Rights, Duties After License Term Expires

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Decisional law does not adequately cover some aspects of technology transfer after license expires; parties should draft agreements accordingly

As a result of intense technology development in the last few years, proprietary information has become a commodity in its own right. To support such continued development, technology transfer from firm to firm has become a necessity. Such extensive transfer of technology gives rise to comprehensive agreements that detail what information is to be exchanged/delivered, the confidential nature of the information, the extent of use or nonuse, and the extent of consideration for the exchange.

While great care is taken to detail the rights and duties of the parties during the term of the agreements, seldom do agreements detail the rights and duties of the contracting parties following the expiration or termination of the agreement. The agreements contain explicit obligations during the term of the relationship, but the parties fail to contemplate, either intentionally or by neglect, their respective obligations following the expiration of the relationship. As a result, when problems arise concerning post-expiration rights and duties, the parties have little basis for resolving their dispute.

Such disputes occur in a variety of relationships. Examples of such relationships include employer/employee, licensor/licensee, manufacturer/independent contractor, principal/agent and others that do not fit neatly into a defined category. Since technology transfer occurs in such diverse situations, it becomes increasingly important to discuss the post-termination rights and duties of the parties to a licensing agreement. Defining the respective post-termination rights and duties will facilitate the transfer of technology.

Thus, when an agreement is silent with respect to post-expiration issues, who as between the licensor and the licensee has the right to control the information covered upon expiration of the agreement? This broad question can be separated into several smaller questions:

1. Does any background law exist to resolve the question of control and ownership?

2. Are the recipient's rights to use the confidential information obtained under the agreement limited after expiration of the license by duties that continue to be owed by the recipient to the supplier?

3. If the agreement itself attempts to expressly detail post-expiration rights and duties of each party, will those rights and duties expressed in the agreement be enforceable following expiration?

4. If enforceable, by what means of legal action (i.e., damages, injunctive relief, etc.)?

For purposes of this discussion, the author will approach the transfer as taking place in a generalized licensor/licensee relationship. The author assumes in the discussion that technological information was transferred and the transfer was protected by standard written covenants of secrecy.

In examining the above series of questions, a simplifying assumption can be made. Following the research of federal and state case law regarding the licensing of trade secrets, the author discovered that courts treat general "know-how" as trade secrets. However, some "know-how" (proprietary information) does fall outside the legal definition of "trade secret."[1] For example, trade secrets include confidential information while not all "know-how" is confidential. Yet, the area outside the definition is inconsequential. In fact, trade secrets are the major subcategory of "know-how." Thus, in this paper the terms "trade secret" and "know-how" will be used interchangeably.

In attempting to answer the questions posed, the author surveyed a variety of state and federal decisional law. In conducting the survey, the author discovered two major areas to address: These areas give rise to the two main parts of the paper: 1) Do trade secrets and "know-how" fall within the definition of property and 2) what approach do the courts take in addressing the basic issues regarding the post-expiration rights and duties of the licensor and licensee?

IS "KNOW-HOW" PROPERTY?

Throughout the judicial cases and scholarly writings concerning licensing of trade secrets, the question of whether trade secrets ("know-how") fall within the definition of property has been a continuous thread of ambiguity. In answering the four questions posed above, it will be beneficial to attempt to define what property rights exist in information that is licensed. Few if any scholars or courts have developed a logical analysis that answers the question of whether trade secrets fall within the definition of property. The author will derive a workable definition from case law and scholarly writings that includes trade secrets within the definition of property.

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Background

Under federal patent and copyright laws, conveyable interests in technology are well defined. Yet, rights in trade secrets (which, as described above are defined as a large subcategory of ''know-how'') are largely unstatutory, flexible creations of contract and tort law. In researching the licensing of information, the author has discovered that judicial opinions pay only minimal lip service to the concept that there might be a tenuous or limited type of property right in trade secrets (''know-how''). However, the cases neither conclude that there does exist a definite property right nor conclude by denying the reality of the concept.[2]

An excellent example of the judicial fence riding is Justice Holmes' decision in *I.E. du Pont De Nemours Powder Co., v. Masland* where he skirts the issue:

> The word ''property'' as applied to . . . trade secrets is [an] unanalyzed expression certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts . . . through a special confidence which he accepted. The property may be denied, but the confidence cannot be. Therefore, point of the present matter is not property . . . but that the defendant stood in confidential relations with the plaintiffs . . .[3]

While Justice Holmes hinted that trade secrets may not be defined as property, his decision does not answer the question either way. Instead, his decision rests upon a tort principle: the existence of a confidential relationship.

As a result of similar decisions, the courts are presented with a problem. Courts are willing to protect a possessor of trade secrets using equitable protection against unfair practices. Yet, basing their decision on only a faint finding of property, what is it in trade secrets that is actually transferred, sold, or licensed?

Trade Secrets as Property — A Logical Foundation

In a 1932 case, the Court of Appeals for the 7th Circuit stated that ''what may be sold or assigned is property.''[4] Yet, defining property as what may be sold or assigned begs the question. The more accurate method of posing the question would be to ask what characteristics of ''know-how'' make it capable of being sold or assigned and thus becoming the subject of property. It is this approach that leads the author to conclude that one can define ''know-how'' as property.

