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THE VIABILITY OF TRADE SECRET PROTECTION AFTER
LEAR v. ADKINS

I. INTRODUCTION

Article I Section 8 of the United States Constitution expressly permits patent protection for new and useful inventions.¹ The Patent Act² has codified this constitutional mandate to give the inventor, for a limited time,³ an exclusive monopoly with broad power to make, use, sell or license his patented invention.⁴ The limited grant of a patent monopoly might be considered the "price" which the public pays "to promote the progress of science and the useful arts."⁵ However, the public is reimbursed by a mandatory requirement of full disclosure on the part of the inventor as a condition precedent to the granting of a patent. This disclosure must indicate the best method of carrying out the invention, and enable any person skilled in the art⁶ to reproduce or make use of the invention.⁷ As an additional protection, the patent laws mandate compliance with an intricate system of standards and prerequisites before a patent is issued.⁸ Furthermore, if the patent is later invalidated,⁹ the

1. U.S. CONST. art. I, § 8, provides in pertinent part that:

The Congress shall have the power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to authors and Inventors the exclusive right to their Respective Writings and Discoveries. . . .

2. 35 U.S.C. § 1 *et seq.* (1964).

3. The term of a patent is seventeen years. 35 U.S.C. § 154 (1964). This section provides in pertinent part:

. . . [The patentee shall have] for a term of seventeen years, the right to exclude others from making, using, or selling the invention throughout the United States. . . .

4. 35 U.S.C. § 154 (1964). *See note 3 supra.*

5. U.S. CONST. art. I, § 8. *See note 1 supra.*

6. For purposes of this Comment, the term "art" may be defined as "a given technical area."

7. 35 U.S.C. § 112 (1964), provides in pertinent part:

The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is mostly nearly connected, to make and use the same, and shall set forth the best mode contemplated by the inventor of carrying out his invention.

8. In order for an invention to be patented, it must be a "new and useful process, machine, manufacture or composition of matter." 35 U.S.C. § 101 (1964). The invention may not be:

subject matter [that] as a whole would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains.

35 U.S.C. § 103 (1964). *See also* 35 U.S.C. §§ 100-04 (1964).

9. The likelihood of a patent withstanding a challenge to its validity is not great. In fact, in recent years, the only case in the Supreme Court where a patent was held valid is *United States v. Adams*, 383 U.S. 39 (1966). It was aptly stated by Mr. Justice Jackson, dissenting in *Jungersen v. Ostby & Barton Co.*, 335 U.S. 560, 572 (1949), that:

[T]he only patent that is valid is one which this Court has not been able to get its hands on.

Decisions of the circuit courts of appeals from January 1956 to March 1967 reveal that plaintiffs were successful in only twenty-nine percent of the cases which involved a determination of the patent's validity. Mahon, *Trade Secrets and Patents Compared*, 50 J. PAT. OFF. Soc'y 536, 540 (1968). *See also* Dearborn & Boal, *Adjudications*

invention falls into the public domain and the inventor loses all right to control its use.¹⁰

Prior to 1964,¹¹ the authorities were consistent in allowing an inventor the option of either obtaining a patent or relying upon trade secret protection pursuant to statute¹² or the common law notion of the invention as a secret.¹³ Qualification as a trade secret requires that only two basic criteria be met: (1) some degree of novelty;¹⁴ and (2) secrecy.¹⁵

by *Circuits and Arts Involved*, in R. CALVERT, *THE ENCYCLOPEDIA OF PATENT PRACTICE AND INVENTION MANAGEMENT* 22 (1964).

10. Once the patent has been declared invalid, the invention which has, through disclosure, become public knowledge, is open to public use. The same is true when the patent monopoly expires. See *E.I. duPont de Nemours & Co. v. United States*, 288 F.2d 904, 911 (Ct. Cl. 1961), where it was stated that:

Information contained in a patent is public, widely distributed, and generally known to those interested in a particular art. Inevitably the patented idea becomes common knowledge. . . .

11. In 1964, the Supreme Court decided *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964) and *Compro Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). These cases have done much to upset the status quo of the law of unfair competition. See pp. 556-58 *infra*. See generally *The Supreme Court, 1963 Term*, 78 HARV. L. REV. 143, 309-12 (1964).

12. For a listing of the states which provide for statutory protection of trade secrets and a discussion of the protection available, see R. MILGRIM, *TRADE SECRETS* § 1.10[1] at 1-40 to 1-54 (1970). For a discussion of these statutes, see Arnold, *Trade Secrets*, 9 IDEA 161 (1966); Sutton, *Trade Secret Legislation*, 9 IDEA 587 (1966).

For a comparison of the judicial protection afforded trade secrets and patents, see R. MILGRIM, *supra* § 8.02[8] at 8-10 to 8-11. In *E.I. duPont de Nemours & Co. v. United States*, 288 F.2d 904, 911 (Ct. Cl. 1961), the court, distinguishing between trade secrets and patents, stated:

A trade secret is any information not generally known in a trade. It may be an unpatented invention, a formula, pattern, machine, process, customer list, customer credit list, or even news. The information is frequently in the public domain. Anyone is at liberty to discover a particular trade secret by any fair means, as by experimentation . . . and analysis of a particular product. Moreover, upon discovery the idea may be used with impunity. A plurality of individual discoverers may have protectable, wholly separate rights in the same trade secret.

13. The RESTATEMENT OF TORTS § 757, comment *b* at 5 (1939), defines an inventor's trade secret as follows:

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. . . . A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article.

Comment *b* also requires that the subject matter of a trade secret must contain a substantial element of secrecy:

Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business know it. He may, without losing his protection, communicate it to employees involved in its use. He may likewise communicate it to others pledged to secrecy. Others may also know of it independently, as, for example, when they have discovered the process or formula by independent invention and are keeping it secret. Nevertheless, a substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information.

Id. at 5-6.

14. Although a trade secret must be more than a mere trivial advance in the art, it need not approach the level of invention necessary to obtain a patent. See *Vitro Corp. of America v. Hall Chemical Co.*, 254 F.2d 787 (6th Cir. 1958); *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531 (6th Cir. 1934); *Monolith*

Therefore, in an action for trade secret misappropriation¹⁶ the plaintiff need only show the existence of a novel discovery,¹⁷ its secrecy, and the fact that the defendant had unlawfully acquired the secret and was using it.¹⁸

Recently, however, there has been close scrutiny of the policies which have traditionally protected trade secrets. In 1969, the Supreme Court in *Lear, Inc. v. Adkins*¹⁹ considered these policies. Although the majority opinion in *Lear* did not directly rule on the status of trade secret protec-

Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp., 267 F. Supp. 726 (S.D. Calif. 1967), *aff'd*, 407 F.2d 288 (9th Cir. 1969). In *Atlantic Wool Combining Co. v. Norfolk Mills, Inc.*, 357 F.2d 866, 868-69 (1st Cir. 1966), the court stated:

What some other skilled person could or might have done is not controlling in this type of case, so long as the plaintiff did in fact design for its own exclusive use and withheld from general knowledge a new and different machine which embodied an economically valuable advance in the art. . . . In contrast, the court below seems to have reasoned that the plaintiff's modification . . . merited protection as a trade secret only if it disclosed something very close to patentable invention over the prior art. This was a mistaken view.

15. It is not necessary to maintain absolute secrecy. Some disclosures may be made. However, any disclosure of a trade secret must be made in confidence and understood to be so made. See RESTATEMENT OF TORTS § 757, comment b (1939). See also *Town & Country Houses & Homes Service, Inc. v. Evans*, 150 Conn. 314, 189 A.2d 390 (1963); *Wexler v. Greenberg*, 399 Pa. 569, 160 A.2d 430 (1960); *Vulcan Detinning Co. v. American Can Co.*, 72 N.J. Eq. 387, 67 A. 339 (1907).

