

Federal Circuit Gives a Makeover to \$66 Million Judgment Against Beauty Giant

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Earlier this month, the U.S. Court of Appeals for the Federal Circuit reversed a \$66 million dollar judgment against beauty industry giant L'Oréal for patent infringement, trade secret misappropriation, and a related breach of a non-disclosure agreement. While the Court remanded for a trial on patent infringement and damages on the patent infringement claim, it dismissed the trade secret misappropriation and breach of non-disclosure agreement ("NDA") claims in full, ruling that no reasonable juror could have found either trade secret misappropriation or breach of contract, and thus that the trial court should have granted L'Oréal's motion for judgment as a matter of law ("JMOL"). The Federal Circuit's ruling provides some useful reminders on important tenets of trade secret law.

The underlying dispute involved plaintiff Olaplex's discovery of the protective benefit of maleic acid during hair-bleaching treatments. In May 2015, Olaplex claimed that it met

with L'Oréal to discuss a potential acquisition of Olaplex and to provide confidential information and documents pursuant to an NDA, including Olaplex's then-unpublished patent application of the maleic acid invention. Then, instead of proceeding with the acquisition, Olaplex claimed that L'Oréal opted for "Plan B" of copying Olaplex's patented method and launching competitor maleic acid products in August 2016. Olaplex filed suit in 2017 alleging claims of patent infringement, trade secret misappropriation, and breach of contract. After a lengthy and embattled litigation, including multiple intervening PTAB proceedings and Federal Circuit appeals, the Court made a determination of patent infringement on summary judgment, and the jury found for plaintiffs on patent-validity issues and the trade secret and breach of contract claims. The trial court then adjusted the damages award to avoid inconsistencies and prevent double recovery, and also award exemplary damages, attorney's fees, and prejudgment interest, amounting to a total judgment of \$66,167,843.

On appeal, the Federal Circuit closely scrutinized the four groups of trade secrets asserted by Olaplex, which were generally described as: (1) information in an "unpublished patent" application; (2) "business information"; (3) "testing and know how" and (4) "dead ends and trials and errors" and found that as to each, the jury could not reasonably find sufficient proof of the elements of liability.

With respect to the information in the unpublished patent application, Olaplex contended that the trade secret was "using maleic acid during bleaching." The Federal Circuit found that Olaplex failed to establish that the information in the unpublished patent application was not readily ascertainable through proper means, a requirement that is expressly included in the definition of a trade secret. In so finding, the Court reasoned that L'Oréal put forth numerous prior-art references and expert testimony establishing that the prior-art references disclosed the alleged trade secret before the May 2015 exchange. The Court noted that information in published patents or patent applications is readily ascertainable by proper means, and went on to cite a number of cases establishing the general principle that disclosure of a trade secret in a published patent or patent application extinguishes the trade secret. The Court also noted that Olaplex's own expert admitted that L'Oréal was using maleic acid in a method of bleaching as a pH adjuster before the alleged May 2015 information exchange, but ultimately decided it was not necessary to get into L'Oréal's evidence of its own internal consideration of using maleic acid before it received the unpublished patent application to arrive at the Court's conclusion that the claimed trade secret was not, in fact, a trade secret at the time of misappropriation.

With respect to the second category of "business information," which constituted Olaplex's "financials," the Court found that Olaplex failed to prove that the use of that information was without express or implied consent. Olaplex asserted that the business information provided insight into whether it was more cost effective for L'Oréal to acquire Olaplex or launch its own products (i.e. a "Build v. Buy analysis"). However, the Federal Circuit found that the parties' NDA explicitly gave L'Oréal authorization to use the information in that way, as the very purpose of the agreement was to allow L'Oréal to evaluate a possible acquisition. As a result, L'Oréal's use of the business information

trade secret was not improper since it was consented to by Olaplex.

With respect to the third and fourth trade secret categories of “testing and know how” and “dead ends and trials and errors,” the Federal Circuit found that there was an utter lack of proof that L’Oréal misappropriated anything secret within these groups. The Court reasoned that Olaplex described the categories with a high level of generality and never identified with specificity any particular information about testing, know how, dead ends or trial and error processes and evidence showing that L’Oréal made use of that information, let alone evidence of why that use was improper. Indeed, the Court noted that Olaplex addressed this information in a single sentence which indicated that these items yielded a dramatic change in L’Oréal maleic acid research. And, even the evidence relied upon for this assertion did not establish that L’Oréal misappropriated these buckets of “trade secrets” as opposed to the information contained in the unpublished patent application discussed above. The Court also found that, in part due to the absence of particularity provided by Olaplex describing these categories of purported trade secrets, the Court could not say that the evidence allowed a reasonable finding that the information was even a trade secret. The Court examined the expert testimony on these trade secret categories and found that “testing and know how” and “dead ends and trials and errors,” were not identified sufficiently to provide a concrete basis for finding that they were not readily ascertainable by proper means, including through prior literature on the topic.

The Court finished its discussion of the third and fourth trade secret categories by articulating the general rule that a person claiming rights in a trade secret bears the burden of defining the information for which protection is sought with sufficient definiteness to permit a court to apply the criteria for protection and determine the fact of appropriation. As the Court explained, the requirement of reasonable particularity matters because a trade secret described in general terms will usually be widely known or readily ascertainable by proper means, and thus not a trade secret. Further, without particularity, there is an inadequate basis for a fair adjudication of what information was actually used by the defendants. And, courts and juries require precision because, especially where a trade secrets claim involves a sophisticated and highly complex system, the trier of fact will not have the requisite expertise to define what the plaintiff leaves abstract. The Court then concluded that Olaplex had failed to provide such particularity as yet another basis why Olaplex’s claim failed.

Accordingly, the Federal Circuit concluded that the trial court should have granted L’Oréal’s JMOL motion. The Court also found that, in light of its trade secrets rulings, the breach of contract claim also could not survive because it was based on the same information that was purportedly given to L’Oréal under the NDA.

The Federal Circuit’s decision provides a useful reminder of several key principles of trade secret law. First, the Court points to a key tension in determining the method for protecting intellectual property, in that once a published patent application or patent discloses trade secret information, it generally extinguishes the information’s trade secret status. Thus, the decision of how best to protect trade secret information that is

potentially patentable should be evaluated carefully. Second, although it seems obvious, misappropriation does not occur when the alleged infringer has express or implied consent to use the information in the manner in which it has used the information that is the subject of alleged infringement. Finally, to be successful in litigation, a trade secret needs to be disclosed with reasonable particularity. In fact, in trade secret litigation in certain jurisdictions, a particularized disclosure of the trade secret is a prerequisite to obtaining discovery of the adversary's confidential proprietary information pertaining to the alleged infringement.