

# TRADE SECRETS

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## A. WHAT IS A TRADE SECRET?

Before we start talking about "trade secrets," we had better decide what we mean by the term. It is not as easy as one might suppose. For one thing, any definition of something whose only clear-cut characteristic is that others do not know what it is, will necessarily be somewhat vague. For another thing, we are talking about common law concepts and consequently are dealing with a definition that has grown up and developed, without being crystallized in statutory language, through court decisions in fifty different states, each of which is free to follow its own bent. Certain well-settled types of "trade secrets" readily come to mind: inventions that have not yet attained the status of a published patent; the presumably mysterious and carefully guarded technical know-how of the manufacturer (or for that matter, the domestic cook) which spells the difference between a satisfactory and an unsatisfactory result; or the formula that the Coca Cola Company supposedly uses in compounding its famous soft drink. These, of course, clearly come within the definition, but the concept is broader than this. The Restatement definition, and there seems no good reason to quarrel with it, reads as follows:<sup>1</sup>

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. . . .<sup>2</sup>

In short, one might justifiably classify as a "trade secret" almost anything or everything useful or advantageous in business activity that is not generally known or easily or immediately ascertainable to members of the trade.

Having started with this broad category, however, one quickly runs into troublesome borderline areas. (1) What about information and data that is fully and publicly available, but not in the collected, organized, convenient, and usable form that one asserts as his private domain under the "trade secret" doctrine? Concededly, others could pull together a similar compilation, but conceivably not without some

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<sup>1</sup> Restatement, Torts § 757, comment b (1939).

<sup>2</sup> Presumably the recitation of categories in the last sentence of the definition is illustrative, rather than exclusive.

difficulty and expenditure of time, money, and effort.<sup>3</sup> (2) Even closer issues arise where the data *is* available in readily accessible form, but others would be unaware of this fact or unable easily to locate the material, except as they learn of it through the possessor. In such circumstances, the existence or non-existence of a "right" on the part of the latter may turn, not upon the nature of his possession or its actual availability elsewhere, but upon special information possessed by him, or upon the circumstances under which another obtains it.<sup>4</sup> (3) Issues also arise when the nature of the secret is not apparent upon casual inspection, but can be determined by closer analysis (*e.g.*, a chemical compound). Thus, the concealed information may be a trade secret with respect to one who obtains the information by contract or improper means, but not with respect to one who purchases the product and makes his own analysis of it;<sup>5</sup> or, it may be a trade secret if the information is discoverable only with difficulty, but not if easily ascertained.<sup>6</sup>

Thus, we end up with a situation in which a given batch of non-public information may be considered a trade secret when it is in one form but not another, at one time but not another, or with respect to one person but not another. In the light of this ephemeral nature, we are probably better off simply to recognize that almost any useful information possessed by one person or a restricted group in a form not generally available to others is a trade secret, strictly speaking, but nevertheless may not be protectible as against others using it. In short, one probably should distinguish between trade secrets that are protectible and those that are not. This suggests, as one of the issues for examination, the legal basis and philosophy underlying the protection of trade secrets in our common law.

Before turning to these underlying concepts, however, it is necessary to briefly summarize the law, so we will know what we are talking about.

## B. THE GENERAL LAW OF TRADE SECRET PROTECTION—SUMMARY<sup>7</sup>

The Restatement definition, quoted above, marks the broad general scope of the trade secret concept. It includes a broad miscellany

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<sup>3</sup> An exhaustively indexed and classified collection of published court decisions comes to mind. And see, *L. M. Rabinowitz & Co. v. Dasher*, 82 N.Y.S.2d 431 (Sup. Ct. 1948); *Ellis*, *Trade Secrets* § 22 (1953) [hereinafter cited as *ELLIS*].

<sup>4</sup> *ELLIS* § 21.

<sup>5</sup> *Tabor v. Hoffman*, 118 N.Y. 30, 23 N.E. 12 (1889).

<sup>6</sup> *International Industries v. Warren Petroleum Corp.*, 99 F. Supp. 907 (D. Del. 1951).

<sup>7</sup> General treatises dealing with trade secret law include: *ELLIS*; 1 *Callman*, *The Law of Unfair Competition and Trade Marks*, Chap. 14 (1945); *Derenberg*, *Trade-*

of data and information, whether business ideas, technological data or what. Included within the definition are such things as "know-how," embracing information as to temperatures or pressures to be applied, ingredients, methods of treating or mixing, and so on;<sup>8</sup> the great mass of business information, made up of credit data and other confidential information, cost data, price information, customer lists, account books, ways of doing business, formulated advertising programs and plans, and the like.<sup>9</sup> It also includes information as to sources of materials and supplies, patterns for machines and comparable devices.<sup>10</sup>

The fundamental basis for legal protection, as the name suggests, is that the data in question be retained in secrecy. More accurately, it will be protected as long as it has not been disclosed under conditions that leave the *general public* free to use it, since, legally speaking, there are many circumstances under which partial or restricted disclosure may occur without the data losing its trade secret status.

Legal protection of data retained in absolute secrecy obviously poses no problem, since no one else has access to it in the absence of some of the developments discussed below. Consequently, full protection exists, not only as a legal but as a practical matter, subject to independent discovery of the data. The legal difficulties begin to arise when the secret *does* become known to others. Once this happens, the extent to which the law will recognize legal rights in the originator will depend upon the circumstances of disclosure. Disclosure may come about in three ways: (1) through affirmative, intentional action by the possessor himself; (2) by accidental, inadvertent or mistaken revelation, for instance, by losing descriptive documents, or unintentional disclosure through carelessness or mistaken identity;<sup>11</sup> or (3) through improper conduct on the part of the recipient or persons in privity with him, such as theft, espionage, or deception.

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Mark Protection and Unfair Trading (1936). For a bibliographical collection of the treatises and articles on the subject see Rossman, "Note on Trade Secrets," 3 PTC J. Res. & Ed. 211 (1959).

<sup>8</sup> ELLIS § 209; Dunlavey, "Protection of the Inventor Outside the Patent System," 43 Calif. L. Rev. 457 (1955); Knoth, "The Protection of Unpatented Ideas and Inventions," 32 J. Pat. Off. Soc. 268 (1950); Rivise, "Methods of Protecting an Invention—Trade Secret," 13 J. Pat. Off. Soc. 82 (1931); Note, "Interests in an Unpatented Invention," 83 U. Pa. L. Rev. 367 (1935).

<sup>9</sup> ELLIS Chap. 7; Kramer, "Protection of Customer Lists in California," 23 Calif. L. Rev. 399 (1935); McClain, "Injunction Relief Against Employees Using Confidential Information," 23 Ky. L. J. 248 (1935); Note, "Use of Confidential Information by a Former Employee," 23 Geo. L.J. 884 (1935); Note, "Property Rights in Business Schemes," 44 Yale L.J. 1269 (1935).

<sup>10</sup> ELLIS § 208; Schreyer v. Casco Prod. Corp., 190 F.2d 921 (2d Cir. 1951).

<sup>11</sup> Restatement, Torts §§ 757(d) and 758 (1939).

If intentionally disclosed to others *without restriction*, its "trade secret" status disappears, whether such disclosure is limited or widespread.<sup>12</sup> At the other extreme, one who obtains trade secrets through wrongful conduct obtains no right therein, either to use the information himself or to pass it on to others.

In between—and probably the most difficult legal situation—is the restricted disclosure made in confidence. This may come about in a variety of ways: through an employer-employee relationship, through business negotiations looking to the licensing of the trade secret or sale of some physical commodity, as a result of a principal-agent or other fiduciary relationship, through disclosure in court proceedings,<sup>13</sup> selective disclosure to designated individuals for whatever reason, and so on. Limited disclosure of these types, if kept within limits, does not destroy the "trade secret" status. The right on the part of the recipient to use the data and disclose it to others will be controlled by the understanding or agreement, express or implied, between the parties in question. To the extent that the owner restricts the free use and dissemination of such information, his legal rights remain unimpaired, but *only* to that extent. The legal difficulties that arise in this area are threefold: (1) Uncertainty may arise as to the exact scope and extent of the restrictions imposed, especially where the agreement between the parties is oral or implied. (2) The recipient may violate his obligation by disclosing the data to others, giving rise to difficult issues with respect to the rights of such third parties and others who obtain the information from them. (3) Disclosure and dissemination by the owner may become so widespread and general that it simply gets out of control and the data can no longer, legally or practically, be thought of as a trade secret in any real sense of the word, however much the originator may insist that he had no intention of abandoning his legal rights.<sup>14</sup>

To summarize the *general* application of trade secret law, a trade secret will, in the main, be protected where the following circumstances exist: (1) The data is retained in full secrecy by the owner. (2) As against one who obtains the information by wrongful means, for instance, theft or deception. (3) Where it is disclosed in confidence on

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<sup>12</sup> Carver v. Harr, 132 N.J. Eq. 207, 27 A.2d 895 (1942).

