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## **Federal Preemption of State Trade Secret Law: Existing Theories and a Proposed Solution**

*Recent court decisions have again raised the question whether the patent clause of the Constitution and the federal patent laws preempt state trade secret laws. Different interpretations of the Supreme Court decisions have led to three different theories: that all state trade secret law should be preempted, that only trade secret law protecting patentable subject matter should be preempted, and that no part of state trade secret law should be preempted. To overcome the difficulties in each of these theories, the author proposes a solution which would invalidate trade secret protection only for inventions which meet all the standards of patentability.*

### I. INTRODUCTION

THE CONSTITUTION gives Congress the power to grant an inventor a monopoly for a limited time in order to promote the progress of science and the useful arts.<sup>1</sup> In accordance with that grant Congress has provided that one whose time, effort, and resources have culminated in an invention has the opportunity to protect that invention by applying for a federal patent.<sup>2</sup> If the invention is patentable subject matter<sup>3</sup> and meets the added statutory requisites of originality,<sup>4</sup> novelty,<sup>5</sup> usefulness,<sup>6</sup> and nonobviousness,<sup>7</sup> the inventor will receive a 17-year monopoly in exchange for the disclosure of his invention.<sup>8</sup> This scheme is designed to encourage invention through the reward of a limited monopoly.<sup>9</sup> There are, however, some inventors who do not apply for a patent, but instead choose to keep their inventions secret. In addition, most inventions do not meet all the statutory requirements for a patent, so inventors must rely upon secrecy to use their inventions profitably or to sell them. States have protected this interest in secrecy, and thus a body of trade secret law has evolved.<sup>10</sup> Although trade secret law may

<sup>1</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>2</sup> 35 U.S.C. §§ 1-293 (1970). See generally 2 A. DELLER, WALKER ON PATENTS § 102 (2d ed. 1964).

<sup>3</sup> 35 U.S.C. § 101 (1970). See 1 A. DELLER, *supra* note 2, §§ 10-29.

<sup>4</sup> 35 U.S.C. §§ 101, 115 (1970). See 1 A. DELLER, *supra* note 2, § 31.

<sup>5</sup> 35 U.S.C. §§ 101, 102 (1970). See 1 A. DELLER, *supra* note 2, §§ 54-82.

<sup>6</sup> 35 U.S.C. § 101 (1970). See 1 A. DELLER, *supra* note 2, §§ 83-101.

<sup>7</sup> 35 U.S.C. § 103 (1970). See 2 A. DELLER, *supra* note 2, §§ 106-09.

<sup>8</sup> 35 U.S.C. § 154 (1970).

<sup>9</sup> *Universal Oil Prods. Co. v. Globe Oil & Refining Co.*, 322 U.S. 471, 484 (1944).

<sup>10</sup> RESTATEMENT OF TORTS § 757, comment *b* at 5 (1939) defines a trade secret as follows:

be said to foster secrecy, rather than the sharing of ideas for the public good, its justification is in the prevention of industrial dishonesty, misappropriation of secrets, and breaches of contracts and confidential relationships.<sup>11</sup>

Until recently, the constitutionality of state trade secret laws had not been challenged, and their existence had been recognized by the Supreme Court.<sup>12</sup> Within the last 10 years, however, the validity of trade secret law has been questioned on constitutional grounds, principally as a result of three cases: *Sears, Roebuck & Co. v. Stiffel Co.*,<sup>13</sup> *Compco Corp. v. Day-Brite Lighting, Inc.*,<sup>14</sup> and *Lear, Inc. v. Adkins*.<sup>15</sup> The companion cases *Sears* and *Compco* held that states may not enjoin through unfair competition laws the copying of unpatented articles which are on the market, because to do so would conflict with federal patent laws. *Lear* held that a patent licensee is not estopped from challenging the underlying validity of the patent, for the estoppel principle applied in that context could undermine patent law. Further, the Court in *Lear* called

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

The liability for disclosure of a trade secret is succinctly stated in RESTATEMENT OF TORTS § 757 (1939):

One who discloses or uses another's trade secret, without a privilege to do so, is liable to the other if

- (a) he discovered the secret by improper means, or
- (b) his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret to him, or
- (c) he learned the secret from a third person with notice of the facts that it was a secret and that the third person discovered it by improper means or that the third person's disclosure of it was otherwise a breach of his duty to the other, or
- (d) he learned the secret with notice of the facts that it was a secret and that its disclosure was made to him by mistake.

In addition states have provided criminal penalties for misappropriation of trade secrets. *E.g.*, OHIO REV. CODE ANN. § 1333.51 (B) (Page Supp. 1972). *See generally* R. ELLIS, *TRADE SECRETS* (1953); A. TURNER, *THE LAW OF TRADE SECRETS* (1962).

<sup>11</sup> *See* RESTATEMENT OF TORTS § 757, comment *b* at 7 (1939): "[A trade secret's] protection is not based on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secret."

<sup>12</sup> *See* *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933); *Becher v. Contoure Laboratories, Inc.*, 279 U.S. 388 (1929); *E. I. du Pont de Nemours Powder Co. v. Masland*, 244 U.S. 100 (1917).

<sup>13</sup> 376 U.S. 225 (1964).

<sup>14</sup> 376 U.S. 234 (1964).

<sup>15</sup> 395 U.S. 653 (1969).

for a reevaluation of all state court decisions that enforce the contractual rights of inventors without patents.

These cases left open the question whether the patent clause and federal patent law preempt all trade secret law. Courts faced with the issue have generally concluded that they do not.<sup>16</sup> For instance, in *Servo Corp. of America v. General Electric Co.*<sup>17</sup> the Fourth Circuit held that the patent clause did not preempt the state from enjoining the use of secret information obtained through a breach of confidence. But a rift in the circuits occurred when the Sixth Circuit recently decided *Kewanee Oil Co. v. Bicron Corp.*<sup>18</sup> *Kewanee* held that state trade secret law which protects an invention that is an appropriate subject for a patent and has been commercially used for more than a year conflicts with the policies and purposes of the patent clause and the patent laws.<sup>19</sup> Former employees of Kewanee formed Bicron Corporation and, with the knowledge they had received while in Kewanee's employ, produced in 9 months a crystal for use in radiation detection that was ostensibly the same as one it had taken Kewanee 16 years to develop. Although the process involved in growing the crystal was patentable subject matter,<sup>20</sup> Kewanee could no longer have obtained a patent by the time the process was duplicated, because the crystals had been in commercial use for more than one year.<sup>21</sup> Kewanee, relying upon Ohio law, sought to enjoin Bicron from producing the crystals under a theory of misappropriation of trade secrets. It argued that each of the former employees had signed at least one agreement not to disclose the secrets, and that employees had breached their agreements, since it would have been impossible to reproduce the crystal independently in such a short time.

Although the court found that the former employees had indeed misappropriated the plaintiff's trade secrets, it denied the requested

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<sup>16</sup> Four circuits have upheld trade secret law since *Sears and Roebuck*, and two of those cases postdate *Lear* as well. *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Dekar Indus., Inc. v. Bissett-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. denied*, 402 U.S. 945 (1971); *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Servo Corp. of America v. General Elec. Co.*, 337 F.2d 716 (4th Cir. 1964), *cert. denied*, 383 U.S. 934 (1966). See also *Schulenburg v. Signatrol, Inc.*, 33 Ill. 2d 379, 212 N.E.2d 865 (1965), *cert. denied*, 383 U.S. 959 (1966).

<sup>17</sup> 337 F.2d 716 (4th Cir. 1964), *cert. denied*, 383 U.S. 934 (1966).

<sup>18</sup> 478 F.2d 1074 (6th Cir.), *cert. granted*, 414 U.S. 818 (1973). See 53 BOSTON U.L. REV. 1142 (1973); 42 U. CIN. L. REV. 794 (1973).

