

## **TRADE SECRETS: NEW PROBLEMS AND EVOLVING STRATEGIES**

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### **WHAT ARE TRADE SECRETS?**

#### 1. Definition

The Colorado Uniform Trade Secrets Act (the "Act") defines a trade secret as follows:

1. A trade secret is the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, improvement, confidential business or financial information, listing of names, addresses, or telephone numbers, or other information relating to any business or profession.
2. which is secret and of value.
3. To be a "trade secret" the owner thereof must have taken measures to prevent the secret from becoming available to persons other than those selected by the owner to have access thereto for limited purposes. C.R.S. § 7-74-102(4).

#### 2. Essential Elements of a Trade Secret

1. Specificity. Courts frequently require that the secret be defined with specificity. See, e.g., Rivendell Forest Prod., Ltd. v. Georgia Pacific Corp., 824 F. Supp. 961, 967 (D. Colo. 1993), rev'd on other grounds, 28 F.3d 1042 (10th Cir. 1994); Trandes Corp. v. Guy F. Atkinson Co., 996 F.2d 655, 661 (4th Cir. 1993), cert. denied, 114 S. Ct. 443 (1993); Litton Sys., Inc. v. Sundstrand Corp., 750 F.2d 952, 954-57 (Fed. Cir. 1984); Jostens, Inc. v. National Computer Sys., Inc., 318 N.W.2d 691, 699 (Minn. 1982). Thus, "[a] plaintiff who seeks relief for misappropriation of trade secrets must identify the trade secrets and carry the burden of showing that they exist." Acuson Corp. v. Alkoa Co., 257 Cal. Rptr. 368, 372 n.6 (Cal. App. 1989).
2. Relative secrecy. The fundamental element of a trade secret is its secrecy. See Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470, 475, 94 S. Ct. 1879, 1883 (1974). The law, however, does not require absolute secrecy. Trandes Corp., 996 F.2d at 664. Rather, the trade secret "must be the subject of efforts that are reasonable under the circumstances to maintain its secrecy." Id.
  1. Extreme and unduly expensive procedures need not be taken.
  2. Reasonable efforts have been held to include:
    1. Advising employees of the existence of a trade secret;
    2. Limiting access to a trade secret on a "need to know basis";

3. Controlling plant access; and
  4. The efforts must be more than normal business precautions. Colorado Supply Co. v. Stewart, 797 P.2d 1303, 1306 (Colo. App. 1990), cert. denied (1991).
3. Confidentiality contracts. The "[n]ecessary element of secrecy is not lost . . . if the holder of the trade secret reveals the trade secret to another [i]n confidence . . . ." Kewanee Oil Co., 416 U.S. at 475. Furthermore, "[a]n agreement not to disclose confidential information is an acknowledgment that the information is a trade secret." In re S & D Foods, Inc., 144 B.R. 121, 168 (Bankr. D. Colo. 1992).
3. Economic value
    1. A plaintiff may demonstrate economic value either by direct or circumstantial evidence. Typically, the trade secret's value is shown in one or more of the following three ways:
      1. By reference to costs of the information. See In re Uniservices, Inc., 517 F.2d 492, 496-97 (7th Cir. 1975) (purchase of business showed cost of information and value); Aries Info. Sys., Inc. v. Pacific Management Sys. Corp., 366 N.W.2d 366, 368 (Minn. App. 1985) (revenues from sale of information showed cost and value);
      2. By reference to the competitive advantage afforded the holder of the secret. Rivendell Forest Prod. Ltd. v. Georgia-Pacific Corp., 28 F.3d 1042, 1046 (10th Cir. 1994); Atlantic Wool Combing Co. v. Norfolk Mills, Inc., 357 F.2d 866 (1st Cir. 1966); or
      3. By reference to the amount of time and money invested in its development. Metallurgical Indus., Inc. v. Fourtek, Inc., 790 F.2d 1195 (5th Cir. 1986); Hayes-Albion v. Kuberski, 364 N.W.2d 609, 615 (Mich. 1984).
  4. Limited availability or novelty
    1. This element goes hand-in-hand with the requirement of relative secrecy, and is frequently subsumed within it. Nevertheless, it is distinct and goes to the "[n]ovelty"<sup>1</sup> of the information rather than the efforts undertaken to

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<sup>1</sup> "[N]ovelty," when used in the context of trade secret law, does not correspond to its use in patent law. ElectroCraft Corp. v. Controlled Motion Inc., 332 N.W.2d 890, 899 (Minn. 1983); cf. Kodekey Elecs. Inc. v. Mechanex Corp., 486 F.2d 449, 455 (10th Cir. 1973) (noting that novelty and invention, as used in patent law, are not requisites for trade secret law). Under patent law, an invention must be novel and non-obvious to the ordinarily skilled person. In the

prohibit its disclosure. That is, the information must not be generally known in the trade or readily ascertainable by the casual observer. Uniform Trade Secrets Act § 1, Commissioners' comment, 14 U.L.A. 313 (1990).

2. Generally known. In judging general knowledge, courts will examine the extent to which the information is known outside the plaintiff company [and] the extent to which the information is known to persons inside the plaintiff company. Rivendell, 824 F. Supp. at 965; Colorado Supply, 797 P.2d at 1306. Therefore, the value of the information is derived from its secret quality. Uniform Trade Secrets Act § 1(4)(i), 14 U.L.A. 438 (1990).
  1. Unique combination of known information. "[A] trade secret can exist in a combination of characteristics and components, each of which, by itself, is in the public domain, but the unified process and operation of which, in unique combination, affords a competitive advantage and is a protectable secret." Integrated Cash Management Serv., Inc. v. Digital Transactions, Inc., 732 F. Supp. 370, 376 (S.D.N.Y. 1989), aff'd, 920 F.2d 171 (2d Cir. 1990); see Rivendell, 28 F.3d. at 1046.
3. Readily ascertainable. "Information is readily ascertainable if it is available in trade journals, reference books, or published materials." Uniform Trade Secret Act § 1 Commissioners' comment, 14 U.L.A. 439 (1990). Furthermore, trade secret is "restricted to confidential information which is not disclosed in the normal process of exploitation." Porter Indus., Inc. v. Higgins, 680 P.2d 1339, 1341 (Colo. App. 1984). That is, information that is readily disclosed by observation of the product itself is not secret particularly where the product is marketed to the public. Koehring Co. v. E.D. Etnyre & Co., 254 F. Supp. 334, 361 (N.D. Ill. 1966); Roboserve, Ltd. v. Tom's Foods, Inc., 940 F.2d 1441, 1454-55 (11th Cir. 1991); see Mineral Deposits, Ltd. v. Ziga, 773 P.2d 606, 608 (Colo. App. 1988), cert. denied (1989).

