

# **Guidebook of IP/Technology Transfer**

## **Topic 3.7.3**

# **Defining, Protecting, and Licensing Trade Secrets**

# Basic Trade Secret Overview

1. Trade secrets do not need to be registered  
(like patents, trademarks and copyrights)
2. No governmental approval process is necessary for trade secrets
3. Indefinite term, so as long as secret
4. Protects against unauthorized misappropriation but not against independent invention/reverse engineering

# Trade Secret Definition

- (4) "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:
- (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and
  - (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

# Basis for US Trade Secret Law

49 states have a Trade Secrets Act

NY relies on common law

Most state Trade Secrets Acts are similar to the  
Uniform Trade Secrets Act (USTA)

Federal Defend Trade Secrets Act (DTSA) enacted in  
2016. Part of Economic Espionage Act (1996).

State trade secrets actions continue to be  
available after passage of DTSA

Defined body of case law involving state trade  
secrets acts

# “Reasonable Efforts”

- Actions of the owner/circumstances surrounding the particular trade secret
- Not absolute/heroic
- Balancing
  - Steps taken v. costs on the owner of the trade secret
- Public disclosure destroys trade secret protection

# “Reasonable efforts”

## Employees

1. Limit Distribution and Compartmentalize (need to know)
2. Mark “Confidential”
3. Employee Confidentiality Agreements
4. Educating and Reminding Employees
5. Yearly Affirmations of Policies
6. Exit Interviews
7. Disable Access (passes, computers, etc.)
8. Save Hard Drive
9. Letter to New Employer
10. Check Ex-Employee Activities

# More “Reasonable Efforts”

## **IT and Facility**

1. IT Protections Including Cybersecurity
2. Locked Computers
3. Separate Files with Password
4. Fence, Security Entrance, Security

# Still More “Reasonable Efforts”

## **Agreements**

1. Employment Agreements
2. Non-Disclosure Agreements with Vendors, Customers, Visitors, etc.
3. Trade Secret Licenses
4. Monitoring and Auditing of Agreements

# “Misappropriation”

## **means:**

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who (A) used improper means to acquire [it]; or (B) at the time of disclosure or use, knew or had reason to know that his knowledge of the trade secret was (I) derived from or through a person who had utilized improper means to acquire it; (II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use;

# Misappropriation

- Three categories
  - 1. Unauthorized acquisition
  - 2. Unauthorized disclosure
  - 3. Unauthorized use
- But does not include:
  - Independent development, reverse engineering, public display

# Trade Secret Licensing Agreements

## Key Provisions

- Introductory Clauses
  - Introductory paragraph
    - Identification of parties (principal place of business legal status, etc.)
  - Background recitals
    - Intent of parties
    - “Whereas” clauses

# Licensing Agreements – Key Provisions

- Definitions

One of the most important parts of the license.

- **LICENSED TRADE SECRETS** means Licensor’s proprietary rights in and to the trade secrets listed on Schedule 1.
- **LICENSED TECHNOLOGY** means unpublished technical information, know-how, trade secrets, and data in Licensor’s possession as of the Effective Date of this Agreement, and used by Licensor to produce Licensed Products.
- **LICENSED PRODUCTS** means any product or component that incorporates or embodies or is manufactured using any Licensed Trade Secret or the Licensed Technology. Possibly define Licensed Products based on a specific product description or specification.

# Term/Termination

- Agreement must protect the trade secret both before, during, and after termination.
- Variety of Ways
  - Fixed Confidentiality Period
    - What happens when this period is over?
    - Can the recipient freely use the information?
  - Term is silent on confidentiality period
    - Is the trade secret protected?
  - Express indefinite period for confidentiality
    - Obligation to maintain secrecy until the Confidential Information becomes public
- Avoid ambiguity

# Termination

- Breach
- Licensee Terminate Without Cause
- Effects of Termination
  - Royalties/Reporting
  - Disposition of Products
  - Return of Trade Secrets and Audit
  - Rights to Improvements of Trade Secrets

# Obligations After Termination

- Obligations After Termination

- Trade secret information much remain confidential & protected even after the Agreement expires or terminates

Both parties agree that this Confidentiality Section shall survive any termination of this Agreement.

- Place the effect of termination on obligations in the termination clause to avoid having conflicting statements within the agreement.

**Survival.** Obligations of this Confidentiality Section shall survive termination or expiration of this Agreement.

# Additional Key Provisions

- “Affiliate” or “Licensed Subsidiaries”
- “Effective Date”
- “Field of Use” or “Licensed Uses”
- “Net Sales”
- “Territory”

# Grant Clause

- Exclusive vs. Nonexclusive
- Make, Use and/or Sell Products
- Geographic Scope
- Licensed Trade Secrets, Term, Licensee, etc.  
covered in definitions or other provisions

# Sublicensing

- Confidentiality provisions typically preclude sublicensing trade secrets
  - Generally no right to sublicense if not specifically permitted in the written agreement
  - Consider expressly prohibiting sublicensing entirely
- If sublicense is granted:
  - Define terms of sublicense
  - Require Licensor's prior written consent

# Payments/Royalties

- Lump Sum
- Time Payments
- Royalties
  - Royalty base
    - Product, Process, Given away
    - Avoid – Cost of Product, Net Profit, or Gross Profit
  - Royalty Rate
    - Value to Licensee, Value to Licensor, Industry, Product
  - Minimum Annual Royalty
  - Maximum Royalty

# Hybrid Licenses

- *Brulotte v. Thys*, 85 S.Ct. 176 (1964)
  - Thys licensed to Brulotte patents for a hop-picking machine that required royalty payments after the life of the patent
  - Royalty payments that extend beyond the expiration of the patent are unlawful *per se*. Attempt to artificially extend the patent term.