<sup>19</sup> 478 F.2d at 1086.

<sup>20</sup> 35 U.S.C. § 101 (1970). See note 79 *infra*.

<sup>21</sup> 35 U.S.C. § 102(b) (1970). See note 81 *infra*.

relief. Looking to *Sears* and *Compco* and heeding the directive of *Lear* to reexamine state law enforcing contractual rights of inventors, the court concluded that Ohio could not grant Kewanee trade secret protection without conflicting with the federal patent laws.<sup>22</sup> The main concern of the appellate court was that the use of trade secret law could effectively extend a commercial monopoly beyond the 17 years granted under a patent.<sup>23</sup>

This Note sets forth the competing arguments on the viability of trade secret law and suggests a scheme that will preserve the necessary aspects of that law without conflicting with the patent clause and the federal patent laws.

## II. DEVELOPMENTS IN THE JUDICIAL TREATMENT OF TRADE SECRETS

The common law of trade secret protection evolved some time after the drafting of the patent clause and the enactment of the first patent laws.<sup>24</sup> Although development of trade secret concepts can be discerned as early as 1837,<sup>25</sup> the first case to formulate trade secret principles explicitly arose in 1868. In *Peabody v. Norfolk*<sup>26</sup> a Massachusetts court held that a trade secret is property and the law will protect the holder against breaches of contractual or confidential relationships that destroy the secret. In 1917, the United States Supreme Court recognized trade secret law in *E.I. du Pont de Nemours Powder Co. v. Masland*,<sup>27</sup> but not as a property right in the secret. Mr. Justice Holmes, writing for a majority, stated that trade secrets can be protected where their disclosure is a breach of a confidential relationship between two parties.<sup>28</sup> The Court addressed trade secret cases from time to time thereafter and acknowledged that breaches of contract as well as confidential relationships would be redressed by the courts.<sup>29</sup>

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<sup>22</sup> 478 F.2d at 1085-86.

<sup>23</sup> The district court had granted an injunction of unlimited duration. *Id.* at 1076. Had the Court of Appeals not reversed, the defendants presumably could never have used the secret formula.

<sup>24</sup> The first patent law was adopted in Act of April 10, 1790, ch. 7, 1 Stat. 109.

<sup>25</sup> *Vickery v. Welch*, 19 Pick. (36 Mass.) 523 (1837). See Barton, *A Study in the Law of Trade Secrets*, 13 U. CIN. L. REV. 507 (1939).

<sup>26</sup> 98 Mass. 452 (1868).

<sup>27</sup> 244 U.S. 100 (1917).

<sup>28</sup> *Id.* at 102.

<sup>29</sup> In *Becher v. Contoure Laboratories, Inc.*, 279 U.S. 388, 391 (1929), the Court noted that breach of a contract or of a duty arising from confidential relations are

The question of the scope of preemption by federal law of the area of inventions was not addressed by the Court until *Sears, Roebuck & Co. v. Stiffel Co.*<sup>30</sup> and its companion case, *Compco Corp. v. Day-Brite Lighting, Inc.*<sup>31</sup> Stiffel had developed a pole lamp which Sears had copied in almost every detail. When its design patent was declared invalid, Stiffel sought an injunction, pursuant to an Illinois unfair competition law, to bar Sears from manufacturing and selling the copied article. Mr. Justice Black, speaking for the majority of the Court, refused to sustain the injunction. He concluded that "the patent system is one in which uniform standards are carefully used to promote invention while at the same time preserving competition,"<sup>32</sup> and therefore "[a]n unpatentable article, like an article on which the patent has expired, is in the public domain and may be made and sold by whoever chooses to do so."<sup>33</sup> *Compco* reached the same result on virtually identical facts. Thus, *Sears* and *Compco* mean that federal law at least bars states from enjoining the mere copying of an unpatentable item on the market. But Justice Black went on to make the broader statement: "[J]ust as a State cannot encroach upon the federal patent laws 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."<sup>34</sup>

The commentary following *Sears* and *Compco* was prolific,<sup>35</sup> and litigation was soon forthcoming. In the same year, the Fourth Circuit faced the issue whether an injunction barring the use of secrets acquired through a breach of confidence was a viable state remedy. In *Servo Corp. of America v. General Electric Co.*,<sup>36</sup> Servo

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matters independent of the patent law, and that an undisclosed invention does not need a patent to protect it from disclosure by breach of trust. *Accord*, *United States v. Dubilier Condenser Corp.*, 289 U.S. 178 (1933).

<sup>30</sup> 376 U.S. 225 (1964).

<sup>31</sup> 376 U.S. 234 (1964).

<sup>32</sup> *Id.* at 230-31.

<sup>33</sup> *Id.* at 231.

<sup>34</sup> *Id.*

<sup>35</sup> See Adelman, *Trade Secrets and Federal Pre-emption — The Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOC'Y 713 (1967); Kestenbaum, *The Sears and Compco Cases: A Federal Right to Compete by Copying*, 51 A.B.A.J. 935 (1965); Peterson, *The Legislative Mandate of Sears and Compco: A Plea for a Federal Law of Unfair Competition*, 69 DICK. L. REV. 347 (1965); Treece, *Patent Policy and Preemption: The Stiffel and Compco Cases*, 32 U. CHI. L. REV. 80 (1964); Note, *Trade Secret Law After Sears and Compco*, 53 VA. L. REV. 356 (1967); Comment, *Does Stiffel Stifle the Law of Unfair Competition?*, 37 U. COLO. L. REV. 86 (1964).

<sup>36</sup> 337 F.2d 716 (4th Cir. 1964), cert. denied, 383 U.S. 934 (1966).

disclosed some of its secrets in confidence to another party who in turn breached that confidence by passing the information to General Electric. Servo sought an injunction against use of the secrets by General Electric. The court sustained the injunction on the basis that the traditional equitable remedy for unjust enrichment was appropriate. It reasoned that *Sears*, which involved no breach of confidence or misappropriation, was distinguishable from cases where traditional principles of equity warranted relief for an inventor's loss.

Prior to the Supreme Court's decision in *Lear v. Adkins*,<sup>37</sup> the only other circuit to consider the question reached the same conclusion as the court in *Servo*.<sup>38</sup> Like most trade secret cases,<sup>39</sup> these lower court decisions involved equitable remedies for breaches of confidential relationships and contractual agreements. The absence of these situations in *Sears* and *Compco* allowed the courts to distinguish them easily. But in *Lear* the Court used patent policy to render an equitable principle inappropriate, and by doing so threatened the existence of all state trade secret law. Adkins, an inventor, had licensed his invention to Lear under a royalty arrangement. When Adkins' first attempt to obtain a patent failed, Lear stopped making payments. Adkins was later awarded a patent and he sued Lear for past due royalties. Lear's defense was the invalidity of the patent, but the state court held that he was estopped by his contract from raising it. Reversing, the Supreme Court held that estoppel to raise the defense of patent invalidity conflicted with the federal patent policy that all ideas in general circulation be dedicated to the common good unless patented.<sup>40</sup> Further, the Court called on the states to reevaluate all their laws enforcing contractual rights of inventors to determine to what extent, if any, they conflict with federal patent policy.<sup>41</sup>

Mr. Justice Black in a separate decision consistent with his opinions in *Sears* and *Compco* was more decisive. He stated:

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

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<sup>37</sup> 395 U.S. 653 (1969).

<sup>38</sup> *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969).

<sup>39</sup> See A. TURNER, *THE LAW OF TRADE SECRETS* 268-73, 307-10 (1962).

<sup>40</sup> *Lear* overruled *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*, 339 U.S. 827 (1950).

