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THE LAW OF TRADE SECRECY AND COVENANTS NOT TO COMPETE IN COLORADO—PART I

In the past ten years, few areas of the law have experienced the exponential growth as those of trade secrecy and competition restrictions. The advent of technology and the coming of age of the "dot.com" world have only accelerated a process of legal development, which was already in a state of rapid growth. In the post-industrial, information-based economy, increasingly it is information that is the key asset of business. In the industrial age, hard assets were the lifeblood of most businesses, but they have now been relegated to the supporting role of tools. Many businesses sell information, others market concepts, and still others sell identity. Thus, fewer new businesses are involved in the sale of tangible items, at least in the traditional, "bricks and mortar" sense.

Moreover, for all businesses, even those involved in traditional inventory-based industries, knowledge and relationships are increasingly proving to be the core value of organizations. Sales personnel with a large network of contacts and designers and engineers possessing "know how" commonly hold in their hands the key to the value of the entire enterprise (or at least a critical part of it). The law has attempted to keep up with these fundamental changes. That attempt is often through the concepts of trade secrecy and covenants not to compete. This article addresses a number of those developments, with an emphasis on the law of Colorado.

The first part of this two-part article focuses on trade secrets. The second part, to be published in the May 2001 issue, will discuss covenants not to compete. These articles have two purposes: (1) to afford Colorado practitioners a greater understanding of the substantive law in the areas of intangible asset misappropriation and competition; and (2) to provide practical drafting and litigation tips on issues that may arise in these areas.

HISTORY OF GOVERNANCE OF INTANGIBLES

Many facets of the law impact the general area of intangible assets. At the federal level, statutes governing patent, trademark, and copyright have existed for many years. In a product-driven, industrial economy, the systems arising under these statutory schemes proved adequate to protect much of the intellectual property issues of the day. However, over the past twenty years, the rapid rise of "soft" assets to the fore of the nation's economy has rendered much of the protection offered by these statutes ineffective or misplaced. Patent covers "invention," which historically has connoted a tangible item. Copyright protects expression only, not ideas or concepts. Trademark protects identification of the source of goods or services. Thus, while the scope of the federal statutory scheme is fairly broad, it does not cover many key aspects of business in today's world, including a great deal of research and development information, technical innovation, processes, business strategy, customer identity information, and "relationship capital" with existing suppliers and customers.

As business has increasingly recognized the real world value of such information, the law has developed to govern many of the issues that arise outside of the historical areas covered by federal statute. The two major areas falling outside the patent, copyright, and trademark scheme are trade secrecy and competitive restrictions. Both have seen rapid development in the United States in the recent past.

Because states such as Colorado (which has enjoyed a large increase of technology-based business activity) have seen a disproportionately large number of issues in this arena, they have led the way in the development of law to cover these areas.

Much of this legal development has been via the typical common-law vehicles, but statutory attempts to deal with these areas have occurred as well. This is especially true in Colorado, which has not only adopted the Uniform Trade Secrets Act ("UTSA"),[1] along with the majority of other states, but has taken the unique step of enacting a statute that governs issues arising as to covenants not to compete (to be discussed in Part II of this article).[2]

THE MODERN LAW OF TRADE SECRECY

Colorado has long recognized and protected trade secrets. With the adoption of the UTSA in 1986, the law of trade secrecy in Colorado underwent significant revision.

*8 Common-Law Misappropriation

Prior to the adoption of the UTSA by the Colorado General Assembly, effective July 1, 1986, Colorado adhered to the common-law rule of trade secrecy. At common law, a six-part analysis, set forth as follows in *Porter Industries, Inc. v. Higgins*,[3] determined the existence of a trade secret:

> (1) the extent to which the information is known outside the business, (2) the extent to which it is known to those inside the business, *i.e.*, by the employees, (3) the precautions taken by the holder of the trade secrets to guard the secrecy of the information, (4) the savings effected and the value to the holder in having the information as against competitors, (5) the amount of effort or money expended in obtaining and developing the information, and (6) the amount of time and expense it would take for others to acquire and duplicate the information .... The most commonly accepted definition of trade secrets is restricted to confidential information which is not disclosed in the normal course of exploitation.[4]

Misappropriation Under the UTSA

By its express terms, the UTSA sets forth four elements necessary to establish a claim for trade secret misappropriation: secrecy, value, protective measures, and improper means of appropriation. The first three of these elements are set forth in the definition of trade secret, and the fourth is included in the definition of misappropriation.

Definition of "Trade Secret"

Section 102(4),[5] which defines trade secret for purposes of the UTSA, varies significantly from the common-law test:

> "Trade secret" means 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 secret and of value. 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.

Three elements exist in this statutory definition—secrecy, value, and protective measures. While these elements are factors in the common-law test, they are *requirements* under the UTSA. Despite this distinction, Colorado courts have continued to cite authoritatively to the common-law test in cases determined after the adoption of the UTSA.[6] The existence and scope of protective measures as a requirement has served as the key issue in at least two cases decided after the UTSA's adoption.[7] From these cases, as well as from the language of the UTSA itself, it is clear that secrecy, value, and protective measures are all required for a trade secret to be found.

Secrecy: The "laundry list" of candidates for trade secrecy in the UTSA includes: "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,"[8] provided that such items are truly secret.[9] Secrecy is often the key issue under the UTSA. In turn, the UTSA puts great weight on protective measures as a means of establishing secrecy.

Although the UTSA nowhere requires a written agreement to preserve trade secrecy, enforcement of an oral agreement is by no means a certainty, because an oral agreement may not be an adequate protective measure, except perhaps as to highly technical, clearly proprietary information. If a written employment agreement is entered into that *does not* set forth trade secrecy language, an attempt at imposing a trade secrecy restriction may be barred by the parol evidence rule, especially if the written agreement includes an integration clause. As a matter of general contract law, such clauses typically bar the introduction of evidence in addition to the express terms of the written agreement itself.[10]

Protective Measures: For a trade secret to arise under the UTSA, the owner of the information must adopt "measures to prevent the secret from becoming available to persons other than those selected by the owner to have access thereto for limited purposes."[11] In *Network Telecommunications, Inc. v. Boor-Crepeau*,[12] the plaintiff's complaint alleged that "contact lists" used by telemarketers were handed out on a weekly basis, telemarketers were prohibited from sharing their lists with co-workers, and the lists were collected and shredded on a regular basis. This was found at least to merit the presentation of evidence on a motion for preliminary injunction.

