2013

Practical Considerations in Trade Secret Licensing

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PRACTICAL CONSIDERATIONS IN TRADE SECRET LICENSING

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I. WHAT ARE TRADE SECRETS AND WHY LICENSE THEM

In recent years, patents have become a prevalent instrument in technology transfer, both domestically and internationally. Commercializing patents, however, requires transfer of not only the patentable matter, but collateral know-how as well. Despite apparent incompatibility of full disclosure required by patents with complete confidentiality of trade secrets that protect know-how, both categories of intellectual property are often combined in a “hybrid” license.1 Their synergy has been proven to result in successful transfer of technology and in benefitting both the licensee and licensor.

Licensors put their trade secrets at great risk of being lost or misappropriated by either a licensee or a third party. Nevertheless, protecting this type of intellectual property in licensing transactions is often neglected and left for the boilerplate language of licensing agreements. This paper evaluates the mechanism of trade secret licensing from the licensor’s perspective, identifies common pitfalls, and proposes practical solutions on minimizing risks of losing proprietary know-how.

A. Definition

The term “trade secret” can be defined as follows:

“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.2

Although numerous other definitions exist,3 they all agree on what constitutes a trade secret. In simple terms, a trade secret is any proprietary information or knowledge that satisfies three basic requirements:

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• secrecy (must not be generally known or readily ascertainable, duplicated or easily acquired by others);
• value (provides to the business competitive advantage and economic benefit derived form not being generally known to competitors);
• protection (it is a subject to reasonable efforts to safeguard and maintain its confidentiality).  

B. Importance and Value of Trade Secrets

Patents are typically viewed as a cornerstone of intellectual property licensing. The licensing landscape, however, has been changing. In recent years, trade secrets has become “the crown jewels of corporations” and “workhorse[s] of technology transfer.” Recent court decisions on trade secret misappropriation exhibit damage awards that are in the hundreds of millions or even billions of dollars, indicating how valuable trade secrets are to companies.

Trade secrets cover 90% of all new technology; “over 80% of all license and technology transfer agreements cover [trade secrets] or are hybrid agreements covering both patents and trade secrets.” Therefore, it is virtually impossible to license a patent without also transferring applicable proprietary knowledge and information. As there is always more to every invention and certain information inevitably escapes a patent application, some commentators asserted that “a patent [is a] little more than an advertisement for the sale of accompanying know-how.”

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5 Id. at 1046.
7 In 2011, a jury awarded $2.3 billion to a company whose former employee stole confidential technical information and used it to start a business overseas. See Pacesetter, Inc. v. Nervicon Co., and Yonging Zou, No. BC424443, 2011 WL 2470185 (Cal. Superior April 22, 2011).
9 See Jorda, supra note 4, at 1046.
10 Id.
12 See Jorda, supra note 4, at 1045 (“Contrary to conventional wisdom, trade-secret protection can be used in conjunction with patents to protect the tremendous volume of associated know-how that exists for any patentable invention but that cannot be disclosed in a patent specification.”).
13 Id. at 1056.
Some went even further proclaiming that patents should be viewed as merely supplemental to trade secrets.\(^\text{14}\)

Trade secrets have been providing important protection to proprietary know-how in licensing transactions for almost a century and a half.\(^\text{15}\) In context of licensing, a trade secret is “information, practical knowledge, techniques, and skill required to achieve some practical end,”\(^\text{16}\) or, on a more basic level, a “practical knowledge of how to get something done.”\(^\text{17}\) The important concept is that although know-how may be a valuable business asset, it cannot be afforded trade secret protection if it is generally known in the industry. Therefore, while all know-how may be intellectual property, only confidential know-how that also possess other requisites of a trade secret is fully protected as an intellectual property right.\(^\text{18}\)

Another important caveat in understanding the true value of trade secrets is that even information about what \textbf{not to do} may be extremely important in gaining competitive advantage. For example, negative research and development results may not only increase the amount of available proprietary knowledge, but may also expedite commercialization by competitors if such information becomes known to competitors.\(^\text{19}\)

While trade secrets provide initial or short-term protection to patentable inventions, they are also often chosen to serve as alternative to patents; the courts has held that such a decision does not violate patent policy of innovation and disclosure.\(^\text{20}\) There are numerous advantages trade secrets provide for patentable matter. As compared to patents, “[t]here is no subject matter or term limitation, registration or tangibility requirement[,] …[or] strict novelty requirement.”\(^\text{21}\) In addition to almost immediate availability and minimal costs of obtaining trade secret protection\(^\text{22}\) (as long as the know-how is kept confidential under reasonable safeguards), trade secrets also provide numerous other advantages, among them:

