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A Quick Point Regarding Perpetual Trade Secret Royalty Liability, 13 J. Marshall L. Rev. 127 (1979)

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A *QUICK POINT* REGARDING PERPETUAL TRADE SECRET ROYALTY LIABILITY*

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1. INTRODUCTION

In *Quick Point Pencil Co. v. Aronson*, the Eighth Circuit Court of Appeals[1] had held that if a trade secret license requires the licensee to pay royalties for as long as he produces the licensed product, then under certain circumstances judicial enforcement of that particular aspect of the license must be denied on federal pre-emption grounds. On certiorari, this decision was reversed by the United States Supreme Court.[2] One might think that Court had already banished the specter of federal pre-emption from the trade secret field in *Kewanee Oil Co. v. Bicron Corp.*;[3] but the issue of royalty liability was not involved

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1. 567 F.2d 757, 196 U.S.P.Q. 281 (8th Cir. 1977). *Quick Point* involved the validity of a potentially perpetual trade secret licensing agreement. Aronson, the designer of a keyholder, granted Quick Point Pencil Company an exclusive license to manufacture and sell the keyholder in exchange for royalty payments of five percent of the selling price, to be reduced to two and one-half percent if no patent was granted on the keyholder design within five years. The license agreement was to continue for as long as Quick Point manufactured the keyholder. After the patent application was rejected and other competitors began to use the design, Quick Point sought a judgment declaring the royalty agreement unenforceable.

2. 99 S. Ct. 1096, 201 U.S.P.Q. 1 (1979).

3. 416 U.S. 470, 181 U.S.P.Q. 673 (1974). In *Kewanee*, the plaintiff sought injunctive relief and damages for trade secret misappropriation. The district court, applying Ohio trade secret law, granted a permanent injunction. The Sixth Circuit Court of Appeals reversed, finding that Ohio's trade secret law conflicted with the underlying policy of the federal patent laws. On certiorari, the Supreme Court addressed the question of whether state trade secret protection is pre-empted by operation of the federal patent law. The Court held that state trade secret protection against disclosure of subject matter which is unpatentable, doubtfully patentable, or even clearly

in *Kewanee*. It is possible, however, to argue that a victory for the licensee in *Quick Point* would at least have been strongly inconsistent with the rationale of *Kewanee*.

Trade secret protection of the kind at issue in *Quick Point* normally arises under state law.[4] Even when trade secret litigation between private parties takes place in a federal forum, the basis of jurisdiction is normally diversity of citizenship[5] or pendent jurisdiction,[6] and under the rationale of *Erie Railroad Co. v. Tompkins*,[7] state law governs. The particular state legal doctrine invoked to justify trade secret protection may sound in tort (particularly in those cases where the secret has been purloined by improper means),[8] or it may be cast in terms of breach of a confidential relationship,[9] or of a contractual relationship.[10] One particularly noteworthy example of a contractual relationship is trade secret licensing, which is the foundation of an important industry.[11] Such licenses may employ various provisions as to the duration of royalty liability: they may provide that royalties will be payable only for a prescribed term, or for however long the licensed subject matter in fact remains secret; or they may require royalty liability to continue as long as the licensee uses the licensed subject matter, even if secrecy should terminate

patentable, does not conflict with the patent law policy of encouraging invention; nor is it inconsistent with the patent policy that matter once in the public domain must remain there. The Court accordingly reversed the Court of Appeals decision.

4. *E.g.*, Sinclair v. Aquarius Electronics, Inc., 42 Cal. App. 3d 216, 116 Cal. Rptr. 654, 184 U.S.P.Q. 682 (1974); Choisser Research Corp. v. Electronic Vision Corp., 173 U.S.P.Q. 234 (Cal. 1972); Laff v. John O. Butler Co., 64 Ill. App. 3d 603, 381 N.E.2d 423, 200 U.S.P.Q. 373 (1978).

5. *E.g.*, Richter v. Westab, Inc., 529 F.2d 896, 189 U.S.P.Q. 321 (6th Cir. 1976); Forest Laboratories, Inc. v. Pillsbury Co., 452 F.2d 621, 171 U.S.P.Q. 731 (7th Cir. 1971).

6. *E.g.*, Telex Corp. v. International Business Machs. Corp., 510 F.2d 894, 184 U.S.P.Q. 521 (10th Cir. 1975) (state law counterclaim to a federal antitrust action).

7. 304 U.S. 64 (1938).

8. *E.g.*, University Computing Co. v. Lykes, 504 F.2d 518, 183 U.S.P.Q. 705 (5th Cir.), *reh. denied*, 505 F.2d 1304 (5th Cir. 1974); Forest Laboratories, Inc. v. Pillsbury Co., 452 F.2d 621, 171 U.S.P.Q. 731 (7th Cir. 1971).

9. *E.g.*, Lear Siegler, Inc. v. Ark-Ell Springs, Inc., 569 F.2d 286, 197 U.S.P.Q. 273 (5th Cir. 1978); Crocan Corp. v. Sheller-Globe Corp., 385 F. Supp. 251, 185 U.S.P.Q. 211 (N.D. Ill. 1974).

10. *E.g.*, Water Servs., Inc. v. Tesco Chems., Inc., 410 F.2d 163, 162 U.S.P.Q. 321 (5th Cir. 1969); Structual Dynamics Research Corp. v. Engineering Mechanics Research Corp., 401 F. Supp. 1102 (E.D. Mich. 1975); Armour & Co. v. United Am. Food Processors, Inc., 37 Ill. App. 3d 132, 345 N.E.2d 795 (1976).

11. *E.g.*, Painton & Co. v. Bourns, Inc., 442 F.2d 216, 169 U.S.P.Q. 528 (2d Cir. 1971); *see, e.g.*, cases cited in note 4 *supra*. *See generally* Annot., *Employees' Duty Not to Disclose Skills or Techniques Acquired in Earlier Employment*, 30 A.L.R.3d 631 (1970).

first. The latter situation, in which royalty liability is potentially perpetual, was the subject of litigation in the so-called *Listerine* case (*Warner-Lambert Pharmaceutical Co., Inc. v. John J. Reynolds, Inc.*[12]). In that case, nothing at all was said about royalty termination in the license agreement.[13] In *Quick Point*, on the other hand, the parties expressly agreed that, in the absence of patent protection, royalty liability would continue for as long as the licensee used the licensed subject matter.[14] The question I would like to examine in this paper is whether there is any federal impediment when such perpetual trade secret royalty liability arises under state contract law.

2. THE *KEWANEE* DECISION

In *Kewanee*, the United States Supreme Court seriously entertained the proposition that federal patent policy pre-empts *all* trade secret protection. The Court began its analysis of this proposition by accepting the premise that "if the scheme of protection developed by [state law] respecting trade secrets 'clashes with the objectives of the federal patent laws,'[15] . . . then the state law must fall."[16] It is only because the Court found no such clash of objectives in the *Kewanee* fact situation that it held there was no pre-emption. But the Court clearly did recognize the potential for pre-emption if the proper basis (a clash of objectives between federal patent policy and some aspect of state trade secret protection) could be found in the facts of some other case.[17]

In *Quick Point*, the Court seemed to imply that the *Kewanee* case controlled the *Quick Point* fact situation, when it said that "*Kewanee* . . . puts to rest the contention that federal law pre-empts and renders unenforceable the contract made by

12. 178 F. Supp. 655, 123 U.S.P.Q. 431 (S.D.N.Y. 1959), *aff'd per curiam*, 280 F.2d 197, 126 U.S.P.Q. 3 (2d Cir. 1960).