Conversely, in *Colorado Supply Co. v. Stewart*,[13] neither a written trade secrecy agreement nor any other appreciable measures were used to safeguard secrecy. Moreover, the "employee" at issue (in fact an independent contractor sales representative) developed much of the information himself, and the information compiled by the "employer" was routinely given to him. As the court stated:

> Here, the trial court concluded that plaintiff's customer lists were not trade secrets because: (1) the information was developed by Stewart, who was an independent contractor, rather than by plaintiff; (2) the names on the list can be obtained fairly easily, by reading through the business section of the telephone directory and by asking prospective customers from whom they purchase certain products; and (3) there was no exclusivity as to customers, in that customers purchased the products from more than one vendor ....[14]

This was found insufficient to confer trade secrecy status.[15]

Information that is known generally from observation or that may be developed through means available to the public is not secret and, therefore, cannot be a secret,[16] nor is an employee's pre-existing knowledge.[17] In *Stewart*, the fact that the allegedly confidential information was given to an independent contractor was critical. The Court of Appeals stated:

> The trial court also found that the precautions taken to protect all of this information were not those taken to protect trade secrets—they were only normal business precautions. Furthermore, dissemination of this information was not limited to certain employees. Even independent contractors, who were hired as salespersons, were provided the information.[18]

Thus, the question arises as to whether maintaining confidentiality of customer lists with independent contractors is even possible. By definition, releasing customer lists to independent contractors allows the information to be known beyond the organization seeking trade secret protection. The court in *Stewart* was of the opinion that releasing customer lists to independent contractors is not consistent with "measures to prevent the secret from becoming available to persons other than those selected by the owner to have access thereto for limited purposes" within the UTSA.[19] Instead, the acts taken by the employer were deemed as "only normal business precautions," which were not ***10** enough to meet the protective measures standard of § 102(4) of the UTSA.[20]

Stewart is a customer list case, and unlike customer identity, technical and research information usually is considered inherently confidential. Sharing this type of information with independent contractors (especially if such disclosure is done under non-disclosure agreements) may not cause a finding that trade secrecy is lost. Disclosure of such information in this nature is both necessary and routine. It is therefore uncertain that a court would invalidate trade secrecy on such disclosure. A written non-disclosure agreement alone may be a satisfactory protective measure for such information. However, *Stewart* at least raises a question as to whether such an agreement, without more, will render a customer list a trade secret, especially in relation to an independent sales representative.

Value: In the Colorado cases discussing the UTSA, the element of value is rarely noted as an issue. If information has recognized value or if its use would give a competitor an advantage, value would appear to be established.

Element of Improper Means

Aside from the elements found in the definition of trade secret, the additional element of "improper means" must be established for an actionable claim to exist under the UTSA. Such an element arises from the statutory definition of "misappropriation":

"Misappropriation" means:

> (a) 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
>
> (b) Disclosure or use of a trade secret of another without express or implied consent by a person who:
>
> (I) Used improper means to acquire knowledge of the trade secret; or
>
> (II) At the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was:
>
> (A) Derived from or through a person who had utilized improper means to acquire it;
>
> (B) Acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or
>
> (C) Derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or
>
> (III) 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.[21]

Few Colorado cases feature the improper means element. However, based on *Gold Messenger, Inc. v. McGuay*, it is clear that the use of information by a person in a close relationship with a person under a written trade secrecy restriction setting forth such information as proprietary is actionable.[22]

No Statute of Frauds

The UTSA nowhere requires that trade secrecy restrictions be reduced to writing. Assuming that the information is secret and of value, and assuming further that improper means were used to appropriate such information, the lack of a written agreement may not necessarily be fatal to finding misappropriation of a trade secret. Instead of an express requirement of a written trade secrecy agreement, UTSA § 102(4) requires the party asserting misappropriation to 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." Although a written agreement is not expressly required under such language, it is hard to imagine a situation where a court would prohibit use of certain allegedly proprietary information without such an agreement at least serving as the basis of the trade secrecy claim.

In that regard, the defendant in *McGuay*,[23] although not a party himself to a written agreement providing that certain information was a trade secret, was in a close personal relationship with someone who was a party. Thus, a written agreement served as the ultimate source of the Court of Appeals' opinion in that matter. Included in the cases that have arisen under the UTSA in Colorado are those that feature information such as customer lists.[24] The confidentiality of such information appears somewhat suspect under the cases and, without at least a clear showing of reasonable protective measures in the circumstances, trade secrecy will likely be denied. Thus, although a written agreement is not expressly required under the UTSA, it is doubtful that an employer not having such an agreement will be successful in gaining a remedy for use of customer list information.[25] Due to their inherently proprietary nature, however, research and development information, internal analyses, future forecasting, and business plans, for example, are more likely to be deemed trade secrets without a written agreement.

Remedies

Remedies under the UTSA include the following:

Actual Damages: Under UTSA § 104(1),[26] "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."

Royalty Imposition: As an alternative to actual damages, "a reasonable royalty" may be imposed under UTSA § 104(1).[27]

Exemplary Damages: Exemplary damages, not to exceed actual damages, may be awarded under UTSA § 104(2)[28] "(i)f the misappropriation is attended by circumstances of fraud, malice, or a willful and wanton disregard of the injured party's rights and feelings."[29]

Injunctive Relief: Injunctive relief is available under UTSA § 103.[30]

Attorney Fees: Under UTSA § 105,[31] attorney fees are available to a defendant if a misappropriation claim is made in bad faith, if a motion to terminate an injunction is made or resisted in bad faith, or if the misappropriation is found to be willful and wanton.[32]

Protection of Secret Information: UTSA § 106[33] gives a court the power to protect the secret nature of the information in issue, by, *inter alia*, appropriate protective orders.

Limitations

The UTSA contains its own statute of limitations. UTSA § 107[34] requires all misappropriation claims to be brought no later than three years after the misappropriation is discovered or, through the exercise of reasonable diligence, should have been discovered. Section 107 also provides that a continuing misappropriation is to be considered as one claim. Accordingly, the running of the limitations period will not commence until the use of the misappropriated information ceases.

Preemption of Non-UTSA Trade Secrets Claims

UTSA § 108[35] sets forth an express preemption provision:

Effect on other law.

> (1) Except as provided in subsection (2) of this section, this article displaces conflicting tort, restitutionary, and other law of this state providing civil remedies for misappropriation of a trade secret.
>
> (2) This article does not affect:
>
> (a) Contractual remedies, whether or not based upon misappropriation of a trade secret;
>
> ***11** (b) Other civil remedies that are not based upon misappropriation of a trade secret; or
>
> (c) Criminal remedies, whether or not based upon misappropriation of a trade secret.

In *Powell Products, Inc. v. Marks*,[36] preemption under § 108 was limited to those claims that feature a restatement of the same operative facts that would plainly and exclusively establish trade secret misappropriation. Preemption was found not to preclude an interference with a business advantage claim arising out of trade secret misappropriation because such a claim sets forth elements in addition to those of misappropriation itself.

Non-UTSA Misappropriation Theories

Claims that do not arise under the UTSA have been recognized by jurisdictions other than Colorado. However, due to the UTSA's preemption language, it is doubtful that such theories will be recognized in Colorado unless a claim also can be established under the four elements contained in the UTSA itself.