\(^{14}\) See Jorda, \textit{supra} note 4, at 1046 (“Mark Halligan recently proclaimed, ‘Trade secrets are the IP of the new millennium and can no longer be treated as a stepchild.’ James Pooley concurred, ‘Forget patents, trademarks and copyrights … trade secrets could be your company’s most important and valuable assets.’ Henry Perritt said trade secrets are ‘the oldest form of IP protection,’ and that, ‘patent law was developed as a way of protecting trade secrets without requiring them to be kept secret and thereby discouraging wider use of useful information.’”).

\(^{15}\) The court’s statement that “[a] secret of trade or manufacture does not lose its character by being confidentially disclosed to agents or servants, without whose assistance it could not be made of any value” can be seen equally applicable in a technology transfer under a license. See Peabody v. Norfolk, 98 Mass. 452, 461 (1868).

\(^{16}\) \textit{Black’s Law Dictionary} 950 (9th ed. 2009).

\(^{17}\) \textit{Definition of Know-How}, WIKIPEDIA.ORG, \url{http://en.wikipedia.org/wiki/Know-how}.

\(^{18}\) See Jorda, \textit{supra} note 4, at 1045.

\(^{19}\) See id. at 1046.


\(^{21}\) Jorda, \textit{supra} note 4, at 1046.

\(^{22}\) See id.
• trade secrets can be compulsory licensed in very limited circumstances;\(^{23}\)
• trade secrets strengthen exclusivity and add significant value;
• trade secrets enable leveraging of business resources;
• trade secrets may provide optimal legal protection (if other intellectual property rights become invalid);
• trade secrets may be used as a defense to patent infringement.\(^{24}\)

C. Why License?

So if trade secrets are so valuable if kept confidential, and the risk of disclosure is so high, why would anyone ever license them? As one commentator pointed out, “[k]nowledge flows irreversibly; a secret once learned cannot be unlearned”\(^{25}\); another put it even more succinctly – you should “[n]ever disclose a trade secret that you are not willing to lose.”\(^{26}\)

Some trade secrets can be reasonably easily ascertained, reverse engineered, or independently developed by the competitors. In this case it may be advisable to exploit the trade secret quickly and rip the benefits of competitive advantage while it is not known by the competitors – be it months or years.\(^{27}\) The flip side is trade secrets that remain extremely valuable because it is almost impossible (or at least very difficult) for competitors to acquire such trade secret independently – the Coca Cola® formula is the most famous example.\(^{28}\) Between these two extremes lies a full spectrum of trade secrets that may need to be revealed in the course of business (whether to a licensee or to a subsidiary) and require reasonable measures to protect confidentiality of information.

A secret remains a secret only as long as it is kept secret. Even the best kept secret can be misappropriated, and more so a secret entrusted to someone else. Thus, the proprietary information must be disclosed strategically; the risk of losing a trade secret must be weighed against any potential benefits. Such balancing in many cases will advise against licensing and disclosure. Most technology transfers, however, require licensing not only of a patent or a patent portfolio, but of an accompanying trade secrets as well – the whole “package” is usually needed to take commercial advantage of the patented technology.\(^{29}\) The widespread use of such “hybrid” licenses necessitates disclosure of proprietary information and, therefore, its protection.

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\(^{23}\) See, e.g., JAY DRATLER, JR., LICENSING OF INTELLECTUAL PROPERTY 3-30.3-3-31 (Law Journal Press 2005).
\(^{27}\) Many trade secrets typically cease to remain secret within only a few years due to numerous factors – inadvertent or deliberate leakage, employee mobility, reverse engineering, and others. See Jorda, supra note 4, at 1045.
\(^{28}\) See id. at 1050.
\(^{29}\) See id. at 1051.
II. PRACTICAL CONSIDERATIONS IN TRADE SECRET LICENSING

A. Preliminary Steps

1. Trade Secret Audit

A licensing agreement should be very specific as to what is being licensed. In most licensing agreements patents, trade secrets, and other types of intellectual property rights are transferred as a bundle. It is, therefore, very important to know what specific technology and proprietary information attaches to the transfer. While patents are generally easy to identify and maintain, some know-how may not be. A thorough trade secret audit should be implemented to address this problem and to take the inventory of potential trade secrets.

