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Industrial Trade Secrets, Their Use and Protection

by G. G. Maruchnic*

The trade secret problem today.

INDUSTRIAL COMPETITION today is so acute in many instances that very often a few pennies in the selling price of a product or a service, or its quality or lack of it, one way or the other, spells success or failure in the sale of that product or service. Frequently the price or quality of such product or service is determined by information gained through painstaking effort on the part of a company, by its so-called "know-how," by equipment refinements, by new invention and processing methods, and by other means all of which are to a greater or lesser degree kept from the inquisitive eye of competitors and others not directly concerned with the operation. These methods, information, inventions, and the like, are categorically referred to as trade secrets.

Because of the great part that such trade secrets play in the success of many industrial endeavors, the courts have been called upon on many occasions to resolve controversies of litigants concerning such secrets.

The cases most often appearing before the courts involve the relationship of employer and employee, or former employee. Out of this relationship arise the questions of ownership and use and misuse of alleged confidential information or trade secrets. Other relationships have also been considered by the courts, and the questions considered are in many respects overlapping. The big question is to determine what is a trade secret so that the courts can protect such trade secrets.¹

Definitions of trade secret.

Courts and writers have spent much time in discussing and defining a trade secret. Because of the involvement of such an expression and the complexity of the task, an exact definition is

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¹ *Fulton Grand Laundry Co. v. Johnson*, 140 Md. 359, 117 A. 753 (1922).

difficult, and some courts and writers have found it more expedient to define by exclusion those things which are not trade secrets,² or by setting up guide posts to determine whether some particular information that has been given is a trade secret.³ While the defining of a trade secret has not been an easy task, there are numerous definitions, many of which are substantially variations of an often quoted Ohio case which formulated the following:⁴ "A trade secret is a plan or process, tool, mechanism or compound, known only to its owner and those of his employees to whom it is necessary to confide it in order to apply it to the uses for which it is intended."

Requirement of a trade secret.

The first consideration given in the analysis of a trade secret problem is to the question of secrecy, for a trade secret must, in its very nature and from its very definition, involve to some degree an element of secrecy. Matters of public or general knowledge cannot form the basis of a trade secret, and there can be no secret in those instances where the alleged trade secret is revealed by the product which the complainant markets.⁵ Because one calls a matter a trade secret is not conclusive; other circumstances considered in the light of this claim are considered by the courts in weighing this phase of the problem. Hence, the element of secrecy is comparative, and the nature of the trade secret is not material, if in fact the secret is of importance to the business and is so regarded by the owner.⁶ However, a trade

² Sun Dial Corp. v. Rideout et al., 25 N. J. Super. 591, 96 A. 2d 788 (1953).

³ Mycalex Corporation of America v. Pemco Corporation et al., 64 F. Supp. 420 (D. C. Md. 1946).

⁴ The National Tube Company v. Eastern Tube Company et al., 13 Ohio Circuit Decisions 468, affirmed 69 Ohio St. 560 (1903). Other definitions are:

"A 'secret' is nothing more than a private matter; something known only to one or a few and kept from others. It may be acquired by lawful means, as by discovery, or even by unfair means, without tracing title to the originator, and when so acquired it does not necessarily cease to be a secret which may be protected from unlawful competition." Kaumagraph Co. v. Stampagraph Co. Inc., et al., 235 N. Y. 1, 138 N. E. 485 (1923).

"A trade secret is not mere knowledge or the efficiency of experience. It is not mere skill in manipulation. A trade secret may consist of formulae, patterns, machines or processes of manufacturing for continuous use in the operation of a business." Sun Dial Corp. v. Rideout et al., 25 N. J. Super. 591, 96 A. 2d 788 (1953).

⁵ Carver et al., v. Harr et al., 132 N. J. Eq. 207, 27 A. 2d 895 (1942).

⁶ Radium Remedies Co. v. Weiss et al., 173 Minn. 342, 217 N. W. 339 (1928); Macbeth-Evans Glass Co. v. Schnelbach et al., 239 Pa. 76, 86 A. 688 (1913).

secret or confidential relationship cannot be imposed without notice that the information is imparted in confidence; it cannot arise without consent.

A trade secret, by the foregoing definitions, need not have such novelty as would be required for patentability, and whether the secret is patentable or not or protected by trade mark is immaterial.⁷ However, they must be the particular secrets of the complaining owner not general secrets of the trade in which he is engaged.⁸

The six point trade secret test.

