Factors to Focus On: Federal Patent Preemption of State Trade Secret Law

Henry Wright
University of Nebraska College of Law
Comment

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I. INTRODUCTION

With the increasing importance of technology over the last 200 years, society has devised two legal means—patent law and trade secret law—of regulating the protection of industrial ideas, items of production and methods. Both of these systems have the basic, dual policy goals of promoting the free exchange of ideas in order to stimulate competition, while at the same time granting protection to the inventor so that he will be allowed to benefit from his invention and thus be provided with an incentive to continue to invent.

Patent law provides statutory protection for a limited amount of time, after which the idea, item of production, or method becomes part of the public domain. Trade secret law places more emphasis upon the goal of protecting the industrial information, but this protection is granted only as long as the information actually is secret. Once the secrecy is broken through some legitimate means (e.g., a competitor buys the product on the open market and then “reverse-engineers” the product so as to discover its secrets), then trade secret protection also is removed and the information becomes part of the public domain.

The United States Court of Appeals for the Sixth Circuit recently focused on the relationship between these two systems in Kewanee Oil Co. v. Bicron Corp. In this case, a number of employees left Kewanee with trade secrets in their possession. These secrets were utilized to establish a competitor, Bicron Corporation. Kewanee sued Bicron for the misappropriation of the trade secrets. The court held that federal patent law preempted state 1. 478 F.2d 1074 (6th Cir. 1973), cert. granted, 42 U.S.L.W. 3194 (U.S. Oct. 9, 1973 (No. 73-187)).
trade secret law with the result that the employees were held not liable for their misappropriation.

Thus, we feel compelled to conclude that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year.2

In its reasoning to this result, the Kewanee court heavily depended on Sears Roebuck & Co. v. Stiffel Co.3 and Compco Corp. v. Day-Brite Lighting, Inc.,4 which held that federal patent law preempted state unfair competition law which prohibited the copying of an object although that object had been denied any protection under the federal patent laws. As trade secret law is part of the general area of unfair competition, the Kewanee court believed that the broad language of Sears and Compco was applicable to trade secret cases as well. In so holding, the sixth circuit case came into direct conflict with the holdings of a number of other courts of appeals.5 These courts essentially held that no conflict existed because the confidential nature of a trade secret deserved some sort of special protection. Sears and Compco were distinguished generally on the grounds that they dealt with the copying of an object rather than the breach of a confidential relationship.

This comment will discuss the applicability of federal patent law as it relates to the possible preemption of state trade secret law. In order to more fully understand this preemption, this comment will consider the means by which the trade secret was obtained and the subject matter of the trade secret. The most common means by which a trade secret is violated is through the breach of a confidential relationship, as when an employee dis-

2. Id. at 1086. 35 U.S.C. § 102(b) (1970) provides that no patent will be granted if the invention "was patented ... or in public use or on sale in this country, more than one year prior to the date of the application for the patent in the United States." "Public use" has been interpreted to include commercial exploitation of a trade secret. See note 25 and accompanying text infra.
closes to a competitor secret information which he obtained in the course of his employment, or a manufacturer uses information disclosed to it by an inventor during the process or negotiation and then refuses to pay any royalties to the original inventor. However, an explicit confidential relationship is not essential for protection of a trade secret; trade secret protection also can be obtained against industrial espionage since fair competitors implicitly agree not to engage in such tactics. It should be noted at the outset that some means by which a trade secret may be obtained are considered legitimate and the user of the trade secret will not be held liable; reverse-engineering is an example of a legitimate method of obtaining trade secrets. The problems concerned with the means by which the information was obtained will be discussed in greater detail shortly.

The relevance of the subject matter of the trade secret to the relationship between trade secret law and patent law is more difficult. Basically, the question is whether trade secret protection, with its flexible common law requirements and potentially unlimited monopoly, is the most appropriate protection, or whether the underlying information or method is such that it would be more appropriate to apply patent law, with its more precise statutory requirements and limited 17-year monopoly. To answer this question, the possible subject matter may be classified according to: (1) whether the underlying information or method is capable of being patented at all; (2) if the information or method is patentable, whether a patent was obtained; and (3) if a patent was obtained, whether it was held to be valid when it was later litigated. This comment will argue that if the underlying information or method was appropriate subject material for a patent, or if a patent was obtained on the method or information, or if a patent was obtained but that patent was later held to be invalid, then trade secret protection should be inapplicable. To hold otherwise would undermine the specific requirements and monopolies of the patent system.

As will be seen in the discussion of the cases, the application of this principle is not always easy or precise because the subject matter of the information often is not discovered easily. For ex-

7. See Section II infra.
8. "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." 35 U.S.C. § 101 (1970).
ample, if the inventor decides to submit his invention to be patented, the determination of whether the information or process is patentable involves a long series of examinations and hearings by the Patent Office, with perhaps even a second series of examinations and hearings by the judicial system if the patent is later litigated. The utility of the principle becomes more evident in cases where it is reasonably clear that the underlying information either falls within the realm of patent law, or falls outside of patent law altogether. An example of the former instance occurred where the trade secret was patented and, although the patent was declared invalid, the court nevertheless proceeded to apply trade secret law. The court thereby granted protection to information which it had just determined did not meet the more rigorous requirements of patent law. On the other hand, an example of the latter instance—where the subject matter is outside of patent law—might be a secret list of business customers. If this list is to receive any protection at all, it must receive it from trade secret law.

The appellate courts before Kewanee focused almost entirely on the means by which the information was obtained. Once it was determined that a confidential relationship had been breached, the courts refused to examine the underlying subject material of the information, object or method to determine whether it should be protected under patent law, if any protection was to be afforded at all. In contrast, Kewanee examined only the subject material of the object. Once it had determined that the information, object or method was appropriate subject material for a patent, it refused to consider the means by which the information was obtained; the breach of the confidential relationship was no longer determinative.

Thus, Kewanee raises the question whether federal patent law preempts state trade secret law with respect to objects or information subject to a patent. In resolving this question, it is helpful to consider a subsidiary question: on what factor or factors should the court focus in reaching a decision as to preemption? Should the court consider only the means by which the information was obtained; should it consider only the subject material of the information or should the court consider both factors?

The premise of this article is that it is improper to focus exclusively on the subject material of the trade secret, as Kewanee did, or to focus exclusively on the means by which the trade secret was

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9. See note 69 and accompanying text infra.
10. See note 95 and accompanying text infra.
obtained, as the other circuits largely have. Instead, it will be suggested that both the subject material of the trade secret and the means by which it was obtained should be examined in relation to the possible impact on the free passage of ideas and methods, on the one hand, and the impact on the protection of an inventor's own ideas and methods, on the other hand.

Section II will describe briefly the two systems of protection. Section III will discuss the trend toward federal patent law preemption of state unfair competition law. The holdings of courts of appeals conflicting with *Kewanee* will be examined in Section IV. *Kewanee* pushed preemption one step further, holding that federal patent law preempted the related area of state trade secret law with respect to patentable items; this development will be examined in Section V. Finally, Section VI will conclude with possible implication of an expected Supreme Court decision in this area.

II. COMPETING SYSTEMS

A description of the essential differences between federal patent law and state trade secret law is helpful at this point. Congress obtained the power from the Constitution to grant patents in order "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." Congress has delegated this power to the Patent Office. The basic statutory requirements for a patent are found in Title 35 of the United States Code, section 101: "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." A patent's subject matter cannot "have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains." In order to receive a patent, application must be filed with the Patent Office by the inventor or his representatives.

The most significant statutory requirement for the purposes of this comment is that no patent will be granted if "the invention was patented . . . or in public use or on sale in this country, more than one year prior to the date of the application for the patent in

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13. Id. § 101.
14. Id. § 103.
15. Id. §§ 111, 116, 117, 118.
the United States. "Public use" has been interpreted to include secret use for profit. Accordingly, continued use of a trade secret for a profit threatens the patentability of the article. Thus, the inventor is forced to elect, at an early date, whether he should seek trade secret or patent protection. If he applies for a patent, his application is kept secret, so in the event his application is not accepted, it is possible that he will later be able to resurrect trade secret law. It seems reasonable that once a patent is issued, trade secret protection ends. Trade secret protection potentially might be of an indefinite length of time, but it also might be a very short-lived protection if the secret is disclosed by legitimate means.

Once a patent is granted by the Patent Office, the inventor or his representative has the right to obtain relief against anyone who infringes on his patent. During the course of this infringement suit, his patent may be declared invalid by the court. In that case, patent protection ceases.

Trade secret protection is granted by the state rather than federal government. On author has suggested five basic confidential relationships in which trade secret protection is relevant. First, an employer may disclose secret information, in the course of employment, to an employee who then leaves the employer and either joins a competitor or sets up his own competing business.

