

Employment Law Advisory for 7/6/11

As Economy Evolves, Importance of Protecting Trade Secrets Grows

Many companies routinely state that their employees and their trade secrets (or intellectual property) are their most valuable assets. Ironically, though, current or former employees are often to blame when a company's trade secrets are disclosed or misused. Given the importance of intellectual property in today's increasingly knowledge-based economy, many employers are remarkably uninformed and lax in their protection of their trade secrets.

On the most fundamental level, employers often do not understand the factors used to distinguish trade secrets from other business information that does not qualify for legal protection. Companies cannot confer trade secret status upon information simply by declaring it to be a trade secret. The law sets forth specific criteria that must be satisfied in order for information to qualify as a trade secret, and employers often make the mistake of equating sensitive information with protectable trade secrets. Information does not qualify as a trade secret merely because it is sensitive or important to the organization in question. Most businesses, including those outside the technology industry, do possess at least some information that could qualify as a trade secret if managed properly, however. Much information regarding clients and customers, for example, can satisfy the legal criteria applicable to trade secrets (even though the name of a customer may not, by itself, qualify for protection).

Aside from not understanding the legal definition of a trade secret, many employers also do not recognize the basic steps they can- and should- take to protect their valuable business information. At a minimum, employers should:

- adopt thoughtful, well-written policies regarding confidential information, as well as technology and computer usage;
- require some or all of their employees to sign formal confidential information and invention assignment agreements; and
- exercise control over confidential information by permitting only those employees who need it to gain access to it.

While these simple steps do not guarantee a favorable outcome in the event of a dispute, failure to take them, or failure to implement them properly, will seriously jeopardize a company's ability to obtain relief from a court in the event intellectual property is misappropriated. In the recent *Mattel, Inc. v. MGA Entertainment, Inc.* decision, for example, an employer's failure to define the term "inventions" as including ideas resulted in uncertainty over whether a contract gave Mattel ownership of a lucrative idea generated by the employee during his employment. Had Mattel's contract included the term, it may have been able to avoid lengthy, expensive and damaging litigation.

Employers also frequently fail to recognize that the law does not permit them to enforce their intellectual property rights on a selective basis. Trade secrets cease to qualify as trade secrets if an

employer fails to enforce its rights against a party that misappropriates them. An employer cannot ignore a misappropriation of trade secrets by Former Employee A (perhaps because it believes that Former Employee A will not be able to use the information to its detriment) and later seek judicial relief against Former Employee B for misappropriating the same trade secrets. Once an employer permits the confidentiality of a trade secret to be compromised, the information loses its status as a trade secret.

The protection of trade secrets and intellectual property rights should be a priority for all employers. Employers can substantially enhance their position in the event of a dispute by taking some fairly simple steps. At the same time, the failure to take these basic, reasonable steps, or an unfortunate mistake when attempting to take them, may prove fatal to one's legal position. If you have any questions about trade secrets or how to protect them, please contact one of our attorneys:

[Daniel F. Pyne, III](#)
[Richard M. Noack](#)
[Ernest M. Malaspina](#)
[Karen Reinhold](#)
[Erik P. Khoobyarian](#)
[Shirley E. Jackson](#)

Protecting Trade Secrets & Intellectual Property

Trade secrets and intellectual property are among the most valuable assets of any organization, and disputes about misappropriation or misuse of trade secrets arise everyday in Silicon Valley. Organizations of all types must understand the factors that cause information to qualify as a trade secret, steps that can (and must) be taken to preserve the confidentiality of trade secrets, and how to protect themselves when their intellectual property rights are violated or they are accused of violating the rights of others. Our seminar will explain these points and summarize the latest legal trends.

Registration: Registration is available [online](#) or [via email](#).

Date: July 15, 2011

Check-in: 8:00AM

Event: 8:30-10:30AM

Cost: NO cost to attend

Location: Silicon Valley Capital Club ([50 West San Fernando, San Jose, CA 95113](#))