

# Venture Best

## Entrepreneur's Introduction to Intellectual Property

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## Introduction

For many businesses, a well-known, highly respected brand is often a valuable piece of intellectual property that can be had. Building a powerful brand is, at the end of the day, a function of two things: Offering products and/or services that distinguish (in a positive way, of course) the business in the marketplace, and tying those products and services to one or more trademarks widely recognized by the target customers in the market as the source of those products and services. A company that has strength in the market often leverages a significant market share, at least relative to competitors, that is built on one or more pillars of intellectual property –patents, trademarks, trade dress, copyrights, and trade secrets. These pillars form the cornerstone of a highly respected, and trusted, brand.

Entrepreneurs have the creative thinking or the knowledge, and often both, to improve upon existing products or services or to identify a new product or service. But keys to being a successful entrepreneur include having a strategy and a plan to implement the strategy. This includes a plausible business model and a practical way to get the solution to the customer. Importantly, this also involves a sustainable competitive advantage that is often facilitated by carving out intellectual property rights early in the company's timeline. While first mover advantage and marketing efforts play a role, a sustainably successful company leverages its IP when and where possible.

Patents, trademarks, trade dress, copyrights, and trade secrets are tools that you can use to protect the investment and goodwill in your products and their packaging. It is important to remember that these forms of protection are not mutually exclusive and one or more may be available to protect a particular product or design. Considering these forms of protection early in the product or service lifecycle gives you an opportunity to pursue appropriate protections for the products or services, and best positions your company to challenge those who may seek to copy or knock-off your products or services.

Let's assume your business has the appropriate products and/or services, and focus on the how intellectual property plays a significant role in building a successful company. Through all of this, keep in mind that intellectual property, in any form, is based on the free market rule: You have the right to copy unless what you want to copy is protected by intellectual property.

## Patents

Navigating the patent system in the United States, let alone in foreign jurisdictions, may seem like a daunting task. Often, the difficulty lies in knowing where to begin and what questions to ask. While much of this discussion focuses on U.S. patent law, other jurisdictions will be similar to navigate. Your IP attorney can walk you through details associated with specific jurisdictions.

### What is a patent?

A patent is a legal document that grants its owner(s) the right to exclude others from making, using, selling, or offering for sale a patented invention within the United States for the term of the patent. A U.S. patent also grants its owner(s) the right to exclude others from importing the patented invention into the United States. Before a patent is granted, it is referred to as a patent application – a request for a patent to be granted, but not a guarantee that the patent will grant.

A U.S. patent does not grant a right to use the patented invention – its an exclusionary right. Because a patent provides an exclusionary right, it is important to understand that a patent owner may be precluded from making, using, selling, or offering their patented invention for sale because the technology upon which it is based is covered by an earlier patent owned by another party. Such a situation may arise when you are granted a patent covering an improvement on a base technology, while an earlier (and enforceable) patent, issued to another party, covers the base technology. So, under U.S. patent law, you are entitled to exclude the other party from making, using, selling, or offering for sale any products incorporating the improvement to the base technology, while the other party is entitled to exclude you from making, using, selling, or offering for sale any products incorporating the base technology. This is a situation where legal assistance is often helpful to navigate what you can (and maybe should not) do in the market. That said, there is always the possibility that you obtain a license from the other party to use their patented technology. If not, unauthorized manufacture, use, sales, offers for sale, or importation of their technology in your own product may be considered infringement of their patent rights. And that can be costly.

Furthermore, pending patent applications and issued patents have the attributes of personal property and can be bought or sold (i.e. assigned). The assignment, however, must be memorialized in a written document.

### What subject matter can be patented?

Any new and useful process, machine, article of manufacture, or composition of matter, or any new and useful improvement may qualify as patentable subject matter.

Most individuals associate patents with a consumer product, which traditionally would be considered a “machine” or an “article of manufacture” for purposes of patentability. However, the process used to create a consumer product, a material used in creating a consumer product, or software that improves the operation of a computer may also qualify for patent protection.

### What types of patents are available?

Any type of patent starts as an application for a patent (typically just referred to as a “patent application”). The patent application goes through examination and, if the process is successful,

comes out on the other side as a patent. The two most common forms of patents include a “utility” patent and a “design” patent. A utility patent defines an invention in terms of its structure and function. In contrast, a design patent defines an invention in terms of its ornamental appearance, it’s aesthetics, rather than its function. The scope of protection afforded by a utility patent and a design patent, respectively, are largely independent of each other and do not overlap. Another form is a plant patent, which is directed to plants (e.g., seeds) that are human-made or otherwise hybrid forms of plants not typically found in nature.