As suggested above, an exact definition of a trade secret is difficult, hence the courts have found it helpful to formulate guide posts. Some of the factors considered in determining whether some questionable information that is given is a trade secret are: (1) how extensively the information is known outside the particular business;⁹ (2) how extensively it is known by employees and others in that business;¹⁰ (3) how much effort was put forth by the owner to guard his secret;¹¹ (4) how valuable was the information to the owner and to his competitors;¹² (5) how much effort and money was expended to develop the secret;¹³ (6) how difficult or easy would it be for another to honestly acquire the same secret.¹⁴ However, the fact that the

⁷ "It seems quite clear that while a secret may involve such novelty as is required for patentability; and a secret, to be protected, must contain such element of value or usefulness, yet a trade secret need not involve such novelty as would make it patentable," *Newell v. O. A. Newton & Son Co. et al.*, 104 F. Supp. 162 (D. C. Del. 1952); *A. O. Smith Corporation v. Petroleum Iron Works Co.*, 73 F. 2d 523 (6th Cir. 1920); *Holland Stock Remedy Co. v. Independent Chemical Co. et al.*, 17 Ohio Dec., Nisi Prius 207 (1906).

⁸ *Excelsior Steel Furnace Co. v. Williamson Heater Co.*, 269 F. 614 (6th Cir. 1920); *The Perfect Measuring Tape Co. v. Notheis, Jr. et al.*, 93 Ohio App. 507, 114 N. E. 2d 149 (1953); *Cincinnati Bell Foundry Co. v. John B. Dodds et al.*, 10 Ohio Dec. Rep. 154 (1887).

⁹ *Mycalex Corporation of America v. Pemco Corporation et al.*, 64 F. Supp. 420 (D. C. Md. 1946).

¹⁰ Restatement of the Law of Torts, Sec. 757, Comment b.

¹¹ *American Stay Co. v. Delaney*, 211 Mass. 229, 97 N. E. 911 (1912); *Petnel v. American Tel. & Tel. Co. et al.*, 280 App. Div. 706, 117 N. Y. S. 2d 294 (1952).

¹² *Mycalex Corporation of America v. Pemco Corporation et al.*, 64 F. Supp. 420 (D. C. Md. 1946).

¹³ *Mycalex Corporation of America v. Pemco Corporation et al.*, *supra* note 12.

¹⁴ *Carver et al., v. Harr et al.*, 132 N. J. Eq. 207, 27 A. 2d 895 (1942).

secret was easy to duplicate does not militate against its being a trade secret. The important point is that the owner and those to whom it was necessary to reveal the secret knew of the trade secret.

Burden of proof.

As in the usual case, where the one who asserts the affirmative has the burden of proof, so too, in the law of trade secrets the one claiming the secret as his own and that another has violated such secret must show¹⁵ (1) that there was a trade secret or a secret process of manufacture; (2) that it was of value to the owner and important in the conduct of his business; (3) that by reason of his ownership or discovery the owner of the secret had a right to its use or enjoyment; (4) that the secret was communicated to the defendant, while he was in a position of trust and confidence, under such circumstances as to make it inequitable and unjust for him to disclose it to others or to make use of it himself, to the prejudice of the owner.

Trade secrets by court determination.

The courts, over the years, have been called upon on numerous occasions to determine what is and what is not a trade secret. The court in *The National Tube Company* case¹⁶ in general terms expressed a formula for the determination of trade secrets within the realm of industrial activities. This definition included plans, processes, tools, mechanisms and compounds; however, other confidential information has been dealt with by the courts,¹⁷ and the 6 factors for the determination of trade secret information, as enumerated in the *Mycalex Corporation* case,¹⁸ are often used

¹⁵ *Macbeth-Evans Glass Co. v. Schnelbach et al.*, 239 Pa. 76, 86 A. 688 (1913).

¹⁶ 13 Ohio Cir. Dec. 468 (1903).

¹⁷ *Empire Steam Laundry v. Lozier*, 165 Cal. 95, 130 P. 1180 (1913)—Laundry list by civil statute, confidential information; *The Home Steam Laundry Co. v. Thomas S. Smith et al.*, 8 Ohio Nisi Prius, New Series 402 (1909)—Laundry list held to be confidential information; *but cf.*: *Fulton Grand Laundry Co. v. Johnson*, 140 Md. 359, 117 A. 753 (1922)—Laundry list held not to be a trade secret; *Curry v. Marquart et al.*, 133 Ohio St. 77, 11 N. E. 2d 868 (1937)—Milk customer list not a trade secret; *Pestel Milk Co. v. Model Dairy Products Co. et al.*, 39 Ohio Law Abs. 197, 52 N. E. 2d 651 (1943)—Milk company route salesman's activities held to be not confidential; *Union Switch & Signal Co. v. Sperry*, 169 F. 926 (S. D. N. Y. 1909)—Business records held to be trade secrets.

