



Rocking in Trade Secrets

TRADE SECRET FUNDAMENTALS

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Introduction to Intellectual Property

Intellectual property is a valuable asset for any company. Often, the only way a small business can compete with the Goliaths of the world is through their intellectual property.

Intellectual property takes many forms, such as copyrights, trade secrets, trademarks, and patents.

Copyrights protect works of expression expressed in a tangible medium, such as an artist's painting on a canvas or a musician's song lyrics written on paper. Copyrights protect the copying of the work of expression and so if two people create very similar paintings independently, no copyright infringement has occurred. Copyrights include several rights, such as a right to produce copies or reproductions of the work and to sell those copies, a right to import or export the work, a right to create derivative works, a right to perform or display the work publicly, a right to sell or assign these rights to others, and a right to transmit or display by radio or video. In the United States, most existing works have a copyright for a term ending 70 years after the death of the author. If the work was a work for hire (e.g., a work created by an employee of a corporation within the scope of the employee's employment, in which case the corporation is awarded the copyright), then the copyright lasts for 120 years after creation or 95 years after publication, whichever is shorter. An author obtains a copyright once the work of expression is materialized in a tangible medium. They can also be registered with the U.S. Copyright Office to obtain additional benefits.

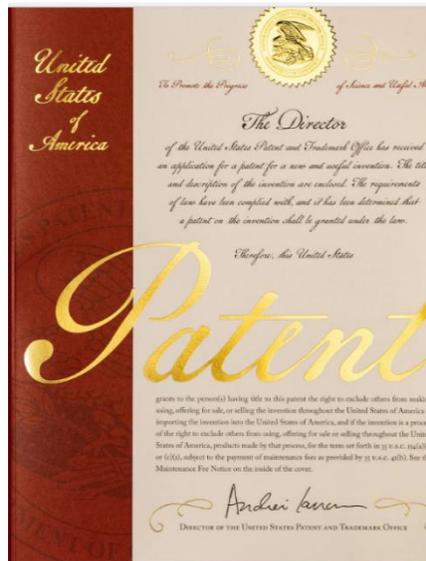
Trade secrets protect secrets of a company that provide a competitive advantage. The formula for Coke® is a classic example. Trade secrets last indefinitely as long as they remain secret. To have a trade secret, a company has to perform steps to keep the information secret,

such as by only allowing a few key people to know the secret, securing the information (e.g., formula) in a safe, etc. If someone else finds out about the secret or reverse engineers a product to determine the secret, the trade secret protection is lost for good.

Trademarks are one or more words, graphics, logos, and/or scents that identify a source or origin of a product or service. An example is the Nike® Swoosh. To obtain a trademark, one has to apply for the trademark with the U.S. Patent and Trademark Office (USPTO). The USPTO performs a search to see if any other marks exist that are too similar to the application. If there is a likelihood of confusion with another mark, the USPTO will reject the application. If you can convince the USPTO that your application should be granted, and if the USPTO does grant the application, the trademark is valid throughout the United States. If you register your trademark, you obtain the right to exclusive use of the mark in relation to the products or services for which it is registered. Typically, the owner of a registered mark can prevent unauthorized use of the mark in relation to products or services which are identical or similar to the registered products or services. The test is always whether a consumer of the goods or services will be confused as to the identity of the source or origin.



Patents are legal documents filed with the USPTO that describe and protect inventions. Patents provide a negative right – the right to exclude others from making, selling, using, or importing the patented invention. People often think of a patent as a monopoly in the claimed invention for a limited period of time. Patents are valid for twenty years from the earliest filing date (excluding provisional applications). In exchange for the monopoly granted by the U.S. government for a limited period of time, the patented invention is published so that others can learn from the patented invention and potentially build upon the knowledge.



Introduction to Trade Secret Law

A trade secret is any information or knowledge that has commercial value, has been kept secret by a business, and that is not known by competitors.

Trade secrets often include customer lists, sensitive information regarding marketing, unpatented inventions, software, formulas, processes, techniques, a secret formula for a best-selling product, and any other information that gives a business an edge.

The majority of states have adopted the Uniform Trade Secrets Act.

A trade secret is information that has these characteristics:

- 1) Value – the information has economic value to your company because you know the secret and your competitors do not.

Secrecy – the information is not generally known, and not easy to find out.

Effort – the company must take reasonable steps to keep the information as secret as possible. You cannot publish the information on the company's website so that anyone can see and access the information.

