DePaul University

From the SelectedWorks of Donald Hermann

Fall 1972

Developments in Trade Regulation Law Trade Secrets: State Protection versus Federal Pre-Emption

Donald H Hermann, *DePaul University*

Available at: https://works.bepress.com/donald-hermann/71/

HEINONLINE

Citation:
Donald H. J. Hermann, Developments in Trade Regulation Law Trade Secrets: State Protection versus Federal Pre-Emption, 22 DePaul L. Rev. 196 (1972)
Provided by:
Rinn Law Library

Content downloaded/printed from *HeinOnline*

Wed Mar 21 13:47:53 2018

-- Your use of this HeinOnline PDF indicates your acceptance of HeinOnline's Terms and Conditions of the license agreement available at http://heinonline.org/HOL/License

-- The search text of this PDF is generated from uncorrected OCR text.

-- To obtain permission to use this article beyond the scope of your HeinOnline license, please use:

Copyright Information

Use QR Code reader to send PDF to your smartphone or tablet device

DEVELOPMENTS IN TRADE REGULATION LAW
TRADE SECRETS: STATE PROTECTION VERSUS FEDERAL PRE-EMPTION

DONALD H. J. HERMANN*

WITH ITS opinion in *ILG Industries, Inc. v. Scott,*[1] the Supreme Court of Illinois continues its protection of industrial trade secrets and again raises the question of the extent to which the state law of trade secrets is compatible with federal patent and antitrust laws. Two basic issues are raised by this decision: the first is whether state trade secret protection may be extended to artifacts or processes which do not qualify for, or which have not been granted, the protection of the patent laws; and secondly, whether persons entrusted with trade secrets can be subjected to restrictions which may restrain trade and would otherwise constitute a violation of the antitrust laws.[2]

I. THE ILG CASE AND ITS RATIONALE

ILG Industries, Inc. sought injunctive relief against a competitor and a former employee to prevent the use of dimensional informa-

* Associate Professor of Law, DePaul University; A.B., Stanford University, J.D., Columbia University.

1. 49 Ill. 2d 88, 273 N.E. 2d 393 (1971). The court found clear precedent for its holding in *ILG Industries, Inc.* in the opinion in Schulenburg v. Signatrol, Inc., 33 Ill. 2d 379, 212 N.E.2d 865 (1965).

2. *See generally* Comment, *The Copying-Misappropriation Distinction: A False Step in the Development of the Sears-Compco Pre-emption Doctrine,* 71 COL. L. REV. 1444 (1971) where the authors note the conflict between the maintenance of a free market and invention protection: "The policy of promoting invention and authorship is fundamentally inconsistent with the policy favoring competition. In this circumstance a balance between the two is established by Congress in that crucial part of the legislation in which patentability and copyrightability standards are set forth. If an item meets the subject matter standards of protectability, it possesses qualities that Congress thought worth encouraging in spite of the cost of undesirable market distortions effected by the incentive. A significant advance in technology or an addition to the corpus of works that provide intellectual or aesthetic satisfaction is deemed sufficient to overcome the policy favoring competition. Conversely an item failing to meet the statutory

tion and specifications used in the manufacture of component parts of industrial fans. While the component parts were not patented, ILG claimed that Robert Scott, a former employee in one of the company's divisions, prepared and took with him drawings of retaining rings, blades, and other specifications used in the manufacture of industrial fans. Scott solicited customers of ILG and offered to supply fans of acceptable specifications which he arranged to have manufactured by his co-defendant, Metal Spinner's, Inc. Scott presented evidence that the ILG fans could be measured, and that with the use of common industrial engineering formulae, the correct specifications for the manufacture of the fans could be determined. Moreover, evidence was presented that such dimensions could be calculated within a satisfactory range from information contained in ILG's published catalogue. However, ILG employees testified that the measurement and statistical calculation necessary to reproduce the fans would require a period of approximately eighteen months.

The Supreme Court of Illinois upheld the trial court's finding that the specifications and measurements were trade secrets and thus, proper subjects for legal protection. Heavy emphasis was placed on the confidential nature of the employment involved. The breach of this trust relationship provided impetus for the court's granting protection to the employer, the owner of the trade secrets. Although the court had limited the injunctive relief to a period no longer than that required to duplicate those component parts of the fans which had been copied, it did not limit the injunction merely to those component parts which involved the trade secrets in question, but instead enjoined the production of the total fan. The Illinois Supreme Court, in affirming this broad injunction, held that the production of the total fan should be prohibited in light of the extreme difficulty in fashioning a decree limited to certain component parts. Moreover, the court upheld the limitation of the injunction to the period necessary for statistical analysis and measurements of marketed ILG fans which would be required for satisfactory independent reproduction.

---

standards is deemed so insignificant a contribution to the advancement of civilization that distorting the allocation of resources in order to insure its creation is unjustified." *Id.* at 1452.

The court reasoned that the measurements and specifications were trade secrets since the information was not generally available; indeed, that to obtain this information would require considerable effort and time. A duty of confidentiality was found to exist as a consequence of the employment relationship; this duty was judged to have been breached by the revelation and use of secret information learned while an employee. Protection of the secret information was provided through the use of a limited injunction. The determination to grant protection was a result of a balancing of interests: *the interest of the business* in maintaining any competitive advantage obtained as a consequence of possessing secret information and *the interest of employees* to be freely mobile and to utilize all the training and information at their disposal in the employment market.[3] Although striking the balance in favor of protection, the court took into account the interest of the employee to the extent that it limited the prohibition on his use of secret information obtained in his employment capacity to a period which it determined would have been sufficient for the employee to have independently obtained the information.

II. STATE TRADE SECRET LAW

The controlling definition of a trade secret in Illinois was formulated in *Victor Chemical Works v. Iliff*:[4]

---

3. *See* Fidler and Adair, *Practical Aspects of Trade Secret Conflicts*, 13 S. TEX. L.J. 103 (1971) where the authors suggest the involvement of three parties —the former employer, the employee and the new employer: "An employer typically wants the right to prevent a specialized or highly informed employee from seeking or accepting employment with a competitor—and a competitor wants the right to hire a new employee with specialized capabilities or developed knowledge free of liabilities. The employee in the middle wants the right to seek opportunities wherever they may occur. This over-simplification of the respective positions of this triangular relationship can be restated in many different forms, all of which ultimately are resolved essentially by the balancing equities." *Id.* at 103.

4. 299 Ill. 532, 132 N.E. 806 (1921). While *Victor Chemical Works v. Iliff* provided the occasion for setting out the requirements for trade secret protection in Illinois, it should be pointed out that the court denied relief finding that Victor had not proved that it had discovered the process nor that it was a secret process. The restraint of employees from a breach of a confidential relationship and the enforcement of restrictive employment covenants rests on the employer's proof of possession and use of a trade secret. Basically, an antitrust test was used as the basis for reversing the injunctive relief granted by the appellate court. In doing so, the supreme court stated that: "The contract is one in restraint of trade

A trade secret is a plan or process, tool, mechanism, or compound known only to its owner and to those of his employees to whom it is necessary to confide it. . . .[5] A mere mechanical advance in the use of a process is not a new process or discovery. To be a new process there must be employed creative facilities in originating it amounting to a meritorious discovery or invention.[6]

There are, then, two basic requirements for relief from trade secret being divulged: (1) the existence of secret information, and (2) a confidential relationship between the person possessing the secret information and the person who would divulge or appropriate the trade secret.

