

BRIEFING PAPER:  
FORD MOTOR COMPANY V. LANE  
*by Franklin Goldberg*

**I. INTRODUCTION**

Robert Lane, in publishing confidential Ford documents on his website, "blueovalnews.com," revealed many of Ford's trade secrets. Following recent precedent, the district court did not enjoin Lane's future actions. Instead, it held that the First Amendment's prohibitions on prior restraint provided an affirmative defense to Lane's violation of the Michigan Uniform Trade Secrets Act.<sup>1</sup>

**II. TRADE SECRET LAW**

Trade secret law operates on the theory that innovators will lack the incentive to devote resources into projects without a legal framework to protect their endeavors.<sup>2</sup> Public policy supports this notion, as trade secret law helps maintain a standard of business ethics by promoting good-faith transactions, while punishing wrongdoing through criminal or civil sanctions.<sup>3</sup>

Trade secret law in the United States does not exist in a single doctrine. Rather, states rely on their own legislative acts that generally apply either the early regulations advanced in the Restatement (First) of Torts or those from the more recent Uniform Trade Secrets Act.<sup>4</sup> The Restatement provides trade secret protection for "any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an

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<sup>1</sup> See *Ford Motor Company v. Lane*, 67 F.Supp.2d 745, 750 (1999).

<sup>2</sup> See *Kewanee Oil Co. v. Bocron Corp.*, 416 U.S. 470, 481-82 (1974).

<sup>3</sup> Ryan Lembrecht, *Trade Secrets and the Internet: What Remedies Exist for Disclosure in the Information Age?* 18 REV. LITIG. 317, 320-21 (1999).

<sup>4</sup> See JERRY COHEN AND ALAN S. GUTTERMAN, TRADE SECRET PROTECTION AND EXPLOITATION 13 (1998).

advantage over competitors who do not know or use it."<sup>5</sup> The Supreme Court echoed this formulation in *Kewanee Oil Co. v. Bicron Corp.*,<sup>6</sup> affirming a district court's permanent injunction on the disclosure or use of trade secret related to the manufacture of synthetic crystals.<sup>7</sup> In sum, the Restatement and subsequent cases established that information qualified as a trade secret if it "(1) was used in one's business, (2) provided a competitive advantage, and (3) was secret, with the secrecy requirement ultimately being the most important of the three."<sup>8</sup>

In recent years, however, most states have moved away from the Restatement and have adopted the somewhat broader protections afforded in the Uniform Trade Secrets Act ("UTSA"),<sup>9</sup> which defines a trade secret as any

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>10</sup>

This Act additionally provides that the "[a]ctual or threatened misappropriation<sup>11</sup> [of a trade secret] may be enjoined."<sup>12</sup> The Michigan Uniform Trade Secrets Act<sup>13</sup>, at issue in this case, is modeled after the UTSA.

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<sup>5</sup> RESTATEMENT (FIRST) OF TORTS §757, cmt. b (1939).

<sup>6</sup> 416 U.S. 470 (1974)

<sup>7</sup> *Id.* at 473.

<sup>8</sup> COHEN at 14.

<sup>9</sup> SEE ROBERT MERGES ET AL., INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE (2<sup>nd</sup> ed. 2000).

<sup>10</sup> UNIFORM TRADE SECRETS ACT §1(4), 14 U.L.A. 402-03 (1985 & Supp. 1990).

<sup>11</sup> "Misappropriation" means either the "(i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (ii) disclosure or use of the trade secret of another without express or implied consent by a person who (A) used improper means [e.g. "theft, bribery, misrepresentation, breach, or inducement of a breach of a duty to maintain secrecy or espionage through electronic or other means", *See id.* at §1(1)] to acquire knowledge of the trade secret; or (B) at the time of disclosure or use, knew or had reason to know that his or her knowledge of the trade secret was (I) derived from or through a person who had utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person to maintain its secrecy or limit its use; or (C) before a material change of his [or her] position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake." *Id.* at §1(2). For similar language, see also MICH. COMP. LAWS ANN. §445.1902.

<sup>12</sup> *Id.* at §2(a). This point will take on greater relevance in a later discussion.

<sup>13</sup> MICH. COMP. LAWS ANN. §445.1901-10.