In forming the rudimentary analysis, the author draws from John B. Nash's paper, which is entirely devoted to this question.[5] Mr. Nash forges the definition of ''property'' in ''know-how'' by drawing conceptual distinctions between the legal relations that exist between individuals with respect to the ''thing'' and the actual legal relations themselves. In other words, it is easier to focus upon the relations between the persons with respect to the property (i.e., holder/nonholder) than to examine the ''res'' itself.

As a result of this approach, the distinction between ''intangible'' and ''tangible'' property so often found in the intellectual property arena becomes unnecessary. Under this approach, all property becomes ''intangible'' because we are defining the subject matter according to the legal relations that exist between the individuals with respect to the subject matter rather than examining the subject matter itself.[6]

Drawing from the Restatement of The Law of Property, Mr. Nash uses the generalized definitions of the legal relations between persons with respect to the subject matter. For example, the Restatement uses the terms, ''Right,'' ''Privilege,'' ''Power'' and ''immunity'' to describe the legal relations as they may exist.[7] Applying these definitions to our present question, we find that ''property'' in ''know-how'' can be formulated in terms of: ''right,'' ''privilege,'' ''power,'' and ''immunity'' on the part of the owner of the ''know-how.''

Right: The owner of ''know-how'' possess a ''right,'' as compared to the whole world, to prevent another from using or disposing of the owner's ''know-how'' where the other party has obtained the ''know-how'' by improper means (theft or betrayal of a confidence). Thus, all other than the owner have a ''duty'' to not use or dispose of the owner's ''know-how'' when they have obtained the ''know-how'' improperly.

Privilege: Like the ''right,'' the owner has the ''privilege'' to use or dispose of his ''know-how'' as the owner sees fit. Corollary to the owner's privilege, all others have ''no right'' to prevent the owner's use or disposition of the ''know-how.''

Power: The owner has the ''power'' to sell, license, or assign the ''know-how.'' Should another party breach the owner's ''right'' by improper means, the owner has the ''power'' to seek equitable injunction against the breaching party's use or disposition of the ''know-how'' while obtaining damages against such person if the person uses or disposes of the ''know-how'' after improperly acquiring it. A corollary to this is that all others have a potential ''liability'' of being subjected to legal or equitable action.

Immunity: The owner then has ''immunity'' as compared to the whole world that no one who has obtained the ''know-how'' improperly can prevent, limit or control the owner's disposition of the ''know-how.'' All others who have obtained the ''know-how'' improperly have the correlative ''disability'' that they cannot prevent, limit or control the owner's exclusive use or disposition of the ''know-how.''[8]

Applying the above terms to the definition of property in ''know-how'' demonstrates that a single distinction exists between the party who owns the ''know-how'' and the nonowners. That distinction is in how the other party acquired the ''know-how'' (i.e., properly or improperly). One obtains the ''know-how'' properly by inspection, reverse engineering or independent invention. One obtains improperly through industrial espionage, or breach of a secrecy or confidentiality agreement.

An owner may only assert his rights against one who has obtained the ''know-how'' improperly. When the ''know-how'' is obtained properly, the owner's rights are not invaded. The party properly obtaining the ''know-how'' acquires the same legal rights through his proper possession. Thus, an owner has only the privilege to use and dispose of his ''know-how,'' but has none of the other legal relations with respect to one who obtains the ''know-how'' properly.[9]

As a result, the owner may not enjoin a party who obtains the "know-how" through proper means. However, when one acquires the ''know-how'' improperly, all of the rights, privileges, powers and immunities as defined above come into existence. The owner is afforded all of the equitable and legal remedies for the invasion by the wrong-doer of the owner's property interest.[10]

As the distinction defined above is in how the ''know-how'' was acquired, there is vested in the owner a distinct property right. The distinct property right is derived from the owner's ability to assert his ''rights,'' ''privileges,'' ''powers'' and ''immunities'' against the improper possessor of trade secret information.

The Supreme Court Finds Property in ''Know-How'': Ruckelshaus and Carpenter

The United States Supreme Court attempted to address the issue of whether information is property. In *Ruckelshaus v. Monsanto Co.*,[11] the Court held that research data submitted to a federal agency (the Environmental Protection Agency) documenting the safety of the submitter's product could be considered ''property'' within the meaning of the Fifth Amendment to the Constitution.[12] The agency's use of the information for evaluation of another firm's product could constitute a ''taking'' of property, requiring the government to pay compensation. The Court was required to discuss the property interest in the data submitted to the EPA because Monsanto challenged the regulatory scheme under which the EPA collected the data. Considering the language of the Fifth Amendment, if Monsanto had no property interest in the information, there could be no constitutional violation.[13]

In discussing the ''trade-secret-as-property'' issue, the Court began its reasoning by recognizing the importance of state law when analyzing a Fifth Amendment property issue. The Court then favorably acknowledged Missouri law, arguing Missouri law recognized trade secrets as property.[14] However, while the Court cites the Missouri cases, there exists no examination of the inherent rights as accomplished above. Without such a foundational analysis, the concluding statement that trade secrets are property is without support. In fact, as pointed out above, while two of the cases relied upon by the Court recognized the Restatement definition of trade secrets, neither of the cases clearly holds that trade secrets are property.[15]

The Supreme Court continued its trend in concluding that information falls within the definition of property in *Carpenter v. United States*.[16] In *Carpenter*, a reporter for the Wall Street Journal contributed to a column that discussed particular stocks. The column became an influential source of recommendations concerning the market. As a result of the column's impact on the stocks, the defendant joined with four others in a trading scheme. Using the information which would be published in the column, the defendant and the others would buy and sell the securities. Over four months, the group made over half a million dollars.

