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Protecting your Trade secrets proactively

A minimum viable Best Practices Checklist

Introduction

One tough decision you may have to make while innovating is to decide whether to protect your innovation by filing a patent or by keeping it secret.

Until you reach a decision, **trade secret protection should be at the forefront** of your innovative processes.

After all, every patent originates as a trade secret…

Yet many companies still wrongfully believe that a non-disclosure agreement is sufficient protection for trade secrets. It is not. In fact, trade secret protection requires meeting certain criteria, notably proving that you have put in place ***reasonable measures*** to prevent the dissemination of such valuable assets.

What are those reasonable measures? Let's find out!

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First things first, what is a trade secret?

Trade secret

The definition varies depending on jurisdiction but, in short, **any sensitive information that has commercial value and gives you a competitive advantage** can qualify as a trade secret, irrespective of its form:

- algorithms,
- prototypes,
- price lists,
- market insights,
- supplier/customer lists,
- chemical formulas,
- product specifications,
- laboratory notebooks
- …

Trade secrets can have an immense economic value (ie Google search algorithm, Coca-cola formula…) yet the costs of protecting them are quite low compared to obtaining a patent and less time-consuming.

Perhaps the **main benefit of trade secret protection** is the **duration** which can be virtually **endless**, thus favoring products with short life cycles such as software.

In any case, to decide which protection is more suitable between patents and trade secrets you must consider several factors.

- Is the invention patentable?
- Can it be kept confidential?
- What is the likelihood of competitors being able to copy or reverse-engineer it?
- Etc.

It may require some multi-criteria analyses to make this decision.

At Questel, we have a sound matrix to help you make an informed decision.
Our consultants will be of great help when such cases arise.

Overall, the choice will often depend, on one hand, on the likelihood of meeting patentability criteria and, on the other, the possibility of maintaining secrecy.

But, as pointed out in Baker Mckenzie's report, innovative companies often opt for trade secret protection

"when an invention is at risk of becoming obsolete by the time they obtain a patent or when their competitive advantage depends on being first to market"[1].

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That being said, trade secret protection has limitations. The most significant drawback is the lack of protection against reverse-engineering and independent discovery.

If a competitor develops an innovation identical to your trade secret, without unlawful acquisition or misappropriation of your sensitive information, you would be left with little protection whereas patent infringement claims are irrespective of how such infringements occurred.

Trade secrets are therefore not risk-free but failure to secure them can cause massive damage.

Trade secret theft indeed seems to be a "trillion-dollar problem"[2] that most jurisdictions address by reinforcing their frameworks to protect holders. Any unlawful acquisition or misappropriation of trade secrets, either via theft, industrial espionage, or unlawful disclosure by an employee, for instance, is actionable and can allow for important compensation and injunction. According to Stout's latest report[3], trade secret cases are rising and are clearly in favor of the plaintiffs.

In fact, between 1990 and 2019, not only did U.S federal district courts rule in favor of the plaintiffs in 68% of cases but they also awarded compensation in the majority of them, totalling approximately $3 billion. The 5 largest awards each reached more than $100 million..

Yet, to prevail and successfully seek injunctive and monetary relief, you must prove that you have taken "*reasonable measures*" to protect your trade secrets

Reasonable measures

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Protect all your innovations confidentiality from the start

As stated previously, every patent starts out as a trade secret, so while assessing the patentability of your innovation it is crucial to maintain its confidentiality from the very beginning.

Having a mechanism in place to properly streamline your invention disclosure process is definitely of great help.

If you're looking for a disclosure process, take a look at

- Orbit Invention or
- Orbit Capture.