16. Trade secrets have generally been protected under both contract and tort theories. However, principles of agency, trust and restitution have also been employed to protect trade secrets. Note, *Trade Secret Protection of Non-Technical Competitive Information*, 54 IOWA L. REV. 1164, 1168 (1969).

Some commentators have taken the position that trade secrets are property. See R. CALLMANN, UNFAIR COMPETITION AND TRADEMARKS § 51 (2d ed. 1950); 1 H. NIMS, UNFAIR COMPETITION AND TRADE-MARKS 402 (4th ed. 1947); 5 S. WILLISTON & G. THOMPSON, CONTRACTS § 1646 (rev. ed. 1937). However, others discount this theory and regard trade secret protection as insuring commercial morality. See, e.g., Adelman & Jaress, *Inventions and the Law of Trade Secrets After Lear v. Adkins*, 16 WAYNE L. REV. 77, 84 (1969). Curiously, the leading case in the area, *E.I. duPont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917), has been interpreted as authority for both positions. The Court stated in *Masland* that: [T]he starting point for the present matter [trade secret protection] is not property . . . but that the defendant stood in confidential relations with the plaintiff. . . .

Id. at 102. *Masland* has been cited with approval in several cases which have characterized trade secrets as property. See, e.g., *E.I. duPont de Nemours & Co. v. United States*, 288 F.2d 904, 910, 911 (Ct. Cl. 1961); *A.O. Smith Corp. v. Petroleum Iron Works Co.*, 73 F.2d 531, 539 (6th Cir. 1934), *rehearing denied*, 74 F.2d 934 (6th Cir. 1935); *International Indus., Inc. v. Warren Petroleum Corp.*, 99 F. Supp. 907, 913 n.8 (D. Del. 1951), *aff'd*, 248 F.2d 696 (3d Cir. 1957), *appeal dismissed*, 355 U.S. 943 (1958). While there appears to be no decision citing *Masland* for the proposition that trade secret protection tends to insure commercial honesty, many authorities have adopted this position. See R. ELLIS, TRADE SECRETS § 6, at 12 (1953); A. TURNER, TRADE SECRETS 12 (1962); Stedman, *Trade Secrets*, 23 OHIO ST. L.J. 4, 21 (1962). See also *Franke v. Wiltschek*, 209 F.2d 493, 502 (2d Cir. 1953) (Frank, J., dissenting).

17. In *Engelhard Indus., Inc. v. Research Instrumental Corp.*, 324 F.2d 347 (9th Cir. 1963), the court, although holding the invention unpatentable, nevertheless upheld plaintiff's prayer for trade secret protection. The court stated:

But to sustain Engelhard's claim for unfair competition it is only necessary that some secret information relating to one or more essentials of the method or apparatus invented by Hersch have been misappropriated.

Id. at 353.

18. See note 13 *supra*. See also Cummings, *Some Aspects of Trade Secrets and Their Protection*, 54 Ky. L.J. 190 (1966); Mahon, *supra* note 9, at 541.

19. 395 U.S. 653 (1969).

tion, the dissenting opinion raised grave doubts as to whether trade secret protection is compatible with federal patent policy.

This Comment will explore the rationale for and against continued protection of trade secrets and will attempt to determine the fulcrum upon which the delicate balance between inventor's rights and federal patent laws can comfortably rest.

II. THE APPLICABILITY OF THE *Sears-Compco* RATIONALE TO TRADE SECRET PROTECTION

In *Sears, Roebuck & Co. v. Stiffel Co.*,²⁰ the patentee of a floor-to-ceiling "pole lamp" brought a patent infringement and unfair competition suit against a retailer who had copied and sold lamps which were substantially similar to those covered by the patent. In *Compco Corp. v. Day-Brite Lighting Co.*²¹ a manufacturer of fluorescent lighting fixtures brought suit against another such manufacturer, alleging infringement of his design patent and unfair competition because the defendant was producing fixtures which were substantially similar to those covered by plaintiff's design patent. In both cases the patents involved were declared invalid. Nonetheless, the defendants were enjoined from selling these products on the ground that the likelihood of confusion as to the source of the products was sufficient to make out a case of unfair competition under applicable state law. The Supreme Court reversed, holding in both cases that a state may not prohibit simulation of unpatentable or unpatented articles because such prohibitions conflict with the federal patent policy requiring full disclosure and are therefore barred by the supremacy clause²² of the United States Constitution.

An issue which continually arises in the aftermath of *Sears* and *Compco* is whether an article which is not patentable or one which the inventor has chosen not to patent is still protected from inequitable usurpation. The conflicting considerations are that on the one hand, courts should not condone unscrupulous business practices, but, on the other hand, one should not be allowed to maintain a monopoly beyond the limits tolerated by the patent laws.²³

20. 376 U.S. 225 (1964).

21. 376 U.S. 234 (1964).

22. U.S. CONST. art. VI, § 2. It was stated in *Sears* that:

Obviously a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. . . .

Just as a State cannot encroach upon the federal patent law directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws.

376 U.S. at 231-32.

23. Some trade secrets have been maintained for periods of time which extend far beyond the protection period granted to a patent. See Klein, *The Technical Trade Secret Quadrangle: A Survey*, 55 Nw. U.L. REV. 437, 448 (1960). In the famous "Listerine" case, *Warner-Lambert Co. v. John J. Reynolds, Inc.*, 178 F. Supp. 655 (S.D.N.Y. 1959), plaintiff was required to pay royalties on the Listerine formula even after the formula became public knowledge through disclosure in science journals

The trade secret cases which have been decided subsequent to *Sears-Compco* have done little to resolve this issue, indeed, in some instances, courts have ignored the obvious applicability of those decisions.²⁴ With the exception of a Pennsylvania Supreme Court decision in which a concurring judge declared that *Sears-Compco* precluded any protection of trade secrets,²⁵ the few cases that have dealt directly with this issue have rejected the contention that *Sears-Compco* governs trade secret protection.²⁶ In *Schulenberg v. Signatrol, Inc.*,²⁷ and *Winston Research Corp. v. Minnesota Mining Co.*²⁸ injunctive relief and damages were granted to employers in situations where former employees left their employ and transmitted confidential information they had acquired to their new employers.²⁹ Both opinions distinguished *Sears-Compco*, reasoning that business espionage cannot be tolerated.³⁰ However, in *Van Products Co. v. General Welding Fabricating Co.*³¹ in which the Pennsylvania Supreme Court did not have to rule on the applicability of the *Sears-Compco* doctrine since it was determined that the plaintiff had no trade secret to protect,³² Mr. Justice Cohen, in a brief concurring opinion, reached a contrary result by concluding that the *Sears-Compco* doctrine required

because the agreement between the parties made no provision for cessation of royalties upon disclosure. For a discussion of the effect of *Sears* upon the law of trade secrets, see Note, *The Stiffel Doctrine and the Law of Trade Secrets*, 62 Nw. U.L. Rev. 956 (1968).

24. See, e.g., *Bryan v. Kershaw*, 366 F.2d 497 (5th Cir. 1966), cert. denied, 386 U.S. 959 (1967); *Van Products Co. v. General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965). See generally Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967).

25. *Van Products Co. v. General Welding & Fabricating Co.*, 419 Pa. 248, 213 A.2d 769 (1965) (Cohen, J., concurring).

26. *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 350 F.2d 134, 138 (9th Cir. 1965); *Servo Corp. v. General Elec. Co.*, 337 F.2d 716, 724 (4th Cir. 1964); *Schulenberg v. Signatrol, Inc.*, 33 Ill. 2d 379, 212 N.E.2d 865 (1965), cert. denied, 383 U.S. 959 (1966); *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969). In *Hampton v. Blair Mfg. Co.*, 374 F.2d 969, 972-73 (8th Cir.), cert. denied, 389 U.S. 913 (1967), *Sears-Compco* was applied, not to deny trade secret protection, but to limit the duration of the injunction.