The group eventually was tried for violating federal security laws. A unanimous Supreme Court, in finding that the information came within the definition of ''private property,'' sustained a conviction for violation of the federal wire and mail fraud statutes. The statutes require, as an element of the crime, the obtaining of ''money or *property* by means of false or fraudulent . . .'' methods.[17]

The Supreme Court's decision rested greatly on the exclusivity of the information, finding that the defendant had ''deprived [the Journal] of its right of exclusive use of the information, for exclusivity is an important aspect . . . of most private property . . .''[18] Again, the author agrees with the court result. Yet, the Court reaches a significant conclusion, that trade secrets and ''know-how'' are property, without sufficient analysis.

Interestingly, applying Mr. Nash's analysis to the facts of *Carpenter* supports the Court's conclusion. Initially, the Journal had a ''right'' as compared to others to prevent another from disclosing the information by improper means. The defendant in *Carpenter*, an employee of the Journal, betrayed a confidence. The Journal had a strict policy of keeping prepublication material confidential. By using the information for his own pecuniary benefit, he betrayed a confidence that existed between himself and the Journal. Thus, the Journal had a right to prevent the prepublication disclosure of the confidential information by its employee (the defendant).

Furthermore, the Journal had the privilege to use or dispose of the information as it saw fit (i.e., when to publish or not publish the information). As a consequence, all others have ''no right'' to prevent the Journal from publishing or not publishing the information. Nor would the defendant have the ''privilege'' to disclose the information obtained through the confidential relationship with his employer, unless the Journal authorized such disclosure.

Additionally, the Journal had the ''power'' to sell, license or assign the information. When the defendant in *Carpenter* breached the confidence, the Journal had the ''power'' to seek relief (damages and injunctive relief). Thus, the defendant suffered a liability by being subject to both legal and equitable action.

Lastly, the Journal had ''immunity'' from any attempt by others to limit or control their use or disposition of the information. While the facts of *Carpenter* don't clearly demonstrate the Journal's immunity, it is apparent that the defendant could not prevent the Journal from disclosing or force the Journal to disclose the information.

Thus, as demonstrated above, both decisions of the Supreme Court seem to be correct in finding that information such as trade secrets and "know-how" fall within the definition of property. Yet, neither decision spends sufficient time or analysis in arriving at the conclusion.

The Benefit in Finding Property in "Know-How"

The analysis of the questions posed in this paper focuses on the relationship between a licensor and a licensee of proprietary information. The analysis becomes simplified when one finds that trade secrets and "know-how" fall within the definition of property; there then exists the foundational legal rights between the two parties through which additional analysis develops.

If the trade secret and "know-how" are deemed private property, then the entitlement to the information will be defined and protected by law in the absence of a contract. Yet, as with real property, contracts may vary the "default" entitlement and protection accorded by the law, allowing the parties flexibility in transfer of the information. Thus, a party could be enjoined from using or disclosing the trade secret or "know-how" based on contractual rights. In the absence of a clear contractual limit, the party could be enjoined based upon a legal duty arising out of the relationship in which the information was transferred (i.e., private property rights). Therefore, characterizing trade secrets and "know-how" as property allows for the implementation of remedies to protect the information, such as constructive trust and injunctive relief in addition to damages.

Yet, if the trade secret and "know-how" are not deemed private property then the law will not protect individual entitlements with respect to the information after expiration of the license where the parties fail to define their rights in the contract. If the parties do attempt to define their rights, the only protection afforded the parties stems from contract and/or tort principles rather than inherent property rights.

THE JUDICIAL APPROACH IN DEFINING THE BASIC RIGHTS AND DUTIES FOLLOWING EXPIRATION

Unlike the extensive federal statutes and cases governing patent and copyright disputes, trade secret licensing disputes are, in general, governed by and vary according to state law. Federal preemption is triggered when and only when state law conflicts with or frustrates a federal law or underlying federal policy. Therefore, state decisional law supplies the foundation for the analysis.[19]

Pre-Termination Rights

The analysis logically starts with the pre-termination licensing case of *Warner-Lambert Pharmaceutical Co. v. Reynolds.*[20] In *Warner-Lambert,* the court approached the pre-termination rights of the parties based upon contract principles rather than tort or property principles.

The plaintiff/licensee, who manufactured Listerine, sued for a judgment declaring that it was no longer obligated under licensing agreements to make payments to the defendants for using the defendant's formula. The agreement from which the plaintiff sought to be excused was construed to run in perpetuity, as there existed no termination clause. After 75 years of making payments, the plaintiff made two arguments (only the second of which is relevant here): 1) that the contract lacked future consideration because the underlying formula was no longer secret, and 2) based on public policy, an implied term ending the obligation to pay royalties existed when the trade secret became public.

