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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
April 19, 1974.
On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the "Brief for the United States as Amicus Curiae"

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***I** TABLE OF CONTENTS

Foreword ... 1

I. The Presumptions Should Favor Our National Policy of Free Competition ... 2

II. The Issue Is Controlled by Prior Decisions of This Court ... 3

III. The Perpetual Injunction of the District Court Cannot Be Justified ... 4

IV. The Government's Arguments Supporting the Economic Purposes Served by State Trade Secret Laws Should Be Disregarded ... 4

V. The Policy of the Patent Statutes Is to Promote Progress in Science and Useful Arts for the Public Benefit ... 5

VI. The Patent Statutes Invite But Do Not Compel Disclosure ... 6

VII. Patent Law ... Trade Secret Law Coexistence ... 7

VIII. The Sherman Act Approach Should Be Followed Here ... 9

***II** TABLE OF AUTHORITIES

Cases

Board of Trade v. Christie Grain and Stock Co., 198 U.S. 236 (1905) ... 7

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Brown v. Duchesne, 60 U.S. 183 (1888) ... 6

Clark v. Bunker, 453 F.2d 1006 (9th Cir. 1972) ... 7

Gaylor v. Wilder, 51 U.S. 477 (1850) ... 6

Goldstein et al. v. California, 412 U.S. 546 (1973) ... 7, 9

Gottschalk v. Benson, 409 U.S. 63 (1972) ... 7

Graham v. John Deere Co., 383 U.S. 1 (1966) ... 6

Gulf States Utilities Co. v. F.P.C., 411 U.S. 747, 36 L. Ed. 2d 635 (1973) ... 2

Kendall v. Winsor, 62 U.S. 322 (1858) ... 6

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) ... 2, 5, 7, 9

Northern Pacific RR v. United States, 356 U.S. 1 (1958) ... 2

Pennock v. Dialogue, 27 U.S. 1 (1829) ... 6

Perez v. Campbell, 402 U.S. 637 (1971) ... 5

Sears v. Gottschalk, 357 F. Supp. 1357 (E.D. Va. 1973) ... 8, 9

Sears, Roebuck and Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 3

Shaw v. Cooper, 32 U.S. 290 (1833) ... 6

United States v. Philadelphia National Bank, 374 U.S. 321 (1963) ... 2

United States v. Topco Associates Inc., 405 U.S. 396 (1972) ... 2

***III** Texts

McCaul, Applicability of the Public Use Bar Provision of 35 U.S.C. 102(b) to Patentability of a Completed Invention Used at a Government Installation, 56 J. PAT. OFF. Soc'y 143, 160 (1974) ... 5

Monsanto Magazine, Winter 1973 Issue, pp. 17-21, Interview with Senator John L. McClellan ... 7

Note, Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards for Patent-ability, 87 Harvard L. R. 807 (1974), at 811- 813 ... 9

Proposals For Improving The Patent System - Study of the Sub-committee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, United States Senate, 1956, p. 3 ... 7

Constitution and Statutes

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Westlaw.
1974 WL 185611 (U.S.)

Constitution of the United States, Art. I, Sec. 8, Cl. 8 ... 5

17 U.S.C. 2 ... 8

35 U.S.C. 101 ... 5

35 U.S.C. 102 ... 5

35 U.S.C. 103 ... 5

35 U.S.C. 122 ... 8

***1** Foreword

This brief is submitted on behalf of respondents Bicron Corporation et al. in response to the "Brief For The United States As Amicus Curiae" which was filed in this case on or about April 8, 1974. The case was argued on January 9, 1974.

***2** I. The Presumptions Should Favor Our National Policy of Free Competition

The Government says (G.B. 7) that there is "no showing in this case or adequate basis for presuming that a substantial diversion of patentable inventions from the federal patent system is caused by state trade secret laws." The government acknowledges (G.B. 34) that the record in the case does not contain information as to the impact of the state trade secret laws on the patent system and the degree of diversion from the patent system by the state trade secret laws. The Government properly observes (G.B. 35) that such questions are empirical and legislative and are better suited to the factual investigations and policy judgments of Congress. [FN1]

FN1. Committees of Congress have in fact conducted hearings and made studies. Bicron has cited those studies in its brief, pp. 12 and 13.

There is a strong federal policy favoring free competition in ideas which do not merit patent protection. Lear, Inc. v. Adkins, 395 U.S. 653, 656 (1969). This is but one facet of a broader national policy of free competition which permits the marketplace to allocate our economic resources, the premise being that this will bring about the greatest material progress and both preserve and promote our political and social institutions. Gulf States Utilities Co. v. F.P.C.,--U.S.--36 L. Ed. 2d 635, 644-6 (1973); United States v. Topco Associates Inc., 405 U.S. 396, 410 (1972); United States v. Philadelphia National Bank, 374 U.S. 321, 372 (1963); Northern Pacific RR v. United States, 356 U.S. 1, 4 (1958). The policy stems from the English "Statute of Monopolies". The patent system is an exception to the anti-monopoly, free-competition policy and so would be any restrictive state trade secret system.

The national policy of free competition in ideas which do not merit patent protection and free competition in the ***3** marketplace is a strong federal policy. The burden should be on the party which seeks to restrict competition to justify what it seeks. The presumptions in an admittedly confused factual situation should favor free competition.

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The burden should be on petitioner and its amici to justify the restraints which they seek to impose on free competition. The presumptions should be in favor of free competition and the established national policy, not against it as the Government suggests.

I. The Issue Is Controlled by Prior Decisions of This Court

The Government argues (G.B. 8) that the issue is not controlled by the prior decisions of this Court. The Sixth Circuit, however, clearly felt that it was.

Bicron respectfully refers this Court to the careful analysis of legal precedent made by the Sixth Circuit (Pet. App. 8-24).

In Sears, Roebuck and Co. v. Stiffel Co., 376 U.S. 225 (1964), in particular, this Court said:

"Obviously a State could not, consistently with the Supremacy Clause of the Constitution ... give a patent on an article which lacked the level of invention required for federal patents. To do ... [so] would run counter to the policy of Congress of granting patents only to true inventions .... Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that prohibiting unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." (376 U.S. at 231).

***4** III. The Perpetual Injunction of the District Court Cannot Be Justified

It is significant that the brief of the Government does not even try to justify the perpetual injunction of the district court. That view within the Government which is reflected by Part II of the Government brief wants, in certain circumstances, a reverse engineering injunction. It deplores the perpetual injunction (G.B. 26 & 27). Part III of the Government brief speaks of partnership contracts [FN2] and cites United States v. Addyston Pipe (G.B. 29), but nowhere does it discuss the perpetual injunction as such.

> FN2. An employee of a large corporation is not a "partner" (G. B. 29 & 30) and is not in an equal bargaining position with the corporation. The effect of the decision of the district court is to restrict freedom of opportunity and freedom of employment. See pages 16-20 of the amicus briefs of the National Patent Council and National Small Business Association.

The grant of a perpetual injunction cannot be justified.

IV. The Government's Arguments Supporting the Economic Purposes Served by State Trade Secret Laws Should Be Disregarded

Part III of the Government brief (G.B. 28) argues that state trade secret laws serve a valuable economic purpose. This, however, is pure conjecture and should be disregarded, particularly in view of the Government's own admission that it is not possible to determine from the record in this case the effect of state trade secret law on the competitive process (G.B. 40).

It should also be disregarded because the preemption test is not the purpose of the state law vs. the federal law but the effect of the state law, whatever its purported purpose might be, on the federal law. Were it otherwise, state

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legislatures could "nullify nearly all unwanted federal ***5** legislation by simply publishing a legislative committee report articulating some state interest or policy--other than frustration of the federal objective--that would be tangentially furthered by the proposed state law." Perez v. Campbell, 402 U.S. 637, 652 (1971).

V. The Policy of the Patent Statutes Is to Promote Progress in Science and Useful Arts for the Public Benefit

The Constitution authorizes a patent system to promote progress in science and useful arts, (Art. I, Sec. 8, Cl. 8) and its raison d'etre is public benefit, with reward to the inventor secondary.: [FN3]

> FN3. The Court is urged to reread with care the Government's Sears-Compco amicus brief at pp 15-33 and its Lear brief at pp. 9-26. In both these earlier briefs, the Government squarely acknowledged the paramount public interest which is the touchstone of federal patent policy.

The patent laws reflect Congressional judgment as to both
(a) subject matter (35 U.S.C. 101) of sufficient public benefit (judged in light of 35 U.S.C. 102 and 103) to justify the offer of a reward for prompt and full disclosure, and
(b) subject matter to which the public is entitled (under 35 U.S.C. 102 and 103) in any event so that a reward for disclosure cannot be justified. [FN4]

> FN4. In strict accord with earlier decisions of this Court and with the Sixth Circuit, a recent article by a government lawyer concludes that commercial exploitation of a completed invention for more than one year is a public use under 35 U.S.C. 102 (b) "whether or not the use was secret." McCaul, "Applicability of the Public Use Bar Provision of 35 U.S.C. 102 (b) to Patentability of a Completed Invention Used at a Government Installation", 56 J. PAT. OFF. Soc'Y. 143, 160 (1974).

This Court has consistently held that inventors do not have a "natural" right to their ideas and that the patent ***6** system was a creature of positive law to advance the paramount public interest. Pennock v. Dialogue, 27 U.S. 1, 16-17 (1829); Shaw v. Cooper, 32 U.S. 290, 318 (1833); Gaylor v. Wilder, 51 U.S. 477, 490 (1850); Brown v. Duchesne, 60 U.S. 183, 195 (1888); Kendall v. Winsor, 62 U.S. 322 (1858); Graham v. John Deere Co., 383 U.S. 1, 8 (1966).

VI. The Patent Statutes Invite But Do Not Compel Disclosure

No one argues (G.B. 32) that the patent laws compel an inventor to disclose his inventions in exchange for the 17-year monopoly of a patent. The idea is that they should provide the incentive for such disclosure, in return for personal gain. In an interview, Senator McClellan put it this way:
"Q. Do you associate a patent with a monopoly of any sort?
A. Well, a patent is a monopoly of sorts, and it is intended to be, to protect the inventor, to encourage invention. It operates as an incentive to people not only to invent but to disclose the invention and make it available for the benefit of the economy, for the benefit of people. A fellow might discover a remedy (this is a crude illustration) that would cure, say, cancer. Suppose, a doctor makes a discovery and he says, I'll just keep this discovery secret. I'll become a specialist. I'll have the patients, since I'm the only one who can cure them. If not

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discovered by someone else, his invention would die with him. That would be wrong. But, you give him an incentive to disclose his invention and still maintain control for a limited period of time, and allow him to make a profit out of it, and all knowledge will be advanced. I think the system has worked marvelously. I don't mean it's perfect. ***7** I'd like to strengthen it, improve it, but not abolish it or make it so restrictive or so liberal that it would not be effective." [FN5]

FN5. Interview with Senator John L. McClellan published in the Monsanto Magazine, Winter 1973 issue, pp. 17-21, copies available from the "Association For The Advancement Of Invention And Innovation", an amicus in this case.

The Senator's remarks remind us of what actually happened with obstetrical forceps, which were held as a secret by several generations of doctors. [FN6] If an assistant of one of those doctors had left and used those forceps to assist child delivery, should he have been enjoined?

FN6. Proposals For Improving The Patent System" - Study of the Subcommittee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, United States Senate, 1956, p. 3.

VII. Patent Law--Trade Secret Law Coexistence

There are many trade secrets to which the patent laws neither extend nor refuse protection--e. g., certain computer programs, [FN7] business information including accounting methods, sales plans, customer lists, etc. [FN8]--and on which the states may grant protection.

FN7. See Gottschalk v. Benson, 409 U.S. 63 (1972).

FN8. See, e. g., Clark v. Bunker, 453 F.2d 1006 (9 Cir. 1972) relating to a trade secret constituting a prepaid funeral service plan and Board of Trade v. Christie Grain and Stock Co., 198 U.S. 236 (1905), relating to confidential quotations on grain futures.

Congress has likewise neither refused nor extended federal patent protection to inventions which are not yet completed or which have been in public use less than one year or are the subject of pending patent applications. [FN9] Goldstein et al v. California, 412 U.S. 546 (1973) goes far toward suggesting that state law protection in these areas ***8** is permissible, analogously to the state law prepublication protection of common law copyrights expressly authorized in 17 U.S.C. § 2. 35 U.S.C. 122 which provides for qualified secrecy of pending patent applications in the Patent Office is consistent with such limited state law protection for inchoate patent rights. [FN10]

FN9. A circumstance which no doubt had an influence upon this Court's abstention in Lear, Inc. v. Adkins, 395 U.S. 653, 675 (1969), from defining the limits of legitimate state law protection, if any, for inchoate patent rights until after "fully focused inquiry" in the state courts.

FN10. The question of whether the qualified secrecy provision of 35 U.S.C. 122 extends to abandoned patent applications on which patents have been refused has never been resolved in a federal court of appeals. The only federal district court case purporting to have decided the issue on its merits, Sears

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v. Gottschalk, 357 F. Supp. 1357 (E.D. Va. 1973) (cited at G. Br. 5, n. 5) is on appeal to, and is presently sub judice in, the Court of Appeals for the Fourth Circuit, having been orally argued on March 6, 1974.

Because trade secret law legitimately applies to subject matter on which the patent laws are silent, it is not surprising that "patent law and trade secret law have co-existed for many decades" (G. Br. 33). The government does not suggest that Congress has ever been specifically apprised of state trade secret law efforts to encroach upon federal patent law or otherwise provided with evidence demonstrating the area of conflict between the two. It is accordingly fair to assume that Congressional "awareness of the trade secret system" (G. Br. 35) is restricted to that system's legitimate ambit.

The Government is wrong in suggesting (G. Br. 33) that since "Congress would not affirmatively protect secrets whose existence undercut its own policy", the use of trade secret law to compete with patents is tacitly approved by legislation requiring government agencies to treat as confidential alleged trade secrets revealed to them in course of complying with Government regulations unrelated to patents. Congress, of course, has a wide range of policies, only a few of which touch upon patents in any way. It is not inconsistent with patent policy for Congress to minimize confrontation concerning the legitimacy of ***9** trade secret claims in policy areas which present no patent problem, [FN11] and where confrontation is hence unnecessary. Nor does such a reservation detract from the right of any affected person, including an agency, to challenge a trade secret claim in conflict with the patent statutes when patent policy is in issue.

FN11. This point is well made in the student note, "Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards for Patentability." 87 HARVARD L. R. 807 (1974). at 811813. The ultimate conclusion reached in the note. which is essentially the same as that of Argument Section II of the Government brief is similarly contrary to Sears, Lear and Goldstein.

VIII. The Sherman Act Approach Should Be Followed Here

In discussing the Sherman Act, Part III of the Government brief correctly observes that the courts proceed on a case-by-case basis until a general pattern becomes clear and experience permits the formulation of a general rule (G.B. 39). This approach is followed because the situations are so complex and varied.

The Court should take a similar approach here. It should affirm the judgment of the Sixth Circuit and not pass on the other issues which have tried to be injected into the case.

Denial of injunctive relief on the grounds of federal preemption does not mean that the underlying contract has to be declared invalid or that damages for its violation cannot be recovered. You do not have to throw the baby out with the bath.

As the Government brief recognizes (G.B. 3, footnote 3), the relief which was granted in this case was based upon the obligations of an employee to his employer which were implied by Ohio law, not the written agreements between the employee respondents and Kewanee. The ***10** Court can affirm the Sixth Circuit without invalidating technical service agreements and other contracts involving trade secrets.

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U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

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• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172423 (Appellate Brief) Brief Amicus Curiae of Scm Corporation (Dec. 27, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172412 (Appellate Brief) Brief for Respondents (Dec. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173805 (Appellate Brief) Brief for Amicus Curiae National Patent Council, Inc., for Itself and Representing National Small Business Association, Inc. (Dec. 21, 1973)

• 1973 WL 172424 (Appellate Brief) Brief of the Ohio State Bar Association as Amicus Curiae in Support of Petitioner (Dec. 20, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172413 (Appellate Brief) Brief of Chamber of Commerce of the United States of America As Amicus Curiae in Support of Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172414 (Appellate Brief) Brief for Amicus Curiae Manufacturing Chemists Association (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae (Nov. 19, 1973)Original Image of this Document (PDF)

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
April 19, 1974.

Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae

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***1** SCM Corporation respectfully moves the Court for leave to file the attached supplemental brief amicus curiae in response to the "Brief for the United States as Amicus Curiae", on the side of respondents.

SCM has previously filed a brief amicus in opposition to the petition in this case, with leave of Court, and a belief amicus on the merits with consent of both parties. SCM's interest in the case has been set forth in the motion and brief filed in connection with the petition and in the brief amicus on the merits.

Leave is requested to file this brief amicus to insure that the Court shall have before it a full exposition of the dispositive precedent and principles which the government ***2** inconsistently with its own prior views, [FN1] has chosen either to ignore or attempt ot distinguish. The attached supplemental brief amicus of SCM makes several important points in this regard which are not advanced in respondent's supplemental brief.

FN1. See the attached supplemental brief amicus, infra at p. 1.

***1** The Government brief advances two separate views, both of which run counter to controlling law as explicated in authoritative decisions of this Court. Moreover, both "the view of the United States" as set forth in Argument Section III (G.B. 27-41) and the other "view within the government", set out in Argument Section II (G.B. 11-27) are irreconcilably at war with previous Government positions on the law espoused before this Court in its briefs amicus (a) in the companion cases of Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964), and Sears, Roebuck and Co. v. Stiffel Co., 376 U.S. 225 (1964), and (b) in Lear, Inc. v. Adkins, 395 U.S. 653 (1969).

The Government argues (G.B. 8) that the issue here posed is not controlled by the prior decisions of this Court. ***2** The Sixth Circuit, however, reached the opposite

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conclusion after analyzing the apposite precedent (Pet. App. 8– 24), and found itself compelled to conclude

"... that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year. By such use the inventor has forfeited his right to a patent but by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States...."

In so holding, the court below gave particular attention to Sears, Roebuck, supra. In Sears, this Court held that

"Obviously a State could not, consistently with the Supremacy Clause of the Constitution ... give a patent on an article which lacked the level of invention required for federal patents. To do ... [so] would run counter to the policy of Congress of granting patents only to true inventions.... Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that prohibiting unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws." (376 U.S. at 231).

Reference in the quotation to "the level of invention required for federal patents" is mainfestly directd to the standard of invention now codified in 35 U.S.C. 103. [FN1] ***3** But, as the Sixth Circuit correctly appreciated, the holding is equally applicable to preclude state protection of subject matter dedicated to the public by operation of 35 U.S.C. 102 (b) through commercial use for more than one year.

FN1. The same standard of patentable invention has consistently been implemented by this Court since at least as early as Hotchkiss v. Greenwood, 52 U.S. 248 (1850). This Court has many times asserted that this standard is of constitutional origin, inter alia, in Thompson v. Boisselier, 114 U.S. 1, 11 (1885), Hollister v. Benedict Mfg. Co., 113 U.S. 59, 73 (1885), Hill v. Wooster, 132 U.S. 693, 700 (1890), Cuno engineering Corp. v. Automatic Equipment Corp., 294 U.S. 84, 91 (1941), Great Atlantic and Pacific Tea Co. v. Supermarket Equipment Corp., 340 U.S. 147, 156 (1951). Graham v. John Deere Co., 383 U.S. 1 (1966), and Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57 (1969).

Strict enforcement of this standard of patentability is necessary to realization of the primary public purpose of the patent system repeatedly stressed in this Court's decisions beginning with Pennock v. Dialogue, 27 U.S. 1 (1829) and extending through Deepsouth Packing Co. V. Laitrum Corp., 406 U.S. 518 (1972). As emphasized in Shaw v. Cooper, 32 U.S. 290, 318 (1833), "... it was not the intention of this [patent] law to take from the public that of which they were fairly in possession." Expressing essentially the same thought but with particular reference to the requisite level of invention, this Court in Atlantic Works v. Brady, 107 U.S. 192, 199–200 (1883) again stressed that

"... To grant to a single party a monopoly of every slight advance made. except where the exercise of invention. somewhat above ordinary mechanical or engineering skill, is distinctly shown, is unjust in principle and injurious in its consequences .... Such an indiscriminate creation of exclusive privileges tends rather to obstruct than to stimulate invention." In total harmony. Graham, supra, found "no change in the general strictures with which

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> the overall test [of patentability] is to be applied...". 383 U.S. 1. 19. The present Government argument that federal concern for free access to "obvious technology" on which patents are precluded by 5 U.S.C. 103 "is relatively peripheral" (G.B. 26) is in the teeth of Scars and would effectively nullify the Congressional judgment that such technology must be free to the public. For this reason, the doctrine of Ferguson v. Skrupa, 372 U.S. 726 (1963) (G.B. 25)--that the Court will not pass on the wisdom of state legislation where federal policy is not significantly invaded--is inapposite.

The correctness of the decision below is underscored by this Court's later decision in Goldstein v. California, ***4** 412 U.S. 546 (1973) which squarely reaffirms Sears as a part of its comprehensive explication of the application of the preemption doctrine to patents and copyrights. In harmony with all of its earlier pertinent pronouncements, this Court in Goldstein held that a positive expression by Congress in patent or copyright legislation as to either availability or unavailability of federal monopoly protection is absolutely preemtive and precludes inconsistent state law action, but Congressional silence may leave the field open for state law activity.

As this Court said in Goldstein:

"At any time Congress determines that a particular category of 'writing' is worthy of national protection and the incidental expenses of federal administration, federal copyright protection may be authorized. Where the need for free and unrestricted distribution of a writing is thought to be required by the national interest, the Copyright Clause and the Commerce Clause would allow Congress to eschew all protection. In such cases, a conflict would develop if a State attempted to protect that which Congress intended to be free from restraint or to free that which Congress had protected. However, where Congress determines that neither federal protection nor freedom from restraint is required by the national interest, it is at liberty to stay its hand entirely. Since state protection would not then conflict with federal action, total relinquishment of the States' power to grant copyright protection cannot be inferred."

As applied to existing patent statutes, the holding is clearly that preemptive federal law precludes state protection, both of those categories of "discoveries" that Congress in 35 U.S.C. 101 has deemed to be worthy of national protection and those for which Congress eschewed all protection in 35 U.S.C. 102 and 103.

***5** In this case we have the very conflict which this Court in Goldstein. expected to "develop if a state attempted to protect that which Congress intended to be free from restraint"--to wit, a conflict between Ohio trade secret law and federal patent law resulting from the Ohio attempt to protect by perpetual injunction subject matter which Congress in 35 U.S.C. 102(b) pronounced free from restraint.

The approach counselled by Argument Section II of the government brief whereby only that portion of trade secret law which purports to protect. patentable information would be preempted not only fails to take account of express Congressional direction concerning what may not be patented, but is cumbersome and unworkable for the same reasons which led this Court in Lear, supra, 395 U.S. at 668, ultimately to cease attempting to compromise state law contract estoppel principles with federal patent law. Similar considerations underlie the per se rules concerning unreasonableness of certain restraints of trade under the antitrust laws which this Court has adopted in

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order to avoid the necessity for "incredibly complicated and prolonged economic investigation into the entire history of the industry involved, as well as related industries" which this Court has noted to be "so often wholly fruitless when undertaken", Northern Pacific R. Co. v. United States, 356 U.S. 1, 5 (1958.

The government argument G.B. 32-3) that because disclosure is not compulsory under Federal law there is room for state law protection of subject matter which inventors choose not to disclose, lacks statutory, precedent and logical basis. The Federal law seeks to encourage disclosure of patentable inventions for the primary benefit of the public but does not regard disclosure as an end in itself. Per contra, disclosure of patentable inventions is the means chosen by Congress for achieving the constitutionally required public benefit. Hence those who ***6** use this means to confer public benefit are deserving of reward. The policy necessarily acts equally to preclude reward, state or federal, both to those who elect not to use the authorized means of conferring public benefit and those who disclose subject matter from which the public can derive no benefits because of its own prior entitlement under 35 USC 102 or 103.

CONCLUSION

The government brief should be disregarded and the decision below affirmed.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

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• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae (Nov. 19, 1973)Original Image of this Document (PDF)

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
December 27, 1973.

Brief Amicus Curiae of Scm Corporation

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Attorneys for SCM Corporation

***I** TABLE OF CONTENTS

Brief Amicus Curiae ... 1

Authority to File ... 1

Opinions Below ... 1

Constitutional and Statutory Provisions ... 2

Question Presented ... 2

Interest of the Amicus ... 2

Summary of Argument ... 3

Argument ... 5

A. Introduction ... 5

B. Irrelevant Issues Advanced in This Court ... 12

C. The Indeterminate Origin of and Basis for Trade Secret Law ... 19

D. The Constitution and Federal Law Preclude the Permanent Injunction Sought ... 30

1. Preemption by the Patent Clause and Statutes ... 32

a. Patent Policies ... 32

b. Reasons for Preemption ... 39

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2. Considerations Affecting Preemption Arising Solely Under the Commerce Clause 43

3. Considerations Affecting Preemption Arising Solely Under the Fifth and Fourteenth Amendments ... 44

E. Trade Secret "Property" In Technology--A Necessary Incentive to Conduct Research? ... 47

Conclusion ... 51

***II** APPENDIX

The Constitutional Provisions ... 1a

Article I, Section 8, Clauses 3 and 8 ... 1a

Article VI, Clause 2 ... 1a

Amendment V ... 1a

Amendment IX ... 2a

Amendment X ... 2a

Amendment XIV, Sections 1 and 5 ... 2a

35 U.S.C. § § 101 and 102(b) ... 3a

Article--"The Constitutional Standard of Invention--The Touchstone for Patent Reform" soon to be published in the University of Utah Law Review by E. S. Irons and M. H. Sears ... 4a

***III** TABLE OF AUTHORITIES

Cases:

Allgeyer v. Louisiana, 165 U.S. 578 (1886) ... 42, 45

Atlantic Works v. Brady, 107 U.S. 192 (1883) ... 11

Bates v. Coe, 98 U.S. 31 (1878) ... 38

Becher v. Contourc Laboratories, Inc., 279 U.S. 388 (1929) ... 38

Bliss. E. W., Co. v. Struthers-Dunn, Inc., 408 F. 2d 1108 (8 Cir. 1969) ... 46

Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation. 402 U.S. 313 (1971) ... 42

Brown v. Duchesne, 60 U.S. 183 (1857) ... 26, 44

Brulotte v. Thys Co., 379 U.S. 29 (1964) ... 15, 39

© 2005 Thomson/West. No Claim to Orig. U.S. Govt. Works.

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) ... 39, 41

Consolidated Fruit Jar Co. v. Wright. 94 U.S. 92 (1877) ... 36, 37

Continental Car-Na-Var Corp. v. Moseley, 148 P. 2d 9 (Sup. Ct. Cal. 1944) ... 46

Corona Cord Tire Co. v. Dovan Chemical Corp., 276 U.S. 610 (1927) ... 37

Darcy v. Allin, Noy, Rep. 173, 74 Eng. Rep. 1131 (1602) ... 20

Deepsouth Packing Co. v. Laitram Corp., 406 U.S. 518 (1972) ... 20, 21, 25, 44

Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911) ... 38

Egbert v. Lippmann, 104 U.S. 333 (1881) ... 37

Gayler v. Wilder, 51 U.S. 477 (1850) ... 26, 36, 37

Gibbons v. Ogden, 22 U.S. 1 (1824) ... 42

Goldstein v. California, 412 U.S. 546 (1973) ... 40, 41

Graham v. John Deere Co., 383 U.S. 1 (1966) ... 6, 9, 27, 32

Greene v. McElroy, 360 U.S. 474 (1959) ... 42, 45

Hall v. Macneale, 107 U.S. 90 (1882) ... 37

Hammer v. Barnes, 26 How. Pr. (N.Y.S. Ct. 1863) ... 19

Huszar v. Cincinnati Chemical Works, 172 F.2d 6 (6 Cir. 1949) ... 37

International News Service v. Associated Press, 248 U.S. 215 (1918) ... 28, 29

***IV** Jarvis v. Peck, 10 Paige 118 (N.Y. Ct. 1843) ... 19

Kendall v. Winsor, 62 U.S. 322 (1858) ... 36

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) ... 11, 39

Levine v. E. A. Johnson & Co., 237 P.2d 309 (Ct. App. Cal. 1951) ... 46

Macbeth-Evans Glass Co. v. General Electric Co., 246 F. 695 (6 Cir. 1917) ... 37, 38

Maloney v. E. I. du Pont de Nemours & Co., 352 F.2d 936 (D.C. Cir. 1965) ... 46

Marsh v. Nichols, 127 U.S. 605 (1888) ... 27

Mercoid Corp. v. Mid-Continent Investment Co., 320 U.S. 661 (1944) ... 11

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Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2 Cir. 1946) ... 35, 37, 38

Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901 (CCPA 1969) ... 37

Newbery v. James, 35 Eng. Rep. 1011 (Ch. 1817) ... 19

Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2 Cir. 1971) ... 7

Paraco, Inc. v. Owens, 333 P.2d 360 (Ct. App. Cal. 1959) ... 46

Peabody v. Norfolk, 98 Mass. 1952 (Sup. Jud. Ct. Mass. 1868) ... 19

Pennock v. Dialogue, 27 U.S. 1 (1829) ... 25, 35

Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1946) ... 39

Sears v. Gottschalk, 357 F. Supp. 1327 (E.D. Va. 1973) ... 16

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 39, 41

Shaw v. Cooper, 32 U.S. 390 (1833) ... 25

Smith & Griggs Mfg. Co. v. Sprague, 123 U.S. 141 (1887) ... 37

United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) ... 31, 38

United States v. Greenwald, 479 F.2d 320 (6 Cir. 1973) ... 13

***v** Williams v. Williams, 36 Eng. Rep. 61 (Cr. 1817) ... 19

Wilson v. Clarke, 470 F.2d 1218 (1 Cir. 1972) ... 46

Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9 Cir. 1965) ... 47

Woodbridge v. United States, 263 U.S. 50 (1923) ... 10, 11

Yovatt v. Winyard, 1 Jac. & W. 394, 37 Eng. Rep. 425 (Ch. 1820) ... 19

Constitutional Provisions:

Article I, Section 8, Clause 3 ... 2, 43, 44

Article I, Section 8, Clause 8 ... 2, 32, 39

Article VI, Clause 2 ... 2, 44

Fifth Amendment ... 2, 5, 32, 42, 43, 44, 45, 46, 47

Ninth Amendment ... 2, 31

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Tenth Amendment ... 2, 31

Fourteenth Amendment ... 2, 5, 32, 42, 43, 44, 45, 46, 47

Statutes and Related Materials:

Patent Act of 1790 ... 34, 39

Patent Act of 1793 ... 34, 41

1 Stat. 318 § 7 ... 41

1 Stat. 318 § 1 ... 41

Patent Act of 1836 ... 34

R. S. 4886 ... 38

35 U.S.C. 101 ... 2, 4, 5, 13, 18, 40, 41, 42, 43, 44

Revisor's Note ... 41

35 U.S.C. 102 ... 2, 18

35 U.S.C. 102(b) ... 4, 5, 18, 19, 38

35 U.S.C. 103 ... 9, 18

35 U.S.C. 112 ... 34

35 U.S.C. 122 ... 16

35 U.S.C. 282 ... 34

84 Stat. 1558 § 131 (1971) ... 50

***VI** Proposed Statute S. 2504 § 301 ... 18

Ohio Revised Code 1333.51(C) ... 14

Ohio Revised Code 1333.99(E) ... 14

House Report No. 1494, 52nd Cong., 1st Sess. (1894) ... 27, 28

House Report No. 2222, 60th Cong., 2nd Sess. (1909) ... 28

Hearings Before the Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, United States Senate:

90th Cong., 1st Sess. (1967) ... 6, 48

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93rd Cong., 1st Sess. (1973) ... 6

Rules:

Supreme Court Rule 42(2) ... 1

Other Authorities:

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Michel, A. J., "Historical Development of Principal Patent Systems"--Thesis available in Library of Congress (Card No. T215M43) ... 35

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National Science Foundation Study: "Barriers to Innovation in Industry: Opportunities for Public Policy Changes" (1973) ... 49, 50

Patent, Trademark and Copyright Journal (BNA)--September 15, 1973 ... 11

Prager, "A History of Intellectual Property from 1545 to 1787" 26 J. Pat. Off. Soc'y 711 (1944) ... 20

***VIII** Prager, "Standards of Patentable Invention from 1474 to 1952", 20 University of Chicago L.R. 69 (1952) ... 30

Schiller, "Trade Secrets and the Roman Law; The Actio, Servi Corrupte", 30 Colum. L.R. 837 (1930) ... 19

Shapiro, "The Supreme Court and Administrative Agencies", The Free Press (New York 1968) ... 32

Wall Street Journal-November 27, 1973 ... 12

Weissman, "Testimony Before the Senate Judiciary Committee ...", 55 J. Pat. Off. Soc'y 604 (1973) ... 33

***1** AUTHORITY TO FILE

This brief is filed on behalf of SCM Corporation under Rule 42(2) of this Court with the written consent of both parties, the originals of the consent letters being filed herewith.

OPINIONS BELOW

The opinion of the United States District Court for the Northern District of Ohio is not reported, though it is understood that its findings of fact and conclusions of law, with information as to the nature of the alleged trade secrets excised, [FN1] appears in the Appendix at 51 ***2** et seq. The opinion of the Court of Appeals is reported at 478 F.2d 1074.

> FN1. Based upon correspondence with petitioner's counsel, it is further understood that the material contained in the Appendix constitutes the totality of the allegedly "secret" proceedings in the District Court which have been made available to any of the amici appearing in this case before this Court including the United States Department of Justice.

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CONSTITUTIONAL AND STATUTORY PROVISIONS

The involved constitutional provisions are the Commerce and Patent clauses contained in Article 1, Section 8, clauses 3 and 8, the Supremacy clause contained in Article VI, clause 2, the Fifth, Ninth and Tenth Amendments and Sections 1 and 5 of the Fourteenth Amendment. In addition, the case involves the proper interpretation of 35 U.S.C. 101 and 102. These provisions are all reproduced infra, la to 3a.

QUESTION PRESENTED

The sole question properly raised by the record below is:

May a state perpetually enjoin use, by one who has lawfully acquired it, of technical information within the subject matter scope of 35 U.S.C. 101 on which the right to a patent has been forfeited by failure to file a timely patent application and by commercial use for more than one year?

No other question, including the broader one suggested in the petition, was decided below or finds sufficient evidentiary support in the deliberations of the courts below to warrant entertainment by this Court in this case at this time.

INTEREST OF THE AMICUS

SCM is a worldwide diversified business enterprise engaged in a variety of research, development and manufacturing pursuits which include every aspect of the acquisition, development, protection and dissemination of technical information.

***3** SCM has a broad based interest in the outcome of this case which is essentially the same as that of many of petitioner's amici who are either corporations or associations comprising a plurality of corporate members. [FN2] While SCM does not subscribe to the arguments advanced by these parties or the conclusionary non--evidentiary "facts" which are alleged to show that the decision below, if affirmed, would discourage expenditure of money on research and development activities to the detriment of society, SCM does stand to be affected in precisely the same way by the outcome of the Court's decision in this case as any of these corporate and corporate--centered amici.

> FN2. These amici include at least Optical Coating Laboratories, Inc., Rohr Industries. Inc., Electronic Industries Association, R.J. Reynolds Industries, Inc., Southwire Company, Burroughs Corporation, The Budd Company, the Chamber of Commerce of the United States of America and the Manufacturing Chemists Association.

In addition to its broad interest, SCM has a particular interest in this case in that the central issue posed is closely related to, though different from, the central issue in SCM's own litigation against Mobil Oil Corporation pending in the District Court for the Northern District of Ohio. [FN3]

> FN3. Specifically, Civil Action C-73-751 filed July 18, 1973. Further details concerning the relationship of that litigation to this case are set out under the heading "Interest of the Amicus Curiae" at pages 1-4 of SCM's amicus brief opposing the grant of certiorari in this case, the cited portion of which is incorporated herein by reference.

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SUMMARY OF ARGUMENT

Trade secrets are often utilized to perpetually monopolize technical information, whether or not it meets the exacting criteria for validly patentable invention. Conventionally the monopoly is created by first requiring employees to sign agreements preserving as permanently "confidential" all of the proprietor's unidentified trade ***4** secrets and then licensing competitors on a "confidential" basis in exchange for a running "use" royalty. The only attribute of patents lacking under such arrangements is a legally enforceable right to exclude independent discoverers of the "secret" from using it--and if the "secret" is widely licensed in the pertinent industry, there will be no need for that right because few, if any, interested persons will remain who are outside the "confidence". Meanwhile the public suffers because the safeguards which carefully limit the patent right to a statutorily authorized sphere are inapplicable to trade secrets.

The decision below holds that "trade secrets" in information responsive to the subject matter definition contained in 35 U.S.C. 101 are, under 35 U.S.C. 102(b), dedicated to the public if used commercially for more than one year, absent the timely filing of a patent application--and that in view of this public dedication an injunction may not issue to prevent use of the "secret" by a former employee who learned it lawfully in the course of his employment. The decision does not revoke the law of trade secrets nor interfere with criminal penalties for fraud, theft and the like. It does not contravene any existing treaties, statutes or rules, nor does it disrupt legitimate existing business relationships. Nor does it deal with conflicts between patents and trade secrets arising under other sections of the patent law, or conflicts with any aspect of antitrust law or the law of international commerce. Trade secret "property" in technology does not promote "investment" in research and development, which is stimulated mainly by competitive pressures and secondarily by direct subsidies--e.g. depreciation and other tax advantages.

There is no natural law or preconstitutional common law property right in technical information and property is not an inevitable or legally required result of the expenditure of time, money or labor.

***5** The dedication policy of the patent system is based on common law which predates the Constitution, when commercial use was synonymous with making an invention public regardless of whether precise details of the invention were revealed by the commercially used or sold article, and on the paramount public interest protected by the Constitutional patent clause and the laws enacted thereunder. That policy has been consistently recognized and implemented in many decisions of this Court.

The federal patent law preempts state trade secret law as to subject matter within the scope of 35 U.S.C. 101 and inexorably subjects an alleged "secret" if used commercially for more than one year without the timely filing of a patent application, to the bar of 35 U.S.C. 102 (b). Federal preemption by the patent laws is further required because patent policy must not compromise other constitutional objectives. In particular, patent policy affects interstate commerce and may not conflict with Congressional policy adopted pursuant to constitutionally exclusive federal power. Likewise, patent policy may not derogate the rights of all citizens under the Fifth and Fourteenth Amendments. Moreover, these latter rights are themselves paramount to and preemptive of state law policies favoring corporate

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financial interests and they per se preclude the permanent injunction petitioner seeks against respondents.

ARGUMENT

A. INTRODUCTION

The decision below enunciates no new or novel proposition of law, nor does it suggest that the whole gamut of state trade secret law is preempted by federal patent law. It simply holds that where the right to federal patent property in particular technical information has been deliberately forfeited, no state may, on the pretext of recognizing an adverse "natural" or contractual property ***6** right, enjoin any person in lawful possession of that same information from utilizing it.

At the heart of the numerous amicus briefs favoring petitioner which the case has generated [FN4] is the fact that the decision below is a significant obstacle to an ever mounting campaign to circumvent, weaken, and ultimately destroy the exacting criteria for patentable invention contained in the federal patent laws as enacted pursuant to ***7** the Constitution. [FN5] This campaign embraces a plurality of modes of attack, only one of which is concerned with an enlarged "property" scope for trade secrets. [FN6]

FN4. Some fourteen amici have filed briefs in support of the petitioner. These amici include five individual corporations, i.e. Burroughs Corporation, R.J. Reynolds Industries, Southwire Co., The Budd Co., Rohr Industries, Inc., and Optical Coating Laboratory, Inc.; three trade associations composed mainly of corporations, to wit, the Chamber of Commerce of the United States, the Manufacturing Chemists Association, and Electronic Industries Association; and six groups wholly or partially comprised of and led by patent lawyer members, namely the American Bar Association, the New York Patent Law Association, the American Patent Law Association, the Bar Association of the District of Columbia, the Association for Advancement of Invention and Innovation and the Licensing Executives Society.
Most of these briefs are signed by one or more patent lawyers and many of the signatory patent lawyers have personally been active for some years in attempting to obtain a relaxation in the federal statutory criteria for patentable invention either by judicial fiat or through lobbying Congress for statutory changes. See, e.g., the various amicus briefs filed by bar associations in the petitioner's behalf in Graham v. John Deere Co., 383 U.S. 1 (1966), and the statements made on behalf of various bar associations at hearings on proposed patent legislation during the past seven years, exemplary of which are those made before the Subcommittee on Patents, Trademarks and Copyrights of the Committee on the Judiciary, United States Senate, 90th Cong., 1st Sess. (1967) concerning S. 2, S. 1042, S. 1377 and S. 1691 and 92nd Cong., 1st Sess. (1971), regarding S. 643, S. 1253, and S. 1255 held May 11, 12 and 13, 1971. Similar views were expressed on behalf of bar associations and in particular on behalf of the American Patent Law Association in a then proposed bill (now H.R. 11868) submitted at the soon-to-be published hearings of the same subcommittee held in September 1973 in regard to S. 1321 (93rd Cong., 1st Sess.). The socio-economic arguments now advanced to support liberalized trade secret protection are the same ones which have been unsuccessfully advanced to induce judicial or legislative relaxation in the strict criteria for patentable invention. See infra, p. 47.

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FN5. For a detailed discussion of historical and constitutional considerations surrounding some of these criteria see "The Constitutional Standard of Invention--The Touchstone for Patent Reform", by Irons and Sears, written pursuant to invitation of and soon to be published in the University of Utah Law Review, and reproduced in its entirety infra, 4a to 50a.

FN6. Some commentators and text-writers have urged strongly that trade secret protection is a viable alternative to patents. See e.g. the articles cited by the amicus New York Patent Law Association at p. 11 and Milgrim, "Trade Secrets", Matthew Bender & Co. (New York 1967; revised and supplemented yearly). The latter--a virtual polemic for "competition" between patents and trade secrets incident protection of technical information--was heavily relied on to support the decision in Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2 Cir. 1971) said by petitioner, its amici and the Sixth Circuit to be "in conflct" with the decision below.

The degree of enlargement in the scope of trade secret "property" rights today is evidenced to some extent by the facts of record concerning the confidentiality agreements which petitioner in this case imposed upon the various individual respondents. [FN7] According to Fact Finding 104 (App. 83) petitioner "regularly requires its employees to execute..." blanket confidentiality agreements which in no way adumbrate the scope of confidentiality the employer will claim if the employee wants to leave the company. [FN8]

FN7. See for example fact findings 48, 52, 54, 57 and 62 (App. 67-74).

FN8. It is not at all unusual for employees to be kept in ignorance that any technical information is claimed to be a trade secret until such time as the employee's resignation takes effect. Sometimes. if an employee knew in advance that particular information was deemed a "trade secret", he might prefer not to he encumbered with it--but employers rarely consider such matters.

Such agreements convey no flavor of good faith arm's-length bargaining between equals; rather there is an aura of duress or coercion, with the economically strong ***8** employer imposing its will upon the economically far weaker technically trained employee. When the employer has successfully imposed "confidentiality agreements" upon all of its technically trained employees, then it has the option of declaring all internally developed unpatented and unpublished technical information to be "secret", thus effectively binding knowledgeable employees to that company for life by ensuring that they have no special skills marketable elsewhere. [FN9]

FN9. Amicus Electronic Industries Association suggests that affirmance of the decision below will "destroy employer-employee trust" (Br. 3-5) inter alia because employees will "have little incentive to innovate on behalf of their employer or to share their discoveries with their employer" (Br. 4) if the well-nigh medieval shackles of existing confidentiality agreements be so modified that unpatented and unpatentable technical information in public use or on sale for more than one year becomes per se nonconfidential. But history shows and psychology confirms that free men are better motivated to innovate and make discoveries than bondservants and the suggestion appears to be ill-conceived. If anything, affirmance of the decision below will enhance employee trust, which is at a low ebb. See e.g. Chemical & Engineering News for October

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> 15, 1973 (p. 4) reporting a lawsuit against E.I. duPont de Nemours & Co. for damages based on dismissal of a chemical engineer having 16 years service who wrote a book "critical of large chemical and petroleum corporations." The article points out inter alia:
> "... that in most states professional employees enjoy essentially no legal protection against arbitrary dismissal from their jobs. Most professional employees are not members of unions. Hence. they do not have the protection of a union contract. In many cases protection under federal equal employment opportunities legislation against discrimination on grounds, of sex, race, religion, and the like is not pertinent. And most employment contracts signed by scientific personnel on joining a corporation are largely concerned with protecting the corporation."

The briefs amicus of the Licensing Executives Society (pp. 19–25), Rohr Industries, Inc. (pp. 9–15) and Optical Coating Laboratories, Inc. (pp. 4–12) further give some indication of the wide-spread degree to which allegedly "secret" information is "confidentially" circulated throughout ***9** industry as "property" under circumstances akin to those which attend patent licensing-- i.e. in exchange for running royalty payments keyed in amount to the licensee's commercial use of them.

When trade secrets are protected as "property" and disclosed "confidentially" to all or most of the competitors in a field in exchange for running "use" royalties, the monopoly power of the trade secret "owner" is not significantly different from that of a legitimate patentee insofar as its exclusionary impact is concerned. In such cases, there is very little chance that the "secret" will be discovered independently and published, [FN10] notwithstanding the inconsistent arguments of petitioner and its amici since essentially all interested people are already within the penumbra of the "confidentiality", and few, if any, potential independent discoverers are left.

> FN10. It is of course "public" whether or not published because used in commerce. See Section D la, infra, p. 32. It is also "public" because known to all or most of those persons most intimately concerned with its details and as such, it becomes a part of the knowledge which goes to make up the ordinary level of skill in the art. See 35 U.S.C. 103 and Graham v. John Deere Co., 383 U.S. 1 (1966).

Moreover, in such cases, the trade secret "property owner" really enjoys a more favored position than a legitimate patentee. First of all, he is able to select the subject matter limits of his trade secret himself and is not bound by claim limitations imposed by the Patent Office as a condition of the grant. Secondly, he is able to select the term of his trade secret "property right" himself, just like petitioner in this case, and hence, is not limited to the seventeen years afforded by the patent laws. [FN11] Furthermore, he can select any "license" terms ***10** he wishes since there is no law of "misuse" applicable to trade secrets, and hence, no need to fear that the trade secret may be rendered unenforceable by inequitable licensing conduct. Finally, there are no statutory and constitutional criteria for validity of trade secrets, and hence the risk of loss is slight.

> FN11. The Court below noted that "Counsel for Kewanee frankly stated in the course of the arguments before this Court that one of the principal purposes of maintaining the secrecy of inventions, including those here involved, as

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> opposed to seeking patents under the Patent Laws. would be to extend the commercial monopoly of the invention beyond the seventeen years granted by the Patent Laws."
> While Kewanee seeks to repudiate this admission (P.Br. 35, n. 11) and argues (P.Br. 26-28) that the injunction granted by the district court was not "the common law equivalent of a patent monopoly", whatever that may mean, it does not deny that the injunction did afford a "monopoly". as indeed it cannot. The classic English definition of monopoly, enunciated by Sir. Edward Coke, infra, p. 17a. note 27 contemplated that a monopoly exists if "any person or persons ... are sought to be restrained of any freedom or liberty that they had before or hindered in their lawful trade"--and respondents would certainly be restrained of the freedom to use all their knowledge and skill, and hindered in their lawful trade if the injunction were reinstated.

In short, to be able to hold technical information "secret" while exploiting it just like a patent is to have your cake and eat it too. No wonder that petitioner and its amici are anxious to preserve this halcyon condition and remain free to extend its benefits still further at their own options.

It is readily apparent that the trade secret system as it is now progressing and as it would flourish in the event of a decision for the petitioner in this case, is a strong deterrent to "the Progress of Science and useful Arts" which the patent system, pursuant to constitutional mandate, must "promote". By fostering non-publication and controlled use of technical information, trade secret law effectively precludes the use of knowledge as a stimulant for the production of more knowledge, thus retarding the progress of society. As said by this Court in Woodbridge v. United States, 263 U.S. 50, 61 (1923) the trade secret owner "comes not within the policy or objects of ***11** the Constitution or acts of Congress. He does not promote, and, if aided in his design, would impede, the progress of science and the useful arts. And with a very bad grace could he appeal for favor or protection to that society which, if he had not injured, he certainly had neither benefitted nor intended to benefit."

This trade secret system is not really "secret" at all, but rather a system of private monopoly wherein a group of conspirators all privy to the "secret" hold and use unpublished information within their own industry for their own mutual benefit. Because this tends to discourage competitive research, it also tends to "stabilize" each individual industry. It precludes cross-fertilization with knowledge available in other technical disciplines, to the ultimate detriment of the public. Realistically viewed, these systems are conspiracies in restraint of trade wherein each trade secret proprietor is able to "function as its own patent office and impose its own law upon its licensees." [FN12]

> FN12. Mercoid Corp. v. Mid Continent Investment Co., 320 U.S. 661, 667 (1944). To the same effect is the separate, partially concurring opinion of Mr. Justice Black joined by Mr. Chief Justice Warren and Mr. Justice Douglas in Lear v. Adkins, 395 U.S. 653. 677 (1969).

Ease of availability of "property" protection for trival technology, "trade secret" or otherwise, obviously discourages research and development [FN13] in more daring and ***12** revolutionary technology, where the risk of not developing useful information is higher--a factor which undoubtedly has a significant bearing on the

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much talked about deterioration of United States research and development in recent years. [FN14]

FN13. As said in Atlantic Works v. Brady, 107 U.S. 192. 199-200 (1883)
"To grant to a single party a monopoly of every slight advance made, except where the exercise of invention, somewhat above ordinary mechanical or engineering skill, is distinctly shown, is unjust in principle and injurious in its consequences."
Statistics published by the Bureau of National Affairs in its Patent, Trademark and Copyright Journal on September 13, 1973 show that West Germany and Japan--two countries whose research and development efficiency is reckoned to he very high at present--have much higher standards of invention than our Patent Office does, with about 30% and 40%, respectively, of patent applications filed maturing into patents compared to a figure of 75-80% in this country.
When the deterrent effects of trade secret monopolies on routine subject matter are taken into account conjunctively with the similar effects of the many trivial patents daily issued, it is not at all surprising that the deterioration of United States research and development efforts is rapidly becoming a matter for serious concern.

FN14. Some evidence of the stagnating condition of American industry may be found in the fact that revolutionary technology is not being industrially applied. An article appearing in the Wall Street Journal for November 27, 1973 headlined "Remember the Rolamite? History's 27th, and Newest 'Elementary Mechanism' Still Works, but It Hasn't Revolutionized Technology" states, inter alia:
"In all of history, by one count, only 27 elementary mechanisms--like the lever, the pulley, the ball joint, the hinge and the clutch--have been invented. The 27th was the rolamite, the only one to appear in this century. Invented in 1967, it's a cheap, practically indestructible gadget that theoretically could replace the working parts of hundreds of more complicated and costly mechanical devices. ... "But nobody saluted. Manufacturers admire the rolamite but are unwilling to revamp their operations to make things with it. Engineers say older mechanisms work well enough ...."

B. IRRELEVANT ISSUES ADVANCED IN THIS COURT

Because the briefs of petitioner and its amici have advanced numerous "strawmen" issues not decided below or raised by the record in this case and not even relevant here, clarification is appropriate.

Pointedly, the decision below did not destroy trade secret law generally and did not even foreclose recognition of trade secrets in technical information. Because ***13** it did not, petitioner's question directed to whether the Constitution and the patent laws preempt the state law of trade secrets insofar as it applies to "confidential" relationships is far too sweeping in scope. That question as posed is not susceptible of answer in this case where there is a vacuum of evidence relating to alleged "secrets" other than those constituting information cognizable under 35 U.S.C. 101 but forfeited to the public by commercial use in excess of one year, coupled with failure to file a timely patent application. The framing of such an amorphous question has, however, permitted petitioner and its amici to advance arguments in terms of "trade secrets" broadly so as to suggest that existing law has

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been disrupted to the point of upheaval. When put in context with what was decided, these "horribles" are illusory.

To amplify:

(1) The court below made no pronouncements on that phase of trade secret law relating to criminal remedies for "espionage", burglary, theft, fraud, bribery, assault and the like. As is apparent from the same court's later decision in United States v. Greenwald, 479 F.2d 320 (6 Cir. 1973), the decision below did not disrupt the criminal law and was not intended to do so. [FN15]

> FN15. See the briefs amici of Burroughs (p. 18 and p. 24, n. 41), the Manufacturing Chemists Association (p. 15, esp. n. 24) and Southwire Co. (p. 2) and Petitioner's Brief at 46.

This is, of course, only logical. Remedies for unlawful taking or copying of drawings, blueprints, manuscripts, reports and other tangible items containing information do not turn upon whether or not the information is "secret" but rather are dependent upon that policy of law which preserves the sanctity of a man's person, home and place of business against unauthorized invasion and gives rise to the authorized police power of the states. [FN16]

> FN16. Police power does not, as suggested by some of petitioner's amici, provide any basis or pretext for the creation of private monopolies in the guise of "trade secrets".

***14** A similar policy governs the elicitation of a "trade secret" from a man's mind by threat of violence. Again, the remedy is based on the unauthorized violation of the sanctity of the person and not upon alleged secrecy of the information--the same remedy being available even if the information elicited were old.

State law affording criminal remedies for embezzlement of bona fide "trade secret" information such as e.g. Ohio Revised Code § § 1333.51(C) and 1333.99(E) reproduced at P.Br. 3, is likewise left undisturbed by the decision below, [FN17] which simply holds that technical information forfeited to the public by operation of the patent laws cannot be a bona fide trade secret.

(2) The decision below does not deal at all with the question of whether money payments may appropriately be exchanged for disclosure of "trade secrets", nor is the matter in any way raised by the record in this case. But exercise of the most ordinary common sense leads to immediate recognition that the law authorizes, encourages and enforces payment of money in exchange for communication of information that is neither "secret" nor new in many legitimate relationships. For example, people quite customarily take lessons in any number of subjects that are in no sense secret, ranging from cooking, sewing and flower arranging, to games such as golf, bridge, tennis and the like to arts such as music and painting. People also take lessons in how to speak foreign languages, how to write and how to practice a useful trade--e.g. carpentry or television repair. Attendance ***15** at schools and colleges, including those where tuition is paid in exchange for instruction in a wide spectrum of public record knowledge is regularly at a high level. In the circumstances the suggestion [FN18] that at least the payment provisions of existing and perhaps all contracts for disclosure of alleged "trade secret" information

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already forfeited to the public will be nullified by affirmance of the decision below, seems impractical. [FN19]

FN17. Note that criminal remedies for embezzlement of documents, including blueprints, drawings, reports, models and other tangible things do not rest upon whether the information embodied in the embezzled item is "secret" or "public" but rather, upon unauthorized taking of tangible property.

FN18. The amicus Licensing Executives Society lists seven types of contracts (Br. 19-26) that it says this case will "invalidate": amicus R. J. Reynolds Industries, Inc. laments that "existing contracts ... will be so frustrated that agreements for the exchange of know-how ... will be a thing of the past." (Br. 11). See also e.g. the briefs of amicus Optical Coating Laboratory, Inc., 8-9; amicus Burroughs Corp. 12-14 and 16-17.

FN19. What will be nullified in such cases is the continuing "confidentiality" of the information conveyed, not the obligation to pay for services rendered incident proper instruction of a competitor in all details of the subject matter of the purported "secret", including how to use it. Whether those provisions of such contracts that require running "use" royalty payments subsequent to forfeiture will also be nullified, analogously to the treatment of a contract requiring similar "use" royalties under an expired patent in Brulotte v. Thys Co., 379 U.S. 29 (1964) is for another case in which the issue is properly raised.

The related argument of many amici [FN20] that no further contracts for teaching secret "know-how" to competitors will ever be consummated because it will be cheaper for a competitor to hire an alleged "disloyal" employee at a high salary than to enter into a contract for full instruction in the subject matter seems obviously invalid. The amicus brief of the Licensing Executives Society points out that, in the case of jet engines alone, secret know-how may encompass "details of dimension of a thousand parts, temperatures of operation, choice of metallurgy, speed of rotation and centrifugal force on ***16** blades, pressure on gas and air to burn how fast--the distillation of a million 'obvious' details" (p. 39). Manifestly, one or two "disloyal" employees will not carry such a complex mass of detail in their heads--and if it is desired to acquire the "know-how", a competitor will need to pay for access to plans, engineering blueprints, technical data and reports and instruction by a whole team of company specialists and hence will have to approach the corporate proprietor of the "know-how" directly.

FN20. See e.g., the Optical Coatings Laboratory Brief 7-8. the R. J. Reynolds Industries Brief 10, the Southwire Co. Brief 4, the Burroughs Corp. Brief 15.

(3) The decision below did not affect the validity of any law passed by Congress, any court rule or any treaty. [FN21] Indeed, there is no evidence anywhere, including in the briefs of the various parties who raise this point, that the expression "trade secret" as utilized in any of the cited statutes, rules and treaties was intended to ***17** apply in any way to technical information, the right to a patent for which had been previously forfeited to the people of the United States through commercial use for more than one year. Absent very clear evidence that "trade secret" as utilized in any one or more of those authorities actually encompassed the type of alleged trade secrets to which the decision below applies,

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these arguments are simply irrelevant and should be disregarded. [FN22]

FN21. See Pet. Br. App. A. Petitioner and many amici seem to consider a broad reference to "trade secrets", without more, in a statute, rule or treaty as antithetical to the decision below. See, e.g., the briefs of the Association for the Advancement of Invention and Innovation p. 8; Manufacturing Chemists Association pp. 3839; American Patent Law Association p. 4; Burroughs Corp. p. 7; R. J. Reynolds Industries p. 9; New York Patent Law Association pp. 23–25; American Bar Association p. 3, n. 2; pp. 7–8; Bar Association of the District of Columbia pp. 13–14; Licensing Executives Society pp. 57–58.
Amici Manufacturing Chemists Association ("MCA") (p. 38) and Rohr Industries (p. 4. n. 2) also endeavor to bootstrap the provisions of 35 U.S.C. 122 into a recognition of a "patent applicant's option to retain his invention as a trade secret if no patent is obtained" (MCA Br. 28). This interpretation of 35 U.S.C. 122 which does not itself mention "trade secrets" was enunciated, without support from precedent or legislative history in Sears v. Gottschalk, 357 F. Supp. 1327 (E.D. Va. 1973), a Freedom of Information Act case, now on appeal (No. 73–1699) before the Court of Appeals for the Fourth Circuit.
In that case, the Patent Office stipulated that it "has no right under any statutory or constitutional provision or on any other basis to recognize any sort of property right in subject matter which it has adjudged unpatentable." (Quoted from p. 48 of the printed Appendix filed in No. 73– 1699).

FN22. Moreover, as to those authorities which have to do with nondisclosure by federal government agencies of alleged "trade secrets" communicated to them, it seems evident from a practical viewpoint that the intent of Congress was simply to encourage voluntary and nonlitigious submissions, inter alia, for investigational and informational purposes. In other words, the government, to gain cooperation in the submission of information needed or desired for governmental studies, surveys and the like, found it desirable as a matter of policy to accept as "trade secrets" any information so labeled and to maintain it on that basis, leaving parties adverse to the claimant including the government itself, to challenge the bona fides of the trade secret claim in actual controversies where the issue might arise.

4. The decision below did not in any way deal with the question of whether trade secret protection is consistent or inconsistent with federal antitrust policy and statutes (P. Br. 45–47), nor is the question in any way raised by any part of the record. The cases cited by petitioner to support the alleged consistency in no way establish that federal antitrust policy would be served by protecting as a "trade secret" through a perpetual injunction, information already deliberately forfeited to the public by failure to apply for a patent plus commercial use for more than one year.

Nor is there any authority anywhere that would indicate that the de facto monopolies created by disclosing alleged "trade secrets" to a plurality of prospective (i.e. employee) and actual competitors on a "confidential" basis, thereby establishing a conspiracy to withhold the "secret" information from outsiders and to prevent publication, ***18** are or could be consistent with antitrust policy. And since a group of present and potential competitors banded together for the purpose of exploiting and holding "secret" from public view information forfeited to the public under the patent laws has a marked resemblance to the

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flagrantly monopolistic medieval guilds and their equally monopolistic exclusive corporation successors in England, escape from which was once a major motivation for coming to this country, antitrust policy would appear to be mocked rather than served by these conspiratorial groups.

5. Because the May 10, 1973 decision below obviously could not touch upon proposed Section 301 of S. 2504, the present administration's proposed patent bill first unveiled on September 27, 1973, petitioner's effort to influence this Court by what it might portend if it were passed is presumptuous, to say the least. Whatever "the Administration's view" (P. Br. 52) of what the law should be, this Court must deal with what it is.

6. The court below was properly not at all concerned with fine points of whether the alleged "trade secret" information involved in this case would have satisfied either or both of U.S.C. 102 and 103 if one or more patent applications had been filed. [FN23] Dedication to the public by operation of 35 U.S.C. 102(b) occurs regardless of whether technical information is both new (35 U.S.C. 101 and 102 generally) and unobvious (35 U.S.C. 103) or new but obvious and hence not patentable. [FN24] To put ***19** it another way, this case is controlled not by what might have transpired if there had been a timely patent application, but by what did necessarily transpire by reason of petitioner's deliberate forfeiture to the public of the technical information on which the perpetual injunction is sought. See Section D la, infra, p. 32.

FN23. See generally the briefs amicus of the Chamber of Commerce (pp. 12– 18) and the American Patent Law Association (p. 6).

FN24. There is compelling authority from this Court and elsewhere that technical information within 35 U.S.C. 101 which does not meet the exacting standard of 35 U.S.C. 103 is "dedicated" to the public as soon as it is first commercially used by operation of the Constitution itself. See infra 28a et seq.
The Sixth Circuit had no need to reach that question in the circumstance that all of the information in issue before it had been commercially used for more than one year and no patent applications were filed--with the result that dedication had necessarily occurred at the latest on the expiration of the year of grace afforded by § 102(b) and well before the respondents' interest in competing with petitioner arose. See Section D la, infra, p. 32.

C. THE INDETERMINATE ORIGIN OF AND BASIS FOR TRADE SECRET LAW

Trade secret law is of relatively late day origin, having apparently been recognized in England around 1820 [FN25] and in the United States somewhat later about 1845. [FN26] The heyday of trade secret law did not begin in this country until sometime subsequent to the 1868 decision of the Supreme Judicial Court of Massachusetts in Peabody v. Norfolk, 98 Mass. 1952. [FN27]

FN25. Yovatt v. Winyard, 1 Jac. & W. 394, 37 Eng. Rep. 425 (Ch. 1820) cited in the decision below; see also Newbery V. James, 35 Eng. Rep. 1011 (Ch. 1817) and Williams v. Williams, 36 Eng. Rep. 61 (Ch. 1817).

FN26. See Jarvis v. Peek, 10 Paige 118 (N.Y. Ch. 1843); Hammer v. Barnes, 26 How. Pr. 174 (N.Y.S.Ct. 1863).

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FN27. Amicus Curiae Manufacturing Chemists Association suggests (p. 11) that trade secrets were recognized by the Romans, citing Schiller, "Trade Secrets and the Roman Law; The Actio Servi Corrupti", 30 Colum. L.R. 837 (1930). Examination of the article in question, however, reveals that this alleged "trade secret" protection consisted of certain police power type sanctions available against third parties for corrupting a slave by bribery and the like.

The Bar Association of the District of Columbia as amicus curiae alleges that "the right of an inventor ... ***20** is a right of natural law" (p. 7) and cites the 1602 decision in Darcy v. Allin [FN28] as giving recognition to the common law right of an inventor to practice his invention secretly. Careful examination of that case and of the section of Blackstone's Commentaries cited (p. 7, n. 4) to support the allegation reveal that these authorities, viewed most favorably to the Association, recognized an inventor's common law right to maintain his invention in secret rather than a right to practice in secret. The distinction is material.

FN28. Noy, Rep. 173; 74 Eng. Rep. 1131 (1602). This is the famous case concerning the monopoly patent on playing cards, an old commercial product, granted by Elizabeth I.

European, including English technology was for centuries dominated by guilds and their "exclusive corporation" successors, each of which had absolute monopoly power over an assigned segment of technology within a given geographic area. If an inventor who was not a member of a guild wished to practice his own invention, he needed a patent--a license, as well as a temporary monopoly, from the king--in order to do so. [FN29] Any secret practice of an invention by a person not a guild member would, absent a patent, infringe an existing guild monopoly and the result would have been fines and imprisonment for the secret practitioner, plus seizure and destruction of the involved goods. [FN30] As recognized in Deepsouth ***21** Packing Co. v. Laitram Corp., 406 U.S. 518, 525-6 (1972) "Under the [pre-Constitutional] common law the inventor had no right to exclude others from making and using his invention." There was, hence, no "property right" in an invention at common law in those times.

FN29. See infra 14a to 21a; see also the authorities therein cited. One such authority. Prager, "A History of Intellectual Property from 1545 to 1787". 26 J. Pat. Off. Soc'y 711 (1944), reproduces at p. 754 a part of the French edict of February 5, 1776 abolishing the guilds as follows:
"... We want to abrogate those arbitrary institutions which ... retard the progress of the arts, by multiple difficulties put in the way of an inventor; those guilds that dispute his right to use a discovery never made by themselves ...."

FN30. The eventual nineteenth century implementation in England of obligations of "confidentiality" in "trade secret" technical information is a bit ironic. England concurrently granted patent rights to importers who obtained from others outside England by any means, fair or foul, disclosures of new technology and then introduced them into the realm. Thus as late as the early 19th century Englishmen who "stole" so-called "secrets" outside England were rewarded--yet those who "stole" them in England could be punished or enjoined.

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Consistent with its actual apparent nineteenth century origin, one commentator has asserted that: [FN31]

> FN31. Kane, "Limitations on the Law of Trade Secrets" 53 J.Pat. Off. Soc'y 162 (1971).

"... The law protecting unpatented or unpatentable and uncopyrighted or uncopyrightable intangible industrial property as 'trade secrets' evolved in the nineteenth century during the early growth of industry in this country. The protection afforded such intangible property was of course at the expense of competing interests in individual freedoms to thought and circulation of ideas, the right to pursue any calling, the mobility of employees, and free competition, all interests reflected in the Bill of Rights of our Constitution. The law of trade secrets was a judicially created subsidy to emerging industry at the expense of these interests. This can be understood in the context of other subsidies afforded industry by the law during that period including the early sacrifice of the health and welfare of workers as injuria absque damnum and the strict limitations placed on tort remedies such as nuisance against industrial offenders. Industry generally has been permitted to invade the public trust without recourse. But, times have changed and they have changed radically. Industry no longer needs subsidization at the expense of other previous public ***22** interests reflected in the Constitution. Rather, it is the individual freedoms to pursue any calling, of mobility, of circulation of ideas, of free competition and regimentation, which today need careful guarding ...." (Emphasis added).

In short, trade secret law was born of expediency. It most assuredly was not born of "natural law".

Indeed, the notion that natural law confers a "property right" upon the creator or discoverer of any form of information, irrespective of positive law recognition, finds no support whatever in natural law philosophy as originally promulgated. [FN32]

> FN32. St. Thomas Aquinas, who is generally considered to be the father of natural law philosophy, did not advocate any natural property right in information. Nor did Aristotle, whose writings are conceded to have heavily influenced Thomas Aquinas, make any such suggestion.

According to Machlup and Penrose, [FN33] who have traced in detail its history, the "natural property right" concept as applied to inventors was itself originated in a spirit of expediency by the French politician De Bouffler [FN34] as a deliberate ruse to preserve patents from the strong popular tide against privilege and monopoly and for liberty and equality which dominated the French Con ***23** stitutional Assembly in 1791. [FN35] "It happens that those who started using the word 'property' in connection with inventions had a very definite purpose in mind: they wanted to substitute a word with a respectable connotation 'property' for a word that had an unpleasant ring 'privilege'." [FN36]

> FN33. "The Patent Controversy in the 19th Century" 10 Journal of Economic History 1, especially at 11-17 (1950).

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FN34. Note 2, page 7 of the Brief Amicus of the Bar Association of the District of Columbia. which suggests by truncated, out of context apparent quotation from an early article by Noah Webster that he knew and espoused the concept in 1788, three years before De Bouffler. Resort to American Magazine for February, 1788 reveals no such statement as the quoted portio nof the note, though it does show that Webster, who was editor of the magazine, made an impassioned editorial plea in quite different words for recognition of a common law copyright. He said nothing about technical information, inventions or patents, however.

FN35. The ruse was immediately successful. The French patent law passed that year contained a preamble stating, inter alia. "that every novel idea whose realization or development can become useful to society belongs primarily to him who conceived it, and that it would be a violation of the rights of man il their very essence if an industrial invention were not regarded as the property of its creator." Machlup and Penrose, supra, note 33 at 11.

FN36. Machlup et al note 33 supra at p. 14. Many proponents of natural property rights in technical information argue in terms of John Locke's thesis that man has a natural right to the fruits of his labor. The rationale is that the product of one's labor, even if an intangible such as technical information, must, therefore, be recognized as one's property.
The rationale breaks down because technical information, unlike a tangible object, cannot be simultaneously exhibited to others and retained within the sole domination and control of its originator. Moreover, the nature of technical information is such that it may be originated by a plurality of individuals at different times, with the necessary result that it cannot be exclusive property of each or any of them. As observed by Thomas Jefferson in 1813, "If nature has made any one thing less susceptible than all others of exclusive property, it is the action of the thinking power called an idea, which an individual may exclusively possess as long as he keeps it to himself; but the moment it is divulged, it forces itself into the possession of everyone and the receiver cannot dispossess himself of it." Letter to Isaac McPherson, VI Writings of Thomas Jefferson (Washington ed.) at p. 180 (1814).

Modern day adherents of the "natural property right" of inventors in alleged trade secret technical information appear, like De Bouffler, to be motivated by considerations of expediency--their purpose being to find some means by which constitutionally unpatentable technical information can be protected as "property" so as to permit exclusion of others on one pretext or another from the use of the information.

***24** Our Constitution originated under circumstances totally inconsistent with the concept of a natural property right in technical information. [FN37] At least initially, many of the founders of our nation, including Thomas Jefferson, were opposed to monopolies of any sort including specifically patents. [FN38] Nevertheless, it was ultimately agreed to authorize a carefully limited patent system for the purpose of promoting "Progress of Science and useful Arts" and for no other purpose. [FN39] No record exists anywhere that ***25** suggests the Founding Fathers were aware of, discussed or were in any way influenced by any concept of trade secrets or that they ever recognized such a possibility as an alternative to patents. [FN40]

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FN37. See the detailed discussion infra, p. 22a to 41a; see also the authorities therein cited.

FN38. Thus Jefferson, writing to Madison from Paris on July 31, 1788, observed that "saying there shall be no monopolies lessens the incitements to ingenuity, which is spurred on by the hope of a monopoly for a limited time, as of 14 years; but the benefit even of limited monopolies is too doubtful to be opposed to that of their general suppression." The Papers of Thomas Jefferson, Vol. XII, p. 440.

FN39. James Madison, one of the most active of the Constitutional framers, responded to Jefferson, note 38 supra, in a letter of October 17, 1788 that "With regard to monopolies, they are justly classed among the greatest nuisances in Government. But is it clear that, as encouragements to literary works and ingenious discoveries, they are not too valuable to be wholly renounced? Would it not suffice to reserve in all cases a right to the public to abolish the privilege, at a price to be specified in the grant of it? Is there not, also, infinitely less danger of this abuse in our Governments than in most others? Monopolies are sacrifices of the many to the few. Where the power is in the few, it is natural for them to sacrifice the many to their own partialities and corruptions. Where the power, as with us, is in the many, not in the few, the danger cannot be very great that the few will be thus favored. It is much more to be dreaded that the few will be unnecessarily sacrificed to the many." Letters and Other Writings--Madison, Vol. I, 1769-93, p. 427. In Madison's parlance, trade secrets, which are "sacrifices of the many to the few" are monopolies. Moreover, the usurpation in the "few" of power over technology which trade secrets represent as now practiced in modern industry (supra, pp. 7 to 12) represents a very great danger to many individual liberties. See Kane quoted supra at 21.

FN40. See generally the voluminous historical documents relating to the Constitutional Convention. including journals of its participants included in House Document No. 398, 69th Cong., 1st Sess. and in Farrand, "The Records of the Federal Convention of 1787."

Consonant with the limited power afforded it, Congress promulgated a patent system, initially in 1790, and thereafter through a continuous chain of statutes. This Court first considered and rejected the notion that the patent system is based upon a natural right of inventors in Pennock v. Dialogue, 27 U.S. 1, 16-17 (1829) and concluded it to be solely a creature of positive law in which the public interest, and not that of the inventor, was paramount. [FN41] The Court was careful to point out that "the Constitution ... contemplates ... that this exclusive right shall exist but for a limited period, and that the period shall be subject to the discretion of Congress. The Patent Act of the 21st of February, 1793, ch. 11, prescribes the terms and conditions and manner of obtaining patents for invention; and proof of a strict compliance with them lies at the foundations of the title acquired by the patentee." [FN42]

FN41. This primacy of public interest is a fundamental cornerstone of federal patent policy under the Constitution, from which this Court has never departed. It has been reiterated most recently in Deepsouth Packing Co.,

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supra, p. 21, 406 U.S. at 531. Trade secret monopolies, of course, invert the fundamental order of priorities and for this additional reason are antagonistic to the patent system.

FN42. The Court in Pennock also observed that "[i]t has not been, and indeed cannot be. denied that an inventor may abandon his invention and surrender or dedicate it to the public. This inchoate right, thus once gone cannot afterwards be resumed at his pleasure: for, where gifts are once made to the public in this way, they become absolute." 27 U.S. 1, 16.

Four years later in Shaw v. Cooper, 32 U.S. 390, 318 (1833), the Court again stressed that the exclusive right ***26** available under the patent laws, even though perhaps justly deserved by inventors "can only be secured by a substantial compliance with every legal requisite. His exclusive right does not rest alone upon his discovery, but also upon the sanctions which have been given to it and the forms of law with which it has been clothed." [FN43]

FN43. Unless otherwise stated, emphasis in quotations hereinafter is added.

Similarly in Gayler v. Wilder, 51 U.S. 477, 494 (1850), it was said that
"the discovery of a new useful improvement is vested by law with an inchoate right to its exclusive use, which he [the inventor] may perfect and make absolute by proceeding in the manner which the law requires....

* * *

Now, the monopoly granted to the patentee is for one entire thing; it is the exclusive right of making, using, and vending to others to be used, the improvement he has invented, and for which the power is granted. The monopoly would not exist at com mon law and the rights, therefore, under it can not be regulated by the rules of the common law. It is created by the Act of Congress; and no rights can be acquired in it unless authorized by statute and in the manner the statute prescribes."

To the same effect, the Court in Brown v. Duchesne stated:
"But the right of property which a patentee has in his invention, and his right to its exclusive use, is derived altogether from these statutory provisions; and this court has always held that an inventor has no right of property in his invention, upon which he can maintain a suit, unless he obtains a patent for it, according to the Acts of Congress; and that his rights are to be regulated and measured by these ***27** laws, and cannot go beyond them." 60 U.S. 183, 195 (1857). [FN44]

FN44. Compare the efforts of Kewanee in this case to maintain a suit on the basis of "natural" or contractual property right.

Again, in Marsh v. Nichols, 127 U.S. 605 (1888) this Court emphasized that:
"... the patent for an invention conveys nothing which the Government owns or its predecessors ever owned. The invention is the product of the inventor's brain, and if made known would be subject to the use of any one, if that use were not secured to him. Such security is afforded by the Act of Congress when his priority of invention is established before the officers of the Patent Office, and the patent is issued. The patent is the evidence of his exclusive right to the use of the invention; it therefore may be said to create a property interest in that invention. Until the patent is issued there is no property right in it, that is, no such right

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as the inventor can enforce. Until then there is no power over its use, which is one of the elements of a right of property in anything capable of ownership ...."

Most recently in Graham v. John Deere Co., 383 U.S. 1 (1966), this Court as again reaffirmed that "[t]he patent monopoly was not designed to secure to the inventor his natural right in his discoveries."

Congress has itself clearly recognized that its power to legislate as to patents is in no sense dependent upon any alleged natural right of property in information. Thus, in House Report No. 1494, 52nd Congress, First Session, written as an incident to the codification of the patent statutes in 1894, it was stated that

"The object to be attained and the reason for the constitutional grant of power are imbedded in the grant itself. They are 'to promote the progress of science and the useful arts.' There is nothing said ***28** about any desire or purpose to secure to the author or inventor his 'natural right to his property'. The monopoly given him is avowedly given, not primarily for his benefit, but for the benefit of society at large. The claims made so often, especially of recent years, that the author or inventor has a natural right to the exclusive use of his production, and is therefore entitled, as of course, to legislation securing to him the full enjoyment of this right, does not seem to have been specifically passed upon by the fathers; but one thing is absolutely certain, they did not make this constitutional grant of power upon any such ground. Much confusion of thought has arisen from the assertion of this right as an innate, absolute right existing in the individual, and a contemporaneous neglect to examine the limitation of the power given in the premises to Congress.

"It is perhaps safe to say that for the past twenty or thirty years no Committee on Patents has had an existence which has not had the fortune to listen to long and very interesting arguments claiming the existence in the author or inventor of this right, and the duty of Congress to give by legislative enactment full and complete enjoyment of that right. Whatever may be the correct conclusion as to the existence of any such right, the duty of Congress is measured by its power, and that power can be no broader than the words conferring it.

"... It is sufficient to read the words of the grant in their plain every-day meaning to discover that the good of society was the only thing provided for, or intended to be provided for...." [FN45]

FN45. A second Congressional rejection, in much the same language, of the natural right argument, was made in connection with copyright legislation. See House Report No. 2222, 60th Congress, 2nd Session (1909) at page 7.

As well said by Mr. Justice Brandeis, dissenting, in International News Service v. Associated Press, 248 U.S. 215, 250 (1918):

***29** "... An essential element of individual property is the legal right to exclude others from enjoying it. If the property is private, the right of exclusion may be absolute; if the property is affected with a public interest, the right of exclusion is qualified. But the fact that a product of the mind has cost its producer money and labor, and has a value for which others are willing to pay, is not sufficient to insure to it this legal attribute of property. [FN46] The general rule of law is, that the noblest of human productions--knowledge, truths ascertained, conceptions, and ideas--become, after voluntary communication to others, free as the air to common use. Upon these incorporeal productions the attribute of property is

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continued after such communication only in certain classes of cases where public policy has seemed to demand it." [FN47]

FN46. Importantly, this fact--i.e. that technical information costs money and labor, and has a value for which others would be willing to pay-is one of the bases advanced by petitioner and many of its amici for protection of the trade secret "property" rights denied in the Court below. See infra, Section E, p. 47.

FN47. The exceptions recognized in the immediately following passage are those which are copyrightable and "the inventions and discoveries [constituting] ... the few comprised within the patent law."
In addition, Justice Brandeis recognized cases in which courts "interfere to prevent curtailment of plaintiff's enjoyment of incorporeal productions" which are based upon "breach of contract or of trust, or upon unfair competition" but gave no indication that incorporeal productions already forfeited to the public could be protected on any ground.

Essentially to the same effect Justice Holmes, concurring with the majority in the same case, said "[p]roperty, a creation of law, does not arise from value, although exchangeable-a matter of fact. Many exchangeable values may be destroyed intentionally without compensation. Property depends upon exclusion by law from interference ..." [248 U.S. at 246].

In short, property rights in technical information do not arise simply in consequence of the expenditure of ***30** time, effort, labor or ingenuity; [FN48] nor do they arise because the time, effort, labor and ingenuity required a substantial financial outlay. [FN49]

FN48. This was recognized in English courts as early as 1571 in the case of Matthey's Patent for a particular kind of knife handle held invalid on the ground that the cutlers' guild had previously made similar knives with a somewhat different type of handle and that the change was within the ordinary skill of the art. The court observed, inter alia, that "he could never have benefit from this patent although he labored very greatly therein." See Prager, "Standards of Patentable Invention From 1474 to 1952," 20 University of Chicago L.R. 69, 71-72 (1952) and authorities cited therein.

FN49. Clearly only some financial outlays result in the acquisition of property. Many others are made in exchange for services of one sort or another including medical, legal, and accounting assistance, personal grooming, household help, etc. Many such services can be performed only through considerable expenditure of time, effort, labor and ingenuity; yet no one argues that the product of these services is "property" of any sort.
By far the major portion of research and development outlays is payment for the services of trained personnel such as engineers, chemists and the like who conduct the investigations. No reason has been advanced for viewing the product of the services of these people any differently from the product of the services of physicians, dentists, lawyers, accountants, beauticians, barbers, maids or waiters.

There being no "natural" property in intangibles such as technical information,

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petitioner's claimed right to a permanent injunction must stand or fall on common or statutory law of Ohio. The circumstance that there was no common law right in trade secrets or inventions generally recognized prior to the adoption of the Constitution, suggests strongly the lack of basis for any argument that power to regulate trade secret rights being ***31** "not given Congress was of course reserved to the states." [FN50]

> FN50. The quotation is from the brief amicus curiae of the Licensing Executives Society, pp. 49–50; see also e.g. the brief amicus of the Manufacturing Chemists' Association, pp. 20–22; brief amicus of Burroughs Corp., pp. 19–23 and the brief amicus of the Bar Association of the Distirct of Columbia, pp. 9–10. As to the latter, it should be noted that the powers of both state and federal governments, under our system of government, were delegated by the people. Hence, it is immaterial, even if correct, that "the states did not delegate any power to regulate rights in secret inventions," (id. at 9). It seems fair to suggest, moreover, that the people never delegated to either state or federal governments the full power to regulate "secret inventions"--hence the dicta in some cases, e.g. United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) regarding an inventor's privilege (rather than enforceable right) only to keep his invention secret, i.e., to refrain from telling it to anyone if he so chooses.

Rather, it seems clear on the fact of the Ninth (2a) and Tenth (2a) Amendments to the Constitution that any powers or rights not within the knowledge of the people at the time the Constitution was adopted, were intended to be reserved to the people under the Tenth Amendment or retained by them under the Ninth Amendment at least until expressly delegated to state or federal government. Any other interpretation would be in direct derogation of the sovereignty of the people, perhaps the most basic tenet of our particular form of government.

There is no pretense here of an express reference to trade secrets in the Constitution of Ohio--and this is understandable inasmuch as Ohio had been a state well before the emergence of the trade secret concept. Nevertheless the lack of in haec verba mention of trade secrets in the earlier federal Constitution is urged by petitioner's amici to be significant to show an intention not to preempt trade secret law at the federal level.

In short, the intent of the Constitutional framers as to trade secrets was non-existent and questions of that ***32** intent are relevant here only insofar as they demonstrate the meaning of the patent laws and the constitutionally guaranteed right of every citizen to pursue a trade or business and thereby show conflict with Ohio law.

1. Preemption by the Patent Clause and Statutes

Grants by the states of exclusionary rights in science and useful arts which have the net effect of retarding or even stifling progress are, regardless of purpose, in the teeth of the Constitutional mandate for promotion of progress in these fields. Hence, to the extent that Congress exercises its patent power no state may engage in activities that are contrary to, or otherwise designed to frustrate, the federal action taken.

a. Patent Policies

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For example, the constitutional patent clause contains a mandatory minimum level standard of invention which must be met before a valid patent can issue. [FN51]

FN51. See infra, 5a to 50a. For the states to grant de facto monopolies under the "trade secret" label in technical information which falls short of the high constitutional standard of invention is in the teeth of the patent power and in derogation of Fourteenth Amendment guarantees that every citizen is entitled to pursue an ordinary calling (37a to 41a, infra). Hence the suggestion in Adelman "Secrecy and Patenting: Some Proposals for Resolving the Conflict", 1 APLA Quarterly Journal 296 (1973) that the decision below be implemented only in regard to "patentable" inventions and the states be permitted to grant trade secret protection to technical information falling below the constitutional standard of invention, flies in the face of constitutional strictures. In addition, the suggestion would be cumbersome to implement.
In line with the "notorious difference" between Patent Office and court strictness of application of patentability tests which this Court referred to in Graham, supra, n. 10, "[i]t is now a truism ... that if you sit around the Patent Office long enough, and change your claims often enough, you will eventually get some kind of a patent on almost anything". M. Shapiro, "The Supreme Court and Administrative Agencies", The Free Press (New York 1968) p. 189. Most patents are found invalid, if litigated-but litigation is time-consuming and expensive and should not be a requisite to determining whether the rationale below applies.
See also generally Weissman, "Testimony Before the Senate Judiciary Committee, Subcommittee on Patents, Trademarks, and Copyrights, Relating to S. 1321 (Hart bill)", 55 J. Pat Off. Soc'y 604 (1973) wherein administrative pressures to issue ever increasing numbers of lower and lower quality patents are quite fully and candidly exposed.

***33** Similarly, the constitutional patent clause was drafted at a time when the idea of a written specification was very new.

The earliest patents for inventions, including new importations, granted in England and the Italian city states preceded the introduction of the printing press in Europe. In those early times and continuing for more than two centuries subsequent to its adoption, dissemination of technical information by the written word was extremely rare. The accepted fact was that an "inventor" (including an importer) made his invention public by introducing it into commercial use. [FN52] While the notion of a written patent specification appeared in England, spontaneously, about the middle of the seventeenth century, England had no statute requiring the submission of a written ***34** specification until 1852, [FN53] well after the promulgation in this country of the various general patent laws of 1790, 1793 and 1836, each of which required a full and complete written description analogous in every respect to that required by present 35 U.S.C. 112. [FN54]

FN52. See Federico, "Origin and Early History of Patents", 11 J.Pat. Off. Soc'y 292 (1927) which states at p. 304 that
"The consideration of the patent grant was the creation of a new industry and, as has already been noted, knowledge was given to the public by the actual establishment of the industry and, in some cases, by the teaching of apprentices. The patents in general contained no description, either in

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writing or by a drawing, and such description did not seem to have been necessary. The change to a requirement of a formal written disclosure, or specification was gradual. A few of the early seventeenth century patents contained a description of the invention and the custom of presenting a specification increased with time. These specifications were made solely on the patentee's initiative and for the purpose of making the scope of their grants more certain."

FN53. See Bugbee, "Genesis of American Patent and Copyright Law" Washington Public Affairs Press (1967) at p. 41.

FN54. One of the vices of the "trade secret" concept as espoused by petitioner and its amici is that an inventor often submits to the Patent Office a specification couched in vague generalities, including a detailed description of a few crude early experiments and obtains a patent, while, at the same time, withholding from the Patent Office the "know-how" requisite to actual commercial practice of the invention. Such deliberate withholding of information requisite to apprise the public of precisely how to make and use the invention under 35 U.S.C. 112 is a specific ground for invalidity of a patent under the provisions of 35 U.S.C. 282. However, it is difficult for the Patent Office, lacking machinery to compel disclosure of evidence, including even subpoena power, to police the completeness of the specification effectively. It is noted that on the order of 70 to 75 per cent of litigated patents are held invalid in the courts, many at least in part on grounds of deficiency under 35 U.S.C. 112.
The fact that many patent owners use trade secret law to "protect" know-how outside the patent laws in derogation of 35 U.S.C. 112, is the subject of comment by Doerfer in "The Limits of Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy," 80 Harvard L.R. 1432, 1442-4 (1967).

Thus, to a point in time not long before the Constitution was adopted, commercial use of an invention was definitely synonymous with making it public. There is no indication that the requirement, in the first and subsequent United States patent laws, for a written specification was intended to change this state of affairs. Per contra, there is every indication that this was based upon a desire to "promote progress" by disseminating written information quickly and freely. As one writer has suggested, the intent of the constitutional patent clause and the patent laws which implemented it "was to encourage domestic invention, but the actual commercial introduction ***35** of the invention was left to business enterprise. It was not intended to require that the inventive thought should be withheld until the inventor could incorporate it in actual manufacture. The intent was to bring about publicity of the ideas as soon as possible as an incentive for others to improve thereon and to stimulate and advance the useful arts." [FN55]

FN55. See Michel, A.J., "Historical Development of Principal Patent Systems," (page 19), a thesis available in the Library of Congress under Card No. T215M43.

Decisions of this Court are consistent with the suggestion that the written specification was not intended to supplant commercial use as a means of introducing technology to the public, but was intended as a stimulant to early disclosure. [FN56]

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FN56. Pointedly there is no evidence that it was intended to so qualify the history of centuries as to place technical information in the public domain via commercial use only if completely disclosed by the marketed product, thereby giving rise to that hypocrisy of modern patent law--the "secret public use". See e.g. the brief amicus of Manufacturing Chemists Association, p. 30-31; P. Br. 28-32.
Note in this connection the fact that, as pointed out by Adelman supra, note 51, recognition of a protectable "trade secret" in commercially used technology where the product sold or used does not reveal the "secret" would result in an arbitrary, unfair and random classification among proprietors of technology as to who would be eligible for protection and who would not.

One of this Court's earliest patent decisions, Pennock v. Dialogue, supra, p. 25, clearly expresses the principle that deliberate forfeiture by the inventor of the inchoate right to a patent constitutes a gift to the public. [FN57]

FN57. See the language quoted in note 42 supra. Pennock is cited in Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2 Cir. 1946)--a case heavily relied on by petitioner (P. Br. 29-30)-- as supportive of the conclusion that a use can be both commercial and secret but the real thrust of Pennock is that commercial use of technical information was at that time, as earlier, understood to constitute a gift to the public absent timely steps to acquire a patent

***36** The same thought appears clearly in the quotation from Kendall v. Windsor, 62 U.S. 322 (1858) relied upon by the court below in its decision in this case (478 F.2d at 1082; Pet. A14).

In Consolidated Fruit Jar Co. v. Wright, 94 U.S. 92 (1877), this Court squarely held that commercial use in excess of the statutory period without filing a timely patent application results in an unqualified gift to the public, and hence places the pertinent technology within the public domain.

As this Court put it:
"Inventors are a meritorious class. They are public benefactors. They add to the wealth and comfort of the community, and promote the progress of civilization. A patent for an invention is as much property as a patent for land. The right rests on the same foundation, and is surrounded and protected by the same sanctions. There is a like larger domain held in ownership to the public. Neither an individual nor the public can trench upon or appropriate what belongs to the other. The inventor must comply with the conditions prescribed by law. If he fails to do this he acquires no title, and his invention or discovery, no matter what it may be, is lost to him, and is henceforward no more his than if he had never been in anywise connected with it. It is made, thereupon, as it were by accretion, irrevocably a part of the domain which belongs to the community at large. The invention here in question is within this category." [FN58]

FN58. Amicus the Bar Association of the District of Columbia relies on the 6-3 decision in Gayler v. Wilder, 51 U.S. 477 (1850) to allege that this Court has recognized "interplay of common [trade secret] law and patent law" (Br. 11) by holding an alleged "secret public use" not to defeat a later applied for

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patent. But as the amicus is forced to admit (p. 11) the question of the possible dedicatory effect of the use was not argued in Gayler--and the later decision in Consolidated Fruit Jar is in any event controlling. Consolidated also clearly demonstrates error in Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901 (CCPA 1969) cited and quoted by petitioner (p. 28) by making clear that patent laws operate automatically to force technical information into the public domain on the happening of statutorily defined events.

***37** As petitioner somewhat backhandedly recognizes (P. Br. 30-31), Egbert v. Lippmann, 104 U.S. 333 (1881) and Hall v. Macneale, 107 U.S. 90 (1882) are consistent with Consolidated Fruit Jar. Both Hall and Smith & Griggs Mfg. Co. v. Sprague, 123 U.S. 141 (1887), which follows Hall specifically rejected the notion that elements "hidden from view" as an incident to commercial use are "secret".

See also Corona Cord Tire Co. v. Dovan Chemical Corp., 276 U.S. 610 (1927) where automobile tire inner tubes cured with diphenylguanidine--a fact not discernible by inspection of the tubes--which were used publicly by a third party more than the then two year grace period prior to the patent application, were persuasive on the question of dedication to the public.

Against this array of authority petitioner and its amici rely on later lower court decisions, [FN59] none of which reached this Court, to insist that a "public use" may be so conducted as to reserve "trade secret" rights in the user. These cases include Macbeth-Evans Glass Co. v. General Electric Co., 246 F. 695 (6 Cir. 1917); Metallizing cited supra, n. 57, and Huszar v. Cincinnati Chemical Works, 172 F.2d 6 (6 Cir. 1949). Notably, not one of them is concerned with whether a perpetual injunction may issue to aid a putative inventor in reserving to himself a "secret" in technology used com ***38** mercially for more than one year. [FN60] Rather, all find that the commercial use whether or not embodying an alleged "secret" bars a patent. Logic would seem to compel that the same commercial use in excess of the grace period of 35 U.S.C. 102(b) (3a) would equally bar issuance of an injunction to enforce what Metallizing refers to as "practical monopoly by means of secrecy." (153 F.2d at 519).

FN59. See P. Br. 28-32; brief amicus of MCA, 29-31; brief amicus of American Patent Law Association 6-7.

FN60. Macbeth-Evans was decided under R.S. 4886 when the bar period was two years and the principle otherwise unchanged.

In opposition to logic, petitioner and its amici advert to this Court's alleged recognition of a right to hold information secret. [FN61] But the language quoted is in every instance dictum and when read in context suggests only that a self-styled inventor is not under a legal compulsion to obtain a patent or to make a public disclosure of any kind. As said in Bates v. Coe, 98 U.S. 31, 45-6 (1878) "Inventors may, if they can keep their inventions secret...." There is no suggestion anywhere in this Court's decisions of a legally protectable right to secrecy in technology much less a holding that the law will aid and abet one who claims "secrets" in unpatented and unpatentable technology in obvious frustration of the constitutional patent policy favoring free circulation of ideas, [FN62] by enjoining others from competitively using those "secrets".

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FN61. See e.g. P. Br. 42-43.

FN62. Significantly Becher v. Contoure Laboratories, Inc., 279 U.S. 388 ((P.Br. 43) involved a suit to compel assignment to the true inventor's corporate assignee of a patent which the inventor's co-worker wrongfully obtained in his own name and would not be in any way affected by affirmance of the decision below. Neither, insofar as the opinions show would the actual holdings in United States v. Dubilier Condenser Corp., supra, note 50, or Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911) heavily relied on at P. Br. 42-3.

In sum, this Courts' pertinent decisions are overwhelmingly to the effect that the forfeitures effected by the ***39** patent laws--whether as a consequence of patent expiration, [FN63] patent invalidity [FN64] or failure to file a timely application when coupled with commercial use in excess of the statutory grace period [FN65] -- are automatic and depend not upon what the public actually knows but upon what the public has a free right to use, known or unknown. [FN66]

FN63. See Brulotte V. Thys, supra, note 19; Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1946).

FN64. E.g. Lear, Inc. v. Adkins, 395 U.S. 653 (1969); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

FN65. Supra, pp. 35 to 37.

FN66. Petitioner and its amici seem to suggest that so long as a proprietor of technology has a "secret" he must receive some quid pro quo in the way of protection to part with it. But the reward afforded by the patent laws is not at all for giving up a right to keep technology secret, but for timely disclosure of an invention beneficial to society. Beginning with the 1790 patent act, the inventor has always been required to disclose his invention in exchange for a chance of reward rather than a guarantee of reward, consistent with the constitutionally mandated policy that the public interest, not the inventor's, is paramount.
To approximately 1879, the applicable rules of the Patent Office routinely made abandoned patent application disclosures publicly available. Even today abandoned and, sometimes, pending patent application disclosures are publicly available in a plurality of situations where no "reward" for the disclosure is given. For example, European countries including those with patent registration systems where patents, issue virtually immediately require that the United States counterpart application be supplied as a basis for claiming a priority right under tht Paris Convention and in such cases, a copy of the United States application becomes promptly available from the foreign patent office. For another example, abandoned applications mentioned in issued patents are routinely available.

b. Reasons for Preemption

Petitioner and its amici nonetheless suggest [FN67] the power of the states to be coextensive with that of the federal ***40** government to protect technical information

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within the scope of 35 U.S.C. § 101 and argue that, federal and state objectives being different, there is no reason why "patent" powers cannot coexist in the same manner as state and federal copyright laws under Goldstein v. California, 412 U.S. 546 (1973).

FN67. E.g. P. Br. 37-40; brief amicus of the Chamber of Commerce 8-12; brief amicus of MCA 32-35.

There are several answers to this position. One is that regardless of possible differences in objectives, the results of concurrent patent and trade secret "property" protection within the scope of 35 U.S.C. § 101 are overlapping and disparate, with the trade secret protection being in frustration of patent policies.

Another is that Goldstein itself recognizes and reaffirms the preemptive effect of the patent laws vis-a-vis state unfair competition laws--and "trade secrets" are, after all, just one variety of unfair competition (P. Br. 46).