<sup>13</sup> Note, "Disclosure of Trade Secrets in Litigation," 41 Yale L.J. 144 (1931); Annot., 17 A.L.R.2d 383 (1951); cf. Annot., 62 A.L.R.2d 509 (1958).

<sup>14</sup> As Justice Brandeis pointed out in his dissent in *Int'l News Serv. v. Associated Press*, 248 U.S. 215, 256 (1918):

where the publication is in fact a general one, even express words of restriction upon use are inoperative. In other words, a general publication is effective to dedicate literary property to the public, regardless of the actual intent of its owner.

a restricted basis, in which case the recipient may use it only within the limits of the understanding (assuming the arrangement is not unenforceable for other reasons—an aspect that is discussed *infra*).

(4) The trade secret is in the possession of one who knows he is not entitled to use it, for example where it was obtained by accident or mistake, unless the possessor has so changed his position prior to learning of the mistake as to make it inequitable to bar him from its use.<sup>15</sup> (5) Where such information is revealed in a court or comparable proceeding, or to a government agency or other public body, unless disclosed under circumstances that render the proceedings and the data described therein, public information.

Trade secrets are generally *not* protected in the following circumstances: (1) Where the data is independently discovered, although it may still be protectible as against others than the independent discoverer unless the latter has made it public—as he would have a right to do. (2) Where the information is obtainable by analysis or inspection of products that are publicly available and accessible. (3) Where the trade secret is disclosed without restriction or on a non-confidential basis, in which event the recipient can neither be prevented from using it as he wishes nor from revealing it to others. (4) An employee of the owner, unless his express or implied contract provides otherwise, may use information, knowledge, and skills that he acquires and develops in the course of employment, and (according to the prevailing view) even certain confidential information that he can retain in his memory.<sup>16</sup> (5) Where an *innocent* recipient of a trade secret mistakenly revealed changes his position prior to knowledge of the error so that denial of the right to use the information would be inequitable. (6) Where disclosed, even though under compulsory conditions, in court or other public proceedings under circumstances that render the information and record publicly available.

### C. SOME SPECIAL SITUATIONS

Beyond these general criteria there are some special situations which have given rise to some rather complex and specialized law on the subject.

#### 1. *Unsolicited Submission of Ideas*

Individuals who think (oftentimes erroneously) they have come up with ingenious and original ideas often submit such ideas to commercial or industrial concerns for consideration, usually with the expectation of being compensated if the idea is used. Although such

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<sup>15</sup> Restatement, Torts § 758 (1939); ELLIS § 63.

<sup>16</sup> Restatement (Second), Agency § 396 (1958); ELLIS § 76.

submissions can prove to be real legal headaches to the recipients, it is hardly a solution, usually, simply to reject them out of hand. For one thing, such rejection may damage the concern's goodwill and public relations. Secondly, some of the ideas *do* prove valuable and the concern hesitates to overlook a good bet. Finally, by the very act of opening and reading the letter, the concern puts itself in an ambiguous situation where it may be deemed to have benefited from the idea if it in fact later uses it.

In the area of submitted ideas, our traditional law of contracts and of equity does not work well, to put it mildly. With respect to contract law, the owner of the idea simply cannot disclose it to others without putting himself at the mercy of the latter. On the other hand, the latter can hardly agree to any terms without first knowing what the other party has to offer. The result is an impasse in which the traditional concepts of offer and acceptance are just not workable. Nor is the situation made easier by resorting to the principles of equity. Here, the alternatives are to enjoin use or disclosure, which may be neither feasible nor fair to the recipient; to base recovery upon the loss to the owner, which is probably indeterminable; or to base it upon profit to the recipient, which may likewise be indeterminable because of difficulty in apportioning the total contribution between the offeror and the recipient—and in any event fails to take into consideration the privilege of the recipient to carry out his own research and come up with his own ideas. Under these circumstances, the operation tends to reduce itself to a sort of “gamesmanship” at both the business negotiation and litigation levels.<sup>17</sup>

At the negotiations stage, the offeror, if he is reasonably sophisticated, makes an effort to frame his tender in terms that will support a conclusion that he expected compensation and that any receptivity or use by the offeree should be construed as an acquiescence in this expectation.<sup>18</sup> At the same time he will play his cards as close to his chest as he can, submitting the minimum of specific information pend-

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<sup>17</sup> Most of the writings in this area pretty much take the form of advice to the corporate recipient as to how it may protect itself against liability for unsolicited submissions. See, e.g., Brown, “Liability in Submission of Idea Cases,” 29 J. Pat. Off. Soc. 161 (1947); Kuehnl, “Liability from the Use of Submitted Ideas,” 13 The Business Lawyer 90 (1957); Lee, “Submission of Ideas—A possible Solution,” 29 J. Pat. Off. Soc. 895 (1947); Wyman, “Liability in Considering Outsiders’ Ideas,” 40 J. Pat. Off. Soc. 405 (1958); Note, “Corporate Protective Devices in the Acquisition of Ideas,” 65 Harv. L. Rev. 673 (1952). *But see* Haivighurst, “The Right to Compensation for an Idea,” 49 Nw. U. L. Rev. 295 (1954); An occasional author comes up with a “how-to-do-it” for the submitter. See Ecker (Comment), “Ideas as Subject Matter of Express, Implied in Fact and Implied in Law Contracts,” 31 Corn. L.Q. 382 (1946).

<sup>18</sup> Ecker, *supra* note 17.

ing a firmer commitment by the recipient. The recipient, on the other hand, tends to take whatever steps he can to disclaim any legal responsibility as a condition of further negotiation or consideration of the idea, thereby putting the transaction in a posture comparable to that attending an *ex gratia* award entailing no legal obligation upon the offeree that can be enforced in court even though he makes use of the idea.<sup>19</sup> Many concerns, in an effort to be fair both to themselves and to the offeror it may be said, follow the practice of requiring the latter to apply for a patent before it will consider the matter further, thus putting the idea in a higher legal status from the "property" standpoint. However, this poses difficulties where the idea is not patentable, where it involves confidential information that would not appear in a patent and where the patent procedures would be time-consuming and expensive.

At the litigation level, the maneuvering mainly takes the form of the offeror attempting to get the case to a jury (which is likely to be sympathetic to him) and of the recipient attempting to keep the case from the jury (since the judge is likely to be less emotional about the matter and also may be expected to pay considerable attention to the shortcomings that inevitably exist if the transaction is tested by traditional contract, evidence and quasi-contract law).

To summarize the prevailing law in this area, the offeror is generally denied recovery in the following situations: (1) Where he submits the idea with no indication that he expects compensation or that the recipient should be liable for its use. (2) Where the recipient, even though he accepts the submission, does not benefit from it either because he does not use the idea or because he already has thought of it himself or obtained it from other sources. (3) Where the idea has been so widely disseminated that it no longer enjoys the status of a "trade secret." (4) Where it is submitted in vague, general terms rather than as a specific, relatively detailed and worked out proposition. (5) Where the recipient, as a condition to further bargaining, has expressly negated any liability on its part. (6) Even where the foregoing conditions do not exist, many courts insist, to a varying extent, that the arrangement meet the formal requirements of contract law (definite subject matter and terms, consideration, offer and acceptance, etc.). Under these circumstances, it is not surprising that the offeror of such ideas is only rarely successful in litigation, although one's sympathy for those who voluntarily submit ideas may be tempered somewhat by the realization that many of the ideas probably *are* largely

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<sup>19</sup> See *Lueddecke v. Chevrolet Motor Co.*, 70 F.2d 345 (8th Cir. 1934). For an amusing example of corporate caution, see *New Yorker*, "Talk of the Town," March 5, 1955, p. 1.

worthless to the recipient, that some individuals would quite willingly take unfair advantage of corporate recipients if the law gave them any leeway, and that, after all, the submission was volunteered by the offeror and not invited by the recipient.

## 2. *Limited Enforcement of Contracts Relating to Trade Secrets*

Revelation of trade secrets to others on a restrictive or limited basis, is often attended by a formal written contract. This, of course, is desirable in order to avoid uncertainties and needless controversies. The circumstances in which contractual arrangements may be used are many and varied. They include, not only the submission of ideas discussed above, but also employer-employee relationships, contracts for the conduct of research, trade secret licensing arrangements which may also cover patents, business relationships between partners or joint adventurers, and so on.

There is no need to discuss here the overall requirements of contract law or their general application to contracts relating to trade secrets. The usual requirements of specific or ascertainable subject matter, offer and acceptance, consideration, and definiteness apply here as they would in any other contract situation. There are three areas in which special problems arise: (1) the application of contract law to the voluntary submission of ideas; (2) emphasis upon the "consideration" requirement; and (3) imposition of conditions contrary to public policy that may render such contracts void and unenforceable.

The use of contracts in connection with the voluntary submission of ideas has been discussed above.