Some basic steps that may be taken include:

- A thoughtful evaluation of what gives the company a competitive advantage over others in the same line of business;
- Identification of information that the company does not share and would not want anyone outside the company to know;
- Meeting with the department heads within the company to determine what valuable and competitive information each department might have;
- Determination of what types of trade secrets typically exist in a specific industry, and which ones of them exist in the company.

In addition, proprietary information should undergo thorough evaluation process to determine the true value of trade secrets before entering into licensing negotiations or agreements. Another benefit of conducting a trade secret audit is an effective prevention of trade secret theft (by putting appropriate safeguards in place), as well as timely discovery and quick response to data breaches and misappropriation of proprietary information.

30 Additionally, there are numerous industry-specific nuances and considerations. For example, licensing biotechnological innovations require an extensive transfer of personal property rights (e.g., to cell lines, gene constructs, etc.) in addition to trade secret rights. See, e.g., James D. Hamilton & William E. Beaumont, Licensing Patents and Trade Secrets, OBLON, SPIVAK, June 2000, http://www.oblon.com/presentations/licensing-patents-and-trade-secrets.


32 See Jager, supra note 1, at 135-36.

33 The courts will always look at how the information has been safeguarded before finding the existence of a protectable confidential information; confidentiality agreements, limited access, or other forms of “reasonable protection” will be a determinative piece of information to plead prima facie trade secret misappropriation case. See generally, David S. Almeling et al., A Statistical Analysis of Trade Secret Litigation in Federal Courts, 45 GONZ. L. REV. 291 (2009).
2. Non-Disclosure Agreement (NDA)

Licensing trade secrets requires a careful consideration of a “so-called black box dilemma [– t]he trade-secret owner cannot ‘let the cat out of the bag,’ and the potential licensee will not want to ‘buy a pig in a poke.’”

Preliminary negotiations necessitate release of some confidential information, and unrestricted disclosure may result in the loss of proprietary know-how.

A non-disclosure agreement (NDA) is the most commonly used safeguard against such potential loss. Under the NDA, some confidential information is exchanged for a promise of secrecy; the agreement also details the purpose for which the confidential information may be used, the measures of protecting it, and the limitations on its disclosure to thirds parties. An NDA is typically presented as a stand-alone legal tool that precedes licensing negotiations. Such “separation” helps to reinforce the idea that the disclosed confidential information is continuously covered by the duty to maintain confidentiality under the NDA, even if licensing negotiations fall through. In addition, the whole agreement or a portion of it may also need to be incorporated in the final licensing agreement as a part of the technology transfer documentation.

B. Drafting Considerations

1. Basic Principles

A licensing agreement, especially if it is a hybrid one that covers various forms of intellectual property, can be a lengthy, convoluted, and not easy to decipher document. In addition to being difficult to read, such agreement may also be difficult to understand – by the licensee or by the courts, greatly diminishing its legal value. Simplifying the language by the use of clearly defined terms, utilizing user-friendly numbered subheading structure, minimizing the occurrence of redundant terms and passages, and implementing other basic principles of good document drafting will make the final document clear, concise, and easy to understand.

2. Important Terms

A written agreement is the best way to protect secrecy of the trade secrets being transferred. Such agreement should have “provisions that define the area of technology with precision, establish a confidential legal relationship between the parties, furnish proprietary

34 Jorda, supra note 4, at 1054.
information for a specific purpose only, oblige the recipient to hold information in confidence, and spell out exceptions to secrecy obligations.”37 If the agreement involves more than one type of intellectual property, it might be beneficial to isolate the trade secrets – either in a separate agreement, or at least as a separate section of the licensing agreement.38

a. Subject Matter

Defining a subject matter is often challenging, but extremely important. A trade secret can be defined either in the agreement itself or by a reference to a supplemental document or an exhibit; a reference to extrinsic communications would be typically required in a case of “amorphous know-how that may [only] be conveyed orally or visually.”39

Oral or visual disclosure of trade secrets may present risks to both the licensor and the licensee. The absence of proper documentation or transfer memoranda may significantly undermine ability to prove whether the transfer took place, and even if it did, what was the scope of the transfer and what is covered by the duty of confidentiality.40 To address this problem, it is vital for a licensor to “insist that any secret information imparted to the licensee remain confidential regardless of its mode of transmission.”41

Defining and describing trade secrets also require close attention to a couple of other nuances:

