

# Licensing Trade Secrets in Academia

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## I. Introduction

Academic institutions now make technology transfer a priority. They have been known to license trade secrets, sometimes called “know how,” in conjunction with a traditional license of a patent or copyright. Sometimes the institution initiates this structure, sometimes the corporate licensee requests it. How sound is this practice, and how should such licenses, if they are to be done, be written?

The term “academic institution” is used generally herein to refer to a private university, a public university, a research institution such as an independent hospital, a government basic research facility, or a government-owned, contractor-operated research facility (often called a “GOCO,” or government owned, contractor operated laboratory).

The policies and practices regarding intellectual property ownership and transfer vary among the above types of institutions. Technology produced under federal contract may provide that the U.S. government owns all technical data produced under a contract. This would make licensing such data by the contractor problematic. Technology produced by university faculty may not be clearly owned by the university, given the lack of a written agreement to this effect. The University of California does not explicitly include trade secret or trade secret-like rights in its standard employee patent agreement; MIT, on the other hand, does require such assignment.

Whether or not particular material qualifies as a trade secret is a matter of state law, although federal law on the subject exists<sup>2</sup>. (Economic Espionage Act of 1996, 18 U.S.C. 1831 et seq.; Freedom of Information Act fourth exemption, 5 U.S.C. §552(b)(4))

Forty two states have enacted the Uniform Trade Secrets Act (USTA). The remainder follow the Restatement of Torts definition of trade secrets

## II. What is a Trade Secret?

USTA: (d) "Trade secret" means information, including a formula, pattern, compilation, program, *device*, method, technique, or process, that:

- (1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and
- (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

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<sup>2</sup> Most foreign countries have national laws protecting trade secrets following the basic principles of the USTA or Restatement.

Restatement of Torts (1939) Section 757 Comment b:

"Definition of trade secret." A trade secret may consist of any formula, pattern, *device* or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. It differs from other secret information in a business (see s759 of the Restatement of Torts which is not included in this Appendix) in that it is not simply information as to single or ephemeral (lasting for a brief time, transitory) events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operations of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management.

Note that "devices" themselves may be trade secrets; this would seem to include biological materials.

### **III. Do Academic Institutions Even Have Trade Secrets to License?**

There are arguments pro and con:

PRO:

Academic Institutions possess information traditionally regarded as confidential, such as business records, as well as unpublished technical information and patent applications. A confidential document privilege has been found to exist in an institution's research notebooks.<sup>3</sup>

Academic Institutions are in the "business of research" (*Madey v. Duke University*<sup>4</sup>) and thus have information of economic value in getting research grants, as required by the applicable trade secret statutes.

Case law has supported Institutions' right to withhold business sensitive and technical data from public disclosure.<sup>5</sup>

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<sup>3</sup> *Rywkiv v. New York Blood Center*, 95 Civ. 10008, 199 LEXIS 9570 (S.D. N.Y. 1999).

<sup>4</sup> 307 F. 3d. 1351 (Fed. Cir. 2002).

<sup>5</sup> E.g. *State ex rel. Besser v. Ohio State University*, 87 Ohio St. 535, 721 N.E. 2d 1044 (2000), *S.E.T.A. UNC-CH v. Huffines*, 101 N.C. App 292 (1991).

The culture of academia inherently recognizes trade secret rights in its concept of rights of publication and rights of attribution. These rights of scientists to their work, when violated, can lead to serious charges of scientific misconduct.

Academic Institutions traditionally have executed Material Transfer Agreements (MTA's) when transferring research materials to third parties. MTA's typically require the recipient to treat the materials and any accompanying documentation as proprietary.<sup>6</sup>

CON:

Many academic Institutions do not use employment agreements that contain written obligations to maintain information in confidence.

The stated mission of an academic institution is to advance public knowledge, and the scientists' results are typically published.

Academic Institutions do not have trade secret protection programs like companies do (e.g. employee briefings, "confidential" designations for certain information and termination procedures).

Academic Institutions are not actually "in business," nor do they realize "independent economic value" from trade secrets as required by trade secret definitions, even though *Duke v. Madey*, above, suggests the opposite.