### 3. Examples of Trade Secrets

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context of trade secrets, the courts generally consider novelty in the sense that the information cannot be known by many people involved in the trade or business. Boeing Co. v. Sierracin Corp., 738 P.2d 665, 674 (Wash. 1987); Motorola, Inc. v. Fairchild Camera & Instrument Corp., 366 F. Supp. 1173 (D. Ariz. 1973).

The following types of information have been held to qualify as trade secrets:

1. Formulas

1. Coca-Cola. Although many of its ingredients are well known, the formula for Coca-Cola includes certain important unknown ingredients and a unique combination, all of which make it a highly valuable trade secret notwithstanding the passing of 100 years from its original formulation. Coca-Cola Bottling Co. v. Coca-Cola Co., 107 F.R.D. 288, 289, 294 (D. Del. 1985).
2. Fried chicken seasoning. KFC Corp. v. Marion-Kay Co., 620 F. Supp. 1160, 1172 (S.D. Ind. 1985).
3. Sealant for use in nuclear power facilities. United States Gypsum Co. v. Insurance Co. of N. Am., 813 F.2d 856, 857 (7th Cir. 1987).
4. Formula for soft plastic fishing lures. Felmlee v. Lockett, 351 A.2d 273, 277 (Pa. 1976).

2. Processes

1. Manufacturer's process for producing a poultry vaccine is a trade secret. Salsbury Labs., Inc. v. Merieux Labs., Inc., 735 F. Supp. 1537 (M.D. Ga. 1987).
2. Company's swivel-joint manufacturing process was a trade secret. FMC Corp. v. Varco, 677 F.2d 500 (5th Cir. 1982).
3. Process for the preparation of hickory smoke flavor. Hickory Specialties, Inc. v. B & L Lab, Inc., 592 S.W.2d 583, 584-8 (Tenn. App. 1979).
4. Although most of a process for the manufacture of polyethylene was in the public domain, some was not, and the process was therefore a trade secret. Imperial Chem. Indus., Ltd. v. National Distillers & Chem. Corp., 342 F.2d 737 (2d Cir. 1965).

3. Methods and techniques. Even broader than the "process" category of trade secrets is the category of "know-how": Information concerning the practical application of specific inventions, formulas or processes.

1. Knowledge relating to the injection blow molding manufacture of plastic containers. Continental Group, Inc. v. Kinsley, 422 F. Supp. 838, 843-4 (D. Conn. 1976).
2. Knowledge relating to the purification, growing, and encapsulation of crystals. Kewanee Oil Co. v. Bicron Corp., 416 U.S. 470 (1974).

3. [Negative] know-how: Knowledge of which research avenues are not worthy of pursuit, or which marketing techniques have proven ineffective, can be trade secrets. e.g. Gillette Co. v. Williams, 360 F. Supp. 1171, 1173 (D. Conn. 1973).
4. Plans, designs and patterns
  1. Computer circuit designs. Data General Corp. v. Digital Computer Controls, Inc., 357 A.2d 105 (Del. Ch. 1975).
  2. Plans for a steel joist manufacturing plant. Nucor Corp. v. Tennessee Forging Steel Serv., Inc., 476 F.2d 386, 392-3 (8th Cir. 1973).
5. Customer lists and other business information
  1. Frequently the single most valuable asset of a business is its relationships with its customers.
  2. Trade secret protection will not generally attach to customer lists where the information is readily ascertainable.
  3. Customer lists that contain confidential information concerning a business' customers, their buying habits, the prices at which products or services are sold to them, and the like, have been afforded trade secret protection.
    1. Customer lists that the employer compiled through a great deal of time, effort, and money were considered trade secrets because, in addition to public information, the lists contained the name of the contact person, the money previously spent on jobs, and general information about the customer. Fireworks Spectacular v. Premier Pyrotechnics, 86 F. Supp. 2d 1102 (D. Kan. 2000).
    2. Customer list that had been developed over a number of years and that contained pricing information and customer preferences constituted a trade secret. Morlife, Inc. v. Lloyd Perry, 56 Cal. App. 4th 1514 ( Cal. App. 1997).
    3. Customer list produced through lengthy and expensive efforts constituted a trade secret. Courtesy Temp. Servs. v. Camacho, 272 Cal. Rptr. 352 (1990).
    4. Trade secret protection does not depend upon whether a customer list is taken in written form or memorized. Nowogroski Ins. v. Rucker, 971 P.2d 936 (Wash. 1999).

4. Information concerning business opportunities has frequently been given trade secret protection.
    1. Information regarding the location of potential oil fields is a trade secret. Amoco Production Co. v. Laird, 622 N.E.2d 912 (Ind. 1993).
    2. Confidential information regarding a company's intended locations for plant sites. Hunter v. Shell Oil Co., 198 F.2d 485 (5th Cir. 1952).
    3. Oil and gas reserves. FTC v. Texaco, Inc., 555 F.2d 862, 883-5 (D.C. Cir. 1977).
    4. Knowledge of a brokerage opportunity or an impending transaction. See 12 Milgrim, Milgrim on Trade Secrets 2.09[8][f] at 2-308 (1991).
  5. Product and vendor files, including pricing information and structure. Sigma Chemical Co. v. Harris, 794 F.2d 371 (8th Cir. 1986). But see Colorado Supply Co. v. Stewart, 797 P.2d 1303 (Colo. App. 1990) (pricing information did not constitute trade secret where information was disclosed to the public and no precautions were taken to ensure secrecy). Accord Porter Industries, Inc. v. Higgins, 680 P.2d 1339, 1342 (Colo. App. 1984) (pricing and bidding structure not a trade secret where there was no showing that the information was kept confidential);
  6. Program developed for financial accounting and reporting requirements for public institutions. Aries Info. Systems, Inc. v. Pacific Management Sys. Corp., 366 N.W.2d 366 (Minn. App. 1985);
  7. Recruiting candidate information. Management Recruiters of Boulder Inc. v. Miller, 762 P.2d 763 (Colo. App. 1988);
  8. Information on how to set up and operate an advertising circular business. Gold Messenger, Inc. v. McGuay, 937 P.2d 907, 911-912 (Colo. App. 1997);
  9. Business plans;
  10. Analyses of market opportunities; and
  11. Acquisition strategies and pending acquisitions.
4. Definition of Misappropriation Under the Uniform Trade Secrets Act