- Distinction between information and artifact, where an artifact in which proprietary information is embodied shall remain the property of the licensor and apart from the trade secret information disclosed;
- Distinction between confidential information (e.g., medical records), know-how (e.g., technical information that may or may not be generally known in the industry), and trade secrets (e.g., “secret sauce” – confidential know-how).42

b. Exceptions

Some information provided during technology transfer may not be secret; some information may also be acquired by the licensee using appropriate legal means (and, therefore, escaping liability for misappropriation of proprietary information). Thus, a licensee will typically insist on inclusion of certain categories of information to be excluded from being subject to confidentiality provisions of the agreement. Such exclusions may include information:

37 Jorda, supra note 4, at 1055.
39 Basile, supra note 26, at 11.
40 See id. at 13.
41 Id.
42 See id. at 12.
• Already in licensee’s possession at the time of the disclosure;
• Generally known to the public at the time such information is communicated to
  the licensee;
• That becomes known to the public through no fault of licensee;
• Acquired from a third party by legal means and is not subject to any restrictions to
disclosure;
• Independently developed by the licensee without the benefit of access, directly or
  indirectly, to the trade secrets.43

An additional clause a licensee may insist on is a so-called “Residuals,” which “acts as an
exception to the requirement of confidentiality by excluding information in the memories of
persons exposed to the trade secret.”44 The risk for a licensor to include this provision in the
agreement may vary greatly depending on the kind of information because “many [trade secrets]
can be remembered easily and exploited long after the copy is returned.”45 Memorizing a
customer list containing 10,000 entries with contact information for each seems very unlikely
and will probably not harm the licensor.46 In contrast, if “the information is a new type of
semiconductor gate that, once explained to a qualified engineer, is forever understood, then the
residuals clause effectively eviscerates the licensor’s rights in that information.”47

c. License Grant, Prohibitions, Improvements

These provisions define what licensee is and is not authorized to do with the subject
matter of the trade secret licensing agreement – the right to access, the right to use, and the right
to disclose proprietary information. The grant shall be carefully and narrowly drafted to avoid
authorizing the licensee to use the trade secret in an area or to an extent not contemplated by the
licensor. It must also prohibit any use or disclosure not specifically permitted by the agreement
and provide the licensee with no more than the licensee requires.48 Separate restrictions and
permission should be addressed in the agreement in regards to any tangible property or
copyrighted materials delivered to the licensee during the transfer.

Because a licensee often will improve upon a trade secret, the ownership of such
improvements is an additional consideration. From the licensor’s perspective, a licensee should

43 See id. at 14.
44 Id. at 15.
45 Dreyfuss, supra note 25, at 214.
46 See Basile, supra note 26, at 15.
47 Id. at 16.
48 See id. at 17 (“A careful drafter representing a licensor will include in the license provisions a blanket prohibition
against all disclosure or use of the trade secret except those disclosures and uses expressly permitted in the
license.”).
provide an automatic grant-back of all improvements that relate to the underlying trade secret, which a licensee will certainly oppose.49

An extremely serious problem for a licensor may be an unexpected access to the proprietary information by third parties. Initially, it is imperative to define specifically and clearly who (i.e., what entity) the license is granted to, to exclude any affiliates and subsidiaries, and not to include any sublicense rights for the licensee.50 Despite these provisions, the licensor’s confidential information may still end up in third party’s hands through, for example, acquisition of a licensee. To prevent unintended access to the trade secrets, the licensing agreement must include “appropriate terms which (a) permit the licensor to immediately terminate the license in the event of a change in ownership or control of the licensee; and (b) prohibit any assignment of the agreement without the prior written consent of the licensor.”51

d. Protective Safeguards and Confidentiality Policy

Given the confidential nature of trade secrets, the safeguards to ensure continuous secrecy must be spelled out in the agreement. The licensor should demand reasonable protective measures, preferably equal or exceeding the measures used by the licensor at the time of the transfer (assuming the licensor has put in place adequate safeguards).