16. Id. § 102(b).
19. There is a split of authority on this question. Brown v. Fowler, 316 S.W.2d 111 (Tex. Civ. App. 1958), holds that trade secret is retained; American Gauge & Mfg. Co. v. Maasdam, 245 F.2d 62 (6th Cir. 1957), holds that trade secret protection is not retained.
20. See notes 79-84 and accompanying text infra.
22. 35 U.S.C. § 282(2) (1970) states that a patent may be declared invalid for failure to comply with 35 U.S.C. §§ 100-188 (1970). Besides failure to follow proper procedure, these code provisions establish the requirements that the invention be a “process, machine or composition of matter,” id. § 101; original with the inventor, id. §§ 101, 115; useful, id. § 101; and not obvious “to a person having ordinary skill in the art to which said subject matter pertains,” id. § 103. The invention also cannot be otherwise known, used, or patented by others, id. § 102 (a), (b); described in another patent application, id. § 102(e); or placed in public sale or use more than a year prior to the date of the patent application, id. § 102(b).
Second, the inventor may disclose confidential information to a manufacturer for development; the manufacturer then applies the information for its own use without further development and refuses to pay any royalties to the original inventor. Third, a manufacturer may reveal the information to a prospective supplier or customer for the latter's consideration, who in turn discloses the information to a competitor. Fourth, the information may be disclosed outside of a business context; for example, the Patent Office might accidentally disclose the information. Finally, the competitor might resort to industrial espionage to gain information directly.

If the information is obtained outside of a confidential relationship, there is no liability. There must be either an explicit or an implicit understanding that the information will not be revealed to a competitor. Thus, one may legally reverse-engineer another's product by examining it as completed to discover the various secret ideas inherent in it.\textsuperscript{24}

The information must actually be a secret.\textsuperscript{25} It cannot be generally known throughout the industry. If the information is not secret, there can be no liability although a confidential relationship was broken.

There is considerable division of opinion concerning whether the idea must somehow be novel or otherwise be a discovery, or whether any idea can be a trade secret, regardless of its novelty.\textsuperscript{26}

\textsuperscript{24} Smith v. Dravo Corp., 203 F.2d 369, 375 (7th Cir. 1953).
\textsuperscript{25} There need not be absolute secrecy to maintain an action for the disclosure of a trade secret. \textit{Dravo} held that trade secret protection was retained although a general description and minor details of the secret had been disclosed in publicity material. One formulation of the degree of secrecy is that a trade secret is "a plan or process, tool, mechanism or compound known only to its owners and those of his employees to whom it is necessary to confide it." Cameron Mach. Co. v. Samuel M. Langston Co., 115 A. 212, 214 (N.J. Cham. 1921). Another definition of the degree of secrecy is that "a trade secret requires some process or method which is not obvious or generally known in the trade, and which gives the innovator a substantial advantage over a competitor." Forest Laboratories, Inc. v. Formulation, Inc., 299 F. Supp. 202, 208 (D. Wis. 1969). For further discussion, see 2 \textsc{R. Callman}, \textsc{The Law of Unfair Competition Trade-Marks and Monopolies} § 53.3(e) (3d ed. 1968) [hereinafter cited as \textsc{Callman}].

\textsuperscript{26} For example, one court has stated, "We assume that almost any knowledge or information used in the conduct of one's business may be held by its possessor in secret." Smith v. Dravo Corp., 203 F.2d 369, 373 (7th Cir. 1953). Other courts have required some sort of discovery. See Sarkes Tarzian, Inc. v. Audio Devices, Inc., 166 F. Supp. 250 (S.D. Cal. 1958).
However, it is clear that even those courts which do demand some degree of novelty, or discovery, do not require the level of uniqueness required for a patent. To a certain extent this is necessary because some items which trade secret law protects are clearly unpatentable (e.g., a list of customers), but it also allows inventors to decide whether they will risk trade secret law or, instead, attempt to receive a patent. If the inventor believes that his invention is of doubtful patentability or if he desires longer protection, he might elect to continue to keep the information secret.

The protection afforded by trade secret law is limited in comparison to patent protection. Trade secret law protects the inventor only against breaches of a confidential relationship and only against those persons who either infringe or directly receive the benefits of the breach. The inventor cannot bring suit against those who later receive the information through regular trade practices, or against those who successfully reverse-engineer his product. Patent law, on the other hand, protects the inventor against infringement, no matter what the source of that infringement may be. Thus, for example, the inventor can protect himself against reverse-engineering under patent law.

Trade secret law potentially affords an indefinite period of protection, which is one major reason why an investor may elect to use trade secret protection rather than patent protection where, by statute, the shield disappears after 17 years. The difficulty is that the period of protection for a trade secret also is potentially very short, so some sort of rigid internal security is needed, and this can be expensive. If the holder of a trade secret is successful, however, he can withhold the information from his competitors for an indefinite period of time and so hinder the passage of ideas in free and open competition.

The basis of protection and the possible remedies of patent law and trade secret law are different. If an inventor elects to keep his invention secret, he foregoes all possible patent protection. Patent protection is broader (e.g., it protects against reverse-

27. Quite clearly discovery is something less than invention. Invention requires genius, imagination, inspiration, or whatever is the faculty that gives birth to the inventive concept. Discovery may be the result of industry, application, or be perhaps merely fortuitous. The discoverer, however, is entitled to the same protection as the inventor.

A.O. Smith Corp. v. Petroleum Iron Works Co., 73 F.2d 531, 538 (6th Cir. 1934).

engineering), but it also is for only a limited time period. Trade secrets can be protected potentially for an indefinite period, but trade secret protection also can be lost as soon as it is no longer a secret. Trade secret law provides remedies only against those who violate the confidential relationship (or who are direct parties in the violation), whereas patent protection provides remedies against any who make, use, or sell the patented invention, and thereby infringe on the patent.  

III. EXPANDING FEDERAL PREEMPTION

In order to understand the reasoning of Kewanee Oil Co. v. Bicron Corp., with its advocacy of preemption, and the conflicting cases decided in other circuits, it is first necessary to examine the trend toward federal patent law preemption of state unfair competition laws. First formally expounded by the United States Supreme Court in the two cases of Sears Roebuck & Co. v. Stiffel Co. and Compco v. Day-Brite Lighting, the doctrine was further articulated in Brulotte v. Thys Co. and perhaps reached its height in Lear, Inc. v. Adkins, especially in Justice Black's partial dissent in Lear. The future of federal preemption today is unclear, however, after Goldstein v. California.

It should be emphasized that none of the above cases deal with trade secrets. However, both Kewanee and the opposing cases frequently relied upon these Supreme Court unfair competition cases to support their reasoning in regard to trade secrets.

Of prime importance to the issue of federal patent law preemption are the leading cases of Sears and Compco. The factual patterns of these two cases are virtually identical. In Sears, Stiffel Company had secured design and mechanical patents on a pole lamp. Sears proceeded to copy the lamps at a much cheaper price. Stiffel sued under the theories of patent infringement and the Illinois statute forbidding unfair competition by copying articles. The district court declared Stiffel's patents invalid, thereby dismissing the patent infringement suit, but the court held Sears guilty of unfair competition under Illinois law. Sears was enjoined from unfairly competing, and an accounting to determine lost profits and damages was ordered. Similarly, in Compco, the district court held Day-Brite's patents to be invalid but, neverthe-

29. Id. § 271(a).
less, found Compco to be liable for unfair competition in the copying of fluorescent lighting fixtures and affixed damages. The court of appeals affirmed.\textsuperscript{35}

In opinions written by Justice Black, the Supreme Court, with sweeping language, reversed the lower courts in both cases. "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 law."\textsuperscript{36} Federal patent law preempted the conflicting state law. The Court went on to reason that an unpatented article was not entitled to patent protection. Thus, another party had every right to copy that article. "But because of the Federal patent laws, a State may not, when the article is unpatented and uncopyrighted, prohibit the copying of the article itself or award damages for such copying."\textsuperscript{37} In short, if the article was not patented, it was in the public domain.