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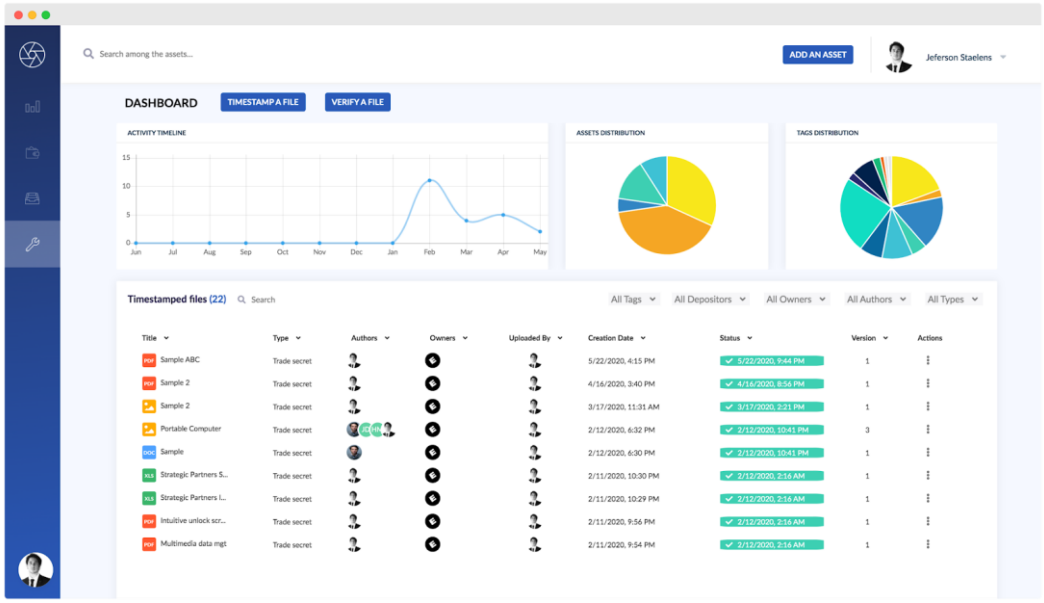
Label your trade secret to create a proper inventory

Trade secret files should be labeled as such. Indeed, in several cases, courts dismissed theft of trade secret claims and denied injunctive relief because the victim actually failed to take reasonable measures by labelling their trade secrets.

Our blockchain-based solution will help you record and timestamp such assets by generating counterfeit proof of existence with ease!

Ultimately, you will be able to list every trade secret so as to find at least:

- The **creation date** of the trade secret
- The **timestamping date** of the trade secret
- the "**inventor(s)**" of the trade secret
- Who labelled and is **responsible for securing** the trade secret

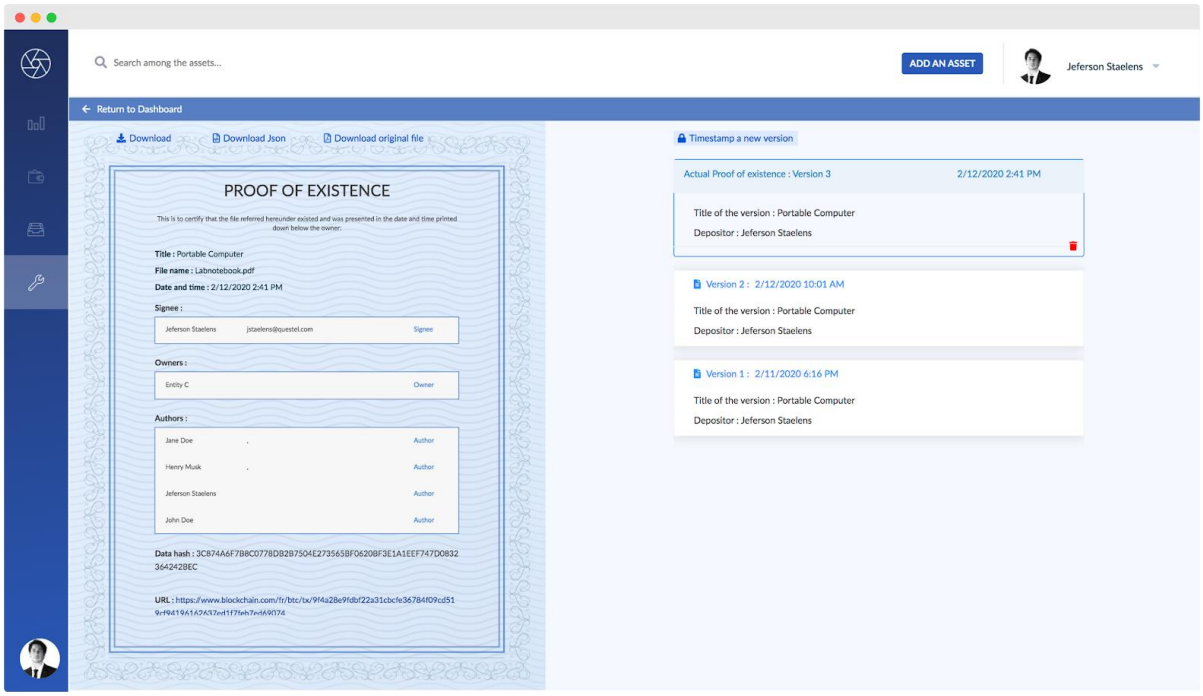


You will also be able to **keep track of all versions** of your trade secrets as well as contributions.

