

# **Licensing Trade Secrets with Patents Under U.S. Law**

**Mel Jager – Managing Director**

**/C/M/B/ Ocean Tomo**





**Topic 1 Naked Patent Licenses**

**Topic 2 Naked Trade Secret Licenses**

**Topic 3 Hybrid Licenses**

**Topic 4 U.S. Hybrid Licensing Rules**

**Topic 5 U.S. License Drafting Recommendations**

- Covers only Patents
- Can license patent applications
- Royalties or payments can start before patent issues
- Bundle related patents
- Royalty payments must cease upon termination
  - Due to Patent Invalidity – *Lear v. Adkins* (U.S. Sup. Ct. 1974)
  - Due to Expiration – *Brulotte v. Thys* (U.S. Sup. Ct. 1964)



- No Federal Law questions raised
- Controlled by state contract laws
- Payments can begin at any time
- Payments can continue after trade secret ends if contract so states
- Famous *Listerine* Case -2<sup>nd</sup> Circuit 1954
  - 1884 Agreement -“I hereby agree to pay nine dollars for every gross of Listerine hereinafter sold by myself, my heirs, executors or assigns”
  - Formula for Listerine became public in 1933
  - Court enforced written contract
  - Payments still being made today as long as formula used

- *Aronson* (Sup. Ct. 1984)
  - –key chain licensed before any patented issued for 5% royalty dropping to 2 ½% if no patents issued in 5 years
  - License terms upheld 19 years later –payment of 2 ½% must continue
- *St. Regis* (1977)
  - Licensed to use patents and related trade secrets for 10% royalty
  - Patents were invalidated
  - All payments for patents and trade secrets must cease under *Lear*
- *Chromalloy* (1983)
  - Company patents and know how bought for fee plus running royalty
  - All payments ceased when patents invalidated under *Lear*



- *Span Deck* (1982)
  - License to use patented machinery and trade secrets for a lump sum plus royalties
  - Entire license unenforceable when patents were invalidated and all payment obligations ceased
  
- *Pitney-Bowes* (1983)
  - Hybrid license to terminate when last patent expired or on the death of the licensor
  - Under *Brulotte* all license obligations to pay ceased when patents expired even though licensor died 18 months later

- *Boggild* (1985)
  - License entered for patent applications on toys called for payments regardless of issuance of patents
  - Term was until last patent expired or 25 years whichever is longer
  - License unenforceable after all patents expired before 25 years
  
- *Meehan* (1986)
  - Invention sold for royalties until patents expire and if no patents for 10 years
  - Patents issued in the U.S., UK and Canada and Canadian patent expired 1 year after U.S. patent expired
  - *Brulotte per se* rule required all payments to cease- even for the Canadian patent – after the U.S. Patent expired



- *Sanford* (1992)

- Butter packaging machine was covered by patents and trade secrets
- Machines were leased and there was no mention of patents in the lease
- *Brulotte* applied to require that no lease payments were due after patents expired –patents were used as leverage to get lease

- *Nordian* (N.D. Ill. 1995)

- Patented process for making an isotope
- Patent licensed until patents expired and related technology licensed for 15 years
- License required \$1million upfront and a \$1.5 million “paid up” royalty payable at \$300,000 per year for 5 years
- No further payments required after patents invalidated

- License covers Patents and Trade Secrets
- If Royalties Intertwined
  - e.g., 5% for both patents and trade secrets
- No Differentiation
  - e.g., 5% until patents expire, then 2%
  - e.g., exclusive becomes non-exclusive
- Trade Secret Royalties must cease when patents expire or are invalidated

- Hybrid patent and trade secret licenses will continue to be used
- Convenient and practical
- Be aware of the U.S. rules created by *Brulotte*
- Improperly drafted licenses that do not differentiate between patent and trade secret royalties will cease to be enforceable in the U.S. after the patents expire or are invalidated.
- Negotiating stage is the best time to resolve this issues of payment for and use trade secrets after the patents end



- Treat patents and trade secrets in separate contracts if practical
- If combined in a hybrid license, draft the provisions carefully
- Create a differentiation between the treatment of patents and trade secrets
- Create a different royalty rate if the patents do not issue, expire or are invalidated
- Allocate the royalty payment between the two separate rights
- A change in exclusivity if the patents do not issue, expire or are invalidated
- Be sure that the time of the running royalties for the patents does not exceed the life of the licensed patents



- If payment is to continue for the use of the trade secrets after the end of the licensed patents clearly state the conditions in the license
- If the right to use the trade secrets ends when the patents expire or when the contract is terminated for any reason, say so explicitly in the license.
- Consider larger lump sum payments up front for the unpatented technology
- Consider if U.S. patents are crucial to the transaction and, if not, consider a royalty free non-exclusive license under the U.S. Patents to avoid the effect of patent termination

## I | C | M | B OCEAN TOMO

### Melvin F. Jager

Managing Director

20 N. Wacker Dr., 27<sup>th</sup> Floor

Chicago, IL 60606

(312) 327-4410

[mjager@oceantomo.com](mailto:mjager@oceantomo.com)

#### Chicago

Civic Opera Building  
20 North Wacker Drive,  
27<sup>th</sup> Floor

Chicago, IL 60606

(312) 327-4400 Ph

(312) 327-4401 Fx

#### San Francisco

85 Liberty Ship Way

Suite 106

Sausalito, CA 94965

(415) 339-3160 Ph

(415) 339-3161 Fx

#### Louisville

455 South Fourth Street

Suite 1071

Louisville, KY 40202

(502) 238-8000 Ph

(502) 238-8001 Fx