The lower and the Second Circuit Courts rejected both arguments. On the consideration issue, the courts found that the "head start" provided to Warner in a very profitable business was sufficient consideration to support the agreement. Absent language in the agreement providing for continuing secrecy, subsequent public disclosure was irrelevant to the existence of consideration.[21]

On the more relevant public policy issue, Warner argued that once the idea was disclosed and in the public domain, the policy underlying the federal patent system, encouraging the free use of ideas, supported the termination of his obligation to pay royalties.[22] However, the courts didn't agree. The courts found that such a public policy was present only when the federal patent or copyright system was involved, not where the basis of the suit was a state trade secret license. Where the issues involve no federal statutory protection, "the parties are free to contract with respect to a secret formula or trade secret in any manner which they determine for their own best interest."[23] Thus, the court found that Warner's obligation to pay royalties extended for as long as he manufactured or sold Listerine.[24]

As applied to the present analysis, *Warner-Lambert* demonstrates the courts' willingness to enforce long-term licensing agreements, even perpetual licensing agreements, absent intertwining federal policy. Yet, when one adds the idea that trade secrets are property to the *Warner-Lambert* case, the courts' decisions are somewhat weakened.

At the time of the contract, the defendant possessed an inherent property right in the secret formula. The defendant had the privilege to assign or license its use. While the formula remained secret, the defendant's formula remained his private property. The defendant could enforce his rights and privileges against those who obtain the formula improperly. Thus, if Warner terminated the agreement by ceasing to manufacture the product, but subsequently began manufacturing the product outside of the agreement using the information he obtained through the agreement, Reynolds would be entitled to seek damages through the agreement, Reynolds would be entitled to seek damages and/or an injunction.

However, when the formula became widely known to the public, it could be argued that Reynolds lost his right to enforce his property rights in his formula.[25] When the formula became public knowledge, any trade secret claim Reynolds possessed was lost. The defendant's ability to enforce his rights and privileges ceased to exist because the others who now possessed the information possessed it properly. If Warner could demonstrate his ability to obtain the required information through public sources, Warner could be deemed a "proper possesser" of the information. Therefore, Reynolds' only relief would stem from contract principles rather than property rights. One case, *Choisser Research Corp. v. Electronic Vision Corp.*,[26] seemed to follow this analysis. In *Choisser*, the court held that once the trade secret became disclosed, royalties could no longer be collected.[27]

The Supreme Court came to a similar conclusion as the *Warner-Lambert* court in *Aronson v. Quick Point Pencil Co.*[28] The court in *Aronson* upheld a pre-patent license agreement after the "trade secret" was publicly disclosed. The court held that since the "trade secret" was not public at the time of the agreement, the agreement did not frustrate the strong federal policy against the withdrawal of ideas already in the public domain. As long as Quick Point continued to sell the product, it was obligated under the agreement to pay royalties as was the party in *Warner-Lambert*.[29]

Post-Termination Rights

The courts in *Aronson* and *Warner-Lambert* dealt with pre-termination, post-secrecy royalties. Would the same rationale as that used in *Aronson* and *Warner-Lambert* apply in a post-termination setting? The Federal Circuit appears to have adopted and affirmed the rationale used in *Aronson* and *Warner-Lambert* in the post-termination setting. In *Universal Gym Equipment Inc. v. ERWA Exercise Equipment Ltd.*[30], the court upheld an award of damages to the plaintiff/licensor when the licensee terminated the agreement but continued to manufacture and sell the licensed equipment.

In *Universal*, the plaintiff, Universal Gym, had entered into an agreement with the defendant, ERWA Exercise Equipment, under which ERWA would manufacture, market and sell Universal exercise equipment. In return, ERWA would pay royalties to Universal. Under the agreement, Universal provided the plans and specifications required for manufacturing the equipment. Additionally, Universal made its engineers available to ERWA for training and support. ERWA agreed to keep all technical knowledge acquired confidential.[31]

The contract provided that either party could terminate the agreement, without cause, upon six months' notice. Following termination, the agreement also limited the party's use of the technological information. The agreement stated that "ERWA shall not hereafter manufacture, use, sell, or distribute any products which include any of the features, designs, technical information or said know-how of [Universal] . . ."[32] This post-termination clause provided the basis for the lower court's finding that ERWA was obligated to pay damages.

The importance of the post-termination clause in this case stems from the fact that ERWA had reverse-engineered a Universal machine publicly available prior to entering into the agreement. Without such a clause, ERWA could rightfully utilize any information obtained through reverse engineering. The district court held that the clause "means exactly what it says: that if [ERWA's equipment] does contain any Universal features and designs, the contract has been breached. It is irrelevant to the question of breach whether these items were already in the public domain or were reverse engineered, because the parties freely contracted to limit the items' use after the termination of the contract."[33] After finding that the defendant had used Universal designs and features, the district court awarded Universal damages.

On appeal, the Federal Circuit affirmed the district court's ruling on the contract provision. ERWA contended on appeal that the district court improperly upheld the controlling contract clause in violation of *Sears* and *Compco*.[34] ERWA argued that *Sears* and *Compco* prevented state law from prohibiting the use or copying of publicly available material when it is not protected by a patent or copyright.

However, the Federal Circuit disagreed with ERWA's assertions. The Federal Circuit distinguished *Sears* and *Compco* because neither case involved an agreement or contract. "*Sears* and *Compco* involved only the compatibility with federal patent law of applying state unfair trade law to bar copying of an unpatented product of a company with which the copier *had no contractual relations*."[35]

Yet, in *Universal*, the parties entered into a contract limiting their rights and extending their duties. The Federal Circuit recognized that ERWA was entitled to reverse engineer, manufacture and sell a copy of the Universal machine as anyone else could. However, ERWA entered into an agreement preventing their use of the information it has obtained through reverse engineering. The Federal Circuit held that the obtaining of the information prior to entering into the contract was irrelevant. The parties could freely "limit their right to take action they previously had been free to take."[36]

Even though the information was discovered by the licensee prior to the agreement, the court upheld the party's right to contract away their rights. This holding is consistent with the characterization that such information falls within the definition of property. Universal held a property interest in its design of equipment. Even though the information may have been discoverable through reverse engineering, this would not destroy Universal's property right, only restrict the scope through which Universal could assert its rights. Since ERWA had discovered the information through reverse engineering the product, it also obtained a property right in the information as the information was not obtained improperly. Thus, both parties possessed certain property rights in the information.