#### **IV. Trade Secret Licensing Principles Important to Academia**

Early market entry and disclosure of information to a company can support its binding contractual obligation to make trade secret license payments on unprotected (unpatented) products: *Aronson v. Quick Point Pencil Co.*<sup>7</sup>

Contracts that do not specify that payment for trade secret royalties ends when the secret is known are enforceable even after the secret is known: *Warner Lambert Pharmaceutical Co. v. John J. Reynolds, Inc.*<sup>8</sup>

The patent statute's "best mode" requirement<sup>9</sup> does not preclude the existence of trade secrets covering patented products. These trade secrets may relate to areas of improvements, work by non-inventors, validation data, scale up techniques, etc.

#### **V. Drafting Software Trade Secret Licenses in Academia**<sup>10</sup>

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<sup>6</sup> See, for example the UCSF MTA for stem cells, found at <http://www.esccells.ucsf.edu/ucsfMTA.pdf>.

<sup>7</sup> 440 U.S. 257 (1979).

<sup>8</sup> 178 F. Supp. 655 (S.D.N.Y. 1959), affd. 280 F.2d. 197 (2<sup>nd</sup> Cir. 1960).

<sup>9</sup> "The specification . . . shall set forth the best mode contemplated by the inventor of carrying out his invention." 35 USC 112, paragraph 1.

<sup>10</sup> Sample software licenses from academic institutions may be found from University of Texas (<http://www.utsystem.edu/ogc/intellectualproperty/contract/softend.htm>), University of Utah ([http://www.netcom.utah.edu/ana/ANA\\_site\\_license.pdf](http://www.netcom.utah.edu/ana/ANA_site_license.pdf)), etc.

Software has the unique properties of being (a) tangible personal property, (b) copyrighted, and (c) a trade secret (as long as the code is not published). It may also be patented. A few key points:

- When drafting the license, specify whether the “Software” being licensed includes executable code only, or only source code. Go through the rights of copyright and decide individually which rights are being granted.<sup>11</sup>
- Restrict the right to further distribute code and an obligation to maintain code in confidence.
- Mark code as confidential; and as “unpublished copyrighted material”
- prohibit reverse engineering (decompilation) if source code not provided.
- Not necessary (although legally more clear) to make separate grants under property rights, copyrights and trade secret rights.

## VI. Drafting Product and Process Trade Secret Licenses

A license may include a package of tangible property (cell lines, vectors, animals, etc), trade secrets, and patents. A license could define trade secrets as including biological materials. A generic term such as “technology” may be used as a defined property to be licensed. A few key points:

- Set out separate definitions for each property and separate grants for each property – may mix exclusive and non-exclusive grants, e.g. by only granting a non-exclusive for know how, or limiting know how to a given field.
- Be careful with exclusive know how grants to protect scientist.
- Be sure to include different royalty rates for products covered by different properties. This should avoid charges of patent misuse that can arise from charging “total sales royalties,” or royalties on sales of non-patented products.
- Be sure to provide for different termination dates when patent expires and trade secret is deemed free to use. Under *Brulotte v. Thys Co.*<sup>12</sup> and *Tulane Educational Fund v. Debio Holding*<sup>13</sup> collecting trade secret royalties after patent expiration may be challenged as impermissibly extending the effective term of a patent.

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<sup>11</sup> Under 17 U.S.C. 106, these are the rights to: (1) to reproduce the copyrighted work in copies or phonorecords; (2) to prepare derivative works based upon the copyrighted work; (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending; (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly...

<sup>12</sup> 379 U.S. 29, 143 U.S.P.Q. 264 (1964).

<sup>13</sup> 60 USPQ 2d 1901 (E.D.La. 2001).

## VII. Path Forward

Academic Institutions often license early stage technologies where patent protection does not extend to the final commercial product. While there is generally opposition to so-called “reach through” royalties for discovery tools, there are broad based, enabling technologies that do emerge from academic institutions. Know-how (protected by trade secret law) can, in these cases, be quite valuable and desired by a company licensing the basic patent(s).

Academic institutions may indeed possess intellectual property in the form of trade secrets, and this property may be licensed. However, the academic licensor should not artificially deem technology to be trade secret-protected simply to expand the royalty base. Most academic licenses<sup>14</sup> will involve a license only of a patent or a patent application. However, there are circumstances, particularly in advanced technologies, where there is valuable trade secret information and/or materials to be imparted to a licensee. These cases call for separate definition and licensing of trade secret rights, even if the length of time that the trade secrets are secret is uncertain.

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<sup>14</sup> Aside from software.