13. The *Listerine* court determined that it was implicit in the agreement that termination of the licensee's obligation to pay royalties would occur only when the licensee ceased to manufacture and sell Listerine. *Id.* at 662, 123 U.S.P.Q. at 436. The court held that disclosure of the trade secret did not relieve the licensee of his obligation to pay royalties. *Id.* at 665-66, 123 U.S.P.Q. at 439.

14. "[I]f Mrs. Aronson's patent application was 'not allowed within five (5) years, Quick Point Pencil Co. [would] pay two and one half percent (2-1/2%) of sales . . . so long as you [Quick Point] continue to sell same.'" 99 S. Ct. at 1098, 201 U.S.P.Q. at 3 (1979).

15. *Quoting* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231, 140 U.S.P.Q. 524, 528 (1964).

16. Kewanee Oil Co. v. Bicron Corp., 416 U.S. at 480, 181 U.S.P.Q. at 678 (1974).

17. *Id. Kewanee* is summarized in note 3 *supra*.

these parties."[18] But clearly *Kewanee* did not decide anything at all about the duration issue of *Quick Point.* The question of perpetual liability was not on appeal in *Kewanee*, because, as the majority opinion there expressly stated, the injunction which had been granted by the *Kewanee* trial court endured only "until such time as the trade secrets had been released to the public, had otherwise generally become available to the public, or had been obtained by [defendants] from sources having the legal right to convey the information."[19] The dissenting opinion of Justice Douglas in *Kewanee* therefore appears mistaken in complaining that: "By the District Court's injunction, which the Court approves and reinstates, [plaintiff] gets a permanent injunction running into perpetuity against [defendants]."[20]

3. Pre-Emption of Duration Only

But what if an injunction does bar a defendant indefinitely from using the trade secrets of the plaintiff? Since this issue had been left open by *Kewanee*, it remained possible, as the Supreme Court prepared to announce its *Quick Point* decision, that the doctrine of pre-emption would yet be applied to produce a federal "rule against perpetuities" with regard to trade secret liability. And now that the Supreme Court has decided *Quick Point* in favor of the trade secret proprietor, it appears, surprisingly, that the issue is still partially unresolved.

There is at present a split of authority in the trade secret field between various jurisdictions adopting the so-called *Shellmar* and *Conmar* rules. The *Shellmar* rule, named after *Shellmar Products Co. v. Allen-Qualley*,[21] is to the effect that, if a defendant without authorization uses subject matter which is a trade secret of the plaintiff at the time the defendant obtains the information, the defendant may be permanently enjoined from using that subject matter even though it later becomes

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18. 99 S. Ct. at 1101, 201 U.S.P.Q. at 6.

19. 416 U.S. at 473, 181 U.S.P.Q. at 675.

20. *Id.* at 496, 181 U.S.P.Q. at 683.

21. 87 F.2d 104, 32 U.S.P.Q. 24 (7th Cir.), *cert. denied*, 301 U.S. 695 (1936). In *Shellmar*, the misappropriated trade secret was subsequently disclosed in a patent and thus revealed to the public. The Seventh Circuit Court of Appeals upheld a permanent injunction restraining defendant from using the subject matter of the trade secret notwithstanding the subsequent disclosure to the public. The court reasoned that defendant, by its inequitable conduct, was precluded from enjoying the rights of the general public. *Id.* at 110, 32 U.S.P.Q. at 29.

At present, the Second, Fifth, and Seventh Circuits follow this rule. For general discussion and cases following the *Shellmar* rule, *see* Johnson, *Remedies in Trade Secret Litigation*, 72 Nw. U. L. Rev. 1004, 1026-30 (1978).

generally known, and would therefore no longer be eligible for trade secret protection as against the defendant's competitors. The *Shellmar* rule probably enhances the deterrent effect of trade secret law. But the disadvantage of the rule is that it puts the defendant at a competitive disadvantage as against others in his industry who are free to use the subject matter once it becomes generally known. This undoubtedly impinges to some extent upon the federal policy, which has been held to underlie the patent laws,[22] that unpatented subject matter shall generally be freely available to all competitors. Once trade secrets have been in public or commercial use for more than a year, they are no longer eligible for patent protection;[23] and hence, they come within that policy of free availability. Should *Shellmar* type perpetual trade secret protection therefore be federally preempted?

There is also a line of authority applying the contrary *Conmar* rule, named after *Conmar Products Corp. v. Universal Slide Fastener Co., Inc.*,[24] which is to the effect that an injunction protecting a trade secret should not endure after the subject matter is generally disclosed (presumably by someone other than the defendant himself). Thus, the defendant would be restrained only so long as the subject matter remains eligible for protection as against the defendant's competitors. The advantage of this approach is that it does not introduce inequalities between competitors. There are also cases extending the duration of injunctive relief somewhat beyond the point of general disclosure of the secret, but only for a period approximating the time which the court thinks it would have taken the defendant to generate the technology in question by proper means, such as independent research or reverse-engineering of a publicly available product.[25] The advantage of all these *Conmar* type approaches is that they do not keep the defendant out of the marketplace any

22. *See* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 229, 140 U.S.P.Q. 524, 527 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 237, 140 U.S.P.Q. 528, 530 (1964).

23. 35 U.S.C. § 102(b) (1976).

24. 172 F.2d 150, 80 U.S.P.Q. 108 (2d Cir. 1949). In *Conmar*, the owner of the trade secret and the misappropriator thereof were characterized as parties to a fiduciary relationship. However, once the secret became publicly known, the court considered the fiduciary relationship ended, and held that no harm inured to the owner of the former secret by permitting the wrongdoer to use it. For general discussion and cases following the *Conmar* rule, *see* Johnson, *Remedies in Trade Secret Litigation*, 72 Nw. U. L. Rev. 1004, 1026-30 (1978).

25. *E.g.*, Hampton v. Blair Mfg. Co., 374 F.2d 969, 153 U.S.P.Q. 323 (8th Cir.), *cert. denied*, 389 U.S. 829, 155 U.S.P.Q. 767 (1967); Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134, 146 U.S.P.Q. 422 (9th Cir. 1965).

longer than he would have been out if he had acquired the technology properly. They are subject to the criticism that they have a somewhat weaker deterrent effect than perpetual relief. But they do appear more congruent with the competitive mandate of federal patent policy.