<sup>41</sup> 395 U.S. at 675.

in return for contractual payments, run counter to the plan of our patent laws . . .<sup>42</sup>

In brief, *Lear* invalidated an equitable principle like those that the cases postdating *Sears* had assumed were not jeopardized, though it did so in a patent licensing, not a trade secret, context. Further, Justice Black stated outright that the disclosure of secrets for consideration can be no alternative to the patent licensing system.

Nonetheless, shortly after *Lear*, Judge Friendly was able to decide in *Painton & Co. v. Bourns, Inc.*<sup>43</sup> that patent law and trade secret agreements can coexist. The parties in *Painton* had had a license agreement for unpatented confidential technical information. When the agreement ended, the licensee refused to return the information and sought a declaratory judgment that it was entitled under the contract to retain the information permanently and use it free from any claim for infringement or future royalties. The district court held for the licensee by adopting the position that:

Our patent policy of strict regulation of inventions would be undercut if inventors could enforce agreements for compensation for alleged secret ideas, without being required to submit those ideas to the Patent Office, and, thereby, eventually have the ideas disclosed to the public.<sup>44</sup>

On appeal the Second Circuit rejected this view and reversed the decision.<sup>45</sup> Judge Friendly concluded that the federal patent policy is not undermined by state enforcement of trade secret agreements. He viewed the patent system, where the inventor obtains a monopoly for a limited time in exchange for disclosure of his invention, as an exchange the inventor may decide not to make. Though Judge Friendly acknowledged that patent applications might be stimulated if all trade secret agreements were invalidated, he was not certain that the effect of such a situation would be bene-

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<sup>42</sup> *Id.* at 677 (Black, J., joined by Chief Justice Warren and Justice Douglas, concurring and dissenting).

<sup>43</sup> 442 F.2d 216 (2d Cir. 1971), *rev'g* 309 F. Supp. 271 (S.D.N.Y. 1970).

<sup>44</sup> 309 F. Supp. at 274. The district court opinion has been criticized, because the preemption issue was decided without benefit of briefs or arguments from the parties who were primarily concerned with the interpretation of their contract. 442 F.2d at 221.

<sup>45</sup> *Painton*, who had prevailed in the district court, did not attempt to argue the validity of the district court's opinion on appeal, but instead "decline[d] to argue the question of trade secret validity on the present record at the present time." 442 F.2d at 222. Nevertheless, because of the importance of the preemption question, the court felt constrained to deal with it. *Id.* Amicus briefs were filed by Roger Milgrim and the New York Patent Law Association, but both were decidedly pro-trade secret. See R. MILGRIM, *TRADE SECRETS* § 7.08[2], at 7-70.8(3) to (19) (1972). Thus the court decided the question without the benefit of arguments on both sides.



ficial. Further, he reasoned that the choice an inventor has is not between equally good alternatives and that an inventor would not often choose secrecy over a patent because of the greater security a patent affords.<sup>46</sup>

*Sears* and *Compco* were narrowly construed in *Painton* to stand for the proposition that a state cannot enjoin legitimate copying of an article absent any misappropriation. In reference to *Lear*, Judge Friendly merely stated:

[W]e find no suggestion in the opinion that the Court intended to cast doubt on a long-standing principle that an inventor who chooses to exploit his invention by private arrangements is entirely free to do so, though in so doing he may thereby forfeit his right to a patent.<sup>47</sup>

In total, four circuits since *Sears* and *Compco* have upheld trade secret law, despite the existence of the federal patent system.<sup>48</sup> From the time of *Sears* until the present, only the district court in *Painton*, later reversed, and perhaps *Kewanee* have adopted Justice Black's view that patent law is the sole available protection for inventors.<sup>49</sup>

Recently, the Supreme Court has also seemed to curtail what appeared to be a movement from *Sears* to *Lear* toward rejecting state protection of creative products. In *Goldstein v. California*<sup>50</sup> it held that states are not preempted by the patent and copyright clause and the federal copyright laws from enacting laws prohibiting record and tape piracy. The Court rejected the argument that Congress had so occupied the copyright field as to preempt any state protection.<sup>51</sup> But in *Compco* it had said, "Today we have held in *Sears, Roebuck & Co. v. Stiffel Co.*, *supra*, that when an article is unprotected by a *patent or copyright*, state law may not forbid others to copy that article";<sup>52</sup> and went on to say that for a state to forbid copying would interfere with the federal policy "of allow-

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<sup>46</sup> See text accompanying note 96 *infra*.

<sup>47</sup> 442 F.2d at 225. See text accompanying notes 40-41 *supra*.

<sup>48</sup> *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Dekar Indus., Inc. v. Bissett-Berman Corp.*, 434 F.2d 1034 (9th Cir. 1970), *cert. denied*, 402 U.S. 945 (1971); *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163 (5th Cir. 1969); *Servo Corp. of America v. General Elec. Co.*, 337 F.2d 716 (4th Cir. 1964).

<sup>49</sup> *Kewanee* may preclude state trade secret protection only for patentable inventions that have been used commercially for more than one year. See note 79 *infra* and accompanying text.

<sup>50</sup> 412 U.S. 546 (1973).

<sup>51</sup> *Id.* at 569-70.

<sup>52</sup> *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234, 237 (1963) (emphasis added).

ing free access to copy whatever the federal patent and copyright laws leave in the public domain."<sup>53</sup>

*Goldstein* may represent a new view by the Court of the federal government's role in the regulation of intellectual property. While the Court's decision clearly places some restrictions upon the broad language of *Sears* and *Compco*, the direct impact of *Goldstein* on the trade secret preemption problem is difficult to assess. Congress derives its power to provide for patents and copyrights from the same clause in the Constitution. Both have the same purpose: "[t]o promote the progress of Science and useful Arts."<sup>54</sup> Yet, there are fundamental distinctions between patents and copyrights. The legislature as well as the courts have always been reluctant to grant monopolies, because they act as an inhibition to competition.<sup>55</sup> While both patents and copyrights are specially granted monopolies, the scope of the monopoly granted under the copyright laws is considerably less extensive. Copyrights protect specific writings, not the ideas in those writings, while patents protect ideas as well as their physical embodiments.<sup>56</sup> Thus, two persons may obtain copyrights for their explanation or description of an art, but only one, the patent holder, can claim the exclusive right to the use of the art embodied in his invention.<sup>57</sup>

Since a patent monopoly is broader and thus more inhibitive to competition, the federal government has been more careful in

<sup>53</sup> *Id.* The *Compco* Court's references to copyrights could be interpreted as more than mere dicta. Theoretically, the lamp design in *Sears* could have been protected under the copyright classification of "works of art." 17 U.S.C. § 5(g) (1970). In *Mazer v. Stein*, 347 U.S. 201 (1954), the Court had held that statuettes used as lamp bases were appropriate subjects for copyright protection as works of art, even though the lamp bases were mass-produced.

Before *Goldstein* was decided, Congress enacted the Act of Oct. 15, 1971, Pub. L. No. 92-140, 85 Stat. 391, which amended the copyright laws to include sound recordings:

Any person entitled thereto, upon complying with the provisions of this title, shall have the exclusive right:

...

To reproduce and distribute to the public by sale or other transfer of ownership, or by rental, lease, or lending, reproductions of the copyright work if it be a sound recording....

17 U.S.C. § 1(f) (Supp. I, 1971). However, the amendment applied "only to sound recordings fixed, published, and copyrighted on and after the effective date of this Act [February 15, 1972]." Act of Oct. 15, 1971, Pub. L. No. 92-140, § 3, 85 Stat. 391.

<sup>54</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>55</sup> See, e.g., *The Case of Monopolies* (*Darcy v. Allein*), 11 Coke Rep. 84b, 77 Eng. Rep. 1260 (K.B. 1603).

<sup>56</sup> *Mazer v. Stein*, 347 U.S. 201, 217 (1954).

