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**(TRADE) SECRETS, SECRETS ARE NO FUN—  
ESPECIALLY WHEN DISCLOSED THROUGH FOIA  
REQUESTS TO EVERYONE**

DANIEL B. GOLDMAN\*

Cite as: Daniel B. Goldman, *(Trade) Secrets, Secrets Are No Fun—Especially When Disclosed Through FOIA Requests to Everyone*, 3 SEVENTH CIRCUIT REV. 690 (2008), at <http://www.kentlaw.edu/7cr/v3-2/goldman.pdf>.

INTRODUCTION

Though trade secrets began as creatures of the common law, they first achieved widespread acceptance as valuable intellectual property after their incorporation into the Restatement of Torts.<sup>1</sup> Forty years later, The Uniform Trade Secret Act (UTSA) slightly modified the Restatement's definition.<sup>2</sup> Nearly every state has now adopted its own trade secrets act that is substantively similar to the UTSA.<sup>3</sup>

The Freedom of Information Act (FOIA) was enacted to serve policies essentially antithetical to those of trade secrets—allowing individuals to access records collected by governmental agencies.<sup>4</sup> While the FOIA contains a provision exempting trade secrets from

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\* J.D. candidate, May 2008, Chicago-Kent College of Law, Illinois Institute of Technology; B.S. in Physics and B.S. in Astronomy, University of Illinois Champaign-Urbana, 2004.

<sup>1</sup> See RESTATEMENT OF TORTS § 757 cmt. b (1939).

<sup>2</sup> UNIFORM TRADE SECRETS ACT (1979). The National Conference of Commissioners on Uniform State Laws drafted the UTSA at the request of the American Bar Association.

<sup>3</sup> See 2 MELVIN JAGER, TRADE SECRETS LAW § 12.1 (2007).

<sup>4</sup> Freedom of Information Act, 5 U.S.C. § 552 (2000).

public FOIA requests,<sup>5</sup> invocation of the exemption discretionary on the part of the agency. The purported trade secret owner has no power to influence the agency's decision.<sup>6</sup> Consequently, competitors in business occasionally are able to obtain information through a FOIA request considered to be trade secrets by their owners. This type of situation raises a legal question about whether a trade secret can continue to exist after its disclosure by the government.

Patriot Homes, Inc. and Forest River Housing, Inc. are competitors in the modular housing industry.<sup>7</sup> In *Patriot Homes, Inc. v. Forest River Housing, Inc.*,<sup>8</sup> the defendant admitted that the plaintiff's former employees took information from the plaintiff after being hired by the defendant, but argued that any misbegotten information was no longer a trade secret after showing it to be ascertainable through FOIA requests. While the Seventh Circuit rightfully vacated an impermissibly vague preliminary injunction issued by the lower court,<sup>9</sup> the parties continue to disagree about whether a trade secret can exist where nearly all of the allegedly secret information is available through FOIA requests to state agencies.

The first section of this paper will discuss the facts, procedural posture, and issues raised by *Patriot Homes*. This will provide an important framework through which to view the subsequent analysis of the two seemingly disparate legal regimes implicated by the case—trade secret law and the Freedom of Information Act.

The second section will analyze the various statutory schemes under which trade secrets have been accorded legal protection. The most well-established common law trade secret definition derives from the 1939 Restatement of Torts. That definition was eventually

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<sup>5</sup> 5 U.S.C. § 552(b)(4).

<sup>6</sup> *Chrysler Corp. v. Brown*, 441 U.S. 281, 293 (1979).

<sup>7</sup> Modular homes are houses that are divided into multiple modules, or sections, which are manufactured in a remote facility and then delivered to their intended site of use. The modules are assembled into a single residential building using either a crane or trucks. Typically, modular dwellings are built to local state or council code, so dwellings built in a given manufacturing facility will have differing construction standards depending on the final destination of the modules.

<sup>8</sup> *Patriot Homes, Inc. v. Forest River Hous., Inc.*, 512 F.3d 412 (7th Cir. 2008).

<sup>9</sup> *Id.* at 416.

supplemented by interpretations in both the Uniform Trade Secret Act (UTSA) and the Restatement (Third) of Unfair Competition. All of the states within the Seventh Circuit have adopted the UTSA, though each state's trade secret law contains its own subtle differences.

The third section considers the Freedom of Information Act's seemingly conflicting goals—providing transparency to governmental records and ensuring that private entities are not harmed by entrusting their records with the government. This paper offers analysis of the FOIA's Exemption 4, designed to protect trade secrets and confidential information from disclosure to the public. Finally, this section discusses the individual state FOIA statutes within the Seventh Circuit and their trade secret exemptions, which provide good examples for the range of methods that states have chosen to address the contrasting areas of law.

Finally, the last section of this paper will discuss some policy considerations related to several foreseeable legal conflicts arising from FOIA's policy of maximum disclosure of agency records. Included is an analysis of the likely outcome of *Patriot Homes*' trade secret issue and proposals that would afford those submitting information to government agencies greater control over their privacy without substantially diminishing the public's access to government records.

### I. *PATRIOT HOMES, INC. V. FOREST RIVER HOUSING, INC.*

In 2004, Forest River Housing attempted to purchase Patriot Homes, a Midwest company that builds modular homes.<sup>10</sup> Unsuccessful in its attempt to purchase the company, Forest River hired away four of Patriot's management level employees, formed a new company called Sterling Homes, and entered the modular housing industry.<sup>11</sup> Prior to leaving Patriot, the four departing employees

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<sup>10</sup> *Id.* at 413.

<sup>11</sup> *Id.* Prior to entering the modular housing industry, Forest River primarily focused on selling recreational vehicles. Forest River, Inc. company profile, <http://www.forestriverinc.com/nd/default22.asp?nav=housing&page=aboutus> (last visited May 1, 2008).

copied information from Patriot's computers and brought those materials with them to Sterling.<sup>12</sup>

According to Patriot, Sterling then used the purloined information to build and sell homes that were identical to those sold by Patriot.<sup>13</sup> Therefore, in its suit against Sterling, Patriot claimed, *inter alia*, that Sterling had misappropriated its trade secrets.<sup>14</sup> Patriot therefore sought injunctions against, and damages from, Sterling and Patriot's four former employees.<sup>15</sup>

Like manufacturers in many industries, modular home manufacturers must obtain approval from the states in which they desire to sell their homes.<sup>16</sup> In order to obtain that approval, companies must submit a wide variety of technical data to the appropriate state agencies. As such, in order to sell its products in Indiana, Patriot submitted to state agencies a great deal of the information in which it later claimed trade secret protection.<sup>17</sup>

While the foregoing facts follow a pattern very common to many trade secret cases, *Patriot Homes* is somewhat unique due to the character of Sterling's defense to the trade secret misappropriation claim. Sterling did not deny that Patriot's former employees took useful information from Patriot's computers before leaving the company.<sup>18</sup> Nor did Sterling deny that it used that information.<sup>19</sup> Instead, Sterling argued that all of Patriot's alleged trade secrets and confidential information were readily ascertainable and in the public domain so that Sterling's use of the information did not constitute trade secret misappropriation.<sup>20</sup> In supporting this defense, Sterling provided thousands of pages of documents, submitted by Patriot to various state agencies, which Sterling obtained through FOIA requests

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<sup>12</sup> *Patriot Homes, Inc.*, 512 F.3d at 413.

<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> *Id.*

<sup>16</sup> *Id.* at 414.

<sup>17</sup> *Id.*

<sup>18</sup> *Id.*

<sup>19</sup> *Id.*

<sup>20</sup> *Id.*

after Patriot initiated the litigation.<sup>21</sup> Those documents contained the vast majority of the information that Patriot had claimed as its trade secrets.<sup>22</sup>

After the district court for the Northern District of Indiana issued a preliminary injunction against Sterling, Sterling submitted FOIA requests to various state agencies, in Indiana and elsewhere, requesting copies of all the documents that Patriot submitted in order to obtain approval to sell its homes in those states.<sup>23</sup> In response to Sterling's request, government agencies in Indiana, along with agencies in all of the other states that received requests from Sterling, produced thousands of documents, comprising the bulk Patriot's purported trade secrets and confidential information.<sup>24</sup> Though Patriot wrote each state requesting that they take remedial action to preserve the confidential nature of the information, none of the state agencies indicated that it would comply or that the documents were improperly produced.<sup>25</sup>

Patriot contended that the information it submitted to the various state agencies still constituted proprietary trade secrets.<sup>26</sup> Sterling, on the other hand, continued to assert that Patriot could claim trade secret protection only for information that was not readily ascertainable.<sup>27</sup> In light of the results from its FOIA request, Sterling argued that the vast majority of Patriot's asserted trade secrets could no longer receive statutory protection from the Indiana Uniform Trade Secrets Act (IUTSA) because it was readily available.<sup>28</sup>

Procedurally, *Patriot Homes* reached the Seventh Circuit on interlocutory appeal to review whether Patriot's preliminary injunction was too vague for a court to ensure proper enforcement.<sup>29</sup> The injunction enjoined Sterling from "using, copying, disclosing, converting, appropriating . . . or otherwise exploiting Patriot's

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<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

<sup>24</sup> *Id.*

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

<sup>28</sup> *Id.*

<sup>29</sup> *Id.*

copyrights, confidential information, trade secrets, or computer files.”<sup>30</sup> It also required Sterling to “certify that copied data and materials of Patriot’s property, confidential information and trade secrets on computer files and removable media . . . have been deleted or rendered unusable.”<sup>31</sup>

While Sterling did not take issue with the injunction’s prohibition on using the computer files taken from Patriot’s computer, it asserted that the remainder of the injunction was too vague because it did not define Patriot’s “confidential information and trade secrets,” and thereby failed to give Sterling notice as to which actions would violate the injunction.<sup>32</sup>

As will be discussed in greater detail in the proceeding section, the IUTSA prohibits using another’s trade secrets but also requires that information not be publicly known or readily ascertainable in order to be protectable as a trade secret.<sup>33</sup> In light of the results of Sterling’s FOIA requests, the appellate court held that Patriot’s injunction did not clarify what the confidential information or trade secrets were.<sup>34</sup> The district court essentially needed to determine whether the results of Sterling’s FOIA requests were still protectable trade secrets or had become public information.<sup>35</sup> “Sterling cannot tell, and neither can we, whether using the information it obtained through the FOIA requests would violate the injunction.”<sup>36</sup> The Seventh Circuit previously held, as have many other circuits, that the protectable substance of a trade secret must be defined in order to determine the proper scope of an injunction.<sup>37</sup> If it is not, the injunction will not be detailed or specific

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<sup>30</sup> *Id.*

<sup>31</sup> *Id.*

<sup>32</sup> *Id.*

<sup>33</sup> UNIFORM TRADE SECRETS ACT, §§ 1(4)(i)-(ii) (1985).

