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Inventions and the Law of Trade Secrets after Lear v. Adkins

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I. INTRODUCTION

The federal patent system's grant of an exclusive monopoly generally limits the use of inventions[1] since the grantee of this monopoly, the inventor, has broad control over who may make, use, or sell his patented invention.[2] Patent law provides an intricate system of prerequisites to patent issuance[3] and limits the monopoly to a specified period of time.[4] Though controversy exists as to the effectiveness of the patent system, the ultimate goal is "to promote the progress of science and the useful arts."[5]

For a variety of reasons, state courts have also allowed remedies

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1. The term "invention" will include those defined in sections 101 and 171 of the Patent Act. 35 U.S.C. §§ 101, 171 (1964), which read as follows:

§ 101. Inventions patentable.

> Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof, may obtain a patent therefor, subject to the conditions and requirements of this title.

§ 171. Patents for designs.

> Whoever invents any new, original and ornamental design for an article of manufacture may obtain a patent therefor, subject to the conditions and requirements of this title.
>
> The provisions of this title relating to patents for inventions shall apply to patents for designs, except as otherwise provided.

Merely because a development is within the statutory classes of patentable subject matter, 35 U.S.C. §§ 101, 171 (1964), does not mean it is patentable. In order to be patentable an invention must also meet novelty and non-obviousness requirements of the Patent Act. 35 U.S.C. §§ 102, 103 (1964).

2. The Patent Act provides that "patents shall have the attributes of personal property." 35 U.S.C. § 261 (1964), and "whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent." *Id.* When such infringement occurs the patentee may use the civil remedies provided in the Act, which include damages and injunctive relief. 35 U.S.C. §§ 281, 283, 284 (1964).

3. 35 U.S.C. §§ 100-04 (1964).

4. *Id.* § 154.

5. U.S. CONST. art. I, § 8.

that limit the use of inventions, generally in connection with that branch of the law of unfair competition[6] known as the law of trade secrets.[7] Though judicial examination of these state laws has only infrequently focused upon preemption, conflicts between federal patent policy and the state laws may exist since both may limit the free use of inventions. There is left for decision the question of whether all or part of state trade secret law pertaining to inventions is preempted because of a conflict with federal patent policy. The leading case bearing on this question is *Lear, Inc. v. Adkins*,[8] decided this past term by the Supreme Court. *Lear* unexpectedly touched upon the question of whether the law of trade secrets in any way conflicts with federal patent policy. While the Court found only one aspect of trade secret law conflicting and hence preempted, the opinion indicated that more radical surgery on this important branch of the law of unfair competition may be undertaken in future decisions.

The Supreme Court's treatment of federal preemption of trade secret law in *Lear* could not reasonably have been predicted since certiorari was granted "to reconsider the validity of the *Hazeltine* rule in light of . . . recent decisions emphasizing the strong federal policy favoring free competition in ideas which do not merit patent protection."[9] The *Hazeltine* rule referred to by Mr. Justice Harlan was that set forth in *Automatic Radio Mfg. Co. v. Hazeltine Research, Inc.*,[10] wherein the Court reaffirmed the doctrine of licensor-licensee estoppel: "The general rule is that the licensee under a patent licensee agreement may not challenge the validity of a licensed patent in a suit for royalties due under the contract."[11] After discussing the equity of permitting a licensee to repudiate his bargain relating to the use of ideas which are in general circulation, the *Lear* Court held that federal patent policy forbids states from prohibiting

6. Competitive torts are referred to as "unfair competition," and therefore this term will be used when appropriate. A thorough development of the common law governing competitive business practices is found in Developments in the Law, *Competitive Torts*, 77 HARV. L. REV. 888 (1964).

7. Generally, one who has special access to a trade secret may not misappropriate the secret. This aspect of the law will be elaborated upon later in this article. *See* notes 31-35 *infra* and accompanying text.

8. 395 U.S. 653 (1969).

9. *Id.* at 656.

10. 339 U.S. 827 (1950).

11. *Id.* at 836.

licensees in a suit for royalties under a patent from raising the defense of patent invalidity, and thereby buried the doctrine of licensor-licensee estoppel.[12]

Since the question of the continued validity of the estoppel doctrine formed the basis for the Supreme Court's grant of certiorari, a remand for a determination of the validity of the subject patent could reasonably have been expected. However, the Supreme Court went further and ruled on an issue at the periphery of trade secret law—whether a state can enforce a contract calling for royalties on an invention which was secret when disclosed, but is now public knowledge because it is the subject of an issued but invalid patent. Seven members of the Court joined in a ruling that such royalties could not be collected after the patent issued.[13]