In *Cook-Master v. Nicro Steel Products*,[7] the Illinois Appellate Court for the First District adopted the stringent interpretation of the Restatement of the Law of Torts:

The subject matter of a trade secret must be secret. 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.[8]

The comments to the Restatement of Torts also provide some guidelines for the determination of the existence of a trade secret:

Some factors to be considered in determining whether given information is one's trade secret are: (1) the extent to which the information is known outside of his business; (2) the extent to which it is known by employees and others involved in his business; (3) the extent of measures taken by him to guard the secrecy of the information; (4) the value of the information to him and to his competitors; (5) the amount of effort or money expended by him in developing the information; (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.[9]

The Restatement acknowledges the fact that protection of trade secrets is a departure from the maintenance of open market compe-

---

and void. It prohibits Iliff from directly or indirectly giving any person any information in regard to the whole or any part of the plant or processes of complainant, and from doing anything which might injure, by competition or otherwise, the complainant, its successors or assignees, in the business. The restraint is unlimited as to time and place, and the proof does not show that complainant has any trade secret whatever." *Id.* at 551, 132 N.E. at 813.

5. *Id.* at 545-46, 132 N.E. at 811.

6. *Id.* at 546-47, 132 N.E. at 812.

7. 339 Ill. App. 519, 533-34, 90 N.E.2d 657, 663 (1950).

8. Restatement of Torts § 757, comment *b* at 5-6 (1939). The American Law Institute has made available Tentative Draft No. 8 of the Restatement of Torts, Second (1962) which covers Trade Secrets. The Institute did not, however, consider any revision of § 757.

9. Restatement of Torts § 757, comment *b* at 6; cited with approval by the court in ILG Industries, Inc. v. Scott, 49 Ill. 2d 88, 93, 273 N.E.2d 393, 396 (1972).

tition: "The privilege to compete with others includes a privilege to adopt their business methods, ideas or processes of manufacture."[10] This departure from a policy of open competition is said to be justified, according to the court in *ILG Industries*, by the balancing of conflicting social and economic policy considerations: the need to protect the business investment which produced the trade secret versus the right of an individual to follow and pursue a particular occupation utilizing all his knowledge and experience.[11] The court strikes this balance by providing a limited protection for the secret which would deprive the employee of any special benefit he has gained as a consequence of his confidential relationship with the trade secret owner.

The second requirement for trade secret protection is the existence of a confidential relationship the breach of which is said to occasion the disclosure or appropriation of the trade secret. As the comments of the Restatement of Torts suggest, it is not that the possession of a trade secret is "a right of property," rather "the theory that has prevailed is that the protection is afforded only by a general duty of good faith and that the liability rests upon breach of this duty: that is, breach of contract, abuse of confidence or impropriety in method of ascertaining the secret;" the Restatement conclusion is that "[a]part from breach of contract, abuse of confidence or impropriety in the means of procurement, trade secrets may be copied as freely as devices or processes which are not secret."[12]

In *Jones v. Ulrich*,[13] the Illinois Appellate Court for the Third District, held that a breach of a confidential relationship provided a basis for the exercise of state jurisdiction to protect trade secrets

10. Restatement of Torts § 757, comment *a* at 2. *See also* Restatement of Torts § 708.

11. 49 Ill. 2d 88, 93, 273 N.E.2d 393, 396 (1972).

12. Restatement of Torts § 757, comment *a* at 4. *See* Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378, 383 (1971) where it is observed that: "[T]he great majority of American legal scholars and courts have whenever possible deemphasized the question of plaintiff's property interests and the plaintiff's rights 'against the world' with respect to a trade secret. Most of the cases have in fact involved employees and breach of confidential relationship, not theft. The courts have preferred to rely on the established theories of quasi-contract, unjust enrichment, and fiduciary relationships." [Notes omitted.]

13. 342 Ill. App. 16, 95 N.E.2d 113 (1950).

even though the federal patent statute provides that there will be no restriction on a purchaser or user of an invention or article prior to any patent application.[14] In *Jones*, the plaintiff sought injunctive relief against a machine shop operator's use of innovations in a spreading device which the plaintiff had brought into the machine shop for welding. The court held that while the federal patent statute did not extend its protection to situations where information or a prototype was obtained as a result of a breach of confidence, that the federal patent statute did not pre-empt the field of invention protection.[15] The court derives its jurisdiction by characterizing the action as being one of breach of trust and maintains its jurisdiction through its differentiation between the purpose and effects of patent law and trade secret law.

It is well established that equity will enjoin the use and disclosure of trade secrets, such as processes, formulae, and inventions learned in confidence. The difference between secret processes and patents is that the owner of a patent has a monopoly against all the world, while the owner of a secret process has no right "except against those who have contracted, expressly or by implication, not to disclose the secret, or who have obtained it by unfair means." The jurisdiction of equity to protect such trade secrets is founded upon trust or confidence. The court "fastens the obligation upon the conscience of the party, and enforces it against him in the

14. *See* Sec. 48, Title 35 U.S.C. RS. § 4899, which provides: "Every person who purchases of the inventor, or discoverer, or with his knowledge and consent constructs any newly invented or discovered machine, or other patentable article, prior to the application by the inventor or discoveror for a patent, or so sells or uses one so constructed, shall have the right to use, and vend to others to be used, the specific thing so made or purchased, without liability therefore." *See also* Dable Train Shovel Co. v. Flint, 137 U.S. 41 (1890); Wade v. Metcalf, 129 U.S. 202 (1889).

15. 342 Ill. App. 16, 24-25, 95 N.E.2d 113, 117 (1950). The court views the patent law as providing the exclusive federal jurisdiction in suits for infringement, but views the state court as retaining jurisdiction not only in cases involving non-patentable trade secrets but also in cases where the validity of the patent arises as a collateral issue. "The mere fact that a patent or an application for a patent is involved in a case does not oust the jurisdiction of the State courts in favor of Federal courts. In a direct proceeding for the infringement of a patent the jurisdiction of the Federal courts is exclusive, but where the question arises collaterally it not only may be determined by the State courts, but in the absence of diversity of citizenship must be so determined." *Id.* at 25, 95 N.E.2d at 117. *But see* Chisum, *The Allocation of Jurisdiction Between State and Federal Courts in Patent Litigation*, 46 WASH. L. REV. 633, 673 (1971), where the author concludes: "There are good reasons for making a federal court at least an available forum to *either* party, and not just to the plaintiff, in all cases raising issues of federal patent law. Federal judges possess greater expertise in handling patent matters. More importantly, with their secure tenure and national perspective, they possess a higher sensitivity to the delicate balance between the policies of encouraging inventiveness on the one hand and of fostering free economic competition on the other."

same manner as it enforces against a party to whom a benefit is given, the obligations of performing a promise on the faith of which the benefit has been conferred."[16]

The court in *Jones* required neither that there be a written or oral contract to keep a disclosure secret nor that the information be obtained by trick, artifice or fraud. Instead, the court inferred a confidential relationship from the unilateral disclosure of the secret by the plaintiff to the defendant whose business of machine welding and repair was said to create a basis for trust. This agreement to service the plaintiff's machine was found to create an obligation of confidence sufficient to satisfy the requirements of trade secret protection. The court stated that "such an agreement in itself implied a confidential relationship because, without such confidence, such an agreement in practicality would be a nullity."[17]

In the same year that *Jones* was decided, an Illinois appellate court considered a case involving similar facts, *Cook-Master, Inc. v. Nicro Steel Products*,[18] where it was held that the necessary confidential relationship would not be inferred where specifications for a product's manufacture were provided to a fabricator. In *Cook-Master*, the defendant began manufacturing and selling products identical in design and specifications with the sets of utensils that it had promised to manufacture for the plaintiff. The court concluded that the design and manufacture of the marketed utensils did not constitute a trade secret since "matters which are completely disclosed by the goods which one markets cannot be his secret."[19] Moreover, the court refused to imply a contractual promise of confidentiality, finding that the facts were not "sufficient to embrace a confidential relationship, or matters of such secret nature as would compel the defendants to treat it as confidential matter. Nor

16. 342 Ill. App. 16, 29, 95 N.E.2d 113, 119 (1950) [Citations omitted].