While utility patents and design patents are the most common form of patents, it is important to understand that a precursor option to a utility patent involves a provisional application. A provisional application acts as a placeholder, for a utility patent application, for 12 months to allow you more time to consider the market, the viability of patent protection that may be available, and other factors that may be relevant to moving forward with protecting your IP.

## What is the term for each type of patent?

Generally, the term of a utility patent begins on its date of issuance and ends 20 years after the filing date of the application on which the patent is based. The term of a utility patent is generally non-extendable, though some exceptions apply.

The term of a design patent is 14 years or 15 years (depending on where it is filed), and the term begins on its date of issuance. The term of a design patent is non-extendable.

## When should an inventor consider seeking patent protection?

Marketing a product incorporating proprietary information typically is a primary concern to most inventors, so it is not uncommon for inventors to first consider patent protection during the final phases of the design process. Often, this timing is too late, or almost too late. An inventor should consider patent protection early in the design process, even before the design is finalized, to improve the likelihood that patent protection can be obtained on the technology. Ideally, an inventor should consider patent protection immediately after having conceived of their invention to a sufficient detail so as to be able to explain to someone else (legally, a person of ordinary skill in the art) how to make and use the invention. Every day that passes beyond this timeframe can be a detriment to obtaining patent protection. While the ‘devil is in the details’, having something on file, even a provisional application, is better than taking no action.

At the very least, you should consider seeking patent protection prior to any public disclosure of the invention. While U.S. law provides a one-year grace period for filing a patent application after a first public use, sale, or offer for sale of the invention, most foreign jurisdictions require “absolute novelty” of the invention as a prerequisite to obtaining patent protection. “Absolute novelty” means that your invention has been kept under wraps and has not been publicly disclosed prior to filing your first application.

## What is involved in the process of preparing a patent application?

An issued patent begins life as an application that is filed with the U.S. Patent and Trademark Office (USPTO), which examines the application to determine whether the application is entitled to be granted as a patent. It is not guaranteed that a patent will be granted. It is also not guaranteed that the scope of patent protection desired at the time of filing the application will be

available at the conclusion of prosecution of the application. Many factors inform whether, and in what form, a patent is granted.

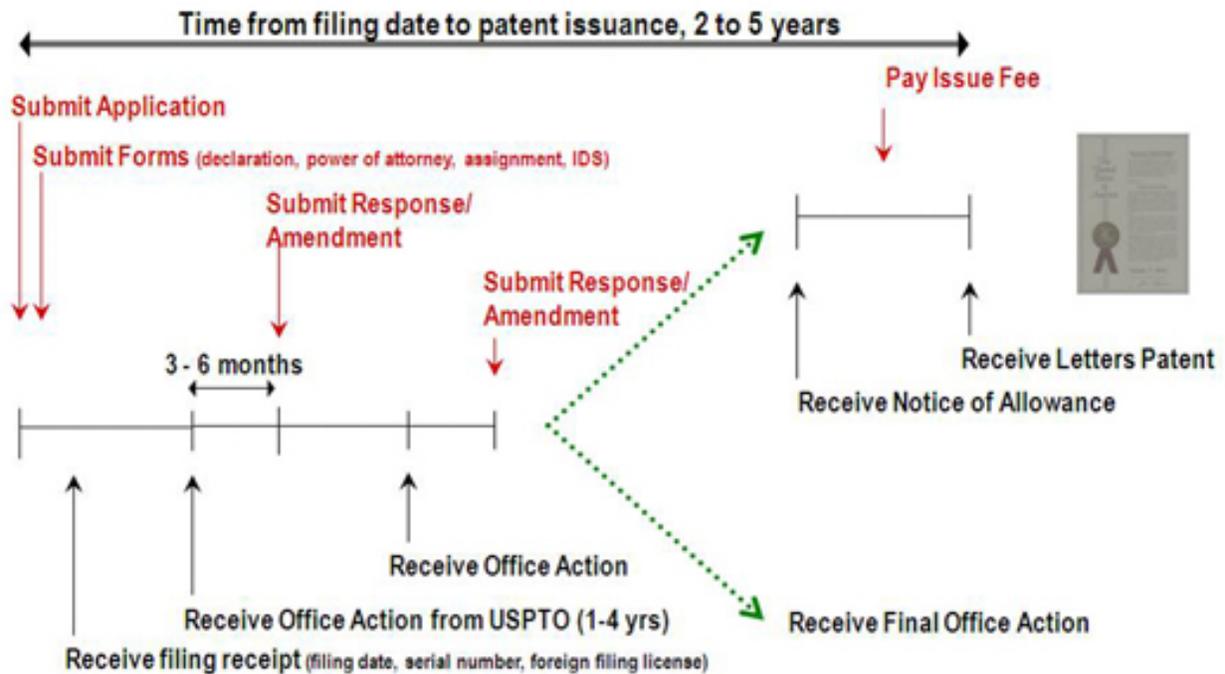
By rule, a patent application must include a specification that describes the invention in enough detail for someone else to replicate it, one or more claims that define what the inventor considers to be the heart of the invention, as well as one or more illustrations if the invention can be illustrated (in some cases, inventions may not be easily illustrated). If analogized to a real property setting, a “claim” is like a legal description of the invention (property), and can be visualized as a ‘fence’ that demarcates the invention (the bounds of the property) from the known art in the public domain. The greater the area surrounded by the fence, the broader the scope of the claim, making the patent that may grant all the more valuable. After an application is filed with a complete specification, a claim, and drawings (when helpful), the application is given a filing date, which can be analogized to the inventor’s “stake” in the ground at which time the inventor is in ‘possession’ of the invention.