As for "consideration" requirements, many contracts that might otherwise meet these tests were other types of subject matter involved, fail when the subject matter is a trade secret, on the ground that the alleged "trade secret" is really not secret at all but is generally available from other sources. There are two difficulties with this approach. For one thing, even though the information may be available elsewhere, its submission pursuant to the contract may provide convenience, organization, and other advantages quite sufficient to meet the tests of consideration as applied in most contract cases. For another, even in the trade secret area, it is a general rule that if the contracting parties know all the circumstances, including the fact of outside availability, the contract will be enforced. By strict "consideration" tests, however, this should not affect its enforceability. Accordingly, it would appear that the real determining factor here is not so much the matter of "consideration" or "no consideration," but whether the party paying for the information is operating under a



misconception, has been the victim of deception or fraud, or otherwise is not getting the bargain he thought he was getting.<sup>20</sup>

Questions of public policy arise in two main categories: (1) employment contracts imposing restrictions upon the employee with respect to future employment, obligations to assign additional data or ideas following termination of employment, restrictions upon use or disclosure of information obtained in the course of employment, etc.; and (2) restrictive conditions imposed in licensing, assigning or disclosing a trade secret, including limitations upon use of the information, geographic or field of use restrictions, agreements not to compete, and tying clauses.

In the case of employment contracts, the law worries about such restrictions from two standpoints. Its primary objection is to restrictions that are not necessary for the reasonable protection of the employer's legitimate interests and yet impose burdens upon the employee that impair or endanger his ability to carry on his calling.<sup>21</sup> Secondly, such contracts may be attacked on the ground that they restrain trade, tend to monopolize or otherwise impair or lessen competition.<sup>22</sup> In the case of contracts not relating to employment, the primary concern is with restrictions that restrain trade or lessen competition.<sup>23</sup> Whether because of greater equality of bargaining power, less threat to the possibility of earning a livelihood, or because the dangers to the party seeking protection from competition are more real, the courts are sometimes more tolerant of restrictive agreements contained in contracts for sale, license or assignment of trade secrets than of those contained in employment contracts.<sup>24</sup>

### 3. *Trade Secrets Disclosed in the Course of Employment*

The employer-employee relationship has given rise to a large share of the controversies that arise in the trade secret area as a result of an employee using and disclosing, after termination of his employment, information obtained during the course of such employment. The employment contract, of course, controls to the extent that it deals with the subject, except as public policy considerations, discussed above, or statutes render it unenforceable.<sup>25</sup> Even apart from public policy

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<sup>20</sup> ELLIS § 20.

<sup>21</sup> *Milwaukee Linen Supply Co. v. Ring*, 210 Wis. 467, 246 N.W. 567 (1933); *cf.*, *Fullerton Lumber Co. v. Torborg*, 270 Wis. 133, 70 N.W.2d 585 (1955); *Fullerton Lumber Co. v. Torborg*, 274 Wis. 478, 80 N.W.2d 461 (1957).

<sup>22</sup> *United States v. Addyston Pipe & Steel Co.*, 85 Fed. 271, 283 (6th Cir. 1898).

<sup>23</sup> *Ibid.*

<sup>24</sup> 5 *Williston, Contracts* § 1643 (1937).

<sup>25</sup> While statutory limitations upon the disposal of trade are virtually unknown in the United States, many European countries give employees certain rights

considerations, certain types of contractual limitations may be held unenforceable such as restrictions preventing the employee from using information or data that is already publicly available, non-confidential data obtained in the course of employment, data he possessed at the time of entering employment or which he developed independently of his employment duties.<sup>26</sup> In the absence of contract, employees may take with them and use information acquired in the course of their employment that is of a non-confidential nature or otherwise not subject to restrictions, and may make use of the general and detailed experience, knowledge and training acquired in the course of employment, other than information classified as confidential or trade secret. Even with respect to possible "trade secret" material, such as information concerning customers, credit data, route information, sources of supply, etc., many courts will permit him, in the absence of contractual arrangements to the contrary, to take with him and put to use such information as he can carry away from the business in his own memory, as distinguished from appropriating records or copying information from his employer's files.<sup>27</sup> One may only speculate as to how workable and meaningful such a restriction may be. As a practical matter, it may simply provide a useful dodge through which a court can, at times, reach a desired result without really having to explain.

It should be noted that the criteria that rule in a fiduciary or confidential relationship of trust are equally applicable in the employer-employee relationship. As a consequence, the law differentiates between the employee's freedom to engage in practices that conflict with the interests of his employer during the period that he is actually employed, as compared to his relatively greater freedom to engage in such activities after his employment has terminated.<sup>28</sup> The law also sometimes allows an employee who has been discharged greater freedom in the use of confidential information than it does one who voluntarily leaves his employer's service.<sup>29</sup> Finally, in connection with the employer-employee relationship the liability of a third party who induces an employee to disclose trade secrets should be mentioned. Such a person may, under traditional law, be viewed as either collaborating

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with respect to their inventions which can not be contracted away. See Neumeyer, "Employees' Rights in Their Inventions," 83 Int'l Labour Rev. 3 (1961).

<sup>26</sup> Continental Car-Na-Var Corp. v. Moseley, 24 Cal. 2d 104, 148 P.2d 9 (1944); Roy v. Bolduc, 140 Me. 103, 34 A.2d 479 (1943).

<sup>27</sup> *Supra* note 16; Gloria Ice Cream & Milk Co. v. Cowan, 41 P.2d 340 (Calif. 1935), 23 Geo. L.J. 884.

<sup>28</sup> Vulcan Detinning Co. v. Assman, 173 N.Y.S. 334, 351 (App. Div. 1918).

<sup>29</sup> See Milwaukee Linen Supply Co. v. Ring, 210 Wis. 467, 246 N.W. 567 (1933); Byram v. Vaughn, 68 F. Supp. 981 (D.D.C. 1946), 47 Col. L. Rev. 1071.

in a breach of confidence, thus creating in effect a trusteeship *ex maleficio* or, alternatively, of inducing a breach of contract.<sup>30</sup>

#### 4. *Fiduciary or Confidential Relationships With Respect to Trade Secrets*

The very nature of the trade secret lends itself to the establishment and enforcement of a fiduciary or confidential relationship. This follows from the fact that, as a piece of property, the trade secret is a fragile and delicate thing, indeed, a property that simply disappears when it is subjected to misuse or violation of confidence. Consequently, the possessor of a trade secret is not likely to disclose it, even where such disclosure is accompanied by a binding contract, in the absence of personal confidence in the recipient. Recognizing this, the courts may show some disposition to read a confidential or fiduciary relationship into circumstances that would not be considered such if other types of property were involved.<sup>31</sup> In any event, the finding of such a relationship, and the application thereto of settled law relating to the fiduciary, are quite common in the trade secret field. It includes a variety of relationships: employer-employee (discussed above), principal and agent (hired researchers, salesmen, etc.), lawyer and client, and even such relatively arm's length relationships as those involved in licensing, partnerships, joint ventures, and the like. The areas of fiduciary relationship and contractual relationship are not mutually exclusive. The respective rights and obligations of the parties may be the subject of contract, express or implied, here as in any other situation, and the terms of the contract will control. Beyond the contractual obligation, however, there may be imposed a high degree of duty, responsibility, and loyalty that stems from the fiduciary relationship. Thus, the employee or agent may have a duty to devote himself to the interests of his superior and avoid conduct that conflicts with the latter's interests or puts the former's personal interests ahead of the latter's. In consequence, he may be held accountable for conduct that would be acceptable in the absence, or after the termination, of this special relationship.<sup>32</sup> Examples include the obligation of a lawyer who discovers a significant patent in the course of carrying on a search with respect to a client's trade secret, to acquire the patent for his client rather than for himself;<sup>33</sup> the obligation of an agent, during the period of agency, to avoid analysis of a prod-

<sup>30</sup> ELLIS § 57; *cf.* *Monsanto Chem. Co. v. Miller*, 118 U.S.P.Q. 74 (D. Utah 1958).

<sup>31</sup> ELLIS §§ 48, 49; *Mitchell Metal Prod. v. Berkeley Equip. Co.*, 36 F. Supp. 1010 (W.D. Pa. 1941).

<sup>32</sup> *Vulcan Detinning Co. v. Assman*, 173 N.Y.S. 334, 351 (App. Div. 1918).