There is an indication in at least one case which took a *Conmar* approach, that this was done because of a federal imperative.[26] On the other hand, at least one other court which has limited the duration of a trade secret injunction seems to have done so merely on the basis of its perception of the applicable state law.[27] Thus, limitations on the duration of trade secret relief can be imposed purely as a matter of the balancing of competing state policies. But it is also possible that this issue could be foreclosed to the states by an overriding federal concern for preserving the equality of competitive access to technology which is in the public domain. Under state law, the unsuccessful defendant in a trade secret case may have a weaker claim to such solicitude than others do, since his commercial ethics have been judicially found wanting. But, as noted above, the *Kewanee* Court has already indicated that such considerations might have to yield if they conflict with federal patent policy.

Thus, if the District Court in *Kewanee* had granted a perpetual (*Shellmar*) injunction instead of a limited duration (*Conmar*) injunction, it is possible the Supreme Court might have found some basis for federal pre-emption. This is not necessarily to say that the Court would have denied injunctive relief entirely and limited the plaintiff's remedy to damages, as Justice Douglas' dissent seems to suggest.[28] But they might well have modified the injunction by putting the typical *Conmar* time limitations on it (as the District Court in fact did, without any urging from above); and they might have done so, not as a matter of a federal diversity court's perception of state law, but as a matter of overriding federal policy imposed on the states. In any event, it is clear from Justice Douglas' emphatic reference in his dissenting opinion to *Sears* and *Compco*,[29] that such overriding

26. Hampton v. Blair Mfg. Co., 374 F.2d 969, 153 U.S.P.Q. 323 (8th Cir.), *cert. denied*, 389 U.S. 869 (1967). The court stated that "[t]he reasoning of *Sears* and *Day-Brite* and the holdings therein compels [sic] the holding here that Hampton cannot be permanently enjoined." *Id.* at 973, 153 U.S.P.Q. at 326.

27. Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134, 143, 146 U.S.P.Q. 422, 428 (9th Cir. 1965) (applying California law).

28. "Damages for breach of a contract are one thing; an injunction barring disclosure does service for the protection accorded valid patents and is therefore pre-empted." 416 U.S. at 499, 181 U.S.P.Q. at 684. (Douglas, J., dissenting).

29. *Id.* at 495, 181 U.S.P.Q. at 683.

federal policy was the basis for his criticism of the injunctive relief granted in *Kewanee*. Thus, although *Kewanee* said that federal patent policy will not be allowed to pre-empt trade secret protection entirely, the possibility remained after *Kewanee* that there may yet be partial federal pre-emption in this field, limited to the question of duration. Nor is this partial pre-emption approach inconsistent with the decision in *Quick Point*. *Quick Point* involved the licensing of trade secrets, as opposed to the tortious misappropriation of trade secrets. Thus, there is nothing in either the Supreme Court's *Kewanee* or *Quick Point* decisions which rules out a federally compelled *Conmar* time limitation on the injunctive relief granted in cases where the relationship between the parties is one of tort (misappropriation of trade secrets) rather than contract (licensing of trade secrets).

4. MISAPPROPRIATION VS. LICENSING

It can be argued that one who has voluntarily contracted to subject himself to perpetual royalty liability has a weaker claim to be relieved of that liability by federal pre-emption than one who has not so contracted; and therefore, the duration of liability should not be limited in the case of one who violates a contractual obligation even if we accept the premise that it should be limited in the case of one who obtains trade secrets by tortious means. That argument is the main thesis of this paper.

The argument is subject to at least one significant objection: does it really make sense to treat tortious misappropriators better than we treat contract breakers? The answer to that question, it seems to me, is that when a contractor violates his contract, such discrimination may make a great deal of sense. The federal policy favoring free availability of unpatented technology is concerned more with the competitive process than it is with the ethics of any particular competitor. The trade secret misappropriator may deserve a *privileged* position under federal law, because he is a vigorous competitor. Of course, he has become too vigorous, because he has stepped across the line which marks out the area of unacceptable behavior. For having done that, he will at least be prevented from realizing any benefit from his transgression; *i.e.*, even under the *Conmar* rule he

> Today's decision is at war with the philosophy of *Sears Roebuck & Co. v. Stiffel*, 376 U.S. 225, and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 . . . [where] [w]e held that when an article is unprotected by a patent, state law may not forbid others to copy it, because every article not covered by a valid patent is in the public domain.

Id.

will be enjoined from using the misappropriated trade secret during the period of secrecy, when he would not have known the secret but for his transgression. Once that period of time is over, however, it is arguable that federal policy is best served by returning him as soon as possible to the competitive arena without any further disability. Any contrary state policy which favors a *Shellmar* style injunction of longer duration might have to yield to that federal policy.

On this analysis, the purpose of an injunction against a trade secret violator is primarily to restore the *status quo* which existed prior to the violation, first by depriving the defendant of any benefit from his transgression during the period of time when he would not otherwise have had the secret, and later by restoring the original competitive relation after that time period expires. A significant degree of deterrent effect would arise from such a limited duration policy, and such deterrence would be an important secondary objective of the injunction. But any further deterrent effect, purchased at the cost of a long-term skewing of the relationship between the defendant and his competitors, may exact too high a price when measured against the federal policy of free competition. Indeed, that may be precisely the policy balance which has been struck by those courts which follow the *Conmar* rule, even though some of them have looked to state law rather than federal law as the source of the free competition policy thus served.[30]

The contrary notion, that accepting a trade secret license is more socially useful behavior than trade secret misappropriation, is not necessarily true if the licensee defaults on his promise to pay royalties. In one sense the licensee who violates his promise to pay royalties is a more insidious character than one who improperly obtains trade secrets. The misappropriator is a thief who obtains the secret against the will of the owner. But the deadbeat licensee is an invitee who induces the trade secret owner to part with his secret voluntarily. He is welcomed into the licensor's plant and helped to obtain full disclosure and technical assistance. He therefore gets more information, and gets it more easily, than the tortious misappropriator does. There is no defense against this kind of behavior at the time it occurs, because it is not perceived as an invasion. We can bar our windows against a burglar, but we are relatively helpless against a dinner guest who steals the silverware. The *only* rem-

30. *See, e.g.*, Reddi-Wip, Inc. v. Lemay Valve Co., 354 S.W.2d 913 (Mo. App. 1962) (applying Missouri law); Van Prods. Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769, 147 U.S.P.Q. 221 (1965) (applying Pennsylvania law).

edy the trade secret owner has, as to any secrets which have been widely disclosed, is the hope of future judicial enforcement of the licensee's promise to pay for what he has received, so long as he continues to use it.

But should such payment continue indefinitely? The licensee has voluntarily agreed that it should. Most lawyers who practice in this field would probably counsel the licensee not to accept a contractual obligation of perpetual royalty. The licensee thus has the perfect protection against such a bad bargain: refusal. But if he wants the technology badly enough to promise perpetual royalties, and if the licensor has refused to part with it on any other terms, then the licensee has voluntarily committed himself. And in disclosing the trade secrets, the licensor has irretrievably changed his position in reliance on that commitment. Voluntary contractual commitments generally have a strong claim to judicial enforcement; the entire weight of the common law of contracts is to that effect.