Trade secret is generally a do-it-yourself form of protection. Companies do not register with the government to secure a trade secret.

Disclosure of Trade Secrets

A trade secret holder may divulge the trade secret information to a limited extent without destroying its status as a trade secret. If disclosure to others is made to further the holder's economic interests, it should, where appropriate, be viewed as limited that does not destroy the required secrecy. Basic ideas or concepts incapable of protection as secrets because they were too well known to be considered a secret.

Sales of goods destroy the value of the trade secret.

The six factors to consider to determine a trade secret:

- 1) The extent to which the information is known outside the owner's business;
The extent to which it is known by employees and others involved in the business;
The extent of measures taken by the owner to protect the secrecy of the information;
The value of the information to the business and its competitors;
The amount of effort or money spent by the business in developing the information;
The ease or difficulty by which the information could be properly acquired or duplicated by others.

As long as a trade secret remains secret, it is protectable. Trade secrets do not last for a specific term. They continue indefinitely until the public disclosure of the secret.

A trade secret qualifies as a trade secret and has legal protection (against theft and/or misappropriation) only if the owner of the trade secret has taken the necessary and reasonable steps to keep it secret. If the owner has not diligently tried to keep the information secret, courts will usually not provide any assistance to the trade secret owner if other people learn of the information.

Selling a commercial product may, in some instances, disclose the trade secret. If the trade secret is completely disclosed by the product to the public, then the trade secret is lost. Further, if the product is free and completely disclosed by the product to the public, the trade secret is also lost.

The question is whether the secret is apparent from the product itself. Sales of a product, however, does not necessarily disclose a trade secret because the product embodies the trade

secret. Secrets in undecipherable form within the product, like object code in a computer program, are viewed as secret even when the product is sold.

Filing a patent application can destroy trade secret protection when the patent application is published. Publication of a patent application typically occurs in eighteen months from the filing date. Similarly, when a patent is granted (issues), it is also published and made available to the public. In both cases, this destroys trade secret protection,

Steps to Keep a Trade Secret

The steps to secure a trade secret are:

- 1) Limit access;
- 2) Tell your employees or workers that the information is secret;
- 3) Use nondisclosure agreements; and
- 4) Keep the secret.

a) Limit Access

The fewer people who know your company's trade secrets, the better. Always be careful as to who you tell your trade secrets to. You may realize that an individual only needs to know one piece of the puzzle. Alternatively, you may conclude that an individual only needs a summary of the information, not the details.

b) Tell Workers that the Information is Secret

Once you have identified your company's trade secrets and the people who need to know them, you must tell them that they must keep the secrets confidential. You should revisit the company's policy (like the security procedures) in case any aspects have changed.

c) Use Nondisclosure Agreements

Employees have an automatic duty to keep trade secrets confidential. You technically do not have to ask them to sign a nondisclosure agreement (NDA) to impose this legal duty on them. Even so, nondisclosure agreements solidify the importance of confidentiality and clear up any confusion about what information the company views as its trade secrets.

A nondisclosure agreement, also called a confidentiality agreement, is a contract in which the parties agree to protect the confidentiality of secret information they learn during employment or in a business transaction. A company can use a nondisclosure agreement to protect any type of confidential information, like a secret design, an idea for a new website, and/or confidential financial information about your company.

Independent contractors do not have a legal duty to protect your company's trade secrets (employees do have this legal duty). Therefore, you should present a nondisclosure agreement to every independent contractor who will learn or have access to any trade secret.

The important elements of a nondisclosure agreements are:

- 1) Definition of confidential information;
- 2) Exclusions from confidential information;
- 3) Obligations of receiving party;
- 4) Time periods;
- 5) Other provisions.

i. Definition of Confidential Information

Every nondisclosure agreement has a general description of the types or categories of confidential information or trade secrets that the agreement covers.

The purpose is to provide the subject matter of the disclosure, without actually revealing the secrets.

ii. Exclusions from Confidential Information

Every nondisclosure agreement excludes some information from protection.

Typical areas of excluded information are:

- 1) Information that is already generally known outside of the business at the time the nondisclosure agreement is signed;
- 2) Information that becomes known outside of the business, by no fault of the employee or independent contractor;
- 3) Information that the employee or independent contractor knew before working at your company; and
- 4) Information that the employee or independent contractor learns independently.

iii. Obligations of the Receiving Party

The employee or independent contractor generally must keep the information secret and limit its use.