A centerpiece of the trade secret protection measures is a confidentiality provision contained in the licensing agreement. The security measures will depend largely on the value and sensitivity of the information provided, and may include:

- Strict limitation of internal and external distribution;
- Assigning an employee or a committee to oversee compliance with applicable procedures;
- Marking all confidential information as “Confidential”;
- Maintaining document logs and tracking of confidential documents;
- Compartmentalizing (disclosure and access by employees on the “need-to-know” basis);
- Mandatory signing of a confidentiality agreement by every person getting access to the information;
- Putting all related personnel on notice that confidentiality must be maintained;
- Educating personnel on proper procedures and applicable policies;
- Developing a system to prevent inadvertent disclosure to public (through advertisement, speeches, publications);
- Off-site or off-network storage;

49 See id. at 14.
51 Id. at 10.
• Limited access and reproduction by the licensee’s personnel and third-party vendors and contractors;
• Restricting public accessibility and escorting visitors;
• Use for the purpose of the agreement only;
• Use only at a specific site or in specific jurisdiction;
• Conducting exit interviews with departing personnel;
• Prompt return of all confidential information upon termination of the agreement.52

In addition, specifying security measures in the agreement is only a part of the solution. The other half must deal with the risks of non-compliance that can jeopardize confidentiality of the proprietary information and result in its loss. Effective monitoring system should be put in place to ensure proper handling of the entrusted information by the licensee.

Another extremely important consideration is the effective date of termination of the agreement. As the trade secrets must be kept confidential at all times, this continuous obligation must survive the agreement termination and the licensee need to keep in place reasonable measures to prevent disclosure of confidential information for an additional period of time (ideally for as long as necessary to maintain secrecy).53 An additional obligation of a licensee that also must survive termination of the agreement is the return of proprietary information and all related documents, which must be in force until such transfer is complete.

e. Royalty

Royalty schemes in trade secret licensing are much more flexible than in licensing of other types of intellectual property. The licensor’s consideration for “bargained-for” exchange is the disclosure of the confidential information itself. In addition, royalty payments for trade secrets are governed by a state contract law; the principle of “freedom of contract” allows the parties “to construct the metrics that will be used to calculate that payment.”54

The flexibility results in licensor’s ability to include in the royalty base revenues that are indirectly related to the exploitation of trade secrets, or revenues from global sales (patents, for example, are limited to specific jurisdictions).55 If the royalty is sale-based, an important consideration is inclusion of a provision that protects licensor from “hidden sales,” where the licensee disposes of the “licensed products” at a reduced price or even without compensation.56

52 See Basile, supra note 26, at 17-18. See also Jorda, supra note 4, at 1046-47; Scott, supra note 50, at 9; Trade Secret Protection Programs, Interview with Alan S. Gutterman, THE METRO. CORPORATE COUNSEL., Sept. 2010, at 4.
53 In one case a court of appeals held that a licensee of trade secret information was free to use and disclose the trade secrets after the license expired because the terms of the agreement did not impose any confidentiality obligations after expiration. See Nova Chems., Inc. v. Sekisui Plastics Co., 579 F.3d 319, 327-28 (3d Cir. 2009).
54 Basile, supra note 26, at 18.
55 See id.
56 See Scott, supra note 50, at 6-7.
In trade secret licensing a royalty payment obligation does not necessarily stop when confidential information becomes publicly known.\(^{57}\) Alternatively, if licensee insists on agreement exception that ends royalty as soon as the proprietary information is no longer secret, the licensor may want to demand an up-front royalty or structure royalty payments in a way that allows collecting a large portion of the trade secret value within an initial short-term period.

It is not always the case, however, in hybrid patent-trade secret licensing agreements. Combining trade secrets together with patents could be problematic for trade secret-based royalties which will likely stop – unless otherwise specified by applicable agreement – if the patent is invalidated, ends, or otherwise ceases to be in force.\(^{58}\) Some possible solutions for this problem are (largely dependent on relative value of patents and trade secrets):

- Separating patent and trade-secret agreements;
- Demanding initial lump-sum payment(s);
- Clearly differentiating between patent and trade-secret rights;
- Separating allocation of royalties to each of the rights;
- Reduce the royalty-payment period;
- Granting a royalty-free license to patents;
- Granting a trade-secret license but no patent license.\(^{59}\)

f. Remedies

The risk of trade secret loss due to mishandling of the information by the licensee is too great to be ignored. If such a loss occurs, the licensor would want to have built-in remedies in the licensing agreement. Acting as a deterrent and as an effective measure of “damage control,” a clause that automatically terminates the agreement and revokes licensed rights upon material breach should be included in the agreement. In addition, a licensor should:

- Carefully draft choice of law, jurisdiction, venue, and service of process clauses;
- Consider including provision awarding attorney fees to the prevailing party;
- Specify equitable relief available (enumerate specific types – e.g., destruction or return of documents);
- Include indemnification provision for any misappropriation of information caused by third parties (if the disclosure by licensee is allowed under the agreement);
- Consider including a liquidated damages clause (both for material breach as well as for non-compliance).\(^{60}\)

\(^{57}\) In the famous Listerine® case the court enforced a written contract that did not have any limiting provisions as to public disclosure. The court held that even if a trade secret subsequently enters the public domain, royalty payments under trade secret licensing agreements can continue indefinitely (and are still being made today). See Warner-Lambert Pharm. Co. v. John J. Reynolds, Inc., 178 F. Supp. 655, 665 (S.D.N.Y. 1959).

\(^{58}\) See Jorda, supra note 4, at 1055.

\(^{59}\) See id.
C. Monitoring and Ensuring Confidentiality

To effectively monitor and enforce a licensing agreement, the licensor needs to take a proactive role in following-up on its execution. Licensee’s fulfillment of payment, reporting, and other obligations may require regular reminders, periodic audits, requests for clarification of submitted reports, etc.

Licensor’s right to audit is typically equated with payment rights – the rights to inspect, review, and verify sales figures and calculation of royalties. In licensing trade secrets, the right to monitor and ensure compliance with confidentiality requirements is of at least equal, if not greater, importance. A licensing agreement should provide for adequate and effective safeguards to maintain secrecy of information, some of which are enumerated in Part II.B.2.d. The agreement should also expressly give the licensor a right to verify compliance – either through on-site inspections, periodic reporting, or having a licensor’s employee on the licensee’s team acting as a compliance manager – and to demand curative measures from the licensee, if necessary.

D. Licensing Internationally

With more and more technology crossing international borders, the risks of losing valuable proprietary information in a foreign country increases dramatically. While licensing of trade secrets may be the only way – or one of the very few ways – to enter new markets quickly and without making major investments, it should be very carefully and strategically exploited.\(^61\)

Even before the decision to license to a foreign country is made, it is important to perform a thorough investigation of two key elements of the technology transfer – the licensee, and the laws of the foreign country.\(^62\) A licensor should also not forget possible cultural differences that may impact the negotiations of the transaction or execution of the licensing agreement.\(^63\) A “power of incentive, which motivates humans of all races” and may be “the

\(^{60}\) See Basile, supra note 26, at 19-20.

\(^{61}\) Some companies decide against licensing intellectual property, or license it only for a part of the manufacturing process. Coca Cola®, for example, never licensed its secret syrup formula, simply providing prepared syrup to its manufacturing facilities overseas. It is, of course, works well with products that cannot be easily reverse engineered.

\(^{62}\) See George A. Frank & George J. Awad, Licensing of Trade Secrets and Know-how to Subsidiaries and Joint Ventures, DRINKERBIDDLE 3 (2005), available at http://www.drinkerbiddle.com/files/Publication/e7a28e12-6b50-48e4-b4e9-210591c228ee/Presentation/PublicationAttachment/d7674f55-1ec6-4ca3-abad-284b80f97748/Frank_Awad_AIPLA.pdf.

\(^{63}\) It is extremely important to understand “cultural underpinning” of the law in many countries, because the law changes much faster than people. It is also “the relationship that counts, and without understanding [the] culture, negotiations are likely to stalemate and end without a binding agreement….,” Nathan Greene, Enforceability of the People’s Republic of China’s Trade Secret Law: Impact on Technology Transfer in the PRC and Preparing for Successful Licensing, 44 IDEA 437, 458 (2004).
single most influential method of keeping information secret” should also not be forgotten and must be effectively utilized.\textsuperscript{64}

A trusted and a well-known prospective licensee will likely need a very general inquiry into its business, reputation, licensing motives, organizational structure, etc. In contrast, an unknown or a recently started business will certainly require more specific questions, extensive gathering of background information, and a thorough investigation of its business practices and key personnel.

