To be Submitted by:
DANIEL M. SULLIVAN

Case No. 521107

New York Supreme Court
Appellate Division – Third Department

In the Matter of the Application of

VERIZON NEW YORK INC.,

Petitioner-Respondent,

For a Judgment Pursuant to Article 78 of the Civil Practice Law and Rules,

– against –

NEW YORK STATE PUBLIC SERVICE COMMISSION, KATHLEEN H. BURGESS, as Secretary to the Commission, NEW YORK STATE DEPARTMENT OF PUBLIC SERVICE and DONNA M. GILIBERTO, as Records Access Officer for the Department,

Respondents-Appellants.

BRIEF OF *AMICI CURIAE* THE UNITED STATES CHAMBER OF COMMERCE AND THE BUSINESS COUNCIL OF NEW YORK STATE, INC. IN SUPPORT OF PETITIONER-RESPONDENT

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INTEREST OF *AMICI CURIAE*

The Chamber of Commerce of the United States of America is the world's largest business federation. It represents 300,000 direct members and indirectly represents the interests of more than three million companies and professional organizations of every size, in every industry sector, and from every region of the country. An important function of the Chamber is to represent the interests of its members in matters before the Congress, the Executive Branch, and the courts. To that end, the Chamber regularly files amicus briefs in cases raising issues of concern to the nation's business community.

The Business Council of New York State, Inc. is a statewide organization of approximately 2,400 businesses and local chambers of commerce. It primarily represents the interests of its members before the New York State Legislature and state agencies, and periodically before Congress and federal agencies, and state and federal courts.

This appeal raises the unresolved question whether trade secrets are exempt from disclosure under New York's Freedom of Information Law without the need for a fact-intensive showing of "substantial injury." The issue matters because businesses in our knowledge-based economy increasingly rely on robust protections for intellectual property — including trade secrets. Exposing trade secrets to public disclosure simply because they have been provided to agencies in

the regulatory process is bad for business, bad for agencies, and ultimately bad for the public.

SUMMARY OF ARGUMENT

This case concerns a request under New York's Freedom of Information Law ("FOIL") for information that is indisputably a trade secret. The Supreme Court correctly held that FOIL exempts Verizon's trade secrets from public disclosure by the Public Service Commission ("Commission") without the need for any further showing of competitive injury. That is the most plausible reading of the statute and, as a matter of public policy, also the most sensible one.

In interpreting a statute, "[t]he starting point is always to look to the language itself and where the language of a statute is clear and unambiguous, courts must give effect to its plain meaning." *Pultz v. Economakis*, 10 N.Y.3d 542, 547 (2008). Here, the relevant FOIL exemption protects two categories of information, each of which is set off by the verb "to be." It exempts "records or portions thereof that . . . *are* trade secrets"—that is the first category—and it also exempts those that "*are* submitted to an agency by a commercial enterprise or derived from information obtained from a commercial enterprise and which if disclosed would cause substantial injury to the competitive position of the subject enterprise"—that is the second category. Trade secrets, as the first category, are automatically exempt.

The syntax of the statute confirms this reading. The subordinate clause ("which if disclosed would . . .") refers to "the competitive position *of the subject enterprise*" (emphasis added). But the exemption's first category, for "trade secrets," does not refer to any "enterprise" at all. Only records in the second category are described by reference to "commercial enterprise[s]." Thus, the subordinate clause modifies the second category, not the first—meaning that "trade secrets" are exempt without the need to show "substantial injury."

This reading comports with sound policy. The Legislature acted against the background of a body of law—New York tort law—that protects trade secrets from misappropriation, both to encourage innovation and to discourage unethical business practices. It would make little sense to permit a competitor to obtain trade secrets through a FOIL request when, if the competitor otherwise learned the same secrets without permission, it would have committed a tort.

Beyond that, the rule Appellants propose—under which trade secrets would be exempt only upon a fact-intensive showing of "substantial injury"—is bad for business, bad for agencies, and bad for the public. Bad for business, because trade secrets lose their value as soon as they are disclosed; the bell cannot be unrung. Bad for agencies, because muddying the protection for trade secrets will discourage transparency between businesses and regulators to the detriment of the administrative process. And bad for the public, because robust protection of trade

secrets fosters innovation and ingenuity in a knowledge-based economy that increasingly relies upon both.

