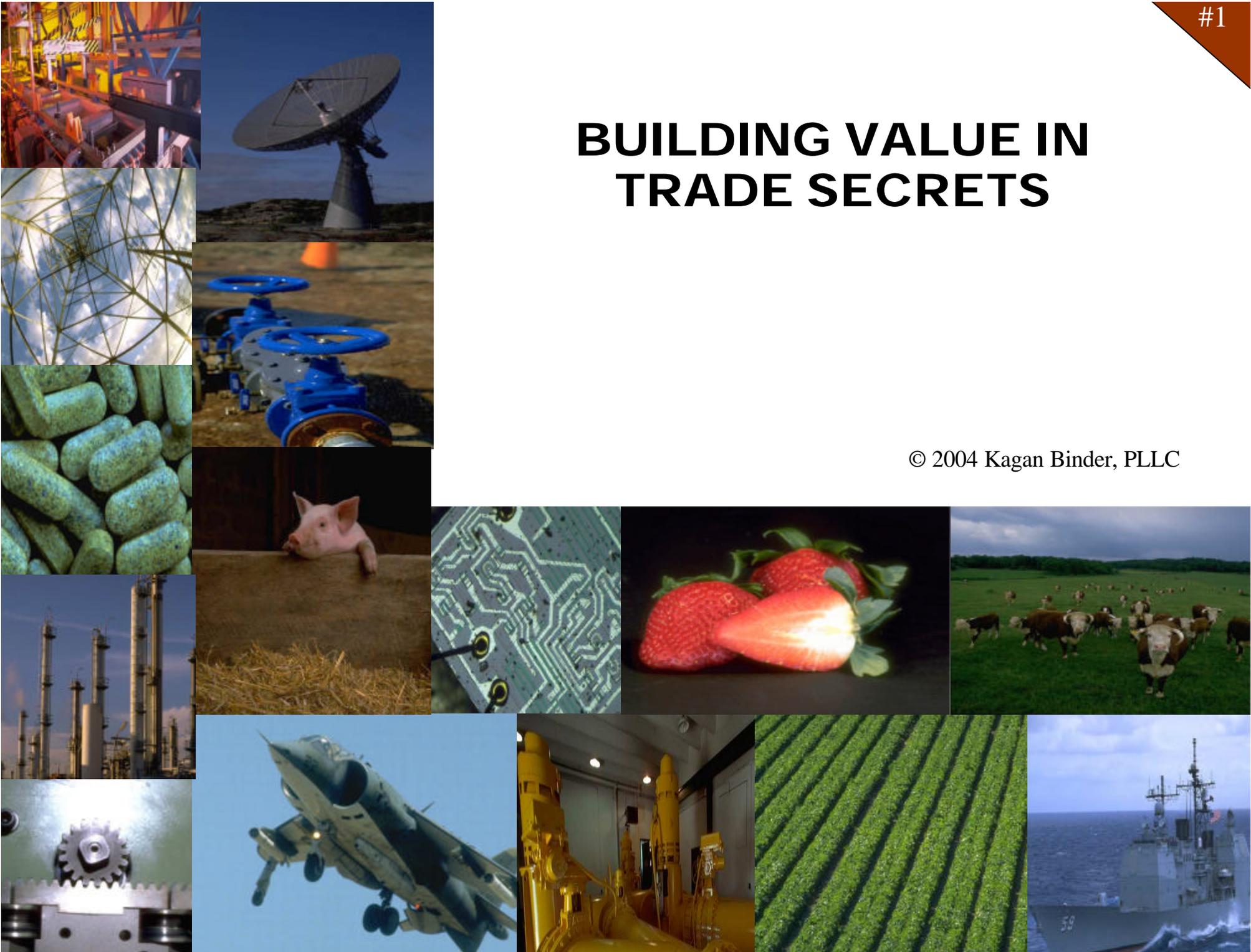
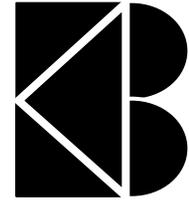


BUILDING VALUE IN TRADE SECRETS

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Building Value in Trade Secrets

One way to maximize value in presenting Intellectual Property for sale or license is to establish a credible, transferable right in Trade Secret. This paper will provide specific suggestions for steps to take in establishing the existence of a Trade Secret, ways to support maintenance of a Trade Secret, and provide sample License Provisions to effectively transfer Trade Secrets in a manner that will minimize your expense and liability.

Establishing a Trade Secret.

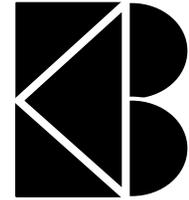
A Trade Secret may be generally defined as information not generally known that provides competitive advantage. The formal definition of Trade Secret is determined by State Law, and therefore theoretically will vary from state to state. However, the Uniform Trade Secret Act has been adopted by many states with minor modifications, which provides much commonality in the definitions and concepts from state to state. The Uniform Trade Secret Act can be thought of as a “template” set of laws suggested by a respected “think tank.”