<sup>34</sup> *Patriot Homes*, 512 F.3d at 415-16.

<sup>35</sup> *Id.*

<sup>36</sup> *Id.* at 415.

<sup>37</sup> *See Am. Can v. Mansukhani*, 742 F.2d 314, 326 (7th Cir. 1984) (holding that the district court erred by failing to consider what information about plaintiff’s formulas were public knowledge in determining the scope of a preliminary injunction); *see also E.W. Bliss Co. v. Struthers-Dunn, Inc.*, 408 F.2d 1108, 1115-17 (8th Cir.1969) (trade secret injunction too vague); *cf. Syntex Ophthalmics, Inc. v.*

enough to ensure proper enforcement, through contempt proceedings or otherwise.<sup>38</sup>

It can be difficult at the preliminary stages of a case to determine what information actually constitutes a trade secret or confidential information. Ultimately, though, a district court still must make that determination in order to put a defendant on notice regarding its responsibilities pursuant to a preliminary injunction.<sup>39</sup> The Seventh Circuit, therefore, vacated the district court's preliminary injunction and remanded the case for proceedings consistent with the opinion.<sup>40</sup>

During the time that Sterling's interlocutory appeal was pending, the Northern District of Indiana heard Sterling's motion for partial summary judgment on Patriot's trade secret claims.<sup>41</sup> Sterling based its motion on its defense that Patriot's asserted trade secrets were readily ascertainable by proper means.<sup>42</sup> The district court was unreceptive to Sterling's arguments and denied its motion for three reasons. First, not *all* of Patriots asserted trade secrets were contained in Sterling's FOIA responses.<sup>43</sup> Second, because "it is 'no defense to claim that one's product *could* have been developed independently . . . if, in fact it was developed using plaintiff's proprietary designs.'"<sup>44</sup> Finally, the court noted that the data stolen by Patriot's former employees held value independent of the hard copies obtained through FOIA requests, based

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Tsuetaki, 701 F.2d 677, 684 (7th Cir.1983) (upholding a preliminary injunction that gave notice of the restrained acts and provided a procedure for interpreting and applying the injunction and distinguishing between plaintiff's trade secrets and information in the public domain).

<sup>38</sup> See Fed. R. Civ. P. 65(d). The Federal Rules of Civil Procedure require that injunctions "describe in reasonable detail—and not by referring to the complaint or other document—the act or acts restrained or required." *Id.*

<sup>39</sup> Patriot Homes, Inc. v. Forest River Hous., 512 F.3d 412, 415 (7th Cir. 2008).

<sup>40</sup> *Id.* at 416.

<sup>41</sup> Patriot Homes, Inc. v. Forest River Hous., Inc., No. 3:05 CV 471 AS, 2007 WL 2782272 at \*1 (N.D. Ind. Sept. 20, 2007)

<sup>42</sup> *Id.* at \*2.

<sup>43</sup> *Id.*

<sup>44</sup> *Id.* at \*3 (citing Amoco Prod. Co. v. Laird, 622 N.E.2d 912 (Ind. 1993)) (emphasis added).

solely on its medium, because the electronic format lends itself to more efficient engineering and copying than does the paper format.<sup>45</sup>

While the court ultimately was not receptive to the specific defense raised by the defendant, *Patriot Homes* highlights the inherent potential for conflict between trade secret law and FOIA laws. The district court's denial of Sterling's motion does not obviate need for companies like Patriot Homes to be able to protect their trade secrets. Patriot initiated its litigation against Sterling because Patriot's former employees stole confidential information. Sterling's subsequent housing designs too closely resembled Patriot's designs *not* to raise suspicions. Had Sterling originally taken the FOIA route to obtaining Patriot's information, Patriot likely would have had no legal recourse to stop its competitor from using its designs.<sup>46</sup>

Oftentimes, companies are statutorily compelled to disclose information to government agencies whose secrecy is intrinsic to its value.<sup>47</sup> However, due to federal and state FOIA laws, which recognize the societal benefits of transparent governance, companies can, without recourse, lose valuable proprietary information to their competitors.<sup>48</sup> *Patriot Homes* is merely one example of the possible ramifications of the conflict between trade secret law and freedom of information laws.

Just as the Northern District of Indiana, on remand, must now negotiate the seemingly asymptotic relationship between the two areas

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<sup>45</sup> *Id.*

<sup>46</sup> In that situation, Patriot might still have a viable copyright infringement claim relating to its architectural plans, which were also included in Patriot's initial complaint but have yet to be decided. Such copyright claims generally cover only the design elements of plans, however, and not the functional or statutorily required elements. For more on the copyrightability of architectural works, *see generally* WILLIAM PATRY, *PATRY ON COPYRIGHT*, ch. 3, §§ 102-116 (2007).

<sup>47</sup> In Patriot Homes' case, the disclosures were necessary in order to sell their homes in Indiana. *Patriot Homes*, 512 F.3d at 414. Other circumstances where a company might be forced to disclose proprietary information to government agencies include, for example, bids to win government contracts, FDA or EPA reporting requirements, and financial reporting requirements such as those in the Sarbanes-Oxley Act of 2002, Pub.L. 107-204 (2002).

<sup>48</sup> *See* Stephen R. Wilson, *Public Disclosure Policies: Can A Company Still Protect Its Trade Secrets?*, 38 NEW ENG. L. REV. 265, 280-283 (2003-2004).

of law, so too shall this paper analyze the two bodies of law. In order to illuminate the conflict, this paper will first discuss trade secret law in general and then analyze trade secrets' treatment by freedom of information laws.

## II. TRADE SECRETS

The formal protection of confidential business information dates back to Roman law.<sup>49</sup> Both early English cases and early American cases tended to treat the subject as a breach of confidence rather than one that involved property rights.<sup>50</sup> In contrast, treating trade secrets as property is a crucial facet of most modern caselaw on the subject.<sup>51</sup> This remains true even in cases that turn on a defendant's actions—such as breach of good faith—rather than on the nature of the secret itself.<sup>52</sup>

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<sup>49</sup> A. Arthur Schiller, *Trade Secrets and Roman Law: The Actio Servi Corrupti*, 30 COLUM. L. REV. 837 (1930).

<sup>50</sup> See *Peabody v. Norfolk*, 98 Mass. 452 (1868) (emphasizing that confidential disclosures do not destroy a trade secret's requisite secrecy), *Tabor v. Hoffman*, 23 N.E. 12 (N.Y. 1889) (recognizing competitors' right to acquire information through reverse engineering); *Morison v. Moat*, (1851) 68 Eng. Rep. 492 (Ch.) (enforcing a contract between the parties that treated "Morrison's Secret Formula" as a trade secret); *Newberry v. James*, (1817) 35 Eng. Rep. 1011 (Ch.) (denying an injunction because the court was unable to protect a secret not disclosed in court).

<sup>51</sup> See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984) (holding trade secrets to be property protected under the Fifth Amendment). In *Monsanto*, the plaintiff sought compensation under the Fifth Amendment's Takings Clause for the EPA's disclosure, through a response to a FOIA request, of Monsanto's highly valuable trade secrets concerning a pesticide that Monsanto developed. *Id.*

<sup>52</sup> See, e.g. *Smith v. Snap-On Tools Corp.*, 833 F.2d 578, 579 (5th Cir. 1987) (reversing lower court's finding that defendant misappropriated plaintiff's trade secret after finding that the defendant owed the plaintiff no duty of confidence).

## A. *The Restatements and the Uniform Trade Secrets Act*

### 1. The Restatement of Torts

The early trade secret decisions demonstrated that a practical definition of a “trade secret” was developing slowly and haphazardly in the common law. Trade secret law lingered in a somewhat uncertain state when the Restatement of Torts was published in 1939.<sup>53</sup> The Restatement’s treatment of trade secrets became the focus of courts’ attention and helped coalesce trade secret concepts in the common law.<sup>54</sup>

The Restatement defined trade secrets as follows:

A trade secret may consist of 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 how to use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.<sup>55</sup>

The Restatement also qualifies that trade secrets are not single or temporal pieces of information.<sup>56</sup> Rather, “a trade secret is a process . . . for continuous use in the operation of the business.”<sup>57</sup> Courts subsequently held that a bevy of nontechnical subject matter can

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<sup>53</sup> 2 MELVIN JAGER, *TRADE SECRETS LAW* § 3.1 (2007).

<sup>54</sup> *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474-75 (1974) (adopting the Restatement definition of trade secrets).

<sup>55</sup> *RESTATEMENT OF TORTS* § 757, cmt. b (1939).

<sup>56</sup> *Id.*; see also *Lehman v. Dow Jones & Co., Inc.*, 783 F.2d 285, 297-98 (2d Cir. 1986) (citing the Restatement in finding that a trade secret “is not simply information as to single or ephemeral events in the conduct of the business” such as “the amount or other terms of a secret bid for a contract or the salary of certain employees.”).

<sup>57</sup> *RESTATEMENT OF TORTS* § 757, cmt. b (1939).

qualify as trade secrets, including business pricing information,<sup>58</sup> sales data,<sup>59</sup> supplier capabilities,<sup>60</sup> marketing plans,<sup>61</sup> promotional materials,<sup>62</sup> and even some religious texts.<sup>63</sup> Though generally afforded weak protection, courts almost unanimously hold that customer lists can also qualify as trade secrets.<sup>64</sup>

Abstract ideas, though not completely precluded from trade secret protection, often face challenges because it can be difficult for a plaintiff to claim that they possess economic value.<sup>65</sup> A lack of definitiveness may preclude proof of secrecy,<sup>66</sup> a determination of whether the purported secret has been appropriated, or an appropriate formula for relief.<sup>67</sup>

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<sup>58</sup> See *SI Handling Sys, Inc. v. Heisley*, 753 F.2d 1244, 1260 (3d Cir. 1985); *but see Fortna v. Martin*, 323 P.2d 146 (Cal. Dist. Ct. App. 1958) (holding that methods of pricing were not protectable because they were not confidential and therefore not secret).

<sup>59</sup> *Augat, Inc. v. Aegis, Inc.*, 565 N.E.2d 415 (Mass. 1991).

<sup>60</sup> *Sigma Chem. Co. v. Harris*, 794 F.2d 371 (8th Cir. 1986).

<sup>61</sup> *Imi-Tech Corp. v. Gagliani*, 691 F. Supp. 214 (S.D. Cal. 1986).

<sup>62</sup> *Clark v. Bunker*, 453 F.2d 1006 (9th Cir. 1972).

<sup>63</sup> *Religious Tech. Ctr. v. Scott*, 869 F.2d 1306, 1309-10 (9th Cir. 1989) (holding that if scriptural materials pertaining to the Church of Scientology had economic value, they too may qualify as trade secrets).