Still another is that Goldstein relates to copyrights which are narrow and unique rights, protective only against copying, and not infringed by another's original creation of even a closely related work. The patent on the other hand is an absolute monopoly over a segment of technology which prevents others from engaging in its use in any way. [FN68] State and federal copyright collisions ***41** are hence easily avoidable-but state and federal patent collisions with both operating inside the scope of 35 U.S.C. § 101 would be inevitable. Hence, federal law necessarily governs pursuant to the Supremacy clause (1a) and the conflicting state law is void. See Sears and Compco, supra, note 64.

FN68. See Fox, "Monopolies and Patents", (Toronto 1947) at pp. 14-15 where it is stated:
"... If an independent author arrives at the same results by independent means, the copyright owner has no right to prevent to that extent the invasion of his monopoly. The difference between the monopoly conferred by patent and by copyright will be immediately perceived. If it could be shown, as a matter of fact, that two precisely similar works were in fact produced wholly independently of one another, the author of the work published first would not be entitled to restrain the publication by the other author of that author's independent original work. What is given is the merely negative right to prevent the appropriation of the labours of an author by another. A patent right, on the other hand, is quite different. The monopoly is absolute. and once an inventor has complied with the provisions of the Patent Act, and a valid patent has issued to him, he can prevent the exercise of that invention by anyone else who has, quite in the belief that he was actually inventing something new, and without knowledge of the patentee's patent, invented the same thing, even simultaneously with the patentee."

The fact that some state patents were granted in the years prior to the Constitution as pointed out in Goldstein, supra, is not, as petitioner argues (n. 7, pp. 25-26) supportive of a present right in the states to grant "patents" or other exclusionary property rights within the scope of 35 U.S.C. 101. Congress in the Patent Act of 1793 [FN69] specifically conditioned the right to a federal patent in the very same subject matter area now defined by § 101 [FN70] for a previously state-protected invention upon the relinquishment of the state patent and thus made

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clear an intent to preempt the field absolutely. Failure of subsequent patent acts to deal with the matter can, no doubt, be attributed to the fact that inventors ceased seeking state grants after the federal patent laws became effective. [FN71]

FN69. 1 Stat. 318 § 7.

FN70. 1 Stat. 318 § 1; see also the Reviser's note to present 35 U.S.C. § 101.

FN71. None of the states had established procedures governing the manner of applying for a patent-hence, it was necessary for an inventor to make a separate petition to and meet with the legislature in each state, a time consuming, cumbersome and expensive undertaking. No doubt this was one of the reasons why Madison noted in The Federalist Papers, No. 43, that "The States cannot ... separately make effectual provision for ..." patents.

***42** Patents, unlike copyrights, are also powerful instruments of interstate commerce. As the Court recognized in Blonder-Tongue Laboratories v. University of Illinois Foundation, 402 U.S. 313, 346 (1971), the circumstances obtaining under prior law when a patent had been held invalid as to one manufacturer but was presumed valid as to all others tended to promote artificial marketing and pricing inequalities and to interfere with the free competitive policy of the antitrust laws. For the states to compete among themselves and with the federal government in the grant of exclusionary rights in subject matter defined by 35 U.S.C. § 101(3a) is hence to derogate the exclusivity of federal interstate commerce power [FN72] and to disrupt significantly the effectiveness of federal policies promulgated under that power, such as that expressed in the antitrust laws.

FN72. Gibbons v. Ogden, 22 U.S. 1 (1824).

Another compelling reason why the power to grant exclusionary rights within the scope of the 35 U.S.C. 101 subject matter definition is and must be confined to the operation of federal patent law, is the preeminent right under the Fifth (1a) and Fourteenth (2a) Amendments to the Constitution (37a to 41a) of every citizen to utilize his own talents and skills in the pursuit of a trade or calling. [FN73] This light has a necessary interaction with the patent laws, as explicated, infra, 37a to 47a. The paramount interest of society is in preserving the rights of all citizens in the free use of their own skills and talents--a goal which would be undermined by indiscriminate patent grants or other grants of "property" in technology. The federal patent laws, by strictly defining criteria for patentable invention that neither interfere with the free circulation of technical information generally nor with its free use in pursuit of an ordinary trade or calling, cooperate ***43** with the Fifth and Fourteenth Amendments. Exercise by the states of competing powers based upon competing and subsidiary policy objectives would be detrimental to the preservation under the patent laws of the constitutionally mandated individual rights. For a more detailed discussion of these rights as they have been explicated by this Court and the manifest relationship between the preservation of these rights and the strict maintenance of the constitutional standard for patenable invention, see, infra, 37a to 41a.

FN73. Allgeyer v. Louisiana, 165 U.S. 578, 589-90 (1886) quoted infra, 38a; Greene v. McElroy, 360 U.S. 474 (1959).

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In its exercise of the patent power, Congress has been careful not to disturb objectives and policies dictated by other constitutional mandates. The complex interplay of the patent system with federal antitrust policy under the commerce clause and with society's goal, committed to federal supervision, of preserving rights of individual citizens inter alia, in their use of their talents and skill in pursuit of a trade or calling is a matter of such delicate balance that intervention by the states in furtherance of secondary policy objectives could not be countenanced. Congress having preempted the grant of property rights in technical information defined by 35 U.S.C. 101, the states may not make conflicting grants. [FN74]

FN74. The question of whether the states may take action to protect inchoate property rights in technical information otherwise defined by 35 U.S.C. 101 during the period when an invention is being completed, a patent application filed and that application examined in the Patent Office. is not within the scope of this case. There is accordingly no intention herein to intimate one way or another what judgment should be made on that question at such time as it is properly presented in another case.

2. Considerations Affecting Preemption Arising Solely Under the Commerce Clause

Some of petitioners' amici have stressed the alleged importance and even necessity to international commerce and to the United States balance of payments position in ***44** world markets of preserving state trade secret "property rights" in subject matter defined by 35 U.S.C. 101. [FN75]

FN75. See e.g., the amicus briefs of the Chamber of Commerce, especially at pp. 25–26 and 35; the Association for Advancement of Invention and Innovation (p. 7); the Licensing Executives Society (App. A., p. 92); Southwire Company (p. 4); Optical Coating Laboratory, Inc. (p. 8) and Rohr Industries, Inc. (pp. 7–9).

United States patent law and policy is, of course, irrelevant to foreign commerce because, as this Court has repeatedly held, United States patents have no extraterritorial effect. [FN76]

FN76. See Brown v. Duchesne. supra, p. 26 at 195; see also Deepsouth Packing Co. v. The Laitram Corp., supra, p. 21.

Power over foreign commerce, however, is exclusively the province of the federal government under the Commerce clause (la). We know of no basis--and petitioners' amici suggest none--pursuant to which individual trade secret policies of the states could be validated as a means for fostering foreign commerce in direct derogation of an exclusive federal power in which the states, pursuant to the Supremacy clause (la), may not intermeddle.

Hence, to the extent that the trade secret "property" here in issue is sought to be justified as a spur to foreign commerce, the argument must be rejected, and the matter left to such future legislative action as Congress may elect to take. [FN77]

FN77. In fairness, we do not understand that the record of this case really

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raises any question directly relevant to foreign commerce considerations. Hence, the Court should not in any event rest its decision here on such considerations.

3. Considerations Affecting Preemption Arising Solely Under the Fifth and Fourtheenth Amendments.

The question of whether the state of Ohio may permanently enjoin respondents in this case from the use of ***45** the alleged trade secret "property" in issue is one which, independently of the patent power and its exercise, must be examined for repugnance of the state law-authorized injunction to the property right of every citizen, arising under the Fifth and Fourteenth Amendments, to utilize fully his own talents and skills in pursuit of a lawful trade or calling.

In Greene v. McElroy, supra, note 73, this Court was faced with the question of whether arbitrary revocation of a security clearance without affording the injured person an opportunity to cross-examine his accusers or confront the adverse evidence, was a valid exercise of federal administrative power in the circumstance that the employee was seriously prejudiced in his ability to pursue his lawful calling and to earn his living. This Court, having due regard to "the right to hold specific private employment and to follow a chosen profession free from unreasonable governmental interference, [which] comes within the 'liberty' and 'property' concepts of the Fifth Amendment," [FN78] held the arbitrary administrative action to be unjustified. [FN79] The facts show that by the loss of the secret clearance on an arbitrary basis, Greene, an aeronautical engineer of considerable experience, was "formally barred from pursuit of many aspects of his profession, given the current dependence of most phases of the aircraft industry on Defense Department contracts, not only for production but for research and development work as well ...." 360 U.S. at 492, n. 21. While the present record contains no facts to show the precise injury to respondents if the permanent injunction issued, it is predictable that in this day of intensive technological specialization, persons like respondents who have devoted ***46** a considerable period of their lifetimes to research and development in a specific narrow field--here the production of the crystals which are the subject of the "trade secret property" in issue--would be injured if curtailed in their freedom to continue their studies in this area utilizing all of the skills necessarily nurtured during the period of their employment by petitioner.

FN78. 360 U.S. at 492.

FN79. In so doing the Court cited, inter alia, Allgeyer, supra, note 73, thus giving tacit recognition to the same right which arises under the Fourteenth Amendment and is hence binding on the states.

If the federal government, with legitimate national security interests to protect, may not freely injure a citizen incident the pursuit of his lawful calling, logic demands that a private corporation having only its own individual financial "security" interests to protect, cannot freely erect barriers, in the guise of trade secret "property" or otherwise, to the pursuit by a former employee of his lawful calling. Particularly not, moreover, when the "property" is of a nature such that the right to a patent thereon has been forfeited, so that the public policy of the patent laws is subverted.

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While the Fifth and Fourteenth Amendment property rights of every citizen in the use of his own skills and talents to pursue a lawful calling is often not per se mentioned in the cases, these rights seem to be the underlying rationale for the recognition of the concept of "free mobility of employees." [FN80]

FN80. See generally in this connection Wilson v. Clarke, 470 F.2d 1218, 1221-2 (1 Cir. 1972); Maloney v. E.I. duPont De Nemours & Co., 352 F.2d 936, 939 (D.C. Cir. 1965); E.W. Bliss Co. v. Struthers-Dunn, Inc., 408 F.2d 1108,1112-13 (8 Cir. 1969); see also generally Blake, "Employer Agreements Not To Compete" 73 Harvard L.R. 265 (1960).

At least some state courts have recognized the Fourteenth Amendment imperative, [FN81] but these state courts--***47** and lower federal courts as well [FN82] --have most often unfortunately done so in context of an effort to "balance" the rights of the individual employee against the financial interests of the corporate employer.

FN81. E.g., Levine v. E. A. Johnson & Co., 237 P.2d 309 (Ct. App. Cal. 1951); Continental Car-Na-Var Corp., v. Moseley, 148 P.2d 9 (Sup. Ct. Cal. 1944); Paraco, Inc. v. Owens, 333 P.2d 360 (Ct. App. Cal. 1959).

FN82. See the cases cited supra, note 80; see also e.g. Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9 Cir. 1965).

The role of the Constitution in our scheme of government, coupled with elemental justice, requires that the basic Fifth and Fourteenth Amendment rights of the individual citizen be held paramount to the financial interests of corporate employers and hence in this case that the permanent injunction be refused on grounds of non-compliance with Fifth and Fourteenth Amendment guarantees.

E. TRADE SECRET "PROPERTY" IN TECHNOLOGY--A NECESSARY INCENTIVE TO CONDUCT RESEARCH??

Petitioner and its amici argue that the recognition of "property" rights in trade secrets by the states is necessary as an incentive to the investment of risk capital in research and development. [FN83]

FN83. This theme appears throughout the briefs filed on petitioner's behalf but is perhaps most markedly advanced by the Chamber of Commerce. the Manufacturing Chemists Association, Burroughs. Rohr, Optical Coating Laboratories, the Licensing Executives Society and the Association for the Advancement of Invention and Innovation.

This argument is not new. It is one of the most overworked cliches of apologists for drastically denigrated criteria for patentability. Notably, the same argument was presented over and over again to Congress at hearings held May 11, 12 and 13, 1971 before the Senate Subcommittee on Patents, Trademarks and Copyrights in an effort to justify relaxed patentability criteria, de ***48** facto removal of patents from the ambit of antitrust laws, and non-preemption by federal law of state contractual and trade secret concepts. It was made by some of the same amici and counsel who are now before the Court, including the Electronic Industries Association, an amicus for petitioner, by Edward J. Brenner, now Director of the Association for Advancement of Invention and Innovation, an amicus here; the

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American Patent Law Association, an amicus here and the Department of Commerce--which, albeit not an amicus in this case, is liberally quoted in the brief amicus of the Chamber of Commerce.

The same argument--in support of relaxed criteria for patentability--was earlier made at hearings before the Subcommittee on May 17 and 18, 1967 by Tom Arnold, counsel here signing the brief of the Licensing Executives Society, one of petitioner's amici. To date, the argument has not prompted legislative action.

Quite apart from the fact that the argument has become a very tired one, no evidence has ever been presented in any forum, judicial or legislative, to support it. Moreover, it seems contrary to the findings of those who have studied the problem. For example, "The Impact of the Patent System on Research", Study #11, Subcommittee on Patents, Trademarks and Copyrights, Committee on the Judiciary, United States Senate 85th Congress, 2nd Session (1958), by Professor Seymour Melman of Columbia University concluded that

"There is nothing to indicate that the absence of the patent system would diminish the scope or character of scientific research in the universities. Indeed, insofar as patent pressures were removed from university scientists, this would probably strengthen the universities as producers of science and technology. Moreover, business expenditures for research, in the estimate of this writer, would not be appre***49** ciably diminished by the elimination of opportunities for claiming patent rights. It is true that in the absence of patenting, some of the characteristics of individual research might be revised. Competitive pressures along product and production cost lines, that now impel the expansion of industrial research outlays would, however, continue to be operative." (p. 56).

Professor Melman particularly noted also that in 1940, Charles Kettering testified before the Temporary National Economic Committee and acknowledged that the sheer force of competition in the automobile industry would probably require General Motors, of which he was then Vice-President in Charge of Research, to continue to fully operate its industrial laboratories even if there were no patent laws. Professor Melman further showed in his investigation that industrial research budgets and scope of research activities at both the American Telephone and Telegraph Company and the IBM Corporation were programmed for expansion in the years immediately subsequent to the antitrust consent degrees entered against both firms in January 1956, requiring them "to make available to other firms many thousands of patents as well as related technical knowledge, either at reasonable rate of royalty or on a free basis altogether." (Id. p. 52). Professor Melman suggested that "the growth of product competition and competition for production cost reduction, account for the general expansion of the industrial research activity" (id. p. 53), and keep businesses under pressure to maintain and expand their research and development activities, regardless of property rights in information.

The September, 1973 report, "Barriers to Innovation in Industry: Opportunities for Public Policy Changes", prepared for the National Science Foundation by Arthur D. Little, Inc. and Industrial Research Institute, Inc. expresses the view that "innovation is impeded by two ***50** types of barriers which are related to financial matters" (p. 20)--(1) lack of funds for development, new plant facilities and start up and (2) uncertainty about payout on invested funds. It indicates that the ideas proposed by the participants in the study-- consisting of a carefully structured sample of twenty--four firms, covering a number of industrial sectors (p. 2)--

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suggested that the financial barriers to innovation might best be alleviated by one or more of (a) specially negotiated depreciation allowances, b) income tax reduction and (c) cost sharing on major developmental costs. Importantly, none of the firms suggested the use of decreased patentability standards or increased trade secret "property" protection as the solution to promoting investment in research and development. [FN84]

FN84. This study does show that the participants expressed concern about the numerous invalid patent grants, the high incidence of trivial "nuisance" patents, the non-exclusive licensing of government-held patents to industry and the ambiguity of the status of exclusive "field of use" licensing of patents. (Id. p. 19).

Comparison of this study with previous testimony before the Senate Patent, Trademark and Copyright Subcommittee (supra, p. 48) and the arguments of petitioners' amici here suggests that patent lawyers generally are inclined to express concern that strict observance of the exacting statutory criteria for patentable invention will adversely affect the level of investment in research and development; corporation executives who are not patent-oriented have no such fear. [FN85]

FN85. Proof that the concern has no substance resides also in the fact that technologies in which no patents have been permitted have progressed as well or better than those where they have--e.g. computer programming and sexually reproduced plants (where no patents were permitted until the 1971 adoption of 84 Stat. 1558, § 131, the Plant Variety Protection Act).

***51** CONCLUSION

The decision below is in all respects correct and should be affirmed.

Appendix not available.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172412 (Appellate Brief) Brief for Respondents (Dec. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173805 (Appellate Brief) Brief for Amicus Curiae National Patent Council, Inc., for Itself and Representing National Small Business Association, Inc. (Dec.

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• 1973 WL 172411 (Appellate Brief) Brief for the Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172413 (Appellate Brief) Brief of Chamber of Commerce of the United States of America As Amicus Curiae in Support of Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
December 23, 1973.
On Writ of Certiorari to the United States Court of Appeals For the Sixth Circuit

Brief for Respondents

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Attorney for Respondents.

Of Counsel: William C. Sessions Paul S. Sessions Bosworth, Sessions & McCoy

***I** TABLE OF CONTENTS

Preliminary Statement ... 1

Interests of Respondents ... 2

Counterstatement of Question Presented ... 3

Counterstatement of the Case ... 4

Argument ... 7

I. We Start with Goldstein: Bicron Takes No Position on Article I, Section 8, Cl. 8 ... 7

II. There Is a Supremacy Clause Conflict Per the Tests of Goldstein ... 9

III. Public Policy Is the Controlling Consideration, Not Private Right and Wrong ... 14

IV. There Are Direct Conflicts Between the Patent Statutes and the Permanent Injunction of the District Court ... 15

V. Enjoining Bicron Is the Equivalent of a Patent Monopoly ... 16

VI. The Court of Appeals Was Not Misled by Any Play on the Term "Public Use" ... 17

VII. Decisions of Other Circuit Courts ... 18

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VIII. The Differences in the Interests Being Protected Do Not Avoid the Conflict ... 19

IX. There Is No Conflict With the Ohio Criminal Statute ... 20

X. There Are No Prior Decisions Which Are Directly in Point Which Can Be Read into the 1952 Patent Statute ... 21

XI. The Statutes Do Not Conflict With the Sixth Circuit Rule Because They Are Concerned Principally With Disclosure, Not Use ... 21

***II** XII. The Decision of the Court of Appeals Should Be Given a Narrow Interpretation Consistent With Other Contemporaneous Decisions ... 23

XIII. The Patent System Favors Research and Development ... 24

Conclusion ... 26

TABLE OF AUTHORITIES

Cases

Baker v. Selden, 101 U.S. 99 (1880) ... 10

Bell & Co., Alfred, v. Catalda Fine Arts, 191 F.2d 99 (2d Cir. 1951) ... 10

Bliss, E. W., v. Struthers-Dunn, Inc., 408 F.2d 1108 (8th Cir. 1969) ... 16

Carter-Wallace Inc. v. David-Edwards Pharmacal Corp,. 443 F.2d 867 (2d Cir. 1971) ... 16

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) ... 14, 18

Dekar Industries Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970) ... 18

Goldstein et al. v. California, 412 U.S. 546 (1973) ... 7, 8, 9, 10, 11, 14

Hampton v. Blair Manufacturing Company, 374 F.2d 969 (8th Cir. 1967) ... 13

Hines v. Davidowitz, 312 U.S. 52 (1941) ... 9

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) ... 14, 15, 18

Mazer v. Stein, 347 U.S. 201 (1954) ... 10

Northern Petrochemical Company v. Tomlinson et al., 179 USPQ 386 (7th Cir. 1973) ... 13

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***III** Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2d Cir. 1971) ... 19

Scott Paper Co. v. Marcalus Manufacturing Co. Inc., 326 U.S. 247 (1945) ... 10, 14

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 14, 18

Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964) ... 19

Troxel Manufacturing Co. v. Schwinn Bicycle Co., 465 F.2d 1253 (6th Cir. 1972) ... 23

United States v. Greenwald, 479 F.2d 320 (6th Cir. 1973) ... 23

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MILGRIM, TRADE SECRETS, Section 7.08(1) ... 16

MILGRIM, TRADE SECRETS, Section 8.03(3) ... 20

***IV** PRACTITIONERS' HANDBOOK FOR APPEALS TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT, p. 44 ... 24

Proposals for Improving the Patent System--Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, 1956 p. 1 ... 12

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Constitution and Statutes

Ohio Revised Code, Section 1331.51(C) ... 20

United States Constitution:

Article I, Section 8, cl. 8 ... 7

Article VI, cl. 2 ... 9

17 U.S.C. 2 ... 8

17 U.S.C. 24 ... 10

18 U.S.C. 2314 ... 23

35 U.S.C. 101 ... 9

35 U.S.C. 112 ... 10, 16

35 U.S.C. 152 ... 10

***1** PRELIMINARY STATEMENT

This brief is submitted on behalf of the named respondents in reply to petitioner's brief. Respondents have not attempted to make separate replies to the sixteen amici briefs. Respondents have made occasional reference to some of those briefs and have dealt directly or by implication with most of the points raised in them. Our failure to reply to an amicus argument is not intended to concede it.

***2** INTERESTS OF RESPONDENTS

It is appropriate, although perhaps not customary, to set forth the interests of the respondents in this case.

The individual respondents are former employees of Kewanee or its predecessor Harshaw who pooled their limited resources to found Bicron. Even though the Court of Appeals indicated otherwise (Pet. App. 3), respondents have not breached any fiduciary duty nor have they done anything wrong (App. 66, Fdg. 46; App. 84, Fdg. 109 Dec. 11, 1970 Tr. 50).

Note: footnote reference missing in original document

1 The Court of Appeals sustained the findings of fact of the District Court (Pet. App. 5).

Before they formed Bicron, they justified in the public literature each step that would be required in going into the scintillation detector field (App. 77, Fdg. 73). They were sued and without notice put under a temporary restraining order which forced them to cease operations. Bicron was closed down from April 17, 1970 until

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May 28, 1970. Bicron resumed operations at its own risk on May 28, 1970, which was the date the trial [FN2] ended (Tr. 1422, 1423 & 1429). Not until May 25, 1970, three days before the end of the trial, were they advised of the trade secrets which they were not supposed to use or disclose.

> FN2. The trial started out as a hearing on whether or not Kewanee was entitled to a preliminary injunction. At the end of the trial, however, both parties agreed that the case should be submitted on the ultimate issue, i.e., whether or not Kewanee was entitled to a permaneent injunction (Tr. 1425 & 1429).

Their first effort to grow a crystal failed (App. 89, Con. 6). They were put under the "Order for Permanent Injunction" because the District Court concluded that Bicron's purification procedures would not work and that in order to grow sodium iodide thallium activated crystal successfully, they "must, of necessity, supplement the Richert formula with plaintiff's trade secrets" (App. 89, Con. 6), notwithstanding (a) the admission of the vice-president ***3** and general manager of Harshaw's crystal-growing operations that a person could follow the purification procedures of Harshaw's two expired purification patents and have "a commercial product" (App. 56, Fdg. 14), and (b) the finding that Harshaw had failed to establish that any of the processes, procedures and manufacturing techniques for the purification of sodium iodide were trade secrets (App. 82, Fdg. 94).

The District Court not only issued the permanent injunction here in question but, at Kewanee's insistence and on the theory it should "preserve the status quo", issued an "Order for Injunction Pending Appeal" (App. 97) which restrained Bicron, during the pendency of the appeal, from using those of Harshaw's purported trade secrets which had been found to be in the public domain.

The immediate interest of respondents is to sustain the decision of the Court of Appeals. In addition, respondents seek to prevent a recurrence of their own experiences and to strike a fairer balance, procedurally and substantively, between the interests of all persons involved in the laws of industrial property.

COUNTERSTATEMENT OF QUESTION PRESENTED

The injunctive relief granted by the District Court was "permanent", as indicated in its title, and not "limited" as suggested by petitioner. The Court of Appeals held that "... the Trade Secret Laws of the State of Ohio may not afford to the plaintiff in this case protection which the plaintiff could not obtain under the Patent Laws" (Pet. App. 25), meaning that no one could be permanently enjoined under trade secret law from practicing what was a prior public use under the patent statutes.

***4** Respondents submit that, in the context of this case, the question should be:

"Whether, without being in conflict with the patent statutes, the trade secret laws of the State of Ohio can provide permanent injunctive protection to an employer against former employees with respect to processes and equipment which that employer has used for more than a year and for which that employer could not have obtained any federal patent protection."

COUNTERSTATEMENT OF THE CASE

The processes, methods and techniques for the manufacture of sodium iodide thallium

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activated scintillation crystals are by no means the exclusive development of Kewanee.

Sodium iodide thallium activated crystals were invented by Professor Robert Hofstadter of Princeton University. He obtained a patent on them, which has expired (Def. Ex. E, Tr. 301, 1119). The furnaces for growing such crystals were invented by Professor Donald Stockbarger of the Massachusetts Institute of Technology, were described in published articles, and were patented by him (Pl. Ex. 40, Tr. 264, 266, Def. Ex. R-7, Tr. 958, 1194). The Stockbarger patent has expired. Harshaw had two patents on purifying the sodium iodide for use in the manufacture of these crystals, and those patents have now expired (P1. Ex. 38 & 39, Tr. 260, 263).

The United States Atomic Energy Commission paid Harshaw many hundreds of thousands of dollars to work out the commercial development of scintillation crystals (Def. Ex. Z, Tr. 1277). This work was written up and published (App. 53, Fdg. 6).

***5** There were a number of places where people were doing work and writing papers on scintillation crystals including the Argonne National Laboratory and the Oak Ridge National Laboratory (App. 62, Fdg. 40). While three United States companies, other than Harshaw, grow sodium iodide thallium activated crystals, Harshaw is the largest company, is the only one that grew 17 inch crystals, and is the forerunner in the field (App. 100-101, Fdg. 6). Harshaw had no knowledge of the processes and procedures used by its competitors (Tr. 1407), nor was there any other proof of the processes and procedures being used by others in the field (App. 83, Fdg. 103). Harshaw finally acknowledged that its trade secrets applied to all sizes of crystals, including those sizes grown by its competitors, not just to the 17 inch crystals (Tr. 1410).

Harshaw did not take the necessary precautions to protect its trade secrets. The District Court chronicled numerous instances of lack of security but concluded that the breaches had not been sufficient to place the claimed trade secrets in the public domain (App. 83-85, Fdgs. 104-108).

Harshaw's policy was to give all employees access to the Elyria plant, where the crystals were grown, in order "... to bring these people together ... as a form of teamwork. They must know about the crystal's history, ... they have been free to go to the Elyria plant and move about that plant. We obviously trust these people and see no reason to inhibit their movement about the plant." (Tr. 251).

Individual defendant Hamner was never employed by Harshaw and did not have a written agreement with it. He was employed by Hamner Electronics Company which he had founded and sold out to Harshaw. Hamner Electronics was a wholly-owned subsidiary of Harshaw. Hamner ***6** had a ten-year employment contract with Hamner Electronics (Pl. Ex. 10) which did not expire until 1974. Harshaw voided that contract by dissolving Hamner Electronics (App. 69, Fdgs. 49 & 50).

Everything Bicron did was its own work product. There is nothing in this record to suggest that any of the individual defendants took with them any Harshaw blueprints or other documents which embodied any of the purported trade secrets of Harshaw. In addition to Richert, whom Bicron consulted for the purposes of preparing its purification procedure, Bicron consulted an independent engineering firm to design its growth furnace and another independent contractor to design the heating elements

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(App. 56, Fdgs. 17 & 18). The Bicron furnace did not look like the Harshaw furnaces (App. 56, Fdg. 19).

No written description of the Harshaw growing procedures, no blueprints of its furnaces, and no photographs of existing equipment were introduced into evidence by Harshaw to support its trade secret list, plaintiff's exhibit 56 (App. 59-60, Fdg. 39). The only area in which any documents were introduced to establish Harshaw's purported trade secrets was in purification (Pl. Ex. 46, 47 & 48), and there Harshaw misrepresented the "company confidential" markings thereon (Tr. 577, 628).

In instituting this litigation, Kewanee's clear purpose was to maintain its monopoly and eliminate Bicron as a competitor. In its complaint, Kewanee sought a permanent injunction to prevent the individual defendants from remaining in the employ of Bicron and Bicron from employing them in product areas which could result in the disclosure or use of its purported trade secrets (App. 23 & 24). Even though the November 24, 1970 findings of fact and conclusions of law had been sealed at Kewanee's request, Kewanee planted newspaper articles and generally ***7** circulated throughout the trade announcements that it had won the litigation and that individual respondents could not work for Bicron (Def. Ex. BB, CC, DD, EE, Tr. Dec. 11, 1970). Kewanee justified its actions by language taken from paragraph A (2) of the "Order for Permanent Injunction", which interpretation the district court disclaimed (Dec. 11, 1970 Tr. 52-55).

The federal preemption issue was fairly raised in the district court. [FN3]

> FN3. See "Reply Memorandum to Plaintiff's 'Statement of Reasons in Support of Preliminary Injunction' filed in the district court on May 25, 1970, pages 3-5 and "Defendants' Proposed Conclusions of Law" filed July 17, 1970, page 1, which makes reference to that reply memorandum.

The Court of Appeals had the case under advisement for a long time and it was argued twice, first on October 20, 1971 and then on April 10, 1972.

ARGUMENT

I. We Start with Goldstein: Bicron Takes No Position On Article I, Section 8, Cl. 8.

The obvious starting point for consideration of the question here presented is Goldstein et al. v. California, 412 U.S. 546 (1973), which was handed down a little over a month after the decision of the Sixth Circuit Court of Appeals.

In Goldstein, the Court first addressed itself to the question of whether or not exclusive power over copyrights must be inferred from Article I, Section 8, cl. 8 of the Constitution. The answer was in the negative. The Court recognized that the interests of a state which grants copyright protection may be adversely affected by other states which do not grant copyright protection but concluded that the conflict was neither so inevitable nor so ***8** severe as to compel the conclusion that state power had been relinquished to the exclusive jurisdiction of Congress. The Court examined the concurrent exercise of the power to grant copyrights by Congress and the States and determined that a conflict would develop if a state attempted to protect that which Congress intended to be free from restraint or attempted to free from restraint that which Congress intended to protect. Where Congress determined that neither federal protection nor freedom from restraint was required by the

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national interest, then the state could act and there would be no conflict, which was found to be the situation in Goldstein.

The Court of Appeals held that the permanent injunction issued by the District Court was void under the Supremacy Clause (Article VI, cl. 2) and cannot be said to have addressed itself to the exclusive power question. Neither will Bicron.

Bicron suggests that the differences between the nature of patents and copyrights makes it difficult to find an area which Congress has neither attempted to protect nor attempted to free from restraint so that a state can act without conflict. Bicron discusses those differences infra in the context of the Supremacy Clause. Bicron notes that there is no expressed intent of Congress to reserve powers in the States with respect to patents and trade secrets as there was with copyrights. [FN4]

FN4. 17 U.S.C. 2

Bicron believes that the arguments in favor of Supremacy Clause preemption are compelling and does not wish to become entangled in the question of whether or not exclusive power over patents and trade secrets must be inferred from Article I, Section 8, cl. 8.

***9** II. There Is a Supremacy Clause Conflict Per the Tests of Goldstein.

Following Goldstein, the next question is whether the perpetual injunction granted by the District Court "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress" Hines v. Davidowitz, 312 U.S. 52, 67 (1941) and is, therefore, void under the Supremacy Clause (Article VI, cl. 2) as found by the Court of Appeals.

A. In Goldstein, the Court found clear Congressional intent not to include mechanical recordings within the scope of the copyright statutes and consistent rulings of the Registrar of Copyrights that mechanical recordings were not entitled to protection under the copyright statutes. In the case at bar, there is clear Congressional intent [FN5] to include the subject matter of the permanent injunction within the scope of the patent statutes. Kewanee admitted that these trade secrets were patentable subject matter (Pet. App. 7). [FN6]

FN5. 35 U.S.C. 101

FN6. In footnote 11, page 35 of its brief, Kewanee suggests that its admission went only to that one trade secret upon which it filed a patent application, obtained a notice of allowance, and then abandoned the application by not paying the final fee, choosing instead to maintain the information as a trade secret (Tr. 1265). Kewanee's admission went to all of its purported trade secrets because those trade secrets (Pl. Ex. 56) were all patentable subject matter as any examination of them will disclose. The appeal was argued twice. Kewanee reaffirmed its admission in the course of the second argument.

The first significant distinction between this case and Goldstein, therefore, is that in the Goldstein situation Congress had stayed its hand entirely and had indicated that mechanical reproductions were outside of the scope of the Copyright statutes so California was at liberty to act, whereas in this case, Congress has included the trade secret subject matter in issue within the scope of the patent

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statutes.

***10** B. The second significant distinction between this case and Goldstein is in the respective natures of patents and copyrights. The differences between patents and copyrights are set out in Baker v. Selden, 101 U.S. 99, 102-103 (1880); Mazer v. Stein, 347 U.S. 201, 217-219 (1954) and Alfred Bell & Co. v. Catalda Fine Arts, 191 F.2d 99, 100104 (2d Cir. 1951).

Copyrights protect specific writings, need not be original, are obtained by registration without examination, and have a term of twenty-eight years from the date of first publication, which may be renewed for another twenty-eight years. [FN7] Unlike copyrights, patents protect embodiments of ideas and concepts, must be original and beyond the skill in the art, must be a full disclosure of the idea sought to be protected [FN8], are obtained from the Patent Office only after examination, and have a term of seventeen years [FN9] after which they are dedicated to the public. [FN10] A copyright gives protection only to the expression of the idea-not the idea itself. Mazer v. Stein, 347 U.S. at 217. There are substantial differences between patents and copyrights. Patents have much broader scope and application, which this Court seemed to recognize in Goldstein when it said:

FN7. 17 U.S.C. 24

FN8. 35 U.S.C. 112

FN9. 35 U.S.C. 152

FN10. Scott Paper Co. v. Marcalus Manufacturing Co. Inc., 326 U.S. 247, 255 (1945), (Pet. App. 16 & 17).

"... The California statutory scheme evidences a legislative policy to prohibit 'tape' and 'record piracy,' conduct that may adversely affect the continued production of new recordings, a large industry in California. Accordingly, the State has, by statute, given to recordings the attributes of property. No restraint has been placed on the use of an idea or concept; rather, petitioners and other individuals remain free ***11** to record the same compositions in precisely the same manner and with the same personnel as appeared on the original recording." 412 U.S. ___ ___, 1973 (emphasis supplied)

Unlike the situation in Goldstein, the permanent injunction here places direct restraints on the use of ideas and concepts.

C. Still following Goldstein, the remaining inquiry would seem to be into the purposes and objectives of Congress in passing the patent act and whether the permanent injunction of the District Court interferes with those purposes and objectives.

The introduction to the 1966 "Report of the President's Commission on the Patent System" justified the worth of the patent system as follows:

"First, a patent system provides an incentive to invent by offering the possibility of reward to the inventor and to those who support him. This prospect encourages the expenditure of time and private risk capital in research and development efforts.

Second, and complementary to the first, a patent system stimulates the investment

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of additional capital needed for the further development and marketing of the invention. In return, the patent owner is given the right, for a limited period, to exclude others from making, using, or selling the invented product or process.

Third, by affording protection, a patent system encourages early public disclosure of technological information, some of which might otherwise be kept secret. Early disclosure reduces the likelihood of duplication of effort by others and provides a basis for further advances in the technology involved.

Fourth, a patent system promotes the beneficial exchange of products, services, and technological information across national boundaries by providing ***12** protection for industrial property of foreign nations." (emphasis supplied)

The 1965 report of the Patent, Trademark and Copyright Subcommittee of the Judiciary Committee of the United States Senate said: [FN11]

> FN11. JOURNAL OF THE PATENT OFFICE SOCIETY, May 1965, Vol. XLVII, No. 5, p. 314.

"Another major objective which industry believes should be accomplished by the patent system is to advance the cross-fertilization of ideas by encouraging publication of inventions rather than their suppression as trade secrets."

In Study No. 1 [FN12] prepared by Dr. Vannevar Bush in 1956 at the request of the Subcommittee on Patents, Trademarks and Copyrights of the Judiciary Committee of the United States Senate, Dr. Bush set forth the three great objectives of the patent system in these words:

> FN12. "Proposals for Improving the Patent System"--Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, 1956, p. 1.

"First, it aims to stimulate both invention and the assiduous search for new applications of knowledge, which is the basis of invention. It does this by placing the inventor in a position to secure a reward.

Second, it seeks to create conditions whereby the venture of funds to finance the hazardous introduction into public use of new devices or processes will be warranted. This is done by protecting the industrial pioneer for a limited time against the uncontrolled competition of those who have not taken the initial financial risk.

Third, it aims to prevent the creation of an industry permeated by the intense secrecy with regard to its processes which characterized the medieval guilds and which can only retard the realization by the public of the benefits of scientific progress. This it does by extending a temporary monopoly to those ***13** who, in keeping with the American idea of openness and frankness, will make a full disclosure of their new ideas so that they may be utilized to the full by those skilled in a particular art." (emphasis supplied)

Secrecy works against the patent system. In Study No. 2 [FN13] prepared for the above same subcommittee by George E. Frost, Esq., he said:

> FN13. "The Patent System and the Modem Economy"--Study of the Subcommittee on Patents, Trademarks, and Copyrights of the Committee on the Judiciary, United States Senate, 1957, p. 4, footnote 5.

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"..., secrecy works against the competition stimulated by the patent system. Apart from the competitive aspect, secrecy is undesirable because there is a public value in having as much technical knowledge spread upon the public record as possible." [FN14]

FN14. Also see Frost, Patent Rights and the Stimulation of Technical Change, published in PATENTS AND PROGRESS, ed. by Anderson, Terpstra, and Shapiro, p. 61, 67-68 (1965), where he said:
"A second important aspect of the patent system is that it encourages disclosure of technical advances and discourages secrecy. To the extent scientific information is kept secret, there is a strong retarding factor in the advance of technology. The free flow of both basic and applied scientific knowledge is absolutely essential to the most rapid rate of progress and maximum utilization of our scientific resources."

The briefs of the amici say very little about the patent system and the benefits of the free flow of technological information. They do indicate such reliance on state trade secret protection as to have an adverse effect on the purposes of the patent system.

D. The enforcement of trade secret laws is not uniform from state to state. In some states, the courts grant a permanent injunction, as did the District Court here, and in some states they grant a "reverse engineering" or "head start" injunction, as in Illinois and Nebraska. [FN15]

FN15. Northern Petrochemical Company v. Tomlinson et al., 179 USPQ 386 (7th Cir. 1973); Hampton v. Blair Manufacturing Company 374 F.2d 969 (8th Cir. 1967).

***14** The sodium iodide thallium activated crystals which are the subject matter of the permanent injunction are used in the detection of uranium ore, in the detection of malignant tumors in medicine, in the location of oil, and in other uses involving the detection of gamma ray radiation. It is difficult to find a subject matter with more currently significant areas of interest to the national economy.

It cannot be said of this subject matter, as was said in Goldstein, that it is of "purely local importance" or that there is not a need for uniformity of laws from state to state.

III. Public Policy Is the Controlling Consideration, Not Private Right And Wrong.

Bicron need not remind this Court that it is primarily concerned with public policy. One of the most difficult aspects of this case and of previous intellectual property cases is to strike the balance between private wrong and public good.

In the Sears and Compco cases [FN16] the defendants were copiers who competed "unfairly" with the plaintiffs. In Goldstein the defendants were "tape pirates" who capitalized on the talents of others. In Lear, Inc. v. Adkins, 395 U.S. 653 (1969), the licensee was trying to avoid a private contractual obligation not to contest the validity of plaintiff's patent. In Scott Paper Co. v. Marcalus Mfg., 326 U.S. 249 (1945), the defendant assigned all of his patent rights to plaintiff and then

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proceeded to infringe them on the grounds that such was justified by the prior art.

FN16. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

In this case, the individual respondents are charged to have breached a confidential relationship and used the ***15** information obtained during their employment at Harshaw for the benefit of Bicron. [FN17]

FN17. Bicron and the individual respondents again emphatically deny that they have done anything wrong or improper and refer this court to the findings of fact of the District Court Nos. 46 and 109 (App. 66 & 85).

The touchstone here, as in each of the subject cases, is not private right or wrong but rather what is in the public interest and, more particularly, the interests of the patent system and the strong federal policy favoring the full and free use of ideas which do not merit patent protection. Lear, 395 U.S. 656.

IV. There Are Direct Conflicts Between the Patent Statutes and the Permanent Injunction of the District Court.

The "Order for Permanent Injunction" (App. 92) of the District Court enjoins the individual respondents and Bicron from "using and/or communicating or divulging" approximately twenty designated trade secrets. It provides, in paragraph D, that Bicron et al.

"shall not be restrained by this injunction from using any trade secret of plaintiff after it has been released to the public by plaintiff, such as by the issuance of a patent, or has otherwise become generally available to the public or other members of the industry or is obtained by defendants from sources having the legal right to convey such information."

A. For practical purposes, the injunction will continue until such time as Kewanee chooses to make one or more of its purported trade secrets public, a most unlikely event. There is no time limitation.

***16** The term of any patent injunction would be for the remaining life of the patent, most likely something substantially less than seventeen years.

B. The purported trade secrets are vaguely defined [FN18] in terms which do not meet the requirements of the patent statutes. [FN19] Because of this lack of specificity with respect to trade secrets, a trade secret injunction is more burdensome and oppressive than a patent injunction. [FN20]

FN18. For example, trade secrets 3(d) and 4(f), Pl. Ex. 56

FN19. 35 U.S.C. 112

FN20. Kane, Injunctive Relief Under Trade Secret Law: The Fatal Flaw, JOURNAL OF THE PATENT OFFICE SOCIETY, Dec, 1971, Vol. 53, No. 12, p. 797.
E. W. Bliss v. Struthers-Dunn, Inc., 408 F.2d 1108 (8th Cir. 1969).
It should also be noted that preliminary injunctions are granted in trade secret cases much more readily than in patent cases. See Carter-Wallace Inc.

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v. David-Edwards Pharmacal Corp., 443 F.2d 867, 872 (2d Cir. 1971), and MILGRIM, TRADE SECRETS, Section 7.08(1).

C. The most direct and irreconcilable conflict arises from the fact that all of Kewanee's purported trade secrets had been in public use for more than a year and could not have been the subject of any patents, but nevertheless were protected by the permanent injunction of the District Court. Kewanee obtained permanent injunctive relief via state trade secret law which it could not have otbained via the patent statutes.

V. Enjoining Bicron Is the Equivalent of a Patent Monopoly.

Kewanee argues (Pet. Br. 26) that the permanent injunction of the District Court was not the equivalent of a patent monopoly because it only enjoined Bicron and did not convey any right to enjoin anyone else. There were ***17** only three competitors and Bicron was the fourth. The permanent injunction enjoined one of the few persons that counted, namely Bicron. If Kewanee would have had a patent monopoly, Bicron is the only person it would have sued.

Some commentators now say that secrecy protection is more advantageous than patent protection. [FN21] Kewanee itself interpreted the injunction as a great victory which prevented the individual respondents from working for Bicron. [FN22]

FN21. Adelman, Secrecy and Patenting: Some Proposals for Resolving the Conflict, 1973 AMERICAN PATENT LAW ASSOCIATION QUARTERLY JOURNAL, Vol. 1, No. 4, p. 298 & footnote 15.

FN22. Dec 11, 1970 Tr. 52 Def. Ex BB, CC, DD & EE.

The injunctive rights given by the state trade secret law in this case were the equivalent of those given by the patent statutes. Whatever practical differences there might have been are not enough to eliminate a substantial conflict between the patent statutes and the state trade secret law.

VI. The Court of Appeals Was Not Misled by Any Play on the Term "Public Use."

Kewanee argues (Pet. Br. 28) that the Court equated "public use" with "public domain" and thereby determined that there was a conflict between the patent statutes and the state trade secret law.

The conflict which the Court of Appeals found was that state trade secret law gave Kewanee protection which it could not have obtained under the patent statutes (Pet. App. 24-25).

The Court of Appeals was not misled by any play on the words "public domain" and "public use." In phrasing the issue before it, the Court did not use either of those words (Pet. App. 7 & 8). The only instance in which ***18** the Court used the words "public domain" was in characterizing the holding of this Court in Lear (Pet. App. 21).

Pursuing the same line, Kewanee argues (Pet. Br. 32) that Sears, Compco and Lear support the conclusion that the patent statutes preclude protection under state law only of things which as a matter of fact are known or readily available to the public.

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What Sears, Compco and Lear hold is that all ideas must be considered to be dedicated to the common good unless they are protected by a valid patent. At the beginning of Lear, Mr. Justice Harlan characterized the thrust of these decisions as follows:

"We granted certiorari in the present case, 391 U.S. 912, to reconsider the validity of the Hazeltine rule in the light of our recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection." 395 U.S. at 656 (emphasis supplied).

Kewanee's attempt to create a middle ground between ideas in general circulation and ideas which are not protected by a valid patent, its so-called "secret public use", is a diversion from the issue before this Court and in no way avoids the clear conflict presented by the facts of this case. There is no middle ground.

VII. Decisions of Other Circuit Courts.

Kewanee argues (Pet. Br. 36) that all circuits which have considered the question other than the Sixth Circuit agree that there is no preemption.

The only case directly in point is Dekar Industries Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), wherein the court devoted only one sentence to the conflict question.

***19** In Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2d Cir. 1971), the preemption issue was not raised by the parties but instead was injected into the case by the district court sua sponte. On appeal, even though the prevailing party declined to argue the issue, the Second Circuit Court of Appeals felt constrained to pass upon it. The controlling issues were contractual involving a know-how license and payment for past services, not an injunction.

Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), was decided right after the Sears-Compco cases and was distinguished from them on the basis of a breach of a confidential relationship.

Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969), was a contract case in which the federal preemption statements are pure dicta.

For obvious reasons, Kewanee has keyed its argument into the rationale of Painton v. Bourns, which involved a different fact situation and did not concern the conflict between a permanent injunction and the patent statutes. These arguments have been dealt with elsewhere in this argument, particularly sections IIC, VI and VIII. Painton v. Bourns was decided before Goldstein, in 1971.

VIII. The Differences in the Interests Being Protected Do Not Avoid the Conflict.

Kewanee argues (Pet. Br. 37) that the interests protected by Ohio law of trade secrets are different from and do not conflict with federal patent policy. It cites an example wherein an inventor discloses in confidence his new idea to a large corporation which did not previously know of it. The corporation refuses the idea but thereafter, in breach of its argeement with the inventor, puts the idea in public use for over a year before the inventor discovers ***20** what has been done. Bicron does not contend that the inventor should be denied all legal relief under

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contract law. Bicron does contend that the inventor could not obtain any permanent injunctive relife.

Kewanee's example leads to an interesting observation, which is that the policy of most large corporations is to refuse to accept any disclosures from individual inventors except upon the condition that they waive their confidential disclosure rights and rely exclusively upon their rights under the patent statutes. [FN23] In other words, in the dealings between individual inventors and corporations,the corporations favor the federal preemption doctrine.

FN23. MILGRIM, TRADE SECRETS, Section 8.03(3); AMERICAN MANAGEMENT ASSOCIATION BULLETIN 64, 1965 "Trade Secrets", p. 19. Van Rensselaer v. General Motors Corporation, 324 F.2d 554 (6th Cir. 1963) cert den. 377 U.S. 959

In any event, the differences between patents and trade secrets do not avoid the conflict in this case.

IX. There Is No Conflict With the Ohio Criminal Statute.

Kewanee refers (Pet. Br. 40) to the trade secret criminal statute of Ohio, O.R.C. § 1331.51(C), which forbids conversion of "an article representing a trade secret" by anyone who obtained access to that article without the owner's consent. This statute forbids the trusted employee from stealing models, writings, blueprints, [FN24] and the like. It is a criminal statute of narrow scope. There is no conceivable conflict between this statute and the patent statutes. The decision of the Court of Appeals ***21** cannot be twisted into one which would render such state statutes void.

FN24. Blueprints and other writings can be protected by common law copyright. Nucor Corporation v. Tennessee Forging Steel Service Inc., 476 F.2d 386 (8th Cir. 1973).

X. There Are No Prior Decisions Which Are Directly in Point Which Can Be Read Into the 1952 Patent Statute.

Kewanee argues (Pet. Br. 41) that decisions of this Court prior to the enactment of the 1952 Patent Code recognized that there could be peaceful coexistence between state trade secret law and the patent statutes and that such decisions must be read into the 1952 Patent Code.

In the first place, none of the decisions cited by Kewanee dealt squarely with the question now before this Court. The references to trade secrets were dicta in the context of other issues. Before any decision can be read into a statute, it should be one which is directly in point.

In the second place, times change. What seems to be happening now is a flight from the patent laws to reliance on state trade secret laws.

XI. The Statutes Do Not Conflict With the Sixth Circuit Rule Because They Are Concerned Principally With Disclosure, Not Use.

There is nothing in the statutes, treaties [FN25] and court rules cited by Kewanee (Pet. Br. 47) which reinforces its position or conflicts with the decision of the Court of Appeals.

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FN25. The language of the treaties is so broad and nebulous as to be meaningless for purposes of this argument.

To begin with, the term "trade secrets" as used in these statutes has much broader meaning and application than the same term when used in these proceedings. In the ***22** statutes it means all sorts of proprietary business information within and without the scope of patentable subject matter. In these proceedings, insofar as the permanent injunction is concerned, the term "trade secrets" means patentable subject matter which has been in public use for more than a year.

The statutes are mostly criminal statutes which prohibit the disclosure by government employees of information furnished to them in the course of enforcing regulatory laws such as the securities laws or the air pollution laws. What they require is that when someone makes a disclosure to the federal government of various classes of confidential or proprietary information, the government has to honor the confidentiality of the disclosure.

The thrust of these statutes and of court rules is to protect trade secrets against disclosure.

The conflict found by the Court of Appeals is with respect to use.

When a patent owner obtains an injunction pursuant to the patent statutes, it prohibits the other party from making, using or selling the invention claimed in the patent, but there is never any injunction against disclosure because the invention has already been disclosed in the patent. The most that can be said of the statutes and court rules cited by Kewanee is that they recognized rights against the disclosure of trade secrets. There is no problem accommodating into a harmonious body of law the ruling of the Court of Appeals and the various statutes and court rules noted by Kewanee.

***23** XII. The Decision of the Court of Appeals Should Be Given a Narrow Interpretation Consistent With Other Contemporaneous Decisions.

Kewanee argues (Pet. Br. 50) that a large volume of business transactions have been generated in reliance upon state trade secret laws and that, should this court affirm the Court of Appeals. agreements and valuable property rights will be voided.

This is the other side of Kewanee's persistent efforts to characterize the decision of the Court of Appeals in the broadest possible terms.

The question before the Court is whether the permanent injunction of the District Court conflicts with the patent statutes. This Court only has to answer that question. There is no record on the multi-faceted economic issues which Kewanee and the amici are seeking to inject into the case. Bicron cannot cope with such issues nor should it be expected to.

The concern of the amici briefs seems for the most part to be with respect to the licensing of technology, which they seek to characterize as trade secret licenses but which Bicron would more accurately characterize as technical service agreements. The Court of Appeals did not touch on these matters. In another decision, Troxel

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Manufacturing Co. v. Schwinn Bicycle Co., 465 F.2d 1253 (6th Cir. 1972), it held a licensee to its contract and would not permit a refund for royalties paid under an invalid patent. In United States v. Greenwald, 479 F.2d 320 (6th Cir. 1973), the Court of Appeals held that trade secrets were "goods, wares or merchandise" within 18 U.S.C. 2314 of the federal criminal code.

The practice of the Sixth Circuit Court of Appeals is to circulate copies of all proposed opinions among all judges, not merely the members of the panel who heard ***24** the case. [FN26] It must be assumed that the actions of the Court of Appeals are consistent. There is no reason to believe that it intended to nullify all technical service agreements. What the Sixth Circuit Court of Appeals did was to eliminate a direct conflict between state trade secret law and the patent statutes and thereby encourage the disclosure and public use of ideas.

FN26. PRACTITIONERS' HANDBOOK FOR APPEALS TO THE UNITED STATES COURT OF APPEALS FOR THE SIXTH CIRCUIT, p. 44.

XIII. The Patent System Favors Research And Development

Some of the amici contend that an affirmance of the decision of the Court of Appeals will take away the rewards and incentives for diligent and fruitful research and decrease the level of invention and innovation in this country.

George E. Frost, Esq., in Study No. 2, indicated that the patent system supported most of this activity, not any state trade secret system. [FN27] Dr. Vannevar Bush said that research scientists publish freely and deplore secrecy. [FN28] To illustrate the undesirability of secrecy, Dr. Bush used the history of obstetrical forceps, which were held secret and passed down from father to son while many women suffered unnecessarily. [FN29]

FN27. Study No. 2, supra, p. 1-14.

FN28. Study No. 1, supra, p. 2-3.

FN29. Study No. 1, supra, p. 3. See also Rines, Do We Need A Patent System, JOURNAL OF THE PATENT OFFICE SOCIETY, Aug. 1969, Vol. 51, p. 525.

The objects of the American Chemical Society [FN30], as set forth in its charter, are:

FN30. The American Chemical Society filed an amicus curiae brief in support of Kewanee but then withdrew it.

***25** "That the objects of the incorporation shall be to encourage in the broadest and most liberal manner the advancement of chemistry in all its branches; the promotion of research in chemical science and industry; the improvement of the qualifications and use-fullness of chemists through high standards of professional ethics, education, and attainments; the increase and diffusion of chemical knowledge; and by its meetings, professional contacts, reports, papers, discussions, and publications, to promote scientific interests and inquiry, thereby fostering public welfare and education, aiding the development of our country's industries, and adding to the material prosperity and happiness of our people." P.L. 358, 75th Cong., 1st Sess. (1937).

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The patent system favors research and development, not any state trade secret system.

The Court is not being asked to nullify the state trade secret law nor reward reprehensible business conduct. The Court is being asked to eliminate a direct conflict between the federal patent system and state trade secret law and to modify state trade secret law to the extent that it interferes with the purposes and objectives of the patent system.

***26** CONCLUSION

The decision of the Sixth Circuit Court of Appeals promotes the Patent System and strikes a fairer balance between the interests of all involved in the law of industrial property. There is a direct conflict between the permanent injunctive relief granted to Kewanee by the District Court under Ohio law and the fact that it could not have obtained any relief under the patent statutes. The decision of the Sixth Circuit Court of Appeals should be affirmed.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

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• 1973 WL 173807 (Appellate Brief) Brief of the Electronic Industries Association as Amicus Curiae in Support of Petitioner (Nov. 23, 1973)

• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae (Nov. 19, 1973)Original Image of this Document (PDF)

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END OF DOCUMENT

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
December 21, 1973.
On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Brief for Amicus Curiae National Patent Council, Inc., for Itself and Representing National Small Business Association, Inc.
Eric P. Schellin Anne M. Kornbau Schellin and Hoffman Suite 301 2001 Jefferson Davis Highway Arlington, Virginia 22202 Attorneys for Amicus Curiae

***i** TABLE OF CONTENTS

Introductions ... 1

Identity of Amicus Curiae ... 4

Interest of Amicus Curiae ... 5

Questions to be Resolved ... 6

I. Federal Patent Law Preempts State Trade Secret Law ... 6

A. Trade Secrets and Patents Accomplish a Similar Purpose ... 6

B. Even Though Congress Has Acted Under the Constitution Competition Continues to be A Paramount Concern ... 8

C. Trade Secrets By Encouraging Secrecy Hinder Inventive Progress ... 12

D. There Is Not a Sufficiently Large Local Interest to Permit State Action ... 14

II. Judicially Protected Trade Secrets are Manifestly Unfair ... 14

A. Trade Secrets May Prolong Monopoly for an Unlimited Length of Time ... 14

B. Trade Secrets Inhibit Job Mobility of Technically Trained Personnel ... 16

C. Trade Secrets Give Uneven Protection ... 20

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III. There is Justification Under Certain Conditions of State Intrusion Into Federal Policy ... 21

A. A Trade Secret Holder May Obtain Damages For Unfair Competition ... 21

B. States May Still Protect Inventors Against Commercial Immorality ... 23

***ii** IV. Trade Secrets, The Patent System and Small Business ... 24

Conclusion ... 25

Consent of Petitioner for filing of Brief Amicus Curiae ... 27

Consent of Respondent for filing of Brief Amicus Curiae ... 28

TABLE OF AUTHORITIES

Cases:

Abbott Laboratories v. Norse Chemical Corp., 33 Wis. 2d 445, 147 N.W.2d 529, 152 U.S.P.Q. 640 (1967) ... 10

Baker v. Selden, 101 U.S. 99 (1879) ... 14

Cataphote Corp. v. Hudson, 422 F.2d 1290, 165 U.S.P.Q. 41 (5th Cir. 1970) ... 23

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 140 U.S.P.Q. 528 (1964) ... 9

Cudahy Co. v. American Laboratories, Inc., 313 F. Supp. 1339, 167 U.S.P.Q. 230 (D.Nebraska 1970) ... 17

E. I. duPont de Nemours and Co. v. Masland, 244 U.S. 100, 37 S.Ct. 575, 61 L.Ed. 1016 (1917) ... 21

Goldstein v. State of California, --- U.S. ---, 93 S.Ct. 2303, 178 U.S.P.Q. 129 (1973) ... 14

Kendall v. Winsor, 62 U.S. 322 (1858) ... 10, 12

Kewance Oil Co. v. Bicron Corp., 478 F.2d 1074 (6th Cir. 1973) ... 2

Lear, Inc. v. Adkins, 395 U.S. 653 (1964) ... 25, 26

Merrill v. Yeomans, 94 U.S. 568 (1876) ... 12

Northern Petrochemical Co. v. Tomlinson, --- F.2d ---, 179 U.S.P.Q. 386 (7th Cir.) August 28, 1973 ... 22

Schulenberg et al, doing business as Time-O-Matic Co. v. Signatrol, Inc., 167

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F.Supp. 20 (E.D. Ill. 1958), aff'd 267 F.2d 388 (7th Cir.), cert. denied, 361 U.S. 886 (1959) ... 17

Sears, Roebuck, and Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 9, 10, 13, 18, 26

Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173 (1942) ... 7

Space Aero Products Co. v. R. E. Darling Co., Inc., 208 A.2d 74, 145 U.S.P.Q. 356, 238 Md. 93 (1965) ... 16

Van Products Co. v. General Welding and Fabricating Co., 419 Pa. 248, 213 A.2d 769, 147 U.S.P.Q. 221 (1965) ... 15

***iii** Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163, 162 U.S.P.Q. 321 (5th Cir. 1969) ... 17

Wexler et al, trading as Buckingham Wax Co. v. Greenberg, 399 Pa. 569, 160 A.2d 430, 125 U.S.P.Q. 471 (1960) ... 19

Winston Research Corp. v. Minnesota Mining and Manufacturing Co., 350 F.2d 134, 146 U.S.P.Q. 422 (9th Cir. 1965) ... 13, 20

SECONDARY AUTHORITY

Adelman, Secrecy and Patenting: Proposals for Resolving the Conflict, 1 APLA Quart. Jour. 295 (1973) ... 16

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Gilfillan, Invention and the Patent System, presented for consideration of the Joint Economic Committee, Congress of the United States, 88th Congress, 2nd Session (1964) ... 8

Mahon, Trade Secrets and Patents Compared, 50 JPOS 536 (1968) ... 3

Milgrim, Trade Secret Protection and Licensing--A True Alternative, 4 Patent L. Rev. 375, 391 (1972) ... 21

Milgrim, Trade Secrets, § 1.10 Matthew Bender, New York, 1967 ... 24

Oppenheim, Unfair Trade Practices, 2nd Ed. West Publishing Co., St. Paul. Minn., 1965 ... 22

4 Restatement Torts § 757 Comment (a), (1939) ... 23, 24

CONSTITUTION AND STATUTES

Constitution of the United States:

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Article I, Section 8, Clause 8 ... 6, 7, 8

Article VI, Clause 2 ... 6, 7

35 U.S.C. § 101 ... 10

35 U.S.C. § 103 ... 21

35 U.S.C. § 154 ... 12

***1** INTRODUCTION

National Patent Council, Inc., (NPC) is filing this brief amicus curiae with the consent of all parties, Letters evidencing such consent are attached to the brief amicus curiae filed herein. NPC, in this matter, is also representing the National Small Business Association, Inc., (NSB) with which it is affiliated.

***2** The Court of Appeals for the Sixth Circuit has ruled that the trade secret law of the State of Ohio--and, by the Court's reasoning, of the other States which have similar laws--is preempted by the United States Constitution and the Federal patent law. Kewance Oil Co. v. Bicron Corp., 478 F.2d 1074 (6th Cir. 1973). This Court has issued a Writ of Certiorari to the Sixth Circuit to review that opinion.

It is with great ambivalence and consequent reluctance that NPC submits this brief. The members of NPC and NSB employ both the patent system, as established by the Federal laws, and various applicable state trade secret laws as a means of obtaining a modicum of protection for their ideas and invention. As a result of their employment of trade secret laws, the members of the amicus have the same high personal interest evidenced and stated in the numerous other amicus curiae briefs already filed on behalf of the petitioner. However, on balance, NPC and NSB believe that the patent system serves their interest the best. It may be asked as to what does this mean with respect to the instant matter. It will become understandable when one considers that there has been a considerable denigration of the United Stats patent system, as evidenced by the fact that only twenty-eight percent of litigated patents are deemed to be valid by the Circuit Courts of Appeal. As a result, many of the members of NPC and NSB have regretfully turned to the alternative to the patent system for the protection of their ideas and inventions. The chief of such an alternative is based upon the various state trade secret laws and contractual arrangements between concerned parties; this alternate means will be termed merely trade secrets hereinafter.

***3** Trade secrets give vent to a natural emotional inclination towards secrecy; are relatively easily defined; are simply maintained by one or more contractual arrangements with employees who basically are desirous of being faithful to the contract and want to do no wrong. When matters pertaining to trade secrets have been litigated, the owner of the trade secrets has been successful in forty-seven percent of the time. John J. Mahon, Jr., Trade Secrets and Patents Compared, Journal of the Patent Office Society, Vol. 50, No. 8, p. 536-553 at p. 540 (1968).

The patent system on the other hand requires honest disclosure, incurs considerable expenses, imposes a stringent standard of patentability and under current climate

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results in tenuous exclusivity, permitting the patent holder to be successful only twenty-nine percent of the time. Journal of the Patent Office Society, supra. Is it then any wonder that trade secrets have become a more often used tool in protecting inventions, including those that would ordinarily be patenable.

The members of NPC and NSB have come to the conclusion that on balance the patent system properly supported and recognized presents a more valuable road to achieving a degree of exclusivity that permits them to establish and exploit a market for the benefit of the members of the amicus, but also for the public interest in being provided with access to new items marketed and access to the information that resulted in the commercialized item. The members of the amicus have therefore concluded that the socio-economic benefit available from a respected patent system is greater than that achieved by the use of a trade secret system. As has been stated, the patent system commands less respect than heretofore. As a result, trade ***4** secrets are now most prevalent alternate means for achieving protection for ideas and inventions. A reversal by this Court of the holding of the Sixth Circuit Court of Appeals will, by giving a Supreme Court imprimatur to trade secrets, lead to further disinterest in the patent system. If, as has been postulated, or at least implied, in the above, that there are defects or shortcomings in the patent system, this Court should not in essence be put to the posture of correcting deficiencies in the patent system by being asked to rule in a way which will encourage greater use of trade secrets, with concomitantly less respect for the patent system. The correction of the deficiencies found in any system for protecting inventions properly belongs to the province of the Congress. There are those that might argue that there is no valid relationship between protecting secrets by a trade secret system and a patent system. Nevertheless, both systems are designed to retain exclusivity over an idea or invention; this cannot be denied nor then can their relationship.

IDENTITY OF AMICUS CURIAE

NPC is a non-profit business association organized under the laws of the state of Indiana and maintains its principal offices at Suite 409, 1225 19th Street, N.W., Washington, D.C., 20036. NPC is an association comprising members, individuals, and companies. The individuals and companies through their employees utilize the patent system and are therefore interested in preserving it to its fullest extent. The reward of the grant of a patent is a property right giving the holder of the patent a right to exclude others from making, using, and selling the invention disclosed as claimed essentially within the framework ***5** of one or more claims attached to the end of the disclosure (known as the specification) of the patent. In exchange for this property right, the inventor must disclose his invention in such a manner as to enable one skilled in the art to understand the invention. This enables others to design around the claims of the patent and, ultimately, to use the disclosure of the inventor to further technology.

The NPC members include such individuals as inventors, patent attorneys, and academicians throughout the United States. NPC company members include from small R&D companies up to and including the largest corporations. Moreover, NPC, through its affiliation with NSB represents on patent matters this 45,000 member organization whose membership includes establishments in hundreds of different business categories. The membership qualifications of the National Small Business Association are parallel to those employed by the Small Business Administration in

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designating small business.

INTEREST OF AMICUS CURIAE

The aforementioned membership of NPC and NSB have a material concern in the ultimate outcome of the decision to be rendered by this Court in the instant matter. If the position of the Circuit Court is not sustained,

(1) "Patentable" inventions would be maintained as trade secrets, perhaps indefinitely, and thus provide monopolies for an unlimited length of time for the inventors, rather than the seventeen year right of exclusion provided for in Title 35 U.S.C. NPC and NSB would be denied access to such patentable inventions for an indefinite period.

***6** (2) Technological advances and innovations would be kept secret for the use only of the developers and by the licensees of the developer; without publication and dissemination of information, advances in technology will be severely curtailed. NPC and NSB would not have access whereby new improvements and new discoveries could be made with public knowledge constituting a base.

(3) Mobility of technical employees will be interfered with, as companies will be reluctant to hire away competitors' employees and employees will in turn be reluctant to seek other employment for fear of legal action to protect former employer's trade secrets. NPC and NSB will be denied increased membership as employees will be discouraged from starting their own small businesses.

QUESTION TO BE RESOLVED

Do the patent laws passed by the Congress of the United States based on the Constitutional provision, Article I, Section 8, Clause 8, preempt under the supremacy clause of the Constitution, Article VI, Clause 2, the state laws, especially the state of Ohio, pertaining to trade secrets whereby those who violate or are about to violate said state laws may be enjoined from using trade secrets obtained due to contractual and/or employment agreements?

I. FEDERAL PATENT LAW PREEMPTS STATE TRADE SECRET LAW

A. Trade Secrets and Patents Accomplish a Similar Purpose

Prior to the adoption of the Constitution, several states, including New York, had granted patents, giving the owner of the patents exclusive rights in the invention within the limits of the states. However, ***7** when the Constitution was adopted, provision for a federal patent system was made one of the enumerated powers of Congress, in Article I, Section 8, Clause 8, which reads:

"The Congress shall have power ..."

"To promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

Of course, in order to achieve uniformity in those areas in which Congress was to act the Constitution provided that state law was to be subordinated to federal law where Congress had seen fit to act. Specifically, the Supremacy Clause, Article VI, Clause 2, provides that:

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"This Constitution, and the Laws of the United States which shall be made in pursuance thereof, and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every state shall be bound thereby, anything in the Constitution or Laws of any State to the contrary notwithstanding".

Federal patent law preempts state protection of intellectual property, as federal policy embodied in the federal statutes and Constitutional provisions may not be set at nought by state law. Sola Electric Co. v. Jefferson Electric Co., 317 U.S. 173 (1942). Congress acted under its Constitutional mandate to provide for protection of inventors' discoveries in the guise of the present Patent Act, Title 35 U.S.C. § § 101 et seq. In that Act, the requirements for patentability, i.e., what Congress considered to be protectible, were clearly enumerated. Had Congress wished to protect ***8** inventors' discoveries by protecting trade secrets, provisions for such protection would have been made in the present patent statute.

Article I, Section 8, Clause 8, does not define the method to secure to inventors the exclusive right to their discoveries. Neither the term patents nor the phrase trade secrets appears in the clause. The Congress of the United States has chosen to accomplish the purpose through the patent laws. It is submitted that the Congress could have accomplished the Constitutional purpose by in fact employing essentially the same type of terminology and verbiage found in most state trade secret laws. On the other hand, it is undoubtedly universally admitted that due to the supremacy clause the states could not validly pass laws that would in fact be called "state patent laws." In recent years the law has sometimes recognized that trade secrets is a kind of private patent. S. C. Gilfillan, Invention and the Patent System presented for consideration of the Joint Economic Committee Congress of the United States 88th Congress 2d Session, p. 153 (1964). Obviously, the test between patents and trade secrets is not whether the words are the same--they are not--but, as the Constitution is silent with regard to the words, the test should be whether both through the operation do the same thing, i.e., promote the progress and useful arts by securing for limited times to inventors the exclusive right to their discoveries (a paraphrase).

B. Even Though Congress Has Acted Under the Constitution Competition Continues to be A Paramount Concern

Congress clearly demonstrated its desire to exercise its full grant of constitutional power in enacting the patent statutes. Its constitutional power could ***9** have been exercised in one of two ways; either by protecting all intellectual property, e.g., the species thereof, namely, patents, including protecting some forms of intellectual property as secrets by providing for injunctions to maintain the intellectual property in confidentiality, or by protecting only those ideas which meet certain standards defined by Congress for patentability and leaving open to competition all other forms of intellectual property. In Sears, Roebuck, & Co. v. Stiffel Co., 376 U.S. 225 (1964), and its companion case, Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234, 140 USPQ 528 (1964), the Court determined that, with respect to patents, the ordinary practice of legislative construction could not be used because of the overriding interest in enhancing competition. In view of the importance of not imposing unnecessary restraints on competition, the Court adopted in those cases a rule of construction providing that, unless Congress' failure to

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provide patent protection for some class of works could clearly be shown to reflect a judgment that state regulation was permitted, the silence of Congress would be taken to reflect a judgment that free competition should prevail. It is obvious from Scars and Compco that Congress has decided that free competition should be the general rule, unless it is convinced that the failure to provide patent or trade secret protection is hindering "the progress of science and useful arts".

In Scars, the Court held that the federal patent statutes reflect a Congressional determination that "the progress of science and useful arts" is best served by limiting the right to exclude others from new developments to "genuine invention," and that for a period no longer than fourten or seventeen years, ***10** and that states may not "under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of federal patent laws." 376 U.S. at 231, 140 USPQ at 58.

The Supreme Court noted in Sears that with respect to every particular item within general classes enumerated in the relevant statutes, Congress balanced the need to promote invention against the desire to preserve free competition, and had concluded that it was in the national interest to preserve competition as to every item that could not be patented. That is, the fact that some item could not be patented demonstrated that, in the judgment of Congress, it was best to let competition in the production of that item go unrestricted.

The original objective of granting exclusive rights to a patentee was to benefit the public or community at large. Kendall v. Winsor, 62 U.S. 322 (1858). The basis of the United States industrial system is a free economy. The encouragement of technological advancement is vital to the maintenance of our economic system and of our industrial productivity. The patent statutes foster this technological advancement within the free economy by requiring full disclosure of the invention as a condition to the grant of exclusivity, so that at the end of the period of exclusivity the development may be freely available. 35 U.S.C. § § 101 et seq. These statutes reflect Congressional determination that any individual or social interests which may be served by secrecy are outweighed by those served by full disclosure, for if dissemination of technological information is impaired, competition is fettered and it is the public which is ultimately injured, Abbott Laboratories v. Norse Chemical Corp., 33 Wis.2d 445, 147 N.W.2d 529, 152 USPQ 640 (1967).

***11** The free flow of information provided by patent disclosure is of particular importance to NPC and NSB members, many of whom are small businesses founded on patents. When a patent issues, industry is informed of the new development embodied in the patent and often recognizes a commercial trend wherein patentable improvements are possible. To cite merely one example, whole new industries have been developed based on patented processes in oil refining. Research is fostered because its findings can be protected by patents, and publication of results can be more complete and widespread, thus cutting down duplication of work and furnishing a basis for further study and experimentation. For fifty cents, anyone can purchase a patent, which gives complete and detailed information as to the nature of the invention. The alternative to patents is secrecy, and piracy of processes and methods would become common practice as a necessity to compete. Systems of espionage would develop for obtaining information on new processes and products so that they could be used by competition without consideration of inventors' rights.

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Manufacturing concerns could easily be put out of business by such thefts. Under such conditions, it is questionable whether small businesses could survive. Those employed in industries would be enjoined from normal discussion of their work either outside or inside of their company, and cooperative research efforts would be frustrated. One invention always promotes others, and inventors react catalytically on one another. Dr. Gustav Egloff, Invention and the Oil Industry, Journal of the Patent Office Society, Vol. 26, p. 834 (1944).

The chaos which would result from industry's reliance on trade secret protection rather than on patent protection was recognized by Mr. Abe Fortas in 1971, who stated,

***12** "Unless we can fashion a patent system in which genuine invention and the public disclosure of invention are fostered and promoted, and the appropriate exploitation of invention is protected, we will garner not the fruits of competition, but the chaos of guerrilla warfare and the stagnation of a closed and secret industrial society": Speech before Association of Corporate Patent Counsel, January 19, 1971.

C. Trade Secrets By Encouraging Secrecy Hinder Inventive Progress

Disclosure of the invention in return for a period of exclusivity provides another benefit to the public, as those coming later are able to improve on what is disclosed or to design around it to avoid infringing a patent. Merrill v. Yeomans, 94 U.S. 568 (1876). Of course, at the end of the seventeen year life of a patent, the development is freely available to all. 35 U.S.C. § 154.

The patent statutes reflect a Congressional determination that any individual or social interests which may be served by secrecy are outweighed by those served by full disclosure. This was recognized early in the history of the patent statutes by this Court, where it was noted that the inventor who keeps his invention secret by applying it indefinitely and exclusively for his own profit comes not within the policy and objects of the Constitution, or acts of Congress. He does not promote, and, if aided in his design, would impede the progress of science and the useful arts. And with a very bad grace could he appeal for favor or protection to that society which he had neither benefited nor intended to benefit. Kendall v. Winsor, 62 U.S. 322, 328 (1858). Very clearly, then, state law providing protection for trade secrets cannot be applied ***13** to serve a premise that a balance of the interests favor secrecy. State law protecting trade secrets cannot be based on a policy of rewarding or encouraging development of secret processes or devices--such protection can merely be against breach of faith and reprehensible means of learning another's secret. Winston Research Corp. v. Minnesota Mining and Manufacturing Co., 350 F.2d 134, 146 USPQ 422 (9th Cir. 1965).

There can thus be no legally protectible interest in the secrecy of industrial information as such, as distinguished from an interest in the integrity of confidential employer-employee relations, Scars. No matter how compelling the reasons, states cannot give protection of a kind that clashes with the objectives of the federal patent laws under the Supremacy Clause of the Constitution. The Seventh Circuit decision that was reversed in Scars was based on protecting the state's interest in commercial honesty. The Supreme Court made it clear in Scars, however, that interests in commercial morality were not sufficient to prevent a holding of

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preemption if a conflict between protecting such interests and a federal patent policy were found.

This is not to say that an owner of an invention does not have an absolute right to keep the idea secret and for his own benefit exclusively. However, it is completely another thing to argue that the owner of the invention has an absolute right to lawfully disclose his invention to third parties, such as employees or licensees, and then assert that he has an absolute right to the protection of the confidentiality of the relationship he has created in order to commercially exploit the invention and to employ the courts for anticompetitive practices, such as an injunction may afford.

***14** D. There is Not a Sufficiently Large Local Interest to Permit State Action

In Goldstein v. State of California, ----- U.S. -----, 93 S.Ct. 2303, 178 USPQ 129 (1973), this Court held that federal copyright law does not preempt state copyright protection because, in the case decided, there was enough local interest involved to justify purely local copyright protection for the material involved. This decision is being used to justify the position that federal patent law does not preempt state trade secret law.

However, the rationale of Goldstein in holding no federal preemption for copyrights cannot be applied to patents. Federal patent law was designed to give an exclusive right to use a technological type of intellectual property, i.e., process, machine, article of manufacture, and there can be no purely local interest in technology.

Moreover, the analogy cannot be drawn between patents and copyrights, because of the vastly different nature of the protection afforded. A patent gives an exclusive property in the art described therein after examination by the Patent Office. This exclusive property can only be secured by a patent from the government. A copyright, on the other hand, only gives the exclusive right of printing and publishing, and gives no exclusive rights to anything described therein. Baker v. Selden, 101 U.S. 99 (1879).

II. JUDICIALLY PROTECTED TRADE SECRETS ARE MANIFESTLY UNFAIR

A. Trade Secrets May Prolong Monopoly for an Unlimited Length of Time

Trade secrets as such should not be given protection by the courts because such protection puts a burden on competition by suppressing the flow of technological ***15** information for an indefinite length of time. In the interest of uniformity and unburdened competition, relief for trade secret violations by way of damages or injunction should not be allowed. Van Products Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769, 147 USPQ 221 (1965).

Both trade secrets and patents are means to obtain a competitive advantage, in that both give to their owners exclusive exploitation of ideas. A patent owner can make something or utilize a process because no one else is permitted to for a statutorily prescribed length of time, but a trade secret owner can make something or utilize a process which no one else can because no one else knows how, and this exclusivity can theoretically last forever. While the patent owner has exclusivity created by law for a limited time, the trade secret owner has a monopoly in fact, which lasts until the secret is made public either by disclosure thereof by the owner or someone

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to whom he has disclosed the secret, or by someone who discovers the secret independently. An example can be given of a process for smelting ore, wherein a process is developed to make the entire operation vastly more economical, yet the end product is the same. By inspection of the ultimate product there is no way to determine the process used in obtaining it, and there is thus no way to reverse engineer the product to discover the secret. Because there is theoretically no time limit to the length of a trade secret monopoly, judicial protection of trade secrets runs counter to the rationale of the patent system wherein the period of exclusive right to practice the invention is limited by statute to seventeen years. It should be noted that it is the availability of permanent injunction which induces the inventor to elect protection via trade secret ***16** law. Adelman, American Patent Law Association, Quarterly Journal, Vol. 1, No. 4, Fall (1973), p. 295, Secrecy & Patenting: Proposals for Resolving the Conflict.

B. Trade Secrets Inhibit Job Mobility of Technically Trained Personnel

The law of trade secrets has developed in large part to deal with a particular problem in American industry–employee mobility among key employees of an industrial concern. When an employee changes jobs, it is inevitable that some of the employee's previously acquired knowledge will be made available to his new employer. One of the problems that arose under the concept of trade secret protection was where do trade secrets begin and the employee's intellectual tools of the trade end? Two conflicting social and economic philosophies must be balanced: protection of rights in proprietary knowledge gained by research and initiative versus the interests in free competition and use of an individual's skill for his own benefit and the benefit of the general public. Space Aero Products Co. v. R. E. Darling Co., Inc., 208 A.2d 74, 145 USPQ 356, 238 Md. 93 (1965).

All knowledge gained by an employee during the course of his employment is not a trade secret, even though the employer may feel that many trade secrets are involved. The employee's relationship to the employer may be confidential, but not the knowledge. It has long been accepted that that which by experience has become a part of a man's general knowledge cannot and ought not be enjoined from further and different uses. Law of trade secrets is not designed to be used by employers to retain employees by the threat of rendering them substantially unemployable ***17** in the field of their experience should they decide to resign. Cudahy Co. v. American Laboratories, Inc., 313 F.Supp 1339, 167 USPQ 230 (D. Nebraska, 1970). In our free economy, social mobility is a chief characteristic. An employee who is dischargeable at will is under no obligation to treat his employer otherwise or with more consideration than he can be treated by him. By overstrict restriction of use of skills and knowledge, we create a monopoly of first users, an undesirable situation in our society if we acknowledge the desirability of encouraging individual business enterprises and initiative, which we do. Schulenberg et al, doing business as Time-O-Matic Co. v. Signatrol, Inc., 167 F.Supp. 20 (E. D. Ill. 1958), aff'd 267 F.2d 388 (7th Cir.), cert. denied, 361 U.S. 886 (1959).

The basis of trade secret protection is an attempt to enforce morality in business, a worthwhile motive, but as discussed supra the state laws favoring trade secrets have been preempted by the federal patent statutes. Notwithstanding federal preemption, trade secret doctrine, under the guise of unfair competition, deals with an area that is nebulous as to guidelines to be applied.

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The policy reasons for protecting trade secrets are to prevent exploitation of competitors by reprehensible business methods and to encourage innovation. Water Services, Inc., v. Tesco Chemicals, Inc., 410 F.2d 163, 162 USPQ 321 (1969 5th Cir.). The problem with this rationale for protecting trade secrets is that there will be much less innovation when everyone is working in secret than when inventions are disclosed in exchange for protection as envisaged by the patent laws. Innovation is spurred by the free exchange of ideas, and if discoveries which are patentable are not ***18** afforded protection as trade secrets, the inventors will turn to the patent system for protection. Then, in exchange for the limited exclusivity afforded by the patent, they will disclose their invention so that all may practice it after seventeen years. Additionally, while the patent is still in force, others may use the patentee's disclosure to make improvements on the basic idea, or may find ways to design around the property rights defined by the patent claims and thus avoid infringement during the life of the patent. It is difficult to imagine this type of free exchange of technological information when everyone is conducting operations in secret. As exchange of information is vital to technological development, secret operations put a substantial limit on development and also on innovation.

This is not to say that a person must disclose all of his ideas immediately. Rather, in the interest of preserving a free economy and encouraging technological development through free exchange of ideas, those who wish protection of allegedly patentable inventions must obtain such protection from the patent system rather than relying on courts to enforce trade secrets.

There should be no judicial recognition of a legally protectible interest in secrecy of industrial information as such, as distinguished from an interest in integrity of confidential employer-employee relations. Sears, Roebuck & Co. v. Stiffel Co., supra.

Restrictions on the use of information acquired in the course of a terminated employment relationship limit the employee's employment opportunities, tie him to a particular employer, and weaken his bargaining power with that employer. Such restrictions interfere ***19** with the employee's movement to the job in which he may most effectively use his skills. They may inhibit an employe from either setting up his own business or from adding his strength to a competitor of an employer, and thus diminish potential competition. Such restrictions impede the dissemination of ideas and skills throughout the industries. The burdens which they impose on the employee and society increase in proportion to the degree of the employee's specialization and significance of his accomplishments.

The skill and knowledge obtained by an employee in the course of employment are not the employer's property, but belong to the employe. The employee has an unqualified privilege to use technical knowledge acquired by virtue of employment. Wexler et al, trading as Buckingham Wax Co. v. Greenberg, 399 Pa. 569, 160 A.2d 430, 125 USPQ 471 (1960).

The major problem is the attempt to balance the right of the businessman to be protected against unfair competition stemming from usurpation of his trade secrets and rights of the individual against the rights of the individual to the unhampered pursuit of occupations and livelihood for which he is best suited. Any form of post-employment restraint reduces the economic mobility of employees and limits their

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personal freedom to pursue a prefered course of livelihood. The employee is potentially shackled by the acquisition of the alleged trade secrets, and thus he is restrained because of his increased expertise from advancing further in the industry in which he is most productive. Society suffers because competition is diminished by slackening the dissemination of ideas, processes, and methods.

***20** The sentiment of the law heavily favors protecting the individual in the unrestricted pursuit of a livelihood over protecting a businessman from certain forms of competition. The individual can be protected as well as the businessman by requiring the utilization of the patent system, in which the buinessman's intellectual property rights are secured, yet the individual is permitted to freely advance in his area of expertise.

Of course, there is no incentive to use the patent system if trade secret protection is available to protect intellectual property which could otherwise be patented. For a corporation willing to take the precautions required to protect a trade secret, there is the possibility of a monopoly for an unlimited amount of time on utilization of the trade secret. This unlimited monopoly runs counter to the intent of the federal patent system which requires complete disclosure of the invention to the public in exchange for the limited right of exclusivity of the invention.

C. Trade Secrets Give Uneven Protection

By employing state trade secret law as a substitute for patenting, certain categories of inventions would receive privileged protection under that law. Thus devices could not be protected after they are put on the market, because inventions which by their nature cannot be put into commercial use without disclosure cannot be kept secret. Those that can be maintained secret, such as a proces, are eligible for trade secret protection. Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9th Cir. 1965).

It has been argued that the public is not adversely affected by secrecy because everyone is, after all, free to reinvent, and thereby to obtain the invention free ***21** of any claim by the first inventor. Even if a second inventor comes along, he, to, is free to opt for secrecy. There is but little assurance that a patentable invention will be reinvented. By definition, such an invention is one that is not obvious to one skilled in the art, even if that person is fully conversant with all the pertinent prior art. 35 U.S.C. § 103. Therefore, the possibility of reinvention is of significance only with respect to obvious (i.e., unpatentable) technology. By definition, with time, money, and effort such technology can be duplicated by anyone skilled in the art. 35 U.S.C. § 103. It does not protect the public as far as patentable inventions are concerned because they are not obvious and hence not readily reinvented. The trade secret holder will gamble on the fact that the invention is not likely to fall into the public domain. An invention not discernible from the product, such as a process lends itself to trade secret protection, as was attempted in the instant matter. While a limited range of matter is appropriate for trade secret licensing, within that range trade secrets are cheaper to obtain and may have distinct licensing advantages in comparison to patents. Milgrim, Trade Secret Protection and Licensing--A True Alternative, 4 Patent Law Review, 375, 391 (1972).

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III. THERE IS JUSTIFICATION UNDER CERTAIN CONDITIONS OF STATE INTRUSION INTO FEDERAL POLICY

A. A Trade Secret Holder May Obtain Damages For Unfair Competition

Even in the absence of trade secret protection, the businessman is not without protection for unfair competition. The leading case on trade secret law. E. I. duPont de Nemours and Co. v. Masland, 244 U.S. 100, 37 S.Ct. 575, 61 L.Ed. 1016 (1917), recognized the dichotomy between protecting the trade secret as a property ***22** right, in conflict with the patent statutes, and protecting a confidence. The court said that, in a trade secret case, the starting point is not the property, but the confidential relations involved. This philosophy has been recognized up to the present time, when the 7th Circuit remarked that a trade secret, unlike a patent or copyright, has no proprietary dimension. A suit to redress theft of a trade secret is grounded in tort, with the act of theft comprising the misfeasance against which the law protects. Northern Petrochemical Co. v. Tomlinson, ----- F.2d -----, 179 USPQ 386, 7th Cir. (August 28, 1973).

Among the well-established remedies for torts resulting from inducing breach of confidence with regard to trade secrets, even if the trade secret per se is not protectible, are compensatory damages for breach of express or implied in fact contract, compensatory damages for inducing breach of contract, punitive damages for inducing breach of contract, and damages for conspiracy and deceit. Oppenheim, Unfair Trade Practices, 2nd ed., West Publishing Co., St. Paul, Minn., 1965, p. 261.

In the case in which a wrongdoer acquires a secret from an employee who has himself acquired it lawfully, the wrong consists in inducing the employee to break a specific contract or to be disloyal to a confidence reposed in him. In either instance it is a species of tort, recognized for over a century, of inducing an obligor to default upon an obligation.

When an employee who stands in a relationship of trust and confidence to his employer steals an invention, there has been an unjust enrichment of the employee or of the person to whom the employee imparts the confidential information. The only type of protection that can be given for trade secrets that is not ***23** preempted by the federal patent statutes is in the realm of unfair competition, i.e., by breach of contract not to reveal, or abuse of confidence, or impropriety in obtaining the secret. Cataphote Corp. v. Hudson, 422 F.2d 1290, 165 USPQ 41, 5th Cir. (1970).

Any state law affording further protection, e.g., to enjoin those who obtain the secret by unfair means from using the secret information, has been preempted by the federal patent laws. A trade secret can thus only be protected by being kept secret. The protection of the owner of the trade secret is based on equity--the secrets obtained by the wrongful means are not protected.

B. States May Still Protect Inventors Against Commercial Immorality

The Restatement of Torts lists protection of commercial morality as the sole basis of trade secret protection under the law of unfair competition; inter alia:

Restatement of Torts (1938) § 757, Comment (a) which states as follows:

..."It is employment of improper means to procure the trade secret, rather than the mere copying or use, which is the basis of the liability ...".

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It might be argued that such protection stimulates the development of technology by preventing its misappropriation. With respect to patentable inventions, this argument has little cogency. There is no reason for believing that potentially secret inventions need additional incentives to insure their creation and commercialization beyond those provided by the patent system.

The states have already amply provided laws to protect inventors against commercial immorality. Such ***24** laws proscribe a wide range of immoral conduct. They prohibit outright theft and industrial espionage. In this fashion trade secrets found in documents or other physical objects are protected against forceful physical takings through breaking into a plant to steal them, or from wrongful copying, use, or sale of documents by one having access to them. Restatement of Torts (1938) § 757. Under general federal and state criminal statutes, such conduct may be criminal as well as illegal under the law of unfair competition. Milgrim, Trade Secrets, Matthew Bender, New York (1967), § 1.10.

IV. TRADE SECRETS, THE PATENT SYSTEM AND SMALL BUSINESS

Small business would be the last to deny that they do not harbor intellectual property which may be called trade secrets. However, small business would be the first to admit that when it comes to that species of intellectual property termed patentable inventions, they are highly dependent on that form of protection when an invention is commercialized. The large business's ability to reinvent and to employ economic clout is awesome and on both counts is frequently successful.

A loss of a trade secret to a small business enterprise is much more devastating to it than to a large business. First of all, the trade secret loss may lead to a complete demise of the business. Secondly, the pursuit of litigation is not only expensive but often meaningless as the practice of the trade secret may be already widespread. Small business' counter move is to obtain patent protection.

Large business through the numerous amicus curiae briefs filed on behalf of the petitioners have stated a ***25** belief in the need for their purposes of trade secrets, Yet, when small business approaches large business with an idea or invention, large business demands that such idea or invention will be reviewed if the submission is made on a non-confidential basis. Small business can and must rely on its patent position and does so rely.

CONCLUSION

As Congress has enacted the patent laws in accordance with its constitutional authority, the Supremacy Clause of the Constitution requires that no state has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws. One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled "inventors" do not keep their discoveries secret, but rather disclose them in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kinds of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals, with or without the approval of the courts. Lear, Inc.

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v. Adkins, 395 U.S. 653 (1969).

This Court now has an opportunity to decide what it reserved for future decision in Lear v. Adkins, namely, whether the courts should protect the monopolies resulting from court-enforced trade secrets as well as the limited exclusivities granted to patentees in exchange for full disclosure of their inventions. ***26** This case presents this Court with the occasion for bringing the Sears and Lear series of cases to their logical conclusion, i.e., that state trade secret law for otherwise patentable inventions is preempted by federal patent law.

Finally, NPC and NSB would recommend a decision essentially sustaining the 6th Circuit Court of Appeals with the following language being considered:

Under the Congressionally enacted patent laws the invention per se is protected. Under state trade secret laws the invention or idea may not be protected per se. The theft of an invention of a patentable nature incurs a tort indentifiable as unfair competition or the ignoring of a confidential relationship is grounded in a breach of contract. Both species give rise to a chose in action which may provide monetary damages but should not include enjoinment of the use of the idea or invention itself as this would indeed render protection to the idea or invention per se.

Kewanee Oil Co. v. Bicron Corp.
1973 WL 173805

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172423 (Appellate Brief) Brief Amicus Curiae of Scm Corporation (Dec. 27, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172426 (Appellate Brief) Brief for the New York Patent Law Association as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173807 (Appellate Brief) Brief of the Electronic Industries Association as Amicus Curiae in Support of Petitioner (Nov. 23, 1973)

• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae (Nov. 19, 1973)Original Image of this Document (PDF)

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1973 WL 172424 (U.S.)

For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
December 20, 1973.

Brief of the Ohio State Bar Association as Amicus Curiae in Support of Petitioner

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***I** TABLE OF CONTENTS

Authority to File ... 1

Interest of Amicus Curiae ... 1

Statement of the Case ... 2

Summary of Argument ... 3

Argument ... 4

I. Introduction The Basis And Nuture Of Ohio Trade Secret Law ... 4

A. A Trade Secret Owner in Ohio Has the Right to Prevent a Person from Using the Trade Secret Only Where It Was Obtained by Unfair or Improper Means or Where the Use Is In Violation of a Confidential Relationship. ... 4

B. The Right to Prevent Others from Using a Trade Secret Obtained by Improper Means or Used In Violation of a Confidential Relationship Extends Only So Long As the Trade Secret Is Not a Matter of General Knowledge in the Industry. ... 10

II. The Interests Protected by the Ohio Law Of Trade Secrets Are Different From, and Do Not Conflict With, Federal Patent Policy. ... 11

Conclusion ... 13

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Appendix

Note: Table of Contents page numbers missing in original document

***II** TABLE OF AUTHORITIES
CASES

A. O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531 (6th Cir. 1934), modified to increase scope of injunction, 74 F.2d 934 (6th Cir. 1935) ... 8

Albert B. Cord Co. v. S. & P. Management Serv., Inc., 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965) ... 8

Amberley Co. v. Brown Co., 408 F.2d 1358 (6th Cir. 1969) ... 8, 9 App. B

American Mortgage Co. v. Rosenbaum, 114 Ohio St. 231, 151 N.E. 122 (1926) ... 7

B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963) ... 8 App. B

Briggs v. Butler, 140 Ohio St. 499, 45 N.E.2d 757 (1942) ... 8

C. T. Simmons Medicine Co. v. Simmons, 81 F. 163 (C.C. Ark. 1897) ... 5

Case v. Thomas, 5 Ohio L. Abs. 308 (Ct. App. 1927) ... 7

Cincinnati Bell Foundry Co. v. Dodds, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887) ... 5, 7, 10 App. B

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) ... 3, 11

Crown Overall Mfg. Co. v. Levy Overall Mfg. Co., 16 Ohio N.P. (n.s.) 561 (Super. Ct. 1914) ... 12

***III** Curry v. Marquart. 133 Ohio St. 77, 11 N.E.2d 868 (1937) ... 8 App. B

Fremont Oil Co. v. Marathon Oil Co., 92 Ohio L. Abs. 76. 192 N.E.2d 123 (C.P. 1963) ... 8, 12 App. B

French Bros. Bauer Co. v. Townsend Bros. Milk Co., 21 Ohio App. 177, 152 N.E. 675 (1925) ... 7

Grob Plating Co. v. Kent-Owens Mach. Co., 10 Ohio L. Abs. 367 (Ct. App. 1931) ... 8

H. J. Sherwood, Inc. v. Fibeco, Inc., 13 Ohio Misc. 269, 234 N.E.2d 531 (C.P. 1967) ... 8

Hance v. Peacock, 84 Ohio L. Abs. 535, 169 N.E.2d 564 (C.P. 1960) ... 8

Holland Stock Remedy Co. v. Independent Chem. Co., 17 Ohio Dec. 207 (C.P. 1906) ... 7

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John T. Lloyd Laboratories, Inc. v. Lloyd Bros. Pharm., Inc., 131 F.2d 703 (6th Cir. 1942) ... 8

Lamb v. Evans. [1892] L.R. 3 Ch. 462 ... 5

Lear, Inc. v. Adkins. 395 U.S. 653 (1969) ... 3, 11

Merryweather v. Moore. [1892] L.R. 4 Ch. 518 ... 5

Monitor Stove Co. v. Williamson Heater Co., 18 Ohio App. 352 (1923) ... 7 App. B

Morrison v. Moat. 61 Eng. Rep. 492 (Ch. 1851). aff'd, 21 L.J., Ch. 248 ... 5

National Cash Register Co. v. Heyne, 10 Ohio N.P. (n.s.) 465 (C.P. 1910) ... 7

***IV** National Tube Co. v. Eastern Tube Co., 3 Ohio C.C.R. (n.s.) 459 (Ct. App. 1902), aff'd, 69 Ohio St. 560, 70 N.E. 1127 (1903) ... 7, 10 App. B

O & W Thum Co. v. Tloczynski, 114 Mich. 149, 72 N.W. 140 (1897) ... 5

Patterson v. Pollack, 84 Ohio App. 489, 84 N.E. 2d 606 (1948) ... 8

Peabody v. Norfolk, 98 Mass. 452 (1868) ... 5

Perfect Measuring Tape Co. v. Notheis, 93 Ohio App. 507, 114 N.E.2d 149 (1953) ... 8

Recording & Computing Machines Co. v. Neth, 7 Ohio N.P. (n.s.) 217 (C.P. 1904) ... 7

Salomon v. Hertz, 40 N.J. Eq. 400, 2 A. 379 (1886) ... 5

Sandusky Foundry & Mach. Co. v. Wood, 1 Ohio L. Abs. 409 (Ct. App. 1923) ... 7

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 3, 11

Seifried v. Maycox, 14 Ohio Dec. 536 (Super. Ct. 1904) ... 7

Soeder v. Soeder, 82 Ohio App. 71, 77 N.E.2d 474 (1947) ... 8

Tabor v. Hoffman, 118 N.Y. 30, 23 N.E. 12 (1889) ... 5

United States v. American Bell Telephone Co., 167 U.S. 224 (1897) ... 11

Universal Oil Products Co. v. Globe Oil & Refining Co., 322 U.S. 471 (1944) ... 11 App. B

***V** W. R. Grace & Co. v. Hargadine, 392 F.2d 9 (6th Cir. 1968) ... 8 App. B

Westervelt v. National Paper & Supply Co., 153 Ind. 673, 57 N.E. 552 (1900) ... 5

White Baking Co. v. Snell, 28 Ohio N.P. (n.s.) 172 (C.P. 1930) ... 7

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STATUTES

35 U.S.C. § 101 ... App. B

35 U.S.C. § 154 ... 11 App. B

35 U.S.C. § 271 ... App. B

35 U.S.C. § 281 ... App. B

35 U.S.C. § 282 ... App. B

35 U.S.C. § 283 ... App. B

35 U.S.C. § 284 ... App. B

Ohio Rev. C. § 1333.51 (1967) ... 6 App. A

***1** AUTHORITY TO FILE

This brief is filed on behalf of the Ohio State Bar Association as amicus curiae pursuant. to Rule 42 (2) of this Court and is accompanied by the written consent of both parties to file this brief at this time. the originals of which are filed herewith.

