sup> See, e.g., *Marcone APW, LLC v. Servall Co.*, 925 N.Y.S.2d 752, 754 (N.Y. App. Div. 2011) (reviewing a misappropriation action “seeking damages and a permanent injunction” for misappropriation of trade secrets).

<sup>90</sup> E.g., *Gen. Aniline & Film Corp. v. Frantz*, 274 N.Y.S.2d 634, 634 (N.Y. Sup. Ct. 1966) (“Such judgment among other things grants a permanent injunction, restraining the defendants from manufacturing and selling an electrostatic office copying machine containing certain trade secrets found to have been misappropriated from the plaintiff.”).

<sup>91</sup> *M & T Chems., Inc. v. Int’l Bus. Machs. Corp.*, 403 F. Supp. 1145, 1149 (S.D.N.Y. 1975) (“[Public disclosure of the trade secret] totally destroyed any value the trade secret might have had, and the only action available to plaintiff was one for misappropriation and complete destruction of the secret upon such issuance, and not for any future or continued use by defendants.”), *aff’d mem.*, 542 F.2d 1165 (2d Cir. 1976).

<sup>92</sup> E.g., *Marcone APW, LLC v. Servall Co.*, 925 N.Y.S.2d 752, 756 (N.Y. App. Div. 2011) (upholding a preliminary injunction for misappropriation of customer lists); *Sylmark Holdings Ltd. v. Silicone Zone Int’l Ltd.*, 783 N.Y.S.2d 758, 771-72 (N.Y. Sup. Ct. 2004) (granting a preliminary injunction for misappropriation of trade secret gloves).

his favor.<sup>93</sup> New York courts recognize that “preliminary injunction is a drastic remedy and will only be granted if the movant establishes a clear right to it under the law.”<sup>94</sup> However, in the context of trade secret misappropriation claims, proof of actual misappropriation or inevitable disclosure can help to satisfy this heavy burden.

### 15-3:4.1a Actual Misappropriation

For purposes of proving entitlement to a preliminary injunction, irreparable harm is presumed where a plaintiff can show actual misappropriation of trade secrets.<sup>95</sup> This rule is grounded in the fact that a “‘trade secret once lost is, of course, lost forever’ and, as a result, such a loss ‘cannot be measured in money damages.’”<sup>96</sup> That is, New York courts understand that there is a risk that a misappropriation defendant will (unconsciously, accidentally, or purposely) publicly disclose protected information. Because such disclosure would irrevocably destroy the trade secret, New York courts hold that a showing of actual misappropriation proves the risk of disclosure, and therefore irreparable harm.<sup>97</sup>

### 15-3:4.1b Doctrine of Inevitable Disclosure

A plaintiff who cannot show actual misappropriation may still be entitled to certain presumptions (discussed below) under the “doctrine of ‘inevitable disclosure.’”<sup>98</sup> Inevitable disclosure is

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<sup>93</sup> *Aetna Ins. Co. v. Capasso*, 75 N.Y.2d 860, 862 (1990) (“The trial court properly noted that in order to be entitled to a preliminary injunction, plaintiffs had to show a probability of success, danger of irreparable injury in the absence of an injunction, and a balance of the equities in their favor.”); see also *Celauro v. 4C Foods Corp.*, 30 Misc. 3d 1204(A) (table), 2010 N.Y. Slip Op. 52264(U), at \*7 (N.Y. Sup. Ct. 2010), *aff’d*, 931 N.Y.S.2d 250 (N.Y. App. Div. 2011); *Ryan Pierce Grp., Inc. v. Brown*, 28 Misc. 3d 1207(A) (table), 2010 N.Y. Slip Op. 51205(U), at \*7-8 (N.Y. Sup. Ct. 2010).

<sup>94</sup> *Kerin v. Premium Pursuit Consulting Grp., LLC*, 30 Misc. 3d 1210(A) (table), 2010 N.Y. Slip Op. 52337(U), at \*7 (N.Y. Sup. Ct. 2010).

<sup>95</sup> See *Sylmark Holdings Ltd. v. Silicone Zone Int’l Ltd.*, 783 N.Y.S.2d 758, 772 (N.Y. Sup. Ct. 2004); see also *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 628 (E.D.N.Y. 1996) (“It is clear that irreparable harm is presumed where a trade secret has been misappropriated.”); *L-3 Commc’ns Corp. v. Kelly*, 809 N.Y.S.2d 482 (table), 2005 WL 3304130, at \*4 (N.Y. Sup. Ct. 2005), *aff’d*, 829 N.Y.S.2d 568 (N.Y. App. Div. 2007).