<sup>64</sup> See *MAI Sys. Corp. v. Peak Computer, Inc.*, 991 F.2d 511 (9th Cir. 1993) (granting trade secret protection to sales lists, field operation manuals, and computer software); *Schiller & Schmidt, Inc. v. Nordisco Corp.*, 969 F.2d 410 (7th Cir. 1992) (mailing lists); *Zoecon Indus. v. Am. Stockman Tag Co.*, 713 F.2d 1174 (5th Cir. 1983) (customer lists); *Allen v. Johar, Inc.*, 308 Ark. 45 (1992) (customer lists do not need to be written down to be trade secrets); *but see Mercer v. C.A. Roberts Co.*, 570 F.2d 1232 (5th Cir. 1978) (denying protection to a “mere list of customers”);

<sup>65</sup> See *Richter v. Westab, Inc.*, 529 F.2d 896 (6th Cir. 1976).

<sup>66</sup> See *Trandes Corp. v. Guy F. Atkinson Co.*, 996 F.2d 655 (4th Cir. 1993).

<sup>67</sup> See *AMP, Inc. v. Fleischhacker*, 823 F.2d 1199, 1203 (7th Cir. 1987) (plaintiff failed to specify the exact nature of the asserted trade secret, relying instead on a long list of areas of general information containing unidentified trade secrets). *AMP* was superseded by the Illinois Trade Secrets Act although the law remains substantively the same. See *PepsiCo, Inc. v. Redmond* 54 F.3d 1262, 1268 (7th Cir. 1995).

Of course, the single most important requirement for a trade secret is that it must actually *be secret*.<sup>68</sup> Without actual secrecy, none of the other elements of trade secret law are relevant. Matters of public or general knowledge in a particular industry cannot comprise trade secrets.<sup>69</sup> Likewise, matters that are publicly disclosed through marketing and sales of goods are not trade secrets, so sales reports and pricing information that might otherwise qualify as trade secrets would not be entitled to protection if that information is readily available to customers or routinely quoted over the telephone.<sup>70</sup>

Additionally, in order for a trade secret to be “used in one’s business,” a trade secret owner must be able to communicate it to his or her employees – total secrecy is not required.<sup>71</sup> The Restatement generalizes that “a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information.”<sup>72</sup>

While some courts found it difficult to devise an exact definition of a trade secret,<sup>73</sup> the Restatement offered six often-cited factors for consideration in determining whether to accord one’s information the status of “trade secret.” Those factors are:

- (1) the extent to which the information is known outside of [the trade secret owner’s] business;
- (2) the extent to which it is known by employees and others involved in [the trade

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<sup>68</sup> RESTATEMENT OF TORTS § 757, cmt. b (1939). This, in essence, defines Sterling’s defense that, regardless of its actions, it could not have misappropriated Patriot’s trade secrets because all of the asserted trade secrets were comprised of information publicly available through FOIA requests. *Patriot Homes, Inc. v. Forest River Hous., Inc.*, No. 3:05 CV 471 AS, 2007 WL 2782272 (N.D. Ind. Sept. 20, 2007).

<sup>69</sup> *Master Records, Inc. v. Backman*, 652 P.2d 1017, 1022 (1982) (en banc).

<sup>70</sup> RESTATEMENT OF TORTS § 757, cmt. b (1939); *see also* *Smith Oil Corp. v. Viking Chem. Co.*, 468 N.E.2d 797 (Ill. App. Ct. 1984).

<sup>71</sup> *Id.*

<sup>72</sup> *Id.*; *see also* *Cent. Plastics Co. v. Goodson*, 537 P.2d 330 (Okla. 1975).

<sup>73</sup> *Cont’l Data Sys., Inc. v. Exxon Corp.*, 638 F. Supp. 432, 442 (E.D. Pa. 1986) (“the law provides no precise definition or litmus test of what constitutes a trade secret”); *see* *Vendo Co. v. Stoner*, 245 N.E.2d 263, 278-79 (Ill. App. Ct. 1969).

secret owner's] business; (3) the extent of measures taken by [the trade secret owner] to guard the secrecy of the information; (4) the value of the information to [the trade secret owner] and to his competitors; (5) the amount of effort or money expended by [the trade secret owner] in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.<sup>74</sup>

The Supreme Court solidified the Restatement definition's standing in the common law when it cited to it in *Kewanee Oil Co. v. Bicron Corp.*<sup>75</sup> The *Kewanee* court summarized the policy rationales for trade secret protection as the "maintenance of standards of commercial ethics and the encouragement of invention,"<sup>76</sup> the efficient exploitation of information by encouraging the dissemination of ideas through confidentiality agreements,<sup>77</sup> and protecting the right to privacy that is threatened when industrial espionage is condoned or made profitable.<sup>78</sup>

## 2. The Uniform Trade Secrets Act

Although the Restatement's treatment of trade secrets gained wide acceptance, the subject of trade secrets was omitted from the Restatement (Second) of Torts. Reacting to that, and a need to address several important aspects of trade secret law that the 1939 Restatement did not cover, such as injunctive relief and the statute of limitations, in

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<sup>74</sup> RESTATEMENT OF TORTS § 757, cmt. b (1939); *see also* *Integrated Cash Mgmt. Services, Inc. v. Digital Transactions, Inc.*, 920 F.2d 171, 173 (2d Cir. 1990); *SI Handling Sys., Inc. v. Heisley* 753 F.2d 1244, 1256 (3d Cir. 1985); *Wilson v. Electro Marine Sys., Inc.*, 915 F.2d 1110, 1115 (7th Cir. 1990) (New York law applied). Additionally, no single factor is sufficient to establish a trade secret. *Chanay v. Chittenden*, 563 P.2d 287, 294 (Ariz. 1977); *Nat'l Rejectors, Inc. v. Trieman*, 409 S.W.2d 1, 19-20 (Mo. 1966).

<sup>75</sup> 416 U.S. 470 (1974).

<sup>76</sup> *Id.* at 481.

<sup>77</sup> *Id.* at 486-87.

<sup>78</sup> *Id.* at 487.

1979 the National Conference of Commissioners on Uniform State Laws approved the Uniform Trade Secrets Act (UTSA).<sup>79</sup>

The UTSA's definition of "trade secrets" departs from that of the Restatement by omitting the requirement that a secret be used "continuously" by a business and is broad enough to include so-called "negative" information.<sup>80</sup> According to the Act, "trade secret" means:

Information, including a formula pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>81</sup>

This definition essentially sets out four requirements that a purported trade secret must meet to fulfill the UTSA's definition.<sup>82</sup> In modified form, the Uniform Trade Secrets Act has thus far been adopted in forty-six states.<sup>83</sup> Among those states are all three that comprise the Seventh Circuit.<sup>84</sup>

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<sup>79</sup> For an extensive commentary on the need for a uniform act and its adoption, see Ramon A. Klitze, *The Uniform Trade Secrets Act*, 64 MARQ. L. REV. 277 (1980).

<sup>80</sup> *Metallurgical Indus., Inc. v. Fourtek, Inc.*, 790 F.2d 1195, 1202-03 (5th Cir. 1986).

<sup>81</sup> UNIFORM TRADE SECRETS ACT, § 1(4)(i)-(ii) (1985).

<sup>82</sup> From this definition, the UTSA requires that a trade secret be (1) information; (2) that derives independent economic value; (3) from not being generally known or readily ascertainable by proper means by others who can obtain economic value from its disclosure or use; and (4) is the subject of reasonable efforts, under the circumstances, to maintain its secrecy. *Id.*

<sup>83</sup> For an extensive list of citations to all forty-seven state trade secret acts, see JAGER, *supra* note 3, § 12.1.

<sup>84</sup> Among other differences, Illinois reworded its remedies provisions eliminating a perceived loophole in the UTSA and making it easier for plaintiffs to receive injunctive relief. *Id.* at § 31.2.

### 3. Restatement (Third) of Unfair Competition

The American Law Institute instead revised its treatment of trade secrets, harmonizing it with the UTSA, and incorporated trade secrets into the Restatement (Third) of Unfair Competition.<sup>85</sup> The new treatment omitted the six factors, opting instead for a more holistic approach to relevant factors such as the monetary value of the purported trade secret, the secrecy and definiteness of the information, and the nature of the defendant's (mis)conduct in obtaining the information.<sup>86</sup> While the Restatement of Torts continues to be cited in many trade secret cases,<sup>87</sup> some courts have begun to recognize and endorse the more recent iteration.<sup>88</sup>

The Restatement (Third) of Unfair Competition defines a trade secret as “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”<sup>89</sup> Notably, however, the Restatement (Third) of Unfair Competition's treatment of trade secrets “is directly applicable only to the imposition of civil liability” and “does not apply . . . in other circumstances not involving civil liability for the appropriation of a trade secret, such as the protection of trade secrets from disclosure under the Freedom of

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<sup>85</sup> RESTATEMENT (THIRD) UNFAIR COMPETITION, ch. 4 §§ 38-45 (1995); *see* *Lehman v. Dow Jones & Co., Inc.*, 783 F.2d 285, 297 n.16 (2d Cir. 1986) (noting that trade secrets were more appropriately incorporated into the Restatement (Third) of Unfair Competition).

<sup>86</sup> *In re Bass*, 113 S.W.3d 735, 739 (Tex. 2003) (holding that the Restatement of Torts' six factors are unnecessary in light of the UTSA and Restatement (Third) of Unfair Competition).

<sup>87</sup> *See Stenstrom Petroleum Servs. Group, Inc. v. Mesch*, 874 N.E.2d 959, 972 (Ill. App. Ct. 2007) (using the Restatement of Torts to inform the court's interpretation of Illinois trade secret law); *Minuteman, Inc. v. Alexander*, 434 N.W.2d 773, 777-78 (Wis. 1989) (noting that while Wisconsin law no longer follows the Restatement of Torts' definition of trade secret, it still is a helpful resource in interpreting trade secret laws).

<sup>88</sup> *In re Bass*, 113 S.W.3d at 740.

<sup>89</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (1995).

Information Act.”<sup>90</sup> This paper’s analysis of the newer Restatement will thus be similarly limited.

Although, by its own terms, the Restatement is not directly applicable to FOIA trade secret issues, the Restatement contains some relevant discussion. The subject matter of a trade secret is defined as “a formula . . . device, method, technique, process, or other form or embodiment of economically valuable information . . . [and] can relate to technical matters . . . necessary to perform a particular operation or service.”<sup>91</sup> The final clause, implicating a relationship between the trade secret and the performance of an operation or service is similar to the language used by a number of courts in conceptualizing the definition of trade secrets for the purposes of the FOIA exemptions.<sup>92</sup>

Unlike the Restatement of Torts, the newer Restatement (Third) of Unfair Competition does not require that trade secrets be capable of continuous use or maintain their value for any duration.<sup>93</sup> Trade secrets can relate to single events such as secret bids and impending business announcements, whose value derives from its secrecy and whose secrecy is temporary.<sup>94</sup>

The Restatement (Third) of Unfair competition largely adopted other elements of trade secrets, as they were defined in the Restatement of Torts. Trade Secrets still pertain to just about any information that can offer a competitive advantage based on its secrecy.<sup>95</sup> And trade secret information still must not be readily obtainable.<sup>96</sup> While a trade secret must have competitive value, time

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<sup>90</sup> *Id.* § 39, cmt. b.