¹⁸ *Mycalex Corporation of America v. Pemco Corporation et al.*, 64 F. Supp. 420 (D. C. Md. 1946).

to resolve the question. But, the knowledge and skill which a person obtains or procures through his experience are not considered to be trade secrets, and merchandising methods are not, and cannot be, trade secrets,¹⁹ and, the term "trade secret" is not used, or is rarely if ever used to denote, the mere privacy with which an ordinary commercial business is carried on.²⁰

Trade secrets differentiated from patents.

Trade secrets and patents are two separate and totally distinct legal matters. It seems quite clear that while a trade secret may involve such novelty as is required for patentability and a secret, to be protected, must contain such element of value or usefulness yet a trade secret need not contain such novelty as would make it patentable. The protection given to a trade secret is independent of the patent laws and covers not the invention itself, but the secrecy of the information under the given set of circumstances, since the secret, if patented, would be made public, and the inventor is protected by letters patent from infringement.²¹ However, as soon as anyone fairly and honestly discovers a trade secret either by examination of the manufactured products sold or offered for sale to the public, or in any other honest way, that person has full right to use it. That is the risk the owner takes, and if he would have further protection, he must seek a patent. Hence, though the trade secret need not be patentable so that a court would grant protection, yet it may have such novelty and invention as would entitle it to letters patent. Should the owner nevertheless prefer not to have a patent issued, his trade secret will be protected only so long as he can keep others from learning of the secret through honest means. Hence, it is conceivable that there may be property rights in trade secrets that may be greater than that afforded patents, and the protection will be by injunction or other equitable relief, but not by a patent suit. While a party may not recover damages for the appropriations of secret processes for which patents have been issued, since the right to secrecy and to patent monopoly are inconsistent, mere filing of applications for a patent is not a dedication of the secret to the public.

¹⁹ 79 C. J. S. 935.

²⁰ 79 C. J. S. 935.

²¹ *The National Tube Company v. Eastern Tube Company et al.*, 13 Ohio Cir. Dec. 468 (1903); *Fairchild Engine & Airplane Corp. et al., v. Cox*, 50 N. Y. S. 2d 643 (1944).

Protection afforded against the violation of a trade secret.

Once it has been established that a given matter constitutes a trade secret, the next problem of pressing importance is the enforcement of the right to remain unhindered in the use of such trade secret. With this problem arise other allied problems concerning the origin of an obligation to honor another trade secret, the determination of what constitutes a violation of this obligation, and the means by which one may protect against such violations.

The obligation not to disclose trade secrets arises from some confidential relationship. Hence, the starting point for trade secret protection is an examination of this relationship. The underlying theory of the considered cases is that under a particular set of circumstances a relationship of confidence may arise by operation of law, even though there is no express agreement that the matters divulged will be held in confidence,²² and it is this confidence that gives rise to a duty not to use or divulge the secret to the detriment of the owner. However, no such confidence arises where knowledge of the trade secret is gained by honest and lawful means,²³ as by examination of the manufactured products sold or offered for sale, and, if the confidence ever existed, it ceases to exist upon the owner's giving publication to his trade secret. Liability attaches to one who discloses or uses another's trade secret, without a privilege to do so, if he has used improper means to effect his discovery,²⁴ or through a breach of confidence, or through a third person with knowledge that the latter has not acted in good faith or through a mistake of the owner with knowledge of this fact.²⁵ Relief is granted to protect the secret only where one is attempting to use or disclose it in violation of some general duty of good faith such as a breach of contract or abuse of confidence.²⁶ Since a secret is nothing more

²² *International Industries, Inc. v. Warren Petroleum Corp. et al.*, 99 F. Supp. 907 (S. D. Del. 1951).