17. *Id.* at 26, 95 N.E.2d at 117. The difficulty with the courts implying the term of confidentiality is that all such implication involves an element of judicial creation of contract obligations. The parties expressly contracted here for welding to be done for payment. The imposition of an obligation of confidentiality certainly reduces the likelihood of competing production. While secrecy and confidentiality may be a requirement of the possessor of an innovative idea before he will divulge it to anyone or use it in production, perhaps such a person should expressly contract for this secrecy, especially if the free market and open competition have the higher public policy priority.

18. 339 Ill. App. 519, 90 N.E.2d 657 (1950).

19. *Id.* at 533, 90 N.E.2d at 663.

does the relationship of the parties partake of a fiduciary nature."[20] The *Cook-Master* decision suggests that there is a direct relationship between the nature of the secret and the likelihood of inferring an obligation of confidentiality; the greater the secrecy or the difficulty of duplication then the greater the likelihood of finding an obligation of confidentiality, and hence the greater the likelihood of protection. The court suggests that the need to stimulate invention and to encourage its use results in a judicial disposition to protect what may be a nonpatentable idea or process. Where such an idea or process is shown and legal protection petitioned, the court seems disposed to infer an obligation of confidentiality from contracts of employment and from licensing contracts. The difficulty with this proposition is that it reveals a potential clash with patent law—since patent law is the exclusive basis for limited protection of the products of invention, an encroachment is made by the law of trade secret protection when it rests fundamentally on the finding of an invention and not on the existence of a confidential relationship.[21]

Precedent for the *ILG Industries* case can be found in the 1965 case of *Schulenburg v. Signatrol*[22] which provided injunctive relief against a former employee of a manufacturer of light flashers. The employee was found to have used the manufacturer's blueprints, measurements, and specifications in order to produce devices

20. *Id.*

21. *See* Fidler and Adair, *Practical Aspects of Trade Secret Conflicts*, 13 S. TEX. L.J. 103, 105 (1971) where the authors observe the inverse relationship between the "quality" of the trade secret and the nature of the breach of the inferred confidential relationship. "The term 'trade secret' has come to mean the gravamen of a legal controversy between the employer and the employee which must be present to support a legal action. By the same token, impropriety in conduct on the part of the acquirier of the trade secret is almost always present where an employer's right is enforced. With a certain amount of impreciseness, *there would appear to be an inverse relation between the quality of the trade secret and misconduct.* Gross misconduct almost inevitably will support a holding for the employer for a very minimal trade secret, while little misconduct is required for such a holding when an extremely unique and valuable trade secret is at stake.

"It would seem that great amount of focus is often misplaced on the 'trade secret' as being the principal concern of the action when the cause of action is principally supported by unfair conduct. In most cases it would seem that traditional analysis based upon the quantitative and qualitative merit of the trade secret can be far too pessimistic. When there is a highly guarded unobvious development, the value of the trade secret can transcend relative conduct of the parties, *but more often than not, the value of the secret is principally to support a holding based on unfair conduct.*" *Id.* at 105. [Emphasis added].

22. Schulenburg v. Signatrol, Inc., 33 Ill. 2d 397, 212 N.E.2d 865 (1965).

which he sold in competition with his former employer. As in *ILG*, the injunctive relief was limited to a period of time reasonably required to legally produce copies. The significance of the *ILG* decision, and its reaffirmation of the results and reasoning of *Schulenburg*, arises from the fact that a number of Illinois appellate court decisions seemed to erode or limit *Schulenburg*[23] and from the fact that a number of federal decisions involving patent issues raise the question whether Congress has restricted, if not pre-empted, the field of trade secret protection by the enactment of the federal patent statute.[24]

Three cases decided in the First District of the Appellate Court of Illinois in the period following *Schulenburg* suggest that the case should be confined to its facts. In *Revcor, Inc. v. Fame, Inc.*,[25] the court differentiated between two groups of employees who had become engaged in the manufacture of products in competition with their former employer. The court upheld an injunction against employees who had taken secret drawings and used them to produce competing goods. On the other hand, the court affirmed the denial of injunctive relief against an employee who solicited customers of his former employer using lists which were openly available in the industry. In so doing, the court reasoned:

> Our free economy is based upon competition. One who works for another cannot be compelled to erase from his mind all of the general skills, knowledge, acquaintances and the over-all experience which he acquired during the course of his employment.[26]

In addition, the court suggested that the emphasis the court in *Schulenburg* had placed on denying an employee any competitive advantage he had obtained against his former employer and over others in the open market was misplaced. Rather, injunctive relief was

---

23. *See* Revcor, Inc. v. Fame, Inc., 85 Ill. App. 2d 350, 228 N.E.2d 742 (1967); Heathbath Corporation v. Ifkovits, 117 Ill. App. 2d 158, 254 N.E.2d 139 (1969); and Bimba Mfg. Co. v. Starz Cylinder, 120 Ill. App. 2d 170, 256 N.E.2d 357 (1970). These cases are discussed below.

24. *See* Adelman, *Trade Secrets and Federal Pre-emption—the Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOCY. 713, 733 (1967), where the author concludes: "[O]n the basis of the decisions of the Supreme Court, it would appear that the federal patent laws fully occupy the field of inventions in commercial use in the absence of a pending patent application covering such inventions."

25. 85 Ill. App. 2d 350, 357, 228 N.E.2d 742, 746 (1967).

26. *Id.* at 357, 228 N.E.2d 742, 746 [Emphasis added].

granted fundamentally on the basis of breach of contract, fraud, or theft.

> If a salesman has *agreed to a restrictive covenant in his employment contract*, or if he has *fraudulently and surreptitiously copied or removed* lists of customers [or drawings and specifications] from a prior employer, or if the names of actual or potential customers are confidential, not subject to memory, are not publicly listed, or otherwise readily obtainable, then, under proper circumstances, such salesman might be enjoined from soliciting business from the customers of his prior employer. Absent such circumstances, however, there can be no such prohibition.[27] [Emphasis added.]

The gravamen of the action according to the *Revcor* decision, then, is one of breach of contract or a tort action for fraud or conversion.

In *Heathbath Corporation v. Ifkovits*,[28] the Illinois appellate court again distinguished between enjoining an employee from the use of a secret formula, learned in prior employment for a period of time necessary for independent production of the formula and enjoining the use of customer lists obtained as a consequence of the former employment, but which were otherwise publically available. The former prohibition was found to be enforceable with specific reference to the facts of the case, while the latter injunction was not granted. A critical fact, cited by the court, was the defendant-employee's admission "that he had signed a contract with MFR [the parent company of the plaintiff] in 1960 agreeing to maintain secrecy in connection with methods, processes and systems employed."[29] The court concluded that the evidence supported the contention that the secret formula was learned in an employment capacity that involved a fiduciary relationship. The finding of this fiduciary relationship was fully supported by the terms of the employment contract. While the court did not consider whether the contract was limited by the antitrust laws, it did conclude that it was to be enforced to the extent that a limited injunction would afford traditional trade secret protection: "[T]he proper scope of the injunction is the period required for the defendant to duplicate the formulas, which we have held to be trade secrets, by lawful means."[30]

In 1969, the appellate court was simultaneously faced with the Illinois precedent in *Schulenburg* and with the federal case law devel-