Although a patentability analysis is not necessary prior to filing a patent application, it often is a good idea to do so because you will have a better understanding, at least initially, about what other relevant IP may exist before you file a patent application. A patentability analysis, in essence, is a preliminary assessment of the likelihood of obtaining patent protection for your idea. A patentability analysis involves studying a sampling of prior-art patent or non-patent documents in the same technical field as the invention being considered for patent protection. After understanding the relevant prior art that comes from a patentability analysis, you will be able to make a more informed decision whether it’s worthwhile to proceed with a patent application, especially when the cost of a patent application is more expensive than a patentability analysis.

## What happens after a patent application is filed?

As you probably appreciate by now, filing a patent application is only the start of the process for obtaining patent protection for your idea. After you file, the process of ‘prosecuting’ your patent application begins. More specifically, after you file a patent application, an examiner eventually considers what you claim relative to published inventions (e.g., patents or patent applications that predate your invention) and other publicly available information that predates your invention (referred to as “prior art”) and that might be relevant to your invention. If your claim is rejected, the examiner considers your invention precluded by prior art that allegedly discloses your invention. Keep in mind that a rejection is not the end of the examination process – it’s usually just the beginning.

When facing a rejection by an examiner, you have to consider whether arguments are sufficient to overcome the rejections, or whether you need to narrow the scope of claim protection by way of amending your claim(s). Sometimes, you make amendments in the current patent application and leave the fight for broader patent protection for another application you may file. Illustrated below is a generic prosecution timeline for a patent application from filing to issuance as a patent.



## What if foreign patent protection is desired?

In most cases, you can file patent applications in different jurisdictions within one year of your first-filed application (typically filed in the U.S., but not always) without losing priority to your first-filed application. Priority is important mainly to avoid having relevant prior art published after you have filed your first application, but before your next application. There are exceptions to this one year rule – the most significant being that you published details about your invention before filing your first application.

Filing an international patent application – referred to as a “PCT” application – is a strategy that can help prolong the decision regarding the various jurisdictions in which you may want to file. A PCT application can be the first-filed application or claim priority to another application. PCT stands for “Patent Cooperation Treaty”, which provides a period of 30 months from the filing date of the first patent application for you to decide on the jurisdictions in which you want to seek patent protection. Not all countries are signatories to the Patent Cooperation Treaty, but your patent attorney can help you with application filing strategies for your specific circumstances.

It is important to keep in mind that the PCT application itself cannot mature into an enforceable patent. Rather, a PCT application preserves your right to later pursue patent protection in specific jurisdictions. Currently, there is no global patent application that can ultimately mature into a patent that is enforceable in any country in the world.

## What happens after a patent is issued?

After a patent is issued, it can be enforced against someone else who has marketed an invention that is essentially a copy of what you have claimed. You, and your attorney, need to be diligent about what is going on in the market to make sure no one is copying what you have patented.

It is also important to know that fees must be paid periodically (known as “annuity fees” or “maintenance fees”) to keep each utility patent enforceable against others. If these fees are not paid, your patent becomes expired. Typically, these fees escalate over the life of the patent because the government encourages patent owners to let their patents expire, which then gives

the public access to your technology without having to go through you. Design patents do not require the payment of maintenance fees to remain enforceable.

## What do I do with all of this information?

As a business person and entrepreneur, it is important for you to understand how patents can facilitate and support your overall business strategy and goals. Patent protection for your technology should be considered early in the development process, rather than later or at the very end. With this introduction to patents, you should be equipped with enough information to ask more informed questions when working with your patent attorney or initially engaging the services of a patent attorney.