INTEREST OF AMICUS CURIAE

The Ohio State Bar Association is a nonprofit association comprising attorneys admitted to practice in Ohio. The decision before this Court effectively erases Ohio's trade secret law - law that is grounded in an historic common law right and that has been recognized and protected ***2** by Ohio's courts for almost a century. Moreover, the decision below threatens to upset numerous existing relationships, to establish a judicial precedent threatening other important common law rights protected in Ohio, and to promote immoral and unethical dealings in this state. The Association has authorized the filing of this brief in the belief that this Court should have available for its consideration the applicable Ohio decisions before it decides whether the United States Patent Laws preempt a right which the State of Ohio has long recognized and protected.

The Association adopts and supports the legal arguments advanced here by Petitioner and strongly urges reversal of the Court below and reinstatement of the District Court's decision. The Association takes no position with respect to the private rights of the parties to this case. The Association's concern is solely with the holding of federal preemption of Ohio law protecting the trade secrets of its citizens.

STATEMENT OF THE CASE

The Ohio State Bar Association hereby adopts and relies upon the STATEMENT as set forth in Petitioner's brief, supplemented in the following respects. Of special interest to this Amicus are the holdings of the Sixth Circuit Court of Appeals that: (1) a detailed review of Ohio law is not necessary to a decision of the issues presented; (2) Ohio trade secret law gives to its owner a monopoly exercisable against any person by which he can exclude competition and prevent disclosure; and

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(3) Ohio trade secret law has no limit in time and provides protection greater than that provided by the federal patent laws. This Amicus believes that the Sixth Circuit misapprehended the nature of and rights afforded by Ohio trade secret law and submits ***3** that when properly viewed there are no valid reasons for refusing. under the guise of federal preemption, to enforce a trade secret cause of action.

SUMMARY OF ARGUMENT

It is readily apparent from the decision below that the Sixth Circuit's holding was strongly influenced by its belief that Ohio trade secret law affords to the holder of a trade secret the right to exclude all others from practicing that trade secret for an indefinite period of time. This is apparent from tile Court's reliance on Sears., Roebuck & Co. v. Stiffet Co., 376 U.S. 225 (1964); Compco Gorp. v. Day-Brile Lighting, Inc., 376 U.S. 234 (1964); and Lear, Inc. v. Adkins, 395 U.S. 653 (1969), cases totally inapplicable to this case, and from its statement:

"Thus, we feel compelled to conclude that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year. By such use the inventor has forfeited his right to a patent but by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of tile United States. The state trade secret law has no limitation of time and, therefore, is in direct conflict with the Patent Laws, which have as a purpose the objective of obtaining public disclosure after a limited period of time." 478 F.2d at 1086. (Emphasis added).

In essence, the Court concluded that Ohio trade secret law provides its holder with a property right "in gross". ***4** This conclusion and the results flowing therefrom are not supported by Ohio law. More specifically, a review of the trade secret law of Ohio demonstrates that: (1) a trade secret owner in Ohio has no property rights in the trade secret itself, rather the right recognized is the right to prevent others from using or disclosing a trade secret obtained by improper means or in violation of a confidential relationship; and (2) the rights protected are limited in time and only so long as the secret is not a matter of general knowledge in the industry. That the decisional and statutory law in Ohio dictates these conclusions will now be demonstrated.

ARGUMENT

I. INTRODUCTION:

THE BASIS AND NATURE OF OHIO TRADE SECRET LAW

For almost one hundred years the courts of Ohio have recognized that a trade secret owner has the right to prevent one who takes his trade secret by improper or unfair means or by breaching a confidential relationship from using or divulging the secret. Most frequently, the trade secret owner has sought to prevent the use of the trade secret by a person who has received knowledge of it through a confidential relationship, as for example, during employment***5** and then uses it in violation of such relationship, In the absence of any breach of confidential relationship or obtaiment by improper or unfair means, a trade secret Owner bas no right to prevent a third party from using his trade secret. In secret. In essence, the right protected is a right which derives from an obligation of fairness an not from a right in gross arising arising from the trade secret. The Cornerstone of the cause

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of action is that a person's private information will not be taken from him wrongfully.

This was first expressed in Ohio by Judge Taft in Gincinnati Bell Foundry Co. v. Dodds, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887) tile earliest reported decision in Ohio. [FN1]

FN1. Although this biref is restricted to a review of Ohio trade secret Law, it is well to note that the right of a right of a mannifacturer, whose goods are made by an unpatented secret process, to protection by injunction against the use and divulging Of his secret in a proper case, is established by a well-considered line of cases in England and in the United States. The leading case is Morrison v. Moat, Rep. 192 (Ch. 1851), decided by Vice Claumcellor Turner in 1851, and affirmed in Court of Appeals by Lord Cranworth 22 L.j., Ch. 248. Other English cases are Merryweather v. Moore, [1892] L.R. 4 Ch. 518; Lamb v. Evans, [1892] L.R. 8 Ch. 462 The leading case in the United States is Peatrady v. Norfolk, 98 Norfolk, 98 Mass. 452 (1868). Other early cases are Tabor v. Hoffman, 118 N.Y. 30, 23 N.E. 12 (1889), O & W Thum Co. v. Tloczynski, 114 Mich. 149, 72 N.W. 140 (1897); Westorvell v. National Paper & Supply Co., 153 Ind. 673, Ind. 673, 57 N.E. 552 (1900); Salomon v. Hertz, 40 N.J. Eq. 400, 2 A. 37 2 A. 379 (1886); C. T. Simmons Mrdicine Co. v. Simmons, Co. v. Simmons, 81 F. 163 (C.C. Ark. 1897). Ohio's law of trade secrets finds its begimines in Peabody v. Norfolk, supra. Gincinuati Bell Fooundry Co. v. Dodds, 19 Weekly L Bull. 84, 10 Ohio Dec. Reprint 151 (Super, Ct. 1887).

"[H]e who discovers and keeps secret a process ot manufacture. whether a proper subject for a pater subject or not, has a property in it which a court of equity will protect against one who in violation of contract and breach of confidence underakes to apply it to his own use. or to disclose it to the third persons. He has not an exclusive right to it as against the public or against ***6** those who, in good faith, acquire knowledge of it.... [I]t is settled that such a secret is a legal subject of property and that a bond to convey it may be legally enforced, thus fully recognizing that the inventor of a secret process may sell or assign it to another. It is indispensable to value in such a process, that the owner shall have the right to protect himself against persons who wish to use or disclose it in violation of contract or confidence." 19 Weekly L. Bull. at 84-85, 10 Ohio Dec. Reprint at 154-55. (Citations omitted)

Accordingly, there was established in Ohio three fundamental requirements for the protection of trade secrets: (1) the trade secret, whether patentable or not, must constitute proper matter for protection; (2) the person against whom relief is sought must have either violated or threatened to violate a contract or confidence not to disclose or use the secret; and (3) the matters for which protection is sought must be shown to be a secret. These three fundamental requirements of a cause of action have been maintained in Ohio for over 85 years. [FN2]

FN2. They are also codified in Section 1333.51 of the Ohio Revised Code (1967), which is reproduced in Appendis A.

These requirements were repeated 15 years later and, in addition, Ohio law first recognized that trade secret protection is not commensurate with the protection afforded by a patent.

"The necessity of good faith and honest, fair dealing, is the very life and spirit

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of the commercial world. It is absolutely necessary that it should be protected and enforced by courts ....

[I]f these patterns are trade secrets, then it cannot be permitted that the defendant company here should have the benefit of the same, ... when the patterns were procured in the reprehensible manner charged and admitted ....

***7** [Atrade sccret] is not protected by patent, for the secret then is made public. and the inventor is protected by letters patent patent from infringement while as soon as anyone Fairly and honestly discovers a trade secret eithet by examination the manufactured products sold or offered for sale to the public, or in any other honest way, that person discover it has hult right to use the sinne, That is the risk the owner takes. and if he would have further protection, he must seck it in a patent." Nationd Tube Co., v. Eastern Tube Co., 3 Ohio C.C.R (n.s.) 159 462 (Ct. App. 1902). aff'd 69 Ohio St. 560. 70 N.E. 1127 (1903).

Cincinnati Bell Foundry Co., v. Dodds, supra, was followed in 1904 in Recording & Compuling Co., v. Neth, 7 Ohio N.P. (n.s.) 217 (C.P. 1901). to enjoin an employee from selling his employer's trade secrets; and Seifried v. Maycox, 14 Ohio Dec. 536 (Super. Ct. 1904) to enjoin a former employce who had taken plaintiff's trade secrets with him from disclosing or using the trade secrets for his own benelit; and in 1906 in Holland Stock Remedy Co. v. Independent Chem Co., 17 Ohio Dec. 207 (C.P. 1906), to prevent the use and threatened publication of wrongfully obtitined trade secrets. By 1910 the law of trade secrets in Ohio had become fully established. National Cash Register Co., v. Hevne, 10 Ohio (n.s.) 465 (C.P. 1910).

Since 1910, the requirements first laid by Judge Taft have been unitormly applied in the Ohio courts. Montor Stove Co., v. Williamson Heater Co., 18 Ohlio App. 353 (1923); Sandusky Fandusky Foundry & Mach Co. v. Wood., I Ohio L. Abs. 409 (Ct. App. 1923); French Bros. Baner Co. v. Townsend Bros. Milk Co., 21 Ohio App. 177, 152 N.E. 675 (1925); American Mortgage Co. v. Rosenbaum, 114 Ohio St. 231. 151 N.E. 122 (1926); Case v. Thomas, 5 Ohio L. Abs. 308 (Ct. App. 1927); White Baking Co. v. Snell, ***8** 28 Ohio N.P. (n.s.) 172 (C.P. 1930); Curry v. Marquart, 133 Ohio St. 77, 11 N.E.2d 868 (1937); Briggs v. Butler, 140 Ohio St. 499, 45 N.E.2d 757 (1942); Soeder v. Soeder, 82 Ohio App. 71, 77 N.E.2d 474 (1947); Patterson v. Pollack, 84 Ohio App. 489, 84 N.E.2d 606 (1948); Perfect Measuring Tape Co. v. Notheis, 93 Ohio App. 507, 114 N.E.2d 149 (1953); Hance v. Peacock, 84 Ohio L. Abs 535, 169 N.E.2d 564 (C.P. 1960); B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963); Fremont Oil Co. v. Marathon Oil Co., 92 Ohio L. Abs. 76, 192 N.E.2d 123 (C.P. 1963); Albert B. Cord Co. v. S. & P. Management Serv., Inc., 2 Ohio App. 2d 148, 207 N.E.2d 247 (1965) H. J. Sherwood, Inc. v. Fibeco, Inc., 13 Ohio Misc. 269, 234 N.E.2d 531 (C.P. 1967); and in the Sixth Circuit. A. O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531 (6th Cir. 1934), modified to increase scope of injunction, 74 F.2d 934 (6th Cir. 1935); John T. Lloyd Laboratories, Inc. v. Lloyd Bros. Pharm., Inc., 131 F.2d 703 (6th Cir. 1942); W. R. Grace & Co. v. Hargadine, 392 F.2d 9 (6th Cir. 1968); Amberley Co. v. Brown Co., 408 F.2d 1358 (6th Cir. 1969). As the Sixth Circuit recently stressed:

"The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret." W. R. Grace & Co. v. Hargadine, supra, quoting RESTATEMENT OF TORTS § 757, comment b (1939).

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In the absence of proof that defendant's use of the secret stems from a breach of faith owed to the trade secret holder, liablity is nonexistent. Grob Plating Co. v. Kent-Owens Mach. Co., 10 Ohio L. Abs. 367 (Ct. App. 1931). For example, ***9** in Amtierley Co., v. B Brown Co., supra, a trade secret owner failed in an action for tradee secret misappropriation because he failed to estfailed to establish that defendant's use of the purported trade secret secret stemmed from from knowledge obtained from the trade secret owner Although KVP (The Brown Company's predecessor in interest) obtained the trade secret from a third party who was under a confidential relationship with Amberley Company it did so without knowledge that the disclosure was in breach of a duty owed to Amberley by the third party. No confidential relationship owed by KVP to Amberley Company was breached. no improper means unilized, and hence. no liability. [FN3] in no reported case in Ohio has one been enjoined from using or divulging a trade secret who did not. lake the trade secret in violation of a conlidential relationships or by improper means.

FN3. Of course, had the process been patented, these facts would be irrelevant and amberley might have prevailed.

The rights recognized under under almost one hundred years of Ohio commion law provide Kewance with a cause of action only against those who obtain its its trade secrets through unproper means or who use them in violation of a confidential relationship. The decision below failed on recognize this limitation on the exercise of the cause of action Believing as it did that Kewanee sought in gross property rights in the trade secret, the result reached by the Court is not surprising. However. when viewed in the context of the basis for trade secret protection in Ohio, an appealing reason for finding preemption is eliminated. otherwise is to overlook or misinterpret. a large body of established law to the contrary.

A trade secret has an uncertain life. Its holder may assert his rights only so long as the secret is in fact a secret, i.e., not general knowledge in the industry. Others fairly learning of the trade secret, as For example, through independent effort or reverse engineering, are free to use the secret. So too are others free to use it if the trade secret owner releases the secret to the public or if the trade secret is obtained from one having the unrestricted right to disclose the secret. Cincinnati Bell Foundry Co. v. Dodds, supra; National Tube Co. v. Eastern Tube Co., supra.

Kewanee's rights are not unlimited in time as the Court below concluded, and Ohio does not afford protection against competitors who learn of the trade secret through the exercise of independent and proper means.

The United Staes Patient Laws give to the patentee the right to exclude all others from making. using or selling the patented inventions. [FN4] Ohio trade secret law provides a trade secret holder with a cause of action only against those who obtain his trade secrets through improper means or where the use is in violation of a confident relationship. and then, only so long as the trade secrets remain secret. Ohio trade secret. law does not prohibit or exclude lair competition, prohibit use of a trade secret by he who legitimately discovers or obtains it, or protect ideas in the public domain as did the state laws in Sears, Compco and Lear, supra.

FN4. 35 U.S.C. § 154 (1952).

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The federal patent laws exist to encourage disclosure of invention. In exchange for disclosure, the inventor is rewarded a seventeen-year monopoly. Universal Oil Products Co. v. Globe Oil & Refining Co., 322 U.S. 471 (1944). However, neither the federal patent laws nor the Constitution require disclosure of all inventions and discoveries. This Court has acknowledged, that an inventor many either hold his discovery secret or opt for all the advantages and bennelits afforded by the patent laws. United States v. American Bell Telephone Co., 167 U.S. 224 (1897).

Ohio trade secret law. on the other hand, exists to deter dishonesty, immorality, criminal activity, breach of contract or fiduciary duty, unfair dealing. and fraudulent abuse ot trust. The prevention of such activities es is historically uniquely a state interest. The recognition of a cause of action i Ohio for their of technology not in the public ***12** domain and criminal prosecutions therefore is a judicial and legislative recognition that competition, however desirable, must be confined to competition by fair means. This has been well expressed by Ohio courts.

"We are aware that under present economic conditions it is the purpose of the law to foster competition.... But the competition thus fostered and encouraged must be legitimate. With the unfolding of our social conscience, the ethical standard in the business world is being elevated....

We are demanding honesty of method and integrity of purpose in our industrial life. Misrepresentation and fraud elicit public condemnation. One who seeks to gain the confidence of the people must offer as a foundation for such confidence the merit of his own product and the honesty of his own methods. He can not in good conscience offer as his own that which he has not himself produced and which he has obtained by unconscionable means from those whose wares he seeks to displace." Crown Overall Mfg. Co. v. Levy Overall Mfg. Co., 16 Ohio N.P. (n.s.) 561, 564-65 (Super. Ct. 1914), quoted with approval in Fremont Oil Co. v. Marathon Oil Co., 92 Ohio L. Abs. 76, 86-87, 192 N.E.2d 123. 129 (C.P. 1963).

That this policy of the State of Ohio is not in conflict with federal patent policy of encouraging disclosure of inventions is evident. If Ohio trade secret law offered benefits greater than or even equal to the benefits afforded under the patent laws, it might be argued that Ohio gives to inventors protection which they could not obtain under the patent laws thereby making the reward of a seventeen-year monopoly nugatory and thereby discouraging disclosure of discoveries. However, as demonstrated above, the rights afforded by Ohio law are limited and do not approach the ***13** advantages and benefits obtainable under the patent laws. [FN5] This Amicus respectfully submits that Ohio trade secret law does not give inventors an economic incentive for keeping their discoveries secret and, accordingly, that Ohio trade secret law does not conflict. either dlrectly or indirectly, with the United States Patent Laws.

> FN5. Morcover, the entire legal. philosophieal basis Ohio trade secret law differs from that of the patent law. For the convenience of this court the this Court these differences have been summarized in a Table appearing in Appearing in Appendix B.

CONCLUSION

As demonstrated by the foregoing analysis, Ohio's recognition of a right to prevent the unprivileged use or disclosure of a true true trade secret does not provide a trade secret owner with the right to prevent all others for an unlimited time from using technology in the public domain. It is impossible for this Amicus to believe

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that the drafters of our Constitution, the various Congresses which have approved statutes recognizing the existence of trade secrets, and the various members of this Court who have recognized the existence of trade secrets intended that competition should be based upon unfair practices or that the several States should be ousted from the exercise of their legitimate powers to promote free and fair competition and to raise the ethical standard of industrial life within their borders merely because a federal patent scheme exists. To so hold will be to foster industrial espionage commercial piracy and the like all of which will be greatly detrimental to the citizens of Ohio and to all citizens of the United States.

***14** For the reasons stated, the judgment of the Sixth Circuit should be reversed, and the case remanded with instructions to affirm the decision of the District Court.

Appendix not available.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1974 WL 185610 (Appellate Brief) Brief for the United States as Amicus Curiae (Apr. 08, 1974)Original Image of this Document (PDF)

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• 1973 WL 172412 (Appellate Brief) Brief for Respondents (Dec. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173805 (Appellate Brief) Brief for Amicus Curiae National Patent Council, Inc., for Itself and Representing National Small Business Association, Inc. (Dec. 21, 1973)

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23, 1973)Original Image of this Document (PDF)

• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172426 (Appellate Brief) Brief for the New York Patent Law Association as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

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• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
November 23, 1973.
On Writ Of Certiorari To the United States Court of Appeals For the Sixth Circuit

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***i** TABLE OF CONTENTS

Opinions Below ... 1

Jurisdiction ... 2

Constitutional and Statutory Provisions Involved ... 2

Questions Presented ... 3

Statement ... 4

The Individual Defendants Were Employed by Harshaw and Learned of Its Trade Secrets During That Confidential Relationship ... 7

Bicron Corporation Was Formed by the Individual Defendants To Compete with Harshaw Including Use of Its Trade Secrets ... 11

The Courts Below Both Sustained Kewanee's Right To Relief Under Ohio Trade Secret Law ... 14

Summary of Argument ... 16

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Argument ... 20

I. INTRODUCTION: THE BASIS AND NATURE OF TRADE SECRET LAW ... 20

The Law of Trade Secrets Does Not Foster Monopoly; It Provides a Remedy for Breaches of Contract and Trust ... 20

II. THE PATENT CODE (35 U.S.C.) DOES NOT PREEMPT STATE TRADE SECRET LAW AS APPLIED IN THIS CASE ... 23

A. The Sixth Circuit Improperly Found That the Injunction Permitted Kewanee To Monopolize the Public Domain ... 25

1. The injunction did not grant to Kewanee the common law equivalent of a patent monopoly ... 26

***ii** 2. A "public use" under 35 U.S.C. § 102(b) cannot be equated with the term "public domain" ... 28

B. Sears, Compco and Lear All Support the Conclusion That the Patent Code Precludes Protection Under State Law Only of Things Which, as a Matter of Fact, Are Known to or Readily Available to the Public ... 32

C. The Interests Protected by the Ohio Law of Trade Secrets Are Different From, and Do Not Conflict With, Federal Patent Policy ... 37

D. Kewanee's Position Is Confirmed by the Enactment of the 1952 Patent Code at a Time When This Court's Decisions Recognized the Protectability of Trade Secrets ... 41

E. The Sixth Circuit's Proposed Test Operates Capriciously and Leads to Illogical Results ... 44

F. Protection of Trade Secrets Is Consistent With Federal Antitrust Policy ... 45

G. Federal Statutes, Treaties and Court Rules, Both Before and After Enactment of the 1952 Patent Code, Have Recognized the Protectability of Trade Secrets ... 47

III. A LARGE VOLUME OF BUSINESS TRANSACTIONS HAS BEEN GENERATED IN RELIANCE UPON THE CONTINUING VALIDITY OF TRADE SECRETS AND THESE REASONABLE EXPECTATIONS SHOULD NOT BE IMPERILED ... 50

CONCLUSION ... 53

APPENDIX.

Note: Table of Contents page numbers missing in original document

***iii** TABLE OF AUTHORITIES

CASES

© 2005 Thomson/West. No Claim to Orig. U.S. Govt. Works.

Allen v. Riley, 203 U.S. 347 (1906) ... 39

Armstrong Paint & Varnish Works v. Nu-Enamel Corp., 305 U.S. 315 (1938) ... 48

Atlantic Heel Co. v. Allied Heel Co., 284 F.2d 879 (1st Cir. 1960) ... 46

B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963) ... 20, 23

Bauer & Cie v. O'Donnell, 229 U.S. 1 (1913) ... 37

Becher v. Contoure Laboratories, Inc., 279 U.S. 388 (1929) ... 43

Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905) ... 44

Bridges v. United States, 346 U.S. 209 (1953) ... 41

C. Albert Sauter Co. v. Richard S. Sauter Co., summarized at 42 U.S.L.W. 2233-2234 (E.D. Pa. October 5, 1973) ... 47

Caldwell-Clements, Inc. v. Cowan Publishing Corp., 130 F. Supp. 326 (S.D. N.Y. 1955) ... 47

Chevron Oil Co. v. Huson, 404 U.S. 97 (1971) ... 52

Cincinnati Bell Foundry Co. v. Dodds, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887) ... 21, 22, 27

Cleaves v. Peterboro Basket Co., 54 F.2d 101 (D. N.H. 1931) ... 47

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) ... 17, 32, 33, 34, 36, 39, 45, 52

Comstock v. Group of Institutional Investors, 335 U.S. 211 (1948) ... 25

Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908) ... 43

Crown Overall Mfg. Co. v. Levy Overall Mfg. Co., 16 Ohio N. P. (n.s.) 561 (Super. Ct. 1914), aff'd as modified, 24 Ohio C.C. (n.s.) 556 (Ct. App. 1916) ... 45

Curry v. Marquart, 133 Ohio St. 77, 11 N.E.2d 868 (1937) ... 22

Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), cert. denied, 402 U.S. 945 (1971) ... 36

Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911) ... 42

***iv** E. I. DuPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917) ... 38

Egbert v. Lippman, 104 U.S. 333 (1881) ... 30

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Electric Storage Battery Co. v. Shimadzu, 307 U.S. 5 (1939) ... 30, 41

Elizabeth v. Pavement Co., 97 U.S. 126 (1877) ... 30

F. H. A. v. The Darlington, Inc., 358 U.S. 84 (1958) ... 50

F. P. C. v. Panhandle Eastern Pipe Line Co., 337 U.S. 498 (1949) ... 49

F. T. C. v. Bunte Bros., Inc., 312 U.S. 349 (1941) ... 46

Flood v. Kuhn, 407 U.S. 258 (1972) ... 51

Forgett v. Scharf, 181 F.2d 754 (3d Cir. 1950), cert. denied, 340 U.S. 825 (1950) ... 47

Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222 (1957) ... 49

Funk Bros. Seed Co. v. Kalo Inoculant Co., 333 U.S. 127 (1948) ... 44

Georgia v. Pennsylvania R.R. Co., 324 U.S. 439 (1945) ... 48

Goldstein v. California, 412 U.S. 546 (1973) ... 25, 30, 36

Gottschalk v. Benson, 409 U.S. 63 (1972) ... 44

Graver Tank & Mfg. Co. v. Linde Air Products Co., 336 U.S. 271 (1949) ... 25

Grob Plating Co. v. Kent-Owens Mach. Co., 10 Ohio L. Abs. 367 (Ct. App. 1931) ... 21

Hall v. Macneale, 107 U.S. 90 (1882) ... 31

Herd & Co. v. Krawill Mach. Corp., 359 U.S. 297 (1959) ... 40

Herreshoff v. Knietsch, 127 F. 492 (S.D. N.Y. 1904) ... 49

Huszar v. Cincinnati Chemical Works, 172 F.2d 6 (6th Cir. 1949) ... 31

International News Service v. Associated Press, 248 U.S. 215 (1918) ... 41, 42

Johnson v. Southern Pacific Co., 196 U.S. 1 (1904) ... 40

Keifer & Keifer v. R.F.C., 306 U.S. 381 (1939) ... 48

Kewanee Oil Company v. Bicron Corporation, 478 F.2d 1074 (6th Cir. 1973) ... 16, 26, 35, 44

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) ... 17, 32, 33, 34, 35, 36

Livingston v. Van Ingen, 9 Johns. 507 (N.Y. 1812) ... 26

Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2d Cir. 1946), cert. denied, 328 U.S. 840 (1946) ... 29, 31

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Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901 (C.C.P.A. 1969) ... 28

***v** Missouri v. Ross, 299 U.S. 72 (1936) ... 41

Mitchell Woodbury Corp. v. Albert Pick Barth Co., 41 F.2d 148 (1st Cir. 1930), jury verdict for plaintiff affirmed, 57 F.2d 96 (1st Cir. 1932), cert. denied, 286 U.S. 552 (1932) ... 46

National Tube Co. v. Eastern Tube Co., 3 Ohio C.C.R. (n.s.) 459 (Ct. App. 1902), aff'd, 69 Ohio St. 560, 70 N.E. 1127 (1903) ... 21, 22, 37

In re The Oakes Co., 3 F.T.C. 36 (1920) ... 46

Overstreet v. North Shore Corp., 318 U.S. 125 (1943) ... 48

Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2d Cir. 1971) ... 34, 36

Patterson v. Kentucky, 97 U.S. 501 (1878) ... 39

Perryton Wholesale, Inc. v. Pioneer Distributing Co., 353 F.2d 618 (10th Cir. 1965), cert. denied, 383 U.S. 945 (1966) ... 47

Pickering v. Holman, 459 F.2d 403 (9th Cir. 1972) ... 31

Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945) ... 33

Sears v. Gottschalk, 178 U.S.P.Q. 33 (E.D. Va. 1973) ... 35

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 17, 32, 33, 34, 36, 39, 45, 52

Seifried v. Maycox, 14 Ohio Dec. 536 (Sup. Ct. 1904) ... 21

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Sessions v. Romadka, 145 U.S. 29 (1892) ... 41

Shapiro v. United States, 335 U.S. 1 (1948) ... 41

Shaw v. Railroad Co., 101 U.S. 557 (1879) ... 40

Silver v. New York Stock Exchange, 373 U.S. 341 (1963) ... 48

Saffron v. S. W. Lovell & Co., 246 F.2d 769 (1st Cir. 1957) ... 31

Solo Cup Co. v. Paper Mach. Corp., 240 F.Supp. 126 (E.D. Wis. 1965) ... 32

Stone v. Goss, 65 N.J. Eq. 756, 55 A. 736 (Ct. Err. & App. 1903) ... 21

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Toolson v. New York Yankees. Inc., 346 U.S. 356 (1953) ... 51

United States v. American Bell Telephone Co., 167 U.S. 224 (1897) ... 43

United States v. Bass, 404 U.S. 336 (1971) ... 40

United States v. Berdan Fire-Arms Mfg. Co., 156 U.S. 552 (1895) ... 26

United States v. Borden Co., 308 U.S. 188 (1939) ... 48

***vi** United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) ... 43

United States v. Ryan, 284 U.S. 167 (1931) ... 41, 45

United States v. Zacks, 375 U.S. 59 (1963) ... 48

U. S. Chemical Corp. v. Plastic Stars Corp., 243 F.2d 892 (3d Cir. 1957) ... 31

Universal Interpretive Shuttle Corp. v. Washington Metropolitan Transit Comm., 393 U.S. 186 (1968) ... 48

Universal Oil Products Co. v. Globe Oil & Refining Co., 322 U.S. 471 (1944) ... 37, 43

W. R. Grace & Co. v. Hargadine, 392 F.2d 9 (6th Cir. 1968) ... 23, 24, 38

Washingtonian Publishing Co. v. Pearson, 306 U.S. 30 (1939) ... 51

Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969) ... 27, 36

Webber v. Virginia, 103 U.S. 344 (1880) ... 39

SECONDARY AUTHORITY

ANNUAL REPORT OF THE FEDERAL TRADE COMMISSION (1939) ... 46

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2 Callman, UNFAIR COMPETITION TRADEMARKS AND MONOPOLIES, 343 et seq. (3d ed. 1968) ... 20

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Note, Trade Secrets Law After Sears and Compco, 53 VA. L. REV. 356 (1967) ... 37

Recent Case Note, 85 HARV. L. REV. 477 (1970) ... 37

4 RESTATEMENT OF TORTS § 757, comment (b) (1939) ... 20, 38

Sutton, Trade Secrets--Federal Preemption and Legislative Solutions, 1971 PATENT LAW ANNUAL 129 (Southwestern Legal Foundation) ... 45

***vii** Wydick, Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee (to be published in the November and December, 1973, issues of the Journal of the Patent Office Society) ... 37, 51

CONSTITUTION, STATUTES, [FN*] TREATIES RULES AND REGULATIONS

Constitution of the United States:

Article I, Section 8, Clause S ... 2, 25

Article VI, second paragraph ... 2

Tenth Amendment ... 3

15 U.S.C. § § 1 and 2 ... 19, 46

15 U.S.C. § 13 ... 45

15 U.S.C. § 45 ... 19, 45

28 U.S.C. § 1254(1) ... 2

28 U.S.C. § 2072 ... 47

35 U.S.C. (1952); Public Law 593, 82nd Congress, 2nd Session, Chapter 950, 66 Stat. 792, approved July 19, 1952 ... 25

35 U.S.C. § 24 ... 49

35 U.S.C. § 101 ... 3, 18, 44

35 U.S.C. § 102 ... 3, 44

35 U.S.C. § 102(b) ... 17, 18, 26, 28, 29, 30, 31, 32, 44, 51

35 U.S.C. § 103 ... 44

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35 U.S.C. § 122 ... 35

Rev. Stat. § 4908 ... 49

S. 2504, 93rd Cong., 1st Sess. § 301 (1973) ... 52

Convention of Paris for the Protection of Industrial Property, March 20, 1883, revised periodically and at Lisbon on October 31, 1958, Art. 10bis(2), 13 U.S.T. 1 ... 47

***viii** General Inter-American Convention for Trade Mark and Commercial Protection, February 20, 1929, Art. 20, 46 Stat. 2907 at 2930-2932 ... 48

Fed. R. Civ. P. 26(c) ... 50

Fed. R. Civ. P. 30(b) (1938) ... 47

Fed. R. Civ. P. 65(a)(2) (1970) ... 15

37 C.F.R. § 1.14(a) ... 35

37 C.F.R. § 1.14(b) ... 35

Ohio R.C. § 133.51 (1967) ... 3

Ohio R.C. § 133.51(C) (1967) ... 3, 40

Ohio R.C. § 133.99(E) (1967) ... 3

FN* Statutes contained in the Appendices to this Brief are there indexed.

***1** OPINIONS BELOW

The findings of fact and conclusions of law of the district court are reproduced in the Appendix, except for proprietary material which has been excised (App. 51-90). [FN1] The district court's Order Supplemental to ***2** Memorandum of Decision and Order for Permanent Injunction are also reproduced in the Appendix (App. 91-94). The opinion of the Sixth Circuit Court of Appeals (Pet. App. A1-A25) is reported at 478 F.2d 1074.

FN1. The following abbreviations will be used in this Brief: "App." refers to the printed Appendix; "Pet. App." refers to the Appendix to the Petition for Writ of Certiorari; "Br. App." refers to the Appendix to this Brief; "Tr." refers to the transcript of proceedings before the district court; "Fdg." refers to findings of fact made by the district court; "Con." refers to conclusions of law made by the district court; "Inj." refers to the district court's Order for Permanent Injunction.
"Kewanee" refers to Kewanee Oil Company, petitioner herein; "Bicron" refers collectively to Bicron Corporation, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Richard W. Spurney and Harry Suscheck, respondents herein; "Bicron Corporation" refers exclusively to the corporate respondent; and "Individual Respondents" refers exclusively to the individual respondents herein.

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JURISDICTION

The judgments of the court of appeals (Pet. App. A26-A28) were entered May 10, 1973. The Petition for writ of certiorari was filed July 27, 1973, and was granted on October 9, 1973. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

Constitution of the United States:

Article I, Section 8, clause 8.

The Congress shall have Power ...

To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries ...

Article VI, second paragraph.

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof ... shall be the supreme Law of the Land; ... any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

***3** Tenth Amendment.

The powers not delegated to the United States by the Constitution, nor prohibited by it to the States, are reserved to the States, respectively, or to the people.

Statutes:

35 U.S.C. § 101.

Whoever invents or discovers any new any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

35 U.S.C. § 102.

A person shall be entitled to a patent unless--...

(b) the invention was ... in public use ... in this country, more than one year prior to the date of the application for patent in the United States ...

Ohio R.C. § 1333.51(C) (1967).

No person, having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person, or thereafter without the owner's consent make or cause to be made a copy of such article, or exhibit such article to another.

Ohio R.C. § 1333.99(E) (1967).

Whoever violates section 1333.51 of the Revised Code shall be fined not more than five thousand dollars, imprisoned not less than one nor more then ten years, or both.

QUESTION PRESENTED

Whether the Constitution and the Federal Patent Act preempt and make ineffective state laws which ***4** protect against disclosure or use of trade secrets in breach of

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duties imposed by a contract or a confidential relationship.

The specific aspect of that question which is raised by the record in this case is:

Whether protection of trade secrets by limited injunctive relief against former employees acting in breach of their fiduciary duty and secrecy agreements is precluded by the United States Constitution or the federal Patent Code merely because the employer secretly used the secrets to produce products sold commercially for more than one year prior to the date of suit and thus lost the right to secure a patent on such secrets.

STATEMENT

The findings made by the district court disclose the following facts: [FN2]

> FN2. Due to the nature of this action, the district court entered an Order Supplemental to Memorandum of Decision (App. 91) impounding the exhibits and those findings of fact and conclusions of law which contained "any naming or description of equipment, materials or procedures mentioned in the exhibits and memorandum of decision concerning the production of sodium iodide thallium activated scintillation crystals." Consistent therewith, the record of the district court was kept under seal in the court of appeals and has received the same treatment by the Clerk of this Court. (See Order of November 5, 1973.) To facilitate the presentation of this case, however, and at the request of the United States which this Court has invited to file a brief amicus, Kewanee has excised portions of the findings of fact consistent with the district court's Order, and has reproduced the remainder in the Appendix (App. 51-86). The entire record below, including the material excised from the findings of fact as printed, and including the transcript and exhibits in the district court, is on file with the Clerk and available to the Court.

***5** Kewanee, through its unincorporated division, Harshaw Chemical Company ("Harshaw"), manufactures various types of industrial products. Harshaw's product line includes synthetic crystals and particularly sodium iodide thallium activated scintillation crystals, and this product forms the subject matter of this action. A scintillation crystal has a property which permits it to generate a minute particle of light when struck by ionizing radiation. [FN3] Harshaw's activities with respect to the growth of synthetic crystals and its experience in this area date back to about 1937 (Fdg. 1 and 5, App. 52).

> FN3. Such crystals are put to a variety of end uses, including detection of uranium ore, medical uses such as detection of malignant tumors, location of oil, and any uses where radiation detection can be employed as a counting device (Td. 204-205).

Harshaw began conducting research in 1949 on scintillation crystals, such as sodium iodide thallium activated crystals, which crystals are used in radiation detectors. Harshaw was the forerunner in the growth of scintillation crystals, there being no other companies producing such crystals at that time (Fdg. 6, App. 53-54). Commencing in 1949 with the growth of a sodium iodide thallium activated crystal less than two inches in diameter, Harshaw, by means of continuing research and development, was able in 1966 to grow a 17-inch sodium iodide thallium activated crystal. In order to accomplish this task, Harshaw spent in excess of $1,000,000 on

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research, and employed as consultants such notable experts as Dr. Stockbarger, a pioneer in the field of crystal growth, and Dr. Hofstadter, a Nobel Prize winner in Physics (Fdg. 40, App. 61-62).

***6** There are several companies worldwide which compete with Harshaw in the production and sale of sodium iodide thallium activated crystals. Other than Bicron Corporation, there are three such competitors in the United States, one or two in Japan, and one each in Great Britain and France. These competitors have produced and sold 13-inch diameter crystals and one such competitor has offered to sell a 16-inch diameter crystal. However, to date no company other than Harshaw has produced or sold a 17-inch diameter crystal (Fdg. 6, App. 53- 54). In addition to the knowledge possessed by Harshaw's competitors, there is a substantial amount of information in the public domain relevant to the production of crystals (See (Fdg. 6, 13, 14, 22, 23, 32, 33, 34, 35, 36, 38, 40 and 73).

As an outgrowth of its research, Harshaw developed many confidential processes, procedures and manufacturing techniques which it claims are trade secrets (Fdg. 39, App. 59-61). These give it a commercial advantage over competitors who do not know or use such processes, procedures and techniques. Harshaw presented proofs in the district court that it had trade secrets in the following areas: (1) the purification of raw materials; (2) the growth of the crystals; and (3) the preparation and encapsulating of the crystal. These processes, procedures and manufacturing techniques become more critical as the size of the crystal increases (Fdg. 40, App. 61-62).

Harshaw maintained stringent precautions to protect its trade secrets, including the following: it "regularly required its employees to execute" agreements which precluded them from disclosing and using ***7** the company's trade secrets (Fdg. 104, App. 83-84); it "installed fencing bearing 'No Admittance' signs around various plant sites and maintained a security guard therein" (Fdg. 104, App. 83-84); visitors to the Laurel facility were required to sign in at the front desk and would be escorted around the plant at all times by a regular employee (Tr. 253-254); the Laurel facility conspicuously posted signs stating "Crystal Solid-State Department Employees Only, No Admittance" (Tr. 253); the Solon facility had one entrance for employees which was guarded twenty-four hours a day, and visitors were sent to the front desk where they were issued passes and escorted by an employee (Tr. 254); it posted a copy of Section 1333.51 Ohio Revised Code, which makes the theft of a trade secret a crime in Ohio (Fdg. 104, App, 83-84); and it "marked certain prints and documents with a notice of confidentiality and restricted their distribution to key employees" (Fdg. 104, App. 83-84). Bicron vigorously disputed the adequacy of these precautions and argued that the trade secrets were readily available to the public (Fdg. 105-107, App. 84-85). After carefully reviewing all of the evidence concerning Harshaw's secrecy precautions, the district court found "that not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain" (Fdg. 108, App. 85).

The Individual Defendants Were Employed by Harshaw and Learned of Its Trade Secrets During that Confidential Relationship.

The findings disclose the following facts with respect to the Individual Respondents:

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Hamner, an employee of Hamner Electronics Company, executed an agreement which provided in part ***8** that he would not disclose trade secrets of the Company. Harshaw acquired control of Hamner Electronics Company in 1964 and thereafter that agreement inured to the benefit of Harshaw (Fdg. 47-48, App. 67-68). Hamner's experience with Harshaw primarily involved the various applications to which encapsulated scintillation crystals may be put and aspects relative to the sale of such products, including customer lists (Fdg. 49, App. 68).

Menefee, a physicist and mathematician, was employed by Harshaw in February 1964. During the course of his employment, Menefee executed two agreements which provided in part that he would not disclose Harshaw's confidential information. In February 1969, Menefee was promoted to Group Manager-Nuclear Detectors and Systems. In this capacity he was responsible for the development of new detector assemblies employing scintillation crystals, which gave him access to and experience in all phases of crystal production including synthesis and purification of raw materials, crystal growth, and preparation and encapsulation of finished crystals (Fdg. 52, App. 69-70).

Novak was employed by Harshaw in April 1962. During the course of his employment, Novak executed two agreements which provided in part that he would not disclose Harshaw's confidential information. Novak was a technician in the Crystal Canning Department and for six years was engaged in part in the calming and encapsulation of scintillation crystals. He was a lead man in the department for at least six months and in this capacity was responsible for quality control and the teaching of canning and encapsulation ***9** techniques to other employees whom he supervised (Fdg. 54, App. 70-71).

Richert, a chemist, was employed by Harshaw in February 1962. In consideration of his employment, Richert executed an agreement which provided in part that he would not disclose the confidential information of Harshaw. Richert worked in the purification department and was actively involved in the preparation of raw materials for crystal growth, as well as the preparation of certain bonding materials used in the encapsulation of crystals (Fdg. 57, App. 71-72). He received copies of Harshaw's confidential purification procedures and he understood he was not to disclose their content to anyone (Fdg. 41, App. 62).

Spurney was employed by Harshaw in May 1961. In consideration of his employment, Spurney executed an agreement which provided in part that he would not disclose Harshaw's confidential information. Spurney was primarily involved with the growth of crystals, including the "doping" of raw materials and the programming of growth furnaces. Additionally, he was also responsible for reworking platinum crucibles used in the growth of synthetic crystals (Fdg. 59- 60, App. 72-73).

Suscheck was employed by Harshaw in April 1963. During the course of his employment, Suscheck executed two agreements which provided in part that he would not disclose Harshaw's confidential information. For the first three years of his employment, Suscheck worked in the engineering department doing design work on radiation detectors. Thereafter, he was elevated to "Production Manager of Scintillation ***10** Detectors" and given production responsibility. In this capacity he supervised, either directly or indirectly, approximately thirty-five employees. Among other things, he was responsible for the encapsulation of scintillation crystals, including the design of containers therefor. Suscheck did the engineering

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work on the design of finished units, and he determined what units were to come out of what crystals, which function was significant in determining the profit or loss of the operation (Fdg. 62, App. 73-74).

Prior to joining Harshaw, except for the academic training of Richert and Menefee, none of the individuals had any experience with respect to the purification of raw materials, growth or preparation and encapsulation of scintillation crystals. However, each individual acquired experience in one or more of these areas and the trade secrets associated therewith while employed by Harshaw (Fdg. 41-42, App. 62-63; Fdg. 63, App. 74; Fdg. 88-92, App. 81).

Each of the individuals occupied positions of trust and confidence with Harshaw, and for this reason were given access to the various facilities where the secret operations relative to his action were conducted (Fdg. 64, App. 74- 75). On the basis of the evidence before it, the district court concluded as a matter of law that "[t]he individual defendants held positions of trust while at Harshaw, thereby creating a confidential relationship, and they owed a duty of loyalty and fidelity to their employer" (Con. 4, App. 87-88).

Spurney resigned in December 1966 to accept a position with General Electric. Richert resigned in August 1968 to accept a teaching position at John ***11** Carroll University. Hamner tendered his resignation in July 1969, and terminated his employment as of August 15, 1969. He gave as a reason for resigning his desire to attend the New York School of Finance in order to learn how to manage his stock portfolio. Novak summarily resigned and left Harshaw on September 12, 1969. Menefee tendered his resignation in June 1969, and terminated his employment as of July 31, 1969. He indicated that he was dissatisfied and was resigning in order to engage in private nuclear consulting activities. Suscheck tendered his resignation in early August 1969 and terminated his employment as of August 15, 1969. He stated that his resignation was prompted by the need to devote more time to a plastics company in which he had an interest (Fdg. 65, App. 75). Even though Hamner, Menefee and Suscheck knew when they terminated their employment that they were in the process of forming a competing business, this information was not revealed to Harshaw (Fdg. 83, App. 78-79).

Bicron Corporation Was Formed by the Individual Defendants to Compete with Harshaw, Including Use of Its Trade Secrets.

While still employed by Harshaw, Menefee and Hamner discussed the possibility of forming their own business. Originally they considered some type of consultant work, but it was felt that the time required to establish such a business was lengthy. In order to have a going business in the shortest period of time, they decided to manufacture scintillation detectors using sodium iodide thallium activated crystals (Fdg. 67, App. 75-76; Tr. 1078-1079).

Menefee approached Suscheck in mid June 1969, and asked him to join the proposed business venture ***12** (Fdg. 68, App. 76; Tr. 1131). Realizing that someone with experience in the crystal growth area (furnace operation) would be required, Menefee also contacted Spurney (Fdg. 69, App. 76; Tr. 1079-1080). On June 20, 1969, Hamner, Menefee, Spurney and Suscheck met to discuss the formation of a corporation which would compete with Harshaw in the manufacture of sodium iodide thallium activated crystals (Fdg. 71, App. 76). Realizing that a chemist would be required to purify

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raw materials, Menefee contacted Richert in late June or early July and the latter indicated that he would be willing to act in a consulting capacity with respect to the purification of sodium iodide (Fdg. 70, App. 76). On July 2, 1969, Menefee, Suscheck and Spurney met with Hamner's attorney in New Jersey to discuss the formation of a new corporation (Fdg. 72, App. 72). On August 4, 1969, Spurney contacted Englehart Industries on behalf of the newly formed business and requested price quotations on a seventeen inch diameter platinum crucible (Fdg. 74, App. 77). Hamner, Menefee and Suscheck were employees of Harshaw, when the foregoing activities transpired (Fdg. 76, App. 77). On or about August 1, 1969, Suscheck, while still in the employ of Harshaw, prepared a drawing of the proposed Bicron Plant (Fdg. 84, App. 79).

On August 16, 1969, Hamner, Menefee, Spurney and Suscheck concurrently executed an agreement forming Bicron Corporation. Pursuant to the terms of the agreement, the four individuals comprised the Board of Directors, Hamner being Chairman of the Board and President, and Menefee being Vice President and Secretary. The agreement expressly recognized the " 'special abilities' " of the parties and ***13** included non-competition and non-disclosure provisions (Fdg. 78, App. 77-78). The Individual Defendants associated themselves together because of the special abilities which each possessed with respect to complementary facets of the scintillation crystal business. In seeking financing for his new business, Hamner represented to an investment firm that the product which Bicron Corporation planned to manufacture was highly technical, but that some of its personnel had worked at Harshaw and possessed the necessary skills to make the product. For example, Spurney was asked to join Bicron Corporation because he was an expert crystal grower: Richert was selected because he was an expert in purifying materials needed for crystal growth (Fdg. 83, App. 7879).

Menefee again contacted Richert in the early part of September 1969, and the latter agreed to act as a consultant to Bicron Corporation and devise a procedure for the purification of sodium iodide (Fdg. 80, App. 78). Richert claims to have written the purification procedure in approximately 100 hours based upon library research and this procedure was delivered to Bicron during the first part of December 1969 (Fdg. 57, App. 71-72).

The Bicron Plant was completed in the latter part of December 1969, or early January 1970, and operations were shifted there from Menefee's house. During the first run the crucible was damaged and forwarded in early March 1970 for repairs. The crucible was returned to Bicron and a 17-inch diameter crystal was grown and placed in the annealing furnace by mid-April 1970 (Fdg. 82, App. 78).

***14** It took Harshaw over sixteen years to perfect its processes, procedures and manufacturing techniques to the level of technology required to produce a 17-inch sodium iodide thallium activated crystal. During this period Harshaw expended great sums of money, employed some of the world's foremost consultants and has become the recognized leader in the scintillation crystal industry. Although Harshaw has several competitors around the world, none has been able to produce a 17-inch diameter sodium iodide thallium activated crystal. Bicron Corporation, however, with its nucleus of former Harshaw employees, was able in approximately nine months to construct a highly complex plant, design and assemble specialized equipment, purify the material and then grow and place in the annealing furnace a 17-inch diameter sodium iodide thallium activated crystal. In view of this evidence, the district

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court concluded "that there is an imminent danger of disclosure of plaintiff's trade secrets to Bicron and the use of these trade secrets by Bicron" (Con. 6, App. 89).

The Courts below Both Sustained Kewanee's Right to Relief under Ohio Trade Secret Law

On April 17, 1970, Kewanee filed its Complaint (App. 5-27) against Bicron in the United States District Court for the Northern District of Ohio. On that day the district court granted a Temporary Restraining Order (App. 28-31) enjoining Bicron from disclosing and using Kewanee's trade secrets. The Temporary Restraining Order was extended to permit a full hearing on Kewanee's application for a preliminary injunction (App. 32). By agreement of ***15** the parties, the hearing was consolidated with the action on the merits as provided for in Rule 65(a) (2) of the Federal Rules of Civil Procedure. A lengths trial followed consuming approximately ten trial days, during which the district court heard the testimony of 16 witnesses and received in evidence 105 exhibits. Oil November 25, 1970, the district court entered its decision, which included 110 findings of fact (App. 51-86) and 8 conclusion of law (App. 86- 90). The district court applied Ohio trade secret law "in determining which processes, procedures and mechanical techniques ... are trade secrets and those which are not" (Con. 5, App. 88-89). The district court held that Kewanee had a protectable property right in twenty of its forty claimed trade secrets in suit. It further concluded that Kewanee failed to establish that, the remaining twenty processes, procedures and manufacturing techniques were in fact trade secrets. Concurrently therewith, the district court entered an Order for Permanent Injunction (App. 92-94) which enjoined Bicron from disclosure and using the twenty trade secrets unless they became publicly known.

Kewanee appeared from the decision of the district consist, contending that all forty claimed trade secrets should have been protected, and Bicron cross-appealed maintaining that none of the alleged trade secrets should have been protected (478 F.2d at 1076; Pet. App. A2). The court of appeals, "[a] after careful Consideration of the entire record," held that "the findings of fact of the District Judge are not cleanly erroneous within the meaning of Rule 52, Federal Rule of Civil Procedure, 28 U.S.C., and the District Judge properly applied the Ohio law relating to trade ***16** secrets" (478 F.2d at 1077; Pet. App. A5). In so holding the court of appeals stated:

"On this record, as a whole, it appears clear to us, as it did to the District Court, that the individual defendants used the information obtained during their employment by Harshaw for the benefit of Bicron. There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques." (478 F.2d at 1076-1077; Pet. App. A3).

The court of appeals then concluded that it would "affirm the judgment of the District Court" (478 F.2d at 1077-1078; Pet. App. A5), but for its belief that under the facts of this case the trade secret laws of Ohio are in "direct conflict with the Patent Laws" of the United States (478 F.2d at 1086; Pet. App. A25). The court of appeals therefore reversed and remanded the case to the district court for dismissal of the complaint (478 F.2d at 1087; Pet. App. A25).

SUMMARY OF ARGUMENT

The district court granted a narrow injunction which prevented Bicron from using or disclosing the twenty items found to be trade secrets. The injunction expires by its

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own terms when any secret is subsequently published by Kewanee or by others, or disclosed to Bicron by someone having the right to do so. Moreover, the injunction does not preclude Bicron from competing with Kewanee in the manufacture and sale of scintillation crystals.

Under the circumstances, the injunction did not give Kewanee the equivalent of a patent monopoly. The essence of a patent monopoly is the power to exclude ***17** anyone in the United States from making, using or selling the subject matter of the patented invention, whether or not he develops it independently. Here the injunction ran only against Bicron and did not prevent anyone else from doing anything, nor did it prevent Bicron from making, using or selling sodium iodide thallium activated scintillation crystals. It left Bicron free to use any Kewanee secret developed independently by others and thereafter published or disclosed to it.

The court of appeals unanimously affirmed the district court's finding that the twenty processes in issue were adequately maintained in secrecy and had not become a part of the public domain. The Sixth Circuit's holding that the secret use of Kewanee's processes for over a year placed the secrets in the public domain is not tenable, for the function of 35 U.S.C. § 102 (b) is solely to determine what has been "used" so that it is not entitled to the 17-year statutory monopoly of the federal patent laws; it does not purport to determine what is published for any other purpose.

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v. Day-Britc Lighting, Inc., 376 U.S. 234 (1964), and Lear, Inc. v. Adkins, 395 U.S. 653 (1969), are all inapplicable. In those cases protection was sought for products, not processes, and the products were clearly in the public domain, having been fully disclosed in patents and by their public sale. Moreover, in Sears and Compco respondents were seeking the full equivalent of a patent monopoly, in that they claimed that no one in the United States, whether or not he had developed his own product independently, could manufacture an identical product because the configuration of the thing ***18** itself was said to denote respondents as its source. Kewanee seeks no such monopoly protection.

The interest of the federal patent statutes in promoting new inventions by rewarding inventors is different from, and does not conflict with, Ohio's policy of protecting its citizens against fraud, theft, dishonesty and breaches of contract or fiduciary duty. In our federal system a very persuasive showing must be made before unstated radiations of a federal statute are found to displace long standing state common law implementing its acknowledged police powers.

Decisions of this Court have repeatedly held that an inventor has the choice of keeping his invention secret while attempting to protect it pursuant to the state law of trade secrets, or of disclosing it in a patent application in the hope of securing a 17-year statutory monopoly. Enactment of a statute carries with it the construction put on predecessor statutes with similar wording, and the passage in 1952 of the Patent Code must be taken to have accepted these interpretations. In any event, this Court has always been slow to overrule a considered line of decision existing over many years.

The Sixth Circuit's holding that only those trade secrets are preempted which are patentable subject matter under 35 U.S.C. § 101, if they have been in "public use"

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under 35 U.S.C. § 102(b) for over a year, operates capriciously and implements no visible societal policy. Why should confidential customer lists which are not patentable be protectable, while formulae or industrial processes are not? This Court has never favored construction of a statute to achieve capricious or illogical results.

***19** Granting limited protection to trade secrets is also fully consistent with the antitrust laws, for section 5 of the Federal Trade Commission Act, 15 U.S.C. § 45, and sections 1 and 2 of the Sherman Act, 15 U.S.C. § § 1 and 2, have both been interpreted to make unlawful the theft of trade secrets in varying factual circumstances.

Kewanee's position here is also confirmed by the fact that many federal statutes existed which specifically authorized trade secret protection before the passage of the 1952 Patent Code. Many other federal statutes specifically authorizing the protection of trade secrets were passed thereafter. The interpretation of the Patent Code adopted by the Sixth Circuit would so limit trade secret protection as to amount to an implied repeal of all of these provisions; yet repeals by implication have never been favored by this Court. That rule is particularly applicable here since the Patent Code contains no words of express repeal while the statutes that would be rendered largely nugatory expressly authorize protection of trade secrets. Moreover, all of these statutes are properly considered by the Court in interpreting the overall intent of Congress.

Finally, a substantial number of commercial transactions has been effected in reliance upon the continuing validity of the law of trade secrets and the ability of a court to give limited protection to trade secrets in appropriate circumstances. This Court should be extremely reluctant to unsettle all of these transactions. The question is more properly one for Congress.

***20** ARGUMENT

I. INTRODUCTION:
THE BASIS AND NATURE OF TRADE SECRET LAW

The Ohio Law of Trade Secrets Does Not Foster Monopoly; It Merely Provides a Remedy for Breaches of Contract and Trust.

The general law of trade secrets, effective in nearly all of the States, [FN4] requires that the party seeking trade secret protection establish by a preponderance of the evidence that: (1) the items for which protection is sought, whether patentable or not, constitute proper matter for trade secret coverage; (2) the party against whom relief is sought has either violated or threatened to violate an express agreement or his fiduciary duty not to disclose or use the secrets; and (3) there has been a substantial element of secrecy. Upon such proof, the party seeking relief will be granted protection against the wrongful disclosure and use of the trade secrets, but will not be protected against their legitimate discovery. Moreover, the relief afforded the trade secret owner will not be so broad as to enjoin competition. Each of these points will be discussed in greater detail below.

FN4. See generallly, Milgrim, TRADE SECRETS, Chapters 2, 3, 4 and 5 (1973); 2 Callman, UNFAIR COMPETITION, TRADEMARKS AND MONOPOLIES 343 et seq. (3d ed. 1968).

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The frequently stated definition of a trade secret is set forth in 4 RESTATEMENT OF TORTS § 757, comment b (1939), which is printed at Pet. App. A28-A29. Ohio law, like that of many other States, generally follows Section 757. B. F. Goodrich v. Wohlgemuth, 117 Ohio App. 493, 498, 192 N.E.2d 99, 104 (1963). That definition provides in part that "a process of manufacturing" such as that involved in the present action, constitutes protectable subject matter.

***21** Ohio law is in accord with the general law of trade secrets. It applies only against those who have entered into an express agreement to hold the secret in confidence or those who are in a fiduciary relationship with the trade secret owner. Scifried v. Maycox, 14 Ohio Dec. 536, 539 (Super. Ct. 1904), following Stone v. Goss, 65 N.J. Eq. 756, 55 A. 736 (Ct. Err. & App. 1903). While it is settled in Ohio and elsewhere that the employer-employee relationship carries with it such a relationship, Ohio courts have been loathe to find a fiduciary relationship where it is not clear from the facts that one existed. See, e.g., Grob Plating Co. v. Kent-Owens Mach. Co., 10 Ohio L. Abs. 367 (Ct. App. 1931). Relief is not granted if there is no breach of contract or fiduciary obligation. As Judge Taft held in Cincinnati Bell Foundry Co. v. Dodds, 19 Weekly L. Bull. 84, 10 Ohio Dec. Reprint 154, 154-155 (Super. Ct. 1887), while "he who discovers and keeps secret a process of manufacture, whether a proper subject for a patent or not, has a property in it which a court of equity will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons," such a person "has not an exclusive right to it as against the public or against those who, in food faith, acquire knowledge of it." (Emphasis added.)

While a trade secret is not destroyed by disclosure to such of the proprietor's "employes to whom it is necessary to communicate the secret, in order that he may use them to advantage," National Tube Co. v. Eastern, Tube Co., supra, 3 Ohio C.C.R. (n.s.) at 462, and B. F. Goodrich v. Wohlgemuth, supra, 117 Ohio App. at 499-500, 192 N.E.2d at 104, and while access to the premises, where the secret processes are used, by visitors, customers, suppliers or others will not ***22** destroy secrecy if such secrets are not thereby revealed or if such persons do not understand the significance of what they saw, Cincinnati Bell Foundry Co. v. Dodds, supra, 19 Weekly L. Bull. at 86, 10 Ohio Dec. Reprint at 157, there must still be a substantial element of secrecy:

> "It would be a violation of every right of the employe of a manufacturer to prevent the former from using, in a business of his own, knowledge which he acquired in the employ of the latter, when he might have acquired such knowledge in the employ of other manufacturers." Cincinnati Bell Foundry Co. v. Dodds, supra, 19 Weekly L. Bull. at 84, 10 Ohio Dec. Reprint at 155.

Accordingly, the Ohio Supreme Court has held that a former employee cannot be enjoined from soliciting customers of his former employer when the identity of such customers was in no wise a secret. Curry v. Marquart, 133 Ohio St. 77, 11 N.E.2d 868 (1937).

Ohio law recognizes that a trade secret does not have the permanence of a patent. The proposition is clearly put in National Tube Co. v. Eastern Tube Co., 3 Ohio C.C.R. (n.s.) 459, 462 (Cir. Ct. 1902), aff'd, 69 Ohio St. 560, 70 N.E. 1127 (1903):

> "A trade secret is a plan or process, tool, mechanism, or compound, known only to its owner and those of his employees to whom it is necessary to confide it, in order to apply it to the uses for which it is intended. It is not protected by patent, for

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the secret then is made public, and the inventor is protected by letters patent from infringement thereof; while, as soon as anyone fairly and honestly discovers a trade secret, either by examination of the manufactured products sold or offered for sale to the public, or in any ***23** other honest way, that person discovering it has full right to use the same. That is the risk the owner takes, and if he would have further protection, he must seek it in a patent." (Emphasis added.)

Finally, except in the most aggravated circumstances, even upon the finding of an appropriation of trade secrets in breach of a fiduciary duty, the Ohio courts do not enjoin competition by the employee; they only enjoin the use or disclosure of such secrets. B. F. Goodrich Co. v. Wohlgemuth, supra, 117 Ohio App. at 500, 192 N.E.2d at 105, is typical; there the court enjoined the former employee's future improper disclosure of Goodrich's trade secrets in the manufacture of space suits, but refused to exclude him from the space suit business, stating:

"We have no doubt that Wohlgemuth had the right to take employment in a competitive business. and to use his knowledge (other than trade secrets) and experience, for the benefit of his new employer, ..."

The Sixth Circuit also recognizes this to be the law of Ohio, for in W. R. Grace & Co. v. Hargadine, 392 F.2d 9, 20 (6th Cir. 1968), it said in a case in which it affirmed a substantial damage award in view of defendants' appropriation of plaintiff's trade secrets:

"And defendants have an undoubted right to compete against plaintiff Grace so long as they do not use Grace's assets in doing so."

II. THE PATENT CODE (35 U.S.C.) DOES NOT PREEMPT STATE TRADE SECRET LAW AS APPLIED IN THIS CASE.

The district court carefully reviewed the testimony and exhibits adduced at the trial of this action. On ***24** the basis of the evidence, it made 110 findings of fact and 8 conclusions of law. The findings of fact analyzed Kewanee's claimed trade secrets and the district court painstakingly separated those which were protectable under the applicable law from those which were not subject to protection (Fdg. 94-102, App. 82-83). The district court made detailed factual findings with respect to Bicron's claim that Kewanee had been lax in securing its secrets (Fdg. 105-107, App. 84-85), but ultimately found that "not sufficient disclosure occurred so as to place the claimed trade secrets in the public domain" (Fdg. 108, App. 85). Both parties appealed, and each urged the court of appeals to review that part of the district court's findings and conclusions which had held against it on the trade secret issue. In that respect the court of appeals wholly affirmed the district court, [FN5] stating:

> FN5. The Sixth Circuit apparently regarded the situation as similar to that which it faced in W. R. Grace & Co. v. Hargadine, supra, 392 F. 2d at 14-15: "Defendants also point to a great deal of evidence which may be regarded as proof of laxity in security precautions on the part of DuBois prior to the Grace purchase, ... As we view this record, the testimony presented a conflict of evidence on the trade secrets issue which was appropriate for jury resolution."

"Suffice it to say that the District Judge fully considered all of the evidence offered, and that the alleged errors are based upon the appellant's and cross-appellants' disagreement with the trial court's evaluation of the credibility of the

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witnesses and the weight of the evidence. It is not for this Court to reconsider the credibility of the witnesses or to reweigh the evidence.

* * *

"If only the issues already discussed had been presented to this Court we would be required ***25** to affirm the judgment of the District Court." (478 F.2d at 1077-78; Pet. App. A5)

This Court has long recognized what has come to be known as the "two court rule." Under this doctrine, this Court will not "undertake to review concurrent findings of fact by two courts below in the absence of a very obvious and exceptional showing of error." Graver Tank & Mfg. Co. v. Linde Air Products Co., 336 U.S. 271, 275 (1949); Comstock v. Group of Institutional Investors, 335 U.S. 211, 214 (1948). Both courts below concurred with respect to the findings of fact. Accordingly, these findings should be accepted as correct and controlling here.

A. The Sixth Circuit Improperly Found That the Injunction Permitted Kewanee to Monopolize the Public Domain.

The reasoning of the Sixth Circuit proceeded essentially as follows: The policy of the Patent Code [FN6] is to prevent persons from monopolizing any part of the public domain except pursuant to a federal statutory patent grant. A use which would be a statutory bar to the issuance of a patent under 35 U.S.C. § 102(b) makes that use a part of the public domain. On this basis, the court of appeals came to the conclusion that the Patent Code [FN7] preempts this area of the law so that ***26** courts may not grant trade secret protection to processes the use of which would fall within section 102 (b) because otherwise the owner of the process would be permitted to monopolize the public domain other than through a statutory patent grant (478 F.2d at 1086; Pet. App. A24-A25). This conclusion fails for each of the two reasons discussed below.

> FN6. The term "Patent Code" will be used in this Brief to refer to "An Act to revise and codify the laws relating to patents and the Patent Office, and to enact into law title 35 of the United States Code entitled 'Patents,' " and its complete citation is Public Law 593, 82nd Congress, 2nd Session, Chapter 950, 66 Stat. 792, approved July 19, 1952.
>
> FN7. The Sixth Circuit did not suggest that a state's limited protection of trade secrets would be repugnant to Art. I. § 8, Cl. 8 of the Constitution, standing alone and apart from the Patent Code. This Court's subsequent decision in Goldstein v. California, 412 U.S. 546, 552-558 (1973) establishes, a fortiori, that there is no repugnance. See also Livingston v. Van Ingen, 9 Johns. 507, 550, 581 (N.Y. 1812) and Bugbee, The Genesis of American Patent and Copyright Law, pp. 90-102, esp. at 102 (Public Affairs Press 1967).

1. The injunction did not grant to Kewanee the common law equivalent of a patent monopoly.

Kewanee did not seek a monopoly, or anything resembling a monopoly. It sought no protection against anyone other than Bicron. The essence of a patent monopoly is that the patentee has the right to exclude all others from making, using or selling his patented product even against one who has independently developed an infringing product. As this Court stated in United States v. Berdan Fire-Arms Mfg. Co., 156

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U.S. 552, 566 (1895):
"Nor would it be a defense to the action that such person had, subsequent to Berdan's invention, and without knowledge thereof, devised the contrivance which he was using. He would be in the attitude of a subsequent inventor, and the prior inventor is the one who, under the statutes, is entitled to the monopoly." (Emphasis added.)

Kewanee did not receive the equivalent of a patent monopoly, for neither Ohio law nor the injunction protects Kewanee against persons who independently ***27** discover its secrets. See Cincinnati Bell Foundry Co. v. Dodds. supra, 19 Weekly L. Bull. at 84, 10 Ohio Dee. Reprint at 154-55; Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163, 172 (5th Cir. 1969). The protection of the injunction was limited to Bicron Corporation and the Individual Respondents, and did not affect any other person.

Moreover, unlike a patent, monopoly, neither the injunction nor Ohio law gives Kewanee rights for any fixed period. The injunction expires by its own terms to any secret upon the happening of any of the following events:
--Release to the public of the trade secret by plaintiff;
--Issuance of a patent disclosure the trade secret;
--If the trade secret in any other way becomes generally available to the public;
--If the trade secret in any other way becomes generally available to member of the industry; or
--Acquisition by defendants of the trade secret from any source having the legal right to convey such information (Inj., para. D, App. 94).

Finally, the injunction precluded only the use and disclosure of Kewanee's secrets. Biel-on was left free to make, use and sell sodium iodide thallium activated scintillation crystals in competition with Kewanee, as are all others in the world. The district court stated in conclusion 7 (App. 89-90):
"Indeed it is inevitable that some of the knowledge acquired while in the former employment should be inside available to the new employer, and courts will not deprive the employee of the ***28** right to use the skill he developed through the years."
Thus, Kewanee did not receive the common law equivalent of a patent monopoly nor was it protected from competition.

2. A "public use" under 35 U.S.C. § 102(b) cannot be equated with the term "public domain."

The position of the Sixth Circuit is that section 102(b) determines for all purposes what is in the public domain. But this is not what section 102(b) says. It provides that no patent may issue if its subject was "in public use" for more than one year before a patent is applied for. But, as here, a process may be in "public use," and thus bar the issuance of a patent, without being in the public domain. This is the essence of a trade secret. It is in use, but it is not known to the public, and thus is not in the public domain. As Judge Rich said in Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901, 902 n.2 (C.C.P.A. 1969):
"[Appellee] also argues, as is all too prevalent, that the patent laws put things into the public domain when patents expire. Patent laws function only to keep things out of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy or right to use, they speak only in

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terms of right to exclude." (Emphasis in original.)

Patent law has evolved so that, today, an admittedly private and secret use, if it has been a commercial use, is nevertheless held to be a "public use" within the meaning of section 102(b), the policy of which is to preclude such a user from obtaining a federally ***29** protected 17-year statutory monopoly, [FN8] good against all persons. The leading case on this point is Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2d Cir. 1946), certiorari denied, 328 U.S. 840 (1946). The panel in that case consisted of the two Hands and Charles Clark, later Chief Judge; the opinion was by Judge Learned Hand. Although the application for the patent in suit was filed on August 6, 1942, the district court found that the inventor had used the patented process more than one year prior to that date, and that his " 'main purpose in his use of the process prior to August 6, 1941 and especially in respect to all jobs for owners not known to him, was commercial, ...' " (153 F.2d at 517). It also found, however, "that the use was not public but secret" (153 F.2d at 518). The question for decision before the Second Circuit was, then, whether a secret commercial. use was nevertheless a "public use" within the meaning of section 102(b). Judge Hand carefully analyzed prior decisions, including many decisions of this Court, and concluded that such a secret use was nevertheless a "public use." He held (153 F.2d at 520) that:

> FN8. Of course a "public use" under section 102(b) could also, depending on the facts, be so open and notorious as to result in a finding that the use was published for all purposes.

"... it is a condition upon an inventor's right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly. It is true that for the limited period of two years he was allowed to do so, possibly in order to give him time to prepare an application; and even that has been recently cut down by half. But if lie goes beyond that period of ***30** probation, he forfeits his right regardless of how little the public may have learned about the invention; ...

* * *

"... it is part of the consideration for a patent that the public shall as soon as possible begin to enjoy the disclosure." (Emphasis added.)

This decision is significant for two reasons. First, it shows that a section 102(b) finding of "public use" does not establish what has been published as a matter of fact and for all other purposes, for something the court conceded was secret was found to be "public" for purposes of section 102(b). Secondly, the decision shows that the disability which is brought about upon a finding of "public use" is limited to the forfeiture of the user's "right to a patent." "Public" as used in section 102(b) is a specialized term of art having significance only for purposes of determining the right to a federal statutory monopoly and not otherwise. [FN9] See Goldstein v. California, 412 U.S. 546, 570 n. 28 (1973).

> FN9. The correctness of this proposition is confirmed by looking at the converse of the situation under consideration, namely, an open, notorious and fully publicized experimental use by the inventor. Trade secret protection would be denied to a process which was thus publicly used, although that same public use would be found not "public" under § 102(b) because of its

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> experimental nature. Elizabeth v. Pavement Co., 97 U.S. 126, 135-37 (1877); Electric Storage Battery Co. v. Shimadzu, 307 U.S. 5, 20 (1939).

Judge Hand's analysis of this Court's decisions was surely correct, for it would hardly be possible to argue seriously that the "public use" of corset stays in a corset worn by a lady friend of the inventor which barred a patent in Egbert v. Lippmann, 104 U.S. 333, 335 (1881), thereby placed the corset stays within the ***31** public domain. And in Hall v. Maeneale, 107 U.S. 90, 96-97 (1882), a. patented connection between the door and casing of safes was found to be in "public use" barring a patent even though the details thereof "were, it is true, hidden from view, after the safes were completed, and it required a destruction of the safes to bring them into view." Would this Court construe that holding to mean that the safe construction was thereby in the public domain, in a suit against a former employee who appropriated his employer's secret blueprints of the construction and did not learn of the construction through dismantling the safe?

Judge Hand's decision represents the accepted interpretation of "public use" under § 102(b). [FN10] As the Sixth Circuit wrote in Huszar v. Cincinnati Chemical Works, 172 F.2d 6, 10 (6th Cir. 1949):

> FN10. The doctrine established in the Metallizing case has been adopted in other circuits. See Pickering v. Holman, 459 F. 2d 403, 406 (9th Cir. 1972); Soffron v. S. W. Lovell & Co., 246 F. 2d 769, 770-72 (1st Cir. 1957); U. S. Chemical Corp. v. Plastic Glass Corp., 243 F. 2d 892, 894 (3d Cir. 1957).

"It has at times been thought that a use is not public if, from an examination of the product, neither the process nor the machine by which the product was made could be understood by the art and contribute to its development. All this is now water over the damn. In the meticulous study made by Judge Learned Hand in Metallizing Engineering Co., Inc. v. Kenyon Bearing & Auto Parts Co., Inc., 2 Cir., 153 F.2d 516, the course of adjudication is charted from the early days to the present, and the conclusion soundly reached that the inventor's right to a patent is conditioned upon refraining from exploiting his discovery competitively after the invention is ready for patenting; ... regardless of how little ***32** the public may have learned about the invention. We agree with this conclusion and our own decisions, notably Macbeth-Evans Glass Co. v. Gen. Elec. Co., 6 Cir., 246 F. 695, support it."

Current law is accurately summarized in Solo Cup v. Paper Mach. Corp., 240 F. Supp. 126, 130 (E.D. Wis. 1965):

"... it is well settled that the commercial exploitation of a secret process or a machine maintained in secrecy, by the sale of its product constitutes a public use under § 102(b)."

It follows that a use may be "public" within section 102(b) and also secret. Thus the determination that there has been a "public use," though important under the patent law, has no relationship to the question whether a process has been kept secret for purposes of the application of a state's trade secret law.

B. Sears, Compco and Lear All Support the Conclusion That the Patent Code Precludes Protection Under State Law Only of Things Which as a Matter of Fact, Are Known to or Readily Available to the Public.

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The Sixth Circuit thought that its decision was compelled by this Court's opinions in Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) and Lear, Inc. v. Adkins, 395 U.S. 653 (1969). In fact, however, those cases are wholly consistent with Kewanee's position here. In those cases this Court held that state common law could not be relied upon to give a monopoly over products in general circulation which were fully disclosed both by examination of the products involved which had been publicly sold, and by patents which had issued on those products. In all ***33** three cases, therefore, the subject matter for which state law protection was sought was clearly and admittedly in the public domain in the fullest factual sense of that term. This is not the case in the present action.

In Sears, the subject matter for which protection was sought under the unfair competition law of Illinois was a pole lamp. The sale of the pole lamp had fully disclosed every aspect of its design. Moreover, all of the details of the lamp were presumably fully disclosed to the world through the "design and mechanical patents on" the lamp which had been issued to respondent (376 U.S. at 225).

In Compco, protection under the Illinois law of unfair competition was sought for the design of a fluorescent lighting fixture. The lighting fixture had, however, been freely sold in commerce and its design was fully disclosed to anyone who made a simple inspection of it. In addition, the design of the fixture was necessarily fully disclosed in the design patent which issued to respondent on the fixture, the function of patents being, of course, the "full disclosure for the benefit of the public of the manner of making and using the invention." Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 255 (1945).

Similarly, in Lear, with respect to the period of time following the issuance of Lear's patent in 1960, which is the only period with respect to which this Court rendered a decision (395 U.S. at 674-675), the subject matter for which Adkins was seeking payment without putting his patent in issue was, by definition, fully and completely disclosed in that patent. Presumably, it was also fully disclosed by the sale of the gyroscopes for many years prior to 1960 by Lear, Inc.

***34** Accordingly, in each of the three cases the plaintiff was seeking protection or tribute for an article which was admittedly in the public domain and the decisions can be understod as dealing only with published ideas--ideas in general circulation. As Mr. Justice Harlan, writing for the Court in Lear, supra, 395 U.S. at 668, stated:

"On the other hand, federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent. [Citing Scars and Compco]." (Emphasis added.)

In both Sears and Compco the plaintiff's position was, quite literally, that it was entitled to a perpetual monopoly over an article of commerce in the public domain.

"The judgment below ... gave Stiffel the equivalent of a patent monopoly on its unpatented lamp." Sears, Roebuck & Co. v. Stiffel, supra, 376 U.S. at 233.

This followed because in both Sears and Compco the features which were said to give the product secondary meaning, and entitle plaintiffs to common law protection, resided in the very configuration of the product itself. According to the plaintiffs in those cases, no one could ever have manufactured an identical pole lamp, even if it were developed independently of the Stiffel pole lamp, because the configuration

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of the lamp was said to identify Stiffel as its source. No one could manufacture an identical lighting fixture, even if it were developed independently of the Day-Brite lighting fixture, because the configuration of the fixture was said to denote Day-Brite as its source. See Painton & Co. v. Bourns, Inc., 442 F.2d 216, 223 (2d Cir. 1971). ***35** In Lear, plaintiff's contention was not quite so expansive, but he was claiming full monopoly tribute from his licensee without having to establish that his alleged invention was in fact a patentable invention which provided valid consideration for the patent monopoly.

The decisions in those cases were, in Kewanee's view, fully correct and it does not urge this Court to qualify them in any way. They do not, however, reach the question involved in this case. For here two courts below have held that the secrets which Kewanee desires to protect, and which were given only limited protection by the injunction, were adequately kept secret, were not in general circulation and were not part of the public domain. [FN11] Indeed, even Mr. Justice Black, ***36** dissenting in Lear, would seem to agree, for he said in 395 U.S. at 677 that one "who makes a discovery may, of course, keep it secret if he wishes...." Petitioner is not attempting to obtain monopoly protection. The limited protection which it seeks against Bicron is not with respect to matters in the public domain. Accordingly, Sears, Compco and Lear all point to the conclusion that there is no preemption here, and that the application of Ohio law to the facts found in the instant case by the district court was in all respects proper.

> FN11. The one alleged secret (Secret (1)(e) listed in Fdg. 39 at App. 59; sec Brief of Respondents in Opposition, p. 8, note 10) as to which plaintiff had sought patent protection, and abandoned its application after it had been allowed, was found by both courts below not to be a protectable trade secret and no relief was awarded as to it (Paragraph A. (1) of Order for Permanent Injunction when read with Fidings 94 and 39, App. 82 and 59- 61). Accordingly, while filing a patent application would not seem to waive the right to trade secret protection (since patent applications, both pending, 35 U.S.C. § 122 and 37 C.F.R. § 1.14(a), and abandoned, 37 C.F.R. § 1.14(h) and Sears v. Gottschalk, 178 U.S.P.Q. 33 (E.D. Va. 1973), are maintained in confidence in the Patent Office), determination of the effect of filing an application for United States Letters Patent on trade secret protection is not raised by this record. It is believed that the alleged admission attributed to counsel in 478 F. 2d at 1078, second column, last full paragraph, was derived from a statement of counsel relating to the above situation only, which, in fact, went no further than, and was based on, testimony at Tr. 1264-1267. The Clerk of the Sixth Circuit has advised that there was no recordation of oral argument below. Certainly, Kewanee did not contend or concede below. just as it does not contend or concede here. that a trade secret proprietor is entitled to a "monopoly" for any period at all, let alone for longer than 17 years.

Goldstein v. California, supra, 412 U.S. 546, also supports this conclusion. There this Court upheld a California statute which imposed criminal penalties on "every person" who copied musical recordings, admitted to have been freely available to the public, against a claim of preemption by the federal copyright laws. Ohio trade secret law is considerably less expansive than was the California statute there upheld, for while trade secret law also prohibits copying only and not independent development, it does not protect materials freely available to the public, and

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operates only against copiers who stand in a fiduciary or contractual relationship to the trade secret proprietor. Since Ohio trade secret law has a much narrower scope than the statute upheld in Goldstein, that case strongly supports Kewanee's position here.

All circuits which have considered this question, other than the Sixth Circuit, agree that there is no preemption: Painton & Co. v. Bourns, Inc., supra, 442 F.2d at 222-226; Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304, 1306 (9th Cir. 1970), certiorari denied, 402 U.S. 945 (1971); Water Services Inc. v. Tesco Chemicals, Inc., supra, 410 F.2d at 171-***37** 172; Servo Corporation of America v. General Electric Co., 337 F.2d 716, 724-725 (4th Cir. 1964), certiorari denied, 383 U.S. 934 (1966). The commentators have reached the same conclusion. See. e.g., Note, Trade Secrets Law After Sears and Compco, 53 VA. L. REV. 356 (1967); Note, 85 HARV. L. REV. 477 (1970). Moreover those commentators who have had an opportunity to consider the Sixth Circuit's decision agree that it is unsound. Note, Kewanee Oil Company v. Bicron Corportation: Can Trade Secrets Survive It?, 25 BAYLOR L. REV. 519 (1973); Wydick, Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee (to be published in the November and December issues of the Journal of the Patent Office Society).

C. The Interests Protected by the Ohio Law of Trade Secrets Are Different from, and Do Not Conflict with, Federal Patent Policy.

Ohio trade secret law operates in a different sphere than the Patent Code and serves a different interest. Federal patent law exists "for the purpose of encouraging useful invention." Bauer & Cic. v. O'Donnell, 229 U.S. 1, 10 (1913). "As a reward for inventions and to encourage their disclosure, the United States offers a seventeen-year monopoly to an inventor who refrains from keeping his invention a trade secret." Universal Oil Products Co. v. Globe Oil & Refining Co., 322 U.S. 471, 484 (1944).

Ohio trade secret law, on the other hand, is intended to deter basic dishonesty in appropriating secrets in breach of contract or fiduciary duty. National Tube Co. v. Eastern Tube Co., supra, 3 Ohio C.C.R. (n.s.) at 462:

"The necessity of good faith and honest, fair dealing, is the very life and spirit of the commercial ***38** world. It is absolutely necessary that it should be protected and enforced by courts...."

See also, 4 RESTATEMENT OF TORTS § 757, comment (b) at 7 (1939) (Pet. App. A28-A29), quoted in W. R. Grace Co. v. Hargadine, supra, 392 F.2d at 14:

" 'The patent monopoly is a reward to the inventor. But such is not the case with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret.' "

The words of Mr. Justice Holmes in E. I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917), make the point well:

"Therefore the starting point for the present matter is not property or due process of law but that the defendant stood in confidential relations with the plaintiffs, or one of them. These have given place to hostility, and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations."

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Surely, for example, when an inventor takes his new idea to a large corporation which did not previously know of it and discloses it in reliance upon an express agreement by that corporation to keep it in confidence and not to use it without making fair arrangements as to compensation, and the corporation refuses the idea but thereafter, in breach of that agreement, puts the idea to "public use" for over one year before the inventor discovers what has been done, a tribunal applying state law may properly grant the inventor legal or equitable relief. Only when the protection sought ***39** to be granted amounts to a patent monopoly on the fully published thing itself, as it did in Sears and Compco, is there any confliet between the policy of state law and federal law such as to warrant a finding of preemption.

States are not ousted from the exercise of legitimate powers merely because that exercise can be thought in some way to touch upon federal patents. Thus, an inventor may be punished for selling patented products in violation of criminal laws passed in implementation of a state's police power. Patterson v. Kentucky, 97 U.S. 501, 503 (1878), where it is stated that the right to a patent:

"... is not granted or secured, without reference to the general powers which the several States of the Union unquestionably possess over their purely domestic affairs, whether of internal commerce or of police."

Similarly, a state may assess a tax for a license authorizing the sale of a patented product. Webber v. Virginia, 103 U.S. 344 (1.880). It has also been held that a state may reasonably regulate the transfer of the patent grant, itself, Allen v. Riley, 203 U.S. 347, 355 (1906), in order "to protect its citizens from fraud." A state, under long standing common law, should also be able to apply its law to protect its citizens from the fraudulent appropriation of trade secrets, whether they are fit subjects for a patent or not, or are patentable.

Certainly, in the usual case this Court acts very slowly before finding that the unstated radiations of a federal statute require negation of a state's long standing common law which implements its police powers. "Any such rule of law, being in derogation ***40** of the common law, must be strictly construed, for '[n]o statute is to be construed as altering the common law, farther than its words import. It is not to be construed as making any innovation upon the common law which it does not fairly express.' " Herd & Co. v. Krawill Mach. Corp., 359 U.S. 297, 304-305 (1959), following Shaw v. Railroad Co., 101 U.S. 557, 565-566 (1879); accord. Johnson v. Southern Pacific Co., 196 U.S. 1, 17 (1904).

Moreover, ours is a federation in which the states have substantial police powers reserved to them by the Tenth Amendment. They may act, as Ohio has done with respect to trade secrets, by both their common law, as previously discussed, and by criminal statute, see O.R.C. § 1331.51 (C), [FN12] to protect their citizens from fraud, dishonesty, theft and breach of contract or fiduciary duty. To compel states to condone such reprehensible conduct, if the subject thereof is trade secrets, would drastically curtail state power. This Court has held that "unless Congress conveys its purpose clearly, it will not be deemed to have significantly changed the federal-state balance. * * * In traditionally sensitive areas, such as legislation affecting the federal balance, the requirement of clear statement assures that the legislature has in fact faced, and intended to bring into issue, the critical matters involved in the judicial decision." United States v. Bass, 404 U.S. 336, 349 (1971). There is no suggestion here that Congress "has in fact faced, and intended to bring into issue, the critical" question whether the 1952 Patent Code operated substantially to preempt state protection of trade secrets.

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FN12. See also the citations to 20 other state criminal trade secret statutes in Appendix B of Brief Amicus Curiae by the Licensing Executives Society in Support of Petition for Writ of Certiorari.

***41** D. Kewanee's Position Is Confirmed by the Enactment of the 1952 Patent Code at a Time When This Court's Decisions Recognized the Protectability of Trade Secrets.

It is a well settled principle of construction that the re-enactment of a federal statute carries with it, in the absence of clear expression to the contrary, the interpretations which had been put on the previous versions of the statute with essentially similar wording. Sessions v. Romadka, 145 U.S. 29. 41-42 (1892); United States v. Ryan, 284 U.S. 167, 174-75 (1931); Missouri v. Ross, 299 U.S. 72, 75 (1936), Electric Storage Battery Co. v. Shimadzu, supra, 307 U.S. at 14; Shapiro v. United States, 335 U.S. 1, 16, 20 (1948); Bridges v. United States, 346 U.S. 209, 221 (1953) and cases cited at the pages indicated. The present action presents a particularly apt occasion for application of this principle. Many times prior to the codification of the patent laws in 1952, this Court held that state trade secret law could peacefully coexist with the federal patent law. In view of these holdings, there is no basis for thinking that Congress could have intended that by enacting the Patent Code it was doing away with the states' right to protect trade secrets from misappropriation by persons who stood in a fiduciary relationship to the trade secret proprietor and had expressly agreed to keep the secrets in confidence.

The full recognition of trade secret law by this Court before the enactment of the Patent Code in 1952 is evidenced in many opinions. A clear statement was made by Mr. Justice Brandeis (who was not generally an advocate of private monopoly) in his dissenting opinion in International News Service v. Associated Press, 248 U.S. 215, 248 et seq. (1918). He there stated 215 U.S. at 250-51:

"The inventions and discoveries upon which this attribute of property is conferred only by statute, ***42** are the few comprised within the patent law. There are also many other cases in which courts interfere to prevent curtailment of plaintiff's enjoyment of incorporeal productions; and in which the right to relief is often called a property right, but is such only in a special sense. In those cases, the plaintiff has no absolute right to the protection of his production; he has merely the qualified right to be protected as against the defendant's acts, because of the special relation in which the latter stands or the wrongful method or means employed in acquiring the knowledge or the manner in which it is used. Protection of this character is afforded where the suit is based upon breach of contract or of trust or upon unfair competition."

The majority opinion in International News, of course, even more clearly supports Kewanee here.

The language used by the Court in Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373, 402 (1911) is similar:

"So far as appears, there are no letters patent relating to the remedies in question. The complainant has not seen fit to make the disclosure required by the statute and thus to secure the privileges it confers. Its case lies outside the policy of the patent law, and the extent of the right which that law secures is not here involved or determined.

"The complainant relies upon the ownership of its secret process and its rights are to be determined accordingly. Any one may use it who fairly, by analysis and

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experiment, discovers it. But the complainant is entitled to be protected against invasion of its right in the process by fraud or by breach of trust or contract."

***43** In Becher v. Contoure Laboratories. Inc., 279 U.S. 388, 391 (1929) Mr. Justice Holmes said, speaking for the Court:

"... that suit had for its cause of action the breach of contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of Oppenheimer's claim was an undisclosed invention which did not need a patent to protect it from disclosure by bread of trust. Irving Iron Works v. Kerlow Steel Flooring Co., 96 N.J. Eq. 702. Du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100. Oppenheimer's right was independent of and prior to any arising out of the patent law...."

This Court has emphasized the fact that secrecy is a perfectly lawful alternative to disclosure in a patent application with the hope of protection under the 17-year monopoly of the patent laws. Thus, in United States v. American Bell Telephone Co., 167 U.S. 224, 250 (1897), the Court noted that the inventor of something of value "may withhold the knowledge of it from the public" on the one hand or, on the other, "he may insist upon all the advantages and benefits which the statute promises to him who discloses to the public his invention." See also Continental Paper Bag Co. v. Eastern Paper Bay Co., 210 U.S. 405, 424 (1908). The same alternative was noted in United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933), which held that the inventor "may keep his invention secret and reap its fruits indefinitely." Since he has the right to do so, it is "[i]n consideration of its disclosure and the consequent benefit to the community [that] the patent is granted." Accord, Universal Oil Products Co. v. Globe Oil & Refining Co., supra, 322 U.S. at 484.

***44** The Patent Code of 1952, including 35 U.S.C. § 102(b), must be understood to have incorporated this undeviating line of decisions. Accordingly, the Patent Code provides no basis for Bicron's claim of preemption.

E. The Sixth Circuit's Proposed Test Operates Capriciously and Leads to Illogical Results.

The Sixth Circuit limited its rule invalidating trade secrets to those secrets which were "an appropriate subject for patent under the United States Patent Laws" (478 F.2d at 1086; Pet. App. A24), "that is appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101" (478 F.2d at 1078; Pet. App. A7). Such a test would seem to be capricious and to implement no ascertainable societal policy. Computer programs, which are not ordinarily patentable, Gottschalk v. Benson, 409 U.S. 63 (1972), would be protectable as trade secrets, as would confidential customer lists, natural processes, see, e.g., Funk Bros. Seed Co. v. Kalo Inoculant Co., 333 U.S. 127 (1948), and market quotations, cf. Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905), for none is patentable. On the other hand, a "process, machine, manufacture, or composition of matter," if used secretly for over a year or, presumably, otherwise failing to meet the requirements of 35 U.S.C. § § 102 or 103, could not be protected as trade secrets because each is patentable subject matter under 35 U.S.C. 6 101. How can Congress be presumed to have intended such a capricious and irrational result? The secrecy surrounding the formula for Coca-Cola has become part of American folk lore. Klein, The Technical Trade Secret Quadrangle: A Survey, 55 Nw. U.L. REV. 437, 438 (1960). Could Congress have intended that the question whether a Coca-Cola employee could steal that secret ***45** and sell it to a competitor should turn on whether the formula was patentable?

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A statutory construction which results in "absurd consequences" should be "avoided." United States v. Ryan, 284 U.S. 167, 175 (1931). The Sixth Circuit's test would certainly lead to arbitrary distinctions which were never intended by the Patent Code. The decision below should therefore be reversed.

F. Protection of Trade Secrets is Consistent with Federal Antitrust Policy.

Some commentators have seen in the Sears and Compco decisions a reflection of federal antitrust policy. See, e.g., Sutton, Trade Secrets-- Federal Preemption and Legislative Solutions, 1971 PATENT LAW ANNUAL 129, 142 et seq. (Southwestern Legal Foundation); Doerfer, The Limits on Trade Secret Law Imposed by Federal Patient and Antitrust Supremacy, 80 HARV. L. REV. 1432, 1457 (1967). But federal antitrust policy has not only emphasized free and open competition, it has emphasized fair competition, as the Ohio courts have recognized, Crown Overall Mfg. Co. v. Levy Overall Mfg. Co., 16 Ohio N.P. (n.s.) 561, 564-65 (Super. Ct. 1914), aff'd as modified, 24 Ohio C.C. (n.s.) 556 (Ct. App. 1916. A seller cannot compete in sales of his products, even though his competitor's products are staple items long in the public domain, by engaging in the discrimination forbidden by the Robinson-Patman Act, 15 U.S.C. § 13, et seq. Even though its competitors' products have long been in the public domain, a business concern cannot engage in "unfair methods of competition in commerce," or "unfair or deceptive acts or practices in commerce" in violation of § 5(a)(1) of the Federal Trade Commission Act, 15 U.S.C. § 45. ***46** The Commission has long construed its mandate to include enforcemen of the Act against competitors who pirate the trade secrets of others. See, ANNUAL REPORT OF THE FEDERAL TRADE COMMISSION, at 82-83 (1939): [FN13]

FN13. Cited in F.T.C. v. Bunte Bros., Inc., 312 U.S. 349, 353-54 (1941.)

"The following list illustrates unfair methods of competition and unfair or deceptive acts and practices condemned by the Commission from time to time in its orders to cease and desist.

* * *

"4. Procuring the business or trade secrets of competitors by espionage, or by bribing their employees, or by similar means."

Cf. In re The Oakes Co., 3 F.T.C. 36 (1920).

The Sherman Act, 15 U.S.C. § § 1 and 2, has frequently been construed to reach acts of unfair competition, including misappropriation of trade secrets, when done pursuant to a conspiracy to destroy a competitor in violation of § 1 or pursuant to a scheme or attempt to monopolize in violation of § 2. Atlantic Heel Co. v. Allied Heel Co., 284 F.2d 879 (1st Cir. 1960) (where one of the overt acts pursuant to the conspiracy was alleged to be a visit to plaintiff's plant for the "purpose of obtaining valuable and confidential trade secrets"); Mitchell Woodbury Corp. v. Albert Pick Barth Co., 41 F.2d 148, 149 (1st Cir. 1930), jury verdict for plaintiff affirmed, 57 F.2d 96 (1st Cir. 1932), certiorari denied, 286 U.S. 552 (1932) (where the conspiracy allegations included a claim that former employees of plaintiff were induced to leave the plaintiff's employ and to take with them the plaintiff's "lists of customers, present and prospective, cost records, plans, ***47** and other data necessary to the conduct of its said business"). See also C. Albert Sauter Co. v. Richard S. Sauter Co., summarized at 42 U.S.L.W. 2233-2234 (E.D. Pa. Oct 5, 1973); Forgett v. Scharf, 181 F.3d 754 (3d Cir. 1950), certiorari denied, 340 U.S. 825

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(1950); Perryton Wholesale, Inc. v. Pioneer Distributing Co., 353 F.2d 618 (10th Cir. 1965), certiorari denied, 383 U.S. 945 (1966); Caldwell-Clements, Inc. v. Cowan Publishing Corp., 130 F. Supp. 326 (S.D. N.Y. 1955); Cleaves v. Peterboro Basket Co., 54 F.2d 101 (D. N.H. 1931).

The protection of trade secrets is consistent with and in furtherance of our national antitrust policy, not in conflict with it.

G. Federal Statutes, Treaties and Court Rules, Both Before and After Enactment of the 1952 Patent Code, Have Recognized the Protectability of Trade Secrets.

A great number of United States statutes existed on the 1952 date of passage of the Patent Code which expressly recognized and provided for trade secret protection under a variety of circumstances. Such statutes are set out in Appendix A to this Brief (Br. App. la-3a). The Federal Rules of Civil Procedure, former Rule 30(b) which became effective on September 16, 1938, the authority for the promulgation of which ultimately rests with Congress (see what is now 28 U.S.C. § 2072), recognized and provided for the protection of trade secrets. The United States has been a signatory to numerous treaties which contain provisions concerning the protection of trade secrets. [FN14]

> FN14. See, e.g., Convention of Paris for the Protection of Industrial Property, March 20, 1883, revised periodically and at Lisbon on October 31, 1958, Art. 10bis(2), 13 U.S.T. 1, which provides that "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition"; General Inter-American Convention for Trade Mark and Commercial Protection, February 20, 1929, Art. 20, 46 Stat. 2907 at 2930-2932, which provides that "Every act or deed contrary to commercial good faith or to the normal or honorable development of industrial or business activities shall be considered as unfair competition and therefore unjust and prohibited"; various treaties summarized at 2 CCH TAX TREATIES ¶ 10,011 (1971) under heading "Industrial secret."

***48** This Court has held: "It is a cardinal principle of construction that repeals by implication are not favored." United States v. Borden Co., 308 U.S. 188, 198 (1939), cited with approval in Georgia v. Pennsylvania R.R. Co., 324 U.S. 439, 456-457 (1945), Silver v. New York Stock Exchange, 373 U.S. 341, 357 (1963) and United States v. Zacks, 375 U.S. 59, 67-68 (1963); accord, Universal Interpretive Shuttle Corp. v. Washington Metropolitan Area Transit Comm., 393 U.S. 186, 193 (1968). Yet, the scope for operation of these Congressional actions will be so drastically reduced if the Sixth Circuit's judgment is affirmed as to amount to a repeal by implication. This result would not comport with the tenet that federal legislation is to be construed to preserve the usefulness of all provisions enacted by Congress. See Armstrong Paint & Varnish Works v. Nu-Enamel Corp., 305 U.S. 315, 333 (1938).