Doing so will help you

- prove ownership of rights and interests in your trade secrets,
- facilitate the discovery of unused or underutilized information and
- will provide useful evidence in disputes or proceedings.

And because we are leveraging the blockchain technology, you can benefit from unique properties, ensuring your data remains completely private!



Proactively generate and require Non-Disclosure Agreements

Access to trade secrets should be given carefully. Yet should you decide to do so, signing an NDA is of course an absolute prerequisite[4].

One problem you may face is to decide how detailed should be the definition of what is considered as confidential. A common mistake is to opt for a broad definition. Indeed, doing so could totally invalidate your agreement. And the same goes for employment contracts..

Using our blockchain-based timestamping solution, you can safely refer to specific trade secrets without having to disclose much information in plan text.

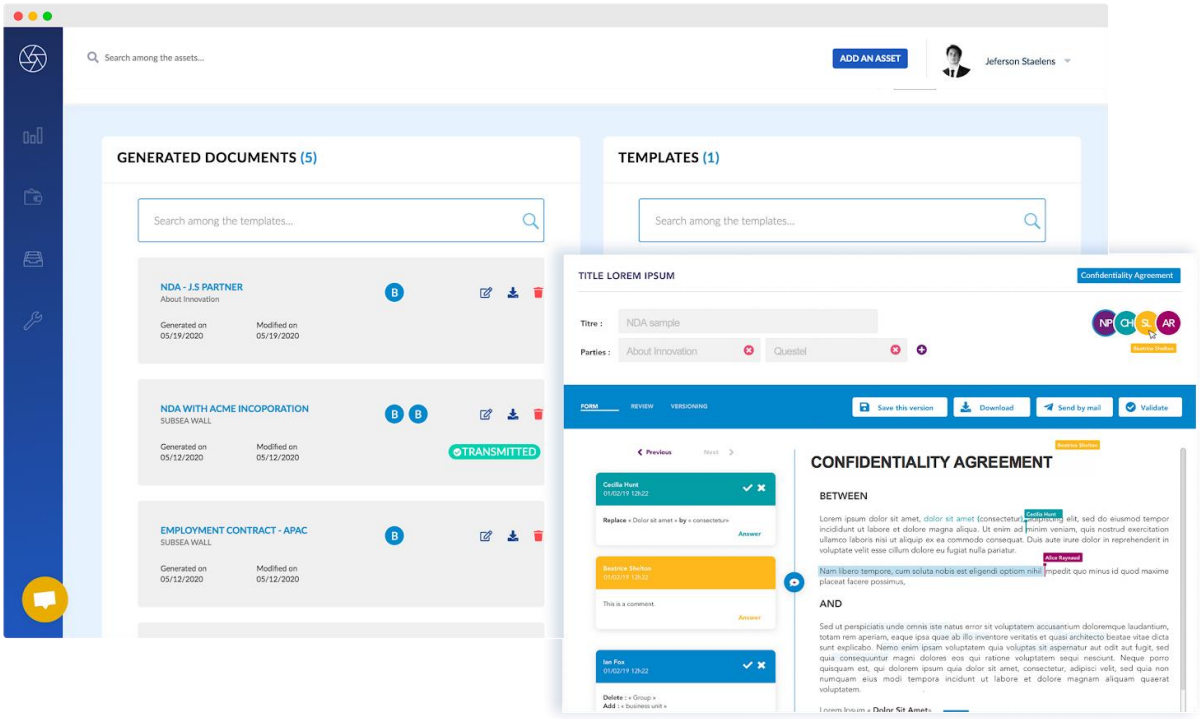
Finally, keep in mind that there is no such thing as “one size fits all” NDA and you should definitely avoid boilerplate NDA.

The best is to have a contract automation platform so you can

- generate tailored and enhanced NDA in seconds,
- easily collaborate with your legal counsels anytime necessary,
- keep track of all the versions of the contracts and
- link them to the appropriate assets.