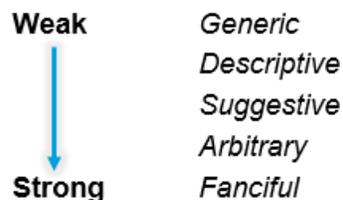
# Trademarks

## What is a Trademark?

A trademark is any word, slogan, logo or other device that helps consumers identify and distinguish the source of a product or service. Even smells, sounds, colors, product shapes and packaging designs can be trademarks – for example, the color brown applied to vehicles used for delivery services (owned by UPS), the musical notes G, E and C played on chimes when used in connection with television broadcast services (owned by NBC Universal), and the shape of the curved COCA-COLA bottle. When consumers see or hear these unique trademarks, they know what company is offering the product or service without the need for words.

As a source indicator, a trademark helps consumers decide whether they want to buy or avoid a product or service based on their prior experiences with something else bearing that trademark. For example, a consumer who had a positive experience with a FORD vehicle may decide to buy another FORD vehicle in the future. Thus, a trademark that builds a positive reputation in the marketplace is an invaluable business asset.

## Selecting Strong Trademarks



When developing a new brand name it's tempting to pick a term that describes the product or service. For instance, if you are launching a new detergent, the name ULTRA CLEAN may be appealing because you want consumers to immediately understand that it is a superior cleaning product. However, as a general rule, terms that describe a characteristic of the product or service, or attribute quality or excellence to it (e.g. ULTRA), are very weak source identifiers that do little to set your product apart from those of your competitors. Descriptive and laudatory terms are also subject to little, if any, trademark protection, meaning it will be difficult to prevent competitors from using an identical or nearly identical product or service name.

More distinctive brand names generate more consumer recognition and are entitled to more protection. The strongest trademarks are fanciful or coined terms, which have no dictionary definition (e.g. KODAK film or EXXON petroleum). Arbitrary trademarks, which are comprised of terms with common meanings but not in relation to the product or service for which they are used (e.g. APPLE computers) are also very strong. Suggestive terms, which hint at a characteristic of the product or service without immediately describing it (e.g. COPPERTONE sunscreen), are also capable of trademark protection.

## Clearing Trademarks for Use

Before adopting and investing money into a new trademark, you should first determine whether someone else is already using the same trademark, or a very similar trademark, in connection with a related product or service. If you use a trademark similar to one already used by a

competitor, it may erode the source-indicating function of your competitor's trademark and cause consumer confusion, subjecting you to a trademark infringement claim. If you infringe another's trademark rights, you will have to rebrand your product or service and you may also be liable for monetary damages.

For this reason you should have a qualified attorney conduct a clearance search before adopting a new trademark. A clearance search typically involves a review of federal and state trademark databases, as well as other sources of information such as company name databases and the Internet. After completing a survey of current trademarks in the marketplace, your attorney will provide an opinion as to whether your new trademark poses an infringement risk. It is recommended that you conduct a clearance search in each country in which you intend to use your trademark.

## Trademark Protection: Should I Register My Trademark?

In the U.S., rights in a trademark belong to the first person or business to use it. You need not have a federal registration to own trademark rights; however, without a registration, your rights will typically be limited to the geographic area in which your products or services are offered. For example, if you operate ABC BAKERY in Portland, Maine and sell your baked goods only in that area, and you do not own a federal registration for your ABC BAKERY trademark, then you may not be able to prevent someone else from operating an ABC BAKERY in San Diego, California. If you are granted a federal registration for ABC BAKERY, it will constitute a legal presumption of your ownership of that trademark and your exclusive right to use it nationwide as of the filing date of your federal trademark application. Other benefits of federal registration include public notice of your claim of trademark ownership, the ability to record your trademark with U.S. Customs and Boarder Protection Service to prevent importation of infringing or counterfeit products, and the right to use the ® registration symbol.

There are many countries that, unlike the U.S., do not recognize unregistered trademark rights. In those countries, the first person or business to register a trademark acquires exclusive rights in it and can prevent others from using the same or similar trademark, even if that other party has already used the same mark in that country for many years. For this reason it is important to consult with a trademark attorney to determine where trademark applications should be filed in order to protect your valuable trademark rights.

## Proper Trademark Use

**Trademarks are adjectives.** A trademark should never be used as a noun or a verb. It should always be used as an adjective that describes the common, generic name for the product or service.

Correct:

We use XEROX copy machines in our office.

I own ROLLERBLADE in-line skates.

My kids love OREO cookies.

Incorrect:

I made a XEROX.

Please XEROX these documents.

I'm going ROLLERBLADING.

My kids love OREOS.

If a trademark is used improperly as a noun or a verb it may become the generic description for, or synonymous with, a general class of products or services and lose its source-indicating function. Then, everybody will be free to use it. Examples of well-known terms that were once trademarks include “aspirin” and “escalator.” These terms lost their trademark significance through improper use.