1. 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
2. Disclosure or use of a trade secret of another without express or implied consent by a person who:
  1. Used improper means to acquire knowledge of the trade secret; or
  2. At the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was:
    1. Derived from or through a person who had utilized improper means to acquire it;
    2. Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use;
    3. Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
    4. Before a material change of his 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. C. R. S. § 7-74-102(2).
5. Establishing Misappropriation
  1. Improper acquisition
    1. Acquisition of a trade secret by proper means is not actionable. [Proper means] includes discovery by: (1) independent invention; (2) reverse engineering (where acquisition is honest and fair); (3) license agreement; (4) observation of the item in public use; and (5) obtaining the secret from published literature. Uniform Trade Secrets Act § 1, Commissioners' comment, 14 U.L.A. 438 (1990).
    2. Misappropriation, therefore, turns on the determination of whether the means of acquisition was proper or improper. [Improper means] may include [theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means . . . .] Uniform Trade Secrets Act § 1(1), 14 U.L.A. 437 (1990). Finding [means] to be improper is largely a fact-specific exercise, and, therefore, defies complete enumeration of improper acts.
  2. Breach of a duty of confidence. Numerous trade secret cases arise under circumstances in which a party has breached a duty of confidence. Typically, these cases involve a breach related to the employer-employee relationship. Whether or not the employee has entered into a confidentiality agreement, the

employee has a duty to maintain the secrecy of the employer's trade secrets. Plant Indus., Inc. v. Coleman, 287 F. Supp. 636, 644-45 (C.D. Cal. 1968); Q-Co Indus., Inc. v. Hoffman, 625 F. Supp. 608, 617 (S.D.N.Y. 1985); Jostens, Inc. v. National Computer Sys., Inc., 318 N.W.2d at 701 (Minn. 1982). When the employee or former employee breaches that duty, he or she is liable for misappropriation.

### 3. Third party liability

1. Where third parties acquire trade secret information, with knowledge or reason to know that it was acquired by improper means, the third parties also are liable for misappropriation. See Kozuch v. CRA-MAR Video Center, Inc., 478 N.E.2d 110, 11213 (Ind. App. 1985).
2. Mistake or accident. As long as the third party is innocent in the sense that he or she does not have knowledge of or reason to know that the information is a trade secret and was acquired by accident or mistake, that party may escape liability or be subject to limited liability. See, e.g., Forest Lab., Inc. v. Pillsbury Co., 452 F.2d 621, 626-27 (7th Cir. 1971). This area of the law, however, is unsettled at best.

## 6. Remedies

1. Injunctions. [Temporary and final injunctions including affirmative acts may be granted on such equitable terms as the court deems reasonable to prevent or restrain actual or threatened misappropriation of a trade secret.] C.R. S. [7-74-103.
2. Damages
  1. [Damages may include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages . . . may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or use of a trade secret.] C. R. S. [7-74-104(1).
  2. [The proper measure of damages for misappropriation of trade secrets case[s] can be elusive, and courts are encouraged to be [flexible] and [imaginative.]] Computer Assoc. Int'l. Inc. v. American Fundware, Inc., 831 F. Supp. 1516, 1526 (D. Colo. 1993) (good discussion of reasonable royalties). Thus, damages may include the development costs of the trade secret. TelexCorp. v. IBM Corp., 510 F.2d 894, 932 (10th Cir. 1975), cert. dismissed, 423 U.S. 802 (1975).
  3. For an example of a case determining damages see Mineral Deposits, Ltd. v. Zigan, 773 P. 2d 606 (Colo. App. 1989), cert. denied (1989).

3. Punitive damages. ¶If the misappropriation is attended by circumstances of fraud, malice, or a willful and wanton disregard of the injured party's right and feelings, the court or the jury may award exemplary damages in an amount not exceeding the award made under subsection (1) of this section.¶ C. R. S. ¶ 7-74-104(2).
4. Attorneys' fees. ¶If a claim of misappropriation is made in bad faith, a motion to terminate an injunction is made or resisted in bad faith, or willful and malicious misappropriation exists, the court may award reasonable attorney fees to the prevailing party.¶ C. R. S. ¶ 7-74-105.
5. Theft of trade secrets
  1. Criminal violation
    1. C.R.S. ¶ 18-4-408 provides a criminal penalty for theft of a trade secret: ¶Any person who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his own use or to the use of another, steals or discloses to an unauthorized person a trade secret, or, without authority, makes or causes to be made a copy of an article representing a trade secret, commits theft of a trade secret.¶
    2. Theft of a trade secret is a class 1 misdemeanor.
  2. Private right of action. C.R.S. ¶ 18-4-405 provides: ¶The owner [of property obtained by theft] may maintain an action not only against the taker thereof but also against any person in whose possession he finds the property. In any such action, the owner may recover three times the amount of actual damages sustained by him, if any, and may also recover costs of the action and reasonable attorney fees; but treble damages and attorney fees shall not be recoverable from a good-faith purchaser or good-faith holder of the property.¶

## **PROTECTING YOUR TRADE SECRETS AND INTELLECTUAL PROPERTY**

### **I. Who Owns Intellectual Property Absent an Agreement**

- A. Copyright: The Work-For-Hire Doctrine

1. The author owns a copyright.
2. The Work-For-Hire doctrine provides that where an employee prepares a work within the scope of employment, the employer is considered the author — i.e., the employer owns the copyright.
3. Potential problems with relying on copyright law to protect your intellectual property:
  - a. Is the work subject to copyright law?
    - (1) Ideas cannot be copyrighted. A copyright attaches only to the expression of the idea.
    - (2) Software. Software is covered by copyright law. However, you may face a significant fight over the scope of this protection.
  - b. Scope of employment. Was the employee hired to develop the work? A work either is or is not a work-for-hire. You cannot make an employee's work a work-for-hire by agreement.
  - c. Independent contractors
    - (1) The work-for hire doctrine will not apply if the work is developed by an independent contractor (except for specially ordered works, which fall into certain statutory categories and which are subject to an express work-for-hire agreement).
    - (2) Independent contractor status is determined by the 20 part common law test. The focus of this test is the right to control performance.
    - (3) There may be an implied contract or license agreement with an independent contractor. However, the rights your company could hold under such an agreement, if it existed, would be extremely limited.
  - d. The limits of copyright remedies
    - (1) A copyright provides 5 specific rights. Specifically, a copyright provides the right to:
      - (a) Reproduce the work;
      - (b) Distribute the work;

- (c) Adapt the work into new works based upon the original copyrighted work (["derivative works"]);
    - (d) Perform the work publicly; and
    - (e) Display the work publicly.
  - (2) A copyright does not provide any right to physical custody or control over the work.
  - (3) Thus, although an employer who owns a copyright may prohibit the employee from copying the work, it may not be possible under copyright law to recover the only copy of a work that was physically taken by an employee.
  - (4) Possible solutions:
    - (a) Actions for misappropriation.
    - (b) Back-up policies.
- 4. The importance of controlling your copyrights
  - a. In the wrong hands, a copyright can be used to block progress.
    - (1) A copyright holder has the right to develop derivative works [ i.e., new works based upon the old work.
    - (2) Thus, an employee who holds a copyright on a work may be able to prevent development of new works by your company that are too closely related to the copyrighted work.
    - (3) This is true even if the copyright is not registered.
  - b. Copyrights and trademarks. Certain logos may be subject to both trademark and copyright law. Thus, although your company may own a visual trademark, an employee with a copyright on the art work or text associated with the trademark may be able to prevent you from using the trademark.