In the accompanying Compco decision, handed down the same day, Justice Black qualified \textit{Sears} slightly while reversing the court of appeals.\textsuperscript{38} "A State of course has power to impose liability upon those who, knowing that the public is relying upon an original manufacturer's reputation for quality and integrity, deceive the public by palming off their copies as the original."\textsuperscript{39} While the state may consider such questions as consumer confusion, "[r]egardless of the copier's motives, neither these facts nor any others can furnish a basis for imposing liability for or prohibiting the actual acts of copying and selling."\textsuperscript{40}

The Supreme Court in \textit{Sears} and \textit{Compco} thereby limited the state's power to enjoin unfair competition on unpatented articles to matters concerning misleading labels and palming off copies as the original. The Court did not depend upon any specific patent statutes, but relied upon the patent clause of the Constitution\textsuperscript{41} combined with the supremacy clause.\textsuperscript{42} It is this broad reading of the Constitution which gives \textit{Sears} and \textit{Compco} much of their sweeping effect. The Court implied that its decisions were not to be limited to interpretation of a single statute, but rather that the very foundation of the various patent statutes and regulations

\textsuperscript{35} 313 F.2d 115 (7th Cir. 1963).
\textsuperscript{36} 376 U.S. at 231.
\textsuperscript{37} Id. at 232–33.
\textsuperscript{38} 311 F.2d 26 (7th Cir. 1962).
\textsuperscript{39} 376 U.S. at 238.
\textsuperscript{40} Id.
\textsuperscript{41} U.S. Const. art. I, § 8.
\textsuperscript{42} U.S. Const. art. VI, § 2.
are in question here. In its essence, the Court implied that the intent of the patent clause was to encourage competition by granting limited rights for a limited time to the inventor, as well as providing a means by which the inventor may receive the benefits of his invention. Thus, the states should not be allowed to interfere with this competition by granting rights which extend beyond those contained in the federal patent laws. As Justice Black declared, "To allow a State by use of its law of unfair competition to prevent the 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."\(^4\)

The Court was willing to focus on the subject matter of the information disclosed and stated that it was appropriate subject matter for a patent, but that no valid patent had been upheld. The Court did not entirely focus on the means by which the information was obtained.

The Supreme Court next considered the problem of federal patent law preemption in *Brulotte*. In this case the licensor of a hop-picking machine contracted to prevent the assignment or removal of the machines from a limited geographical area both before and after the expiration of the patents. Writing for the majority, Justice Douglas contended that "the licensor was using licenses to project its [statutory patent] monopoly beyond the patent period."\(^4\) While state contract law might allow such an extension of the licensor's power on the theory that a reasonable amount of time to spread payments for the use of the patent could be greater than a 17-year period,\(^4\) the Court concluded that "a patentee's use of a royalty agreement that projects beyond the expiration date of the patent is unlawful, *per se*. If that device were available to patentees, the free market visualized for the post-expiration period would be subject to monopoly influences that have no place there."\(^4\)

As with Justice Black in *Sears* and *Compco*, Justice Douglas did not rely on any particular patent statute or regulation. Rather, he implied that the mere existence of a patent system meant that the owner of a patent should only receive the benefits explicitly set out in the patent statutes and should not be allowed to extend his monopoly power by means of state contract law so as to

\(^{43}\) 376 U.S. at 231-32.
\(^{44}\) 379 U.S. at 32.
\(^{45}\) This was a principal theory of the Washington Supreme Court which upheld the contract. Thys Co. v. Brulotte, 62 Wash. 2d 284, 291, 382 P.2d 271, 275 (1963).
\(^{46}\) 379 U.S. at 32-33.
limit competition. In short, Justice Douglas argued that federal patent law preempted a portion of state contract law in regard to an expired patent.

In Lear, the Court considered the problem of licensee estoppel. The essential question was whether Lear, the licensee, was estopped from denying the validity of the licensor Adkins' patent in a suit for royalties. The California Supreme Court, allowing the estoppel, stated:

[O]ne of the oldest doctrines in the field of patent law establishes that so long as a licensee is operating under a license agreement he is estopped to deny the validity of his licensor's patent in a suit for royalties under the agreement. The theory underlying this doctrine is that a licensee should not be permitted to enjoy the benefit afforded by the agreement while simultaneously urging that the patent which forms the basis of the agreement is void.47

In reversing the California Supreme Court, Justice Harlan once again argued that preemption by the patent clause of the Constitution precluded state interference in the area of regulating free competition so far as patented articles are concerned.

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.48

The Court also stated that "enforcing this contractual provision would undermine the strong Federal policy favoring the full and free use of ideas in the public domain,"49 thereby stressing the importance of the patent system which grants only a limited monopoly.

Interestingly, the Court raised the issue of trade secrets: "To what extent [may] the States . . . protect the owners of unpatented inventions who are willing to disclose their ideas to manufacturers only upon payment of royalties[?]."50 However, the Court refused to resolve this issue. "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 in-

48. 395 U.S. at 670.
49. Id. at 674.
50. Id. (emphasis original).
ventors of unpatented secret ideas." The Supreme Court then remanded the case to the California courts to "reconcile the competing demands of patent and contract law."

One of the more extreme statements of the federal preemption concept is Justice Black's partial dissent in Lear, with which Chief Justice Warren and Justice Douglas concurred. Justice Black concurred with the majority opinion except as to the majority's reservation "for future decision the question whether the States have power to enforce contracts under which someone claiming to have a new discovery can obtain payment for disclosing it while his patent application is pending, even though the discovery is later held to be unpatentable."

Justice Black went on to explain the reasoning behind his dissent:

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

Justice Black, the author of Sears and Compco, seemed willing in this dissent to sacrifice largely the interests of inventors who are not directly connected with some large corporate enterprise. There are considerable implications to the views expressed in his dissent. Given the massive problems of production, it simply is not realistic to require that inventors develop and manufacture their own inventions. The process of obtaining a patent is a lengthy and expensive one which few of the so-called "self-styled inventors" can afford to complete before they dare disclose their inventions to others and so receive some financial benefits.

While not as expansive as Justice Black's partial dissent in Lear, the cumulative effect of Sears, Compco, Brulotte and Lear seriously erodes the property rights of both patented and unpat-
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ented articles. The preemptive effect of the patent and supremacy clauses of the Constitution dictates that the property owner should receive only those rights which are explicitly stated in the various patent regulations, and no more. Although state law is still binding as to subsidiary matters such as labeling and contracts between licensors of valid patents and their licensees during the lifetime of the patents, the Supreme Court has clearly stated that it will not tolerate any substantial interference with the monopoly aspect of patents, which is the key factor of the patent system. The patent monopoly may not be expanded via limitations on copying of unpatented items, projection of contract terms beyond 17 years, or estoppel of licensees from litigating the validity of their licensors' patents.

The Court did not address itself to trade secret law in these cases, except for a passing statement in Lear that the Court would not determine the state's power to protect the owners of unpatented inventions. Thus, the application of the emerging principle of federal preemption to matters related to trade secret law has been left for the lower federal and state courts for the time being.

In June of 1973, after all the other cases discussed were decided, including Kewanee, the United States Supreme Court, in a 5-4 decision, held in Goldstein that the State of California could prohibit tape piracy. The defendants had duplicated several recordings of major musical artists without the permission of the owner of the master record. This directly violated a California statute. The defendants moved to dismiss the state court complaint on the grounds that the California statute was in conflict with the copyright clause of the Constitution and, more particularly, that the entire area of sound recordings was preempted by Public Law 92-140. The latter states that federal copyright protection applies to sound recordings made after February 15, 1972. The federal law specifically provides no retroactive effect as to any recordings made before that date. Therefore, the defendant argued, California could not enforce a copyright after February 15, 1972, because federal law preempted the entire area. The California Supreme Court did not accept this argument and upheld the validity of the California statute forbidding the copying of recordings.

Writing for the majority in affirming the California decision, Chief Justice Burger relied heavily on the notion that the copy-

right clause did not necessarily preempt state law. "We must also be careful to distinguish those situations in which the concurrent exercise of a power by the Federal Court and the States or by the States alone may possibly lead to conflicts and those situations where conflicts will necessarily arise."

He went on to argue that although "the objective of the Copyright clause was clearly to facilitate the granting of rights national in scope," in this particular case "[w]e cannot discern such an unyielding national interest as to require an inference that state power to grant copyrights has been relinquished to exclusive federal control."

Certain aspects of the Court's reasoning in reaching this conclusion seem questionable. It realized that allowing a state to grant copyright to a recording has considerably greater effect than the a State which grants copyright protection may, however, be adversely affected by other States that do not . . . ." However, the Court argued that this conflict would not be especially severe. Furthermore, it stated, "The situation is no different from that which may arise in regard to other state monopolies, such as food concession in a limited enclosure, such as a state park, or a state lottery; in each case, citizens may escape the effect of one state's monopoly by making purchases in another area or another state state."

This analogy seems questionable since a state's granting of a copyright to a recording has considerably greater effect than the food concession in a state park. A food concession involves a very small area of land and concerns only those individuals who actually choose to buy food within the park. A record copyrighted by the state, on the other hand, has a much greater impact since it involves the entire state and everyone who desires to buy records within the state. Furthermore, it affects individuals in other states as well. It would seem that in forbidding the unauthorized transfer of a recording within the State of California, California would also be severely limiting the availability of "bootleg" albums in other states as well. Due to the concentration of recording facilities in a few states, those states could grant copyrights and so interfere with citizens of other states who desired to buy unauthorized recordings. Problems could also arise if California

58. 412 U.S. at 554 (emphasis original).
59. Id. at 555.
60. Id. at 558 (emphasis original).
61. Id.
62. Id.
desired to forbid the actual sale of the records as well. Here, California would be interfering with the livelihood of individuals in other states who may desire to sell their unauthorized records to the population centered in California.