Inevitable Disclosure

In *Pepsico, Inc. v. Redmond*,[37] the Seventh Circuit Court of Appeals recognized the "inevitable disclosure" doctrine, which had the result of barring a key employee of one company working for a competitor due to the employee's knowledge of key product information.[38] It is highly unlikely that an inevitable disclosure claim is possible in Colorado under § 108 without the proof of all four elements under the UTSA. This is because the facts of an inevitable disclosure matter would appear to be operative facts that plainly and exclusively spell out only a trade secret misappropriation case, per the test in *Powell*.[39] The UTSA's protective measures requirement may be an issue here because, in Colorado, something more than mere competition probably will need to be shown to allow injunctive relief of the type imposed in *Pepsico*.

Misappropriation of "Business Values" and "Unfair Misappropriation"

Colorado recognizes a completely separate claim for misappropriation aside from trade secrecy. Under the concept of misappropriation of a business value, the misappropriation of items, tangible or intangible, is actionable in Colorado when those items represent the manifestation of the time, labor, or expenditure of another.[40] In *Heller v. Lexton-Ancira Real Estate Fund*,[41] the Colorado Court of Appeals described this offense as "unfair misappropriation,"[42] while in *American Television and Communications Corp. v. Manning*,[43] it is referred to as "unfair competition and misappropriation"[44] and "exploitation of a competitor's business values."[45]

The law of misappropriation of business values in Colorado has its genesis in the 1918 U.S. Supreme Court case of *International News Service v. Associated Press ("INS")*.[46] In *INS*, the Supreme Court found actionable INS's subscription to the Associated Press's ("AP") wire service signal when INS, another news syndicate, took stories off the AP wire and then sold them to its own network of subscribing newspapers. Holding that the sale of the stories generated from the AP wire usurped the essence of AP's business, the Court determined that AP possessed a viable interest to be protected by tort law. *Heller* expands this theory to "essence" cases ***12** involving aspects of business other than electronic signals.[47]

Only a relative handful of business values cases exist.[48] Nonetheless, *Heller* shows that business values theory is clearly good law in Colorado.[49] The major advantage of a business value is that secrecy need not be established. Under the Court of Appeals' analysis in *Heller*, the improper use of any information shown to be the manifestation of the plaintiff's labor, skill, or money is actionable, as is the wrongful capitalization on the commercial values of another earned over time.[50] Indeed, the information in *Heller* itself (date, time, location, and "identity" of a gem and jewelry trade show) was the type commonly advertised and, therefore, the antithesis of secret information. Accordingly, such information was clearly *not* a trade secret.

Although secrecy and protective measures must be shown to establish a trade secret under UTSA § 102(4),[51] no proof of either is required for a business values claim. Thus, in certain instances, a business values claim will exist when a trade secret claim does not. Indeed, this may be the best potential theory for customer list misappropriation, although it does not appear to have been attempted in any of the customer list cases of record. In addition, UTSA § 108[52] probably does not preclude business values claims, because they are not solely and exclusively claims for misappropriation of a trade secret.

Copyright Act Preemption Of Certain Business Values Claims

While business values and unjust enrichment claims do not appear to be preempted by UTSA § 108, preemption of certain of these claims may arise from a completely different direction: § 301 of the federal Copyright Act. Section 301 states:

Preemption with respect to other laws:

> (a) ... all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright ... in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103 ... are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

> (b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to:

> (1) subject matter that does not come within the subject matter of copyright ...; or

...

> (3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright ...[53]

Section 301 has been interpreted as preempting those misappropriation claims arising under *INS*, or at least those that arise from works of expression reduced to tangible form. In *National Basketball Association v. Motorola, Inc.*,[54] the Second Circuit

Court of Appeals reversed the imposition of an injunction prohibiting Motorola from transmitting "real-time" scores and statistics from NBA basketball games to pagers while the games were in progress. Motorola had persons monitor radio and television broadcasts of games in progress who would input scores and other information into a computer database, which was then broadcast to the pagers.

Although a "hot news" exception was found to exist under *INS*, which allowed those entities creating news stories not to have those stories copied, the use of information gained by monitoring games in progress was determined to be within the scope of the Copyright Act. Because § 301 preempted state law remedies for any act that would fall within the ambit of copyright, Motorola's conduct, even though determined not to constitute infringement,[55] did not survive preemption, and Motorola could transmit the scores and statistics without being compelled to compensate the NBA under a common-law misappropriation theory.

Under *Motorola*, the following must be established for a non-preempted "hot news" misappropriation claim to exist:

> (i) a plaintiff generates or gathers information at a cost; (ii) the information is time-sensitive; (iii) a defendant's use of the information constitutes free-riding on the plaintiff's efforts; (iv) the defendant is in direct competition with a product or service offered by the plaintiff; and (v) the ability of the other parties to freeride on the efforts of the plaintiff would so reduce the incentive to produce the product or service that its existence or quality would be substantially threatened.[56]

Two questions arise from the *Motorola* opinion. First, it is unclear as to what precise claims are preempted by § 301. Second, it is still uncertain whether the exception goes beyond "hot news" itself. Because the court held that a business values claim was preempted by § 301, even though the activity would not constitute infringement under copyright law, it appears that many acts other than those that would constitute infringement may be preempted. The House Report issued on the bill that eventually became § 301 of the Copyright Act provides:

> As long as a work fits within one of the general subject matter categories of sections 102 and 103, the bill prevents the States from protecting it even if it fails to achieve Federal statutory copyright because it is too minimal or lacking in originality to qualify, or because it has fallen into the public domain.[57]

It is doubtful that true trade secret claims are preempted under § 301 because the Second Circuit noted in *Motorola* that claims with an "extra element" beyond those found to be within the scope of the Copyright Act were not preempted.[58] Accordingly, a claim for misappropriation of a trade secret, as opposed to a mere business value, likely would be enough to remove a matter from preemption.[59]

In Colorado, application of the UTSA specifically has been held not to be preempted by § 301 in *Gates Rubber Co. v. Bando Chemical Industries, Ltd.*[60] on the basis of an extra element. In *Gates*, the Tenth Circuit Court of Appeals determined that the UTSA requires breach of trust or confidence, which is not required under the Copyright Act.[61] Thus, the improper means element of a claim under the UTSA appears to remove UTSA claims from § 301 preemption.

Lastly, it should be asked whether there would have been § 301 preemption on the facts of *Heller*.[62] The answer is probably not, as the information in that case was not within the scope of the Copyright Act. Copyright protects expression, not ideas and concepts. In *Heller*, the concept of the gem show was misappropriated, as were many of the show's hallmarks, including exhibitor space and seniority, and such things are not matters of expression. The bottom line would appear to be that two separate and distinct types of claims, both of which fall under the business values/misappropriation banner, still exist, despite § 301: (1) those that involve expression, but are limited to news matters; and (2) those that fall outside the scope of the Copyright Act. True trade secret matters (that is, those with a showing of secrecy, ***13** value, protective measures, and improper means under the UTSA) survive as well.