<sup>57</sup> *Baker v. Selden*, 101 U.S. 99 (1897).

its grant. A patent monopoly extends for 17 years,<sup>58</sup> while a copyright monopoly can extend for 56 years.<sup>59</sup> Though novelty is required for a patentable invention,<sup>60</sup> no such requirement is necessary to obtain a copyright. Before a patent is issued, the invention must be examined by the Patent Office to see whether the requirements are met,<sup>61</sup> while no examination is made of a copyright application.<sup>62</sup> This caution on the part of the federal government in the granting of the broader patent monopoly was interpreted by the *Goldstein* Court as an effort by Congress to strike a balance between the policies underlying the grant of patents and free competition.

. . . Congress ha[s] balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. . . . No comparable conflict between state law and federal law arises in the case of recordings of musical performances. In regard to this category of "Writings" Congress has drawn no balance; rather it has left the area unattended and no reason exists why the State should not be free to act.<sup>63</sup>

Thus, although *Goldstein* allowed states to act in the copyright area, it cannot readily be inferred that the result will be the same in the patent area. However, it has been suggested that as a result of *Goldstein*, *Sears* and *Compco* may be read to prohibit only those state laws that have a purpose to provide monopoly protection and to uphold those which extend some protection but are not directly inconsistent with policies favoring competition.<sup>64</sup> According to this view, if the state law is directed at objectives which favor competition, such as preventing theft of trade secrets, *Goldstein* may be an indication that the Court will be more tolerant than *Sears* and *Compco* suggest.

### III. CURRENT THEORIES OF PATENT AND COPYRIGHT PREEMPTION

Although courts as well as commentators<sup>65</sup> for the most part

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<sup>58</sup> 35 U.S.C. § 154 (1970).

<sup>59</sup> 17 U.S.C. § 24 (1970).

<sup>60</sup> 35 U.S.C. § 101 (1970).

<sup>61</sup> 35 U.S.C. § 131 (1970).

<sup>62</sup> 17 U.S.C. § 11 (1970).

<sup>63</sup> 412 U.S. at 569-70.

<sup>64</sup> *The Supreme Court, 1972 Term*, 87 HARV. L. REV. 1, 290 (1973); Note, *Goldstein v. California: A New Outlook for the Misappropriation Doctrine*, 8 U. SAN FRAN. L. REV. 199, 211-12 (1973).

<sup>65</sup> R. MILGRIM, TRADE SECRETS § 7.08[2][c] (1973); Doerfer, *The Limits on*

believe that trade secret law survives *Sears*, *Compco*, and *Lear*, agreement is not complete, and a variety of rationales are invoked to support their differing conclusions. Questions exist regarding the nature of the secret to be protected and the extent to which the protection can be afforded without conflicting with the federal policy behind the patent scheme. Three different views on the constitutional validity of trade secret laws have emerged.

### A. *Blanket Preemption Theory*

One view, which may be termed the "blanket preemption" theory<sup>66</sup> concludes that trade secret law cannot coexist with federal patent law. It is possible to reach this conclusion by reasoning that Congress has, by the enactment of the patent laws, manifested its intent to deal exclusively in the area of protection of new commercial ideas. Or, phrased differently, *any* trade secret law directly conflicts with federal patent policy.<sup>67</sup> Some support for this view may be drawn from Justice Black's broad language in *Sears*<sup>68</sup> and his separate opinion in *Lear*, where he stated: "[N]o 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 exacting standards of the patent laws."<sup>69</sup> Justice Black's view was followed by the district court in *Painton & Co. v. Bourns, Inc.*,<sup>70</sup> which held that patent law precludes the states from adding to the protection patents provide. Additional authority for the blanket preemption theory might be supplied by the Sixth Circuit's decision in *Kewanee*, which refused to enforce trade secret agreements on the basis of conflict with overall federal patent policy.<sup>71</sup>

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*Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967); Treece, *Patent Policy and Pre-emption: The Stiffel and Compco Cases*, 32 U. CHI. L. REV. 80 (1964); Note, *Trade Secret Law After Sears and Compco*, 53 VA. L. REV. 356 (1967); 45 N.Y.U.L. REV. 386 (1970).

<sup>66</sup> This theory is sometimes described as a congressional intent to "occupy the field." For an example of where the Court found such an intent and held that the states were precluded from taking any action, see *Hines v. Davidowitz*, 312 U.S. 52 (1941).

<sup>67</sup> The conflict would consist of protecting secrets Congress intended should have no protection. See text accompanying notes 52-54 *supra*.

<sup>68</sup> See note 34 *supra* and accompanying text.

<sup>69</sup> 395 U.S. at 677.

<sup>70</sup> 309 F. Supp. 271 (S.D.N.Y. 1970), *rev'd*, 442 F.2d 216 (2d Cir. 1971). See note 44 *supra* and accompanying text.

<sup>71</sup> The holding in *Kewanee* may be limited to inventions that represent patentable subject matter, however. See note 79 *infra*.

While there is language in Justice Black's opinions in *Sears*, *Compco*, and *Lear* that could be used to make a total preemption argument, the facts of these cases distinguish them from trade secret cases in general. None involved the misappropriation of secrets or breach of a confidential or fiduciary relationship that are the crux of trade secret cases. Moreover, the majority of the Court in *Lear* expressly refused to adopt Justice Black's broad view.<sup>72</sup> Thus, there is no substantial basis for concluding that the Court had decided to invalidate an entire body of state law.

It is questionable whether the Court could legitimately determine that Congress intended to occupy the field of invention, since Congress has shown special respect for trade secrets in a number of legislative enactments.<sup>73</sup> These laws generally prohibit government disclosure of trade secrets in cases where the federal government has acquired confidential information and may be viewed as congressional approval of inventors' maintaining trade secrets without patents. Of course they do not necessarily mean that Congress acquiesces in trade secret protection by state courts. Congress may merely have meant to ensure that one who keeps a secret through effective security measures is not lightly made to disclose it through dealings with the government.<sup>74</sup>

Further, blanket preemption by patent law might be unwarranted in light of the Court's recent decision in *Goldstein*, where it rejected the preemption argument in regard to copyrights. Since the purposes behind the patent laws and the copyright laws are gen-

<sup>72</sup> The majority stated:

[W]e have concluded, after much consideration, that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas.

395 U.S. at 675 (Harlan, J.). Earlier, concurring in *Sears* and *Compco*, Justice Harlan had stated that "[v]indication of the paramount federal interest at stake does not require a state to tolerate . . . predatory business practices." 376 U.S. at 239.

<sup>73</sup> E.g., Consumer Product Safety Act, 15 U.S.C. § 2055(a)(2) (Supp. II, 1972); Federal Water Pollution Control Act Amendments of 1972, 33 U.S.C. §§ 1318(b)(2), 1320(d), 1322(g)(3), 1369(a)(1) (Supp. II, 1972). Occupational Safety and Health Act of 1970, 29 U.S.C. § 664 (1970); Consumer Credit Protection Act, Pub. L. No. 90-321, § 405(e), 82 Stat. 166 (1968). See Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U.L. REV. 17, 32 n.67 (1971) (listing 13 other statutes). See also Brief for Petitioner, apps. A-B, *Kewanee Oil Co. v. Bicron Corp.*, No. 73-187 (cert. granted Oct. 9, 1973) (listing 36 statutes); R. MILGRIM, *TRADE SECRETS* § 6.02 (1973).

<sup>74</sup> See Note, *Patent Preemption of Trade Secret Protection of Inventions Meeting Judicial Standards of Patentability*, 87 HARV. L. REV. 807, 811-13 (1974).

erally similar,<sup>75</sup> the *Goldstein* Court's decision that Congress had not intended to occupy the field is an indication that, absent conflict or interference with federal law, there may be room for states to act in protecting trade secrets.