**Be consistent.** Always use a trademark in the same manner, and if you registered it, use it exactly as shown in the registration certificate. Do not change punctuation or make a two-word mark into one word (e.g. X-Y-Z WisconsinDGET vs. XYZWisconsinDGET).

**Use the appropriate trademark symbol.** The <sup>TM</sup> symbol can be used to identify any trademark, registered or unregistered. It has no legal significance but indicates to others that you claim rights in the marked term. In contrast, the ® symbol can be used only to identify a federally registered trademark.

It is not necessary to mark every occurrence of a trademark with the <sup>TM</sup> or ® symbol, but it certainly doesn’t hurt. At a minimum, the first and/or most prominent use of a trademark on a product, on a package or in an advertising piece should be marked appropriately.

**Distinguish trademarks from surrounding text.** In addition to using the <sup>TM</sup> or ® symbol, you can also emphasize trademarks by printing them in all capital letters or in a bold, italic or other unique font. This helps make it clear to others that you are claiming trademark rights in a particular term.

## Maintaining Trademark Rights

You must use a trademark to maintain rights in it. If you stop using a trademark for a period of time with no intention to use it again in the future, then you will abandon your rights in the trademark and it will become available for others to use.

Misuse of your trademark by others can also result in a loss of rights. If you don’t enforce your rights against infringers, your trademark will lose its source-indicating function, just as “aspirin” and “escalator” lost their trademark status (discussed above). If you discover that someone is infringing your trademark it is important to take action, or risk losing your rights.

## Trade Dress

You have invested in research and development and spent a lot of money creating a distinctive image for your product. Now you are faced with the challenge of how to protect this investment from competitors who may seek to copy or knock-off your product designs or packaging. Summarized here is how you can use trade dress to protect your investment.

Trade dress is the total image of a product and may include features such as size, shape, color or color combinations, texture and graphics. Trade dress is comprised of the aspects of overall appearance that distinguish a firm's goods and identify their source, without serving any other significant function.

The United States Patent and Trademark Office (USPTO) permits the registration of trade dress if it is non-functional, distinctive and serves to identify and distinguish the goods of a particular provider from those of others. Registration is for an initial term of ten years and can be extended indefinitely so long as the required maintenance fees are paid and the trade dress continues to function as an identifier of source. The first step is to determine whether the trade dress sought to be registered is a "product design," or, instead, "product packaging." This distinction determines the manner in which the trade dress is evaluated by the USPTO. Product packaging trade dress includes the total image created by the packaging in which a product is marketed and is conceptually separable from the product itself. Product configuration trade dress encompasses the design or particular features of the product and is inseparable from the product itself.

### Product design

Registration of "product design" trade dress on the USPTO's Principal Register requires a showing of "acquired distinctiveness." Trade dress has "acquired distinctiveness" when in the minds of the purchasing public it serves to identify the source of the product. Volkswagen's "Beetle" automobile is an example of well-established product design trade dress. Typically, acquired distinctiveness is shown by consumer surveys, affidavits from consumers or those involved in the relevant industry, sales figures, the nature and extent of advertising and promotion (particularly advertising and promotion that emphasizes the trade dress elements of the product). Acquired distinctiveness may also be established by substantially exclusive use of such trade dress in commerce for a period of five years.

### Product packaging

An applicant seeking to register its "product packaging" trade dress need not show "acquired distinctiveness" but may be able to obtain registration upon a showing that its packaging is "inherently distinctive." Packaging is "inherently distinctive" when by its intrinsic nature it identifies a particular source. An example of inherently distinctive product packaging trade dress is the squat, bright orange Tide laundry detergent container.

To prevail on a claim of trade dress infringement, you must show (i) that your trade dress is either inherently distinctive or has acquired secondary meaning, as the case may be, and (ii) that the accused party's trade dress causes a likelihood of consumer confusion as to the source of the respective products. Courts use various factors to determine whether there is a likelihood of confusion between the trade dress of two products. Typically, those factors include the similarity of trade dresses, the strength of the plaintiff's trade dress, the area and manner of concurrent use

of the respective trade dresses, the degree of care likely to be used by consumers in making their purchases, actual confusion, and the intent of the accused party to pass off its product as that of the trade dress owner. No single factor is dispositive, and the weight given to each factor varies from case to case based upon the relevant facts.

## Recommendations to protect trade dress

When promoting products, tout the uniqueness of the non-functional features by using verbal descriptions and printed materials (sell sheets, labels, web pages, etc.) that emphasize the “uniqueness,” “distinctiveness,” “originality,” and “exclusivity” of the design or packaging. Tell the trade and consumers to “look for” certain specific distinguishing ornamental characteristics of your products.