Unjust Enrichment

An additional claim that could arise out of misappropriation is unjust enrichment. A person who has been unjustly enriched at the expense of another is required to make restitution.[63] A person is unjustly enriched if the retention of the benefit gained from another would be unjust.[64] In Colorado, unjust enrichment requires (1) at plaintiff's expense; (2) defendant received a benefit; (3) under circumstances that would make it unjust for the defendant to retain the benefit without paying.[65] In *Cablevision of Breckenridge, Inc. v. Tannhauser Condominium Ass'n*,[66] a condominium association was found liable for the reasonable value of cable service misappropriated from a local cable television company when the association purchased a single cable television signal and then split the signal internally to service all units in the condominium building.

A business values claim was clearly available in *Cablevision of Breckenridge*. The key facts of *Cablevision of Breckenridge* and *INS* are virtually identical. In both cases, the primary offense was the reselling of a pirated electronic signal that constituted the essence of the plaintiff's business. It would seem clear that a claim for business values misappropriation would be available on such facts in Colorado. Indeed, this is the exact upshot of the opinion in *Manning*.[67]

Deceptive Trade Practices

A number of offenses exist under the Deceptive Trade Practices Provisions of the Colorado Consumer Protection Act ("CCPA").[68]

Actionable Conduct: Types of conduct that qualify as an offense under the CCPA (assuming that the same types of conduct occur in connection with a person's business, vocation, or occupation) are the following:

- Disparagement of the goods, services, property, or business of another by false or misleading representation of fact.[69]

- "Knocking off" or "passing off" the goods or services of another.[70]

In *Heller*, misappropriating the essence of a trade show and then producing a trade show in its place was actionable under the CCPA as passing off the services of another.[71]

Standing: Although the CCPA is the Colorado *Consumer* Protection Act, standing is not limited to consumers, but is available to "*any* person ... for any claim against any person who has engaged in or caused another to engage in any deceptive trade practice listed in section 6-1-105 or 6-1-105.5."[72] The Colorado Supreme Court in *Hall v. Walter*[73] has granted standing to any person

> who establishes (1) that the defendant engaged in an unfair or deceptive trade practice; (2) that the challenged practice occurred in the course of defendant's business, vocation, or occupation; (3) that it significantly impacts the public as actual or potential consumers of the defendant's goods, services, or property; (4) that the plaintiff suffered injury in fact to a legally protected interest; and (5) that the challenged practice caused the plaintiff's injury.[74]

To show how attenuated the plaintiff may be from the actual consumer transaction, *Hall* featured an extension of standing to owners of a parcel of mountain real estate ***14** across whose land the developers of adjoining property falsely represented to purchasers of lots thereon that an access easement existed.[75]

Damages: Treble damages are available on a successful non-class-action claim under the CCPA.[76]

Attorney Fees: Attorney fees are available under the CCPA.[77]

Theft of Trade Secrets

Elements of a Claim: CRS § 18-4-408 provides:

Theft of trade secrets—penalty.

> (1) 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 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) As used in this section:

...

> (d) "Trade secret" means 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 secret and of value. 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.

CRS § 18-4-405 provides:

> *Rights in stolen property*: All property obtained by theft, robbery, or burglary shall be restored to the owner, and no sale, whether in good faith on the part of the purchaser or not, shall divest the owner of his right to such property. The owner 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 two hundred dollars or three times the amount of the actual damages sustained by him, whichever is greater, and may also recover costs of the action and reasonable attorneys fees; but monetary damages and attorneys fees shall not be recoverable from a good-faith purchaser or good-faith holder of the property.

Remedies: Treble damages and attorney fees are both available under CRS § 18-4-405. The statute provides that treble damages are to be awarded whenever property is misappropriated in a manner "other than in good faith." Thus, if an item is obtained in bad faith, treble damages may be available. It is likely that a successful claim under the UTSA showing improper means also will establish the "other than in good faith" element.

Preemption Issues: The elements of the criminal offense of theft of trade secrets are similar to those of the civil offense of trade secret misappropriation under the UTSA. The definition of trade secret in CRS § 18-4-405 is virtually identical to that set forth in UTSA § 102(4). Secrecy, value, and protective measures are all required. Although there is no express "improper means" element set forth in § 405, there is a requirement that the conduct constituting the offense be occasioned by "intent to deprive or withhold from the owner thereof the control of a trade secret, or ... an intent to appropriate a trade secret to his own use or the use of another." In addition, the conduct itself must either constitute "stealing," "unauthorized disclosure," or the "mak(ing) or caus(ing) to be made a copy of an article representing a trade secret." No Colorado appellate decisions exist that interpret these elements, and, therefore, it is uncertain what exactly will be required to establish the criminal offense of trade secrecy theft.[78]

Although CRS § 18-4-408 itself only provides for criminal sanctions in the event theft is established, it may serve as the basis for a civil remedy as well. Section 405's express language is to the effect that "(a)ll property obtained by theft ... shall be restored to the owner." Further, "(i)n any such action (i.e. one for recovery of such property) the owner may recover ... three times the amount of the actual damages sustained ... and ... costs of the action and reasonable attorney fees."[79] Thus, the elements of theft need to be established in order for a claim to exist under § 405.[80] Section 405 has been determined to form the basis for a civil claim under other forms of theft codified in Part 4 of Title 18, CRS.[81] Thus, nothing in either § 405 nor the entire criminal code would appear to preclude a civil claim for theft of trade secrets.

Nonetheless, a significant preemption issue looms. As noted above, UTSA § 108[82] sets forth a preemption provision that states that the UTSA "displaces conflicting tort, restitutionary and other law of this state providing civil remedies for misappropriation of a trade secret." UTSA § 108(2)[83] goes on to provide that the UTSA "does not affect ... other civil remedies that are not based upon misappropriation of a trade secret; or criminal remedies, whether or not based upon misappropriation of a trade secret." In *Powell*, the U.S. District Court for the District of Colorado has limited § 108 preemption to those "other claims (that) are no more than a restatement of the same operative facts that would plainly and exclusively spell out only trade secret misappropriation."[84] Thus, at least under the *Powell* analysis, the question becomes whether the allegations of trade secrecy theft "are no more than (such) a restatement."

On examination of the elements required for trade secret misappropriation under the UTSA and trade secret theft under CRS § 18-4-408, it appears that the only chance of differentiation lies in the "stealing" language of CRS § 18-4-408(1). Typically, theft requires both exercise of control over property of another and intent to permanently deprive the true owner of such property.[85] However, that may not necessarily be true for theft of trade secrets under § 408.[86] Although § 408 provides that conduct is a criminal offense if the perpetrator acts either "with intent to deprive or withhold from the owner the control of a trade secret," it also renders any act accompanied by "an intent to *appropriate* a trade secret *to his own use or the use of another*" as an offense. (*Emphasis added*.) In addition, a person's conduct serves as the basis of an offense under § 408 if he either "steals *or discloses* ... a trade secret ... to an unauthorized person." (*Emphasis added*.) Therefore, unlike other offenses appearing in Part 4 of Title 18, theft of a trade secret expressly exists, even in the event the owner of the trade secret still possesses the information constituting the trade secret.