Consistent with the rights and duties discussed above, both parties had the privilege and power to use or limit their use of the information.[37] When ERWA agreed to limit its privilege to use the information following termination of the agreement in exchange for some other benefit (probably the use of Universal's trademark and tradename), ERWA was so entitled. ERWA could alter its default entitlement in the property as it chose. Thus, the Federal Circuit correctly upheld the licensing agreement.

Where the information transferred between parties is still secret (i.e. not easily reverse-engineered by others or where marketing the product does not disclose the secret), courts will enforce and enjoin a party's continued use of such information. In such a situation, the court could enjoin disclosure and award damages based upon either a contract theory or a property right, since both would exist.

One case that demonstrates the court's willingness to enforce a party's post-termination rights in a trade secret is *Klockner-Humboldt-Deutz v. Hewitt-Robins*.[38] The plaintiff, Klockner, had licensed to defendant, Hewitt, certain engineering drawings and other technical "know-how" for the manufacture and sale of an industrial rock crusher in the United States. The defendant agreed to pay a royalty on each machine manufactured. Four years after plaintiff furnished the trade secrets, the defendant failed to produce the minimum royalty promised. As a result, Klockner rightfully terminated the license.[39]

However, the defendant continued to advertise and market a product that incorporated a number of trade secrets belonging to Klockner. Klockner brought suit to enjoin Hewitt from continuing to advertise and sell the product. The court awarded Klockner a preliminary injunction ordering Hewitt to cease manufacture and distribution of any product which contained trade secret information acquired from Klockner through the agreement.[40]

While the court didn't use a property theory as a basis for its decision, the result under a property analysis would be the same. Using the right privilege analysis, Klockner possessed a property right in the information. Yet, Hewitt, having only acquired the information through the confidentiality agreement from Klockner, had no inherent property right in the information. Additionally, since the information maintained its secrecy, there would be no argument that he subsequently acquired any inherent property in the information. Thus, Klockner had every right to enforce the private property rights that existed. Accordingly, the court's decision to enjoin Hewett from further use was proper.

In *Universal*, the court used as a basis for its decision the clause in the agreement that prevented ERWA from utilizing the information after termination. Without such a clause, would courts take the same approach? It appears the answer is yes.

In *Hyde v. Huffines*,[41] a licensor sued to restrain a licensee from manufacturing a garbage compressing device. The inventor, Huffines, had licensed use of his invention to the Hyde Corporation in conjunction with Huffines filing a patent application. According to the agreement, Hyde gained full knowledge of the device from the patent application, scale models, blueprints, and hands-on construction of the device prior to the patent being issued. After two years of manufacturing the device, Hyde rightfully repudiated the agreement by giving notice. Yet, Hyde continued to manufacture the device following termination according to the specifications given by Huffines.[42]

Although the secrets were subsequently disclosed in an issued patent,[43] the court awarded damages and an injunction to Huffines. Unlike *Universal*, there existed no explicit clause which prevented disclosure following termination. Yet, the Texas Supreme Court, in granting the injunction, implied a breach-of-confidence theory into the contract. The court stated:

> In the area of confidential relationships between . . . licensors and licensees, the injured party is not required to rely upon an express agreement to hold the trade secret in confidence . . . nor should he be deprived of all the relief because the offending person may have originally entered into the particular relationship unaffected by a then existing ulterior or improper motive.[44]

After finding that a confidential relationship would be implied, the court quoted at length from several decisions concluding that the confidential relationship would not be abrogated by the issuance of the patent.[45] Thus, even without an explicit clause and where the essence of the licensing agreement was substantially disclosed in the issued patent, the court was willing to permanently enjoin the licensee from using the information following termination.

Appropriate Remedy: Length of Injunction

In the majority of situations, courts are willing to award the injured party damages and an injunction where appropriate. An injunction is usually appropriate where the defendant has misappropriated information which is still secret or where the defendant has contracted away his right to freely acquire the information once public. Yet, in the trade secret area, there exists two divergent views regarding the type of injunction to impose.

Under the *Shellmar*[46] rule, the courts impose a permanent injunction for the misappropriation. When and if the information becomes publicly available, the defendant is still enjoined from utilizing the information. This rule likely serves as an effective deterrent against misappropriation.

However, such a remedy seems to be inconsistent with the Supreme Court's rule in *Sears* and *Compco*.[47] A more consistent rule was utilized in *Conmar Products v. Universal Slide Fastener Co.*[48] In *Conmar*, the court restrained the defendant from using the improperly-acquired secret only until the information was generally available to others.

Which remedy is more appropriate? If the defendant freely contracts away his right to properly acquire the information, then the permanent injunction would be more appropriate. The defendant most likely received something in exchange for his relinquishment of his right to properly acquire the "know-how." To restore what he bargained away after he breaches the agreement would be inequitable.