State trade secret law has traditionally afforded protection against breaches of contractual and confidential relationships, industrial espionage, and the unscrupulous luring away of employees with special knowledge of trade secrets.<sup>76</sup> Eliminating that law would result in adverse economic consequences. The only way for an inventor to protect a secret that cannot be patented would be to expend the resources necessary for effective security. This commitment of resources might pose a serious obstacle to small businesses and independent inventors. Lack of legal protection would also decrease the number of willing licensees, and it has even been suggested that in the field of foreign licensees, absence of trade secret law could adversely affect the country's balance of payments.<sup>77</sup>

### B. *Limited Preemption Theory*

The basic premise of what might be termed the "limited preemption" theory is that "only state protection that conflicts with federal patent policy should be preempted . . . ."<sup>78</sup> The states can protect new ideas so long as there is no interference with the federal scheme. Professor Adelman, who has set forth this approach, would deny any state protection for inventions whose subject matter is patentable, as described in section 101 of the patent laws.<sup>79</sup> Thus,

<sup>75</sup> But see text accompanying notes 55-63 *supra*.

<sup>76</sup> Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Anti-trust Supremacy*, 80 HARV. L. REV. 1432 (1967); Note, *Trade Secret Law After Sears and Compco*, 53 VA. L. REV. 356 (1967); 45 N.Y.U.L. REV. 386 (1970).

<sup>77</sup> Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U.L. REV. 17, 26 & n.40 (1971).

<sup>78</sup> Adelman, *Inventions and the Law of Trade Secrets After Lear v. Adkins*, 16 WAYNE L. REV. 77, 93 (1969).

<sup>79</sup> Adelman, *Trade Secrets and Federal Preemption — The Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOC'Y 713 (1967); Adelman, *Inventions and the Law of Trade Secrets After Lear v. Adkins*, 16 WAYNE L. REV. 77 (1969).

35 U.S.C. § 101 (1970) defines patentable subject matter as "any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof."

Despite the apparent breadth of its holding, see text accompanying note 22 *supra*, the court of appeals in *Kewanee* may have intended a limited rejection of trade secret law similar to Professor Adelman's:

Thus, we feel compelled to conclude that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is *an appropriate subject for patent* under the United States Patent Laws is in

since machines, formulas, and secret processes are patentable inventions, no protection independent of a federal patent can be afforded these items. However, such things as customer lists and general business ideas, having value, merit some protection, and since the patent laws do not specifically deal with these matters, states are free to provide their own protection.<sup>80</sup> Further, in addition to allowing trade secret protection for inventions outside the scope of section 101, the limited preemption theory would allow the inventor of a patentable article to avail himself of trade secret protection for a year of commercial use in order to give him time to apply for a patent.<sup>81</sup>

The rationale for Professor Adelman's approach is that extending trade secret protection to patentable subject matter would frustrate patent policy of encouraging full disclosure of inventions by grants of limited monopolies. The fear is that if the inventor has a choice between alternative protective laws, he may choose a perpetual monopoly through state protection and undermine the federal policy of fostering disclosure.<sup>82</sup> On the other hand, affording the protection of state trade secret law to inventions of unpatentable subject matter should encourage invention without jeopardizing the federal policy.<sup>83</sup>

The problem with this approach is that one class of inventions

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*conflict* with the policies and purposes of those patent laws where the invention has been used commercially for more than one year.

*Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1086 (6th Cir. 1973) (emphasis added). See Wydick, *Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee (Part I)*, 55 J. PAT. OFF. SOC'Y 736, 757 (1973).

<sup>80</sup> Customer lists, however, may be an appropriate subject for copyrights under 17 U.S.C. § 5(a) (1970), which offers copyright protection for "[b]ooks, including composite and cyclopedic works, directories, gazetteers, and other compilations." Query whether, if customer lists qualify for copyright protection, and states cannot protect articles appropriate for patents based on preemption, states should be allowed to use trade secret law to protect matter appropriate for copyright.

<sup>81</sup> The patent laws allow an invention to be used commercially for a year without forfeiting the right to secure a patent, but once that year ends, the inventor loses his patent rights. 35 U.S.C. § 102(b) (1970).

<sup>82</sup> This fear seems to have been an important factor in the court of appeals decision in *Kewanee*:

Counsel for *Kewanee* frankly stated in the course of the arguments before this Court that one of the principal purposes of maintaining the secrecy of inventions, including those here involved, as opposed to seeking patents under the Patent Laws would be to extend the commercial monopoly of the invention beyond the 17 years granted by the Patent Laws.

*Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074, 1078 (6th Cir. 1973). But see note 92 *infra*.

<sup>83</sup> There is little danger of conflict with patent policy if courts grant trade secret law protection to non-section 101 inventions, since by their nature these "inventions," for example, customer lists, will rarely have value beyond 17 years.

remains totally unprotected. The inventor of a section 101 invention that fails to meet the other patent requirements has no effective means to protect his work, despite its economic value.<sup>84</sup> Consequently, with respect to these inventions, there would be no curb on predatory business practices.<sup>85</sup> The result of Adelman's theory is to give more protection to an invention not covered by section 101, which is usually a lesser advance, than to a useful piece of machinery that fails to qualify for a patent because it was deemed "obvious" to a person having ordinary skill in the art. The business that guards its customer list will be protected by trade secret law, while the inventor who develops a new chemical formula, which is patentable subject matter under section 101, but fails one of the other tests necessary for a patent, has no recourse to protect his discovery. Since Congress has recognized the special need for protecting the items included in section 101 subject matter, it seems inconsistent to deny protection to certain section 101 inventions while granting protection to all non-section 101 inventions regardless of quality.

### C. Nonpreemption Theory

The "nonpreemption" theory asserts that trade secret protection is separate and distinct from the protection afforded by the patent laws. The patent system is viewed as an exchange whereby the inventor agrees to disclose his invention in return for a monopoly on his invention for 17 years, if it meets the requirements for a patent.<sup>86</sup> The inventor, however, is free to keep his invention secret and not participate in the exchange. Because under this view

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<sup>84</sup> See 53 BOSTON U.L. REV. 1142, 1147 (1973); 45 N.Y.L.U. REV. 386, 392 (1970).

<sup>85</sup> The limited preemption theory may place too much emphasis upon the section 101 subject matter requirement for patentability. There are basically five statutory tests for patentability, and the subject matter requirement is only one of them. See notes 3-7 *supra* and accompanying text. Adelman limits the area in which trade secret protection will not be applicable to non-section 101 subject matter, while the other four patentability requirements are ignored. See text accompanying note 108 *infra*.

The reason for using only the subject matter requirement may be simplicity. Whether an invention falls within section 101 subject matter can be easily ascertained. Determining if an invention meets all the patentability requirements, however, may require extensive litigation. See text accompanying note 122 *infra*. See also Wydick, *Trade Secrets: Federal Preemption in Light of Goldstein and Kewanee (Part II — Conclusion)*, 56 J. PAT. OFF. SOC'Y 4, 12 (1974), where the author raises the question whether Congress intended to bar state protection of information which falls within section 101, but outside the other standards of patentability.

<sup>86</sup> Wydick, *supra* note 85, at 18.



patents were not designed as the exclusive method of protecting new ideas, federal patent laws do not in any way preempt trade secret law.<sup>87</sup> Thus, protection could be afforded to all inventions that would qualify under traditional trade secret law. *Sears* and *Compco* present no problem, since in those cases there was no wrongful disclosure, but merely legitimate duplication which would not qualify for protection under trade secret law.<sup>88</sup> Similarly, *Lear* is read to have held that federal patent policy will only invalidate contracts which license information already disclosed through an invalid patent; *Lear* did not involve licensing of undisclosed trade secrets.