<sup>91</sup> *Id.* § 39, cmt. d.

<sup>92</sup> *See* Pub. Citizen Health Research Group v. Food and Drug Admin., 704 F.2d 1280, 1288 (D.C. Cir. 1983).

<sup>93</sup> RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39, cmt. d.

<sup>94</sup> *Id.*

<sup>95</sup> *Id.*; *see* Phillips v. Frey, 20 F.3d 623, 628 (5th Cir. 1994) (a trade secret “must give the owner a competitive advantage”); *see generally e.g.* Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 482 (1974) (a trade secret need not be patentable); *but see* Nickelson v. Gen. Motors Corp., 361 F.2d 196, 199 (7th Cir. 1966) (a “trivial” advance might not be protectable).

<sup>96</sup> *See* Amoco Prod. Co. v. Laird., 622 N.E.2d 912, 919 (Ind. 1993) (acquisition by proper means need not be economically infeasible “a substantial investment of

and money spent developing the secret, precautions to maintain its secrecy, and a third party's willingness to pay for access through licensing agreements all serve as evidence of the information's value.<sup>97</sup> The same factors can also be useful as evidence of relative secrecy,<sup>98</sup> and can signal to employees and others that information is confidential.<sup>99</sup> If, however, a misappropriation was not the result of security lapses, "those lapses should not be the basis for denying protection."<sup>100</sup>

### *B. Representative State Trade Secret Statutes*

The three states that comprise the Seventh Circuit represent a fair sampling for the various ways that states across the country have chosen to adopt the Uniform Trade Secrets Act. For example, Indiana's legislature enacted the UTSA shortly after its adoption and with minimal changes.<sup>101</sup> Wisconsin adopted most of the UTSA's provisions but continues to use the Restatement of Torts' definition of "trade secrets."<sup>102</sup> Illinois, on the other hand, changed several UTSA provisions prior to enacting its own version of the law.<sup>103</sup>

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time, expense, or effort" will suffice); *see also* T.P. Labs., Inc. v. Huge, 261 F. Supp. 349, 358-59 (E.D. Wisc. 1965), *aff'd* 371 F.2d 231 (7th Cir. 1966) ("Information is readily available if it is available in trade journals, reference books, or published materials").

<sup>97</sup> *See* Rockwell Graphic Sys., Inc. v. DEV Indus, Inc., 925 F.2d 174 (7th Cir. 1991) (precautions taken to protect secrecy can indicate value); Tan-Line Studios, Inc. v. Bradley, No. 84-5925, 1986 WL 3764, at \*7 (E.D. Pa. Mar. 25, 1986) (willingness of licensees to pay for access to secret and defendant's decision to resort to improper means are evidence value).

<sup>98</sup> *See* Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195, 1200 (5th Cir. 1986); *cf.* Victor Chem. Works v. Iliff, 132 N.E. 806 (Ill. 1921) (precautions are not enough if evidence reveals that the information is generally known).

<sup>99</sup> *See, e.g.* Surgidev Corp. v. Eye Tech., Inc., 828 F.2d 452 (8th Cir. 1987).

<sup>100</sup> *Syntex Ophthalmics, Inc. v. Novicky*, 1982 WL 63797, at \*5 (N.D. Ill. 1982), *aff'd* 701 F.2d 677 (7th Cir. 1983).

<sup>101</sup> *See* JAGER, *supra* note 3, § 32:1 (Trade Secrets Law of Indiana).

<sup>102</sup> *See id.* at § 67:1 (Trade Secrets Law of Wisconsin).

<sup>103</sup> *See id.* at § 31:2 (Explaining several differences between the UTSA and the Illinois trade Secret Act). Despite their differences, however, the three states'

Under the Indiana Act, a trade secret is (1) information; (2) deriving independent economic value; (3) that is not generally known or readily ascertainable by proper means by others who can obtain economic value from its disclosure or use; and (4) is the subject of efforts, reasonable under the circumstances, to maintain its secrecy.<sup>104</sup> Like *Patriot Homes*, the majority of recent trade secrets cases in Indiana have turned on whether a purported trade secret is publicly available or readily ascertainable, and the resources required to independently discover it.<sup>105</sup>

Unlike Indiana, Wisconsin chose to keep its definition of trade secrets in line with the common law rather than based on the UTSA definition.<sup>106</sup> Wisconsin trade secret law, therefore, employs the definition of “trade secrets” found in § 757 of the Restatement of Torts and Wisconsin courts still refer to that restatement’s six factor test to determine the presence of a trade secret.<sup>107</sup> Notably, in determining the threshold for which information is entitled to trade secret protection,

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statutes are largely in agreement with each other and are fair representatives of other state trade secrets statutes across the country.

<sup>104</sup> *Credentials Plus, LLC v. Calderone*, 230 F. Supp. 2d 890, 900 (N.D. Ind. 2002); *U.S. Land Servs., Inc. v. U.S. Surveyor, Inc.*, 826 N.E.2d 49, 63 (Ind. Ct. App. 2005).

<sup>105</sup> *Amoco Prod. Co. v. Laird*, 622 N.E.2d 912, 916 (Ind. 1993) (holding that information requiring a substantial investment of time, expense, or effort is not readily ascertainable); *see also* *Coleman v. Vukovich*, 825 N.E.2d 397, 405 (Ind. App. Ct. 2005) (customer list was not protectable because it was available to all employees, was kept unlocked, and on computers that were not password protected); *Flotec, Inc. v. Southern Research, Inc.*, 16 F. Supp. 2d 992, 1000-1001 (S.D. Ind. 1998) (holding that information is not entitled protection where reverse engineering is a viable option for discovering an alleged trade secret); *Xpert Automation Sys. Corp. v. Vibromatic Co.*, 569 N.E.2d 351, 355 (Ind. App. Ct. 1991) (customer lists are not entitled protection if they can be discovered by reasonable means); *but see* *Ackerman v. Kimball Intern*, 634 N.E.2d 778, 784 n. 3 (Ind. Ct. App. 1994) (rejecting the “economically feasible” standard, instead requiring that defendant could have replicated the asserted trade secret without “substantial investment of time, expense or effort”).

<sup>106</sup> *Wisc. Elec. Power Co. v. Pub. Serv. Comm’n of Wisconsin*, 329 N.W.2d 178, 181-82 (Wis. 1983).

<sup>107</sup> *Id.* Wisconsin law also does not provide trade secret protection for “single event” information such as bidding prices.

Wisconsin courts have interpreted “readily ascertainable” quite differently than their sister courts in Indiana. According to Wisconsin law, information is “readily ascertainable” only if it is discoverable “with a fair degree of ease, without difficulty.”<sup>108</sup>

Illinois, which did not enact its trade secret act until 1988, benefitted by waiting for its neighbor states to interpret some of the more ambiguous sections of the UTSA.<sup>109</sup> In defining trade secrets, the Illinois Trade Secrets Act adopted a hybrid between the UTSA and Restatement definitions. In Illinois, a trade secret owner must show: “(1) that the information is sufficiently secret to derive economic value; (2) that the information is not within the realm of general skills and knowledge of the relevant industry; and (3) that the information cannot be readily duplicated without involving considerable time, effort, and expense.”<sup>110</sup> Additionally, the six Restatement factors have been held applicable in determining whether a trade secret exists.<sup>111</sup> Illinois law, therefore, does not *require* reasonable efforts to maintain a trade secret’s secrecy even though efforts to maintain secrecy might factor into whether the information is readily ascertainable as well as the secret’s relative value.

While other states employ subtly different definitions of “trade secrets” and may employ slightly different standards in determining when a misappropriation has occurred, these three statutes represent a fair sampling of how trade secret law has developed in the 46 states that have enacted some version of the UTSA. These three statutes also exemplify that—regardless of how states have enacted their trade

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<sup>108</sup> *Editions Play Bac, S.A. v. Western Pub. Co., Inc.*, 1993 WL 541219, at \*4 (S.D. N.Y. Dec. 28, 1993) (referring to *Webster's Third New International Dictionary* (1986) to inform its definition of “easily ascertainable”) (applying Wisconsin law).

<sup>109</sup> *See X-It Prods., LLC v. Walter Kidde Portable Equip., Inc.*, 227 F. Supp. 2d 494, 531-32 (E.D. Va. 2002) (construing Illinois law).

<sup>110</sup> *Lynchval Sys. Inc. v. Chicago Consulting Actuaries*, 1998 WL 151814, at \*5 (N.D. Ill. March 27, 1998).

<sup>111</sup> *Learning Curve Toys, Inc. v. PlayWood Toys, Inc.*, 342 F.3d 714, 727 (7th Cir. 2003). The third factor in Illinois’ trade secret definition also indicates that Illinois has adopted a standard that information must be more analogous to Indiana’s strict “readily ascertainable” standard than to Wisconsin’s relaxed standard.

secret statutes—there remains an inherent conflict with the federal and state freedom of information laws.

### III. THE FREEDOM OF INFORMATION ACT

During the late 1950's and early 1960's, a growing public appreciation for transparent governance led Congress to enact the 1966 Freedom of Information Act (FOIA).<sup>112</sup> The FOIA mandated that federal government records be accessible to the public upon request.<sup>113</sup> According to the FOIA, each agency, upon a reasonably descriptive request for records, must make the records promptly available to *any person*.<sup>114</sup> Under the FOIA, the identity of a requester is irrelevant.<sup>115</sup> A requester also does not need to demonstrate any specific need or reason for his or her request.<sup>116</sup> Because the federal FOIA only applies to federal executive agencies, and not to records held by state governments,<sup>117</sup> all 50 states and the District of Columbia have enacted their own state FOIAs that are almost unanimously identical to the federal act.<sup>118</sup>

In the interest of full public disclosure, FOIA statutes make no distinction between records created by government agencies and those merely collected by government agencies after being submitted by private business concerns. Generally, any document in an agency's files is subject to requests made under the FOIA.<sup>119</sup> This makes it

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<sup>112</sup> 5 U.S.C. § 552 (2000).

<sup>113</sup> *Id.*

<sup>114</sup> *Id.* § 552(a)(3)(A).