Taking this analysis back to the issue of preemption under UTSA § 108, it appears that preemption of a theft of trade secrets claim under CRS §§ 18-4-405 and 408 may exist, except possibly where the facts establish permanent deprivation, not shared use. The courts' interpretation of UTSA preemption of theft of trade secrets claims remains to be seen.

Prior Criminal Conviction Not Necessary: The Colorado Supreme Court recently determined that a prior criminal conviction is *not* required for a claim under § 405. In *Itin v. Bernard T. Ungar, P.C.*,[87] the Court overruled the decision of the Court of Appeals[88] limiting the application ***15** of § 405 only to those cases in which there had been a prior criminal conviction of theft, robbery, or burglary. The Supreme Court reasoned that § 405 nowhere requires a conviction for any offense in its express language as a condition for proving a claim to stolen property. Instead, the Supreme Court concluded that because the statute is part of the criminal code, a plaintiff seeking recovery of property must first establish that such property has in fact been acquired through theft, robbery, or burglary, although no conviction need be shown.[89]

Proper Standard of Proof: In *Itin*, the Supreme Court did not discuss the proper standard of proof for a claim under § 405, except to note that the defendant's failure to object to a jury instruction tendered by the plaintiff to the effect that the preponderance standard applied could not form the basis of an issue on appeal.[90] However, because the Court's opinion requires proof that the property in question was acquired by theft, robbery, or burglary, it is uncertain which standard of proof applies. Although the standard applicable to gain a conviction on the underlying theft, robbery, or burglary elements of a claim under § 405 is that of beyond a reasonable doubt, CRS § 13-25-127, which governs the burden of proof in all civil matters, may cause a preponderance standard to apply for a civil claim under § 405.[91] It is therefore possible that if given the chance to rule on the issue, the Supreme Court would apply a preponderance of the evidence standard to civil claims under § 405.

Business Methods Patents

The law of trade secrets is also impacted by the traditional intellectual property concepts of patent, copyright, and trademark. An in-depth discussion of these areas is beyond the scope of this article, but the relatively new concept of "business method patent" is so intricately intertwined with traditional trade secrecy and business value concepts that it merits special attention. While patent protection historically covered the physical manifestation of tangible "inventions" only, it has recently been extended to the intangible concept of a "business method."

In 1981, the U.S. Supreme Court, in *Diamond v. Diehr*,[92] ruled that a computerized method of molding tires was patentable despite its reliance on typically nonpatentable algorithms. Many software patents followed. Subsequently, in the 1998 case of *State Street Bank & Trust Co. v. Signature Financial Group, Inc.*,[93] the U.S. Court of Appeals for the Federal Circuit found that an investment advisor's method for managing mutual funds was patentable. Since then, the number of business methods patents has soared, from 700 in 1996 to 1,300 in 1999.[94] Now, such patents include the "name your own price" method of Internet shopping (for example, priceline.com), as well as numerous other "e-commerce" methods.[95]

TRADE SECRECY AND COVENANTS NOT TO COMPETE

Trade secrecy in Colorado is also impacted by the prohibition against covenants not to compete set forth in CRS § 8-2-113(2). This statute will be discussed in detail in the second part of this article, but the statute's exception in subsection (2)(b) to the rule of prohibition is dealt with here. Section 8-2-113(2)(b) provides as follows:

> Any covenant not to compete which restricts the right of any person to receive compensation for performance of skilled or unskilled labor for any employer shall be void, but this subsection (2) shall not apply to:
>
> ... (b) Any contract for the protection of trade secrets ....

As can be seen, if a true trade secret exists, it will be allowed to serve as the basis of some restriction, despite the general rule of prohibition against covenants not to compete contained in CRS § 8-2-113(2).

Issues Under Subsection (2)(b)

A number of issues have arisen under the "trade secrets" exception. The cases primarily focus on the four elements of trade secrecy under the UTSA noted above. Generally, if the non-competition agreement at issue is necessary for the non-disclosure of a true trade secret under the UTSA, the non-compete will be enforced, albeit narrowly, to protect only the trade secret. Specific areas to which attention has been devoted by the courts in analyzing subsection (2)(b) include the following:

Customer Lists

Agreements restricting the use or disclosure of customer lists represent the primary area of litigation regarding the trade secrets exception. Because only those covenants not to compete arising out of sales of businesses and those with managerial and professional employees are generally enforceable under CRS § 8-2-113(2),[96] employers may attempt to create an enforceable convenant through the back door method of trade secrecy agreements tied to the employer's customer list. Such agreements typically provide that use or disclosure of any item appearing on a customer list constitutes trade secrecy misappropriation. Some employers may go on to prohibit such competitive activity, thereby making the agreement a true covenant not to compete, while others may merely prohibit the disclosure of such information. Agreements in this regard have been drafted to provide that post-termination competition will necessarily include the use or disclosure of information contained in a customer list, so that any competition, whether or not the actual customers appearing on the list are solicited, will be deemed a breach.

In *Colorado Accounting Machines, Inc. v. Mergenthaler*,[97] the Colorado Court of Appeals determined that, at least on the facts presented, the employer's trade secrecy restriction could not be used to prohibit an ex-employee from any and all post-termination competition. Instead, the court determined that the provision in the parties' agreement barring disclosure was adequate to protect the employer's legitimate trade secrecy concerns.[98] Thus, if the parties' agreement includes both non-disclosure and non-competition as remedies, the less-restrictive non-disclosure prohibition will be enforced, whereas the more general competition restriction will not. Because the sole basis of the exception under subsection (2)(b) is "contracts for the protection of trade secrets ...", such selective enforcement appears justified. It is uncertain whether the result in the event the parties' agreement sets forth only competition restrictions would be enforcement or invalidation of the non-compete provision under the general rule of prohibition in CRS § 8-2-113(2).