<sup>33</sup> *Shellmar Prod. Co. v. Allen-Qualley Co.*, 36 F.2d 623 (7th Cir. 1930).

uct for the purpose of determining its secret ingredients;<sup>34</sup> and the obligation of an employee to avoid using his employment connections to develop a good will or clientele of his own as long as he is so employed.<sup>35</sup>

### 5. *Trade Secrets in Relation to Patenting*

The specialized nature of the patent law has given rise to some special rules applicable to the trade secrets that are often inextricably tied in with patentable inventions. It is settled that (except for certain circumstances hereinafter noted) an invention, unless publicly disclosed, retains the status of a trade secret up to the time that a patent issues and is entitled to the legal protection accorded trade secrets.<sup>36</sup> Upon issuance, however, the basis for protection shifts from the common law of trade secrets to the statutory law of patents, under which the idea receives seventeen years protection unless the patent is invalidated or otherwise held unenforceable.<sup>37</sup> Naturally, this close relationship and legal differentiation gives rise to some fairly complex law. Thus, one receives full protection of the common law of trade secrets up to the time the patent actually issues and is published—that is, of course, unless the invention is otherwise made public.<sup>38</sup> This protection includes the period between application and issuance during which, under section 122 of Title 35, U.S. Code, the application enjoys a confidential status within the Patent Office.<sup>39</sup> If the patent never issues, the application remains undisclosed and the “trade secret” status remains what it would have been had there been no patent application. There are some exceptions to this rule. (1) Section 122 authorizes the Commissioner of Patents to make the application public where in the

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<sup>34</sup> *Cowley v. Anderson*, 159 F.2d 1 (10th Cir. 1947).

<sup>35</sup> *Cf. Island Theatre Circuit Corp. v. Liggett*, 76 U.S.P.Q. 620 (N.Y. Sup. Ct. 1948).

<sup>36</sup> *Dunlavey*, “Protection of the Inventor Outside the Patent System,” 43 Calif. L. Rev. 457 (1955); *Herald*, “Trade Secrets as an Alternative to Patents,” 9 Amer. Law School Rev. 1107 (1941); *Knoth*, “The Protection of Unpatented Ideas and Inventions,” 32 Jour. Pat. Off. Soc. 268 (1950); *A. O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531 (6th Cir. 1934); *but see Macbeth-Evans Glass Co. v. General Electric Co.*, 246 Fed. 695 (6th Cir. 1917).

<sup>37</sup> 35 U.S.C. § 154; *A. O. Smith Corp. v. Petroleum Iron Works Co.*, *supra* note 36.

<sup>38</sup> *Hoeltke v. C. M. Kemp Mfg. Co.*, 80 F.2d 912, 923 (4th Cir. 1935); *Picard v. United Aircraft Corp.*, 128 F.2d 632 (2d Cir. 1942).

<sup>39</sup> Section 122 reads as follows:

Applications for patents shall be kept in confidence by the Patent Office and no information concerning the same given without authority of the 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.

public interest, an authority he almost never invokes. (2) If an appeal is taken from a patent denial to a federal district court (under 35 U.S.C. sec. 145) or the Court of Customs and Patent Appeals (under 35 U.S.C. sec. 146), the proceeding is public and the information is disclosed even though the court upholds the Patent Office denial of a patent. (3) The loser in an interference action (a proceeding for settling disputes between two or more competing applicants as to which is the true inventor and entitled to a patent) may in a sense be said to have lost his trade secret in such proceeding, although his loss is clearly *de minimis*. (4) In over half the instances in which issued patents get into litigation, the patent is held invalid.<sup>40</sup> The result is that the patentee, having surrendered his trade secret in return for a patent, now finds that he does not have any patent rights, either. Here, again, the injury suffered by the owner of the idea is likely to be *de minimis* and in any event is offset to a varying extent by the nuisance value that assertion of the patent may have had for him in the meantime.

Beyond these circumstances, it must be recognized that the patentee often fails to disclose in his patent all the information pertinent to his invention. While this may be grounds for denying the patent or invalidating one if it issues,<sup>41</sup> it does not affect adversely the trade secret status of such withheld information. Thus, a large measure of know-how may be retained in a trade secret status at the same time that the patentee obtains significant patent rights.

An interesting question that arises occasionally relates to the possible effect of patenting upon individuals who, rightfully or wrongfully, learned of the trade secret prior to the time of patenting. As noted above, the trade secret status continues up to the time of actual issuance of the patent; likewise, trade secret data *not* disclosed by the patent remains a trade secret. There is disagreement as to whether one who wrongfully obtains secret information prior to the issuance of a patent may be barred from using such information after its disclosure in the patent itself. Recognizing that such information may be used freely by the public, subject to whatever limitations may be imposed by the patent law itself, the majority of courts hold that any obligations of a contracting party or wrongdoer existing prior to such patenting, cease upon publication of the patent.<sup>42</sup> Some courts, however, notably the Sixth Circuit<sup>43</sup> and possibly

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<sup>40</sup> S. Rep. No. 1464, 84th Cong., 2d Sess. 4 (1956).

<sup>41</sup> 35 U.S.C. § 112.

<sup>42</sup> *Conmar Prod. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2d Cir. 1949); *Picard v. United Aircraft Corp.*, 128 F.2d 632 (2d Cir. 1942).

<sup>43</sup> *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531 (6th Cir. 1934).

the Seventh,<sup>44</sup> take the contrary view and prohibit use by a wrongful appropriator even after it becomes freely available for use by other members of the public. Whatever the merits and policy considerations in support of such a position in the absence of patents (and they are not very persuasive), such a holding appears to conflict with the patent law doctrine that patented inventions shall become available for public use once the patent expires or otherwise loses its legal effect.<sup>45</sup>

#### D. THE UNDERLYING LEGAL PHILOSOPHY FOR TRADE SECRET PROTECTION

The foregoing discussion attempts to mark out the main features of the trade secret law, without unduly cluttering up the discussion with the refinements and conflicts that inevitably exist in this area. It will be useful now, to examine more carefully and critically the underlying philosophy or criteria upon which legal protection for trade secrets is based.

First of all, in order to clarify the issues, it may be useful to indicate what legal theories are *not* customarily invoked in the protection of trade secrets. (1) We find in this area little support for the theory of a "moral" or "natural" right in a trade secret. This is the more interesting in that such a right has been frequently urged in the area of both patents and copyright, especially the latter.<sup>46</sup> Thus, it is often asserted that one who makes an invention has a "natural" right in what he has invented and that the statutory protection provided therefor merely expresses and carries into practical operation this natural right. True, this approach to inventions has not proven acceptable to the majority of students in this field, whether legal philosophers, judges or legislators, although certain countries, notably France, have been receptive to it, and even the United States found it appealing during the period when natural law concepts were at their zenith.<sup>47</sup> In the copyright field, this doctrine has carried more weight, perhaps because copyright protection is more modest in scope than patent protection and because copyrighted material by its nature tends to be more closely identified

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<sup>44</sup> *Shellmar Prod. Co. v. Allen-Qualley Co.*, 36 F.2d 623 (7th Cir. 1930).

<sup>45</sup> *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945).

<sup>46</sup> Prager, "The Early Growth and Influence of Intellectual Property," 34 *Jour. Pat. Off. Soc.* 106 (1952); Register of Copyrights, "Copyright Law Revision" (House Committee on the Judiciary print) 4 (1961).

<sup>47</sup> Machlup, "An Economic Review of the Patent System," Study No. 15, Senate Committee on the Judiciary, Subcommittee on Patents, Trademarks and Copyrights 3 (1958). For a detailed analysis of the "natural law" approach and the difficulties it runs into, see 1 Robinson, *Patents* 37-51 (1890).

with the originator than is true of industrial inventions. Thus, an appropriation of an artistic or literary creation may not only invade the owner's property rights, but may also discredit him to the extent that the copywork is faulty or inadequate.<sup>48</sup> This philosophical foundation for patents and copyright has been discussed in some detail because one can conceive of the same approach being taken in the trade secret area. The short answer is that it has not.

(2) With minor exceptions, no *statutory* protection is given to trade secrets—in contrast to some other countries, especially France and Germany, which have gone considerably further than we in providing statutory protection against wrongful appropriation of trade secrets.<sup>49</sup> A few state statutes do deal with trade secrets explicitly. New York and New Jersey statutes, for instance, make it a misdemeanor wilfully to misappropriate such secrets or to induce their disclosure by employees in violation of an employment contract.<sup>50</sup> In addition, some general state statutes and statutory proposals providing for regulation of unfair competition are broad enough to cover trade secrets. For example, some specifically prohibit inducing disclosure of confidential information; others, more general, are directed against violation of "reasonable standards of commercial ethics," a clause that is probably broad enough to include misappropriation of trade secrets.<sup>51</sup> Possible current trends in this field may be indicated by pending proposals for a *national* law against unfair competition, which likewise adopt this general ban against violating "reasonable standards of commercial ethics," although it is significant that these proposals are silent with respect to trade secrets *per se*.<sup>52</sup> The current suggestions for federal action in this area sponsored by the American Bar Association, which appear to visualize a more limited concept of unfair competition and suggest that the matter of trade secrets be treated in separate proposals and separate legislation,<sup>53</sup> are also significant. Notwithstanding this prevailing hesitancy to provide *direct* and explicit statutory protection for trade secrets,

<sup>48</sup> Katz, "The Doctrine of Moral Right and American Copyright Law—A Proposal," 24 So. Calif. L. Rev. 375 (1951); Roeder, "The Doctrine of Moral Right: A Study in the Law of Artists, Authors and Creators," 53 Harv. L. Rev. 554 (1940); Strauss, "The Moral Right of the Author," 4 Am. J. Comp. L. 506 (1955).