There is another reason why a trade secret misappropriator presents a more compelling claim to the benefits of federal preemption than does a trade secret licensee who has failed to pay royalties. The deadbeat licensee has at least received part of what the federal policy wants him to have: *i.e.*, possession of the licensor's technology, albeit subject to a royalty obligation. As the Supreme Court's *Quick Point* opinion observed, in distinguishing the *Sears* and *Compco* cases: "Enforcement of Quick Point's agreement . . . does not prevent anyone from copying the keyholder. It merely requires Quick Point to pay the consideration which it promised. . . ."[31] Thus, even if the federal preemption doctrine is not applied for the benefit of the licensee, he still has at least a chance of remaining a competitive factor in the marketplace, provided he can afford the royalties. The licensee who is sued for royalties on the license agreement is subject only to monetary relief, not to an injunction.[32] But the trade se-

31. 99 S. Ct. at 1100, 201 U.S.P.Q. at 5. Quick Point had argued that enforcement of the license agreement conflicts with the federal policy against withdrawing ideas from the public domain, and further discourages recourse to the patent system "by allowing states to extend 'perpetual protection to articles too lacking in novelty to merit any patent . . . under federal constitutional standards.'" *Id.* at 1099, 201 U.S.P.Q. at 5, *quoting* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 232, 140 U.S.P.Q. 524, 528 (1964).

32. But what if the suit is not for royalties? Suppose, instead, that the licensor elects to treat the licensee's failure to pay royalties as a breach which justifies the licensor's termination of the license agreement. The licensor might then sue for an injunction to prevent any further use of the licensed technology by the licensee. Under such circumstances the argument that the licensor is not seeking to deprive the licensee of any technology could not be interposed to prevent application of the federal preemption doctrine in support of *Conmar*-type limitations on the duration of

cret misappropriator is subject to an injunction, which will at least temporarily take him out of the marketplace entirely, so far as use of the trade secret is concerned. In the latter case, therefore, federal policy may have a greater interest in limiting the duration of the relief.

For all these reasons, it may well be concluded that the policy justifications for applying the federal pre-emption doctrine to limit the duration of the royalty liability of a trade secret licensee are significantly less attractive than are the policy justifications for applying the federal pre-emption doctrine to limit the duration of an injunction against a trade secret misappropriator. This conclusion permits one to accept the *Conmar* principle that the duration of relief against tortfeasors should be limited, without necessarily rejecting the perpetual royalty liability in *Listerine* and *Quick Point.*

5. INJUNCTIVE VS. MONETARY RELIEF

Before proceeding with further consideration of the *Quick Point* problem, it would be a good idea to digress at this point by asking whether the distinction thus drawn between trade secret misappropriation cases and trade secret license cases is workable generally. If the basis for the distinction is merely the consensual nature of the license relationship, then the defendants who should get the benefit of a limit on the duration of their trade secret liability include all those who engage in illegal or tortious or otherwise improper behavior to obtain the secret information directly from the plaintiff, as well as all those who knowingly obtain the secret information, by proper or improper means, indirectly through some third party[33] who, in turn, obtained it by improper means, such as industrial spying. All such defendants, while they should be enjoined for a time from enjoying the fruits of their unacceptable conduct, arguably should not be permanently disabled from competing on equal terms with the rest of the industry. Then, if all consensual relations should justify a permanent injunction, the defendants who may properly be saddled with such relief might include former employees,[34] potential licensees to whom a confidential disclosure was made for the purpose of interesting them in the plaintiff's

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trade secret relief, and the case for leaving state law to strike its own policy balance, free of federal compulsion, would therefore be somewhat weaker. For further consideration of this problem, *see* part 5 of this paper *supra.*

33. *See generally* Annot., *Propriety of Permanently Enjoining One Guilty of Unauthorized Use of Trade Secret from Engaging in Sale or Manufacture of Device in Question*, 38 A.L.R.3d 572 (1971).

34. *See generally* Annot., *Employee's Duty Not to Disclose Skills or Techniques Acquired in Earlier Employment*, 30 A.L.R.3d 631 (1970).

secret information, on the express or implied understanding that they would not use or disclose the secret information without the plaintiff's authorization, and trade secret licensees who violate the secrecy or royalty clauses of their license agreements. But suppose the defendant has violated the conditions of a confidential disclosure, before the negotiations ever reached the stage where he committed himself contractually to a particular royalty level.[35] Consider also the employer-employee situation, in which there is frequently an express,[36] and usually an implied,[37] contractual obligation on the part of the employee to keep secret all information which he knows to be the employer's trade secrets, an obligation which survives the term of his employment.[38] These are all the kind of relationships in which the trade secret proprietor has voluntarily imparted the trade secret information in the expectation that the recipient will honor an obligation of secrecy, but in each case the harm has not been reduced to a liquidated amount of royalty payments by consensus of the parties, as it is in a license agreement. Then, there is the troublesome case (mentioned in footnote 32 above) in which the licensor, instead of seeking continued payment of the royalties, terminates the license agreement and asks injunctive relief against the licensee's further use of the trade secrets.[39] In such circumstances, although there once was a consensus between the parties as to the monetary value of the technology, it is arguable that the consensus has now been destroyed by the licensor's termination of the agreement. Does the logic of the distinction between improper access and consensual access per-

35. *See generally* Annot., *Implied Obligation Not to Use Trade Secrets or Similar Confidential Information Disclosed During Unsuccessful Negotiations for Sale, License, or the Like*, 9 A.L.R.3d 665 (1966).

36. *E.g.*, Water Servs., Inc. v. Tesco Chems., Inc., 410 F.2d 163, 162 U.S.P.Q. 321 (5th Cir. 1969).

37. Lear Siegler, Inc. v. Ark-Ell Springs, Inc., 564 F.2d 286, 197 U.S.P.Q. 273 (5th Cir. 1978).

38. *Id.*

39. For a similar factual situation, *see, e.g.*, Painton & Co. v. Bourns, Inc., 442 F.2d 216, 169 U.S.P.Q. 528 (1971). The trade secret license agreement in *Painton* terminated by its own terms. The licensor, Bourns, chose not to exercise the right to renew or modify the agreement. Painton, the licensee, sought a declaration that it was entitled to permanent retention and use of the drawings and other material which were the subject of the expired trade secret agreement "free of any claim for infringement, royalty or otherwise . . . ." *Id.* at 220, 169 U.S.P.Q. at 531. Bourns counterclaimed seeking a declaration and injunction denying Painton the right to retain or use the drawings, etc. and to manufacture any models based thereon. *Id.* at 221, 169 U.S.P.Q. at 531. The court of appeals reversed the district court's grant of summary judgment in favor of the licensee, noting that neither general considerations of public policy nor "emanations from the federal patent law [provide] a sufficient basis for declining to enforce . . . trade secret agreements. . . ." *Id.* at 224, 169 U.S.P.Q. at 534.

mit a perpetual injunction against use of the secret in such cases?