Non-Customer List Customer Information

After refusing to enforce a broad-form covenant not to compete against an account executive of a recruiting company under the management exception provided in subsection (2)(d) of CRS § 8-2-113, the Court of Appeals, in *Management Recruiters of Boulder, Inc. v. Miller*,[99] enforced certain narrow competition restrictions. These competition restrictions covered that portion of the covenant that prohibited the account executive from contacting, in the course of the recruiting business, any candidate with whom the ex-employee ***16** had contact or access during the twelve months preceding termination.[100]

The Court of Appeals did not disturb the trial court's application of the six-part common-law test for trade secrecy in *Porter Industries, Inc.*[101] The court also refused to disturb the trial court's conclusion that the "candidate information" (job qualifications and employment histories) for those candidates the defendant placed after termination (represented by the plaintiff prior to termination) constituted trade secrets.[102] Thus, enforcement of the covenant in a limited fashion was permitted under subsection (b).[103]

There is a question of whether a conflict exists between *Mergenthaler* and *Management Recruiters*. In the first case, a non-competition restriction was invalidated in favor of enforcement of non-disclosure restrictions, whereas in the second case, the Court of Appeals enforced a non-contact/non-solicitation restriction. The cases are consistent in that each features the refusal of the Court of Appeals to enforce a complete "bar" covenant not to compete. This also is consistent with Colorado's choice to narrowly interpret such provisions in light of the overall policy of prohibition of non-competes, as reflected in CRS § 8-2-113(2). The Court of Appeals did focus on this narrow enforcement in *Mergenthaler*:

> The employment agreement entered into (here) contained numerous provisions, including: a nondisclosure of trade secrets clause; a nondisclosure of customer lists clause; and a time and space, non-competition, restrictive covenant .... Even if we assume, *arguendo*, that a narrowly drafted non-competition clause specifically protecting trade secrets would be a valid exception under subsection (b), here, the sole purpose behind the restrictive covenant is to prohibit all competition. The separate trade-secret nondisclosure provision adequately protects plaintiff's interests, and the restrictive covenant is not limited to enhancing this protection. Consequently, the trade secret provision is valid; the restrictive covenant is not.[104]

In *Management Recruiters*, the Court of Appeals, citing to *Mergenthaler* with approval, stated that "(a) non-competition clause designed to protect trade secrets must be narrowly drafted to fit into the statutory exception provided in § 8-2-113(2)(b)."[105] Thus, even though the Court of Appeals enforced a non-contact/non-solicitation restriction in *Management Recruiters*, it appears to have done so under the narrow enforcement policy.[106]

Pricing and Bidding Structure

In *Porter Industries, Inc.*,[107] an ex-employer's internal pricing and bidding structure was held not to be a trade secret under the six-part common-law analysis. However, virtually no discussion appears in the opinion as to why such information was not a trade secret, other than the cryptic statement that "[e]mployer posits no authority, nor do we find any, supporting its view that this (pricing) structure constitutes a trade secret within the contemplation of § 8-2-113(2)(b)."[108]

DRAFTING ISSUES REGARDING TRADE SECRETS

It is increasingly common for attorneys to be asked to draft trade secrecy agreements. Many attorneys have questions as to effective terminology. Others are uncertain as to whether the agreement should be oriented only toward preventing disclosure or should attempt to bar competition under the exception to the prohibition of covenants not to compete provided in CRS § 8-2-113(2)(b). In addition, although trade secrecy agreements always should be considered between employers and at least those employees exposed to sensitive information, attorneys may wish to advise their clients to institute effective full trade secrecy "programs" that go beyond these first-line documents. Moreover, clients may address important information as something other than a trade secret so as to gain protection through business values law or the doctrine of unjust enrichment. Some of the drafting issues attorneys may wish to suggest that clients keep in mind are discussed below.

Elements of an Effective Trade Secrecy Agreement

To comply with the UTSA, the information at hand must truly be a secret. Addressing the information sought to be protected as a secret cannot harm the overall effort to guard secrecy. Such terminology may assist in showing protective measures, although merely calling information a secret in the agreement may not be enough to ensure trade secrecy status, especially for non-technical information. The Colorado Court of Appeals already has determined that disclosure restrictions may be all that is enforced under a trade secrecy provision if non-disclosure will adequately guard against reasonable risks of use of the information.[109] Therefore, provisions regarding restrictions on disclosure and use of information to be disclosed should be included in any trade secrecy agreement.

In the event that bars to competition are attempted in a true trade secret agreement, the need for such prohibitions should be spelled out clearly. Language should be included to the effect that the party sought to be restricted has had full opportunity to consult with counsel about remedies and has agreed that the competition restrictions chosen are necessary and reasonable to protect the owner of the information from reasonably expected dangers. A specific reference to both the UTSA and the exception to covenant not to compete prohibition in CRS § 8-2-113(2)(b) should be considered in the agreement itself. It also may be good practice to include a provision in the agreement to the effect that the agreement is to be enforced as fully as possible under applicable law. In this way, the court will have the opportunity to impose the strictest sanction possible under its interpretation of the law.

The Many Faces of Trade Secrecy Agreements

It is common to see trade secrecy agreements entered into between employers and employees. They are also likely to appear in regard to technology-sharing between companies and in situations in which two or more entities team together for one or more projects. Such agreements also have their place in situations where a reasonable risk exists that proprietary information will be disclosed to persons outside the organization.

This is especially true in the case of a potential business acquisition. One of the key sources of buyers of existing businesses is the industry in which the target business is a competitor. A situation rife with danger is when such a target shares with a potential suitor critical information as to most facets of its business. In such a situation, practitioners should take extra care in drafting contractual provisions that will prohibit the disclosure or use of information to be disclosed as part of the acquisition due diligence process outside of the proposed acquisition transaction itself. Because the information will be disclosed outside the organization as a matter of course in an acquisition, specific language noting such fact and acknowledging both parties' agreement to secrecy and restrictions on non-use and non-disclosure should be included in the documentation.

***17 Using "Asset-Bathing" Language**

It may be wise to cloak information sought to be protected with language to the effect that such information is a key asset of the owner. This may assist in any effort to enforce non-disclosure of such information under a business values claim, in the event the drafter is concerned that all four elements of a UTSA claim may not exist. It is also wise to do this in regard to information shared with independent contractors, as well as information provided as part of the due diligence process leading to a potential acquisition, since in such instances, the information will necessarily be disclosed outside the organization itself.

Soft Asset Protection Programs

To assure the existence of protective measures sufficient to meet the UTSA, attorneys are advised to instruct their clients to adopt formal, ongoing, day-to-day protection schemes for critical information. The system used in *Network Telecommunications, Inc.*[110] was expressly found to be sufficient by the Court of Appeals. It consisted of trade secrecy agreements and routine collection and shredding of "contact lists."

LITIGATION ISSUES AND STRATEGY

The number of lawsuits filed with regard to trade intangibles use is on the upswing due to the relative increase in importance of information. Litigation glitches may come up in a misappropriation matter, problems may develop in establishing all of the elements required for a claim under the UTSA, and strategic issues may arise at the initial stage of a trade secrecy case. Injunctions are commonplace, and discovery could present additional challenges. Some of these issues are discussed next.

Potential Claims

Although trade secrecy claims typically arise from a contract, nowhere in the express language of the UTSA is there terminology to the effect that a claim under the statute automatically constitutes a breach of contract claim. Technically, a claim under the UTSA is just that—a claim under the statute for misappropriation. Accordingly, an express contract is not necessarily required for a successful claim (although, as noted above, a claim without a written agreement for certain types of information may be substantively weak). Thus, as to the express nature of a claim under the UTSA, a claim for misappropriation under the statute itself may exist, as may a claim for breach of contract when a contract forms the basis of the trade secret claim.