The defendants had also argued that California, through its statute, was creating a copyright of unlimited duration, in conflict with a 28-year limit of federal copyright statutes with a possible renewal of another 28 years.\(^6\) The Supreme Court rejected this contention by stating that "[t]he exclusive right granted by a State is confined to its borders. Consequently, even when the right is unlimited in duration, any tendency to inhibit further progress in science or the arts is narrowly transcribed."\(^6\) The Court did not consider the possible problems of numerous states granting such unlimited protection. For example, if all states granted the copyright protection which California does, then a nationwide system of state copyrights would exist which would undermine the existing federal system of copyright law. A dual system would in fact exist, which could result in confusion and conflicting laws.

Finally, after briefly summarizing the history of litigation concerning sound recordings, the Court distinguished *Sears* and *Compco*.

*Sears* and *Compco*, on which petitioners rely, do not support their position. In those cases, the question was whether a State could, under principles of a state unfair competition law, preclude the copying of mechanical configurations which did not possess the qualities for the granting of a federal design or mechanical patent.\(^6\)

After quoting from *Sears*, the Court continued:

In regard to mechanical configurations, Congress had balanced the need to encourage innovation and originality of invention against the need to insure competition in the sale of identical or substantially identical products. The standards established for granting federal patent protection to machines thus indicated not only which articles in this particular category Congress wished to protect, but which configurations it wished to remain free. . . . No comparable conflict between state law and federal law arises in the case of recordings of musical performances.\(^6\)

Taken by itself, this passage implies that Congress has in fact preempted state law with respect to anything which is potentially patentable and if an object or process is not suitable for patent

\(^{64}\) 412 U.S. at 560-61.
\(^{65}\) Id. at 569.
\(^{66}\) Id. at 569-70.
protection, then no other protection should be granted by the state. Accordingly, since trade secret law provides at least indirect protection of the "mechanical configuration," state trade secret law should be preempted by federal patent law.

There are several reasons why this interpretation of Goldstein should not be stressed unduly. First, the passage relating to patent law is dictum as the Court's actual holding was concerned only with a California statute which prohibited tape piracy. Second, and more importantly, the Court failed to explain why Congress has preempted the field as to "mechanical configurations," while at the same time it has allowed the states to regulate "sound recordings" so long as they do not necessarily conflict with the Federal copyright statutes and regulations. There is nothing obvious in the systems of patent law and copyright law which would decree such a widely divergent result.

Three unanswered questions are raised by Goldstein. First, whether Sears and Compco are limited to the copying of mechanical configurations. Secondly, whether Goldstein heralds a new era in which the states might be allowed to regulate those areas of copyright and related areas of patent law which do not directly infringe upon federal laws. And, finally, whether the preemption trend, best seen in Lear, will continue with the Court emphasizing free competition and not allowing any extension of the patent-type monopoly by the state, with the result that Goldstein will be limited to the regulation of musical recordings.

The answer to these questions, unfortunately, is far from certain. One avenue for determining the answer is to examine the strong dissents in Goldstein by Justices Douglas and Marshall (with Justices Brennan and Blackman concurring). Both dissents argued that the language of Sears and Compco dictates that the states should not be allowed to extend a monopoly either where the federal patent and copyright laws clearly do not permit a monopoly, or where they are silent. As Justice Marshall stated, "Congress has decided that free competition should be the general rule, until it is convinced that the failure to provide copyright or patent protection is hindering 'the Progress of Science and useful Arts'."67 What is especially noteworthy is that both dissents realized that tape pirating was not an attractive affair, but nevertheless that "[w]e should not let our distaste of 'pirates' interfere with our interpretation of the copyright laws."68

67. Id. at 579.
68. Id.
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This agreement could indicate that the issue of general equity was raised (e.g., whether one who does not pay any royalties to the artist or writer should be allowed to duplicate the records, make a profit and undersell those who created, or at least were authorized to use, the recording in the first place). But, the majority did not mention this issue, concentrating instead on federal preemption. Thus, one possible extrapolation from the dissents' mention of equity might be that the majority found the business of tape pirating so distasteful that it was willing to allow the California legislature to use its general police powers to suppress tape pirating in the absence of any federal legislation applicable to the period before February 15, 1972.

In any event, it is clear the the Goldstein opinion does emphasize that there are limits to the extent that federal copyright and possibly patent law will be allowed to preempt state unfair competition law in the absence of any specific federal legislation. Exactly where the bounds of preemption are located is not known. It can be argued that Goldstein stands for not applying preemption to preclude state activity only where the Court feels that some genuine inequity exists which state unfair competition law might remedy and where Congress has not acted.

Certainly before Goldstein, a strong trend toward federal preemption existed, and it was this trend that the Kewanee decision took one step further and applied to state trade secret law. With Goldstein, the Supreme Court stated that limits to federal preemption exist, although the actual location of these limits is not clear at this time.

IV. TRADE SECRET LAW BEFORE KEWANEE

The sixth circuit's decision in Kewanee came into direct conflict with a number of earlier circuit court decisions. These decisions held that patent law and state trade secret law were not in conflict. Sears and Compco were distinguished usually on the grounds that they did not involve the breach of the confidential relationship that is inherent in a trade secret case.

The United States Court of Appeals for the Fourth Circuit in Servo Corp. of America v. General Electric Co.,69 was the first appellate court to consider the possible conflict between the sweeping language of Sears and Compco and the state trade secret laws. Briefly, Servo Corporation charged General Electric with infringing three patents concerned with hot box detectors

for railroads. The court found all three patents invalid for lack of invention and novelty. Servo also argued that General Electric was guilty of unfair competition in the misappropriation and copying of their plans of the articles. Servo had installed a hot box detector for the Southern Railroad on an experimental basis with the understanding that Southern would not disclose any information concerning the detector. However, a Southern vice president met with a group of General Electric engineers who visited the location of the hot box detector and took photographs of it. Subsequently, General Electric developed their own hot box detector with many of the same features as Servo's. The court of appeals reversed the district court and found General Electric guilty of violating trade secrets belonging to Servo.

The court relied on two theories. First, it contended that "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." 70 The court cited a number of cases for this proposition, the most prominent being Hoeltke v. C.M. Kemp Mfg. Co. 71 This case held in part what while patent statutes provided protection only when the patent had been granted, protection was also provided in advance of the granting of the patent when a confidential relationship was broken. Protection is granted "not under the patent statutes, but upon the principle that equity will not permit one to unjustly enrich himself at the expense of another." 72

Secondly, the court argued that the case was distinguishable from Sears. The latter dealt with copying of an article. "This case," according to the court, "is one of unjust enrichment through breach of a confidential relationship, and the remedy is derived from the Court's power to award general equitable relief." 73

The reasoning of the court, with its heavy dependence upon equitable powers, is open to criticism from a number of directions. It has been argued that the Servo court relied on its own federal powers relating to unjust enrichment without considering state law or state policy. 74 Furthermore, the relationship between federal patent policy and a policy of unjust enrichment should have been further analyzed, particularly because the trade se-

70. Id. at 723.
71. 80 F.2d 912 (4th Cir. 1935), cert. denied, 298 U.S. 673 (1936).
72. Id. at 923.
73. 337 F.2d at 725.
crets had been granted patents which were declared invalid. The
court in Servo extended the monopoly period beyond that which
the patent laws were willing to grant, thereby interfering with
the right of General Electric to copy ideas which were now in
the public domain. Except for the possible distinguishing fact of
violation of a confidential relationship, this extension of protec-
tion to an unpatented article was the very thing which Sears and
Compco were attempting to prevent.

The court also failed to analyze its application of equitable
power. These same powers had previously been used by various
courts to enjoin copying, yet Sears and Compco specifically for-
bade the state to prohibit by statute the copying of an article.
From this it could be implied that courts similarly were forbid-
den to prohibit copying under theories of equity just as Sears and
Compco struck down legislative prohibitions against copying.
Otherwise, Sears and Compco would be rendered meaningless.
Precisely what was it that made the breach of some confidential
relationships inequitable? The breach of these relationships re-
sulted in the appropriation of ideas which the appropriator had
not himself developed in any way. However, it had been declared
in Sears and Compco that it was permissible for an appropri-
ator to copy an unpatented object exactly without any develop-
ment costs on his part, thereby resulting in a lower cost. The
appropriator could then undersell the original developer whose
creativity and ingenuity had produced the object in the first
place. Can these situations be distinguished on the basis of
"equity"?