The Restatement, UTSA, and Michigan Uniform Trade Secrets Act are similar, however, in that they all allow for a trade secret claim only if three conditions are met. First, the protected subject matter must be "the type of knowledge or information that trade secret law was meant to protect, and must not be generally known to all."<sup>14</sup> Most importantly, this criterion assures that the information is a secret valuable enough to warrant legal protection, and is generally unknown in a trade or industry.<sup>15</sup> Second, the information must have been wrongfully obtained and/or used, i.e. misappropriated.<sup>16</sup> Plaintiffs must prove the latter so as not to thwart the proper acquisition and utilization of information. Finally, the plaintiff must prove that he or she took reasonable precautions to prevent its disclosure.<sup>17</sup> Although often left to the subjective evaluation of the courts,<sup>18</sup> holding trade secret holders to this standard assures that they take adequate precautions against unwarranted disclosure rather than merely relying on the courts to police the maintenance of their secrets.

### III. THE FIRST AMENDMENT AND PRIOR RESTRAINTS

The First Amendment to the United States Constitution holds that "Congress shall make no law... abridging the freedom of speech, or of the press."<sup>19</sup> In interpreting the First Amendment, courts regularly hold that "speech should be regulated only in the most rare and extreme circumstances, for the freedom to speak one's mind is essential in discovering the truth on matters of public interest, enriching the intellectual vitality of society, and fulfilling the

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<sup>14</sup> MERGES at 35.

<sup>15</sup> Id.

<sup>16</sup> Id. See *supra* note 12.

<sup>17</sup> Id. at 36.

<sup>18</sup> *E.g., Rockwell Graphics Systems, Inc. v. DEV Industries, Inc.*, 925 F.2d 174, \_\_\_ (7<sup>th</sup> Cir. 199) (holding that what is a "reasonable precaution... depends on a balancing of costs and benefits that will vary from case to case and so require an estimation and measurement by persons knowledgeable in the particular field of endeavor involved").

<sup>19</sup> U.S. CONST. amend. I.

potential of the individual."<sup>20</sup> It necessarily follows that a court would question any limitation on speech.

The prior restraint of this First Amendment right, in fact, is presumptively invalid.<sup>21</sup> In practice, courts only allow such restraint on free speech when absolutely necessary to advance a substantial government interest.<sup>22</sup> Moreover, a court will not enjoin speech if the possible harm from the speech is at all uncertain.<sup>23</sup> Finally, courts have consistently affirmed that once information has entered the public domain, it can not bar any subsequent disclosure or duplication.<sup>24</sup> Although there is no objective standard as to what constitutes the public domain in First Amendment cases, recent decisions indicate that information published in the mass media (including the press, radio, television, *and* the Internet) is part of the public knowledge because open to public inspection.<sup>25</sup>

#### **IV. DOES THE FIRST AMENDMENT APPLY TO TRADE SECRETS?**

*Cherne Industrial, Inc. v. Grounds & Assoc., Inc.*<sup>26</sup> implies that it does.<sup>27</sup> In *Cherne*, the Supreme Court of Minnesota held that "a former employee's use of confidential information or trade secrets of his employer in violation of a contractual or fiduciary duty is not protected by the First Amendment."<sup>28</sup> However, the Court did not extend the analysis to cases between parties without a fiduciary relationship. *Ford Motor Company v. Lane*, a case where the trade secret

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<sup>20</sup> Lembrecht at 326.

<sup>21</sup> See *New York Times v. United States*, 403 U.S. 713, 714 (1971) (holding that a party must overcome a heavy burden when trying to justify such restraints)

<sup>22</sup> See *Proctor & Gamble v. Bankers Trust Co.*, 78 F.3d 219, 225 (6<sup>th</sup> Cir. 1996); and *Near v. Minnesota*, 283 U.S. 697, 716 (1931) (holding that restraint prior to publication is acceptable only in "exceptional cases.")

<sup>23</sup> See *CBS v. Davis*, 510 U.S. 1315, 1318 (1994) (holding that Federal Beef Processors, Inc. did not meet its burden of showing that the evil that would result from showing a videotape was both great and certain.)

<sup>24</sup> See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 153 (1999).

<sup>25</sup> See *Religious Technology Center v. Lerma*, 908 F.Supp. 1362, 1368 (E.D. Va. 1995); and *Florida Star v. B.J.F.*, 491 U.S. 524, 527 (1989).

<sup>26</sup> 278 N.W.2d 81 (Minn. 1979).

<sup>27</sup> See also *American Motor Corp. v. Huffstutler*, 61 Ohio St.3d 343 (1991); and *Snepp v. United States*, 444 U.S. 507 (1980).