There are essentially three policy arguments to support the continuing validity of state trade secret law. First, these laws provide some control over predatory business practices in the acquisition and use of inventions. Second, they encourage invention by protecting the competitive advantage which flows to the inventor or his licensee. As a result, he should be able to recoup his expenses and perhaps realize some profit from his creativity.<sup>89</sup> Were state laws to be invalidated, the inventor who is capable of producing his invention commercially might still be able to realize a profit if he could implement the security necessary to protect his secret. But there is no opportunity for enforceable licensing arrangements.<sup>90</sup> Third, this licensing of trade secrets allows others to learn of the invention. Trade secret licensing agreements provide a method for use of the new idea by those who can put the invention to its most profitable use<sup>91</sup> and who can possibly make improvements upon it.

The "nonpreemption" view is subject to the criticism that it undercuts federal patent policy by possibly granting a perpetual monopoly and thereby encouraging the hoarding of beneficial ideas.<sup>92</sup>

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<sup>87</sup> R. MILGRIM, *TRADE SECRETS* § 7.08[8] (1973).

<sup>88</sup> See note 10 *supra*.

<sup>89</sup> *Water Services, Inc. v. Tesco Chemicals, Inc.*, 410 F.2d 163, 172 (5th Cir. 1969); *Doerfer*, *supra* note 76, at 1451-56; 45 N.Y.U.L. REV. 386, 392-93 (1970); 48 TEXAS L. REV. 1399 (1970).

<sup>90</sup> Milgrim, *supra* note 77, at 26, demonstrates the detrimental effect the abolition of trade secret law would have in these situations, and especially recognizes the plight of the small developers who lack sufficient assets to exploit their innovations without licensing.

<sup>91</sup> Judge Friendly in *Painton* stated: "[A] rule invalidating the licensing of [inventors'] know-how 'will have the detrimental effect of limiting the use to which the ideas are put, contrary to the public interest in maximizing the utilization of intellectual resources.'" *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216, 224-25 (2d Cir. 1971), quoting 84 HARV. L. REV. 477, 481 (1970).

<sup>92</sup> Whether the granting of a perpetual monopoly under state law runs afoul of

This criticism is not entirely valid. First, to avoid potentially perpetual monopolies, some courts in trade secret cases have granted injunctions limited to the time it would have been necessary for the competitor who has surreptitiously acquired the secret to have developed it independently.<sup>93</sup> This approach puts the parties in the position they would have been in had no wrong been done. It insures some competitive advantage, curbs the wrongdoer's gain, and avoids a perpetual monopoly by enjoining the wrongdoer only for a determinable period of time.<sup>94</sup>

Second, the assumption that the federal patent policy is frustrated when an inventor has alternative means of protection is questionable in view of the choices available. Those whose inventions do not appear to meet the rigorous patent requirements do not have a viable alternative other than trade secret law; those inventors with potentially patentable inventions will be unlikely to choose the alternative of protection under a trade secret law. Judge Friendly in *Painton* stated that trade secret protection is probably an inadequate alternative to the inventor who has a patentable invention.<sup>95</sup> He enumerated several factors which make the choice of trade secret protection unattractive: (1) the exclusiveness of a patent as opposed to the nonexclusiveness of a trade secret, (2) the possibility of independent duplication of a trade secret, (3) the forfeiting of the right to a later patent application, and (4) the possibility of another inventor obtaining a patent on the same invention.

In sum, the alternative of trade secret law may be less than satisfactory in most cases and therefore should not be considered a threat to federal patent policy. However, at least one commentator indicates that in some cases trade secret protection may be better than patent protection because of advantages like the possible longer duration of exclusive use and the protection afforded in foreign

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the patent-copyright clause is questionable in light of *Goldstein*. The Court there indicated that the geographic limits on state-granted monopolies provided sufficient limitations, and that the constitutional language "for limited times" "can only be understood as a limit on congressional, and not state, action." 412 U.S. at 560. See Wydick, *supra* note 85, at 15-16.

<sup>93</sup> *Northern Petrochemical Co. v. Tomlinson*, 484 F.2d 1057 (7th Cir. 1973); *Hampton v. Blair Mfg. Co.*, 374 F.2d 969 (8th Cir. 1967); *Winston Research Corp. v. Minnesota Mining & Mfg. Co.*, 356 F.2d 134 (9th Cir. 1965).

<sup>94</sup> This appears to have been one of the concerns of the court of appeals in *Kewanee*. See note 82 *supra*. The district court had granted a permanent injunction for an indeterminable time, and the court of appeals may have feared that the permanent injunction would effectively create a perpetual monopoly.

<sup>95</sup> *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1972); 84 HARV. L. REV. 477 (1970).

countries.<sup>96</sup> Accordingly, it is impossible to dismiss the argument that state trade secret law and federal patent law will collide in some respects. This is the shortcoming of the approach taken by Messrs. Milgrim and Doerfer as well as cases such as *Painton*, *Servo*, and *Water Services*. Although trade secret law may usually be less advantageous than patent law, under proper conditions an inventor who employs tight security measures and has an invention that would be extremely difficult to reproduce could rely on trade secret law to afford him protection the same as or better than may be possible under the patent system.<sup>97</sup> This situation would be most likely to occur where the invention is a formula or a process used exclusively in a factory and where analysis of the resulting product would not disclose the invention. Under the nonpreemption approach, there is no effective curb to this kind of activity; the limitation placed on injunctive relief by some courts<sup>98</sup> fails to cure this defect completely. Before such an injunction comes into play, there must be a misappropriation, and if good security measures are taken, the illegal misappropriation might never occur. If the invention is extremely difficult to discover, the fear of losing the competitive advantage in less than 17 years is slight and there is little need to secure a patent. Thus, once trade secret law becomes an adequate or better alternative to patent protection, there seems to be interference with the patent law, and consequently the trade secret protection must yield.<sup>99</sup>

Because extensive use of trade secrets causes expenditures of effort to rediscover existing inventions, the nonpreemption theory also results in a wasteful allocation of resources for research and develop-

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<sup>96</sup> In a table comparing patent and trade secret characteristics in R. MILGRIM, *TRADE SECRETS* § 8.02[8] (1969), the following advantages of trade secret protection emerge: (1) The duration of trade secret protection may be perpetual, but patent protection only lasts 17 years. (2) Trade secret protection does not require disclosure of the identity of the individual inventor, while patent protection does. (3) Attorney's fees can be recovered in trade secret litigation, but they can be recovered in patent infringement litigation only in exceptional cases. (4) Trade secret misappropriation is protected by both state and federal criminal sanctions, but patent infringement is not. (5) Trade secret protection can be easily extended to other countries, but foreign patent protection can only be obtained through foreign patent applications. See also Note, *supra* note 74, at 821-22.

<sup>97</sup> Perhaps the prime example of this possibility is the unpatented formula for Coca-Cola, which has never been duplicated, although undoubtedly many have tried.

<sup>98</sup> See note 93 *supra* and accompanying text.

<sup>99</sup> Milgrim disregards this potential interference argument where the federal and state laws are alternatives rather than complementary. He believes an alternative given to the inventor is merely a right he possesses under the patent system. R. MILGRIM, *TRADE SECRETS*, § 8.02[1] (1967). But see note 82 *supra* and accompanying text.

ment. If an invention is protected as a trade secret, valuable research efforts are wasted by competitors trying to duplicate it. But if the invention is covered by a patent, competitors' efforts are rechanneled into developing new inventions. Competitors can either try to "invent around" the patented invention and avoid infringement<sup>100</sup> or work to invent valuable improvements on the basic invention and bargain for cross-licensing agreements with the original inventor. In forcing competitors to devote their research and development resources to discover inventions already in use, trade secret protection tends to allocate resources away from the discovery of new ideas. In addition, resources are wasted by the inventor who invests funds to guard his secrets that could be used to foster further creativity.<sup>101</sup> Thus, to some extent the law of trade secrets could prevent new discoveries and accordingly runs counter to patent law policy.