²³ *Junker v. Plummer*, 320 Mass. 76, 67 N. E. 2d 667 (1946); *Wireless Specialty Apparatus Co. v. Mica Condenser Co., Ltd., et al.*, 239 Mass. 158, 131 N. E. 307 (1921)—Knowledge acquired honestly of a patentable but unpatented invention is not a violation of such confidence; *Case v. Thomas et al.*, 5 Ohio Law Abs. 308 (1927); See also: *Chadwick v. Covell*, 151 Mass. 190, 23 N. E. 1068 (1890).

²⁴ *Aktiebolaget Bofors v. United States*, 194 F. 2d 145 (D. C. Cir. 1951).

²⁵ *Restatement of the Law of Torts*, Sec. 757.

²⁶ *Aktiebolaget Bofors v. United States*, 194 F. 2d 145 (D. C. Cir. 1951); *Junker v. Plummer*, 320 Mass. 76, 67 N. E. 2d 667 (1946).

than a private matter, something known only to one or a few and kept from others, it may be acquired by lawful means, as by discovery or even by unfair means, without tracing title to the originator, and when so acquired it does not necessarily cease to be a secret which may be protected from unlawful competition.²⁷ However, knowledge acquired honestly of a patentable but unpatented invention is not a violation of such confidence. The secret may be absolute or relative, yet the same principles apply.

These principles, on the confidential relationship of the parties to determine their obligations one to the other, extend also to the assignee of a trade secret, and he, being the new owner, may enforce his rights in the trade secret against the assignor, former owner.²⁸

Protection afforded the owner of a trade secret against employees and former employees.

The majority of trade secret cases considered by the courts have dealt with parties occupying the employer-employee relationship. The problem in most instances involves an allegation by the employer that the employee has exploited the former by carrying off and using to the employer's detriment some trade secret or other confidential information. In the consideration of these cases the courts have formulated the general rule that the duty to refrain from such exploitations arises from the relationship of employer-employee and the implied promise that the employee will not divulge confidential information gained in the course of his employment or use it to his employer's prejudice.²⁹ It is further said that there is subsisting between employer and employee a quasi-contract, arising out of every contract of employment that the employee will hold sacred any trade secrets or other confidential information which he acquires in the course of his employment³⁰ and such duty of the employee is an absolute not a relative duty.³¹ The fact that he left his employ is immate-

²⁷ *Kaumagraph Co. v. Stampagraph Co. Inc., et al.*, 235 N. Y. 1, 138 N. E. 485 (1923).

²⁸ *Pomeroy Ink Co. v. Pomeroy*, 77 N. J. Eq. 293, 78 A. 698 (1910); 43 C. J. S. Sec. 148.

²⁹ *Town & Country House & Home Service, Inc. v. Newbury et al.*, 119 N. Y. S. 2d 324 (1952).

³⁰ *Richard M. Krause, Inc. v. Gardner et al.*, 99 N. Y. S. 2d 592 (1950).

³¹ *Patterson v. Pollock et al.*, 84 Ohio App. 489, 84 N. E. 2d 606 (1948); *Byrne et al. v. Barrett*, 268 N. Y. 199, 197 N. E. 217 (1935).

rial since the duty continues after the employment as well as during its continuance. However, unless restricted by some agreement with his former employer, one's right to compete in business with such former employer is the same as that of a stranger to the contract of employment, subject to the above general rule, and an employee upon leaving the employment has a right to use his general knowledge, experience, memory, and skill as long as he does not use or disclose any of the secret processes, which the employer was entitled to keep for its own use, and to which, as against him, it had exclusive property rights. Though an employee has no right to sell a trade secret evolved by his employers, nor to sell his services to another with the added value of this secret, the employee may make use of any idea he has invented, even though such invention was made in the course of his employment and at the employer's expense,³² unless he was hired to invent such secret or transfer it by contract,³³ and the employer does not own it and can claim no further interest in it than the product of the skill, industry and intelligence of the employee.

Protection under express contract.

Not infrequently employers, in an effort to protect themselves and to obviate later legal entanglements, stipulate, as part of the employment contract, certain restrictive covenants which have for their purpose the control of employee conduct during or after termination of employment. Restrictive covenants in employment contracts are of two kinds: (a) one not to accept employment from others during the term of the contract, and (b) one not to engage in a similar business or accept employment with a competitor for a fixed time after the termination of the original contract.³⁴ The objective of each contract is different; in the first type it is to enforce employment with the employer, in the second type it is to avoid unfair competition. Both of these objectives very often are directed to the purpose of protecting the employer's trade secrets. Each of these contracts is in a degree a restraint

³² *Wireless Specialty Apparatus Co. v. Mica Condenser Co., Limited, et al.*, 239 Mass. 158, 131 N. E. 307 (1921).