27. *Id.*
28. 117 Ill. App. 2d 158, 254 N.E.2d 139 (1969).
29. *Id.* at 162, 254 N.E.2d at 141.
30. *Id.* at 167, 254 N.E.2d at 144.

opment restricting the power of states to offer relief in cases involving the use or appropriation of unpatented trade data or manufacturing specifications.[31] In *Bimba Mfg. Co. v. Starz Cylinder Co.*,[32] plaintiff sought to enjoin the production and sale of air cylinders which were copies of its own product. Carlstead, a former employee of Bimba, provided catalogues consisting of drawings and printed specifications to individuals who had formed a manufacturing company to compete with Bimba. Although the trial court enjoined the defendants from manufacturing the competing air cylinders for a period of twelve months, the appellate court reversed, finding no trade secret which merited protection and no violation of any fiduciary duty arising directly from Carlstead's employment capacity. The court held that since the plaintiff *had marketed* the air cylinders and since the cylinders *were not patented*, the plaintiff failed to produce subject matter which merited protection: "Plaintiff, without obtaining a patent on any of them, distributed its cylinders in a way that anyone could cut one, disassemble it, and learn how it could be manufactured. In sum, plaintiff had no trade secret concerning its cylinders."[33]

The principal basis for denying the existence of a trade secret, was the court's reading of the United States Supreme Court decision in *Sears, Roebuck & Co. v. Stiffel*[34] and *Compco Corp. v. Day-Brite Lighting*.[35] The appellate court observed that:

> [I]n these two cases the Supreme Court held that because of federal patent laws, a state may not, when an article is unpatented, prohibit the copying of the article itself, or award damages for such copying, even if the copied article is so much a duplicate that it produces confusion concerning the source of the article.[36]

---

31. *See* Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225, *rehearing denied*, 376 U.S. 973 (1964); Compco Corp. v. Day-Brite Lighting, 376 U.S. 234, *rehearing denied*, 377 U.S. 913 (1964); and Lear, Inc. v. Adkins, 395 U.S. 653 (1969).

32. 119 Ill. App. 2d 251, 256 N.E.2d 357 (1969).

33. *Id.* at 365, 256 N.E.2d at 364.

34. 376 U.S. 225 (1964). While both *Stiffel* and the following case, *Compco*, involve only the question of the enforcement of state unfair trade law by enjoining the production of the copying product, the court's holding of pre-emption of state unfair trade laws reveals some doubt as to the validity of state trade secret law by the patent laws to the extent that the injunctive relief granted at the trial court level was prohibited by the supremacy clause *and* to the extent that the language of the court's opinions indicate that there is some problem with the co-existence of state trade secret laws and federal patent laws.

35. 376 U.S. 234 (1964).

36. 119 Ill. App. 2d 251, 269, 256 N.E.2d 357, 366 (1969).

Further, the court concluded that the prohibition on the copying of unpatented manufactured items conflicted with the federal patent law:

The injunction and award of damages predicated solely on defendant's copying of plaintiff's unpatented cylinder conflict with federal patent laws. "[F]ederal law requires, that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent."[37]

The court in *Bimba* distinguished *Schulenburg* which was said to permit recovery on the basis of (1) plaintiff's ownership of a trade secret and (2) defendant's breach of a fiduciary duty by the appropriation of plaintiff's blueprints, drawings and designs. The *Bimba* court suggested, as has been shown, that the pre-emption of an area of industrial innovation by the federal patent laws severely restricted the instances where a trade secret could be found to exist. As to the breach of duties of confidentiality, the court suggested that such duties could be found as a consequence of an express contract or implied from a relationship of trust. However, the court suggested that other remedies for a breach were available and perhaps preferable to an equitable action based on trade secret law given the recent United States Supreme Court opinions suggesting federal pre-emption of the trade secret law.

In this [employment] relationship Carlstead owed plaintiff the obligation not to divulge any information concerning plaintiff's business which was imparted to him. Information which Carlstead could not disclose because of his fiduciary relation, included customer lists which plaintiff may have compiled. Carlstead owed plaintiff the duty not to compete with it, using information acquired by him in his relation as its accountant and one of its directors. *Violation of the duties Carlstead owed plaintiff could in themselves be actionable; and if he committed any breach of these in concert with others to injure plaintiff's business, the concert of action would constitute a conspiracy.*[38] [Emphasis added.]

The *Bimba* court, then, suggests that other theories may provide a basis for restraint against or recovery from an employee who violates a duty of trust arising from an express or implied term of the employment contract. One alternative approach to remedy such breaches may be the underlying contract theory recognized by the court in the *ILG* case. Since the *ILG* opinion acknowledges the right to copy and manufacture the items which it characterizes as trade se-

37. *Id.* at 370, 256 N.E.2d at 367, quoting with approval Lear, Inc. v. Adkins, 395 U.S. 653, 668 (1969).

38. 119 Ill. App. 2d 251, 266, 256 N.E.2d 357, 365 (1969) [Citations omitted].

crets after a period necessary for independent reproduction has expired, the real issue centers on the advantage that a former employee has obtained as a direct consequence of his past employment. Accordingly, the trial court is best advised to determine (1) whether in fact there was duty to the former employer or a confidential relationship which has been breached, and (2) what damages have been suffered by the former employer. The trial court is then able to fashion appropriate relief whether it be damages or injunctive relief. Indeed, this approach may be required if, as a series of Supreme Court opinions suggest, protection of industrial trade secrets has been pre-empted by the federal patent law.[39]

III. FEDERAL PATENT LAW

Article I, section 8 of the United States Constitution provides that Congress has the power to grant protection to inventors and their discoveries in order to promote scientific development.[40] Exercising this power, Congress enacted the Patent Act[41] under which an inventor can obtain an exclusive monopoly[42] over the subject matter of the patent for a period of seventeen years.[43] This grant of protection is conditioned upon a showing of new, useful and non-obvious processes, machines, and manufacture or composition of matter.[44] Suit may be brought against anyone for damages or injunc-

39. These cases, discussed below, are Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Compco Corp. v. Day-Brite Lighting Inc., 376 U.S. 234 (1964); and Lear v. Adkins, 395 U.S. 653 (1969).

40. U.S. CONST. art. 1, § 8, cl. 8, provides: "The Congress shall have power . . . to promote the Progress of Science and useful Arts, by securing for limited Times to authors and inventors the exclusive Right to their respective writings and discoveries."

41. 35 U.S.C. §§ 1-293 (1964) as amended, 35 U.S.C. §§ 41-282 (Supp. V, 1970) [hereinafter Patent Act].

42. *See* P. Areeda, ANTITRUST ANALYSIS (1967 ed.) where the author suggests that one of the purposes of granting this "monopoly" is to create an "incentive" for invention: "The patent guarantees the inventor a monopoly of his invention, and the resulting prospect of monopoly profit stimulates both additional inventive efforts and the investments required to put such inventions rapidly into use." *Id.* at 320.

43. 35 U.S.C. § 154 (1970), provides in part: "Every patent shall contain a short title of the invention and a grant to the patentee, his heirs or assignees, for the term of seventeen years, subject to the payment of issue fees as provided for in this title, of the right to exclude others from making, using, or selling the invention through the United States. . . ."

44. 35 U.S.C. §§ 101-03 (1964).

tive relief where infringement of a validly issued and secured patent can be shown.[45] Recent federal court opinions have raised the question of the extent to which this patent protection and suits for patent infringement constitute the sole protection available for industrial secrets.[46]

In 1964, the United States Supreme Court decided the companion cases of *Sears, Roebuck & Co. v. Stiffel Co.*[47] and *Compco Corp. v.*

45. 35 U.S.C. §§ 283-85 (1964), *as amended*, 35 U.S.C. §§ 283-85 (Supp. V, 1970). Treble damages and attorney fees may be obtained in certain cases.