## B. Patents

- 1. The general rule is that an inventor owns any patent on his or her work. Thus, where an employee invents a patentable work, absent any agreement to the contrary, the employee owns the patent.

2. The Shop Right Rule. The Shop Right rule may provide an employer with a royalty-free implied license to utilize a patented invention developed by an employee using the employer's resources.
3. However, the license that is implied by the Shop Right doctrine is extremely limited.
  - a. Non-exclusive.
  - b. No right to transfer or sub-license.
  - c. Limited rights in improvements, resulting in the ability of the employee patent-holder to "block" the employer's transfer or licensing of any improvements.
  - d. The employee owns the patent itself.
  - e. Thus, the Shop Right is often little more than a defense to a charge of patent infringement.
4. There is no Shop Right where the patent is held by an independent contractor. However, there may be an implied license agreement.

C. Trade secrets

1. Generally, an employer "owns" the trade secrets of the company.
2. A trade secret is the whole or any portion or phase of any scientific or technical information, design, process, procedure, formula, improvement, confidential business or financial information, listing of names, addresses, or telephone numbers, or other information relating to any business or profession which is:
  - a. Of value;
  - b. Secret; and
  - c. Which the company has taken measures to keep secret.
3. There may be a dispute over whether information constitutes a trade secret. Thus, it may make sense to protect sensitive information with a confidentiality agreement (see below).
4. An employee may be able to defeat trade secret status, either intentionally or inadvertently, by compromising the secrecy of information.

D. Trademarks

1. Generally, the employer owns a trademark, since it exists only in use.
  2. However, if proper care is not taken, an employee can compromise the trademark.
- E. International defaults
1. International defaults may differ from those in the United States.
  2. It is essential to evaluate the laws of each country in which you intend to develop, produce, or market intellectual property.

## **II. Intellectual Property Agreements**

- A. Very few agreements will be alike. An intellectual property agreement must be carefully tailored to the technology and the needs of the parties.
- B. Basic types of agreements
1. Assignments.
  2. License agreements.
  3. Hybrids.
- C. Ownership rights
1. What there is to own
    - a. Underlying technology.
    - b. Licenses to use.
      - (1) Exclusive.
      - (2) Non-exclusive.
      - (3) Rights to sub-license.
    - c. New technology based on underlying technology.
  2. Different aspects of ownership
    - a. Royalties
      - (1) Non-contingent.

(2) Contingent.

b. Control

(1) Over development.

(2) Over marketing.

D. Some important clauses

1. Assignment. If the goal is to assign all rights, make sure that all rights are in fact assigned. E.g., rights to:
  - a. Invention.
  - b. Ideas.
  - c. Expressions.
  - d. Copyrights.
  - e. Patents.
  - f. Trade secrets.
  - g. Applications.
  - h. Continuations.
  - i. International patents and applications.
  - j. Claims for priority.
  - k. Derivative works.
  - l. Improvements.
  - m. Enhancements.
  - n. Modifications.
2. Cross-licensing.
3. Pre-clearing publications.
4. Physical control over the technology.

5. Assistance in applying for patents and copyright registration. The patent application process can be extremely involved, requiring significant input from employee-inventors. This input can range from signing documents to explaining the invention to patent attorneys to giving testimony at hearings. It is important to make sure that you will have the necessary cooperation.
  - a. During employment.
  - b. After employment.
6. Assistance in pursuing or defending claims for infringement, etc.
7. Works in-progress. All too often, employment relations terminate while a project is in-progress. This can lead to several issues. For example:
  - a. Continued assistance. Will the former employee continue to assist in development, for example by getting a new person up to speed? It may be helpful to have this option, even if you decline to use it. However, be careful of inadvertently providing the employee with a right to continue consulting for a fee after the employment has terminated.
  - b. Progress monitoring. A provision for progress monitoring can serve several useful functions. In addition to helping you determine what progress is being made, it can also help a new person trace the steps taken by the departed employee. Also, in the event of sabotage or theft, you may be able to start again from the previous iteration or draft, rather than from scratch.
  - c. Return of materials and copies. How will you know that all copies have been returned? This should be part of an overall document security plan.
8. Backups. Software or hard-copy back-ups can serve as progress monitors. They are most effective when made part of a company-wide document protection plan.
9. Post-employment protections. Even if your technology does not physically leave with an employee, much of the know-how that went into that technology may reside in the head of a former employee. Thus, serious consideration should be given to creating incentives to protect such know-how from falling into the wrong hands.
  - a. Confidentiality agreements

- (1) Trade secrets. The law already protects trade secrets from misappropriation. However, there may be considerable uncertainty in the definition of what is a trade secret. There are several factors that go into whether information is considered a trade secret, including.
    - (a) Outside sources for the information (other than by taking the information from your company);
    - (b) The cost of compiling the information;
    - (c) The value of the information; and
    - (d) Steps your company has taken to protect the information.
  - (2) Confidentiality agreements may allow you to protect confidential information irrespective of its "trade secret" status.
  - (3) Potential problems
    - (a) Treating information as confidential. Courts will often disregard confidentiality agreements where the employer has not taken steps to safeguard the confidentiality of the information in question.
    - (b) Enforcement. How do you know "much less prove" that someone has used confidential information.
- b. Anti-raiding agreements. These may stop former employees from hiring away other employees or whole departments.
- (1) There is some question as to whether these agreements are permissible under Colorado's statute on non competition agreements.
  - (2) Anti-raiding agreements will not prevent people other than former employees from hiring away your employees.
- c. Non-competition agreements "see below"
- d. Financial incentives
- (1) Carrots. Incentives may be tied to the success of the technology.

- (2) Sticks. Incentives may be decreased for participation in certain types of employment.
- (3) Certain types of financial incentives, particularly those that are punitive in nature, may arguably be prohibited by Colorado's statute on non-competition agreements.