Moreover, this Court may look to these other Congressional actions as an aid to construction of the Patent Code. Cf. Overstreet v. North Shore Corp., 318 U.S. 125, 131-132 (1943). They are particularly helpful since they represent a continuing and consistent body of statutory law. Keifer & Keifer v. R.F.C., 306 U.S. 381,, 390-391 (1939) (analogous provisions in some 40 other statutes considered). Since these other acts specifically and expressly contemplate trade secret protection, ***49** while the Patent Code is silent in this respect, the specific language should control and

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there is no preemption of trade secret protection. See Fourco Glass Co. v. Transmirra Products Corp., 353 U.S. 222, 228229 (1957). To accommodate all of these Congressional actions into one harmonious body of law, the construction of the Patent Code adopted by the Sixth Circuit should be rejected.

Even more to the point, the 1952 Patent Code itself, 35 U.S.C. § 24 (Br. App. 6a), provided that a witness could not be held in contempt "for refusing to disclose any secret matter except upon appropriate order of the court." This provision, the antecedents of which go back to Rev. Stat. § 4908, has long been construed to cover a "secret invention or discovery" in appropriate circumstances. Herrshoff v. Knietsch, 127 Fed. 492 (S.D. N.Y. 1904). The same statute which protects trade secrets can hardly be construed to have largely destroyed their legal enforceability, since "all sections of the Act must be reconciled so as to produce a symmetrical whole." F.P.C. v. Panhandle Eastern Pipe Line Co., 337 U.S. 498, 51.4 (1949); see also Armstrong Paint Varnish Works v. Nu-Enamel Corp., supra, 305 U.S. at 331-33.

Just as a number of federal statutes antedating 1952 authorize the protection of trade secret so substantial number of statutes enacted after 1952 similarly reflect a Congressional intent that trade secrets enjoy protection in appropriate circumstances. These statutes are set out in Appendix B to this Brief (Br. App. 4a-11a). It should also be observed that many of the statutes set out in Appendix A were amended after 1952 and continued their recognition of trade secrets. Moreover, the 1970 amendments to the Federal Rules ***50** of Civil Procedure continue to recognize the protectibility of trade secrets. FED. R. CIV. P. 26 (c). While Kewanee acknowledges that the understanding of a subsequent Congress cannot control the intention of an earlier Congress, this Court has held that "the later law is entitled to weight when it comes to the problem of construction." See F.H.A. v. The Darlington, Inc., 358 U.S. 84, 90 (1958).

Here all of the relevant enactments, whether before or after 1952, point in one direction only: that the Patent Code did not in any way interfere with properly limited injunctions which protect the proprietor of trade secrets under state law from misappropriation by persons in breach of a fiduciary duty or agreement.

III. A LARGE VOLUME OF BUSINESS TRANSACTIONS HAS BEEN GENERATED IN RELIANCE UPON THE CONTINUING VALIDITY OF TRADE SECRETS AND THESE EXPECTATIONS SHOULD NOT BE IMPERILED.

It is well known that a large number of American manufacturers and inventors have acted in reliance upon the traditional law of trade secrets. Disclosures have been made to employees which would not otherwise have been made. License agreements have been entered into. Inventors have failed to file patent applications, choosing instead to rely on common law trade secret protection. Inventors have made disclosures to corporations in reliance on secrecy agreements. Commerce affected by these actions may well run into the billions of dollars. From the tenor of the amicus briefs filed in support of the petition for certiorari, it seems likely that this issue will be substantially canvassed in such amicus briefs on the merits, so it will not be further explored factually here.

The point for present purposes is that the enormous volume of commercial transactions which has been generated ***51** in reliance upon the continued validity of

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trade secret protection counsels strongly for conservation of the legal status quo. [FN15] See Toolson v. New York Yankees, Inc., 346 U.S. 356 (1953); reaffirmed in Flood v. Kuhn, 407 U.S. 258 (1972). This principle is doubly applicable here for this Court has held that the forfeiture of valuable industrial property rights is "never to be inferred from doubtful [statutory] language." See Washington Publishing Co. v. Pearson, 306 U.S. 30, 42 (1939) (involving forfeiture of copyright rights).

FN15. The self-help remedies likely to be invoked to protect secret processes, should this Court hold them not protectable by a court, are not happy to contemplate. They are discussed in Wydick, Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee, supra, text accompanying footnotes 195-199.

There is one additional reason for adhering to existing law, if there be any doubt at all on the question. That reason arises out of the fact that Congress can intervene by legislation if it chooses, and determine the scope of the Patent Code following a decision by this Court. Should this Court reverse the Sixth Circuit and hold that 35 U.S.C. § 102(b) does not preempt state trade secret law, the only effect of such a holding, if Congress disagreed, would be continuation for perhaps another year of a body of law which has prevailed for over 100 years. If, however, this Court should hold that the law of trade secrets has been preempted to a substantial extent, and Congress disagreed, then all of the persons who were thereby released from their fiduciary duty could, in the interim between the decision of this Court and any corrective action of Congress, act to place any secret in the public domain by, for example, printing brochures fully disclosing ***52** it which would then be circulated to all members of the affected trade. When Congress thereafter acted to restore prior law, secrets so published in the interim would be irrevocably lost and hundreds of millions of dollars of commerce could be adversely affected. [FN16]

FN16. While Kewanee argues here for reversal of the Sixth Circuit's decision, it urges in the alternative that these considerations counsel for a limitation of the effect of any affirmance, should the Court choose to affirm, to the future only, or preferably to a date six months to a year after affirmance to give Congress an opportunity to act before any hiatus comes into existence. See Chevron Oil Co. v. Huson, 404 U.S. 97, 105- 107 (1971).

This argument is substantially strengthened by the fact that legislation now under active consideration provides that Sears and Compco shall not be extended to invalidate the law of trade secrets. Section 301 of S. 2504, the Administration's Patent Modernization and Reform Act of 1973, introduced on October 1, 1973 states:

"§ 301. Non-preemption

"(a) This title shall not be construed to preempt rights or obligations arising by operation of state law concerning trade secrets.

"(b) Nothing in subsection (a) shall authorize any state to grant to any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation."

The accompanying Message stated the Administration's view that "[d]ecisions of the Supreme Court in both of these areas [patents and trade secrets] would also be left undisturbed." 119 Cong. Rec. S 17902 (Sept. 27, 1973).

***53** CONCLUSION

For the reasons stated the judgment of the Sixth Circuit should be reversed, and

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the case remanded with instructions to affirm the decision of the district court.

Appendix not available.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

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• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae (Nov. 19, 1973)Original Image of this Document (PDF)

• 1973 WL 173806 (Appellate Brief) Motion of Chamber of Commerce of the United States of America for Leave to File Brief Amicus Curiae and Brief for Amicus Curiae Chamber of Commerce of the United States of America (Sep. 28, 1973)

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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KEWANEE OIL COMPANY, Plaintiff-Petitioner,
v.
BICRON CORPORATION, et al., Defendants-Respondents.
No. 73-187.
October Term, 1973.
November 23, 1973.
On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Brief of Chamber of Commerce of the United States of America As Amicus Curiae in Support of Petitioner

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***i** INDEX

OPINIONS BELOW ... 1

INTEREST OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA ... 2

SUMMARY OF ARGUMENT ... 3

ARGUMENT ... 6

I. THE SIXTH CIRCUIT ERRONEOUSLY CONCLUDED THAT CONGRESS INTENDED TO PRE-EMPT STATE TRADE SECRET LAWS BY ENACTING THE PATENT LAWS ... 6

II. THERE IS NO CONFLICT BETWEEN FEDERAL PATENT LAW AND STATE TRADE SECRET LAW ... 8

A. The Objective of Trade Secret Laws Is Not in Conflict With the Objective of the Patent Laws ... 8

B. The Nature of Patent "Protection" Is Fundamentally Different from the Nature of Trade Secret "Protection ... 10

III. THE INTENT OF CONGRESS TO PRE-EMPT STATE TRADE SECRET LAWS SHOULD NOT BE IMPLIED WHERE THE RESULT WOULD BE ECONOMIC UPHEAVAL ... 12

A. The Sixth Circuit's Decision Strikes Down the Most Meaningful Area of Trade

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Secret Protection ... 12

B. Protection of Billions of Dollars Worth of Technology Will Be Destroyed by the Sixth Circuit Decision ... 1

C. This Decision Comes at a Time of Mounting Concern for the Economic Well-Being of the United States as an Effective Competitor in World Markets ... 20

D. Risk Capital Must Be Available To Support R&D ... 25

E. If Affirmed, the Decision of the Sixth Circuit Would Have a Withering Effect on Investment in R&D ... 27

***ii** F. The Effectiveness of R&D Efforts Will Be Severely Impaired ... 31

1. Industry Will Compartmentalize R&D Efforts in Direct Derogation of the Advantages of the Team Approach ... 31

2. Wasteful Duplication of R&D Effort Will Be Encouraged by the Demise of Know-How Licensing ... 33

3. Supplier Relations Will Be Disrupted ... 34

4. The Flow of Technology to This Country Would Be Crippled ... 35

G. The Sixth Circuit's Eradication of the Critical Area of Trade Secret Protection Would Require Greater Governmental Interference in Industrial Activities ... 36

IV. STRIPPING THE STATES OF THE POWER TO PROTECT TRADE SECRETS WILL FRUSTRATE THE OBJECTIVES OF THE PATENT SYSTEM ... 38

A. State Trade Secret Laws Do Not Suppress Disclosure of Valuable Technology to the Detriment of the Public ... 38

B. Free and Public Disclosure of Technical Know-How Now Possessed as Trade Secrets Cannot Reasonably Be Expected ... 39

C. Withdrawal of Legal Protection for Technology Will Decrease Competition in Our Marketplaces ... 40

D. Voiding State Trade Secret Laws Will Have a Real and Adverse Effect Upon the Economic Welfare of the United States ... 41

V. THE DECISION BELOW IS NOT FOUNDED ON SOUND LEGAL REASONING OR PRECEDENT ... 42

CONCLUSION ... 47

APPENDIX ... 48

CERTIFICATE OF SERVICE ... 50

***iii** TABLE OF AUTHORITIES

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CASES:

Algoma Plywood & Vencer Co. v. Wisconsin E. Rel. Bd., 336 U.S. 301 (1949) ... 43

Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942) ... 43

American Infra-Red Radiant Co. v. Lambert Industries, Inc., 360 F.2d 977 (8th Cir. 1966) ... 20

Bethlchem Steel Co. v. New York State L.R.B., 330 U.S. 767 (1947) ... 43

Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915) ... 44

City of Yonkers v. United States, 320 U.S. 685 (1944) ... 42

Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942) ... 43, 44, 45

Cooley v. Board of Wardens, 53 U.S. (12 How.) 299 (1851) ... 7

Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944) ... 42

E. I. duPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917) ... 11

Eichholz v. P.S.C. of Missouri, 306 U.S. 268 (1939); rehearing denied. 306 U.S. 669 (1939) ... 43

Florida v. United States, 282 U.S. 194 (1931) ... 43

F.T.C. v. Bunte Bros., Inc., 312 U.S. 349 (1941) ... 43

Goldstein v. California, 412 U.S. 546 (1973) ... 45

Graham v. John Deere Co., 383 U.S. 1 (1966) ... 16, 18

H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939) ... 43

Hill v. Florida, 325 U.S. 538 (1945) ... 45

Hines v. Davidowitz, 312 U.S. 52 (1941) ... 7, 44

Hotchkiss v. Greenwood, 52 U.S. (11 How.) 248 (1850) ... 18

Jennings v. United States Fidelity & Guaranty Co., 294 U.S. 216 (1935) ... 43

Kelly v. Washington, 302 U.S. 1 (1937) ... 42

Kewanee Oil Co. v. Bieron Corp., 478 F.2d 1074 (6th Cir. 1973) ... 1, 2, 12, 13, 15

In re Levin, 178 F.2d 945 (C.C.P.A. 1949) ... 17

In re Mason, 156 F.2d 189 (C.C.P.A. 1946) ... 17

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McCulloch v. Maryland, 17 U.S. (4 Wheat.) 316 (1819) ... 6

Minnesota Rate Cases, 230 U.S. 352 (1913) ... 43

Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926) ... 43

New York C. R. Co. v. Winfield, 244 U.S. 147 (1917) ... 44

New York State Dept. of Social Services v. Dublino, 413 U.S. 405, 37 L. Ed. 2d 688 (1973) ... 8

***iv** Osborn v. The Bank of the United States, 22 U.S. (9 Wheat.) 738 (1824) ... 6

Pennsylvania v. Nelson, 350 U.S. 497 (1956) ... 7

Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 566 (1919) ... 44

Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946) ... 47

Reid v. Colorado, 187 U.S. 137 (1902) ... 43, 46

Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947) ... 7, 43

Savage v. Jones, 225 U.S. 501 (1912) ... 43

Schwartz v. Texas, 344 U.S. 199 (1952) ... 9, 43

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 43

Smith v. Nichols, 88 U.S. (21 Wall.) 112 (1874) ... 19

South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938) ... 42

Southern R. Co. v. Railroad Commission of Indiana, 236 U.S. 439 (1915) ... 44

Townsend v. Yeomans, 301 U.S. 441 (1937) ... 42

Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944) ... 42

In re White, 39 F.2d 974 (C.C.P.A. 1930) ... 17

CONSTITUTION OF THE UNITED STATES:

Article I, Section 8, Clause 8 ... 10

Article VI, Clause 2 ... 7

STATUTES:

5 U.S.C. § 522(b)(4) ... 46

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15 U.S.C. § 46(f) ... 46

15 U.S.C. § § 78x(a), 79v ... 46

18 U.S.C. § 1905 ... 46

33 U.S.C. § 1322(g)(3) ... 46

35 U.S.C. § 24 ... 46

35 U.S.C. § 101 ... 13, 15, 16, 17, 18, 19

35 U.S.C. § 102 ... 14, 16

35 U.S.C. § 103 ... 14, 16, 17, 18, 19

35 U.S.C. § 122 ... 46

42 U.S.C. § 1857(c) ... 46

50 U.S.C. § 2401 ... 37

RULES:

Federal Rules of Civil Procedure, Rule 26 ... 46

***v** OTHER AUTHORITIES:

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***1** OPINIONS BELOW

The opinion of the United States Court of Appeals for the Sixth Circuit is reported as Kewanee Oil Co. v. Bicron, Corp., 478 F.2d 1074 (6th Cir. 1973). By its own order, the opinion of the District Court was not reported. The Sixth Circuit held that the federal patent laws pre-empt the State trade secret law of ***2** Ohio to the extent that Ohio law provides protection to a trade secret which is "an appropriate subject for patent ... [and] has been used commercially for more than one year." [FN1]

FN1. 478 F.2d at 1086.

INTEREST OF THE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

The Chamber of Commerce of the United States of America is a national membership association. It includes over thirty-six hundred (3,600) local and State chambers of commerce and trade associations. These State and local chambers, in turn, have an underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The national Chamber's direct business membership numbers in excess of forty-six thousand (46,000) firms.

Many members of the Chamber rely heavily on the protection of trade secret laws. Unless the Kewanee decision is reversed, these members stand to lose their valuable trade secrets, including technical know-how, since almost all of these trade secrets, to the extent they are valuable, have been in use for more than one year. The member firms also stand to suffer severe financial loss and erosion of their competitive strength, not only in the United States, but in world markets. Moreover, trade secrets, developed at great expense, will be rendered legally available to others for nothing. The inevitable resulting transmission of the legally available trade secrets to others will occur by acts that offend traditional views of fair competition and business morality.

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***3** The Chamber of Commerce of the United States of America, as Amicus Curiae, takes no position with regard to the private dispute between the parties to this case. The Chamber's concern is solely with the holding of federal pre-emption of Ohio's laws for protection of trade secrets, and the effect this holding would have on the Chamber's members, particularly if the Sixth Circuit decision is given national application. The Chamber is not seeking to characterize the motives, intentions, or conduct of the parties to this case. Rather, the Chamber seeks to bring to this Court's attention the probable economic and moral consequences of the decision, and the severe detriment to the Chamber's members, and this nation, which would follow from upholding the decision.

Each of the parties has consented, in writing, to the filing of an Amicus Brief on the merits by the Chamber of Commerce of the United States of America. Copies of these written consents accompany this brief as an appendix. The originals have been filed with the Clerk.

SUMMARY OF ARGUMENT

The issue of federal pre-emption of State legislation raises difficult and complex constitutional questions. Historic doctrine, developed by this Court to resolve these questions in a manner best comporting with the requirements imposed by our federal system of government, was misapplied or ignored by the court below.

There is, in fact and law, no conflict between the federal patent laws and State laws protecting trade secrets. The two bodies of law are bottomed on different legislative concerns; yet the obligations they impose, and the results they require, are harmonious and complementary.

***4** The decision below strikes at the heart of critical trade secret protection, and portends extreme economic consequences for the United States. The Sixth Circuit's decision reaches a vast area of unpatentable technology, depriving it of any protection.

The scope of the Sixth Circuit's decision is sweeping. Technical developments and refinements which are unpatentable or cannot be practically patented are deprived, by the court's decision, of legal protection despite the enormous capital investment they represent. The result will inevitably be that investment of capital in development of technical know-how will be diminished.

We are now faced with a critical international trade problem which threatens the effectiveness of the United States as a competitor in world markets. Exportation of technology-intensive products has been the most positive aspect of our trade balance picture. This is, therefore, a time when the nation can ill afford a diminution of investment in technology.

There is a clear relationship between the nation's investment in Research & Development (R&D) and its economic strength. Commitment of risk capital to R&D depends upon the existence of a legal framework protecting a fair chance for the investor to recover his money.

The Sixth Circuit decision, if allowed to stand, will have a severe impact on the willingness of industry to commit capital to R&D efforts. A competitor who has

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pirated technical know-how without cost will compete from a highly-favored position. Industry cannot be expected to commit large sums to R&D efforts, if those expenditures will not, at least, promise an improvement ***5** in the investor's competitive position. The consequences of industry reluctance to invest in developing new products bode ill for the national economy.

Continued investment in R&D will be encouraged, if at all, only by large expenditures for increased measures of secrecy and nondisclosure. Thus, to minimize exposure of many workers to the technology being researched and developed, industry will abandon the team approach to technical problem solving. This will result in loss of efficiency and savings, which otherwise would be injected into the R&D effort.

Rather than sharing developed technology through licensing, companies will retreat to secrecy. This will result in wasteful duplication of efforts to the detriment of the entire economy. Moreover, foreign companies will be unwilling to disclose technical know-how without assurance that the know-how will not simply be appropriated in the United States by competitors.

Industry will not be able to establish confidential arrangements with suppliers, and, therefore, only the large corporations with in-house capabilities will be able to maintain technical know-how in secret.

Small companies will be severely hurt by the Sixth Circuit decision, since only large, well-financed companies will be able to sustain R&D work, absent trade secret protection. Competition will clearly be diminished in the marketplace, if small companies are discouraged from launching research programs.

Congress never intended to pre-empt State legislation in the field of trade secret protection. Federal pre-emption requires a clear expression of congressional ***6** intent, and, in the absence thereof, a compellingly clear justification for federal supersession has always been demanded by this Court. In view of the consequences of this ruling, no such compelling justification is possible.

ARGUMENT

I. THE SIXTH CIRCUIT ERRONEOUSLY CONCLUDED THAT CONGRESS INTENDED TO PRE-EMPT STATE TRADE SECRET LAWS BY ENACTING THE PATENT LAWS.

Because the proper ordering of State and national power is critical to the endurance of our federal system, the question of federal pre-emption of State legislative competence presents severe constitutional difficulties. The doctrine developed by this Court to settle conflicts between State and national power has historically recognized that a declaration of the supremacy of one or the other must be reached only after a careful consideration of the requirements imposed by a governmental system of dual sovereigns acting upon the same constituents. [FN2]

> FN2. See, e.g., Osborn v. The Bank of the United States, 22 U.S. (9 Wheat.) 738 (1824).

In those instances in which federal legislation emanates from an express constitutional grant of exclusive legislative power to the national government, federal supremacy is clear. [FN3] Likewise, in those instances in which Congress has

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legislated pursuant to a constitutional grant of power which is concurrent with the legislative power also enjoyed by the States, the federal *7 legislative scheme is held, by virture of the Supremacy Clause, [FN4] to have superior dignity. [FN5]

FN3. See, e.g., McCulloch v. Maryland, 17 U.S. (4 Wheat.) 316 (1819).

FN4. U.S. CONST., art. VT, el. 2.

FN5. See, e.g., Cooley v. Board of Wardens, 53 U.S. (12 How.) 299 (1851).

It is, however, in those instances in which a conflict, real or imagined, is seen to exist between State legislation and federal legislation, upon which the Constitution and the Congress are silent as to the supremacy. that maximum difficulties arise. Historically, this Court has determined that a congressional intent to preempt State legislative competence will be implied, given certain conditions. [FN6]

FN6. See, e.g., Pennsylvania v. Nelson, 350 U.S. 497 (1956); Hines v. Davidowitz, 312 U.S. 52 (1941).

Where State and federal legislation create conflicting duties, impose contrary obligations, or reach inconsistent results, this Court has held that Congress impliedly intended to foreclose State legislation, and that the national legislation must predominate. [FN7]

FN7. See, e.g., Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947).

It is the argument of this Amicus that, in the absence of an express constitutional delegation to the national government of legislative authority over trade secrets, and in the absence of an express congressional intention to pre-empt State trade secret laws pursuant to a. constitutional delegation of concurrent power, Congress should not be held to have impliedly intended to pre-empt State trade secret legislation because: (1) there is no conflict between the patent laws and State regulation of trade secrets; and (2) the results of that implication, detailed in this brief, show that the national *8 interest in economic well-being and ethical conduct of business relations will be frustrated.

In setting forth details of the economic chaos which will likely result, should the Sixth Circuit's decision in this case be upheld, and in explicating the damage to the ethical conduct of business relationships which will be the probable, though unintended, result of the decision below, this Amicus intends to show that Congress, which must be presumed to act rationally and in the best national interest, could not impliedly have intended such results.

The severe economic dislocations that will be wrought if the Sixth Circuit decision is affirmed, in themselves. demonstrate the complementary manner in which both the patent laws and the trade secret laws serve to protect technology and investment. Trade secret laws cannot be in conflict with the patent laws, when their effective abolition will result in such economic disruption as to defeat the very purpose of the patent laws.

II. THERE IS NO CONFLICT BETWEEN FEDERAL PATENT LAW AND STATE TRADE SECRET LAW.

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A. The Objective of Trade Secret Laws is Not in Conflict with the Objective of the Patent Laws.

This Court has warned against the casual presumption of federal supremacy. For instance, last Term, Mr. Justice POWELL, writing for this Court in New York State Dept. of Social Services v. Dublino, [FN8] quoted ***9** with approval from Schwartz v. Texas, 344 U.S. 199, 202-203 (1952):

> FN8. 413 U.S. 405, 37 L.Ed. 2d 688 (1973). Held, the Work Rules of the N.Y. Social Welfare Law, 52A McKinney's Cons. Laws § 131(4), not pre-empted by the Federal Work Incentive Program provisions of the Social Security Act, 42 U.S.C. § § 602(a) 19, 630, et seq.

"This Court has repeatedly refused to void state statutory programs, absent congressional intent to pre-empt them.

" 'If Congress is authorized to act in a field, it should manifest its intention clearly. It will not be presumed that a federal statute was intended to supersede the exercise of the power of the state unless there is a clear manifestation of intention to do so. The exercise of federal supremacy is not lightly to be presumed'." (Emphasis added.)

Yet, the Sixth Circuit, in tins case, lightly assumed so insidious a conflict between federal patent legislation and State trade secret laws as to compel the conclusion that the mere enactment of federal legislation in the field of patents necessarily pre-empts State legislation in the field of trade secrets. The court's approach not only flies in the face of congressional intent, but also is built on demonstrably incorrect factual and conceptual assumptions.

Amicus wishes this Court to have the factual and conceptual data necessary for a correct analysis of the critical issue presented by this case. Consideration of all the relevant information leads inescapably to the conclusion that Congress, by enactng the patent laws, could not have intended to pre-empt State power to legislate in the field of trade secrets.

The Sixth Circuit viewed the objective of the patent laws as encouraging disclosure of discoveries in consideration for the reward of an exclusive right to those discoveries for a limited period of time. The ***10** broader, overriding objective of the American patent system, as embodied in the Constitution, is to promote the progress of the useful arts and, ultimately, to promote the industrial and economic progress of the United States.

The court viewed the effect of State trade secret laws as suppression of disclosure, but the true effect of these laws is to prevent violation of fiduciary relationships, breach of contractual agreements, and commission of torts. That is the fundamental objective of State trade secret laws. In a very real sense, State trade secret laws work harmoniously with and supplementarily to the patent laws to advance the economic and industrial progress of this nation.

B. The Nature of Patent "Protection" is Fundamentally Different from the Nature of Trade Secret "Protection".

The patent laws arise out of the exercise by Congress of the constitutional grant of power "to promote the Progress of ... useful Arts, by securing for limited Times

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to ... Inventors the exclusive Right to their ... Discoveries ...". [FN9] Patent "protection" is in reality the grant of a property right in an invention which satisfies the requirements of patentability imposed by Congress. Patents protect inventions.

FN9. U.S. CONST., art. I, § 8, cl. 8.

Trade secret "protection" is not a recognition of any property right in a trade secret, nor is it truly protection of any trade secret. Trade secret laws affords no protection to technical information, i.e., the secret itself. Competitors may, by fair and independent means, develop and use the same information. Trade ***11** secrets, therefore, monopolize nothing. Trade secret laws merely ensure that a competitor's, or a trusted employee's, theft or breach of trust will. not cause the trade secret owner to make an unwilling gift of his valuable property.

Trade secret laws protect the trust and confidentiality of business and fiduciary relationships and are grounded only incidentally, if at all, in property. Mr. Justice Holmes. writing for this Court in E. I. duPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917), stressed "the primary fact that the law makes some rudimentary requirements of good faith," and went on to say:

"The property may be denied, but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them. These have given place to hostility, and the first thing to be made sure of is that the defendant shall not fraudulently abuse the trust reposed in him. It is the usual incident of confidential relations." [FN10]

FN10. 244 U.S. at 102.

The court below ignored the separate and distinct rationales of patent legislation, on the one hand, and trade secret laws on the other. However, in dealing with the issue of federal pre-emption, those distinct rationales are of significance. The property right afforded by the patent laws is of national concern-it is a right national in scope. The subject addressed by State trade secret laws is one of purely local importance: construction of contracts and litigation of tort ***12** claims. Moreover, the maintenance of an atmosphere of orderly and ethical business relationships, arising out of trust and confidence, is a matter uniquely within the State police power to regulate.

III. THE INTENT OF CONGRESS TO PRE-EMPT STATE TRADE SECRET LAWS SHOULD NOT BE IMPLIED WHERE THE RESULT WOULD BE ECONOMIC UP-HEAVAL.

A. The Sixth Circuit's Decision Strikes Down the Most Meaningful Area of Trade Secret Protection.

The decision below, while superficially restricted to certain classes of trade secrets, strikes at the very heart of meaningful trade secret protection.

The Sixth Circuit has held that the federal patent laws, through the Supremacy Clause of the Constitution of the United States, pre-empt the State of Ohio's power to protect a trade secret from wrongful appropriation by others, where the trade secret is an appropriate subject for a patent, and has been used commercially for more than one year.

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In formulating its opinion, the Sixth Circuit rejected, as "too broad for our consideration in this case", [FN11] an issue which "requires a determination as to whether the enforcement of any and all state trade secrets laws conflict with the policies of the United States patent laws". [FN12] The court, however, framed an issue, the affirmance of which forecasts dire economic consequences:

FN11. 478 F.2d at 1078.

FN12. Id.

"Whether a state trade secret law which protects an invention which would be an appropriate subject ***13** for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year conflicts with the policies and purposes of Article I, Section 8 (Clause 8) of the Constitution and the Patent Laws adopted pursuant thereto." [FN13]

FN13. Id. at 1078-79.

The court did not decide that Congress has preempted the totality of the States' ability to regulate by affording protection to some trade secrets. Trade secrets that are not appropriate subjects for patenting under 35 U.S.C. § 101, [FN14] or those not in commercial use in excess of one year, can, presumably, still be regulated by the States. Prohibited by the decision is State protection of those trade secrets which have withstood the rigors of business analysis and market acceptance, and attained a valuable status within the marketplace: i.e., those that have been in use for more than one year.

FN14. 35 U.S.C. § 101. "Inventions patentable
"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

The Sixth Circuit holding. "that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for a patent under the United States Patent Laws is in conflict with ... those patent laws" [FN15] (emphasis added), requires some analysis. Arguably, the opinion can be construed to forbid only State protection of technology patentable over the prior art, in accordance ***14** with the concepts of 35 U.S.C. § § 102 [FN16] and 103. [FN17] However, a careful reading of the Sixth Circuit's opinion reveals a broader intent.

FN15. 478 F.2d at 1086.

FN16. 35 U.S.C. § 102. "Conditions for patentability; novelty and loss of right to patent. "A person shall be entitled to a patent unless-
"(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or
"(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than

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one year prior to the date of the application for patent in the United States, or
"(c) he has ahandoned the invention, or
"(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or
"(e) the invention was described in a patent granted on an application for patent by another filed in the United States before the invention thereof by the applicant for patent, or
"(f) he did not himself invent the subject matter sought to be patented, or
"(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other."

FN17. 35 U.S.C. § 103. "Conditions for patentability; non-obvious subject matter
"A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negative by the manner in which the invention was made."

***15** The court stated that its inquiry would "be governed by certain facts which are admitted or obvious from the evidence offered and the concessions of counsel". [FN18] In this regard, the court specifically noted that "the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable,' that is appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101". [FN19] (Emphasis added.) Immediately after stating the facts upon which its inquiry would "be governed", the court defined the issue presented to be limited to trade secret law which, inter alia, "protects an invention which would be an appropriate subject for a patent ...." [FN20] (Emphasis added.)

FN18. 478 F.2d at 1078.

FN19. Id.

FN20. Id. at 1078-79.

The phrase "appropriate subject for a patent", used by the court both in framing the issue and stating its conclusion, originated in the factual concession by counsel for Kewanee, that the trade secrets were "appropriate subjects for consideration under the provision of Title 35 U.S.C. § 101" [FN21] (Emphasis added.) Thus, in the factual background of the case, the Sixth Circuit's opinion must be interpreted to pre-empt State trade secret laws which protect technology

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falling within the broad categories of subject matter defined in 35 U.S.C. § 101. [FN22]

FN21. Id. at 1078.

FN22. Supra. note 14.

***16** B. Protection of Billions of Dollars Worth of Technology Will Be Destroyed by the Sixth Circuit Decision.

The decision below withdraws needed legal protection from an enormous area of valuable technology. [FN23] While much of that technology may theoretically fall within the categories of patentable subject matter, most of it probably will not rise to the high standards of novelty, utility, and nonobviousness, set by this Court, to justify the issuance of a patent grant, and the protection which that grant affords.

FN23. The existing widespread and economically significant practice of licensing trade secrets and know-how is evidence of the economic value in the marketplace of the trade secrets and know-how. No licensee would willingly contract to pay for information that is of no value. The Sixth Circuit's decision eliminates legal protection for secret technology used to produce commercial products, one year after the first sale of products produced using the technology. Thus, the legally enforceable value of such technology after practice commercially for one year is zero. However, in the real world, the technology at the end of a one-year period of commercial usage is usually more valuable than it was at the start of the one-year period. Drastic interference, such as would be effected by the Sixth Circuit's decision, with the value of technology is likely to produce bad results. See, SAMUELSON, ECONOMICS, 370-76 (8th ed. 1970).

As this Court announced in Graham, v. John Deere Co., [FN24] "patentability is dependent upon three explicit conditions: novelty and utility as articulated and defined in § 101 and § 102, and nonobviousness ... as set out in § 103". [FN25] Thus, § 103 is a "statutory expression of an additional requirement for patentability", [FN26] over and above that set forth in § 101.

FN24. 383 U.S. 1 (1966).

FN25. Id. at 12.

FN26. Id. at 15.

***17** All technology classifiable as patentable subject matter under 35 U.S.C. § 101, [FN27] must also meet the 'additional requirements for patentability" as stated in 35 U.S.C. § 103. [FN28] The Sixth Circuit decision, however, proscribes State trade secret protection of all trade secrets encompassed by § 101, irrespective of the ability of such trade secrets to meet the requirements of § 103.

FN27. Supra note 14.

FN28. Supra note 17.

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Critical engineering decisions and judgments are made in the development of new products, and in the implementation of new processes. Many of these judgments are unpatentable, since they are considered matters of choice, capable of attainment by those of ordinary skill in the art. [FN29] But, while being matters of choice, they frequently require tremendous expenditures of capital to achieve.

FN29. In re Levin, 178 F.2d 945 (C.C.P.A. 1949); In re Mason, 156 F.2d 189 (C.C.P.A. 1946); In re White, 39 F.2d 974 (C.C.P.A. 1930).

For instance, a machine may be comprised of tens of thousands of parts. It cannot be placed in production, however, until each of the individual parts is accurately dimensioned and shaped. In addition, materials must be selected for those parts, and dimensional and spacing tolerances must be developed and tested.

Similiarly, the development of a process requires that many interrelated parameters, such as temperatures, times, and pressures, as well as selection of starting materials, be integrated, harmonized, and optimized. Such efforts are begun on a laboratory bench scale, proceed to a pilot plant stage, and culminate in a commercial ***18** plant. Extremely large sums of money must frequently be expended to achieve success. [FN30]

FN30. The dollar value of trade secrets presently held by the industry of this nation is not known. But the damages awarded in trade secret cases may serve to suggest the enormous magnitude of this value.
Merck & Co., for instance, spent one and one-half million dollars ($1,500,000) developing amprolium, a coccidiostat for destroying poultry parasites. An employee of Merck & Co. copied these trade secrets and conveyed them to another. The same person also engineered the theft of a formula for new additives to improve lubricating oil developed by Rohm & Haas Co. and a formula for an electrical device developed by Sprague Electric Co. In late 1964, judgments were awarded to these three companies, in the sums of $8,600,000 to Sprague, $6,637,499 to Merck, and $6,038,000 to Rohm & Haas. NATIONAL INDUSTRIAL CONFERENCE BOARD, INC., EMPLOYEE PATENT AND SECRECY AGREEMENTS 4-5 (Studies in Personnel Policy, No. 199, 1965).
These judgments are directed to only three innovations: the overall value of trade secrets to the thousands of industrial concerns in this nation is many, many fold that expressed above.

While falling within the definition of theoretically patentable subject matter under § 101, such items as the dimensioning of parts, the selection of materials for these parts, or the ascertainment of processing parameters, are predominantly unpatentable, for they fail to meet the stringent requirements of § 103. [FN31]

FN31. Hotchkiss v. Greenwood, 52 U.S. (11 How.) 248 (1850); Graham v. John Deere Co., 383 U.S. 1, (1966).

Machine fabrication data and process data are costly to develop, and, if related to marketable products, can be extremely valuable. They constitute a type of technology which the owner must seek to protect from disclosure, since a competitor who obtains access to technology does not incur the investment expenses of the developer, and therefore competes from a favored position.

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***19** In industry, a wide range of technology falls within the category from which the Sixth Circuit has now removed legal protection. For instance, many valuable commercial products are created by blending known components to produce distinctive consumer-desired tastes, textures, and flavors which characterize the product.

Many food products, for example, are manufactured by blending various ingredients, spices, and flavors in specific concentrations and quantities, ,or by subjecting such food products to process variations in order to obtain nutritional values, taste, texture, and flavor characteristics, desired by consumers. Those blends are carefully guarded as trade secrets.

Similiarly, such blending and processing techniques are common with other consumer goods, such as tobacco and health-care products. All of these consumer products constitute theoretically patentable subject matter under 35 U.S.C. § 101. The Patent Office and the courts, on the other hand, tend to consider such blending and processing trade secrets to be mere matters of choice; and, unless some very unusual and unexpected results are obtained, find them unpatentable under the strictures of § 103. [FN32] Traditionally, trade secret laws have ***20** offered protection to the developers of this type of technology.

> FN32. Smith v. Nichols, 88 U.S. (21 Wall.) 112, 118-119 (1874):
> "A new idea may be ingrafted upon an old invention, be distinct from the conception which preceded it, and be an improvement. In such case it is patentable. The prior patentee cannot use it without the consent of the improver, and the latter cannot use the original invention without the consent of the former. But a mere carrying forward or new or more extended application of the original thought, a change only in form, proportions or degree, the substitution of equivalents, doing substantially the same thing in the same way by sub-stantially the same means with better results, is not such invention as will sustain a patent."
> American Infra-Red Radiant Co., v. Lambert Industries, Inc., 360 F.2d 977, 987 (8th Cir. 1966):
> "We have held in the past and we continue to hold that '[i]nvention will not be decided on the narrow issue of degree,' and that the mere changing of form, proportions, or size will not alone constitute 'invention.' ... This is true even though the change brought about better results."

Even if technology is patentable, there are areas in which patent protection is inadequate or impractical. For example, in many cases it is impossible for a patent owner to detect when his patented process is being used, since infringers can use the process in the privacy of their own plants and facilities.

Further, even if the use of the technology can be detected, the owner must be prepared to file patent applications in all countries in which the technology may be used, since a United States patent will disclose the process to everyone, but will provide protection only in the United States. Obviously, many small companies cannot afford this worldwide patent protection. For them, even the expense of filing United States applications on all developed technology is impractical.

C. This Decision Comes at a Time of Mounting Concern for the Economic Well-Being of the United States as An Effective Competitor in World Markets.

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The nation's concern in recent years over its economic growth/productivity has continually focused on our declining position in international trade. While our trade deficit has been reduced from $6.3 billion in 1972 to an aumual rate of $1.6 billion for the first six ***21** months of 1973, [FN33] it is clear that we can no longer count upon the positive balance of trade, position which endured until 1970.

FN33. U.S. Dept. of Commerce, Best Export Performance Since 1951 Cuts Deficit in Merchandise Trade, III COMMERCE TODAY 8 (August 20, 1973).

Our competitive stance in world markets has been eroded over the years. The United States share of the world gross national product has declined from 39.3% in 1950 to 30.2% in 1970. [FN34] At the same time, other countries have made dramatic advances. Japan's share, for example, has grown from 1.5% to 6.2%, roughly a fourfold increase. [FN35] The European Economic Conmmunity's share has grown from 11.1% to 14.8%. [FN36]

FN34. PETER G. PETERSON, THE UNITED STATES AND THE CHANGING WORLD ECONOMY, Chart 1 (1971).

FN35. Id.

FN36. Id.

The true picture of our foreign trade problems, however, is not apprehended solely by looking at historical data. Apparent in recent years, and projected for future years, are tremendous trade deficits in minerals, particularly energy fuels. In 1972, we experienced a deficit trade balance for raw and processed minerals of about six (6) billion dollars. [FN37] The Secretary of the Interior projects a trade deficit for all minerals in 1985 of $40 billion, up roughly $34 billion from the 1972 level. [FN38] The Secretary also projects a deficit of ***22** nearly $100 billion by the year 2000. [FN39] While these projections themselves are alarming, many consider them conservative, and project much greater deficits in mineral supplies. In any event, the projections present a clear international trade challenge to this nation.

FN37. NATIONAL COMMISSION ON MATERIALS POLICY, MATERIAL NEEDS AND THE ENVIRONMENT TODAY AND TOMORROW 2-26 (1973).

FN38. SECRETARY OF INTERIOR, MINING AND MINERALS POLICY 1973 at 51 (Second Annual Report of the Secretary of Interior under the Mining and Minerals Policy Act of 1970 [1973]).

FN39. id.

A positive aspect of this otherwise discouraging picture, however, is our increased trade over the twenty (20) year period from 1951 to 1970 in "technology intensive" manufactured products--the fruits of R&D. Our exports of such products rose from $6.6 billion in 1951 to $22.6 billion in 1970. [FN40] By 1970, our imports of such technology-intensive products had risen to only $13.0 billion. [FN41] In 1970, we thus experienced a favorable trade balance of about $10 billion in technology-intensive products.

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FN40. PETER G. PETERSON, supra note 34 at Chart 21.

FN41. Id.

By contrast, exports of "nontechnology-intensive" products rose from $3.7 billion in 1951 to only $6.8 billion in 1970. [FN42] By 1970, however, our imports of nontechnology-intensive products had risen to $12.9 billion. [FN43] In 1970, we thus suffered a trade deficit of about $6 billion in nontechnology-intensive products.

FN42. Id. at Chart 20.

FN43. Id.

It is, therefore, evident that our very healthy trade position in technology-intensive products saved us from the dangerous economic effects of our deplorable trade imbalance in nontechnology-intensive products.

It appears, however, that in recent years "the United States had been losing its technological leadership in ***23** the production and export" [FN44] of such technology-intensive products. This fact was recognized in the Department of Commerce study of the "Policy Aspects of Foreign Investment by U.S. Multinational Corporations":

FN44. U. S. DEPARTMENT OF COMMERCE, POLICY ASPECTS OF FOREIGN INVESTMENT BY U. S. MULTINATIONAL CORPORATIONS 31 (1972).

"Within the Department of Commerce, Dr. Michael Boretsky has investigated this area in detail. Through an analysis covering, inter alia, United States and foreign trade trends, productivity and R&D expenditures, Boretsky has produced evidence which tends to support the thesis that the United States depends largely upon the export of high technology products for a favorable balance of trade. Boretsky argues that for the past several years the United States has been losing its technological leadership in the production and export of such products, and that if this trend is not reversed, the United States will face a continually worsening balance of payments position. His writings attribute this loss in competitiveness to a number of factors, including: increased intensity of foreign R&D efforts, slower rates of productivity increase by U.S. firms, the ability of foreign countries to make up considerable technological ground by the adoption of 'old technology', exchange rates which put the United States at an unnecessary price disadvantage, and the ability of foreign countries to purchase and assimilate relatively new technologies from innovator countries." [FN45]

FN45. Id.

***24** Thus, in an era when we are extremely dependent on our world technological leadership, and this leadership is being challenged, it is clearly counter-productive for the United States to obliterate a critical portion of that legal mechanism which protects and stimulates our technological growth. Although the Commerce Department study recognizes that the erosion of our trade balance has, in part, occurred as a result of the transfer of technology to the developing countries, it is far better that such transfers should occur through controlled contractual arrangements, rather than through breaches of trust and confidence.

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The latter route denies to the nation the positive benefit to its international trade position accruing from royalties paid to its citizens for rights to technological advances, developments, and discoveries. These rights include not only those embodied in patents, trademarks, and copyrights, but also those embraced in trade secrets and technical know-how. [FN46]

FN46. FINNEGAN AND BRUNSVOLD, THE LAW AND BUSINESS OF PATENT AND KNOW-How LICENSING D2-3(2d ed. 1972).

The benefit to United States foreign trade through export of these rights has grown from about $840 million in 1960, to about $3.1 billion in 1972. [FN47] By contrast, the United States spent only about $276 million on imports of such rights in 1972. [FN48] International export sales and licenses of technology rights by the United States in 1972 thus yielded a startlingly favorable trade balance of $2.8 billion.

FN47. U. S. Dept. of Commerce, 53 SURVEY OF CURRENT BUSINESS 28, ll. 7, 10 (June, 1973).

FN48. Id. ll. 21, 24.

***25** From the foregoing, it is clear beyond peradventure that the vitality of R&D activities in the United States, together with the protective support given to them by our legal system, have sustained our international trade position in world markets through a period in which our trade balance and productivity were decreasing in low technology areas. It is also now common knowledge that competition against the United States is escalating, even in high technology areas.

Put in the simplest and most direct terms, this decision, if affirmed, is an invitation to foreign competitors of United States companies to appropriate valuable trade secret and know-how technology from United States owners without cost, and with impunity.

D. Risk Capital Must Be Available To Support R&D.

Attempts have been made to relate the nation's R&D investment to advancements in gloss national product (GNP). The Panel on Invention and Innovation, an Advisory Committee to the Secretary of Commerce, found that the average annual hours of work remained substantially constant during the years 1947-1965 while the GNP was nearly doubled. The Panel stated that, "without presuming to say how much of this increase in GNP was attributable to technological innovation, we are confident that technological innovation played a major role". [FN49]

FN49. U. S. DEPT. OF COMMERCE, TECHNOLOGICAL INNOVATION: ITS ENVIRONMENT AND MANAGEMENT 3-4 (1967).

Recognizing that GNP statistics often fail to excite the imagination, the Panel looked at three industries that were commercially non-existent in 1945, but which, between 1945 and 1965, contributed significantly to the ***26** nation's growth. Specifically, the Panel investigated the television, jet travel, and digital computer industries. Over that twenty (20) year period, these highly innovative industries contributed $13 billion to our GNP, and an estimated 900,000 jobs to our economy. In substance, the Panel concluded that these innovative industries have

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very importantly "affected the quality of our lives". [FN50]

FN50. Id. at 4.

While precise measurements are lacking, it is generally accepted that there is a clear relationship between the economic strength of a nation and its investment in R&D and innovation. In confirmation of this premise, the National Science Foundation has found the contribution of R&D to our economy to be "positive, significant and high": [FN51]

FN51. NATIONAL SCIENCE FOUNDATION, RESEARCH AND DEVELOPMENT AND ECONOMIC GROWTH/PRODUCTIVITY 3 (NSF 72-303, 1971).

"Although what we know about the relationship between R&D and economic growth/productivity is limited, all available evidence indicates that R&D is an important contributor to economic growth and productivity. Research to date seeking to measure this relationship (at the level of the firm, the industry, and the whole economy) points in a single direction-the contribution of R&D to economic growth/productivity is positive, significant and high." [FN52]

FN52. Id.

Commitment of capital, as well as time and effort, to R&D and the commercialization of innovative discoveries is an extremely risky and difficult endeavor. While successful commitments can inure to the benefit ***27** of innovators and investors, the prime beneficiary is the consumer, to whom the products of innovation become available through this process.

Also, through continual R&D on existing products, the consumer benefits from increased quality and lower cost. The nation as a whole benefits from R&D, because the ability of United States industry to compete in domestic and world markets is enhanced. A reduction of the incentive to invest risk capital to support R&D would deprive the nation of these attainable benefits.

E. If Affirmed, the Decision of the Sixth Circuit Would Have a Withering Effect on Investment in R&D.

The paramount importance of the Sixth Circuit decision lies in the extraordinarily adverse impact it will have on the economy of this nation, and the undesirable consequences which will follow, if it is affirmed.

Recognizing that other natious are "challenging us both in intellectual and in economic terms", [FN53] President Nixon, in his March 16, 1972, Message to Congress on Science and Technology, called for "... a strong new effort to marshal science and technology in the work of strengthening our economy and improving the quality of our life", [FN54] but cautioned:

FN53. 8 WEEKLY COMPILATION OF PRESIDENTIAL DOCUMENTS 581 (1972).

FN54. Id.

"... we must see that the environment for technological innovation is a favorable one. In some cases, excessive regulation, inadequate incentives and other barriers

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to innovation have worked to discourage and even to impede the entrepreneurial spirit. We need to do a better job of determining ***28** the extent to which such conditions exist, their underlying causes, and the best ways of dealing with them." [FN55]

FN55. Id at 582.

In the environment which existed before the Sixth Circuit decision, there was evidence of a strong and aggressive R&D commitment by this nation. During 1972, industrial R&D expenditures totaled $11.4 billion, and they are expected to increase to $14 billion in 1975. [FN56]

FN56. NATIONAL SCIENCE FOUNDATION, SCIENCE RESOURCES STUDIES HIGHLIGHTS 1- 2 (NSF 73-301, February 28, 1973).

Expenditures of this magnitude will only be made in reliance upon a legal framework that will protect the investments made, so that industry can, with some certainty, expect to realize a reasonable return. Otherwise, there is little or no incentive to engage in risky and expensive R&D efforts.

The total cost of bringing a new product to market is far greater than the research expense incurred in creating the underlying innovation. The development expense necessary to bring the research to the point of commercial utilization must also be considered.

It is estimated "that what we commonly call research, advanced development or basic invention, accounts, typically, for less than ten percent" [FN57] of the cost incurred in bringing a new product to the marketplace. While the research relating to a new product may equal only five (5) to ten (10) percent of the total commercialization costs, all research does not ***29** yield commercial products or processes. The investment in unsuccessful research must also be recovered through sales of commercially valuable products.

FN57. U. S. DEPT. OF COMMERCE, supra note 49, at 9.

Research, however, is just one stage. In addition, engineering and design of products account for "ten (10) to twenty (20) percent of total commercialization costs; tooling and manufacturing engineering for forty (40) to sixty (60) percent; manufacturing start-up expenses for five (5) to fifteen (15) percent; and marketing start-up expenses for ten (10) to twenty-five (25) percent. [FN58]

FN58. Id.

In its study of twenty (20) major technological innovations, the National Commission of Technology Automation and Economic Progress found that the time period from discovery of a technically feasible concept to the beginning of commercial development averaged nine (9) years. [FN59] The commercial development period, beginning with commitment of development funds, and ending with the introduction of the commercial product or process to the marketplace, averaged five (5) years, [FN60] a total development time of some fourteen (14) years.

FN59. National Commission on Technology, Automation, and Economic Progress, 1

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TECHNOLOGY AND THE AMERICAN ECONOMY 4 (1966).

FN60. Id.

Of course, the time period for total development of a particular product may vary widely from the average. For instance, Polaroid color pack cameras required fifteen (15) years from initial development to introduction to the marketplace; Minute Rice--***30** eighteen (18) years; Purina Dog Chow--four (4) years; penicillin--fifteen (15) years; Xerography--fifteen (15) years; electric toothbrushes--three (3) to four (4) years; and television--fifty-five (55) years. [FN61]

FN61. L. Alder, Lag Time and New Product Development, 31 JOURNAL OF MARKETING, 17-21 (January 1966).

The road from invention to marketplace is both hazardous and lengthy. To stimulate travel on this road, the nation must see that it is well-marked and policed, to ensure protection from highwaymen.

The new technology created by R&D must be protected, not only so that the R&D investment can be recovered, but also in order that there be a fair chance for profit commensurate with the risk and time required to bring products of the new technology to the marketplace. One (1) year's commercial use of a trade secret falling within the categories of patentable subject matter is surely an inadequate time during which to secure a reasonable return on its investment.

If an adequate return on investment is to be secured, the developers of a new product must be permitted to compete over a period of years on an equitable basis with others in the marketplace. Fair competition cannot exist where competitors are able to avoid R&D costs by pirating the confidential technology of innovators.

The pirate competitor will either sell his product at a lower price in the marketplace, or maintain the same price, achieving a higher profit. If, shortly after entering the marketplace, the innovator must compete with one who has pirated his expensive technology, the innovator cannot recover his investment, and, in fact, may even be forced out of the market by the unfairly ***31** low prices offered by the pirate. The incentive to invest in R&D would be destroyed.

The time, effort, and cost required to make a new product commercially successful can be staggering. To justify this investment there must be a reasonable return to the investors. If there is no such return, there will be no incentive to invest in the development of new products. To protect return on investment, and, thereby, the incentive to support R&D, there must exist a legal method to reserve and secure valuable innovations springing from R&D efforts to those who paid for the R&D.

F. The Effectiveness of R&D Efforts Will Be Severely Impaired.

Many large companies in competitive, high technology fields, which possess their own risk capital, will probably not substantially reduce their commitments to R&D as a result of the Sixth Circuit decision. But the impracticality or impossibility of patenting all developments will cause these companies to institute new procedures to reduce risk of loss of their valuable trade secrets. The unfortunate consequences are that such procedures: will be expensive; will divert funds from needed R&D efforts; and will render such efforts less efficient in yielding new and valuable

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technology. It may, therefore, reasonably be expected that the favorable cost-benefit ratio of R&D endeavors will be severely, and unfavorably, altered.

1. Industry will compartmentalize R&D efforts in direct derogation of the advantages of the team approach.

A company faced with reliance on self-protective measures to defeat industrial espionage may be forced to compartmentalize its R&D staff. Then, no one ***32** individual will have access to all the trade secrets, or all the know-how, in relation to a particular product or process. This economically inefficient, restrictive measure would thus ensure that no single employee would be in a position to defect to a competitor with sufficient information to permit the competitor to duplicate the product or process-too many pieces would be missing to allow completion of the jig-saw puzzle.

Compartmentalization of R&D is in direct conflict with a trend noted in February, 1972 by the National Science Foundation--"laboratory consolidation is now being pursued by many organizations". [FN62] NSF found that, "some firms decided that substantial savings could be realized by centralizing the entire research effort". [FN63] Normally, centralization results in substantial savings, in that "separate laboratories require more research management personnel, duplicate specialists at several locations, more expensive, but less adequate, library facilities, etc....." [FN64]

FN62. NATIONAL SCIENCE FOUNDATION, SCIENCE RESOURCES STUDIES HIGHLIGHTS, supra note 56, at 4.

FN63. Id.

FN64. Id.

Centralization promotes research productivity because of "greater interaction" between research personnel. It is mainly upon this premise that the team effort concept of R&D is based. Normally, greater benefits from research can be achieved in less time by having a team of specialists attack a problem as a whole and pursue it to a solution, than can be achieved by having various specialists individually attack the different aspects of a multi-faceted problem.

***33** Moreover, such compartmentalization of R&D work can, at best, only succeed in limiting the ultimate risk of disclosure. If there were no legal restraints, a group of employees could leave an employer and set up a competing enterprise based on the employer's trade secrets. In even mire disloyal fashion, a group of employees could conspire to sell trade secrets to their employer's competitors.

2. Wasteful duplication of R&D effort will be encouraged by the demise of know-how licensing

If trade secrets cannot be licensed or otherwise protected, they will be boarded and jealously guarded. Such hoarding will result in a sharp reduction in the exchange of technology, with a concomitant duplication of effort to develop the same technology.

High risks would accompany transfer of technology by contract, for, even if the

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transferce acted in good faith under the contract, the transferor could not always rely on the security measures of the transferee to protect the technology from disclosure. Frequently, the ability of the transferee to protect the technology will be proportional to the transferee's size. Accordingly, small companies may encounters severe obstacles in acquiring needed technology.

Further, companies, both large and small, will be reluctant to share their technology with others for fear that the value of the licensed technology will be lost through inadequate precautions maintained by their licensees. In the past, it has been customary to permit a licensee to make periodic payments in amounts which are calculated on the extent of use of the technology, so that licensee's payments are based on what the technology is worth as it is used. Now, before a ***34** company could agree to license another company to use its technology, it would have to receive full payment in advance as "front-money", since the licensee, after receiving the technology, could refuse to make periodic payments based on use, on the ground that the trade secrets are unprotectible.

Manifestly, this circumstance would foreclose small companies from licensing technology, since they could not afford the large, lump-sum payments which would be required in advance.

Industrial progress would be drastically retarded, were each company forced to independently develop its own process technology. Access to technology developed by others through licensing avoids duplication of R&D efforts by others, and permits rapid entry of a new competitor into markets inadequately served. Moreover, licensing of technology promotes cross-fertilization of research effort through interchange of complementary, partially developed ideas.

3. Supplier relations will be disrupted.

This decision makes it impossible for industry to rely upon confidential disclosures to suppliers of: (a) raw materials and equipment, or (b) services, such as engineering and construction. Confidential data must be made available to suppliers to enable them to perform their service or supply function. The result of the Sixth Circuit decision would be to force industry to establish in-house capabilities to do those things previously done by outside contractors bound by the requirements of secrecy.

Another effect of disrupting supplier relationships would be seriously to decrease the efficiency with which ***35** such materials and equipment are supplied, or such services performed.

By way of illustration, if new processing equipment is to be built and installed today, a company usually looks to outside suppliers who specialize in making that equipment. The company must disclose to the equipment supplier the particulars of its process, and solicit design and construction of equipment to meet those particulars. The supplier, however, is charged, under threat of prosecution for violation of State trade secret laws, with maintaining those particulars in secrecy.

Without trade secret protection, the supplier could freely convey those particulars to a competitor. The contracting company is then forced, against economic logic, to go into the equipment construction business with itself as its sole customer.

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This self-supply capability will not be available to the small businessman. He will have no recourse but to expose his trade secrets to potential appropriation by others.

4. The flow of technology to this country would be crippled.

A foreign company enjoying an adequate legal system to protect its trade secrets abroad will be extremely reluctant to send technology to the United States, if we offer no comparable protection for its trade secrets here. The alternative to licensing technology into the United States would require a foreign company to keep its technology abroad, and seek profit by exporting products to the United States to compete with domestic industry.

***36** Further, a foreign company would know that it could not collect royalties for trade secrets which it licenses into the United States. A foreign company could protect itself under such circumstances only by requiring payment of all royalties within the one year period of use permitted in the United States under the Sixth Circuit decision. In many cases, where trade secrets are of great value, and have traditionally been paid for on a use basis, prepayment would be impractical. The sums of money required in the form of "front-money" payments would be staggering. At the least, this type of payment requirement would foreclose small, and perhaps even medium size, companies from purchasing foreign technology.

Finally, it is noted that many great jumps in technology occur, not from a single advance in the art, but from a chain of small advances, culminating in a major breakthrough. Were the exchange of technology to be limited, domestic industry would lose access to technological advances, made both here and abroad, which might form part of the chain from which major breakthroughs result. The adverse impact of this exclusion upon the competitiveness of U. S. industry in world markets would be profound and enduring.

G. The Sixth Circuit's Eradication of the Critical Area of Trade Secret Protection Would Require Greater Governmental Interference in Industrial Activities.

Affirmance of the Sixth Circuit decision eliminating the legal mechanism now used to protect vast areas of technology from unauthorized disclosure, would force upon the United States Government a new burden to ensure that technology affecting national security does not pass into the hands of unauthorized foreign nations. In assuming this new burden, the Government ***37** would be required greatly to increase its monitoring of industrial activities, so that it could identify and impose disclosure restrictions upon information which is sensitive from a national security standpoint.

The United States Government already has export controls which operate to minimize transmittal of sensitive information to selected Communist Bloc countries." [FN65] However, these controls do not prevent publication of sensitive information in technical journals, freely available to scientists in foreign countries. In the past, publication of sensitive information has not been a pervasive problem, since industry has treated this information as trade secrets, and those having access to it have been restrained from publishing it by the trade secret laws.

FN65. Export Administration Act, 50 U.S.C. § 2401 (1969). The Act sets forth congressional finding (2) as:

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> "(2) The unrestricted export of materials, information, and technology without regard to whether they make a significant contribution to the military potential of any other nation or nations may adversely affect the national security of the United States."

Withdrawal of trade secret protection would remove restraints on publication from those having access to sensitive information. Many people, intending only to share their new developments with the scientific community, would in fact be making sensitive information available to foreign countries having interests adverse to the United States.

The United States has, for example, much valuable and sensitive technology in jet fuels, high-temperature alloys, electronic equipment, and the like, which today is not published, or otherwise made available to foreign interests, because the companies developing this technology preserve the information as trade secrets.

***38** If the Government can no longer rely on industrial assertions of trade secret protection to discourage disclosure, the only alternative which the Government would have to prevent the transmittal of sensitive information to unfriendly foreign nations would be to embark upon an extensive program to identify and classify sensitive information as it is being developed by industry. Obviously, this would require extensive governmental review of, and intervention in, the R&D activities of industry.

IV. STRIPPING THE STATES OF THE POWER TO PROTECT TRADE SECRETS WILL FRUSTRATE THE OBJECTIVES OF THE PATENT SYSTEM.

Because the Sixth Circuit viewed the effect of State trade secret laws as suppression of disclosure, it must necessarily have assumed that stripping the States of the power to legislate in the area of trade secrets would enhance the disclosure of valuable technology presently being withheld from the public, thereby contributing to the promotion of new and competitive industry. This assumption is incorrect.

A. State Trade Secret Laws Do Not Suppress Disclosure of Valuable Technology to the Detriment of the Public.

Valuable technology is not now being concealed as trade secrets, to the detriment of the public. The multitude of technical refinements which account for a commercially feasible consumer product, manufacturing process, or equipment design, are the basis for the risk capital investor's competitive position in the market. The public has the benefit of the ultimate goods produced, and the jobs created by their production.

***39** Competitors in the same market are free to pursue, in a legal fashion, the identical technical refinements on their own, or to attempt to purchase the know-how from the original developer. By sound trade secret legislation, these competitors are deprived only of the opportunity to violate a trust, or steal without pretense of trust, the technical refinements which constitute trade secrets. They are deprived only of the power to appropriate the fruits of the capital, time, and physical efforts of another, without the payment of fair consideration.

Trade secret law permits industry to pursue better means to enrich the American

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people with new products, or with old products made more economically. This law also assures that such a pursuit will be conducted within that framework of honored trust and freedom from wrongful intrusion by others, which supports our overall socio-economic system.

Stripping the States of the power to create such a legal framework augurs more than just moral chaos for industry. Rather than enhancing disclosure of technology to the economic benefit of the country, the consequences of the decision below, if allowed to stand, will be, in some cases, increased measures of secrecy, and, in all cases, either a diminution of R&D investment or a reduction in efficiency.

B. Free and Public Disclosure of Technical Know-How Now Possessed as Trade Secrets Cannot Reasonably be Expected.

The ability of any industrial organization to recover its R&D expenditures depends directly upon its ability to secure a competitive commercial position. It cannot fairly be expected that a company would freely reveal ***40** the technical know-how by which its competitive position is bolstered. Indeed, such disclosure would be irresponsible, and in denegration of the obligations to its investors. The effect of disclosure would be to afford competitors the know-how without cost, and ultimately to force the original developer either to lose the R&D investment or to withdraw from the market-a plainly unacceptable consequence.

C. Withdrawal of Legal Protection for Technology Will Decrease Competition in Our Marketplaces.

Today, enhanced competition in our marketplaces occurs primarily through the entry of new companies. Typically, such new entrants are small and ill-financed. Many fail, but some survive and grow to become major competitive factors in old industries, or even to found new industries.

Small companies, however, are least able to weather the storm that would ensue if legal protection were to be withdrawn from valuable trade secrets. These companies cannot afford to take the same measures to protect technology as their larger counterparts.

The inability of the smaller companies to protect their trade secrets will seriously affect their ability to raise venture capital for investment in new products and processes. Investors having such funds available would surely divert their money to more secure enterprises and investments.

In a recent study, conducted for the National Science Foundation by A. D. Little, Inc., entitled Barriers to Innovation in Industry, it was found that, while only a few large companies considered lack of funds to be a major barrier to innovation, virtually all small companics ***41** considered financing a significant barrier to research. [FN66] The additional risks incurred by the inability adequately to protect technical data would surely intensify this problem for the small companies.

FN66. ARTHUR D. LITTLE, INC./INDUSTRIAL RESEARCH INSTITUTE, INC., BARRIERS TO INNOVATION IN INDUSTRY, OPPORTUNITIES FOR PUBLIC POLICY CHANGES 22 (1973).

If we move toward a society in which we will perpetuate and accelerate the growth of large corporations, while continually increasing harriers to growth and development of new, small companies, the end result will be increased industrial

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concentration, with resultant increased regulation by government. This will clearly act to the detriment, of the consumer.

It should be our goal to provide an atmosphere in which small companies can complete with large established companies. In this way, the smaller companies can gain a foothold in the marketplace, and grow to provide increased competition in either the same or substitute products. This will not be achieved if heavier financial burdens are placed on small companies.

D. Voiding State Trade Secret Laws Will Have a Real and Adverse Effect upon the Economic Welfare of the United States.

Because disclosure is not practicable, and, since the fundamentally dissimilar patent laws do not provide a viable means of protecting technical know-how, now held as trade secrets, industry is really faced with only two alternatives.

One alternative is dire indeed. A significant proportion of industry will simply not be able to assume the risk of capital and time investment in R&D.

***42** The other alternative for the remaining proportion willing to take the risk is to increase secrecy measures; and minimize business relationships now founded on confidentiality of disclosure of technical information. No matter how attempted, minimization of disclosure will detract from available R&D investment capital, and will, accordingly, have a drastic impact on technological development, and, in turn, on the industrial and economic welfare of the United States.

Both of these alternatives will produce the precisely opposite effect of that assumed by the court below. Rather than enhancing the broad objective of the patent system to promote the nation's economic welfare and growth, the elimination of trade secret laws will injure the economy, and, thereby, frustrate the goals of the patent system.

V. THE DECISION BELOW IS NOT FOUNDED ON SOUND LEGAL REASONING OR PRECEDENT.

The ruling below is erroneous in that it has misapplied the doctrine and holdings of this Court on federal preemption of State legislative competence.

Although often admitting that federal pre-emption is a most perplexing question, [FN67] this Court has maintained a wise accommodation between the needs of central control and the vitality of local institutions. [FN68] Thus, where Congress has not clearly expressed an intent to pre-empt a legislative area, this Court has ***43** always insisted that the justification for federal supersession be compellingly clear. [FN69]

FN67. See, Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944); South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938); Kelly v. Washington, 302 U.S. 1 (1937); Townsend v. Yeomans, 301 U.S. 441 ??).

FN68. See, Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944); City of Yonkers v. United States, 320 U.S. 685 (1944).

FN69. See, Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942) ; Jennings v. United States Fidelity & Guaranty Co., 294 U.S. 216 (1935); Florida v. United States. 282 U.S. 194 (1931) Minnesota Rate Cases, 230 U.S.

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352 (1913).

While exclusive federal authority in the field of patents is now resolved, [FN70] federal authority over trade secrets is certainly not, and the States have traditionally legislated extensively in the area. Where the States have exercised exclusive competence in the past, or where federal and State legislative competence has been concurrent, this Court has always assumed that the historic police powers of the States were not to be superseded, absent a clear and manifest purpose of the Congress to do so. [FN71] Thus, giving due regard to a proper adjustment of State and federal power in our constitutional system, [FN72] unless Congress has definitely expressed or clearly implied an intent exclusively to occupy the area, and displace State police power, [FN73] the State legislative scheme is valid. [FN74]

FN70. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

FN71. Schwartz v. Texas, 344 U.S. 199 (1952) ; H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939). See also, Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947); Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942); Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926); Savage v. Jones, 225 U.S. 501 (1912); Reid v. Colorado, 187 U.S. 137 (1902).

FN72. FTC v. Bunte Bros., Jnc., 312 U.S. 349 (1941).

FN73. Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942). See also, Bethlehem Steel Co. v. New York State L.R.B.
U.S. 767 (1947); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939).

FN74. See, Algoma Plywood & Veneer Co. v. Wisconsin E. Rel. Bd., 336 U.S. 301. (1949); Eichholz v. P.S.C. of Missouri. 306 U.S. 268 (1939); rehearing denied, 306 U.S. 669. (1939).

***44** Nothing in this case indicates that Congress, in enacting the patent laws, left no room for the States to supplement protection of intellectual property. [FN75] Indeed, the chaotic industrial atmosphere, which would ensue on elimination of that "field of protection" afforded by State trade secret laws, directly addressed by the Sixth Circuit, clearly demonstrates that Congress has not and did not intend to replace State trade secret law with the federal patent laws. The two bodies of law are not co-extensive.

FN75. See generally, Cloverleaf Butter Co. v. Haygood Patterson. 315 U.S. 148 (1942); Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 655 (1919).

Indeed, the legal groundings of patent and trade secret protection are quite dissimilar. The patent laws protect an inventor's reward for creativity, and primarily vest a property right, while trade secret laws are grounded, if at all, only incidentally in property. [FN76]

FN76. See, supra, at p. 8.

For the same reason, we cannot conclude that the federal interest in patent protection is so dominant. that State legislation regarding trade secrets is assumed

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to be precluded. [FN77] Trade secret protection antedates modern patent legislation, and we must presume that Congress would have articulated federal dominance, had it wished to do so. Further, the obligations imposed by the federal patent laws do not reveal an intent to preclude State trade secret protection. [FN78] The ***45** patent laws grant a limited exclusive right in order to promote the progress of the useful arts, while trade secret laws protect the obligation of contract, or deter the commission of torts.

FN77. Cf. Hines v. Davidowitz, 312 U.S. 52 (1941).

FN78. See, New York C.R. Co. v. Winfield, 244 U.S. 147 (1917) Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915); Southern R. Co. v. Railroad Commission of Indiana, U.S. 439 (1915).

Finally, it cannot be said that State legislation in this area produces a result inconsistent with the federal legislative scheme. [FN79] The patent laws work their historic twofold purpose of rewarding creativity and disclosing invention for the public benefit. The result of trade secret protection is perfectly consistent and complementary: research is stimulated, and its fruits inure to the public benefit in the form of new and improved products and services.

FN79. See. Cloverleaf Butter Co. v. Haygood Patterson, 31.5 U.S. 148 (1942); Hill v. Florida, 325 U.S. 538 (1945).

Last Term, in Goldstein v. California, 412 U.S. 546 (1973), this Court refused to find that State criminal protection against "tape piracy" was pre-empted by the federal Copyright Laws, prior to the extension by Congress of federal copyright protection to sound recordings. The Court argued that nothing in the copyright power suggests that the federal interest is exclusive, and that some copyright subject matter may be of purely local importance.

The same considerations apply here. If the federal interest in protection of intellectual property were exclusive, surely the Constitution or the Congress would have so stated long before now. Moreover, the subject addressed by State trade secret laws is one of purely local importance: construction of contracts and litigation of tort claims.

This Court has repeatedly warned against casual or facile assumptions of federal supersession of State ***46** legislation. For example, in Reid v. Colorado, 187 U.S. 137 (1902), this Court said:

"It should never be held that Congress intends to supersede or by its legislation suspend the exercise of the police powers of the States, even when it may do so, unless its purpose to effect that result is clearly manifested." [FN80]

FN80. 187 U.S. at 148.

In the instant case, it is most difficult to imagine a congressional intent to supersede State trade secret laws. Indeed, Congress has recognized the validity of protecting trade secrets in many federal statutes. Thus, for example, the patent laws themselves bar a contempt citation of a witness who refuses to disclose trade secrets, 35 U.S.C. § 24, and provide for the preservation of patent applications in secrecy, 35 U.S.C. § 122; 18 U.S.C. § 1905 forbids officers and employees of the

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United States from disclosing trade or know-how secrets; 5 U.S.C. § 522(b) (4) (Public Information Act) exempts from required disclosure by the government "trade secrets and commercial or financial information obtained from a person ...."; 15 U.S.C. § 46 (f) gives the Commissioner of the F.T.C. power to publish information received by the Commission, except trade secrets; and 15 U.S.C. § § 78x(a) and 79v deny the Securities and Exchange Commission authority to require disclosure of trade secrets in applications and reports.

The recently enacted environmental legislation carefully exempts from public disclosure technology "entitled to protection as trade secrets", Clean Air Act, 42 U.S.C. § 1857(c); Federal Water Pollution Control Amendments of 1972, 33 U.S.C. § 1322(g) (3). Moreover, Rule 26 of the Federal Rules of Civil Procedure ***47** grants protection against disclosure of trade secrets, and confidential R&D information.

In the face of this express congressional approval of protectibility of trade and know-how secrets, it must be concluded that Congress intended the federal patent laws and State trade secret laws to share the task of protection of intellectual property, and the court below has wrongly concluded otherwise. [FN81]

FN81. Cf. Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946).

CONCLUSION

Amicus Curiae, Chamber of Commerce of the United States of America, respectfully urges this Court to reverse the judgment of the court below, to the extent that judgment relies upon a finding of pre-emption by the federal patent laws of the trade secret laws of the State of Ohio.

Appendix not available.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 173805 (Appellate Brief) Brief for Amicus Curiae National Patent Council, Inc., for Itself and Representing National Small Business Association, Inc. (Dec.

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• 1973 WL 172414 (Appellate Brief) Brief for Amicus Curiae Manufacturing Chemists Association (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172415 (Appellate Brief) Brief Amicus Curiae for the Budd Company (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

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• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

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Westlaw.
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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
November 23, 1973.
On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Brief for Amicus Curiae Manufacturing Chemists Association

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***i** TABLE OF CONTENTS

INTRODUCTION ... 1

INTEREST OF MCA ... 2

SUMMARY OF ARGUMENT ... 7

ARGUMENT

I. THE OPINION OF THE SIXTH CIRCUIT WOULD UPSET LONG-STANDING LEGAL PRINCIPLES AND INDUSTRIAL PRACTICES TO THE SERIOUS DETRIMENT OF AMERICAN INDUSTRY AND THE NATIONAL ECONOMY ... 10

A. Protection of Trade Secrets Is a Long-Standing Principle of the Common Law ... 10

B. The Opinion Below Would-and in the Present Case, Does-Reward Dishonest and Immoral Conduct ... 13

C. The Opinion of the Sixth Circuit Would Have Serious Adverse Effects ... 16

1. The decision applies to every trade secret of a technological nature ... 16

2. The adverse effects of the opinion are not significantly reduced by its purported limitation to trade secrets which have been in "public use" for a year or

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more ... 19

II. OHIO's TRADE SECRET LAW HAS NOT BEEN PREEMPTED BY THE UNITED STATES CONSTITUTION OR BY THE FEDERAL PATENT LAW ... 20

A. The States Have Retained the Authority to Protect Trade Secrets ... 21

B. The States' Exercise of Their Retained Authority Is Not Preempted by the Federal Patent Law ... 23

1. Trade secret laws do not conflict with the patent law ... 24

a. The trade secret laws foster no monopoly and grant no exclusive rights to inventions ... 25

***ii** b. The Courts traditionally have acted to enforce trade secret laws as entirely separate from the patent law ... 2??

c. An invention in commercial use for more than one year is not in the public domain ... 2??

d. The trade secret law does not conflict with the patent law's disclosure objectives ... 3??

2. This Court's recent decisions do not support the conclusions of the Court below ... 3??

C. Congress Has Affirmatively Indicated That the Trade Secret Law Is Not Preempted by Federal Law ... 3??

CONCLUSION ... 4??

APPENDIX A: Members of the Manufacturing Chemists Association ... 1??

APPENDIX B: States in Which Courts Have Recognized Trade Secret Protection ... 7??

APPENDIX C: State Statutes Prohibiting Disclosure of Trade Secrets ... 10 ??

APPENDIX D: United States Statutes Requiring Confidential Treatment of Trade Secrets ... 12, ??

TABLE OF AUTHORITIES

CASES:

Abernethy v. Hutchinson, 3 L.J. Ch. 209, 47 Eng. Rep. 1313 (Ch. 1825) ... 1??

Allen-Qualley Co. v. Shellmar Products Co., 31 F.2d 293 (N.D. Ill.), affirmed, 36 F.2d 623 (7th Cir. 1929) ... 28

B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (Ct. App. 1963) ... 1

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Becher v. Contoure Laboratories, Inc., 279 U.S. 388 (1929) ... 13, 27

Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905) ... 12, ??

***iii** ??urbank v. Lockheed Air Terminal, Inc., 411 U.S. 624 (1973) ... 21

Cholmondeley v. Clinton, 19 Ves. 261, 34 Eng. Rep. 515 (Ch. 1815) ... 11

Cincinnati Bell Foundry Co. v. Dodds, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887) ... 11

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) ... 25, 30, 35-36, 37

Cooley v. Board of Wardens, 53 U.S. (12 How.) 299 (1851) ... 21

Curry v. Marquart, 133 Ohio St. 77, 11 N.E.2d 868 (1937) ... 10

Dekar Industries. Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), certiorari denied, 402 U.S. 945 (1971.) ... 28

Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911) ... 13

E. I. du Pont de Nemours & Co. v. Christopher, 431 F. 2d 1012 (5th Cir. 1970), certiorari denied, 400 U.S. 1024 (1971) ... 15-16

E. I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917) ... 13, 27

Electric Storage Battery Co. v. Shimadzu, 307 U.S. 5 (1939) ... 29

Florida Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132 (1963) ... 24

Fowle v. Park, 131 U.S. 88 (1889) ... 12

Gibbons v. Ogden, 22 U.S. (9 Wheat.) 1 (1824) ... 20

Goldstein v. California, 412 U.S. 546 (1973) ... 20-21, 22-23, 24, 37

Hammer v. Barnes, 26 How. Pr. 174 (N.Y. S. Ct. 1863) ... 11

Head v. New Mexico Board of Examiners, 374 U.S. 424 (1963) ... 24

Hines v. Davidowitz, 312 U.S. 52 (1941) ... 23-24

Hoeltke v. C. M. Kemp Mfg. Co., 80 F.2d 912 (4th Cir. 1935), certiorari denied, 298 U.S. 673 (1936) ... 14

Hyde v. United States, 225 U.S. 347, 384 (1912) (dissent) ... 27

Jarvis v. Peck, 10 Paige 118 (N.Y. Ch. 1843) ... 11

Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074 (6th Cir. 1973) ... 2, 11, 17, 24,

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27, 30, 32, 35

Lear. Inc. v. Adkins, 395 U.S. 653 (1969) ... 33, 35-36

***iv** Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2d Cir.), certiorari denied, 328 U.S. 840 (1946) ... 29, 31-3??

Morison v. Moat, 9 Hare 241, 68 Eng. Rep. 492, affirmed, 21 L.J. Ch. 248 (1851) ... 3??

Napier v. Atlantic Coast Line R.R. Co., 272 U.S. 605 (1926) ... 2??

Newbery v. James, 2 Meriv. 446, 35 Eng. Rep. 1011 (Ch. 1817) ... 1??

Painton & Co. v. Bourns, Inc., 309 F. Supp. 271 (S.D. N.Y. 1970), reversed, 442 F.2d 216 (2d Cir. 1971) ... 2??

Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2d Cir. 1971) ... 28-29, 3??

Peabody v. Norfolk, 98 Mass. 452 (1868) ... 11, 3??

Penn Dairies, Inc. v. Milk Control Commission, 318 U.S. 261 (1943) ... 2??

Pennock v. Dialogue, 27 U.S. (2 Pet.) 1 (1829) ... 3??

Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947) ... 2??

Schwartz v. Texas, 344 U.S. 199 (1952) ... 2??

Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945) ... 3??

Sears v. Gottschalk, 357 F. Supp. 1327 (E.D. Va. 1973) ... 3??

Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 25, 30, 35-36, 3??

Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), certiorari denied, 383 U.S. 934 (1966) ... 2??

Shaw v. Cooper, 32 U.S. (7 Pet.) 292 (1833) ... 3??

Telex Corp. v. IBM Corp., Civ. Nos. 72-C-18 and 72-C-89 (N.D. Okla., filed Sept. 17, 1973; amended Nov. 10, 1973) ... 16

United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) ... 13, 32-33

W. R. Grace & Co. v. Hargadine, 392 F.2d 9 (6th Cir. 1968) ... 1??

Water Services, Inc., v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969) ... 28

Williams v. Williams, 3 Meriv. 157, 36 Eng. Rep. 61 (Ch. 1817) ... 11

Yovatt v. Winyard, 1 Jac. & W. 394, 37 Eng. Rep. 425 (Ch. 1820) ... 11

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***v** CONSTITUTION AND STATUTES:

Constitution of the United States:

Art. I, § 8, cl. 8 ... 21-23, 25, 33

Art. VI, para. 2 ... 23

Amend. X ... 22

18 U.S.C. § 1905 (1970) ... 32, 38-39

35 U.S.C. § 101 (1970) ... 16, 17

35 U.S.C. § 102 (1970) ... 16, 19, 20, 29-30

35 U.S.C. § 103 (1970) ... 16

35 U.S.C. § 122 (1970) ... 33, 38

35 U.S.C. § 154 (1970) ... 25

37 C.F.R. § 1.14 (1973) ... 38

13 Ohio Rev. Code Ann. § 1333.51 (Supp. 1972) ... 10

13 Ohio Rev. Code Ann. § 1333.99(E) (Supp. 1972) ... 10

MISCELLANEOUS:

Brief Amicus Curiac of SCM Corporation In Opposition to Petition for Writ of Certiorari, Kewanee Oil Co. v. Bicron Corp., No. 73-187 (1973) ... 19, 20, 29-30

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The Federalist No. 32 (A. Hamilton) ... 22

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National Science Foundation, Science Resource Studies Highlights, NSF 73-301 (1973) ...

93rd Cong. 1st Sess:

H.R. 7111 ... 3

S. 1321 ... 3

S. 2504 ... 39-4

Note, "Theft of Trade Secrets: The Need for a Statutory Solution," 120 U. Pa. L. Rev. 378 (1971) ... 1??

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9 Presidential Documents (Oct. 1, 1973) ... 39-4??

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Schiller, "Trade Secrets and the Roman Law; the Actio Servi Corrupti," 30 Colum. L. Rev. 837 (1930) ... 1??

Schumpeter, Capitalism, Socialism and Democracy (3d ed. 1950) ...

2 Story, Equity Jurisprudence § 952 (1st ed. 1836) ... 1??

Wallich, "The Employment Act Objectives-After 20 Years," Joint Economic Comm., 89th Cong., 2d Sess., 20th Anniversary of the Employment Act of 1946: An Economic Symposium (Comm. Print, Feb. 23, 1966) ...

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***1** INTRODUCTION

Manufacturing Chemists Association ("MCA") is filing this brief amicus curiac with the consent of all parties. Letters evidencing such consent have been filed with the Clerk of this Court.

The Court of Appeals for the Sixth Circuit has ruled that the trade secret law of the State of Ohio--and, by ***2** the Court's reasoning, of the other States which hav?? similar laws--is preempted by the United States Con stitution and the Federal patent law. Kewanee Oil Co v. Bicron Corp., 478 F. 2d 1074 (6th Cir. 1973). This Court has issued a Writ of Certiorari to the Sixth Circuit to review that opinion.

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MCA submits that the opinion of the Court below ?? erroneous as a matter of law and public policy and would, if upheld by this Court, have a significant ad?? verse effect on business customs and ethics, the con?? tinned vitality of the chemical industry, and the health of the American economy generally. Accordingly, MCA vigorously supports the position of Petitioner Kewanee Oil Company, and urges this Court, in ac?? cordance with its earlier decisions and those of the Courts of Appeals of the Second, Fourth, Fifth, and Ninth Circuits, to reverse the opinion of the Sixth Circuit.

INTEREST OF MCA

MCA is a non-profit trade association of more than one hundred seventy companies, large and small, engaged in manufacturing industrial chemicals and allied products. [FN1] MCA member companies account for more than 90 percent of the production capacity for basic industrial chemicals in this country. Total shipments of chemicals and allied products in the United States in 1972 were valued at more than $57,000,000,000.

FN1. A list of MCA's members is set forth in Appendix A to this Brief.

The opinion of the Court below, if upheld by this Court, would have a particularly damaging effect on the chemical companies of the United States. Technology is the very business of these firms. In 1971, for ***3** instance, chemical manufacturers alone financed $1,703,000,000 worth of research and development. [FN2] Chemical companies' profits are derived from and depend upon their advancing technology, improving manufacturing processes, and developing new and improved products. In devoting the large amount of funds they do to technological research and invention, chemical companies rely not only on patent protection but also on the sanctity of trade secrets, the protection granted them, and the binding nature of contracts relating to them. These trade secrets are estimated by MCA members to be worth billions of dollars.

FN2. National Science Foundation, Rescarch and Development in Industry 1971 NSF 73-305, at 36, 37 (1973).

If the opinion of the Sixth Circuit should be upheld by this Court, it would substantially undermine, and perhaps destroy, the value of existing technological secrets. It would have a major adverse effect on the future conduct of research by the chemical industry, as well as industry generally, with detrimental effects upon the entire American economy and society. For the innovations, developments, and other improvements which result from research are critical to the growth of the American economy. [FN3]

FN3. "The principal factors through which a free market promotes growth are investment in plant and equipment, and research leading to technological advance." Wallich, "The Employment Act Objectives-After 20 Years," Joint Economic Committee, 89th Cong., 2d Sess., 20th Anniversary of the Employment Act of 1946: An ?? Symposium 12, 14 (Comm. Print, Feb. 23, 1966) (emphasis added).

The amount of money spent on research and development in this country has grown immensely in the past two hundred years. In recent years, the upward trend is dramatic. Between 1.955 and 1971, the total of such ***4** expenditures quadrupled,

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increasing from $4,640,000, 000 to $18,314,000,000. [FN4] Industry financed $10,974,000, 000 of the 1971 total (or 60 percent). [FN5] The National Science Foundation has estimated that industry financing of research and development will increase to approximately $14,000,000,000 by 1975. [FN6]

FN4. National Science Foundation, Research and Development in Industry 1971, supra, at 26.

FN5. Id. at 26, 37.

FN6. National Science Foundation, Science Resource Studies Highlights, NSF 73-301, at 1 (1973).

Certainly, firms would not undertake such investments if they did not expect to benefit from the results. And trade secret protection is, as the President's Council of Economic Advisers recently pointed out, an important legal mechanism for enabling the entrepreneur to benefit from his efforts; it permits him "to internalize benefits that otherwise would accrue outside his firm." [FN7]

FN7. Economic Report of the President, Transmitted to the Congress January 1972 127 (1972).

There are no publicly available data which show the proportion of innovations protected by trade secret laws. Two commentators, however, have estimated that:

"[T]he volume of proprietary information classifiable as trade secrets ... [has] increased prodigiously in the past generation ...

"The order-of-magnitude increase in the inventory of trade secrets ... is traceable, in large part, to the impressive gains made in research and development activity, under both private and public auspices, since World War II. These gains have been accompanied by significant growth in the number of scientists, engineers, and technical ***5** support personnel engaged in industry. Billions of private dollars, in addition to larger sums of public money, have come to be spent annually in the designs realization, and improvement of processes and products destined for business, Government, and households." [FN8]

FN8. Harris and Siegel, "Trade Secrets in the Context of Positive Competition," 10 Idea 297, 308 (1966) (emphasis added).

But dollar volume is not the only measure of the value of trade secrets in the chemical industry and industry generally. Trade secret laws are an affirmative factor in stimulating competition. Firms rely on their protection in deciding to engage in expensive research in order to develop for their own benefit more efficient processes or newer, better, or cheaper products than those of their competitors. "[T]rade secrets constitute one of the innumerable fields in which positive competition operates in our kind of society." [FN9] The important form of competition, as Professor Schumpeter has emphasized, is "the competition from the new commodity, the new technology, the new source of supply, the new type of organization ... competition which commands a decisive cost or quality advantage and which strikes not at the margins of the profits and the outputs of existing firms but at their foundations and at their very lives." [FN10]

FN9. Id.

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FN10. Schumpeter, Capitalism., Socialism and Democracy 84 (3d ed. 1950) (emphasis added).

The greater the number of companies which engage in research and development efforts, the greater are the opportunities to develop improved products or substitute products, with an accompanying improvement in general economic well-being. The multiplying ***6** numbers of new or substitute products developed in the chemical, drug, and electronics industries point to the advantages of having many firms- large and small engaged in research activities. Moreover, new product?? make possible competition across existing industry lines as well as within an industry, as the development of plastics and synthetic fibers has so well demonstrated.

As shown below, the Sixth Circuit's opinion, if up held, would apply to such a broad range of tech nological information (i.e. "patentable" subject matter) and would foster such a wide range of improper conduct that its effect would be devastating. It would directly jeopardize billions of dollars worth of technological secrets, which have been developed in reliance on the validity of trade secret laws and judicial decisions upholding such laws, and which would immediately become subject to misappropriation with impunity. Its inevitable result would be the technological rape of the chemical and other vitally important segments of American industry.

An even more basic consequence of this destruction of trade secret protection would be prospective. It would reduce the amount of research conducted in those technological areas where a firm does not believe the results will qualify for a patent. A firm is less likely to spend millions of dollars to develop know-how--and the variety of minor improvements of that know-how which make it continuingly current and valuable--if the law should permit another person or company to pirate it with impunity. As a result, research efforts would almost certainly be reduced or at least focused primarily on areas which management believed would yield inventions that could be protected with patents.

***7** Yet the fact that an invention may satisfy the criteria for the grant of a patent does not necessarily mean that it is more valuable, or even more ingenious, than if a patent may not be granted. Thus, under the decision below, the allocation of resources for research and development would be determined not by the requirements of technology and the discipline of economics, but by the arbitrary diktats of uncertain law. The reduction or rechanneling of research would tend to reduce competition (and thus have a leveling effect among firms), slow technological progress, and impede the growth of the economy.

In addition, the relative position of the American economy in the world would deteriorate. The effect of the instant opinion would not be limited to the misappropriation of trade secrets by American individuals or companies. It would permit foreign competitors to obtain technological secrets of American firms by means heretofore judged to be improper, while the foreign firms would be able to maintain the secrecy of their own information. At the same time, the foreign firms would retain the incentive to continue investing in technological research, and the incentive of American companies to keep abreast would be reduced. The net result would be the unjust enrichment of foreign competitors at the expense of American industry, the export of fewer American goods-but more American jobs-and a severe

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deterioration in America's balance of payments position.

SUMMARY OF ARGUMENT

The Sixth Circuit opinion removes the protection the law traditionally has afforded trade secrets. It encourages and rewards industrial espionage and other forms of predatory conduct which heretofore have ***8** been considered improper. As a result, it jeopardize the continuing viability of all technological trade secrets and, if upheld, would destroy a legal and economic framework on which American industry ha?? long relied.

The opinion below is totally without precedent, and contravenes the applicable law enunciated by this Court and by the Courts of Appeals of four Circuits In particular, the most recent decisions of this Court that might be deemed relevant, and which were relied upon by the Sixth Circuit, provide no support for it?? opinion.

The Constitution did not remove from the States the authority to protect trade secrets by law. The only remaining question, then, is whether such laws must be preempted by the Federal patent law. A State law will be held to be preempted only if there is a compelling reason to do so; this Court will not struggle to find pre emption. Here, there can be no doubt that a holding of preemption is neither required nor warranted.

The trade secret laws do not conflict with the patent law. They do not apply to, and thus in no way restrict, the operation and effectiveness of a patent granted on a particular invention. The protection they offer does not conflict with the policies of the patent law. Trade secret laws merely protect private information from use or disclosure by improper means, as other laws prevent the taking of tangible property by improper means.

Trade secret laws grant no monopoly and no exclusive right, as the patent law does. Any person who by fair means makes or learns of a discovery which is the subject of another person's trade secret can use it. The ***9** patent law, on the other hand, grants the inventor the right for seventeen years to exclude all others from using the patented invention even if another person discovers it independently.

The Court below found a supposed conflict with the patent law in that the trade secrets in issue had been in commercial use for more than one year. To be sure, an invention which has been in commercial use for more than one year is ineligible for a patent, because it is deemed to have been in "public use" as that term is used in the patent law. It may be argued here, however, that commercial use for more than one year places an invention in the public domain, and thus that trade secret protection of it conflicts with the patent law. But this assertion would be erroneous. An invention which has been used commercially but in secret for more than one year is not in the public domain.

Congress has provided that in exchange for the benefits conferred by the grant of a patent, the inventor must disclose his invention to the public. But there is no policy in the patent clause of the Constitution or in the patent law which requires that non-patented information be made public. An inventor is entitled, if he elects to forego patent protection or is unable to obtain it, to try to keep his invention secret. The patent clause grants Congress no authority to require inventors who do

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not obtain a patent to reveal their private information; and Congress, in almost 200 years of patent history, has not attempted to exercise any such authority.

Congress thus has manifested no intention that the trade secret laws be preempted. Indeed by numerous enactments, including a provision of the patent law itself, Congress has expressed its desire that trade ***10** secrets be respected and that the laws protecting them should be observed by the Federal Government.

ARGUMENT

I. THE OPINION OF THE SIXTH CIRCUIT WOULD UPSET LONGSTANDING LEGAL PRINCIPLES AND INDUSTRIAL PRACTICES TO THE SERIOUS DETRIMENT OF AMERICAN INDUSTRY AND THE NATIONAL ECONOMY.

A. Protection of Trade Secrets is a Longstanding Principle of the Common Law.

Ohio's trade secret law provides, by statute, that no person:

(a) "shall, with intent to deprive or withhold from the owner thereof the control of a trade secret, ... obtain possession of ... a trade secret" or

(b) "having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person ..." [FN11]

FN11. 13 Ohio Rev. Code Ann. § 1333.51 (Supp. 1972). See also W. R. Grace & Co. v. Hargadine, 392 F.2d 9 (6th Cir. 1968), and authorities cited therein.

Criminal penalties are prescribed for violations of these provisions. [FN12] Injunctions may also be obtained; in particular, an employer may obtain an injunction to bar a former employee and his new employer (like Respondents in the instant case) from disclosing or using trade secrets learned by the departed employee in the course of his employment. [FN13]

FN12. Ohio Rev. Code Ann. § 1333.99(E) (Supp. 1972): "Whoever violates section 1333.51 of the Revised Code shall be fined not more than five thousand dollars, imprisoned not less than one nor more than ten years, or both."

FN13. B. F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E. 2d 99 (Ct. App. 1963); Curry v. Marquart, 133 Ohio St. 77, 79, 11 N.E. 2d 868, 869 (1937) (dictum).

***11** This statute codifies a doctrine of the common law that has long been in effect in Ohio, [FN14] and in other States, and adds criminal sanctions. The genesis of this doctrine lies so early in our law that it cannot be identified with precision; but it clearly lies deep in the roots of the common law. [FN15] As the opinion of the Sixth Circuit recognized, 478 F. 2d at 1080-81, English cases affirming the validity of trade secret protection can be found as early as 1820, Yovatt v. Winyard, 1 Jac. & W. 394, 37 Eng. Rep. 425 (Ch. 1820). [FN16]

FN14. See Cincinnati Bell Foundry Co. v. Dodds, 10 Ohio Dec. Reprint 154 (Super. Ct. 1887).

FN15. A similar doctrine was recognized in the Roman Empire, A. Schiller, "Trade Secrets and the Roman Law; The Actio Servi Corrupti," 30 Colum. L.Rev. 837 (1930).

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FN16. See also, Newbery v. James, 2 Meriv. 446, 35 Eng. Rep. 1011 (Ch. 1817); Williams v. Williams, 3 Meriv. 157, 36 Eng. Rep. 61 (Ch. 1817); Abernethy v. Hutchinson, 3 L.J. Ch. 209, 213, 219, 47 Eng. Rep. 1313 (Ch. 1825) (literary property); Cholmondeley v. Clinton, 19 Ves. 261, 34 Eng. Rep. 515 (Ch. 1815) (client secrets obtained by solicitor in confidence).

Similarly, the early cases in the United States demonstrate the strength of this doctrine as a longstanding principle of common law. [FN17] As such, trade secret protection presumably is provided by every State; in at least thirty-six States it has been specifically ***12** recognized by the courts. [FN18] The Restatement of Torts, moreover, affirms trade secret protection:

FN17. See, e.g., Peabody v. Norfolk, 98 Mass. 452 (1868); Jarvis v. Peck, 10 Paige 118 (N.Y. Ch. 1843); Hammer v. Barnes, 26 How. Pr. 174 (N.Y.S.Ct. 1863); and 2 Story, Equity Jurisprudence § 952 (1st ed. 1836), wherein Justice Story stated the established rule:
"... Courts of equity will restrain a party from making a disclosure of secrets, communicated to him in the course of a confidential employment. And it matters not, in such cases, whether the secrets be secrets of trade, or secrets of title, or other secrets of the party important to his interests."

FN18. Citations of opinions recognizing the law of trade secret protection in all contexts, including non-technological ones, are set forth in Appendix B to this Brief. In no state has a ease been found rejecting or disapproving the doctrine.

"One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if (a) he discovered the secret by improper means, or (b) his disclosure or use constitutes a breach of confidence reposed in him ..." Restatement of Torts § 757 (1939).
At least twenty-one States, in addition, have enacted statutes adding criminal law sanctions to the common law protection. [FN19]

FN19. Such statutes are listed in Appendix C to this Brief. Included among the States enacting such legislation are major industrial States like California. Illinois, Indiana, Massachusetts, Michigan, Minnesota, New Jersey, New York, North Carolina, Ohio, sylvania, and Wisconsin.

This Court has recognized the laudable policies behind State trade secret laws on numerous occasions. In Fowle v. Park, 131 U.S. 88, 97 (1889), it upheld a contract involving a secret formula for the production of a medicine because "[t]he policy of the law is to encourage useful discoveries by securing their fruits to those who make them." And in Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236, 250 (1905), Justice Holmes analogized market quotations to trade secrets and said that the originator had "the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's."

***13** In Dr. Miles Medical Co. v. John D. Park & Sons Co., 220 U.S. 373 (1911), Justice Hughes, speaking for the Court, had to distinguish the privileges attached to a trade secret from those conferred by a patent. The former were described as follows:

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"The complainant relies upon the ownership of its secret process and its rights are to be determined accordingly. Anyone may use it who fairly, by analysis and experiment, discovers it. But the complainant is entitled to be protected against invasion of its rights in the [secret] process by fraud or by breach of trust or contract." 220 U.S. at 402.

In E. I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917), Justice Holmes, speaking for the Court, affirmed the grant of an injunction against the disclosure of a trade secret to the defendant's expert witnesses in the course of litigation and said that an employee "shall not fraudulently abuse the trust reposed in him." The Court in Becher v. Contoure Laboratories, Inc., 279 U.S. 388, 391 (1929), recognized a cause of action against an employee for his "breach of a contract or wrongful disregard of confidential relations ..." Finally, in United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933), the Court held that the inventor "may keep his invention secret and reap its fruits indefinitely."

