

LAW WEEK

COLORADO

Vol. 5 / No. 12 / \$6

1905 SHERMAN ST., SUITE 245, DENVER, COLORADO 80203 ◀ 303-292-1212 ▶ www.lawweekcolorado.com

Week of March 24, 2008

So You Want To Sue For Trade Secret

By J. Greg Whitehair
GIBSON DUNN & CRUTCHER

Trade secrets can be the most valuable assets held by a company: think of KFC's 11 Herbs and Spices,TM or the Coca-ColaTM formula. In the typical case, the secrets are known only to the most trustworthy, high-ranking officials in a company. When such an individual leaves his or her employment to take up with a competitor, the fear of losing those secrets, combined with the anger of the jilted employer, often leads to volatile litigation. Litigation often initiated in understandable haste, without a careful assessment of all that might happen to those cherished secrets in the course of public litigation, or criminal enforcement. This article asks some pragmatic questions about those risks.

Trade secrets are typically defined as information maintained in secrecy that has economic value (actual or even potential) because it is not known to, or readily ascertainable by, outsiders using proper means. This general framework comes from the Uniform Trade Secrets Act adopted in virtually every state, including Colorado. Breaking it down, a trade secret claimant needs to show some significant effort to compile the secret, the difficulty of uncovering the secret independently through lawful means, the value to the company in having and holding the secret, and all the precautions taken to protect the secret.

Every trade secret case is



unique, so broad pronouncements are difficult, but there are a number of common attacks that cause “solid” cases to falter. And there are a number of practical limitations that can create both frustrating inefficiency — with the attendant costs — and a real risk of exposure of the secret in the course of litigation.

Defenses That Kill the “Secret”

Trade secret cases can be lost in a myriad of ways. Sometimes, the “secret” is not secret: if the secret is readily accessible somewhere and is thus available to the public, even if not known from that source by the alleged

misappropriator, the case will be dismissed. Similarly, if someone seeking to determine the secret could readily “reverse engineer” the information, or compile it readily from known sources, the case is lost.

Assuming that the secret is real, and protectible, steps taken by the owner to keep the secret may be unreasonably weak, and the secret thus ineligible for court protection. Is the secret freely disseminated inside the organization without restriction, or labeling, or warning of its secrecy? Are non-disclosure agreements or policies in place? Is the staff trained to recognize and protect company secrets? Are

there restrictions on visitors? Can the information be passed along to outsiders, are consultants and others given ready access without signing detailed non-disclosure agreements? Are employees allowed to leave the company with the secret materials, or is an appropriate exit interview conducted to both collect all secrets and warn of the company's strict policy on protections?

Practical Pitfalls to Enforcement

Assuming that the secret is valid and reasonably protected, and if the secret has sufficient value to justify litigation, most victims swiftly file suit, typically