46. It has been argued that while Congress could pre-empt the field of trade secret law under its interstate commerce power and constitutional power to protect inventors, it has not done so. The most significant evidence of this fact, it is said, are the congressional enactments prior to and subsequent to the promulgation of the Patent Act, which expressly recognize trade secrets. *See, e.g.*, Milgrim, *Sears to Lear to Painton: Of Whales and Other Matters*, 46 N.Y.U.L. REV. 17, 33 at n.67 (1971) where the author notes a series of statutes which prohibit disclosure of trade secrets by certain governmental agencies and which limit these agencies in their ability to compel disclosure of trade secrets.

However, it may be necessary to distinguish *industrial* and *commercial* trade secrets in order to define the area of possible pre-emption by the Patent Act and to determine the intended coverage of the federal acts which provide for protection of "trade secrets." Commercial trade secrets are unrelated to patentable subject matter, (*e.g.*, customer lists, supplier lists); industrial trade secrets are of the same nature as the matter which is susceptible of patent protection (*e.g.*, secret processes, machines, formulas, designs). The latter may be precluded from state protection; the former may be subject to state protection as well as proper subject matter within the intent of Congress' grant of protection in the statutes which expressly purport to protect trade secrets. *See, e.g.*, Adelman, *Trade Secrets and Federal Pre-emption—the Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOCY. 713 (1967), where the author makes the above distinction: "[O]nly a portion of all industrial secrets come within the definition of protectable subject matter set forth in Secs. 101 and 171 of the 1952 Patent Code. Since Sec. 171 deals solely with ornamental designs, for purpose of convenience, designs will be considered as if they were covered by Sec. 101 rather than Sec. 171.

"Sec. 101 defines subject matter of patent protection as follows:

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

Thus, only secret processes, machines, formulas, new products and designs and improvement thereof are inventions within the definition of Sec. 101, and, *since a secret invention may be the subject of a patent application, such secrets may be termed Sec. 101 trade secrets.* Of course, the eventual success or failure of such an application would depend on whether the invention passed the hurdles imposed by Secs. 102 and 103. *Since Congress has not legislated in the field of non-section 101 industrial secrets and since their protection does not appear to frustrate the purpose of the patent laws, the protection of non-section 101 secrets would not appeaer to be preempted by federal patent policy.*" *Id.* at 725-26 [Emphasis added, footnotes omitted]. *See also*, Arnold and Goldstein, *Life under Lear*, 48 TEX. L. REV. 1235, 1256-59 (1970).

47. 376 U.S. 225 (1964).

Day-Brite Lighting, Inc.[48] These broad opinions raised the issue of whether protection of industrial secrets was limited to the protection afforded by the patent law.[49] Both cases involved petitions for injunctive relief sought on the basis of both the federal patent law and the Illinois law of unfair competition which prohibits the copying of articles whether or not they are protected by patent or copyright. The plaintiffs argued that the unfair competition law prohibits the duplication of another's product not only to prevent public confusion as to the source of a marketed article but also to protect the trade value obtained by marketing an original production. The United States District Court for the Northern District of Illinois, in unreported opinions, had held the patents in question invalid, but granted relief on a theory of unfair competition, reasoning that the public would be misled as to the source of the Sears product because of the similarity to the Stiffel product.[50]

---

48. 376 U.S. 234 (1964).

49. The opinions in these cases created much discussion in the professional literature, with commentators praising and condemning the possible effects of the cases on nullifying the state law of trade secrets. For approval of the trend toward pre-emption, *see*, Adelman, *Trade Secrets and Federal Pre-Emption—The Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOCY. 713 (1967): "It is one thing to say that an inventor has an absolute right to keep his invention to himself; it is quite another to argue that an inventor has an absolute right to lawfully disclose his invention to third parties, such as employees or licensees, use his invention commercially, and then assert that he has an absolute right to the protection of the confidentiality of the relationship he has necessarily created in order to commercially exploit his invention. . . . On the basis of the decisions of the Supreme Court, it would appear that the federal patent laws fully occupy the field of inventions in commercial use in the absence of a pending patent application covering such inventions." *Id.* at 731-33.

For a view opposing pre-emption of trade secret law, *see* Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV., 1432 (1967): "As a result of the *Sears* case certain limits upon the law of trade secrets may be imposed. To a large degree the same limits could be imposed by proper consideration of the balancing necessary between trade secret and economic policies. The danger lies in the possible nullification of much in trade secret law which may promote competition through a superficial analysis of what is required by federal patent policy." *Id.* at 1462.

See generally, Kestenbaum, *The Sears and Compco Cases: A Federal Right to Compete by Copying*, 51 A.B.A.J. 935 (1965); Treece, *Patent Policy and Preemption: The Stiffel and Compco Cases*, 32 U. CHI. L. REV. 80 (1964); Note, *The Stiffel Doctrine and the Law of Trade Secrets*, 62 NW. U.L. REV. 956 (1968); Note, *To What Extent Has Federal Patent and Copyright Law Preempted State Protection of Trade Values?—The Sears and Compco Cases*, 1965 U. ILL. L.F. 83 (1964).

50. Stiffel Co. v. Sears, Roebuck & Co., 313 F.2d 115 (7th Cir. 1963).

On certiorari, the United States Supreme Court considered only the question of whether a state could, consistently with the Patent Act, award damages or enjoin the copying of an unpatented article.[51] Holding that state courts could not grant relief for copying an unpatented article on a theory of restraining unfair competition, the Court reasoned in *Stiffel* that:

> [T]he patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition. Obviously, a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. To do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time. Just 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.[52]

In its opinion in *Compco*, the companion case, the Court was even more explicit in its holding of pre-emption and in its suggestion that the reasoning it employed was not limited to cases involving charges of unfair competition.

> [W]hen an article is unprotected by a patent or a copyright, state law may not forbid others to copy that article. To forbid copying would interfere with the federal policy, found in Article I, § 8, cl. 8, of the Constitution and in implementing federal statutes, of allowing free access to copy whatever the federal patent laws leave in the public domain.[53]

Stiffel and *Compco* were both cases involving patent validity and unfair competition, and did not directly involve trade secret law. While the reasoning and language of these opinions was of sufficient breadth to include pre-emption of trade secret law, some

51. 376 U.S. 225 (1964).

52. *Id.* at 230-31. The Court infers that Congress meant to fully occupy the area of patent protection by its grant of exclusive jurisdiction in suits arising under the patent laws to federal courts. "The purpose of Congress to have national uniformity in patent and copyright laws can be inferred from such statutes as that which vest exclusive jurisdiction to hear patent and copyright cases in federal courts, 28 U.S.C. § 1338(a), and that section of the Copyright Act which expressly saves state protection of unpublished writings but does not include published writings, 17 U.S.C. § 2." *Id.* at 231, n.7.

53. 376 U.S. 234 (1964). The Court did suggest that alternative means were available to the state to achieve the valid purpose of unfair competition laws in protecting the public from being misled as to the source of manufactured products. "While the federal patent laws prevent a State from prohibiting the copying and selling of unpatented articles, they do not stand in the way of state law, statutory or decisional which required those who make and sell copies to take precautions to identify their products as their own." *Id.* at 238.

commentators urged a narrow reading of the case in order to maintain the viability of state trade secret jurisdiction. For instance, one law review commentator concluded: "In the area of trade secret law, it is suggested that the various questions raised by *Stiffel can* and *should* be resolved in favor of continued trade secret protection, provided, however, that the remedy employed be adjusted where necessary."[54] Subsequent federal court decisions have cast doubt on the viability of the above suggestion.