Perhaps not. Trade secret relief is much more acceptable from the viewpoint of federal competition policy when it involves only the payment of money, as Justice Douglas pointed out in his *Kewanee* dissent.[40] He was speaking there of a one-time judgment for money damages against a tortfeasor, but we may now ask whether this principle enables us also to discriminate in favor of continuing royalty payments under a trade secret license. At least in some cases, I am prepared to argue that Justice Douglas' insight should lead us to conclude that perpetual relief is permissible only when that relief is purely monetary. Even in the case of a consensual relationship such as employment, a license, or a confidential disclosure, it is substantially more difficult, from the standpoint of federal patent policy, to justify permanent relief where an injunction against use is concerned, than it is where the payment of money is the only burden the defendant must suffer indefinitely. Federal policy has accomplished the most important part of its job when it prevents the defendant from being permanently deprived of technology. Federal policy is significantly less concerned with the cost of that technology to the defendant. The courts, for example, have traditionally been reluctant to inquire into the amount of the consideration in a private bargain.[41] Therefore, one can logically argue for permanent royalty liability without also approving perpetual injunctive relief against unauthorized use of a trade secret, even in the case of a defendant who violates an obligation arising out a contractual, confidential, employment or other consensual relationship.

My only hesitancy in using the line between injunctive and monetary relief as the boundary between limited and perpetual duration in all trade secret cases is based on the thought that a distinction might be drawn between cases, on the one hand, of the *Listerine* and *Quick Point* type, in which the secret has already become generally known to the licensee's competitors through some means other than a breach of a confidential obligation by the licensee, and a hypothetical case, on the other hand, in which the secret either is still not generally known to the licensee's competitors or is known to them only because the licensee has divulged it in violation of the license agreement. In the first type of case, a permanent injunction will introduce a

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40. *See* note 28 *supra*.

41. *See, e.g.*, Dabbs v. International Minerals & Chem. Corp., 339 F. Supp. 654 (N.D. Miss. 1972), *aff'd*, 474 F.2d 1344 (5th Cir. 1973). In *Dabbs*, the court stated that it was reluctant to inquire into the adequacy of the consideration in a private bargain.

competitive imbalance between the licensee who would be barred from using the technology, and his competitors who are free to use it. In the hypothetical case where the technology is still secret, on the other hand, no such competitive imbalance will occur, provided the injunction is limited to the duration of secrecy, as it was in *Kewanee*.[42] As for the hypothetical case where the technology would still be secret but for the licensee's unauthorized disclosure, the same competitive imbalance exists, but the licensee has created it through his own failure to observe his obligation of confidentiality. It might be less objectionable, from the standpoint of federal patent policy, to give injunctive relief when it does not result in a competitive imbalance, or even when the competitive imbalance results but is attributable to the licensee's own breach of confidentiality.

6. Injunctions Against Disclosure

So much for justifying different treatment as between injunctive and monetary relief where *use* of the secret is concerned; what about injunctions directed against *disclosure* of the trade secret by the defendant? If there is a significant difference in the level of federal concern about money payments as opposed to injunctive relief, then there should be no federal objection to a judgment of money damages against a defendant who has already disclosed the secret generally. But if, despite the defendant's possession of the secret, he has not yet disclosed it and it is not generally known, should a court be permitted to enjoin the defendant's disclosure permanently, or is that kind of injunctive relief to be treated just like an injunction against use, and therefore to be limited in duration in *Conmar* fashion? If, as argued above, the federal policy is primarily concerned with the defendant's *use* of the technology, then perhaps cost and *all* other considerations are merely secondary. By this analysis, disclosure is merely another one of those secondary considerations, like royalty liability, as to which federal policy allows the state law greater leeway in extending the duration of relief.

But that concession turns out not to be necessary. There is never any point in extending an injunction against disclosure beyond the time when the trade secret becomes generally known through proper channels (as it did in both *Quick Point*

42. The district court in *Kewanee*, applying Ohio trade secret law, granted a permanent injunction against the disclosure or use by former employees of twenty of the forty claimed trade secrets until such time as the trade secrets had been released to the public, had otherwise generally become available to the public, or had been obtained by former employees from sources having the legal right to convey the information.

and *Listerine*). And even those courts which follow the *Conmar* approach permit the injunction to continue at least until general disclosure through proper means occurs, even where the defendant is a member of the "privileged class" of trade secret misappropriators. Therefore, there is little room for debate over the duration of an injunction against disclosure, regardless of whether one takes a *Shellmar* or a *Conmar* approach, and regardless of whether the *Conmar* approach is perceived as a state option or a federal imperative.[43]

The alternative duration of a *Conmar* style injunction is a somewhat longer period of time measured by how long the court thinks it would take the defendant to reverse-engineer, independently re-invent, or otherwise properly acquire the trade secret.[44] But where disclosure is the behavior to be enjoined, there is no purpose to be served in extending the duration of an injunction against the defendant's disclosure of the secret beyond the time when it has been already generally disclosed by someone else. So, under any approach, an injunction against disclosure could never be justified for any longer period.

7. TRADE SECRETS VS. PATENTS

Returning now to the *Quick Point* case and the question of perpetual royalty liability under federal patent policy, what has been accomplished in this paper so far is to defend the proposition that *Quick Point*'s perpetual trade secret royalty liability is not inconsistent with the *Conmar* injunction limitation rule, even if that rule should come with federal underpinnings. But it is also necessary to ask, as the Supreme Court did in *Quick Point*, whether perpetual royalty liability is excluded by the logic of other federal pre-emption cases, such as *Lear, Inc. v. Adkins*[45] and *Brulotte v. Thys*.[46]

For example, is the claim of a trade secret licensor to enforcement of a promise any stronger than the unsuccessful claim of the patent licensor in *Lear*?[47] It seems that the answer should be yes, where the promise is to pay royalties as in *Quick*

43. *See* notes 26 & 27 and accompanying text *supra*.

44. *See* cases cited in note 25 *supra*.

45. 395 U.S. 653, 162 U.S.P.Q. 1 (1969).

46. 379 U.S. 29, 143 U.S.P.Q. 264 (1964), *reh. denied*, 379 U.S. 985 (1965).

47. In *Lear*, the corporation-licensee and the licensor entered into a licensing agreement regarding any inventions that the licensor might develop during the course of a development project. The licensor proceeded to make an invention and subsequently applied for a patent. In the licensing agreement, the licensee promised not only to pay royalties, but also to refrain from challenging the validity of any licensed patent which might be issued to the licensor.

Point, and not a promise to avoid a validity contest as in *Lear*. There are two reasons why this is so, neither of which was explicitly recognized in the Supreme Court's *Quick Point* opinion.

First, the trade secret licensor has irrevocably parted with so much of his secret as he has already disclosed at the time that the licensee ceases paying royalties. Thus, the licensee continued to enjoy the benefit of the disclosed secrets, while refusing to pay anything at all for such continuing benefit. If the licensor attempts to remedy this situation by terminating the license and seeking an injunction against the licensee's further use of the licensed subject matter, and if this subject matter has already been disclosed to the public as a result of the licensee's authorized sale of the product, as in both *Quick Point* and *Listerine*, then the licensor may be denied a permanent injunction for the reasons set forth in Part 5 above. In contrast, a patent licensor probably can terminate the license if the licensee breaches the license agreement by ceasing to pay royalties.[48] Thus, the patent licensee ceases at that point to enjoy any further immunity from suit for patent infringement, which is the benefit he was to have received in exchange for the royalties he failed to pay. Thereafter the licensee is an infringer, and may be enjoined from further use.[49] Thus, the patent licensor has a greater possibility of recapturing the licensed subject matter, and is much less in need of contract enforcement than the trade secret licensor.