B. The Opinion Below Would--and in the Present Case, Does--Reward Dishonest and Immoral Conduct.

The trade secret laws are intended and have long been invoked to foster the "old fashioned" commercial values of good faith, honesty, and fair dealing. [FN20] Thus, ***14** they provide a remedy against the taking of valuable trade secret information by breach of contract, theft, or breach of trust. [FN21] As one court has emphasized, it would be improper for the courts to fail to lend their assistance in protecting against such predatory practices:

FN20. See, e.g., du Pont de Nemours Powder Co. v. Masland, supra, at 102; and Restatement of Torts § 757, comment a (1939).

FN21. See, e.g., G. Doerfer, "The Limits on. Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy," 80 Harv. L. Rev.1432, 1448 (1967).

"It would be a reproach to any system of jurisprudence to permit one who has received a disclosure in confidence to thus appropriate the ideas of another without liability for the wrong." Hoeltke v. C. M. Kemp Mfg. Co., 80 F.2d 912, 923 (4th Cir. 1935), cert. denied, 298 U.S. 673 (1936).

The opinion below, however, would promote and encourage a completely different attitude toward private information. Employees who have learned technological secrets by virtue of their employment in a fiduciary capacity with a firm which had financed a discovery would be free to leave that firm, taking its secrets with them--and then exploit that confidential information to their own unjust enrichment in competition against their former employer (as did the Respondent employees in the present case).

The decision would also reward the diverse other forms of improper conduct which trade secret laws seek to prohibit. The rationale of the opinion of the Sixth Circuit would permit--indeed encourage--the disclosure and use of misappropriated "patentable" [FN22] but unpatented trade secrets, even if the wrongdoer could be prosecuted under the general criminal law. ***15** For instance, an industrial spy who broke into a company's safe and photographed a secret formula a might be prosecuted for breaking and entering, but absent effective trade secret protection, would be able to exploit the purloined information.

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FN22. See discussion of this term, as used by the Court below, at pp. 16-19, infra.

The applicability of the criminal sanctions of the trade secret law enacted by Ohio and by many other States would, it seems, depend on whether the malefactor was fortunate enough to misappropriate "patentable" trade secrets rather than those that were "unpatentable." The "patentable" nature of the material stoleu--surely a novel question for the State criminal courts--rather than the intent of the wrongdoer, apparently would determine his fate. [FN23]

FN23. And if a person were indicted under one of the twenty-one statutes listed in Appendix C. would the prosecution be required to prove non-patentability beyond a reasonable doubt? Would a person who Xeroxed technological trade secret information eleven months and twenty-nine days after the trade secret was used commercially be a felon, whereas another person performing precisely the same act twelve months and one day after such use would be innocent?

These are not mere abstractions: even under the present law the threat that trade secrets may be stolen is a very real one. Industry spends millions of dollars per year to maintain their security. For, "the need to remain technologically competitive has made industrial theft an attractive alternative to expending funds for research; and research has produced an ever more sophisticated array of technical devices to facilitate theft." [FN24]

FN24. Note, "Theft of Trade Secrets: The Need for a Statutory Solution." 120 U. Pa. L. Rev. 378 (1971). A graphic example of the problem posed to industry is found in E. I. du Pont de Nemours & Co. v. Christopher, 431 F.2d 1012 (5th Cir. 1970). DuPont had developed, by expensive and time-consuming research, a secret process for the production of methanol. Christopher flew over the DuPont plant while it was under construction and took aerial photographs which revealed DuPont's trade secret. In granting relief under the trade secret law, the Court held that "espionage was an improper means of discovering DuPont's trade secret." The court stressed that "we introduce here no new or radical ethic since our ethos has never given moral sanction to piracy." 431 F.2d at 1017, 1016- 1017.
See also, Telex Corp. v. IBM Corp., Civil Nos. 72-C-18 and 72-C-89 (N.D. Okla., filed Sept. 17, 1973; amended Nov. 10, 1973) (reported in CCH Trade Reg. Rep. No. 91, pt. 2 (Sept. 24, 1973)), wherein the court awarded damages of $21,900,000 to IBM on its counterclaim as a result of Telex's obtaining IBM trade secrets by a "massive and pervasive program designed to induce the breach of known - of IBM employees or former employees" in violation of the trade secret law of Oklahoma (Conclusion of Law C45). Telex offered extremely large salaries, bonuses (including one of $500,000-the largest bonus in the history of the company), and stock options in order to hire key IBM employees who would reveal IBM trade secrets (Findings F132-F168).

***16** C. The Opinion of the Sixth Circuit Would Have Serious Adverse Effects.

1. The decision applies to every trade secret of a technological nature.

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The opinion of the Sixth Circuit is broad in scope. In using the term "patentable" to describe the inventions to which its opinion is applicable, it is apparent that the court below encompassed all discoveries relating to the types of subject matter with which the patent law is concerned (35 U.S.C. § 101 (1970)), even though, in actuality, the inventions may not be eligible for the grant of a patent under the specific criteria of that law (35 U.S.C. § § 102, 103 (1970)). In other words, the effect of its ruling is not limited to those particular inventions which, if pursued in the Patent Office, would result in the actual grant of a patent. As the Court stated, its decision applies to inventions ***17** which are "appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101." [FN25]

> FN25. 478 F.2d at 1078 (emphasis added). 35 U.S.C. § 101 (1970) provides that a patent may be obtained, "subject to the conditions and requirements" of other sections, on "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof ..."

Because the opinion below applies to anything and everything falling within the "subject matter" jurisdiction of the patent laws, it would, if affirmed, apply to every advance in the extensive field of technology and thus, in effect, jeopardize the value of all secret technological information. [FN26] It would, for instance, apply to every minor refinement in the design of a machine and to every small improvement in a manufacturing process, commonly referred to as "know-how"--which, although new, useful, and valuable, may not be eligible for a patent because it is "obvious" in terms of the patent law.

> FN26. The decision, of course, does not apply to non-technological secrets, such as customer and supplier lists, marketing projections, and advertising strategies.

In the chemical industry, where multistep processes and procedures are common, the judicious combination of "obvious" modifications in individual steps often entails the expenditure of considerable amounts of time and money and confers significant technical and economic advantages-and yet may not satisfy the specific requirements for a patent. [FN27] The instant opinion would deny the company which invested the funds, ***18** energy, and skill to develop such a technological advance the ability to protect the secrecy of its discovery (after only one year of commercial use) against disclosure to competitors by surreptitious means.

> FN27. Examples are such engineering details as tolerances in forming machine parts, the choice of construction materials, the relative sizing of vessels and pipes, operating conditions for each step of a chemical process, and analytical procedures.

In other words, the Sixth Circuit holds that the patent law prevents a State from protecting a trade secret even if the patent law itself provides no protection.

It may be argued that the Sixth Circuit did not intend its opinion to apply to the entire "subject matter" jurisdiction of the patent law, but only to inventions on which patents could have been obtained, but were not. Even so, the effect of the decision would be severe, and its implementation impossible.

The difficulties--and they are legion--are readily apparent. For instance, an

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inventor who had not applied for a patent would not know if he held a valid trade secret; that question could be resolved in his favor only by a court's determination, perhaps many years after the event, that he could not have obtained a valid patent. Or an inventor might have been denied a patent by the Patent Office and relied on the trade secret law, only to learn years later, in litigation on the validity of his trade secret, that a patent should have been granted to him—and thus that the trade secret law was preempted as it applied to his invention.

Under such an interpretation of the opinion below, any court in the nation, Federal or State, could be called upon to determine if an invention protected by a trade secret was "patentable"--often without the preliminary determination of the Patent Office. The issue of patent validity is presently a major source of litigation, mainly in the Federal Courts, and raises ***19** complex questions for the courts, even though they have the benefit of the expertise of the Patent Office. If that issue were to be interjected into every case involving the validity of a technological trade secret, the scope, complexity, expense, and uncertainty of trade secret litigation would be greatly increased. In addition, State courts would be called upon to determine whether an inventor was entitled to a patent in many more instances than at present.

What standards would the courts apply in such a Herculean effort? Would they, for instance, employ the criteria for obtaining a patent in effect at the time the invention was made, or at the time the trade secret was violated, or at the time of trial ? Who would have the burden of proof--the inventor of a trade secret or the thief who stole it?

But it is not necessary to determine how broadly the opinion should be interpreted or to choose between the alternative interpretations discussed. For, as discussed below at pages 20-40, the patent law does not preempt the trade secret law with respect to any invention, whether "patentable" or not, regardless of how "patentable" is defined.

2. The adverse effects of the opinion are not significantly reduced by its purported limitation to trade secrets which have been in "public use" for a year or more.

The opinion of the Court below purportedly is "limited" to patentable trade secrets which have been in "public use" (a term of art in the patent law) for a year or more and thus, under the terms of 35 U.S.C. § 102 (b) (1970), are not eligible for the grant of a patent. On the basis of this limitation, amicus curiac SCM Corporation sought in its brief opposing certiorari ***20** to discount the significance of the opinion below as only a "single narrow holding." [FN28]

> FN28. Brief Amicus Curiae of SCM Corporation In Opposition to Petition for Writ of Certiorari at 8, No. 73-187 (1973).

But this factor does not significantly limit the adverse consequences of the decision. [FN29] After a year of commercial use, even in secret, every trade secret which might otherwise be eligible for a patent would be ineligible on this ground; at best, this limitation would merely carve out from the adverse effect of the opinion new trade secrets for a one-year period. The number of trade secrets which would thus be protected would be relatively small indeed; MCA members report that

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the large majority of technological developments that are protected by State trade secret laws have been in commercial use for more than one year.

FN29. Nor, as discussed below at pp. 29-32, does the one-year bar of § 102(b) affect the prceemption question as a matter of law.

Therefore, although it invoked the bar of § 102 (b) as a limitation of its holding, the Sixth Circuit's opinion still would jeopardize every technological trade secret except the relatively small category of those which have not been in commercial use for a year--and those would be protected only until the year expired.

II. OHIO'S TRADE SECRET LAW HAS NOT BEEN PREEMPTED BY THE UNITED STATES CONSTITUTION OR BY THE FEDERAL PATENT LAW.

Almost from its very beginning, the Court has been confronted with claims that a State law was preempted by the Constitution and laws of the United States. It has decided scores of cases on this issue, from Gibbons v. Ogden, 22 U.S. (9 Wheat.) 1 (1824), through Gold***21** stein, v. California, 412 U.S. 546 (1973). Over this period, this Court has developed certain basic precepts for deciding preemption claims, while at the same time it has emphasized the importance of viewing the competing interests at issue on a case-by-case basis, Burbank v. Lockheed Air Terminal, Inc., 411 U.S. 624, 638 (1973).

In essence, those standards establish that the Ohio trade secret law is not preempted by the patent law because:

1. The Constitutional grant of authority to Congress to issue patents did not deprive the States of their power to protect unpatented secret technological information from being wrongfully appropriated to another's use.

2. Congress has not expressed any intention that the patent law preempt the State trade secret laws--indeed its intention has been quite the contrary--and their enforcement does not pose an irreconcilable conflict with the purposes or operation of the Federal legislation.

A. The States Have Retained the Authority to Protect Trade Secrets.

The preliminary inquiry is whether the Constitution grants Congress any exclusive power such as to prevent Ohio from enforcing a trade secret law, even in the absence of any Federal legislation, Cooley v. Board of Wardens, 53 U.S. (12 How.) 299, 318-19 (1851); Goldstein, v. California, supra, at 552.

By Article I, § 8, el. 8 of the Constitution, Congress is empowered:

"To promote the Progress of Science and useful Arts, by securing for limited Times to Authors ***22** and Inventors the exclusive Right to their respective Writings and Discoveries."

Article I, § 8, el. 8 describes both the objective which Congress may seek, and the means it may use to achieve that goal. No one would contend that the objective is exclusive and that only Congress can promote the progress of science and the useful arts. States may, it would seem indisputable, fund libraries and colleges, establish laboratories, and promote research in a myriad of ways.

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Congress was granted a limited, specified power that it might exercise in order to promote science and the useful arts-the right to grant exclusive rights in their works to authors and inventors. As Alexander Hamilton enunciated in Number 32 of The Federalist, States retain all their sovereign powers unless (a) "the Constitution in express terms granted an exclusive authority" to the Federal Government, or (b) it "prohibited the States from exercising the like authority," or (c) the exercise of a similar authority by the States "would be absolutely and totally contradictory and repugnant" to the Federal power. And the Tenth Amendment to the Constitution expressly confirmed that the States retained all powers not delegated to the United States.

Chief Justice Burger, speaking for this Court, has only recently confirmed, in reviewing State copyright legislation, that Art. I, § 8, cl. 8 "does not provide that [the power granted thereby] shall vest exclusively in the Federal Government. Nor does the Constitution expressly provide that such power shall not be exercised by the States." Goldstein v. California, supra, at 553. And finding nothing repugnant to the Federal ***23** power, this Court concluded that States possess the right to enact copyright legislation in the absence of Federal legislation.

This case involves something far less challenging to Federal law--State trade secret protection. As discussed below at pages 25-27, a trade secret law does not grant the inventor an "exclusive right" to his invention; it merely prohibits private information from being taken from its holder by improper means.

Congress has been delegated no authority by Art. I, § 8, cl. 8 to determine what information citizens may or may not keep private; nor has it been delegated any power to determine what kinds of protection are available to maintain that privacy. Moreover, there is nothing in the Constitution that prohibits the States from enacting trade secret laws. And the authority of Congress to grant inventors exclusive rights is not inhibited or otherwise affected by States' exercise of their police power to protect trade secrets by law.

The Constitution itself, therefore, does not in any way limit the rights of States to enforce trade secret laws.

B. The Slates' Exercise of Their Retained Authority Is Not Preempted by the Federal Patent Law.

Since Congress has exercised the power granted to it by Art. I, § 8, cl. 8 by enacting the patent law, the only remaining inquiry is whether the patent law preempts the States' trade secret laws under the Supremacy Clause (Art. VI, para. 2).

A State law is not preempted unless that law "stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress." Hines ***24** v. Davidowitz, 312 U.S. 52, 67-68 (1941); Goldstein v. California, supra, at 561. Because preemption entails setting aside the sovereign act of a State, and because the State, unlike the Federal Government, is "powerless to remove the ill effects of our decision," Penn Dairies, Inc. v. Milk Control Commission, 318 U.S. 261, 275 (1943), a court will not set aside the State law unless the "subject matter permits no other conclusion, or ... the Congress has unmistakably so ordained." Florida Lime & Avocado Growers, Inc. v. Paul, 373 U.S. 132, 142 (1963). [FN30]

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FN30. See also, e.g., Head v. New Mexico Board of Examiners, 374 U.S. 424, 432 (1963) ("positive evidence of legislative intent"); Schwartz v. Texas, 344 U.S. 199, 203 (1952) ("a clear manifestation of intention"); Rice v. Santa Fe Elevator Corp., 331 U.S. 218, 230 (1947) ("clear and manifest purpose of Congress"); Napier v. Atlantic Coast Line R. R. Co., 272 U.S. 605, 611 (1926) ("The intention of Congress to exclude states from exerting their police power must be clearly manifested.").

1. Trade secret laws do not conflict with the patent law.

The essential holding of the Sixth Circuit was that the State trade secret law "conflicts" with the Federal patent law. The Court founded that conclusion upon two grounds: (a) in respect to technological information, the trade secret law protects a "monopoly" and excludes competition, which are the protections granted by the patent law; and (b) the trade secret law conflicts with a supposed objective of the patent law to provide public disclosure of all inventions, 478 F.2d at 1086.

The following discussion will demonstrate that these two grounds are erroneous-as is another contention which may be made in this Court in an effort to support the decision of the Sixth Circuit.

***25** a. The Trade Secret Laws Foster No Monopoly and Grant No Exclusive Rights to Inventions.

Congress is authorized by Art. I, § 8, cl. 8 to reserve for inventors "the exclusive Right" to their discoveries, for a limited time. It has done so in the patent law, which currently grants the first inventor the right for 17 years to exclude others from manufacturing, using, or selling his patented discovery, 35 U.S.C. § 154 (1970). Even if another person makes the same discovery independently and in complete ignorance of the prior invention, he is barred from making, using, or selling his discovery for the life of the patent.

If a State should enact a law for the grant of patents--or other similar form of exclusive right to an invention--it would interfere with the federal law's effort to promote uniform standards for the types of discovery which are entitled to this particular kind of protection. Moreover, if a State should attempt to reach the same result by indirect means--as by prohibiting anyone from copying a product that is known to the public, thus giving the first user an exclusive right--its effort would also interfere with, and be preempted by, the patent law. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

But the trade secret law does not provide such rights. It does not grant exclusive rights or a monopoly. It does not protect information known to the public. On the contrary, it provides only that a person's private information will not be taken from him wrongfully:

"It is the employment of improper means to procure the trade secret, rather than the mere copying or use, which is the basis of the liability under the rule stated in this Section." Restatement of Torts § 757, comment a at 3-4 (1939).

* * *

***26** "The patent monopoly is a reward to the inventor. But such is not the case

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with a trade secret. Its protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret." Restatement of Torts § 757, comment b at 7 (1939). [FN31]

> FN31. See Board of Trade v. Christie Grain & Stock Co., supra, for Mr. Justice Holmes' description of contracts to maintain the confidentiality of market quotations, an obligation which he analogized to trade secrets, 198 U.S. at 250, and which the Court held not to create a monopoly:
> "But so far as these contracts limit the communication of what the plaintiff might have refrained from communicating to anyone, there is no monopoly or attempt at monopoly, and no contract in restraint of trade, either under the [Sherman Act] or at common law.... But it is simply a restraint on the acquisition for illegal purposes of the fruits of the plaintiff's work." 198 U.S. at 252.

The trade secret law grants no protection against anyone who makes the same discovery independently. It provides no protection against others fairly using the same trade secret, and competitors not infrequently each employ the same or substantially the same trade secrets without the knowledge of the other. Nor does the trade secret law prohibit a discovery from being copied or worked out by reverse engineering from what is publicly available.

Trade secret laws do not impede competition, but rather protect the fruits of it; they represent an exercise of the States' police power in order to curb certain unacceptable practices. Neither Federal law nor policy seeks to promote such practices.

A State trade secret law, therefore, grants nothing to its holder, except protection from the forays of com***27** mercial predators. That is not the grant of an exclusive right in an invention. [FN32]

> FN32. To characterize protection against improper disclosure of private information as granting a "monopoly" as the Sixth Circuit did, 478 F.2d at 1086, is to fall prey to the dangers of which Justice Holmes warned: "It is one of the misfortunes of the law that ideas become eneysted in phrases and thereafter for a long time cease to provoke further analysis." Hyde v. United States, 225 U.S. 347, 391 (1912) (dissenting opinion).

b. The Courts Traditionally Have Acted to Enforce Trade Secret Laws as Entirely Separate from the Patent Law.

The courts, including this Court, have almost without exception recognized that the trade secret law is separate and distinct from the patent law and have held that public policy requires the protection of trade secrets. [FN33] In Becher v. Contoure Laboratories, Inc., supra, this Court emphasized that trade secret law is independent of the patent law and that a trade secret could be enforced. Justice Holmes stated for the Court:

> FN33. The only exception (other than the decision below) of which we are aware is the District Court's opinion in Painton & Co. v. Bourns, Inc., 309 F.Supp. 271 (S.D.N.Y. 1970), which was reversed at 442 F. 2d 216 (2d Cir. 1971).

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"[The] suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, both matters independent of the patent law, and ... the subject-matter ... was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust." supra, at 391 (Emphasis added). [FN34]

FN34. See also, E. I. du Pont de Nemours Powder Co. v. Masland, supra, and the other decisions discussed at pp. 12-13, supra.

An especially articulate description of the different functions of the trade secret law and the patent law is ***28** to be found in Allen-Qualley Co. v. Shellmar Products Co., 31 F.2d 293, 296 (N.D. Ill. 1929): [FN35]

FN35. Aff'd., 36 F.2d 623 (7th Cir. 1929).

"[T]he owner of a patent has a monopoly against all the world, while the owner of a secret process has no right 'except against those who have contracted, expressly or by implication, not to disclose the secret, or who have obtained it by unfair means.' ... Whether the subject-matter is patentable or not, if the designer discovers and keeps secret a process of manufacture, though he will not have an exclusive right to it as against the public, after he shall have published it, or against those who in good faith acquire knowledge of it, yet he has a property right, which a court of chancery will protect against one who in bad faith and breach of confidence undertakes to apply it to his own use."

Four recent opinions, decided by four different Courts of Appeals, have explicitly ruled that the patent law does not preempt State trade secret laws. (In two of these four this Court was asked to grant certiorari but declined, thereby leaving in effect, in each instance, a decision contrary to the instant opinion.) [FN36] The thrust of these four decisions is perhaps best reflected in Judge Friendly's opinion:

FN36. The four cases are: Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), cert. denied 383 U.S. 934 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), cert. denied 402 U.S. 945 (1971); Water Scrvices, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2d Cir. 1971).

"We therefore do not find, either in general considerations of public policy or in emanations from the federal patent law, a sufficient basis for declining to enforce even the royalty provisions of ***29** trade secret agreements, at least with respect to cases where no patent application has been filed. ... [A]n inventor who chooses to exploit his invention by private arrangements is entirely free to do so, though in so doing he may thereby forfeit his right to a patent." [FN37]

FN37. Painton & Co. v. Bourns, Inc., supra, at 225.

Thus, the operation of the trade secret law does not conflict with the patent law, even with respect to inventions which could be patented-and a fortiori not with respect to those which, while of a "patentable" subject matter, do not qualify for a patent.

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c. An Invention in Commercial Use for More Than One Year Is Not in the Public Domain.

As noted in the prior discussion concerning its scope, the Sixth Circuit's opinion applies only to trade secrets in inventions which have been in commercial use for more than one year. It is not clear what legal significance the Court attached to this "limitation." In actuality, the length of time the invention has been in use has no relevance to the question of preemption.

Under the patent law, a patent cannot be obtained on an invention which has been in "public use" for more than one year, 35 U.S.C. § 102(b) (1970). "Public use" is a term of art in the patent law; it encompasses commercial use in secret by an inventor and prevents the inventor from obtaining a valid patent. [FN38]

> FN38. Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2d Cir.), cert. denied, 328 U.S. 840 (1946). Cf. Electric Storage Battery Co. v. Shimadzu, 307 U.S. 5, 19-20 (1939).

Amicus curiae SCM Corporation has asserted here, as Respondents did in brief to the Sixth Circuit, that because the inventions at issue had been in commercial ***30** use for more than a year, they somehow became, under 35 U.S.C. § 102(b), "part of the public domain." Trade secret protection of such an invention, the argument runs, would grant rights like those provided by the patent law, in violation of this Court's decisions in Sears and Compco. [FN39]

> FN39. Brief of Amicus Curiae SCM Corp. in Opposition to Petition for Writ of Certiorari at 8-11; Reply Brief of Cross-Appellants at 2, Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074 (6th Cir. 1973).

This is totally erroneous. Commercial use of an invention, while it bars the grant of a patent to the user, does not necessarily place the invention in the public domain. Commercial use of a secret by no means requires that it be disclosed to the public. In fact, the Sixth Circuit itself found that twenty of the inventions at issue, which had been in commercial use for more than a year, were trade secrets, 478 F.2d at 1077--a ruling which necessarily negates any finding that they were in the public domain. [FN40]

> FN40. "The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret." Restatement of Torts § 757, comment b at 5-6 (??

If a discovery itself is revealed to the public through "public use," it necessarily passes into the public domain and cannot be a trade secret. [FN41] If, however, the discovery is a process or other invention which is not revealed by its "public use," like the trade secrets in the instant case, it does not enter the public domain. It requires a fanciful flight of reasoning or an imprecise use of language to conclude that by forfeiting ***31** his right to a patent by a "public use" which does not reveal the secret, the inventor somehow places his invention in the "public domain."

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FN41. Examples are the inventions in Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964) (pole lamp); and Compco Corp. v. DayBrite Lighting, Inc., 376 U.S. 234 (1964) (fluorescent lighting fixtures).

The doctrine of "public use" in no way affects an inventor's right to maintain the secrecy of his discovery. As this Court explained almost one hundred fifty years ago, the bar against prior "public use" is designed to prevent an inventor from using an invention in secret and then, when he senses the hot breath of competition, filing for a patent, thus having the best of both worlds--a trade secret plus a. patent when competition is about to destroy the value of the trade secret. Pennock v. Dialogue, 27 U.S. (2 Pet.) 1 (1829); Shaw v. Cooper, 32 U.S. (7 Pet.) 292, 321-22 (1833). [FN42]

FN42. These cases were decided prior to the enactment of a prescribed maximum period of public use.

If, indeed, the one-year use placed any invention in the public domain, there could be no trade secret protection of an invention after one year. Yet, as Judge Learned Hand wrote, an inventor may choose between trade secret protection and patent monopoly, and having used the invention for more than a year can rely on the former:

"[I]t is a condition upon an inventor's right to a patent that be shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly.... But if he goes beyond that period of probation [the one-year limit on public use], he forfeits his right regardless of how little the public may have learned about the invention; ...[it is] the fiat of Congress that it is part of the consideration for a patent that the public shall as soon as possible begin to enjoy the disclosure." Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., supra, at 520.

***32** d. The Trade Secret Law Does Not Conflict With the Patent Law's Disclosure Objectives.

The other major component of the Sixth Circuit's opinion--in addition to its assumption that a trade secret law grants a "monopoly"--was its belief that the trade secret law enables an inventor to "prevent disclosure" and that because trade secret protection "has no limitation of time ... [it] is in direct conflict with the Patent Laws, which have as a purpose the objective of obtaining public disclosure after a limited period of time." [FN43]

FN43. 478 F.2d at 1086.

A trade secret law, of course, does not "prevent disclosure." It merely protects private information against being revealed by improper methods, such as breach of trust. The patent law has no interest in fostering such conduct. On the contrary, as discussed below at pages 37-39 in more detail, Congress itself has provided criminal sanctions against Federal employees who wrongfully disclose trade secrets, 18 U.S.C. § 1905 (1970), and has acted to preserve the confidentiality of trade secrets by enacting numerous statutes for that purpose in many different contexts.

Nor is there any policy in the patent law requiring the disclosure of unpatented innovative discoveries. The patent law requires public disclosure of a discovery

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only in exchange for the issuance of a patent, Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 255 (1945). If a person is willing to forego a patent, no law or policy requires that his discovery be made public. "He may keep his invention secret and reap its fruits indefinitely." United States v. Dubilier Con***33** denser Corp., supra, at 186. As Judge Friendly well stated:

"Although the [Supreme] Court stated [in Lear, Inc. v. Adkins, 395 U.S. at 668] that 'federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent,' ... it did not say or suggest that federal law requires that all ideas must be put in general circulation." [FN44]

FN44. Painton & Co. v. Bourns, Inc., supra, at 225.

That the patent law compels publication as the condition of the grant of a patent does not mean that Congress thereby sought the publication of all technological knowledge. [FN45] Indeed, if Congress had explicitly decreed that all inventions or innovative information must be made public, it would have exceeded the authority granted by Art. I, § 8, cl. 8. That provision authorizes Congress only to grant inventors an exclusive right to their discoveries-not to decree that all technological information be made public and shared in common. The opinion below transforms the condition extracted for the grant of a monopoly into the purpose for granting the monopoly.

FN45. On the contrary, it indicates that Congress recognized that non-patented information could remain secret, for why else would it require the publication of secrets that are patented ? Sec also the discussion of 35 U.S.C. § 122 (1970). infra at. p. 38.

By holding that the Ohio trade secret law conflicts with the patent law because it does not promote the publication of unpatented information, the instant opinion thus gives the patent law an effect which would be beyond the authority of Congress if Congress had sought to reach that result directly. Congress has no power under the patent clause to compel citizens to disclose private trade information.

***34** It is significant, finally, to note that the opinion generally considered to have been the first in the United States to recognize the validity of trade secret protection and a classic case in the area--Peabody v. Norfolk, supra--reached that result by rejecting the argument that the trade secret doctrine contravened a disclosure policy of the patent laws. [FN46] The Court held that the inventor can choose whether to obtain a patent or try to maintain the secrecy of the invention:

"If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons." [FN47]

FN46. 98 Mass. at 456-57. So, indeed, did the leading English case, Morison v. Moat, 9 Hare 241, 68 Eng. Rep. 492, aff'd., 21 L.J. Ch. 248 (1851). In that case the Court dismissed the argument that protecting trade secrets conflicted with the English patent law:
"It was much pressed in argument, on the part of the Defendant, that the

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effect of granting an injunction in such a case as the present would be to give the Plaintiffs a better right than that of a patentee ... but what we have to deal with here is, not the right of the Plaintiffs against the world, but their right against the Defendant. It may well be that the Plaintiffs have no title against the world in general, and may yet have a good title against this Defendant ..." 9 Hare at 258-59, 68 Eng. Rep. at 500.

FN47. 98 Mass. at 458.

Since, as discussed above, the protection against improper disclosure afforded by the trade secret law does not conflict with the patent law, the absence of a time limitation in the trade secret law as opposed to the ***35** seventeen years provided in the patent law--an additional ground in the opinion below for holding there was a conflict [FN48]--is irrelevant. Nevertheless, it bears mentioning that the opinion of the Court below is also erroneous in focusing-on this point.

FN48. 478 F.2d at 1086.

Contrary to the statement of that Court-apparently based on a statement attributed to counsel for Petitioner, rather than on any record evidence in the instant case, let alone on any evidence about general industry practice-reliance by inventors on trade secret laws instead of the patent law is not for the purpose of preserving a "monopoly" for more than the seventeen-year patent period. As noted above, the trade secret laws do not in fact grant a monopoly for any period.

Nor would it be reasonable for inventors to expect that they will be able to maintain their secrets for as long as seventeen years. Trade secrets. rarely can withstand bona fide disclosure--as by reverse engineering--for a time even approaching seventeen years. Finally, even if secrecy were maintained for that long, in very few instances would technological progress be so slow that the secret would still have any value. [FN49]

FN49. G. Doerfer, supra n. 21, at 1448.

2. This Court's recent decisions do not support the conclusions of the Court below.

The opinion of the Sixth Circuit was premised on the stated belief that it was consistent with this Court's opinions in Sears, Roebuck & Co. v. Stiffel Co., supra; Compco Corp. v. Day-Brite Lighting, Inc., supra; and Lear, Inc. v. Adkins, 395 U.S. 653 (1969). ***36** Yet these opinions dealt with entirely different questions.

In Sears and Compco this Court held, as noted above, that the patent system's need for uniform Federal standards with respect to patents precludes the States from granting an exclusive right to information in the public domain which would have the effect of extending a patent beyond its expiration date or granting a patent-like protection to an article on which the Federal law would deny a patent. Sears and Compco involved only the question whether a State could--by laws different from the trade secret laws--grant a monopoly as to information which was in the public domain (there the design of products in general circulation). As this Court said in Lear, citing Sears and Compco, "federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent." 395 U.S. at 668 (emphasis added).

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Like Sears and Compco, Lear did not involve trade secret laws. At issue there was an aspect of the administration of the patent law, and the Court held that State contract law could not be enforced to require a licensee to pay royalties for the use of an invention covered by a patent while he was contesting the validity of the patent. It is worth noting that Justice Black (the author of Sears and Compco), in his concurring opinion in Lear (joined by Chief Justice Warren and Justice Douglas), indicated that the patent law does not preclude a State from assisting an inventor in keeping his discovery secret, 395 U.S. at 677.

Sears, Compco, and Lear thus are consistent with the earlier decisions of this Court upholding the protection of trade secrets. [FN50]

FN50. See discussion at pp. 12-13, supra.

***37** This Court's most recent opinion bearing on the subject is Goldstein v. California, supra, That decision upheld a California statute which in effect granted a State copyright on recordings, even though the Federal copyright law then in effect could have, but did not, provide such protection. This Court recognized that the California statute did not create any conflict with the operation of the Federal copyright law because Congress had "left the area. unattended." [FN51]

FN51. 412 U.S. at 570.

That a State trade secret law is not preempted follows a fortiori from this decision. Because the trade secret law provides an entirely different protection from that offered by the Federal law, the area. is not only "unattended" by Congress, but totally outside its ken under the patent law. [FN52]

FN52. This Court reached its decision in Goldstein by distinguishing that case from Sears and Compco on the ground that Congress had drawn a balance in the area of "mechanical coufigurations" as to which articles it sought to protect under the patent law and which it wished to remain free, and that the States could not protect those articles which Congress had specifically declined to protect, 412 T.S. at 569-70. This distinction, of course, merely refers to the fact that Sears and Compco, as discussed above, held that States could not prevent the copying of articles in the public domain. Those cases did not hold that Congress had determined that unpatented information must be made public. Nor did they hear on the non-monopoly protection afforded by the trade secret law. Thus, Goldstein is authority that States can provide trade secret protection-an area Congress has left far more "unattended" than it has the copyright field.

C. Congress Has Affirmatively Indicated That The Trade Secret Law Is Not Preempted By Federal Law.

Since trade secret laws do not in any way impede the operation of the patent law, it is not surprising that Congress has not indicated in any way that the patent law should preempt the trade secret laws of the States. On the contrary, Congress has affirmatively ***38** demonstrated in numerous statutes that it supports the policies of the trade secret laws and desires them to be fully effective. These statutes are set forth in Appendix D to this Brief. [FN53]

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FN53. In their reply brief to the Court below, Respondents, citing no examples, attempted to minimize the importance of such statutes by asserting that "most" of them "deal with inspection and registration of new products before they arc placed in the stream of commerce." Reply Brief of Cross-Appellants at 5-6, Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074 (1973). The assertion is groundless: these statutes require the protection of all trade secrets, and none of them is limited, implicitly or explicitly, to new products that have not entered the stream of commerce.

Perhaps most probative of Congressional intent is the fact that even in the patent law itself Congress has recognized the validity of trade secrets and has acted to protect them. Section 122 of the patent law, 35 U.S.C. § 122 (1970), provides specifically that applications for patents shall be maintained in secrecy (which secrecy may be breached only in unusual circumstances); see also, Patent Office Rule 14, 37 C.F.R. § 1.14 (1973). This provision applies even if the application ultimately is denied or abandoned, Sears v. Gottschalk, 357 F.Supp. 1327 (E.D. Va. 1973); 37 C.F.R. § 1.14(b) (1973); and P. J. Federico, "Commentary on the New Patent Act," 35 U.S.C.A. 1, 35-36 (1954). In other words, Section 122 recognizes the patent applicant's option to retain his invention as a trade secret if no patent is obtained, even if a patent would have been obtained if the inventor had not abandoned his application.

In addition, Congress has provided criminal sanctions against Federal employees who wrongfully disclose trade secrets. In 18 U.S.C. § 1905 (1970), Congress has prescribed that any employee who "discloses ***39** ... information [which] concerns or relates to ... trade secrets ... shall be fined ... or imprisoned ..."

Finally, it should be noted that Congress is currently considering several bills which would implement major reforms in the patent law. [FN54] One of these, S. 2504, has recently been proposed formally by the Administration. It is supported by the Antitrust Division of the Department of Justice. [FN55] It would add a Section 301 making it explicit that the patent law does not preempt state trade secret laws:

FN54. 93rd Cong., 1st Sess.: H.R. 7111 (introduced by Rep. Owens and Rep. Mezvinsky on April 17, 1973), ??. 1321 (introduced by Sen. Hart on March 22, 1973), and S. 2504 (introduced by Sen. Scott of Pa. for the Administration on October 1, 1973).

FN55. See Remarks of Thomas E. Kauper, Assistant Attorney General, Antitrust Division, before the Seventh Annual New England Antitrust Conference, reported in 152 BNA Patent, Trademark & Copyright Journal A-8 (November 8, 1973).

"(a) This title shall not be construed to preempt rights or obligations arising by operation of state law concerning trade secrets.
"(b) Nothing in subsection (a) shall authorize any state to grant any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation."

In his "Message to the Congress Proposing Enactment of the Patent Modernization and Reform Act of 1973," 9 Presidential Doc. 1198, 1201 (Oct. 1, 1973), the President explained the proposed Section 301 as follows:
"[This] provision would ensure that the patent laws not be construed to replace or

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preempt state laws concerning trade secrets so long as those state laws do not interfere with the free flow of ideas in ***40** the public domain. Decisions of the Supreme Court in both of these areas would also be left undisturbed."

In view of this Court's invitation to the Solicitor General to file a brief amicus curiae herein, it should be noted that the Department of Justice apparently supports Section 301. The Administration's proposed bill, in which that section is included, was transmitted to Congress by the Departments of Justice and Commerce. [FN56]

FN56. Thomas E. Kauper, Assistant Attorney General, Antitrust Division, represented the Department of Justice at the White House press conference on the Patent Modernization and Reform Act of 1973, 9 Pres. Doc. 1209 (Oct. 1, 1973); 119 Cong. Rec. § 18140 (daily ed. Oct. 1, 1973) (remarks by Sen. Scott of Pa.).

In addition, the Department of Justice earlier stated that it would support a narrowly drawn non-preemption provision like Section 301. In 1971, the Senate Committee on the Judiciary was considering an anti-preemption provision which not only antedated the decision below, but which was also far broader than the present Section 301. Richard McClaren, the Assistant Attorney General for the Antitrust Division of the Department of Justice, submitted the Department's position as follows:

"We would not object ... to a more narrowly drafted provision permitting the states to protect inventors' rights in their ideas, provided that those ideas are both really secret and really valuable.

"I believe that the accommodation which I have suggested is consistent with both the patent system and the antitrust laws. In addition, it recognizes the existence of a longstanding body of common law which protects private rights to trade secrets and industrial know-how. It protects the choice ***41** long available to inventors of disclosing their invention and securing a patent on it, or of keeping their inventions secret and exploiting them through trade secret and know-how licenses." [FN57]

FN57. Richard McClaren, then Assistant Attorney General, Antitrust Division, Patent Law Revision Hearings on S. 643, S. 1253, and S. 1255, Before the Subcommittee on Patents, Trademarks, and Copyrights of the Senate Committee on the Judiciary, 92nd Cong., 1st Sess., pt. 2, 503, at 516 (1971).

Section 301 confirms that the Administration does not wish the trade secret laws to be preempted. Moreover, Section 301 demonstrates that the Administration believes, as amicus curiae MCA contends here, that the patent law does not preempt State trade secret laws, and that this result promotes the public interest. [FN58]

FN58. Prior to the Sixth Circuit's decision in this case, the Department of Justice publicly stated that no anti-preemption provision was required in order to preserve the State trade secret laws:
"Nothing the courts have done in the area of preemption warrants legislative action at this time. The appropriate time for legislation, if any, is after such event, not before."
"Memorandum of Law by Department of Justice," Patent Law Revision Hearings, supra n. 57, 483, at 502.

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CONCLUSION

The decision of the Court below does not promote the public interest. It would prevent the enforcement of State laws which protect trade secrets from being misappropriated by conduct which has heretofore been considered improper-breach of contract, breach of trust, and abuse of confidential relationships.

In doing so, it would destroy a legal and economic structure which has been in operation in this Nation from its founding and upon which industry has long relied; it would promote predatory business behavior ***42** and impair the growth of the American economy. There is no Federal policy which requires such a result, and the doctrine of preemption does not warrant such a result.

Trade secret law in no way impedes the operation of the patent law or conflicts with it; the two systems of law provide entirely different kinds of protection. Congress has affirmatively manifested its intention, not only that trade secret laws be permitted to continue but also that the Federal Government recognize and respect them.

The opinion and order of the Sixth Circuit should be reversed by this Court.

Appendix not available.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185610 (Appellate Brief) Brief for the United States as Amicus Curiae (Apr. 08, 1974)Original Image of this Document (PDF)

• 1973 WL 172423 (Appellate Brief) Brief Amicus Curiae of Scm Corporation (Dec. 27, 1973)Original Image of this Document with Appendix (PDF)

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1973 WL 172414 (U.S.)

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• 1973 WL 172415 (Appellate Brief) Brief Amicus Curiae for the Budd Company (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

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• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 173806 (Appellate Brief) Motion of Chamber of Commerce of the United States of America for Leave to File Brief Amicus Curiae and Brief for Amicus Curiae Chamber of Commerce of the United States of America (Sep. 28, 1973)

END OF DOCUMENT

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1973 WL 172415 (U.S.)

For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
November 23, 1973.

Brief Amicus Curiae for the Budd Company

Herman Foster Edward M. Farrell 2155 West Big Beaver Road Troy, Michigan 48084
Attorneys for the Budd Company

***1** The Budd Company, a Pennsylvania corporation, with an office at 2155 Big Beaver Road, Troy, Michigan 48084, files this brief amicus curiae in support of Petitioner, together with letters of consent from both Petitioner and Respondents.

QUESTIONS PRESENTED

1. Do the Patent Laws of the United States pre-empt subject matter sought to be protected under a state trade secret law?

2. Does failure of an inventor to avail himself of a right under the Patent Laws of the United States destroy his right to protect his invention in other ways including by contracts or trade secrets?

***2** INTEREST OF AMICUS CURIAE

This company has a vital interest in this case because ii has its corporate office located in the Sixth Circuit. It engages in activities including export sales, overseas manufacturing and licensing of technology and expertise in 15 foreign countries. It has substantial ownership in five foreign companies, and is licensor to 28 foreign manufacturers, including most of the world's major automotive companies, and has a worldwide network of some 200 distributors.

This company relies heavily on the protection afforded its technological information, including trade secrets, by means of contract. If the opinion of the Sixth Circuit is upheld, the value of technological information conveyed or received as trade secrets by this company, and other companies conducting similar activities would be greatly diminished.

SUMMARY OF ARGUMENT

1. No preemption by the Federal Government should occur with respect to Trade Secrets in the absence of specific Federal Statutes when no preemption has occurred with respect to other forms of Intellectua Property to which both Federal and State Statutes have been directed.

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2. An inventor has a right to protect his invention by secrecy if he so chooses. A patent gives him an additiona?? means of protection by granting the right to preven?? others from making, using, and selling his invention, but this additional protection is not mandatory. The tw?? rights are entirely distinct. By granting an inventor a?? additional right, Congress did not intend to deprive a?? inventor of the right to select the protective means which may be to his best advantage.

***3** ARGUMENT

I.

THE PATENT LAWS OF THE UNITED STATES DO NOT PREEMPT SUBJECT MATTER SOUGHT TO BE PROTECTED UNDER A TRADE SECRET LAW.

A. Three Tests for Preemption

In Head v. New Mexico Board of Examiners in Optometry. 374 U.S. 442, 443, 444, Justice Brennan in a concurring opinion applied three settled tests for determining whether federal legislation has displaced state regulation of a given subject matter. Citing Florida Lime and Avocado Growers, Inc. v. Paul, 373 U.S. 132, 143, the first test is that the subject matter by its very nature admits only of national supervision. The second test is that there be evidence of congressional intent to occupy the field. The third test is that both State and Federal regulations can be enforced without impairing the federal superintendance of the field.

In applying the first of the aforementioned three tests, it is submitted that the nature of trade secrets is entirely different than patents. Trade secrets have been protectable under state laws for many years and cannot be said to be of such a nature so as to admit only national supervision.

Regarding the second test, in the present case there is no evidence of congressional intent exclusively to occupy the field of trade secrets. In this connection it is unlikely that Congress overlooked the important field of trade secrets in enacting the patent laws.

The third test referred to relates to the fact that both patent and trade secret laws have existed side by side for many years. Because of the rights protectable under the patent and trade secret laws are completely different ***4** there is no conflict therebetween. The federal patent laws do not conflict with state trade secret laws and may be adequately enforced by the Federal Government without interferring with state trade secret laws.

B. Federal and State Governments Are Both in Copyright Field

In Goldstein v. California, 93 S.Ct. 2303 (1973), the court was concerned as in the present case with Article 1, Section 8, Clause 8, of the Constitution which provides that the Congress shall have power.... "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries."

The court stated in connection with copyrights and this clause as follows:

"Since the subject matter to which the copyright clause is addressed may thus be of purely local importance and not worthy of national attention or protection, we cannot discern such an unyielding national interest as to require an inference that state power to grant copyrights has been relinquished to exclusive federal control."

It is submitted that an analogy may be drawn between patents and copyrights and

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that trade secrets are of purely local importance not requiring exclusive federal control.

C. Common Law Rights Of Inventor

Intellectual Property has been defined as, "Those property rights which result from the physical manifestations of original thought." [FN1]

FN1. Ballentine's Law Dictionary, Third Edition (The Lawyers Co-Operative Publishing Company, Rochester, New York).

***5** Included as rights to Intellectual Property are patents, Trademarks and Copyrights. Patents, however, is only one of two ways to protect an invention. [FN2] The common law right of secret property is the other. [FN3]

FN2. Smith, "Patent Law, Cases, Comments and Materials". Page 3.

FN3. Id. Page 115.

It should be noted that while Trademarks and Copyrights have been the subject of both State and Federal Legislation; [FN4] patents are dealt with under Federal Law, as for example, Title 35 United States Code, and Trade secrets usually by state statutes. See for example, Michigan Compiled Laws Sections 752.771 to 752.773 (1968).

FN4. Copyrights Federal - Title 17 of the United States Code
State - As for example:
California - West's Ann. Cal: Pen Code, § 653h.
Trademarks
Federal - Chapter 22, Title 15 of the United States Code.
State - See compilation entitled:
"State Trademark Statutes" by The United States Trademark Association, New York, New York.

Thus, it becomes apparent that if no preemption has occurred in those areas (Trademarks and Copyrights) of intellectual property rights treated by both Federal and State Statutes, then no preemption should occur where the portion in question (Trade Secrets) of the remaining protected area of Intellectual Property has not been specifically covered by Federal Statute.

***6** II.

INVENTOR HAS A RIGHT TO CHOOSE HOW HE WISHES TO PROTECT HIS INVENTION.

35 U.S.C. 101 states:

"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

The wording of this statute by utilizing the word "may", and being directed at the inventor rather than a public official, makes the initiation of the patenting procedure a discretionary rather than mandatory act of the inventor. Mason, et al. v. Fearson, 50 U.S. (9 How.) 248, 259; 13 L.Ed. 125; Levers v. Anderson, 326 U.S. 219, 223; 90 L.Ed. 26.

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Nothing in this statute suggests that an inventor if he elects not to seek a patent must give up whatever common-law rights he has in his property (e.g., his invention), and can personally protect. This court has affirmed that such an election can be made. United States v. Dubilier Condenser Corp., 289 U.S. 178.

If an inventor could not afford the payment of the Patent Office fees and thus was unable to obtain a patent a requirement by the courts that the sole remedy to protect an invention lies under the Patent Laws, would impose a hardship and inequity on such an inventor.

***7** CONCLUSION

The decision of the lower Court should be overruled.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

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1973 WL 172416 (U.S.)

For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
November 23, 1973.
On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Brief for Amicus Curiae Rohr Industries, Inc.

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Counsel for: Rohr Industries, Inc. Amicus Curiae

***i** TABLE OF CONTENTS

INTRODUCTION ... 1

NATURE OF ROHR ... 2

INTEREST OF ROHR ... 2

QUESTION PRESENTED ... 3

ARGUMENT:

A. CONGRESS HAS NOT INDICATED THAT THE PATENT ACT IS INTENDED TO BE THE ONLY MEANS OF PROMOTING THE PROGRESS OF THE USEFUL ARTS SO AS TO PRECLUDE A STATE FROM ENACTING SUPPLEMENTARY MEANS OF ACHIEVING THE SAME PURPOSE ... 4

B. ADOPTION OF THE SIXTH CIRCUIT OPINION WOULD DESTROY A VALUABLE RESOURCE OF THIS COUNTRY ... 7

C. AFFIRMANCE OF THE SIXTH CIRCUIT WOULD HAVE A PARTICULARLY DAMAGING EFFECT ON ROHR AS A TYPICAL EXAMPLE OF A COMPANY RELYING ON TRADE SECRET LAW TO PROTECT CONFIDENTIAL TECHNOLOGICAL INFORMATION ... 9

CONCLUSION ... 16

***ii** TABLE OF AUTHORITIES

CASES

© 2005 Thomson/West. No Claim to Orig. U.S. Govt. Works.

Becher v. Contoure Laboratories, 279 U.S. 338 (1929) ... 6

Du Pont Powder Co. v. Masland, 244 U.S. 100 (1917) ... 6

Goldstein v. California, 41 U.S.L.W. 4829 (U.S. June 18, 1973) ... 5

Sears v. Gottschalk, 178 U.S.P.Q. 33 (E. D. Va. April 26, 1973) ... 4

CONSTITUTION AND STATUTES

Constitution of the United States, Art. I, § 8, cl. 8 ... 3, 4, 5

5 U.S.C. § 552(b) ... 5

15 U.S.C. § 46(f) ... 5

15 U.S.C. § 78x(a) ... 5

15 U.S.C. § 1193(c) ... 5

15 U.S.C. § 1263(h) ... 5

15 U.S.C. § 1401(e) ... 5

21 U.S.C. § 331(j) ... 5

21 U.S.C. § 458(a) (5) ... 5

33 U.S.C.A. § 1320(d) (Supp. 1973) ... 5

33 U.S.C.A. § 1369 (Supp. 1973) ... 5

35 U.S.C. § 100 et seq. ... 4

***iii** 35 U.S.C. § 101 ... 3

35 U.S.C. § 102 ... 3

35 U.S.C. § 103 ... 3

35 U.S.C. § 122 ... 4

42 U.S.C. § 263i(e) ... 4

42 U.S.C. § 1857f-6(b) ... 4

STATE STATUTES

Ark. Stat. Ann. § § 41-3949 to 3951 (1967) ... 6

Cal. Penal Code § 449c (1967) ... 6

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Colo. Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967) ... 6

Ga. Crim. Code § 26-1809 (1968) ... 6

Ill. Rev. Stat. Ch. 38 § 15-1 to -9 § 16-1 (1965) ... 6

Ind. Code § § 35-17-3-1 to 35-17-3-5 (1969) ... 6

Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967) ... 6

Mass. Ann. Laws Ch. 266 § § 30(4), 60A (1967) ... 6

Mich. Compl. Laws § § 752. 771 to .773 (1968) ... 6

Minn. Stat. Ann. § 609.52 (1967) ... 6

Neb. Rev. Stat. Ch. 28, § § 548. 01 to. 03 (1965) ... 6

N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967) ... 6

N.J. Stat. Ann. § § 2A: 119-5.1 to -5.5 (1965) ... 6

N.M. Stat. Ann. § 40 A-16-23 (1967) ... 6

N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967) ... 6

N.C. Gen. Stat. § 14-75.1 (1967) ... 6

Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967) ... 6

***iv** Okla. Stat. Tit. 21, § 1732 (1968) ... 6

Pa. Stat. Tit. 18, § 4899.2 (1965) ... 6

Tenn. Code Ann. § § 21-4328 to 4240 (1967) ... 6

Wis. Stat. Ann. § 943.205 (1965) ... 6

OTHER AUTHORITIES

Frederico, Commentary On The New Patent Act, 35 U.S.C.A. § 1, pg. 1 ... 5

Milgrim, Trade Secrets, § § 6.02, 6.03 (1973) ... 5

Rich, Congressional Intent - Or, Who Wrote The Patent Act of 1952, Patent Procurement and Exploitation, (1963) ... 5

***1** INTRODUCTION

Rohr Industries, Inc. ("Rohr"), as an amicus curiae herein, strongly supports Kewanee Oil Company, petitioner, and urges this court resolve the major constitutional issue posed by the opinion of the Court of Appeals for the Sixth

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Circuit, holding that the Federal Constitution and the Federal Patent Law preempt Ohio's Trade Secret Law. This decision is an error, and is in direct conflict of the ruling of the courts of appeals of four other circuits.

***2** NATURE OF ROHR

Rohr has been the world's leading producer of aircraft power packages and structures for three decades. Rohr today is a growing and diversified designer and builder of ground transportation systems, industrial products, and marine systems as well as aerospace systems. It maintains manufacturing facilities throughout the United States and in several foreign countries. In 1973 the total assets of Rohr were $234.4 million and its sales were $373 million.

INTEREST OF ROHR

The opinion of the Sixth Circuit, if affirmed, would have a particularly drastic effect on Rohr. Rohr is an aerospace company which has successfully diversi fied into the commercial market, by becoming a leading ground transportation system manufacturer. In conduct ing its business, Rohr relies heavily on certain confidential proprietary information of its own and of others. Since confidential technological information could be held in the past as a basic company asset, management could justify continued internally funded research and development and continued investment in capital equipment to put this information to use. If the opinion of the Sixth Circuit is not reversed it would seriously impair the value of existing secret technological information held by Rohr and would have a major adverse effect on the conduct of its business in the future.

***3** QUESTION PRESENTED

1. Whether in view of the power granted to Congress to promote the progress of the useful arts by securing for limited times to inventors the exclusive right to their discoveries by Article I, Section 8, cl. 8 of the Constitution, the Federal Patent Law, 35 U.S.C. § § 1-293, preempts a State secret law, thereby prohibiting a court under the Supremacy Clause of the Constitution from applying that law to enjoin the disclosure or use of secret technological information that is obtained by improper means and which relates to a "patentable" but unpatented discovery. [FN1]

FN1. Although the opinion of the Sixth Circuit is subject to the interpretation that preemption reaches only inventions patentable under Sections 102-103 of 35 U.S.C., the import of the opinion, as viewed by a manufacturer holding secret technological information, is that the broader area, the subject matter within 35 U. S.C. § 101 is also preempted. Clearly a preemption of this § 101 scope, "Any new and useful process, machine, manufacture, composition of matter, or any new and useful improvement thereof," would be generic to essentially all technology having value. Any manufacturer holding such secret technological information would have to consider suspect any contractual means of protecting its secret confidential technological information since any party charged with misappropriating such information would contend that it had been patentable but had not been patented within the year following the date of first public use thereby presenting a court with the unpleasant task of determining whether each item of information had indeed been patentable. Since a manufacturer is in the business of making products and not in the business of contemplating at length each item of its technological information and pursuing a massive patent program in an attempt to protect its investment in research and development,

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it must necessarily treat its secret technological information as generally subject to misappropriation without recourse under the opinion of the Sixth Circuit.

***4** ARGUMENT

A. CONGRESS HAS NOT INDICATED THAT THE PATENT ACT IS INTENDED TO BE THE ONLY MEANS OF PROMOTING THE PROGRESS OF THE USEFUL ARTS SO AS TO PRECLUDE A STATE FROM ENACTING SUPPLEMENTARY MEANS OF ACHIEVING THE SAME PURPOSE.

Although the Congress could by the authority granted to it by Article I, Section 8, cl. 8 of the Constitution to promote the progress of the useful arts by securing for limited times to inventors the exclusive right to their discoveries, substantially deprive a state of the power to protect patentable but unpatented secret technological information from being wrongfully appropriated to another's use, it would appear clear that Congress has not so acted. A review of the Patent Act, [FN2] ***5** commentary on its drafting, [FN3] and other legislation enacted by the Congress, [FN4] indicates that Congress has not considered the Patent Act to substantially occupy the field to the extent that a state concerned with the same purpose but approaching it in a different manner would be necessarily exercising an authority totally contradictory and repugnant. Even though the authority granted to Congress to promote science and the useful arts, which it exercises by issuing patents, is broad enough so that if exercised could substantially occupy the field and deprive a state of the power to protect unpatented secret technological information, a state at present does retain residual powers relating to the promotion of the useful arts. [FN5] The enactment of a state trade secret law by a state is a valid exercise of a ***6** retained power of the state to promote invention and innovation and is not preempted by the Federal Patent Law. Although a state law dealing with the protection of secret technological information could conflict with the Federal Patent Law, the Ohio State trade secret law [FN6] in question did not since it did not deal with exclusive rights or monopolies for inventors.

FN2. Congress recognized the validity of trade secrets and acted to preserve them in the Patent Act itself. Section 122 of the Patent Act, 35 U.S.C. 122, provides specifically that applications for patents shall be maintained in secrecy (which secrecy may be breached only in unusual circumstances). Section 122 also applies even if the application is ultimately denied or abandoned Sears v. Gottschalk, 178 U.S.P.Q. 33(E.D. Va. April 26, 1973).

FN3. Commentary On The New Patent Act by P. J. Frederico, pp. 1-70, 35 U.S.C.A. 1.
Congressional Intent-Or, Who Wrote The Patent Act Of 1952 by G. S. Rich, Patent Procurement and Exploitation (1963).

FN4. See 5 U.S.C. 552 (b); 15 U.S.C. 46 (f), 78 x (a), 1193 (c), 1263 (h), 1401 (e); 21 U.S.C. 331 (j), 458 (a) (5); 33 U.S.C.A. 1320 (d), 1369 (Supp. 1973), 35 U.S. C. 122; 42 U.S.C. 263i(e), 1857 f-5(b).
See generally, Milgrim, Trade Secrets 6.02, 6. 03 (1973).

FN5. For a consideration of the precepts of retained state powers relating to Art. I, 8, cl. 8 of the Constitution see Goldstein v. California, 41 U.S. L.W. 4829 (U.S. June 18, 1973).

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FN6. 13 Ohio Rev. Code Ann. 1333, 51 (Supp. 1972)

Since the Congress and the court [FN7] have treated trade secret law as a viable body of the law, American industry has relied to a significant degree on the protect??tion of secret technological information by the prote?? afforded by such law. A tremendous investment in research and development and in capital equipment is based upon the protection which is afforded by such stat??trade secret laws [FN8] in conjunction with the protection afforded by the Federal Patent Law. Briefs of bar associations and societies will demonstrate in detail that the instant opinion is erroneous as a matter of law while the remainder of this brief will focus on the very real threat to American industry the adoption of this opinion represents.

FN7. Dupont Powder Co. v. Masland, 244 U.S. 100 (1917) and Becher v. Contoure Laboratories, 279 U.S. 388 (1929).

FN8. State Statutes:
Ark. Stat. Ann. § § 41-3949 to 3951 (1967) Cal. Penal Code § 499c (1967)
Colo. Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967)
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N.M. Stat. Ann. § 40 A-16-23 (1967)
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Okla. Stat. Tit. 21, § 1732 (1968)
Pa. Stat. Tit. 18, § 4899.2 (1965)
Tenn. Code Ann. § § 21-4328 to 4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

***7** B. ADOPTION OF THE SIXTH CIRCUIT OPINION WOULD DESTROY A VALUABLE RESOURCE OF THIS COUNTRY.

It is not idle speculation that the opinion of the Sixth Circuit, if adopted by the court, would create incredible mischief for American industry and the American economy. An American company does not operate only within the American market, competing only with other American companies, but in reality competes in a world market against other foreign manufacturers. Even when an American manufacturer produces a product only for sale in the American market ***8** it is not only competing against other American manufacturers but against other foreign manufacturers as well. Foreign manufacturers have lower labor rates and frequently receive benefits directly or indirectly from their governments and if an American manufac?? is successfully competing with such foreign competition, in addition to domestic competition, it has characteristically done so on the basis of superior innovative resources and greater productivity. The incentive for investment in innovation and

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confidential technological information documenting innovation was justified on the basis that a company could maintain certain of its technological information in confidence and thereby be able to successfully compete.

If the Sixth Circuit is affirmed and a business is unable to protect its confidential technological information, [FN9] its ability to compete will be seriously impaired and good faith and fair dealing will not only be discouraged but piracy of trade secrets and employees condoned. Thus, an American company would enter into a new era of American business wherein competition would be carried on in an entirely different manner. ***9** Although a large company would undergo difficulties from having its secret technological information and employees pirated the real loser in this new era would be the individual and the small company whose business could be totally destroyed by such piracy. A large company would have the resources which it had built up over the years to withstand such attacks but an individual or small business would be completely decimated by the wrongful appropriation of its secret technological information for another's use. Since the Patent Office has been criticized for having too low a standard of invention and patents which are litigated are generally found to be invalid, it would not be realistic to expect the Federal Patent Law to afford protection to innovations of the individual or the small business. It is only through continued protection of secret technological information by trade secret law in conjunction with the Federal Patent Law that an incentive for invention and innovation can be maintained for the private sector of the American economy.

> FN9. Although the opinion of the Sixth Circuit found only the Ohio Trade Secret law preempted by the Federal Patent Law, it appears clear that the court would also consider employment agreements and any other contractual means of maintaining proprietary technological information in confidence as also preempted. There is no reason to believe that the Sixth Circuit would not mistakedly also consider contractual means of protecting confidential technological information as a means of maintaining exclusive rights or a monopoly on such information.

C. AFFIRMANCE OF THE SIXTH CIRCUIT WOULD HAVE A PARTICULARLY DAMAGING EFFECT ON ROHR AS A TYPICAL EXAMPLE OF A COMPANY RELYING ON TRADE SECRET LAW TO PROTECT CONFIDENTIAL TECHNOLOGICAL INFORMATION.

While comment can be made that American industry would be severely damaged by the affirmance of the Sixth Circuit, it is also appropriate to comment upon the direct effect such affirmance would have on the business of Rohr. Rohr is an example of an aerospace company which has diversified into commercial activities while maintaining its interest in the aerospace field. Rohr as an ***10** aerospace manufacturer has a heavy capital investment and employs a number of highly skilled workers and engineers since certain of its products require the utmost reliability, due to their use in airplanes. While protection of inventions is pursued under the Federal Patent Law to the extent that it can be, Rohr holds a large amount of secret technological information relating to certain processes for manufacturing aerospace parts, which information is not patentable under the Federal Patent Law.

In the commercial area, Rohr has become a leading manufacturer of ground transportation systems. At present it is a manufacturer of buses and vans, the supplier of rail transit cars for the San Francisco Bay Area Rapid Transit District

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(BART), and the Washington D. C. Metro System (WMATA), and is pursuing advanced transportation systems such as tracked air cushion vehicles, turbine powered trains, magnetically levitated vehicles, and monorail vehicles. These activities are carried on as internally funded R & D projects in addition to projects funded by the Federal government. This investment in internally funded research and development manifests itself in patents and confidential technolo??gical information which is contained not only in documen??tation but in employees' minds. The success of utilizing these assets depends upon the utilization of this secret technological information to create a profit for the company and its shareholders and thereby warrant continued expenditures on inventions and innovations.

If the reliance that has been placed on trade secret has been misplaced and contracts to maintain proprietar information confidential were to be held unenforceable, the effect upon Rohr would be catastrophic.

***11** The first example of the mischief that affirmance of the Sixth Circuit would visit upon Rohr relates to its invention agreements with its employees. Rohr maintains agreements with each of its employees under which the employee agrees to maintain in confidence during his employment and subsequent thereto certain proprietary information which is imparted to him by the company. The agreement contains no other post employment restrictions. If these employment agreements were to be held unenforceable with respect to the requirement to maintain Rohr proprietary information confidential upon termination of the employment relationship as a result of affirmance of the Sixth Circuit, a competing domestic or foreign business would be free to pirate Rohr's employees by the payment of a higher salary. While many employees would remain loyal, another employer would place a value on an employee's services which would not be commensurate with the value of the services the employee would normally perform but which would be tied to the employee acting as a conduit for the proprietary technological information of his former employer. The piracy of Rohr's employees would cause a corresponding pressure upon it to respond in kind in order to survive in an environment which did not place value upon good faith and fair dealings in business practices. Thus, the incentive to invest in further research and development in aerospace and mass transit vehicles would be totally destroyed since as a practical matter Rohr would be unable to assure protection for even a limited time the fruits of that research and development.

While the patent system does afford a means of protection, this protection is limited by covering only patentable inventions, coming into force after a period of time, and being expensive to procure and uncertain in application. If the Sixth Circuit were to be affirmed, ***12** the Rohr management in fulfilling its responsibility to its shareholders would have to seriously reevaluate its continued expenditure of funds for research and development of alternate means of mass transit and for aerospace systems since there would be only very limited protection provided for the results of such expenditures. Very probably, only very limited funds would be expended toward new innovations and reliance would be placed upon government funded projects.

Another serious consequence of affirmance of the Sixth Circuit would be the impact upon the licensing activities of Rohr. Any company has limited resources with which to pursue research and development projects However, a company may have a manufacturing facility in which to produce a product, but not have the resource to undertake the innovation of a product to manufacture in its facility. Thus, a

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company would be agreeable to licensing the use of secret technological information of another company to manufacture the product for sale by it.

While a pole lamp, for example, may be easily reverse engineered and copied for manufacture if not protected by valid patents, it is quite another thing to contemplate the reverse engineering of a mass transit vehicle which incorporates parts and components from several hundred different manufacturers as well as the overall system design by the prime manufacturer. Thu Rohr was willing to enter into a license agreement with a foreign manufacturer for receiving secret technological information from the foreign manufacturer to produ?? in one of its facilities an advanced transit vehicle which was heretofore not available in the United States. Considering that the inventions relating to this vehicle, ?? possibly patentable, are only covered by pending applications ***13** which may not issue as patents, the consideration was the secret technological information which would enable Rohr to manufacture this vehicle.

An obligation undertaken by Rohr in this agreement was to maintain the secret technological information in confidence in order that this information would not become immediately available to competitors of the foreign company after being imparted to Rohr. If the Sixth Circuit is affirmed, there is the immediate problem of fulfilling the obligation of confidence to this particular foreign manufacturer but also whether a future similar agreement could be entered into in good faith with any other foreign manufacturer since Rohr could not fulfill this obligation of confidentiality or, in fact, trust in being able to fulfill a contract for manufacture of the vehicles in the United States due to potential loss of its employees to piracy upon their learning the confidential technological information imparted by the foreign manufacturer.

Similarly, Rohr as the world's leader in the manufacture of modern lightweight rail transit cars entered into a contract with a foreign manufacturer for the licensing of its secret technological information for manufacture of this advanced rail transit car for use in the subway system of a European capitol. Could Rohr contemplate entering into such a license agreement in the future in the event the Sixth Circuit is affirmed? A foreign manufacturer, unless compelled by a duty of good faith and fair dealing prevalent in its own country would certainly consider pirating the secret technological information of Rohr which it had spent millions of dollars in developing, especially since the Federal Patent Law would be of no assistance in protecting the wrongful appropriation of Rohr's secret technological information. ***14** This particular license agreement also requires Rohr to generate additional technological information based on its present information to adopt its car to certain foreign requirements. Rohr would have serious difficulty in justifying the undertaking of such a license agreement in the future as an acceptable business risk since the employees required to generate the additional information as well as perform the "show-how" aspect of the agreement would be subject to raiding at any time by a pirating manufacturer who wished to appropriate Rohr's confidential technological information without du compensation.

If Rohr's confidential technological information were wrongfully appropriated by a competitor of the licensee during the course of this agreement the license would understandably not be happy at the prospect of paying license fees for use of this information since its competitor could offer a lower priced vehicle because no license fees would be required. Whether the license would continue to pay under

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these circumstances would be problematical. Thus, Rohr's ability to act as either a licensee or a licensor would be severely impaired if not destroyed.

Another area of future concern for Rohr would be subcontracts. As the world's largest aerospace sub-contractor, Rohr performs subcontracts for the nation?? airplane manufacturers to build components for comme?? cial airplanes. Obviously, secret technological inform?? tion is received from these airplane manufacturers in order to perform subcontracts for them. Under the Sixth Circuit decision it would be impossible for Rohr t?? agree to maintain this technological information in confidence since its employees upon learning of the inform?? tion would not be bound by enforceable employee agreements from utilizing this information after ceasin ***15** the employment relationship. Unfortunately, imparting secret technological information to a subcontractor would almost be tantamount to a publication.

A further example of an area in which Rohr would be severely injured would be the instance of consultant agreements or agreements to perform research and development on a contract basis. These agreements customarily contain a provision that the party performing the research and development agrees to hold its results in confidence and to transmit them only to Rohr. If the Sixth Circuit were to be affirmed Rohr would be in a quandary as to how to handle these types of agreements. While it is necessary at times to retain consultants for their special skills any special developments by such consultants would be relatively free for disclosure to competitors. It would also be difficult for Rohr to have the work conducted in-house by its own employees since these employees would not be obligated to maintain secret technological information in confidence upon terminating.

In summary, it does not appear that the Congress intended for the Federal Patent Law to preempt the field and that the state has retained residual powers which may be exercised to protect patentable but unpatented secret technological information. The affirmance of the Sixth Circuit would be extremely injurious to Rohr as an example of an American business which relies upon secret technological information and would be extremely damaging to the United States' economy at a time in the history of our nation when good faith and fair dealing should be especially encouraged. It would appear particularly inappropriate for the court to find the state's trade secret laws inoperative to protect secret technological information in the absence of clear ***16** direction by Congress that it had preempted the field, which direction has been clearly lacking in the past.

CONCLUSION

For the foregoing reasons, Rohr submits that the instant opinion erroneously interprets the intent of Congress in exercising its constitutional authority and in order that appropriate incentives for invention and innovation may be preserved, and the progress of science and the useful arts promoted, the judgment of the Sixth Circuit should be reversed.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Plaintiff-Petitioner,
v.
BICRON CORPORATION et al, Defendants-Respondents.
No. 73-187.
October Term, 1973.
November 23, 1973.
Brief Amicus Curiae of the Licensing Executives Society [FN1]

FN1. Letters from the parties consenting to this brief are on file with the Clerk of the Court.

Tom Arnold Bill Durkee Arnold, White & Durkee 2100 Transco Tower Houston, Texas 77027 Attorneys for Amicus Curiae Licensing Executives Society

***i** TABLE OF CONTENTS

I. NATURE AND INTEREST OF THE AMICUS ... 1

II. STATUTES AND TREATIES INVOLVED ... 3

III. THE QUESTION DISCUSSED BY THIS AMICUS 6

A. § 101 v. § § 102-103 preemption ... 8

B. One year lag preemption ... 9

C. The Kewance new section of the Patent Act. Title 35 U.S ... 11

IV. SUMMARY OF THE ARGUMENT ... 11

V. ARGUMENT ... 11

A. Contract values and types invalidated by Kewance ... 19

(1) The contract for R & D ... 19

(2) Supply contracts ... 20

(3) Subeontracts ... 21

(4) The employee contract ... 21

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(5) The know-how license contract ... 23

(6) Contracts for access to foreign technology ... 24

(7) Contracts for sale of technology to foreign purchasers: our national balance of payments deficit ... 25

B. The Kewance bias for business to move in-house R & D to foreign countries ... 27

C. The legal theory of trade secrets ... 28

(1) The philosophy of trade secret law; the relationship v. the res ... 28

(2) Trade secret law leaves others free to compete ... 30

(3) Trade secrets an extension of the patent "monopoly"? Or. Patents an extension of the trade secret nonmonoply ... 32

D. Trade secret protection is at least as important to the progress of the useful arts as are patents ... 35

E. Public policy favors honesty and loyalty ... 43

F. Treaty law compels good faith business activity ... 45

G. Criminal public policy v. civil public policy; the Sixth Circuit Trilogy of Kewance. Greenwald and Screw Machine ... 46

***ii** H. Legislative history of the Patent Act ... 49

1. The Constitution on Patents. The Constitutional clause does not preempt, and it reserves to the states all authority over technology which is not of Constitutionally patentable stature ... 49

2. The patent statutes, generally ... 52

3. State trade secret law development ... 56

4. Congressional law on trade secrets ... 57

5. Supreme Court law on trade secrets ... 59

6. Federal Courts of Appeal law on trade secrets 62

7. The 1952 Patent Act. At the time of the 1952 Act, Trade Secret law stood second to no other rule of law in the totality of its acceptance in our society and judiciary ... 63

I. Legislative history of preemption ... 66

1. Nonpreemption thru Gibbons, INS and Becher ... 66

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2. Kellogg dictum, trademarks preempted ... 67

3. Mazar nonpreemption ... 68

4. Trademark laws function independently of patents ... 69

5. Scott Paper, good faith in busiuess dealings is no longer important public policy ... 70

6. Sears and Compco v. Wallace China ... 72

7. Sears, Compco and the explosion of unfair competitive acts ... 75

8. Lear v. Adkins ... 76

9. Goldstein v. California ... 77

J. The legislative process v. the judicial process for new law making ... 84

K. Shadows do not fight ... 87

VI. CONCLUSION ... 88

APPENDIX

Dollar significance of technology within the Kewanee rule below ... 90

***iii** TABLE OF AUTHORITIES

Constitution

U.S. Constitution, Art I, § 8. Clause 8 ... 6, 49

Inter-American Convention (46 Stat. 2907) ... 73

Pan American Convention of 1929, Art. 20 ... 5, 18, 45, 46, 48

Paris Convention (53 Stat. 1748) ... 45, 46, 48, 73

Paris Convention, Act of Lisbon 1958, Art. 10 Bis(2) ... 5, 45

Federal Statutes

5 U.S.C. § 552(b)(4) ... 58

15 U.S.C. § 46(f) ... 58

15 U.S.C. § 78x ... 58

15 U.S.C. § 1051 et seq. ... 45, 46

15 U.S.C. § 1126(h) ... 45, 73

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15 U.S.C. § 1193(c) ... 58

15 U.S.C. § 1263(h) ... 58

15 U.S.C. § 1401(e) ... 58

16 U.S.C. § 778e(e) ... 58

17 U.S.C. § 2 ... 55, 78

18 U.S.C. § 1905 ... 58

18 U.S.C. § 2314 ... 43, 46

21 U.S.C. § 331(j) ... 58

21 U.S.C. § 458(a)(5) ... 58

26 U.S.C. § 861(a)(4) ... 58

26 U.S.C. § 872(a)(4) ... 58

30 U.S.C. § 322(b) ... 58

33 U.S.C. § 1160(f)(2) ... 58

Title 35 United States Code ... 4, 11, 33, 49, 55, 63

35 U.S.C. § 100(b) ... 85

35 U.S.C. § 101 ... 4, 6, 7, 8, 9, 37, 64

35 U.S.C. § 103 ... 4, 5, 7, 8, 9, 10, 15

35 U.S.C. § 102 ... 4, 5, 7, 8, 9, 10, 15

35 U.S.C. § 112 ... 38

35 U.S.C. § 122 ... 59

42 U.S.C. § 1857b-1(b)(4) ... 58

42 U.S.C. § 263(i)(3) ... 58

***iv** 42 U.S.C. § 1857d(c)(5) ... 58

42 U.S.C. § 1857f-6c(c) ... 58

Pub. L. 92-140, 85 Stat. 391, 53 ... 80

State Statutes

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Ark. Stat. Ann. § § 41-3949 to 3951 (1967) ... 3, 57

Cal. Penal Code § 499c (1967) ... 3, 57

Colo. Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967) ... 3, 57

Ga. Crim. Code § 26-1809 (1968) ... 3, 57

Ill. Rev. Stat. Ch. 38 § 15-1 to -9 § 16-1 (1965) ... 3, 57

Ind. Code § § 35-17-3-1 to 35-17-3-5 (1969) ... 3, 57

Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967) ... 3, 57

Mass. Ann. Laws Ch. 266 § § 30(4), 60A (1967) ... 3, 57

Mich. Compl. Laws § § 752.771 to .773 (1968) ... 3, 57

Minn. Stat. Ann. § 609.52 (1967) ... 3, 57

Neb. Rev. Stat. Ch. 28, § § 548.01 to .03 (1965) ... 3, 57

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N.J. Stat. Ann. § § 2A: 119-5.1 to -5.5 (1965) ... 3, 57

N.M. Stat. Ann. § 40A-16-23 (1967) ... 3, 57

N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967) ... 3, 57

Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967) ... 3, 57

Okla. Stat. Tit. 21, § 1732 (1968) ... 3, 57

Pa. Stat. Tit. 18, § 4899.2 (1965) ... 3, 57

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Wis. Stat. Ann. § 943.205 (1965) ... 3, 57

Cases

American Auto Ass'n. v. Spiegel, 205 F.2d 771 (2nd Cir. 1953), cert. den. 346 U.S. 887 ... 45

Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 90 S.Ct. 305 (1969) ... 54, 74

Audio Fidelity Inc. v. High Fidelity Recordings, Inc., 283 F.2d 551 (9th Cir.

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1960) ... 45

***v** Bacardi Corp. v. Domencch, 311 U.S. 150. 61 S. Ct. 219 (1940) ... 45, 46

Becher v. Contoure Laboratories, Inc. 279 U.S. 388, 49 S. Ct. 356 (1929) ... 16, 60, 66, 75

Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905) ... 59

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964) ... 3, 9, 16, 57, 62, 72, 73, 74, 75, 77, 80, 81, 83

Coler v. Corn Exchange Bank, 25 DNY 136, 164 NE 882 (1928) ... 86

Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), cert. den. 402 U.S. 904 (1971) ... 62

Dr. Miles Medical Co. v. Park & Sons Co., 220 U.S. 373 (1911) ... 60

DuPont Powder Co. v. Masland, 244 U.S. 100 (1917) ... 30, 60

Eric Railroad Co. v. Tompkins, 304 U.S. 64 (1938) ... 18, 46, 47, 48, 61, 62, 73

Fowle v. Park, 131 U.S. 88 (1889) ... 59

Gibbons v. Ogden, 22 U.S. 1 (1824) ... 14, 16, 51, 52, 59, 66

Goldstein v. California, ... U.S. ..... 93 S. Ct. 2303 178 U.S.P.Q. 129 (1973) ... 7, 9, 11, 16, 48, 50, 57, 78, 79, 80, 81, 82

Gottschalk v. Benson & Tabbot, 409 U.S. 63, 93 S. Ct. 253 (1972) ... 85

Grant v. Raymond. 31 U.S. (6 Pet.) 218 (1832) ... 61

Imperial Chemical Industries, Inc. v. National Distillers and Chem. Corp., 342 F.2d 737 (2d Cir. 1965) ... 23

International News Service v. Associated Press, 248 U.S. 215 (1918) ... 16, 61, 66, 75

Kaz Mfg. Co. v. Cheseborough-Ponds, Inc., 317 F.2d 679 (2d Cir. 1963) ... 45

Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 59 S. Ct. 109 (1938) ... 16, 17, 67, 69, 70, 71, 74, 83

Kendall v. Winsor, 62 U.S. 322 (1859) ... 62

Kewance Oil Company v. Bicron Corp., et al, 478 F.2d 1074, 178 U.S.P.Q. 3 (6th Cir. 1973) ... 6, etc.

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) ... 6, 7, 9, 16, 28, 76, 83

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L'Aiglon Apparel v. Lana Lubell, 214 F.2d 649 (3rd Cir. 1954) ... 45

***vi** Magna Pictures Corp. v. Paramount Pictures Corp., 265 F. Supp. 144 (C.D. Calif. 1967) ... 45

Maternally Yours v. Your Maternity Shop, Inc., 234 F.2d 538 (2nd Cir. 1956) ... 45

Mazar v. Stein, 347 U.S. 201, 74 S. Ct. 460 (1954) ... 16, 68, 69

Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901 (CCPA 1969) ... 15, 64, 68

Neal v. Thomas Organ Co., 325 F.2d 978 (9th Cir. 1963), cert. den. 379 U.S. 828 (1964) ... 45

Pagliero v. Wallace China Co., 198 F.2d 339 (9th Cir. 1952) ... 45, 72, 73

Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971) ... 62

Ross-Whitney Corp. v. Smith Kline & French Laboratories, 207 F.2d 190 (9th Cir. 1953) ... 45

Royal Lace Paper Works, Inc. v. Pest-Guard Products, Inc., 240 F.2d 814 (5th Cir. 1957) ... 45

Scott Paper Co. v. Marealus Mfg. Co., 326 U.S. 249, 66 S. Ct. 101 (1945) ... 16. 70, 71, 72, 76, 83

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***vii** Secondary Authorities

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***1** I.

NATURE AND INTEREST OF THE AMICUS

The Licensing Executives Society, U.S.A., is a professional association of persons intimately involved in licensing of technology and industrial property rights, including trade secrets and know-how.

The Society in the United States is composed of over 900 members, some 60% odd being executives rather than practicing ***2** lawyers, some representing large corporations, some representing small companies, some 40% odd being either m-house or private practioners of law, whose work includes a major focus in technology development, practice and law.

The Society in filing this brief, acts through its Board of Trustees on advice of its Committee on Laws.

Inherent in the work of the Society's members is continuing contact with the financing and generation of new technology, with procedures to bring the technology developed to public enjoyment, and with the interrelation between the necessity for technology protection and the ability to obtain financing for its development.

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The members of this amicus are persons who buy, sell and direct the protection of billions of dollars worth of technology [FN2] which is endangered by the decision below.

FN2. See discussion in Appendix A hereto.

The decision below purports to destroy in very large measure the assets and licenses which the members of this amicus husband and handle on a continuing day to day basis.

These members, perhaps more so than any other group, are acquainted with the realities of trade secret and know-how law in action.

***3** II.

STATUTES AND TREATIES INVOLVED

State statutes enacted since the 1964 preemption ruling in Sears and Compco [FN3] which are protective of trade secrets and are obliterated by the Kewanee rule below, include:

FN3. Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting, Inc. 376 U.S. 234 (1964).

Ark. Stat. Ann. § § 41-3949 to § § 41-3951 (1967) Cal. Penal Code § 499e (1967)
Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967) Ga. Crim. Code 26- 1809 (1968)
Ill. Rev. Stat. Ch. 38, § 15-1 to 15-9, § 16-1 (1965) Ind. Code § § 35-17-3-1 to 35-17-3-5 (1969)
Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967) Mass. Ann. Laws Ch. 266 § § 30(4), 60A (1967)
Mich. Compl. Laws § § 752.771 to 752.773 (1968) Minn. Stat. Ann. § 609.52 (1967)
Neb. Rev. Stat. Ch. 28, § § 548.01 to 548.03 (1965) N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)
N.J. Stat. Ann. § § 2A: 119-5.1 to 119-5.5 (1965) N.M. Stat. Ann. § 40 A-16-23 (1967)
N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967) N.C. Gen. Stat. § 14-75.1 (1967)
Ohio Rev. Code. Ann. Tit. 13, § 1333.51, 1333.99 (1967) Okla. Stat. Tit. 21, § 1732 (1968)
Pa. Stat. Tit. 18, § 4899.2 (1965) Tenn. Code Ann. § § 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943.205 (1965)

***4** Provisions of the Patent Act, Title 35 U. S. Code, which are involved, include:

§ 101 Inventions patentable.

Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§ 102 Conditions for patentability; novelty and loss of right to patent.

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A person shall be entitled to a patent unless –
(a) the invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or
(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, or
(c) he has abandoned the invention, or
(d) the invention was first patented or caused to be patented by the applicant or his legal representatives or assigns in a foreign country prior to the date of the application for patent in this country on an application filed more than twelve months before the filing of the application in the United States, or
(e) the invention was described in a patent granted on an application for patent by another filed in the ***5** United States before the invention thereof by the applicant for patent, or
(f) lie did not himself invent the subject matter sought to be patented, or
(g) before the applicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. ***

§ 103 Conditions for patentability; non-obvious subject matter.

A patent may not be obtained though the invention is not identically disclosed or described as set forth. in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability not be negatived by the manner in which the invention was made.

* * *

Treaties to which the United States is a party, and which are directly involved, are:

Paris Convention, Act of Lisbon 1958, Art. 10 Bis (2) which recites:
"Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition?[-- which is prohibited].

The Pan American Convention of 1929, Art 20, reads to the effect:
"Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial ***6** or business activities shall be considered as unfair competition and therefore unjust and prohibited."

The Constitution, Art. I, See 8, Clause 8 reads:
"The Congress shall have the power * * * To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries;"

III.
THE QUESTION DISCUSSED BY THIS AMICUS, LICENSING EXECUTIVES SOCIETY

In Lear Inc. v. Adkins [FN4] a three-justice minority wrote that trade secret law had been totally preempted by the patent law -- though the issue was not before the court and had not been briefed to the Court. The majority of the Court declined that invitation and invited the lower courts to a "fully focused inquiry" into how far

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they would go in enforcing contractual obligations of confidence or contracts for royalties.

FN4. 395 U.S. 653 (1969).

The Sixth Circuit, in Kewanee below, made the invited inquiry and wrote to the effect:

Policies of the patent law preempt protection of all technology which
(a) has been in commercial use for more than one year, and
(b) is subject matter "appropriate for patent."

Section 101 of the Patent Act, Title 35, defines the classes of subject matter appropriate for a patent as broadly as every "new and useful process, machine, manufacture or composition of matter." Within such classes appropriate ***7** for a patent, Section 103 of Title 35 limits the allowance of patents to inventions which were not obvious to persons of ordinary skill in the art even in light of all the sum total of the prior art identified in Section 102. See statutes pp. 4-5 hereof.

Scholars have of course debated whether the Kewanee phrase "appropriate fur patent" means nonobvious subject matter patentable under 35 U.S.C. § § 102-103 or means all technology within the classes recited in Section 101 as appropriate for patents.

Though the issues of confidential technology and contractual obligations of confidence as to technology were not before the Court nor briefed to the Court in Goldstein v. California, [FN5] the 1973 Goldstein opinion of this Court refers to the patent law's preemption of law protective of "mechanical configurations" without regard to nonobviousness under 35 U.S.C. § 103, and without regard for whether the configurations had been in use for one year. Thereby Goldstein suggests that Kewanee, if it be law at all, must be read to preempt as broadly as all applied technology referred to in 35 U.S.C. § 101 (p. 4 hereof) and irrespective of time in use.

FN5. ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 1.29 (1973).

Thus the three opinions, Lear, Kewance and Goldstein, suggest a focus of attention and inquiry upon (a) the existence of any preemption, and (b) if there be preemption the significance of two different issues as to scope of preemption:

(1) the significance of the difference between preemption based on all patentable classes of technology under 35 U.S.C. § 101 irrespective of patentability under Sections 102 and 103, by contrast with preemption ***8** based only on inventions patentable under Sections 102 and 103; and

(2) the significance of the difference between preemption of all such technology of whichever of those definitions, (i) irrespective of time of use, by contrast with (ii) only that technology which has been in use for more than one year.

A. Section 101 v. Section 102-103 preemption

It typically costs thousands of dollars and 20 months of time in the Patent Office, and it commonly costs hundreds of thousands of dollars and years of time in the courts, to obtain a determination of whether a given item of Section 101 subject matter is patentable under Sections 102-103.

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For single items of invention enjoying a large public market and thus worth millions of dollars, those costs are undesirable but usually tolerable. For multitudinous items of know-how whose value is in their packaged number but wherein each individual item is of much less value, such costs in time and money are absolutely intolerable.

The system of research and development economics simply cannot support or afford any approach at know-how protection, by which the proprietor does not know which way or whether his protection lies until after years of time for judicial machinations and thousands of dollars. Technology grows stale and loses significant portions of its value often in months, essentially always within a very few years. Contracts of know-how license must be let, monies paid, monies spent on R & D, and technology used for social service, without awaiting such delayed and costly determinations.

Sociologically and economically we must have a system which is essentially self-determinative for the great masses ***9** of the milk of technological advance (contrast the cream covered by patents).

As hereinafter developed it is beyond doubt that when drawing the § 101 lines and the § 102-103 lines, the Congress and the individual authors of the Patent Act did not give one iota of thought to whether those statutory lilies would be used for trade secret preemption definition by contrast with right-to-patent definition.

As also developed hereinafter preemption of subject matter potentially patentable under § § 102-103 is devastating to existing know-how law and practice, and the broader preemption of all § 101 classes of technology is only an order of magnitude more devastating.

For these sociological and economic reasons, coupled with the failure of this Court to find a distinction between preemption of § 102-103 scope and preemption of 101 scope in any of its opinions in Sears, Compeo. Lear or Goldstein, the further portions of this brief will ignore that distinction as immaterial trusting that if such nice lines of distinction are to be drawn they will be drawn after the kind of investigation and study for which the legislature is better equipped than the judiciary.

Both scopes of preemption are considered to be at least essentially, for all the purposes of this brief, of equally debilitating socio-economic effect, though admittedly the broader preemption is significantly worse than the more narrow one.

B. One-year-lag preemption

The patent statute's 35 U.S.C. § 102 provides that a patent cannot be obtained on inventions in public use for more than one year, without reciting or intimating anywhere or otherwise advising business men that any other ***10** right is lost after that same year. The authors of the statutory phrase did not have such hidden intent (See below, p. 64).

Moreover, the billions of dollars worth of know-how which is now protected in this country and abroad by contract and tort obligations of trust and confidence, have their biggest value during the few years next following the first year of commercial use. For technology in its first year of use is typically being evolved, tested,

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debugged, and commercially used relatively little. The blossom of the market peak and full commercial value typically occurs in the few years immediately subsequent to the first year of use.

Thus, speaking in economic orders of magnitude, the rule of preemption of technology in public use for one year is, for most practical purposes, as devastating as the rule of preemption of all unpatented technology.

For socio-economic planning purposes they are one and the same, in spite of the one being larger than the other in strictly arithmetic terms.

Further, if there is to be a line drawn by a period of time, one year or two or three or five years, this should be drawn by the legislative process wherein the economic effect of the placement of that line can be determined by economic studies of all types of industries--a study not made by Congress when writing the Patent Act § 102 (b)'s one year cut-off of the right to patent.

Finally, this court's long line of preemption eases (See p. 66-77 below) never mention that the one-year grace period for the filing of a patent also destroyed other important property rights, and the authors of the patent statute deny that intent. (See below, p. 64)

***11** For these sociological, economic and legal reasons, the further portions of this brief will commonly ignore that one-year's-use distinction as immaterial to the issues at hand. For with or without that nice distinction, the socio-economic result is essentially tile same- and in all events is a determination for the legislative rather than the judicial function.

C. The Kewanec "New Section" of the Patent Act, Title 35

Employee contracts for the employee-agent to keep the confidence in trust, as it were, are invalidated by the Kewanee rule below. That change cuts across many concepts of law, ranging from the law of agency and trusts through the law of restitution, tort and contract.

The Kewanee court purported to write a brand new section into Title 35, U.S.C. generally to the effect:

"Breach of trust and confidence law, agency law, contract and tort law are repealed insofar as they relate to confidential technological information appropriate for patent, one year after commercial use."

The remainder of this brief focuses significantly upon what might be described as the Goldstein modification of that, a new section in Title 35 to the net effect:

"Breach of trust and confidence law, agency law, contract and tort law, are repealed insofar as they relate to confidential technological information."

It is the position of this Amicus that: As a matter of legal construction of law either of those expressions is as unsound as the other; and as a matter of society's socio-economic need they are essentially the same in practical result.

The Restatements of Trusts, Contracts, Agency, Restitution, and Torts all recite law in their areas contrary to Kewanec.

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***12** IV.

SUMMARY OF THE ARGUMENT

As applied to technology, such a new rule of law as quoted just above, reversing a rule as uniformly accepted as any rule known to the common law, and reversing a rule upon which industry transacts billions of dollars in business annually, is startling.

Its socio-economic impact and legal background command full chapters on each of the following topics, here summarized:

A. The economic significance of the Kewanee rule, even with the one year limitation, is in the billions of dollars order of magnitude. It affects a wide variety of contract types entered into daily by the thousands by American business. It sacrifices a billion dollars annually in the nation's balance of international trade. It cuts U.S. industry off from ready access to foreign technology.

B. The Kewanee rule, even when limited to prempt only patentable subject matter in use for one year, nevertheless presents a strong bias for all companies who can, to move their research and development operations from the United States to foreign countries where their R & D employees can be trusted to keep the confidence.

C. Obligations of trust and confidence do not give rise to the "monopoly power" commonly attributed to them by Mr. Justice Black and by the Kewanee court below.

The trade secret law is limited to prevention of fraudulent-type derivation and use of knowledge developed and paid for by others; all the nation's 210 million people and thousands of industries and universities remain free to ***13** develop and use the same knowledge and compete outside any obligation of confidence.

Kewanee Oil's apparent preference for secrecy notwithstanding, it is the experience of this Amicus that whenever competitors find a significant value to exist in know-how, they can be depended upon to develop the same, equivalent or often better know-how on their own quite promptly after the decision that there is enough public need to be served to suggest enough profit to be earned to justify the effort.

In economic reality the restraints of the breach of confidence law, being focused upon the relationship rather than the res, sponsor vigorous ethical competition rather than restrain it.

D. The Kewanee court built its opinion on erroneous premises of fact for which it had no evidence before it, when it said that trade secret protection "would impede the progress of science and the useful arts."

To the contrary, the heretofore uniformly accepted law concerning confidential know-how (including both true secrets and know-how which is largely nonsecret), by which know-how is protected only as between pairs of people with obligations of confidence and trust one to the other, performs an absolutely vital and nationally necessary function in sponsoring the progress of tile useful arts--a progress that is needed more now than ever before, needed in this time of expanding society and depleting natural resources and technology balance with the rest of the world.

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E. In the list of priorities of public policy, the most important public policy of all is public policy favoring honesty and good faith in personal relationships, including specifically business dealings.

***14** Free and open competition should not be worshipped as the sole true god at whose alter all other social purposs and policy of honesty must be sacrificed; free and open competition by one in breach of trust using technology expensively developed at high risk assumed by another, is contrary to public policy.

F. Treaties to which this nation is a party, establish a federal law of good faith business practice recognized as such by this and other courts.

G. The Sixth Circuit 1973 Trilogy, enforces criminal law public policy against wrongful appropriation of trade secrets (the Greenwald case), enforces public policy against wrongful copying of uncopyrighted catalog materials in a contempt context (the Screw Machine case), both after Kewanee and without a concern for patent or copyright law preemption. Even the Sixth Circuit has already twice recanted its preemption error in Kewanee, having recognized that preemption cannot be reconciled with other necessary public policies.

H. Any correct reading of the legislative history of the patent act, is a one hundred per cent contradiction of the preemption theory.

Our nation's constitutional-law history virtually began in Gibbons v. Ogden, [FN6] i.e., with a state of New York patent on the steamboat being litigated to the U. S. Supreme Court. Mr. Justice Marshall among others, heard 40 pages of argument on the federal patent law preemption issue, as well as argument that though valid against intrastate commerce the state patent could not be enforced as against interstate commerce. That state patent survived the patent law preemption argument in this Court, to be later litigated again against intrastate commerce.

FN6. 22 U.S. 1 (1824).

***15** The Constitution creates no hiatus between what the Congress is empowered to patent, and what is reserved to the states. This court having held the constitutional standard of patentability is high and difficult to obtain, and all other power being reserved to the states, the patent act cannot have preempted protection of constitutionally unpatentable subject matter.

At the time the present patent statute was written, no rule of common law stood more firmly established, more uniformly accepted both in state and federal common, statutory and treaty law; and the authors of tile new act affirmatively sought to make no controversial changes.

Said one of the present Patent Act's two primary authors:

"Patent laws function only to keep things out of the public domain temporarily.

"They have nothing to do with putting things into it.

"They say nothing about right to copy or right to use; they speak only in terms of right to exclude." [FN7]

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FN7. The Honorable Judge Giles Rich, in Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F2d 901, 902 n 2 (CCPA 1969).

The Patent. Act itself speaks only in terms of § 102, "Whoever invents * * * may obtain a patent therefor."-- A permissive grant, with no words of punishment or taking from the inventor any rights if he fails to exercise his permitted option to seek a patent. The statutory title of that Section 102 expressly limits its treatment to "Conditions for patentability" and "loss of right to a patent", no reference being made to loss of any other right. See p. 4 above.

***16** I. There is a U. S. Supreme Court "legislative history" of the doctrine of patent and copyright law preemption, comprising this court's opinion in Gibbons, Singer, INS, Becher, Kellogg, Scott Paper, Mazar, Sears, Compco, Lear and Goldstein. [FN8]

FN8. Gibbous v. Ogden, 22 U.S. 1 (1824); Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896); International News Service v. Associated Press, 248 U.S. 215 (1918); Becher v. Countoure Laboratories, Inc. 279 U.S. 388 (1929); Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938); Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945); Mazar v. Stein, 347 U.S. 201 (1954); Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Corp. v. Day-Brite Lighting Inc., 376 U.S. 234 (1964); Lear Inc. v. Adkins, 395 U.S. 653 (1969); Goldstein v. California ..... U.S ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

Not once in those which found any preemption cases, has there been one issue on or one word of briefing to the Court about fraud, breach of trust or confidence, the economics of technology development and commercialization -- for a breach of a personal relationship of trust was not involved in any of those cases.

And as the Sixth Circuit has said since Kewanee, in Screw Machine [FN9] where fraud is involved you don't need a copyright [or patent] to protect against wrongful appropriation of another's catalog [or technology].

FN9. Screw Machine Tool Company v. Slater Tool and Engineering Corporation, 480 F.2d 1042, 178 U.S.P.Q. 325 (6th Cir. June 15, (1973).

In fact, the entire preemption doctrine commenced in erroneous dictum in Singer and Kellogg where the correct result was dictated by the trademark law and the court erred in attributing that result to patent law preemption -- and the erroneous dictum has grown, as a science fiction monster feeding upon itself might grow, into the error of Kewanee.

***17** The correct unfair competition law (including the law of unfair appropriation of trade secrets) is the proper basis for effecting the socially desirable results of Singer, Kellogg, etc., rather than a bull-in-china closet doctrine of patent-copyright law preemption by which unfair competition law in gross is rendered a nullity without any chance at discriminating consideration and refinement of it on its merits.

J. As this court itself has often written, there are issues as to which the legislative process is the only governmentally acceptable process for the change of

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the law.

When uniformly accepted law has been the basis for billions of dollars in economic investment and literally hundreds of thousands of contracts, as is the case here, and when the Court has no access to hard economic data upon which to base sound conclusions ont the domestic and international effect of a sudden change in the law, inherently in this situation may change in the law must be left to the legislative processes.