<sup>115</sup> *See id.*

<sup>116</sup> *See Nat'l Labor Relations Board v. Sears, Roebuck & Co.*, 421 U.S. 132, 144 (1975).

<sup>117</sup> *St. Michael's Convalescent Hosp. v. California*, 643 F.2d 1369, 1373 (9th Cir. 1981) ("agency" under the federal FOIA does not include state agencies).

<sup>118</sup> *See* Guidebook to the Freedom of Information and Privacy Acts 89-93 (Clark Boardman Callaghan, 1986 & Supp. 2008) for a listing of all state FOIA statutes. States within the Seventh Circuit have enacted the following state Freedom of Information Acts: 5 Ill. Comp. Stat. Ann. 140/1 (West 2008); Ind. Code § 5-14-3-4 (West 2008); Wis. Stat. § 19.36 (West 2008).

<sup>119</sup> Brian E. Lebowitz, Note, *The Freedom of Nonfree Information: An Economic Proposal for Government Disclosure of Privately Submitted Commercial*

highly possible that any information filed with the government will be revealed to the public upon request.

It is hardly surprisingly, therefore, that studies reveal that the vast majority of FOIA requests do not come from private citizens or institutions.<sup>120</sup> Most FOIA requests are made by businesses, either directly or through third party intermediaries, to agencies that compile data provided to the government by American businesses.<sup>121</sup> In this way, nearly any information that a business submits to a government agency can end up in the hands of a competitor.

Statistics such as these imply that the *Patriot Homes* situation might not be uncommon at all. Perhaps the only reason that *Patriot Homes* distinguishes itself from “business as usual” is that chronologically, the defendant waited until *after* the preliminary injunction hearing to make its FOIA requests. Had Sterling Homes simply made its FOIA request first, before using the information taken by Patriot’s former employees, it may have been able to claim from the onset that the purported trade secrets were readily ascertainable and not protected under the Indiana Uniform Trade Secret Act.

### A. Policy and Exemptions

Prior to enacting the federal FOIA, Congress contemplated potentially competing interests. FOIA addressed the public’s right to access governmental records. There was also a competing interest in maintaining the confidentiality of information submitted to the

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*Information*, 32 STAN. L. REV. 339, 339 (1980) (agency files generally subject to the FOIA include “a vast array of documents submitted by private firms that include commercially valuable information”).

<sup>120</sup> W. Casey, Jr., J. Marthinsen, & L. Moss, *Entrepreneurship, Productivity, and the Freedom of Information Act* 11, 47–86 (Lexington Books 1983).

<sup>121</sup> *Id.* While there are studies reaching the opposite conclusion through studies of direct and reverse FOIA litigation, see Mark Q. Connelly, *Secrets and Smokescreens: A Legal and Economic Analysis of Government Disclosures of Business Data*, 1981 WISC. L. REV. 207, 209–210 (1981), those results are questionable in light of the costs of complicated litigation that “might well preclude a small business from ever seeking to prevent [FOIA] disclosures.” *Nat’l Parks and Conservation Ass’n v. Kleppe*, 547 F.2d 673, 681 n.24 (D.C. Cir. 1976).

government. Congress felt that FOIA's "success lies in providing a workable formula which encompasses, balances, and protects all interests, yet places emphasis on the fullest responsible disclosure."<sup>122</sup> Therefore, although disclosure of agency records is the act's foremost goal,<sup>123</sup> Congress carved out nine exemptions to the FOIA's mandated disclosures.<sup>124</sup>

Among those eight exemptions are "(4) trade secrets and commercial or financial information obtained from a person and privileged or confidential."<sup>125</sup> Courts have recognized several justifications for Exemption 4, including protecting the confidentiality of information submitted to the government,<sup>126</sup> insuring the competitive position of parties submitting information,<sup>127</sup> and encouraging cooperation with the government by those with useful information.<sup>128</sup> Unfortunately, two issues prevent Exemption 4 from fully achieving all of its goals.

First, parties submitting information to government agencies cannot fully control whether that agency will disclose it. The Supreme Court held that an agency's invocation of the FOIA's exemptions is discretionary, not mandatory—*allowing* agencies to withhold records

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<sup>122</sup> S. REP. NO. 89-813 at 3 (1965); *see also* H.R. REP. NO. 89-1497 at 5-7 (1966).

<sup>123</sup> *See* EPA v. Mink, 410 U.S. 73, 79 (1973).

<sup>124</sup> 5 U.S.C. § 552(b) (2000).

<sup>125</sup> *Id.* at § 552(b)(4) (clearly there is no accounting for the 92nd Congress' impeccable grammar).

<sup>126</sup> *See* Shermco Indus., Inc. v. Sec. of Air Force, 613 F.2d 1314, 1317 (5th Cir. 1980) (purpose of Exemption 4 is to protect interests of individuals who disclose information and to protect the government)

<sup>127</sup> *See* Nadler v. FDIC, 899 F. Supp. 158, 160-61 (S.D. N.Y. 1995), *aff'd* 92 F.3d 93 (2d Cir. 1996) (Exemption 4 helps ensure the government's continued ability to collect information);

<sup>128</sup> *See* Burke Energy Corp. v. Dep't of Energy, 583 F. Supp. 507, 510-11 (D. Kan. 1984) (holding that the purposes of Exemption 4 include avoiding substantial competitive harm, protecting privacy, and "facilitate[ing] citizens' ability to confide in their government").

but not *requiring* them to do so.<sup>129</sup> Consequentially, the FOIA protects a private party's interest in the confidentiality of information submitted to the government "only to the extent that this interest is endorsed by the agency collecting the information."<sup>130</sup>

Second, the Freedom of Information Act contains no specific definition of "trade secrets" or "confidential" as applicable to Exemption 4.<sup>131</sup> Prior to FOIA's enactment, the common law definition of trade secrets, based chiefly on the Restatement (First) of Torts, had been largely settled.<sup>132</sup> Since the FOIA's passage, however, the majority of states have passed their own state trade secret laws modeled after the UTSA.<sup>133</sup> This alone creates the potential for conflict between the laws that states have enacted to protect trade secrets and the body of law used to construe trade secrets under the FOIA. In addition, at least one circuit created its own narrow definition of "trade secret" for the explicit purpose of FOIA litigation.<sup>134</sup> Thus, while modern trade secrets generally have similar definitions and treatment across the states with respect to intellectual property litigation, the same cannot be said for FOIA litigation.

Another obstacle to protecting the secrecy of information provided to the government lies in the FOIA's own provisions. If an agency denies a FOIA request, the requestor may sue the government agency to challenge the withholding. In such cases, a court may examine the contents of any withheld agency records to determine

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<sup>129</sup> See *Chrysler Corp. v. Brown*, 441 U.S. 281, 293 (1979) (holding that "Congress did not design the FOIA Exemptions to be mandatory bars to disclosure").

<sup>130</sup> *Id.*

<sup>131</sup> See *Nat'l Parks & Conservation Ass'n v. Morton*, 498 F.2d 765, 766 (D.C. Cir. 1974) (noting that FOIA does not contain a definition for "confidential" as applicable to Exemption 4). While many statutes contain prefatory definitions sections, FOIA does not. See 5 U.S.C. § 552 (2000).

<sup>132</sup> See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474-75 (1974) (adopting the Restatement definition of trade secrets).

<sup>133</sup> See *JAGER*, *supra* note 3, § 12.1.

<sup>134</sup> See, e.g., *Pub. Citizens Health Research Group v. Food and Drug Administration*, 704 F.2d 1280, 1286-87 (D.C. Cir. 1983) (rejecting the Restatement's definition of trade secrets and construing the term more narrowly than its traditional common law definition).

whether they fall under any of the FOIA's exemptions. If they do not, the court may enjoin the agency from withholding the records.<sup>135</sup> Importantly, according to the FOIA, the agency bears the burden of proving that such records were properly withheld.<sup>136</sup> If the agency cannot meet its burden, it is liable for the other party's attorney's fees and litigation costs.<sup>137</sup>

Those FOIA provisions effectively create a disincentive for an agency to withhold anything but the most clear-cut trade secrets. Under the FOIA, refusing to release requested documents—especially if a document's trade secret status is not manifestly obvious—simply is not in an agency's interest. A party that submits information that it considers valuable or confidential therefore can have little expectation that such information will remain secret.

### *B. Scope of the Trade Secrets Exemption*

The legislative history of FOIA's trade secret exemption, Exemption 4, neither reveals its scope nor defines its legal terminology.<sup>138</sup> In construing its language, courts have generally concluded that Exemption 4 recognizes two distinct classes of information: (1) trade secrets, and (2) commercial or financial information that was obtained by a person and is privileged and confidential.<sup>139</sup>

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<sup>135</sup> 5 U.S.C. § 552(a)(4)(B) (2000).

<sup>136</sup> See *Coastal States Gas Corp. v. Dep't of Energy*, 617 F.2d 854, 861 (D.C.Cir.1980) (holding that "conclusory assertions will not suffice to carry the government's burden of proof in withholding information requested through the FOIA").

<sup>137</sup> 5 U.S.C. § 552(a)(4)(B) (2000).

<sup>138</sup> See H.R. REP. NO. 89-1497 at 10 (1966); S. REP. NO. 89-813 at 9 (1965). The states have similar state FOIA provisions protecting trade secret and confidential information. See *Coblentz v. City of Novi*, 719 N.W.2d 73, 80 (Mich. 2006) (discussing the Michigan FOIA statute, Mich. Comp. Laws Ann. § 15.231 *et seq.* (West 2008)).

<sup>139</sup> See *Pub. Citizen Health Research Group v. Food and Drug Admin.*, 704 F.2d 1280, 1288-90 (D.C. Cir. 1983).

In accordance with the FOIA's general objective of public disclosure, courts tend to narrowly construe the specific subject matter covered by Exemption 4.<sup>140</sup> The definition of "trade secret" as explicitly applied to Exemption 4, therefore, is far more restrictive than the definition that developed elsewhere in the common law, either Restatement, or the UTSA.<sup>141</sup> For the purpose of Exemption 4 of FOIA, "trade secret" has been defined as a "secret, commercially valuable plan, formula, process, or device that is used for the making, preparing, compounding, or processing of trade commodities and that can be said to be end product of either innovation or substantial effort."<sup>142</sup>

In *Public Citizen Health and Research Group v. FDA*, concerning ongoing clinical studies on the safety and efficacy of intraocular lenses, the court rejected the Restatement's "overly broad construction" of trade secrets with regards to Exemption 4 of the FOIA.<sup>143</sup> In that case, the D.C. circuit adopted its definition from an obscure case from 1925<sup>144</sup> that was moot when it was decided,<sup>145</sup> and a second case that was dismissed as moot on appeal.<sup>146</sup> Unlike previous

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<sup>140</sup> *FBI v. Abramson*, 456 U.S. 615, 630 (1982) (noting the "oft-repeated caveat that FOIA exemptions are to be narrowly construed"); *see Dep't of Air Force v. Rose*, 425 U.S. 352, 361 (1976) (explaining that "disclosure, not secrecy, is the dominant objective of the statute").