Second, as emphasized in *Kewanee*,[50] a crucial difference between patent and trade secret protection is that patents are affected with a strong public interest in a way that trade secrets are not: patent protection restrains the public generally, while trade secret protection restrains only those who have assumed some private relation with the plaintiff, be it a tortfeasor relation or one of a consensual nature. Thus, the effect of enforcing trade secret royalty liability, even if the royalties are so large that the defendant must abandon the product rather than pay the roy-

48. There is some conflict in the cases in this area. *See* McCarthy, *Unmuzzling the Patent Licensee: Chaos in the Wake of Lear v. Adkins*, 59 J. PAT. OFF. SOC'Y 475, 511-19 (1977). *But see* Lee v. Lee Custom Eng'r, Inc., 476 F. Supp. 361 (E.D. Wis. 1979).

49. 35 U.S.C. § 283 (1976).

50. The Supreme Court in *Kewanee* stated:

> Trade secret law provides for weaker protection in many respects than the patent law. While trade secret law does not forbid the discovery of the trade secret by fair and honest means, *e.g.*, independent creation or reverse engineering, patent law operates "against the world," forbidding any use of the invention for whatever purpose for a significant length of time.

416 U.S. at 489-90, 181 U.S.P.Q. at 681.

alty, is limited to a narrowly defined class of competitors; whereas the effect of a holding of patent validity is to threaten all the competitors in the nation. With that distinction in mind, it should be recalled that the licensee in *Lear* was allowed to dishonor his promise, not because of any compelling personal equities, but simply because he, as the one with probably the greatest economic incentive to contest patent validity, was most likely to uphold the paramount public interest.[51] Thus, a patent licensee who disregards his contractual promise concerning validity contest is not personally deserving of judicial deference, but nevertheless receives the unavoidable personal benefit which goes along with his court-appointed role as vicarious defender of the public interest. Trade secret royalty liability, on the other hand, is imposed only on the licensee, while the general public remains free to acquire the secret through any means which do not violate our notions of tort law or of contractual or confidential relations. Therefore, there is no analogous reason to release him from his commitments so that he will be free to champion a public cause.

But the promise not to contest validity in *Lear* is not truly comparable to a promise to pay royalties. A more relevant case in this respect would be *Brulotte*,[52] where the issue actually was the permissible duration of royalty liability. Does *Brulotte*'s patent royalty cut-off, based on a federal pre-emption rationale, suggest that trade secret royalties also are subject to some maximum permissible duration, despite state law to the contrary in cases such as *Listerine*?

A strong argument can be made that the answer to this question is no. *Brulotte* treated pre-emption as the price that federal law could exact in return for the legislative privilege of patent protection. That case merely confirmed the notion, inherent in the idea of a limited patent term, that after patent expiration the previously protected subject matter is required to be

51. The Supreme Court recognized in *Lear* that licensees are often the only ones with the requisite economic incentives to challenge the validity of a patent. If validity contests by licensees are impeded, the public may be compelled to pay royalties to patent holders without justification. Therefore, the Supreme Court reasoned that the requirements of state contract law must give way to the public interest in testing the validity of patents.

52. Brulotte v. Thys Co., 379 U.S. 29, 143 U.S.P.Q. 264 (1964), *reh. denied*, 379 U.S. 985 (1965). In *Brulotte*, the owner of various patents issued licenses for the use of the patented invention in connection with several machines. All the patents expired prior to the time for termination of the royalty obligations set forth in the licensing agreements. The licensees refused to pay royalties after the patents expired. The Supreme Court applied the federal pre-emption doctrine, and held that federal patent policy rendered unenforceable any subsequent payment of royalties after patent expiration.

freely available, *i.e.*, without further royalty liability.[53] As the Supreme Court recognized in its *Quick Point* decision,[54] there appears to be no sound policy reason why a similar federal intrusion into the sanctity of state common law contract principles is justified where the license does not depend upon the force of the federal patent statute exerted against the public generally, but only upon a private consensual relation entered into voluntarily by a particular licensee.

8. Is *Quick Point* a Trade Secret Case?

The Eighth Circuit's majority opinion[55] attempted to blur this distinction between patents and trade secrets by taking the position that *Quick Point* was not a trade secret case at all, in part because after the license was entered into the secret became generally known.[56] In *Quick Point* such disclosure was unavoidable, because once the licensed product reached the market it inherently revealed the previously secret details of its structure to any purchaser who cared to engage in reverse-engineering. But in *Listerine*, where perpetual royalty liability was allowed, it was equally true that after the license was entered into the secret eventually became generally known through re-

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53. *Id.* at 31, 143 U.S.P.Q. at 265, *relying on* Scott Paper Co. v. Marcalus Co., 326 U.S. 249, 256, 67 U.S.P.Q. 193, 196 (1945).

54. 99 S. Ct. at 1099, 201 U.S.P.Q. at 5.

55. Quick Point Pencil Co. v. Aronson, 567 F.2d 757, 196 U.S.P.Q. 281 (8th Cir. 1977).

56. The majority explained this distinction as follows:

> The dissent describes the contract as a "trade-secret licensing agreement." We doubt that the keyholder could ever have been characterized as a trade secret. Although it may have been an "invention," it was a relatively simple device and once marketed, it was completely disclosed. *See* Restatement of Torts § 757, comment b. ("Matters which are completely disclosed by the goods one markets cannot be secret.")
>
> The dissent agrees that the parties "intended that Aronson would in good faith attempt to patent the keyholder." The language from Milgrim's law review article quoted by the dissent further supports our conclusion that patent principles apply in this case. Milgrim states:
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> > * * * the license reward for a trade secret tends to be a function of consideration for disclosure; for a patent, consideration for use * * *. Since a prospective trade secret licensee knows that his licensor cannot protect him from independent developers, he weighs the value of disclosure against the risks of relying on matter which is subject to third-party royalty-free use. Whether articulated or not, such balancing is the stuff that leads to hard negotiating for royalty rate and duration.
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> Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U.L. Rev. 17, 30 (1971). Quick Point contracted for "the exclusive right to make and sell keyholders of the type shown in [Aronson's] application * *." The agreement was not for disclosure but for the exclusive right to manufacture an invention that was to be patented.

567 F.2d at 763 n.5, 196 U.S.P.Q. at 283 n.5.

verse-engineering, although in *Listerine* it took much longer for that to happen.[57] Therefore, *Quick Point* cannot be distinguished from *Listerine* on the ground that it is any less a trade secret case.