In *Lear v. Adkins*,[55] the United States Supreme Court was called upon to determine the validity of the doctrine of estoppel in suits challenging the validity of patents. Suit had been initiated by Adkins, a former employee, for royalties after termination of a licensing agreement and before the grant of a patent. After termination of the agreement, Adkins received his patent and then initiated suit for the payment of back royalties; at trial, Lear asserted the defense of invalidity of the patent. A California trial court held that Lear was estopped from challenging the validity of a licensor's patent in a suit for enforcement of the license agreement.[56] The California District Court of Appeals held that Lear was not obligated to pay royalties after the repudiation of the agreement.[57] The California Supreme Court, however, reversed the appellate court decision, holding that the doctrine of licensee estoppel precluded Lear from the assertion of the defense of patent invalidity.[58] On certiorari, the United States Supreme Court rejected the doctrine of licensee estoppel and remanded the case to the California Supreme Court for further proceedings to determine patent validity.[59] In remanding the case to the state court, the Supreme Court went further than merely voiding the licensee estoppel doctrine. The Court raised the question of alternative theories available for recovery of pre-pat-

54. Comment, *The Stiffel-Doctrine and the Law of Trade Secrets*, 62 NW. U.L. REV. 956, 974 (1968) [Emphasis added].

55. 395 U.S. 653 (1969).

56. Authority for this position was thought to be generally provided by the decision of the United States Supreme Court in Automatic Radio Mfg. Co. v. Hazeltine Research, Inc., 339 U.S. 827, 836 (1950).

57. Adkins v. Lear, Inc., 52 Cal. Rptr. 795 (Dist. Ct. App. 1966), *rev'd* 67 Cal. 2d 882, 435 P.2d 321, 64 Cal. Rptr. 545 (1967), *rev'd* 395 U.S. 653 (1969).

58. 67 Cal. 2d 882, 435 P.2d 321, 64 Cal. Rptr. 545 (1967).

59. 395 U.S. 653, 676 (1969).

ent royalties and left it to the state courts to fashion a theory, if possible, which would not conflict with the patent law.

Our decision today will, of course, require the state courts to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and it is impossible to predict the extent to which this re-evaluation may revolutionize the law of any particular State in this regard. Consequently, we 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 . . . . Indeed, on remand, the California courts may well recognize the competing demands of patent law in a way which would not warrant further review in this court.[60]

The opinion of the Court delivered by Mr. Justice Harlan, then suggests the possible conflict between patent law and state remedies and relief. Mr. Justice Black, joined by Mr. Chief Justice Warren and Mr. Justice Douglas, agreed that there was a conflict between the patent law and state protection of unpatented inventions. Concurring in the nullification of the licensee estoppel doctrine, the three justices dissented from the majority's view that the potential conflict might be avoided by the state's careful selection of a legal basis for providing relief.

[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 the exacting standards of the patent laws. One who makes a discovery may, of course, keep it secret if he wishes, but private arrangements under which self-styled "inventors" do not keep their discoveries secret, but rather disclose them, in return for contractual payments, run counter to the plan of our patent laws, which tightly regulate the kind of inventions that may be protected and the manner in which they may be protected. The national policy expressed in the patent laws, favoring free competition and narrowly limiting monopoly, cannot be frustrated by private agreements among individuals with or without the approval of the State.[61]

The question which remains unanswered is whether state courts can fashion trade secret relief to protect unpatented inventions without coming into conflict with the Patent Act which the United States Supreme Court has held to be preeminent.

The question of the viability of trade secrets has been raised in post-*Lear* litigation in only one circuit, with an affirmative response coming from the United States Court of Appeals for the Second Cir-

60. *Id.* at 675.

61. *Id.* at 677. (Opinion concurring in part and dissenting in part).

cuit in *Painton & Co. v. Bourns, Inc.*[62] Painton brought an action for a declaratory judgment on the validity of an agreement whereby it would pay royalties on electric components it manufactured in accordance with models, supplied by the defendant, which had not been patented and on which no patent application was pending. The district court, in declaring that enforcement of the license agreement would be contrary to federal patent law, stated 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 these ideas to the Patent Office, and, thereby, eventually have the ideas disclosed to the public.[63]

Both parties appealed to the United States Court of Appeals for the Second Circuit, which reversed and remanded, holding that the maintenance of the integrity of the federal patent law was not a sufficient basis for refusing to enforce the royalty provisions of trade secret agreements, at least with respect to cases where no patent application has been filed.[64]

---

62. Painton & Company v. Bourns, Inc., 309 F. Supp. 271 (S.D.N.Y. 1970) *rev'd* 442 F.2d 216 (2d Cir. 1971). Pre-*Lear* decisions in the various circuits were in accord that an injunction based on state trade secret law would lie in diversity cases to prevent a former employee from using information gained in confidence for a limited period of time. *See* Servo Corporation of America v. General Electric Co., 337 F.2d 716, 723 (4th Cir. 1964), where the court observed: "Courts long have recognized that where the holder of a trade secret imparts it to another in confidence and that other person then appropriates it for his own use, equitable remedies may be invoked to right the wrong. That it is not necessary that the trade secret be covered by patent was made by [earlier cases]." *Id.* at 732. The court distinguished *Stiffel, supra* note 47, on the grounds that unlike that case, the instant case involved the breach of a confidential relationship. *See also,* Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9th Cir. 1965); and Bryan v. Kershaw, 366 F.2d 497 (5th Cir. 1966).

63. 309 F. Supp. 271, 274 (S.D.N.Y. 1970). The district court discussed the frustration of the patent laws which would occur by affording state trade secret law protection to unpatented inventions: "Patent policy . . . which allows compensation only for ideas which rise to the level of invention would be further undermined by the enforcement of such a contract, since compensation would be awarded for non-inventions. And if this court were to hold that before a state could enforce a trade secrets contract, the ideas must be found to be an invention as prescribed by the rigid requirements of federal patent law, inventors would be able to circumvent 'the manner in which [inventions] may be protected.' Inventors would be encouraged to avoid filing applications altogether and contract for long licensing arrangements. The severely restricted area which the Supreme Court left open to applicable state law would become a yawning abyss. Fewer patent applications would be made. The Patent Office would soon have a less accurate view of the state of the art in a particular field. And state courts, rather than the Patent Office, would become the initial triers of whether a discovery is an invention." *See* Epstein v. Dennison Mfg. Co., 314 F. Supp. 116 (S.D.N.Y 1969).

64. 442 F.2d 216 (2nd Cir. 1971).

The court of appeals distinguished *Stiffel* and *Compco* reading those cases to be limited to a finding of inconsistency between federal patent law and those state laws which prohibit the manufacture of articles not protected by valid patents or copyrights.[65] The court reasoned that there is a significant difference in saying, on the one hand, that a state cannot enjoin the copying of an unpatented article, and saying, on the other, that individuals cannot enter into contracts which limit the use of revealable data by a contracting party but which do not preclude others from independently discovering, developing, or copying an article or process.[66] The court read the *Lear* opinion narrowly and limited it simply to the rejection of the licensee estoppel doctrine, and saw no inconsistency with the patent law and the maintenance of trade secret law.

> We therefore do not find, either in general considerations of public policy or in emanations from the federal patent law, a sufficient basis for declining to enforce even the royalty provisions of trade secret agreements at least with respect to cases where no patent application has been filed.[67]

The basic premise of the court of appeals was that the federal patent law has not pre-empted the field of invention protection and that state trade secret law serves as a useful encouragement to invention.