27. 33 Ill. 2d 379, 212 N.E.2d 865 (1965), cert. denied, 383 U.S. 959 (1966).

28. 350 F.2d 134 (9th Cir. 1965).

29. In both *Schulenberg* and *Winston*, the employees formed their own company. However, the situation where an employee discloses to a new employer the trade secret information of his former employer is probably the most common. See Doerfer, *supra* note 24, at 1435.

30. In *Schulenberg*, the court stated that:

[A] reading of *Sears* and *Compco* clearly indicates that they are inapposite here. . . . No problem concerning trade secrets was present [there]. Plaintiffs here readily concede that their finished products may be copied by legal means . . . but maintain that employees in positions of confidence may not surreptitiously copy plaintiffs' blueprints while in their employ and subsequently use them to establish a competing business. . . . It is readily apparent that the *Sears* and *Compco* cases do not cover a situation of industrial espionage by employees who plan to organize a competing company and thereafter do that very thing.

33 Ill. 2d at 386, 212 N.E.2d at 868-69. The court in *Winston Research*, similarly concluded that:

Unless protection is given against unauthorized disclosure of confidential business information . . . employee-employer relationships will be demoralized . . . and business espionage, deceit, and fraud among employers will be encouraged.

350 F.2d at 138.

31. 419 Pa. 248, 213 A.2d 769 (1965).

32. See pp. 552-53 *supra*.

dismissal of every cause of action based on misappropriation of trade secrets.³³

It is submitted that the *Sears-Compco* cases are not sufficiently broad so as to be totally conclusive of the issues presented in determining the viability of trade secret protection. Both *Sears* and *Compco* involved situations where the copied articles were readily obtainable by the general public. Moreover, no particular expertise was required to simulate the original in those cases. Finally, the issue of inequitable behavior in obtaining the design was not present in either case. Moreover, the failure of *Sears-Compco* to resolve these issues would seem to mitigate its impact in the area of trade secret protection.

III. THE DECISION IN *Lear v. Adkins*

The factual situation in *Lear, Inc. v. Adkins*³⁴ raises the speculation that this case may provide the vehicle through which the question of the current viability of trade secret protection may finally receive an answer.

Plaintiff Adkins was employed by Lear under a contract which provided that Adkins was to have title and control over his own inventions but would grant Lear a license on a royalty basis. In 1954 Adkins filed a patent application for an improved gyroscope which he invented while in Lear's employ, and drafted a license agreement covering the gyroscope which was executed by the parties one year later. Delays prevented the patent from issuing until 1960. However, prior to the issuance of the patent, Adkins had left Lear's employ and Lear unilaterally terminated the license agreement, stopping royalty payments on the not yet patented invention. Although it was held that the licensee was not estopped from attacking the validity of his licensor's patent,³⁵ the issue which had a direct bearing on the law of trade secrets was left unanswered by the Court. That issue is whether a contractual obligation to pay royalties on unpatented inventions is enforceable. The Supreme Court remanded this issue to the California state courts for study and determination before any possible ruling³⁶ could be obtained on re-hearing. However, a vigorous dissenting opinion by three members of

33. Justice Cohen stated:

Two recent landmark cases [citing *Sears* and *Compco*] clearly determine that the field has been pre-empted by the Federal Patent Law and that the state law of unfair competition is in conflict with the patent law and in the interest of uniformity and unburdened competition relief by way of damages or injunction based on the state law of unfair competition may not be allowed.

419 Pa. 248, 270, 213 A.2d 769, 781 (1965) (concurring opinion).

34. 395 U.S. 653 (1969).

35. The Court also ruled that upon proof of invalidity the licensee is released from his royalty obligation retroactively from the date of the patent. See generally Dodds, *After Lear v. Adkins — What?*, 51 J. PAT. OFF. SOC'Y 621 (1969).

36. It has been contended that this problem may take years and perhaps decades to resolve in the state courts since there will be many different factual situations and, consequently, different policy issues to be balanced. See R. MILGRAM, *supra* note 12, § 7.08[2] at 7-70.3.

the Court³⁷ argued that Adkins had absolutely no right to collect these pre-patent royalties.

Mr. Justice Black in his dissenting opinion took the position that trade secret protection is totally incompatible with federal patent policy. He stated:

[T]hat no State has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws.³⁸

However, it is submitted that there is no state-created monopoly reflected in the law of trade secrets because the inventor is protected only for as long as his invention remains a secret. Moreover, the developer of a trade secret receives no protection if his invention is discovered through the independent efforts of another.³⁹ Trade secret law, rather than creating a monopoly, merely protects contractual and confidential relationships from inequitable behavior.⁴⁰

In further support of his position Mr. Justice Black argued that:

One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled "inventors" do not keep their discoveries secret, but rather disclose them, in return for contractual payment, run counter to the plan of our patent laws. . . .⁴¹

It is axiomatic that freedom to contract is fundamental to the common law of every state. Therefore, it may be argued that a contract to license a trade secret should be valid as to the parties. Again, there is the ever-present possibility that the secret invention may be discovered by a third party and, since the parties to the agreement will certainly be aware of this possibility — that others will be able to use the information without royalty payments — it will be reflected in the negotiated price for disclosure. What, in effect, the licensee is paying for is the "headstart"⁴² over competition which the exclusive disclosure has given him. While this rationale may be used to continue protection for trade secret licensing agreements as between the parties to the agreement, the precepts of federal patent policy requiring public disclosure have not been satisfied. It is on this issue that Justice Black's vehement denial of trade secret

37. The dissent was written by Mr. Justice Black. Former Chief Justice Warren and Mr. Justice Douglas joined in this dissenting opinion.

38. 395 U.S. at 677.

39. Among the cases recognizing this fundamental proposition are *Speedry Chem. & Prods., Inc. v. Carter's Ink Co.*, 306 F.2d 328, 330 (2d Cir. 1962); *Grepke v. General Electric Co.*, 280 F.2d 508, 512 (7th Cir.), *cert. denied*, 364 U.S. 899 (1960). Moreover, if the secret is revealed by the sale of the article, the inventor loses all rights to control and demand royalties. See Macdonald, *Know-How Licensing and the Antitrust Laws*, 54 TRADEMARK REP. 251 (1964).

40. See p. 555 *supra*; note 16 *supra*.

41. 395 U.S. at 677.

42. See pp. 563-66 *infra*.

protection is best appreciated. It is submitted that, despite its ominous language, Justice Black's dissent may not envision total abolition of trade secret law. His opinion fully recognizes that "[o]ne who makes a discovery may, of course, keep it secret. . . ."43 Justice Black's contempt is reserved for situations where disclosure through commercialization is not imminent and the inventor attempts to reap the rewards of monopoly through licensing agreements without giving the public the benefit of eventual disclosure.44 To this extent, it is posited that Justice Black is correct.45

The rationale of the dissent rested squarely upon *Sears-Compco*, citing those cases in support of the position that states may not enforce contracts under which an inventor can obtain payment for disclosing an unpatented discovery.46 In view of the Court's generally hostile attitude toward the rights of inventors,47 and, since two of the *Lear* dissenters still sit on the Court, it is conceivable that the *Sears-Compco* doctrine could be extended to void contractual obligations similar to the one involved in *Lear*. However, it is submitted that the facts present in *Lear* do not indicate that the inventor attempted to maintain a monopoly without the promise of eventual public disclosure48 and therefore, *Lear* does not present the type of situation in which protection should be precluded.49

Before looking further into the policies involved in trade secret protection, the impact of *Sears-Compco* on an analogous area of unfair competition should be examined.