Indeed the factual differences between *Quick Point* and *Listerine* form the basis for an argument that the licensor's claim to perpetual royalties was even stronger in *Quick Point* than in *Listerine*. In *Quick Point*, "[a]lthough ingenious, the design [for a keyholder] was so simple that it readily could be copied unless it was protected by a patent."[58] Thus, the licensee in *Quick Point* had to know the product was immediately reverse-engineerable, while in *Listerine* the mouthwash ingredients were far less obvious and therefore, at the time the license was entered into, the licensee probably could not have anticipated that many years later, technology would make it possible to decipher the formula. Therefore, the licensee in *Quick Point*, unlike his counterpart in *Listerine*, could not attempt to justify his cessation of royalty payments on the ground that a legitimate expectation of perpetual secrecy, and hence, perpetual protection from competition, had been disappointed.

The dissent in the Court of Appeals in *Quick Point* quite properly recognized that the case did involve trade secrets, in the sense that the product was secret at the time the license agreement was entered into.[59] This made *Quick Point* a trade secret case in precisely the same sense that *Listerine* was a trade secret case; *i.e.*, both cases squarely raised the issue of whether an unqualified promise, made in order to induce the disclosure of information which was secret prior to the time of the disclosure, remains enforceable even after the information becomes generally known.

The other reason why the *Quick Point* majority opinion in

57. In *Listerine*, the secret formula was developed in the 1880's and the formula remained secret until 1931. 178 F. Supp. 655, 659, 666, 123 U.S.P.Q. 431, 434, 439 (S.D.N.Y. 1959).

58. 99 S. Ct. at 1097, 201 U.S.P.Q. at 3.

59. The dissenting judge stated:

> The majority questions characterizing this agreement as a trade-secret licensing agreement, noting that the keyholder was a simple device and could be copied. The fact remains that the keyholder was secret at the time it was disclosed and it was not successfully copied until the late 1960's, long after it had been marketed. It is precisely because disclosure and marketing may lead to copying that parties will enter into express contracts extending payment obligations beyond the duration of secrecy. The question is whether such agreements are enforceable as a matter of contract law, not whether, absent an express agreement, trade secret law would afford protection once copying has occurred.

567 F.2d at 763 n.4, 196 U.S.P.Q. at 285-286 n.4 (Larson, J., dissenting).

the Court of Appeals insisted that *Quick Point* was not a trade secret case was stated in the following terms: "Quick Point contracted for 'the exclusive right to make and sell keyholders of the type shown'. . . . The agreement was not for disclosure but the exclusive right to manufacture . . . ."[60] That conclusion could hardly have been completely correct, because the license agreement required Quick Point to pay a royalty (at a lower rate) even if no patent (*i.e.*, no exclusive right to manufacture) was obtained by the licensor.[61] Nevertheless, the Eighth Circuit used this reasoning as a basis for treating Quick Point's license in the same way *Brulotte* treated a patent license, though Quick Point's licensor never obtained a patent on the licensed product.[62]

This patent-like treatment was apparently justified by the Court of Appeals on the ground that the licensor in *Quick Point* had filed a patent application on the licensed product (which was eventually abandoned after rejection by the Patent and Trademark Office). Presumably, therefore, the Court of Appeals majority would have distinguished the *Listerine* case on the ground that *Listerine* was a trade secret license case,[63] while *Quick Point*, although not really a patent license case, was for some reason to be treated exactly as though a patent license were involved, merely because of the presence of an abandoned patent application. Until laid to rest by the Supreme Court, the implications of this reasoning were disquieting. A court in a trade secret/patent application license situation would have been permitted to nullify provisions of the license agreement, in the same way that provisions of the licenses were nullified in both *Lear* and *Brulotte*, on federal pre-emption grounds, as a price the licensor pays, not for using the patent system, but for merely *attempting* to use the patent system.

Contrary to the Eighth Circuit's view, there is no legitimate parallel between *Quick Point* and the *Lear-Brulotte* line of cases. *Lear* and *Brulotte* both involved issued patents. Even if the licensed information had once been a trade secret in *Lear*, it had since passed over into the realm of patented subject matter, and so the force of the patent laws had protected the patentee against the public generally. In return for such rigorous statu-

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60. *Id.* at 760 n.5, 196 U.S.P.Q. at 283 n.5. For full text of n.5, *see* note 56 *supra*.

61. 99 S. Ct. at 1099, 201 U.S.P.Q. at 4. The provisions of the royalty agreement in *Quick Point* are described in note 15 *supra*.

62. *Id.* at 1098, 201 U.S.P.Q. at 3.

63. The dissenting opinion in the court of appeals considered *Quick Point* to be "virtually on all fours" with *Listerine*. 567 F.2d at 763, 196 U.S.P.Q. at 286 (Larson, J., dissenting).

tory protection, the patentee owed allegiance to certain federal policies which have been made conditions of the patent grant: the risk of validity challenge in the case of *Lear*; and an end to royalties in the case of *Brulotte*. But in *Quick Point*, the licensor never enjoyed such general protection, and never received any benefit from the patent statute, because she never received a patent grant. Thus, it would seem that there was never any reason to apply to her those policies which were decisive in *Lear* and *Brulotte*.

9. TURNING THE PATENT LAWS INTO A DISINCENTIVE

One possible rebuttal to this argument is that the licensor in *Quick Point* ought to pay the price of admission to the patent system (the same federal pre-emption price that was levied in *Lear* and *Brulotte*) simply because she attempted unsuccessfully to obtain a patent. If this argument had been accepted, it would have presented the owners of new technology with a substantial disincentive to file patent applications in a great many instances. Unless an invention clearly merited patent protection of significant scope, a potential licensor would have been properly reluctant to test the patentability of the invention by filing a patent application. If the secret had been of the type which is necessarily immediately disclosed upon marketing of the product, as in *Quick Point*, the licensor would certainly have lost his right to royalties if he later found it necessary to abandon his patent application and rely instead on trade secret protection. Even if the product was not immediately disclosed, but nevertheless might someday be successfully analyzed, as in *Listerine*, then under the circumstances described there would have been a significant risk that the right to royalties would eventually be lost.

10. THE SIGNIFICANCE OF *KEWANEE*

This disincentive to file patent applications would have been strongly inconsistent with the rationale of *Kewanee*.[64] There, the Supreme Court made it clear that trade secret protection was suspected of violating federal patent policy precisely *because* it was alleged to have a discouraging effect on the filing of patent applications.[65] The Court was able to discredit that allegation, and therefore decided that trade secret protection was

64. For a discussion of *Kewanee, see* note 3 *supra*.

65. The Court stated: "If a State, through a system of protection, were to cause a substantial risk that holders of patentable inventions would not seek patents, we would be compelled to hold that such a system could not constitutionally continue to exist." 416 U.S. at 489, 181 U.S.P.Q. at 681.

not in conflict with patent law;[66] but it did accept the premise that if a substantial disincentive to enter the patent system could be found, it would be inconsistent with the patent statute, and should not be tolerated. By that same reasoning it can be argued that any penalty which is attached to the mere filing of a patent application harms the operation of the patent system and runs counter to the objectives of the patent laws.