### **III. Non-competition Agreements**

6. Typical non-competition agreements: The typical noncompetition agreement provides that for a certain period of time following the end of employment, the employee will not engage in a specifically described business or profession in a particular geographic area. The agreement typically provides that it applies regardless of whether the employee seeks to be employed by a different company or whether the employee commences a new business. Most noncompetition agreements are (unwisely) boilerplate forms that are not tailored to the circumstances of the particular employee.
7. Limitations on enforceability of non-competition agreements
  1. Court decisions. Courts usually require a noncompetition agreement to be reasonable in duration and geographic scope.
    1. Duration. Most courts approve noncompetition agreements that extend for one year after termination of employment; a few approve two years. Of course, what duration is reasonable is evaluated under the circumstances of each case. In some situations six months might be too long, and in some cases three years might be upheld.
    2. Geographic Scope. Most courts require a noncompetition agreement to be limited to the smallest geographic area necessary to protect the employer's legitimate interests. A small accounting firm may need protection only within a 25-mile radius of its office, while a large manufacturer of consumer goods may need worldwide protection.
    3. Limitation. If a noncompetition agreement is too long in duration or too broad in geographic scope, the court usually will narrow the agreement and then enforce it as narrowed.
  2. Colorado statute
    1. In keeping with the traditional hostility toward noncompetition agreements, the Colorado legislature has enacted a statute that

sharply limits the circumstances in which such agreements can be enforced.

2. Colorado statute § 8-2-113 provides that all noncompetition agreements are void, with only four exceptions:
  - (1) noncompetition agreements which are part of contracts for the purchase and sale of a business or the assets of a business;
  - (2) contracts providing for recovery of the expense of training an employee who has been employed for less than two years;
  - (3) contracts for the protection of trade secrets; and
  - (4) noncompetition agreements with § executive and management personnel and officers and employees who constitute professional staff to executive and management personnel. §

3. The first two exceptions usually are not useful in the day-to-day administration of a business and the protection of its intellectual property.

4. The second two exceptions, however, can and should be the basis of a company's use of noncompetition agreements to protect its intellectual property.

3. Contracts for protection of trade secrets. At first blush, this exception would seem to allow enforcement of all noncompetition agreements with any employee who possesses a trade secret. The courts do not read this exception so broadly. Most courts will enforce a noncompetition agreement on this ground only if:

1. the employee actually possessed trade secrets (meaning valuable secrets that the company took effective measures to keep confidential);
2. the noncompetition agreement identifies the trade secrets (it is not necessary to disclose the secrets), and specifies that the purpose of the agreement is to protect the secrets; and
3. it would be necessary to enforce the agreement to protect the company's trade secrets.

4. Executive and Management personnel

1. This exception often is easier to use than the trade secret exception. If the employee is truly an executive or manager, the employer is free to bind the employee to a noncompetition agreement that is reasonable in duration and geographic scope.
  2. The peculiar reference to "professional staff to executive and management personnel" is undefined, but presumably means the president's executive secretary, the CFO's assistant who is privy to the company's financial affairs, and the like.
  3. Note that this exception does not mean that any employee who manages at least one person is a "manager." Most courts use a common-sense attitude and apply this exception only to employees with significant management discretion.
8. Suggestions for increasing the likelihood that noncompetition agreements will be enforced
1. Compensate employees who have been discharged
    1. If you are serious about requiring an employee who has been laid off or fired not to compete, you should be prepared to pay the employee at least half-pay so long as the employee is diligently searching for a job. The employee should be required to submit weekly job-search logs showing all contacts made. Compensation ends at the earliest of:
      - (1) when the employee ceases to make serious, good-faith efforts to obtain a new job;
      - (2) when the employee gets a new job;
      - (3) when the employee is offered and turns down a job reasonably suited to the employee's background and training (even if the offer is for a lower salary); or
      - (4) when the duration of the noncompetition period expires.
    2. The employee should be required to accept reasonable employment at a lower salary or, in the alternative, to forego any further compensation. Consider including in the agreement that the old employer will pay one-half of the difference in salary for the duration of the noncompetition period.
    3. Agreeing to compensate a terminated employee at some reasonable rate may be the single most effective means of persuading a judge

to enforce a noncompetition agreement when the employee was discharged.

2. Specify that the agreement applies even if the employee is discharged involuntarily. Many employees (and judges) are startled to learn that an employer believes it can enforce a noncompetition agreement against an employee who has just been discharged, with or without cause. The agreement should say so explicitly.
3. Make the agreement a separate document. Many judges are suspicious of a noncompetition agreement that is a single paragraph buried deep in an agreement covering many other subjects. Did the employee even see it? Understand it? A separate agreement allays these fears.
4. Recite the circumstances that make the agreement enforceable
  1. Trade secrets. If the agreement is to protect trade secrets, say so and recite the kinds of secrets being protected. Have the employee acknowledge that he is to be given trade secrets and that the agreement is the only effective means to protect the employer's trade secrets.
  2. Executive and management personnel. If the basis for enforceability is "executive and management personnel," state the employee's initial position and have the employee confirm that the position is as an executive or manager. State the employee's duties and responsibilities that show executive or managerial level responsibility.
  3. If the employee's job title or duties change, execute an addendum to the agreement for each such change, reciting the new job and describing how the new job is still executive or management personnel. If there is an increase in salary, recite that part of the consideration for the increase in pay is the continuing agreement not to compete.
5. Name any companies for which the employee cannot work. If you have particular competitors for which you particularly want the employee not to work after leaving your employ, list the competitors by name. Specify that the employee cannot work for those companies in any capacity. The list of companies should not be exclusive: "including but not limited to."
6. Provide for the employee to pay the employer's attorneys' fees in the event the employer obtains injunctive relief against the employee under the agreement

1. The employee should be required to pay the employer's reasonable attorneys' fees in the event the employer obtains any injunctive relief against the employee under the agreement. The court rarely will order an employee to pay such fees (indeed, you probably will not even ask), and most employees could not afford to pay anyway. However, the threat of such fees may persuade some employees not to breach the agreement.
2. Do not make the attorneys' fees provision mutual. The employer does not want to find itself liable for the employee's attorneys' fees if the court refuses to enforce the agreement.

## **HIRING EMPLOYEES WHO MAY HAVE TRADE SECRETS**

### 7. Potential Dangers

There are several possible claims which could be asserted against a company which hires someone who may have knowledge of his former employer's trade secrets.

#### 1. Tortious interference with contract

By hiring someone to compete with their former employer, a company could be liable for tortiously interfering with that employee's contractual obligation to the former employer to avoid competition.