The phrase "confidential relationship" cannot serve as an all-
embracing answer to this question. Despite Justice Holmes' famous
remarks, it can be argued that it is necessary to look beyond the
means by which the trade secret was obtained (e.g., the breach
of the confidential relationship) to at least some of the character-
istics of the information which makes up the trade secret. To a
certain extent, such substantive analysis is implicit in the very
notion of a trade secret, for the state really does not have a legiti-

75. See Callman, supra note 25, at §§ 16.2(d), 16.3 and cases cited
therein.
76. "The property may be denied but the confidence cannot be. There-
fore the starting point for the present matter is not property or due
process of law, but that the defendant stood in confidential relations
with the plaintiffs, or one of them." DuPont Powder Co. v. Masland,
244 U.S. 100, 102 (1917).
77. See Callman, supra note 25, at §§ 51.1, 51.2 and cases cited therein.
mate state interest in protecting confidential relationships *per se*. Rather, its interest is in maintaining a stable economic condition where certain relationships in a business context remain confidential and thus not subject to sudden disruption with resultant financial hardship to one party. Even using this simple analysis, it is necessary for the state to determine if the relationship is in a business or personal sphere, and if financial hardship is involved. In short, the subject matter of the trade secret should be examined.

Such analysis of the allegedly secret information becomes critical when *Sears* and *Commpco* are reconsidered. Justice Black did not focus in those cases on the means by which the object was produced the direct copying of a pre-existing article. Instead, he examined the subject matter of the article—the invalidity of patent. By shifting the emphasis from the means by which the article was produced to the subject matter of the article, the state's impact upon free competition by extending the monopoly period is more apparent. It is no longer necessary to focus solely upon the means, find them somehow morally reprehensible, and then fail to examine the subject matter of the article and its impact upon free competition.

Likewise, it would be logical to extend such an analysis to trade secret law. Instead of focusing only upon the means by which the secret was obtained as the *Servo* opinion did, thereby failing to even reach the question of the effect of the protection of trade secrets upon free competition, it might have been preferable to examine the subject matter of the trade secret, as well. In *Servo*, the subject matter was patentable, in fact, patents had been declared invalid, and so the state was in effect extending a trade secret monopoly when the patent monopoly was invalidated.

It should be carefully noted that considering the subject matter does not necessarily lead to the conclusion that the means by which the information was obtained was permissible. It is entirely possible that the court will decide that the misappropriation of trade secrets does indeed outweigh the advantages of free competition. But some sort of balancing test should be articulated so that the subject matter of the trade secret and its impact on free competition will at least be considered. The point is that concepts inherent in phrases such as "confidential relationship" should be elements to be considered, and not cure-alls in themselves.

It is worthy of note that at least three of the trade secrets which were violated in *Servo* also fell within the ambit of patent laws. This raises the question of whether an article can be pro-
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protected by both patent law and trade secret law at the same time. At least one early case holds that patent law and trade secret protection can coexist. This proposition has been at least partly upheld by Shellmar Products Co. v. Allen-Qualley Co. While mere application for a patent probably does not destroy the trade secret, as the application does not constitute public disclosure, the United States Court of Appeals for the Second Circuit, with Judge Learned Hand writing, has held that the issuance of a patent ends trade secret protection. "Thus, any possible [trade secret] liability for exploiting whatever the patents in suit disclosed, ended with their issue."

Such a conclusion would be in harmony with both the patent regulations and Sears and Compco. According to the patent regulations, "the specification must include a written description of the invention . . . and is required to be in such full, clear, concise and exact terms as to enable any person skilled in the art or science . . . to make and use the same." Furthermore, this information is open to inspection by the general public. Logically, if the patent holder has fully complied with these regulations there would be no need for a competitor to resort to violating any trade secret because the information is already openly available. Moreover a trade secret must actually be some sort of a secret and information.

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78. While the defendant could lawfully copy the pump, because it had been published to the world, he could not lawfully copy the patterns [which made up an integral part of the pump] because they had not been published, but were still, in every sense, the property of the plaintiff, who owned not only the material substance, but also the discovery which they embodied.

Tabor v. Hoffman, 118 N.Y. 30, 37, 23 N.E. 12, 13 (1889).

79. 87 F.2d 104 (7th Cir. 1936). However, the factual pattern was somewhat different from Servo because the infringer by its inequitable conduct had "precluded itself from enjoying the rights of the general public to patent disclosure . . ." Id. at 108.

80. At the time of the application the inventor or discoverer has no means of knowing whether the patent will ultimately be granted. If the secret is valuable, the discoverer, conceiving it to be patentable, would by making application hazard both secret and patent. This would defeat the very purpose of the patent law, which conditions monopoly for a limited period upon the complete surrender thereafter of the subject matter to the public . . .


82. 37 C.F.R. § 1.71(a) (1973).

83. Id. § 1.12.

84. "The significant difference of fact between trade secrets and processes
tion which is open to anybody can scarcely be termed a secret. To punish one who obtained this information through the breach of a confidential relationship is to concentrate exclusively upon the means by which the information was obtained and to ignore the subject matter of the information (in this case, the actual lack of any secrecy).

The Servo court seems to be directly contrary to the language of Sears and Compco and the statutes. The court in Servo had determined that the objects were not a great enough advancement over the prior state of the art to warrant any patent protection and, therefore, declared the patents invalid. The Court then applied state trade secret law, however, to allow one type of monopoly where they had just stated that they were not going to allow a patent monopoly. It could be argued that a trade secret monopoly has different rights and liabilities, but it is a monopoly, none the less.

The Sears opinion seems directly on point as it was also concerned with patents which had been declared invalid, with the state then attempting to impose a penalty for unfair competition. To repeat an earlier quote,

To allow a State by use of its law of unfair competition to prevent the 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.85

A more sophisticated analysis of the problem was made in

or devices which are not secret is that knowledge of the latter is available to the copier without the use of improper means to procure it, while knowledge of the former is ordinarily available to him only by the use of such means.” RESTATEMENT OF TORTS § 757 comment a at 3 (1939) (emphasis added).

85. 376 U.S. at 231-32. The next appellate court to consider the possible conflict between federal patent law and state trade secret law was the Illinois Supreme Court. In Schulenburg v. Signatrol, Inc., 33 Ill. 2d 379, 212 N.E.2d 865 (1965), an employee copied confidential information disclosed to him in the employee-employer relationship and then used this information to start a competing business. As in Servo, the court dealt wholly with the means by which the information was obtained. The notion that the language of Sears and Compco might be applicable was quickly dismissed. “It is readily apparent that the Sears and Compco cases do not cover a situation of industrial espionage by employees who plan to organize a competing company and thereafter do that very thing.” Id. at 386, 212 N.E.2d at 869. In so holding, the Illinois court did not consider the implications of such a decision upon free competition, but concentrated their attention upon punishing what the court considered to be a morally reprehensible act.
Here the United States Court of Appeals for the Ninth Circuit was faced with a situation in which employees of Minnesota Mining had misappropriated information and thus were able to produce a competing tape recorder long before it would otherwise have been possible. The court stated that it was precluded by Sears and Compco from giving weight to the contention that "[t]he results of research and development must be accorded reasonable protection from disclosure or private investment in such activities will be inhibited and progress will be slowed, with consequent loss to both employers and public." The court made a firm distinction between the information and the relationship: "[Sears] . . . precludes judicial individual recognition of a legally protectable interest in the secrecy of industrial information as such, as distinguished from an interest in the integrity of confidential employer-employee relationships." In a note, the court further explained this distinction:

It would seem to follow, under the rationale of Sears, Roebuck & Co. v. Stiffel Co., that state law providing protection for trade secrets cannot be applied to serve a premise that the balance of interests favors secrecy. Thus, state law protecting trade secrets cannot be based "on a policy of rewarding or otherwise encouraging the development of secret processes or devices. The protection is merely against breach of faith and reprehensible means of learning another's secrets." Restatement, Torts § 757, comment b.

The ninth circuit's reasoning is a considerable advance over that of the fourth circuit in Servo. Instead of applying the vague principle that general equity powers should uphold confidential relations, Winston focused upon the confidential relationship and clearly stated that the information itself is not protectable. At best, Servo only implied such a distinction. By so distinguishing, Winston does not directly grant a monopoly of the sort that Sears and Compco struck down in their decisions concerning copying. Under Winston, the state is no longer concerned with protecting the actual item itself, whether it is an article which is being copied or information which has been disclosed, but instead is allowed to protect a relationship which appears to be separate from the actual information.

The difficulty is that the state is indirectly protecting the information by protecting the relationship. While it is true that the information is no longer directly protected by the state, the court

86. 350 F.2d 134 (9th Cir. 1965).
87. Id. at 138.
88. Id.
89. Id. at 138 n.2.
should also be concerned with whether the information should be protected indirectly, if at all. Assuming, arguendo, that the features in the tape recorder were indeed patentable, the state is granting the featured potentially indefinite protection by imposing legal liability upon one who discloses that information. If the features were not patentable, then the state is allowing protection for the features of the sort that would not be granted at all by the federal government under patent law. The protection granted by the state is a limited one—only as long as the feature is indeed a trade secret (i.e., it would disappear if it were discovered through reverse-engineering) and only as to those employees who were in the confidential relationship—but it is still a limit upon the free introduction of that feature by competitors in their products.