Under the express terms of the UTSA, secrecy is always a product of the protective measures used by the owner of the information. Therefore, special emphasis should be devoted to pleading and proving such measures. Value and improper means of appropriation also need to be pled and proved for a successful claim. Logically, a written agreement will assist in proving these elements, especially if the agreement reflects that these elements exist.

A business value claim could exist in many misappropriation situations. The only elements are that the information be the manifestation of the time, labor, or expense of another and that the information has been misappropriated.[111] Virtually any sensitive business information could fall within the definition of a business value provided by the Colorado Court of Appeals.[112] Most customer lists are developed through years of servicing clients and meeting their specific needs. Special pricing information may exist as to certain customers. Other sensitive information that may not rise to the status of a secret under the UTSA is nonetheless the product of labor, time, or expense. Thus, a business values claim always should be considered and, in cases where secrecy under the UTSA elements is suspect, always should be pled— such a claim may end up carrying the day.

Further, because the facts of *INS* and *Cablevision of Breckenridge* appear to be functionally identical,[113] a claim in equity for unjust enrichment may exist on many facts supporting a business values claim at law. However, collateral issues such as rights to a jury should be carefully weighed in such instances.

Injunction Issues

Trade information litigation is unique in that an attempt to gain a preliminary injunction at the outset is common. Indeed, for many intents and purposes, the prevailing party at the injunction stage of a misappropriation case often will not only win the battle, but the war. To gain injunctive relief, the elements required in Colorado will need to be established, specifically likelihood of success on the merits, an appreciable risk of immediate irreparable injury, the lack of an adequate remedy at law, and the balancing of equities in favor of the moving party.[114]

Discovery Issues

Discovery presents unique challenges and opportunities in misappropriation cases. Special focus should be devoted by the plaintiff to obtaining “footprint” documents, which will establish whether the information at hand is being used. For customer list cases, the documents that fall within this category are those that reflect sales to the customers in question. For example, the defendant’s sales journals are clearly documents that should be gained. Likewise, bank statements and deposit slips reflecting the source of the defendant’s income are potential sources of effective evidence. Less obvious documents should be requested as well, such as credit card statements, personal calendars, computer calendars, phone bills, correspondence files, and e-mail histories. All of these tend to reflect the day-to-day sales and marketing activity of businesses. If business is being conducted with clients appearing on a customer list, such fact is likely to be found in these types of materials.

For cases involving technical information, it is advisable for plaintiffs to seek the same footprint documents outlined above.

In addition, special focus should be devoted to internal memoranda, marketing information, advertising copy, and other material likely to reflect the use of such information. It even may be appropriate to "reverse engineer" the defendant's products to determine whether confidential information is in fact being used.

Defense Strategies

Two potential "Achilles' heels" exist as to many plaintiff's claims under the UTSA—secrecy and protective measures. Any UTSA claim may be weak if the information at hand is simply not a secret, such as (1) information that is readily available from non-confidential sources,[115] (2) an employee's pre-existing knowledge, or (3) knowledge developed by (and perhaps knowledge shared with) independent contractors.[116] Likewise, the defendant may ultimately prevail in the event the plaintiff failed to "walk the walk" of special, ongoing efforts to keep the information in question from being disclosed to persons other than those having a need to know.[117] Accordingly, the primary goal should be to establish one of these defenses, a goal that should be remembered when a defendant ***18** wishes to develop an effective discovery strategy.

Certainly, evidence developed during discovery that the company in fact did not treat the information as a secret, or did not take some efforts beyond "ordinary business precautions" as to such information, may cause an ultimate conclusion in favor of the defense.[118] Ex-employees may be a particularly ripe source for such information. In addition, if the company advertises who its customers are, publishes testimonials giving the source of the testimonial, or otherwise uses the identity of its customers as published information, such a fact could destroy any claim the company otherwise could make that the information is a secret, especially if the plaintiff's claim seeks a competition restriction.

CONCLUSION

The area of trade secrecy has undergone many fundamental changes in the past few years, primarily due to the adoption of the UTSA. The UTSA requires that secrecy, value, protective measures, and improper means of acquisition all must be established for a successful trade secrecy claim in Colorado. Business values/misappropriation claims are available as well, although neither secrecy nor protective measures are necessary for such a claim. A civil claim for theft of a trade secret now appears to exist without the necessity of a prior criminal conviction, although the issue of preemption of such claims under the UTSA remains to be determined.

Part II of this article, to be published in the May 2001 issue, will concern the impact of Colorado's statutory prohibition against covenants not to compete. It also will cover the general area of non-competition agreements and other matters related to competition between employers and ex-employees.

Footnotes

a1 *John F. Reha, Littleton, is a partner in the firm of Arckey & Reha, L.L.C.—(303) 798-8546. Reha has a general business practice with an emphasis on intangible asset protection issues*.

1 CRS §§ 7-74-101 *et seq.*

2 CRS § 8-2-113(2).

3 680 P.2d 1339 (Colo.App. 1984).

4 *Id.* at 1341. *See also* *Page v. Clark*, 592 P.2d 792 (Colo. 1979); *Management Recruiters of Boulder, Inc. v. Miller*, 762 P.2d 763 (Colo.App. 1988).

5 In Colorado, CRS § 7-74-102(4).

[6] *See Network Telecommunications, Inc. v. Boor-Crepeau*, 790 P.2d 901, 903 (Colo.App. 1990); *Gold Messenger, Inc. v. McGuay*, 937 P.2d 907, 911 (Colo.App. 1997).

[7] *Network Telecommunications, supra*, note 6; *Colorado Supply Co. v. Stewart*, 797 P.2d 1303 (Colo.App. 1990).

[8] CRS § 7-74-102(4).

[9] *Id.*

[10] *Nelson v. Elway*, 908 P.2d 102 (Colo. 1995).

[11] CRS § 7-74-102(4).

[12] *Supra*, note 6.

[13] *Supra*, note 7.

[14] *Id.* at 1306.

[15] *Id.*

[16] *Suburban Gas of Grand Junction, Inc. v. Bockelman*, 401 P.2d 268 (Colo. 1965) (users of propane could be discovered by visually observing propane tanks from road).

[17] *Rivendell Forest Products v. Georgia-Pacific Corp.*, 824 F.Supp. 961 (D.Colo. 1993).

[18] *Supra*, note 7 at 1306.

[19] *Id.*; CRS § 7-74-102(4).

[20] *Supra*, note 7 at 1306.

[21] CRS § 7-74-102(2).

[22] *Supra*, note 6 (life partner of franchisee who learned of confidential information in franchise documents prohibited from using such information in competition with franchisor).

[23] *Id.*

[24] *See Colorado Accounting Machines, Inc. v. Mergenthaler*, 609 P.2d 1125 (Colo.App. 1980).

[25] *Stewart, supra*, note 7.

[26] In Colorado, CRS § 7-74-104(1).

[27] *Id.*

[28] In Colorado, CRS § 7-74-104(2).

[29] Exemplary damages were awarded under § 104(2) in *In re S & D Foods, Inc.*, 144 Bankr. 121 (Bankr. D.Colo. 1992).