K. Sociologically and legally, the starting point is a common law right to copy and use that which you can learn of honestly.

To that general rule of free and open use of what one knows, are various exceptions, various rights to exclude based upon the social purposes of personal property, of trademarks, of copyrights, of trade secrets, of patent rights, even rights to exclude your neighbor from maintaining a public nuisance or polluting the air with his duly patented invention.

The nature of the various intellectual property law exceptions to the general right of free and open use of what ***18** one knows, i.e., the nature of the various rights-to-exclude, is that each exception-right-to-exclude stands in the light of its own social purpose, each casting its own shadow of its own scope, shape, premises and term shadows of social purpose which may overlap in part but which do not fight, shadows which permit one right-to-exclude to begin and end in response to its own social purpose, not affecting or preempting the social purposes which gave rise to the other shadows of rights to exclude.

VI. Conclusion: The Sixth Circuit rule in Kewanee must be reversed.

Preemption law has never been applied by this Court to breach of trust and confidence situations, and it must be limited so as never again to be thought of as possibly applicable to breach of trust and confidence issues.

Further, the long term correct solution to the entire intellectual property complex involves a federal or uniform unfair competition law correctly refined with its own limits, with none of the intellectual property law of patents or copyrights held to preempt any socially proper unfair competition law.

--And that is within the proper legal power of this Court, for example, under the Pan American Convention (p. 45-46 infra) if not by way of partial modification of Erie v. Tompkins. [FN10]

FN10. Erie Railroad Co. v. Tompkins, 304 U.S. 64 (1938).

***19** V.
ARGUMENT

A. Contract Values and Types Invalidated by Kewanee

Common contract forms in widespread use in industry which are essentially devastated by the rule of patent law preemption of contracts, include these:

(1) The contract for R & D

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Companies commonly contract, perhaps at the hundred-million-a-year rate in the aggregate, for outside R & D work by independent or university labs. A typical contract, shall we say for research into how to grow large crystals, might read:

"Company shall pay $500,000 for R & D by lab. Lab shall disclose the results of R & D to Company. Neither Lab nor its employees shall disclose the results Company paid for to competitors or use the results competitively for ten years."

By the preemption rule that last clause is a nullity. The Lab's employees are free one year after a commercially important idea is placed in use, to use the information in a commercial frolic of their own. If the Lab's employees can do that, indeed the Lab itself after a year's use can disclose the results to competitors perhaps for a little cash, or can set up a subsidiary to compete with the customer for whom it did the work.

Query: Who could afford to contract for outside R. & D in the United States, if the cream of the results are open for free appropriation by the Lab's employees and/or the Lab and/or competitors learning from either of them, within one year? If R & D buyers cannot buy in the U.S., what ***20** happens to all the nation's companies who do R & D work on contract? What then happens to the progress of technology?

(2) Supply contracts.

Supply contracts for manufacture by a supply contractor, with proprietary know-how of the buyer, are entered into regularly in our society, perhaps at the rate of tens-of-millions a year. Example:

Company in its own R & D work develops a process for making carbon black which uses a unique new autoclave reactor with toroidal flowing gases. The reactor developed in the R & D is proven-out by a year's pilot commercial operation. Company now wants to equip all its plants with the new autoclave reactor. Since Company is in the carbon black business with no facilities or know-how for economic autoclave reactor manufacture, it costs Company $50,000 to make a reactor of uncertain life; but Supply Contractor which is in the autoclave reactor manufacture business and is set up for that kind of work can make and guarantee them at $35,000 each provided it is given the secret process-specifications Company has developed. The contract typically takes the form:

"Company discloses detailed process-specification for new secret reactor to Supply Contractor. Supply Contractor agrees to make 150 reactors at the rate of one per week, at $35,000 each pursuant to Company's specifications. Supply Contractor agrees to keep the specifications secret and to require that its employees keep the specifications secret and not use any of the disclosed specifications for their own or another's account."

But under the Kewanee rule Supply Contractor's employees cannot be bound by the last sentence of the contract. Nor can Supply Contractor.

***21** Under the preemption rule everybody must inevitably avoid as the plague any supply contract for proprietary type equipment designs, lest the act of contracting effect a publication of the secret specs to all competitors.

Thousands of small businesses which live in major part on supply V and similar subcontracts must inevitably be severely hurt.

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(3) The subcontract

The subcontract by which a major contractor subconracts out the manufacture of major subassemblies and parts is a special form of supply contract which is entered into regularly in our society, perhaps at the rate of millions a year il addition to other forms of supply contracts.

The preemption rule does the same sort of gross injury to current industry subcontract practice as to supply contract practice, above described.

--With resulting injury to the entire economy and most particularly to the smaller subcontractors whose primary business involves designs proprietary to general contractors for jet engines, commercial aircraft, buses, etc.

(4) The employee contract.

For the reasons inherent in what has been outlined above, hundreds of thousands of engineering and R & D employees are bound by existing contracts with thousands of employers, not to disclose their employer's trade secret to others. The assets so protected are multi-billion dollar values. [FN11]

FN11. See Appendix A.

By the square holding in Kewance those obligations of confidence are void as to technology in use for a year.

***22** A very important point inherent in this result which was not acknowledged by the Kewanee court: The Kewanee rule not only opens the door, it affirmatively invites disruptive raiding of key employees of competitors on a regular, planned basis.

How much such raiding will in fact occur is a speculation for the future time when, if ever, the Kewance rule becomes accepted law; how debilitating that raiding will be to business is necessarily also conjectural. But clearly, business can not well and efficiently serve society's needs for goods and services and progress in the arts if there is massive employee raiding and no employee stability among those who do the big R & D projects.

Another point: Many businesses now encourage their employees to learn all they can about the technology of the product line, believing that the salesman is a better salesman if he knows, the vice president is a better vice president if he knows; the service man is a better service man if he knows, etc. But every raidable employee is a potential leak. If none of them can be trusted to keep the secrets, then businesses must bias their internal practices toward insulating all employees from knowledge lie does not have a direct important need to know with resulting loss of efficiency throughout the enterprise, with loss of the values of cross-fertilization of thought among technologists, etc.

(5) The know-how license contract.

Technology within the Kewanee rule is a commodity bought and sold in the market

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place primarily by the device ***23** of the know-how license. [FN12]

> FN12. Here note that the bulk of the value in know-how licenses commonly is not in concept, truly "secret." information.
> For example, all the essential elements for the manufacture of polyethylene. carbon black and many other chemicals are now published in the literature including patents. But the wheat elements of information are relatively few and are scattered among and lost in a mountainous haystack of chaff information.
> In the haystack of mankind's technological knowledge-that-is-an-impossible-data-retrieval-problem, the publicly available items of knowledge are not evaluated as against the hundreds of alternative suggestions also available. The reading of an item of information in a publication does not give the reader the kind of value judgment that experience in use of the item in several contexts and various parameters gives. The essence of know-how is the experience-value-judgment added onto the otherwise sterile knowledge of the concept, the result of a process of distillation of compatible and efficient parameters and assemblage of them into a package of known utility, the individual elements of which are not really secret.

The total payments for know-how licenses run in the millions-a-day, billions-a-year orders of magnitude. [FN13]

> FN13. See Appendix A.

A strangely little known but certain truth is that in terms of actual de facto selling market activity, there is almost de mimimis active market for patents as such but there is a big and quite active market for know-how teehnology packages both with and without patents as significant parts thereof.

Individual licenses for chemical processes and plants therefor have in the decade of the 60's gone at prices quite often in the multi-million dollar range. [FN14]

> FN14. See, for example, Imperial Chemical Industries, Inc. v. National Distillers and Chem. Corp., 342 F.2d 737 at 744 (2nd Cir. 1965) where Toyo of Japan had agreed to pay about $6,000,000 for information on how to build a polyethylene reactor.

But under the Kewance rule, to offer to sell your know-how at an appropriate price, is an invitation to your ***24** offeree to come raid for key technical employees, thereby to get for a couple of $25,000 bonuses to the key employees what otherwise would cost perchance several hundred thousands or millions in a know-how license.

Under the Kewanee rule know-how licenses can never again be offered freely in the market, can not move in the market place at prices commensurate with the value of the know-how.

The foundation stone of all economics, that you cannot get something for nothing, tells us that if the know-how cannot be sold for its value, the incentive to produce it must deteriorate, the commitment of capital to R & D must diminish, the progress of the arts must decline.

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(6) Access to foreign technology.

United States now pays sums approaching the order of one hundred million dollars a year for foreign technology within the Kewanee rule.

But a foreign owner now knows that if he licenses a U.S. licensee, the employees of the U.S. licensee cannot be bound to honor the obligation of confidence nor can the U.S. licensee be held accountable.

For a German company to license, shall we say, ABC Steel Company in the know-how for manufacture of unique electric steel alloys, is to have a Japanese, French, British and five other U.S. companies all raid ABC's key employee group as fast as they learn, thereby to compromise essentially the entirety of the German licensor's know-how. Kewanee forces the German company to refuse to license U.S. buyers of technology.

***25** Moreover: The raiding by the several of The employees of the one licensee, ABC, may Conceivably be faster than the ABC's employees' learning rate. So ABC may never get effective operating knowledge of what it paid for, even if it could get the license.

The Kewanee rule is thus seen severely to deter access to foreign technology by U.S. industry.

(7) Know-how sale to foreign purchasers, and our balance of payments deficit.

United states industry now receives payments approaching roughly the order of magnitude of a billion per year, from foreign buyers of U.S. technology within the Kewanee rule.

At a time when the U.S. balance of payments deficit is buffeting the dollar and the entire economy of our nation, a billion dollar annual foreign credit from this source is of no small importance to the nation's capacity for economic competition with the family of nations. Most of this money, coming as it does from technology sales, is directly returned to new technology development.

But under Kewanee the potential foreign licensee can pay a few $25,000 bonuses to key employees, set them up in Cleveland or Cincinnati teaching what they know, and get much of the same know-how they now pay hundreds of thousands and millions for.

The Kewanee rule would be a significant blow to the national effort to maintain a favorable international balance of payments.

***26** So far as appears, the court in Kewanee gave no consideration to any of the factors above, except the specific issue of employer-employee contract.

When the meaning of a phrase actually written in a statute is being interpreted, disregard of the economic impact of the construction may perhaps be justified.

But when as here a court is writing into the Patent Act a wholly new provision not in the statute, it behooves the lawmaker to hear evidence on and consider the economic impact of the new section it writes into the Act for the Congress.

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***27** B. The Kewanee Bias for Business to Move In-house R & D to Foreign Countries

Perhaps more significant, is the Kewanee rule's long term bias against doing even in-house research and development work in the United States when it can be done in a foreign country.

Patents, of course, cannot now be depended upon validly to protect other than the creme-de-la-creme of the results of major research and development budgets Society lives off the milk product of capital investment in research and development which is outside reliable patent protection.

Knowing that the results of major-project research and development needs legal protection, will not corporations be biased by the Kewanee rule to move all the research and development they feasibly can from United States laboratories of their own to foreign laboratories with resultant loss of that technology from the United States and its labor force?

While we ean debate the degree of severity of this debilitating bias that the preemption rule produces, it can hardly he questioned that it is at least severe--and necessarily in critical need of careful evaluation before such a preemption rule as would create such a bias is rigidified into law.

C. The Legal Theory of Trade Secrets

1. The historical philosophy of trade secret law: the relationship, not the res.

The trade secret law seems to have grown naturally out of tort, trusts, agency, property and contract philosophy and social purpose. Until very recently no one ever questioned its social propriety based on a sort of writer's-choice of any one or more of these several grounds.

***28** If it cost $500,000 to engineer into a working process, the concepts of which were already disclosed in patent, trade journals and college texts, it was natural to property law concept that the party who spent the $500,000 should own the technology it paid for.

If an employee were entrusted with his employer's confidential business information, it was natural to the law of trusts and to the tort and agency law concepts that he be obligated not to breach the trust, the obligation of confidence.

If the information were licensed by contract to another company, so that it could avoid the risk of R & D failure, the time required for major developments, and the inevitable cost overruns, it was natural to the freedom of contract concept that the contract be honored. No evil was seen in a contract, "I'll pay X dollars for your secret and I won't tell anyone what it is."

Although trade secret protection is vital to proper sponsorship of progress of the useful arts, [FN15] none of these social purposes out of which trade secret protection arose are quite the same as the copyright or patent social purpose to induce progress in knowledge and the useful arts. None of these socio-legal purposes had to do with trade or competition except as possibly happy incidents. They had to do with property and good faith and ethics and equity.

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FN15. See Chapter D, p. 35 hereof.

None of the socio-legal concepts had a time-factor in them and no time factor is found expressed in the law (contrast the facts) of trade secrets. Thus, in U. S. v. Dubilier the Supreme Court said at p. 186:

***29** "He [the inventor] may keep his invention secret and reap its fruits indefinitely" (Emphasis added)

As a parrot speaks without thought or comprehension of his meaning, so some have translated the lack of time factor in trade secret law into an allegation that if a trade secret has no time limit, it is in some way equivalent to a perpetual patent or to a monopoly, or that a trade secret "extends" the life of a patent. Nothing could be further from the truth.

The foundation stone of all trade secret remedies is a relationship between two parties, a disclosor and a disclosee--an obligation of confidence between a disclosor and disclosee. In the most famous of United States Supreme Court trade secret eases, Mr. Justice Holmes reminded us:

"The word 'property' as applied to * * * trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. * * * The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not property or due process of law, but that defendant stood in confidential relationships with the plaintiffs," DuPont v. Masland, 244 U.S. 100 (1917).

In trade secret law the relationship, not the res, is the thing.

Thus the remedy in trade secret law does not control the technology, only the processes of derivation of the technology. It keeps the disclosee ethical. It keeps the know-how acquisitions both ethical and consistent with the inescapable hard realities of R & D economies in ***30** action, that lie who pays must have a right to control and market what he paid for, else lie soon can no longer pay for R & D. But R & D is open for all to enter.

2. Trade Secret Law leaves others free to compete

The trade secret social purposes do not prevent others from using public sources of information, do not prevent others from developing the same new technology themselves and using it and also selling and licensing it. Frequently a number of companies are competitive bidders to license their technology for manufacture of the same product.

As to each individual secret the obligation is commonly only of one or two people (disclosees), or four. Of hundreds of reported cases reviewed none has been noted to involve as many as 10 disclosees (though some know-how packages are licensed to many buyers whose total informed employee group must sometimes exceed ten persons). The remaining 210 million Americans and all billion or so foreigners remain free to develop, use and publish the same concept.

This of course is not to say there are millions or billions of de facto potential competitors. Those people here and abroad have organized thousands of industrial businesses. By virtue of interest background, capital structure and geography, the number of for-real potential competitors may be only a dozen in some areas of

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technology. But both domestic and foreign businesses are dynamic, not sterile or static. They continuously search for and find areas of public need that can be served for profit.

For social planning purposes they can be depended upon to leave no significant public need, long unserved. Not if the need is important enough for a buck to be made in serving it.

Kewanee oil's alleged interest in perpetual secrecy notwithstanding,***31** this is a key and undeniable point in the picture; essentially every manufacturer assumes and knows in today's high paced world that if his secret process or Mamufacturing jig is worth competitive pursuit, his competitors will find it, or its equivalent, or its improvement, in a very few months or years Like two, four or ten months for any individual secret. Even for whole chemical-plant-process and related plant equipment, two, four or six years almost at the outside, and for all practical business planning purposes, essentially never longer than eight years. (Long term know-how lieenses most commonly have continuing R & D service features).

The fact that Kewanee Oil's Harshaw division is reported to have sought a longer term secrecy and exclusivity, does not change the fact that if the public had enough interest in it to justify competitive efforts, Kewanec Oil would not likely have in fact enjoyed long term exclusivity of its know-how. Moreover, even if Kewanee Oil's large-size crystal growth could have been an isolated freak of a situation where long term exelusivity might have existed, the entire public policy dog must not be permitted to be wagged by a diminutive tail. For without question, in essentially all situations competitors do develop, and can be depended upon to develop, the same, equivalent or better know-how in short order once the commercial market value in so doing is present. And until that commercial market value is present there is no significant public disservice in permitting the secret to be kept from a public that has no need or interest anyway.

So, de facto, trade secret protection is not only uncertain in time, it is also short termed in time of protection in all but a de minimis number of cases involving surely less than one-tenth of one percent of technology value. It is essentially never monopoly power even for a few years. ***32** Public policy must be based upon the typical and common situation, not the rare atypical situation.

And as to products which are placed on the market and are available for competitive purchase and reverse engineering, the competitive access is often almost instant and always pretty quick.

3. Trade secrets an extension of the patent "monopoly" [FN17] Or, patents an extension of the trade secret nonmonopoly.

> FN17. We use the phrase "patent monopoly" because Mr. Justice Black in Lear and the Kewanee court did; but this is not correct in pragmatic reality. When theorizing on public policy, there is much mischief in thinking of patents as being more monopolistic than they really are.
> A patent by legal definition covers only things not before known or used, nor to those skilled in the art obvious from all that was before known or used. Hence, it takes nothing from the existing public enjoyment.
> A patent, working in that context, only rarely monopolizes a relevant market.

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> Bulova's patent on its Accutron tuning fork watch movement has great commercial value, but more non-Accutron than Accutron movements are still sold and Accutron movements must remain more price competitive than not. Polaroid's patents on instant snapshots are of great value; but more noninstant than instant pictures are still taken and Polaroid cameras remain more price competitive than not, with German, Japanese and other United States manufacturers. Xerox by its tremendously dramatic improvement in the cost/quality ratio over heavy-paper photostatic negatives and fragile heat-process Thermofax copies, enlarged the office copy market many many fold; but it seems an absolutely sure bet that there are now many more non Xerox machine copies made annually than were ever made by all the industry before Xerox so served the world with its lower cost, better copy.
> Patents are not "monopolies" because the things they cover remain subject to competition from what the public used before as well as what competitors invent anew to stay abreast.

It was apparent even before Galileo's day that men would not for long, yea could not for long, put their mind to making contrivances for the benefit of realm, if the results of their investment were not to be better protected ***33** than secrecy permitted. [FN18] The intent of patent law in the 15th century, as in our Constitution, clearly was not to confiscate men's conceptions, was not In take away the personal property right of a man to keep his secret. Rather, it was to "secure" in him some rights beyond what his secreey would normally afford him--for "securing" the otherwise uncertain protection of secrecy would promote the progress of the useful arts.

> FN18. See Chapter H and the text related to note 32 infra.

The patent grant authorized by Title 35 United States Code is an effort at that.

Instead of the uncertain protection time of zero, two, four or six years which secrecy affords only in an erratic pattern of some instances, the patent grant is affirmative for 17 years for only the important inventions that quality for patents, irrespective of secrecy. Instead of a trade secret right against the one to perhaps six discloses with the rest of the entire world's people in thousands of universities and industrial businesses free to develop and use independently, the patent right is against the 210 million people in thousands of businesses in our nation and also against all foreigners who would practice the invention in our nation (and foreign industry is very active in our nation).

The trade secret never inhibits the dozens to thousands of actual or potential businesses in their use of any merely alleged secret which is in fact publicly available, nor restricts competition in things already in the general public enjoyment, for there is no confidence to be breached if the public has general access to the alleged "secret". The true trade secret is thereby inherently concerned with new things and processes in the course of being brought into the public enjoyment, and mightily contributes to competition at this vital threshold, the threshold of new technology.

***34** The trade secret is thus seen to be not de facto a monopoly right. For it, its equivalent or its improvement is too available to too many potential competitors, whenever it is valuable enough to justify their effort. The more the commercial

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value, the quicker the competitor can be trusted to develop the same thing or take a license.

The trade secret is not monopoly oriented. It is good faith ethics and equity oriented.

***35** D. Trade Secret Protection Is at Least as Important to the Progress of the Useful Arts as are Patents.

The court in Kewanee quoted with approval writings on the alleged mischief of trade secret protection and wrote always consistently with an erroneous premise of fact that: Trade secret protection is inconsistent with progress of the useful arts and patents are the only inducement to such progress.

The court had no evidence on such a fact finding before it, no testimony of business men who budget R & D or buy or sell its resulting know-how, no testimony from technology economists. The court was indulging what Mr. Justice Frankfurter called "sterile generalization, unnourished by the realities of law in action."

It seems a possibly interesting exercise to indulge some theorizing of our own by way of contrast. -Theorizing based upon the practical day to day experience of this amicus, in the arena where the action is.

* * *

Patent validity is determined by an unrealistic and harsh standard. Valid patents are limited to inventions which by judicial hindsight are held to have been nonobvious in light of carefully selected and juxtaposed portions of all the sum total of mankind's prior published knowledge. The selection and juxtaposition of the few items of prior art from the millions of prior items of knowledge is accomplished by use of the invention itself as the screening tool which separates out and arranges together perchance three needles of compatible knowledge from a mountain-sized haystack of chaff prior knowledge.

Three or four prior art ideas, scattered among all mankind's ***36** prior relevant and irrelevant knowledge, often do not jump forth together as compatible for a new inventive function. But a patent infringing plagiarist will take invention parts disclosed in the patent itself, and search for thousands of dollars worth of time to find and select those particular kernels of wheat information and screen out all the chaff information. Then when defense counsel puts them into physical juxtaposition before the judge, explaining just how they can be fit together, those same three or four prior art references then appear in that hindsight review to have been obvious to select and obvious to combine. When the defense counsel concludes his pitch, no judge can really separate himself from hindsight psychology and put himself into the art with the men who worked there as of a many years' earlier time.

By contrast the foresight-developer, upon whom society inherently relies to progress the useful arts, cannot ever really know and have mental mastery over all possible relevant prior knowledge ("prior useful art"). Yet he inevitably does have knowledge of tremendous masses of chaff art and little to guide him as to which of the items of art are the technically feasible items or whether if technically feasible they may be commercially economic to combine in his particular application.

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So the foresight developer must spend many R & D dollars trying to select the useful needles he may not know of and may not believe are there, from the haystack of chaff art he does know of or have library access to, often without faith that an answer exists anywhere, without benefit of the patent infringer's certain knowledge that the answer both does exist and is economic, and without benefit of a screen for separation of useful from chaff knowledge.

Thus, inventions which are hard and expensive to make ***37** and develop are by the nature of the patent law quite commonly not protectable by that law.

These unprotectable inventions are the milk upon which society's technology lives. The patentable inventions, the cream inventions, are used to make frosting on an R & D budget or to reduce losses being suffered by an R & D budget. They are very important. But they are worth much too little to support all the economic requirements of new technology which includes many many more expensive failures than valuable successes.

* * *

Another point clearly misunderstood by the Kewanee court is this: Patents by their nature cannot and do not disclose all new technology; the patent is not a carrot that can fetch public disclosure of the mass of technology within 35 U.S.C. § 101.

The manufacturing specifications for each application of a patented concept may represent hundreds of thousands or millions of dollars' worth of engineering time [FN19]--distilled and developed know-how that others could develop from patent and text book disclosures but only at a similar cost in market lead time and money.

> FN19. Many developments (e.g. see note 21 infra) cost hundreds of millions of dollars.

This engineering detail is commonly developed again and again for each new application of the invention's concept, long after the patent application is filed, long after the patent issues, even after it expires. For example, the hydroelectric turbine applications engineering might be developed before the application for patent on the turbine concept is filed; and a steam turbine applications engineering might be developed while the patent application is pending; and the jet engine applications engineering might ***38** be done not by the patentee but by a patent-licensed competitor five years after the patent issues and again by yet a foreign competitor selling a much larger model in the U.S. five years after the patent expires.

Inherently, a patent can not disclose the engineering detail for all applications of the inventive concept no ten buildings in Washington would hold all the paper even if it existed at application filing time which it does not. Consistently with those pragmatic facts of life the patent statute requires only a disclosure sufficient to permit others skilled in the art to carry out the basic concept. The patent statute requires a disclosure of the concept of one mode, i.e.,
"the best mode contemplated by the inventor of carrying out his invention" [inherently, at application filing time]. 35 U.S.C. § 112.
Other modes including the engineering details of such other modes, by statute need not be disclosed in the patent. Many of them simply cannot be. The patent law does not purport to protect the engineering detail, the specifications producible by a

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number of engineers skilled in the art once the concept is in hand. The patent law does not treat this know-how at all, one way or the other.

There can be no "conflict" with the patent law's treatment of trade secret know-how, if the patent law does not treat of it at all, one way or the other.

* * *

A made-up but real-life example will make understandable the point that know-how protection by trade secret law, independent of patent law, is vital to progress.

Assume a 1968 reality that the broad concepts of internal combustion turbine design are available to industry either ***39** from history at no significant cost, from the subsidized academic community again at no significant cost, or from prior government research, again at no significant cost. The concept was disclosed in patents in the thirties and had been successfully applied to military aircraft in the forties.

Project: Design a 1973-generation jet engine for the Lockheed air bus. It must meet new high performance specifications as to thrust, speed, fuel consumption, air pollution, noise, light weight, flexible controls, serviceability, service life, manufacturing ease and cost -- on all of which the know-how is confidently and publicly stated to be "available."

Even with the then generation of Pratt and Whitney and General Electric and prior Rolls Royce jet engines, used both on U. S. and foreign commercial and military aircraft, from which to draw such ideas as are available on the open market, essentially that very project, above outlined, proved so expensive in time (years) and money hundreds of millions of dollars), [FN21] as to bankrupt one big jet-engine-experienced company, Rolls Royce, and contribute to Lockheed's having to ask the U. S. government to bail it out.

> FN21. United Aircraft's Daily Newsletter Supplement, July 18, 1973 reports the development cost of Pratt and Whitney's JT9D for Boeing 747s and DC-10s as "half a billion dollars."

The choice of details of dimension of a thousand parts, temperatures of operation, choice of metallurgy, speed of rotation and centrifugal force on blades, pressure on gas and air to burn how fast -- the distillation of a million "obvious" details into a. compatible package of engine and related manufacturing know-how that progressed the useful arts, has to be paid for by somebody or society will not enjoy the progress this new bigger, better engine affords.

From the advancement of the art point of view and from the economic point of view, no one could care less whether ***40** the requisite protection is by private self-help (e.g. secrecy) or by government grant (e.g. patent) so long as the protection is feasible to the inherent facts of public enjoyment of the fruits of the technology and is effective enough to permit recovery of the investment and the profit thereon which is necessary to induce the investment.

Assume a not-unlikely fact, that Pratt and Whitney had already done most of the half billion dollars' worth [FN22] of work to produce an engine at least 90% as good as the new Rolls Royce engine and has been using it for a year in making engines for, perchance, Boeing 747's. Would society be served by permitting Rolls Royce to

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hire a dozen Pratt and Whitney select top engineers and use all their know-how?

FN22. Id. See footnote 21.

With much of the development cost and time saved, Rolls would have been saved from bankruptcy and would be able to sell its engines earlier and perhaps 20% cheaper which clearly would serve the public with cheaper air travel -- and which would likely bankrupt Pratt and Whitney because then it would either (a) lose its sales to Rolls Royce and fail to recover its tremendous development costs, or (b) cut its price to get business, by roughly the amount of the development cost that its competitor did not pay for, and thereby fail to recover its development costs.

--Which must mean that nest time the money won't be available to commit to the development.

--Which must mean stagnation of the advance in the art.

Examples of society's need for patent protection are skipped here, for they are not the point of this paper; but by this example, of which many abound, it is seen that patents are not the sole answer to industry's need for ***41** technology protection in situations wherein protection of unpatented know-how may be vital.

Overall, the R. & D dollar, on which the nation is critically dependent for the advances necessary to maintenance of its standard of living in a growing society with diminishing resources, cannot be supported by either trade secret or patent protection alone.

* * *

The trade secret protection is limited by such factors as:

The trade secret is limited to the few people involved in the disclosor-disclosee relationship;

Billions of people domestic and foreign, college professors and university doctorate candidates, dozens, hundreds or thousands of businesses, are free to develop and use and/or publish the same thing and improvements thereon;

There is a high dependability of timely competitive development of any secrets which are commercially important enough to justify the effort;

Trade secret subject matter is limited primarily to things not disclosed by the marketed product but rather practiced in-house;

Know-how licenses on the really big developments are commonly available;

--These and other factors limit trade secret protection at its worst to an inherently minor restraint on competition, nowhere near a monopoly.-- Most commonly as minor as a pitcher of water taken from the swimming pool of competition.

The minor restraint, if any, is to be balanced against public policies favoring the right of personal property (which trade secrets assuredly are), the right of privacy ***42** (should proprietors be forced to cough up their secrets to competitors after one

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year?), the social need for business ethics and business's capacity to entrust a confidence to a business associate, and the need for business men to be able to enter into license contracts, R & D contracts and supply and subcontracts for manufacture with proprietary know-how.

* * *

The patent law, as to important conceptual innovations is a needed statutory extension (both as to what otherwise would be secrets and also as to nonsecret inventions of patentable stature) of the common law trade secret right to protect secrets; this needed extension of trade secret protection is not a derogation of it.

Trade secret and patent law are like two horses hitched to the same public-interest-carriage -- public interest in competition in innovation, in competition in R & D, in competition in bringing to public enjoyment things which are not yet there. No pursuit of competition in the static group of things already here can properly be set above the carriage of public interest in innovative new technology.

Trade secret and patent protection are both as necessary and as compatible as the two wheels of a bicycle, without which vitally needed technology progress cannot ride.

Nevertheless, arising out of different socio-legal philosophy they also are as different as a car and jet airplane which, while both providing transportation, are in no meaningful way equivalent, not in scope, not in persons affected, not in effective term, not in power of competitive restraint. And neither of them in the usual situation are anything near "monopoly."

***43** E. Public Policy Favors Honesty and Loyalty

Except for a citation of two prior decisions which sustained breach of confidence causes, the Kewanee opinion gives no reference to the concept of trust, honesty or loyalty of employees to their employer, no mention of ethical wrong involved in a business reaping where it did not sow.

What ever happened to the morality of our forebears? Is there no social merit to such expressions as "A man's word is his bond." Has society no use for the concept of "trust," by which one man may entrust. a confidence to another -- and depend upon it?

What moral justification exists for A taking the value that B paid to create? What equity?

The Kewanee opinion encourages and sponsors the taking by indirection (by employment of the memory of another's employee) of the same technology value that by the Kewanee court. the Sixth Circuit, is still labeled as a crime called "theft," if taken by the direction of the. employee's taking documents with the same secret processes written thereon. [FN23] Theft by any other name remains the same moral wrong. The possible existence of a federal criminal remedy under 18 U.S.C. § 2314 for secrets sold in interstate commerce is no substitute for a civil remedy for the party wronged.

FN23. U.S. Greenwald, 479 F.2d 320 (6th Cir. June 1. 1973), cert.

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> denied ..... U.S. ..... (1973) held an attempt by a former employee to sell trade secrets, violated the federal criminal law 18 U.S.C. § 2314 proscribing transportation of "goods, wares and merchandise" in interstate commerce knowing them to have been "stolen. converted or taken by fraud."

Surely there must be a social policy favoring loyalty among friends, associates and employees, favoring an esprit de corps and morale by which employees serve their ***44** employer with their heart as well as their hours. For business efficiency and hence capacity is importantly related to the loyalty and employee esprit de corps. If all the heart is taken from business relationships by law which sponsors disloyalty, the business community will assuredly cease to be able to serve society well.

All will recall the memory expert spy of the World War II movies who got jobs in U.S. plants, memorized data and disclosed it to the enemy. The Kewanee rule sponsors that spy-by-memory practice, as between domestic competitors and also by a foreign competitor seeking U.S. technology.

It is morally repugnant for spying to be sponsored by law.

When so many are free to compete, is freeing the competition of those very few who are disclosees sufficiently important to justify debilitation of honor, integrity, loyalty, and the property-like concept that he who foots the bill for producing technology should own the product to the extent of freedom against tortious breach of trust?

In the list of priorities of public policy the highest priority surely must be given to honesty and good faith in business dealings.

***45** F. Treaty Law Compels Good Faith Business Activity

The Paris Convention and the Pan American Convention, [FN24] both treaties to which this nation is a party, proscribe acts "contrary to honest practices in industrial and commercial matters" and acts "contrary to commercial good faith or to the * * * honorable development of industrial or business activities."

> FN24. Paris Convention, Act of Lisbon 1958 Art. 10 Bis (2) recites "Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." [which is prohibited]. Pan American Convention of 1929, Art. 20, reads to the effect, "Every act or deed contrary to commercial good faith or to tile normal and honorable development of industrial or business activities shall be considered as unfair competition and therefore unjust and prohibited."

The Supreme Court in Bacardi v. Domcuech wrote:

> "This treaty [Pan American Convention of 1929] on ratification became a part of our law. No special legislation in the United States was necessary to make it effective." [FN25]

> FN25. Bacardi Corp. v. Domenech, 311 U.S. 150, 161, 61 S. Ct. 219 (1940).

The Paris convention has been repetitively held in the 9th Circuit [FN26] to implemented in the Lanham Trademark Act of 1946, 15 U.S.C. § 1051 ct seq.

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particularly Seetion 44(h) of the Act. 15 U.S.C. § 1126h. Other circuits take a contrary view. [FN27]

FN26. Stauffer et al v. Exley, 184 F.2d 962 (9th Cir. 1950) Pagliero v. Wallace China Co., 198 F.2d 339 (9th Cir. 1952) ; Neal v. Thomas Organ Co., 325 F.2d 978 (9th Cir. 1963) cert. den. 379 U.S. 828 (1964); Audio Fidclity Inc. v. High Fidelity Recording Inc., 283 F.2d 551 (9th Cir. 1960); Magna Pictures Corp. v. Paramount Pictures Corp., 265 F. Supp. 144 (C.D. Calif. 1967); Ross-Whitney Corp. v. Smith Kline & French Laboratories, 207 F.2d 190 (9th Cir. 1953).

FN27. L'Aiglon Apparel v. Lana Lubell, 214 F.2d 649 (3rd Cir. 1954); Royal Laee Paper Works. Inc. v. Pest-Guard Products, Inc., 240 F.2d 814 (5th Cir. 1957); American Auto Assn. v. Spiegel, 205 F.2d 771 (2nd Cir. 1953). cert. den. 346 U.S. 887; Maternally Yours v. Your Maternity Shop. Inc., 234 F.2d 538 (2nd Cir. 1956); KaZ Mfg. Co. v. Cheseborough-Ponds, Inc., 317 F.2d 679 (2nd Cir. 1963).

***46** But Bacardi has not been overruled on the point that the Pan American Convention is self-implementing. Hence, either way you figure the point of whether the Lanham Act implements the Paris Convention, there would appear to be treaty law of the land, a federal law not preempted by patent law, which condemns breaches of confidence as surely as the state law of trade secrets.

And the treaties, both ratified by the Senate, reflect a Congressional attitude inconsistent with judicial disregard of "good faith dealings" in business and industry.

G. Criminal Public Policy v. Civil Public Policy

The Sixth Circuit Trilogy of Kewanee, Greenwald and Screw Machine

In May and June, 1973, the Sixth Circuit decided three cases we may here call the Sixth Circuit Trilogy, Kewanee, Greenwald and Screw Machine, in that order. Greenwald and Screw Machine clearly demonstrate social and legal inconsistency with Kewanee and teach what the law ought to be.

Kewanee was first. In Kewanee the Sixth Circuit (erroneously) announced in July 1973, a broad patent law preemption of state civil unfair competition law designed to foster commercial honor and good faith in technology dealings. There has been no comparable body of federal civil-remedy law since Erie v. Tompkins. [FN28]

FN28. 304 U.S. 64 (1938).

In U.S. v Greenwald, [FN29] the Sixth Circuit affirmed that it is nevertheless a federal crime under a nonpreempted 18 U.S.C. § 2314 for a former employee to transport across state lines papers carrying representations of trade secrets. ***47** The public policy against theft of trade secrets exists independent of patent law preemption -- but only with criminal remedies.

FN29. 479 F.2d 320 (6th Cir. June 1, 1973) cert. denied ..... U.S. ..... (1973).

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In Serew machine Tool Company v. Slater Tool and Engineering Corp. [FN30] the setting was a contempt proceeding in an unfair competition case. The Sixth Circuit said:

FN30. 480 F.2d 1042, 178 USPQ 325 (6th Cir. June 15, 1973).

"Since the basis of an action for unfair competition is fraud [citations] the [copied] noncopyrighted catalog] material under consideration need not be the subject of a valid common law or statutory copyright. For example, in Socony-Vacaum Oil Co. v. Oil City Refiners, 136 F.2d 470, 58 USPQ 632 (6th Cir.), cert. denied, 320 U.S. 798, 59 USPQ 496 (1943), this Court held that an action for unfair competition would lie even where there was no infringement of an exclusive right in the name or symbol.

Similarly, the lack of a copyright in the advertising or promotional material used by the appellee [and copied by appellant] is not a defense to an action for unfair competition." (Emphasis added.)

Under Erie the only civil unfair competition law is state law, allegedly preempted by the patent and copyright law. But tile public policy against unfair competition law continues to be socially expressed in the federal criminal law.

Is it not anomolous for our structure of judicial practice to repeal the civil remedies for unfair competition in the nature of fradulent theft of trade secrets while continuing to enforce the criminal; remedies for the same offense-no legislative body having made such a determination?

But then the Sixth Circuit in Screw Machine recanted its Kewance rule, for in Serew Machine the unfair competition (***48** there much less fraudulent than wrongful appropriation of another's expensively developed trade secrets) was held not preempted by the copyright law which, per Goldstein, [FN31] clearly reaches the subject copied catalogs.

FN31. Goldstein v. California, ... U.S. ..... 93 S. Ct. 2303, 178 USPQ 129 (June 18, 1973).

Why the recant?

Because the public policy against fraudulent types of unfair competition, and in favor of civil remedies therefor, transcends patent or copyright law preemption if any there in fact be.

Perhaps there needs to be a federal unfair competition law whereby federal courts can afford civil remedies for fraudulent types of unfair competition.

But assuredly there must be some civil unfair competition law. For the sociological need is demonstrated in the Sixth Circuit's own 1973 trilogy, Greenwald, Screw Machine, and the billions of dollars worth of contracts protective of trade secrets that are nullified by Kewanee.

And the need for civil unfair competition law is demonstrated in the Paris and Pan American Conventions.

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Aye, perhaps there is the thought.

Erie need not be an impediment to the development of a sort of federal "common law" of unfair competition that is not preempted by patent or copyright law, because the treaties are not preemptable.

Clearly the treaties in general admonitions proscribe the Bicron behavior and support the federal court's adoption of the state trade secret common law as the implementation of the self-implementing Pan American and/or Paris conventions.

***49** H. Legislative History of the Patent Act

The Kewance opinion does not reveal any interest in or attention to the legislative history of the drafting of past or present Patent Acts.

Since the Kewanee rule is in the nature of writing a new section into Title 35 (sec p. 4-5 above), and since it is the writing of a one-sentence statutory section that is clear and easy for the drafters of the Patent Act to have themselves written if they so intended, it seems appropriate that we should review the legislative history of the drafting of the Patent Act, Title 35, U.S.C.

1. The Constitution on Patents

Patent law has been recognized at least since the 1474 patent statute by the city-state of Venice, which statute reads in part:

"And should it he provided that the works and contrivances invented by them [men of clever minds], others having seen them could not make them and take their honor, men of such kind would exert their minds, invent and make things which would he of no small utility and benefit to our state." [FN32]

FN32. Patent Study No. 15, 85th Congress, 2nd Session (1958).

That clause found its way, in paraphrase, into our own Constitutional Art. I, Sec. 8, Clause 8:

"The Congress shall have the power * * * To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries ;"

Power not given Congress was of course reserved to the states. Hence, there is no void created wherein powers not granted to Congress were nevertheless denied to the states. ***50** Preemption thereby can not be larger at its biggest, than Congress's authority.

The Congressional authority is concurrent with that of the states, not to the exclusion of the states. [FN33]

FN33. Cf. Goldstein v. California, ... U.S. ....., 93 S. Ct. 2303, 178

U.S.P.Q. 129 (June 18, 1973), holding the copyright portions of the same balanced sentence in the Constitution which authorizes patents, is a grant of concurrent not exclusive rights, to Congress.

A key point overlooked in all the preemption opinions is that the Congressional

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authority is dominated by the conjunctive preposition "by," which ties the purpose to the means and the means to the purpose, inseparably.

The Constitutional grant is of power to set up one system (not necessarily the only system) but for one purpose only, to promote the useful arts. That purpose is tied to a single recited means.

The means designated as Congress' only way to implement the one purpose, was to secure rights to inventors. But the use of the means, securing rights to inventors, is empowered to Congress only for the one social purpose, promoting the useful arts, and no other purpose.

It is palpably false to suggest that Congress was granted any prerogative to use that means, securing rights, for any other purpose, like business ethics and equity.

Use of that means for all other social purpose, like establishing business ethics and equity, was reserved to the states.

* * *

Recall that in England and in our colonies, circa 1788 when our Constitution was being phrased, importers of inventions from other countries, who were not inventors, were commonly awarded patents. Soon thereafter states of the United States granted patents to noninventors, at least ***51** some being granted clearly for the purpose of promoting the useful arts.

For example, New York granted a series of steamboat patents, first to Fitch whose patent was later canceled, then to Livingston, later to Livingston and Fulton, the latter of which was the subject of Gibbous v. Ogden. [FN34] Clearly Livingston neither conceived nor reduced the steamboat to practice; he was merely Fulton's financial investor and an influential benefactor; he was not an "inventor." But the New York patient to this noninventor, among others, was conditioned that within twelve moths there be "built a boat of at least twenty tons capacity which should be propelled by steam, and the mean of whose progress through the water with and against the ordinary current of the Hudson's river, taken together, should not be less than four miles an hour".

FN34. 22 U.S. 1 (1824)

Clearly the Constitutional clause did not give Congress the power to grant such patents to noninventors.

The patent clause of the Constitution did not give Congress the power to grant cash awards to distinguished inventors to induce progress.

The patent clause did not, give Congress the power to do its own R & D to promote progress not the patent clause.

Promotion of time useful arts by means other than securing rights to inventors, was power not given to Congress; rather it was expressly reserved to the states.

All powers not granted to Congress being reserved to the states, the states have the power to promote the useful arts, for example, (a) by awards to inventors; (b)

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by state R & D efforts through state-supported universities; (e) by ***52** granting exclusive rights for limited times to noninventors, whether or not the subject matter is patentable or has been in use for more that one year.

All of this, including the state right to protect "unpatented articles" was argued to the Supreme Court in Gibbons v. Ogden. [FN35] Daniel Webster, and more completely the Attorney General, argued that the steamboat patent granted by the State of New York to Fulton and Livingston and acquired by Ogden, (i) was a nullity by virtue of federal patent law preemption and, (ii) could not be enforced against New York-New Jersey steamboat traffic because it was in interstate commerce, duly licensed pursuant to the commerce clause. Mr. Oakley in arguing in response to both patent law preemption and commerce clause preemption delivered the most complete argument against federal patent law preemption that has ever to this day been assembled anywhere. The report of the case summarizes Oakley's patent law nonpreemption argument for over 40 of the original opinion pages.

FN35. 22 U.S. at 142 (1824).

The court could decide the case for Ogden on either of Webster's two grounds, or both. One of the great judicial activists of all time, John Marshall, finding that the state patent could not be enforced against expressly licensed interstate commerce, declined to find on patent law preemption and left the state patent alive to be litigated again at a later date as against intrastate commerce. [FN36]

FN36. The North River Steam Boat Company v. John R. Livingston (son of Fulton's friend Robert Livingston), 3 Cowen 713 (NY 1825).

* * *

2. The Patent statutes, generally

Various patent statutes were enacted under the constitutional clause.

***53** All spoke in terms that an inventor has the option (e.g. "may") of applying for a patent. Non inventors may not apply.

All spoke in terms that patentees would have X years (now 17 years) of protection.

A disclosure of the invention of at least some sort is inherently required in order to identify the thing patented; but the public service aspects of the patent disclosure seems to have found common expression only in modern, very recent literature, and it seems not to have been On anybody's mind at least until after 1850.

The patent statutes were property-philosophy statutes, "securing" in inventor's their somehow inherently natural "property" right in their invention, the honor to the natural "property" right being also the carrot by which to induce both the sweat of inventors and the capital of their financial backers into R & D and also into market development.

The earliest treatise authority on patent law spoke of their relation to trade secrets, thus:

"As the right of an inventor to his secret invention and to a remedy for the

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wrongs by which his property therein is injured, are not dependent upon the provisions of the Patent Law, they exist equally whether the invention is or is not in its nature patentable. * * *

"If the creator of these unpatentable inventions chooses to preserve his secret he has a right to do so, as also to communicate it confidentially under such restrictions as he deems expedient * * *" Robinson on Patents, Vol. III, See. 873 (1890). Emphasis added.

* * *

The Constitutional grant is of one power to Congress to set up a system to promote the arts solely by the means of securing to "inventors" rights in their "discoveries," there being no Constitutional expression evidencing cognizance ***54** of a standard of novelty or patentability. Neither the word "novelty" nor "standard of patentability" or its equivword "novelty" nor "standard of patentability" nor its equivalent, is found in the Constitution. Clearly at the time of Constitutional drafting, every producer of a new gadet was within the connotations of "inventors." But the Supreme Court now writes that "The patent standard is basically constitutional" and construes that standard to be a high, difficult-to-obtain one. [FN37]

FN37. Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 61, 90 S. Ct. 305, 308 (1969).

Since the Constitution reserved to the states all authority not granted to Congress, the protection of lower-standard inventions that fail to meet the Constitutional standard of patent protection for "inventors", cannot be preempted.

The antiprotectionist theme cannot either in logic or law have it both ways, that the Constitution limits patents to the very few dramatic technical breakthroughs while a statute pursuant to the Constitution preempts state action on all technology of lesser stature.

* * *

If the patent statute preempts, as alleged, all right to preclude the use of information, it preempts the state police power as well. It preempts the city's right to prevent manufacture of fireworks in the proximity of schools, for the few who would be involved in the manufacture are by the patent-law-preemption theory guaranteed that they cannot be precluded from using the public domain technology on fireworks manufacture by any other than the patent law.

Perhaps more pointed: If the patent law preempts all other social policy on rights to exclude, and thereby guarantees the right to use subject matter not covered by valid ***55** patent, it guarantees the right to sell toxic drugs covered by expired patents, irrespective of state drug regulations for its public's safety.

The consideration of this ridiculous extreme forces the conclusion that preemption as a theory, forceably and necessarily reaches too far, hence must fail.

There is no conflict between a statutory extension of common law protection and the common law protection, no conflict between securing a right to preclude others for tile social purpose of the patent system, and leaving untouched the common law right

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to preclude others for either the same social purpose (promoting the arts) or a different social purpose (preservation of private good faith in business dealings), both of which seem to be inherent roles of the trade secret law.

It would seem that if any one of the drafters of our many patent acts since the first one in 1790, had wanted to terminate trade secret rights after one year's commercial use, he might easily have so recited in the same paragraph where he cut off the right to tile for a patent after one year's commercial use. But this, of course, was not done by the statute drafters. Contrast the copyright statute, 17 U.S.C. § 2, where the statutory drafter wrote upon and considered the scope of the preempted and nonpreempted territory--a clause for which the patent statute has no parallel.

The present patent law is the Patent Act of 1952, Title 35 U.S.C., the legislative history of which is peculiarly well recorded. And since that particular writing is the thing now alleged to preempt, the legislative history of that writing is of peculiar interest.

But before that history can have its full meaning, it is ***56** necessary to understand the state of the law as of the time of drafting of the 1952 Code.

* * *

3. State trade secret law development

State courts failed to find either evil or conflict with the patent law in the act of A contracting with B,

"I'll tell you what I know, if you'll pay X dollars and keep the secret,"

so they enforced such contracts. They evolved a body of case law in most states. The state case law has always been essentially uniform in its view that obligations of confidence are enforceable in court this even though the legal theories seemed not always the same.

Courts spoke sometimes in terms of property or quasi-property, sometimes not so much of property as of the tort of breach of confidence, sometimes of contracts and quasi-contracts.

But the gravamen of the cause remained always the enforcement of private good faith.

The Restatement of Torts in 1939 developed its expression, § 757, protective of trade secrets and confidential information. In Comment (a) to § 757, the Restatement of Torts discusses the rationale of patent and trade secret protection, as concurrent systems of protection without conflict between them.

The Restatement of Restitution (1937) provides in its 136 for restitution of the value derived by use of another's trade secret.

The Restatement of Agency, 2nd (1958), tracking on this point the pre-1952 first Restatement of Agency, proscribes use of confidential information belonging to another, in its Sections 395 and 396.

***57** The Restatement of Trusts, 2nd (1959), provides in 82(e), simply: "A trade

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secret can be held in trust."

So stood the common law of trade secrets as of the drafting of the 1952 Patent Act.

There came a time after Sears and Compco [FN38] when trade secret pirates were operating with such vigor, that twenty-one states enacted criminal laws making it a crime wrongfully to appropriate a trade secret. [FN39]

FN38. Sears, Roebuck & Co. v. Stiffel Company, 376 U.S. 225 (1964), Compeo Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

FN39. Ark. Stat. Ann. § § 41-3949 to 3951 (1967); Cal. Penal Code § 499c (1967) ; Colo, Rev. Stat. § 40-5-33 (Supp. 1969) § 40-5-34 (Supp. 1967) (1967); Ga. Crim. Code § 26-1809 (1968); Ill. Rev. Stat. Ch. 38 § 15-1 to -9, § 16-1 (1965); Ind. Code § § 35-17-3-1 to 35-17-3-5 (1969) ; Me. Rex. Stat. Ann. Tit. 17, § 2113 (1967); Mass. Ann. Laws Ch. 266 § § 30(4), 60A (1967); Mich. Compl. Laws § § 752.771 to .773 (1968); Minn. Stat. Ann. § 609.52 (1967) ; Neb. Rev. Stat. Ch. 28, § § 548.01 to .03 (1965); N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967); N.J. Stat. Ann. § § 2A: 119-5.1 to -5.5 (1965); N.M. Stat. Ann. § 40 A-16-23 (1967); N.Y. Penal Code § 155.00(6), 155.30 (3), 165.07 (1967); N.C. Gen. Stat. § 14-75.1 (1967); Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967) ; Okla. Stat. Titl. 21, § 1732 (1968) ; Pa. Stat. Titl. 18, § 4899.2 (1965) ; Tenn. Code Ann. § § 21-4328 to 4240 (1967); Wis. Stat. Ann. § 943.205 (1965).

The parallel of trade secret piracy and state legislative acts, to the sudden bloom of phonograph record and tape piracy after Sears and Compco which brought about state and federal legislative acts directed to that specific piracy, cannot escape notice. See Goldstein v. California, ... U.S. ..... 935, Ct. 2303, 178 U.S.P.Q. 129 (1973).

4. Congressional Law on trade secrets

Congress itself has specifically sanctioned payment of consideration for acquisition of "secret processes, technical data, * * * and other property or rights by purchase, license, ***58** lease * * *" This statute is without regard to whether the secret processes have been in use for more than one year. 42 U.S.C. § 1857b-1 (b) (4); 16 U.S.C. § 778e (e); 30 U.S.C. 322 (b).

Congress also enacted Internal Revenue Code, 26 U.S.C. § 861 (a) (4) and 872 (a) (4) dealing with taxation of royalties for the licensed use of secret processes and formulas -- relying upon the then law of trade secrets that did not terminate the license after one year.

Congress has passed a multitude of other enactments, in reliance upon the established trade secret law and without purporting to change it. [FN40]

FN40. Sec for example, the Freedom of Information Act, 5 U.S.C. § 552(b)(4) prohibiting federal agency disclosure of trade secrets; 18 U.S.C. § 1905 making it a federal crime for a United States officer or employee to disclose a trade secret; Section 24 of the Securities Exchange Act of 1934, 15 U.S.C. § 78x, preventing the SEC from requiring that trade secrets or processes be

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revealed; Section 6(f) of the FTC Act, 15 U.S.C. 46(f), preventing the FTC from making trade secrets public; 15 U.S.C. 1193(c) requiring trade secrets received by the Commerce Department in reference to fabric flammability regulations to be considered confidential; 15 U.S.C. 1263(h) prohibiting any person from using or disclosing trade secrets acquired in connection with HEW inspection aud investigation of hazardous substances; 15 U.S.C. 1401(e) requiring trade secrets received in Transportation Department inspection and investigation of federal vehicle safety standards to be considered confidential; 21 U.S.C. 331(j) prohibiting any person from using or disclosing information concerning methods of processes acquired under Food, Drug & Cosmetic Act which are trade secret; 21 U.S.C. 458(a)(5) prohibiting use or disclosure of trade secrets acquired under Poultry Products Inspection Act; 33 U.S.C. § 1160(f) (2) providing that no person shall be required to divulge trade secrets at public hearings under the Federal Water Pollution Control Act; 42 U.S.C. 263i(3) prohibiting disclosure by HEW of trade secrets obtained in enforcing Radiation Control for Health and Safety Act of 1968; 42 U.S.C. 1857d(c)(5) providing that no witness shall be required to divulge trade secrets in any hearings under Clean Air Act; 42 U.S.C. 1857f-6e(c) requiring trade secrets obtained by HEW in connection with registration of vehicle fuel additives to be considered confidential; and 35 U.S.C. 122 providing for the preservation of applications for patent in secrecy until the patent issues, i.e., until the applicant knows what patent protection he is going to get and thereafter authorizes issuance of the patent.

***59** 5. Supreme Court Law on Trade Secrets

The first presentation to the United States Supreme Court of federal patent law preemption of state powers over progress of the useful arts and/or over inventions, was in Gibbons v. Ogden, [FN41] where the New York state patent on the steamboat was before the Court See page 51-52 supra.

FN41. 22 U.S. 1 (1824).

At least as early as 1889 the United States Supreme Court was upholding contracts involving the conveyance of confidential information. Fowle v. park. [FN42]

FN42. 131 U.S. 88 (1889).

In Board of Trade v. Christie Grain & Stock Co. [FN43] This court said:

FN43. 198 U.S. 236, 250-251 (1905).

"In the first place, apart from special objections, the plaintiff's collection of quotations is entitled to the protection of law. It. stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing to itself. The fact that others might do similar work, if they might. does not authorize them to steal the plaintiff's [citation]. The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will he restrained from getting at the knowledge by inducing a breach of trust and using knowledge obtained by such a breach." p. 250-51 (Emphasis added).

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***60** The Supreme Court in 1911 stated:
"A secret process may be the subject of confidential communication and of sale or license to use ...." Dictum in Dr. Miles Medical Co. v. Park & Sons Co., [FN44]

FN44. 220 U.S. 373, 402 (1911).

The Supreme Court again sustained trade secret protection in 1917 in DuPont Powder Co. v. Masland. [FN45]

FN45. 244 U.S. 100 (1917).

In 1929, the Supreme Court held:
"It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relationships, both, matters independent of the patent law, and that the subject matter of Oppenheimer's claim was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust. [citations] Oppenheimer's [trade secret] right was independent of ... the patent law ...." Becher v. Contoure Laboratories, Inc., et al, [FN46] (Emphasis added).

FN46. 279 U.S. 388, 391; 49 S. Ct. 356, 357 (1929).

Then in 1933 we find the Supreme Court again agreeing in U.S. v. Dubilier, [FN47] that:

FN47. 289 U.S. 178, 53 S. Ct. 554 at 557 (1933).

"He [the inventor] may keep his invention secret and reap its fruits indefinitely."

Such is the inventor's option, if he so elects. The Court went on to point out an alternative option:
"In consideration of its [the invention's] disclosure, and the consequent benefit to the community, the patent is granted."

***61** In the famous and oft-followed-sometimes-distinguished INS v. AP case, [FN48] the Supreme Court in an unfair competition case where copyright law preemption was strongly urged upon the Court, applied a nonpreemption rule. There the Supreme Court held that the commercial use for profit of even published information was in the circumstance there present a misappropriation" of "quasi-property" that was not sanctioned by the copyright [or patent] laws.

FN48. International News Service v. Associated Press, 248 U.S. 215 (1918).

All that law was Supreme Court law prior to Erie Raitroad Co. v. Tompkins. [FN49] when there was a federal common law. When Erie terminated that law, those opinions nevertheless were followed in the state courts.

FN49. 304 U.S. 64 (1938).

Never in any case where trade secret law and industry practice was briefed to the Court, has the Supreme Court intimated any retreat from the law so announced.

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The Kewanec opinion cites Grant et al v. Raymond, [FN50] as though it infers something inconsistent with the above; but not so. The issue in Grant was the validity of the reissued patent when the patent owner had first obtained a patent containing a defective disclosure, had surrendered that patent and obtained another with a corrected specification. In approving the reissue patent procedure, the Court seems to have written in context of an assumed right of the inventor not to seek at patent at all.

FN50. 31 U.S. (6 Pet.) p. 218 (1832).

***62** The Kewanee opinion also quotes from Kendall v. Winsor, [FN51] dictum expressions suggested to connote forfeiture of trade secret rights if a patent were not promptly sought. But suit there was on a patent, not on trade secret rights. The issue there was not loss of trade secret rights, but loss of the right to seek a patent by commercial exploitation of the invention for a long time before filing for the patent and the court sustained the patent over the there-occurring delay. There being no trade secret issue before the court, no evidence of R & D economics before the court, and so far as appears no briefs directed to the breach of confidence theme, the case is hardly a proper authority for any factual findings about impeding progress through one inventor's keeping of his own secret, all others being free and unrestrained.

FN51. 62 U.S. 322 (1859).

Supreme Court law, in trade secret cases, has always supported trade secret law as not preempted by patent law.

6. Federal Courts of Appeal on Trade Secrets

The Courts of Appeal, following the lead of the Supreme Court and of state courts since Erie v. Tompkins, have sustained trade secrets in numerous cases ranging over the circuits. The Kewanee opinion acknowledged four such opinions from four different circuits since Sears and Compco which conflict with Kewanee. [FN52]

FN52. Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), cert. den. 383 U.S. 934 (1966), rehearing denied 384 U.S. 914 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970) cert. den. 402 U.S. 904 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971).

***63** 7. The 1952 Patent Act

In 1950-1952, tile gestation period of the Patent Act of 1952, present Title 35 U.S. Code, the nonpreemption of trade secret law stood second to no other rule of law in tile firmness of its then establishment as a rule of law of our entire nation, second to no other in the sheer mass of contracts and commereial practice built on a rule of law.

That Act was written perhaps by four, but primarily by two men, The Honorable Giles Rich, now judge on the Court of Customs and Patent Appeals but then one of the

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National Council of Patent Law Association's two-man drafting committee for the patent law revision effort; and the Honorable Pasquale J. Federico, Examiner-in-Chief of the United States Patent Office and also chief technical advisor to both the House and Senate subcommittees having jurisdiction over the patent law codification. Mr. Federico personally wrote the entirety of the first draft of what became tile Patent Act of 1952, and was a participant in both the bar studies and the Congress's studies in all the revisions that matured into that Act.

As a result of his deep involvement in all phases of the drafting and revision of drafts of what is now Title 35, Mr. Federico wrote a comprehensive "Commentary on the New Act." which was published by West Publishing Company as a foreword to its original publication of the New Title 35, United States Code Annotated.

As a result of deep involvement in all phases of the revisions after Mr. Federico's first draft, and his personal drafting of several sections of what became the new law, Judge Rich was asked to speak at the first Annual Institute on Patent Law, of the Sonthwestern Legal Foundation, Dallas, ***64** Texas, March 21-22, 1963, on "Congressional Intent--Or, Who Wrote the Patent Act of 1952?" His paper has been reproduced in "Seminars for Newly Appointed United States District Judges Conducted by The Federal Judicial Center," 1970 and 1971.

From both writings it is clear that the central theme of the 1952 Patent Act, was codification with only relatively "noncontroversial" changes. Nothing recorded anywhere that this Amicus has been able to find, suggests any cognizance by any of the drafters of the Act, or by any of the members of the committees of Congress, or by any of the members of Congress, that they were in fact changing thoroughly established trade secret law upon which billions of dollars of business practice was built -- an assuredly controversial change.

Later, in his capacity as a judge, Judge Rich wrote again what he, an author of the Patent Act believed:

"Patent laws function only to keep things out of the public domain temporarily. They have nothing to do with putting things into it. They say nothing about right to copy or right to use, they speak only in terms of right to exclude." [FN53]

FN53. Opinion by the Honorable Judge Giles Rich in Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F.2d 901, 902 1.2 (CCPA 1969).

Present Title 35, Section 101 reads in part:

"Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor," (Emphasis added)

The statute is permissive; it is not mandatory. There is no language of taking from the inventor any rights if he fails to apply for a patent. If intended, it would have been easy to write Kewanee's new law cutting off trade ***65** secret rights after one year into perhaps the same patent statute paragraph as the one cutting off patent rights after one year of commercial use.

Recall that the Constitutional authority is limited to inventors. Congress has no constitutional authority as to noninventors, who collect trade secrets from, shall we say, spies in industrial plants in foreign countries. Are spies in foreign plants who are outside Congress's patent law authority, to be held not preempted while U.S.

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inventors are preempted, the statute saying nothing about taking rights from either of them?

Did either the statute drafters or the Sixth Circuit consider such anomalies when writing their respective law?

It is clear beyond peradventure that the conscionsness of none of the legislative participants involved in the Patent Act had any cognizance of the thing Kewanee says they did.

Not one brain was ever cognizant of what the Sixth Circuit in Kewanee says was being done.

What frightful system of government that permits any law concerning billion dollar commercial impact to be made by "policies" alleged to be found in a statutory non-expression, without any single brain being cognizant of the alleged "policies" when drafting or enacting the statutory non-expression.

***66** I. "Legislative History" of Preemption

1. Non-preemption thru Gibbons, INS, Becher and Dubilier

It follows from the foregoing that the Kewanee rule is its own legislation. And like all legislation it has its own "legislative history," a history that is found in a series of nontrade secret cases.

Accepting the Gibbons v. Ogden refusal to adopt patent law preemption in context of a recitation of 40 pages of argument on it, as a denial, it becomes fair to say that to this Amicus' knowledge the original conception between patent law and something it might preempt was in Singer v. June. [FN54] Using headnote paraphrases, the court there held:

FN54. Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896).

Where during the life of a monopoly created by a patent, the trade name has become the identifying and generic name of the patented invention, this name passes to the public with the cessation of the monopoly created by the patent.

The 1896 mating of patents and trademarks in Singer was an unfortunate error that for decades produced no offspring. Preemption did not timely follow from this mating.

The nonpreemption by the statutory copyright law of both the common law copyright and the law of unfair competition as applied to writings, seemed established in INS v. AP; [FN55] and the nonpreemption by the statutory patent law of the unfair competition law as applied to trade secret law seemed established by such as Becher and Dubilier, [FN56] all Supreme Court cases.

FN55. International News Service v. Associated Press, 248 U.S. 215 (1918).

FN56. Becher v. Contoure Laboratories, Inc., 279 U.S. 388, 49 S. Ct. 356 (1929) and U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 53 S. Ct. 554 (1933), discussed at page 56 hereof.

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***67** 2. Kellogg's dictum, trademarks erroneously preempted

After a forty year gestation period, Singer begot kellogg [FN57] which cited Singer, and by divided court held as paraphrased in West's headnote 3:

FN57. Kellogg Co. v. National Biscuit Co., 305 U.S. 111, 59 S. Ct. 109 (1938).

"Where 'Shredded Wheat' was the general designation of patented product during life of patents covering produet and proeess of making it the right to make the product as it was made during the patent period, and also the right to apply to it the name by which it had become known, passed the public on expiration of the basic patent."

The court repetitively spoke in terms of "dedication" by expiration of the patents. But no patent law language speaks either in terms of "dedication" or of "trademarks", much less in t terms of "trademarks being dedicated." And there are tremendous practical and legal differences between (a) termination of a patent right to exclude copying and use, and (b) grant to all members of the public by "dedieation," of an affirmative right to copy and use a trademark. Apples and bananas!

While the Singer and Kellogg judgment-for-defendant results were correct under the trademark law, [FN58] the admixture of expired patent rights to quell trademark rights reads like Alice in Wonderland and has begot much mischief by those who speak the same erroncous expression in other fact situations as the unthinking parrot repeats what it beard.

FN58. See p. 69-70 infra.

We need to review again the relationship between several examples of rights to preclude, the better to understand that "expiration" of a right to preclude is not "dedication" of a right to copy and use.

***68** Frequently, two patents cover the same product; i.e., one patent right-to-preclude-others "dominates" another patent which may relate to a subcombination or an improvement. Expiration of the dominated patent terminates that patentee's right to preclude; but it is uniformly held that this expiration does not grant anybody the right to use the invention of the expired patent when so to do would infringe the dominating patent. I.E., the expiration does not put anything into the public domain; it merely terminates a right to keep something out of it. [FN59]

FN59. Mine Safety Appliances Co. v. Electric Storage Battery Co., 405 F2d 901, 902, n.2 (CCPA 1969).

* * *

Consider a second example. Suppose the patent is on a food or drug and expires. Clearly that expiration of the patent right to preclude does not put the food or drug forcibly into the public domain by dedicating to all the right to manufacture and sell--not if it is so toxic that food and drug law prohibits its manufacture or sale. There is no "conflict" between expiration of the patent right to preclude, and a continuation of the food and drug regulation policies which may preclude.

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* * *

3. Mazer's nonpreemption.

Suppose next that a design patent (fourteen years) is available on an artistic design of a lamp base, and a copyright (28 years) issues on the sculpture which is that same design. In Mazer v. Stein [FN60] the Court discussed at some length the different scope of copyright protection (only against copying) and patent protection (against use of the same concept whether copied or independently developed) and specifically held that the availability of ***69** patent protection did not preempt copyright protection.

FN60. 347 U.S. 201, 74 S. Ct. 460 (1954).

In ruling that appropriateness for patent rendered trade secrets preempted by the patent law, the Kewanee opinion shows no cognizance of the modern and closely parallel ruling by the Supreme Court in Mazer, that appropriateness for patent does not preempt copyright protection. On social policy (as distinguished from policies concerning federal structure of government) the two concepts seem indistinguishable; on social policy grounds, Mazer should control Kewanee.

* * *

4. Trademark laws function independently of patents.

Return now to the example involved in Singer and Kellogg. A trademark is a word or design the significant meaning of which is brand. A trademark indicates a single source of a product, a single brand of that product.

The trademark right is the right of the owner of the mark to preclude the type of competitive use of the word or design (i.e. the trademark) which would cause the public to be confused as to the source of the product, whereby the purchaser in seeking one known quality would be deceived into getting another. The trademark owner's right is derived vicariously from the public right to be not confused. Trademark law has no concern for the patent law's concerns, inventorship, progress of the arts, inherent property in one's own creation, alleged monopolies on products. (The same product can be sold under different trademarks and normally is.)

But if a trademark word becomes generic, e.g., if the public through the proprietor's misuse of the mark comes to use the word no longer to suggest customer's preferred manufacturer or brand but rather to describe the type of ***70** product he wants, then the public is no longer confused-as-to-source by competitive use of the word; it ceases to function as a mark. If "escalator" means "moving stairway," any moving stairway and not just Otis's brand of moving stairway, it no longer is a de facto mark and its former owner loses all legal rights in it.

But the loss of the trademark right is independent of the patent right, both in social purpose and ill point of time. The right in a trademark (e.g., Magnavox, Ivory or Ford) may last 70 years without monopolizing the product, or the right may terminate upon the word going generic (as did escalator, cellophane, aspirin) perchance in five years -- and the patent law could not care less.

In both Singer and Kellogg the several significant patents in each case expired at different times; no one of their expirations effected the loss of the trademark

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rights. In reality it was the public's lack of familiarity with any other descriptive or generic word but the former mark, now used descriptively by the public, that terminated the trademark right. The patents were handy and got blamed for the loss of the trademark rights by association. But the trademarks terminated by operation of the trademark law.

It is significant to note that in both Singer and Kellogg, not only was the reference to patents error, it was dictum; for the judgment was properly founded upon the mark going generic and it was not necessary to reach patent law dedication. Dictum error building on dictum error.

5. Scott Paper; good faith in business is no longer important public policy.

Soon after Kellogg came the "assignor-estoppel" case, Scott Paper. [FN61] A philosophy against restraints on trade ***71** seems in 1945 to have dominated the thinking of some members of the Court which in 1945 spoke not infrequently in absolute terms of monopoly when only the mildest restraints were involved.

FN61. Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 66 S. Ct. 101 (1945).

The issue in Scott Paper was whether the assignor of a patent who got valuable consideration for his assignment, when charged with infringement, should be permitted to construe the scope of the assigned patent down to zero valid scope (in effect, invalid) under the guise of arguing noninfringement. Could he totally nullity the patent he sold or should this one party, the assignor, be estopped by his own prior assignment-for-value from such action? The prior art relied upon by the assignor-infringer was a prior expired patent.

Only a few years before the Court had written in Kellogg about "dedication" Upon expiration of a patent, citing Singer. So now, citing Kellogg and Singer the Court again got hold of this dedication" word and used it to implement its no-restraint-of-trade philosophy. Said the majority of six justices: The expired patent dedicated its subject matter to the public, including the assignor-infringer of the patent in suit through which the public could enjoy the benefits of the dedication. Further:

"The interest in private good faith is not a universal touchstone which can be made the means of sacrificing a public interest secured by an appropriate exercise of the legislative power." [FN62]

FN62. Id. at 257.

It shocks and astonishes, to see our highest court so callous as to give the back of its hand with a cavalier wave, to private good faith. No wonder we now have air force Lieutenants falsifying records on Cambodia bombings; White House officials condoning break-ins for wire taps; ***72** etc. Who if not the Supreme Court should be a leader in encouraging high regard and priority position for private good faith?

Over separate dissents by such as Mr. Justice Reed and Frankfurter, the Court wrote "dedication" into the patent law, to justify its refusal to permit one party among thousands of potential competitors to be estopped from disavowing his own contract, hence from use of the teaching of one expired patent.

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Antitrust is not the sole public policy, not the one true god at whose alter all other public policy should bow down.

6. Sears and Compco vs Wallace China

The stage was fully set in Scott Paper, for Sears and Compco [FN63] where the design patents on ornamental designs had been held invalid, and the lower courts had granted judgment for plaintiff on ground that copying the designs was unfair competition.

FN63. Sears Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 234 (1964).

It seems clear that if the courts in Sears and Compco had applied the proper unfair competition and product simulation law which is characterized in Pagliero et al v. Wallace China Co., [FN64] the Court's judgement-for-defendant result which seems so necessary to reconciling the intellectual property laws into a single coherent fabric, would have obtained without the mischief of patent law preemption.

FN64. 198 F.2d 339 (9th Cir. 1952).

The starting point of what is fair and unfair common law of product simulation is a right to copy and use published works learned of without an obligation of confidence. To that right there are many exceptions of different social purpose, term and scope, e.g., the patent right, the ***73** copyright, the anti-palming-off unfair competition right, the food and drug regulation right, the trademark right, the anti-breach-of-confidence right, etc.; but none of the exceptions fit Wallace's situation.

Wallace's biggest argument was that it was the originator and market-developer of four china designs and that that originator-developer fact alone gave it rights, particularly since the designs had acquired trademark "secondary meaning," i.e., the public identified the designs with Wallace as the source. But the design was of interest to the purchaser for its design function and had been published by Wallace: and the trademark right (being not designed to monopolize or restrain trade in the product the public wanted, but only to assure lack of public confusion as to source of the product) could not properly he applied to the product feature which the public wanted to buy as product feature. The social purpose of trademark law did not reach that far.

So the common law of trademarks and unfair competition (under Erie., common law is state law), adopted into the Lanham Trademark Act § 44(h), 15 U.S.C.A. § 1126(h), the Paris Convention (53 Stat. 1748) and Pan-American Convention (46 Stat. 2907), did not in the Ninth Circuit's view Paris Convention (53 Stat. 1748) and Pan American Conreach far enough to give Wallace the right it claimed. There was an unfair competition law limit on the unfair competition law; no patent law issued was involved.

In Sears and Compco, where the Wallace China unfair competition law so perfectly fit to dictate the socially desirable result, the Supreme Court got its hand on the wrong handle. The Supreme Court took the unrefined, indescriminate, bull-in-china-closet approach, that since the patent law concerned itself in some manner with

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mechanical configurations [if and when they are new and nonobvious inventions ***74** by inventors], the patent the patent law inherently preempts state unfair competition law power over the light fixture designs. Of course, citing Kellogg and Singer, among others.

By the measure of Anderson's Black Rock [FN65] the inventions in Sears and Compco failed to meet what Anderson's called a Constitutional standard of patentability, one which for this purpose we will assume exists. (Contrast last paragraph p. 53 et seq. hereof).

FN65. Anderson's Black Rock v. Pavement Salvage Co., 396 U.S. 57, 90 S. Ct. 305, 308 (1969).

In view of the reservation to the states of all powers not granted to the Congress, if the inventions were not patentable under the Constitution, no state law applicable thereto can have been preempted by the Constitution. For there is no hiatus, no void, in the powers: What power is Constitutionally not in Congress, is in the states.

Yet the court wrote in Compco this characterization of its holding in both Sears and Compco:

"Today we have held in Sears * * * that when an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article." [FN66]

FN66. 376 U.S. at 237.

This total expression of preemption, irrespective of whether the inventions meet what the Court in Anderson's Black Rock calls a Constitutional requirement for patentability, is patently wrong in view of the reservation of all nondelegated powers to the states.

This Compco expression is one of preemption irrespective of breach of confidence (which was not before the court), irrespective of whether the article was made by an inventor or a noninventor (Congress is empowered only ***75** to secure rights to inventors and may not dabble in rewards to noninventors as Stiffel and Day-Brite were held not to be).

--Error built upon prior dictum error, and not at all necessary' since the same result obtains under quite sound Wallace China unfair competition law.

7. Sears, Compeo and the explosion of unfair competition acts

Whether by coincidence or as a result of Sears and Compco and their arguable partial overrule. of INS, Becher and Dubilier [FN67], Sears and compco were followed by a bloom of phonorecord piracy which resulted in many state statutes rendering phonorecord or tape piracy a crime and an amendment to the federal copyright act which rendered phonorecord or tape piracy an act of copyright infringement -- both directed to legal remedies for the same wrong which prior to Sears and Compco were illegal under INS.

FN67. International News Service v. Associated Press, 248 U.S. 215 (1918); Becher v. Contoure Laboratories Inc., 279 U.S. 388 (1929); U.S. v. Dubilier

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Condenser Corp., 289 U.S. 178 (1933).

Similarly, theft of trade seerets took such a turn that 21 states passed laws rendering theft of trade secrets a crime [FN68] and others construed their existing law to the same effect. The fact that Sears-Compco language spoke of preemption in near-total terms was in those acts disregarded because trade secrets were not. before the court nor briefed to the court in Sears and Compco.

FN68. See note 39, supra.

***76** (8) Lear

Then the licensee-estoppel case, Lear, Inc. v. Adkins [FN69]: a suit seeking to collect royalties due under a contract of license of an invention and patent thereon; a defense that the subject patent is invalid, hence no royalties are due in spite of the license; the issue briefed to the Supreme Court being whether the licensee was estopped by virtue of being a licensee from contesting the patent's validity.

FN69. 395 U.S. 653 (1969). See Arnold and Goldstein, "Life Under Lear", 48 Texas Law Review 1235 (1970).

In spite of an acknowledged 100 years of prior licensee-estoppel law, the Court (again pursuing its Scott Paper theme against even de minimis restraints on trade in the name of patent property) decided that the licensee Lear was no more estopped to contest patent validity than the Marcalus assignor to Scott Paper. [FN70] Private good faith still seemed to the Court to be relatively unimportant by comparison with getting every last one (of dozens to thousands domestic and foreign potential competitors) freed of estoppels against competition.

FN70. 395 U.S. at 673.

Mr. Justice Black (who had written Sears and Compco) wrote for himself, and Justices Douglas and Warren, a special opinion expressing this time, total patent law preemption of the right to contract for royalties on unpatentable inventions. Mr. Justice Black's fixation on "monopoly" concept is peculiar. As a premise in support of his view, he wrote inter alia:

"No state has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws." [FN71] ***77** Under Justice Black's view, if the innovation is "claimed" to be an invention, the state loses all power over it even though the innovation turns out to be not an invention within Congress power to patent and even though powers not granted to Congress were reserved to the states.

FN71. Id. at 677 (Black, J, dissenting).

And Justice Black goes on to include within his rule, "private arrangements under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments," saying these "run counter to the plan of our patent laws." [FN72]

FN72. Id.

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But one. or two people's contract to keel a secret is jolly well no "monopoly" when dozens, hundreds and thousands of other businesses are free to develop, publish, use and compete. And forcing them to pay for or develop new technology will better serve society through progress in the arts than sponsoring their nondevelopment free-loading.

The majority of the Court declined Mr. Justice Black's invitation, recognized that voiding of all contracts for disclosure of information was a "difficult" question, invited courts [why not legislative bodies?] to "fully focused inquiry" on the point, and remanded it. After all, the point had not been decided by the Court below, was not mentioned in the petition for writ of certiorari, was not really briefed to the court.

It is horrifying to contemplate a system of government which would permit such economically important new law to be made in a case like Lear where the public was not advised of the pending development and the parties' attention was totally focused on other issues which at the time were the fundamental issues at hand.

* * *

(9) Goldstein v. California

The Supreme Court has recently considered whether the copyright law really did preempt the state criminal laws passed following Sears and Compco to stop the multimillion dollar losses of the legitimate phonograph record companies from tape and record pirates.

On June 18, 1973 the Supreme Court in Goldstein v. California, [FN73] by a five to four divided court, held that the copyright law did not preempt California record piracy law. But at best the opinion is surely a mixed bag for the trade secret proprietor and licensor.

FN73. ..... U.S. ....., 93 S. Ct. 2303, 178 U.S.P.Q. 129 (1973).

At the outset recall a fundamental difference between the copyright and the patent statute. The patent statute has no reference to common law and equity rights. But Section 2 of the Copyright Act, Title 17 U.S.C. provides:

"Nothing in this title shall be construed to annul or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication, or use of such unpublished work without his consent, and to obtain damages therefor."

The right at common law and equity to be the first to publish is part of Congress's statutory system with respect to authors. Until Kewanee the courts uniformly held common law and equity to be part of the system also with respect to inventors and particularly with respect to technologists other than inventors.

The positive statement of Copyright Act § 2 that certain common law rights are preserved, seems to carry a negative implication that other common law rights, if any, may be ***79** not preserved. But since the phono records and tapes in Goldstein had clearly been published, the role of 17 U.S.C. § 2, as applied to preemption, did not get into the Goldstein opinion.

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The Goldstein opinion develops for some pages the issue of constitutional (as distinguished from statutory) preemption of state "power to grant to authors 'the exclusive Right to their respective Writings'." The conclusion: No constitutional preemption of state grant. of exclusive right to authors in their writings, and this irrespective of the duration of the state's grant. [FN74] That portion of the opinion would read equally well, word for word, to the conclusion that the Constitution does not preempt state patents or trade secret protection of unlimited term.

FN74. 178 U.S.P.Q. at 139.

But what of the federal copyright statute? The Court digs deep into legislative intent of the copyright statute, noting: The Congress pointedly waited on the Supreme Court's White-Smith [FN75] opinion which held piano rolls were not "copies" within the meaning of the then copyright act; Congress then determined that the copyright statutes should be amended to insure "that composers of original musical works received adequate protection to encourage further artistic and creative effort," and passed § 1(e) that records and piano rolls were to be considered as "copies" of the original composition and could not be manufactured unless payment was made

FN75. White-Smith Music Publishing Co. v. Apollo Co., 209 U.S. 1 (1908).

"to the proprietor of the composition copyright. The section of the House Report cited by petitioners was intended only to establish the limits of the composer's right [no mention of performer's rights or record ***80** manufacturer's rights]; * * * Nowhere does the report indicate * * * that Congress intended records as renderings of original artistic performance to be free from state control." [FN76] (emphasis modified).

FN76. Goldstein. 178 U.S.P.Q. at 137.

Said the court further,
"recordings qualified as 'writings' within the meaning of the Constitution, but had not previously [to the 1971 Act of Congress77] been protected under the federal copyright statute [except that the composer was entitled by the 1909 Act's § l(e) to his compensation]." [FN78]

FN78. Goldstein, 178 U.S.P.Q. at 138.

Hence, Sears and Compco do not apply because the federal copyright statute did not preempt state law protection of recordings fixed prior to the February 15, 1972 effective date of the 1971 Act (which subjected records to copyright protection). [FN77]

FN77. Pub. L. 92-140, 85 Stat. 391, 53. Query: Did the 1971 federal copyright coverage of recordings then preempt the California statute, so that as of the date of the Supreme Court's Goldstein decision of nonpreemption, the California state statute had by then been preempted ? It seems that Goldstein erroneously says yes!

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It is important to note that in Goldstein briefs to the Court and the Court seemed to presume without analysis of the point, that the copyright statute insofar as it reaches subject matter (composer's rights), is something more than a statutory right to exclude which expires without affecting any right to exclude that exists by virtue of any other social purpose or law. The premise was that the copyright law is al affirmative stautory putting-of-something-into-the-public-domain into the teeth of any state law of any kind that relates to composer rights. While the pragmatics of tactical reality compelled the parties not to challenge this premise, it remains difficult to see why the Supreme Court did not ***81** acknowledge that such a distinction exists to be considered in its opinions,

The copyright law relationship to recordings seems to be all that was sigificantly briefed to the Court. Had the Court stopped with its ruling on that point, the nonapplication of Sears and Compco to innovations by importers and other noninventors and developers whose developments did not measure up to constitutional and statutory standards of patentability, would seem clearly to be established by Goldstein. For patent statute drafters not only did not, they constitutionally can not, treat of works by other than "inventors."

If the extent of copyright law preemption can turn upon the difference between the writings of composers (preempted) and of the writings in a phono record of a performer (not preempted), then patent law preemption ought also turn on the difference between the § 103 patentable work of inventors (as to which the patent statute speaks) and the nonpatentable works and noninventors' works (as to which the statute merely says no federal patent is obtainable, without saying whether the subject is or is not id the public domain).

But courts, like all the rest of us, have to do some things which seem expedient. And this court appears to have felt constrained not to overturn Sears and Compco, erroneous though their rationale is.

Recall here that Sears-Compco were both cases on competitive simulation of published and marketed lighting fixture products whose published and marketed mechanical configurations had been copied without breach of confidence. The Goldstein court did not study Congressional legislative intent on "mechanical configurations" because they were not before the court and were not really briefed to the court. ***82** But the court did recall that the question in Sears-Compco "was whether a state could, under principles of state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities required for the granting of a federal design or mechanical patent." [FN79]

FN79. Id.

The Court then quoted from Sears with apparent approval, and went on:
"In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, but which configurations it wished to remain free." [FN80] (emphasis added)

FN80. Id.

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The Congress only considered which it wished to remain free of federal patients, NOT which it wished to remain free of common law, equity, breach of confidence, food and drug, and other restraints. But the Court seems to miss that vital distinction and continues on:

"The application of state law in these eases to prevent the copying of articles which did not meet the requirements for federal protection disturbed the careful balance which Congress had drawn and thereby necessarily gave way to the Supremacy Clause of the Constitution. [FN81]

FN81. Id.

"The careful balance which Congress had drawn", seems to this student of legislative history of the Patent Act, to be rhetorical overstatement. No "care" on this point, or "balance" is shown as to equity, common law, trust and ***83** confidence, or any patent law purpose. But eliches and phrases have a power in human thought, independent of their truth, and when spoken without analysis or understanding, they seem often to he the more powerful. When they are placed as a subordinate thought, they are in the foundation-stone role, buried and likely not to be closely examined as will be the structure built upon them and so they may there have even greater potential for mischief among well meaning men.

* * *

So from case to ease, Singer, Kellogg, Scott, Sears, Compco, Lear, and now Goldstein, we see a group of cases wherein no trade secret law was involved, commence with dictum error of preemption, then build preemption in case after case, until the Supreme Court majority itself, in Goldstein purports now to have specifically considered and affirmed

patent law preemption of constitutionally unpatentable developments of noninventors

because

Congressional legislative intent reached, allegedly, all "mechanical configurations."

irrespective of powers reserved to the states re noninventor's mechanical configuration work.

***84** J. The Legislative Process v. The Judical Process --For New Law Making

The difference between legislating and common law making is a gradation with no natural boundaries and few guideposts to separate the one from the other. In truth, legislative bodies inherently make premise findings of fact, judicially, when they legislate; and courts legislate when they construe Congressional and Constitutional writings which inevitably include language readable on situations the authors did not contemplate or decide-an-issue about.

But there are guideposts as to where the judiciary should properly decline to act in favor of the legislature. The Supreme Court has often written of those guideposts. This Court has followed them in the patent law area as well as others.

The judicial process is inherently a relatively ivory-towered process. Examples: The judiciary cannot send investigators into an industry to study its economics and practices and bring back studies. By contrast, the Congress has in very recent years published for criticism dozens of studies of different facets of patent system

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function as well as drafts of proposed patent acts.

The judiciary often can know nothing of international impact of its rulings; the Congress gets input from the Department of Commerce, the international businesses and other lobbies.

The judiciary cannot publish a draft rule of law, have it cross-examined by those who would be effected, hold public hearings to hear comments on inadvertent error or ambiguities, then revise the rule before its promulgation with errors or ambiguities visits tremendous mischief upon those who know not how to apply it to their situations.

***85** In areas such as the social role of R & D and its real life economics, the judiciary does not have ready access to what Mr. Justice Frankfurter called "the realities of law in action," and rather must decide upon the basis of its relatively ivory-towered and sometimes sterile generalizations and speculations.

It is against those background realities that the Supreme Court was writing very recently in Gottschalk: [FN82]

FN82. Gottschalk v. Benson and Tabbot, 409 U.S. 63, 93 S. Ct. 253 (1972).

"* * * considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems [and international economic problems?] tendered in the many briefs before us indicate to us that considered action by the Congress is needed." [FN83]

FN83. Id., 93 S. Ct. at 258.

That writing was in a ease involving the patentability of a process for operating a computer, which most of us would call a machine, and wherein the act of Congress had already recited that a new process for operating a machine was patentable. 35 U.S.C. § 100(b). But apparently because the Court did not think the Congress had given enough consideration to computer machine processes, it held the Benson process to be unpatentable subject matter until Congress could act again more directly to the point.

In another case, wherein the government was urging a change in the policy of title to inventions made by employees -- philosophically a related issue to the Kewanee employees' claims -- the Supreme Court stated:

"The courts ought not to declare any such policy; its formulation belongs solely to the Congress .... These ***86** are not legal questions which courts are competent to answer. They are practical questions and the decisions as to what will accomplish the greatest good for the inventor, the government and the public, rests with the Congress. We should not read into the patent law limitations and conditions which the Legislature has not expressed." [FN84] (emphasis added)

FN4. U.S. v. Dubilier Condenser Corp., 289 U.S. 178, 198, 53 S. Ct. 554, 561 (1933).

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It is clear that the "Legislature has not expressed" Kewanee's new rule.

The trade secret law, having a history of many decades of uninterrupted coexistence with the patent law, brings to mind the weighty admonition of Chief Judge Cardozo in Coler v. Corn, Exchange Bank [FN85]:

FN85. 250 N.Y. 136, 164 N.E. 882 (1928).

"Not lightly [to be] vacated is the verdict of quiescent years.'

Here the verdict has stood for perchance a century of quiescent years and supports what now is business activity in the billions-a-year range.

A court with only the special circumstance of its plaintiff and defendant before it, and no economic data or industry practice information before it, is inherently presumptuous, yea perchance arrogant, to indulge such devastation to established business practice as the original creative expression of the Kewanee rule.

Preemption should be subjected to the scrutiny of the legislative process.

And the Congress has now before it, the Administration's proposed "Patent Reform and Modernization Act of 1973" with a section 301 which expressly negatives preemption of state trade secret law.

***87** K. Shadows Do Not Fight

There is a common law right to copy and use-with exceptions.

Each of the exceptions is like a shadow, cast from its own light of social purpose.

Each shadow is of different shape and different life time.

The shadows of copyright, patent, trademark, trade secret, breach of confidence rights to exclude others, all overlap some of the same nuggets of commercial gold for the same design perhaps for a lamp fixture may be copyrighted, may be patented, may be a trade seeret until it is Marketed, may be used as a trademark.

But shadows do not fight.

If the trademark word becomes generic, the trademark shadow is removed without affecting the social purpose, Scope or term of the patent shadow, or the others.

If the patent on an ornamental design expires, its shadow is removed without affecting whether or not that item is also a work of art which may qualify for copyright protection of narrower scope but that lasts longer.

When the patent issues it publishes the secret of the concept of the invention; to the extent of the publication the trade secret may be no longer confidential so the shadow of trade seeret right is withdrawn without affecting the longer lasting patent right.

When the patent expires the patent right to exclude expires but no other right to exclude expires or is suggested in the patent statute to expire. If after the 17th

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year of a process patent the owner develops a new and cheaper way to practice the same patented proeess, his right of freedom from theft of his new secret and from ***88** breach of trust can continue, out of the social purpose of equity and honesty and independent of patent law social purpose.

The only reconciliation of the various intellectual property rights to exclude, is one which recognizes that: Each right to exclude expires with the running of its own social social purpose, with no other right to exclude being affected by it, just as each shadow being taken away may leave the others, one or. more, not fighting.

There is social and legal logic and merit in letting the social purpose of the patent law limit the scope and term of the patent right to exclude, the social purpose of the trademark law limit the term of the trademark right to exclude, the social purpose of the contract and tort law limit the scope and term of the trade secret right to exclude. For the shadows of the various social purposes do not fight.

VI.

Conclusion

This Amicus submits that the realities of law in action are such that patent law must not be permitted any preemption of trade secret law or practice - except insofar as the patent (like any other publication) publishes, destroys the confidence, and thereby precludes any breach of a confidence. And since patents disclose primarily the conceptual level of knowledge as of patent application time, this does not reach to such as new manufacturing know-how expensively developed often years after patenting time.

Further, this Amicus submits that no one of the intellectual property concepts should in social policy preempt the others certainly none should be permitted to interfere with judicial promulgation of ever higher standards of business ethics and honesty.

***89** Rather each intellectual property law must be honed on its own, social purpose, properly to serve tile public interest.

The Legislature rather than the judiciary should, in this complex area, be the government. vehicle for the honing.

* * *

"Thou shall not steel" presupposes private ownership * * * Plainly, the excellence of our performance as social beings, stems from private ownership of our labor and its fruits, whether material, moral, intellectual or spiritual".

Leonard E. Read, Meditations on Frecdom

Appendix not available.

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Kewanee Oil Co. v. Bicron Corp.

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Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172415 (Appellate Brief) Brief Amicus Curiae for the Budd Company (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

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• 1973 WL 172426 (Appellate Brief) Brief for the New York Patent Law Association as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Plaintiff-Petitioner,
v.
BICRON CORPORATION et al., Defendants-Respondents.
No. 73-187.
October Term, 1973.
November 23, 1973.

Brief of the Bar Association of the District of Columbia as Amicus Curiae

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***i** INDEX

Introduction ... 1

Constitutional Provision Envolved ... 2

Questions Preset ted ... 2

Interest. of the Association ... 3

Statement ... 4

Sulmmary of Argument ... 6

Argument ... 7

I. The Right To Protect Secret Inventions Is Created by Natural Law, Secured by Commton Law and terminated by Publication ... 7

II. The States Did Not Delegate Any Power To Regulate Rights in Secret Inventions ... 9

III. The Right to Copy Does Not Subsume The Right to C overt ... 11

IV. The Decision Below Conflicts with the Paris Convention ... 13

The Practical Consquenece ... 4

A. Unsettled Contractual Rights ... 14

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B. A Compulsory Pateint Right ... 14

C. A Regressive Step ... 15

D. Out of a Wrong, No Right ... 15

Conclusion ... 16

***ii** TABLE OF AUTHORITIES

CASES:

Aktiebolaget Bofers v. United States, 93 F.Supp. 131 (D. D.C. 1950), aff'd, 194 F.2d 145 (D.C. Cir. 1951) ... 3, 5

Anderson's Black Rock v. Pavement, 396 U.S. 57 (1969) ... 12

Barcardi Corp. v. Domenech, 311 U.S. 150 (1940) ... 14

Compco v. Day-Brite, 376 U.S. 234 (1964) ... 2

Darcy v. Allin, Noy, 173, 74 Eng. Rep. 1131 (1602) ... 7

Gaylor v. Wilder, 10 How. (51 U.S.) 477 (1850) ... 11

Gibbons v. Ogden, 9 Wheat. (22 U.S.) 1 (1824) ... 10

Grant v. Raymond, 6 Pet. (31 U.S.) 218 (1832) ... 10

Greenwald v. United States, No. 73-24 (Sup. Ct. 1973) ... 16

Goldstein v. California, 412 U.S. 546 (1973) ... 2, 16

Lear v. Adkins, 395 U.S. 653 (1969) ... 12

MacBeth-Evans v. General Electric, 246 Fed. 695 (6th Cir. 1917) ... 8

Peabody v. Norfolk, 98 Mass. 452, 96 A.D. 664 (1868) ... 8

Pennock v. Dialogue, 2 Pet. (27 U.S.) 1 (1829) ... 10

Public Affairs v. Rickover, 284 F.2d 262 (D.C. Cir. 1960), vacated 369 U.S. 111 (1962) ... 3

Sears, Roebuck v. Stiffel, 376 U.S. 225 (1964) ... 2, 12

Scott v. Marcalus, 326 U.S. 249 (1945) ... 12

Underwater Storage v. U.S. Rubber, 371 F.2d. 950 (D.C. Cir. 1966) ... 3

United States v. American Bell Telephone, 167 U.S. 224 (1897) ... 8

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Wheaton v. Peters, 8 Pet. (33 U.S.) 591 (1834) ... 8, 9, 10, 11

TEXTS:

American Magazine, February 1788 ... 7

2 Bl. Comm. 405 (8th Ed.) ... 7

2 Kent's Comm. 365 (14th Ed.) ... 8

Parker, John J. Recurrance To Fundamentals, 27 J. Pat. Off. Soc'y 12 (1945) ... 7

Robinson, Patents for Inventions (1890) ... 7

2 Story's Eq. Jur. 1283 (14th Ed.) ... 7

Writings of Thomas Jefferson, (Wash. Ed.) Vol. VI. p. 180 (1814) ... 8

***iii** STATUTES:

The Constitution of the United States of America,

Article 1; Section 8; clause 8 ... 2, 9, 12

Article VI ... 13

The International Convention for the Protection of Industrial Property, Article 10 (bis), 13 UST 1 ... 13, 14

The Copyright Law, Title 17, United States Code ... 3, 11

The Patent Laws, Title 35, United States Code ... 2, 5, 6, 9, 10, 11, 12

District of Columbia Code, Section 2-1027 ... 3

District of Columbia Code, Section 2-1809 ... 3

District of Columbia Code, Section 22-1202 ... 3

District of Columbia Code, Section 22-1204 ... 3

District of Columbia Code, Section 22-2201 ... 3

District of Columbia Code, Section 22-2203 ... 3

District of Columbia Code, Section 22-2205 ... 3

Statute of Anne, 8 Anne Chap. 19 ... 10

Statute of Monopolies, 21 James 1, Chap. 3 ... 10

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1973 WL 172425 (U.S.)

RULES:

The Supreme Court, Rule 42(2) ... 1

***1** INTRODUCTION

The opinion of the United States District Court for the Northern District of Ohio is not reported, having been sealed by order of that Court since it discusses the trade secrets in dispute. The opinion of the Court of Appeals (A1–A25) is reported at 478 P.2d 1074.

This brief amicus on behalf of the Bar Association of the District of Columbia is submitted pursuant to Rule 42(2) of this Court, upon the written consent of both parties, the originals of which are filed herewith.

***2** CONSTITUTIONAL PROVISION INVOLVED

Congress shall have the power

To promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries (Article I, Section 8, Clause 8)

QUESTIONS PRESENTED

Briefs of other amici will urge upon this Court: that there has been neither a Constitutional preemption in the patent clause nor a Congressional preemption in the Patent Code, sub silentio, to repeal common law protection for trade secrets; that the decision below is incompatible with the decisions of other jurisdictions; that it represents an improper extension of this Court's holdings in Sears, Roebuck v. Stiffel, 376 U.S. 225 (1964), and Compco v. Day–Brite, 376 U.S. 234 (1964), both of which involved matters in the public domain; and that it is at variance with the Court's recent holding in Goldstein v. California, 412 U.S. 546 (1973), finding neither Constitutional nor Congressional preemption in the Copyright Code of state statutory law relating to writings of authors.

The Association joins fully in each of the above arguments, but will refrain from reiterating them herein. Rather it will present an equally dispositive but more fundamental argument that the States did not surrender to Congress the power to limit the common law rights of owners of trade secrets. The questions the Association will discuss are:

1. At common law, did the owner of a trade secret have a right not to have it converted to unfair competitive use by another by breach of an express agreement under which a confidential relation was established?

***3** 2. If so, did the States delegate to the federal goverument the ,power to limit, regulate or terminate this conmmon law right?