³³ *Wireless Specialty Apparatus Co. v. Mica Condenser Co., Limited, et al.*, 239 Mass. 158, 131 N. E. 307 (1921); *American Stay Co. v. Delaney*, 211 Mass. 229, 97 N. E. 911 (1912); *Eastman v. Reichenbach et al.*, 20 N. Y. S. 110 (1892).

³⁴ *Deuerling v. City Baking Co.*, 155 Md. 280, 141 A. 542 (1928).

of trade, since the public has an interest in the services of such employees.

The underlying principle upon which the modern cases upon this subject are grounded is that although one cannot stifle competition by a bargain having that purpose only, yet when he purchases something, or acquires some right, the value of which may be affected by the subsequent conduct of the seller, the purchaser may lawfully obtain the stipulation of the seller that he will refrain from such conduct.³⁵

Many courts of last resort have held that an agreement imposing restraints upon the right of an employee to engage in a competing service after the termination of the contract of service are analogous to, and governed by, the same general rule applicable to restrictive covenants in the sale of a business and good will.³⁶ However, no contractual restraint of trade is enforceable at common law unless the covenant embodying it is merely ancillary to some lawful contract (involving some such relation as vendor and vendee, partnership, employer and employee) and necessary to protect the covenantee in the enjoyment of the legitimate fruits of the contract, or to protect him from those dangers of unjust use of those fruits by the other party. The main purpose of the contract suggests the measure of protection needed, and furnishes a sufficiently uniform standard for determining the reasonableness and validity of the restraints. But where the sole object of both parties in making the contract is merely to restrain competition, and enhance and maintain prices, the contract is void.³⁷ This is true notwithstanding the public policy which in general holds competent contracting parties to bargains made by them with their eyes open.³⁸ There is, however, an antagonistic policy which proscribes any contract that would bring about an unreasonable restriction of the liberty of a man to earn his living or exercise his calling.³⁹ In order that such restrictive covenants in employment contracts be enforced it must be shown: (1) that the contract was a prerequisite of the employment or was sup-

³⁵ *S. Jarvis Adams Co. v. Knapp*, 121 F. 34 (6th Cir. 1903).

³⁶ *Grand Union Tea Co. v. Walker*, 208 Ind. 245, 195 N. E. 277 (1935).

³⁷ *United States v. Addyston Pipe & Steel Co., et al.*, 85 F. 271 (6th Cir. 1898); *Gates-MacDonald Co. v. McQuilkin*, 33 Ohio Law Abs. 481, 34 N. E. 2d 443 (1941).

³⁸ *Simmons v. Fried*, 302 N. Y. 323, 98 N. E. 2d 456 (1951).

³⁹ *Grand Union Tea Co. v. Walker*, 208 Ind. 245, 195 N. E. 277 (1935); *Taylor Iron & Steel Co. v. Nichols, et al.*, 73 N. J. Eq. 684, 69 A. 186 (1908).

ported by other consideration,⁴⁰ (2) the purpose to be obtained is fair and reasonable,⁴¹ (3) the restriction does not injuriously affect the public,⁴² and (4) the enforcement of the restriction is necessary for the protection of the employer's business.⁴³ The chief criterion for determining the validity of these restraints, however, is the reasonableness of the contract,⁴⁴ and the restriction is said to be good if it is confined within limits which are no larger and wider than the protection of the party with whom the contract is made may reasonably require, and there can be no enforcement of a contract for personal services which forbids the employee to divulge any confidential information, known to him or acquired during his employment relating to the trade secret, which is unlimited as to time and place.⁴⁵ Clearly the enforcement of such restrictions injures the employee, and the question, therefore, narrows itself to the determination of the necessity for the protection of the employer's business. If such necessity exists in fact, then it overrides the injury to the employee.

Though public policy favors enforcement of the contract of competent contracting parties, and though such contract objectively appears fair, a contract of employment prepared by employer's attorneys would be construed most strongly against the employer, particularly where the employee had no legal advice.

Protection in absence of contract.

Though employment under express contract is highly desirable and is often the case, nevertheless a great number of employment relationships arise wholly without the aid of written

⁴⁰ *McCall v. Wright*, 198 N. Y. 143, 91 N. E. 516 (1910).