<sup>49</sup> Barton, "A Study in the Law of Trade Secrets," 13 U. Cinc. L. Rev. 507 (1939).

<sup>50</sup> Oppenheim, *Unfair Trade Practices* 523 (1950).

<sup>51</sup> Fuller, "A Proposed Uniform State Unfair Competition Act," Proceedings, A.B.A. Section of Patent, Trademark and Copyright Law 272 (1961); Lunsford, "Unfair Competition: Uniform State Act Needed," 44 Va. L. Rev. 583 (1958).

<sup>52</sup> Kunin, "Erieanompkinitis: The Malady and Its Cure," Proceedings, A.B.A. Section of Patent, Trademark and Copyright Law 276 (1961).

<sup>53</sup> Fuller, *supra* note 51.

there is considerable *indirect* recognition of them in various state and federal statutes. Thus, the Federal Trade Commission Act, section 6(f), protects trade secrets from disclosure in connection with investigations and collections of information undertaken by the Commission.<sup>54</sup> Recently, however, the Commission has interpreted this provision quite narrowly, in terms of what information it may collect, what it may publicly disclose, and its refusal to extend the same protection to confidential information presented in an FTC proceeding that it extends to information obtained through investigation.<sup>55</sup> Section 122 of the patent laws (Title 35, U.S.C.) provides that applications for patents shall be retained in a confidential status up to the time that a patent actually issues.<sup>56</sup> Also, section 24 of the patent laws (Title 35, U.S.C.) protects one from disclosing trade secrets in legal proceedings.<sup>57</sup> The Census Act<sup>58</sup> provides that information obtained upon Census reports shall be retained in confidential status, although the effect of this provision has been sharply delimited in the recent *St. Regis Paper v. United States* decision.<sup>59</sup> Other statutes that give recognition and respect to existing trade secrets include section 8(d)(4) of the Small Business Act,<sup>60</sup> section 10 of the Federal Trade Commission Act,<sup>61</sup> section 216 of the

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<sup>54</sup> 15 U.S.C. § 46(f). This provision reads in part as follows:

The Commission shall also have the power—

(f) To make public from time to time such portions of the information obtained by it hereunder, *except trade secrets and names of customers*, as it shall deem expedient in the public interest; . . . (Emphasis added.)

<sup>55</sup> *FTC v. Tuttle*, 244 F.2d 605 (2d Cir. 1957), *cert. denied*, 354 U.S. 925 (1957). For discussion of current developments, see BNA Analysis, "Confidential Business Information," Antitrust & Trade Regulation Report No. 20, B-1 (11/28/61), *Cf. Evis Mfg. Co. v. FTC*, 287 F.2d 831 (9th Cir. 1961), holding that, under the facts of that case, refusal to disclose trade secrets did not support an inference of fraud and deception.

<sup>56</sup> The text of Section 122 is quoted *supra* note 39.

<sup>57</sup> Section 24 provides in part 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.

<sup>58</sup> 13 U.S.C. § 9a.

<sup>59</sup> *St. Regis Paper Co. v. United States*, 82 Sup. Ct. 289 (1961), holding that, although reports submitted by respondent to the Census Bureau remain confidential, the FTC may subpoena *copies* of such reports retained in respondent's files. Justice Clark wrote the majority opinion. Justices Black, Whittaker and Stewart dissented.

<sup>60</sup> 15 U.S.C. § 637. The provision in question was added by P.L. 87-305, sec. 7 (9/26/61), the pertinent provision of which reads as follows:

(4) Nothing in this subsection shall be construed to authorize the Administrator, the Secretary of Defense, or the Administrator of General Services to secure and disseminate technical data or processes developed by any business concern at its own expense.

<sup>61</sup> 15 U.S.C. § 50.



Customs Act,<sup>62</sup> and section 1335 of the Tariff Commission Act.<sup>63</sup> All of these impose restrictions and penalties upon the unauthorized disclosure of information and data received by governmental agencies in secret. There are, of course, additional statutes preserving strategic data in secrecy for the purpose of national security,<sup>64</sup> but these have quite a different purpose behind them. Finally, there is a limited area, part of the copyright law, which permits one to maintain copyright protection of *unpublished* productions under the statute and at the same time defines in quite generous terms what is considered "unpublished."<sup>65</sup>

In addition to formal statutory recognition, the Federal Government gives recognition and respect to trade secrets through various regulations or settled practices and procedures. Thus, the Armed Services Procurement Regulations provide, with some exceptions, for protection of trade secrets submitted to the Defense Department;<sup>66</sup> the Federal Rules of Civil Procedure<sup>67</sup> protect secret processes and similar data from disclosure in federal litigation; the Federal Trade Commission treats conduct designed to induce breach of confidence with respect to trade secrets as an unfair method of competition that violates the Federal Trade Commission Act;<sup>68</sup> it also includes prohibitions against such invasions in many of its Trade Practice Conference rules and in cease and desist orders issued by it.<sup>69</sup>

Notwithstanding the various recognitions of trade secret status enumerated above, the limited scope of such recognition stands in sharp contrast to the broad legal protection offered under the patent and copyright statutes, once the subject invention or writing is

<sup>62</sup> 18 U.S.C. § 216.

<sup>63</sup> 19 U.S.C. § 1335.

<sup>64</sup> See, e.g., 35 U.S.C. §§ 181-188, empowering the Commissioner of Patents in the interests of national security, to order an invention kept secret and withhold issuance of a patent thereon, and barring patent application in other countries without first obtaining a license from the Commissioner.

<sup>65</sup> Register of Copyright, *op. cit. supra* note 46, ch. IV, "Unpublished Works: Common Law and Statutory Protection" 39-43; Copyright Law Revision Study No. 29, "Protection of Unpublished Works" (1957).

<sup>66</sup> ASPR, sec. 9-202, "Acquisition and Use of Data" (as revised 10/15/58).

<sup>67</sup> Fed. R. Civ. P. 30(b) reads in part as follows:

[T]he court in which the action is pending may make an order that . . . secret processes, developments, or research need not be disclosed. . . .

<sup>68</sup> See FTC Ann. Rep. 85 (1959), "Types of Unfair Methods and Practices." Item 5 in this list of practices reads as follows:

5. Procuring the business or trade secrets of competitors by espionage, or by bribing their employees, or by similar means.

<sup>69</sup> Oppenheim, *Unfair Trade Practices* 524, 583 (1950).

publicly disclosed. Here, as stated before, the act of publication shifts the data from the status of a trade secret, protected only by the common law or by narrow statutes of the type just discussed, to a broadly protected property which preserves to the owner exclusive rights of a somewhat varying scope in the subject matter until the expiration of the patent or copyright.

Certain additional proposals for federal legislation, beyond those already noted, which operate at the fringes of the trade secret area, should be mentioned. These typically would provide for protection of data and information for a limited time *after* public disclosure, rather than providing statutory protection while still in the trade secret category. These proposals, more akin to the patent and copyright statutes, include limited protection against style piracy and for designs of various types (clothing, decorative objects, etc.),<sup>70</sup> a short period of protection for news releases after they have been made public,<sup>71</sup> protection of publicly rendered musical arrangements and recordings,<sup>72</sup> and so on.

(3) A third concept that is rarely invoked in support of trade secret law is the concept of "property"—except as one defines property broadly as anything that the law will protect.<sup>73</sup> It is true that the courts frequently refer to trade secrets as "property," but they invariably run into difficulties when they attempt to explain the nature of this "property" right. This is not surprising. It is, indeed, a strange form of "property" that disappears when the information it embraces becomes public or others independently make the same discovery, and the protectability of which depends upon the circumstances of disclosure and use—as, for instance, where an innocent person is permitted to use it without consent, but one who violates a confidence is not. Although he was talking about another matter, Judge Hand well expressed the legal limitations surrounding the "property" concept when he said in *R.C.A. Mfg. Co. v. Whiteman*:

"Property" is a historical concept; one may bestow much labor and ingenuity which inures only to the public benefit; "ideas," for instance, though upon them all civilization is built, may never

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<sup>70</sup> For discussion of the pro's and con's of federal legislation in this area, see Ringer, "The Case for Design Protection and the O'Mahoney Bill," Proceedings, A.B.A. Section of Patent, Trademark and Copyright Law 25 (1959); Mayers, Proposed Legislation for the Protection of Ornamental Design," Proceedings, A.B.A. Section of Patent, Trademark and Copyright Law 32 (1959).

<sup>71</sup> See discussion by Justice Brandeis, dissenting, in *Int'l News Service v. Associated Press*, 248 U.S. 215, 264-267 (1918).