ARGUMENT

I. FOIL EXEMPTS TRADE SECRETS FROM DISCLOSURE WITHOUT ANY ADDITIONAL SHOWING

As Verizon persuasively explains, the text and purpose of the statute, its legislative history, New York court decisions interpreting it, and case law under the federal Freedom of Information Act confirm that "trade secrets" are exempt from disclosure under FOIL irrespective of whether their disclosure would cause "substantial injury." Amici write to emphasize several points about the text and structure of the statute.

Indeed, the Court need look no farther than the text of the statute to decide this case. The relevant exemption applies to "records" that

> "are trade secrets or are submitted to an agency by a commercial enterprise or derived from information obtained from a commercial enterprise and which if disclosed would cause substantial injury to the competitive position of the subject enterprise."

N.Y. Pub. Officers Law § 87(2)(d) (emphasis added). The sole question is whether the underlined words modify the term "trade secrets." The answer is no. And because the text admits of no other plausible interpretation, this "court[] must give effect" to that reading. *Pultz*, 10 N.Y.3d at 547.

First, the Legislature's careful placement of the verb "to be" makes clear that the statute creates two distinct exemptions. Section 87(2)(d) exempts records that:

1. "are trade secrets or"

2. "are [a] submitted to an agency by a commercial enterprise or [b] derived from information obtained from a commercial enterprise and which if disclosed would cause substantial injury to the competitive position of the subject enterprise."

N.Y. Pub. Officers Law § 87(2)(d) (emphasis added). The Legislature thus created two categories of records—(1) "trade secrets" and (2) records that reflect information belonging to "commercial enterprise[s]," the disclosure of which would cause "substantial injury" to the "subject enterprise." If the Legislature had intended to create three categories of records—and to subject all three to the "substantial injury" test—it would have struck the word "are" before "submitted."

Second, the syntax and use of the words "subject enterprise" confirm that all "trade secrets" are exempt from disclosure. Structurally, FOIL exempts the following:

1. records that "are trade secrets," and

2. records that "are"

   (a) "submitted to an agency by a commercial enterprise," or

   (b). "derived from information obtained from a commercial enterprise"

   "and which if disclosed would cause substantial injury to the competitive position of the subject enterprise."

N.Y. Pub. Officers Law § 87(2)(d) (emphasis added). The syntax confirms that the subordinate clause ("which if disclosed . . .") does not modify "trade secrets," because those are not defined by reference to a "commercial enterprise." Again, if

the Legislature had intended to apply the "substantial injury" test to trade secrets, it would have added words like "of a commercial enterprise" after "trade secrets."

Third, reading the substantial injury test to apply to "trade secrets," as the Commission would have the Court do, renders the first four words of the exemption redundant. Any agency record that reflects "trade secrets" would, by definition, also be a record that was "submitted to an agency by a commercial enterprise or derived from information obtained from a commercial enterprise"—how else would the agency have the record? Under the Commission's interpretation, therefore, trade secrets would be covered by the second part of the exemption, making the first part unnecessary. In contrast, the Supreme Court here properly gave meaning to every word of the statute.

Fourth, the original version of the statute similarly compelled the interpretation that trade secrets are exempt, and the Legislature did not change the statutory structure when it amended FOIL in 1990. The statute originally exempted records that:

> "[1] are trade secrets or [2] are maintained for the regulation of commercial enterprise which if disclosed would cause substantial injury to the competitive position of the subject enterprise."

No reader would interpret this exemption to mean that trade secrets were only exempt if their disclosure caused substantial competitive injury. To borrow an example from the U.S. Supreme Court, it would be as if two parents warned a

teenage child, "You will be punished if you throw a party or engage in any other activity that damages the house." *Barnhart v. Thomas*, 540 U.S. 20, 27 (2003) (providing example). "If the son nevertheless throws a party and is caught, he should hardly be able to avoid punishment by arguing that the house was not damaged." *Id.* In the same way, when FOIL was first enacted, no requestor would have been able to obtain "trade secrets" by arguing that the proprietor had not independently shown a "substantial injury" from disclosure.