⁴¹ *Kaumagraph Co. v. Stampagraph Co., Inc., et al.*, 235 N. Y. 1, 138 N. E. 485 (1923).

⁴² *John Roane, Inc. v. Tweed*, 89 A. 2d 548 (1951); but see: *O. W. Thum Company v. Tloczynski*, 114 Mich. 149, 72 N. W. 140 (1897)—Public policy does not require the avoidance of a contract by an employee not to disclose secrets which must necessarily be imparted to him by his employer to enable him to do his work.

⁴³ *John Roane, Inc. v. Tweed*, 89 A. 2d 548 (1951); *Kaumagraph Co. v. Stampagraph Co., Inc., et al.*, 235 N. Y. 1, 138 N. E. 485 (1923).

⁴⁴ *Western Maryland Dairy Inc. v. Chenoweth*, 180 Md. 236, 23 A. 2d 660 (1942); *Red Star Yeast & Product Co. v. Hague*, 25 Ohio App. 100, 157 N. E. 393 (1927); *Arthur Murray Dance Studios of Cleveland Inc. v. Witter*, 62 Ohio Law Abs. 17, 105 N. E. 2d 685 (1952); *Inboden v. L. W. Hawker, Inc.*, 35 Ohio Law Abs. 303, 41 N. E. 2d 271 (1941).

⁴⁵ *Tolman Laundry Inc. v. Walker*, 171 Md. 7, 187 A. 836 (1936)—it is said that "such a restraint savors of servitude, unrelieved by an obligation of support on the part of the latter (employer)"; *Taylor Iron & Steel Co. v. Nichols, et al.*, 73 N. J. Eq. 684, 69 A. 186 (1908).

contracts. Hence, it becomes a matter of serious importance to such parties to know what, if any, provisions exist for an implied contractual agreement. Legal recourse in trade secret cases is not limited to causes of action arising wholly out of written contract, the law which protects an employer from unfair competition is broader than that, and there is subsisting between the employee and employer, in the absence of a written contract, a quasi-contract that the employee will not use the information which he acquires while in the employment, after he has left it, to destroy the business of his employer.⁴⁶ Even in the absence of a clause in a contract which prevents the use of information of this character in that way, the law throws about the business and about the property of the employer a protection which prohibits the improper use of information to the detriment of the employer.⁴⁷ Among the detrimental effects considered by the courts are the damage resulting to the employer from misuse and abuse of confidential information and trade secrets of the employer.⁴⁸ The courts have said that where a confidential relation exists between two or more parties engaged in a business venture the law raises an implied contract between them that the employee will not divulge any trade secret imparted to him or discovered by him in the course of his employment, and that a disclosure of such secrets is a breach of trust and a violation of good morals, to prevent which a court of equity should intervene.⁴⁹ It is further said that a written contract merely expresses the implied contract, implicit in the relationship of the parties, that one who enters into such an employment will not carry elsewhere into competition with his employer confidential knowledge obtained from him.⁵⁰

While the evidence of an implied contract giving the employer the exclusive right as against the discoverer of an invention should

⁴⁶ *White Baking Co. v. Snell*, 28 Ohio Nisi Prius Reports, New Series 172 (1930); but see: *H. W. Gossard Co. v. Crosby*, 132 Iowa 155, 109 N. W. 483 (1906).

⁴⁷ *White Baking Co. v. Snell*, 28 Ohio Nisi Prius Reports, New Series 172 (1930).

⁴⁸ *Curry v. Marquart et al.*, 133 Ohio St. 77, 11 N. E. 2d 868 (1937).

⁴⁹ *The Cleveland Worm & Gear Co. v. Mayhew E. Noyes*, 17 Ohio Nisi Prius Reports, New Series 529 (1915); *Extrin Foods, Inc. v. Leighton et al.*, 202 M. 592, 115 N. Y. S. 2d 429 (1952); *Eastman v. Reichenbach et al.*, 20 N. Y. S. 110 (1892).

⁵⁰ *Stone et al. v. Goss et al.*, 65 N. J. Eq. 756, 55 A. 736 (1903); *Little v. Gallus et al.*, 4 App. Div. 569, 38 N. Y. S. 487 (1896).

be clear and satisfactory, as otherwise the inventor would be deprived of the benefit of his discovery to which he would be reasonably entitled on leaving the employment, if the facts of the case lead clearly to the conclusion that from the acts and conduct of both parties it was intended that the process or formulas discovered during the employment should belong to the company alone, the contract should be enforced.⁵¹

However, in the absence of restrictive covenant no implied obligation rests on an employee not to disclose or use the trade secrets of the employer that have not been entrusted to him in confidence, and under such circumstances, an employee who has quit the service of his employer may use in his own business or the business of another, his experience, skill, acumen, memory and general knowledge gained while in the service of the employer. This use is permissible so long as the employee does not resort to fraud or unfair business practices.