Sounds idealistic right?

Well, we have developed such features. So right in the same interface you can not only record and timestamp your trade secrets but also generate enhanced agreements in seconds!



Of course, while you can equip yourself with a powerful solution to reasonably protect your trade secrets, both technically and contractually, technology cannot do it all.

You will have to raise awareness about that topic with your employee, especially in today's context of working from home[5].

And also implement action plans to quickly respond to potential misappropriation.

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Jeferson is a Legal Technologies expert with 4 years experience designing and implementing legal solutions, mainly around cybersecurity, blockchain-based applications, contract automation and data analytics.

He's one of the product manager for our solutions, Orbit Capture and Orbit Blockchain, and he's currently based in Singapore, supporting our development in APAC

He has a LL.M in Corporate Law and Finance (Widener, Delaware), a Master in International and European Business & Competition Laws with a focus on Intellectual Property (FLD Lille, France & NTU, Taiwan) and learned programming at Epitech, France.

He is also Legal Tech Lawyer at Seraphin Legal advocating for the upgrade of legal frameworks for the blockchain technology and smart contracts and upskilling legal professionals.

References

[1] Baker Mckenzie, *The rising importance of safeguarding trade secrets (2017)*

[2] Ibid.

[3] Stout, *Trends in trade secret - litigation report (2020)*

[4] McAndrews, Held & Malloy Ltd, *Seven steps for securing trade secret value in ip deals, IAM (2019)*

[5] Winston & Strawn LLP, *Protecting trade secrets in the new normal: 10 questions companies need to address in a work-from-home environment (2020)*

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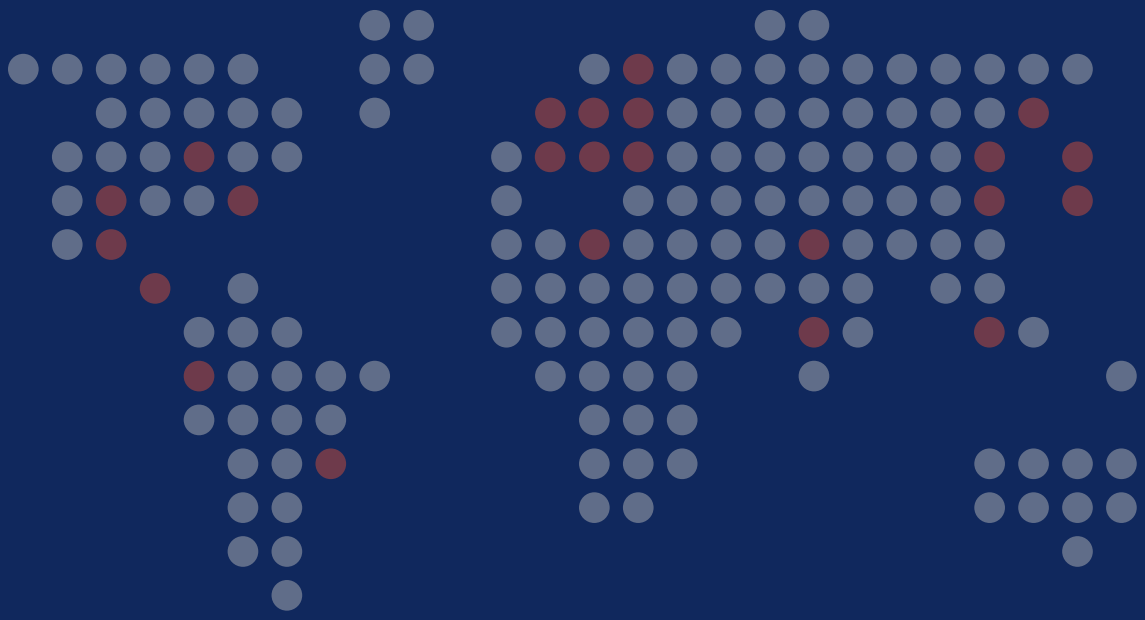
Questel's mission is to allow **Innovation** to be developed in an **efficient**, **secured** and **sustainable way**



Questel works to ensure that the efforts of creators, innovators or researchers are rewarded. We imagine and design tomorrow's software and services **to help them enforce their rights and value their intellectual assets.**

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