<sup>72</sup> H.R. 1270, 80th Cong., 1st Sess. (1947). For extended discussion of the subject, see Copyright Law Revision Study No. 5, "The Unauthorized Duplication of Sound Recordings" (1958).

<sup>73</sup> *E. I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917).

be "owned." The law does not protect them at all, but only their expression; and how far that protection shall go is a question of more or less; . . .<sup>74</sup>

What, then, *are* the legal theories upon which trade secret protection is to be founded? They are mainly six: (1) enforcement of contracts, (2) tortious inducement to breach of contract, (3) breach of confidence or trust, (4) considerations of quasi-contract or equity, such as unjust enrichment, (5) tortious invasion of privacy of a specialized nature, and (6) unfair competition.

(1) The application of contract law has already been extensively discussed and need not be further elaborated. Its application carries with it the usual contract requirements of definable subject matter, meeting of the minds, offer and acceptance, consideration, and the absence of provisions that would make it illegal or unenforceable. Not only the traditional law applicable to bilateral contracts, but the law relating to unilateral contracts, as exemplified in many employment relations, situations involving submission of ideas, etc., applies. The law relating to implied, as distinguished from express, contracts also applies. The invocation of the law of contracts in this field, to the extent that contractual relationships do exist, makes perfectly good sense. General public policy fully supports proposition that, barring special circumstances that make them unenforceable, agreements between two or more competent parties should be enforced as they are written and understood. There is no discernible reason for not applying this doctrine in the trade secret field the same as anywhere else.

(2) Closely tied to the enforcement of contracts, although itself based upon a theory of torts, is the action based upon *inducing* breach of contract. The circumstances that often exist in the trade secret area result in this being a fairly common offense. Typically, it takes the form of an outsider persuading or bribing employees or others who are in a position of confidence *vis à vis* the possessor of the trade secret, to disclose such secret contrary to their obligations.<sup>75</sup> In such a situation, the outsider lays himself open to legal action, to the extent that he acted wilfully and knowingly. Indeed, the strong feeling against this type of conduct is suggested by the fact that this practice has been singled out in many unfair competition statutes for express condemnation—the only aspect of trade secret law that has typically been so treated.<sup>76</sup>

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<sup>74</sup> R.C.A. Mfg. Co. v. Whiteman, 114 F.2d 86, 90 (2d Cir. 1940).

<sup>75</sup> Stone v. Graselli Chem. Co., 65 N.J. Eq. 756, 55 Atl. 736 (1903); Board of Trade v. Christie Grain & Stock Co., 198 U.S. 236 (1905). See note 68, *supra*.

<sup>76</sup> See references *supra* note 51.

(3) Action based upon breach of confidence or trust, a well-settled basis for legal and equitable relief in many fields, is again fairly common in the trade secret area and is uniformly accepted as a valid ground for relief.<sup>77</sup> Here also, circumstances lend themselves to this type of relationship because of the fragile nature of the subject matter involved and the great importance of good faith and trustworthy dealing. Thus, we find employer-employee, master-servant, and principal-agent relationships, all involving a variety of situations and conditions, but having in common the fact that the individual to whom the trade secret has been entrusted was selected because the one who revealed it was confident he could depend upon him. It is not surprising, in these circumstances, that the law sees to it that the recipient holds to this high standard of trust or pays the penalty if he does not. There is, of course, a close relationship between this type of fiduciary relationship and the law of contracts, since any given arrangement may involve both.

(4) Equitable relief, in the case of trade secrets, is largely based upon quasi-contract or, more commonly, "unjust enrichment."<sup>78</sup> This arises mainly in connection with the voluntary, non-contractual submission of a trade secret by one person to another with the latter benefitting therefrom. As previous discussion indicates, the courts usually strive to find an actual contract, express or implied, and are tempted to deny relief unless such a contract can be found—a temptation to which they succumb with considerable frequency. Even so, in many circumstances the law will provide relief on unjust enrichment grounds where it can be shown that the recipient did benefit from the trade secret submitted to him.

(5) The concept of "invasion of privacy" is a somewhat difficult one to pin down, insofar as the trade secret area is concerned.<sup>79</sup> Although not usually referred to in "privacy" terms, one senses underlying much trade secret litigation, a feeling that not only one's person and his property, but his ideas, thoughts, and information are entitled to protection against invasion and appropriation without his consent. Of course, there are many areas in which the public interest requires that one disclose information. This is not usually the case, however, with respect to trade secrets, and the law has been alert to prevent such invasion if possible and to provide appropriate remedies, both in terms of injunctive relief and recovery of damages, where it has occurred. On this basis, trade secret law has tended to

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<sup>77</sup> ELLIS ch. 5.

<sup>78</sup> ELLIS §§ 4 and 5.

<sup>79</sup> *But see* the concurring opinion of Maxey, J., in *Waring v. WDAS Broadcasting Station*, 327 Pa. 433, 458, 194 Atl. 631 (1937).

deal harshly and as effectively as possible with any attempts at thievery, industrial espionage, taking advantage of misunderstandings and unilateral mistake, bribery of employees, and inducement to disclose through misrepresentations, deceptions, fraud or other improper conduct.

(6) The most common basis upon which trade secret proceedings rest is "unfair competition." This is appropriate since the great majority of "trade secret" invasions occur in an effort to obtain a competitive advantage or to overcome a competitive advantage possessed by the victim. Unfortunately, the term "unfair competition," like the term "property," is a loose and flexible appellation that contains no built-in definition and provides little help in telling us what it includes and does not include. About all one can do is to beg the question and say that it covers those types of competitive conduct that the law has decided is reprehensible or unethical. Within this framework, it is generally, although not universally, settled that it does not constitute unfair competition merely to take a free ride on the public ideas of others, even though this benefits the appropriator to the detriment of the originator.<sup>80</sup> Nor does it prevent one from copying such materials or data and using and disseminating them, once they are made public. Finally, although the law here is somewhat more uncertain, the concept of "unfair competition" should properly exclude recovery where the damage occurring as a result of the wrongful appropriation, is of a *non-competitive* nature.<sup>81</sup> For example, the wrongful appropriation of undisclosed news materials might give rise to an action for *unfair competition* if the appropriator used them in a competing newspaper, but not if used for some other, non-competitive, purpose such as providing a useful lead in the purchase of designated stocks or materials—and this, even though the newspaper-owner might be interested, outside of its newspaper operations, in making such purchase itself. Similarly, one who obtained information by theft or deception and then disclosed it wrongfully, but for non-competitive purposes (*e.g.*, gratuitously) might be held liable under other theories for the injury done to the owner, but presumably would not be liable under the law of unfair competition.

#### E. EVALUATION OF EXISTING LEGAL APPROACHES TO TRADE SECRET PROTECTION

The various legal principles in the protection of trade secrets have probably proven fairly adequate to cover most of the situations

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<sup>80</sup> Frank, dissenting, in *Triangle Publications, Inc. v. Rohrlich*, 167 F.2d 969, 978 (2d Cir. 1948).

<sup>81</sup> *Int'l News Service v. Associated Press*, 248 U.S. 215, 235, 236, 239 (1918).

we want to cover and provide the protection we want to provide. This is especially true since this law is complemented by the patent and copyright laws which provide a more extensive protection for those contributions with respect to which, for one reason or another, the trade secret law is inadequate. Thus, they provide for the "overload": the developments for which the stimulus provided by the "headstart" that trade secret law affords is insufficient, and those for which we want to encourage prompt publication by providing continued protection for a period of time after the secret has been made public.

Within the narrower limits of the trade secret law, we have been able to develop a reasonably satisfactory adjustment of public and private interests in several major areas: (1) By protecting a trade secret up to the point of its revelation to the public or independent discovery by someone else, we provide the originator with a "headstart" over his competitors, a headstart that may be greater or less, depending upon the originator's willingness to disclose, the difficulties attending independent discovery, and the importance and value of the data to others with the consequent effect upon their efforts to ferret out the secret. In sum, such a "headstart" may prove of substantial, albeit varying, value and competitive advantage to the originator, at the same time that it avoids any interference with independent discovery or free use of the data once it becomes public. Presumably, this is as much of a protection as we want to give for ideas that do not rise to the status of a patentable or copyrightable contribution. As for those things that *do* rise to such a level, the owner can hardly complain if, having relied upon trade secret law and eschewed the patent and copyright laws that were enacted for his (and the public's) benefit, he loses the gamble. (2) We recognize the right of the employer to protect his trade secrets against improper appropriation or divulgence by his employees. At the same time we impose limits upon this protection (mainly as a matter of *labor* policy, rather than as a matter of "trade secret" policy) by holding that restrictions upon the employee following termination of his employment shall be no greater than reasonably necessary.<sup>82</sup> (3) Similarly, we limit the scope of permissible restrictive covenants that may be imposed in connection with trade secret agreements, by prohibiting them where they unduly and unreasonably tend to create monopolies, restrict competition or restrain trade. Here again, the tests that apply stem from antitrust policy, not from policy considerations relating to trade secrets as such.