<sup>141</sup> *Pub. Citizen*, 704 F.2d at 1288; *see also Anderson v. Health & Human Servs.*, 907 F.2d 936, 943-44 (10th Cir. 1990).

<sup>142</sup> *Pub. Citizen*, 704 F.2d at 1288.

<sup>143</sup> *Id.* at 1282.

<sup>144</sup> *Norwegian Nitrogen Prods. Co. v. U.S. Tariff Comm'n*, 6 F.2d 491 (D.C. Cir. 1925), *reversed*, 274 U.S. 106 (1927) The *Norwegian* court defined trade secret as "an unpatented, secret, commercially valuable plan, appliance, formula, or process, which is used for the making, preparing, compounding, treating, or processing of articles or materials *which are trade commodities.*" *Id.* at 495 (emphasis added). Notably, *Norwegian* was decided 4 years before the Restatement of Torts suggested the trade secret definition that ultimately was adopted in the common law and 50 years before *Kewanee Oil*, in which the Supreme Court employed the Restatement definition of trade secrets. *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 474-75 (1974).

<sup>145</sup> *Norwegian*, 274 U.S. at 110.

<sup>146</sup> *Consumers Union v. Veterans Admin.*, 310 F. Supp. 796, 801 (S.D.N.Y. 1969), *appeal dismissed as moot*, 436 F.2d 1363 (2d Cir. 1971).

FOIA Exemption 4 decisions, the *Public Citizens* test requires a “direct relationship between the information at issue and the productive process.”<sup>147</sup>

One problem with the *Public Citizen* test is that it essentially disqualifies basic research that has not yet been commercialized from Exemption 4’s protection because basic research is not “commercial” and may not yet lend itself to the productive process.<sup>148</sup> With *Public Citizen*, what began as “a precedential aberration in trade secret law”<sup>149</sup> has now been adopted by many circuits that have addressed the issue.<sup>150</sup> The *Public Citizen* standard also precludes a great deal of subject matter protectable as trade secrets under the common law but not specifically “used for the making, preparing, compounding, or processing of trade commodities.”<sup>151</sup>

For matters other than trade secrets, such as commercial, technical, and financial data, courts have developed a two-part test to determine whether withholding information under the FOIA’s Exception 4 is proper.<sup>152</sup> The Circuits have unanimously interpreted that information is “confidential” commercial or financial information under Exemption 4, and thus exempt from disclosure under the

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<sup>147</sup> *Pub. Citizen*, 704 F.2d at 1288.

<sup>148</sup> See e.g. *Bd. of Trade of Chicago v. Commodity Futures Trading Comm’n*, 627 F.2d 392, 403 n.78 (D.C. Cir. 1983) *abrogated on other grounds* by *U.S. Dep’t of State v. Wash. Post Co.*, 456 U.S. 595 (1982).

<sup>149</sup> See James T. O’Reilly, *Trade Secrets: Asleep at the Switch?* 12 AIPLA Q.J. 13, 26 n.29 (1984).

<sup>150</sup> See *Anderson v. Health & Human Servs.*, 907 F.2d 936, 944 (10th Cir. 1990); see also *Harrick v. Garvey*, 200 F. Supp. 2d 1321, 1326 (D. Wyo. 2000) (invoking *Public Citizens*’ definition of trade secrets although the court still upheld the FAA’s decision to withhold information); *Teich v. Food & Drug Admin.*, 751 F. Supp. 243, 254 n.8 (D. D.C. 1990) (upholding the FDA’s decision to disclose data involving animal studies by a manufacturer of silicone breast implants that had only a “tangential relationship to the productive process”); *Burnside-Ott Aviation Training Ctr., Inc. v. U.S.*, 617 F. Supp. 279, 285-86 (S.D. Fla. 1985) (adopting the *Public Citizens* definition).

<sup>151</sup> *Pub. Citizen Health Research Group v. Food and Drug Admin.*, 704 F.2d 1280, 1288 (D.C. Cir. 1983).

<sup>152</sup> *Nat’l Parks and Conservation Ass’n v. Kleppe*, 547 F.2d 673, 677-79 (D.C. Cir. 1976).

Freedom of Information Act, if its disclosure would likely (1) impair the government's ability to obtain necessary information in the future, or (2) cause substantial competitive harm to the party from whom the information was obtained.<sup>153</sup>

Generally, for "confidential and privileged information" an important consideration is whether submitters are statutorily required to provide information to the government. If a statute requires submitting information, there will be a presumption that public disclosure of that information will not impair Exemption 4's justification.<sup>154</sup> The same is true for information submitted to governmental agencies for the purposes of obtaining government contacts or obtaining permits.<sup>155</sup> Conversely, when information is volunteered, the government has a stronger interest in ensuring its continued availability and therefore a stronger interest in its protection.<sup>156</sup>

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<sup>153</sup> *Id.* at 679; *accord* *Judicial Watch, Inc. v. Food & Drug Admin.*, 449 F.3d 141, 148 (D.C. Cir. 2006); *Contact Freighters, Inc. v. Sec'y of U.S. Dep't of Transp.*, 260 F.3d 858, 861-62 (8th Cir. 2001); *Nadler v. F.D.I.C.*, 92 F.3d 93, 95-96 (2d Cir. 1996); *GC Micro Corp. v. Def. Logistics Agency*, 33 F.3d 1109, 1113 (9th Cir. 1994); *Acumenics Research & Tech. v. U.S. Dep't of Justice*, 843 F.2d 800, 807 (4th Cir. 1988); *Sharyland Water Supply Corp. v. Block*, 755 F.2d 397, 399 (5th Cir. 1985); *Gen. Elec. Co. v. U.S. Nuclear Regulatory Comm'n*, 750 F.2d 1394, 1398 (7th Cir. 1984); *9 to 5 Org. for Women Office Workers v. Bd. of Governors of Fed. Reserve Sys.*, 721 F.2d 1, 8 (1st Cir. 1983).

<sup>154</sup> *See, e.g., Gersh & Danielson v. U.S. Env'tl. Prot. Agency*, 871 F. Supp. 407, 410 (D.Colo. 1994) (holding that because studies submitted to EPA during investigation into Clean Water Act violations were not "voluntarily submitted," no FOIA exemptions were applicable).

<sup>155</sup> *See Nat'l Parks & Conservation Ass'n v. Morton*, 498 F.2d 765, 770 (D.C. Cir. 1974) (noting that the government's ability to obtain information would not be impaired because submission of financial statements was a mandatory requirement of operating concessions in national parks).

<sup>156</sup> *See id.*; *see also Critical Mass Energy Project v. Nuclear Regulatory Comm'n*, 975 F.2d 871, 879-80 (D.C. Cir. 1992) (holding that information voluntarily provided by industry group to regulatory commission was "confidential" and exempt from FOIA disclosure).

### C. State FOIA Trade Secret Exemptions

State FOIA trade secret exemptions are very similar in scope across all three states within the Seventh Circuit and are indicative of the type of state FOIA trade secret exemptions found elsewhere across the country. Indeed, the state FOIA trade secret exemptions mirror the language and rationale behind the federal FOIA trade secret exemptions.<sup>157</sup> State courts, however, tend to defer to the judgment of protectionist state agencies more often than their federal counterparts.

For example, the Illinois FOIA trade secret exemption applies to “trade secrets and commercial or financial information obtained from a person or business where the trade secrets or information are proprietary, privileged, or confidential, or where disclosure of the trade secrets or information may cause competitive harm.”<sup>158</sup> Like the two-pronged test that courts have adopted for the federal FOIA trade secret exemption, Illinois’ trade secret definition encompasses information that “(1) would either inflict substantial competitive harm, or (2) make it more difficult for the agency to induce people to submit similar information in the future.”<sup>159</sup> Unlike the federal FOIA exemption, however, the Illinois legislature intended that “trade secret” in the Illinois FOIA disclosure exemption be construed *broadly* in order to encourage private parties to do business with the state.<sup>160</sup>

Illinois courts have also qualified the “competitive harm” that the trade secret exemption was designed to prevent.<sup>161</sup> The burden is still on the state agency to demonstrate both that “the person or entity from which information was obtained actually faces competition . . . and

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<sup>157</sup> See, e.g., 5 Ill. Comp. Stat. Ann. 140/7(1)(g) (West 2008) (Illinois Freedom of Information Act).

<sup>158</sup> *Id.*; see *Roulette v. Dep’t of Cent. Mgmt. Servs.*, 490 N.E.2d 60, 63 (Ill. App. Ct. 1986).

<sup>159</sup> *BlueStar Energy Servs., Inc. v. Illinois Commerce Comm’n*, 871 N.E.2d 880, 886 (Ill. App. Ct. 2007).

<sup>160</sup> *Id.*; *Roulette*, 490 N.E.2d at 64 (extending trade secret exemption to psychologist’s written evaluation of applicant for police officer’s personality test and interview).

<sup>161</sup> *Cooper v. Dep’t of the Lottery*, 640 N.E.2d 1299, 1303 (Ill. App. Ct. 1994) (quoting *Calhoun v. Lyng*, 864 F.2d 34, 36 (5th Cir. 1988)).

substantial harm to a competitive position would likely result from disclosure of the information.”<sup>162</sup>

Like courts in Illinois, Indiana courts have also interpreted the state’s FOIA trade secret exemptions broadly.<sup>163</sup> Unlike the more restrictive definition attributed by courts to trade secrets under the federal FOIA regime, the Indiana legislature specifically adopted the same definition for trade secrets with regard to the FOIA exemption that it did with regard to the IUTSA.<sup>164</sup> Similarly, Wisconsin also applies the same definition to trade secrets with regards to its FOIA exemption as in its trade secret law, which mirrors the UTSA language.<sup>165</sup>

The breadth with which these three states apply their FOIA trade secret exemptions signify that the states have recognized the value in protecting their industries’ valuable proprietary information. Patriot Homes was unable to prevent state agencies from releasing their purported trade secret information, possibly because it failed to mark its agency submissions as confidential. Had Patriot made a more concerted effort to ensure the confidentiality of its records, however, these statutes and interpretations indicate a potential willingness on the part of state agencies to more proactively protect privately submitted records than is found under the federal FOIA exemption.