To understand the potential scope of *Lear* a brief review of the facts is required. Early in the 1950's John S. Adkins went to work for Lear, with the understanding that he would be paid a mutually satisfactory royalty for any of his inventions utilized by Lear. During this period he designed an improved gyroscope and on February 4, 1954, filed a patent application directed to this development. At about the same time he began negotiating with Lear to further clarify the rights of the respective parties to the new gyroscope. On September 15, 1955, the parties entered into a complex 17-page contract under which Lear was granted rights under Adkins' application and also under any patent issuing thereon. The license was not to expire until the expiration of the patent, except under certain specific conditions. Thus, the only way open to Lear to avoid paying royalties was to cease using the invention. On January 5, 1960, after lengthy proceedings in the Patent Office, a patent issued on Adkins' application. Prior to this time, Lear had ceased paying royalties, arguing that the gryoscopes which it was

12. 395 U.S. at 671: "We are satisfied that *Automatic Radio Manufacturing Co. v. Hazeltine Research, Inc.* . . . should no longer be regarded as sound law with respect to its 'estoppel' holding, and that holding is now overruled." This provides the "decent public burial" for the rule, which was requested by Mr. Justice Frankfurter in MacGregor v. Westinghouse Elec. & Mfg. Co., 329 U.S. 402, 416 (1947). *MacGregor* had severely limited the use of the rule, and noting Frankfurter's dissenting remark, the instant court took appropriate action. For a discussion of these limitations on the rule before *Lear*, see Kramer, *Estoppel to Deny Validity—A Slender Reed*, 23 N.Y.U. INTRA. L. REV. 237 (1967-68).

13. Mr. Justice White dissented in part, regarding this decision on the trade secret aspect since he felt that the issue was not properly before the Court as either a "jurisdictional or policy matter." 395 U.S. at 678.

making could not be the subject of a valid patent to Adkins. Adkins then sued Lear for breach of contract. The Supreme Court of California, ruling in favor of Adkins, held that Lear was estopped from challenging the validity of Adkins' patent.[14] The Supreme Court then granted Lear's petition for certiorari so as to review the validity of the estoppel doctrine under federal law.

Before the Supreme Court, Adkins argued that even if his patent were invalid, Lear should pay royalties until the termination of the agreement.[15] Adkins based this claim on the theory that the subject matter of his patent application was originally his trade secret. Hence, the disclosure to Lear of an invention which was not generally known to the public but only to Adkins fully supported the payment of royalties even if his patent application and the patent which issued thereon did not contain patentable subject matter. In response to this argument the Court held that, as a matter of federal patent policy, once the patent had issued the fact that the invention was secret when disclosed could not serve as the basis for a state to enforce the payment of post-patent royalties.[16] The majority, however, left open for future decision the status of the royalties payable prior to the issuance of the patent (the pre-patent royalties), while three Justices would hold that even the pre-patent royalties could not be collected.[17]

II. EARLIER PATENT PREEMPTION DECISIONS OF THE SUPREME COURT

In several cases prior to *Lear*, the Supreme Court held aspects of the branch of state unfair competition law known as product simulation preempted because they conflicted with the aims of the federal patent system. The most recent were *Sears, Roebuck & Co. v. Stiffel Co.*[18] and *Compco Corp. v. Day-Brite Lighting, Inc.*[19]

14. Adkins v. Lear, Inc., 67 Cal. 2d 882, 891, 435 P.2d 321, 325-26 (1967).

15. Adkins argued that such royalties should continue from 1960 to 1977—the entire term of the contract. 395 U.S. at 672.

16. *Id.* at 674. Seven of the eight Justices concurred in this decision. Mr. Justice White did not dissent from the substantive grounds of the holding, but as noted in note 13 *supra*, took the position that the issue was not properly before the Court.

17. *Id.* at 674-75. The majority consisted of Justice Harlan, who delivered the majority opinion, along with Justices Stewart, Brennan, and Marshall. Chief Justice Warren and Justices Black and Douglas dissented from the view of the majority that pre-patent royalties may be recoverable.

18. 376 U.S. 225 (1964).

19. 376 U.S. 234 (1964).

These cases extended the preemption doctrine first set out in *Singer Mfg. Co. v. June Mfg. Co.*[20] and more fully developed in *Kellogg Co. v. National Biscuit Co.*[21]

In *Kellogg*, where the defendant was marketing an exact copy of plaintiff's shredded wheat biscuit which had been the subject of an expired patent, the Supreme Court had before it the question of whether the law of unfair competition could be invoked to prevent anyone from appropriating the teachings of an expired patent. The Court, speaking through Mr. Justice Brandeis, held that to do so conflicted with federal patent policy, which was to allow the free flow of ideas after the expiration of the statutory period.[22] Thus, although *Kellogg* settled the question of state power in the area of *expired* patents, at least with regard to the law of unfair competition, the questions of whether courts were also precluded from invoking such doctrines to prevent anyone from using unpatented developments or the subject of an invalid patent were left undecided until the *Sears-Compco* decisions.