The United States Court of Appeals for the Fifth Circuit faced the question of possible conflict between trade secret law and patent law in *Water Services, Inc. v. Tesco Chemicals, Inc.* An employee signed a covenant not to compete with his former employer, Farris Chemical Company, in a certain prescribed area in northern Georgia. The employee not only broke his covenant, but he also disclosed trade secrets to defendant Tesco Chemicals. While some of these trade secrets involved the make-up of mechanical components of a water purifier, at least one very significant trade secret which was disclosed was a list of suppliers. The employee was held liable both for breaking the covenant not to compete and for the disclosure of trade secrets.

Writing for the Court, Judge Wisdom first briefly analyzed the necessity for trade secrets:

The policy reasons for affording protection to these commercial intangibles are to prevent exploitation by reprehensible business methods and to encourage innovation . . . . If a trade secret is protected, the competitive advantage realized by the owner of the secret will enable him to recoup his developmental costs, hopefully before his competitors can "reverse-engineer" the product and duplicate it.

Judge Wisdom then distinguished this trade secret case from *Sears* and *Compco* in much the same way as the *Servo* court did, stating that *Sears* and *Compco* were not applicable to a situation in which an employer hires an employee of a competitor in order to obtain a trade secret.

After discussing the differences between patents and trade se-

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90. 410 F.2d 163 (5th Cir. 1969).
91. Id. at 171.
cret protection, Judge Wisdom analyzed the factors involved in this case:

The anticompetitive effects [of the trade secret protection] are relatively slight since the competitive advantage exists only for which is usually a short period of time, because the restrictive covenant, if there be one, is for a small number of years (here, only two years) or because a competitor, by reverse-engineering, may legitimately duplicate the device. This limited protection with its relatively slight anticompetitive effects is helpful to ensure growth characteristics of innovative genius. See Doerfer, The Limits on Trade Secret Law Imposed by Federal Patent and Anti-Trust Supremacy, 80 Harv. L. Rev. 1432, 1447-56 (1967).92

Thus, at least in the actual reasoning of his opinion, Judge Wisdom was not depending upon the confidential relationship solely. Rather, he weighed the possible restriction on free competition, resulting from both the restrictive covenant and the trade secret, against the policy of protecting confidential relationships in a business context. To use the language previously articulated, Judge Wisdom did not focus solely on the means by which the information was obtained, and, having found the means reprehensible, hold the discloser liable. Instead, he also considered the subject matter of the information and its possible impact on free competition. Judge Wisdom then found the means reprehensible.93

One problem with Judge Wisdom's analysis is that he did not differentiate the types of trade secrets involved. Part of the disclosed information consisted of the arrangement of various components in such a way to produce the water treatment industry's only fully-automated, integrated system for controlling and supplying purified industrial water. There was no patent involved, yet the process was certainly suitable material for a patent.94

92. Id. at 172.
93. Perhaps this interpretation is reading too much into the process by which Judge Wisdom made his decision. First, the weighing of alternatives is common when restrictive covenants are involved, and a major cause of action in this case was such a covenant. It is possible trade secret law and restrictive covenant law were merged in the two sentences quoted above, text accompanying note 92, supra, without really balancing any alternatives as to trade secrets alone. Second, appellate courts sometimes reason one way in their chambers and another way in their opinion. It is possible that the court in fact considered only the reprehensible means by which the information was obtained. To support this contention, it should be noted that the second paragraph of the court's opinion states, "Glad [the disclosing employee] will not be allowed to bite the hand that fed him his expertise." 410 F.2d at 164.
94. "Whoever invents or discloses any new and useful process, machine,
Evidently, Farris Chemical decided that it would rather have strict security and rely on trade secret law than take the chance that its innovations would not reach the level of originality required for a patent. What Farris was doing, in essence, was substituting trade secret protection for patent protection. However, as was argued earlier in the discussion of *Winston*, this means that the state is in fact limiting free competition under the guise of protecting confidential relationships. The sweeping language of *Sears* and *Compco* is such that it is questionable whether the state does in fact have such a power to regulate unpatented items which could be regulated via the patent laws.

Another part of the disclosed information consisted of a list of the suppliers of components for Farris' water treatment system. While it could be argued that the state was limiting free competition by protecting the list, such a protection does seem permissible. The trade list is not suitable material to be patented, so it falls completely outside the scope of the patent laws. It cannot be argued reasonably that the patent laws preempted trade secret law in regard to the trade list.95

But it can be argued strongly in this case that these trade secrets were so far outside the scope of patent laws that no preemption of trade secret law was possible. On the other hand, an argument can be made that when an item is patentable, the patent laws rather than trade secret laws should govern in order to promote free competition. The difficulty is when the item falls between these two extremes. How close to patentability can the item be and still receive protection of trade secret law?

95. It could be contended that the patent and copyright clause of the Constitution, U.S. Const. art. I § 8, is broad enough to include trade lists. Because Congress failed to include trade lists as suitable subject material under 35 U.S.C. § 101 (1970), it has in effect decreed that trade lists should not receive any protection at all. Such an argument would be supported by a literal reading of the *Goldstein* court's reference to the all-encompassing nature of patent statutes. See note 66 and accompanying text supra. However, as was argued earlier, *Goldstein* should not be read literally in this context. The court failed to analyze why the copyright and patent statutes should be construed so differently. Patent protection (and the field preempted by patent protection) should be limited to those articles which are suitable subject material for a patent, i.e., "any new and useful process, machine, manufacture, or composition of matter." 35 U.S.C. § 101 (1970). It seems evident that if trade lists are to receive any protection at all it must be from trade secret law and not from patent law.
The United States Court of Appeals for the Eighth Circuit used the language in *Sears* and *Compco* to limit an injunction against a former employee who surreptitiously copied blue-prints in the case of *Hampton v. Blair Manufacturing Co.* The court stated, "The reasoning of *Sears* and *Day-Brite* and the holdings therein compels the holding here that Hampton cannot be permanently enjoined from duplicating or copying Kelly Ryan unpatented instruments." The court did not discuss the possibility that *Sears* and *Compco* might preempt trade secret law or otherwise attempt to distinguish *Hampton* from *Sears* and *Compco*. Likewise it did not explain why *Sears* and *Compco* could be used to limit an injunction concerning trade secrets, but not also be applicable in determining whether the employee was liable for anything at all, as the plans were unpatented.

In 1971, after *Lear*, the ninth circuit in *Dekar Industries, Inc. v. Bissett-Berman Corp.* considered the validity of a preliminary injunction restraining a former employee from exploiting the plaintiff's trade secrets. The court very quickly disposed of the argument that *Sears* and *Compco* were applicable by reference to the reasoning of *Servo*: "Nor do the *Sears-Compco* rules prevent equitable relief for the misuse of trade secrets by those who are bound by a confidential relationship or by an express or implied agreement to maintain secrecy." The court also refused to discuss the *Lear* decision:

The same observation [as in note 99 supra] is valid with reference to two other cases urged upon by the defendants—*Lear, Inc. v. Adkina* and *Beckman Instruments, Inc. v. Technical Development Corp.*, 433 F.2d 55 (7th Cir. 1970)—in both, the claims rested on "straight copying," no confidential relationship was involved.

In short, the ninth circuit did not attempt to analyze the possible preemption problem any further than the *Servo* decision did some seven years earlier.

The factual pattern of *Painton & Co. v. Bourns, Inc.*, decided by the second circuit, was somewhat different from the above decisions. Painton and Bourns both developed potentiometers. Bourns contracted to furnish to Painton confidential information to produce their potentiometer in return for royalties. When the contract finally expired, Bourns demanded that the informa-

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96. 374 F.2d 969 (8th Cir. 1967).
97. Id. at 973.
98. 434 F.2d 1304 (9th Cir. 1970).
99. Id. at 1306.
100. Id. at 1306 n.5.
101. 442 F.2d 216 (2d Cir. 1971).
tion be returned. Painton refused. Both parties requested declaratory judgments to uphold their positions. The district court held against Bourns, stating that "federal patent policy . . . will not allow state trade secret claims against a party who has expressly contracted for them when there has been no patent application."\(^{102}\)

The court of appeals reversed the district court and held that patent law and trade secret law did not conflict. The district court's decision was interpreted as being based on two policy arguments. First, the district court argued that an agreement requiring payment for trade secrets should not be recognized by the state because such recognition would be in conflict with Sears and Compco. Writing for court of appeals, Judge Friendly distinguished Painton from Sears and Comoco on the basis that in those cases

\[\text{[t]he Illinois law afforded protection quite similar to that given by the patent and copyright statutes but free from their safeguards and limits of time. An agreement licensing a trade secret is an altogether different matter. It binds no one except the licensee; all others are free as the licensee previously was to attempt by fair means to figure out what the secret is and, if they succeed, to practice it. See Speedry Chemical Products, Inc. v. Carters Ink Co., 306 F.2d 328, 330 (2d Cir. 1962). Rather than having a monopolistic tendency, like the Illinois law involved in Sears and Compco, the upholding of private agreements for the sharing of trade secrets on mutually acceptable terms tends against the owner's hoarding them. See 84 Harv. L. Rev. at 484.}^{103}\]