#### 2. Conspiracy

A new employer could also be liable for conspiring with its new employee to commit some illegal act. For example, if the employee begins to compete with his current employer while still employed by that company, he would be violating his duty of loyalty and fiduciary duty owed to the current employer. See Jet Courier Service, Inc. v. Mulej, 771 P.2d 486 (Colo. 1989).

#### 3. Misappropriation of trade secrets

Even if the employee does not have a covenant not to compete, a new employer can be liable for misappropriation of trade secrets.

1. Some courts have held that, notwithstanding good faith efforts made by both the employee and the new employer, there may be "inevitable disclosure" of trade secrets to the new employer. PepsiCo., Inc. v. Redmond, 54 F.3d 1262, 1269 (7<sup>th</sup> Cir. 1995) (Unless the former employee "possessed an uncanny ability to compartmentalize information, he would necessarily be making decisions [for his new employer] by relying on his knowledge of [his old employer's] trade secrets.")

### 8. Evaluating the Risks

1. Is there a covenant not to compete?

Even if the employee does not have a covenant not to compete or even if it is unenforceable, the new employer could still be liable for misappropriation of trade secrets. See Redmond, 54 F.3d at 1269; FMC Corp. v. Varco International, Inc., 677 F.2d 500, 504 (5<sup>th</sup> Cir. 1982).

2. Is the covenant not to compete enforceable?

1. **Assignability.** If an employee signs a covenant not to compete with an employer who is subsequently acquired by another company, there may not be a valid assignment of the covenant not to compete to the new company. In some states, there is not an automatic assignment of covenants not to compete to acquiring companies absent an express agreement by the employee permitting the assignment of the covenant not to compete.

2. **Void.** In many states, covenants not to compete are void, unless the employee or the company falls within certain exceptions. For example, in Colorado, covenants not to compete are void except:

1. in connection with a contract for the purchase and sale of a business or the assets of a business;
2. a contract for the protection of trade secrets;
3. a contractual provision providing for recovery of the expense of educating and training an employee who has served an employer for a period of less than two years; and
4. executive and management personnel and officers and employees who constitute professional staff of the executive and management personnel. C.R.S. § 8-2-113(2).

3. Is the covenant not to compete reasonable in scope?

1. Duration.
2. Geographic area.
3. Protected activity.

3. Will the employee actually be competing with his/her former employer?

4. Has the former employer previously attempted to enforce covenants not to compete?

Answering this question will not only tell you something about the possible inclination of the former employer to file litigation; it will also tell you whether the former employer has failed to protect the confidentiality of its trade secrets, thereby possibly losing trade secret protection.

Moreover, because enforcement of a covenant not to compete turns upon the Court's assessment of what seems fair in a particular situation, an employer's failure to enforce a covenant against employees who left earlier could be an important fact.

5. Regardless of whether the employee signed a covenant not to compete, does he/she have trade secrets?
6. Has the employee decided to leave his or her former employer or is the new company inducing him/her to leave?

## 9. Minimizing the Risks

1. Make it clear that you are not hiring the employee to obtain trade secrets.
  1. Before an offer is made, tell the employee that you are not trying to obtain his current or former employer's trade secrets.
  2. Include the same statement in a written offer letter.
  3. Issue an instruction to the new employee, which he or she should acknowledge in writing, that he or she is not to use any trade secrets or proprietary information of a former employer in the course of his or her work for his or her new employer.
  4. Instruct co-workers that they are not to attempt to learn the new employee's trade secret knowledge.
  5. Consider making a written statement to the former employer that you have hired that company's former employee but that you have no intention of taking advantage of any trade secret knowledge that person may have.
2. Assign the employee to work in a different area □ product as well as geographical □ from the area in which she or he worked for the former employer.
3. Consider excluding key accounts of the former employer from the account list of the new employee.
4. Can you make a deal with the former employer?
  1. Lump sum.

2. Royalty on sales.
3. Excluding accounts of the former employer.

10. Other Issues

1. Indemnification

The new employee may ask his or her new employer to indemnify him or her in the event that litigation is filed. It may be necessary to provide a defense or to indemnify the employee to persuade him or her to join a new company. On the other hand, if the new company agrees to do so, it may look as though both the employee and the new employer realize that their actions may be illegal. Perhaps, there is a less obvious way to provide the new employee with the comfort he or she requires, such as a signing bonus.

## LITIGATING TO PROTECT YOUR INTELLECTUAL PROPERTY

2. Preparing to Win the "Fairness" Battle

6. In any litigation, regardless of the legal elements of the claims of the parties involved, the judge and the jury will probably consider which potential result is the "fairest."
  1. This is especially likely when a company is suing a former employee to enforce a noncompete agreement or to claim ownership of intellectual property.
  2. In determining whether to grant a preliminary injunction to enforce an agreement or to protect intellectual property, the court is specifically directed to consider whether balancing the equities favors granting the requested relief. See, e.g., Rathke v. MacFarlane, 648 P.2d 648, 653-54 (Colo. 1982).
7. Submitting the Proposed Agreements to employees
  1. Employers should submit the proposed agreements to the employee at a time and in a manner which will maximize an employer's contention that the intellectual property protections are fair and reasonable. The best time to submit the proposed agreements is when the offer of employment is being made.
    1. By doing so, the employer demonstrates a thorough effort to protect its intellectual property.

2. It can be later established that the employee knew from the outset that protecting intellectual property was important.
  3. The employee knows from the outset, and acknowledges by accepting the agreement, that he or she would be exposed to or would generate intellectual property.
  4. The employee had a meaningful alternative to accepting an intellectual property agreement.
  5. The employee had an opportunity to negotiate, and an opportunity for his or her attorney to review, the agreement.
  6. The agreement should be tailored to the particular employee's situation.
  7. By making the intellectual property agreements available in advance, the employer can show that there was consideration of the offer of employment and of compensation with benefits in return for the employee's promises.
  8. Before accepting the offer, the employee knew and understood the consequences of violating the agreements.
8. Choosing the terms: negotiating and drafting intellectual property and noncompetition agreements frequently involves a delicate balancing between protecting intellectual property and adopting terms which a court will enforce. See National Graphics Co. v. Dilley, 681 P.2d 546, 547 (Colo. App. 1984) (To be enforceable, a noncompetition agreement must be reasonable as to its geographic scope and its duration).