[30] In Colorado, CRS § 7-74-103.

[31] In Colorado, CRS § 7-74-105.

[32] Attorney fees were awarded under § 105 in *In re S & D Foods, Inc., supra*, note 29.

[33] In Colorado, CRS § 7-74-106.

[34] In Colorado, CRS § 7-74-107.

[35] In Colorado, CRS § 7-74-108.

[36] 948 F.Supp. 1469 (D.Colo. 1996).

[37] 54 F.3d 1262 (7th Cir. 1995).

[38] *Id.* (manufacturer of sport drink products enjoined from employing head of competitor's sport drink product development due to the inevitable disclosure of competitor's proprietary information in the course of such employment).

[39] *Supra*, note 36.

[40] *Heller v. Lexton-Ancira Real Estate Fund, 1972, Ltd.*, 809 P.2d 1016 (Colo.App. 1990).

[41] *Id.*

[42] *Id.* at 1021.

[43] 651 P.2d 440 (Colo.App. 1982).

[44] *Id.* at 444.

[45] *Id.* at 445.

[46] 248 U.S. 215 (1918).

[47] *Supra*, note 40. *See Smith v. TCI Communications, Inc.*, 981 P.2d 690 (Colo.App. 1999).

[48] *See*, *e.g.*, *American Cyanamid Co. v. American Home Assurance Co.*, 35 Cal.Rptr.2d 920 (Cal.App. 1 Dist. 1994) (misappropriation of another's competitive advantage when one business appropriates the organization or the expenditure of labor, skill, and money of another); *United States Sporting Products, Inc. v. Johnny Stewart Game Calls, Inc.*, 865 S.W.2d 214 (Tex.App. Waco 1993) (misappropriation of wild-life sound recordings that were the product of many arduous hours in the wild, in order that wildlife calls were as lifelike as possible).

[49] *Heller, supra*, note 40 (Colorado Supreme Court did not reverse Court of Appeals' underlying approval of trade values claim when it reversed on issue of duplicative damages).

[50] *Supra*, note 40 at 1021.

[51] In Colorado, CRS § 7-74-102(4).

[52] In Colorado, CRS § 7-74-108.

[53] 17 U.S.C. § 301.

[54] 105 F.3d 841 (2d Cir. 1996).

[55] *Id.* at 847-52.

[56] *Id.* at 845.

[57] H.R. 94-1476 at 131.

[58] *See Motorola*, *supra*, note 54 at 850.

[59] *Id.*

[60] 9 F.3d 823 (10th Cir. 1993).

[61] *Id.* at 847-48.

[62] *Supra*, note 40.

[63] *Restatement of Restitution*, § 1 (1937).

[64] *Id.* at § 1 Comment a.

65 *Cablevision of Breckenridge, Inc. v. Tannhauser Condominium Ass'n*, 649 P.2d 1093 (Colo.App. 1982) in *DCB Const. Co, Inc. v. Central City Development Co.*, 965 P.2d 115 (Colo. 1998).

66 *Id.*

67 *Supra*, note 43 at 445.

68 CRS § 6-1-101 *et seq.*

69 CRS § 6-1-105(1)(h).

70 CRS § 6-1-105(1)(a).

71 *Supra*, note 40.

72 CRS § 6-1-113(1).

73 969 P.2d 224 (Colo. 1998).

74 *Id.* at 235.

75 *Id.*

76 CRS § 6-1-113(2)(a).

77 CRS § 6-1-113(2)(b).

78 Unauthorized retention of an item originally delivered to the defendant by the true owner thereof may constitute theft. *See Becker & Tenenbaum v. Eagle Restaurant Co., Inc.*, 946 P.2d 600 (Colo.App. 1997).

79 CRS § 18-4-405.

80 *Itin v. Ungar*, 30 Colo.Law. 185 (Jan. 2001) (S.Ct. No.99SC35, *annc'd*, 11/6/00).

81 *In re Marriage of Allen*, 724 P.2d 651 (Colo. 1986) (embezzlement); *Itin, supra*, note 80 (embezzlement).

82 CRS § 7-74-108.

83 CRS § 7-74-108(2).

84 *Powell Products, Inc. v. Marks*, 948 F.Supp. 1469, 1474 (D.Colo. 1996).

85 *People v. Attebury*, 587 P.2d 281 (Colo. 1978).

86 In fact, despite *Attebury, supra*, note 85, permanent deprivation may not be required for theft of tangible property. "It is not necessary that a person maintain absolute control over the thing of value. It is sufficient that the intended use of such thing be inconsistent with the owner's use or benefit." *See Becker & Tenenbaum, supra*, note 78.

87 *Supra*, note 80.

88 978 P.2d 142 (Colo.App. 1998).

89 The decision of another panel of the Court of Appeals, in *Chryar v. Wolf*, 29 Colo. Law. 191 (Nov. 2000) (App. 99CA1360, *annc'd*, 9/14/00) was noted by the Supreme Court as being in conflict with the Court of Appeals' opinion in *Itin, supra*, note 80. The Supreme Court's opinion is in accord with *Chryar*.

90 *Itin, supra*, note 80.

91 CRS § 13-25-127(1) provides:
Any provision of the law to the contrary notwithstanding and except as provided in subsection (2) of this section (exemplary damages), the burden of proof in any civil action shall be by a preponderance of the evidence.

92 450 U.S. 175 (1981).

93 149 F.3d 1368 (Fed.Cir. 1998).

94 Angwin, "Business Methods Patents Create Growing Controversy," *Wall St. Journal* (Oct. 5, 2000).

95 *Id.*

96 CRS § 8-2-113(2)(a) and (d).

97 *Supra*, note 24.

98 *See also Dresser Industries, Inc. v. Sandvick*, 732 F.2d 783 (10th Cir. 1984).

99 762 P.2d 763 (Colo.App. 1988).

100 *Id.* at 766.

101 *Id.*

102 *Id.*

103 *Id.* Although the Court of Appeals opinion in *Management Recruiters, supra*, note 4, was rendered in 1988, the facts of the case apparently arose prior to Colorado's adoption of the UTSA, effective July 1, 1986.

104 *Mergenthaler, supra*, note 24.

105 *Supra*, note 4 at 766.

106 *See also McGuay, supra*, note 6.

107 *Supra*, note 3.

108 *Id.* at 1342.

109 *Mergenthaler, supra*, note 24.

110 *Supra*, note 6.

111 *Heller, supra*, note 40.

112 *Id.*

113 *See INS, supra*, note 46; *Cablevision of Breckenridge, supra*, note 65.

114 *Macleod v. Miller*, 612 P.2d 1158 (Colo. App. 1980).

115 *Suburban Gas of Grand Junction, Inc., supra*, note 16.

116 *Stewart, supra*, note 7.

117 *Id. See also Network Telecommunications, supra*, note 6.

118 *Stewart, supra*, note 7.

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