Judge Friendly then considered the district court's second major contention that protecting trade secrets in advance of the filing of patent applications is against public policy as it would discourage patent applications. The inventor would elect, the district court reasoned, to take trade secret protection and so the information would never be publicly disclosed. In reply, the court of appeals asserted that three categories of trade secrets should be distinguished: 

\[\text{"(1) the trade secret believed by its owner to constitute a validly patentable invention; (2) the trade secret is known to its owner not to be so patentable; and (3) the trade secret whose valid patentability is considered dubious."}^{104}\]

As to the first category, Judge Friendly argued that the licensor would not, intelligently, sacrifice his patent application in favor of trade secret protection. On the one hand, trade secret pro-

103. 442 F.2d at 223.
104. Id. at 224.
tection could be lost forever if the secret escaped through reverse-engineering or if a breach of a confidential relationship cannot be proven. On the other hand, the inventor would forever lose his right to obtain a patent if he did not apply within a year of publicly using it, and another inventor could later secure a patent on the same device. The Court contended:

This shows that any conflict between patent policy and trade secret agreements in the context being here considered is readily resolved not by refusing to enforce a trade secret agreement but rather by refusing to grant or uphold a patent when the inventor has unduly delayed his application after the invention has been put to use.

As for the second category, where the inventor knows the trade secret not to be patentable, "there can be no public interest in stimulating developers of such know-how to flood an overburdened Patent Office with applications on what they do not consider patentable." Still, the development of such practical know-how should be encouraged, and one way to do so is to allow the inventor to license his trade secret.

In instances where the granting of a valid patent is dubious, the invalidation of trade secret agreements would stimulate patent application, but

[The beneficial effect even here is by no means clear. If the patent does not issue, there will have been an unnecessary postponement in the divulging of the trade secret to persons willing to pay for it. If it does, it may well be invalid, yet many will prefer to pay a modest royalty than contest it, . . . . The result in such a case would be unjustified royalty payments from many who would prefer not to pay them rather than agree fees from one or a few who are entirely willing to do so.]

Finally, the court argued that numerous arms-length contracts existed where competitors divulged trade secrets with the faith that the courts would protect the agreements and enjoin further use of the trade secrets upon termination of the contract.

In the absence of empirical evidence of harm, a settled rule of contract law on which so much has been staked should not be overturned save on a clear showing that it is inconsistent with other rules of higher sanction or that conditions that gave it birth no longer prevail. There has been no such showing here.

106. Id. § 102(g).
107. 442 F.2d at 224.
108. Id.
109. Id. at 225.
110. Id. at 226.
Thus, Judge Friendly is not content to simply label particular information as "disclosed in a confidential relationship" and therefore enjoin the use of that information under the "general equity power of the court." Rather, instead of concentrating upon the means by which the secret was obtained, he is also willing to analyze the subject material of the trade secret. This is especially evident in his discussion of the impact that the removal of trade secret protection would have on the holders of patentable, unpatrientable, and doubtfully patentable trade secrets, and the total influence that such a removal would have on the system of free competition.

Judge Friendly's analysis is similar to the analysis advocated by this comment. Neither the means by which the information was obtained nor the subject material of that information should be of sole importance. Rather, both factors should be considered so that the overall impact on both the free competition of ideas and the protection of the inventor can be understood more fully.

It is necessary to consider both elements because of the competing social policies behind each. Free competition of ideas must be considered in order to avoid burdensome monopolies which would result in needlessly expensive goods. At the same time, protection of the inventor's ideas must also be considered as a means of providing incentive to the inventor by allowing him to reap the benefits of his invention. When these policies conflict, specific consideration of both elements is of assistance in articulating a result which properly balances the competing elements.

The actual application of this balance between the competing elements will depend upon the individual case before the court. Judge Friendly's analysis in Painton of the various policies underlying components of possible patentability of an object or Judge Wisdom's investigation in Water Services of the exact amount of protection which would be granted by a trade secret are good examples of considering the diverse elements present in a trade secret case.

Before Kewanee, appellate courts did not recognize fully the conflict between patent law and trade secret law. Rather than apply the sweeping language of Sears, Compco and Lear, which clearly implied a trend toward federal preemption, the appellate courts distinguished trade secret cases from those Supreme Court cases. The appellate courts before Kewanee emphasized the confidential relationships present in the trade secret cases, while the
Supreme Court cases dealt with what the courts mostly termed "straight copying." Some courts, such as Servo and Dekar, focused almost entirely upon the means by which the information was obtained. Other courts, especially Water Services and Painton, indicated to a certain extent that they were at least noticing the subject material of the trade secret as well.

V. PATENT PREEMPTION PROBLEM

On May 10, 1973, Judge Kent of the United States Court of appeals for the Sixth Circuit held in Kewanee Oil Co. v. Bicron Corp.\textsuperscript{111} that federal patent law preempted state trade secret law.

Thus, we feel compelled to conclude that a state trade secret law which protects an inventor in the maintenance of a monopoly of a device which is an appropriate subject for patent under the United States Patent Laws is in conflict with the policies and purposes of those patent laws where the invention has been used commercially for more than one year.\textsuperscript{112}

In so holding, the court explicitly recognized that it was in conflict with a number of other circuits.\textsuperscript{113} As mentioned previously, essentially the Kewanee court applied the federal preemption trend one step further to state trade secret laws.\textsuperscript{114}

\textsuperscript{111} 478 F.2d 1074 (6th Cir. 1973).
\textsuperscript{112} Id. at 1086.
\textsuperscript{114} Two other decisions foreshadowed the result of Kewanee. First, on July 24, 1964, the California Superior Court for Los Angeles County, Calif., considered Titelock Strip Co. v. Klasner, 142 U.S.P.Q. 405 (Cal. Super. Ct. 1964). The case involved industrial espionage of the rawest sort. Klasner, an expert precision-machinist, received a menial position with Titelock and had the opportunity to inspect the only machine in southern California which manufactured wire-tackless carpet strip. Shortly after leaving Titelock's employ, Klasner set up a machine which was identical to Titelock's. There was some evidence that many of the parts for Klasner's machine had been physically appropriated from Titelock's premises.

The court found Klasner liable for $250 for the value of metal taken from Titelock, and enjoined Klasner from soliciting any of Titelock's regular customers for two years. However, the court refused to find Klasner guilty of misappropriating trade secrets, stating, "The defendants obtained, "for free," the advantage of all of this experimental effort, cost, and time expenditure and thus saved themselves the cost in time and labor that would have been entailed if they had set out to design and fabricate such
The facts of *Kewanee* can be stated briefly. Over a period of 16 years, Kewanee was able to establish a process for growing a synthetic crystal 17 inches long. A number of employees left Kewanee and formed Bicron Corporation. Bicron was able to grow a 17-inch crystal within a space of nine months rather than the 16 years it took Kewanee.

On this record, as a whole, it appears clear to us, as it did to the District Court, that the individual defendants used the information obtained during their employment by Harshaw [which in turn controlled Kewanee Oil] for the benefit of Bicron. There can be no question on this record but what these individual defendants appropriated, to the benefit of Bicron, Harshaw's secrets, processes, procedures and manufacturing techniques.\(^{15}\)

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1 a machine from scratch. This however, if a wrong, is a wrong which only the patent laws can protect an inventor against.

*Id.* at 407.

In *Massillon-Cleveland-Akron Sign Co. v. Golden State Advertising Co.*, 444 F.2d 425 (9th Cir. 1971), the ninth circuit considered a suit over a contract by which Golden State acknowledged the validity of Massillon's patent and promised not to infringe. The court declared such a contract to be "void and on its face unenforceable. It is in just as direct conflict with the 'strong Federal policy' referred to repeatedly in *Lear*, as was the estoppel." *Id.* at 427. The second allegation by Massillon, that Albert Gold, president of Golden State, induced the breach of contract, is relevant:

Without the inducement, the contract and the patent would have been honored. Thus, the act of inducing the breach, perhaps even more so than the act of breaching the contract, exemplifies a willingness to shoulder the burden of vindicating the public interest. . . . Needless to say, one inducing the breach of such a contract, as well as one inducing the infringement of a patent, runs the risk that he may not be able to establish patent invalidity. Nothing said herein is intended to commend one who induces the infringement of a valid patent, or who induces the breach of a contract not to infringe a valid patent. But we are of the opinion that a valid patent is a prerequisite to recovery for inducing the breach of a contract not to infringe, as well as a prerequisite to recovery for the breach itself.

*Id.* at 428.