In both *Sears* and *Compco*, injunctions had been granted under the state law of unfair competition against the copying of pole lamps and lighting fixtures which were the subjects of invalid design patents.[23] In both cases, the Supreme Court reversed. Mr. Justice Black, speaking for eight members of the Court, gave little weight to the "principles of honesty" upon which the court of appeals had relied.[24] The Court, holding that the federal government had

20. 163 U.S. 169 (1896).

21. 305 U.S. 111 (1938).

22. *Id.* at 119-20:

> That [pillow-shaped biscuit] is the form in which shredded wheat was made under the basic patent. The patented machines used were designed to produce only pillow-shaped biscuits. And a design patent was taken out to cover the pillow-shaped form. Hence, upon the expiration of the patents the form, as well as the name, was dedicated to the public.

23. "Product simulation" was involved in Sears, Roebuck & Co. v. Stiffel, 376 U.S. 225 (1964). It is a doctrine which precludes sales when the similarity of one product to another is "likely to cause confusion in the trade." Day-Brite Lighting, Inc. v. Compco Corp., 311 F.2d 26, 29 (7th Cir. 1962). For an excellent summary of the law of product simulation prior to *Sears* and *Compco*, see Developments in the Law, *Competitive Torts*, 77 HARV. L. REV. 888, 908-23 (1964). This limitation on sale because of possible consumer confusion should not be mistaken for the trade secret limitation against use or sale because of misappropriation.

24. Day-Brite Lighting, Inc. v. Compco Corp., 311 F.2d 26, 30 (7th Cir. 1962), *quoting* Radio Shack Corp. v. Radio Shack, Inc., 180 F.2d 200, 206 (7th Cir. 1950) (Duffy, J.): "In all cases of unfair competition, it is principles of old fashioned honesty which are controlling."

After briefly reviewing the constitutional basis for the enactment of the patent monopoly, preempted the protection of developments in the public domain, swept away the law of product simulation.[25] It should be noted that in *Sears-Compco* Justice Black did not clearly define "public domain."[26] One could argue that an invention only enters the public domain when an inventor chooses to utilize the patent system to gain a legally enforceable monopoly. Conceptually, therefore, once an inventor *chooses* to obtain patent protection he places the invention in the public domain in exchange for a patent monopoly. Therefore, if the patent expires (*Kellogg*) or is proved invalid (*Sears-Compco*) any person may utilize the invention. This, of course, leaves to the inventor the decision of whether he wishes to place the invention in the public domain.

However, in the *Sears-Compco* opinions, Justice Black does not confine himself to this narrow definition of public domain. Instead, he implies that all inventions are initially in the public domain regardless of whether a patent was sought covering them. Carried to the limit of its logic, this would seem to say that *all* state trade secret protection for inventions is preempted.

Justice Black in *Sears* states: "To allow a State by use of its law of unfair competition to prevent copying of an article which represents too slight an advance to be patented would be to permit the State to block off from the public something which federal law has said belongs to the public."[27] And throughout both opinions he refers to inventions that are "unpatented," "unprotected by a patent," and "unpatentable" as being beyond the scope of state protection, either directly or indirectly. Black's opinion seems to suggest that the inventor has no choice in the matter, and that inventions *by their nature* are public property unless covered by a

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the limitations on the exercise of that monopoly, and the preemption doctrine, Mr. Justice Black in Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964), stated:

> Thus the patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition. . . . Just as a State cannot encroach upon 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 objective of the federal patent laws . . . .

Id. at 230-31 (emphasis added).

25. 376 U.S. at 232.

26. "An unpatentable article, like an article on which the patent has expired, is in the public domain . . . ." Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, 231 (1964). "[Federal policy allows] free access to copy whatever the federal patent and copyright laws leave in the public domain." Compco Corp. v. Day-Brite Lighting, 376 U.S. 234, 237 (1964).

27. 376 U.S. at 231-32.

valid patent. Of course, in *Sears-Compco* the inventions were in the public domain as that concept is used in the law of trade secrets, *i.e.*, known to the public.[28] Standing alone these cases might indicate that Justice Black's definition is limited to inventions that are not secret. This analysis has some appeal since it automatically applies to those inventions covered by an issued patent along with unpatented inventions which otherwise become publicly known.[29] His dissent in *Lear*, however, dispells this notion: "[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 . . . . *[P]rivate arrangements* under which self-styled 'inventors' do not keep their discoveries secret, but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws . . . ."[30] This language suggests that Justice Black does not equate public domain with inventions that are not secret in the trade secret sense but, instead, places all unpatented inventions in the public domain.