IV. THE MISAPPROPRIATION DOCTRINE AFTER *Sears-Compco*

Essentially, the misappropriation doctrine50 provides a cause of action against one who inequitably takes the end product of another's efforts for his own economic benefit. This theory has been applied to protect a variety of proprietary and quasi-proprietary interests51 against competi-

43. 395 U.S. at 677 (1969).

44. See p. 551 *supra*.

45. On the other hand, it may be argued that the inventor's rights to a trade secret are not valid as against an independent discoverer or upon inadvertent disclosure and therefore what trade secret law protects is inequitable conduct in ascertaining the secret. Justice Black's opinion is severely criticized by R. MILGRIM, *supra* note 12, § 7.08[2] at 7-70.5.

46. Mr. Justice Black argues that:

I still entertain the belief I expressed for the Court in *Stiffel and Compco* that no State has a right to authorize any kind of monopoly on what is claimed to be a new invention, except when a patent has been obtained from the Patent Office under the exacting standards of the patent laws.

395 U.S. at 677.

47. See note 9 *supra*.

48. Adkins was actively seeking a patent during the period for which he alleged the royalties from his license agreement were owed.

49. See p. 556 *supra*.

50. For a general discussion of the misappropriation doctrine, see Ahrens, *The Misappropriation Doctrine After Sears-Compco*, 59 TRADEMARK REP. 88 (1969).

51. See note 16 *supra*. The misappropriation doctrine is generally applied to protect uncopyrighted work after there has been publication. For a discussion of the

tors despite the absence of copyright, patent or trademark protection. The doctrine was first added to the law of unfair competition in 1918 when the Supreme Court decided the case of *International News Service v. The Associated Press*⁵² (*INS*). In *INS*, the Court enjoined the defendant from taking the news which the Associated Press had gathered through its time, labor and expense and which *INS* had appropriated at little or no expense to itself. The *INS* rule required a plaintiff to show three things: (1) that time, effort and money has gone into the creation of the thing misappropriated; (2) that the defendant appropriated the creation at little cost to himself; and (3) that there will be a diversion of profits from the plaintiff to the defendant. Subsequently, a new and distinct facet was added to the misappropriation doctrine in *Metropolitan Opera Ass'n, Inc. v. Wagner-Nickols Recorder Corp.*,⁵³ where it was ruled that commercial immorality could give rise to a cause of action under theories of unfair competition.⁵⁴

Judicial determination of the effect of *Sears-Compco* on the misappropriation doctrine has produced two diametrically opposed results.⁵⁵ One posits that *Sears-Compco* precludes misappropriation actions while the other reaffirms their viability.

In 1967, the First Circuit Court of Appeals, in *Columbia Broadcasting System v. De Costa*⁵⁶ (*CBS*), became the first court to expressly hold that *Sears-Compco* overruled the *INS* misappropriation doctrine. In *CBS*, the plaintiff was able to show conclusively that his personally created commercial identity was stolen by CBS and used as the basis for the character Paladin in their television series "Have Gun Will Travel." However, the court refused to grant an injunction under the misappropriation doctrine, holding that plaintiff, not having secured copyright protection for his characterization, had no legally protectable rights therein. The court, while declaring that *Sears* and *Compco* took great pains to emphasize the breadth of their position, placed great reliance upon the constitutional

rationale which protects trade secrets under the misappropriation doctrine, see *Developments in the Law — Competitive Facts*, 77 HARV. L. REV. 888, 947 (1964); Note, *Protection and Use of Trade Secrets*, 64 HARV. L. REV. 976 (1951).

52. 248 U.S. 215 (1918).

53. 199 Misc. 786, 101 N.Y.S.2d 483 (Sup. Ct. 1950), *aff'd mem.*, 279 App. Div. 632, 107 N.Y.S.2d 795 (1951).

54. The court in *Metropolitan Opera* stated that:

The modern view as to the law of unfair competition does not rest solely on the ground of direct competitive injury, but on the broader principle that property rights of commercial value are to be and will be protected from any form of unfair invasion or infringement and from any form of commercial immorality, and a court of equity will penetrate and restrain every guise resorted to by the wrongdoer.

Id. at 792-93, 101 N.Y.S.2d at 488-89.

55. See generally Ahrens, *supra* note 50; Gamboni, *Unfair Competition Protection After Sears and Compco*, 55 TRADEMARK REP. 964 (1955).

56. 377 F.2d 315 (1st Cir. 1967). See Comment, *Copyright Pre-emption and Character Values: The Paladin Case as an Extension of Sears and Compco*, 66 MICH. L. REV. 1018 (1968).

policies of limiting monopoly.⁵⁷ Other courts have also concluded that *Sears-Compco* renders misappropriation a dead doctrine.⁵⁸

Several jurisdictions, however, staunchly uphold the misappropriation doctrine, thereby limiting the scope of *Sears-Compco*.⁵⁹ Probably the most noteworthy of these decisions have appeared in the New York courts.⁶⁰ Although initially hesitant to adopt the doctrine,⁶¹ both state and federal courts⁶² in New York now steadfastly support it, notwithstanding the decisions in *Sears* and *Compco*.⁶³ The misappropriation doctrine has been upheld primarily upon a theory which condemns inequitable business practices. For example, in *New York World's Fair 1964-1965 Corp. v. Colourpicture Publishers, Inc.*,⁶⁴ it was stated:

It [this decision] simply quarantines business conduct which is abhorrent to good conscience and the most elementary principles of law and equity.⁶⁵

Similarly, the Eastern District of Pennsylvania⁶⁶ has also upheld the misappropriation doctrine in a decision which recognized that unscrupulous business practices cannot be tolerated.⁶⁷

57. The court quoted the constitutional policy to "encourage intellectual creation by offering the creator a monopoly in return for the disclosure and eventual surrender of his creation to the public." 377 F.2d at 319.

58. See, e.g., *Cable Vision, Inc. v. KUTV, Inc.*, 335 F.2d 348 (9th Cir. 1964), cert. denied, 379 U.S. 989 (1965).

59. See, e.g., *Grove Press, Inc. v. Collectors Publication, Inc.*, 264 F. Supp. 603 (C.D. Calif. 1967); *Pottstown Daily News Publishing Co. v. Pottstown Broadcasting Co.*, 247 F. Supp. 578 (E.D. Pa. 1965).

60. This factor will become more important when discussing the impact of *Lear* on the most recent trade secret decisions. See pp. 567-69 *infra*.

61. The Second Circuit Court of Appeals, largely due to the efforts of Judge Learned Hand, had been reluctant to accept the misappropriation doctrine, even though state courts in New York had continually sanctioned it. See *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 297 (2d Cir. 1929), cert. denied, 281 U.S. 728 (1930). See also *G. Ricordi & Co. v. Haendler*, 194 F.2d 914 (2d Cir. 1952); *Fashion Originators Guild v. FTC*, 114 F.2d 80 (2d Cir. 1940), *aff'd on other grounds*, 312 U.S. 457 (1941); *RCA Mfg. Co. v. Whiteman*, 114 F.2d 6 (2d Cir. 1940), cert. denied, 311 U.S. 712 (1940).

62. New York state law was applied in these decisions.

63. The New York state and federal courts have even extended the *INS* rationale to the area of trade identity law. See *Flexitized, Inc. v. National Flexitized Corp.*, 335 F.2d 774 (2d Cir. 1964), cert. denied, 380 U.S. 913 (1965); *American Safety Table Co. v. Schreiber*, 269 F.2d 255 (2d Cir.), cert. denied, 361 U.S. 915 (1959), modified, 287 F.2d 417 (1961); *Santa's Workshop, Inc. v. Sterling*, 282 App. Div. 328, 122 N.Y.S.2d 488 (1953). It should be noted, that the *Flexitized* court, while recognizing the continuing validity of the misappropriation doctrine after *Sears*, applied that doctrine in a case which should have been decided on the theory of misrepresentation. See Ahrens, *supra* note 50, at 97 n.27.