11. THE ANTITRUST EXCEPTION

Another possible rebuttal to the argument that patent applications must not be treated the same as patents, for federal preemption purposes, was advanced by Justice Blackmun in the concurring opinion in the Supreme Court in the *Quick Point* case. Although his reasoning did not lead him to dissent from the Court's holding, he did criticize the majority opinion in these words:

> Mrs. Aronson has used the leverage of her patent application to negotiate a royalty contract which continues to be binding even though the patent application was long ago denied.
>
> [I]t may well be that Quick Point agreed to that contingency in order to obtain its other rights that depended on the success of the patent application. The parties did not apportion consideration in the neat fashion the Court adopts [*i.e.*, 5% for patent protection, 2-1/2% without patent protection].[67]

Compare the reasoning of the majority opinion:

> [I]t is clear that the parties contracted with full awareness of both the pendency of a patent application and the possibility that a patent might not issue. The clause de-escalating the royalty by half in the event no patent issued within five years makes that crystal clear. Quick Point apparently placed a significant value on exploiting the basic novelty of the device, even if no patent issued . . . . [T]he provision relating to the 2-1/2% royalty was explicitly independent of federal law.[68]

In the absence of proof to the contrary by the licensee, it would seem that a court is entitled to assume that a royalty allocation freely agreed to by the parties represents their consensus business judgment as to the respective values of a license granted under one or more patents and/or patent applications, on the one hand, and a simultaneously granted license of trade secrets, on the other hand. If the licensee can prove, however, that the licensor refused to grant a license desired by the licen-

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66. "In the case of trade secret law, no reasonable risk of deterrence from patent application by those who can reasonably expect to be granted patents exist." Kewanee Oil Co. v. Bicron Corp., 416 U.S. at 489, 181 U.S.P.Q. at 681.

67. 99 S. Ct. at 1111, 201 U.S.P.Q. at 6 (Blackmun, J., concurring).

68. *Id.* at 1099, 201 U.S.P.Q. at 4.

see, under a patent and/or patent application, unless the licensee also took an undesired trade secret license, with or without a perpetual royalty liability clause, then the licensor might be thought to have engaged in a form of mandatory package licensing, which appears to be a forbidden tie-in under Section 1 of the Sherman Antitrust Act.[69] One effect of such a holding would probably be to render the license, and with it any perpetual royalty clause, unenforceable on the ground that it violates public policy.[70] (Note that this would be a reflection of the antitrust policy against tie-ins, and not a result of any general patent policy concerning perpetual royalty liability in trade secret licenses.) But in the absence of proof by the licensee of such an illegal tie-in, it may justifiably be assumed that the license under the patent and/or patent application and the license of the trade secrets were packaged together merely for the convenience of the licensee, in which event it seems there would be no illegal tie-in.[71]

12. The Time of Election

There is another reason why the Eighth Circuit's decision in *Quick Point* was wrong, a reason having to do with the timing of an inventor's final election as between patent and trade secret protection. So long as a patentable invention is not generally disclosed and has not been in public or commercial use more than a year prior to patent filing,[72] it is eligible for both patent and trade secret protection, and the inventor has the option of choosing the form of protection which he prefers. Ultimately the proprietor of the invention must make an irrevocable election between the two; because they are mutually exclusive. The reasons for this mutual exclusivity are as follows: When issued, a patent becomes a general publication of its contents.[73] The secrecy needed for trade secret protection would therefore require that certain essential information be withheld from the patent as published; but such withholding is not permitted by the disclosure requirements of the patent system.[74] Therefore, the in-

69. *See, e.g.*, Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 161 U.S.P.Q. 577 (1969); United States v. Loew's, Inc., 371 U.S. 38, 135 U.S.P.Q. 201 (1962); United States v. Paramount Pictures, Inc., 334 U.S. 131, 77 U.S.P.Q. 243 (1948).

70. *See, e.g.*, Mercoid Corp. v. Mid Continent Inv. Co., 320 U.S. 661, 664-65, 60 U.S.P.Q. 21, 24 (1944).

71. *See, e.g.*, Zenith Radio Corp. v. Hazeltine Research, Inc., 395 U.S. 100, 161 U.S.P.Q. 577 (1969); Automatic Radio Mfg. Co. v. Hazeltine Research Inc., 339 U.S. 827, 85 U.S.P.Q. 378 (1950).

72. 35 U.S.C. § 102(a) and (b) (1976).

73. 35 U.S.C. § 11 (1976).

74. 35 U.S.C. § 112 (1976).

ventor must eventually choose either secrecy or patent publication. This election has always been postponable until the patent application is allowed by the Patent and Trademark Office, and the proprietor of the invention finally authorizes that Office to grant the patent by payment of the issue fee.[75] The election did not have to be made at the time the patent application was filed; this was true because of the combined effect of two facts: first, the fact that an application is held in confidence by the Patent and Trademark Office throughout its entire period of pendency,[76] thus preserving secrecy until the moment of grant; and second, the fact that the owner of the application is entitled to abandon it (thus aborting the threatened publication of the patent) at any time prior to such final authorization.[77] But the effect of the Eighth Circuit's decision in *Quick Point* would have been to move the last date for this election up to the filing date of the patent application, because that decision held that merely filing an application in the Patent and Trademark Office would have been enough to limit royalties to the period of actual secrecy. Thus, merely knocking on the door of the Patent and Trademark Office would have made it risky thereafter to rely on trade secret protection for products of the *Listerine* type, which *might* be reverse-engineerable, and downright foolhardy to rely on trade secret protection for products of the *Quick Point* type, which clearly are reverse-engineerable.

Therefore, the Eighth Circuit's decision in *Quick Point*, for several reasons, was inconsistent with sound prior law in the field of trade secret licensing. Its reversal by the Supreme Court was correct, in that it preserved the proper balance between

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75. 35 U.S.C. § 41(a)(2) (1976).

76. 35 U.S.C. § 122 (1976). It has been expressly recognized that this section of the Patent Statute is designed in part for the purpose of protecting the trade secret rights of a patent applicant until his patent issues. "Maintenance of confidentiality in the [Patent and Trademark Office] is * * * premised on protection of trade secrets * * *." *In re* Mosher, 199 U.S.P.Q. 82, 84 n.4 (C.C.P.A. 1978), *cert. denied*, 440 U.S. 910, 201 U.S.P.Q. 256 (1979). But that consideration does not in itself foreclose the royalty pre-emption issue considered here, because the assumption underlying § 122 appears to be that the invention would remain secret provided the Patent and Trademark Office did not disclose it. In *Quick Point*, however, the secret had inherently been disclosed generally by the licensee's authorized sale of the licensed keyholder, while the patent application was still pending. The quoted passage from the *Mosher* case goes on to establish a second purpose for § 122: "to remove all impediments to early disclosure [by the filing of a patent application] which would stem from an absence of confidentiality [on the part of the Patent and Trademark Office]." This concern, that the filing of patent applications not be discouraged by the fear of loss of trade secret protection prior to patent issuance, is quite parallel to that which I have expressed in Parts 9 and 10, above.

77. 35 U.S.C. § 133 (1976).

state trade secret law and federal patent policy which was established in *Kewanee*.