However, where the defendant has only improperly acquired the information, he should only be enjoined for as long as the information maintains its secrecy. Once the information is publicly available (through no fault of the defendant), the defendant should no longer be prohibited from utilizing what is available to all. By only enjoining the defendant for the limited period, the defendant is not kept out of the marketplace for longer than he would have been had he acquired the "know-how" properly. Actually, the more equitable remedy would be to enjoin the defendant for as long as the subject matter remained eligible for protection as a trade secret *plus* a period it would take the defendant to properly acquire the technology.[49] In this manner, the defendant is afforded little to no benefit through his misappropriation.[50]

Suggestions

Through the above discussion, it is clear there exists little guidance from decisional law in forming technology transfer agreements. In order to protect clients prior to entering an agreement, the parties should clearly define their goals and what direction the parties expect their relationship to take in the future.

For example, is the information such that it can be easily discovered or reverse-engineered? If so, then an up-front payment for the information by the recipient would be advisable. In that way, should a dispute arise, the supplier has already received an adequate amount of consideration for the technology.

Yet, if the information is relatively undiscoverable, then the supplier should take steps in the agreement to protect his "know-how" from disclosure by the recipient before and after termination. This can be accomplished through detailed secrecy and confidentiality agreements or by providing for the return of plans, models and materials once the relationship is terminated.

If the agreement includes both patent and trade secret material (i.e., a hybrid agreement), the drafter should ensure that the argument separates the two species of information. By providing for separate running royalties in the agreement, the parties avoid the problem of having the "know-how" royalties being declared void under the *Brulotte*[51] rule. The patent royalties will terminate once the patent expires, but the "know-how" royalties can continue under the agreement.

If the information cannot be readily separated into trade secret and patent "know-how," the drafter should make up for the royalties lost on the trade secret "know-how" by charging up front for the trade secret information through higher royalties. Once the patent expires, courts will not enforce the royalty terms of the agreement.[52]

Literally last, but certainly not least, parties should include well drafted termination clauses. Use of standard boilerplate termination clauses may cause numerous problems. A properly drafted termination clause should set forth the specific rights and duties with respect to each licensed right. By structuring the clause to fit each agreement, the post-termination relationship will be as amicable as the pre-termination relationship.[53]

CONCLUSION

As is demonstrated from the above discussion, there exists broad protection for "know-how" which has been the subject of a licensing agreement. Yet, has the decisional law answered the questions posed?

1. Does any background law exist to resolve the question of control and ownership? Some background law does exist to guide practioners in drafting agreements. However, with the incomplete characterization of "know-how" as property, parties would be wise to take steps to account for this deficiency.

2. Are the recipient's rights to use the confidential information obtained under the agreement limited after expiration of the license by duties that continue to be owed by the recipient to the supplier? The decision in *Hyde v. Huffines* demonstrates the court's willingness to imply a confidential relationship in order to protect a licensor even where the agreement does not explicitly provide for post termination protection. When one adopts the theory that "know-how" is property, there exists additional support to limit the recipient's right to use the confidential information.

3. If the agreement itself attempts to expressly detail post-expiration rights and duties of each party, will those rights and duties expressed in the agreement be enforceable following expiration? Both *Aronson* and *Warner* demonstrate the courts' willingness to enforce specific contract provisions unless the provisions run afoul of federal patent policy. The decision in *Universal* indicates how literally a court will interpret and enforce a party's privilege to contract away his rights under an agreement.

4. If enforceable, by what means of legal action? The major controversy regarding available relief arises with respect to the length of an injunction. Depending upon the circumstances, either the *Shellmar* or *Conmar* rule would be appropriate. Courts must put forth more effort when imposing an injunction to ensure the measure follows current federal policy and arrives at the most equitable result.

While courts do protect the transfer of technology, it is apparent that the questions posed have not been adequately answered nor fully addressed by decisional law. With such a lack of support from decisional law, the author encourages parties to future transfer agreements to address the topics comprehensively before entering into a relationship. For parties already involved in agreements, negotiations could be opened up to prevent future disputes from arising.

NOTES

1. The most widely followed definition of trade secret is set forth in the Restatement of Torts, which provides: "[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." Restatement of Torts §757, comment (b) (1939).

The restatement definition is utilized in states following the common law and in those states that have adopted the Uniform Trade Secrets Act. *See* Ark. Stat. Ann. §4-74-601 et seq. (1987); Cal. Civ. Code §3426 et seq. (West 1986); Colo. Rev. Stat. §7-74-101 et seq. (1986); Conn. Gen. Stat. §35-50 (1986); Del. Code Ann. 6 §2001 et. seq. (Supp. 1990); Fla. Stat. §688.001 et seq. (1989); Idaho Code Ann. §48-801 et seq. (Supp. 1991); Rev. Stat. ch 140 para. 351 et seq. (Supp. 1991); Ind. Code Ann. §24-2-3-1 et seq. (Burns 1986); Kan. Stat. Ann. §60-3320 et seq. (1983); La. Rev. Stat. Ann 51:1431 et seq. (West 1986). Minn. Stat. §325c.01 et seq. (1981 and Supp. 1991); Mont. Code Ann. §30-14-401 et seq. (1989); N.C. Gen. Stat. §66-152 et seq. (1985); N.D. Cent. Code §47-25.1-01 et seq. (Supp. 1991); Okla. Stat. tit. 78, §85 et seq. (1986); Wash. Rev. Code Ann. §19.108.010 et seq. (1988); W. VA Code §47-22-1 et seq. (1986); Wis. Stat. Ann. §134.90 (West 1987)

For an exhaustive collection of cases detailing what is included in the definition of trade secrets *see* Annotations, *What Is A Trade Secret?*, 59 A.L.R. 4th 641 (1988).