3. Would the treaty treaty obligation of the United States (the supreme law of the land) under the Paris Cousvention be violated by the failure to prohibit conversion of trade secrets "contrary to honest practices in industrial or commercial matters"?

INTEREST OF THE ASSOCIATION

The deeision, below denies relies relief of a contractual obligation to preserve the confidentiality of a type of industrial property commonly referred to, as trade

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secrets. A substantial number of businesses throughout the United States have heretofore treated trade secrets as important assets. The Association is vitally interested in the impact of this decision on the future business practices throughout the United States and abroad of the elients of the 4,600 members of this Association.

The Court below acknowledges its decision conflicts with the governing decisions i, many jurisdictions. Additionally, the deeision dire directly conflicts with the law of the District of Columbia, upholding legal protection of trade secrets. Underwater Storage v. U.S. Rubber, 371 F.2d 950 (D.C. 1966); Aktiebolaget Bofer Bofers v. United States, 194 F.2d 145 (D.C. Cir. 1951). The decision puts in question the continuing validity of Public Affairs v. Rickover, 284 F.2d 262. (D.C. Cir. 1960) vacated other grounds, 369 U.S. 111. (1962), which held that the common law regulates unpublished writings and the federal Copyright Act regulates published writings. The decision additionally ***4** throws into question several provisions of the District of Columbia Code. [FN1]

> FN1. Sec. 22-1202, "If any agent ... of any association ... shall wrongfully convert to his own use ... anything of value, he shall be deemed guilty of embezzlement ...." See also Secs. 2-1027, 2-1890, 22- 1204, 22-2201, 22-2203, and 22-2205.

More fundamentally, the Association is fearful that a judicial precedent abrogating of one historic common law right today will be applied tomorrow to destroy the equally historic allied right of an author in his unpublished manuscript, or even the right of a citizen in his private papers.

A point of particular interest to the District of Columbia, being a focal point of much international business activity, is that any major change in the jurisprudence of property rights in an international commodity such as trade secrets would substantially affect agreements heretofore entered into between United States citizens and foreigners, to the detriment of the business reputation and financial reliability of our own citizens.

Most importantly, the Association feels it is the duty of the Bar to raise its voice when a decision appears to condone immorality, or dishonesty, whether it be evidenced by disregard of a solemn pledge or flagrant disregard for the acknowledged rights of others.

The Association has no interest in and expresses no view on the facts of record or the private legal rights of the parties hereto.

STATEMENT

A delicate balance between the interests of inventors, employers, employees and the public has evolved from decisions construing the law governing rights in inventions. ***5** These rights were expressed with clarity by Judge Holtzoff in Aktiebolaget Bofers v. United Stite's, 93 F.Supp. 131. (D. D.C. 1950), aff'd, 194. F.21 145 (D.C. Cir. 1951):

"Propilterty rights in an unpatented secret process are cireumseribed and limited. The owner of such a process has a right not to have the secret made public by bribery of stealth, or by breach of a confidential relation, Such as that of an employer and employee. The Person who obtains the secret in such an illegal mauner

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commits a tort, So long as the secret remains intact any one who invades it, is guilty of a tortious act.

"On the other hand. once a secret process becomes public , provided the diselosure is not obtained by unlawful means, the property rights in the secret come to an end. The information that had previously been private is thrown into the public domain. If the person who originally owned the secret desires to maintain a monopoly, he must have recourse to the patent, laws ...."

The law has likewise carefully balanced the legitimate interests of the employee in utilizing his skills and experience versus the equally legitimate interests of the employer in his peculiar trade secrets which enable him to compete effectively,

The results of this balance of rights are beneficial to all segments of society. Investors, employers and employees may deal openly with one another. Investors need not fear the destruction of their capital, gainful employment is promoted for those of talent and the public is benefitted by new products and services.

The decision below does not question the parameters of the State regulation or assess its benefits. It does ***6** not seek a better balance. Rather, the decision below, on the basis of an assumed federal preemption, cuts asunder these myriad relationships and rights leaving intact no certain residuum of any.

SUMMARY OF ARGUMENT

The common law has historically protected the rights of owner's of trade secrets against theft or breaches of confidence. The complementary common law right of the public to the free use of inventions which would otherwise have passed into the public domain has been limited since the Statute of Monopolies by grants of patents to inventors.

In the Constitutional patent clause, the States delegated to the federal government only the power to limit the rights of the public to inventions which have passed into the public domain. No delegation was made by the States of their power to protect or limit the rights of their citizens in trade secrets and no act of Congress has presumed to exercise such a power.

The Constitution requires the Federal and State Governments to abide by treaties as the supreme law of the land. The Paris Convention of 1883 as ratified both on the basis of the text at Lisbon in 1958 and Stockholm in 1967 is such a treaty and requires the Federal and State Governments to provide protection to owners of trade secrets which have been used commercially against dishonest business or commercial practices.

***7** ARGUMENT

I. The Right To Protect Secret Inventions Is Created by Natural Law. Secured by Common Law and Terminated by Publication.

The right of an inventor like those of an author in his unpublished work is a right of natural law. [FN2] A moment's reflection indicates this is no profound insight. This work, from its creation, is in the sole possession of its creator. it can be alienated only by voluntary act, tortions conversion, or legal fiat.

FN2. Robinson, Patents for Inrentions, Section 28 (1890) Honorable John J.

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> Parker, Recurrence, to Fundamentals, 27 J. 7.1. Pat Off. Soe'y 12, 16 (1945). As Noab Webster, the soon-to-be author of the first. copyright and patent act, stated:
> "The productions of genius and the imagination are if possible more really exelusively property that houses and land." (American Magazine, February 1788)

The common law right of an inventor to practice his invention secretly was recognized by the early English Courts [FN3] and by Blackstone. [FN4] The right in America was expressly recognized by both Justice Story [FN5] and ***8** Chancellor Kent [FN6] and both assumed [FN7] and stated [FN8] in early cases before this Court and state [FN9] and federal [FN10] courts.

> FN3. Darcy v. Allin, Noy, Rep. 173 17 (74 Eng. Rep. 1131, 1137) (1602).
>
> FN4. Bl. Comm. 105 (Eighth Ed.),
> "When a. Titan by the exertion of his rational powers has produeed an original work, he has clearly the right to dispose of that work as he pleases. and any attempt to, take it from him ... is an invasion of his right of property."
>
> FN5. 2 Story's Eq. Jur. See. 1283 (14th Ed.):
> "Courts of equity will restrain a party from [disclosing secrets of trade] communieated to him in the course of a confidential employment."
>
> FN6. Kent's Comm. 365 (14th Ed.):
> "Another instance of property acquired by one's own act is that ... of mechanical inventions ... As long as these are kept within the possession of the author, he has the same right to exclusive enjoyment of them as of any other species of personal property ...."
>
> FN7. Wheaton v. Peters, 8 Pet. (33 U.S.) 591, 658 (1834). Justice McLean assumed the common law protection of unpublished inventions, like copyrights, in arguing that the acknowledged loss of protection by publication of the former must result in a similar loss for the latter.
>
> FN8. United States v. American Bell Telephone, 167 U.S. 224, 240 (1897):
> "The inventor is one who has discovered something of value. It is his absolute property. He may withhold knowledge of it from the public ..."
>
> FN9. Peabody v. Norfolk, 98 Mass. 452, 96 A.D. 664 (1868): "If he invents or discovers, and keeps secret, a process ... he has a property in it, which a court of chancery will protect ...."
>
> FN10. MacBeth-Evans v. General Electric, 246 Fed. 695, 699 (6th Cir. 1917):
> "MaBeth ... possessed the right to practice his invention in secret and for profit ...."

This common law right of a creator is simply not a monopoly. [FN11] A later creator has an equal right to use of his invention [FN12] albeit identical, and once the invention is published, it passes into the public domain, ***9** and the public at large may use it. [FN13] The right therefore is part of the common law and is not in derogation of the rights of any member of the public.

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FN11. "Monopoly" derives from the Greek words for alone and to sell. To use Judge Parker's analogy, supra Note 2, the trade secret right is no more a monopoly than is a person's possessory right to wear or to sell his coat.

FN12. Writings of Thomas Jefferson (Wash. Ed.) Vol. VI, p. 180 (1814).

FN13. Wheaton v. Potors, supra at 1659.

II. The States Did Not Delegate Any Power To Regulate Rights in Secret Inventions.

There is no, question that the Constitution patent clause and the successive patent acts changed the common law rights of both inventors and the public. Similarly, there is no question that the founding fathers were aware of the change being made ill the common law and were uncommonly able to express their intentions.

Examine the Constitutional patent clause. Did it say the Congress shall have the power to promote the progress of useful arts:
"by taking at any time from inventors the right to their discoveries."?

To the contrary, the chosen policy and sole Constitutional power given to Congress was to, promote the progress of useful arts:
"by securing for limited times to inventors the exclusive right to their ... discoveries." [FN14]

FN14. The Constitution, Article 1, Section 8, Clause 8.

The language is admissible of only one construction Congress was authorized to "secure". i.e., expand, inventor's common law rights--for a limited time-- against both later inventors and copiers. The power given Congress was to grant a statutory right, to inventors (and authors) and to eoncomitantly limit a ***10** right of the public. [FN15]--to use that which otherwise would have been in the public domain under the common law.

FN15. There can be no question that the English statutory precedents, the Statute. of Anne, 8 Anne Chap. 19 for authors, and the Statute of Monopolies, 21 James 1, Chap. 3 for inventors, were solely grants to and not limitations upon authors and inventors. If the Constitution intended to abandon this heritage, would this Court in expounding this Clause of the Constitution have relied on the Statute of Anne in Wheaton v. Peters, supra at 656, or relied on the Statute of Monopolies in Pennock v. Dialogue 2 Pet. (27 U.S.) 1, 18 (1829)?

Were there any question that Congress had the power, or had exercised that power to limit common law rights of inventors, surely it would have appeared in the extensive arguments in Gibbons v. Ogden, 9 Wheat. (22 U.S.) 1 (1824) in which the Court was presented with the Constitutional dimensions of the patent power, as well as the interstate commerce power. [FN16]

FN16. At issue was whether the State grant to the originators of the steamboat conflicted with either the Constitutional interstate commerce power or the patent power. Both issues were extensively argued (although this Court restrieted its opinion to the former) and no suggestion of abrogation of

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common law rights of unpublished inventions was made by either party.

Later, this Court decided Grant v. Raymond, 6 Pet. (31 U.S.) 218 (1832), which the Court below cites as support for its "taking of common law rights" theory. Justice Marshall's opinion would appear to the contrary: "The purpose ... to confer ... an exclusive right ..." (p. 241); "The public yields ... (what it) agreed to yield" (p. 242); and, as quoted in the opinion below, "the means it employs are the compensation ..." (p. 243).

Note: Page 11 illegible in original document

***12** Constitutional patent clause an expression of public policy consistent with this tenet.

This public policy is that neither Congress, nor the states, may grant a monopoly in lesser inventions, "whose effects are to remove existent knowledge from the public domain," Andcrson's Black Rock v. Pavement, 396 U.S. 57 at 61 (1969). A state may not by law prohibit this copying of what is already in the public domain, Sears, Roebuck v. Stiffel, 376 U.S. 225 (1964).

Likewise when an invention has passed into the public domain, by being disclosed in an expired patent, a contract prohibiting free use is contrary to the policy of the patent laws. Scott v. Marcalus, 326 U.S. 249 (1945).

Most recently this Court has held that a patent licensee may contest his liability by asserting the knowledge was in the public domain. Lear v. Adkins, 395 U.S. 653 (1969). In this Court's words:

"Enforcing ... would undermine the strong federal policy favoring the full and free use of ideas in the public domain." (Emphasis added.)

Each of these decisions has adhered to an uncompromising standard which is that once an invention is (1) in the public domain, and (2) either beyond the patent term or below the patent standard, neither State action nor private contract can bar the complete freedom of use by the public of the invention.

No prior decision of this Court, however, has limited the common law rights for unpublished inventions (or writings) not in the public domain.

In this case a State statute expository of the common law is involved. The ambit of both the statute ***13** and the common law only reach but do not go beyond the boundary of publication" [FN18]

FN18. If a party enters into a contract for the use of a property right and thereafter converts the property to his own use outside the terms of the contract, action lies at law for the breach. On the other hand, if the property is so used as to compete unfairly with the owner of the property in the course of the breach, an action also lies in tort for the conversion. In either case, the wrongdoer cannot be allowed to profit from his own dishonest act.

The federal policy is to encourage the inventor to cross that line in a timely manner. Once he has made that fateful step, be acquires all of the statutory

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benefits and is subject to all of the limitations of federal policy. Until that point, he is within the purview of historie common law and recent expository State regulations.

IV. The Decision Below Conflicts with the Paris Convention

To the extent that there is any preemption of the subject matter of the present litigation, it could exist only under Article VI of the Constitution of the United State, which provides that treaties shall be the supreme law of the land, The 1958 Lisbon Ratification of the Paris Convention of 1883, 13 U.S.T. 1, includes Articles 10 (bis) obliges the Federal Government as well as the states to grant relief fro "acts contrary to honest practices in industrial or commercial matters ...."

Since the common law in the United States as pronouneed in many Federal Circuit Court and State Court opinions (other than the opinion under review) already provides protection against dishonest practices such as violation of the confidentiality of trade secrets, no enabling legislation, either state or federal, is required ***14** to implement Article 10 (bis) of the Paris Convention. Bacardi Corp. v. Domenech, 311 U.S. 150, 161 (1940). Therefore, that provision of the Treaty was self-executing upon ratification.

Failure to protect the owners of trade secrets from conversion by a party in contractual privity with the owner is clearly an act "contrary to honest practices in industrial and commercial matters" within the meaning of the Paris Convention and should, therefore, be enjoined.

THE PRACTICAL CONSEQUENCES

Leaving aside the theoretical legal problems, there are several practical problems this decision creates, which this Association in its position as amicus desires to discuss with the Court.

A. Unsettled Contractual Rights

Virtually all scientists and engineers and a vast number of businessmen are today subject to one or more confidential disclosure agreements, either by formal contract or by force of law. Indeed, every employee, those of this Court not excepted, is under a heretofore unquestioned duty of loyalty to his employer's confidences. This decision draws no clear line identifying those very personal relations which are severed. The decision will unsettle a vast number of private dealings affecting people of all stations in life.

B. A Compulsory Patent Right

The common law rights of inventors are benign rights that impinge on no other person's rights. Relying on such rights many manufacturers decide to forego patent protection when they create something ***15** of value, thereby allowing their competitors, who divine it by fair means, unfettered use of it. They are subject to no, legal expense and neither are their competitors, for one can never infrillge on another's common law right with one's own legitimate discoveries.

The decision below mandates that every businessman subject himself to the expense and uncertainty of the statutory patent right to prevent theft or embezzlement. If

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he succeeds, he has acquired at considerable expense a right of exclusion which he never really wanted. What public policy is pronoted by encouraging a flood of patent appleations an these inventions?

The burden on the businessman, the Goverment, the Courts, and the public of the mandatory patenting to prevent piracy are too clear to require explication.

C. A Regressive Step

We pride ourselves on being a law abiding people. This decision below says nothing less than we are fools for trusting others and our employees are fools for not violating our confidences to their profit. The consequence of this retreat from the rule of law is apparent. Communications will be stifled. Expensive and inhibitory security will be mandatory. Suspicion will replace trust. The law will be held in contempt by the law abiding as well as the lawless.

D. Out of a Wrong. No Right ...

In what book or place may the public find these secrets of plaintiff? In what Court and by what form of pleading does the public exercise its rights to them?

***16** The answer of the decision below is in the Court of Self-help by the action of breach of duty and embezzlement.

The Record of the District Court is quite properly sealed. The net effect, however, is to give defendant what no other member of the public has or can by legitimate means obtain. It is a title based solely on fraud, fully as effective against the public as is that of the original owners.

An equal vice of this decision is it effectively confirms rights to the architects and directors of frauds such as these while this Court condones retaining the sanctions of the criminal laws, against those who commit similar wrongs against the property rights of others, e.g., Goldstein v. California, supra, Greenwald v. United States, No. 73-24 (Sup. Ct. cert. den. Oct. 9, 1973)

CONCLUSION

The decision of the Court below should be reversed.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

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(Apr. 08, 1974)Original Image of this Document (PDF)

• 1973 WL 172423 (Appellate Brief) Brief Amicus Curiae of Scm Corporation (Dec. 27, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172424 (Appellate Brief) Brief of the Ohio State Bar Association as Amicus Curiae in Support of Petitioner (Dec. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172411 (Appellate Brief) Brief for the Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172413 (Appellate Brief) Brief of Chamber of Commerce of the United States of America As Amicus Curiae in Support of Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172414 (Appellate Brief) Brief for Amicus Curiae Manufacturing Chemists Association (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172415 (Appellate Brief) Brief Amicus Curiae for the Budd Company (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172426 (Appellate Brief) Brief for the New York Patent Law Association as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173807 (Appellate Brief) Brief of the Electronic Industries Association as Amicus Curiae in Support of Petitioner (Nov. 23, 1973)

• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

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1973 WL 172426 (U.S.)

For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondent.
No. 73-187.
October Term, 1973.
November 23, 1973.

Brief for the New York Patent Law Association as Amicus Curiae

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***i** TABLE OF CONTENTS

I--Anthority to File ... 1

II--Purpose of Brief ... 1

III--Interset of the New York Patent Law Association ... 2

IV--Court of Appeals Disposition ... 3

V--Question Presented ... 4

VI--Summary of Argument ... 5

VII--Argument ... 7

A. This ease cannot he viewed in the abstract since it involves an area of law which has existed as a means for protecting confidential teelmology, used for the benefit of both the trade sceret owners and the public. for over a century--and since the abolition of this law would have untold consequences ... 7

B. The trade secret laws of ohio are not in confliet with Article J. Section S. Clause S of the Constiation ... 13

C. The trade secret laws of Ohio are not in confliet with the Patent Laws or, as a consequence, void under the Supremacy Clause ... 15.

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D. The Court of Appeals erred in its application of the rulings of earlier eases to the ciremnstances of the present case ... 25

Conclusion ... 30

***ii** Table of Cases

Becher v. Contoure Laboratories, 279 U.S. 388 (1929) ... 9

Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905) ... 8, 9

Compco Corp. v. Day-Brite Lighting, 376 U.S. 234 (1964) ... 27, 28, 29

Crown Co. v. Nye Tool Works, 261 U.S. 24 (1923) ... 16

Data General Corp. v. Digital Computer Controls, Inc., 297 A2d 437, 175 U.S.P.Q. 486 (Del. Sup. Ct., 1972) ... 18

Dekar Industries, Inc. et al. v. Bissett-Berman Corp., 434 F.2d 1304 (9 Cir. 1970), cert. denied 402 U.S. 945 (1971) ... 2

DuPont Powder Co. v. Masland, 244 U.S. 100 (1917) ... 9

DuPont v. United States, 288 F.2d 904, 129 U.S.P.Q. 473 (Ct. Claims 1961) ... 17

Gibbons v. Ogden, 9 Wheat 1 (1824) ... 16

Gillman v. Stern, 114 F.2d 28, 46 U.S.P.Q. 430 (2 Cir. 1940) ... 21

Goldslein v. California, 412 U.S. 546 (1973) ... 5, 13, 14, 15, 16, 27, 28, 29

Gottschalk v. Benson, 409 U.S. 63 (1972) ... 11

Graham v. John Deere Co., 383 U.S. 1 (1966) ... 23, 28

Grant v. Raymond, 31 U.S. 218 (1832) ... 6, 19, 20, 25, 26

Hines v. Davidowitz, 312 U.S. 52 (1941) ... 16

Kendall v. Windsor, 62 U.S. (21 How) 322 (1858) ... 6, 25, 26, 27

Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 178 U.S.P.Q. 3 (6 Cir. 1973) ... 2, 3, 4, 5, 7, 8, 18, 25, 26

Kellog Co. v. National Biscuit Co., 305 U. S. 111 (1938) ... 21, 27, 28, 29

Lear Inc. v. Adkins, 395 U.S. 653 (1969) ... 20, 27, 28, 29

Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516 (2 Cir. 1946) ... 20, 21, 22, 27

***iii** Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2 Cir. 1971) ... 2, 12, 17, 23

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Parker v. Brown, 317 U.S. 341 (1943) ... 13, 22

Peabody v. Norfolk, 29 Mass, 452 (1868) ... 5, 7, 8, 10, 17, 20

Pennock & Sellers v. Dialogue, 27 U.S. (2 Peters) 1 (1929) ... 19, 27

Perez v. Campbell, 402 U.S. 637 (1971) ... 16

Picard v. United Aircraft Corp., 128 F.2d 632 (2 Cir. 1942) ... 19

Pickering v. Holman, 459 F.2d 403 (9 Cir. 1972) ... 22

Plastic and Metal Fabricators, Inc. v. Roy, 175 U.S. P.Q. 49 (Conn. Sup. Ct., 1972) ... 20

Reid v. Colorado, 187 U.S. 137 (1902) ... 22

Robine v. Apco, Inc., 386 F.2d 267 (2 Cir. 1967) ... 22

Schwartz v. Texas, 344 U.S. 199 (1952) ... 13

Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945) ... 19, 21, 27, 28, 29

Scars, Rocbuck Co. v. Stiffel Co., 376 U.S. 225 (1964) ... 27, 28, 29

Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4 Cir. 1964), cert. denied 383 U.S. 934 (1966), rehearing denied, 384 U.S. 914 (1966) ... 2

Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896) ... 21, 27, 29

Townsend v. Ycomans, 301 U.S. 441 (1937) ... 23

United Shoe Machinery Co. v. United States, 258 U.S. 451 (1922) ... 16

United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933) ... 9, 20

United States v. Greenwald, 479 F.2d 320 (6 Cir. 1973), cert. denied _____ U.S. _____ (1973) ... 2

Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5 Cir. 1969) ... 2

***iv** Table of Statutes and Rules

U.S. Const., Art. I, Sec. 8, Cl. 8 ... 3, 5, 10, 13, 14, 15, 16, 18

U.S. Const., Art. VI, Cl. 2, Supremacy Clause ... 2, 3, 5, 15, 21

5 U.S.C. § 552(b)(4) ... 23

15 U.S.C. § 46(f) ... 23

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§ 78x(a) ... 24

§ 1193(c) ... 24

§ 1263(h) ... 24

§ 1401(e) ... 24

18 U.S.C. § 1905 ... 24

21 U.S.C. § 331(j) ... 24

§ 458(a)(5) ... 24

33 U.S.C. § 1160(f)(2) ... 24

35 U.S.C. § 101 ... 4, 25

§ 102(b) ... 21, 22

§ 112 ... 16

§ 154 ... 25

42 U.S.C. § 263i(e) ... 25

§ 1857d(j)(1) ... 25

Patent Acts of 1790, 1793, 1836, 1870 ... 12

Patent Act of 1952 ... 12, 15, 23

Patent Modernization and Reform Bill, S 2504 ... 13

Supreme Court Rule 42(2) ... 1

Proposed Supreme Court Rule 508 ... 23

Federal Rules of Civil Procedure, Rule 26(e) ... 23

Rule 52 ... 3

Internal Revenue Service, Rev. Proc. 69-19 ... 23

***v** Table of Publications

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Software Protection by Trade Secret, Contract, Patent, by Patent Resources Group, Washington, D.C. (1969) ... 11

***1** I. Authority to File

This brief is being filed on behalf of the New York Patent Law Association, as amicus curiae, under Supreme Court Rule 42(2), with the written consent of the parties. Copies of the consent letters are attached.

II. Purpose of Brief

The purpose of this brief is not to take sides on the questions of whether petitioner's trade secrets exist or have been maintained or appropriated, but to urge this Court to reject the ruling in this case by the Court of Appeals for the Sixth Circuit that the trade secret laws of Ohio are in such conflict with the Patent Laws of the United States as to be preempted by the Patent Laws under the ***2** Supremacy Clause of the United States Constitution. Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 178 U.S.P.Q. 3 (6 Cir. 1973).

III. Interest of the New York Patent Law Association

The New York Patent Law Association was established to maintain standards for those specializing in the law of intellectual property, and particularly patents, trademarks, copyrights, confidential disclosure agreements and trade secrets. We presently have approximately 1200 lawyer members, who have active practices in this field and, as such, have day-to-day contact with the operation and impact of the patent and trade secret laws, and the relationship of these laws to each other.

The decision of the court below, which acknowledged that it is in conflict with prior decisions of four other Courts of Appeals [FN1], has cast a cloud of uncertainty [FN2] over what heretofore has been considered a well established area of law, predicated upon the principle that a trade secret may be protected by State law--even though it is an appropriate subject for a patent and even though it has been used commercially, but secretly, for an extended period of time.

FN1. Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2 Cir. 1971); Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4 Cir. 1964), cert. denied 383 U.S. 934 (1966), rehearing denied, 384 U.S. 914 (1966); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5 Cir. 1969); Dekar Industries, Inc. et al v. Bissett-Berman Corp., 434 F.2d 1304 (9 Cir. 1970), cert. denied 402 U.S. 945 (1971).

FN2. Consider, for example, the problem of harmonizing the Court of Appeals decision in this case with the decision rendered by a different panel of the same court, just three weeks after its decision in this case, affirming a criminal conviction and imprisonment based upon the theft of a trade secret. United States v. Greenwald, 479 F.2d 320 (6 Cir. 1973), cert. denied _____ U.S. _____ (1973).

***3** Our concern with this decision rests not only upon our interest ill the proper

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development of the patent and trade secret laws, but also upon its serious and far reaching impact, both nationally and internationally. Vast sums have been spent, by both individuals and corporations, in the research and development of confidential technological resources worth billions of dollars, which are being used in the production of myriad products of great benefit to the public. The stripping away of trade secret protection for these resources would, in our view, lead to massive and irreversible damage to essential teelmologieal underpinnings of the nation's economy.

IV. Court of Appeals Disposition

After ruling that the findings of fact of the District Court are not clearly erroneous, within the meaning of Federal Rule 52, and thus sustaining the District Court's findings that 20 of the 40 trade scerets claimed by Kewance were indeed trade secrets and had been appropriated by the individual and corporate defendants, the Court of Appeals stated that:

... in addition to the issues already discussed there is a very serious and important issue of a claimed conflict with the provisions of the Constitution of the United States relating to patents, Article I, Section S (Clause 8) ... and the Patent Laws adopted pursuant tbereto, Title 35 U.S.C. § 101 et seq., and whether that conflict requires the application of the provisions of the Supremacy Clause of the Constitution, Article VI, (Clause 2) ... 478 F.2d at 1078.

In its resolution of this issue, the Court held that the trade secret laws of Ohio, at least as applied to the trade secrets. involved in this suit, have e, in view of the Sulpremacy Clause, been preempted by the Patent Laws adopted by Congress pursuant to Constitutional authorization.

***4** In reaching this conclusion, the Court stressed what it considered to be two important characteristics of the trade secrets under consideration, first that they involve processes, procedures and manufacturing techniques which constitute "patentable" subject matter, in the sense that they are appropriate subjects for patenting within Section 101 of the Patent Act, and second that these trade secrets had been in commercial (albeit secret) use for more than one year prior to the law suit. 478 F.2d at 1078.

The Court reasoned that since the trade secrets constituted patentable subject matter, and since they had been in commercial (albeit secret) use for more than one year, the inventor had "forfeited his right to a patent" in this subject matter, and the substantial equivalent of patent protection could not, in effect, be recaptured by invoking the Ohio trade secret laws. 478 F.2d at 1086.

Thus, a key premise of the Court's decision is that the rights protected under the Ohio trade secret laws are the substantial equivalent of patent rights, and the Court thus referred to these rights as protecting an inventor in "the maintenance of a monopoly" and according him the right "to exclude competition". 478 F.2d at 1086. It is upon this premise that the Court concluded that federal preemption of the Ohio trade secret laws exists.

V. Question Presented

In view of the foregoing disposition of this case by the Court of Appeals, the central question presented to this Court is the issue succinctly stated by the Court of Appeals as the issue it faced, namely:

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... Whether a state trade secret law which protects an invention which would be an appropriate subject for a patent under the Patent Laws of the United States, and which has been used commercially for more than one year conflicts with the policies and ***5** purposes of Article I, Section S (Clause 8) of the Constitution and the Patent Laws adopted pursuant thereto. 478 F.2d at 1078-9.

VI. Summary of Argument

A. This case cannot be viewed in the abstract since, it involves an area of law which has existed as a means for protecting confidential technology,, used for the benefit of both the trade secret owners and the public, for over a century--and since the abolition of this law would have untold consequences.

This area of the law began in the United States at least as early as 1868 in Pcabody v. Norton 29 Mass. 452 (1868), where the question of federal preemption by the Patent Laws was argued and rejected, and it continued through many decisions of this Court over the years. Also, through many new Patent Acts and amendments--none of which questioned or disturbed either this Court's decisions or the long-established and well-known reliance on trade secrets in industry. The consequences of a change in this law, without Congressional hearings and supportive legislation to fill the voids, would be dire not only to American industry, but also to the public, who are the ultimate beneficiaries of the technology involved.

B. The trade secrets laws of Ohio are not in conflict with Article T, Section 8, Clause 8 of the Constitution.

This Court's recent decision in Goldstoin v. California 412 U.S. 546 (1973), involving the copyright aspects of Clause S, is dispositive of this point.

C. The trade secret laws of Ohio are not in conflict with the Patent Laws or, as a consequence, void under the Supremacy clause.

This section discusses the nature of the patent grant; the vast differences between patents and trade secrets; the ***6** objectives of the Patent Laws and how trade secret protection is compatible with these objectives. Also, it discusses the fact that the Patent Law objectives of a prompt and full disclosure, and ultimate dedication to the public, are requirements incident to the grant of a patent. Thus, if a patent is secured in violation of one of these requirements, the objective is indeed frustrated, but Congress has left to each inventor the choice as to whether he will keep his invention secret or disclose and dedicate it in exchange for patent protection.

Further, this section discusses the fact that Congress has not in its enactment of the Patent Laws so occupied the field of exclusive rights in discoveries of a "patentable" nature as to preempt State trade secret protection for such discoveries (listing many federal statutes which recognize trade secrets). Lastly, it concludes that trade secret protection for "patentable" subject matter is not in conflict with, or preempted by, the Patent Laws.

D. The Court of Appeals erred in its application of the rulings of earlier cases to the circumstances of the present case.

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The Court of Appeals appears to have misinterpreted the early Supreme Court cases of Grant v. Raymond, 31 U.S. 218 (1832) and Kendall v. Windsor, 62 U.S. (21 How) 322 (1858). Also, the Court improperly extended the Patent Law preemption cases of this Court beyond the pale of their concern with State laws granting protection "identical to" or "the equivalent of" patents, to the area of trade secret protection, which is clearly not identical to or the equivalent of patent protection. Further, it erred in applying the one-year commercial use rule to trade secrets.

***7** VII. Argument

A. This case cannot be viewed in tile abstract since it involves an area of law which has existed as a means for protecting confidential technology, used for the benefit of both the trade secret owners and the public, for over a century--and since the abolition of this law would have untold consequences.

In its opinion in this case, the Court of Appeals disenssed the development of the law of trade secrets both in England and the United States, and in so doing, referred to the landmark trade secret case of Peabody v. Norfolk, 29 Mass. 452 (1868) as being one of the earliest trade secret eases in this country. While the Court then stated that il could find no case in which there has been a "definitive discussion of the possibility of conflict between the Patent Laws of the United States and the trade secret laws of the several states", 478 F.2d at 1081, this should not be understood to mean that this question has never been raised or considered. On the contrary, the Peabody case faced this question and sanctioned the coexistence of patents and trade secrets in 1868, and this coexistence has been accepted for over a century.

In this connection, the defendant in the Peabody case argued that:

> ... the protection of such n secret, is against the policy of the patent laws. The allegations of the bill indicate machinery and process which are patentable. Having made a patentable invention, if Peabody chooses to try to kelp it forever secret, and attempt to exclude t.he public forever from its use, the court, in the language of Williams. v. Williams, will not "struggle" to protect such a secret, 29 Mass. at 456-7.

***8** In response to this defense, and the others raised on behalf of the defendant, the Supreme Judicial Court of Massachusetts stated that:

> It is the policy of the law, for the advantage of the public, to encourage and protect invention and commercial enterprise.... If lie makes a new and useful invention of any machine or composition of matter, lie may, upon filing in a public ?? a description which will enable an expert to understand and manufacture it, and thus affording to all persons the means of ultimately availing themselves of it, obtain letters patent from the government securing to him its exclusive use and profit for a term of years. If he invents or discovers, and keeps secret, a process of manufacture, whether a proper subject for a patent or not, he has not indeed an exclusive right to it as against the public, or against those who in good faith acquire knowledge of it; but he has a property in it, which a court of chancery will protect against one who in violation of contract and breach of confidence undertakes to apply it to his own use, or to disclose it to third persons. 29 Mass. at 457-8.

The Peabody case thus observed the differences between trade secrets and patents, and gave clear recognition to the availability of trade secret protection as one

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alternative, in addition to patent protection, "to encourage and protect invention and commercial enterprise". Ibid. Significantly, that decision was rendered in a State where an Act had been passed as early as 1641 prohibiting the grant of monopolies except for a short time for profitable inventions. 478 F. 2d at 1081.

Moreover, the protection of trade secret rights has been repeatedly recognized by this Court, where there has been a breach of contract or trust, even though the Peabody concept of "property" rights in trade secrets has been

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***10** corded Congress under Clause 8, Section 8, of Article I of the Constitution, the Court recognized the availability of trade secrets and patents as alternative forms of protection for the same subject matter, stating:

An inventor ... may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but upon the expiration of that period, the knowledge of the invention enures to the people, who are thus enabled without restriction to practice it and profit by its use.

Thus, this Court has sanctioned trade secret rights in subject matter which falls within the purview of the patent laws, as an alternative to patent protection--the latter being open to inventors who choose to disclose their inventions in exchange for the right to exclude all others for a fixed term set by Congress.

Since the decision of the Peabody case, and in keeping with the forgoing decisions of this Court and others, lawyers have advised their clients as to these alternatives--recognizing the need to closely guard trade secrets if this alternative is chosen, and the risk of losing the trade secret if at any time it is innocently discovered or reverse-engineered or independently developed.

This advice, along with a general awareness of the established law of trade secrets, has led many corporations and individual inventors to disclose important trade secrets to employees and others, under appropriate agreements and other safeguards, with a confidence that the secrets would not thereby be compromised.

Further, it has also led to full-scale efforts, at considerable expense, to develop and market complete know-how packages for various technologies, sufficient to enable interested licensees to enter new fields with minimum delay

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***12** Painton & Co. v. Bourns Inc., supra, 442 F. 2d at 226, the Court alluded to the benefits foreign companies would derive from an abolition of our trade secret laws, calling attention to an estimate in an amicus brief that this could result in the loss of as much as $1 billion in annual income to American companies, a sum which would have a significant effect on the balance of trade for this country. It is not clear how this fruitful exchange can continue if the trade secret laws fall.

In some industries, trade secrets also play an essential role in competitive bidding against foreign companies for the construction of extensive chemical

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processing plants outside of the United States. In these situations, the contractor is often selected on the basis of the superiority of his trade secret processes, in comparison with those of his competitors. A demise of the trade secret laws of this country would put American companies at a great disadvantage in competing for such foreign business.

Moreover, other considerations must also be faced, including the paralyzing effect the demise of trade secret protection will have on one's willingness to disclose unpatented ideas to others in confidence, when the confidence can be violated with impunity; the extent to which even a surreptitious appropriation of one's trade secrets can be redressed, when it concerns legally unprotectible rights; and many other matters.

In all of these areas, a failure of the trade secret laws would have a tremendous adverse impact on American industry and the public, totally inconsistent with the fact that trade secrets, until now, have been consistently sanctioned by the courts--and apparently also by Congress, through its adoption over the years of numerous patent statutes and amendments, [FN3] none of which have questioned ***13** or rejected the trade secret rulings of this Court, or the well-known industry reliance upon trade secrets.

> FN3. See the Patents Acts of 1790, 1793, 1836, 1870 and 1952 (1 Stat. 109, 318; 5 Stat. 117; 16 Stat. 198; 35 U.S.C.) and over 60 amendatory enactments.

In view of these considerations and others, the abolition of the law of trade secrets should not be undertaken in the absence of the clearest possible indication from Congress that such a result was intended [FN4]--and, indeed, not without Congressional hearings for all of those affected, and subsequent positive Congressional action in the form of legislation [FN5] designed to fill the voids created by the loss of the trade secret laws.

> FN4. See, e.g., Parker v. Brown, 317 U.S. 341 (1943); Schwartz v. Texas, 344 U.S. 199 (1952).

> FN5. In this regard, it is noteworthy that this question is presently before Congress in the so-called Administration bill for a new Patent Act, which has been agreed upon by all of the affected governmental agencies and which proposes, in Section 301, a positive pronouncement by Congress that "This title shall not be construed to preempt rights or obligations arising by operation of the State law concerning trade secrets." Patent Modernization and Reform bill S. 2504 (1973).

B. The trade secret laws of Ohio are not in conflict with Article I, Section 8, Clause 8 of the Constitution.

For convenient reference, we set forth Article I, Section 8, Clause S of the Constitution, as follows:

The Congress shall have Power ...

To promote the Progress of Science and useful Arts by seenring for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;

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The most recent of this Court's decisions dealing with this clause was Goldstein v. California, 412 U.S. 546 (1973), decided subsequent to the Court of Appeals decision in the present. case. In the Goldstein case, the Court upheld a California statute outlawing tape piracy, or the unauthorized duplication of popular tape recordings, over attacks based upon assertions of both Constitutional and Congressional ***14** preemption--the recordings in question being unprotected by federal copyrights.

On the question of Constitutional preemption by the foregoing Clause. 8, which the Court of Appeals projected as an issue in the present case but did not actually treat, this Court's decision in Goldstein found no express provision in the Constitution that the powers granted Congress under this clause are exclusive, or that State action in this area is prohibited. Goldstein v. California, supra, 412 U.S. at 555-558.

This holding necessarily applies to both "authors" and "inventors" alike, as they share the same Constitutional clause, and therefore, consistent with this Court's holding in Goldstein as to "authors", there is no express provision in the Constitution which accords Congress the exclusive power, or precludes State action, to reward "inventors" with "exclusive rights" in their discoveries.

Further, in the Goldstein decision this Court ruled that State action in granting copyright protection, in matters of purely local interest, would not necessarily conflict with the presence of copyright granting authority in the federal Government--so that there is not such a total contradiction and repugnance in the concurrent exercise of State and Federal copyright powers as to warrant an inference that all State powers in this regard have been relinquished to exclusive federal control. Goldstein v. California, supra, 412 U.S. at 559. This holding should also be deemed applicable to "inventors" as well as "authors," and hence to patents as well as copyrights, especially since the Court in Goldstein relied upon the prevalence of State issued patents in the 18th century in support of its finding of legitimate State interests in granting exclusive rights in writings of a purely local interest. One must conclude, therefore, that the grant of exclusive rights in discoveries by the States is similarly not inherently in conflict with like authority in the federal Government, ***15** so as to make concurrent state and federal authority to grant such exelusive rights so totally repugnant as to be precluded by Clause 8.

The question of the unlimited time duration of the California tape piracy statute was also raised in Goldstoin, as being an area of conflict with Clause S, since this Clause speaks of "limited times". The Court pointed out, however, that the limited time duration provision of Clause 8 applies only to Congressional, and not State, action. And, further, the dangers in a federal exclusive grant of unlimited duration are far greater than those of a State, in view of the pervasive nature of such a federal grant. Thus, no confliet with Clause 8 was found to exist on this basis. The same is true as to trade secrets, especially in view of the very circumscribed of any right to exclude others which may be created by the trade secret laws, as well as the susceptibility of trade secrets to termination at any time they become publicly known, as will be discussed.

Therefore, the protection of trade secrets by the States, even if viewed as a form of exclusive rights in the discoveries of inventors, is not in conflict with Article

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I, Section S, Clause 8, of tile Constitution.

C. The trade secret laws of Ohio are not in conflict with the Patent Laws or, as a consequence, void under the Supremacy Clause.

As indicated in the Court of Appeals decision, the Supremacy Clause of Article VI of the Constitution provides that "This Constitution, and the Laws of the United States which shall be made in pursuance thereof ... shall be the Supreme Law of the Land ..."

The current Patent Act, called the 1952 Patent Code, was adopted by Congress pursuant to Article I, Section S, Clause 8, of the Constitution and, consequently, if State trade secret laws "interfere with, or are contrary to" this ***16** Act, they must fall. See Gibbons v. Ogden, 9 Wheat 1, 211 (1824).

The recent Goldstein case also treated the question of federal Supremacy, in the context of copyrights. After pointing out that there is no simple formula for making this determination, since the considerations vary from field to field, the Court quoted the following rule from Hines v. Davidowitz, 312 U.S. 52, 67 (1941):

> Our principal function is to determine whether, under the circumstances of the particular case, [the state] law stands as an obstacle to the accomplishment and execution of the full purposes and objectives of Congress.

This rule was also discussed in Perez v. Campbell, 402 U.S. 637, 649 (1971), where the Court observed that since the Hines decision in 1941 this statement of the rule has frequently been reiterated.

As indicated by the Court in the Goldstein decision, patent Clause 8 describes both the objective Congress must seek and the means to achieve it. Ibid 412 U.S. at 555. We turn first to the "means" to achieve the stated objective of promoting science and the useful arts, since an understanding of the nature and function of patents and trade secrets will make a discussion of their objectives more meaningful.

The means, as expressed in Clause 8, is that of securing to inventors the "exclusive right to their ... discoveries" for limited times. This means has been implemented by Congress in its enactment of the current Patent Act, which provides for the granting of patents that convey "the right to exclude others from making, using or selling the invention throughout the United States" for the term of seventeen years. 35 U.S.C. 154; and see United Shoe Machinery Co. v. United States, 258 U.S. 451, 463 (1922); Crown Co. v. Nye Tool Works, 261 U.S. 24, 34–5 (1923).

***17** This "right to exclude" in the patent grant is enforceable against the public generally, without regard to whether the accused ,product has been copied from the patentee or independently developed. Further, it pertains to subject matter known to the public. Thus, although a patent owner may sell his products in the open market, they may not be copied, except by a licensee, because ,of his "right to exclude" all others.

Trade secret rights are wholly different ... No riglit to exclude the general public exists in the law of trade secrets. Pcabody v. Norfolk, supra. Anyone who independently conceives a trade secret can it with impunity, and anyone who obtains access to it through legitimate means and not under a pledge of secrecy, can duplicate it at will. Further, all are free to attempt to learn the secret, by any

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legitimate analysis or inspection, or reverse-engineering, or any other legitimate means--and once the secret is learned it may be practiced free of any obligation.

If one cannot practice a trade secret of his competitor, it is because he cannot discern what it is by legitimate means and duplicate it--and not. because of any legal "right to exclude" inherent in the trade secret itself. Its strength, therefore, lies in the fact that it is secret, and once it becomes publicly known it is lost. DuPont v. United States, 288 F.2d 904, 129 USPQ 472. (Ct. Claims 1961). Thus, if a trade secret owner places his products on the open market, or the trade secrets otherwise legitimately come to public attention, he has no "right to exclude" others from copying them.

A trade secret is thus said to bind no one except one who has learned of it in confidence--with the exception that, as in other things of value, it cannot be pilfered without liability, Painton & Company Bourns Inc., supra, 442 F.2d at 223; and see, Doerfer, The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy, ***18** 80 Harv. L. Rev. 1432 (1967). Similarly, its only "right to exclude" is in relation to one who has received it in confidence and violated that confidence. And, even in such a case, the exclusionary relief available is generally limited to an injunction for the "head-start" period of time the violator gained by his access to the trade secret--and this may be denied if the value of this head-start can be assessed and money damages are deemed adequate. See, e.g., Data General Corp. v. Digital Computer Controls, Inc., 297 A.2d 437, 175 U.S.P.Q. 486 (Del. Sup. Ct., 1972).

In short, contrary to the main premise of the Court below, trade secret rights do not provide their owners with an ability to "exclude competition" which is in any way comparable to that found in patent grants. 478 F.2d at 1086.

Turning to the objectives of the Patent Laws, the ultimate objective is, of course, to promote the progress of science and the useful arts, as recited in Clause 8.

The operation of the trade secret laws is consistent with this objective. Commercial rewards that can be derived from trade secrets promote the development of technological innovation and its use in the trade, thus promoting science and the useful arts while benefiting the public. Further, a competitor's announcement of a new or less expensive product, which has been manufactured by a secret process he has created, provides a real incentive for one to match or better its performance. Indeed, when a product embodying a trade secret is marketed, progress in science and the useful arts is promoted in some measure because the product can be freely copied and utilized in new applications, or improved to create new products.

This is not to say that trade secrets act to promote science and the useful arts in exactly the same way that patents do, or that quantitatively they do so to a greater or lesser extent than patents do, but experience certainly ***19** indicates that they have the effect of promoting science and the useful arts.

An objective of the Patent Laws has also been said to be "to secure to the public the advantages to be derived from the discoveries or individuals." Grant v. Raymond, 31 U.S. 218 (1832). Here again, the trade secret laws are consistent with this objective, since the discoveries protected by them are ones being used for the public. Indeed, some authorities have asserted that technological secrets are not

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cognizable by the Courts as trade secrets until they have been used in the trade, and their fruits thus brought to the public. Louis Orenbush, Trade Secrets and The Patent Laws. Journal of the Patent Office Society, Oct. 1970, Vol. 52, No. 10, p. 638, 666.

Further, an objective of the Patent Laws has been said to be that of encouraging capital investment in new discoveries, Picard v. United Aircraft Corp., 128 F.2d 632 (2 Cir. 1942), and again trade secret protection is not contrary--although the relative effectiveness of patents and trade secrets in this area is difficult to measure.

Other important objectives are to induce full disclosure of new inventions, and to effect their dedication to the public after a fixed time, in return for the patent grant. Pennock v. Dialogue, 27 U.S. (2 Peters) 1 (1929); Grant v. Raymond, supra; Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249, 255 (1945).

It is in this regard that trade secrets have sometimes been said to fall short, as failing to comport with either of these objectives. This, however, is not the case.

Considering the disclosure objective first, it must be recognized that while the intention of the Patent Laws is to encourage disclosure by the offer of a patent grant, Congress has expressed no intention, through its adoption of the Patent Laws or otherwise, to compel disclosure. Rather, as noted earlier, the choice has been left to the inventor. ***20** Thus, this Court made it clear in United States v. Dubilier Condenser Corp., supra, 289 U.S. at 186, that "An inventor ... may keep his invention secret and reap its fruits indefinitely". And see Mr. Justice Black's opinion in Lear, Inc. v. Adkins, 395 U.S. 653, 677 (1969) to the same effect.

If one were to secure a patent on the basis of less than a full disclosure of his invention, he would surely be thwarting this Congressional objective. See 35 U.S.C. 112; Grant v. Raymond, supra. However, if he merely chooses to maintain his invention secret, without the benefit of patent protection, he is but selecting an alternative Congress left open to him. In the words of Judge Leonard Hand in Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts Co., 153 F.2d 516, 520 (2 Cir. 1946) "he must content himself with either secrecy, or legal monopoly". And see Peabody v. Norfolk, supra.

In addition, a practical consideration relevant to the matter of disclosure is that inventions disclosed to the Patent Office, upon the filing of a patent application, are maintained in secret until a patent is granted. 35 U.S.C. 112; Plastic and Metal Fabricators Inc. v. Roy, 175 U.S.P.Q. 49 (Conn. Sup. Ct., 1972). While on one hand this has been urged as indicative of a Congressional intent to maintain open the inventor's choice, between a trade secret and patent, at least until it has been determined that a patent will be accorded, on the other hand, it should not be overlooked that this pendency may be as long as two or three years, or longer. See Lear, Inc. v. Adkins, 395 U.S. 653, 658 (1969). One must therefore wonder whether trade secrets do not often reach the public in a shorter time than do disclosures to the Patent Office. The answer to this question, however, is beside the mark, since the true Congressional intent is to leave the choice of disclosure to the inventor unless a patent is sought.

***21** Turning to the objective of securing a dedication of the invention to the

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public after a fixed period of exclusivity, this objective, like that of a full disclosure, is coupled with the grant of a patent. Thus, if one were to secure a parent and then attempt to avoid the required dedication, a clear frustration of this Congressional objective would be present. Indeed, if a State law was effective to bring about this result, the State law would fall under the Supremacy Clause. Singer Mfg. Co. v. June Mfg. Co., 163 U.S. 169 (1896); Kellog Co. v. National Biscuit Co., 305 U.S. 111 (1938); Scott Paper Co. v. Marcalus Mfg. Co., supra.

Where, however, one is not in the position of having secured a patent, but instead has just made an invention, as discussed above, he has a choice of maintaining it secret or patenting it--and the requirement of dedication after a fixed period, as that of full disclosure, comes about only when the choice of patent protection has been made.

Moreover, even though the duration of a trade secret is indefinite, though not perpetual, it is a rare case, especially in today's technology, where a trade secret can outlast the 17 year life of a patent.

Nor is there any conflict between trade secret protection and the requirement of a prompt t disclosure after a public use, when a patent is desired--which the Court of Appeals found to be of great significance in this case. In this regard, the Court relied on 35 U.S.C. 102(b), which precludes the filing of a patent application more than one year after an invention has been placed on sale or appears in a publication or in public use. [FN6] This requirement of a ***22** prompt disclosure has no meaning when it is applied to trade secrets, since the subsistence of a trade secret is predicated upon non-disclosure. Rather, this is another instance where the requirement is an incident of an inventor's choice to secure patent protection. Here again, one has the choice of maintaining his invention secret, or filing a patent application with a prompt and full disclosure. Thus, in Metallizing Engineering Co. v. Kenyon Bearing & Auto Parts, supra, Judge Learned Hand stated that:

> FN6. Since the use in the present case was secret, and not public, it cannot serve to bar the filing of a patent application by an independent inventor who had no knowledge of it. See, e.g. Judge Hand's opinion in Gillman v. Stern, 114 F. 2d 28, 46 U.S.P.Q. 430 (2 Cir. 1940). Thus, it cannot properly be designated a "public use" within 35 U.S.C. 102(b). It is for this reason that Judge Hand characterized it as a forfeiture by the inventor in Metallizing Engineering, analogizing it to the public use bar of Section 102(b), after there had been secret commercial use for a one-year time duration. While some courts have simply referred to it as a Section 102(b) "public use" bar applicable only to the users and those in privy with them, see, e.g. Robine v. Apco Inc., 386 F. 2d 267 (2 Cir. 1967); Pickering v. Holman, 459 F. 2d 403 (9 Cir. 1972), it should nevertheless be understood that this use is not one which discloses the invention to the public.

... it is a condition upon an inventor's right to a patent that he shall not exploit his discovery competitively after it is ready for patenting; he must content himself with either secrecy, or legal monopoly. 153 F. 2d at 520.

In summary, there is no conflict between the trade secret laws and either the Constitutionally expressed objective or other recognized objectives of the Patent Laws, and, in fact, as long ago recognized, trade secrets and patents are

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alternative forms of protection, each having its own nature and scope of operation. See Reid v. Colorado, 187 U.S. 137, 150 (1902).

Nor can it be presumed that in adopting the Patent Laws, Congress attempted to so occupy the field of intellectual property rights in "patentable" technology as to preclude State trade secret protection in this area. As this court has indicated on several occasions, such an unexpressed intention to preempt State power is not lightly to be attributed to Congress. See, e.g., Parker v. Brown, supra.

***23** In the present case the opposite intention appears clear. As indicated above, long prior to the adoption of the 1952 Patent Code the decisions of this Court spoke on the subject of and upheld trade secrets, both as to patentable and non-patentable subject matter. And the same is truck as to other courts and other authorities. See Painton & Co. v. Bournis Inc., supra, 442 F. 2d at 225; and Comment b of Section 759 of the Restatement of Torts (1939), which states that "A trade secret may be a device or process which is patentable; but it need not be that."

The adoption of the 1952 Patent Act, without any indication that Congress intended to abrogate the long-standing rulings of this Court, and other authorities, as well as the long-standing and well-known use and reliance upon trade secrets in industry, makes it clear that no such abrogation was intended. Townsend v. Yconmans, 301 U.S. 441 (1937); and sec Graham v. John Decre Co., 383 U.S. 1, 17 (1966), where this Court held that the 1952 Patent Act intended to codify judicial precedents in another area, namely those dealing with the level of innovation required to secure a patent.

Moreover, Congress has made clear its intention to uphold trade secrets by its recognition of trade secret rights in at least the following statutes, some of which appear to be directed specifically to trade secrets in "patentable" subject matter [FN7]:

> FN7. See, also. Rule 26(c) of the Federal Rules of Civil Procedure, adopted in 1937; Rule 508 of this Court's proposed Rules of Evidence; Revenue Procedure 69-19 of the Internal Revenue Service.

5 U.S.C.
§ 552(b)(4) excluding trade secrets from the information federal agencies must make public
15 U.S.C.
§ 46(f) excluding trade secrets from the information the FTC may make public
***24** § 78x(a) excluding from the powers of the SEC the right to require that trade secrets or processes be revealed
§ 1193(c) requiring trade secrets received by the Secretary of Commerce, in relation to fabric flammability standards or regulations, to be considered confidential
§ 1263(h) [FN8] prohibiting use or disclosure of any information concerning any method or process which is a trade secret, which has been acquired in connection with HEW inspection and investigation of hazardous substances

> FN8. The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

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§ 1401(e) requiring trade secrets received by the

Transportation Department, in the inspection and investigation of federal vehicle safety standards, to be considered confidential
18 U.S.C.
§ 1905 making it a crime for any United States officer or employee to disclose trade secrets which come to him in the course of his duties
21 U.S.C.
§ 331(j) [FN8] prohibiting use or disclosure of any information concerning any method or process which is a trade secret, which has been acquired in the administration of the Food, Drug & Cosmetic Act

FN8. The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

§ 458(a)(5) prohibiting use or disclosure of trade secrets acquired in the administration of the Poultry Products Inspection Act
33 U.S.C.
§ 1160(f)(2) [FN8] excluding trade secrets and secret processes from reports which can be required at public hearings under the Federal Water Pollution Control Act

FN8. The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

***25** 42 U.S.C.
§ 2631i(e) prohibiting disclosure by HEWV of trade secrets obtained in enforcing the Radiation Control for Health and Safety Act
§ 18557d(j)(1) [FN8] providing that no witness shall he required to divulge trade secrets or secret processes in any conference under the Clean Air Act

FN8. The reference in this statute to methods or processes which are trade secrets would seem to suggest patentable subject matter within 35 U.S.C. 101.

§ 18557f-G(c) requiring trade secrets, received by HEWI in connection with the registration of vehicle fuel additives, to be considered confidential (apparently not continued in the 1970 Amendment)

Thus, no intent to preempt the field can be ascribed to Congress and in short, there is no area in which trade secrets, whether on patentable subject matter or not, can be found to be in conflict with or an obstacle to the objectives or operation of the Patent Laws.

D. The Court of Appeals erred in its application of the rulings of earlier cases to the circumstances of the present case.

At the outset t of its discussion of the law, the Court below stated that while the issue of federal preemption of field of protection for inventions has never been clearly presented to this Court, "the language of certain early cases suggests that the Supreme Court was of the opinion that the Patent Laws provided the exclusive means and remedies for the protection of inventors, and that no other monopoly was available". 478 F.2d at 1801. The court then quoted extensively from the cases of

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Grant v. Raymond, supra, and Kendall v. Windsor, 62 U.S. (21 How) 322 (1858). 478 F.2d at 1081-2.

The passage quoted by the Court of Appeals from Mr. Chief Justice Marshall's opinion in Grant v. Raymond merely states that the great object and intention of the ***26** Patent Laws, referring to the Patent Act then in effect, is to assure to the public the benefits of discoveries, and further, that the means this Act employs to achieve this objective is to grant to inventors exclusive rights in their discoveries for a limited time. It is difficult to see what the Court below found in this passage to suggest that the Patent Laws provide "the exclusive means" to protect inventors, unless there was some confusion over Mr. Chief Justice Marshall's language which spoke of the "means" employed by the Act being the grant of "exclusive" rights.

In any event, the Court below stated "That this concept of the patent laws continued to be the view of the Supreme Court is emphasized in Kendall v. Windsor"--thus underscoring the emphasis the Court was apparently placing upon what appears to be a misinterpretation of the passage quoted from Grant v. Raymond. Moreover, the passage quoted from the Kendall case is perhaps even more misleading, at least when separated from the context of that case. This passage states in part that:

> ... the inventor who designedly, and with the view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public, comes not within the policy or objects of the Constitution or acts of Congress. He does not promote, and, if aided in his design, would impede, the progress of science and the useful arts. (Emphasis is that of the Court of Appeals in this case.) 478 F.2d at 1082.

To understand the nature of the conduct being assailed in the foregoing passage, it should be understood that the Kendall case was a patent infringement suit, not a trade secret suit. Further, the Court was discussing the conduct of one who maintains his invention in secret indefinitely, until someone else learns of it or independently invents it, and he then applies for and obtains a patent to secure a 14 year (now a 17 year) exclusive grant. This obviously frustrates the Congressional plan of allowing inventors the choice of either a trade secret for an indefinite time ***27** or an exclusive grant for a definite term, but not both. See Metallizing Engineering, supra, 153 F.2d at 520; also see the discussion of Pennock & Sellers v. Dialogue, supra, in the Kendall opinion, 62 U.S. (21 How) at 330.

Thus, the reliance of the Court below on the early cases of this Court as suggesting that the Patent; Laws provide "the exclusive means and remedies" for the protection of inventions, and its application of this rule to, the present ease to find a federal preemption of "patentable" trade secrets, appear to be clearly in error.

The Court below also quoted from this Court's opinion in Scott Paper Co. v. Marcalus Manufacturing Co., supra, emphasizing the requirement of the Patent Laws that there be a full disclosure and dedication to the public on the expiration of the patent, in return for the grant of a patent, as already discussed. And it discussed some of the other decisions of this Court, which have found conflicts to exist between certain Stale laws and the Patent Laws. Those include Singer Mfg. Co., v. June Mfg. Co., supra; Kellog Co. v. National Biscuit Co., supra: Scott Paper Co. v. Marcalus Mfg. Co., supra; Sears, Roebuck Co. v. Stiffel Co., 376 U.S. 225 (1964);

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Compco Corp. v. Day-Brite Lighting, 376 U.S. 234 (1964); and Lear Inc. v. Adkins supra.

These cases fall broadly into two categories. The first concerns situations where patents have already been granted, and thereafter there is reliance upon a state law to frustrate one of the conditions upon which the grant was predicated. This includes Singer Mfg. Co. v. June Mfg. Co., supra, where patented machines had come to be known as "Singers" while the patents existed, during which time the machines could be sold only by the patent owner, and, consequently, this Court found that a perpetuation of the exclusive rights in this name would impede the sale of the machines by others, and be tantamount to a continuation ***28** of the patent monopoly beyond the expiration of the patents. Also, it includes Kellog Co. v. National Biscuit Co., supra, where the same was true as to the name "shredded wheat" and the pillow-shape design of the shredded wheat biscuit, and Scott Paper Co. v. Marcalus Mfg. Co., supra, where a long-standing State law of estoppel against an assignor attacking the validity of a patent he had assigned was vitiated, at least where the assignor could establish that the patent claims covered an invention disclosed in an expired patent.

Lastly, it includes Lear Inc. v. Adkins, supra, where the Court rejected a reliance upon the state law of licensee estoppel, which had theretofore been invoked many times to preclude licensees from challenging the validity of a patent under which they were licensed, thus impeding a federal court's determination as to whether the patentee had complied with the condition of patentability in securing his patent. See Graham v. John Deere Co., supra.

The second category of preemption cases includes Sears and Compco (and Goldstein on the copyright side, which is not relevant to our discussion here). These cases involve direct action on the part of a State to grant substantially the equivalent of patent protection without requiring that the essential conditions of patentability of the Patent Laws have been met.

While in Sears and Compco patents had been granted, their principal relevance is that they were held invalid for want of invention, and in one instance actually refused by the Patent Office, so that they demonstrate that the devices in suit (pole lamps and light reflectors) did not meet the standards of patentability established by the Patent Laws. These cases concerned a State unfair competition law which was held to preclude copying of the devices in suit. In striking down this law as being in conflict with the Patent Laws, this court stated that the effect of the law was to grant "perpetual protection to articles too lacking

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***30** one year public use bar has no meaning when applied to trade secrets.

In summary, the Court below erred in finding a suggestion in the early cases of this Court that patent laws provide "the exclusive means" of protection for inventions, in applying the rule of the foregoing Patent Law preemption cases of this Court to trade secrets, and in its reliance upon the one-year commercial use of the trade secrets in suit as constituting a relevant forfeiture.

CONCLUSION

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For all of these reasons, the holding of the Court of Appeals that the trade secret laws of Ohio are preempted by the Patent Law should be reversed.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

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• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172413 (Appellate Brief) Brief of Chamber of Commerce of the United States of America As Amicus Curiae in Support of Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172414 (Appellate Brief) Brief for Amicus Curiae Manufacturing Chemists Association (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172415 (Appellate Brief) Brief Amicus Curiae for the Budd Company (Nov. 23, 1973)Original Image of this Document (PDF)

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• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae (Nov. 19, 1973)Original Image of this Document (PDF)

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END OF DOCUMENT

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondent.
No. 73-187.
October Term, 1973.
November 23, 1973.

Brief of the Electronic Industries Association as Amicus Curiae in Support of Petitioner

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TABLE OF CONTENTS

I. Authority to File ... 1

II. Interest of amicus curiae ... 2

III. Purpose of Brief ... 2

IV. Effects of Affirmation ... 3

A. Affirmation of the Sixth Circuit will benefit employees who misappropriate employer trade secrets and fundamentally destroy employer-employee trust in general ... 3

B. Rewards and incentives for diligent, fruitful industrial research will be eroded by affirmation of the Sixth Circuit's decision ... 5

C. Affirmation of the Sixth Circuit's decision will impose severe additional burdens upon the patent system ... 6

D. Affirmation of the Sixth Circuit's decision will discourage research within the United States ... 8

V. Conclusion ... 8

***1** I. AUTHORITY TO FILE

This brief is filed on behalf of the Electronic Industries Association as amicus curiae pursuant to Rule 42(2) of this Court and is accompanied by the written

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consent of both parties, the originals of which are filed herewith.

***2** II. INTEREST OF AMICUS CURIAE

The Electronic Industries Association represents 230 companies engaged in the development, manufacture and sale of electronic equipment. The membership and the industry encompass both small and large companies.

In order to compete in the commercial market, these companies have, by investing substantial research and development funds, established technical competence in many specific areas. Their innovative solutions to many difficult technical problems, for which they have attained a worldwide reputation, involve technical know-how and processes, most of which constitute trade secrets, which are often on the forefront of world knowledge in their respective technical areas.

The decision below eliminates trade secret protection for patentable trade secrets that have been in commercial use for more than one year. The Electronic Industries Association therefore has an important interest in this case because all trade secrets within the industry must be protected if its companies are to maintain their competitive position. These trade secrets and know-how represent the industrial basis on which many highly technological companies within the industry are structured. Furthermore, these trade secrets and know-how provide the challenge and incentives for others to enter this competitive area through innovation.

III. PURPOSE OF BRIEF

The narrow question of law before this Court is whether the Constitution and the federal patent laws pre-empt and make ineffective State laws which protect against disclosure or use of trade secrets in breach ***3** of duties imposed by contract or a confidential relationship. The legal arguments for reversing the decision of the Sixth Circuit have been ably advanced by the petitioner and are not reiterated here. Amicus curiae adopts and supports the petitioner's legal arguments, but it has no interest in and expresses no view on the facts of record or the rights of the parties.

The purpose of this brief is to set forth the serious and far reaching ramifications of this case upon the industry represented by amicus curiae. In particular, beyond the narrow legal question is the equally important and broader question whether the preemption of State trade secret laws will (1) lead to a counterproductive atmosphere of distrust in the employer-employee relationship, and (2) encourage a broad policy where employees can convert to their own use with impunity valuable property rights, thereby forcing employers to a position of investing less in research and development for fear of loss of such rights.

IV. EFFECTS OF AFFIRMATION

A. Affirmation of the Sixth Circuit Will Benefit Employees Who Misappropriate Employer Trade Secrets and Fundamentally Destroy Employer-Employee Trust in General.

The Sixth Circuit acknowledged that, under Ohio law, the employees wrongfully misappropriated the trade secrets of their employer. Nonetheless, the court in effect held that, as to patentable items which have been in commercial use for over one year, the patent laws must pre-empt State law prohibiting such misappropriation. To the extent it is less costly and time consuming to acquire secrets from employers

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than from independent research, the decision discourages independent research and development and encourages ***4** misappropriation, which heretofore has been within the general prohibition of the law.

A further practical effect of the lower court's decision would be to immunize employees who misappropriate trade secrets which are not patentable. As to secrets in commercial use over one year, it would be a condition precedent to an employer's legal action for breach of contract or tortious misappropriation that the trade secret not be patentable. Absent a stipulation of lack of patentability, which is unlikely because such a stipulation would be against the interest of the employer-inventor, the determination of patentability is properly made, in the first instance, only by the Patent Office; the additional expense and delay of filing a patent application for the determination of patentability would greatly reduce the effectiveness and desirability of legal action against an employee's misappropriation of trade secrets.

In an environment which encourages misuse of patentable trade secrets and does not discourage misuse of unpatentable trade secrets, employees have little incentive to innovate on behalf of their employer or to share their discoveries with their employer and much incentive to embark on their own after acquiring valuable information. The trust and loyalty which are so vital between an employer and his employee and which are encouraged by existing legal principles will be seriously eroded by such incentives.

Present trade secret law appropriately balances the need to discourage incentives to employer disloyalty with the need to provide employees with the necessary freedom to utilize their talents and knowledge on their own behalf or in the employ of another. See, for example, ***5** Note, Computer Programs and Proposed Rerisions of the Patent and Copyright Laws, 81 Harv. L. Rev. 1541, 1555 (1968). Affirmation of the lower court will destroy this balance.

B. Rewards and Incentives for Diligent, Fruitful Industrial Research Will Be Eroded by Affirmation of the Sixth Circuit's Decision.

Given the lack of employee incentive to share discoveries with employers and the incentive to misappropriate employers' patentable trade secrets, employers will be reluctant to engage in research because very little research can be done without the assistance of knowledgeable employees who are capable, if ill-motivated, of misappropriating the employers' research. In addition, the impracticality of legal action for misappropriation destroys the incentive to take the risk of investing in research and development as to trade secrets which are not patentable.

If important and valuable research can be misappropriated with impunity merely because it has been in commercial use for more than one year, the employer is faced with the difficult choice of applying for a patent on every invention, even if it is probably not patentable, or risking the total loss of the "headstart" which is an important incentive for large research and development expenditures. See, Doerfer, The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy, 80 Harv. L. Rev. 1432, 1462 (1967). However, in this particular industry, aside from the expense and delay of acquiring a patent that any industry faces, patents are not sought on all patentable items because the difficulty of policing a patent in this

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industry makes it impractical from a business *6 standpoint to patent any but the more significant trade secrets. Moreover, due to the innovation and quick turnover of this industry, the primary advantage over competitors consists of the headstart; thus, research would be discouraged if the mere fact of failure to seek a patent constitutes an invitation to employees to misappropriate and thereby destroy the headstart.

Present trade secret law balances the need to protect new developments in order to provide incentives to develop, against the need to assure broad competition and foster new entry by enthusiastic and enterprising researchers. Moreover, present trade secret law appropriately permits an inventor to choose either a patent, which excludes the whole world for a finite period of time, or a trade secret, which excludes only those whose misappropriation would be a breach of contract or a tort, for a theoretically unlimited time but with risks of leaks and independent discovery by others. Affirmation of the Sixth Circuit's decision would both destroy the balance and eliminate the choice.

C. Affirmation of the Sixth Circuit's Decision Will Impose Severe Additional Burdens Upon the Patent System.

As stated above, an employer who fears risks will be forced to apply for a patent on every trade secret, not only those which are potentially patentable, but those which are probably not patentable, for the following reasons. First, employees can, with impunity, misappropriate anything which is patentable after one year of commercial use; therefore, it is necessary to know whether a trade secret is patentable in order to determine whether to obtain trade secret agreements. Second, legal action for misappropriation may not be brought until patentability is determined. Absent a *7 stipulation of patentability, this determination can only be made, in the first instance, by the Patent Office, and must be made for every trade secret, despite the improbability of patentability. This tremendous increase in the number of patent applications will severely and unnecessarily impose additional burdens upon the Patent Office and cause even greater delays in the award of patents. As stated by Judge Friendly in his opinion in Painton & Co. v. Bourns, Inc., 442 F.2d 216 at 224:

"There can be no public interest in stimulating developers of such know-how to Hood an overburdened Patent Office with applications [on] what they do not consider patentable."

Moreover, particularly in a legal action for misappropriation, it would be to the benefit of an employer-inventor to have an unpatentable trade secret, while the employee who misappropriates would benefit if the trade secret were patentable. Therefore, the employer-inventor would be ironically arguing against the patentability of his own invention (while the misappropriator would be contending that the trade secret deserves a patent), and the additional deluge of patent applications would include many in which the applicant intentionally presents the case in such a manner as to assure unpatentability. This will be particularly true because, in a situation which is limited to trade secrets that have been in commercial use over one year, the patent application can provide no benefit except, if the application is denied, to facilitate legal action for misappropriation.

A further burden on the Patent Office is the need to establish a new class of

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decision which does not now ***8** exist, i.e., "Patentable but Ineligible Due to Violation of the One-Year Limit." Under existing law, commercial use for over one year destroys patentability. The decision of the Sixth Circuit will additionally burden the Patent Office with a new class of application which is presently rejected on its face, and require the Patent Office to decide whether the trade secret would have been patentable, but for the one year limit, despite the fact that the time and energy of the Patent Office will have thereby been expended upon a trade secret which can never be awarded the benefit of patent protection.

D. Affirmation of the Sixth Circuit's Decision Will Discourage Research Within the United States.

The members of the Electronic Industries Association are presently conducting operations in several foreign countries, including Canada, most European countries, and Japan, where trade secret agreements between employers and employees protect patentable trade secrets although they have been in commercial use over one year. In order to avoid the unattractive choice between the risk of developing trade secrets without obtaining a patent, or enduring the expense and delay of obtaining a patent on every trade secret, many researchers will prefer these foreign countries and others which similarly protect trade secrets. See Attorney General's National Committee Antitrust Reports, 86-88 (1955).

V. CONCLUSION

Affirmation of the decision of the Sixth Circuit will have seriously detrimental ramifications upon the need of the electronics industry to protect its trade secrets. It will benefit employees who misappropriate employer ***9** trade secrets and fundamentally destroy employer-employee trust in general; rewards and incentives for diligent, fruitful industrial research will be eroded; severe additional burdens will be imposed upon the patent system; and research within the United States will be discouraged.

For the reasons stated above, amicus curiae respectfully submits that the judgment of the Court below be reversed.

Kewanee Oil Co. v. Bicron Corp.
1973 WL 173807

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172423 (Appellate Brief) Brief Amicus Curiae of Scm Corporation (Dec. 27,

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1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 173805 (Appellate Brief) Brief for Amicus Curiae National Patent Council, Inc., for Itself and Representing National Small Business Association, Inc. (Dec. 21, 1973)

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• 1973 WL 172414 (Appellate Brief) Brief for Amicus Curiae Manufacturing Chemists Association (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172415 (Appellate Brief) Brief Amicus Curiae for the Budd Company (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172426 (Appellate Brief) Brief for the New York Patent Law Association as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

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BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
November 21, 1973.
On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Brief Amicus Curiae for Burroughs Corporation

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***i** TABLE OF CONTENTS

Preliminary Statement ... 1

Questions Presented ... 2

Interest of Amicus Curiae ... 2

Summary of Argument ... 4

Argument ...

I. THE KEW ANEE HOLDING PLACES AN UNDUE BURDEN ON TECHNOLOGY-ORIENTED INDUSTRIES ... 6

A. The Decision Below Usurps The Power Of Congress And Judicially Legislates Away A Vast Body Of Existing Trade Secret Law ... 6

B. The Decision Below And Its Accompanying Penumbra Of Uncertainty Will Have A Severe Impact Upon Business Activities And Will Operate To Hinder The Progress Of Science And Technology ... 12

II. THE U.S. CONSTITUTION DOES NOT PROHIBIT THE STATES FROM ENACTING LEGISLATION PROTECTING TRADE SECRETS; SUCH LEGISLATION WAS NOT PREEMPTED WHEN CONGRESS ENACTED THE FEDERAL PATENT LAWS; AND TRADE SECRET LAWS DO NOT CONFLICT WITH THE POLICIES AND OBJECTIVES UNDERLYING THE FEDERAL PATENT LAWS ... 19

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A. The States Have Not, Under The U.S. Constitution, Relinquished To The Federal ***ii** Government, For Its Exclusive Exercise, The Power To Enact Laws Affecting Inventions And Innovations ... 19

B. The Vast Body Of Existing State Trade Secret Law Was Neither Expressly Nor Impliedly Preempted By Congress In Enacting The Federal Patent Laws ... 23

C. State Trade Secret Laws Do Not Stand As An Obstacle To The Accomplishment And Execution Of The Full Purposes And Objectives Of Congress In Enacting The Patent Laws And Hence Are Not To Be Struck Down Under The Supremacy Clause ... 24

III. THE COURT BELOW ERRONEOUSLY CONCLUDED THAT ITS RESULT WAS COMPELLED BY PRIOR DECISIONS OF THIS COURT ... 26

Conclusion ... 30

Note: Table of Contents page numbers missing in original document

TABLE OF AUTHORITIES

Cases:

Becker v. Contoure Laboratories, Inc., 279 U.S. 388 (1929) ... 6

Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905) ... 6

Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 235 (1964) ... 27

Goldstein v. California, 412 U.S. 546 (1973) ... 19, 20, 21, 22

***iii** Gottschalk v. Benson, 409 U.S. 63 (1972) ... 11, 15, 16

Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938) ... 26

Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 178 U.S.P.Q. 3 (6th Cir. 1973) ... 1, 6, 8, 20, 27

Lear, Inc. v. Adkins, 395 U.S. 653 (1969) ... 28

People v. Hull, No. 2610 (Troy Mun. Ct., filed March 30, 1973) ... 18

Sears Rocbuck & Co. v. Stiffel, 376 U.S. 225 (1964) ... 27

Telex Corp. v. International Business Machines Corp., Nos. 72-C-18 and 72-C-89 (D.C.N.D. Okla., Sept. 17, 1973) ... 14

United States v. Akfirat, No. 4-80300 (D.C.E.D. Mich., filed Aug. 30, 1973) ... 17

United States v. Bottone, 365 F.2d 389 (2d Cir.) cert. denied 385 U.S. 974 (1966) ... 24

United States v. Dublier Condenser Corp., 289 U.S. 178 (1933) ... 6

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United States v. Greenwald, 479 F.2d 320 (6th Cir. 1973) ... 24

United States Constitution and Statutes:

U.S. Const. art I, § 8, cl.8 ... 19, 21, 24

U.S. Const. art. VI., cl. 8 ... 20

18 U.S.C. § 2314 (1968) ... 24

35 U.S.C. § 101 (1952) ... 2, 8, 9, 15

35 U.S.C. § 102(b) (1952) ... 9, 10

***iv** 35 U.S.C. § 103 (1952) ... 9

35 U.S.C. § 122 (1952) ... 24

Mich. C.L. 1970, § 752.772 ... 18

Treaties and Bills:

Agreement with Belgium on Patent Rights and Technical Information, Oct. 12, 1954, [1954] 5 U.S.T. 2318, T.I.A.S. 3093 ... 7

Agreement with Denmark on Patent Rights and Technical Information, Feb. 19, 1960, [1960] 11 U.S.T. 148, T.I.A.S. 4423 ... 7

Agreement with Federal Republic of Germany on Patent Rights and Technical Information, Jan. 4, 1956, [1956] 7 U.S.T. 45, T.I.A.S. 3478 ... 7

Agreement with France on Patent Rights and Techincal Information, March 12, 1957, [1957] S U.S.T. 353, T.I.A.S. 3782 ... 7

Agreement with Greece on Patent Rights and Technical Information, June 16, 1955, [1955] 6 U.S.T. 2173, T.I.A.S. 3286 ... 7

Agreement with Italy on Patent Rights and Technical Information, Oct. 3, 1952, [1960] 12 U.S.T. 189, T.I.A.S. 4693 ... 7

Agreement with Japan on Patent Rights and Technical Information, March 22, 1956, [1956] 7 U.S.T. 1021, T.I.A.S. 3585 ... 7

Agreement wtih Netherlands on Patent Rights and Technical Information, April 29, 1955, [1955] 6 U.S.T. 2187, T.I.A.S. 3287 ... 7

***v** Agreement with Norway on Patent Rights and Technical Information, April 6, 1955, [1955] 6 U.S.T. 799, T.I.A.S. 3226 ... 7

Agreement with United Kingdom of Great Britain and Northern Ireland on Patent Rights and Technical Information, Jan. 19, 1953, [1953] 4 U.S.T. 150, T.I.A.S.

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2773 ... 7

S. 2504, 93d Cong., 1st Sess. § 301 (1973) ... 23

Rules:

Rule 14(a) of the United States Patent Office Rules of Practice ... 24

Miscellaneous

R.M. Milgrim, Trade Secrets, § § 1.10[1], 2.03 (1973) ... 7, 27

Restatement of Torts § 757, comment b (1939) ... 27

53 U.S. Dept. of Commerce, Survey of Current Business 42, No. 9, Sept. 1973 ... 14

Milgrim, Sears to Lear to Painton: Of Whales and Other Matters, 46 N.Y.U. L.Rev. 17 (1971) ... 7, 17, 23

Plant, $31--Billion for Research, Ind. Res. 42 (Jan. 1973) ... 8, 16

***1** PRELIMINARY STATEMENT

Burroughs Corporation (hereinafter Burroughs) is filing this brief amicus curiae on the merits in support of the petitioner, Kewanee Oil Company, pursuant to Rule 42(2) of the Rules of the Supreme Court of the United States. The requisite written consents of the parties are on file with the Clerk of the Court. The matter is before the Court on a writ of certiorari to the United States Court of Appeals for the Sixth Circuit which reversed the decision of the District Court for the Northern District of Ohio, Eastern Division, and which held that Kewanee Oil Company did not have a protectable property right in certain of its trade secrets. [FN1]

FN1. Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 178 U.S.P.Q. 3 (6th Cir. 1973). The District Court decision was not reported.

***2** QUESTIONS PRESENTED

1. Whether the U.S. Constitution and the federal patent laws enacted thereunder preempt state trade secret law prohibiting the wrongful appropriation of secret technology to the extent it is encompassed within the categories of patentable subject matter as defined in 35 U.S.C. § 101.

2. Whether such state trade secret laws are in conflict with the policies and objectives underlying the federal patent laws and are therefore required to be struck down under the Supremacy Clause of the U.S. Constitution even though Congress did not express an intent to preempt such trade secret laws when enacting the federal patent laws.

INTEREST OF AMICUS CURIAE

Burroughs was incorporated in 1905, and is engaged in the business of designing, manufacturing and marketing a comprehensive range of products for the recording, storing, computing, processing and communicating of data. This business involves a wide variety of research and development efforts since success in this dynamic industry depends upon innovation, invention and technological growth. Burroughs,

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including its world-wide subsidiaries, has considerable investments in manpower and capital devoted to the promotion of technological development. Approximately 1800 employees are involved directly in research and development related activities and many thousands of additional employees are exposed in some manner to proprietary information.

***3** For the year which ended December 31, 1972, the dollar value of Burroughs' world-wide revenue amounted to $1,053,000,000. For this same year approximately 51 million dollars was spent on research and development related activities. For the current year over 60 million dollars will be spent for research and development, and over 80 million dollars is being budgeted for the year 1974. Burroughs has invested hundreds of millions of dollars in research and development activities and will continue to invest in research and development in the future. In order to protect this investment, Burroughs has relied not only on the patent laws, but also on the law of trade secrets. Accordingly, Burroughs is interested in maintaining the trade secret laws intact to protect both past and future investments.

Burroughs is not currently involved in any action in which it is asserting the theft of its trade secrets, and it is not in any way affiliated with either of the parties to this particular action. However, Burroughs has a deep interest in the proper resolution of the legal questions presented in this case not only because of the impact the decision below will have upon Burroughs, but also because of the impact it will have upon all technology-oriented businesses, upon the economy, and upon the United States as a whole.

***4** SUMMARY OF ARGUMENT

The decision below, which refused to afford protection under the trade secret law of the state of Ohio, erodes a vast body of trade secret law which has coexisted with the patent laws of this country for well over a hundred years. Congress, prior decisions of this Court and decisions in other courts have unanimously recognized trade secrets and the owner's right to protect such secrets from wrongful appropriation. The decision below is extremely broad because it encompasses all categories of subject matter coming within the scope of the patent laws, and because nearly every trade secret of any value is eventually commercialized. Many agreements involving trade secrets were entered into in reliance upon established trade secret law. The decision below renders uncertain this body of law and the enforceability of these agreements.

Technology-oriented industries investing in research and development activities require an assurance of some return on their investment. The preemption of state trade secret laws removes a large portion of the protection upon which they have previously relied. The inability to safeguard these investments may lead to a cutback in research and development investments or to a misallocation of research and development funds by redirecting expenditures to security measures aimed at protecting their discoveries. Such a cutback may weaken the technological base of the United States, injure its economy, and destroy its position as the world's technological leader.

The power to enact laws prohibiting the misappropriation of secret technological information was neither delegated to the federal government for its exclusive use nor was it expressly denied the states by the U.S. Constitution. ***5** The existence of such a power in the states is not contradictory and repugnant to the existence of a

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similar power in the federal government.

Congress, in enacting the federal patent laws, gave no indication, either express or implied, of an intent to preempt the entire field of law relating to inventions and discoveries. Congress, on numerous occasions, has expressed a contrary intent by recognizing the existence of trade secrets and the importance of protecting them.

State trade secret laws are not in conflict with the policies and objectives underlying the federal patent laws and hence are not required to be struck down under the Supremacy Clause of the Constitution. The federal patent laws provide the inventor with a right to exclude all others from making, using and selling his invention for a limited period of time. Trade secret law, on the other hand, offers a desirable alternative even though it provides only a very limited form of protection to the trade secret owner. He has no right to exclude all others from using his trade secrets but only has a cause of action against one who has wrongfully appropriated his secret. In practice, the patent laws operate to stimulate research and development, encourage innovation, reward the inventor, and benefit the public through commercialization of new and improved products. State trade secret laws have similar practical effects and are compatible with the constitutional purpose of promoting the progress of science and the useful arts.

The court below erred in its assumption that its result was compelled by prior decisions of this Court. According to these prior decisions, all ideas which are in the public domain are subject to free use by all, and states may not grant a patent-like form of protection on an idea ***6** in the public domain. Existing trade secret law is in complete harmony with the prior decisions of this Court, since trade secret protection is not granted for an alleged secret which has fallen into the public domain.

ARGUMENT

I.

THE KEWANEE HOLDING PLACES AN UNDUE BURDEN ON TECHNOLOGY-ORIENTED INDUSTRIES.

A. The Decision Below Usurps The Power Of Congress And Judicially Legislates Away A Vast Body Of Existing Trade Secret Law.

Trade secret laws have been recognized by Congress, the states and the courts. The lower court has acknowledged that the common law in most states includes cases recognizing the protectability of trade secrets. [FN2] The lower court further acknowledges that this Court has approved the protection of a trade secret, if not as a property right, then at least via the enforcement of confidential relationships. [FN3] Congress has recognized the existence of trade secrets, the right to protect trade secrets, and impliedly, ***7** the ability of trade secret laws and the federal patent laws to function effectively to protect the same subject matter. This congressional recognition is evidenced, for example, by the ratification of several treaties [FN4] and the enactment of numerous legislative acts [FN5] which expressly recognize trade secrets. Since 1965, many states have enacted criminal laws dealing with the misappropriation of trade secrets. [FN6] Further, as acknowledged by the lower court, its decision ***8** is in direct conflict with the law in other circuits. [FN7] These laws represent a vast and fairly uniform system of trade secret law presently existing in the United States.

FN2. "Without the numerous citations of cases we suggest that instances of

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protection of trade secrets by the courts may be found in most of the states of the United States." Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 1081, 178 U.S.P.Q. 3, 8 (6th Cir. 1973).

FN3. "In DuPont Powder Co. v. Masland, 244 U.S. 100, 375 S. Ct. 575, 61 L. Ed. 1016, the Supreme Court of the United States approved protection of a trade secret." Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 1081, 178 U.S.P.Q. 3, 8 (6th Cir. 1973). See also Becher v. Contourc Laboratories, Inc., 279 U.S. 388 (1929); Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905); and United States v. Dublier Condenser Corp., 289 U.S. 178 (1933).

FN4. The following treaties recognize the existence of trade secrets:
Agreement with Belgium on Patent Rights and Technical Information, Oct. 12, 1954, [1954] 5 U.S.T. 2318, T.I.A.S. 3093;
Agreement with Denmark on Patent Rights and Technical Information, Feb. 19, 1960, [1960] 11 U.S.T. 148, T.I.A.S. 4423;
Agreement with Federal Republic of Germany on Patent Rights and Technical Information, Jan. 4, 1956, [1956] 7 U.S.T. 45, T.I.A.S. 3478;
Agreement with France on Patent Rights and Technical Information, March 12, 1957, [1957] 8 U.S.T. 353, T.I.A.S. 3782;
Agreement with Greece on Patent Rights and Technical Information, June 16, 1955, [1955] 6 U.S.T. 2173, T.I.A.S. 3286;
Agreement with Italy on Patent Rights and Technical Information, Oct. 3, 1952, [1960] 12 U.S.T. 189, T.I.A.S. 4693; Agreement with Japan on Patent Rights and Technical Information, March 22, 1956, [1956] 7 U.S.T. 1021, T.I.A.S. 3585;
Agreement with Netherlands on Patent Rights and Technical Information, April 29, 1955, [1955] 6 U.S.T. 2187, T.I.A.S. 3287;
Agreement with Norway on Patent Rights and Technical Information, April 6, 1955, [1955] 6 U.S.T. 799, T.I.A.S. 3226; and
Agreement with United Kingdom of Great Britain and Northern Ireland on Patent Rights and Technical Information, Jan. 19, 1953, [1953] 4 U.S.T. 150, T.I.A.S. 2773.

FN5. Milgrim, Sears to Lear to Painton: Of Whales and Other Matters, 46 N.Y.U. L.Rev. 17, 32, n. 67 (1971).

FN6. R. M. Milgrim, Trade Secrets, § 1.10[1] (1973).

FN7. "We recognize that our holding in this case is in conflict with the previously cited decisions of other Circuits, Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964), cert. den. 383 U.S. 934, 86 S.Ct. 1061, 15 L.Ed. 2d 851 (1966), rehearing denied 384 U.S. 914, 86 S.Ct. 1833, 16 L.Ed. 2d 366 (1966); Dekar Industries, Inc. v. Bissett-Berman Corp., 434 F.2d 1304 (9th Cir. 1970), cert. den, 402 U.S. 945, 91 S.Ct. 1621, 29 L.Ed. 2d 113 (1971); Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163 (5th Cir. 1969); Painton & Co. v. Bourns, Inc., 442 F.2d 216 (2nd Cir. 1971)...." Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 1086, 178 U.S.P.Q. 3, 12 (6th Cir. 1973).

Billions of dollars are invested annually in research and development activities. [FN8] While it is true that patents are available to protect a portion of the resultant technology, there still remains a substantial portion of valuable

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information, data and know-how which can only be protected under state trade secret laws. It may be argued that a considerable body of trade secret law is still available to protect this resultant technology since the court below found that " ... the trade secrets in question relating to the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable', that is, appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101" [FN9] Kewanee Oil Co. v. Bicron Corp., 478 F2d 1074, 1078, 178 ***9** U.S.P.Q. 3, 5 (6th Cir. 1973). While the court below seemed to consider this limitation to be a substantial narrowing of the range of trade secrets affected by its decision, such is not the case since most trade secrets in existence today deal with technological information relating to a process, machine, article of manufacture or composition of matter and therefore are encompassed within the categories of patentable subject matter as defined in 35 U.S.C. § 101 (1952). Many trade secrets that are encompassed within the categories of patentable subject matter would not successfully pass examination [FN10] by the United States Patent Office and issue as valid and enforceable patents. However, the lower court did not limit the impact of its decision to only those trade secrets that could pass such an examination.

> FN8. A recent survey of the R&D industry predicts a total research and development expenditure for the current fiscal year, 1973, in excess of $31 billion. Plant, $81-Billion for Research, Ind. Res. 42 (Jan. 1973).
>
> FN9. 35 U.S.C. § 101 (1952) defines the categories of subject matter which come within the jurisdiction of the federal patent laws as follows: "Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title." These statutory categories are broadly construed and most of the fruits of today's research and development efforts are encompassed within this broad definition.
>
> FN10. One of the usual tests applied during the examination of patent applications by the U.S. Patent Office is the so-called "obviousness" test as defined in 35 U.S.C. § 103 (1952): "A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the differences between the subject matter sought to be patented and the prior art are such that the subject matter as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains. Patentability shall not be negatived by the manner in which the invention was made."

Even if the lower court's decision can be construed to limit its effect to only those trade secrets that could pass such an examination, the ambiguities inherent in the decision below pose many unanswered questions. Who is qualified to answer the difficult question of whether or not a given trade secret could pass the examination? Must the proprietor file a patent application in order to have an already overburdened United States Patent Office make this determination? If a patent application must be filed, at what point in the prosecution of a patent application may an applicant accept the Patent Office's determination that tile subject matter is unpatentable and seek protection via ***10** state trade secret laws? If the Patent Office initially rejects the application, is the applicant free to

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assume that the subject matter was not patentable and therefore proceed as though it was protectable as a trade secret? Must the applicant prosecute the application through a final action; through a decision from the Board of Appeals; through a decision from the Court of Customs and Patent Appeals or appropriate district court; or must he prosecute through an appeal to this Court? How many inventors, or employers for that matter, will have the necessary time and funds to follow this procedure, and even if they were financially able, should they be required to do so? If the proprietor of a trade secret has not filed a patent application and brings an action in the state courts, should the state court be given the responsibility of determining whether or not the trade secret would have passed the examination of the United States Patent Office? These unanswered questions are so substantial that the practical effect of even a limited, narrow construction of the lower court's decision would be to deny industry the ability to depend upon the state laws for the protection of trade secrets.

It may also be argued that the lower court tried to further narrow its decision by limiting it to only those trade secrets which have been in commercial use [FN11] for more than ***11** one year prior to the commencement of the suit. The proprietor of a trade secret normally intends to recoup his research and development expenses by commercially exploiting his innovation through his own use or that of his licensee. Accordingly, most trade secrets of any value will eventually be put into commercial use, and come within the scope of the decision below after the lapse of one year. Limiting the time for recouping research and development investment to one year would substantially erode the value of the trade secret laws. Therefore, this second attempt by the lower court to narrow tile effect of the decision is also ineffective for most practical business situations.

> FN11. 35 U.S.C. § 102 (1952) provides that "A person shall be entitled to a patent unless-
> ....
> (b) ... the invention was ... in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, ..."
> This provision in the federal patent laws prevents an inventor from maintaining his invention as a trade secret while commercializing it for more than one year and then filing a patent application if he believes his secret will be discovered or for any other reason. This provision gives the inventor who commercializes his invention one year during which he must elect either to seek patent protection or to forego his rights under the federal patent laws.

If the far-reaching changes made by the lower court are in fact required, Congress is the proper body to effect such changes. This Court has recently considered the decision of a lower court which would have had a great impact upon the protection of proprietary rights in a complex technological field and concluded: "... considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by the Congress is needed." Gottschalk v. Benson, 409 U.S. 63. 74 (1972),

***12** B. The Decision Below And Its Accompanying Penumbra Of Uncertainty Will Have A Severe Impact Upon Business Activities And Will Operate To Hinder The Progress Of

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Science And Technology.

All technology-oriented corporations with world-wide interests are immediately and directly affected by the decision below. Burroughs, for example, is currently a party to many existing agreements involving the protection of proprietary information, but the validity of these agreements has been cast in doubt by the decision below.

The types of business agreements relating to proprietary information are many and varied. Most technology-oriented business organizations offer some type of agreement regarding employment to at least their technical personnel. In a typical agreement, an employee who is exposed to trade secret or confidential information, or who is hired to invent or improve products, agrees not to disclose proprietary information acquired on a confidential basis without the permission of the employer. Frequently lie also agrees to assign his inventions and ideas to his employer who supports his inventive efforts. Increased compensation, technical training and opportunities for advancement within the business organization provide the quid pro quo for the employee's agreement.

Many provisions of these agreements may be unenforceable under the decision below which permitted the employees to leave the company from which they had acquired proprietary trade secret information on a confidential basis during the course of their employment and to immediately set up their own corporation founded on these misappropriated secrets in direct competition with ***13** their former employer. The lower court ruled that state trade secret law could not be used to stop such piracy and appeared to imply that this served a higher good associated with the concept of free competition. The decision below is more likely to have the opposite effect. The inability to protect technology and to secure a return on research and development investments, will likely result in the diminution of a prime economic incentive for research and innovation and may eventually lead to a cutback in research and development expenditures or to a misallocation of available resources by redirecting expenditures to security measures designed to guard self-developed technology. As security within the business organization is tightened, the dissemination of technology within the organization will be restricted resulting in inefficiency and a slow-down in the rate of technological progress. This cannot further free competition, but clearly will serve instead to hinder the progress of science and the useful arts.

Another area of uncertainty fostered by the decision below is in the numerous technology-oriented business organizations which employ trade secret-type agreements in vendor-vendee situations. These organizations frequently have suppliers build sub-assemblies or devices in accordance with the organization's proprietary information and contractually obligate the supplier and his employees to protect the organization's proprietary information. Under the decision below, the supplier and his employees are free to use the secret information to make and sell devices to others, or even to sell the valuable and costly information to the organization's competitors. It would appear that only large corporations capable of fulfilling all of their needs in-house would be able to effectively compete since they would not be forced to rely on others for supplying ***14** the necessary parts or sub-assemblies for their products. However, even the large, self-sufficient corporations are effected by the risk that the corporation's employees will steal its trade secrets. [FN12]

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FN12. International Business Machines Corp. has proven damages resulting from the theft of its trade secrets by its former employees and has been awarded $21.9 million on that basis in a recent decision. Telex Corp. v. International Business Machines Corp., Nos. 72-C-18 and 72-C-89 (D.C.N.D. Okla., Sept. 17, 1973).

Similarly, it may be noted that as a result of many of today's complicated technical systems, field tests must be conducted by customers, or at the customer's location. If such tests cannot be conducted on a confidential basis, competitors may acquire test data and other proprietary information without restriction.

KNOW-HOW LICENSES

Many technology-oriented business organizations are operating today under trade secret agreements or know-how licenses. Billions of dollars in royalty payments are paid and received for such licenses annually. [FN13] Indeed, such licenses often form the only source of income for small research and development oriented businesses. Under the decision below, businesses receiving royalty payments under such licenses may not be able to collect even ***15** after costly and extended litigation. Companies which are obligated to make royalty payments under such agreements may refuse to pay and may choose to destroy the license and the existence of the trade secret by publicly disclosing the trade secrets themselves. Finally, there is a substantial risk that a prospective licensee will be less inclined to take a royalty bearing license under a trade secret so long as the less costly opportunity exists for hiring one or more of the licensor's employees who are in possession of such trade secrets. Alternatively, a prospective licensee may find it easier and less expensive to simply steal the trade secret.

FN13. United States business organizations received from abroad some $3.1 billion in royalty payments and paid to foreign organizations some $276 million in royalty payments for the year 1972. 53 U.S. Dept. of Commerce, Survey of Current Business 42, No. 9, September 1973. While the entire amount is not attributable to trade secret licenses, a considerable portion is, and furthermore, this figure relates only to foreign licenses. It can be assumed that a much larger dollar amount is involved in licenses between United States business organizations.

COMPUTER PROGRAMS

Computer programs or software represent a considerable portion of the total cost of a computer system and any given program represents a substantial investment of time and capital. Many computer corporations and small businesses specializing in developing computer programs have elected to market their programs under an agreement licensing the customers' use and limiting the dissemination of the programs. This Court in Gottschalk v. Benson, 409 U.S. 63 (1972), held that a computer program directed to a mathematical algorithm could not be patented where the effect of the patent would be to cover all practical uses of the mathematical algorithm itself. This would take certain computer programs out from under the scope of the decision below since they are not encompassed within the category of patentable subject matter defined by 35 U.S.C. § 101 (1952). However, the dividing line between those types of programs that are not patentable and those that should be patentable has not yet ***16** been established by Congress in accordance with the recommendation of this Court in Gottschalk v. Benson. Until such time as Congress acts, many businesses which rely upon trade secret protection will have to continue

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their practice with respect to both types of programs even though only some programs would be protectable as a result of the decision below. If such programs can be disseminated or misused with impunity, many businesses, which depend on such programs for a significant portion of their income, will suffer an impairment of their ability to compete, and the amount of competition in the computer industry will be even further reduced.