<sup>28</sup> *Cherne* at 94.

holder sought an injunction against a party outside of the protective sphere delineated in *Cherne*, may therefore require a different analysis. Put simply, absent such a relationship, although a party may face civil or criminal liability after publishing a trade secret, enjoining her act would violate the Constitutional prohibition on prior restraints.

What is troubling about this analysis, indeed the very analysis used by the Michigan District Court in *Ford* and by the Sixth Circuit in *Proctor & Gamble*, is that it seems to run counter to the wording of the Michigan Uniform Trade Secrets Act.<sup>29</sup> The Act itself does not require a fiduciary duty between parties to hold a defendant liable. Rather, misappropriation may be enjoined merely if the trade secret was acquired "by a person who knows or had reason to know that the trade secret was acquired by improper means," or was disclosed or used "without express or implied consent."<sup>30</sup> Moreover, misappropriation includes disclosure or use by a person who

knew or had reason to know that his or her knowledge of the trade secret was derived from or through a person who had utilized improper means to acquire it, acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use, or derived from or through a person who owed a duty to the person to maintain its secrecy or limit its use.<sup>31</sup>

Clearly, Robert Lane, although a third party to *Ford* and its employees, would be liable under the strict language of the statute. Indeed, he was aware that *Ford* employees breached their duties to *Ford* in giving the documents to him.<sup>32</sup> Nonetheless, Courts nationwide ignore such a strict interpretation. Simply, if there is a fiduciary duty between the parties, a prior restraint on the use of trade secrets will not run afoul of the First Amendment. If there is no such duty, there

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<sup>29</sup> It would similarly violate the UTSA. *See supra* note 11.

<sup>30</sup> MICH. COMP. LAWS ANN. §445.1902(b).

<sup>31</sup> *Id.* at §445.1902(b)(ii)(B).

<sup>32</sup> *Ford* at 748.

can be no prior restraint;<sup>33</sup> rather, the offended party must pursue criminal or civil liability after it loses the value of the very secret it tried to protect.<sup>34</sup>

## V. CONCLUSION

This latter discussion does little to mitigate the tension between trade secret law and First Amendment prohibitions on free speech. On the one hand, the owner of a trade secret has a vested interest in keeping her secret confidential (i.e., to continually exploit it for an economic advantage.) As such, statutes similar to the UTSA or Michigan Uniform Trade Secrets Act are commonplace. However, provisions insisting that "actual or threatened misappropriation may be enjoined"<sup>35</sup> seem merely to provide lip service to trade secret law in light of the stern prohibition of prior restraints on speech.

Discussing possible remedies for trade secret breach provides an additional concern. Although the law allows a trade secret owner to recover damages or request criminal prosecution should someone misappropriate<sup>36</sup> her secret,<sup>37</sup> this remedy may be "too little too late." As is the case in *Ford*, Robert Lane destroyed the value of the Ford secrets with one keystroke. Trying to recover lost income from a seemingly judgment-proof individual would prove futile. Moreover, although criminal sanctions might give Ford a sense of moral victory, and perhaps even deter future trade secret violations, such penalties would still leave Ford uncompensated in the present case.<sup>38</sup>

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<sup>33</sup> See *Proctor & Gamble* at 225 (holding that "vanity or... commercial self-interest simply does not qualify as grounds for imposing a prior restraint.")

<sup>34</sup> An analysis of this tension may develop into a workable thesis: "Does reading a fiduciary duty into existing trade secret laws eliminate the very protections it tries to enforce; i.e., can a third party get off scott-free?"

<sup>35</sup> See *infra* note \_\_\_.

<sup>36</sup> "Misappropriation," as defined under both the UTSA and the Michigan Uniform Trade Secrets Act, includes "disclosure or use of the trade secret of another without express or implied consent." See UNIFORM TRADE SECRETS ACT §1(2) AND MICH. COMP. LAWS ANN. §445.1902.

<sup>37</sup> Lembrecht at 358-60.

<sup>38</sup> *Ford* and similar cases raise issues not addressed in this preliminary discussion. First, what is the law regarding the prior restraint of commercial speech, and if Lane acted in a commercial manner, could his acts have been restrained? Second, would reinterpreting trade secret protections as limited privacy rights (therefore aligning trade

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secrets with real property transactions) provide an alternative to trying to resolve the tension between prior restraints and trade secrets? Several other tensions arise, which may take the forefront in further discussions.