1. Put the public and competitors on notice of your trade dress claims. For example, you could include a legend on materials accompanying your product such as the following: “The shape and appearance of this distinctive [product] [and packaging] are trademarks and trade dress of [your company name].”
2. For any trade dress that consists of a product configuration that can be graphically depicted, reproduce such item on the product label, hang tags, packaging and/or on other promotional items. If the product configuration is not yet registered, it can be depicted in tandem with the symbol “™.” If it is federally registered, it should be depicted in tandem with the symbol “®.”
3. Do not tout the utilitarian features of your trade dress. Doing so may provide grounds for a competitor to challenge your trade dress as being “functional,” and therefore unprotectable.
4. File applications with the USPTO to protect your trade dress. When applicable, present affidavits and evidence that support a claim for “acquired distinctiveness.”

## Copyrights

Copyright is a form of intellectual property protection for “original works of authorship.” Copyright protects against unauthorized “copying” of an author’s work. Copyright protection is a relatively inexpensive tool that can be used to protect a company’s assets, including computer software and website materials. In certain instances, copyright protection may be used in conjunction with other forms of protection such as trade dress and patent protection. Understanding copyright issues will help to ensure that a business has copyright ownership in its assets.

Copyright protects original works of authorship, including literary, dramatic, musical, artistic, and other works that are fixed in a tangible medium. Copyright is different from a patent or a trademark. A patent protects inventions or discoveries and a trademark protects words, phrases, symbols, or designs identifying the source of the goods or services of one party and distinguishing them from those of others. Copyright does not protect facts, ideas, systems or methods of operation, however, copyright may protect the way these things are expressed. Copyright does not protect names, titles, slogans, or short phrases, which in some cases may be protected as trademarks. Copyright also does not protect “useful articles” (i.e. an object that has an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information), listings of ingredients or contents, or works lacking a “modicum of creativity.”

A copyright owner has the exclusive rights to 1) make copies (or authorize copies to be made) of the work; 2) prepare derivative works based upon the work (i.e. variations of the work); 3) distribute the work to the public by sale, license, rental or lending; and 4) display and perform the work publicly. A copyright owner may transfer any or all of these exclusive rights (e.g. by assignment or exclusive license), or any subdivision of these rights (e.g. by non-exclusive license), to another. The transfer of exclusive rights requires a written agreement, whereas the transfer of non-exclusive rights does not.

The creator of the original expression in a work is its “author.” The “author” is also the owner of copyright unless there is a written agreement by which the “author” assigns the copyright to another person or entity, or the work in question is a work “made for hire.” The authors of a joint work are considered co-owners of the copyright of the work, unless there is an agreement to the contrary.

A work is “made for hire” when it is prepared by an employee within the context of employment or is specifically ordered or commissioned for use as a contribution to one of the categories of works identified in the Copyright Act (i.e. a collective work, a motion picture or other audiovisual work, a translation, supplementary work, a compilation, instructional text, a test, answer material for a test, or an atlas). If a work is specifically ordered or commissioned, the parties must expressly agree in a signed written instrument that the work is a work “made for hire.” The ownership of works “made for hire” does not vest in the author, instead, the employer or the commissioning party is considered the “author” and copyright owner in the first instance.

Works “made for hire” are potential pitfalls for a business. Copyright of a work may not actually be owned by a business if the work 1) is prepared by an independent contractor (i.e. not an employee), 2) is prepared by an employee outside the scope of employment, or 3) is specifically commissioned but does not fall within one of the categories of work identified in the Copyright Act or if there is no signed “work for hire agreement” or assignment. In these situations, it is important for a business to fully understand the employer-employee relationship and/or to have a signed agreement stating that it owns the copyright in a work.

Copyright protection automatically exists for copyrightable works upon their creation in a fixed form. Registration of copyright with the Copyright Office is not a condition of copyright protection, however, the copyright law provides several inducements or advantages to encourage copyright owners to register their works. For example, registration is required before an infringement suit may be filed in court. Registration establishes a public record of the copyright and may eliminate the “innocent infringement defense” (i.e. a claim that the defendant did not realize that the work was protected). Registration also allows for the protection against the importation of infringing copies. Also, if the work is registered prior to infringement (or within three months of first publication) then the registrant may be able to elect statutory damages and recover attorneys’ fees in the event that a court finds the work to be infringed.

Registration, which is simple and relatively inexpensive, may be made at any time within the life of the copyright. Registration involves submitting to the U.S. Library of Congress a complete copyright application form, a filing fee, and copy of the work to be registered. Copyright registration lasts for the life of the “author” plus 70 years. For works “made for hire”, the term of copyright protection is 95 years from publication or 120 years from creation, whichever is shorter.