64. 141 U.S.P.Q. 939 (N.Y. Sup. Ct. 1964), *aff'd mem.*, 21 App. Div. 2d 896, 251 N.Y.S.2d 885 (1964). In the *New York World's Fair* case, plaintiff sought to enjoin defendant from taking pictures of the buildings at the fair and offering them for sale, after defendant had been refused the exclusive license to engage in these activities.

65. *Id.* at 941-42.

66. *Pottstown Daily News Publishing Co. v. Pottstown Broadcasting Co.*, 247 F. Supp. 578 (E.D. Pa. 1965).

67. In *Pottstown*, the court took the position that:

[A] conscience would hardly condone such an inequitable result [allowing piracy without giving the originator any remedy] and we, as a Court of conscience, will not subscribe to such a conclusion unless the Supreme Court enlightens us with a clear ruling on this specific problem.

Id. at 581.

The continuing validity of the misappropriation doctrine even after *Sears-Compco* serves to illustrate that courts are reluctant to give undue breadth to predatory activities which grate against their conscience.⁶⁸ However, should the rationale of the dissent in *Lear* be adopted and trade secret protection thereby precluded, the misappropriation doctrine will be dealt a severe, if not fatal, blow. Trade secret protection and protection under the misappropriation doctrine both rely upon the reluctance of courts to condone or justify inequitable business practices. Therefore, if a per se rule evolves from *Lear* to the effect that usurpation of non-patented or copyrighted articles is legal under *any circumstances*, then the misappropriation doctrine will have lost the basis for its continued existence.

V. THE EMPLOYER-EMPLOYEE RELATIONSHIP

Although the facts of *Sears* and *Compco* involve the copying of a design by third parties, and *Lear* involves an employer's use of its employee's invention without compensation, most trade secret cases arise out of a breach of confidence by an employee⁶⁹ under an express or implied contract not to disclose,⁷⁰ or not to compete.⁷¹ Covenants prohibiting disclosure of secret information have been upheld without question.⁷² The existence of a written contract of this nature merely shows the specific intent of the parties in a situation where such disclosure would give rise to a cause of action under the common law theories of trade secret protection.⁷³ Moreover, the written agreement would most probably define the scope of the prohibition and thereby facilitate the formulation of appropriate relief.⁷⁴

68. *Id.*

69. See Blake, *Employee Agreements Not To Compete*, 73 HARV. L. REV. 625 (1960); Leydig, *Protecting Trade Secrets When Employees Move*, 21 BUS. LAWYER 325, 329 (1966); Note, *supra* note 16, at 1170.

70. The essential elements of an action for breach of a contract not to disclose appear to be: (1) communication of plaintiff's knowledge to defendant under an express or implied agreement not to disclose; and (2) use or disclosure by defendant of the knowledge or information so obtained in violation of the confidence, to the injury of the plaintiff. See *Great Lakes Carbon Corp. v. Continental Oil Co.*, 219 F. Supp. 468, 498 (W.D. La. 1963); *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F. Supp. 143, 159 (E.D. Tex. 1956). Furthermore, it seems that the employee must be cognizant that the information is indeed secret. See RESTATEMENT (SECOND) OF AGENCY § 396(b), Comments on (b), at 16-17 (1957). In a recently reported Pennsylvania county case, *Protect Alarms, Inc. v. Ernst*, 48 Pa. D. & C.2d 413 (Lehigh County C.P. 1969), it was pointed out that the only employer-employee trade secret agreements which would be upheld are those under which the employee receives specialized training in skills which he would not have received in the ordinary course of employment.

71. See, e.g., *Hulsenbusch v. Davidson Rubber Co.*, 344 F.2d 730, 736 (8th Cir. 1965); *World Wide Pharmacal Distributing Co. v. Kolkey*, 5 Ill. App. 2d 201, 125 N.E.2d 309 (1955); *National Starch Products, Inc. v. Polymer Industries, Inc.*, 273 App. Div. 732, 738-39, 79 N.Y.S.2d 357, 363 (1948). See also Kessler, *Contracts of Adhesion — Some Thoughts About Freedom of Contract*, 43 COLUM. L. REV. 629 (1943).

72. See notes 73, 74 *supra*.

73. See *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250, 261 (S.D. Calif. 1958). See also Note, *supra* note 16, at 1170.

74. See Note, *supra* note 16, at 1171.

Covenants not to compete, on the other hand, have been subjected to careful judicial scrutiny. Many jurisdictions have refused to enforce such agreements because they were overbroad, thereby constituting an unreasonable restraint of trade.⁷⁵ Other courts will only enforce these restrictive covenants when the employee has developed special skills by virtue of his employment.⁷⁶ The general approach to these agreements, if there is one, seems to be that the covenant will be decided as reasonable or unreasonable on its face.⁷⁷ However, under no circumstances will an employer be permitted to prohibit an employee who has left his employ from subsequently using knowledge acquired prior to his employment⁷⁸ or expertise acquired through general experience which necessarily increases skills.⁷⁹

It is submitted that, notwithstanding the position taken by the dissent in *Lear*, restrictive agreements between an employer and an employee should be upheld in situations where the employee was exposed to the discoveries of others, or to developments in which he only partially contributed to the end result. Looking at these situations from the standpoint of the misappropriation doctrine,⁸⁰ it will be recognized that the employer has expended time, money and effort to develop a new product or process. The employee has taken the fruits of these expenditures and has misappropriated them for his own use and profit, at little expense to himself.⁸¹ On the other hand, if the discoveries are made solely through the efforts of one person, and that person, having decided to work elsewhere, uses these discoveries for the benefit of his new employer, a cause of action under the misappropriation doctrine cannot arise because one cannot misappropriate his own efforts.⁸² Moreover, his former employer still retains a "headstart"⁸³ over competition as a result of the efforts of the employee while in his employ. A good example of such a situation occurred in *Wexler v. Greenberg*.⁸⁴ In *Wexler*, the defendant was plaintiff's chief chemist whose job entailed duplicating competitors'

75. See, e.g., *Sonotone Corp. v. Baldwin*, 227 N.C. 387, 42 S.E.2d 352 (1947) (*dictum*); *Brecher v. Brown*, 235 Iowa 627, 17 N.W.2d 377 (1945). See also 5 S. WILLISTON & G. THOMPSON, CONTRACTS §§ 1643, 1659 (Rev. ed. 1937); Blake, *supra* note 69, at 682-84.

76. See *Kings Records, Inc. v. Brown*, 21 App. Div. 2d 593, 252 N.Y.S.2d 988 (1964); *Harry Rogers Theatrical Enterprises, Inc. v. Comstock*, 225 App. Div. 34, 232 N.Y.S. 1 (1928); *American League Baseball Club of Chicago v. Chase*, 86 Misc. 441, 149 N.Y.S. 6 (1914).

77. See 6 A. CORBIN, CONTRACTS § 1394 (1962), for citations to cases which have decided the reasonableness of restrictive covenants on the face of the contract. See also Note, *supra* note 16, at 1172 n.59.

78. See R. MILGRIM, *supra* note 12 § 5.02[3], at 5-13, and cases cited therein.

79. See *Frederick Chusid & Co. v. Leeman*, 279 F. Supp. 913 (S.D.N.Y. 1968); *Paramount Pad Co. v. Baumrand*, 4 N.Y.2d 395, 396-97, 151 N.E.2d 609, 610, 175 N.Y.S.2d 809, 810-11 (1958); RESTATEMENT OF CONTRACTS § 516(f) (1932).