Protection outside the employment relationships.

Though the cases most frequently encountered involve employer and employees, the courts have found occasion to deal with other relationships. Protection has been accorded an owner of a trade secret against the new employer of the former employee,⁵² against the vendor of the trade secret,⁵³ against the licensee under an agreement not to publish the secret⁵⁴ and the fact, however, that another has legitimately discovered the trade secret will not permit one to whom a confidential disclosure has been made to violate the confidence, where the matter has not been generally disclosed by any of the discoverers so as to have become public knowledge and property.

Protection against disclosure in court during litigation.

The result of controversies involving trade secrets is often a court room hearing. Hence, the problem presents itself as to

⁵¹ *Pomeroy Ink Co. v. Pomeroy*, 77 N. J. Eq. 293, 78 A. 698 (1910); but see: *Recording & Computing Machines Co. v. George Nath et al.*, 75 Ohio St. 603, 80 N. E. 1129 (1904).

⁵² *Westervelt et al. v. National Paper & Supply Co.*, 154 Ind. 673, 57 N. E. 552 (1900); *Peerless Pattern Co. v. Pictorial Review Co. et al.*, 147 App. Div. 715, 132 N. Y. S. 37 (1911).

⁵³ *Mallinckrodt Chemical Works v. Nemnich*, 169 Mo. 388, 69 S. W. 355 (1902).

⁵⁴ *L. M. Rabinowitz & Co., Inc. v. Dasher et al.*, 82 N. Y. S. 2d 431 (1948).

how the trade secret can be protected and yet its disclosure not made public. Some courts have permitted the owner to refuse to divulge his alleged trade secret on the claim of personal privilege.⁵⁵ However, the words of Justice Holmes, as used in the *E. I. DuPont* case,⁵⁶ seem to sum up the problem well. "Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore, the starting point for the present matter is not property or due process of law, but that the defendant stood in confidential relations with the plaintiff, or one of them. These have given place to hostility, and the first thing to be made sure of is that defendant shall not fraudulently abuse the trust imposed in him. It is the usual incident of confidential relations. If there is any disadvantage in the fact that he knew the plaintiff's secrets, he must take the burden with the good."

Judicial relief available to owner.

Once the right to a trade secret has been found in favor of a claimant, the court must then grant some judicial relief to the aggrieved. The relief is ordinarily equitable in nature, and, as in the usual equitable suit, the courts will assume jurisdiction only where it is shown that the legal remedy is inadequate⁵⁷ and that some property right of the claimant has been violated.⁵⁸ This grant of equitable relief has been founded upon two theories: (1) the prevention of unfair competition, and (2) the prevention of unjust enrichment.⁵⁹

⁵⁵ *Crocker-Wheeler Co. v. Bullock*, 134 F. 241 (S. D. Ohio 1904); *The Perfect Measuring Tape Co. v. Notheis, Jr., et al.*, 93 Ohio App. 507, 114 N. E. 2d 149 (1953).

⁵⁶ *E. I. DuPont DeNemours Powder Co. v. Walter E. Masland et al.*, 224 F. 689 (3rd Cir. 1915); *Griffin Mfg. Co., Inc. v. Gold Dust Corp., et al.*, 245 App. Div. 385, 282 N. Y. S. 931 (1935).

⁵⁷ *Taylor Iron & Steel Co. v. Nichols, et al.*, 73 N. J. Eq. 684, 69 A. 186 (1908).

⁵⁸ *Harold et al. v. Harold China & Pottery Co.*, 257 F. 911 (6th Cir. 1919); *Sun Dial Corp. v. Rideout et al.*, 25 N. J. Super. 591, 96 A. 2d 788 (1953); *Sandusky Foundry & Machine Co. v. Wood*, 1 Ohio Law Abs. 409 (1923); *Cincinnati Bell Foundry Co. v. John B. Dodds et al.*, 10 Ohio Dec. Rep. 154 (1887); but see: *Extrin Foods, Inc. v. Leighton et al.*, 202 M. 592, 115 N. Y. S. 2d 429 (1952)—"liability under these circumstances is predicated on the breach of this duty rather than on a specific property right of plaintiff."