While optional, a copyright notice placed on copies of a work provides the benefits of informing the public that the work is protected by copyright, as well as the name of the copyright owner. A copyright notice includes 1) the symbol © (the letter C in a circle), the word “Copyright,” or the abbreviation “Copr.”; 2) the name of the entity that owns the copyright and 3) the year of first publication. A work having a proper notice may also eliminate the “innocent infringement defense.”

# Trade Secrets

## Background

A patent is the form of intellectual property that most commonly comes to mind with regard to new innovations. Getting a patent can be a rigorous, expensive, and time consuming process, usually costing thousands of dollars and taking years to obtain. One of the principal drawbacks of patent protection is that the applicant for such protection must fully disclose how the technology works, and the best way to practice it, such that another engineer or scientist can use the patent as a blueprint to reproduce the invention. This disclosure is provided to the public upon publication of the patent application, which occurs before the patent office has even decided whether the invention is protectable or not. Under the patent system, therefore, the innovator will be disclosing his or her invention to the public without being certain whether any protection will be ultimately available, or what the full scope of that protection will be.

Trade secret protection can provide an alternative form of intellectual property protection that does not have the same limitations as patent protection, though it has its own specific limitations.

## What is a trade secret?

A trade secret is generally any information that derives economic value (actual or potential), from not being generally known to, and not being readily ascertainable by proper means by other persons. The information to be protected as a trade secret must meet two requirements:

1. The information must be a secret (i.e. not public knowledge or general knowledge in an industry).
2. The information must be subject to “reasonable efforts” to be kept a secret.

## Reasonable Efforts

What constitutes “reasonable efforts” depends on the information to be protected and the general practices for a specific industry. “Reasonable efforts” does not mean all conceivable efforts.

Generally “reasonable efforts” include the use of confidentiality/non-disclosure agreements, security precautions (locks, passwords, badges, etc.), and “need to know” compartmentalization of knowledge to keep information secret. Trade secret protection is handled under individual state law and common law, with most states having enacted the Uniform Trade Secrets Act governing the protection of such rights.

## Advantages and Disadvantages

Trade secrets have several benefits over the patent protection. First, a trade secret is not limited to a specific term, but can be protected indefinitely as long as the information is preserved as a secret and retains its economic value. Second, trade secrets can protect innovations that may not meet the statutory requirements for patentability. Finally, trade secret innovations are not published and available to the public.

However, there are limitations to the protection of trade secrets. One significant drawback to trade secrets is that they do not protect against independent development. For instance, if a competitor

would develop a process or system similar or identical to an innovator’s process or system without obtaining or referencing the innovator’s trade secret (i.e. did not obtain by theft, espionage, or disclosure by former employee of innovator), the trade secret would not protect against this independent development. Another drawback is that the innovator must take continual “reasonable efforts” to keep the innovation a trade secret, and if the “reasonable efforts” lapse, even if only in one specific instance, the trade secret protection can be lost. One more drawback is that certain types of innovations may not be able to be maintained as a trade secret. For example, if the trade secret can be determined by reverse engineering, its status as a trade secret may be lost.

The table below summarizes the differences between patent protection and trade secret protection:

## Patent v. Trade Secret Protection

|   | <b>Patents</b>  | <b>Trade Secrets</b>   |
|---|---|--|
| What is protected?                      | Inventions  | Any information you do not want your competitors to know   |
| What are the requirements?              | The invention must be new, useful, and non-obvious  | The trade secret must, in fact, be a secret and maintained as such through appropriate business practices  |
| How long does protection last?          | 20 years from filing and a minimum of 17 years  | Indefinitely   |
| What are the costs?                     | Filing, prosecution, maintenance, and enforcement   | Establishing procedures and keeping key employees  |
| How long does it take to secure rights? | Two to five years   | As long as it takes to establish and maintain internal company procedures  |
| How can competitors defeat my rights?   | <ul style="list-style-type: none"> <li>• Invent and file first</li> <li>• Challenge the validity of my patent</li> <li>• Design around my patent</li> <li>• Invent and publish</li> </ul>   | <ul style="list-style-type: none"> <li>• Hire away key employees</li> <li>• Reverse-engineer the product</li> <li>• Patent my trade secret</li> </ul>  |
| How can I defeat my own rights?         | <ul style="list-style-type: none"> <li>• Publicly use the invention for more than one year before filing a patent application</li> <li>• Sell (or offer to sell) the invention more than one year before filing the patent application</li> </ul> | <ul style="list-style-type: none"> <li>• Accidentally disclose a trade secret</li> <li>• Fail to retain key employees</li> <li>• Try to get U.S. and foreign patents and have patent application published by USPTO</li> </ul> |

## When is a Trade Secret the Right Protection?

When considering maintaining an innovation as a trade secret, an innovator must ask a number of questions regarding the new technology, such as:

- Can the new technology be kept confidential and effectively used? For example, can the technology be effectively used in a closed and secure facility? If so, trade secret protection should be available and an appropriate form of IP protection.
- Is the new technology truly innovative or is it an obvious application of existing technology? If it's a modification of existing technology, patent protection may not be available.
- Will use of the new technology by others be easily detectable? If so, the technology may not be able to be kept as a trade secret and patent protection may be a better option, especially if infringement can be easily determined.