28. The Restatement of Torts suggests the following definition:

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

RESTATEMENT OF TORTS § 757, comment *b*, at 6 (1939) (emphasis added). The exact amount of secrecy necessary is difficult to pin down since the cases differ. *Compare* Kamin v. Kuhnau, 232 Ore. 139, 150-51, 374 P.2d 912, 918 (1962), which relegates the question of secrecy to a minor position, *with* B.F. Goodrich Co. v. Wohlgemuth, 117 Ohio App. 493, 192 N.E.2d 99 (1963), which requires a high degree of secrecy. *See also* A. TURNER, THE LAW OF TRADE SECRETS, 90-101 (1962) [hereinafter cited as TURNER]; Marmorek, *The Inventor's Common Law Rights Today*, 50 J. PAT. OFF. SOC'Y 369, 375-77 (1968). In any event, the inventions sought to be protected in *Sears* and *Compco* were designs of marketed products and therefore public knowledge by any definition.

29. The courts and commentators have generally found this analysis quite satisfactory. *E.g.*, Servo Corp. of America v. General Elec. Co., 337 F.2d 716, 722 (4th Cir. 1964); Shulenburg v. Signatrol, Inc., 50 Ill. App. 2d 402, 200 N.E.2d 615 (1965); Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967); Mahon, *Trade Secrets and Patents Compared*, 50 J. PAT. OFF. SOC'Y 536, 550 (1968); Marmorek, *Inventor's Common Law Rights Today*, 50 J. PAT. OFF. SOC'Y 369, 408 (1968); Comment, 62 NW. U.L. REV. 956 (1968). *But see* Van Prods. Co. v. General Welding & Fabricating Co., 419 Pa. 248, 213 A.2d 769 (1965); Adelman, *Trade Secrets and Federal Pre-Emption—The Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOC'Y 713 (1967).

30. 395 U.S. at 677 (emphasis added).

According to Justice Black's reasoning, an inventor of an unpatented invention discloses to a licensee or employee at his peril since the disclosee may copy the invention without state interference. This cuts to the heart of trade secret protection. While the majority in *Lear* did not expand the notion of public domain to the degree suggested by Justice Black, it did take a first halting step into this uncharted area.

III. *Lear's* EFFECT ON THE LAW OF TRADE SECRETS AS IT APPLIES TO INVENTIONS

Emerging from both tort and contract theory, trade secret protection provides a large mass of loosely connected and sometimes contradictory rules of state law generally directed towards protecting confidential relationships and insuring commercial morality.[31] These laws have been applied to protect a wide variety of commercial and industrial information, including inventions. While such laws do not provide a property right in the invention as does a patent grant, they may provide a similar result by denying the use of an invention to various individuals. This body of law results generally from the basic ingredients of a secret, a discloser, and a disclosee.

The tort theory may be used when the secret is disclosed in confidence and the disclosee misappropriates the secret, thereby "breaching the confidence." Generally, this confidence arises from a master-servant relationship.[32] Contract law generally involves a trade secret being used as consideration in return for royalties when the disclosor licenses such secret to the disclosee.[33] Many times contract principles are used in lieu of the tort action when an express or implied agreement not to misappropriate can be shown.[34]

31. The concept that a trade secret is not property in the traditional sense is developed in E.I. du Pont de Nemours Powder Co. v. Masland, 244 U.S. 100, 102 (1917), where the Supreme Court states that "[t]he starting point for the present matter [of trade secret protection] is not property . . . but that the defendant stood in confidential relations with the plaintiffs . . . ."

32. *E.g.*, Space Aero Prods. Co. v. Darling Co., 238 Md. 93, 208 A.2d 74 (1964), *cert. denied*, 382 U.S. 843 (1965).

33. For a more refined analysis, see Marmorek, *The Inventor's Common Law Rights Today*, 50 J. PAT. OFF. SOC'Y 369, 373-74 (1968), where the author breaks down these two basic ones into seven different categories such as "breach of trust," "breach of fiduciary duty," "contract," "restitution," etc. For a more exhaustive treatment of the subject, see TURNER parts IVA, IVB.

34. *E.g.*, Hooker Chem. Corp. v. Vesicol Chem. Corp., 235 F. Supp. 412 (D. C. Tenn. 1964) (express contract); Padbloc Co. v. United States, 137 U.S.P.Q. 224 (Ct. Cl. 1963) (implied contract).