Trade secret law indirectly impedes employee mobility,<sup>102</sup> and the nonpreemption theory would maximize this effect by allowing widespread substitution of trade secret law for patent law.<sup>103</sup> To protect employers against having key employees lured away by competitors because of their knowledge of the employer's trade secrets, courts have upheld reasonable covenants not to compete and have protected against breaches of trust.<sup>104</sup> When an employee leaves to work for a competitor, he is allowed to use his expertise in his new employment, but to use former employer's secrets may violate a contractual obligation or breach a confidential trust. There is a very fine line, however, between the employee's expertise and his application of a previously acquired trade secret. As a result, an employee can in effect become the prisoner of his employer through inability to work effectively elsewhere without using the secret

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<sup>100</sup> The classic example of "inventing around" a patent is contained in the Bell Telephone Cases, 126 U.S. 1 (1888). After Alexander Graham Bell had obtained a patent on his original telephone and had set up the Bell Telephone Company to market his invention, Western Union decided to enter the telephone business. Western Union hired Thomas Edison to "invent around" Bell's invention and avoid his patent. Edison soon came up with the carbon-button microphone which was far superior to Bell's diaphragm microphone. A modern version of Edison's microphone is still in use today.

<sup>101</sup> See R. MILGRIM, TRADE SECRETS § 5.05, at 5-90 to -92 (1972).

<sup>102</sup> See, e.g., note 105 *infra*.

<sup>103</sup> This problem has been recognized even by advocates of the nonpreemption theory. See Doerfer, *supra* note 76, at 1449-50.

<sup>104</sup> See 6A A. CORBIN, CONTRACTS § 1394 (1962); R. MILGRIM, TRADE SECRETS § 5.02[3] (1967); 14 S. WILLISTON, A TREATISE ON THE LAW OF CONTRACTS § 1645 (3d ed. W. Jaeger 1972).

knowledge he possesses.<sup>105</sup> By using trade secret law, the employer clearly benefits, but the employee's mobility is hindered because his value to a future employer will be reduced by his knowledge of trade secrets.

#### IV. A PROPOSED SOLUTION

The blanket preemption theory recognizes the supremacy of the patent laws, but discards virtually all of trade secret law, even in areas where there is no conflict with federal law<sup>106</sup> and a realistic need exists for state protection. The limited preemption theory saves state trade secret law in many cases. However, drawing the line at nonpatentable subject matter inventions and patentable inventions for one year of use denies protection to other unpatentable inventions despite their economic value. The nonpreemption theory, which would allow state trade secret law to protect all secrets, could undermine the federal patent law policy in some instances. Thus, what is necessary is a theory that incorporates the best features of the present theories and minimizes the offensive factors of each.<sup>107</sup>

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<sup>105</sup> For example, in *B. F. Goodrich Co. v. Wohlgemuth*, 117 Ohio App. 493, 192 N.E.2d 99 (1963), Goodrich's employee, who was familiar with Goodrich's trade secrets concerning the manufacture of space suits, went to work for a competitor who had recently been awarded the space-suit contract for the Apollo project. Goodrich sought an injunction barring the employee from working for any other employer on the design, manufacture, or sale of space suits. Despite an absence of evidence that the employee had disclosed any of Goodrich's trade secrets or intended to disclose any, the court believed that "a disclosure of trade secrets to a competitive company [was] seriously threatened" and ordered the issuance of an injunction consistent with its opinion. *Id.* at 501, 192 N.E.2d at 105. It is difficult to imagine an ensuing injunction that would have done less than virtually preclude the employee from doing any of the work for which Wohlgemuth had hired him. See *E. I. du Pont de Nemours & Co. v. American Potash & Chemical Corp.*, 41 Del. Ch. 533, 200 A.2d 428 (1964); cf. *Wexler v. Greenberg*, 399 Pa. 569, 160 A.2d 430 (1960).

<sup>106</sup> See text accompanying note 72 *supra*.

<sup>107</sup> Several legislative solutions have also been proposed. One such proposal would be to enact a federal trade secret law which would be designed to complement the patent system and give uniform protection for lesser advances. See Note, *Trade Secret Law After Sears and Compco*, 53 VA. L. REV. 356, 372-75 (1967). Another solution might be to devise a statutory scheme whereby patents of shorter durations are conferred for lesser advances. Such a system would be similar to the German *Gebrauchsmuster*. See J. BAXTER, *WORLD PATENT LAW AND PRACTICE* 29-34 (1973). The Scott Amendments to the current patent revision bill have attempted to deal with the problem by proposing a nonpreemption provision:

(a) This title shall not be construed to preempt rights or obligations arising by operation of state law concerning trade secrets.

(b) Nothing in subsection (a) shall authorize any state to grant any person the right to limit the full and free use by the public of ideas in the public domain or in general circulation.

S. 2504, 93d Cong., 1st Sess. § 301 (1973). The analysis accompanying the amendments explains the provision as follows:

The foundation of the proposed theory is that *all* unpatentable inventions should be given state protection from misappropriation. "Unpatentable" inventions would be defined as all inventions that fall outside the subject matter covered by section 101, plus those that fall within that section, but do not meet the other criteria for patentability. Thus, if an inventor had a section 101 invention, he could only rely on trade secret law if his invention would fail to qualify for a patent under the tests of originality, novelty, usefulness, or nonobviousness.<sup>108</sup> If it is not clear whether or not the invention would meet the stringent patent standards, a prudent inventor would make a good faith attempt to secure a patent in order to protect his interests.<sup>109</sup>

There are three additional aspects to this approach. First, to insure a good faith attempt is made to secure a patent, a party charged with an alleged misappropriation could defend on the basis that the inventor had an invention which could have been patented at the time it was first put to commercial use.<sup>110</sup> Thus, the inventor of a patentable invention who has foregone a patent application may be met by a defense of patentability when he attempts to enforce his trade secret.<sup>111</sup> Second, to eliminate the danger that trade secret law can produce perpetual monopolies, a further limitation would be imposed. Injunctions would be limited to the time neces-

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This section provides, first, that title 35 shall not be construed to preempt state law of trade secrets. The latter term will be defined by the courts. The section also leaves undisturbed the decisions of the Supreme Court in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); *Sears, Roebuck & Co. v. Siffel Co.*, 376 U.S. 225 (1964); and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964). The concepts of "ideas in the public domain" and "use by the public" will be given further content in light of the existing case law. For example, one who obtains a trade secret by burglary or theft would not be considered to be protected by the concept of "use by the public." This section is intended to be neutral with respect to the anti-trust laws.

BNA PAT. T.M. & COPYR. J., Sept. 27, 1973, at E-6.

<sup>108</sup> 35 U.S.C. §§ 101-03 (1970).

<sup>109</sup> See Note, *supra* note 74, at 822-24.

<sup>110</sup> The inventor could still avail himself of trade secret protection after rejection of his patent application since applications are kept in confidence in the Patent Office. 35 U.S.C. § 122 (1970); 37 C.F.R. § 1.14(a) (1973).

<sup>111</sup> Courts are frequently called upon to determine the patentability of a device and have developed much precedent on the matter. In patent infringement litigation, it is the usual practice for a court to be asked to render a declaratory judgment of patent validity in addition to deciding whether the patent has been infringed. 7 A. DELLER, WALKER ON PATENTS § 588 (2d ed. 1972); 8 *id.* § 630 (2d ed. 1973). State courts also frequently decide the patentability of an invention in conjunction with disputes over patent licensing agreements. 7 *id.* § 472 (2d ed. 1972).

sary to legitimately duplicate the invention.<sup>112</sup> Third, to avoid possible misappropriation before a patent application is filed, trade secret protection should be available to all inventions, whether or not patentable, during the period of research and development and during the period that a patent application is pending.

