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Protecting Trade Secrets When Looking for Funding

As noted in another of our articles, Venture Capital (VC) firms will generally not sign a Non-Disclosure Agreement (NDA).

Such a situation appears to present an insurmountable hurdle. Without an NDA in place, trade secrets should not be disclosed to a VC who doesn't owe an obligation of confidentiality to the company. Of course, if you expect to receive funding from a VC, you will be required to reveal information about your venture to them.

How do you reveal information to VC firms without an NDA and still protect your trade secrets?

It's important to note that while most reputable VC firms will want a basic understanding of your vision, they won't be asking you to reveal trade secrets (certainly not at your first meeting). Therefore, although the only way to protect a trade secret fully is not to disclose it, it is possible to find a balance when working with VC firms. To do this:

- Disclose the least amount of information possible; keep your core secrets, secret;
- Only share information with reputable VC firms, and be wary of the ones asking you overly detailed questions about your technology or confidential information early on; and
- Know your trade secrets in detail so that they are never inadvertently disclosed.

Often, a first step in protecting trade secrets is to properly identify all trade secrets. All trade secrets are confidential and proprietary but not all confidential and proprietary information is a trade secret. Generally a trade secret meets the following criteria:

- the information is not generally known or ascertainable outside of the owner's organization and control;
- the owner derives economic value or business advantage (actual or potential) from the information not being generally known; and
- the owner makes reasonable efforts to preserve its secrecy.

In practice, trade secret protections apply broadly to business, financial and technical information and include: marketing plans, pricing and discount structures, production processes, chemical formulas and software source code. Client lists may or may not qualify.

As may be obvious, confidential information only has value as a trade secret if you can exploit the trade secret commercially and still maintain its confidentiality. An idea that can readily be copied or reverse engineered is not a particularly valuable trade secret.

If it is not possible to have any discussions without revealing your trade secrets, consider whether trade secret protection is really what you need. Entrepreneurs should take care to determine the best type of protection for their intellectual property. Certain inventions are better protected by a patent. These decisions should be addressed early because the most powerful limitations against patenting trade secrets are laws providing that trade secrets with applied commercial uses may not be patentable more than one year after certain activities by the first-party user of the trade secret. The inventor must file a patent application **within a year of any *offer to sell* the *invention or any public use***.

For an inventor with a great idea who may lack the ability to pursue full patent protection until after a VC provides funding, a provisional patent application may be the answer. Provisional applications are placeholders for whatever is disclosed in the

application, are generally less expensive than a full patent application, and provide up to one year to shop the idea around to potential VC firms before they must be converted to full applications. After the one year period, however, unless converted into a non-provisional application, the provisional application will lapse.

Getting through the dense thicket to obtain funding without losing control of your intellectual property is daunting and the consequences of poor choices are dire. However, smart entrepreneurs can find a way through this thicket with prudent planning. Entrepreneurs should identify ideas that are best protected as trade secrets and guard them closely. Broad ideas can be discussed with a trustworthy VC or protected by patent law. In this way, with careful thought and planning, protecting your intellectual property is possible.

Authors



Jonathan B. Tropp

Partner

New Haven, CT | (203) 977-7337

jbtropp@daypitney.com