80. See pp. 558-61 *supra*.

81. See *E.I. duPont de Nemours & Co. v. American Potash & Chemical Corp.*, 200 A.2d 428 (Del. Ch. 1964); see generally R. MILGRIM, *supra* note 12 §§ 5.02[3], at 5-16 to 5-26.1.

82. It should be recognized, however, that if a licensing agreement covered these innovations the former employer could, at present, enjoin such activity.

83. See pp. 563-66 *infra*.

84. 399 Pa. 569, 160 A.2d 430 (1960), noted in 74 HARV. L. REV. 1473 (1961).

products and improving them. When defendant took another job, plaintiff sought to enjoin him from disclosing and using the formulas and processes which Wexler developed while in plaintiff's employ. The court denied the injunction, holding that the products, now being produced by defendant's new employer, were the "fruits of Greenberg's own skill as a chemist"⁸⁵ and therefore, he took nothing from his employer when he left.

VI. TRADE SECRET PROTECTION WHEN DISCLOSURE IS INEVITABLE — AN INVENTOR'S HEADSTART

Often, an inventor will discover a commercially successful, though unpatentable idea. In *Sears*, for example, the innovation was a new type of lamp. The question which arises in this context is what, if any, protection should be extended to an inventor in a situation where he has expended time and effort on an invention which he cannot patent⁸⁶ and which must be disclosed to the public before he can profit from his discovery.

In *Shellmar Products Co. v. Allen-Qualley Co.*,⁸⁷ plaintiff had disclosed its secret process and machinery for making candy wrappers to defendant during their negotiations for a cooperative arrangement whereby defendant would obtain a license to use plaintiff's secrets. When the negotiations failed, defendant, on the basis of the information disclosed during the negotiations, began producing these wrappers itself. The court took the position that, in such a situation, any breach of confidence would forever preclude the discloser from adopting the secret, even when it became public knowledge, since the discloser, by its inequitable conduct has precluded itself from enjoying the rights of the general public to use the disclosure. An opposite result obtained in *Conmar Products Corp. v. Universal Slide Fastener Co.*⁸⁸ where, in the same kind of situation, the court held that once the secret becomes public, the inventor has no remedy against the discloser because there was no longer any secret.

Neither of these decisions appears to provide a proper and equitable solution; *Shellmar* is too harsh because it places the discloser at a great commercial disadvantage in relation to his competitors, while *Conmar* is too lenient because it gives the discloser a competitive advantage

85. 399 Pa. at 582, 160 A.2d at 436. See also *New Method Die & Cut-Out Co. v. Milton Bradley Co.*, 289 Mass. 277, 194 N.E. 80, 83 (1935); *National Tube Co. v. Eastern Tube Co.*, 23 Ohio C.C.R. 468, 472 (1902).

86. In addition to the rigid standards for patentability imposed by the Patent Office, a patent can only be had for an invention that falls within one of the distinct classes listed in the Patent Act, 35 U.S.C. §§ 101, 161, 171 (1964). These classes include machines, manufactured articles, chemical compositions, processes, ornamental design and asexually reproduced plants. Among the kinds of inventions which have been held to be unpatentable are the following: (1) natural principles, *O'Reilly v. Morse*, 56 U.S. 62 (1853); (2) theories of operation, *De Forest Radio Co. v. General Electric Co.*, 283 U.S. 664 (1931); and (3) methods of doing business, *Hotel Security Checking Co. v. Lorraine Co.*, 160 F. 467 (2d Cir. 1908). See Marmorek, *The Inventor's Common-Law Rights Today*, 50 J. PAT. OFF. SOC'Y 369, 389 (1968).

87. 87 F.2d 104 (7th Cir. 1936), cert. denied, 301 U.S. 695 (1937).

88. 172 F.2d 150 (2d Cir. 1949).

over his competitors despite his conduct. It is submitted that the proper remedy should be a judicial determination of the extent of injunctive relief necessary for protecting the inventor while not unduly punishing the disclosee. The period for which the injunction should issue should reflect the time *after* the invention is made public that would be required for a competitor to put a competing product on the market. This period, after publication and prior to the marketing of competitive goods, is the inventor's "headstart" to which, it is submitted, he is entitled as a form of remuneration for his efforts. A recent illustration of the propriety of such injunctive relief is the decision in *Winston Research Corp. v. Minnesota Mining and Manufacturing Co.*⁸⁹ In that case, plaintiff had developed, over the course of four years, a novel design for a tape recorder, which, though apparently unpatentable, had great commercial potential. This design was pirated by plaintiff's employees who, after forming their own corporation, were able to market a competing product before plaintiff could take advantage of his invention. The court granted a limited injunction precluding the employee-disclosees from deriving any benefits from their wrongful acts until such time as competitors, who did not have access to the trade secrets until they were publicly disclosed, could legitimately enter the market.⁹⁰

In *Lear*, the Supreme Court gave no consideration to the headstart theory,⁹¹ thus, it is arguable that the Court's position constitutes a sub silentio acceptance of the *Conmar* rationale which left the inventor remediless. However, since the patent system is designed to encourage invention and promote disclosure of such inventions,⁹² it is submitted that failure to adopt the principles of *Winston Research* will expose the system to serious abuses. For example, denying the inventor his "headstart" will tend to discourage experimentation which might not culminate in a patentable invention, thereby certainly hindering most attempts at commercial improvement. In addition, the inventor would have to be constantly vigilant lest industrial espionage robs him of the fruits of his labors. Moreover, adherence to the *Conmar* rationale provides an economic advantage to those who, through chicanery, obtain advance information. If the position of the *Lear* dissent is adopted by a majority of the Court, courts, in the name of free competition, will be powerless to remedy situations such

89. 350 F.2d 134 (9th Cir. 1965).

90. The court in *Winston* stated that its decision:

[D]enied the employees any advantage from their faithlessness, placed . . . [the employer] in the position it would have occupied if the breach of confidence had not occurred prior to the public disclosure, and imposed the minimum restraint consistent with the realization of these objectives upon the utilization of the employees' skills.

350 F.2d at 142.

91. The only reference to the headstart theory in *Lear* is found in a footnote in Justice White's concurring opinion. Mr. Justice White points out that the majority opinion would bar post-issuance royalties that might be recoverable to the extent that they represent payment for *Lear's* headstart over the rest of the industry as a result of pre-issuance disclosure of Adkins' idea. 395 U.S. at 682 n.2.

92. See pp. 551-52 *supra*.

as presented in *Conmar*. In sharp contrast is the *Winston Research* position. There are several immediate results that will obtain from this rule. First, the public will benefit from the inventor's innovations and improvements in the product when the invention is marketed; second, since these improvements have not been patented, once the product is in general circulation, competition is free to copy and incorporate any improvements into their own product under the *Sears-Compco* doctrine; third, the inventor is presumably garnering the economic rewards of being first on the market with an improved product, at least until such time as competition catches up. Finally, fundamental economics dictate that someone should benefit when an improved product is marketed. If a trade secret theft occurs, under *Conmar*, the discloser unjustly receives the benefits derived from his deceit, whereas the *Winston Research* holding protects the inventor's interests. It seems clear that the latter position is most compatible with the aforementioned policies of free competition. Therefore, *Lear* should not be interpreted as an acceptance of *Conmar*, rather, no significance should be attached to the Supreme Court's omission of the headstart theory.