2. *See* R. Milgrim, *Milgrim on Trade Secrets*, 1.01[2] (1988), in which Mr. Milgrim discusses the issue of whether trade secrets

are property. He cites several cases which define trade secrets as property, yet the cases he cites spend little time analyzing the issue. In fact, three of the Missouri cases Milgrim cites, *Reddi-Wip, Inc. v. Lemay Valve Co.*, 354 S.W. 2d 913 (Mo.Ct. App. 1962), *Harrington v. National Outdoor Advertising Co.*, 355 Mo. 524, 196 S.W. 2d 786 (1946) and *Luckett v. Orange Julep Co.*, 271 Mo. 289, 196 S.W. 740 (1917), do not support his position. Reviewing these cases in light of the restatement definition, yields a conclusion that Milgrim's property definition in trade secret is tenuous. For example, Missouri has adopted the restatement position defining trade secrets. Yet, the definition specifically rejects a property characterization for trade secrets. However, scholars and the Supreme Court have drawn support from the Missouri case law in attempting to find that trade secrets fall within the definition of property. *See Ruckelshaus v. Monsanto Co.*, 467 U.S. 986 (1984) discussed *infra*, note 12 and accompanying text.

3. 244 U.S. 100, 102 (1917).

4. *Commissioner v. Stephens-Adamson Mfg. Co.*, 51 F.2d 681, 682 (1931). An invention for which a patent application was pending was held to be property for purposes of computing depreciation. *Id.*

5. J. Nash, *The Concept of Property in Know-How as a growing Area of Industrial Property: Its Sale and Licensing*, 6 Patent Trademark, Copyright Journal of Research, Education, 289 (1962) (hereinafter Nash, "Know-How").

6. *Id.* at 294.

7. Restatement of the Law of Property, Vol. I, p. 4:

§ 1. Right: A right, . . ., is a legally enforceable claim of one person against another, that the other shall do a given act or shall not do a given act. Comment: a. Correlative duty. The relation indicated by the word "right" may also be stated from the point of view of the person against whom that right exists. This person has a duty, that is, is under a legally enforceable obligation to do or not to do an act.

§ 2. Privilege. A privilege, . . ., is a legal freedom on the part of one person as against another to do a given act or a legal freedom to not do a given act. Comment: a. Correlative absence of right. The relation . . . may also be stated from the point of view of [the] other person against whom the privilege exists. From the point of view of the other person it may be said that there is no right on his part that the first person should not engage in the particular course of action or of nonaction . . .

§ 3. Power. A power, . . ., is an ability on the part of a person to produce a change in a given legal relation by doing or not doing a given act. Comment: a. Correlative liability. The relation indicated by the word power may also be stated from the point of view of the person whose legal relation is thus liable to be changed. This subjection of the second person to having his legal relation affected by the conduct of the person having the power is a "liability" . . .

§ 4. Immunity. An immunity, . . ., is a freedom on the part of one person against having a given legal relation altered by a given act or omission to act on the part of another person. Comment: a. Correlative disability. The relation indicated by the work immunity may also be stated from the point of view of the person with respect to whom the immunity exists, that is, who has no ability so to alter the given legal relation. The second person has a disability with regard to the first person.

8. Nash, "Know-How," *supra* note 6, at 295.

9. *Id.* at 296.

10. *Id.* at 297.

11. 467 U.S. 986 (1984).

12. *Id.* at 1003-04.

13. *Id.* at 998.

14. Missouri recognizes trade secrets under the Restatement of Torts, §757, comment b. The Court cited *Reddi-Wip.*, 354 S.W.2d at 913, *Harrington*, 355 Mo. at 524, 196 S.W.2d at 786, and *Luckett*, 271 Mo. at 289, 196 S.W. at 740, in support of its proposition. *Id.* at 1001. (These are the same three cases that Milgrim relies on in his treaties). However, as one scholar has noted, the cases relied upon don't clearly define trade secrets as property. *See* Samuelson, *Information as Property: Do Ruckelshaus and Carpenter Signal a Changing Direction in Intellectual Property Law?* 38 Cath. U.L. Rev. 365 (1989). She takes the position that information is not property.

15. *See* Reddi-Wip, 354 S.W.2d at 917-18; *Harrington*, 355 Mo. at 533, 196 S.W.2d at 792.

16. 484 U.S. 19 (1987).

17. 18 U.S.C. §1341 (1982) (emphasis added) (mail fraud). The wire fraud statute is similar except conviction requires use of some form of interstate communication, such as the telephone. *See* 18 U.S.C. §1343 (1982).

18. *Id.* at 321.

19. "If the agreements are solely trade secret or know-how agreements, then the state law of contract governs." *Pitney-Bowes, Inc. v. Mestre*, 517 F. Supp. 52, 59 (S.D. Fla. 1981). State law is generally applied when trade secret cases are heard in federal court under diversity jurisdiction. 28 U.S.C. §1332 (1990).

20. 178 F.Supp. 655 (S.D.N.Y. 1959), *aff'd*, 280 F.2d 197 (2d Cir. 1960).

21. *Id.* at 661-62.

22. *Id.* at 663.