The basic rationale for allowing some form of trade secret protection is twofold and is substantially the same as that underlying the nonpreemption theory. First, trade secret protection is necessary to reduce and protect against predatory business practices.<sup>113</sup> As Doerfer has stated:

The thief who steals plans out of a safe, not to mention the less subtle industrial spy who employs physical violence to the person, should not be heard to invoke the federal patent policy of disclosure in defense at his criminal trial.<sup>114</sup>

Legitimate reverse engineering cannot be enjoined, but surreptitious means of acquiring another's trade secrets should not be tolerated in the name of the patent clause. Second, it is economically advantageous to allow innovators the opportunity to gain a competitive advantage. Unlike patents, trade secrets do not enjoy an unqualified monopoly, but merely a head start to recoup one's expenses and perhaps make a profit until the secret is independently discovered. While there is no guarantee that an inventor will profit from his invention, at least he will have protection against employees who divulge his secret as well as other misappropriations.

To avoid conflict with the patent laws, the scope of trade secret law is more restrictive under the proposed theory than under the nonpreemption theory. The first limitation is the necessity of making a good faith attempt to obtain a patent if the invention is within the subject matter appropriate for patent protection (section 101) and it appears possible that a patent might issue. If it is clear from the attributes of the invention that a patent application would be denied, it would be unnecessary for the inventor to go through the expense of a perfunctory patent application. The more likely it is that a patent would issue, however, the more precarious it is

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<sup>112</sup> See note 93 *supra* and accompanying text.

<sup>113</sup> Since the primary motivation for this theory is to protect against misappropriation without infringing on the patent laws, this may be the very type of reevaluation Justice Harlan called for in *Lear*. See note 41 *supra* and accompanying text. Apart from suggesting a reevaluation, Harlan in concurring in *Sears and Compco* felt it necessary to allow states to protect against "specifically oriented business practices." See note 72 *supra*.

<sup>114</sup> Doerfer, *supra* note 76, at 1447.

to forego the attempt. This practicality effectively eliminates the inventor's choice between patent and trade secret protection. In the case of a patentable invention, trade secret law would not be available after the first year's use of the invention, and thus it would not impede the filing of an application for a patent. In fact, it could increase the number of filings by requiring an inventor who believed his invention might reasonably be patented to apply for a patent and make a good faith attempt to prosecute his application.<sup>115</sup>

The second limitation on trade secret protection is to ensure through limited injunctions that states do not help create perpetual monopolies on those inventions for which trade secret protection is still available.<sup>116</sup> An injunction would issue only for the time necessary to legitimately duplicate the invention. Such factors as the time it took the original inventor and the difficulty in reverse engineering could be used to assist the judge in determining the appropriate time period. If it took the original inventor many years, but much can be gained through reverse engineering, one factor would be weighed against the other to come to a reasonable time. However, an injunction for a long period of time implies that the invention would be very difficult to copy. If the invention is section 101 subject matter, this may indicate that the invention was sufficiently novel and nonobvious to be patentable.<sup>117</sup>

One problem in requiring a good faith attempt to secure a patent arises if the applicant is unsuccessful in the Patent Office. The applicant can then appeal his denial to the Court of Customs and Patent Appeals (CCPA).<sup>118</sup> However, if he is also unsuccessful there the court is not required to seal the record and his secret will

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<sup>115</sup> If the proposed solution were applied in *Kewanee*, the defendants would still be allowed to use many of Kewanee's trade secrets. Kewanee had applied for patents on some secrets and they had been approved, but Kewanee abandoned the applications before final payment was made. See Brief for Petitioner at 35 n.11, *Kewanee Oil Co. v. Bicron Corp.*, No. 73-187 (cert. granted, Oct. 9, 1973). In the case of these inventions as well as any others Kewanee could have patented, Kewanee would have forfeited the right to invoke trade secret protection. Kewanee should only be entitled to trade secret protection for any lesser advances it could not have patented.

<sup>116</sup> See note 96 *supra* and accompanying text.

<sup>117</sup> With respect to non-section 101 subject matter, no presumption of patentability could arise. Since section 101 subject matter includes processes, machines, and formulas, or improvements on inventions, non-section 101 matters will probably be far less complex. Therefore, courts will rarely if ever face a situation where more than 17 years would be required to reproduce the secret.

<sup>118</sup> 35 U.S.C. § 141 (1970).



be disclosed.<sup>119</sup> To remedy this problem, the CCPA would modify its policy to permit the records to be sealed if the unsuccessful applicant intends to try to keep his invention secret. Courts will generally seal records in trade secret litigation to prevent disclosure of the secret,<sup>120</sup> and the CCPA's policy to the contrary should be changed.<sup>121</sup>

An additional problem which may prevent this theory from being fully effectual is judicial hostility toward patent validity. If inventors are forced to rely on patent protection, they should be assured that the validity of their patent will stand up in court. Yet, courts have been critical of the Patent Office's determinations concerning patentability.<sup>122</sup> To protect inventors under the proposed solution, some efforts could be undertaken to increase the probability that the Patent Office's decision would coincide with that of the courts. However, there is no indication that these efforts are likely to occur in the near future.

## V. SUMMARY

State trade secret law developed to protect inventors of unpatented inventions from loss of trade secrets through breaches of contract and confidential relationships as well as other misappropriation. The Supreme Court, by the use of very broad language in

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<sup>119</sup> The CCPA has refused to allow an unsuccessful applicant to have his record on appeal sealed. The court stated:

If appellant had a trade secret, it was his privilege to practice it in the usual manner, but when he asked for a patent on his alleged invention and brought the same into the public forum of the court, it is not such a right as a court (and especially this court under the circumstances) is authorized to protect.

*In re Sackett*, 136 F.2d 248, 249 (C.C.P.A. 1943).

<sup>120</sup> See R. ELLIS, *TRADE SECRETS* §§ 276-80 (1953); R. MILGRIM, *TRADE SECRETS* § 7.06[3] (1967).

<sup>121</sup> The CCPA's nonsecrecy policy, see note 119 *supra*, was decided before the 1952 Patent Act in which Congress for the first time required that pending patent applications be kept confidential in the Patent Office. 35 U.S.C. § 122 (1970).

<sup>122</sup> Around two-thirds of the patents involved in infringement suits have been invalidated by the federal courts of appeal. Mahon, *Trade Secrets and Patents Compared*, 50 J. PAT. OFF. SOC'Y 536, 540 (1968) (71 percent invalidated between 1956 and 1967); Tregtmeyer, *For Greater Patent Validity*, 19 AM. U.L. REV. 1, 19-24 (1970) (67 percent invalidated between 1953 and 1968). See *Great Atl. & Pac. Tea Co. v. Supermarket Equip. Corp.*, 340 U.S. 147, 156 (1950) (Douglas, J., concurring): "[The Patent Office] has placed a host of gadgets under the armour of patents — gadgets that obviously have no place in the constitutional scheme of advancing scientific knowledge."

One commentator suggests that this problem could be obviated by making the standards for determining whether a patent is required equivalent to those employed by courts in deciding the issue of patent validity. Note, *supra* note 74, at 823-24 & n.85.

*Sears*, *Compco*, and *Lear*, has called into question the constitutional validity of a state's right to provide such protection in light of the federal patent laws. There has been a good deal of discussion by courts and commentators since *Sears* was decided; some have taken the view that the patent laws preempt state trade secret protection; some, that they do not. This Note has suggested that trade secrets should only be protected when the inventor cannot obtain a patent. The inventor must first determine whether his invention qualifies for a patent, and if it does, the only protection he can seek is a patent. Only if the invention fails to meet one of the criteria for patentability can the inventor look to trade secret law for protection. This scheme preserves the state law protecting unpatentable advances without conflicting or interfering with the federal laws in the area of inventions. Its anticipated effect is to buttress the express purpose of the patent clause — to encourage innovation — by ensuring that all inventions are protected.

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