

Trade Secret Protection of Inventions

Phil Marcoux & Kevin Roe

- Inventions - Trade Secret or Patent?
- Theft by employees, executives, partners
- Theft by contract
- Note - this class does not create an attorney-client relationship. The content should not be construed as legal advice.

Trade Secret Protection of Inventions

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- Your Presenters

- Phil Marcoux

- Inventor and Patent Owner (over 40)
 - Company Founder (3)
 - Business Exec (Public and Private)
 - Educator (SCU Grad School, UF Advisory Brd)
 - Engineer (BSEE and MSEE, Life Member IEEE)
 - Consultant (My wife's way to get me out of the house)

Trade Secret Protection of Inventions

Phil Marcoux & Kevin Roe

- Kevin Roe
- Graduate Degrees in electrical engineering (MSEE etc.)
 - JD degree in law (Practice* in intellectual property of over 21 years)
 - Adviser on issues regarding trade secrets, patents, technology licensing, contracts, trademarks and litigation.
- * Registered to practice before the US Patent and Trademark Office and is also registered and authorized to litigate before the US Supreme Court and the US Court of Appeals for the Federal Circuit.

An Anti-Inventor, Anti-Patent Witch Hunt Hysteria

- The last six years have had two major events.
- 2011 America Invents Act is the most anti-inventor, anti-patent legislation ever enacted in the history of the US, making patent invalidations extremely easy.
- US Supreme Court's 2014 Alice decision was CAFC mutated into a patent pesticide – now invalidation of ANY patent can be rationalized with 2 mutations.
- The Alice decision & the AIA must be overturned - otherwise little hope for patent enforcement in US courts, especially by small companies and inventors.

Trade Secret Definition

- Trade secret - guarded information used in one's business, neither generally known nor readily ascertainable in industry, that provides an advantage over competitors who do not have this information.
- If not trade secret is not carefully guarded by owner – court will say it is not legally a trade secret.

Keep as Trade Secret or Patent It?

- Since trade secrets will Not be protected if someone independently discovers the invention, or reverse engineers your products (usually legal), trade secrets only make sense IF it is unlikely someone will be able to independently discover it, or reverse engineer it.
- There are many techniques to block reverse engineering.

When to Patent Inventions

- If invention can be reverse engineered, or independently discovered easily, only option (in theory) is to patent it.
- Patents are enforceable (in theory) against people who reverse engineer your products or independently discover the invention – if you file a **thoroughly-written** application before anyone else.

Patents Most Likely Invalidated

- During last 4 years, US federal courts have invalidated several hundreds of patents and are now Extremely Biased against –
- patents having even tiniest software component,
- patents for business methods,
- any patent that does not comprehensively explain Every Detail of the implementation (Plus ALL prior art),
- any patent belonging to an individual inventor or small company inconveniencing big companies.

Trade Secret Vulnerability - Theft

- Major security weakness of any company - employees and executives.
- Many companies worldwide have had employees (and even prospective employees attending job interviews) acquire enough IP to start their own companies, or sell the IP.

Who Owns the IP?

- Employment contracts should be very specific and clear about which IP belongs to the employee or the employer.
- Employment contracts should clearly spell out requirements for protecting all secrets.
- Also applies to contracts for executives, part-time employees, and any contractors who could access IP.

Hired to Invent Doctrine

- Employers may claim an employee's inventive work if employer specifically hires or directs employee to exercise inventive faculties.
- In case of an implied-in-fact contract, courts reason that if employment is for invention, employees or contractors need not own the invention since they have received compensation for their work.

Inventor-Employee Fiduciary Relationship

- Courts may also transfer ownership from an inventor-employee to his or her employer based on their fiduciary relationship.
- Why? - state laws on fiduciary duty that certain employees, such as corporate officers and directors, owe to corporation not to compete with, or usurp opportunities of the corporation.

Note - Trade Secret Implications

- Unless hired to invent, or a fiduciary duty exists, or there is a written employment agreement, employee with an idea cannot be forced to keep their idea as employer's trade secret - they can leave and start up a company and use their idea.

Misappropriation

- Reverse engineering a competitor's product is usually legal, discovering a trade secret by accident is legal, but improperly taking a trade secret without permission when owner is taking reasonable precautions to protect it is illegal.

Misappropriation of Secrets

- Lawsuit for misappropriation of trade secrets needs proof that defendant either disclosed or used a trade secret.
- Civil suit - cause of action (theft) and injury to plaintiff (victim of theft).
- One or more criminal suits, with cause of action, and plaintiff is the government (State and/or Federal).

Federal Trade Secret Law

- §1831+ in Chap. 90 of Title 18 U.S.C. - enhances penalties for trade secret theft,
- Prohibits acquisition of trade secrets by copying, theft, fraud, or espionage.
- Covers both foreign and domestic actions to steal trade secrets.

Severe Espionage Penalties

- Espionage to steal trade secrets for benefit of foreign entities can be punished by up to 15 years in Federal prison and a fine of up to \$500,000 for individuals and \$10,000,000 for organizations.
- Tell your employees – it might stop some.

Severe Theft Penalties

- Theft of a trade secret, which is not espionage for the benefit of a foreign entity, can be punished by up to 10 years in Federal prison for individuals and a fine of up to \$5,000,000 for organizations.
- Tell your employees.

Conduct Outside of U.S.

- Note - Chapter 90's penalties for trade secret theft also cover conduct outside U.S., if offender is a citizen or a permanent resident alien of U.S., and foreign act helps violation of these statutes inside U.S.
- Tell your employees.

Fundamental Truth Regarding Employees

- Companies that mistreat their skilled employees by laying them off for short-term profit will never receive or deserve loyalty.
- If business shrinks - re-train and re-deploy employees to another part of the company. Don't throw employees away – very risky.
- Good-will increases loyalty and keep trade secrets from being lost to other companies.

Theft By Contract

- Contractual theft happens when one party acquires IP of second party by contract, and then decides second party is no longer needed.
- Happens very frequently worldwide and in U.S., especially to U.S. companies or individuals that only have IP as a major trading card.

Joint Ventures – Very Risky

- Joint ventures can limit employee hiring problems, but many joint ventures become a rip-off of U.S. company's IP.
- U.S. company gets dumped, and foreign company makes pirate copies and takes over entire market in their country or an entire region by under-cutting U.S. company's prices.

How Do Japanese Outsource?

- Many Japanese businesses have evolved into the ultimate realists and jungle survivors.
- Their policy – do not outsource any truly valuable technology outside of Japan (or in limited circumstances, U.S. or Europe), because most countries are so legally biased that technology/trade secrets/patents are not legally protected in reality.

How Do Japanese Protect Secrets?

- Employees outside Japan are kept on a very tight leash in terms of access to secrets and making important business contracts.
- Most Japanese companies keep most secrets locked up in Japan, and do not trust even their own non-Japanese employees in other countries, especially in countries with legally biased courts.

Lesson?

- U.S. companies should keep their valuable technology and trade secrets in U.S.
- If outsourcing high technology and/or trade secrets to legally biased countries – kiss it goodbye! Only outsource generic items.
- Employees, executives, or joint venture partners can obtain blueprints and create LETHAL competition within 4 months. No joke!

Conclusion

- Very easy to lose IP to - applicants, employees, and executives / outsourcing / foolish contracts / Internet hack attacks.
- Employees/executives/business partners and computer hacking are usually greatest risks for IP theft and piracy.
- Companies that do not organize thoroughly comprehensive IP protection will have their IP ripped-off.