### 3. Preserving Confidentiality

6. Steps to take immediately
  1. Formulate an intellectual property security policy. In the event of litigation, the presence of a viable, a formal intellectual property protection program will help an employer to establish the validity and protectability of your intellectual property, and to establish that the taking of that intellectual property by the defendant was wrongful.
  2. A policy should be incorporated into the Company employee handbook or policy manual which outlines the steps the Company has taken to preserve the secrecy of its intellectual property. The Intellectual Property Security Policy should include at least the following:

1. A statement broadly defining the terms "trade secret" and "intellectual property" and explaining the reasons for the program;
  2. A list of the categories of information which the Company considers to be its trade secrets and intellectual property and a statement that such information is to be treated at all times as confidential. The list might include the following:
    - (1) Formulas for all products sold by the Company;
    - (2) Research and development material;
    - (3) Sales data;
    - (4) Advertising data;
    - (5) Marketing data;
    - (6) Customer information;
    - (7) Purchasing, pricing, and profit information; and
    - (8) Personnel files;
  3. A statement to the effect that the Company's trade secrets and intellectual property are to be disclosed only to those within the Company with a "need to know";
  4. A procedure for identifying documents which contain trade secrets and labeling those documents as "confidential";
  5. A procedure to be employed when transmitting confidential material to those outside the Company;
  6. The Company policy regarding storage of confidential material; and
  7. The Company policy regarding destruction of confidential material.
3. Monitor access to confidential information
    1. Establish checkout systems for documents and software.
    2. Establish backup systems for documents and software.
    3. Consider creating traps to detect unauthorized copies.

4. Draft a Notice to be posted on all Company bulletin boards announcing the Company's Intellectual Property Protection Program.
5. Require each department within the Company to compile and keep current an intellectual property list.
6. Institute a policy restricting visitors' access to Company facilities
  1. Maintain sign-in logs.
  2. Require visitors to wear identification badges.
  3. Lock cabinets, file drawers, rooms, etc.
  4. Require visitors to sign an agreement that provides that any confidential information seen by or disclosed to the visitor will not be disclosed to others.
  5. Require consultants, independent contractors, partners, and licensees to sign confidentiality agreements.
7. Steps to take when an employee is hired
  1. Require each newly hired employee, as a condition of employment, to sign an agreement not to divulge the Company's trade secrets or confidential information. The agreement should contain at least the following:
    1. An acknowledgment that the employee may learn information belonging to the Company which is a trade secret, confidential, or proprietary to the Company;
    2. An agreement that the employee will not communicate, divulge, or use any such information except for the benefit of the Company;
    3. An acknowledgment that all information relating to the Company, even if prepared or compiled by the employee, is the property of the Company;
    4. An agreement to return to the Company all documents, and all copies, which relate to the Company; and
    5. An agreement that all inventions and discoveries devised by the employee during his or her employment with the Company belong to the Company.

2. Consider requiring certain employees to execute a covenant not to compete as a condition of employment.
  3. Consider similar agreements with suppliers, independent contractors, sales representatives, subcontractors, consultants, and the like.
8. Steps to take when an employee leaves
1. All employees who have had access to any confidential information should be given a termination interview. The employee's supervisor and a Human Resources representative should be present.
  2. A termination interview checklist should be devised so that each of the following is covered, and so that the Company has a record that these topics were covered.
    1. Remind the employee that he occupied a position of trust and confidence.
    2. Remind her that she has had access to the Company's confidential information -- information which is a significant asset to the Company.
    3. Give the employee a copy of the agreement he signed when he first became an employee and go over the agreement with him.
    4. Even if the employee has not signed an agreement not to disclose the Company's trade secrets, he has a legal obligation not to disclose the Company's trade secrets.
    5. Use the termination interview to insure that the employee is aware of that obligation and that the Company will protect its rights in that regard.
    6. Caution the employee that she is not to take any documents relating to the Company with her, or to use any such documents, or disclose any of them to her new employer.
  3. Follow-up
    1. One of the persons who conducted the termination interview should be given the responsibility for following up on the matters discussed in the interview.
    2. Insuring that the interview checklist has been filled out.

3. Verifying that all Company property and all Company documents have been returned.
4. A follow-up letter should be sent to the employee again reminding the employee of the obligation to keep the Company's confidential information confidential.

#### 4. Legal Theories

6. Theft of trade secrets: see above.
7. Breach of confidentiality agreement: see above.
8. Breach of non-competition agreement: see above.
9. Related torts
  1. Breach of fiduciary duties
    1. Under the common law, an employee owes a duty of loyalty to his or her employer during the course of their employment relationship. This duty is premised on the policy consideration that commercial competition must be conducted through honesty and fair dealing. Jet Courier Serv., Inc. v. Mulei, 771 P.2d 486, 489 (Colo. 1989); T.A. Pelsue Co. v. Grand Entewrises, Inc., 782 F. Supp. 1476 (D. Colo. 1991).
    2. The duty of loyalty prohibits employees from competing with their employer in a matter concerning the latter's business while they are still employed and requires them to act solely for their employer's benefit in all matters connected with the employment. Jet Courier v. Mulei, 771 P.2d at 498.
    3. The duty of loyalty does not prohibit employees from making preparations to compete while they are still employed. Jet Courier Serv., 771 P.2d at 493-494. However, the duty of loyalty prohibits employees from actively competing with their employer during the course of their employment.
    4. Employee activities which are designed to injure an employer's business or which have the effect of injuring the employer's business constitute a breach of the duty. See, e.g., Koontz v. Rosener, 787 P.2d 192 (Colo. App. 1989) (employees' activity in systematically "shortlisting" properties so that potential listings would be prospectively available for their own competing venture was tantamount to active competition with employer where the

practice was not in the employer's best interests but was done with a view toward promoting the employee's private interests at the employer's expense and to its detriment).

5. The requirement that employees act solely for their employer's benefit in all matters connected with their employment prohibits such activities as:
  - (1) Unauthorized disclosure or use of an employer's proprietary information, even if such information does not constitute a "trade secret";
  - (2) Disparagement of an employer's products and services; and
  - (3) Defamatory remarks concerning an employer's business or financial condition.
6. The duty of loyalty prohibits employees from soliciting their employer's customers while they are still employed. Jet Courier Service, 771 P.2d at 493.
7. The duty of loyalty is also breached if prior to the termination of his or her own employment, the employee solicits co-workers to join him or her in a new competing enterprise. Jet Courier Service, 771 P.2d at 494.
  - (1) Improper solicitation of co-workers constitutes a breach even if the employment of those workers is terminable at the will of either party.
  - (2) Whether solicitation of co-workers is improper depends on (i) the nature of the employment relationship, (ii) the impact or potential impact of the employee's actions on the employer's operations, and (iii) the extent of any benefits promised or inducements made to co-workers to obtain their services for the new competing enterprise. No single factor is dispositive. Jet Courier Service, 771 P.2d at 497.1

## 2. Intentional interference with contract

1. A current or former employee may also be liable in tort for intentionally interfering with the performance of an existing contract between (i) an employer and a co-worker or (ii) an employer and a customer. The interference which causes the nonperformance must be both intentional and improper. Westfield Dev. Co. v. Rifle Inv. Assoc., 786 P. 2d 1112 (Colo. 1990).