Likewise, a licensing situation may involve a confidential relationship that lends itself to a tort action if the licensee misappropriates.[35] Therefore, at times, the disclosor may choose among several theoretical assaults against the commercially immoral. In *Lear*, the trial court forced the plaintiff to choose between tort and contract claims.[36] Adkins could have argued a breach of confidence because of an implied agreement not to misappropriate, or that the relationship of the disclosor-disclosee created such a confidence, or alternatively he might have sought quasi-contractual recovery for unjust enrichment. However, Adkins chose to plead in contract. It should be kept in mind that the *Lear* decision should cover any of these alternative approaches since otherwise the policy expressed in *Lear* could be circumvented merely by changing the pleadings. It would be illogical for the Supreme Court to prohibit the enforcement of certain express contractual relationships but permit states to create the same relationship under a tort theory. In any event, the Supreme Court's attitude in this respect seems clear: "[W]e hold that Lear must be permitted to avoid the payment of all royalties accruing after Adkins' 1960 patent issued if Lear can prove patent invalidity."[37]

The majority in *Lear* did not attempt a comprehensive definition of public domain. However, a close reading of the opinion does suggest such a definition. The Court cited *Sears-Compco* for the proposition that "all ideas in *general circulation* [are] dedicated to the common good unless they are protected by a valid patent."[38] This statement coupled with the actual holding indicates that the public domain is roughly equal to the trade secret definition of public knowledge. This would include those inventions that became public knowledge through the issuance of a patent as well as those that became public knowledge through other means, but inventions not generally known are excluded. At that point the Supreme Court stopped and did not decide the "rights of inventors of unpatented secret ideas,"[39] but deferred such a decision for a later time.

Therefore, *Lear* gives those who have special access to

35. *E.g.*, Schreyer v. Casco Prods. Corp., 190 F.2d 921, 924 (2d Cir. 1951).

36. 395 U.S. at 660 n.9.

37. *Id.* at 674.

38. *Id.* at 668 (emphasis added).

39. *Id.* at 675.

inventions the same right to copy as the general public once the invention becomes generally known. An examination of trade secret laws that cover such "special access" will illustrate the alterations required to accommodate *Lear*.

Nearly all courts had agreed that a disclosee's liability would remain for unauthorized use of a disclosure occurring *after* the end of secrecy if there were express or implied terms to such effect.[40] Perhaps the most famous case illustrating this rule is *Warner-Lambert Co. v. John J. Reynolds, Inc.*[41] There Warner-Lambert's predecessor had agreed for an indefinite period to pay royalties on every gross of Listerine it sold in exchange for Reynold's secret formula. After the formula became public knowledge by disclosure in science journals, Warner-Lambert felt its obligation to pay royalties should have terminated. However, the court disagreed, holding that public disclosure "does not mean that one who acquires a secret formula or a trade secret through a valid and binding contract is then enabled to escape from an obligation to which he bound himself . . . ."[42]

This approach had also been taken where public disclosure occurred by way of the issuance of a patent.[43] This latter situation is, of course, directly controlled by *Lear*, which would bar recovery in such a situation. The same principle should also hold true for cases like *Warner-Lambert* where no patent issued on the invention but public disclosure occurred by other means. This follows from the Supreme Court's general approach in *Lear* that ideas in "general circulation" are in the public domain. Mr. Justice Black, on the other hand, would preclude recovery even if public disclosure had not occurred.

Turning to the tort theory, one finds the situation a bit more complex because of conflicting case law. The courts following the rule in *Shellmar Products Co. v. Allen-Qualley Co.*[44] view a

40. *E.g.*, Kamin v. Kuhnau, 232 Ore. 139, 158-59, 374 P.2d 912, 922 (1962); TURNER 440-42, suggesting that this is the orthodox view.

41. 178 F. Supp. 655 (S.D.N.Y. 1959).

42. *Id.* at 665.

43. *E.g.*, Hyde Corp. v. Huffines, 158 Tex. 566, 314 S.W.2d 763, *cert. denied*, 358 U.S. 898 (1958).

44. 87 F.2d 104 (7th Cir.), *cert. denied*, 301 U.S. 695 (1937). In the breach of confidence area the remedy generally sought is injunctive relief against use or disclosure; however, other remedies are available, such as an accounting of profits, damages, and order for the return of plans and copies. A more complete examination with collected cases may be found in Note,

disclosee's breach of confidence as *permanently* forclosing his use of the secret even if it later becomes public knowledge. The courts applying this rule reason that one cannot "rediscover" an idea once it becomes publicly known. Therefore, any prior breach of confidence permanently taints the use as being unlawful.[45] The practical results of this doctrine are that if *A* discloses a secret to *B* in confidence and *B* misappropriates prior to public disclosure, *B* would be permanently enjoined from using the idea after the idea became public knowledge even though the general public could freely copy.