> Whatever the impact of *Lear* may be with respect to agreements governing inventions for which patent applications have been filed, we find no suggestion in the opinion that the Court intended to cast doubt on the longstanding 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 forfeit his right to a patent.[68]

The basis on which the court of appeals concluded that states may validly stimulate innovation, along with the federal government and the federal patent law, remains uncertain. In fact, the language of the United States Constitution article I, § 8, cl. 8, and the United States Supreme Court decisions in *Stiffel, Compco,* and *Lear* indi-

65. *Id.* at 223.

66. *Id.* at 224.

67. *Id.* at 224-25. The court of appeals dismissed the concerns of the trial court, *supra* note 63, reasoning that there would be no significant decline in patent applications because of the likelihood of obtaining a greater royalty payment for a patented article or process, and because of the greater protection afforded by a patent. Trade secret protection of unpatented articles was viewed as desirable in limiting patent applications and encouraging invention.

68. *Id.* at 225. The forfeiture to which the court has reference is that required by 35 U.S.C. § 102(b) (as amended, 1970) which provides that an owner of an invention loses his right to apply for and obtain a patent if he markets his invention for more than a year prior to application.

cate that by the enactment of the federal patent law, Congress meant to fully occupy the field of invention stimulation and protection.

The effect on trade secret law of the *dicta* in *Lear*, that "no state has a right to authorize any kind of monopoly on what is claimed to be a new invention," remains uncertain. Although the Federal District Court for the Southern District of New York read *Lear* to prevent the enforcement of state trade secret law, the Second Circuit Court of Appeals ignored this language in the *Lear* opinion. The viability of state trade secret law will undoubtedly continue to be an issue until language in the *Lear* opinion is clarified and the question of the compatibility of state trade secret law and federal patent law is more fully considered by the United States Supreme Court.

IV. CESSANTE RATIONE, ALIA INVENIATUR[69]

Some commentators, observing the difficulty of the owners of technological inventions in obtaining protection for their innovations resulting from the unavailability of patent protection "due to the rising standard of patentability imposed by the court"[70] and the "threat of federal pre-emption of state trade secret law,"[71] have urged the enactment of a federal trade secret law to provide the desired protection.

> Clear, uniform trade secret protection is urgently needed, and it can be achieved only when the continuing uncertainty of the pre-emption problem is laid to rest. The most appropriate resolution would be enactment of federal legislation to settle both the pre-emption problem and the need of protection.[72]

---

69. *See* A. CASNER AND W. LEACH, CASES AND TEXT ON PROPERTY 97, n.6 (1964).

70. Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378 (1971).

71. *Id.* at 379-81.

72. *Id.* at 381. This statutory protection is said to be required to protect the investment in research and development which is central to modern commercial production and to facilitate international licensing of know-how. "The technological developments that spurred industrial recovery after the second World War have given rise to enormous investments for research and development in a continuing search for better products to satisfy expanding world markets. These investments in technological progress, coupled with ever rapid obsolescence, have led to an increased reliance on trade secrets and know-how licensing on a national and international scale, and a corresponding rise in industrial espionage. The present patchwork of confused common law doctrines and state criminal statutes is inadequate to protect the first and prevent the second.

While the need for protection may be valid and the benefit of federal legislation might be great, state courts continue to be petitioned for protection of industrial secrets. At the same time, the opinion in *Lear* itself leaves open the possibility of state courts fashioning a basis for relief to protect the contractual rights of the owners of technological secrets.

> [W]e 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. Given the difficulty and importance of the task, it should be undertaken only after the state courts have, after fully focused inquiry, determined the extent to which they will respect the contractual rights of such inventors in the future.[73]

The state law of trade secrets rests on the existence of an industrial or innovative secret and on the existence of a contractual or confidential relationship through which the secret information is revealed. The identification of information worthy of protection is difficult and frequently results in conflict with the federal patent law which has fully occupied the area of stimulation and protection of innovation. The second requirement of trade secret law provides an independent basis for state vindication of private interests. If adequate protection can be afforded to individuals through the use of contractual arrangements containing specific terms directed toward the protection of a confidential relationship, state courts may be able to avoid both the difficult task of determining whether an article or process constitutes a trade secret and the likelihood of conflict with federal patent law.

The employment contract provides a particularly attractive area for providing employers the type of protection sought under trade secret laws. Covenants not to compete which are ancillary to employment contracts have long been viewed as enforceable so long as

---

"*Sears* and *Lear* demonstrate that the unresolved conflict in trade secret doctrine, as well as the external problems of accomodation with the patent scheme and national goals of free competition, cannot be easily settled by the courts. . . . [O]nly federal statutes can ensure the uniformity and deterrence needed in the law of trade secrets. This problem area seems a fitting subject for Congressional hearing and legislation." *Id.* at 401. *See also*, Comment, *The "Copying-Misappropriation" Distinction: A False Step in the Development of the Sears-Compco Pre-emption Doctrine*, 71 COL. L. REV. 1444, 1473 (1971) where the authors conclude that: "[L]egislation specifically addressed to the problem of pre-emption may prove helpful in alleviating some of the difficulties that have been discussed."

73. 365 U.S. 653, 675 (1969).

they conform to standards of reasonableness. The landmark case, decided in the early eighteenth century, was *Mitchell v. Reynolds*,[74] which established the principle that restraints limited in geographical area of time would be judged according to their reasonableness. In *Mitchell*, the Court upheld an agreement in a lease binding the assignor of the lease not to exercise the trade of baker in a certain parish for five years, or if he did, to pay plaintiff fifty pounds.

Courts in the United States have given closer scrutiny to covenants ancillary to employment contracts than to those accompanying a sale or lease of a business; yet, if the terms of the ancillary agreement conform to the standards of reasonableness they will be enforced.[75] In *United States v. Addyston Pipe & Steel Co.*,[76] the Sixth Circuit Court of Appeals summarized the pre-existing case law and adopted the common law standard of reasonableness.

> We do not see how a better test can be applied to the question whether this is or [is] not a reasonable restraint of trade than by considering whether the restraint is such only as to afford a fair protection to the interests of the party in favor of whom it is given, and not so large as to interfere with the interests of the public. Whatever restraint is larger than the necessary protection of the party requires can be of no benefit to either. It can only be oppressive. It is, in the eye of the law, unreasonable. Whatever is injurious to the interests of the public is void on the ground of public policy.[77]

To the extent that an employer has a competitive advantage, resulting from the ownership of an innovation, and desires to protect that advantage, a term in the employment contract restricting an employee's ability to compete for a reasonable time after ceasing his employment relationship would be enforceable.[78] This contractual approach provides protection and focuses the attention of the court in any enforcement action on the truly significant issue: balancing the reasonable protection for an employer's competitive advantage against the maintenance of free competition in the market place. The chief problem which is created by the use of covenants not to compete rather than trade secret law is the requirement that a per-

74. Mitchell v. Reynolds, 1 P. Williams 181, 24 Eng. Rep. 347 (Court of King's Bench, 1711).

75. Blake, *Employee Agreements Not to Compete*, 73 HARV. L. REV. 625 (1960).

76. 85 F. 271 (6th Cir. 1898), *aff'd* 175 U.S. 211 (1899).

77. 85 F. 271, 282 (6th Cir. 1898).

78. *See generally* Fidler and Adair, *supra* note 3, at 108-14 (1971).

iod of time be set which is reasonable as a restraint of trade and not necessarily a period of time which would be required to independently derive the secret. The inability to reconcile these time periods, however, is attributable to the underlying differences in theory. Nevertheless, the choice of one theory over the other may be dictated by the inability to maintain trade secret law in the face of federal patent law.