NATIONAL ASSET

Many businesses have competitors in foreign countries and will be impacted by the international aspects of the decision below. The inability to stop the theft of trade secrets and to control the flow of technical information leaving this country could ultimately lead to a substantial weakening of our position as the world's technological leader. United States companies have billions of dollars invested in research and development activities [FN14] and license their resulting technology to others or are licensed under another's technology. The ability to license existing domestic technology in foreign countries constitutes a vast national asset. Foreign corporations will have a reduced incentive to take licenses under U. S. technology on a royalty bearing basis since it will be far easier and less expensive to merely hire another's trusted employees or otherwise misappropriate the desired trade ***17** secrets. [FN15] The decision below results in a lessening of the value of this asset with corresponding detrimental effects upon the competitive position of the United States in markets throughout the world, upon our already strained balance of payments, [FN16] and upon the very health and vitality of our American economy.

FN14. Plant, supra note 8, at 8.

FN15. Even with the current availability of trade secret protection, foreign corporations have been implicated in the misappropriation of trade secrets valued at millions of dollars; for example, a recent theft of trade secrets from the Ford Motor Company related to glass manufacturing techniques valued at over a million dollars. United States v. Akfirat, No. 4-80300 (D.C.E.D. Mich., filed August 30, 1973).

FN16. Since the yearly revenue received from licensing foreign businesses under domestic technology exceeds $3.1 billion, while the outflow of royalties paid by domestic organizations for foreign technology is only $276 million, the total loss to the American economy could exceed $2.8 billion. 53 U.S. Dept. of Commerce, Survey of Current Business 42, No. 9, September, 1973. Compensating for the proportion of this amount attributable to patent and trademark royalties, we may reasonably conclude that over $1.5 billion are lost to the American economy. Milgrim, Sears to Lear to Painton: Of Whales And Other Matters, 46 N.Y.U. L. Rev. 17, 26, n. 40 (1971).

Further, foreign corporations may refuse to license domestic corporations because the domestic corporations cannot guarantee the security of the trade secret and, once the security is breached, the trade secret is lost. The inability of domestic corporations to secure technology from abroad further operates to stifle technological growth and development and to hinder the progress of science and the useful arts.

***18** OTHER POLICY CONSIDERATIONS

There is justifiable concern over the possible effect of this decision on state and

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federal criminal laws dealing with the theft of trade secrets. This decision affects the determination of what is protectible as a trade secret, and it may be that such laws could be rendered void for vagueness or preempted by the policy behind the federal patent laws. The decision of the lower court has already been cited in a recent criminal action brought in the State of Michigan [FN17] in which, the defendant is being prosecuted under the Michigan trade secret theft statute, CL 1970, § 752.772 [FN18] The defendant in that case moved for dismissal of the complaint against him, urging that the statute was void because it conflicts with the patent laws of the United States.

FN17. People v. Hull, No. 2610 (Troy Mun. Ct., filed March 30, 1973).

FN18. Mich. C.L. 1970, § 752.772 provides: "Any person who, with intent to deprive or withhold from the owner thereof the control of a trade secret, or with an intent to appropriate a trade secret to his own use or to the use of another, steals or embezzles an article representing a trade secret or without authority makes or causes to be made a copy of an article representing a trade secret, is guilty of a misdemeanor and shall be fined not more than $1,000.00 or imprisoned for not more than 1 year, or both."

The type of permissiveness encouraged by the decision below may lead to a further deterioration in commercial morality, to a lessening of a citizen's obligation to respect the property rights of others, and to a possible substitution of trade secret thievery in place of legitimate research and development efforts. A corporation which attempts to operate in this environment will find itself at a commercial disadvantage if its competitors are free to deal ***19** in trade secret thievery and in that brand of "instant technology" which is achieved by hiring another's trusted employee and using the proprietary knowledge which the employee gained through his position of confidence and trust.

II.
THE U.S. CONSTITUTION DOES NOT PROHIBIT THE STATES FROM ENACTING LEGISLATION PROTECTING TRADE SECRETS; SUCH LEGISLATION WAS NOT PREEMPTED WHEN CONGRESS ENACTED THE FEDERAL PATENT LAWS; AND TRADE SECRET LAWS DO NOT CONFLICT WITH THE POLICIES AND OBJECTIVES UNDERLYING THE FEDERAL PATENT LAWS.

A. The States Have Not, Under The U.S. Constitution, Relinquished To The Federal Government, For Its Exclusive Exercise, The Power To Enact Laws Affecting Inventions And Innovations.

In Goldstein v. California, 412 U.S. 546 (1973), which was decided after the decision of the lower court in this action, this Court enunciated the test to be applied in resolving the preemption issue. Goldstein is particularly pertinent since it involved U. S. Const. art. I, § 8, cl. 8, [FN19] the very constitutional clause involved in the present case.

FN19. "To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries;" U.S. Const. art. I, § 8, cl. 8.

A state statute proscribing tape piracy was challenged in Goldstein as violative of U. S. Const. art. I, § 8, cl. 8 and of the federal statutes enacted thereunder. Tills Court held that this clause does not expressly or by inference vest all power

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to grant copyright protection exclusively in the federal government, nor did the state statute ***20** conflict with the federal copyright laws so as to fall under the Supremacy Clause [FN20] of the U. S. Constitution. [FN21]

FN20. "This Constitution, and the Laws of the United States which shall be made in Pursuance thereof; and all Treaties made, or which shall be made, under the Authority of the United States, shall be the supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding." U.S. Const. art. VI, cl. 2.

FN21. Goldstein v. California, 412 U.S. 546, 571 (1973).

Initially, this Court inquired as to whether the state statutes were beyond the powers which the states reserved in our federal system. [FN22] If the states have relinquished such powers to the federal government for its exclusive exercise, they cannot exercise these powers. [FN23] This Court, in Guldstein, applied the three tests of Alexander Hamilton which pronounced that the states retain all rights and powers unless (1) the Constitution expressly grants an exclusive authority to the federal government; (2) the Constitution grants a particular power to the federal government and simultaneously prohibits the exercise of a similar power by the states; or (3) it grants a power to the federal government to which a similar power in the states would be absolutely and totally contradictory and repugnant. [FN24]

FN22. Id. at 552.

FN23. Id

FN24. Id.

While the lower court in the present case did not have the opportunity to apply these tests since Goldstein was decided after the decision below, it is seemingly appropriate to apply them by analogy to the facts of Kewanee. The first two tests present no barrier to the State's enactment of trade secret laws. Art. I, § 8, cl. 8 of the U.S. ***21** Constitution, granting to Congress the power to grant patents for certain inventions and innovations, does not expressly provide that such powers shall vest exclusively in the federal government nor does the U. S. Constitution expressly provide that such power shall not be exercised by the state. [FN25] The third test requires examination of the manner in which the power to grant patents operates in our federal system. [FN26] Specifically, it requires the examination of the differences between those situations in which the exercise of the power by the federal government and the states, or by the states alone, may possibly lead to conflicts, and those situations where conflicts will necessarily arise. [FN27] This Court specifically stated that " 'It is not ... a mere possibility of inconvenience in the exercise of powers, but an immediate constitutional repugnancy that can by implication alienate and extinguish a preexisting right of [state] sovereignty.' The Federalist, No. 32, at 243." Goldstein v. California, 412 U.S. 546, 554 (1973).

FN25. Id. at 553.

FN26. Id.

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FN27. Id. at 554.

Art. I, § 8, el. 8 of the U. S. Constitution has as its objective the promotion of the progress of science and the useful arts. [FN28] One objective of this clause was clearly to facilitate the granting of rights national in scope, but, as recognized in Goldstein, the fact that this clause recognized the potential benefits of a national system does not indicate that all discoveries of inventors are of national interest or that state legislation is, in all cases, unnecessary ***22** or precluded. [FN29] The patents granted by the states in the 18th century show, to the contrary, a willingness on the part of the states to promote those portions of science and the arts which were of local importance. [FN30] Since the subject matter to which this clause is addressed may be of purely local importance and not worthy of national attention or protection, there can be no unyielding national interest which requires an inference that state power to legislate in related areas has been relinquished to exclusive federal control. [FN31]

FN28. Id. at 555.

FN29. Id. at 556.

FN30. Id. at 557.

FN31. Id. at 558.

The exercise of the power by one state to enact trade secret laws which may involve patentable subject matter will not prejudice the interest of other states. [FN32] This Court in Goldstein held that a state copyright law no more prejudiced the interest of other states than other state monopolies, such as park concessions or lotteries. [FN33] Accordingly, by analogy, existing trade secret laws of one state do not prejudice the interest of other states. Further the trade secret laws of each state will serve to stimulate invention and innovation within each state and, hence, promote the progress of science and the useful arts-the very objective of the constitutional grant. [FN34]

FN32. Id.

FN33. Id.

FN34. Id.

The concurrent exercise of powers affecting inventions and innovations by both Congress and the states will not necessarily and inevitably lead to difficulty [FN35] and, if difficulties do arise, Congress remains free to eschew all such ***23** protection. [FN36] Since all of these tests have been satisfied, it is reasonable to conclude that the states have not relinquished to the federal government all power to enact trade secret laws involving the protection of inventions or discoveries [FN37]

FN35. Id. at 569.

FN36. Id.

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FN37. Id. at 560.

B. The Vast Body Of Existing State Trade Secret Law Was Neither Expressly Nor Impliedly Preempted By Congress In Enacting The Federal Patent Laws.

While it is possible for Congress to expressly or impliedly preempt state trade secret laws, Congress has given no express indication of an intent to preempt the vast body of pre-existing and long-established state laws relating to trade secrets. [FN38] Further, Congress has not implied that the federal patent laws preempt the state trade secret laws, since it has enacted legislation both before and after the enactment of the patent laws which expressly recognizes the existence of trade secrets and the importance of protecting them. [FN39] Indeed, the patent laws themselves show some evidence of an intent to protect trade secrets by providing that pending patent applications ***24** be preserved in secrecy [FN40] thereby preserving the applicant's right to trade secret protection pending publication of the issued patent. [FN41]

FN38. While it does not offer positive proof, it is interesting to consider that no one has pointed to a single indication of an express congressional intent to preempt; that several proposed revisions to the patent laws containing preemption provisions have failed to pass; and that the most recent proposed patent law revision, yhich has full Administration support, contains an express provision specifying that the patent laws do not preempt rights or obligations arising by operation of state laws concerning trade secrets. S. 2504, 93d Cong., 1st Sess. § 301 (1973).

FN39. Milgrim, supra note 5 at 7.

FN40. 35 U.S.C. § 122 (1952) provides as follows: "Applications for patents shall be kept in confidence by the Patent Office and no information concerning the same given without authority of applicant or owner unless necessary. to carry out the provisions of any Act of Congress or in such special circumstances as may be determined by the Commissioner." Rule 14(a) of the United States Patent Office Rules of Practice, which was promulgated under 35 U.S.C. § 122 (1952), provides that pending applications be preserved in secrecy.

FN41. It may also be interesting to note that the United States Court of Appeals for the Second Circuit held in United States v. Bottone, 365 F.2d 389 (2d Cir.) cert. denied 385 U.S. 974 (1966), that Congressional intent requires that the Federal Stolen Property Act, 18 U.S.C. § 2314 (1968), be made applicable to the theft of trade secrets. See also United States v. Greenwald, 479 F.2d 320 (6th Cir. 1973).

C. State Trade Secret Laws Do Not Stand As An Obstacle To The Accomplishment And Execution Of The Full Purposes And Objectives Of Congress In Enacting The Patent Laws And Hence Are Not To Be Struck Down Under The Supremecy Clause.

The purpose behind U. S. Const. art. I, § 8, cl. 8 is to promote the progress of science and the useful arts. The federal patent laws represent the means enacted by Congress for achieving. this end. The patent laws grant to an inventor the right to exclude all others from making, using and selling his invention for a period of

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seventeen years in exchange for the dedication of his invention to the public upon the expiration of the patent. The patent laws provide the inventor with the broad right to exclude all others from the practice of his invention for the term of the patent. State trade secret laws, on the other hand, provide no such exclusionary rights. The owner of a trade secret only has a cause of action against those who ***25** would steal his secret or use it in such a manner so as to breach a confidential relationship. The trade secret owner cannot prevent any person from practicing the same trade secret if such person independently develops it or discovers it through legitimate means. Should the trade secret become public, the whole world is free to use it. In order to protect his secret, tile owner must take measures to ensure that the secret is in fact maintained in secrecy and he is not aided by the presumption of validity which accompanies the issuance of a patent. The nature and scope of the protection afforded under state trade secret laws are different from the nature and scope of the protection afforded under the patent laws. The practical results sought to be achieved by the patent laws are not frustrated by the effect of state trade secret laws. The patent laws encourage research and development efforts, stimulate invention and innovation, reward inventors and innovators, and benefit the public through the commercialization of new and improved products by the owner or by his licensee. The enforcement of state trade secret laws similarly benefits the public and produces results which are compatible with the overall primary purpose and objective of promoting the progress of science and the useful arts.

In summary, the state has the power to enact trade secret laws which affect inventions and discoveries, and neither the United States Constitution nor the patent laws enacted by Congress preempt state trade secret laws; nor do such laws conflict with the policies and objectives underlying the patent laws so as to be struck down under the Supremacy Clause of the Constitution. The two systems offer alternative types of protection differing in nature and scope, but achieve practical results which are compatible with one another-both operating to promote the progress of science and the useful arts.

***26** III.

THE COURT BELOW ERRONEOUSLY CONCLUDED THAT ITS RESULT WAS COMPELLED BY PRIOR DECISIONS OF THIS COURT.

The decision below rests precariously on the assumption that its result was "compelled" [FN42] by the preemption doctrine enunciated in prior decisions of this Court. One of the earliest cases relied on by the court below was Kellogg Co. v. National Biscuit Co., 305 U.S. 111 (1938), which involved a suit by the National Biscuit Company against Kellogg for alleged unfair competition. National Biscuit charged that Kellogg's use of the term "Shredded Wheat" and the use of the pillow-shaped biscuit amounted to both a violation of National Biscuit's trademark and a wrongful "passing-off" under state unfair competition laws. National Biscuit was the successor in title to the original shredded wheat patents which had expired. This Court found that the term "shredded wheat" was generic and that the shape of the biscuit was functional. The basic issue was whether the law of unfair competition could be used to exclude anyone from practicing the teachings of an expired patent. This Court held that such use of the law of unfair competition was in conflict with federal patent policy which permitted the full and free use of all patented ideas upon the expiration of the patent.

FN42. Kewanee Oil Co. v. Bicron Corp., 478 F.2d 1074, 1086, 178 U.S.P.Q. 3, 11 (6th Cir. 1973).

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Kellogg did not involve trade secrets but dealt with a blatant attempt to extend the term of patent protection beyond the expiration date of the patent and thereby remove from the public domain something which had previously***27** been in general circulation and had been expressly dedicated to the public in exchange for the grant of a patent. It is well-settled in the law of trade secrets today that no protection may be granted on any idea which has been in general circulation and is in the public domain. Since Kellogg involved subject matter which was within the public domain, its holding is completely compatible with existing trade secret law. [FN43]

FN43. R. M. Milgrim, Trade Secrets, § 2.03 (1973) and Restatement of Torts § 757, comment b (1939).

The decision below placed even greater reliance upon the two most frequently cited preemption doctrine cases decided by this Court--Sears Roebuck & Co. v. Stiffel, 376 U.S. 225 (1964), and Compco Corp. v. Day-Brite Lighting, Inc., 376 U.S. 235 (1964). In Sears, Stiffel pioneered the development of a pole lamp and obtained a design patent. Sears copied the design of the lamp and began to sell its copies for less than the price offered by Stiffel. Stiffel sued Sears for patent infringement and unfair competition. The lower court held the patent invalid, but allowed recovery under the Illinois law of unfair competition. This Court refused to allow a recovery under that state's unfair competition laws and held that a state cannot grant patent-like protection on an unpatented device which is in the public domain, because to do so conflicts with the policy behind the United States patent laws. Compco involved a similar factual situation wherein Compco copied the lighting fixtures developed by Day-Brite. The two cases enunciate a common proposition that the federal law requires that all ideas in general circulation be dedicated to the public, unless they are protected by valid patents.

***28** Neither of the above cases involved a trade secret. Both, however, involved an attempt to extend patent-like protection to the design of articles which had been fully disclosed to the public by the sale of a product. Both cases are in accord with existing trade secret law which prevents subject matter within the public domain from being afforded state trade secret protection. [FN44]

FN44. Id.

Furthermore, state trade secret laws do not confer a prohibited patent-like form of protection on the owner. Patents convey a broad right to exclude all others from making, using and selling the invention. Trade secret laws afford only a very limited cloak of protection. The owner of a trade secret has no right to exclude all others, but has a cause of action only against a third party who has wrongfully appropriated the secret.

The most recent case upon which the lower court relies for support of its preemption finding is Lear, Inc. v. Adkins, 395 U.S. 653 (1969), in which this Court held that a licensee should not be required to pay royalties while challenging the validity of a patent because the enforcement of such contractual provisions would undermine the federal policy favoring the free use of ideas in the public domain. This policy is also in accord with existing trade secret law which categorically denies protection to secrets which have fallen into the public domain. [FN45]

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FN45. Id.

On the facts of the present case, the trade secrets were not in the public domain. The secrets had been disclosed in confidence to trusted employees who were bound by state law not to disclose these secrets to outsiders nor to use ***29** these secrets in competition with the rightful owner. These trusted employees left their employer and, as found by the court below, breached their position of confidence; took their employer's trade secrets and used them for their own benefit to the competitive economic detriment of their former employer. The trade secrets had never been dedicated to the public. They had been maintained as secrets and disclosed only on a confidential basis. Therefore, the public had no right to the full and free use of these secrets.

Considering therefore the facts of the present case in light of the prior decisions, it is clear that the decision reached by the lower court is not compelled nor is it supported by the prior decisions of this Court. Hence the enforcement of the state's trade secret laws is compatible with all prior decisions of this Court and the governing state law should have been applied.

***30** CONCLUSION

For the foregoing reasons, amicus curiae urges this Court to find that state trade secret laws are not preempted by the U. S. Constitution and the federal patent laws enacted thereunder; that state trade secret laws are not in conflict with the policies and objectives underlying the federal patent laws and therefore are not struck down under the Supremacy Clause of the Constitution; and, accordingly, that the decision of the United States Court of Appeals for the Sixth Circuit be reversed.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

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1973 WL 172418 (U.S.)

For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, Lloyd H. Hamner, Julious M. Menefee, William P. Novak, Richard W. Spurney and Harry Suschek, Respondents.
No. 73-187.
October Term, 1973.
November 20, 1973.

Brief on the Merits for the American Patent Law Association, Amicus Curiae John T. Kelton, President American Patent Law Association 2001 Jefferson Davis Highway Arlington, Virginia 22202

By George E. Frost 3044 West Grand Boulevard Detroit, Michigan 48202 Its Attorney

***1** INTRODUCTION

This brief amicus curiae is submitted by the American Patent Law Association under Rule 42(2) of this Court. Letters of consent from counsel for the respective parties are on file with the Clerk of this Court. This brief is filed in support of the Petitioner and to express our reasons for believing the Court below has erred.

The filing of this brief on behalf of the Association has been authorized by the Board of Managers, which is elected by the members. The Association has over ***2** 3,800 members, including over half of the Paten Lawyers in the United States.

I.

The court below has held that the United State; patent law preempts state common law trade secre protection to inventions which might be patentable In terms, the patent statutes neither require nor preclude this holding. However, the scheme of the paten law, past and present provisions of the patent and related laws, and long standing judicial decisions show that the court below has erred. Indeed, the omission of a preemption clause in the 1952 Paten Code (66 Stat. 792) itself demonstrates Congressiona intent not to disturb the non-preemption implicit in the well developed body of technical trade secret law

In order to obtain a patent, the inventor must file an application fully disclosing the invention. 35 USC 112. The application, and therefore the inven??tion, is made public upon issuance of the patent. A defective or inadequate specification will not support a patent. But if the invention is patentable, and the specification and other requirements of the patent law are met, the inventor receives a "right to exclude others" subsisting for 17 years despite the disclosure of the invention. 35 USC 154. In short, the inventor must forego secrecy if he is to have a patent but he obtains a right that survives disclosure.

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When an invention is kept secret, no patent law rights can be obtained. The inventor is relegated to (a) whatever benefit he can obtain from his own secret use of the invention, and (b) the limited tort or contract based state law relief he can secure against persons who discover the secret by improper means or ***3** disclose or use the secret in violation of an obligation of confidence or a contract. 4 Restatement, Torts § 757. The date when secrecy is lost terminates the period for which state law relief is available and, at least in most instances, ends the duration of any injunctive remedy. See Forest Laboratories v. The Pillsbury Company, 452 F(2d) 621 (7th Cir., 1971). [FN1]

> FN1. The classic analysis of the rights of owners of "unpatented inventions" is contained in Robinson, The Law of Patents (1890). Sections 867-883 of this treatise are devoted to "wrongs against unpatented inventions." These sections develop the non-preemption doctrine that has been universally applied except for the decision below and the District Court ruling in Painton v. Bourns, 309 Fed. Supp 271 (S.D.N.Y., 1970, rvsd. at 442 F(2d)(216)).

In short, the United States patent law operates in the domain of disclosed public information, and the state trade secret law operates in the domain of what is kept secret. The protection is complementary, not overlapping. [FN2] Except for the decision below, there ***4** is no occasion for the patent laws to disclaim preemption of state trade secret law, for the two separate laws can and do coexist without conflict.

> FN2. The philosophical and practical difference between the state trade secret law and the patent law is brought out by the requirements for a successful trade secret case. In such case, the plaintiff must (a) identify the alleged secret, (b) prove adoption of security measures to insure secrecy, (e) show preservation of the secret by reasonable, enforceable, agreements or other confidential relationships with persons to whom the secret is revealed, (d) establish that the defendant's use of the secret stems from knowledge obtained from the plaintiff, (e) establish that the secret is not revealed by inspection or analysis of any marketed products, and (f) be prepared to negate defenses such as independent development of the trade secret by the defendant or others. There is. however, no requirement of "unobviousness" in the patent law sense. On the other hand, the plaintiff in a patent case need only prove the fact of the patent, his ownership, and the fact of infringement. It matters not whether defendant learned of the invention from plaintiff or developed it independently. He must, however, be prepared to overcome defenses such as anticipation by the prior art and obviousness over the prior art.

It is clear from past and present provisions of the patent law that Congress intended to maintain, not destroy, traditional trade secret protection for inventions. For example, 35 USC 24 provides for subpoenas in aid of testimony in contested matters before the Patent Office. The statute provides that no "witness shall be deemed guilty of contempt ... for refusing to disclose any secret matter except upon appropriate order of the court which issued the subpoena." Prior to the 1952 Patent Code, the statute read "no witness shall be deemed guilty of contempt ... for refusing to disclose any secret invention or discovery made or owned by himself." R.S. 4908, Section 45 of the 1870 Patent Act (16 Stat. 198). Significantly, this qualification was added in the 1870 Patent Act after a decade of experience under Section 1 of the 1861 Act (12 Stat. 246), which was otherwise

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similar.

Likewise, from 1836 until after 1903, the patent law provided for special disclosures known as caveats to be filed in the Patent Office. It required that each "caveat shall be filed in the archives of the office and preserved in secrecy." R.S. 4902, Section 40 of the 1870 Patent Act (16 Stat. 198), and Section 12 of the 1836 Patent Act (5 Stat. 117). Also, 35 USC 122 directs that "applications for patents shall be kept in confidence by the Patent Office ...." The Reviser's Notes state that "This section enacts the Patent Office rule of secrecy of applications."

The foregoing statutes would be superfluous if, as the court below has held, the patent law preempts protection for trade secrets involving inventions.

***5** When the Congress has intended preemption in patent matters, it has said so. This 28 USC 1338 states that the jurisdiction of the Unted States District Courts in "any civil action arising under any Act of Congress relating to patents ... shall be exclusive of the courts of the states in patent cases." Even this preemption is limited. In Becher v. Contoure Laboratories, 279 U.S. 388 (1929) a state court suit, "had for its cause of action the breach of a contract or wrongful disregard of confidential relations both matters independent of the patent law" and "subject matter (of) undisclosed invention (that) did not need a patent to protect it from disclosure by breach of trust." Id. at 391. This Court refused to enjoin the state court action because the "right was independent of and prior to any arising out of the patent law." Idem. Both this Court's ruling in Becher, and the statute upon which it is based, are inconsistent with the preemption doctrine applied below in this case.

The theory of the riling below is similar to the petitioner's contention in Mazer v. Stein, 347 U.S. 201 (1954). In Mazer it was argued that the design patent law preempted copyright law protection to works of art incorporated in utilitarian lamp bases. Rejecting this contention, this Court held that "the patentability of the statutes, fitted as lamps or unfitted, does not bar copyright as works of art." Id. at p. 217. The same principle applies in the present case. The patentability of a trade secret, or its former patentability, does not preclude common law trade secret protection. In Mazer v. Stein the copyright statute showed Congressional intent inconsistent with preemption. In the present case, the above-discussed provisions of the patent and other laws, taken in conjunction with the long-standing judicial recognition of common law ***6** trade secret protection to inventions, show a like Congressional intent to leave such trade secret protection unaffected.

II.

The court below specifically applied its doctrine of preemption to trade secrets that once could have been patented but are no longer patentable because of more than one year's commercial use.

The doctrine of unpatentability relied upon stems from Macbeth-Evans Glass Co. v. General Electric Co., 246 Fed. 695 (6th Cir., 1917). The court was not there concerned with whether trade secret rights did or did not exist. Rather, the suit was upon a patent, and the patent disclosure itself had terminated trade secret rights. The court did hold that there was a forfeiture of the right to patent protection because "the ... choice made (between trade secret and patent) was deliberate and is unmistakable; it was the secret use for profit and was persisted

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in for years" and "If the right to secure protection of the patent laws can be effectively repudiated, it certainly has been here." Id. at p. 701. In Metallizing Eng. Co. v. Kenyon Bearing, 153 F(2d) 516 (2d Cir., 1946), Judge Learned Hand-- applying the Macbeth-Evans doctrine-- stated that the inventor "must content himself with either secrecy, or legal (patent) monopoly." Id. at p. 520.

Rather than supporting the ruling below in the present case, these decisions show that patent protection and trade secret protection are two different things-and that only an attempt both to use a trade secret commercially for a prolonged period and thereafter obtain a patent is contrary to the patent law.

In any event, the patent statutes do not express any preemption doctrine as to trade secrets, much less one ***7** that applies to some secrets and not to others. Any effort to confine preemption to once-patentable inventions leads to the illogical result that an unobvious and therefore patentable trade secret is preempted from trade secret protection by the patent law whereas the less deserving obvious and unpatentable trade secret is not preempted. See 35 USC 103. This would lead to the absurd requirement that a plaintiff needs to show that the secret is trivial and unpatentable in order to prevail in a trade secret case.

The ruling below must stand or fall on whether the patent law preempts common law trade secret protection to inventions generally, not on the nature of the particular trade secrets before the court. As discussed in part I, above, there is no such general preemption.

III.

Finally, the ruling below is unsound as a matter of policy. Whether the law protects the trade secret or not, the owner often can physically maintain the secret. Where the owner cannot bear the expenses of patents and their enforcement, such secrecy can be especially attractive. An opportunity to disclose and to license, based on the quite limited protection afforded by the state laws of trade secrets, benefits both the owner of the secret and the public. Judge Friendly was right in stating that:

"Rather than having a monopolistic tendency, like the Illinois law involved in Sears and Compco, the upholding of private agreements for the sharing of trade secrets on mutually acceptable terms tends against the owner's hoarding them." (Painton v. Bourns, 442 F.(2d) 216, 223 (2d Cir., 1971)).

***8** An unbroken line of decisions in the one hundred and eighty-three years since the 1790 Patent Act has recognized the benefits of protecting trade secrets and has given narrow and limited protection to trade secrets--implicity denying any federal preemption. Surely, this is not the time to upset an uncountable number of business decisions and agreements based on this established law.

The judgment below should be reversed.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

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1973 WL 172419 (U.S.)

For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Petitioner,
v.
BICRON CORPORATION, et al., Respondents.
No. 73-187.
October Term, 1973.
November 20, 1973.
On Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Brief for Amicus Curiae Optical Coating Laboratory, Inc.
Harold C. Hohbach, David J. Brezner, 160 Sansome Street, San Francisco, California 94104, Counsel for Optical Coating Laboratory, Inc., Amicus Curiae.

***i** Subject Index

I. The nature and the interest. of the amieus ... 1

A. Optical Coating Laboratory, Inc ... 1

B. Interest of the amicus ... 2

II. Argument ... 3

A. Purpose of brief ... 3

B. The potential legal effect of affirmation ... 3

C. OCLI's research and Jevedlopment philosophy promotes progress ... 4

D. OCGLI proprietary information is not adequately proteeted by patents ... 4

E. OCLI trade secret and know-how lieensing benefits the public ... 7

1. Licensing domestie companies ... 7

2. Licensing from fereign companies ... 8

3. Lieensing by OCLI to foreign companies ... 9

F. Value of trade secret and know-how license substantially increases after full commercialization ... 9

G. Adverse effect on OCLI sucontracts ... 10

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H. Intracompany policy effect-more limited access to technical information ... 11

I. OCLI's use of outside consultants would be reduced ... 11

J. Reduced incentive for OCLI to sell or license machines to its competitors ... 12

III. Conclusion ... 12

***ii** Table of Authorities Cited

Cases

Dekar Industries, Inc. v. Bisset-Berman Corporation, 434 F. 2d 1304 (9th Cir. 1970) Cert. Den. 402 U.S. 945 (1971) ... 3

Rules

Supreme Court Rule, 42(2) ... 1

Statutes

35 U.S.C.:

Section 101 ... 4

Section 102 ... 4

Section 103 ... 4, 6

***1** I. THE NATURE AND THE INTEREST OF THE AMICUS

A. OPTICAL COATING LABORATORY, INC.

This brief amicus curiae is submitted by Optical Coating Laboratory, Inc. (herein "OCLI") under Rule 42(2) of the Supreme Court. Letters in which the parties' counsel have acknowledged consent to the filing of this brief are on file with the Clerk of this Court.

***2** OCLI is a California corporation with advanced technology products and services for the design, fabrication, and testing of vacuum deposited optical coatings. These coatings are deposited on company manufactured parts or on optical components supplied by customers for use in the customers' devices. OCLI coated parts are used in important products to the consumer such as pollution monitoring control devices, burglar alarms, and solar energy conversion systems.

Although it is not a large corporation (net sales and other revenues in 1972 of approximately 11.4 million dollars) it has established a reputation for leadership in developing new processes, products and markets. Such development expands the frontiers of knowledge in its field and makes new products available to the public. However, it requires large expenditures of time and money in research and development (herein "R&D") with a substantial staff of highly trained technical personnel. The reward for this investment of many years of costly experimentation is

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made possible by protecting trade secrets and know-how using tight security. Such information gives OCLI an advantage over those competitors which do not expend comparable efforts towards R&D.

B. INTEREST OF THE AMICUS

OCLI is concerned that if the Circuit Court decision below is affirmed, this would create a legal precedent under which a significant portion of the fruits of OCLI's costly R&D would become unprotectable. Therefore, it would be vulnerable to dissemination by unscrupulous competitors who, for example, could freely raid experienced ***3** OCLI employees and obtain the information at a fraction of its cost to OCLI.

II. ARGUMENT

A. PURPOSE OF BRIEF

The legal arguments as to the applicable law will be presented in detail not only by the parties but by many briefs amicus curiae which are being tiled by other amici. The purpose of this brief is to present a case history of OCLI's technological information management program and the potentially devastating effect upon OCLI which would result from an affirmation of the decision of the Circuit Court. It is believed that this affirmation would produce a similar harmful effect upon many other innovative domestic companies to the detriment of the advancement of technology in the United States.

Since OCLI is a California corporation, the applicable California trade secret law is worthy of note. As enunciated by the Ninth Circuit, equitable relief is available to prevent disclosure of trade secrets under state law. The Patent Law, Title 35 of the United States Code, has not been construed as preempting this field. [FN1]

> FN1. Dekar Industries, Inc. v. Bisset-Berman Corporation. 434 F. 2d 1304 (9th Cir. 1970) Cert. Den. 402 U.S. 945 (1971).

B. THE POTENTIAL LEGAL EFFECT OF AFFIRMATION

If this Court affirms the decision below, this would, in essence, establish a precedent termed for this discussion the "Kewanee Rule". Under this rule, protection by the ***4** state law of trade secrets which are appropriate subjects for patent would be preempted by the Patent Law, after the subject matter of the trade secret has been "used conunercially" for more than one year. Under 35 U.S.C. 101, such preempted "appropriate subjects" include any "new and useful process, machine, manufacture or composition of matter" and so are not limited to concepts patentable under the stringent requirements of Sections 102 and 103 of the Patent Act. Accordingly, under the Kewanee Rule, essentially the entire field of trade secrets and proprietary know-how would be unprotectable under State trade secret law after one year of commercial use. [FN2]

> FN2. Under the Patent Act, such commercial use commences at the sale of one item for commercial purposes even though the trade secret cannot be determined by viewing the product. Typically, such sales occur many years prior to any profitable commereialization of the product and so, under the Kewanec Rule, the costly creation of the information would go unrewarded.

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C. OCLI's RESEARCH AND DEVELOPMENT PHILOSOPHY PROMOTES PROGRESS

Because it is highly innovative and develops new products and markets simultaneously, OCLI expends substantial amounts of time and effort upon research and development. There are many times when this expense is not fully recouped or when the product is not marketed at all.

There are a number of reasons why OCLI management authorizes the large expenditures required for innovative research and development on its products and processes and the machines for producing them. If the new development is successful, OCLI derives a competitive advantage ***5** during commercialization of the product, typically at least five to ten years. Under the Kewanee Rule, this competitive advantage would cease after the first year of commercial use because the trade secret information would be available; for example, to a competitor hiring away a knowledgeable OCLI employee.

Another reason for such management authorization is that, even if a particular project is unsuccessful, the information derived from such projects can he of great value in creating a reservoir of OCLI expertise for use in related areas of technology. For example, OCLI spent approximately $250,000 to develop high grade products (photomask blanks) for the electronic integrated circuit industry. This money was primarily used to optimize the processing steps to produce increased final product yield and superior quality. Even though OCLI was not successful in this specific market place the technical knowledge gained from this effort is proving invaluable in other related fields.

If management knew that it could not legally protect the information derived from such research and development under applicable trade secret law, as would be the case under the Kewanee Rule, it would hesitate to develop innovative new products and markets where there is a significant chance of failure to recoup the investment from the product itself. Thus, management would be forced to seriously consider a total re-emphasis of R&D expenditures so that, for example, risky projects to develop new advanced products are reduced in priority. Instead, the more profitable path in the absence of trade secret protection would be to expend more funds to improve ***6** the production efficiency in the manufacture of existing products. The net effect would be to inhibit technological progress.

D. OCLI PROPRIETARY INFORMATION IS NOT ADEQUATELY PROTECTED BY PATENTS

A significant proportion of OUT R&D expenditure is for engineering the development of processing steps in vacuum deposition of optical thin films. Precision coatings, under high vacuum, often require deposition of as many as 50 to 9.00 thin film layers of different compositions and thicknesses. For example, thousands of specific coatings and coating procedures have been developed by OCLI OCLI considers the proprietary data and information developed by such research to be of great value and takes elaborate precautions to retain it in secret. Such information includes what is understood to be "trade secrets" and "proprietary know-how".

The great majority of the foregoing developments involve the engineering optimization of detailed processes. Typically, such details are characterized by the United States Patent Office as obvious subject matter to a person having ordinary skill in the art as defined under 35 U.S.C. 103. Thus they would be considered by the Patent Office to be unpatentable and therefore unprotectable in the absence of

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state trade. seeret law. Thus, under the Kewanee Rule, this valuable information could not be protected at all.

OCLI develops as many as one thousand or more coating compositions and procedures a year. A company of ***7** OCLI's size does not have the resources to file patent applications on each one. Thus, even if the compositions and procedures were patentable, the only practical way to protect most of this information is on is under applicable state trade secret law.

E. OCLI TRADE SECRET AND KNOW-HOW LICENSING BENEFITS THE PUBLIC

1. Licensing Domestic Companies

Domestic licensing has become an important source of revenue to OCLI and is a reward for its R&D investment which provides new products for tile public. The public is further benefited because the licensees often manufacture products in direct competition with OCLI and other companies making similar products.

When OCLI has licensed its trade secrets and know-how, the agreements bind the lieensees to keep the information in strict confidence. Under the Kewanee Rule, OCLI would not be able to domestically license such technology because the information could be freely disseminated by the licensees to third parties after one year of commercial use of the information.

Another reason for the inability of OCLI to donestically license under the Kewanee Rule would be that a potential licensee might hesitate to expend considerable suns of money for this information. Instead, it could, if it is so desired, hire knowledgeable technical employees of OCLI who had access to the company's trade secrets developed by OCLI personnel over the years. Indeed luring such an employee would not even be necessary if the ***8** potential licensee could bribe or otherwise persuade him to divulge the information. Such methods of acquisition would be at a small fraction of OCLI's cost for the research and development involved.

The undersirable net effect of the Kewanee Rule would he to penalize OCLI because it is willing to support progressive R&D programs.

2. Licensing From Foreign Companies

OCLI has licensed technology from abroad. In one instance, OCLI paid almost $900,000 to a European company to obtain trade secrets and know-how relating to durable thin films. Although the license was executed after the first year of sale by the European company in the United States, the information obtained by OCLI enabled it to begin production in now fields and to advance the technology of the same. These products derived from this licensed technology have returned many millions of dollars over the years.

The management of OCLI believes that it would not have attempted to expand into this field of technology without the proprietary information it purchased under the license agreement. Since the European company continued selling goods in tile same market to the United States, the above agreement established domestic competition of goods where none would have existed otherwise.

Under the above license agreement OCLI was obligated to hold the proprietary

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information in strict confidence. Under the Kewanee Rule, OCLI could not have protected this information and so the European company might ***9** not have licensed OCLI, resulting in a. loss of revenue to OCLI and lessened competition in the United States.

3. Licensing by OCLI to Foreign Companies

OCLI licensed trade secrets and know-how to a Japanese Company in an agreement in which proprietary information was strictly proteeted by both parties. The license fees under the agreement amounted to an initial payment of $150,000 and subsequent yearly payments of about half that amount. Agreements of this type enable OCLI to obtain the rewards for its costly and successful R&D expenditures. Without such agreements OCLI would be required to reduce such expenditures to the detriment of domestic technological progress.

One reason why the Japanese company might not license under the Kewanee Rule is that it could hire away employees of OCLI for a small pereentage of the value of the information under a license. Also, since OCLI could not protect this information from its competitors, the value of the information would he substantially reduced.

F. VALUE OF TRADE SECRET AND KNOW-HOW LICENSE SUB-STANTIALLY INCREASES AFTER FULL COMMERCIALIZATION.

It is a commercial reality that trade secrets and know-how which have not been fully developed in the market place are worth substantially less than the same information relating to the sam product after full seale, commercialization and development of the market. Beeause this usually occurs long after the first commercial sale, ***10** all of OCLI's licenses over the years have been granted long after one year of commercial product sale. Thus, OCLI would not be able to enforce such licenses under the Kewanee Rule.

Even if OCLI attempted to license its trade secrets and know-how during the early stages of development and before the expiration of one year after first commercial sale, such license would be of negligible commercial value. This is because potential licensees could wait until after the one year period, and legally acquire the information from a disloyal employee for a fraction of the cost of licensing.

G. ADVERSE EFFECT ON OCLI SUBCONTRACTS

OCLI does a substantial amount of subcontract work for large corporations such as Xerox, IBM. and Polaroid. All of such contracts relate to OCLI's developing new component parts in the contractor's complete devices and include strict clauses to protect the proprietary information of the contractor.

Under the Kewanee Rule, OCLI would not be in a position to protect the contractor's valuable proprietary information. Under such circumstances, such companies would not risk OCLI's custody of this information and so most likely would attempt to perform such services "in house". This would damage small companies, such as OCLI, which rely heavily upon subcontract work. Also, it would tend to reduce competition in the United States.

***11** H. INTRACOMPANY POLICY EFFECT-MORE LIMITED ACCESS TO TECHNICAL INFORMATION

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All technical personnel of OCLI are subject to confidential employment agreements OCLI encourages such technical personnel to become versed in all phases of OCLI'S business. This leads to cross-pollination of information and consequent greater efficiencies in both production and R&D within the company.

Under the Kewanee Rule, technical personnel could not be prevented from leaving the company and taking with them trade secrets and know-how developed by OCLI over tile years, Thus OCLI would he required to strictly review its policy regarding free access of information to its technical personnel in order to protect the company against. raids of such personnel by competitors. Such restrictions would obviously lead to inefficiency within the company.

I. OCLI's USE OF OUTSIDE CONSULTANTS WOULD BE REDUCED

OCLI utilizes a number of outside consultants, all of whom sign agreements to protect any proprietary information to which they had access during consultation. Under the Kewanee Rule, OCLI would be extremely hesitant to permit such consultants to have such access because it could not protect its proprietary in formation.

Many consultants are employed for their knowledge of new fields into which OCLI is considering entry. OCLI's failure to use such consultants would tend to decrease the efficient exploration of such new fields.

***12** J. REDUCED INCENTIVE FOR OCLI TO SELL OR LICENSE MACHINES TO ITS COMPETITORS

OCLI has sold and licensed a number of its optical coating machines to competitors under strict agreements to protect its proprietary information. The purchasers of such machines manufacture products which compete with OCLI's products in the United States.

Under the Kewanee Rule, OCLI would be less likely to sell such machinery since it could not protect its valuable proprietary information.

III. CONCLUSION

In view of the foregoing, affirmance of the Circuit Court would severely prejudice OCLI for its creative but costly research and development in at least the following ways:

(1) it would create incentive for predatory raiding of OCLI's valuable technical personnel by its less innovative competitors;

(2) OCLI would be forced to reduce the more risky phase of its research and development, i.e., that directed to new fields and products;

(3) it would greatly restrict OCLI's access to foreign technology and the ability of OCLI to sell its technology in foreign countries, resulting in a competitive disadvantage to OCLI with relation to companies in such foreign countries;

(4) it would drastically reduce subcontract work by OCLI, an important source of revenue to it; and

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***13** (5) it would require a reduction in OCLI's use of outside consultants.

The domestic public would also suffer if the lower court is affirmed. Technological progress would be decelerated because OCLI and other innovative companies would have reduced incentive to invest in costly research and development and would have restricted access to both foreign and domestic technical information. In addition, there would be a lessening of competition in the United States market.

For time reasons stated it is respectfully submitted that the judgment of the court below should be reversed.

Appendix not available.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185612 (Appellate Brief) Motion of Scm Corporation for Leave to File Supplemental Brief Amicus Curiae and Supplemental Brief Amicus Curiae (Apr. 19, 1974)Original Image of this Document (PDF)

• 1974 WL 185610 (Appellate Brief) Brief for the United States as Amicus Curiae (Apr. 08, 1974)Original Image of this Document (PDF)

• 1973 WL 172423 (Appellate Brief) Brief Amicus Curiae of Scm Corporation (Dec. 27, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172412 (Appellate Brief) Brief for Respondents (Dec. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173805 (Appellate Brief) Brief for Amicus Curiae National Patent Council, Inc., for Itself and Representing National Small Business Association, Inc. (Dec. 21, 1973)

• 1973 WL 172424 (Appellate Brief) Brief of the Ohio State Bar Association as Amicus Curiae in Support of Petitioner (Dec. 20, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172411 (Appellate Brief) Brief for the Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172413 (Appellate Brief) Brief of Chamber of Commerce of the United States of America As Amicus Curiae in Support of Petitioner (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172414 (Appellate Brief) Brief for Amicus Curiae Manufacturing Chemists Association (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

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• 1973 WL 172415 (Appellate Brief) Brief Amicus Curiae for the Budd Company (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172416 (Appellate Brief) Brief for Amicus Curiae Rohr Industries, Inc. (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172426 (Appellate Brief) Brief for the New York Patent Law Association as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173807 (Appellate Brief) Brief of the Electronic Industries Association as Amicus Curiae in Support of Petitioner (Nov. 23, 1973)

• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172420 (Appellate Brief) Brief Amicus Curiae of the American Bar Association (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172417 (Appellate Brief) Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae (Nov. 19, 1973)Original Image of this Document (PDF)

• 1973 WL 173806 (Appellate Brief) Motion of Chamber of Commerce of the United States of America for Leave to File Brief Amicus Curiae and Brief for Amicus Curiae Chamber of Commerce of the United States of America (Sep. 28, 1973)

END OF DOCUMENT

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Westlaw.
1973 WL 172420 (U.S.)

For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Plaintiff-Petitioner,
v.
BICRON CORPORATION et al., Defendants-Respondents.
No. 73-187.
October Term, 1973.
November 20, 1973.

Brief Amicus Curiae of the American Bar Association

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***1** Interest of Amicus

The American Bar Association, consisting of over 175,000 lawyers throughout the United States, includes a substantial number of members regularly counseling clients concerning the assertion of and defense against patent and trade secret rights. The Association appears here in an attempt to assist the Court in the orderly development and clarification of trade secret law.

The Background Facts

Trade secrets frequently are of immense value. They are acquired by the expenditure of time and effort and investment so as to afford an advantage over competitors, ***2** They are the subject of extremely valuable licensing arrangements both intranational and international.

Trade secrets are the subject of state criminal statutes. At least 21 states of the United States have adopted statutes making it a crime to steal trade secrets--with no distinction as to whether or not they are patentable. [FN1]

FN1. Ark. Stat. Ann. 6641-3949 to 6641-3951 (1967)
Cal. Penal Code § 499c (1967)
Colo. Rev. Stat. § 40-5-33 (1969), § 40-5-34 (1967)
Ga. Crim. Code § 26-1809 (1968)
Ill. Rev. Stat. Ch. 38 § 15-1 to 15-9, § 16-1 (1965)
Ind. Code § § 35-17-3-1 to 35-17-3-5 (1969)
Me. Rev. Stat. Ann. Tit. 17, § 2113 (1967)
Mass. Ann. Laws Ch. 266 § § 30(4), 60A (1967)
Mich. Compl. Laws § § 752.771 to 752.773 (1968)

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Minn. Stat. Ann. § 609.52 (1967)
Neb. Rev. Stat. Ch. 28, § § 548.01 to 548.03 (1965)
N.H. Rev. Stat. Ann. Ch. 580, § 32 (1967)
N.J. Stat. Ann. § § 2A: 119-5.1 to 119-5.5 (1965)
N.M. Stat. Ann. § 40 A-16-23 (1967)
N.Y. Penal Code § 155.00(6), 155.30(3), 165.07 (1967) N.C. Gen. Stat. § 14-75.1 (1967)
Ohio Rev. Code Ann. Tit. 13, § 1333.51, 1333.99 (1967)
Okla. Stat. Tit. 21, § 1732 (1968)
Pa. Stat. Tit. 18, § 4899.2 (1965)
Tenn. Code Ann. § § 21-4238 to 21-4240 (1967)
Wis. Stat. Ann. § 943,205 (1965)

For at least three quarters of a century state courts throughout the United States, and many Federal Courts which have considered the issue, have found that the common law of the states, or state statutes, protect the owner of trade secrets from their theft or their unlawful disclosure or use in violation of a contract or a fiduciary relationship. Most of the states have held that their common law does so protect trade secrets, whether patentable or not. Representative of such decisions is that of ***3** the Connecticut Supreme Court entitled Plastic and Metal Fabricators Inc. v. Roy reported at 163 Conn. 257, 303 A.2d 725 (1972).

This protection afforded to trade secrets in the United States is similar to protection afforded in the other industrial countries or the world Indeed, the United States is party to international treaties which Protect against "competition contrary to honest practices in industrial or commercial matters" and acts "contrary to commercial good faith" [FN2].

FN2. Article 10 bis of the Paris Convention Act of Lisbon, 1958, 13 U.S.T. I reads in part: "(1) The countries of the Union are bound to assure to persons entitled to the benefit of the Union effective protection against unfair competition. (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition." Article 20 of the Pan American Convention, 46 Stat. 2907, reads in its entirety, "Every act or deed contrary to commercial good faith or to the normal and honorable development of industrial or business activities shall be considered as unfair competition and, therefore, unjust and prohibited."

In the case at bar, the pertinent findings, in the language of the Circuit Court of Appeals, are as follows:

"On this record, as a whole, it appears clear to us, as it did to the District Court, that the individual defendants used the information obtained during their employment by Harshaw for the benefit of Bicron. There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques. (478 F.2d 1076)

* * *

"In addition the mere showing or writing about certain manufacturing techniques was found by the District Judge to be insufficient to amount to a disclosure to the public of those trade secrets involved ***4** in this law suit, which were found by the District Court to be trade secrets within the law. (478 F.2d 1077)

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* * *

"After careful consideration of the entire record it appears that the findings of fact of the District Judge are not clearly erroneous within the meaning of Rule 52, Federal Rules of Civil Procedure, 28 U.S.C., and the District Judge properly applied the Ohio law relating to trade secrets." (478 F.2d 1077)

The Confusion Below

The American Bar Association respectfully suggests that the Court below was in error in thinking that the Ohio law relating to trade secrets resulted in "the maintenance of a monopoly". This error led it to reason that the state law could not he enforced because the patent laws were the only ones which could provide a monopoly. The Court's confusion of state trade secret laws and monopolies was, therefore, a pivotal error below.

The trade secret law of Ohio, and that of all other states, provides a type of protection for these secrets which is distinctly different from the monopoly obtainable under the patent laws. The right which the patent law grants permits the patent owner "to exclude others from making, using or selling the invention throughout the United States" for a stated period. (35 USC 154) This is a broad right to exclude, which extends even to those who may independently make the same invention at some later time. No such right to exclude arises out of state trade secret law. On the contrary, the owner of a trade secret only has (1) the right to prevent those who have stolen the secret from him from disclosing or using it, and (2) the right to prevent others from disclosing or using it in breach of contract or by violation of a fiduciary relationship. ***5** It is impossible, for example, for the owner of such a trade secret to assert any "trade secret" right against any person who independently develops the same secret. Indeed, it is well settled that more than one person may simultaneously and independently be in possession of the same trade secret. [FN3] The owner of a new technological development which is patentable therefore has the option of choosing between the broad right to exclude others--the monopoly grant--provided under the patent laws, and the narrow right to keep others from stealing or using his secrets in breach of a contract or of a fiduciary relationship.

FN3. (Callmann, The Law of Unfair Competition and Trade Marks, 2nd Ed., 1950, Vol. 2, Ch. 14, Sections 51-54; Ellis, Trade Secrets, 1953, Ch. 2; Restatement of Torts (1939) Section 757.

This Court Has Consistently Recognized The Differences Between Patent Rights and Trade Secret Protection

These differences between the rights arising under the patent law and the rights in trade secrets have been stated by this Court many times. In Becher v. Conloure Laboratories (279 U.S. 385), Mr. Justice Holmes said:

"It is plain that that suit had for its cause of action the breach of a contract or wrongful disregard of confidential relations, both matters independent of the patent law, and that the subject matter of Oppenheimer's clain was an undisclosed invention which did not need a patent to protect it from disclosure by breach of trust. Irving Iron Works v. Kerlow Steel Flooring Co., 96 N.J. Eq. 702, 126 A. 291; Du Pont deNemours Powder Co. v. Masland, 244 U.S. 100, 37 S.Ct. 575, 61 L.Ed. 1016. Oppenheimer's right was independent of and prior to any arising out of the patent law, ..."

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***6** In Chicago Board of Trade v. Christie G. & S. Co., (198 U.S. 236, 1905), Mr. Justice Holmes said:

"It stands like a trade secret. The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they might, does not authorize them to steal the plaintiff's. Compare Bleistein v. Donaldson Lithographing Co., 188 U.S. 239, 249, 250, 47 L.Ed. 460, 462, 23 Sup. Ct. Rep. 298. The plaintiff does not lose its rights by communicating the result to persons, even if many, in confidential relations to itself, under a contract not to make it public, and strangers to the trust will be restrained from getting at the knowledge by inducing a breach of trust, and using knowledge obtained by such a breach." (198 U.S. 250)

In the United States v. Dubilier Condenser Corp. (289 U.S. 178, 1933), Mr. Justice Roberts said:

"An inventor deprives the public of nothing which it enjoyed before his discovery, but gives something of value to the commodity by adding to the sum of human knowledge. (citing cases) He may keep his invention secret and reap its fruits indefinitely. In consideration of its disclosure and the consequent benefit to the community, the patent is granted. An exclusive enjoyment is guaranteed him for seventeen years, but, upon the expiration of that period, the knowledge of the invention inures to the people, who are thus enabled without restriction to practice it and profit by its use. Kendall v. Winsor, 21 How. 322, 327, 1.6 L.Ed. 165; United States v. American Bell Telephone Co., supra, page 239 of 167 U.S., 17 S.Ct. 809. To this end the law requires such disclosure to be made in the application for patent that others skilled in the art may understand the invention and how to put it to use." (289 U.S. 186, 187)

***7** Therefore, for almost three quarters of a century the distinction between monopoly rights granted by a patent and the protection granted by states under trade secret laws has been thoroughly understood. Indeed, the two concepts have lived in harmony, together supporting the public interest in strengthening and advancing the industrial vitality of the United States.

Congress and State Trade Secret Law

It is quite apparent that Congress is not aware that it preempted trade secret law in adopting the current patent statute, passed in 1.952. There is no statute enacted by Congress since that date which implies any preemption of the trade secret law of the states. Additionally, although state trade secret law was in existence for well over halt a century before passage of the 1952 patent act, there is not one word in that entire statute which provide for any preemption of any trade secret law.

Furthermore, tile "Commentary on the New Patent Act" which appears as part of the West Publishing Company's United States Code Annotated, prepared by Mr. P. J. Federico--one of the principal drafters of the 1952 patent act--has not one single word which would suggest that the 1952 patent act was intended to preempt state trade secret law.

In addition. and even though there is no statute passed by Congress since 1952 stating that the patent statute of that year created any preemption of the state law of trade seerets. Congress has passed numerous statutes which in other ways relate to trade secrets. This action of Congress thus leads to the inexorable conclusion

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that no such preemption was ever intended by Congress. (These ***8** statutes are listed as footnote 5 on page 13 of the Petition for Writ of Certiorari in this case, and therefore are not repeated here.)

It is interesting to conjecture, however, what result would obtain in the Sixth Circuit should a criminal action be brought against an employee of the United States under 18 USC 1905 (1970) which makes it a federal crime for a United States officer or employee wrongfully to disclose a trade secret which comes to him in the course of his employment. There is, of course, nothing in that statute which makes it inapplicable to the disclosure of a trade secret of a patentable nature which has been used commercially for more than one year. If a federal employee disclosed such a trade secret, obtained by him from another in the course of his employment, he would be criminally liable. It seems obvious that the Congress would never have passed the criminal statute recited above had it been under the impression it had preempted a certain class of trade secrets from state protection when it passed the patent statute in 1952.

Preemption

The sole basis in law for the decision of the Court below was not any action of Congress but rather the question asked by this Court in Lear, Inc. v. John S. Adkins, 395 U.S. 653 (1969). At that time--and very wisely--this Court decided it should not "attempt to define in even a limited way the extent, if any, to which the states may properly act to enforce the contractual rights of inventors of unpatented trade secrets" (page 675). Tile Court below, improvidently we urge, rushed in to decide an issue which this Court refused to decide. In so doing the Court below obviously did violence to a ***9** well-established body of law involving property rights of immense value, having both national and international ramifications.

If such law is to be changed; we submit it should only be done by the Congress of the United States after complete hearings. Such hearings should cover the manner in which investment is made in the creation of trade. secrets and the extent of such investment. The hearings should also embrace the effect of any proposed change in trade secret law on: licensing practices and the international balance of payments; the import of foreign trade secrets into the United States; the pertinent treaties to which the United States is a party; our country's technology resource, and all other issues which would be affected by the overthrow of settled law in this area. Clearly, only the Congress can obtain the requisite information to determine whether there should he a change in the law and, if so, to what extent. No Court is in as favorable a position to do so. As this Court said in Gottschalk v. Benson & Tabbot. 93 S.Ct. 253 (1972):

"It may be that the patent laws should be extended to cover these programs, a policy matter to which we are not competent to speak .... If these programs are to be patentable, considerable problems are raised which only committees of Congress can manage, for broad powers of investigation are needed, including hearings which canvass the wide variety of views which those operating in this field entertain. The technological problems tendered in the many briefs before us indicate to us that considered action by Congress is needed."

Furthermore, this precise issue of preemption of state trade secret law by the patent statutes is before the Congress ***10** at this time. [FN4] On September 27, 1973, President Nixon ordered the Commerce and Justice Departments to transmit to the Congress a proposed patent act. This was introduced into the Senate by Senator

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Scott as S.2504. The President's message of transmittal states, inter alia, that the legislation "would ensure that the patent laws not be construed to replace or preempt state laws concerning trade secrets so long as those state laws do not interfere with the free flow of ideas in the public domain." It should be noted that in the case at bar--as distinguished from the factual situation in Sears (376 U.S. 225, 11 L.Ed. 2d 661, 84 S.Ct. 784 (1964)) and in Compco (376 U.S. 234, 11 L.Ed.2d 669, 84 S.Ct. 779 (1964))-- the courts below agree that the fact is that we are dealing with trade secrets and not with "ideas in the public domain."

> FN4. The American Bar Association has urged such legislative action, having adopted a resolution in 1970 favoring legislation making it plain that the patent laws of the Unitel States are not to be construed to preempt or to affect state or other federal law relating to trade secrets. This resolution was generated by the decision of the trial court in Painton & Company Ltd. v. Bourns, Inc. (309 F.Supp. 271). That decision was reversed by the Second Circuit Court of Appeals (442 F.2d 216).

CONCLUSION

This case presents a simple, and yet historic, issue. Its ramifications are of tremendous importance. The American Bar Association urges that the decision below be reversed and that any such dramatic change in state trade secret law, as attempted by the Court below in this case, be stated to be in the sole province of the Congress of the United States.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

Briefs and Other Related Documents (Back to top)

• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

• 1973 WL 172425 (Appellate Brief) Brief of the Bar Association of the District of Columbia as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 172426 (Appellate Brief) Brief for the New York Patent Law Association as Amicus Curiae (Nov. 23, 1973)Original Image of this Document (PDF)

• 1973 WL 173807 (Appellate Brief) Brief of the Electronic Industries Association as Amicus Curiae in Support of Petitioner (Nov. 23, 1973)

• 1973 WL 172421 (Appellate Brief) Brief Amicus Curiae for Burroughs Corporation (Nov. 21, 1973)Original Image of this Document (PDF)

• 1973 WL 172418 (Appellate Brief) Brief on the Merits for the American Patent Law Association, Amicus Curiae (Nov. 20, 1973)Original Image of this Document (PDF)

• 1973 WL 172419 (Appellate Brief) Brief for Amicus Curiae Optical Coating Laboratory, Inc. (Nov. 20, 1973)Original Image of this Document with Appendix (PDF)

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For opinion see 94 S.Ct. 1879, 94 S.Ct. 1987, 94 S.Ct. 536, 94 S.Ct. 350, 94 S.Ct. 286, 94 S.Ct. 70

Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY,
v.
BICRON CORPORATION, et al.
No. 73-187.
October Term, 1973.
November 19, 1973.
On Writ of Ceriiorari to the United States Court of Appeals for the Sixth Circuit

Brief for the Association for the Advancement of Invention & Innovation as Amicus Curiae

Edward J. Brenner, President Association for the Advancement of Invention and Innovation 1911 Jefferson Davis Highway Arlington, Virginia 22202 Karl W. Flocks Paul L. Gomory Edward J. Brenner Attorneys

***1** I. AUTHORITY TO FILE

In a letter dated October 9, 1973, the Office of the Clerk of the Supreme Court advised that the Court granted the motion of the Association for the Advancement of Invention & Innovation for leave to file a brief, as amicus curine, in the present case.

***2** II. PURPOSES OF BRIEF

The major purposes of this brief are to urge this Court:

1. To hold that a state law which protects an inventor or developer in the maintenance of his trade secret, whether it may be of a patentable or unpatentable nature, is not in conflict with Patent Laws.

2. To rule that an inventor or developer has not forfeited his right to protection under a state trade secret law merely because he has used his technology in commerce for more than a year, and

3. To reverse the decision of the Court below to the extent it is contrary to the principles set forth above.

III. INTEREST OF THE ASSOCIATION FOR THE ADVANCEMENT OF INVENTION & INNOVATION

The Association for the Advancement of Invention & Innovation is a non-profiit professional association of inventors, entrepreneurs, research directors, businessmen, scientists, engineers, lawyers, patent attorneys, educators, former government officials and others who are dedicated to the proposition of improving the climate for invention and innovation in our country. The combined background of the membership embraces the entire spectrum of the process of invention (conceiving the idea) and innovation (bringing the invention to the marketplace).

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The Association believes that to foster an appropriate climate for invention and innovation in our country there must be adequate incentives to invest the time, money and effort needed to bring forth inventions to the marketplace. Such incentives are presently provided by the Patent Laws and state trade secret ***3** laws. To eliminate trade secret protection would remove one of the major incentives for invention and innovation in the country to the detriment of all concerned.

IV. WHY THE DECISION OF THE COURT BELOW SHOULD BE MODIFIED

1. The Nature of Trade Secret Protection Was Not Fully Understood or Appreciated.

The decision of the Court below concludes that "... by the use of the state trade secret law he is able to exclude competition and prevent disclosure, thus obtaining protection which he could not obtain under the laws of the United States." To the contrary, trade secret protection does not carry with it a general right to exclude others who happen upon the technology in question through their own honest efforts. Any third party who develops the same subject matter himself is entirely free to use or disclose it in any way he wishes. Trade secret protection only guards against others acquiring the technology by theft or breach of a confidential relationship.

The possibility of subsequent independent discovery is the prime risk that is implicit in reliance on trade secret protection. The courts heretofore have universally recognized that the law of trade secrets affords no protection against the honest second discoverer; see for example Spcedry Chems. & Prods., Inc. v. Carter's Ink Co., 306 F.2d 328, 330 (2nd Cir. 1962); Grepke v. General Elec. Co., 280 F.2d 508, 512, 126 U.S.P.Q. 93 (7th Cir.), cert. denied, 364 U.S. 899 (1960); Ferroline Corp. v. General Aniline & Film, Corp., 207 F.2d 912 (7th Cir. 1953) (applying New Jersey law), cert. denied, 347 U.S. 953, rehearing denied. 348 U.S. 851 ***4** (1954). Indeed, there is substantial reason to believe that the first user of a trade secret may not prevail against the innocent wrongful user thereof, Speedry Chems. & Prods., Inc. supra, wherein it was said:

"However, the discoverer of such secrets has no exclusive right against another who uncovers the secret by fair means, or against those who acquire knowledge of it without a breach of contract or of a confidential relationship with the discoverer, American Dirigold Corp. v. Dirigold Metals Corp., 125 F.2d 446, 52 USPQ 510 (6 Cir. 1942); Nims, Unfair Competition and Trademarks, 4th Ed. p. 418."

Thus, he who relies on trade secret protection has no monopoly and no right of exclusion. His protection is only against the wrongdoer, but this protection is of prime importance when one has spent considerable resources and effort in developing a valuable product or process. By contrast, the Patent Law to the extent pertinent concerns a Government grant of monopoly rights in technology, which rights are assertible against others wholly independent of the manner in which they acquire the protected technology.

The Patent Law arms the patentee against any unauthorized use of his invention no matter how the invention becomes known to the infringing party. The patent protects the patented technology for a term of years no matter how well it may become known to the world.

The Patent Laws operate in an entirely different domain than trade secret laws which depend wholly on a finding of wrongful derivation from a rightful possessor.

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For these reasons, Patent Laws do not and ***5** cannot conflict with trade secret laws such as to preempt them.

2. To Correct an Inaccurate Impression That Trade Secret Laws Duplicate the Patent Laws in Any Real Practical Sense.

It is axiomatic that the first requirement of a trade secret is the ability to maintain secrecy. The trade secret must not be ascertainable from study of products sold and is typically a formulation, factory process or other manufacturing technology. In the absence of a patent, technology which enters the public domain is available for use freely by the public. State laws of unfair competition and the like may not be used to achieve a contrary result, Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

Where the technology may reasonably be kept in secrecy, there is equally no convenient way for a prospective patentee to know when the technology which would be disclosed through a patent is used by others. Ability of others also to retain use of the technology secret tends to render patent protection ineffectual. Thus, while trade secrets are sometimes thought of as an alternative to patenting, United States v. Dubilier Condenser Corp., 289 U.S. 178 (1933), in a very practical sense, trade secret protection is all that is really available for an important class of iunovations.

3. To Prevent a Substantial Decrease in the Level of Invention and Innovation in the Country on Account of Reduced Incentives.

The decision of the Court below is contrary to long established legal doctrines and business practices, and, as such, it substantially reduces the benefits that can be ***6** derived from research and development. Thus, when one embarks on a program of research and development one does not know what patentable or unpatentable inventions may be produced. Further, one can really never be sure what inventions will ultimately be held patentable or unpatentable. Thus, the result is that budgets for research and development will undoubtedly be reduced on account of decreased incentives for conducting such programs since trade secret protection would no longer be available as a means to protect the fruits of one's research and development program.

The decision of the Court below will encourage companies to raid their competitors for technical employees in order to learn their competitors' business and factory practices. It would be much less expensive to appropriate competitors' trade secrets through this mechanism than to conduct an independent and expensive research and development program. It is to be noted that the present law on trade secrets in most jurisdictions provides a reasonable balance between protecting as employer's trade secrets while at the same time protecting the employee's right to change his employment. See for example Allis-Chalmers Mfg. Co. v. Continental Aviation & Eng'r. Corp., 255 F.Supp. 645 (E.D. Mich. 1966).

The decision of the Court below encourages companies to shift their research and development programs to foreign countries where trade secret protection is available. Also, the decision encourages companies to shift their manufacturing operations to foreign countries for the same reason. The end result of these shifts would obviosly be to reduce jobs for American workers as well as to adversely affect

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our ***7** international balance of trade. With regard to international aspects of the decision, the decision of the Court below would appear to be in conflict with provisions of international treaties signed by the United States.

4. To Overcome Undesirable Disincentives for the Transfer and Licensing of Technology.

If the decision of the Court below is permitted to stand, licensees will be spurred into discontinuing the payment of royalties under know-how license agreements. This could result in the loss by American licensors of a billion dollars of royalties per year from foreign licensees, which would obviously also adversely affect our international balance of payments. More important, however, would be the reduced incentives for lieensors to conduct an active research and development program to generate such know-how in the future. Further, lieensors would be discouraged from licensing existing know-how because of the increased likelihood that United States and foreign licensees would not continue for long to pay royalties for such know-how.

If the decision of the Court below is permitted to stand, foreign licensors will hesitate to license their technology to United States companies since U.S. licensees cannot assure foreign lieensors that their confidential know-how can be maintained as trade secrets. The net result of such actions would be to increase imports of the products involved or to eliminate them altogether from the American market to the detriment of the American public, to reduce jobs for American workers, and to thereby adversely affect our international balance of trade.

***8** 5. Congress and Other Branches of Government Have Long Recognized the Validity of Trade Secret Protection.

By way of example, in the Consumer Product Safety Act of 1972, 15 U.S.C.A. Section 2055(a)(2) entitled "Public disclosure of information", Congress provided for recognition and safeguarding of trade secrets by express reference thereto. In the Armed Services Procurement Regulations (ASPR), Section 9-201(c) provides for possible acquisition by the Government of technical information with "Limited Rights" that in essence normally precludes publication or use by the Government outside the Government. The Federal Rules of Civil Procedure refer at Rule 26(c) (7) to protection of ... "a trade secret or other confidential research, development or commercial information ...". While the right to confidentiality of a trade secret is not absolute, for example such right must bow to national emergencies and the requirements of pertinent evidence in litigation, nonetheless the trade secret right has heretofor generally been respected and upheld in law and its administration. The basic principle as succinctly stated by Justice Holmes in the often cited case of Board of Trade of City of Chicago v. Christie Grain & Stock Co., 198 US 236, 25 S Ct 637, 49 L ed 1031 (1905), is

"The plaintiff has the right to keep the work which it has done, or paid for doing, to itself. The fact that others might do similar work, if they wished, does not authorize them to steal plaintiff's."

V. CONCLUSION

For the foregoing reasons, amicus urges this Court to modify the decision of the Court below as recommended herein so as to avoid the adverse influences ***9** such decision would have on the climate for invention and innovation in our country as well as world-wide. A great strength of the United States relative to other

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countries lies in its superior technology, much of which is unpatented. Our favorable balance of trade in teehnology-intensive produets and know-how license agreements where United States manufacturing companies are the licensor supply the practical proof. The United States is primarily in the position of a donor of teehnology. To condone misappropriation of such technology only serves to dissipate this great strength.

It is submitted that if the basic law is to be change in this field in a way which will have such a major impact on the economic system of the United States (e.g., balance of trade, productivity, etc.) such a change should be effected by Congressional action rather than judicial action.

U.S., 2004.
Kewanee Oil Co. v. Bicron Corp.

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• 1974 WL 185611 (Appellate Brief) Supplemental Brief of Respondents Bicron Corporation Et Al. In Response to the 'Brief for the United States as Amicus Curiae'' (Apr. 19, 1974)Original Image of this Document (PDF)

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• 1973 WL 172422 (Appellate Brief) Brief Amicus Curiae of the Licensing Executives Society (Nov. 23, 1973)Original Image of this Document with Appendix (PDF)

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Briefs and Other Related Documents

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Supreme Court of the United States.
KEWANEE OIL COMPANY, Plaintiff-Petitioner,
v.
BICRON CORPORATION, et al., Defendants-Respondents.
No. 73-187.
October Term, 1973.
September 28, 1973.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Sixth Circuit

Motion of Chamber of Commerce of the United States of America for Leave to File Brief Amicus Curiae and Brief for Amicus Curiae Chamber of Commerce of the United States of America

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***i** INDEX

Introduction ... 1

Interest of the Chamber of Commerce of the United States ... 2

Questions Presented ... 2

Reasons for Granting the Writ ... 3

I. There Is a Vital Public Interest in Resolving The Direct Conflict Between the Sixth Circuit and Four Other Circuits ... 3

II. This Decision Comes at a Time of Mounting Concern for the Economic Well-Being of the United States as an Effective Competitor in World Markets ... 4

III. The Sixth Circuit Decision Will Have a Sinister and Depressant Effect on R & D Commitment ... 8

IV. The Sixth Circuit Decision Condones a Morally And Ethically Indefensible Standard of Conduct ... 9

V. If Allowed to Stand, the Decision of the Sixth Circuit Will Have a Serious

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Adverse Impact on the U. S. Economy ... 10

VI. The Sixth Circuit Ruling Is Not Founded on Sound Legal Reasoning or Precedent ... 11

Conclusion ... 15

TABLE OF AUTHORITIES

Cases:

Algoma Plywood & Veneer Co. v. Wisconsin E. Rel. Bd., 336 U.S. 301 (1949) ... 13

Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942) ... 12

Bethlehem Steel Co. v. New York State L.R.B., 330 U.S. 767 (1947) ... 13

***ii** Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915) ... 14

City of Yonkers v. United States, 320 U.S. 685 (1944) ... 12

Cloverleaf Butter Company v. Haygood Patterson, 315 U.S. 148 (1942) ... 12, 13, 14

Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944) ... 12

E. I. duPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917) ... 13

Eichholz v. P.S.C. of Missouri, 306 U.S. 268 (1939); rehearing denied, 306 U.S. 669 (1939) ... 13

Florida v. United States, 282 U.S. 194 (1931) ... 12

F.T.C. v. Bunte Bros., Inc., 312 U.S. 349 (1941) ... 13

Goldstein v. California, --- U.S. ---, 37 L. Ed. 2d 163 (1973) ... 14

H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939) ... 12,13

Hill v. Florida, 325 U.S. 538 (1945) ... 14

Cf. Hines v. Davidowitz, 312 U.S. 52 (1941) ... 13

Jennings v. United States Fidelity & Guaranty Co., 294 U. S. 216 (1935) ... 12

Kelly v. Washington, 302 U.S. 1 (1937) ... 12

Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387, (1923) ... 3

Minnesota Rate Cases, 230 U.S. 352 (1913) ... 12

Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926) ... 12

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New York C. R. Co. v. Winfield, 244 U.S. 147 (1917) ... 14

Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 566 (1919) ... 13

Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946) ... 15

Reid v. Colorado, 187 U.S. 137 (1902) ... 12

Rice v. Sioux City Cemetery, Inc., 349 U.S. 70 (1954) ... 3

Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947) ... 12

Rice v. Sioux City Cemetery, Inc., 349 U.S. 70 (1954) ... 3

Savage v. Jones, 225 U.S. 501 (1912) ... 12

Schwartz v. Texas, 344 U.S. 199 (1952) ... 12

Sears, Roebuck & Co., v. Stiffel Co., 376 U.S. 225 (1964) ... 12

***iii** South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938) ... 12

Southern R. Co. v. Railroad Commission of Indiana, 236 U.S. 439 (1915) ... 14

Townsend v. Yeomans, 301 U.S. 441 (1937) ... 12

Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944) ... 12

Statutes:

15 U.S.C. Section 46(f) ... 15

15 U.S.C. Sections 78x(a) & 79v ... 15

18 U.S.C. Section 1905 ... 15

35 U.S.C. Section 24 (Rev. Stat. Section 4908) ... 15

Rule 26, Federal Rules of Civil Procedure ... 15

Proposed Rules of Evidence for United States Courts and Magistrates, --- U.S. ---, 34 L.Ed. 2d iv (1973) ... 15

Other Authorities:

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Policy Aspects of Foreign Investment by U.S. Multinational Corporations, U.S. Department of Commerce, Bureau of International Commerce, Office of International

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Research and Development and Economic Growth/Productivity, National Science Foundation, NSF 72-303, 1971, p. 3 ... 4

Science Resources Studies Highlights, National Science Foundations, February 28, 1973, NSF 73-301, p. 1-2 ... 9

Survey of Current Business, United States Department of Commerce, Vol. 53, No. 6, June, 1973, p. 28, lines, 7, 10, 21, and 24 ... 7

The Budget for Fiscal Year 1974, p. 251, et seq ... 8

The United States in The Changing World Economy, Peter G. Peterson, 1971, ... 4, 5

***1** MOTION OF CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA FOR LEAVE TO FILE A BRIEF AMICUS CURIAE

The Chamber of Commerce of the United States of America respectfully moves for leave to file a brief Amicus Curiae in support of issuance of a writ of certiorari. A copy of the brief is submitted herewith.

Petitioner, Kewanee Oil Company, through its counsel, has consented to the Chamber's participation herein as Amicus Curiae. Respondents, Bicron Corporation, et al, through their counsel, have refused to consent to the Chamber's participation.

***2** The Chamber of Commerce of the United States of America is a national membership association of over thirty-six hundred (3,600) state and local chambers of commerce and trade associations with an underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The Chamber's direct business memberships number in excess of forty-six thousand (46,000).

The Sixth Circuit Court of Appeals has held that the Constitution of the United States and the Federal Patent Laws preempt the State of Ohio's right to protect trade secrets from wrongful appropriation by others, where the trade secret is an appropriate subject for a patent and has been used commercially for more than one year.

The U. S. Chamber of Commerce has a vital interest in this case. Its members, many of whom are located in the Sixth Circuit, have relied on and wish to continue heavily to rely on the protection, until recently, universally afforded trade secrets at common law and under State laws. Unless reversed, the decision of the Sixth Circuit will destroy trade secrets, including business and technical know-how, which are valuable and essential to the competitive position of many of its members in both domestic and international markets. These trade secrets which have been developed at great expense will become available to others for nothing.

The U. S. Chamber of Commerce seeks leave to file a brief Amicus Curiae in support

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of the petition for certiorari to bring before this Court facts on the adverse effect the Sixth Circuit decision will have on the growth of technology in the United States, on ***3** U. S. industry generally, and on the economic well-being of the nation. Further, the Chamber wishes to emphasize the important public interest and policy reasons why the decision should be reviewed by this Court, and to urge reasons why, as a matter of law, the petition for a writ of certiorari should be granted.

The U. S. Chamber of Commerce respectfully requests leave to file, as Amicus Curiae, the accompanying brief urging issuance of a writ of certiorari.

***1** BRIEF FOR AMICUS CURIAE CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA

INTRODUCTION

The Chamber of Commerce of the United States of America urges the issuance of the writ of certiorari as sought by Kewanee Oil Company. That petition should be granted to resolve the vital constitutional issue created by the decision of the Sixth Circuit Court of Appeals in Kewance Oil Co. v. Bicron Corp., Nos. 71-1041 and 71-1042, decided May 10, 1973. This decision held that the United States Constitution and the Federal Patent Laws preempt the State Trade Secret Law of Ohio to the extent that this law provides protection to a trade secret which is "an appropriate subject for a patent" and "has been used commerically for more than one year."

***2** The implications of the decision are even broader and could easily lead to the conclusion that all trade secret law is preempted. Moreover, the decision is erroneous and directly conflicts with holdings of the Second, Fourth, Fifth, and Ninth Circuits, as well as other court decisions (including those of this Court), acts of Congress, and treaties of the United States.

INTEREST OF THE CHAMBER OF COMMERCE OF THE UNITED STATES

The Chamber of Commerce of the United States of America is a national membership association, including over thirty-six hundred (3,600) local and state chambers of commerce and trade associations. These state and local chambers have underlying membership of over five million (5,000,000) business firms and individuals in both metropolitan and rural areas. The Chamber's direct business memberships number in excess of forty-six thousand (46,000).

Many members of the Chamber rely heavily on the protection of trade secret laws, both under statute and at common law. Unless the Kewanee decision is reversed, these members stand to lose their valuable trade secrets, including business and technical know-how, and, in consequence, to suffer severe financial loss and erosion of their competitive strength, not only in the United States, but in world markets. These trade secrets which have been developed at great expense will become available to others for nothing.

QUESTIONS PRESENTED

1. Has the power granted to Congress under Article I, Section 8, Clause 8 of the Constitution and the enactment of the Federal Patent Laws destroyed the common law of trade secrets and prohibited the States ***3** from giving protection to trade secrets with the resulting loss of a great national asset embodied in the trade secrets and know-how developed in this country?

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2. Should trade secrets be protectible as property rights at common law and under State laws, as held by the Second, Fourth, Fifth, and Ninth Circuits, or should the property rights in trade secrets be obliterated, as held by the Sixth Circuit?

REASONS FOR GRANTING THE WRIT

I. THERE IS A VITAL PUBLIC INTEREST IN RESOLVING THE DIRECT CONFLICT BETWEEN THE SIXTH CIRCUIT AND FOUR OTHER CIRCUITS

The economy of this nation is obviously of vital public interest, and our commitment of resources to research and development (R&D) will be a major determinant of our future economic well-being. The Sixth Circuit opinion could diminish R&D commitments either: (1) by denying adequate protection to the expensive fruits of R&D, or (2) by raising baffling uncertainties as to the nature of protection available for the results of R&D. Thus the Kewanee decision poses a critically significant question "involving principles the settlement of which are of importance to the public as distinguished from that of the parties". [FN1]

FN1. Layne & Bowler Corp. v. Western Well Works, Inc., 261 U.S. 387, (1923). See also Rice v. Sioux City Cemetery, Inc., 349 U.S. 70, (1954).

While precise measures are perhaps lacking, it is generally accepted that there is a relationship between the economic strength of a nation and its investment in R&D. The National Science Foundation lends clear support to this premise in its statement:

"Although what we know about the relationship between R&D and economic growth/productivity ***4** is limited, all available evidence indicates that R&D is an important contributor to economic growth and productivity. Research to date seeking to measure this relationship (at the level of the firm, the industry, and the whole economy) points in a single direction -- the contribution of R&D to economic growth/productivity is positive, significant and high." [FN2]

FN2. Research and Development and Economic Growth/Productivity, National Science Foundation, NSF 72-303, 1971, p. 3.

II. THIS DECISION COMES AT A TIME OF MOUNTING CONCERN FOR THE ECONOMIC WELL-BEING OF THE UNITED STATES AS AN EFFECTIVE COMPETITOR IN WORLD MARKETS

The nation's concern in recent years over its "economic growth/productivity" has continually focused on our declining position in international trade. While our trade deficit has been reduced from $6.3 billion in 1972 to an annual rate of $1.6 billion for the first six months of 1973 [FN3], it is obvious that we can no longer rely upon our positive balance of trade position which endured until 1970.

FN3. Commerce Today, August 20, 1973, p. 8.

Our competitive stance in world markets has been eroded over the years. The U.S. share of the world gross national product has declined from 39.3% in 1950 to 30.2% in 1970. [FN4] At the same time, other countries have made dramatic advances. Japan's share has grown from 1.5% to 6.2%, roughly a fourfold increase. [FN5] The EEC's share has grown from 11.1% to 14.85% [FN6]

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FN4. The United States in The Changing World Economy, Peter G. Peterson, 1971, Chart I.

FN5. Ibid.

FN6. Ibid.

***5** A positive aspect of this otherwise discouraging picture, however, is our increased trade over this twenty year period in "technology-intensive" manufactured products -- the fruits of R&D. Our exports of such products rose from $6.6 billion in 1951 to $22.6 billion in 1970. [FN7] By contrast exports of "non-technology intensive" products rose from $3.7 billion in 1951 to only $6.8 billion in 1970. [FN8]

FN7. Id. at Chart 21.

FN8. Id. at Chart 20.

By 1970 our imports of "non-technology-intensive" products had risen to $12.9 billion, [FN9] and our imports of "technology-intensive" products to $13.0 billion. [FN10] In 1970 we thus experienced a favorable trade balance of about $10 billion in "technology-intensive" products. By contrast, however, we simultaneously suffered a trade deficit of about $6 billion in "non-technology-intensive" products. It was thus our very healthy trade position in "technology-intensive" products that saved us from the embarrassing economic effects of the deplorable degradation of our trade balance in "non-technology-intensive" products.

FN9. Ibid.

FN10. Id. at Chart 21.

It appears, however, that in recent years "the United States has been losing its technological leadership in the production and export" of such technology-intensive products. This fact was recognized in the Department of Commerce study of the "Policy Aspects of Foreign Investment by U. S. Multinational Corporations":

"Within the Department of Commerce, Dr. Michael Boretsky has investigated this area in ***6** detail. Through an analysis covering, inter alia, United States and foreign trade trends, productivity and R&D expenditures, Boretsky has produced evidence which tends to support the thesis that the United States depends largely upon the export of high technology products for a favorable balance of trade. Boretsky argues that for the past several years the United States has been losing its technological leadership in the production and export of such products, and that if this trend is not reversed, the United States will face a continually worsening balance of payments position. His writings attribute this loss in competitiveness to a number of factors, including: increased intensity of foreign R&D efforts, slower rates of productivity increase by U.S. firms, the ability of foreign countries to make up considerable technological ground by the adoption of "old technology", exchange rates which put the United States at an unnecessary price disadvantage, and the ability of foreign countries to purchase and assimilate relatively new technologies from innovator countries." [FN11]

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FN11. Policy Aspects of Foreign Investment by U.S. Multinational Corporations, U.S. Department of Commerce, Bureau of International Commerce, Office of International Investment, January 1972, p. 31.

Thus, in an era when we are extremely dependent on our technological leadership and this leadership is being challenged, it is clearly counter-productive for the U.S. to relax the legal mechanisms which protect and stimulate our technological growth. Although the Commerce study recognizes that the erosion of our trade balance has in part occurred as a result of the transfer of technology to lesser developed countries, it is far better that such transfers should occur through ***7** controlled contractual arrangements rather than through breaches of trust and confidence.

The latter route denies to the nation the positive benefit to its international trade position that accrues from royalties paid to its citizens for rights to technological advances, developments, and discoveries. These rights include not only those embodied in patents, trademarks and copyrights, but also those embraced in trade secrets and business and technical know-how.

The benefit to U.S. foreign trade through export of these rights has grown from about $840 million in 1960 to about $3.0 billion in 1972. By contrast, the U. S. spent only about $276 million on imports of such rights in 1972. The international export sales of technology rights by the U. S. in 1972 thus produced the remarkably favorable trade balance of $2.7 billion. [FN12]

FN12. Survey of Current Business, United States Department of Commerce, Vol. 53, No. 6, June, 1973, p. 28, lines 7, 10, 21, and 24.

From the foregoing, it is clear beyond peradventure that the vitality of R&D activities in the United States, together with the protective support given to them by our legal system has sustained our international trade position in world markets over a period in which our trade balance and productivity were decreasing in low technology areas. It is also now common knowledge that competition against the United States is escalating even in high technology areas.

Put in the most simple and direct terms, this decision, if allowed to stand, is an invitation to foreign competitors of U.S. companies to come in and appropriate valuable trade secret and know-how technology from the U.S. owners with impunity. In a ***8** somewhat less drastic view, at the least, U.S. trade secret and know-how technology, in the eyes of foreign licensees, must be devalued by a quantum that represents the effect of its having no value in a large industrial portion of the U.S. (the Sixth Circuit), even though it may be protectible elsewhere in the U.S. for the moment.

III. THE SIXTH CIRCUIT DECISION WILL HAVE A SINISTER AND DEPRESSANT EFFECT ON R&D COMMITMENT

Recognizing that other nations are "challenging us both in intellectual and in economic terms", President Nixon, in his Message to Congress March 16, 1972, on Science and Technology, called for "a strong new effort to marshall science and technology in the work of strengthening our economy and improving the quality of our

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life", but cautioned:

". . . we must see that the environment for technological innovation is a favorable one. In some cases, excessive regulation, inadequate incentives and other barriers to innovation have worked to discourage and even to impede the entrepreneurial spirit. We need to do a better job of determining the extent to which such conditions exist, their underlying causes, and the best ways of dealing with them."

In the "environment" which existed before the Sixth Circuit decision, there was evidence of a strong and aggressive R&D commitment by this nation. During 1972, Federal obligations for R&D totaled $17.3 billion, including obligations for R&D facilities, and it is anticipated that $18.3 billion will be expended in 1974. [FN13] In addition, industrial R&D expenditures ***9** totaled $11.4 billion in 1972, and it is expected these will increase to $13 billion in 1974. [FN14]

FN13. The Budget for Fiscal Year 1974, p. 251, et seq.

FN14. Science Resources Studies Highlights, National Science Foundation, February 28, 1973, NSF 73-301, p. 1-2.

Commitments of this nature, however, can only be made in reliance upon a legal framework that will protect the investments made, so that industry or government can, with some certainty, expect to realize a reasonable private or public return. Otherwise, there is little incentive to engage in such activities.

The Sixth Circuit opinion injects tremendous uncertainty into the legal structure that has protected the fruits of R&D, not only within the Sixth Circuit, but throughout the nation. It is clear that industry within the Sixth Circuit now has no assurance that its developments, achieved through labor and risk of resources, will not be handed over free to competitors both foreign and domestic. Moreover, industry throughout the nation must now face the budgeting of R&D with unsettling uncertainty. Faithless employees or licensees may appropriate trade secrets elsewhere and use them in businesses within the Sixth Circuit.

An environment as unpredictable and precarious as this will clearly influence companies in their budgeting for R&D activities. The combined effect of denial of protection in the Sixth Circuit and uncertainty in the other circuits yields a clear disincentive to invest in R&D.

IV. THE SIXTH CIRCUIT DECISION CONDONES A MORALLY AND ETHICALLY INDEFENSIBLE STANDARD OF CONDUCT

If unpatented technical information is not protectible, hiring away key technical personnel of competitors and disloyalty will be encouraged and ***10** abetted. These and similar practices are morally and ethically indefensible; they should not be legally permissible. Public policy must favor honesty and loyalty.

V. IF ALLOWED TO STAND, THE DECISION OF THE SIXTH CIRCUIT WILL HAVE A SERIOUS ADVERSE IMPACT ON THE U. S. ECONOMY

The paramount importance of the present case lies in the extraordinary adverse

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impact it will have on the economy of this nation, and the undesirable consequences which will follow, if this decision is not reversed.

Income to the U.S. from foreign licensing, largely of trade secrets, including business and technical know-how, is in excess of $2 billion. The rule of this case jeopardizes this very positive balance-of-trade account by rendering such licensed subject matter virtually valueless. Not only is the U.S. trade balance unfavorably affected, but the U.S. Treasury will also lose approximately half this income, normally received as income tax.

Additionally, the cross-flow of technology under license agreements is often beneficial, and occasionally essential, to the public interest. Foreign owners of trade secrets will not wish to risk disclosure to U.S. licensees, if the rule of the Sixth Circuit is permitted to stand.

Moreover, the adverse effect of the holding increases in seriousness as the size of the business involved diminishes. This case, if not reversed, will cause especially serious economic and social harm to individual entrepreneurs and small firms, many of whom depend for their survival upon a single, or a few, protected trade secrets or items of know-how.

***11** It is urged that the Sixth Circuit decision should increase competition. That desideratum will not occur, however, because the effect is to kill the goose which lays the golden technology. Nor will it occur, if the effect is to force companies to compartmentalize R&D to minimize the likelihood of one person knowing all the trade secrets or know-how involved in a single project.

Further, companies, both large and small, will be reluctant to share their technology with others for fear that the value of the licensed technology will be lost through inadequate precautions being maintained by their licensees. In the past it has been customary to gear a licensee's payments to installments based on use of the technology so that the licensee pays based on what the technology is worth to him as it is used. Now, before a company could agree to license another company to use its technology it would have to receive full payment in advance as "front money", since the licensee after receiving the technology could refuse to make periodic payments based on use on the ground that the trade secrets are unprotectible.

Manifestly, this circumstance would foreclose small companies from licensing technology from others, since they could not afford the large lump sum payments which would be required in advance.

This impediment to the exchange of information can only have adverse effects and is, therefore, not in the public interest.

VI. THE SIXTH CIRCUIT RULING IS NOT FOUNDED ON SOUND LEGAL REASONING OR PRECEDENT

The ruling below is erroneous in that it misapplies the doctrine and holdings of this Court on federal preemption of appropriate areas for state action. ***12** Although often admitting that federal preemption is a most perplexing question [FN15] this Court has maintained a wise accommodation between the needs of central control and

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the vitality of local institutions. [FN16] Thus, where Congress has not clearly expressed an intent to preempt a legislative area, this court has always insisted that the justification for federal supersession be compellingly clear. [FN17]

FN15. See Union Brokerage Co. v. Jensen, 322 U.S. 202 (1944); South Carolina State Highway Dept. v. Barnwell Bros., 303 U.S. 177 (1938); Kelly v. Washington, 302 U.S. 1 (1937); Townsend v. Yeomans, 301 U.S. 441 (1937).

FN16. See Davies Warehouse Co. v. Bowles, 321 U.S. 144 (1944); City of Yonkers v. United States, 320 U.S. 685 (1944).

FN17. See Cloverleaf Butter Company v. Haygood Patterson, 315 U.S. 148 (1942); Jennings v. United States Fidelity & Guaranty Co., 294 U.S. 216 (1935); Florida v. United States, 282 U.S. 194 (1931); Minnesota Rate Cases, 230 U.S. 352 (1913).

While exclusive federal authority in the field of patents is now resolved, [FN18] federal authority over trade secrets is certainly not, and the States have traditionally legislated extensively in the area. Where the States have exercised exclusive competence in the past, or where federal and State legislative competence has been concurrent, this Court has always assumed that the historic police powers of the States were not to be superseded, absent a clear and manifest purpose of the Congress to do so. [FN19] Thus, giving due ***13** regard to a proper adjustment of State and federal power in our constitutional system, [FN20] unless Congress has definitely expressed or clearly implied an intent exclusively to occupy the area, and displace the State police power, [FN21] the State legislative scheme is valid. [FN22]

FN18. Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964).

FN19. Sehwartz v. Texas, 344 U.S. 199 (1952); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939). See also Rice v. Santa Fe Elevator Corp., 331 U.S. 218 (1947); Allen-Bradley Local v. Wisconsin E. Rel. Bd., 315 U.S. 740 (1942); Napier v. Atlantic Coast Line R. Co., 272 U.S. 605 (1926); Savage v. Jones, 225 U.S. 501 (1912); Reid v. Colorado, 187 U.S. 137 (1902).

FN20. F.T.C. v. Bunte Bros., Inc., 312 U.S. 349 (1941).

FN21. Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942). See also Bethlehem Steel Co. v. New York State L. R. B., 330 U.S. 767 (1947); H. P. Welch Co. v. New Hampshire, 306 U.S. 79 (1939).

FN22. See Algoma Plywood & Veneer Co. v. Wisconsin E. Rel. Bd. 336 U.S. 301 (1949); Eichholz v. P.S.C. of Missouri, 306 U.S. 268 (1939); rehearing denied, 306 U.S. 669 (1939).

Nothing in this case indicates that Congress, in enacting the Patent Laws, left no room for the States to supplement protection of intellectual property. [FN23] Indeed, the legal groundings of patent and trade secret protection are quite dissimilar. Patent laws protect an inventor's reward for creativity, and primarily vest a property right, while trade secret laws protect the trust and confidentiality

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of business and fiduciary relationships. [FN24]

FN23. See generally Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Pennsylvania R. Co. v. P.S.C. of Pennsylvania, 250 U.S. 566 (1919).

FN24. E. I. duPont de Nemours Powder Co. v. Masland, 244 U.S. 100 (1917).

For the same reason, we cannot conclude that the federal interest in patent protection is so dominant that State legislation regarding trade secrets is assumed to be precluded. [FN25] Trade secret protection antedates modern patent legislation, and we must presume that Congress would have articulated federal ***14** dominance, had it wished to do so. Further, the obligations imposed by the federal patent laws do not reveal an intent to preclude State legislation. [FN26] Patent laws grant a limited exclusive right in return for public disclosure, while trade secret laws protect the obligation of contract, or deter the commission of torts.

FN25. Cf. Hines v. Davidowitz, 312 U.S. 52 (1941).

FN26. See New York C. R. Co. v. Winfield, 244 U.S. 147 (1917); Charleston & W.C.R. Co. v. Varnville Furniture Co., 237 U.S. 597 (1915); Southern R. Co. v. Railroad Commission of Indiana, 236 U.S. 439 (1915).

Finally, it cannot be said that State legislation in this area produces a result inconsistent with the federal legislative scheme. [FN27] The patent laws work their historic twofold purpose of rewarding creativity and disclosing invention for the public benefit. The result of trade secret protection is perfectly consistent and complementary: research is stimulated, and its fruits inure to the public benefit in the form of new and improved products and services.

FN27. See Cloverleaf Butter Co. v. Haygood Patterson, 315 U.S. 148 (1942); Hill v. Florida, 325 U.S. 538 (1945).

Last Term, in Goldstein v. California, --- U.S. ---, 37 L.Ed.2d 163 (1973), this Court refused to find that State criminal protection against "tape piracy" was preempted by federal copyright laws, prior to the extension by Congress of federal copyright protection to sound recordings. The Court argued that nothing in the copyright power suggests that the federal interest is exclusive, and that some copyright subject matter may be of purely local importance. The same considerations apply here. If the federal interest in protection of intellectual property were exclusive, surely the Constitution or the Congress would have so stated long before now.

***15** In the instant case, it is most difficult to imagine a Congressional intent to supersede State trade secret laws. Indeed, Congress has recognized the validity of protecting trade secrets in many federal statutes. Thus, for example, the patent law itself, 35 U.S.C. Section 24 (Rev. Stat. Section 4908) bars a contempt citation of a witness who refuses to disclose trade secrets, 18 U.S.C. Section 1905 forbids officers and employees of the United States from disclosing trade or know-how secrets; 15 U.S.C. Section 46(f) gives the Commissioner of the F.T.C. power to publish information received by the Commission, creept trade secrets; and 15 U.S.C., Sections 78x(a) and 79v deny the Securities and Exchange Commission authority to

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require disclosure of trade secrets in applications and reports. Moreover, Rule 26, of the Federal Rules of Civil Procedure and Rule 508 of the Proposed Rules of Evidence for United States Courts and Magistrates, approved by this court, --- U.S. ---, 34 L.Ed. 2d iv (1973) grant protection against disclosure of trade secrets, and confidential research and development information.

In the face of this express Congressional approval of protectibility of trade and know-how secrets, it must be concluded that Congress intended federal patent laws and State trade secret laws to share the task of protection of intellectual property, and the court below has wrongly concluded otherwise. [FN28]

FN28. Prudential Insurance Co. v. Benjamin, 328 U.S. 408 (1946).

CONCLUSION

This case presents a constitutional question of paramount public interest and concern on which there is an acknowledged conflict among the Circuits.

***16** Amicus Curiae respectfully urges this Court to issue a Writ of Certiorari in this case so that the conflict may be resolved and the present clouded status of the law of trade secrets may be clarified.

Kewanee Oil Co. v. Bicron Corp.
1973 WL 173806

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