That remains true today because, when the Legislature amended the statute in 1990, it left the structure intact. Consider this redline:

> "[1] are trade secrets or [2] are ~~maintained for the regulation of commercial enterprise~~ submitted to an agency by a commercial enterprise or derived from information obtained from a commercial enterprise and which if disclosed would cause substantial injury to the competitive position of the subject enterprise."

Thus, the Legislature expanded the second category of information exempt from disclosure—protecting records "submitted to an agency by a commercial enterprise or derived from information obtained from a commercial enterprise" instead of only those "maintained for the regulation of commercial enterprise." But there is no reason to read this amendment as effecting a fundamental change in the protection afforded to the first category (covering trade secrets), and the Commission supplies none.

In sum, although Section 87(2)(d) of FOIL may be, as the Supreme Court put it, "inelegan[t]," it admits of only one plausible interpretation. Trade secrets are exempt from disclosure without the need to show substantial competitive injury.

II. THE TRADE SECRETS EXEMPTION PROTECTS THE LEGITIMATE INTERESTS OF BUSINESSES, ADMINISTRATIVE AGENCIES, AND THE PUBLIC

Sound policy confirms that the plain reading of the FOIL exemption is the right one. For Section 87(2)(d) should be interpreted against the backdrop of longstanding legal doctrine that protects trade secrets, treats their misappropriation as a tort,[1] and presumes that the disclosure of a trade secret is irreparable.[2]

The upshot of the Commission's position is that a competitor could obtain trade secrets by means of a FOIL request when, had the competitor otherwise obtained the secrets without the company's permission, it would be liable in tort. Indeed, in this very case, the Commission *found* that Verizon's records were trade

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[1] *See, e.g.*, *Sylmark Holdings Ltd. v. Silicone Zone Int'l Ltd.*, 5 Misc. 3d 285, 297-300 (Sup. Ct. N.Y. Cnty. 2004) (stating the standard to establish a claim of misappropriation of trade secrets); *Am. Seal-Kap Corp. v. Smith Lee Co., Inc.*, 154 Misc. 176 (Sup. Ct. Queens Cnty. 1935), *aff'd*, 248 A.D. 617 (2d Dept. 1936) (action brought to restrain defendants from using or disclosing trade secrets obtained from former employees).

[2] *E.g.*, *Sylmark Holdings*, 5 Misc. 3d at 299 (irreparable harm established if trade secret has been misappropriated).

secrets (a finding affirmed by the Supreme Court). The Commission's position, therefore, is that records protected as intellectual property under New York law should be disclosed publicly—and stripped of their common-law protections—in response to a FOIL request. That would make a hash of the law governing trade secrets, and there is no justification for it.

A. To begin with, the Commission's interpretation would impose unwarranted and irreparable risks upon the business community. Once disclosure of a trade secret is made, it cannot be unmade; the "cat [is] out of the bag." Catherine Holland et al., Intellectual Property: Patents, Trademarks, Copyrights and Trade Secrets 205 (Jere L. Calmes ed., Entrepreneur Press, 2007). After all, "a trade secret must first of all be secret." *Ashland Mgmt. Inc. v. Janien*, 82 N.Y.2d 395, 407 (1993). For that reason, the law governing trade secrets has long presumed that their misappropriation results in irreparable harm. *E.g.*, *Sylmark Holdings*, 5 Misc. 3d at 299.

Public disclosure of trade secrets in response to FOIL requests also lets the cat out of the bag—and produces the same injury as misappropriation by a competitor. The Legislature recognized as much in adopting the exemption for trade secrets in the first place. Its purpose was "to protect businesses from the deleterious consequences of disclosing confidential commercial information." *In*

re Encore College Bookstores, Inc. v. Auxiliary Serv. Corp., 87 N.Y.2d 410, 420 (1995).

The Commission's approach, under which trade secrets would be protected if their disclosure would cause substantial competitive injury, still would diminish this State's protection for trade secrets. Analyzing substantial competitive injury may well involve an additional fact-intensive inquiry. Moreover, whether a given disclosure will cause substantial competitive injury may not always be clear cut. In such circumstances, FOIL gives the agency an incentive to opt for disclosure: If an agency denies a FOIL request, the requestor may sue the agency to challenge the withholding—and if the requestor wins, the court may award him attorney's fees. *See In re N.Y. State Defenders Ass'n v. N.Y. State Police*, 87 A.D.3d 193, 195 (3d Dept. 2011). Agencies like the Commission thus have the incentive in a close case to disclose trade secrets. A little muddiness in the application of FOIL exemptions may be tolerable around the margins, but not for core intellectual property like trade secrets.