Applying this suggestion to the factual situation in *Lear*, the inventor, by pursuing a patent had clearly indicated his willingness to publicly disclose his invention. His employer (*Lear*) would profit from the invention by having the commercial headstart which *Adkins'* innovation had provided. The public would obtain disclosure after the patent period or, if the patent was not granted, upon marketing the gyroscope.⁹³ *Lear* only gained the advantages of *Adkins'* invention by virtue of its contract⁹⁴ with him. *Lear*, then, is in the position of a discloser who takes advantage of the time and efforts of an inventor and misappropriates his invention for its own use.⁹⁵

It should be noted here that some commentators have found difficulty accepting injunctive relief as the paramount remedy in trade secret cases.⁹⁶ Suggestions have been made that the assessment of damages would provide a more adequate remedy to aggrieved parties and a more

93. See *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225, 230-31 (1964); *Lear, Inc. v. Adkins*, 395 U.S. 653, 656 (1969). In *Lear*, the Court stated that:

We granted certiorari in the present case, . . . in light of our recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection.

395 U.S. at 656.

94. Though *Adkins* was employed by *Lear*, the terms of his contract made him an independent contractor with respect to his inventions with *Lear* maintaining a right to obtain an exclusive license on them.

95. Compare the factual situation in *Lear* with the discussion of the misappropriation doctrine, pp. 558-61 *supra*. For a discussion of the problems which arise when an inventor discloses his idea to someone capable of putting it to practical use, see *Knoth, The Protection of Unpatented Ideas and Inventions*, 32 J. PAT. OFF. Soc'y 268 (1950).

96. See, e.g., *Arnold, Problems In Trade Secret Law*, in 1961 ABA PATENT, TRADEMARK, AND COPYRIGHT LAW, SUMMARY OF PROCEEDINGS 248, 259 (1961). For a discussion of the problems inherent in determining injunctive relief in trade secret cases, see *Note, Injunctions to Protect Trade Secrets — The Goodrich and duPont Cases*, 51 VA. L. REV. 917 (1965).

effective deterrent to potential misappropriators.⁹⁷ However, there are few examples of the practicability of such a system, even though it might prove a viable alternative to injunctive relief, particularly in situations such as presented in *Lear*.⁹⁸ However, it should be noted that the computation of such damages is extremely speculative and therefore courts may hesitate to adopt this remedy.

VII. PROTECTION WHERE THERE IS NON-DISCLOSURE

Absent independent discovery, there are only three ways in which a trade secret may be disclosed: (1) by the issuance of a patent,⁹⁹ (2) upon marketing,¹⁰⁰ and (3) by misappropriation.¹⁰¹ While tangible products¹⁰² are generally discovered by these means, many inventions defy discovery upon mere examination of the end product. For example, the invention of a new process for making a product would not lend itself to discovery until such time as the inventor decides to reveal the details of the process.¹⁰³ These perpetual trade secrets are counter-productive because they generally die with the inventor, thus depriving the public of a valuable addition to its technology.¹⁰⁴

The patent system, as it stands, does nothing to encourage disclosure of such trade secrets. For example, patent protection is unobtainable if not applied for within one year of the first commercial use of the invention.¹⁰⁵ Therefore, the mandatory disclosure provided by the patent laws is not available unless patent protection is quickly sought. It has been argued that when this one year period ends, so then must any protection afforded trade secrets generally because the inventor has indicated

97. For example, monetary sanctions might be imposed upon an employer who induced a new employee to reveal trade secrets obtained by virtue of his former employment. Arnold, *supra* note 96, at 257, 259-60.

98. Lear had been manufacturing Adkins' gyroscope for a few years. Therefore, a grant of injunctive relief at this point in time would not serve to fully remunerate Adkins because Lear's experience with the gyroscope would enable it to modify the gyroscope to avoid infringement of Adkins' patent. Therefore, monetary damages would seem to provide the best form of relief.

99. See, e.g., *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

100. See, e.g., *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964).

101. See pp. 558-61 *supra*; Adelman & Jaress, *supra* note 16, at 91-92.

102. A "tangible" product is an invention which itself is the marketed item, e.g., the Sears pole lamp.

103. See Adelman & Jaress, *supra* note 16, at 92; Adelman, *Trade Secrets and Federal Pre-emption — The Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOC'Y 713, 726 (1967).

104. For example, no one has yet been able to reproduce the violins which were crafted by Stradivarius, nor the blue color which Della Robbia fused into his relieve statuettes. See Marmorek, *supra* note 86, at 371.

105. 35 U.S.C. § 102(b) (1964), provides in pertinent part:

A person shall be entitled to a patent unless—

(b) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States, (emphasis added).

However, if the invention was in use for over a year but kept secret by its original discoverer, a second discoverer may be able to patent the invention. See A. WALKER, PATENTS § 66 (2d ed. A. Deller 1964).

that he will not seek a patent and thus is unwilling to disclose his invention.¹⁰⁶ However, it is submitted that this is not a proper solution, nor would a satisfactory result obtain if all trade secret protection were removed for non-disclosure. First, perpetual trade secrets, by definition, require no official protection as a prerequisite to disclosure.¹⁰⁷ Secondly, by strict adherence to current patent law, the inventor who has implemented a trade secret for a year has no choice but to maintain the invention as a trade secret otherwise it will become public with no protections or economic advantages available to him.¹⁰⁸ It is axiomatic that one of the basic tenets of the patent laws is to encourage disclosure and thereby stimulate competition and free enterprise. Removing an avenue of disclosure, indeed, in some cases discouraging it, is certainly not compatible with the overall policy of encouraging disclosure.

Reviewing the facts in *Lear*, a slightly different situation is revealed. While the disclosure problem in that case was ultimately cured by the patent grant,¹⁰⁹ the obvious issue raised is whether allowing an inventor to license his trade secret is compatible with the federal disclosure policy.¹¹⁰ The difficulty with such an agreement is that it permits the inventor to capitalize on his invention without giving the public its due, *viz.* disclosure and future use.¹¹¹ Indeed, denial of trade secret protection in this situation would probably serve to force the inventor to seek patent protection because few inventors would be able to fully manufacture and market the end product with their own resources. It is submitted that forcing an inventor to seek a patent in order to obtain protection in this situation is the proper channel in which to direct inventions which defy disclosure because granting trade secret protection to this kind of invention is fundamentally inconsistent with the overwhelming right of the public to disclosure of inventions.

VIII. POST *Lear* DECISIONS — THE ABSENCE OF IMPACT

The recent decision in *Painton & Co., Ltd. v. Bourns, Inc.*¹¹² has provided insight into the effects of a broad interpretation of *Lear* upon the licensing of trade secrets. *Painton* involved an agreement which, in part, provided royalty payments on unpatented inventions. The court

106. Adelman, *supra* note 103, at 729-32.

107. Clearly, if an innovative idea is completely concealed by its originator, it will be immune from discovery. Discovery results only when the inventor licenses his trade secret or makes other commercial use of it.

108. The Patent Act recognizes, to a certain extent, an inventor's right to maintain the secrecy of his invention. Since all patent applications are kept confidential by the Patent Office until such time as the patent is granted, if the patent is not granted, the inventor may still maintain his discovery as a trade secret. 35 U.S.C. § 122 (1964); 37 C.F.R. § 1.14(a) (Supp. 1970).

109. Once a patent issues, it is open for public examination. 37 C.F.R. § 1.11 (Supp. 1970).

110. The policy of full disclosure was fully enunciated in *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249 (1945). See Adelman, *supra* note 103, at 730-31.

