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## **Revealing Trade Secrets Through License Agreements**

Under the Uniform Trade Secret Act (UTSA), adopted by a vast majority of the states, a "trade secret" is information (including a formula, pattern, compilation, program, device, method technique or process), not generally known, that derives independent economic value for its owner. Since trade secrets provide businesses with a competitive advantage in the marketplace, affirmative action must be taken to preserve their secrecy.

As a form of intellectual property, owners of trade secrets retain important rights which allow them to select who may access and use their property and to protect it from unauthorized use. Thus, they may sell their rights in the trade secret. Further, trade secret owners may decide to transfer all or part of their rights to a licensee for use, while continuing to retain ownership as a licensor.

### **Trade Secret Licenses in General**

In general, a trade secret license is a private agreement whereby the owner (licensor) grants the recipient (licensee) with permission to use some or all of the secret information. However, the licensor retains full title and all ownership rights associated with the trade secret. A license is typically issued by the licensor with the intent to benefit by maximizing their profit (in the form of royalties) on the trade secret. This benefit comes with the risk of disclosure from sharing their secret information with another party.

A license may be exclusive, granting the licensee sole use of the trade secret, or non-exclusive, granting the licensee only shared use. Under a non-exclusive license, the licensor retains the right to use the trade secret and/or to grant additional licenses to others. The licensee's right to use the trade secret can be granted either for an indefinite or for a defined period of time. The license may be revoked if the licensee fails to comply with the terms of the licensing agreement.

### **Validity of a Trade Secret Licensing Agreement**

In general, a license may cover anything that is negotiated between the contracting parties. A license to use trade secret information, such as a formula, may address the use of all or part of the secret and may cover the following topics:

- Subject matter of the trade secret
- Installation procedures to effectuate use of the information
- Methods of production
- Machine operations
- Compensation for use of the information
- Security codes to access information

The licensing agreement may not violate the federal Antitrust Guidelines for the Licensing of Intellectual Property. These Guidelines recognize and promote the protection of all intellectual property but prohibit any licensing arrangements which "unreasonably" restrain competition in the marketplace (e.g., facilitating price fixing or market division). Generally, the license may not be "facially anticompetitive" and the parties involved may not account for more than 20% of the relevant market.

### **Nondisclosure/Confidentiality Agreement**

Unlike most forms of intellectual property, trade secrets may not be registered with the government for protection. Thus, protection of a trade secret lasts only as long as the information is kept secret. Trade secret owners (and licensors) must take affirmative steps to help ensure that their trade secret remains confidential. Upon licensing a trade secret, the licensor typically requires the licensee to read and sign a written nondisclosure agreement.

Generally, the nondisclosure agreement clearly defines the trade secret and limits disclosures to the purposes agreed upon by both parties. By signing the agreement, the licensee accepts the express duty to preserve the secrecy of the information they are licensing. It is typical for the nondisclosure agreement to extend past its date of expiration.

### **Licensor's Compensation for the Use of Their Trade Secret**

The owner of a trade secret is usually paid royalties as consideration for granting the licensee use of the information. A "royalty" is a percentage of the profits the licensee makes on the use of the trade secret. The amount of royalties is negotiated by the parties and specified in the licensing agreement.

As mentioned, protection of trade secrets lasts only as long as the information remains a secret. However, a trade secret which has been licensed forever similarly obligates the licensee to pay royalties forever. Thus, even if the information enters the public domain (i.e., becomes free for anyone to use), the licensee may still be obligated to pay royalties for their own use. Although this is a risk associated with the licensee's ability to gain a head-start, or competitive advantage in the marketplace, it also provides a significant benefit to the licensor.