B. In the long run, the Commission's reading of the statute would disserve not just the business community but also the administrative state. In many (if not most) sectors, businesses interact regularly with administrative agencies on matters touching the full scope of their operations, and in such interactions they may be asked to disclose trade secrets, as Verizon was here. It would undermine, rather

than advance, the interests of administrative agencies if FOIL were interpreted in a manner that discouraged businesses from sharing sensitive information with their regulators out of the reasonable fear that the information could become public through FOIL requests. Yet that is precisely the result that the Commission's interpretation of Section 87(2)(d) invites.

New York law should foster a cooperative, not confrontational, approach by administrative agencies to the businesses they regulate. An active and open exchange between the two redounds to the benefit of both, so that companies can engage with the government on matters such as licensing, zoning, and taxation, and so that agencies can be trusted not to disclose on a whim the trade secrets shared in confidence with regulators.

Indeed, one of the purposes of Section 87(2)(d) is to "attract business to New York." *Encore*, 87 N.Y.2d at 420. But if an interaction with a state administrative agency puts a company's trade secrets at risk, ultimately companies could decide to take their business (and innovations) elsewhere. *See, e.g., Commc'ns Workers of Am. v. Rousseau*, 9 A.3d 1064, 1076 (N.J. App. Div. 2010) (Under New Jersey law, trade secrets are exempt from public disclosure without more).

C. Which brings us to the last point: The Commission's proposed rule of law also threatens to injure the public at large by working at cross purposes with

trade secret protections, which are designed to encourage innovation and to foster competition "in areas where patent law does not reach." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 498 (1974); *see also* Nancy J. White and Kenneth J. Sanney, *Managing the Risks of FOIA-Able Trade Secrets*, 14 Wake Forest J. Bus. & Intell. Prop. L. 316, 326 (2014) (Trade secret protection "has the objective of advancing innovation by incentivizing certain intellectual endeavors"); Jay Dratler, Intellectual Property Law: Commercial, Creative, and Industrial Property § 4.01[2] (Law Journal Press 1991) (discussing policies of trade secret protection).

If anything, the justification for protecting trade secrets has become more pronounced in recent years, as our knowledge-based economy increasingly relies on the value of information: "As the United States continues its shift to a knowledge- and service-based economy, the strength and competitiveness of domestic firms increasingly depends upon their know-how and intangible assets. Trade secrets are the form of intellectual property that protects this sort of confidential information." John R. Thomas, Cong. Research Serv., R41391, The Role Of Trade Secrets In Innovation Policy 2 (2010).

And, as noted above, today's knowledge-based economy is also an increasingly regulated one, with agencies playing more of a role in the deployment of innovative technologies that benefit the greater public. Businesses that believe their trade secrets will become a matter of public record once they have to interact

with administrative agencies will have less of an incentive to innovate, at least on a large scale.

By keeping trade secrets secret, FOIL's statutory exemption from disclosure plays an important role in fostering innovation and "further[ing] the State's economic development efforts." *Encore*, 87 N.Y.2d at 420. This Court should reject the Commission's attempt to rewrite FOIL and undermine the value of trade secrets in New York State.

CONCLUSION

This Court should affirm the Supreme Court's decision.

Dated: New York, New York
July 24, 2015

Respectfully submitted,

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, being duly sworn, deposes and says that deponent is not a party to the action, is over 18 years of age, and resides at the address shown above, or _____

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That on the 24th day of July, 2015, deponent personally served the within

BRIEF OF *AMICI CURIAE* THE UNITED STATES CHAMBER OF COMMERCE AND THE BUSINESS COUNCIL OF NEW YORK STATE, INC. IN SUPPORT OF PETITIONER-RESPONDENT

upon the attorneys, and by the method designated below, who represent the indicated parties in this action, and at the addresses below stated, which are those that have been designated by said attorneys for that purpose.

☑ By leaving 2 true copies of same with a duly authorized person at their designated office.

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Sworn to before me this
24th day of July, 2015.

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ORIGINAL

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