111. See p. 556 *supra*.

112. 309 F. Supp. 271, 164 U.S.P.Q. 595 (S.D.N.Y. 1970).

held¹¹³ that the enforcement of such contracts would undercut the national patent law and policy.¹¹⁴ However, in stating that:

[F]ederal patent law *requires* an inventor to submit his ideas to the Patent Office before he can compel consideration for the use of his idea.¹¹⁵

the court cited no authority supporting its position. Indeed, every authority encountered has declared the opposite.¹¹⁶ The impact of Judge Motley's decision in *Painton* is that one who has disclosed his unpatented trade secret pursuant to an agreement cannot recover compensation under such an agreement. It is submitted that this development encourages secrecy with respect to inventions that are not unquestionably patentable. Although the position taken by the *Painton* court is consistent with Justice Black's dissent in *Lear*, until such time as the Supreme Court rules on this issue, it appears that the unsubstantiated language in *Painton* is, at least, premature. Moreover, the expansive position which the New York courts have taken in the area of misappropriation,¹¹⁷ coupled with the careful avoidance that other jurisdictions have demonstrated in prophesizing the outcome of *Lear*,¹¹⁸ support the speculation that *Painton* may be reversed or affirmed upon a different basis.¹¹⁹

With the noteworthy exception of the over-zealous opinion in *Painton*, the judicial course of trade secret protection has been unruffled by any consideration as to what *Lear* might have decided. Indeed, there is a conspicuous absence of any reference to *Lear* in any of the recent decisions dealing with trade secrets.¹²⁰ Plaintiffs in trade secret actions are, at present, being denied protection when: (1) there is no secret;¹²¹ (2) there has not been sufficient disclosure, *i.e.* when the invention cannot be produced on the basis of the information given;¹²² and (3) contracts

113. Judge Constance Baker Motley wrote the opinion in the *Painton* case.

114. 309 F. Supp. at 273-74, 164 U.S.P.Q. at 596.

115. *Id.* at 274, 164 U.S.P.Q. at 597 (emphasis added).

116. *See, e.g.*, R. ELLIS, TRADE SECRETS 192 (1953); R. MILGRIM, *supra* note 12, § 8.02[1]; Marmorek, *supra* note 86, at 32. Professor Milgrim states:

Congress, moreover, has repeatedly recognized trade secret status as a valid protectable right separate and distinct from patents, and has enacted numerous statutes declaratory of its recognition and desire to protect trade secrets.

R. MILGRIM, *supra* note 12, § 7.08[2], at 7-69. For a discussion of the various statutes protecting trade secrets and regulatory proceedings, *see id.* at §§ 6.02-6.02[8].

117. *See* p. 560 *supra*.

118. *See* pp. 568-69 *infra*.

119. The facts of the *Painton* case show evidence of patent misuse and illegal tying arrangements. Upon either of these bases the decision might be affirmed.

120. With the exception of *Painton* and *Epstein*, *infra* note 122, there has not been a single reported trade secret case which has relied on or even cited *Lear* to preclude trade secret protection.

121. *Bimba Mfg. Co. v. Starz Cylinder Co.*, 164 U.S.P.Q. 304 (Ill. App. 1969); *Flemming v. Ronson Corp.*, 107 N.J. Super. 311, 164 U.S.P.Q. 369 (N.J. Sup. Ct. 1969).

122. *Epstein v. Dennison Mfg. Co.*, 164 U.S.P.Q. 291 (S.D.N.Y. 1969). The *Epstein* case is especially noteworthy since Judge Motley recognized that owners' trade secrets could have a limited recovery in certain instances. *See Fisher, Lear v. Adkins — Enforcement of Contractual Provisions Restricting Disclosure of Confidential Information*, 6 ABA LAW NOTES 115, 117-18 (July 1970).

containing restrictive covenants which are deemed oppressive.¹²³ However, protection is still afforded when there is evidence of misappropriation.¹²⁴ For example, in *Cataphote Corp. v. Hudson*,¹²⁵ the court assiduously protected plaintiff's secret process for the manufacture of glass beads from misappropriation by its former employees, thereby illustrating the tendency of courts to maintain sanctions against inequitable behavior in securing the trade secrets developed by another.

The *Cataphote* court, considering the rationale for protecting trade secrets, stated that:

Protection of trade secrets is a form of protection against use by others, focusing upon inequitable use by another — by breach of contract not to reveal, or abuse of confidence, or impropriety in obtaining the secret.¹²⁶

An examination of these recent trade secret decisions is interesting, not so much for the revolutionary nature of their holdings, but because they calmly maintain the traditional concepts of trade secret protection. These decisions, it is submitted, have placed *Lear* in its proper perspective concerning trade secret issues — they have ignored it.

IX. CONCLUSION

Any consideration of the position to be adopted with respect to protecting trade secrets requires a delicate balancing process. On the one hand lies the inventor's right to profit from his discoveries even though they might not be patentable. This right is deeply imbued in a capitalistic society. Also, there is the fundamental right of persons to contract, as well as formidable policy considerations proscribing inequitable business behavior. Balanced against these factors are the policies which dictate that competition should be free and open, and the theory that full disclosure is the quid pro quo for a government-sanctioned monopoly.¹²⁷

The Court in *Lear* recognized that a party to a contract may not disavow that contract when he becomes dissatisfied. However, the Court also recognized that "federal law requires that all ideas in *general circulation* be dedicated to the common good unless they are protected by a valid patent."¹²⁸ Of course, trade secret law *never* protected ideas in general circulation.¹²⁹ Therefore, if this is the import of *Lear*, then nothing is added to the law of trade secret protection as it stands. If, however, the ultimate outcome of *Lear* is that federal policy precludes

123. See *Central Specialties Co. v. Schaefer*, 165 U.S.P.Q. 15 (N.D. Ill. 1970); *GTI Corp. v. Calhoun*, 309 F. Supp. 762, 165 U.S.P.Q. 621 (S.D. Ohio 1969).

124. See *Cataphote Corp. v. Hudson*, 422 F.2d 1290, 165 U.S.P.Q. 41 (5th Cir. 1970); *Heatbath Corp. v. Ifkovits*, 117 Ill. App. 158, 164 U.S.P.Q. 537 (Ill. App. 1969).

125. 422 F.2d 1290, 165 U.S.P.Q. 41 (5th Cir. 1970).

126. *Id.* at 1293, 165 U.S.P.Q. at 43.

127. See pp. 551-52 *supra*.

128. 395 U.S. at 668 *citing Sears and Compco* (emphasis added).

129. See p. 553 *supra*.

any protection of ideas which do not meet the standards of patentability, then the full impact of *Lear* is yet to be realized. If this is the outcome of *Lear*, any new discovery or novel idea would be "fair game" to any unscrupulous businessman who steals it himself or entices someone to disclose its nature.

It is submitted that, until the Supreme Court clearly resolves these issues,¹⁸⁰ trade secret law will maintain the "crazy quilt" pattern it now possesses;¹³¹ that is, with most jurisdictions upholding the validity of traditional, common law doctrines but with others finding protection pre-empted by *Sears-Compco* and *Lear*. However, if and when the issue is finally resolved by the Court then it is hoped that the following results will obtain:

1. The inventor's headstart will continue to be protected.¹³²
2. Express contractual arrangements forbidding an employee to disclose his employer's trade secrets will be upheld.¹³³
3. Employees will not be estopped from divulging trade secrets that were developed through the employee's individual efforts.¹³⁴
4. Misappropriation of trade secrets by inequitable business methods will continue to be restrained.¹³⁵
5. Inventors will be precluded from enforcing trade secret license agreements which do not lend themselves to disclosure.¹³⁶

The implementation of these suggestions requires at least two specific factual inquiries. First, a determination as to whether the secret would eventually become public and secondly, an inquiry into the processes which developed the alleged trade secret. These standards would provide a more simplified guide in the resolution of the protection to be afforded the inventor.

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130. See note 36 *supra*.

131. See pp. 567-69 *supra*.

132. See pp. 563-66 *supra*.

133. This suggestion is, of course, qualified to continue judicial scrutiny into the degree of restraint imposed by the agreement.

134. See pp. 562-63 *supra*.

135. See p. 569 *supra*.

136. See p. 566 *supra*.