Innovators should work with their intellectual property counsel to address strategies for protection of their inventions to make sure the best form of intellectual property protection is implemented to protect the company's most precious assets, their innovations.

## Keeping Trade Secrets Secret – 12 Protective Measures

The following checklist summarizes the key protective measures which a trade secret owner should take to ensure that the security of its trade secrets is maintained.

1. **Only Disclose the Secret on a "Need to Know" Basis.** Only those parties that have a need to know the trade secret information in order to perform their jobs should be given access to the trade secret information.
2. **Maintain a Written Statement of a Business's Trade Secret Policy.** A business's trade secret policy should be set forth in writing and provided to employees. The trade secret policy should describe the type of information that the company safeguards as a trade secret. The absence of a written trade secret policy may be persuasive evidence that information was not in fact treated as a trade secret. A business should be certain that all employees with access to trade secrets are instructed in the actions they are to take to ensure the secrecy of the confidential information to which they have access.
3. **Treat Trade Secret Information Differently from Other Information.** If possible, trade secret information should be separated physically from other information and employees requiring access to the secret information should be prohibited from discussing the secret information outside the separate and secure areas.
4. **Institute Physical Security Measures.** A business should, if it has not done so already, implement security measures including passwords and locks to physically deter access to trade secrets. Such actions may provide critical demonstrative evidence to show a court that affirmative actions have been undertaken to safeguard confidential information. Computers containing proprietary information should be accessible only by means of a password. These passwords should be changed regularly and stored in a secure place. Additionally, information which is transmitted electronically should be transmitted in an encrypted or scrambled form to prevent its interception.
5. **Trade Secret Documents Should Be Labeled.** To help deter the improper dissemination of trade secret documents, all such documents should be labeled with a proprietary notice and employees should be instructed as to the meaning of such designation.
6. **Written Documents Containing Trade Secrets Should Be Destroyed When They Are No Longer Needed.** This measure will eliminate the need to physically safeguard

items which no longer need to be maintained in written form. The destruction of these materials should be in a manner which eliminates their usefulness and prevents competitors from being able to reassemble the documents.

7. **Remind Employees of Their Confidentiality Obligations.** Employees should be reminded on a regular basis of the business's security procedures and their individual obligations to maintain the secrecy of trade secret information.
8. **Employees Should Be Required to Sign a Written Pledge of Confidentiality.** This pledge should acknowledge that the business has granted the employee access to trade secret information, that the business is protecting the information, that the employee agrees not to disclose or misappropriate the information, and that the employee will report to the business all unauthorized disclosures or uses of the trade secret information. (This written pledge should define the trade secret information to which the employee is or will be granted access so that the employee cannot later claim that she was unaware of the scope of the information that the business sought to protect via trade secret law.)
9. **Hold Exit Interviews with Departing Employees Who Have Had Access to Confidential Information.** An exit interview provides a business with an opportunity to remind a departing employee of his or her written pledge to refrain from misappropriating or disclosing trade secret information. This interview also provides an opportunity for the business to collect all documents, security passes, notes, and other items that pertain to the trade secret information. Immediately following the exit interview, the business should send the former employee a written summary memorializing the issues discussed at the exit interview and instructing her to call the business if she has any questions regarding her continuing obligations of confidentiality.
10. **Restrict Access to the Business Property.** To help restrict trade secret dissemination, the business can limit the public's access to areas containing its trade secrets. A business should not allow visitors to meander through its facility unescorted. Rather, if it has not done so already, a business should institute a formal procedure regarding visitors which may include requiring visitors to sign a confidentiality pledge. Any tours of a business's facilities should be careful to avoid the disclosure of proprietary information.
11. **Screen Speeches to Eliminate Confidential Information.** Publications, press releases, speeches, seminars, and trade show displays should be screened to ensure that competitors are not provided an opportunity to discover trade secrets.
12. **Disclose Trade Secrets to Others Only After the Other Party Has Signed a Confidentiality Agreement.** On occasion a trade secret owner must disclose a trade secret to a third party such as in connection with entering into a license, joint enterprise, or sale of a business. The confidentiality agreement should clearly establish the responsibility of the third party to keep the trade secret information confidential as well as the implications of a breach of the agreement.

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## About Michael Best

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