Both patent and antitrust law represent national economic legislation; both are somewhat jeopardized by state enforcement of trade secret law. Trade secret law creates a secondary basis for obtaining invention monopoly, despite the fact that the patent law has been enacted as the sole basis for obtaining such a limited monopoly. Trade secret law provides protection of a monopoly position and a competitive advantage to the former employer untested by the standards required to determine whether a restraint of trade is permitted. A covenant not to compete for a reasonable time avoids the conflict with the patent law since there is no need to find the existence of a secret or innovation. Moreover, a covenant not to compete ancillary to an employment contract can be scrutinized under the antitrust laws, unlike trade secret protection where the reasonableness of a particular restraint of trade is not examined. The duration of trade secret protection, which conflicts with the maintenance of free competition, produces a restraint unchecked by the standards of antitrust law.[79] Trade secret protection is granted for a period limited by the difficulty of reproducing the innovation; if the information cannot be independently deduced, the former employee may never be able to compete with his former employer. Such a restriction surely exceeds the standard of reasonableness imposed by the antitrust laws on any restraint of trade.

Likewise, the problem, which arose in *Lear* and *Painton*, of licensing the use of trade secrets for the payment of royalties could be avoided by arranging a single transaction where a specified amount would be paid for the disclosure of information. The common law

79. The Restatement of Torts recognizes that trade secret law operates as an imperfection in what otherwise is a system of free competition: "The privilege to compete with others includes a privilege to adapt their business methods, ideas or processes of manufacture. Were it otherwise, the first person in the field with a new process or idea would have a monopoly which would tend to prevent competition." Restatement (Second) of Torts § 757 comment *a* (1962).

has always given the inventor the right to make, use, and sell his invention.[80] It is a legal truism that payment for consideration consisting of an agreement to reveal an industrial idea, process or model constitutes an enforceable contract.[81] Such a contract will be enforced whether or not the revelation constituting the consideration is or is not a trade secret.

Again, there will be a difficulty in setting a price for a single transaction which will be the equivalent of the return available from a series of royalty payments. The purchasers may not have sufficient funds to pay a price which the owner of the innovation demands, or may be unwilling to pay a given price until he determines the usefulness or the demand for the innovation or secret. However, it is the enforcement of license agreements which gives rise to the judicial examination of the underlying subject matter; and if the *dicta* in *Lear* is utilized as a standard for determining the compatibility of state law with patent law, a system of royalty payments for the licensing of the use of a trade secret is unlikely to be upheld.[82]

---

80. *See, e.g.*, Rawlings v. National Molasses Co., 394 F.2d 645 (9th Cir. 1968).

81. *See generally* CORBIN, CORBIN ON CONTRACTS § 127, (1952): "If there are willing buyers and sellers, there is a market; and it is their willingness that determines value. When two parties agree upon an exchange of this for that, they constitute a part of the market. We have a free market, under our common law, for the reason that the courts have left it free. They do not require that one person shall pay as much as others may be willing to pay, or that one person shall receive for what he sells as little as others may be willing to receive for a like article. The contracting parties make their own contracts, agree upon their own exchanges, and fix their own values. Inadequacy of consideration may be so gross as to be evidence of fraud, mistake or undue influence; but in the absence of these it will seldom effect the enforceability of a promise." *Id.* at 185.

82. There has been manifested a growing hostility toward exclusive licensing agreements including those which involve a validly patented subject. *See* WHITE HOUSE TASK FORCE REPORT ON ANTITRUST POLICY (July 5, 1968 released May 21, 1969) [Reprinted in ANTITRUST & TRADE REGULATION REPORT, No. 411, Special Supplement, May 27, 1969] where the following proposal is made: "We recommend that, in general, a patent owner who has granted a license with respect to his patent must license all qualified applicants on equivalent terms. This proposal does not involve compulsory patent licensing. A patentee may decline to issue any license at all, or he may issue licenses in some fields of use and reserve to himself the practice of the patent in other fields. . . .

"[T]o the extent this proposal increases the number of licensees during the life of a patent, it may also result in more effective competition in the practice of the patent after expiration." *Id.* at 10-11. *See also* Comment, *The Patent-Antitrust Balance: Proposals for Change*, 17 VILL. L. REV. 463 (1972) suggesting the use of a "rule of reason" in evaluating the validity of patent licenses based on the

It is clear that *Lear* struck down the licensee estoppel doctrine and that now the licensee is able to contest the validity of the patent, and perhaps the patentability, of the subject matter of his contract.[83] Moreover, logic suggests that the concurring opinion is correct in its suggestion that know-how licensing itself is unenforceable unless based on a valid patent; otherwise, the decision in *Lear* would permit the licensee to escape payment of royalties if the licensor had described his ideas as patented or patentable but not if the licensor had merely held out the subject matter to be a trade secret invention which was not patentable.[84] However, a single contractual transaction avoids the opportunity or need for a court to inquire into the existence of a secret or innovation which merits protection. The owner of an innovation may be limited in what he can bargain for when limited to a single contractual transaction; but, then, this limitation may be the consequence of having only an unpatentable innovation or secret to offer for sale.

As the *Lear* court suggested, it may be true that "states may properly act to enforce the contractual rights of inventors of unpat-

---

author's suggestion of the unique "property" interest in the patent grant whose value may be realized only through licensing its use.

83. *See* Lear v. Adkins, 395 U.S. 653, 670-71 (1969): "[A]lthough licensee estoppel may be consistent with the letter of contractual doctrine, we cannot say that it is compelled by the spirit of contract law, which seeks to balance the claims of promisor and promisee in accord with the requirements of good faith.

"Surely the equities of the licensor do not weigh very heavily when they are balanced against the important public interest in permitting full and free competition in the use of ideas which are in reality a part of the public domain. Licensees may often be the only individuals with enough economic incentive to challenge the patentability of an inventor's discovery. If they are muzzled, the public may continually be required to pay tribute to would-be monopolists without need or justification. We think it plain that the technical requirements of contract doctrine must give way before the demands of the public interest in the typical situation involving the negotiation of a license after a patent has been issued." Moreover, the Court does not limit the licensee's right to refuse to pay royalties to that time following the declaration of invalidity, but holds that the licensee cannot be required to continue to pay royalties during the time he is challenging the validity of the patent in the courts since to hold otherwise would encourage the licensor to engage in delaying tactics to postpone the final adjudication of the patent's validity." *Id.* at 673.

84. 395 U.S. 653, 677 (1969) (Black, J., Warren, C.J., and Douglas, J., concurring and dissenting): "[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, which tightly regulate the kind of inventions that may be protected and the manner in which . . . contracted."

ented secret ideas"[85] without the necessity of conflict with federal patent law. If this is a valid premise, it is more likely that these rights can be vindicated by the use of accepted contractual theories and single contractual transactions rather than in the maintenance of trade secret protection.

CONCLUSION

The Illinois Supreme Court continues to grant trade secret protection upon a showing of (1) the existence of secret information, and (2) a confidential relationship between the person possessing the secret information and the person who would divulge or appropriate his information. Recent decisions of the United States Supreme Court have suggested that Congress, by the enactment of the federal patent law, may have pre-empted the field of innovation stimulation and the protection of industrial secrets. However, these decisions have raised a more basic question which remains unanswered—to what extent is state trade secret law compatible with federal patent law? To the extent that state trade secret law depends upon the showing of an industrial secret or innovation and operates to protect the same, state trade secret law competes with the federal patent law. To the extent that confidential and contractual obligations are being protected, alternative schemes such as covenants not to compete and single contractual transactions offer appropriate legal theories for state vindication of owners of innovations who enter into employment contracts or contracts for sale in order to see their unpatented ideas given material form in industrial production. Thus, while protection of industrial secrets may not be fully obtainable under traditional trade secret law, a more limited protection of underlying valid interests may be obtained from other tort and contract theories.

85. *Id.* at 675.