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<sup>162</sup> *Id.* In *Cooper*, the court held that the Illinois lottery is a legal monopoly. *Id.* The court then reasoned that because the lottery does not face any competition, disclosing a marketing report would not be harmful to the outside firm that prepared it. *Id.*

<sup>163</sup> *Robinson v. Indiana Univ.*, 659 N.E.2d 153, 156-7 (Ind. Ct. App. 1995) (extending trade secret exemption to cover experimental scientific research). The court also noted how Indiana’s broad treatment of its state FOIA trade secret exemption differs from North Carolina’s treatment of the same issue. *See id.*; *contra* S.E.T.A. UNC-CH, Inc. v. Huffines, 399 S.E.2d 340, 343 (N.C. App. 1991).

<sup>164</sup> Ind. Code § 5-14-3-4(a)(4) (West 2008) (Indiana disclosure exemptions). In addition, the Indiana Administrative Code instructs state agencies to refer to the Indiana Trade Secret Act, Ind. Code § 24-2-3-2 (West 2008), in defining trade secrets for FOIA request purposes. *See* 17 Ind. Admin. Code Ann. 1-2-9 (West 2008).

<sup>165</sup> Wis. Stat. Ann. § 19.36(5) (West 2008), referring to Wis. Stat. Ann. § 134.90(1)(c), the definitions section of Wisconsin’s Trade Secret Act, for the definition of trade secrets under the state FOIA exemption.

#### D. Private Actions to Enjoin Agency Disclosure

Individuals and companies have attempted to protect their trade secrets by affirmatively seeking to enjoin agency disclosure. These so-called “reverse-FOIA” suits, however, have been met with extremely limited success. In *Chrysler Corp. v. Brown*,<sup>166</sup> the Supreme Court essentially foreclosed most grounds under which private parties might seek to enjoin agency disclosure of trade secrets. “The FOIA is *exclusively a disclosure statute* and affords Chrysler no private right of action to enjoin agency disclosure.”<sup>167</sup>

Before the *Chrysler* decision, the circuits were split on whether the FOIA exemptions were mandatory or permissive.<sup>168</sup> Since *Chrysler*, however, courts have overwhelmingly adopted the Supreme Court’s rule that the FOIA favors disclosure.<sup>169</sup> Furthermore, even agencies that apply the FOIA exemptions prior to deciding whether to disclose are free to decide the extent to which they apply.<sup>170</sup>

The *Chrysler* decision did not leave parties attempting to prevent government agencies from disclosing submitted information entirely without recourse. Jurisdiction for reverse-FOIA lawsuits are rarely denied<sup>171</sup> because the Supreme Court allowed for a remedy under the

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<sup>166</sup> 441 U.S. 281 (1979).

<sup>167</sup> *Id.* at 282 (emphasis added).

<sup>168</sup> See *Union Oil Co. v. FPC*, 542 F.2d 1036, 1045 (9th Cir. 1976) (holding that the exemptions were mandatory was later withdrawn as premature); *Westinghouse Elec. Corp. v. Schlesinger*, 542 F.2d 1190, 1199 (4th Cir. 1976) (holding that some of the FOIA exemption are mandatory); *but see Pennzoil Co. v. Fed. Power Comm’n*, 534 F.2d 627, 630 (5th Cir. 1976) (holding that the FOIA exemptions are permissive).

<sup>169</sup> See *FTC v. Owens-Corning Fiberglass Corp.*, 626 F.2d 966, 971 (D.C. Cir. 1980); *GTE Sylvania, Inc. v. Consumer Prod. Safety Comm’n*, 598 F.2d 790, 800 (3d Cir. 1979); *Gulf & Western Indus., Inc. v. U.S.*, 615 F.2d 527, 531 (D.C. Cir. 1979).

<sup>170</sup> See *GTE Sylvania, Inc.*, 598 F.2d at 800 (the agency may establish more liberal disclosure policies than the FOIA requires).

<sup>171</sup> See Carolyn B. Kuhl, Note, *Protection From Government Disclosure—The Reverse-FOIA Suit*, 2 DUKE L.J. 330 (1976).

Administrative Procedures Act (APA)<sup>172</sup> if a submitter can claim to be a “person . . . adversely affected or aggrieved” by agency action.<sup>173</sup>

The standard APA review in reverse-FOIA cases involves an examination of the agency’s record regarding its decision-making process.<sup>174</sup> While some courts have allowed for *de novo* review of agency determinations to disclose information,<sup>175</sup> the standard reverse-FOIA standard of review is whether the administrative record shows an agency’s decision to disclose the information at issue to be arbitrary or capricious.<sup>176</sup> That standard places a heavy burden on the plaintiff-submitter who brings a reverse-FOIA lawsuit.<sup>177</sup>

While a review of an agency’s record regarding its decision does allow parties attempting to foreclose government disclosure of trade secrets or private information, it does not allow submitting parties to play any role in making that decision in the first place. Reverse-FOIA litigation, therefore, is limited in that it only allows parties to review decisions that have already been made. Even where litigants are able to review the agency decisions *de novo*, reverse-FOIA lawsuits are steeply uphill battles. Better alternatives would be to allow parties who submit proprietary information to government agencies to make their case against disclosure from the beginning. One possibility might be to

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<sup>172</sup> 5 U.S.C. §§ 701-706 (2000).

<sup>173</sup> *Id.* at § 702.

<sup>174</sup> *U.S. v. Geophysical Corp. of Alaska*, 732 F.2d 693, 701 (9th Cir. 1984); *see also McDonnell Douglas Corp. v. NASA*, 180 F.3d 303, 304-05 (D.C. Cir. 1999) (tracing the proper procedure for precluding agency disclosure under the FOIA).

<sup>175</sup> *Anderson v. Health & Human Servs.*, 907 F.2d 936, 941 (10th Cir. 1990) (remanding case for lower court review on a document by document basis); *Worthington Compressors, Inc. v. Gorsuch*, 668 F.2d 1371, 1374 (D.C. Cir. 1981).

<sup>176</sup> *CNA Fin. Corp. v. Donovan*, 830 F.2d 1132, 1153-54 (D.C. Cir. 1987) (evaluating submitter’s claims of confidentiality under the abuse of discretion standard); *Union Oil Co. v. Fed. Power Comm’n*, 542 F.2d 1036, 1040-41 (9th Cir. 1976) (evaluating regulations guiding agency determinations of whether information should be excluded from FOIA disclosures under a “substantial evidence” standard of review).

<sup>177</sup> *See Pacific Architects & Eng’rs, Inc. v. U.S. Dep’t of State*, 906 F.2d 1345, 1347-48 (9th Cir. 1990) (holding that there will be a strong presumption that the administrative agency has proceeded with adequate fact-finding procedures and that the administrative decision favoring disclosure is not reviewable *de novo*).

allow the submitters' interests to temper the agencies' initial decisions. Another might be to allow parties attempting to prevent disclosure to assume the governmental agencies' burden of "fighting" rejected disclosure requests.

#### IV. POLICY CONSIDERATIONS

*Patriot Homes* exemplifies the need for a cohesive method of managing the inherent inconsistencies between FOIA statutes and trade secret law. Aside from the numerous industries that are closely regulated by state and federal agencies, there has also been a recent trend towards heightened disclosure of corporate financial information and more precise corporate valuations of intellectual property assets.<sup>178</sup> Whereas disclosing corporate financial records for government oversight and scrutiny certainly serves an important public purpose, part and parcel with increased disclosure comes an increased risk that contributing parties will lose control of their valuable confidential information.<sup>179</sup>

With great power comes great responsibility.<sup>180</sup> An agency that receives vast amounts of trade secrets and confidential financial information must ensure that such information can be protected. While the public's interest in its ability to request agency records is unquestionable, there currently is no appropriate mechanism to ensure that confidential information remains confidential.<sup>181</sup> *Patriot Homes* is somewhat unique in that a FOIA request occurred well after the alleged trade secret misappropriation. It is not unique, however, in the respect that it involves one company successfully mining government agencies for its competitor's valuable confidential information.<sup>182</sup>

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<sup>178</sup> See Wilson, *supra* note 48, at 265-66.

<sup>179</sup> See *id.*

<sup>180</sup> Stan Lee, *Spiderman* (advice given from Uncle Ben to Peter Parker).

<sup>181</sup> See generally, Wilson, *supra* note 48. Wilson ultimately contends that in light of various reporting statutes and the difficulties in protecting a company's trade secrets, good corporate management and conscientious business practices give companies the best chances of preserving its trade secrets. *Id.* at 291.

<sup>182</sup> JAMES T. O'REILLY, FEDERAL INFORMATION DISCLOSURE § 10.1 n.12 (3d ed. 2000) (contending that prior to the rise of the internet, "perhaps 85% of the

### A. *Likely Outcome of Patriot Homes*

Based on the district court's ruling on Sterling's summary judgment motion, Sterling Homes is not likely to succeed in its defense that Patriot's asserted trade secret claims were essentially preempted by their disclosure by state regulatory agencies. As the Northern District of Indiana already held, there are a number of reasons that Sterling's FOIA-disclosure defense will ultimately fail.<sup>183</sup>

First, Sterling admitted that while *nearly* all of Patriot's trade secret information was available through state FOIA requests, not *all* of the information was available in the public domain.<sup>184</sup> Summary judgment should only be granted where all of the asserted trade secrets are readily ascertainable by other means.<sup>185</sup>

Additionally, courts have regularly held that where a defendant's product was actually developed using the plaintiff's proprietary information, there is no cognizable defense that the product *could* have been developed independently.<sup>186</sup> Just because Sterling was able to obtain the vast majority of the same information from state agencies does not change the fact that it used Patriot's designs.

Furthermore, and importantly, the aggregate of information that Sterling received from the state agencies was all in paper form.<sup>187</sup> The information that Sterling's employees took from Patriot was in electronic form.<sup>188</sup> This shows that Patriot's information was not readily available to Sterling in the same format, and presumably there is independent economic value in the electronic files not present in the

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FDA's 30,000 annual FOI requests . . . had come from businesses seeking other firms' reports.").

<sup>183</sup> *Patriot Homes, Inc. v. Forest River Hous., Inc.*, No. 3:05 CV 471 AS, 2007 WL 2782272 (N.D. Ind. Sept. 20, 2007) (rejecting defendant's motion for partial summary judgment on misappropriation of trade secrets).

<sup>184</sup> *Id.* at \*2.

<sup>185</sup> *See id.* at \*2-3.

<sup>186</sup> *U.S. Land Servs., Inc. v. U.S. Surveyor, Inc.*, 826 N.E.2d 49, 64 (Ind. Ct. App. 2005).

<sup>187</sup> *Patriot Homes*, 2007 WL 2782272 at \*3.

<sup>188</sup> *Id.*

voluminous paper files.<sup>189</sup> The electronic files are far more efficiently adapted than are the paper files, which would require considerable time and effort to convert to usable engineering schematics.<sup>190</sup>

Finally, the court insinuated that perhaps within the context of trade secret law, information only available through the plaintiff company itself or a state agency that collected the information might not really be “readily available.”<sup>191</sup> While not dispositive, in combination with the other arguments, this “equitable” reasoning seems to embody the spirit of both trade secret law and FOIA’s lofty goals.

