

## What is the Business Value of a Trade Secret?

*How Expert Testimony Can Strengthen Trade Secrets Cases*

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**T**rade secret. It is a term that appears ever more frequently in litigation between parties claiming ownership of sensitive, confidential, and/or proprietary business information. But what is a trade secret? Beyond a mere legal designation, a trade secret is a piece of protected information that (1) is crucial to the success of its owner; and (2) would be beneficial to a competitor operating in the same market as its owner. In other words, trade secrets have real world implications which a qualified business expert can put into perspective in trial situations.

### What is a “Trade Secret”?

From a legal standpoint, the term “trade secret” has been defined by the National Conference of Commissioners on Uniform State Laws in the Uniform Trade Secrets Act (“UTSA”). The UTSA, adopted in various forms by 45 states,<sup>1</sup> defines a trade secret as:

...information, including a formula, pattern, compilation, program device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>2</sup>

Moreover, courts have adopted six criteria to which information is subjected to determine whether it constitutes “secret” information. The criteria are as follows:

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<sup>1</sup> R. Mark Halligan, Esq., *U.S. Trade Secret Protection By State*.  
<http://my.execpc.com/~mhalign/42state.html>

<sup>2</sup> Uniform Trade Secrets Act, §1.

- (1) The extent to which the information is known outside the business
- (2) The extent to which the information is known by employees and others involved in the business
- (3) The extent of the measures undertaken by an employer to protect the secrecy of the information
- (4) The value of the information to the employer
- (5) The amount of effort or money expended by the employer in developing the information
- (6) The ease or difficulty with which the information could be properly acquired or duplicated by others<sup>3</sup>

The foundations of many trade secrets cases are rooted in the definition and criteria stated above. Attorneys use these criteria as a benchmark for proving (or disproving) the existence of a trade secret, building a legal argument that, in the end, will either prevail or perish. Arguing a trade secrets case based solely on a legal analysis, however, leaves a crucial question unanswered: what is the business value of a trade secret?

#### **A Business Perspective**

Approaching the trade secrets discussion from a business perspective can be a useful tactic that adds another dimension to a trade secrets case and provides real added value for the client. Engaging a qualified business expert to opine on the monetary and/or intangible value of a trade secret can be an effective method of transforming the argument from the theoretical—i.e., an academic exercise in deciding which criteria apply and which do not—to an actual, real world analysis that can be easily digested by jurors.

Expert witnesses who have experience in business environments are often in a position to bring a valuable perspective to trade secrets cases. Because often they have personally dealt with trade secrets issues in the course of their business experience, such experts have firsthand experience with recognizing the role that trade secrets play within an organization and the immense value that trade secrets can hold. Similarly, this experience also allows an expert to recognize information that is commonly known or otherwise not

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<sup>3</sup> New York State Science & Technology Law Center, Syracuse University College of Law. <http://nys-stlc.syr.edu/lawlibrary/tradeseecret/secrecy.aspx>

considered privileged. It is from this experience that a business expert can draw—depending on the specific needs of the case—to opine on (1) the value that trade secrets bring to a business and how trade secret misappropriation can be detrimental, indeed fatal, to an otherwise successful business; or (2) that the information at hand does not cross the threshold of business criteria constituting trade secrets.

Trade secrets bring value to a business in a variety of ways. In many respects, trade secrets comprise the core of a business, affecting everyday operations, and ultimately, continued success of the business. In cases where trade secret misappropriation has indeed occurred, an expert witness can effectively convey to the court not only that a trade secret is valuable to a business, but can offer testimony as to both *how* and *why* the information is valuable. In defending against a trade secret claim, a business expert can offer specific testimony as to why the contested information does not clear the trade secret hurdle.

#### **Determining Value**

Determining the value of a trade secret to its owner—and, if it is stolen, to the owner's competitors—is unique in each case. A trade secret derives its value from the particular role it plays within the business. For instance, protected procedures, recipes, formulas, etc., might derive their value from the fact that without the protected knowledge, no competitor can offer a competing product with the exact characteristics of the one offered by the trade secret owner. Other trade secrets derive their value from the effort and expense that go into their discovery—a technical procedure resulting from extensive R&D efforts, for example.

Trade secrets are also useful to a competing business when the privileged information gives the competitor a blueprint as to how the owner of the information structures and operates its business. This is often the case with protected financial data that is not publicly reported. Through the use of misappropriated financial information, a less successful competitor can gain advantage by assessing its successful competitor's profitability and rearranging its operating structure, financial obligations, etc. to match this competitor. Such restructuring—and accompanying future success—will inevitably

cut into the market share of the original owner of the confidential information, who is operating in the same market as the infringer.

Beyond business structure, such confidential information can unjustly assist competing business in other ways. Trade secrets can provide excellent reconnaissance information on a competitor's day to day operations. Information regarding the company's most successful salespeople or most lucrative stores or geographic regions would give a competitor the information needed to poach employees or move into new operating locations.

Confidential information might also provide a competitor with detailed information on the company's product portfolio, providing vital information on the company's performance on a product by product basis. Information such as customer lists and prospect lists, which can be the cornerstone of a company's ultimate success, can be highly detrimental to a company's continued success if accessed by a competitor.

#### **When a "Trade Secret" is Not a Trade Secret**

Determining value is crucial in cases where actual misappropriation of trade secrets has occurred. However, just as frequent are cases where commonly available information is purported to be protected with trade secret status and used in a claim against a party who has done no wrong. In such cases, business experts can share their knowledge of the industry at hand, and offer testimony regarding the general public availability of the contested information.

Business experts are also uniquely qualified to opine on the claimant's internal handling (or mishandling) of the information. Such an analysis often reveals inadequate data security systems and measures, inappropriate internal access to the data, unclear or insufficient security policies, etc. that can assist in defeating a trade secrets claim.

#### **The Expert's Approach**

The expert's analysis in a trade secrets case is rooted in a detailed understanding of the industry at hand. The effective expert engages in in-depth research to assess the competitive landscape (e.g., major and minor players, market share, channels of

distribution, sales information), product mix, value proposition, organizational frameworks, etc of the industry. This information provides the contextual framework for analyzing the contested information.

After completing the necessary industry research, the expert then assesses the information from the perspective of a competitor within the industry. Placing themselves in the role of an industry player, the expert assesses the extent to which the information (1) would be available within that industry; and (2) would be useful from a competitive standpoint.

Through this analysis, the expert then begins to develop a value profile for the contested information. This profile rates the contested information, deeming it essentially worthless if it is, from the expert's perspective, common institutional knowledge available within the industry, to highly valuable if it is confidential information that has been appropriately protected by its owner.

In developing this value profile, the expert takes into consideration all aspects of the research he or she has conducted to this point. Together, the expert's industry research and value analysis of the contested information flavors the expert's final opinions and forms the basis of the testimony that the expert offers to the court. It is through this empirical process that the expert reaches a determination as to whether specific information constitutes or fails to constitute trade secrets from a business perspective.

### **Conclusion**

Companies become successful, in part, by staying one step ahead of the competition. They accomplish this by keeping sensitive information—i.e., trade secrets—confidential. Trade secrets not only map the path a company has taken in the past to achieve current success, but also give insight into a company's ongoing strategies and goals which pave the way for the future.

At the same time, companies often attempt to gain unfair advantage over competitors by claiming trade secrets infractions where none actually exist. A qualified expert, having

walked the business path personally, is uniquely qualified to opine on the importance of trade secret information to the ultimate success of a business or inform the jury when ordinary information is disguised as a “trade secret.”