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<sup>82</sup> Fullerton Lumber Co. v. Torborg, 274 Wis. 478, 80 N.W.2d 461 (1957); Fullerton Lumber Co. v. Torborg, 270 Wis. 133, 70 N.W.2d 585 (1955).

(4) We *deny* protection to vague, general, half-formulated ideas and revelations, invoking as the basis for such denial principles of contract law and evidence. (5) Finally, to some extent we encourage the possessors of trade secrets to make their secrets public, thereby adding to the sum total of public knowledge, even though this may lessen the value of the secret to the owner. We do this by imposing upon the possessor the risk of losing his exclusive rights therein if the data does get out to the public or if others independently discover the idea. Indeed, we may penalize the owner through the invocation of certain doctrines in patent law that may enable a subsequent discoverer to obtain a patent on the basis of which he may even bar the originator from using the invention.

The fact that we have succeeded, on the whole, in arriving at satisfactory results by reliance upon the law relating to contracts, the employee-employer relationship, fiduciary relationship, unfair competition, and general doctrines of equity, cannot obscure the fact that to the extent that these do become the guides for measuring the scope of trade secret protection, we fail to develop a considered and articulate trade secret policy that can serve as a sure guide in deciding whether protection in any given situation should be greater or less, granted or denied. As a consequence, we move into the fringe areas that inevitably occur with no clear policy that can guide us in deciding how much or how little protection is desirable in any given instance.

Certain policy issues, arising in these fringe areas, immediately come to mind: (1) How *far* should we go in protecting a trade secret against use, once it has become public as a result of improper conduct? (2) How insistent should we be upon compliance with the strict rules of contract law, *e.g.*, in litigation involving the submission of ideas? Conceivably, in this area we might better be thinking in terms of what the recipient would have been willing to pay for the idea in a free market and of ultimate value to the recipient, what the owner might be willing to accept, or what some jury or judge may think should be paid. Unfortunately, instead of looking for ways to achieve an equitable apportionment (perhaps, for example, through some form of arbitration), we frame our litigation in terms of procedural strategy (*e.g.*, whether a judge or jury should decide) and resort to precepts of contract law that were designed for quite different circumstances. (3) As for the employer-employee relationship, in determining how employment contracts should be interpreted and the extent of their enforcement, and also in deciding whether employees can use information and data gained in the course of employment, we turn to contract law, labor law, and the law of fiduciaries, but pay little attention to what our policy should be with respect to trade secrets as such.

(4) Should we expand, contract, or hold within present limits our application of the law of "unfair competition" in dealing with trade secrets? "Unfair competition" law is notorious for its flexibility. Here, again, in struggling with its elasticity, we might profitably pay a little more attention to what should be desirable trade secret policy as such. Occasionally, an acute judge will put his finger on the real issue, as did Justice Brandeis in his *International News* dissent when he pointed out that the basic question of protecting published news dispatches involved so many policy factors and complex issues that it would be better that Congress, rather than the courts, determine them.<sup>83</sup> Similarly, Judge Hand in the *Whiteman* case, when he pointed out that the ultimate question of protection is a matter of "more or less."<sup>84</sup> (5) The same uncertainties arise when it comes to determining to what extent we will recognize and uphold restrictive provisions contained in trade secret licensing arrangements or other agreements. An occasional judge will point out that the policies applied to licensed patents are not necessarily the ones that should be applied to licensed trade secrets, but on the whole the courts tend to approach trade secret restrictions in the same way that they do patent restrictions, with little recognition that the two institutions may be different and should be treated differently.<sup>85</sup>

In all the foregoing situations, our law might be improved, from the standpoint of both consistency and end results, if we had a more articulate, logical and thought-out policy respecting trade secrets and the extent to which we want to protect and encourage them. But close attention to the question of what *should be* trade secret policy is rare. We find ourselves, consequently, falling into a position where, because the legal grounds upon which to base such decisions are conveniently at hand, we *protect* trade secrets to the extent that they are kept entirely secret, are not used and are not disclosed, but *deny* protection (presumably because we cannot find acceptable legal doctrine in the collateral fields of law referred to, to support the contrary position) where the information has been publicly disclosed or used under circumstances that make it ascertainable with a little effort. We reach this result in the face of prevailing attitudes that hold it to be in the public interest to *encourage* disclosure and use and *discourage* concealment and non-use. One need not object to present law if it reaches desirable results for wrong reasons, but one can object if the result that is reached is an undesirable one and comes about only because

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<sup>83</sup> *Int'l News Service v. Associated Press*, 248 U.S. 215, 267 (1918).

<sup>84</sup> See p. 24 *supra*.

<sup>85</sup> *Cf. United States v. Timken Roller Bearing Co.*, 83 F. Supp. 284, 312-314 (N.D. Ohio 1949).



the judge did not have his eye on the right ball. It behooves us, in short, to decide somewhere along the line to what extent and in what ways we want our trade secret law to encourage disclosure or discourage it. In neglecting to do this, our trade secret law stands in rather unhappy contrast to our patent and copyright laws which, though one may question their premises and their administration, are at least articulate and clear as to their aims.<sup>86</sup>

To illustrate the kinds of difficulties that arise under present approaches, one may suggest a number of situations in which the protection now given to trade secrets may be *inadequate* tested by public policy considerations, and other areas in which it goes further than would seem desirable.

The main areas in which protection may be inadequate are those in which the alternative of patent or copyright protection is not available or feasible, where it may be either undesirable or impossible (consistent with use of the idea) to keep it secret, and yet where the advantage of such headstart as one may achieve during the period when it is kept secret may be insufficient to satisfy our sense of fairness and equity, to encourage the possessor of the secret to make a public disclosure, or to stimulate one to go to the effort and expense of developing the idea in the first place. Situations coming within this category include the following: (1) The creation and development of basic knowledge that is highly important and valuable and yet unpatentable for one reason or another. (2) The creation and development of style designs which may meet the requirements for copyright or even a design patent, but with respect to which such protection is not feasible for reasons that need not be discussed here. The need for some protection in this area beyond that afforded by present law has been recognized and a movement is currently under way to enact special statutes on this subject.<sup>87</sup> (3) Ideas which do not meet the patent law test of "invention" and yet are sufficiently novel and significant to justify some protection even after they are disclosed. Other countries, Germany for instance, has recognized this type of contribution through its "Gebrauchsmuster," as has England through its "patents of addition." The United States tends, in a sense, to resolve this problem, but hardly in a way that would be considered either sensible or desirable, by often granting the patent and *then* holding it invalid when it gets into litigation. In this way, we encourage disclosure of the idea by giving some advantages beyond the bare

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<sup>86</sup> They, of course, have the advantage of a Constitutional directive to serve as a guide. U.S. Const. art. I, § 8, cl. 8.

<sup>87</sup> *Supra* note 70; Klein, "The Technical Trade Secret Quadrangle: A Survey," 55 Nw. U.L. Rev. 437, 465-467 (1960).

headstart that comes from being the first to think of it; for instance, such advantages as flow from the presumption of validity and the deterrent effect of having to defend an infringement suit. (4) Collections of information and data which may be both valuable and costly, and yet not subject to satisfactory copyright protection. This was the situation involved in the *International News* case. Recognizing the desirability of disclosure and at the same time of providing sufficient protection to induce and compensate for disclosure, the Supreme Court arrived at a sort of *ad hoc* decision whereby it gave a limited although indefinite protection. The result may be a justifiable one, but the rationale upon which it is based is confusing, to say the least. (5) Musical arrangements, orchestrations, recordings, and the like, which are not now adequately protected by copyright once they become public. A few courts have avoided the harshness of this approach by rejecting prevailing "trade secret" doctrine and following instead the lead of the *International News* case. Others have ignored the plain facts and held such renditions as not constituting "publication," thus reaching satisfactory decision and at the same time preserving the illusion of conformance to standard trade secret law. Still others simply deny protection, but broad dissatisfaction with this state of the law is evidenced by the persistent efforts to extend the copyright law to include protection for arrangements and recordings.

The areas in which protection accorded to trade secrets may be deemed unduly generous, are somewhat more nebulous and subtle. There comes to mind the advantages that accrue from the damper imposed upon would-be users or disseminators by the juridical risks entailed in such use or dissemination—risks that include uncertainty as to the outcome of litigation, the expense of suit, possible prejudices on the part of judges and juries, etc. In a second area, questionable contractual conditions may be imposed and performed since it is not clear to the obligee that he could avoid performance with impunity. To the extent that such restrictions impose a hardship upon the public as well, protection of the trade secret owner becomes doubly undesirable. Examples include unnecessarily broad prohibitions imposed upon employees against disclosure or use of information and restrictions contained in trade secret licenses and assignments. A third example is the inclination of a few courts to give unduly generous protection against a person who wrongfully obtained secret information, by barring him from using it even after the information has become generally accessible to the public, thus imposing serious competitive disadvantages upon him and depriving the public of the benefit of such contribution as he might make in the field.<sup>88</sup>

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<sup>88</sup> A. O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531 (6th Cir. 1934).