This result reflects an accurate interpretation of trade secret law but does not necessarily answer some of the underlying legal conflicts that this case brings to light.

### *B. Equitable Proposal*

It would seem entirely antithetical to the needs of modern businesses and the government if valuable trade secrets and confidential information regularly escaped their owners’ control. This, however, is exactly what can currently happen because FOIA punishes agencies for withholding information and a gives private entity nearly no recourse in trying to maintain its secrets. Because agencies currently bear the burden and costs of maintaining industry’s secrets, it is simply cheaper and less onerous to disclose “close calls” than to deny a FOIA request and risk litigation.<sup>192</sup>

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<sup>189</sup> See *Northern Elec. Co., Inc. v. Torma*, 819 N.E.2d 417, 426 (Ind. Ct. App. 2005) (electronic compilation of motor servicing information was held not to be readily ascertainable even though all the information was publicly available in paper form).

<sup>190</sup> *Id.*; *Patriot Homes*, 2007 WL 2782272 at \*3.

<sup>191</sup> *Patriot Homes*, 2007 WL 2782272, at \*3; see *Taco Cabana Intern., Inc. v. Two Pesos, Inc.*, 932 F.2d 1113, 1124 (5th Cir. 1991), *aff’d* 505 U.S. 763 (1992).

<sup>192</sup> See U.S. DEP’T OF JUSTICE, FREEDOM OF INFORMATION ACT GUIDE & PRIVACY ACT OVERVIEW 431, 436 (Sept. 1998) (directing government agencies to favor disclosure over withholding information unless the agency could anticipate foreseeable harm in disclosure).

Conversely, many parties contributing proprietary and confidential information to government agencies would likely seize the opportunity to take on the agencies' burden and "fight" FOIA disclosure requests themselves. The flurry of reverse-FOIA litigation—where a private party sues an agency to prevent the agency from complying with a FOIA request—is evidence of that pervasive willingness.<sup>193</sup>

A solution presents itself that would encompass FOIA's policy of maximized disclosure while accounting for a submitting parties' interest in maintaining the secrecy of their confidential information. Submitters should have the option of self-policing the disclosure of their own confidential information. This would mean that a party compelled to disclose confidential records to a government agency could essentially opt to supplant the government agency in "fighting" to uphold a FOIA rejection.<sup>194</sup> Under this scheme, private entities would be responsible for litigating the agency's position when it denies a FOIA request.

Individuals or businesses that contribute information to government agencies should be able to denote the specific pieces of information that they consider to be trade secrets. Trade secret owners could also provide additional documentation to help prove to agency personnel that the claimed trade secrets should remain protected under FOIA's trade secret exemption. The agency personnel in charge of fulfilling FOIA requests will then be able to make more informed decisions regarding whether to disclose the information if requested through FOIA.<sup>195</sup> If an agency agrees with the trade secret owner, and invokes FOIA's trade secret exemption, then the burden will remain with the agency to defend its decision should the requesting party sue

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<sup>193</sup> See Kuhl, *supra* note 171.

<sup>194</sup> If an agency decides to withhold information requested through FOIA, it currently bears the burden of defending its decision should the requesting party sue to compel the agency for disclosure. See 5 U.S.C. § 552(a)(4)(B) (2000).

<sup>195</sup> Currently, businesses can attempt to identify trade secret information when submitting bids for government contracts, though they generally do not have the opportunity to provide additional documentation to back up their designations. See ROGER M. MILGRIM, MILGRIM ON TRADE SECRETS § 12.02 (2003).

for disclosure. On the other hand, if the agency disagrees with the purported trade secret owner and declines to invoke FOIA's trade secret exemption on its own, then the information's owner could intervene. The agency will then withhold the purported trade secret so long as the information's owner agrees to accept the costs and legal burden if the requesting party sues for disclosure.

The benefit of this scheme will be twofold. First, it will allow purported trade secret owner more latitude in controlling the secrecy of its valuable information. Individuals can determine exactly which pieces of information they consider to be trade secrets and precisely the lengths they will undergo and costs they will incur to protect that information. By marking trade secret information before submitting it to government agencies, and providing any additional necessary documentation, individuals could help better inform agency decisions regarding whether the agency should invoke FOIA's trade secret exemption. This plan will then allow individuals to shoulder the litigation-related burdens of withholding information from FOIA requests if they still want to protect their information after an agency declines to invoke a FOIA exemption.<sup>196</sup> That will force an individual or business to determine precisely the lengths they are willing to go to protect their information, both financially and strategically.

This scheme will also benefit the government agencies by relieving them of the burden of fighting FOIA-related litigation in three ways. It will eliminate the need to defend some of an agency's decisions to withhold information because the burden will shift to the information's owner. Additionally, where an agency does have to legally defend its decision to withhold information under FOIA's trade secret exemption, it will oftentimes have documentation from the trade secret's owner available as evidence to support the agency's judgment. This new scheme will also all but eliminate reverse-FOIA litigation, which will free up any resources that an agency otherwise would have

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<sup>196</sup> If an agency determined that information did not fall under FOIA's trade secret exemption after reviewing documentation that attempted to justify its status as a trade secret, it would obviously help indicate to the information's owner the trade secret's probable protectability. This, in turn, would inform the individual or business' decision of whether to accept the burden of protecting the information.

to devote to fighting lawsuits brought by parties attempting to protect submitted information.

Every state and the federal government has its own FOIA law.<sup>197</sup> Therefore, any new law that attempted to remedy the trade secret disclosure problem would need to either be enacted by each state individually or by Congress through its commerce power.<sup>198</sup> A federal law, enacted through the Commerce Clause,<sup>199</sup> would be applicable to all states and would systematically solve FOIA's problem. Congress could also simply amend the federal FOIA statute and wait for the states to follow suit. The problem with this route is that, like Patriot Homes, many businesses operate in multiple states and must submit proprietary information to agencies in each state.<sup>200</sup> Changes in one state's FOIA statute would not help a business protect its trade secrets if the same changes were not also made in the other states.<sup>201</sup>

As previously noted, anyone can make a FOIA request for any reason. This scheme does run the risk of abuse by large companies protecting too much information, regardless of the cost, to the public's detriment. It also runs the risk of wealthy companies attempting to bankrupt their smaller competitors through "frivolous" FOIA-related litigation.<sup>202</sup> These risks, while real, do not detract from the overall efficacy of this new scheme. First, companies will not want to abuse the new system for fear of reverting to the current system. Second, companies currently cannot affirmatively protect *any* information from competitors' FOIA requests. Allowing them to pick and choose which

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<sup>197</sup> See Guidebook to the Freedom of Information and Privacy Acts 89-93 (Clark Boardman Callaghan, 1986 & Supp. 2008).

<sup>198</sup> "The Congress shall have the power . . . To regulate commerce with foreign nations, and among the several states, and with the Indian tribes." U.S. CONST. art. 1, § 8 (commonly referred to as the "Commerce Clause").

<sup>199</sup> *Id.*

<sup>200</sup> *Patriot Homes, Inc. v. Forest River Hous., Inc.*, 512 F.3d 412, 414 (7th Cir. 2008).

<sup>201</sup> The defendant in *Patriot Homes*, for example, made FOIA requests in Indiana, Illinois, and Michigan, even though it was only sued in Indiana. *Id.*

<sup>202</sup> A potential problem might arise where a smaller company attempts to protect information that a government agency is unwilling to protect and a larger competitor sues for disclosure simply to create an expense for its smaller competitor.

information is worth protecting will allow companies to avoid costly, “frivolous” litigation if they do not feel the trade secret is worth the high costs of protection.

Reverse-FOIA litigation can be exceedingly complex and expensive. So can losing one’s valuable trade secrets to a competitor. Both needless costs are not just possible, but likely, under current FOIA statutes. While this one solution certainly is not exhaustive for such a complex issue, it is a good start. Taking account for the competing interests and economic realities pertaining to the value of confidential information and trade secrets, allowing for a secret’s owner to bear the burden of protecting it seems to be a fair compromise.

## V. CONCLUSION

Trade secrets are notoriously difficult to maintain, enforce, and protect. Though they are property, unlike other forms of intellectual property, once misappropriated—disclosed to, or used by a competitor—they are nearly impossible to recover. Injunctions, like the one at the heart of the Seventh Circuit’s opinion in *Patriot Homes*, are limited in their effectiveness because they can only apply to limited parties and not society at large. If a trade secret were posted on the internet, for example, no injunction could realistically put the proverbial cat back in the bag.

FOIA is a statute focused on government transparency.<sup>203</sup> Judicial interpretations have focused on FOIA’s disclosure mandate and have limited the breadth of FOIA disclosure exemptions, including the trade secret exemption.<sup>204</sup> This poses a great risk for trade secret owners because any proprietary information whose value or business advantage derives from its secrecy may lose that value when disclosed to the public through FOIA requests. Currently, individuals or businesses seeking to prevent disclosure of their secrets must either rely on government agencies to invoke FOIA’s trade secret exemption

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<sup>203</sup> See *EPA v. Mink*, 410 U.S. 73, 79 (1973).

<sup>204</sup> *FBI v. Abramson*, 456 U.S. 615, 630 (1982) (noting the “oft-repeated caveat that FOIA exemptions are to be narrowly construed”)

or attempt the uphill battle of bringing a reserve-FOIA lawsuit to enjoin agency disclosure. Neither option provides sufficient assurances that trade secrets disclosed to government agencies can remain secret.

In fact, *Patriot Homes* highlights the precise risk that companies face when they must disclose their proprietary information to government regulatory agencies. *Patriot Homes* does not represent the norm though because, chronologically, Sterling did not acquire Patriot's trade secrets through FOIA requests until *after* Patriot sued for trade secret misappropriation.<sup>205</sup> Because of this, Patriot actually found itself in a better position than do most companies in similar situations. It had a legal recourse to recover for the loss of its trade secrets.<sup>206</sup>

When a company's competitor attempts to acquire its confidential information through FOIA requests, there currently are no adequate means to prevent the disclosure. Companies and individuals should be afforded the opportunity to help inform government agency decisions concerning whether certain information should be withheld from FOIA requests as trade secrets. They should also be afforded the opportunity to affirmatively attempt to protect information they consider to be trade secrets if a government agency is unwilling to invoke the FOIA trade secret disclosure exemption. Amending FOIA statutes to allow individuals and companies better opportunities to protect their secret information will help remedy this situation—benefitting individuals, companies, government agencies, and the public.

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<sup>205</sup> *Patriot Homes, Inc. v. Forest River Hous., Inc.*, 512 F.3d 412, 413-14 (7th Cir. 2008).

<sup>206</sup> *Id.*