⁵⁹ *Newell v. O. A. Newton & Son Co. et al.*, 104 F. Supp. 162 (D. C. Del. 1952); *International Industries, Inc. v. Warren Petroleum Corp., et al.*, 99 F. Supp. 907 (S. D. Del. 1951); but see: *Peerless Pattern Co. v. Pictorial Review Co., et al.*, 147 App. Div. 715, 132 N. Y. S. 37 (1911)—"Equity has no power to compel a man who changes employers to wipe clean the slate of his memory."

It may now be accepted as settled law, under authority of American cases that courts of equity, if the facts warrant, will restrain an employee from making disclosures or use of trade secrets communicated to him in the course of his employment, hence, the remedies granted by the courts, both of law and equity, have taken the form of injunctions,⁶⁰ specific performance of contracts not to compete⁶¹ or not to reveal trade secrets,⁶² accounting and declaration of a trusteeship⁶³ and damages.⁶⁴

Defenses available in a trade secret action.

While the courts have gone to considerable lengths to protect the owner of a trade secret from unfair dealings, they have, nevertheless, refused to grant relief where the complainant through his own doing, has placed himself in a position where equity and justice dictate the denial of relief. Such denial follows the voluntary publication of the trade secret, either by the display of the product or by divulgence for purposes of sale or contract.⁶⁵ The normal result of disclosure is competition, and others then are free to join in the scramble for business. Courts view with disfavor those who delay unnecessarily in the enforcement of their legal rights (laches),⁶⁶ and upon those who allow their ideas to stagnate until another has found a use for them (non-user),⁶⁷ and upon those whose conduct in the pursuit of their business would cast a barrier before their path to legal protection (estoppel).⁶⁸

⁶⁰ *Allen-Qualley Co. v. Shellmar Products Co.*, 31 F. 2d 293 (S. D. Ill. 1929); *Nuldmoline Co. v. Stromeyer*, 299 F. 597 (3rd Cir. 1918); *Vulcan Detinning Co. v. American Can Co.*, et al., 77 N. J. Eq. 387, 87 A. 91 (1907); *Fairchild Engine & Airplane Corp.*, et al. v. *Cox*, 50 N. Y. S. 2d 643 (1944).

⁶¹ *Junker v. Plummer*, 320 Mass. 76, 67 N. E. 2d 667 (1946); but see: *Tawney et al. v. Mutual System of Maryland, Inc.*, et al., 186 Md. 508, 47 A. 2d 372 (1946); *Griffin v. Guy*, 172 Md. 510, 192 A. 359 (1937).

⁶² *Stone et al. v. Goss et al.*, 65 N. J. Eq. 756, 55 A. 736 (1903); *Eastman v. Reichenbach et al.*, 20 N. Y. S. 110 (1892); *White Baking Co. v. Snell*, 28 Ohio Nisi Prius Reports, New Series 172 (1930); *The Cleveland Worm & Gear Co. v. Mayhew E. Noyes*, 17 Ohio Nisi Prius Reports, New Series 529 (1915); *George W. Seifried v. John C. Maycox*, 14 Ohio Dec. 536 (1904); *Sterling Varnish Co. v. Macon et al.*, 217 Pa. 7, 66 A. 78 (1907).

⁶³ *Vulcan Detinning Co. v. American Can Co.*, 75 N. J. Eq. 542, 73 A. 603 (1909).

⁶⁴ *Spiselman v. Rabinowitz*, 270 App. Div. 548, 61 N. Y. S. 2d 138 (1946).

⁶⁵ *Carver et al. v. Harr et al.*, 132 N. J. Eq. 207, 27 A. 2d 895 (1942); *Applebee v. Skiwanek*, 27 N. C. R. 78, 140 N. Y. Supp. 450 (1912); *Tabor v. Hoffman*, 118 N. Y. 30, 23 N. E. 12 (1889).

⁶⁶ *Globe Ticket Co. v. International Ticket Co.*, 90 N. J. Eq. 605, 104 A. 92 (1918).

⁶⁷ *Victor Chemical Works v. Iliff et al.*, 299 Ill. 532, 132 N. E. 806 (1921).

⁶⁸ *Germo Mfg. Co. v. Coombs*, 209 Mo. App. 651, 240 S. W. 872 (1922).