<sup>96</sup> *Lumex, Inc. v. Highsmith*, 919 F. Supp. 624, 628 (E.D.N.Y. 1996) (citation omitted); see also *Norbrook Labs., Ltd. v. G.C. Hanford Mfg. Co.*, 297 F. Supp. 2d 463, 492 (N.D.N.Y. 2003).

<sup>97</sup> The standard for demonstrating actual infringement is discussed in detail in § 15-3:1.

<sup>98</sup> *Ikon Office Solutions, Inc. v. Usherwood Office Tech., Inc.*, 875 N.Y.S.2d 820 (table), 2008 WL 5206291, at \*7 (N.Y. Sup. Ct. 2008).

established where a plaintiff shows that, absent injunctive relief, disclosure of the trade secret to third parties by the defendant will occur at some point in the future.<sup>99</sup> Though not limited to this situation, inevitable disclosure typically arises when employees with knowledge of an employer's trade secrets go to work for a competitor.<sup>100</sup> In the usual case, the employer argues that despite the employee's promises and intentions not to reveal the employer's trade secrets to the competitor, disclosure will inevitably occur given the employees' conflicting interests.

Courts have expressed varying opinions regarding the effect of proving inevitable disclosure. At least one court has held that showing a high probability of inevitable disclosure of trade secrets creates a presumption of irreparable harm.<sup>101</sup> Another line of cases suggests that proof of inevitable disclosure gives rise to a presumption of likelihood of success.<sup>102</sup> Still other courts have stated that the inevitable disclosure doctrine is disfavored or even inapplicable in New York.<sup>103</sup> Thus, while proof of inevitable disclosure certainly bolsters a plaintiff's arguments in favor of a preliminary injunction, plaintiffs should not rely too heavily on the doctrine.

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<sup>99</sup> See *Ikon Office Solutions, Inc. v. Usherwood Office Tech., Inc.*, 875 N.Y.S.2d 820 (table), 2008 WL 5206291, at \*7 (N.Y. Sup. Ct. 2008).

<sup>100</sup> See *Ikon Office Solutions, Inc. v. Usherwood Office Tech., Inc.*, 875 N.Y.S.2d 820 (table), 2008 WL 5206291, at \*7 (N.Y. Sup. Ct. 2008).

<sup>101</sup> *EarthWeb, Inc. v. Schlack*, 71 F. Supp. 2d 299, 309 (S.D.N.Y. 1999) ("It is also possible to establish irreparable harm based on the inevitable disclosure of trade secrets.")

<sup>102</sup> See, e.g., *Ikon Office Solutions, Inc. v. Usherwood Office Tech., Inc.*, 875 N.Y.S.2d 820 (table), 2008 WL 5206291, at \*7 (N.Y. Sup. Ct. 2008) ("To the extent that plaintiff seeks to restrain the individual defendants from soliciting their former clients under a trade secret theory without proof of an actual misappropriation, IKON necessarily relies on the doctrine of 'inevitable disclosure', which is implicated where an employee's new job duties inevitably will lead to the use of his former employer's trade secrets."); *DoubleClick Inc. v. Henderson*, No. 116914/97, 1997 WL 731413, at \*5 (N.Y. Sup. Ct. 1997) ("Based on evidence of actual misappropriation ... DoubleClick has adequately demonstrated likelihood of success. ... This finding is bolstered by the fact that there is a high probability of 'inevitable disclosure' of trade secrets in this case.")

<sup>103</sup> See, e.g., *Marietta Corp. v. Fairhurst*, 754 N.Y.S.2d 62, 65-66 (N.Y. App. Div. 2003) ("[W]here there is no actual theft of a trade secret, the court, in applying the doctrine of inevitable disclosure is 'asked to bind the employee to an implied-in-fact covenant' not to compete. ... As no restrictive covenant was in existence here and our well entrenched state public policy considerations disfavor such agreements, the doctrine of inevitable disclosure is disfavored as well." (emphasis added)); *First Empire Sec., Inc. v. Miele*, 851 N.Y.S.2d 57 (table), 2007 WL 2894245, at \*5 (N.Y. Sup. Ct. 2007) ("At the present time New York does not recognize the doctrine of 'inevitable disclosure' of confidential or proprietary information to support the issuance of a preliminary injunction.")