On the other hand, courts using the rule in *Conmar Products Corp. v. Universal Slide Fastener Co.*[46] take the opposite extreme. Emphasizing that trade secret laws are designed to protect secrets, these courts hold that the remedy dies with the secret. In *Space Aero Products Co. v. R.E. Darling Co.*,[47] a Maryland appellate court commented that:

> The reasoning of the *Conmar* rule is that the trade secret is protectible only because of the fiduciary relationship of the discloser to the disclosee. Once the secret is public, the confidence would end in any event. An injunction is issued only when damages are not adequate compensation and once a trade secret becomes public, its original owner can no longer be irreparably harmed by the use of the former secret by persons who originally used it wrongfully, because the rest of the world is also using it.[48]

Lear seems to settle this long-standing legal dispute by eliminating the *Shellmar* remedies. However, even though the *Conmar* rule may retain its viability, it may have to be modified.[49]

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64 HARV. L. REV. 976, 982-83 (1951). *See generally* Marmorek, *The Inventor's Common-Law Rights Today*, 50 J. PAT. OFF. SOC'Y 369, 398-407 (1968).

45. *E.g.*, Underwater Storage, Inc. v. United States Rubber Co., 371 F.2d 950, 955 (D.C. Cir. 1966).

46. 172 F.2d 150 (2d Cir. 1949).

47. 238 Md. 93, 208 A.2d 74, *cert. denied*, 382 U.S. 843 (1965).

48. *Id.* at 123-24, 208 A.2d at 90. For a general discussion of the rule, see TURNER 442-47. It should be noted that even under *Conmar* the opposite result occurs if there is an express or implied *contractual* provision precluding use after public disclosure. *Cf.* Conmar Prods. Corp. v. Universal Slide Fastener Co., 172 F.2d 150, 156 (2d Cir. 1949). Such a contractual provision removes the action from tort and the courts seem to enforce the agreement in such cases.

49. The courts' deference to express or implied contractual provisions, as indicated in note 48 *supra*, seems to be precluded, as is the *Warner-Lambert* doctrine. It is also open to question as to whether the secret enters the public domain when the disclosee himself

IV. THE INVENTOR'S HEADSTART INTEREST

Absent a patent system, an inventor may profit from his inventions in two related ways. Initially the inventor will have a "natural" monopoly[50] on the idea that varies in time depending upon the type of invention and how the inventor uses it.[51] If the inventor commercializes the invention and this initial benefit of a natural monopoly terminates by competitors copying, the inventor nevertheless retains residual benefits from his headstart in the market.[52] Dealing now only with the *Sears-Compco* situations, *i.e.*, where commercialization automatically results in public disclosure of the invention, the headstart period is limited to the time it takes competitors to copy and market their similar products. In *Sears-Compco* the Supreme Court did not tamper with the inventor's headstart but only prevented the states from extending it by preventing the general public from copying,[53] since the only valid method of extending this natural monopoly is by a patent monopoly.

If a disclosee misappropriates a secret the disclosor would then lose at least a portion of his natural monopoly. Previous to *Lear* it would seem that if such a misappropriation occurred the proper remedy would be to restore, to the extent possible, the inventor's headstart. As indicated previously, neither the *Shellmar* nor the

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wrongfully publicly discloses. This form of public disclosure was not a valid defense at common law, even for a third person user with knowledge that the disclosure was improper. TURNER 442.

50. The term "monopoly" is used only in the economic sense, *i.e.*, there is only one producer, who consequently enjoys the resulting benefit of price determination or competitive edge by use of a more efficient process than his present competitors.

51. If the invention is one that is incorporated into a product but is not discoverable by examination of such product (such as certain chemical formulae), it may be termed a potentially perpetual secret. *See* Adelman, *supra* note 29, at 726. If the invention is a process and is not licensed to others but kept for use in manufacturing one's own product, it is likewise potentially a perpetual secret. *Id.* at 726. Even if it is discoverable, there will be time differentials depending upon how long it takes competitors to develop and market a similar product by copying.

52. If the invention provides a unique product, then the producer acquires the total or a large share of the market depending on how one defines product market. (*See* United States v. E.I. du Pont deNemours & Co., 351 U.S. 377 (1956), illustrating the difficulty our legal system has in defining such a market.) "Goodwill," the development of a merchandising network, and any other benefit of an established force in the market linger on even after the monopoly is lost.

53. As developed earlier in this article (*see* text at notes 18-25 *supra*), the state may not do so either directly or indirectly. Sears, Roebuck & Co. v. Stiffel Co., 379 U.S. 225, 231 (1964).

Conmar rules provide this remedy; the *Shellmar* doctrine allowed too much, *i.e.*, permanent injunction, while the *Conmar* doctrine allowed too little, *i.e.*, injunctive relief only until public disclosure without regard to the time period after disclosure required for a competitor to copy and enter the market.

Since neither the *Conmar* nor *Shellmar* rules structure a remedy around the classic principle of making the plaintiff whole, it is not surprising that some courts have discarded both rules and attempted to fashion a remedy to protect the headstart advantage and no more. A recent example is *Winston Research Corp. v. Minnesota Mining and Manufacturing Co.*[54] There the plaintiff's trade secret was the design of a novel tape recorder which took at least two years to develop. This design was misappropriated by employees who marketed a competing product utilizing the plaintiff's secrets even before the plaintiff's new tape recorder reached the marketplace.