While some of these results in the areas of both seemingly excessive and inadequate protection, may in fact coincide with desirable public policy, one has an uneasy feeling that to considerable extent they have simply come about through inadvertance and failure to give adequate consideration to the basic question of what *should* be our policy with respect to trade secrets.

#### F. A "TRADE SECRET" POLICY—WHAT DO WE WANT?

The thrust of the preceding discussion is that more attention should given to the development of a conscious, articulated policy to guide both the judiciary and legislators in marking out the scope of trade secret protection. Some of these policy guides are of a general nature whose applications are not limited to the trade secret field, and are already the subject of frequent invocation in this area. Other policies, however, are matters peculiar to and arising out of the trade secret institution. These have received less attention.

The general policies are largely self-evident, well-settled, and can be disposed of without much discussion. They embrace many of the judicially recognized features already discussed, including the following: (1) Enforcement of contracts to the extent that such contracts represent arm's-length deals between persons of competence and understanding, subject to such qualifications and limitations as may arise from the existence of fraud or deception, unequal bargaining powers, the imposition of limitations or conditions that are contrary to other public policies, etc. (2) Enforcement of fiduciary obligations and matters of trust. Here, as in the case of contracts, there can be no serious question about the desirability of insisting that people keep their promises, discharge their obligations faithfully and not betray those who have reposed faith and confidence in them. (3) Prevention of deception, theft, espionage, invasion of privacy, etc. In this area, not only should there be civil remedies to compensate for injury and to prevent the wrongdoer from benefitting, but conceivably criminal liability should be imposed in the case of serious invasions and sufficiently reprehensible conduct as, indeed, it is in some jurisdictions. (4) Traditional concepts regarding "unjust enrichment" should preclude wrongfully profiting from the mistakes or misunderstandings of others. (5) In those special situations where one benefits, without any wrongful conduct on his part, from the contributions of others (*e.g.*, in the case of a voluntary submission of an idea) there would appear to be some need for the development of certain principles of fair and equitable allocation, as between the discloser and the recipient, of the fruits of the idea.

As for policies specially applicable to trade secrets, two main

points should be made. First, strong considerations of public policy suggest that we formulate a state of law that will encourage the development of new ideas, collection and organization of information and data of a useful nature, and generally provide incentive to engage in the types of informational and innovational activity that will prove of immediate advantage to the originator and of long-range advantage to the public. Whatever may be the objections to allowing such information to remain concealed and shielded from public eyes, it would seem clear that it is better to collect the information and keep it secret than not to collect it at all. In short, our basic policy should be to stimulate and encourage originality and effort in this area just as we have encouraged and stimulated it in the area of patents and copyright. What is to be done with the information after it is developed is another question.

Second, equally strong considerations of public policy support encouragement of both active use and public disclosure of such ideas and information once they are formulated. This is the policy of both the patent and copyright law which underlies publication as a condition of statutory protection. For, granted that privately held information may be useful to the holder and indirectly useful to the public, it is necessarily much more useful if made generally available, both because others can then use it and because, even without actual use, it can provide the buliding blocks for further ideas and developments. The importance and desirability of expeditious and complete disclosure is all the greater today in view of the importance attached to technological development; the tremendous and wasteful duplication of effort that results as the total amount of research proliferates; and the attendant expansion of activities that are largely useless at best and often undesirable or illegal, such as industrial espionage, diversion of efforts to analyzing competitors' products and ferreting out their secrets—activities that become largely superfluous once disclosure takes place. It is a disconcerting phenomenon of our present day that as we put increasing emphasis upon the desirability of maximum disclosure, avoidance of duplication in research, and adequate classification of available information, business and industrial practices simultaneously gravitate toward concealment of technology, reliance upon know-how and secrets in lieu of patenting, and comparable secretive practices. There is a certain irony in our current excited and sometimes desperate efforts to find out what is going on technologically in Russia, to develop better retrieval facilities for classifying and documenting our own information, and otherwise to maximize our usable knowledge, at the same time that we blithely go along with a trade secret law that persistently encourages one to keep as much information

as he can as secret as possible. Beyond these primary considerations is the fact that the greater the tendency toward and protection of trade secrecy, the greater the disposition and opportunity to engage in fraud and overreaching, as evidenced by the frequent occurrence of industrial espionage and bribery of employees, the frequency of inadequate patent disclosure, and the all-too-common failure to report fully under Government research contracts.

In furtherance of the two basic policies just suggested, consideration should be given, at least tentatively and for purposes of setting some possible boundaries for a trade secret policy to the formulation of a national trade secret policy.<sup>89</sup> Such a proposal might include the following ingredients:

(1) In lieu of the disorderly, catch-as-catch-can common law doctrine for the protection of trade secrets, provide for a limited grant of statutory protection, even after disclosure of the secret, following the general pattern of the patent and copyright laws. Such a grant, comparable to the German "Gebrauchsmuster," might cover novel ideas and original, useful information, setting as a condition of allowance a certain minimum level of originality, ingenuity, and utility—a minimum, however, considerably below the present ostensible standards applied under the patent law.<sup>90</sup> The rights granted under such a statute, in view of the relatively modest nature of the contribution, should be considerably less than those now allowed under the patent laws. It should run for a shorter period, possibly five years with opportunity for a limited renewal in special circumstances and with respect to special contributions. It should carry no right to injunctive relief but only to recovery of a reasonable royalty or other compensation for use. Recovery should lie only against a *copyist* or persons in privity with him, as is the case under our copyright law, and not against those who arrive at the idea independently or through other sources. In order to encourage prompt disclosure and publication the grant might run, not from the date of issuance but from the date of first use by the owner or one deriving the information from him (whether rightfully or wrongfully) or from date of publication, whichever came first; actual recovery, however, should begin only with the date of publica-

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<sup>89</sup> Formulation of such a policy should probably take the form of legislation, preferably on the federal level to the extent that it can be done constitutionally.

<sup>90</sup> A collateral advantage of such a law might be to ease the present pressure upon the Patent Office that results from the fact that, in the case of a genuine but moderate contribution, the office must either deny protection entirely or grant the originator an excessively generous reward in the form of a 17-year patent—a Hobson's choice that it tends to exercise by granting instead of denying the patent, only to have the patent invalidated by court action if and when it gets into litigation. S. Rep. No. 1464, *supra* note 40.

tion by the owner, except as against persons wrongfully obtaining possession or obligated under a contract; and, finally, the grant should go to the first person to publish rather than to the first to get the idea, as it does under our present patent law.

(2) Such grants should be issued in the name of the author or inventor, as under our present patent laws, although it should be made assignable freely. One who wrongfully appropriated an idea or information from others might still apply and obtain a grant, but he would hold as trustee for the true owner.

(3) Having created this statutory grant, with provisions for a limited reward after disclosure, the present trade secret law might then properly be held to a much more restricted scope than at present, especially in two major respects: first, by denying *any protection* with respect to unregistered information or ideas once they had been publicly disclosed, whether obtained wrongfully or not and, second, by refusing to recognize any rights beyond the five-year period of statutory protection insofar as contracts or other arrangements were concerned.

It is recognized that this necessarily general proposal leaves open a large number of questions of detail and poses some difficult problems. These include (1) the question whether such a provision would be constitutional under Article 1, section 8, clause 8, of the Constitution; (2) to what extent it should, or could, go beyond protection for purely technological data and include such things as collection and coordination of information, credit data, customer lists, pricing and cost data, etc.; (3) who should administer the act in terms of handling registrations and establishing the criteria for grants (presumably this would fall either to the Patent Office or the Copyright Office); (4) where control over the terms of licenses, reasonableness of royalties, and other administration aspects should lie. Difficult policy questions also arise, such as the question whether withdrawal of present broad protection against wrongdoers would result in a greater incidence of theft, espionage, deception, etc. (it is hard to see how it would, in view of the firm statutory protection contemplated); whether the establishment of limits upon the conditions that could be imposed upon employees and others in a confidential relationship might boomerang by causing the possessor of the data to become even more secretive and restricted in his disclosures; and whether the statutory protection should be limited to those things of ultimate benefit to the consumer (improved processes, new wrinkles, etc.) or should also extend to things of benefit to competitors but not necessarily to others (customer lists, production cost data, etc.).

Granted that the foregoing are problems and issues that would

have to be carefully considered and resolved before instituting an arrangement such as suggested, they do not necessarily dictate against adopting the proposal. Rather, the final decision becomes a matter of balancing these difficulties and possible disadvantages against the present confusion, ambiguity, frequently inequitable results and, most of all, the undesirable side effects, to which our present law of trade secrets contributes, in terms of the strong pressures to be secretive, rather than to make data public, and the equally strong pressures to ferret out information possessed by others through illegal and unethical means.