One often thinks that only highly sophisticated chemical formulae or similar arcane subject matter can be the subject of a Trade Secret. The classic example often raised is the famous and mysterious formula for Coca-Cola®. In reality, much less exotic subject matter can form the basis of a Trade Secret. The first step, therefore, is to conduct an audit with the people involved in the subject technology to determine if trade secrets can be identified that give competitive advantage to the technology. Going over the following list of potential Trade Secret categories and forms may help identify subject matter that was previously not recognized as providing value:

Information related to the development, selling, marketing, use, properties, structures, compositions, manufacture, and quality control of a product or process.

The information can be in the form of samples, prototypes, data books, manufacturing instructions, drawings, formulae, sales and property brochures, raw materials, raw material suppliers, specifications on raw materials, price paid on raw materials, percent of constituents in formula mixing and addition steps in practicing a process and in manufacturing a product.

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Document the Existence and Maintaining a Trade Secret.

Once the Trade Secret has been identified, it is important to provide a “paper trail” showing recognition of its existence and the steps taken to safeguard the Trade Secret. A write-up of the details of the Trade Secret, much as is often done in reporting the discovery of an invention in an Invention Record, is helpful in providing early and complete documentation. It may be desirable as part of a patent prioritization program to affirmatively identify and categorize those inventions that are not to be the subject of a patent application to instead be identified as a Trade Secret. Those people who know of the existence of the designated Trade Secret should be apprised that the information is to be maintained in confidence, and shared only on a need to know basis.

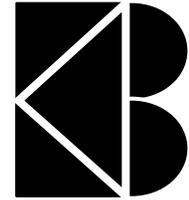
If the Trade Secret must be shared with a third party, the parties should first enter into a Confidential Disclosure Agreement. Some Trade Secrets are of a nature that they have a predictable time in which they will no longer be secret. For example, certain chemical components of a product either must be disclosed when the product is sold due to regulation, or will be readily identified by reverse engineering, which is a legitimate activity. Other Trade Secrets may be of a nature that they potentially would never be identified, and so do not expire. The term of the Confidentiality Agreement should be selected to take account of the nature and expected lifetime of the Trade Secret.

Transferring a Trade Secret.

The mechanism of transfer of the Trade Secret to a buyer or licensee is critical to the success of the transaction and prosperous use of the technology. The agreement of sale or license should provide an orderly mechanism for disclosure that fully informs the buyer or licensee, without creating undue burden of continuous teaching to the seller or licensor. The agreement should establish devoted time to teach the Trade Secret, while providing a limit of the time that must be provided.

The transfer itself should provide a specific time frame after the date of execution of the agreement within which the information is to be delivered. The agreement should be specific as to the identity of the person in licensee or buyer’s organization who is to receive the information. The agreement should state the format of delivery, and be specific about categories of information to be transferred.

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Examples of such categories include research, samples and prototypes, pilot plant and production information including machine and plant designs, operating costs and marketing information.

The agreement should provide for visits of licensee or seller's personnel to the facility of the buyer or licensor, but should limit the number and duration of the visits (e.g., up to four visitors for a period of three days on not more than four occasions during the first three months of the agreement). Finally, all visits should be at the licensee or buyer's expense. This has the effect of curbing the urge to request yet another teaching visit from the licensor or seller.

Warranties should be limited to clearly supportable elements of ownership and capabilities of the Trade Secret. Care should be taken to not allow a situation to develop where the Seller/licensor can be accused of not delivering technology that will deliver results as promised. A way to contain risk in this area is to characterize the nature of what the Trade Secret can deliver in the context of product or performance parameters stated in terms of what the Seller/licensor has already done, rather than what the buyer/licensee hopes the Trade Secret can do. Examples of suitable Warranty provisions follow:

I. Licensor warrants (i) it is the owner of the entire right, title and interest in the Licensed Know-how and (ii) that said Know-how has not been assigned, licensed, pledged, mortgaged or conveyed in whole or in part to any third party. Licensor warrants that it has no agreement with any third party which conflicts in any way with its obligations to licensee under this Agreement.

II. The Licensed Know-how is sufficient to manufacture Licensed Product in the same manner as Licensor on the Effective Date of this Agreement.

By using one or more of the foregoing suggestions in consultation with knowledgeable IP counsel, greater value from IP investments may be obtained by leveraging and effectively presenting transferable Trade Secret rights to potential buyers/licensees.

The foregoing is intended to provide you with helpful suggestions in protecting your organization from avoidable liability concerns in intellectual property matters. Each matter is different, and the advice of competent counsel in each situation should be obtained.