2. Liability may exist even if the contract is terminable at the will of either party. Jet Courier Service, 771 P.2d at 496, n. 12; Watson v. Settlemye, 372 P.2d 453 (Colo. 1962).
  3. However, where the contract is terminable at will and a former employee is the one interfering, his or her actions may constitute lawful business competition unless wrongful means (e.g., physical violence, fraud) are used. See, e.g., Memorial Gardens v. Olympan Sales & Management Consultants, Inc., 690 P.2d 207 (Colo. 1984).
3. Intentional interference with a prospective economic advantage or business opportunity
    1. Liability may be imposed for interfering with a prospective business opportunity even though there is not an underlying contractual relationship between the employer and a third party. Dolton v. Capitol Fed. Sav. & Loan Ass'n, 642 P.2d 21 (Colo. App. 1981), cert. denied 1982. See also Duran v. lover Club Foods Co., 616 F. Supp. 790 (D. Colo. 1985).
    2. The interference with the prospective business relationship, either by inducing or otherwise causing a third party not to enter into the prospective relation or preventing the employer from acquiring the prospective relationship, must be both intentional and improper. Montgomery Ward & Co., Inc. v. Andrews, 736 P.2d 40 (Colo. App. 1987); Wasalco, Inc. v. El Paso County, 689 P.2d 730 (Colo. App. 1984).
    3. As is true under the theory of intentional interference with contract, interference may constitute privileged competition. However, the privilege does not apply when the competitor employs wrongful means. McCrea & Co. Auctioneers, Inc. v. Dwyer Auto Body, 799 P.2d 394 (Colo. App. 1989).
  4. Conspiracy
    1. Current or former employees (or an employee and a competitor) may be liable for conspiring to injure an employer's business.
    2. Liability is imposed where there are: (a) two or more persons, (b) an object to be accomplished, (c) a meeting of the minds on the object or course of action, (d) one or more unlawful overt acts, and (e) damages resulting from such acts. E.g., Jet Courier Service.
    3. For purposes of this tort, a corporation is a person.

4. Activities which constitute a breach of the duty of loyalty or violate the Colorado Uniform Trade Secrets Act will usually satisfy the "unlawful overt act" requirement. E.g., T.A. Pelsue Co. (conspiracy to unlawfully compete by breaching duty of loyalty). However, the employer is not entitled to a double recovery of damages where two or more claims are based on the same acts.
5. All co-conspirators are jointly and severally liable for the damages awarded.
6. Fraudulent misrepresentation
  - (1) Employees who affirmatively indicate to their employer that they are not engaged in a competing venture when in fact they are so engaged, or who conceal or otherwise fail to disclose that they are engaged in a competing business, may be liable for fraudulent misrepresentation. T.A. Pelsue Co. v. Grand Enter., Inc., 782 F. Supp. 1476 (D. Colo. 1991).
  - (2) Liability is premised on:
    - (1) Falsely representing a material past or present fact;
    - (2) Knowing that the representation was false at the time it was made;
    - (3) Making the representation with the intent that the employer rely on it;
    - (4) Actual, justifiable reliance by the employer on the representation; and
    - (5) Damages to the employer caused by its reliance. T.A. Pelsue Co.; Concord Realty v. Continental Funding, 776 P. 2d 1114 (Colo. 1989); Kinsey v. Presson, 746 P.2d 542 (Colo. 1987); Morrison v. Goodspeed, 68 P.2d 458 (Colo. 1937).
5. Other tort theories of liability
  1. Unfair competition. E.g., Duran v. Clover Club Foods Co., 616 F. Supp. 790 (D. Colo. 1985); Lexton-Ancira Real Estate Fund, 1972 v. Helle, 826 P.2d 819 (Colo. 1992); American Tele. & Comm. Corp. v. Manning, 651 P.2d 440 (Colo. App. 1982).

2. Common law misappropriation claims. Lexton-Ancira Real Estate Fund.
3. Unlawful appropriation and exploitation of a competitor's effort. See Duran v. Clover Club Foods Co., 616 F. Supp. 790 (D. Colo. 1985).
4. Unjust enrichment. Moore and Co. V. T-A-L-L. Inc., 792 P.2d 794 (Colo. 1990).

#### IV. **Litigation Strategies**

##### A. Making the decision to sue

1. Specifically identify the trade secrets at issue and scrutinize whether they are secret.
  - a. Distinguish between general know-how and trade secrets.
  - b. Distinguish between information generally available and information you have kept confidential.
2. Critically evaluate your non-compete agreement.
3. Examine activities of departing employee while he or she was still employed. Preparations to compete are lawful; actions which damage the employer's business are not.
4. Evaluate your proof: Will you have more than circumstantial evidence that the employee took trade secrets?

##### B. Temporary restraining order/preliminary injunction

1. See article attached.
2. Common problems.
  - a. Proving that monetary damages are insufficient.
  - b. Proving that the employee will be taking a trade secret.
    - (1) Payment of a signing bonus or a premium salary is evidence of payment for trade secret.
    - (2) If work will be substantially identical to previous work on secret projects, doctrine of inevitable disclosure can be used to prove misappropriation.

(3) Deceit by departing employee can be evidence of misappropriation. PepsiCo, Inc. v. Redmond, 54 F.3d 1262 (7th Cir. 1995).

c. Proving the existence of a trade secret, as distinguished from employee's general skill and knowledge.

C. Whom to sue

1. Departing employees, including, in particular, any employees who recruited others.
2. The competitor to which the employees go.
3. In extreme cases, consider the possibility of an action against customers who purchase the trade secret information.
  - a. Good-faith purchasers are not liable.
  - b. Obvious business considerations argue against suing customers.

D. Who will your witnesses be. Many companies want to avoid drawing customers into litigation. However, these may be your primary sources of proof.

E. Calling the District Attorney

1. Theft of trade secrets is a crime, and all citizens have a duty to report crimes.
2. District Attorneys are generally uninterested unless there is an iron-clad case fully developed for them.
3. Lawyers cannot threaten criminal prosecution as a means of gaining a civil advantage. Non-lawyers are not similarly constrained.

F. Protecting secrets during litigation

1. C.R.C.P. 26(c).
2. Beware of abuse of process, i.e., bringing a legal action for the purpose of discovering trade secrets.

G. Desired outcomes

1. Warning shot.

2. Using confidentiality agreement as a non-compete.
3. Creative remedies.
  - a. Assurances.
  - b. Monitoring.
  - c. Certifications.

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