## 15-4 PROTECTING TRADE SECRETS DURING LITIGATION

An obvious but sometimes overlooked aspect of trade secret litigation is that the trade secrets at issue must generally be provided by the plaintiff to the defendant during discovery. Were that not the case, the defendant would be unable to evaluate the trade secret at issue and plan a defense.<sup>104</sup> This can result in some discomfort to a plaintiff: the prevailing question, usually from those on the "business" (as opposed to the legal) side of a company, is why the company's highly valuable and sensitive trade secrets must be disclosed to the defendant that (in the company's view) "stole" the trade secrets. The standard response—which is often an explanation of the modern practice of discovery—generally does little to ease the discomfort. Defendants, too, are often required to disclose their trade secrets, either by way of discovery requests from a plaintiff or in an attempt to prove that the allegedly misappropriated trade secret was not used by the defendant in competition. This is often the case in cases involving computer programs and source code: it is not unusual for a party's entire source code database for a product or products to be provided in discovery to the opposing party's expert for probing review.

Fortunately, New York courts provide at least two safeguards to lessen the anxiety of turning trade secrets over to an adverse party.

### 15-4:1 Confidentiality Orders

Litigants commonly enter into confidentiality agreements to protect sensitive documents from public disclosure during discovery, and this is an effective way to prevent public dissemination of trade secrets.<sup>105</sup> Confidentiality agreements may have multiple tiers of

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<sup>104</sup> See, e.g., *Am. Seal-Kap Corp. v. Smith Lee Co.*, 295 N.Y.S. 381, 381-82 (N.Y. Sup. Ct. 1937) ("In order for the defendants to properly defend this action, it is necessary for them to have sufficient information of the plaintiffs' secret processes so that they may be in a position to compare and differentiate the same with their own for use.")

<sup>105</sup> See, e.g., *Matter of Bernstein v. On-Line Software Int'l, Inc.*, 648 N.Y.S.2d 602, 603 (N.Y. App. Div. 1996) ("The panel also issued a confidentiality order with respect to certain subpoenaed material obtained from a competitor in the computer software industry, which restricted access to the material to outside counsel and the experts retained by the parties. Such 'attorneys eyes only' orders have been upheld in order to protect the confidentiality of trade secrets obtained in the course of discovery.") (citing *Brown Bag Software v. Symantec Corp.*, 960 F.2d 1465, 1469 (9th Cir. 1992)).

protection; for example, documents that are confidential but not competitively sensitive may be disclosed to the parties and their counsel, but documents that are competitively sensitive may be restricted to "attorneys' eyes only."<sup>106</sup>

### **15-4:2 In Camera Review and Sealing of Records**

A litigant concerned about the disclosure of trade secrets may request in camera review and redaction as appropriate.<sup>107</sup> A litigant may also move to seal documents that are or contain trade secrets.<sup>108</sup> Despite the "fundamental precept that trials and judicial proceedings generally shall be open to public view," New York courts may seal the record in a trade secrets case when such exclusion is necessary or appropriate to the protection of confidential trade information.<sup>109</sup>

## **15-5 TRADE SECRETS AND NEW YORK'S FREEDOM OF INFORMATION LAW**

### **15-5:1 FOIL Generally**

New York's freedom of information law, known as "FOIL," was originally enacted in 1974.<sup>110</sup> FOIL's legislative declaration states that "a free society is maintained when government is responsive and responsible to the public, and when the public is aware of governmental actions. The more open a government is with its

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<sup>106</sup> Additionally, a variety of other protective means have been fashioned to maintain the confidentiality of trade secret information that is the subject of litigation. See, e.g., *Tymko v. K-Mart Discount Stores*, 429 N.Y.S.2d 119, 119 (N.Y. App. Div. 1980) (ordering counsel for the defendant not to disclose a trade secret tanning lotion formula to the defendant); *Snyder v. Parke, Davis & Co.*, 391 N.Y.S.2d 579, 580 (N.Y. App. Div. 1977) (barring counsel from disclosing the opposing side's "trade or business secrets" to their clients).

<sup>107</sup> See *Danco Labs., Ltd. v. Chem. Works of Gedeon Richter, Ltd.*, 711 N.Y.S.2d 419, 424-25 (N.Y. App. Div. 2000).

<sup>108</sup> See *Matter of N.Y. Tel. Co. v. Pub. Serv. Comm'n of State of N.Y.*, 56 N.Y.2d 213, 217 (1982) ("The Public Service Commission ... has authority to issue orders protecting the confidentiality of trade secrets received in evidence.").

<sup>109</sup> *Matter of Crain Commc'ns, Inc. v. Hughes*, 521 N.Y.S.2d 244, 244-45 (N.Y. App. Div. 1987) ("The common law right to inspect and copy judicial records is not absolute, particularly where such records are a source of business information which might harm a litigant's competitive standing, and the determination of whether access to such records is appropriate is best left to the sound discretion of the trial court, a discretion to be exercised in light of the relevant facts and circumstances of the particular case.").