The court found that even though public disclosure was inevitable and occurred when plaintiff marketed its recorder, the wrongdoers "would retain a benefit of a headstart over legitimate competitors who did not have access to the trade secrets until they were publicly disclosed."[55] Therefore, to protect this headstart interest the *Winston* court approved the trial court's grant of a limited injunction, stating:

> [E]njoining use of the trade secrets for the approximate period it would require a . . . competitor to develop a successful machine after public disclosure . . . denied the employees any advantage from their faithlessness, placed the [employer] in the position it would have occupied if the breach of confidence had not occurred prior to the public disclosure, and imposed the minimum restraint consistent with the realization of these objectives upon the utilization of the employees' skills.[56]

Where licensing agreements on inventions are involved, the courts have merely looked to the contract to determine the remedy and the question of headstart has not been raised.

In *Lear* the Supreme Court seemed to adhere to the *Conmar* approach that no recovery is available after disclosure, even though that approach was developed as a limitation to a tort recovery and

54. 350 F.2d 134 (9th Cir. 1965).
55. *Id.* at 142.
56. *Id.*

had not been applied to a licensing agreement. The headstart question was not expressly referred to except in a footnote in Justice White's separate opinion, in which he pointed out that the majority would bar post-issuance royalties that "arguably" represent payment for Lear's headstart over the rest of the industry and "to that extent, they seem indistinguishable from [pre-issuance] royalties . . . ."[57] His further contention that the majority's approach represents unwise "rigid line drawing" is well taken. The majority's approach would not give any recognition to the headstart benefit gained by Lear but provided by Adkins. This headstart encompasses the time between public disclosure of the invention and commercialization by competitors.[58]

If the Supreme Court adheres to the *Conmar* rationale in future decisions, and thus in effect overrules *Winston Research*, it may open the door to serious abuses. Those who misappropriate inventions will not only rob the inventor of any limited advantage he may have gained by his effort, but will also gain a headstart over the other competitors. There simply is no reason why one who learns of an invention by means of a special relationship with the inventor should be allowed to occupy a better position than the general public. Furthermore, there is no conflict between recognizing an inventor's right to a headstart and the law of patents. Allowing the headstart protection where public disclosure of an invention occurs with its commercialization does not interfere with the policy of free competition, emphasized in *Sears*,[59] *Compco*,[60] and *Lear*,[61] since anyone may copy when an invention is commercialized and compete vigorously with the inventor, absent a valid patent covering the

57. 395 U.S. at 682 n.2.

58. This is assuming that public disclosure took place upon the patent issuance in 1960. The point as to whether public disclosure took place before the patent issued did not seem to be argued. Even though *Lear* used the invention in its gyroscopes before 1960, at least by 1957, it may have been the type of idea that could not be copied by "reverse engineering." In such cases actual public disclosure would not have occurred until the patent had issued. The Supreme Court's approach seemed to assume that the invention was secret until the patent issued: "Lear gained immediate access to ideas which it may well not have learned until the Patent Office published the details of Adkins' invention in 1960." *Id.* at 672. However, the invention was almost certainly disclosed by Lear in 1957 when it did what Adkins wanted it to do, *i.e.*, market gyros embodying Adkins' invention.

59. 376 U.S. at 230-31.

60. 376 U.S. at 237.

61. "[E]nforcing this contractual provision would undermine the strong federal policy favoring the full and free use of ideas in the public domain." 395 U.S. at 674.

invention. Further, the patent system is designed to do at least the following: (1) to encourage or promote inventions;[62] and (2) to encourage or promote public disclosure of inventions.[63] To protect the headstart interest in inventions certainly would not discourage invention. Moreover, it would not hinder public disclosure since such disclosure is by hypothesis inherent in commercialization.

Since all states protect trade secrets because such protection is in accord with common law notions of good faith and commercial honesty, the Supreme Court should not step into this area unless and until a clear conflict with federal patent policy is found. Because the rule in *Winston Research*, at least in the case of inventions which are inherently disclosed upon commercialization, does not present a conflict, such a result should not be preempted.

V. THE PROTECTION OF UNDISCLOSED INVENTIONS

There are two reasons for further discussion of the application of patent preemption to undisclosed inventions. First, the Supreme Court openly suggested in *Lear* that a thorough examination of state law protecting unpatented and otherwise undisclosed inventions may be forthcoming.[64] Second, there is at least one area in which such protection directly conflicts with federal patent policy. As indicated earlier, while the patent system is designed to promote invention by granting a limited monopoly, the system's objective is to benefit society as a whole, not the inventor. As *Lear* indicates, our legal system deems such an objective ultimately achieved when there is the "full and free use" of inventions in the public domain. However, some inventions may *never* reach the public domain because trade secret law provides an attractive alternative to the patent system.