23. *Id.* at 665.

24. *Id.*

25. Reynolds did not lose his property right when his formula became widely known. However, he had no right (power) to prohibit other's use of the information because they also rightfully possessed the information.

26. 173 U.S.P.Q. 234, 236 (Cal. Super. Ct. 1972).

27. *Id.* at 236. *But see Shepard v. Commissioner of Internal Revenue*, 173 U.S.P.Q. 34 (T.C. 1972) and *Sinclair v. Aquarius Electronics, Inc.*, 184 U.S.P.Q. 682 (Cal. Dist. Ct. App. 1974) which support the *Warner-Lambert* analysis.

28. 440 U.S. 257 (1979). Prior to the *Aronson* decision and *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470 (1974) (which held that state trade secret protection of unpatentable, and patentable subject matter did not conflict with federal patent law), the analysis underlying the *Warner-Lambert* case was seemingly undermined by *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). In *Sears* and *Compco*, the Supreme Court seemed to hold that the federal patent act preempted state unfair competition law regarding the copying of an article or device already in the public domain. However, these cases do not support such a view. Neither case involved trade secrets. Either patents were involved or the case involved the ability of the public in general to practice inventions rightfully in the public domain. The *Warner-Lambert* rule focuses on the individual licensee and his duties under the agreement, not a patent.

Following the Supreme Court's decision in *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141 (1989) in which a Florida unfair competition law was found to "run afoul of the teaching of our decisions in *Sears* and *Compco*," strong issues of pre-emption are raised again. *See* Hilmy, *Bonito Boats' Resurrection of the Preemption Controversy: The Patent Leverage Charade and the Lanham Act "End Around."* 69 Tex. L. Rev. 729 (1991).

29. 440 U.S. at 266.

30. 827 F.2d 1542 (Fed. Cir. 1987).

31. *Id.* at 1545.

32. *Id.* at 1546.

33. *Id.* at 1546.

34. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 324 (1964). *See* note 28, *supra*, and accompanying text.

35. 827 F.2d at 1549 (emphasis added).

36. *Id.* at 1550.

37. *See* Nash, *supra* note 8, and accompanying text.

38. 486 F.Supp. 283 (1978) (hereinafter *Klockner*).

39. *Id.* at 287.

40. *Id.* at 287. It is interesting to note that the court in *Klockner* refused to recognize a property right in the trade secret. "The gravamen in a trade secrets case is a breach of confidence, rather than an infringement of a property right." *Id.* at 286, *quoting*, *Servo Corporation of America v. General Electric Co.*, 393 F.2d 551 (4th Cir. 1968). Once the court determined that the defendant had breached a confidence, the court laid out the factors in determining whether or not to grant injunctive relief. *Id.* at 286.

41. 158 Tex. 566, 314 S.W.2d 763 (1958).

42. *Id.* at 573-574, 314 S.W.2d at 768-69.

43. The patent that issued contained only 10 of the original 17 claims. However, the issued patent contained the essential aspects covered in the licensing agreement. *See id.*

44. *Id.* at 576, 314 S.W.2d at 770. Yet, on denying a motion for rehearing, the court did not hold as a matter of law that the licensor/licensee relationship itself creates a confidential relationship. Instead, the court stated such a decision would be made on a case-by-case basis, taking into account the "picture as a whole." *Id.* at 587, 314 S.W.2d at 777.

45. *Id.* at 582-83, 314 S.W.2d at 774-76.

46. Following *Shellmar Products Co. v. Allen-Qualley*, 36 F.2d 623 (7th Cir. 1936), *cert. denied*, 301 U.S. 695 (1937).

47. *See* Altman, *A Quick Point Regarding Perpetual Trade Secret Royalty Liability*, 61 J. Pat. Off. Soc'y 510 (1979).

48. 172 F.2d 150 (2d Cir. 1949).

49. Authority exists to extend the duration of the injunction beyond the eligible period of protection to account for the defendant's "head start." *See Hampton v. Blair Mfg. Co.*, 374 f.2d 969 (8th Cir. 1967), *cert denied*, 389 U.S. 829 (1967). *See, e.g.*, *Schulenburg v. Signatrol, Inc.*, 33 Ill., 2d 379, 388, 212 N.E.2d 865, 870 (1965) (trade secret owner is protected only as long as it would take for party to reverse engineer the product), *cert denied*, 383U.S. 959 (1966); *American Can Co. v. Mansukhani*, 742 F.2d 314, 329 (7th Cir. 1984) (legitimate competition should not be hindered by the law).

50. For a detailed discussion regarding the appropriate remedial measures in light of competing federal preemption policy and state interests, *See* Altman, *A Quick Point Regarding Perpetual Trade Secret Royalty Liability*, 61 J. Pat. Off. Soc'y 510 (1979).

51. Under *Burlotte v. Thys Co.*, 379 U.S. 29 (1964), the Supreme Court held that parties could not extend the effective term of a patent by collecting royalties beyond the life of the licensed patent.

52. *See St. Regis Paper Co. v. Royal Industries*, 552 F.2d 309 (9th Cir. 1977) *cert denied*, 434 U.S. 996 (1977); *Pitney-Bowes, Inc. v. Mestre*, 701 F.2d 1365 (11th Cir. 1983), *cert denied*, 464 U.S. 893 (1983).

53. *See* Coolley, Importance of Termination Clauses, 15 *les Nouvelles* 169 (December 1990).