

## **BASICS OF BUSINESS**

### **PROTECTING YOUR INTELLECTUAL PROPERTY**

A Trade Secret is information useful in the industry and kept confidential. Its information imparts value to its holder and provides a competitive edge. Should information constituting a trade secret be leaked, it could have a major negative effect on the business. Information such as customer lists, information received by an employee regarding business opportunities valuable to an employer and information provided to an employee in confidence in the course and scope of his employment could be identified as confidential.

Even negative information such as failed remedies or manufacture of products and failed research could be protected as a trade secret, as it could save a competing business high costs if it has a what not to do guide.

Article 39 of the [TRIPS Agreement](#), as defined by the member countries of the World Trade Organization provides that member states shall protect “*undisclosed information*” against the unauthorized use “*in a manner contrary to honest commercial practices*” as long as the information is:

- *a secret in a sense that it is not generally known among or readily accessible to persons that generally deal with the type of information;*
- *has commercial value because it is secret; and*
- *has been subject to reasonable steps by the person in control of the information to keep it a secret.*

This is the general guideline in determining whether information is a secret and if it can be protected as a ‘trade secret’. Member countries of the World Trade Organization may have identified more criteria but Article 39 serves as a basis for the member states of the TRIPS Agreement.

The advantages of trade secrets are they do not have to be registered and have no limited protection frame, there are no registration costs and there are no formal compliance requirements having to be met. However, the disadvantages are that trade secrets can be reverse-engineered once the secret is made public and then anyone is at liberty to use the information.

The enforceability of trade secrets is generally not easy and may prove to be costly – not ideal for small entities and start-ups. Nonetheless, trade secrets can still be a useful tool for small and medium businesses not having the resources to protect their intellectual property assets by other forms of protection, such as trademarks and patents which require registration. When thinking about the value of a company, people tend to think about physical goods, supply chains and distribution networks, or how much software a company will sell in a year. While those may be the mechanisms through which value is delivered, often the real value lies in the underlying Intellectual Property.

**In fact, Intellectual Property (IP) is often a company's most valuable asset.**

Protectable Intellectual Property generally encompasses “creations of the mind,” like names, slogans, inventions or works of art. At its core, Intellectual Property allows creators (or owners of the IP) to benefit from their work. By giving legal protection to new creations, the government encourages further innovation by giving the owner of the work exclusive right to profit from that work.

There are three basic types of Intellectual Property: **trademarks**, **patents** and **copyrights**. Each protects a different type of creation. Here's an overview of each of the different forms of IP and what they protect:

### **Trademark**

- protects a word, name, phrase, design, sound, or smell, or any combination of the six, used to identify source of goods and/or services
- think NIKE®, MCDONALD'S® or the APPLE LOGO

### **Patent**

- protects inventions and designs
- examples include engines, solar panels and computer chips

### **Copyright**

- protects original artistic and literary works
- examples include songs, movies, books, sculptures and ad jingles

There is a fourth type of Intellectual Property that doesn't receive explicit protection in the form of a government filing, but can also be protected if certain criteria are met. These are **trade secrets**.

### **Trade Secret**

- protects from misappropriation or stealing of confidential (not publicly available) information
- includes customer lists, architectural plans and designs and things like the COCA-COLA® secret recipe

**Often, the different types of IP can be used together to protect a single product.**

Let's say you invented a completely new vacuum cleaner that combines the automation of the ROOMBA® vacuum with the power of a standing HOOVER® vacuum, for a completely superior cleaning experience. You could use the four forms of Intellectual Property listed above in conjunction with each other to protect each aspect of your product.

- You'd use a patent to protect the invention itself: the actual hardware making your product different from anything before. This is what allows you to combine your product's power with ease-of-use.
- You'd use trademarks to protect the name of the vacuum and the brand you create around it, including your logo, your slogan and the design of your advertising materials. This lets customers know that what they're buying is your top-of-the-line cleaner, not some other inferior product.
- You'd use a copyright to protect the jingle you use in your TV commercial and radio ads, or your brochures or website. This would ensure no other company tried to trick customers into buying their cleaner by using a similar commercial.
- Finally, you might protect your customer list as a trade secret. If you had a unique customer list and kept this information out of the public eye, it could become a trade secret, helping you sustain an even greater advantage over the competition. You might

even want to protect certain new, hidden features of how your product works by trade secret instead of patent, under certain circumstances.

As a practical matter, it may be difficult to protect everything you consider your Intellectual Property, and companies usually have to prioritize which pieces of IP they choose to “formally” protect.

This is especially true for startups and small businesses. When you’re first starting out, you may not have the financial resources to file for protection of all your IP, especially if you seek assistance of a lawyer for each filing. But that doesn’t mean you can’t take steps to safeguard your IP rights until you’re ready to formally file.

### **How to protect your trade secrets**

A trade secret owner should employ as many precautions as reasonably possible such as:

- restricting access to confidential information physically and electronically to only those individuals needing to know the information
- marking documents that constitute confidential information
- making use of non-disclosure and confidentiality agreements
- maintaining information with password protection
- disposing confidential information by shredding or other means designed to destroy the information;
- conducting exit interviews with departing employees to ensure the return of all confidential information in the employee’s possession and to emphasize confidential obligations;
- ensuring there are restraint of trade provisions in the employment contracts;
- establishing due diligence and on-going third-party management procedures;
- instituting an information protection team;
- make trade secret protection a priority.

It is important to note confidential information not classified as a trade secret may be used by an employee for his own benefit or for the benefit of others after the termination of his employment, to the extent it was not copied and/or deliberately memorized for use after the employment contract. In one case, the applicant sought to prohibit an ex-employee from joining a competitor on the basis the respondent would unlawfully make use of the applicant’s trade

secrets. The court held the applicant failed to prove any of the information was confidential. It was decided the audio and lighting production of the IDOLS TV show required little originality input since all the relevant information was already in the public domain.

In the event it becomes apparent trade secrets have been exposed, the trade secret owner can approach the courts to claim against the infringer on the basis of **breach of contract**, which allows the wronged party to claim for damages from the infringer for breaching confidentiality agreements or based on **unlawful competition**, which allows the wronged party to claim for an interdict in order to refrain the infringer from continuing the unlawful act. Furthermore, the wronged party can claim for damages they have incurred due to the act of the infringer and claim costs they have incurred in instituting proceedings. Proof of damages and causation is imperative to succeed with an action under unlawful competition.

Proving damages can be quite difficult. Below are different options that can be exercised in quantifying the economic harm in misappropriated trade secrets.

- **Lost Profits and unjust enrichment calculations** – this involves determining how much more increased sales the company would have made had the trade secrets not been revealed;
- **Reasonable royalty** – this remedy is suitable where it would be difficult to prove the extent of the patrimonial loss. This is determined by recovering the reasonable royalty that would have been paid by a licensee ; and
- **Transaction Specific Reasonable Royalty**- relates to the royalty that would have been paid for a specific product or service.

Trade secrets are an important form of intellectual property, like trademarks, patents, copyright and designs. It is imperative any business takes the initial steps in identifying trade secrets of the business and thereafter, incorporate protection mechanisms within the business, such as ensuring documents are stored securely, in places of limited access. Also, agreements with employees should be in place, as well as education about what constitutes confidential information as well as the consequences of revealing the confidential information.