<sup>110</sup> Public Officers Law, Ch. 47, Art. 6, §§ 84-90.



citizenry, the greater the understanding and participation of the public in government."<sup>111</sup>

A detailed discussion of FOIL is beyond the scope of this chapter. Generally, though, FOIL permits open access to public agency records<sup>112</sup> and requires state and municipal agencies to make available for public inspection and copying all records, subject to certain exemptions.<sup>113</sup> Members of the public may request access to such records and, again, subject to certain limitations, the agency has an obligation to disclose them.<sup>114</sup>

Although FOIL advances a legitimate and admirable public purpose, its transparency can pose a threat to the owners of trade secrets. When the owners of trade secrets provide their trade secrets—perhaps involuntarily, such as during the course of an agency inquiry or investigation—to a public agency, they become subject to a FOIL request and potential public disclosure. Indeed, competitors have been known to exploit FOIL requests precisely to discover the secrets of their competitors.<sup>115</sup> Because public disclosure, were it permitted, could eviscerate the value of the trade secret, destroying the competitive advantage it conferred upon its owner, there is an exception in FOIL to protect trade secrets.

### 15-5:2 Exemption from Disclosure

FOIL explicitly excepts from disclosure records or portions of records that “are trade secrets or are submitted to an agency by a commercial enterprise or derived from information obtained from a commercial enterprise and which if disclosed would cause substantial injury to the competitive position of the subject

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<sup>111</sup> Public Officers Law, Ch. 47, Art. 6, § 84.

<sup>112</sup> See Public Officers Law, Ch. 47, Art. 6, § 87.

<sup>113</sup> See Public Officers Law, Ch. 47, Art. 6, § 87(2); see also *Matter of N.Y. Times Co. v. City of N.Y. Fire Dep't*, 4 N.Y.3d 477, 483 (2005); *Matter of Verizon N.Y., Inc. v. Mills*, 875 N.Y.S.2d 572, 574-75 (N.Y. App. Div. 2009) (citing *Matter of Data Tree, LLC v. Romaine*, 9 N.Y.3d 454, 462 (2007)).

<sup>114</sup> See, e.g., Public Officers Law, Ch. 47, Art. 6, § 87(2) (“Each agency shall, in accordance with its published rules, make available for public inspection and copying all records, except that such agency may deny access to records or portions thereof that [fall within certain enumerated exceptions].”)

<sup>115</sup> See *Matter of Verizon N.Y., Inc. v. Mills*, 875 N.Y.S.2d 572, 574 (N.Y. App. Div. 2009) (describing a FOIL request made by Cablevision for Verizon’s franchise report).

enterprise."<sup>116</sup> Thus, a trade secret owner can petition to block a FOIL request where both (1) the requested material constitutes a trade secret; and (2) disclosure of the trade secret would cause a "competitive injury" to the trade secret owner. The standard for determining whether information constitutes a trade secret is discussed in detail in Section 15-2.

New York courts have adopted the federal Freedom of Information Act ("FOIA") test for determining whether competitive injury has occurred.<sup>117</sup> Specifically, competitive injury is established where the trade secret information has value to the trade secret owner and his competitors.<sup>118</sup> "Where [FOIL] disclosure is the sole means by which competitors can obtain the requested information, the inquiry ends here."<sup>119</sup> However, where "the material is available from other sources at little or no cost, its disclosure is unlikely to cause competitive damage to the submitting commercial enterprise."<sup>120</sup> Thus, because a secret method of manufacturing that enables its owner to manufacture superior products has substantial value to both its owner and his competitors, its disclosure would cause a competitive injury. By contrast, a secret manufacturing method less efficient than generally known methods would have little value to its owner or his competitors, and therefore its disclosure would arguably not cause a competitive injury.

This exemption and the other enumerated exemptions are, however, to be narrowly interpreted so that the public is granted maximum access to the records of government.<sup>121</sup> The entity claiming an exemption must show that the material for which it

<sup>116</sup> Public Officers Law, Ch. 47, Art. 6, § 87(2)(d).

<sup>117</sup> *Matter of N.Y. Racing Ass'n v. N.Y. Racing & Wagering Bd.*, 863 N.Y.S.2d 540, 544 (N.Y. Sup. Ct. 2008).

<sup>118</sup> *Matter of City of Schenectady v. O'Keefe*, 856 N.Y.S.2d 281, 283 (N.Y. App. Div. 2008) (finding that competitive injury was established where the information had "significant commercial value not only to the utility, but to potential competitors as well"); *Matter of N.Y. Racing Ass'n v. N.Y. Racing & Wagering Bd.*, 863 N.Y.S.2d 540, 544-45 (N.Y. Sup. Ct. 2008).