There are three general ways a trade secret may become generally known:[65] (a) by issuance of a patent; (b) inherently upon

62. The U.S. CONST. art. I, § 8 provides: "The Congress shall have the power . . . To promote the Progress of Science and the useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries." The Supreme Court has consistently held that the public gain rather than private profit is the primary goal of the patent system. *See* Mazer v. Stein, 347 U.S. 201, 219 (1954); Sinclair & Carroll Co. v. Interchemical Corp. 325 U.S. 327, 330-31 (1945).

63. For a discussion of this policy, see Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432, 1440-47 (1967).

64. 395 U.S. at 674-75.

65. Assuming that the inventor does not voluntarily publish or that it is not independently discovered.

commercialization; or (c) by misappropriation. In *Lear*, disclosure ultimately occurred by a patent issuing while in *Sears-Compco* disclosure of the designs occurred when the pole lamps and fluorescent lighting fixtures were sold. However, where a patent is not sought nor the secret disclosed upon commercialization, absent independent discovery, the only possibility for disclosure is misappropriation.

Since this class of inventions may be placed into commercial use without revealing the invention, they may be identified as potentially perpetual secret inventions.[66] These secrets are usually process inventions where an examination of the resulting product does not disclose the method of manufacture, or chemical formulations whose composition cannot be analyzed. Here, protection theoretically is available in perpetuity. According to generally accepted principles, the owner of such a secret invention may elect to protect this type of invention as a trade secret or, alternatively, by obtaining a patent.[67] Patent protection must be sought within a limited time since a patent may not issue on such a secret if applied for later than one year after it has been put into commercial use.[68] Consequently, after *Sears* and *Compco* it was suggested in the literature that to provide an alternative to patent protection for potentially perpetual secret inventions conflicts with the federal policy of granting patents based on fixed standards for a fixed term in return for a full public disclosure of the invention. Since a patent application may be filed up to a year after the invention is first commercialized, the view was expressed after *Sears-Compco* that unless a good faith application is filed within the year, trade secret protection should end with the unavailability of patent rights.[69] To allow further protection conflicts with the federal policy of encouraging disclosure and discouraging secrecy.[70]

66. Adelman, *supra* note 29, at 726. 35 U.S.C. §§ 101, 171 (1964) define the subject matter protectable.

67. One commentator entitles a section of his article that fully develops this point as "The Inventor's Choice." Marmorek, *The Inventor's Common Law Rights Today*, 50 J. PAT. OFF. SOC'Y 369, 381 (1968).

68. 35 U.S.C. § 102 (1964) provides that: "A person shall be entitled to a patent unless . . . (b) the invention was . . . in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States . . . ." For purposes of this section a secret use is considered a public use. Metallizing Eng'r Co. v. Kenyon Bearing, 153 F.2d 516 (2d Cir. 1946).

69. Adelman, *supra* note 29, at 729-32.

70. Adelman, *supra* note 29, at 730-31, *citing* Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1954), enunciating the policy of full disclosure.

Therefore, there is a clear conflict with the patent system inherent in the protection of potentially perpetual secret inventions. Under the patent statutes a potentially perpetual secret invention that has been commercialized for a one year period becomes unpatentable. Now that the Supreme Court has indicated in *Lear* that the law of trade secrets does come within the doctrine advanced in *Sears-Compco*, it is most likely that the Court will prohibit state protection of potentially perpetual secret inventions which have become unpatentable.

VI. CONCLUSION

However vague its language, *Lear* forces a reassessment of the question of whether state law trade secret protection conflicts with federal patent policy. With regard to inventions which are inherently disclosed by commercialization, the law of trade secrets, to the extent it protects the headstart interest of inventors, should not be held to conflict with federal patent policy. Arguably, the decision in *Lear*, if interpreted literally, would not permit a state to protect this headstart interest. If the dissent is taken literally, three Justices would not permit the states to protect secret inventions at all. But the issue of whether federal patent policy precludes the states from protecting an inventor's headstart interest does not seem foreclosed. Though it can be argued that ideas in the public domain have been stripped of all state protection, the Supreme Court should reconsider this approach when the arguments have been properly presented. Since certiorari was granted in *Lear* to consider the *Hazeltine* rule, arguments on the trade secret problem were not fully prepared or argued. If the Supreme Court allows a properly focused inquiry, the headstart question raised by Justice White should be reconsidered, and state protection of an inventor's headstart should be found not to impair the free use of ideas in the public domain.

Undisclosed secret inventions will probably come under close judicial scrutiny and, if so, the only item that should be considered is the potentially perpetual secret invention. Here, only state protection which conflicts with federal patent policy should be preempted, *i.e.*, state protection of potentially perpetual secret inventions which are not the subject of a patent application and for which no patent can be applied because the one year period has elapsed.

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