



## Intellectual Property

### Part 5, Trade Secrets

THE LAST FEW ISSUES WE'VE TALKED ABOUT all the formal forms of Intellectual Property you can own that require application and grant—Copyright, Trademarks and Patents. All these share one thing in common—the act of protecting your intellectual property is public. Everything about your protected idea or invention is of necessity revealed to the world. Even US patent applications are now normally made public 18 months after filing. (Note: You can keep patent applications secret if you have no plans to file overseas, but this isn't common.) So what about something you want to keep secret?

*As mentioned before I should make it clear that I am not a lawyer so nothing I talk about in these articles is legal advice. The articles are based on information I've picked up over the years and found useful based on my personal point of view as a product designer and developer in our industry. Because of that my comments are undoubtedly somewhat selective and subjective. In no way should you take anything in these articles as more than useful (I hope) background information to assist further research. As with any legal matters if you have a real problem or concern always talk to a real attorney!*

### Can you keep a secret?

Most of the time public disclosure is exactly what you want—after all why would you paint a picture, write a book or invent a great product if you didn't want others to know about it?

Well, there are circumstances where it may be better to keep something completely secret. The formula for Coca-Cola® is one common example. It's been better for the company to keep this a secret rather than patenting it. The chief advantage of course is that, unlike a patent, a trade secret has no expiry date—it's exclusively yours for as long as you can keep it confidential. In the case of Coke® they started making their cola in 1886 so any patents would have expired a hundred years ago. However there are other differences too which may be equally important to you:

- It costs you nothing in legal or government fees to maintain a trade secret, no lawyer's fees, no filing fees, zilch, nada, nothing.
- There's no chance of an examiner rejecting your application—

there is no application; and you have the protection the moment you decide you need it.

- You have automatic legal rights to protect your secret.
- There are no concerns about someone designing around your invention as nobody knows what it is to design around.
- You can cover all aspects of a process or invention at once whereas protecting through patents may require numerous separate patent applications.

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Apart from the formula for a carbonated beverage what else might make a good candidate for a trade secret? Examples might include a manufacturing process where you have discovered a great way of making widgets better than everyone else's. If you patented this method then your competition would immediately know how to make better widgets as well and may try and use it with subtle alterations to avoid your patent. Another example is the manufacturing method for a firework—the chemicals used aren't secret but the exact method for combining them and preparing the product might be. Somewhat closer to our business, a magician may reasonably consider his tricks to be trade secrets—he doesn't want to reveal them by applying for a patent. Even customer lists and sources of supply which could never be patented can be considered trade secrets. The common factor here is that the secret gives you a commercial advantage. In fact one common definition of a trade secret is as follows:

“A trade secret may consist of any formula, pattern, device, or compilation of information which is or can be used in one's business, and which gives one an opportunity to obtain an advantage over competitors which do not know or use it, and which the law protects from misappropriation by others.”

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The commercial advantage part of this is important as any court reviewing a trade secret case will value the case by the commercial value of the secret. If a secret has no commercial value then there is arguably no monetary damage done by misappropriating it.

☺☺ If someone else discovers your secret independently there is nothing to stop them from patenting it and then suing you for infringement! ☺☺

### Why you might want to tell all.

It's not all good news for trade secrets though; the obvious disadvantage is their fragility. Once you disclose a trade secret that's the end of it, it's immediately lost forever with no recourse. Tell one person and your secret disappears. However there are also other arguments as to why they might not be the best protection choice.

If someone else discovers your secret independently there is nothing to stop them from patenting it and then suing you for infringement! By definition your trade secret cannot be prior art for the issue of the patent, as prior art has to be public. (There is a way out of this Catch-22 situation—if you can prove you were using the secret a year before the other party filed their patent you may have “prior use rights” which automatically allow you to avoid the patent infringement. This doesn't stop them getting the patent and suing others though!)

Trade secrets are no protection at all for reverse engineering so they are a really poor choice for mechanical assemblies or physical products that can be disassembled. Think back to the first article in this series and you might recall that the law allows you to freely copy items if they aren't covered by a patent, copyright or trademark.

You have to take strict and constant care that your secret remains a secret and that you do everything possible to ensure its security. Just saying “this is a secret” isn't enough—your actions have to confirm it. This means ensuring that everyone who has access to the secret, including employees, signs a confidentiality agreement and that you take all “reasonable precautions” not to reveal the secret. It must be marked as confidential and kept in a secure manner.

If you successfully obtain a patent and are involved in a dispute then there is an automatic presumption by the law that your patent is valid and the burden of proof is with the other side to prove otherwise. With a trade secret, however, it's the other way round and the burden of proof is with you to demonstrate that it really was a secret and that you did all you could to maintain it.

### How do I obtain trade secret rights?

Simple—don't tell anyone! That may sound facetious but that's pretty much it. As discussed earlier “not telling anyone” means you have to be able to prove you've taken all reasonable care and can

demonstrate that you have imposed procedural measures to prevent disclosure. This needn't be that hard to achieve. Common sense is a good guide here.

Once you have established a trade secret then the law gives you automatic protection to the extent that in many states and in federal court it's now a criminal offense as well as a civil one to steal a trade secret.

By the way, owning a trade secret doesn't stop you from patenting an idea.

If you decide that you want to move over to a patent instead then you have the usual 12 months from disclosing or making the formerly secret idea public to apply for a US patent. The time it was kept as a secret doesn't count. (Reminder—you don't get this 12 months grace period if you are applying for overseas patents. See previous articles.)

So think carefully about trade secrets—if you have business material or processes you want to protect they may be a good choice. But reverse engineering can quickly and legally render them worthless.

Well, that's it. We've covered Copyright, Trademarks, Patents and Trade Secrets over the last year of *Protocol*. I hope at least some of this information was useful and helped you realize the value of the intellectual property you undoubtedly own. Let me end by reminding you once again that none of this is legal advice and that if you have a real issue then you should speak with a real lawyer! ■

**Mike Wood** is President of Mike Wood Consulting LLC which provides consulting support to companies within the entertainment industry on technology strategy, R&D, standards, and Intellectual Property. A 25-year veteran of the entertainment technology industry, Mike is the new Treasurer and Immediate Past President of ESTA.

### Recommended reading

#### *Patent It Yourself*

David Pressman, Nolo Publishing 2005

(I hate the title as “Do it Yourself” is not always a good idea with patents, but actually this book covers all aspects of intellectual property in clear understandable language.)

#### *The Entrepreneur's Guide to Patents, Copyrights, Trademarks, Trade Secrets & Licensing*

Jill Gilbert, Berkley Books 2004

(This contains more history and explanation than the previous book; it is also targeted at small companies.)

#### *The Patent Guide—A Friendly Handbook for Protecting and Profiting from Patents*

Carl W. Battle, Allworth Press 2002

(Another view of the topic, this book contains more detail on dealing with the various entities you'll come across.)