<sup>119</sup> *Matter of N.Y. Racing Ass'n v. N.Y. Racing & Wagering Bd.*, 863 N.Y.S.2d 540, 544 (N.Y. Sup. Ct. 2008) (quoting *Encore Coll. Bookstores, Inc. v. Auxiliary Serv. Corp. of the State Univ. of N.Y. at Farmingdale*, 87 N.Y.2d 410, 420 (1995)).

<sup>120</sup> *Matter of N.Y. Racing Ass'n v. N.Y. Racing & Wagering Bd.*, 863 N.Y.S.2d 540, 544 (N.Y. Sup. Ct. 2008).

<sup>121</sup> *Matter of Data Tree, LLC v. Romaine*, 9 N.Y.3d 454, 462 (2007); accord *Matter of Markowitz v. Serio*, 11 N.Y.3d 43, 51 (2008); *Matter of Capital Newspapers, Div. of Hearst Corp. v. Whalen*, 69 N.Y.2d 246, 252 (1987).

seeks an exemption “falls squarely within the ambit of one of the statutory exemptions”<sup>122</sup> and must articulate a “particularized and specific justification for denying access.”<sup>123</sup> Moreover, the party seeking the exemption must “present specific, persuasive evidence that disclosure will cause it to suffer a competitive injury; it cannot merely rest on a speculative conclusion that disclosure might potentially cause harm.”<sup>124</sup> As such, it is well established that affidavits that merely parrot the elements of the pertinent test for exemption are insufficient to meet its burden of proof under FOIL.<sup>125</sup> Practitioners petitioning for exemptions to FOIL are advised to describe in detail the trade secret they seek to protect and the basis of its value to its owner and his competitors.

Trade secret owners should note, however, that even where the requirements of the trade secrets FOIL exception are established, the state agency retains the discretion to disclose trade secret information.<sup>126</sup> Specifically, FOIL states only that the state agency “may deny access to records” where the trade secrets exception is established.<sup>127</sup> New York courts have explicitly confirmed this loophole.<sup>128</sup> Thus, while the trade secrets exemption is a valuable tool for protecting secrets disclosed to government agencies, it is imperfect. As such, a trade secret owner’s safest course is to avoid any unnecessary disclosure of trade secrets to government agencies where possible.

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<sup>122</sup> *Matter of Verizon N.Y., Inc. v. Bradbury*, 837 N.Y.S.2d 291, 293 (N.Y. App. Div. 2007); see *Matter of Markowitz v. Serio*, 11 N.Y.3d 43, 50-51 (2008).

<sup>123</sup> *Matter of Verizon N.Y., Inc. v. Bradbury*, 837 N.Y.S.2d 291, 293 (N.Y. App. Div. 2007); accord *Matter of Bahnken v. N.Y. City Fire Dep’t*, 794 N.Y.S.2d 312, 314 (N.Y. App. Div. 2005).

<sup>124</sup> *Matter of Markowitz v. Serio*, 11 N.Y.3d 43, 51 (2008).

<sup>125</sup> *Matter of Physicians Comm. for Responsible Med. v. Hogan*, 918 N.Y.S.2d 400 (table), 2010 WL 4536802, at \*12 (N.Y. Sup. Ct. 2010); see *Church of Scientology of N.Y. v. N.Y.*, 46 N.Y.2d 906, 907-08 (1979); see also *Matter of W. Harlem Bus. Grp. v. Empire State Dev. Corp.*, 13 N.Y.3d 882, 885 (2009) (finding “conclusory characterizations” insufficient to establish the right to the trade secrets exemption).

<sup>126</sup> Public Officers Law, Ch. 47, Art. 6, § 87(2)(a).

<sup>127</sup> Public Officers Law, Ch. 47, Art. 6, § 87(2) (emphasis added).

<sup>128</sup> *Verizon N.Y., Inc. v. Devita*, 879 N.Y.S.2d 140, 141 (N.Y. App. Div. 2009) (“municipalities retain discretion under FOIL to disclose Verizon’s quarterly franchise reports even if the reports fall under an exemption”); *Verizon N.Y., Inc. v. Mills*, 901 N.Y.S.2d 903 (table), 2007 WL 6847312, at \*4 (N.Y. Sup. Ct. 2007) (“[T]he court rejects petitioner’s claim that because the quarterly report falls under FOIL’s competitive injury exemption, the Village is statutorily barred from disclosing the report. The Village clearly has the discretion to disclose the report.”), *aff’d*, 875 N.Y.S.2d 572 (N.Y. App. Div. 2009).