# Hybrid Licenses

- *Kimble v. Marvel*, 135 S.Ct 2401 (2015)
  - Kimble agreed to sell patent for Spidey glove to Marvel for \$500,000 and 3% royalty on future sales.
  - Based on *Brulotte* Marvel stopped paying royalties after expiration of the patent
  - Supreme Court affirmed *Brulotte* (no payments after expiration of patent) but recognized numerous workarounds

# Hybrid Licenses - Options

- Payments after expiration of patent:
  - Defer payment for pre-expiration use of a patent into the post-expiration period.
  - Tie post-expiration royalties to a non-patent right (Trade Secret), which will not expire with the patent. Need to reflect value of the trade secret.
  - Other business arrangements.

# Confidentiality

- Entire Agreement
- Parties Can Make a Statement to the Public Concerning the License.
- Exceptions for Subpoenas, Government Requests, Outside Accounting Firm

# Third Party Misappropriation

- Notice by Licensee
- Which party prosecutes misappropriation?
  - Choice of counsel
  - Who pays for it?
  - Damage award?
- Cooperation

# Indemnification

- Licensor to Defend and Indemnify Licensee
- Notice of Claim/Suit
- Licensor to Control Suit/Settlement
- Limited to Specified Features of Product
- Limit Licensor's Liability
- Limit Adverse Effects on Licensee
- Choice of Counsel

# Trade Secret Disclosure

- License Continues?
- License Sets Forth New Terms?
- License is Terminated per License?
- Who is Responsible for the Disclosure?
  - License Willfully/Negligently?
  - Independently Developed by 3<sup>rd</sup> Party?
  - Licensor?

# Improvements

- Both Parties Want Rights to Improvements of the Other
- Definition of "Improvement"
- Scope of License/Royalty Terms
- Notice of Improvement
- Antitrust Considerations

# Representations/Warranties

- Licensor: Disclaim everything, avoid risks that could create liability greater than the financial rewards of the License.
- Licensee:
  - Ownership of Trade Secrets/Power to grant license
  - Enforceability of Trade Secrets
  - No misappropriation of third-party trade secrets
  - Sufficiency of Grant under the license
  - Product liability for the Licensed Products

# Protective Safeguards

- License should specify safeguards.

# Assignment

- Licensee Cannot Assign License
  - Except with Sale of Business
  - Without Approval of Licensor
- Hybrid License – Linked to Assignment of Patent?

# Other Provisions

- Choice of Venue/Law
- Arbitration
- Government Approval
- Force Majeure
- Severability
- Amendments
- Integration
- Releases

# S\*\*\* Happens

- BladeRoom v. Emerson
  - In 2011, BladeRoom and Emerson entered into discussions to merge BladeRoom into Emerson's business.
  - Trade secrets such as designs, engineering methodologies were disclosed to Emerson
  - BladeRoom and Emerson executed a nondisclosure agreement

# BladeRoom

- Subsequent to their failed merger discussions, BladeRoom and Emerson each independently submitted proposals to Facebook for the building of a data center in northern Sweden.
- BladeRoom sued alleging its design was copied, that Emerson breached the nondisclosure agreement and misappropriated trade secrets.
- At trial, The jury found Emerson liable for trade secret misappropriation and awarded BladeRoom \$30,000,000

# BladeRoom

- The appeals court held that because the conjunctive “and” separated the first and second clauses of the paragraph, the “provided” condition applied to both clauses.

The parties acknowledge and agree that their respective obligations under this agreement shall be continuing **and**, in particular, they shall survive the termination of any discussions or negotiations between you and the Company regarding the Transaction, **provided** that this agreement shall terminate on the date 2 years from the date hereof.

- As a result, the confidentiality provisions terminated 2-years after the effective date of the agreement.
- Case was remanded to determine when the trade secrets were disclosed.

# Defining, Protecting and Licensing Trade Secrets

## Introduction

- Most TTOs in Public Sector Research Institutions don't have much (any?) TS experience
- The private sector has a long tradition of TS use
- TS can be a powerful part of the IP-suite
- Should TTOs consider TS in their IP strategies?
- What do we need to know?

# Defining, Protecting and Licensing Trade Secrets

## The Traditional Public Sector TTO Experience with TS

- TTOs in Public Sector Research Institutions  
don't work with Trade Secrets
- By philosophy (academic freedom) and practice  
(no censorship or bans on publication), US universities  
do not formally hold Trade Secrets
- US universities will maintain the TS of others
- On a case-by-case basis, some academics are more  
than willing to keep certain inventions as TS
- Cornell example: tomato genetic markers

# Integrating Patents & Trade Secrets

- My experience: inventions can often be covered by a “suite” of IP; sometimes that includes patent and Trade Secrets
- **IMPORTANT:** Patents must be fully enabled – nothing can be left out that’s needed to practice the patented invention
- But, patentability does not require defining each and every detail that makes the invention work most cost-effectively

# Integrating Patents & Trade Secrets

## EXAMPLES

**Invention:** *Microbial conversion of cardboard waste into l-lactic acid*

- **Patent:** Cellulomonas culture ATCC-2578
- **TS:** Formulation of the microbial culture medium

**Invention:** *Automatic micro-drone flight*

- **Patent:** Method of implementing neural network AI controls in micro-drone
- **TS:** the coded algorithms of the method

## **Topic 3.7.3**

# **Defining, Protecting, and Licensing Trade Secrets**

**Thank you**