

A LAYMAN'S INTRODUCTION TO TRADE SECRETS

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I Trade Secret

- (a) Uniform Trade Secrets Act - Protection of trade secrets in California is governed by the Uniform Trade Secrets Act (Cal. Codes §§ 3426-3426.11). Most, if not all of the 50 states rely on the Uniform Trade Secrets Act (the "Act") as the framework for their trade secret laws. Under the Act (§3426.1(d)) a trade secret is defined as information that: 1) has economic value because it is not generally known; and 2) is subject to reasonable secrecy safeguards.
- (b) Why employ trade secrets instead of patents? - A trade secret remains the owner's property as long as the secret can be maintained. In some cases, trade secrets have been maintained for hundreds of years. Patents only last 20 years from the date of filing, and then expire. A trade secret owner is betting that he can maintain a trade secret, and therefore its inherent value as a company asset much longer than a patent could be maintained.
- (c) Can a trade secret be converted to a patent? -
A first inventor who has a trade secret process will not be able to patent its process if more than one year has passed since the public sale of a product made by the process has occurred. A public sale of a product made by a trade secret process is considered to be a public use of the process. Alternatively, a trade secret can be patented by a second inventor who discovers it by legitimate means (independent research or reverse engineering). If the first trade secret owner has been using the trade secret for more than a year prior to the second inventor's patent filing date, the second inventor cannot sue the trade secret owner; they have to survive in the market side by side. However, if the second inventor's patent filing date is within one year of the first trade secret inventor, the second patent holder can sue the first trade secret holder for infringement.
- (d) Basics on protecting trade secrets - 1) Non-disclosure agreements with third parties; 2) strict trade secret policies with employees - making employees aware of what constitutes trade secret property; also reiterating need to keep trade secrets confidential upon employee's termination (exit interview); 3) taking all reasonable steps to keep invention secret - e.g. keep individual employees privy to portions of a process so they cannot engineer the whole, keep written evidence of a trade secret in the company safe; maintain fire walls, passwords, encryption to prevent computer evidence of a trade secret from becoming public.

V. Employees and Intellectual Property

- (a) Who owns what? - If an employee invents a crucial technology or authors a number of works for a company, the type of intellectual property dictates whether the company or the employee owns it. If a patent is filed on a technology and an employee is the inventor of the technology, then the employee owns the patent, unless the employee has previously assigned all his rights in the technology over to the company. Trademarks are also owned by an employee, unless they are subject to an assignment to the employer. As to copyrightable works created under the scope of employment, the company automatically owns these under "work for hire" laws. However, independent contractors own their copyrighted works. As to trade secret matter, again the company automatically owns trade secrets under California Law.

- (b) Employment agreements are crucial - A reasonable employment agreement should be signed by each employee prior to beginning work for a company. The agreement will assign all inventions, creations, works of authorship, trade secrets, etc. created for the company, using company resources over to the company's complete ownership. If an employee refuses to sign the agreement, then the employee should be informed that his/her employment is conditional on signing the agreement. For independent contractors, an assignment agreement for patents, trademarks, copyrights, etc. should also be signed prior to the independent contractor starting work for a company. If these agreements are not used, the employee or independent contractor could later claim ownership of crucial IP assets which were developed using company assets. If a company fails to tightly control its IP assets using employment agreements, this could lead to later disputes with former employees and also cause a devaluation of the company if it is later found out that a company does not own important IP.