In overseas transactions, a licensor needs to evaluate the “playing field” – relevant laws of the destination country. The areas of major concern – domestic, international, and destination country – typically include:

- Intellectual property law (what rights are recognized and how they are protected);
- Product liability (possibility of attaching liability to the licensor through acts of a foreign licensee);
- Export controls (imposed on transfers of certain technology with restrictions dependent upon countries involved in the transaction);
- Counter trading or barter requirements;
- Antitrust laws (international technology licensing agreements can unlawfully restrain trade in violation of U.S. or foreign antitrust laws)\textsuperscript{65};
- Tax laws (income derived from a transfer of intellectual property rights by licensing those rights to an unrelated entity is taxable income; existence of tax treaty or bilateral investment treaty may indicate close relationship between two countries).\textsuperscript{66}

Local law of the destination country may be full of nuances that could possibly prevent enforcement of the agreement, preclude seeking judicial relief, or result in a violation making the whole deal impossible. Some countries require government approval of licensing agreements before they go into effect, and this process may be very complex and very lengthy. In addition to seeking qualified legal advice here in the United States, it is also best to consult a qualified local counsel – someone who is well-versed in transactions similar to the one anticipated, and who can also guide the licensor through the process of technology transfer with a foreign counterpart.

\textsuperscript{64} Id. at 466.


\textsuperscript{66} See Frank, \textit{supra} note 62, at 3.
Another key consideration in licensing internationally is the licensee’s understanding of definitions and terms of the agreement – both during the negotiations and embodied in the written document. Cultural difficulties and language barrier may make negotiations and agreement drafting a daunting process. While disclosing information in a visual form may avoid some “lost in translation” problems, both oral and written information being disclosed need to be fully interpreted with all applicable caveats. Understanding of what is being licensed and on what terms is the essence of the transaction.\textsuperscript{67}

In drafting international licensing agreements, it is often advisable to “[w]rite the contract in terms that a U.S. court would enforce, but also include pertinent [foreign] law that will, at the very least, have a deterrent effect in showing that you understand the rights provided.”\textsuperscript{68} A licensor must also be clearly designated as the “the owner” of the intellectual property to increase likelihood of obtaining appropriate remedy in the foreign country, or at least use the Economic Espionage Act\textsuperscript{69} to prosecute foreign entity in the United States.\textsuperscript{70}

The execution of the agreement needs also be closely monitored – to a much greater extent than if the technology was transferred to a domestic counterpart.\textsuperscript{71} In addition to putting reasonable safeguards in place, an important step in achieving workable and effective trade secret protection program overseas would be disseminating of educational materials and conducting continuous training to engage licensee’s personnel. Periodic reminders, exit interviews, and signing appropriate legal documents will also ensure licensee’s employees are duly notified of the confidentiality measures in place.\textsuperscript{72}

Additional careful consideration should also be given to possible procedural issues that may arise. A typical set of problems may involve:

- Choice of law among the domestic law of different states and a choice between domestic law and foreign law;
- Determining the jurisdiction;
- Accommodating different national approaches to pretrial management and to the trial itself;
- Enforcing judgments.\textsuperscript{73}

\textsuperscript{67} See Greene, supra note 63, at 461.
\textsuperscript{68} Id. at 464.
\textsuperscript{69} Economic Espionage Act of 1996, 18 U.S.C. § 1831 et seq.
\textsuperscript{70} See Greene, supra note 63, at 466.
\textsuperscript{71} For a detailed review of best practices in China, which is equally applicable to any foreign country, see J. Benjamin Bai and Guoping Da, Strategies for Trade Secret Protection in China, 9 NW. J. TECH. INTELL. PROP. 351, 366-71 (2011).
\textsuperscript{72} See Greene, supra note 63, at 465.
\textsuperscript{73} For a detailed overview of issues that may arise during international licensing dispute (from the perspective of a U.S. litigant) see Henry H. Perritt, Jr., International Disputes, in TRADE SECRETS: A PRACTITIONER’S GUIDE, PRACTISING LAW INSTITUTE (2d ed. 2011).
III. Conclusion

Technology transfers in many instances require disclosure of supplemental confidential know-how. While this proprietary information is typically protected against misappropriation as trade secrets, the risk of losing valuable information is so great a licensor must take proactive measures to prevent it. Some steps that may address the issue include identifying and protecting trade secrets in-house, developing a decision-making policy that evaluates numerous risk factors, licensing strategically, keeping confidentiality throughout negotiations, careful drafting of licensing agreement’s provisions, and monitoring of the execution of the agreement.

As more and more technology transfers cross international borders, licensors engaged in licensing to a foreign country are exposed to even greater risk due to unfamiliar laws. Conducting due diligence reviews of prospective licensees, seeking qualified legal advice by a local counsel, addressing issues arising out of cultural or language differences, will provide a licensor with tools necessary to mitigate potential risks while commercializing intellectual property in cross-border deals.