Thus, the court refused to find liability on what would otherwise have been the tort of inducing the breach of a contract because the enforcement of that liability would also partially enforce (at least as far as damages) a contract which had just been declared void as against federal patent policy. The court focused upon the subject of the contract, and determined that its subject matter had been preempted by patent law and therefore should not be protected under tort law. They were not willing to limit their examination to the means by which the contract was broken, i.e., the inducement. They focused, instead, on the subject matter of the contract, i.e., the non-patentable article.

15. 478 F.2d at 1076-77.
The district court found Bicron Corporation liable for violating Kewanee's trade secrets. The court of appeals also found that Bircon had misappropriated Kewanee's trade secrets, but reversed the district court as to any liability arising from such a violation.

The court of appeals began by discussing the contents of the information to determine the extent to which the trade secret was patentable. "First, the trade secrets in question relating to the processes, procedures and manufacturing techniques of Harshaw, as conceded by counsel for Kewanee, were 'patentable.' That is appropriate subjects for consideration under the provisions of Title 35 U.S.C. § 101."116 Furthermore, the trade secrets had been in commercial use for more than one year,117 and so Kewanee was not eligible for a patent under Title 35 of the United States Code, section 102(6). That section states:

A person shall be entitled to a patent unless—(6) the invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States.118

The counsel for Kewanee conceded that "[o]ne of the principal purposes of maintaining the secrecy of inventions, including those here involved, as opposed to seeking patents under the Patent Laws would be to extend the commercial monopoly of the invention beyond the 17 years granted by the patent laws."119 The court as a result took note of the subject matter of the trade secret, instead of focusing solely upon the means by which the trade secret was obtained. The court realized the impact on free competition and that Kewanee was in fact using the state trade secret laws in an attempt to receive protection for a longer span of time than would be possible under the federal patent laws. In short, by its own admission, Kewanee was attempting to subvert the purpose of federal patent laws, which establish a limited monopoly for a limited time.

The court then reviewed the historical background of patent litigation in the United States since colonial days. Throughout its

116. Id. at 1078. "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 . . . ." 35 U.S.C. § 101 (1970).

117. The Court stated: "The use of an invention in secret for commercial purposes is considered public use. Huszar v. Cincinnati Chemical Works, 172 F.2d 6, 80 U.S.P.Q. 466 (6th Cir. 1949)." 478 F.2d at 1078.


119. 478 F.2d at 1078.
analysis, the court cited a number of cases which stated that the patent monopoly was a limited one, both as to the time limit of the monopoly and the subject matter which could be protected. "[T]he language of certain early cases suggests that the Supreme Court was of the opinion that the Patent Laws provided the exclusive means and remedies for the protection of inventors, and that no other monopoly was possible."120

The problem with the court's historical analysis is that almost all of the cases that they cited dealt with nonconfidential relationships.121 This comment has contended that a number of circuit courts have erred in focusing purely upon the means by which the information was obtained; however, such means are still the proper subject of one element to be considered. The phrase "confidential relationship" has been used as an all-encompassing answer which immediately stops any possible analysis of the subject material of the trade secret (e.g., its possible patentability). The courts accordingly ignore the possible implications that the imposition of trade secret protection might have upon free com-

120. Id. at 1081 (emphasis original).
121. Lear, Inc. v. Adkins, 395 U.S. 653 (1969); Sears, Roebuck & Co. v. Stiffel Co., 376 U.S. 225 (1964); Scott Paper Co. v. Marcalus Mfg. Co., 326 U.S. 249 (1945); Tappan Co. v. General Motors Corp., 380 F.2d 888 (6th Cir. 1967). The one case the court did cite which concerned trade secrets was Kendall v. Winsor, 62 U.S. (21 How.) 322 (1858), but this case was miscited. It involved an inventor who depended on the complexity of his perfected machine to protect him from duplication, and so decided to retain trade secret protection rather than attempt to obtain a patent. An employee copied the plans for the machine and sold them to a competitor. Kendall quotes the Court as stating, "By correct induction from these truths, it follows, that the inventor who designedly, and with the view of applying it indefinitely and exclusively for his own profit, withholds his invention from the public, comes not within the policy or objects of the Constitution or acts of Congress." Id. at 328. What Kewanee fails to mention is that the Supreme Court found the manufacturer who misappropriated the trade secrets liable for breaching a confidential relationship.

But, whilst inventors are bound to diligence and fairness in their dealings with the public, with reference to their discoveries on the other hand, they are by obligations equally strong entitled to protection against frauds or wrongs practiced to pirate from them the results of thought and labor, in which nearly a lifetime may have been exhausted; . . .

Id. at 329. Thus, Kewanee's citing of this case for the proposition that the Supreme Court has implied that patent law somehow overrides trade secret law is misleading. The result in Kendall was that the employee was held liable for violating a trade secret, whereas in Kewanee the employee was not held liable although he did violate a trade secret.
petition. Instead of such a mechanical applications of the law as implied by Servo it might be better to consider the diverse elements of the particular case which may assist or hinder the system of free competition.

It is also possible, however, to manipulate such cases as Sears, Compco and Lear and the patent laws in a similar, mechanical way so that the court considers only the subject material, in this case the possible patentability of the trade secret, and does not consider the means by which the information was obtained, in this case the misappropriation of information which was disclosed to the defendants while they were employees and so in a confidential relationship. In either situation (confidential relationship or subject matter analysis, but not both) the crucial test—the actual effect upon free competition—is not treated explicitly. Instead, it is the premise of this paper that both elements, the means by which the trade secret was obtained and the subject matter of that trade secret, should be examined. By considering both elements, the underlying social policies can be articulated better and such policies can be balanced in a rational manner. The dangers of a non-patent monopoly can be considered against the benefits of providing incentive to an inventor.

The courts should have specifically noted the diverse elements, both the subject matter of the trade secret and the means by which it was obtained, and then determined which elements they chose to weigh heavily and which they chose to disregard. Kewanee, like Servo, fails to examine the policy arguments but simply makes a flat statement, that

[our] analysis of the relationship between the Patent Laws of the United States and the Trade Secret Laws of the State of Ohio, as applied in this case, forces us to the conclusion that the field of protection afforded to this plaintiff by that Trade Secret Law has been preempted by the Patent Laws of the United States.123

The Kewanee decision seems to be ignoring a number of important factors by concentrating only on the content of the information and completely ignoring the means by which that information was obtained.

From a purely practical standpoint, it would seem that Kewanee would make the carrying on of research or development by a corporation more difficult. Such research must be carried out by employees who are to be entrusted with information which might be of considerable importance to a competitor. If the pos-

122. See note 69 and accompanying text supra.
123. 478 F.2d at 1087.
sible coercive force of potential liability for disclosing a trade secret is removed, the corporation can depend only on loyalty of its employees or the ability to outbid the competitor, if it discovers the employee is about to reveal the information. To keep the information secret, the corporation might feel compelled to segment the research as much as possible so that no single employee could disclose an entire idea which would harm the employer. Such segmentation, however, could impair seriously the efficiency of the research and development.

Pre-existing agreements by which the employee agreed at some past time not to disclose the secret information also raise a problem. If all such agreements now are rendered void, the confusion in the business world could be considerable. No employer could be certain what information might suddenly turn up in the hands of a competitor. Furthermore, some employees could, in effect, blackmail their employer by threatening to disclose information to a competitor.

Kewanee's argument that the preemption of trade secret law applies only to patentable objects is also open to criticism. Exactly what constitutes an appropriate subject for a patent is a very unclear and ambiguous area. Almost the only way in which an inventor is able to discover for certain whether his invention can meet the standards of patentability is to actually submit his invention to the Patent Office, and once patented, it is entirely possible that his patent will be declared invalid at a later date by the judicial system. In short, the inventor will have a very difficult problem determining the protection which his invention can receive. Perhaps the only way he can legally protect himself is to send any object which might even remotely meet the patent standards to the Patent Office and hope that protection might somehow be granted. This would result in a great influx of spurious developments being pressed upon the Patent Office, which may or may not be able to handle this mass of applications.

Even if an invention is ultimately suitable for a patent, the question arises as to when the patent protection should begin. Should patent protection be extended back to the early development stages? During such early development, the object obviously is not appropriate subject matter for a patent, but if development continues the object might ultimately be novel enough to begin the patent application process. What if information concerning the object is disclosed at this early stage? The only alternative open to the inventor would be to immediately apply for a patent upon the conception of any idea which might possibly be appropriate subject matter for a patent in order to obtain bet-
ter protection. Again, this would result in a great influx of spurious applications. Clearly, granting patent protection at the very conception of the invention has grave problems, as the invention is unlikely to have the requisite uniqueness at such an early stage.

Another possible solution is to require that the invention be developed enough to meet present patent standards, and then apply patent protection retroactively to the date of original conception. However, can any such particular date of original conception be found when the invention is a result of a continuous developmental program, where new ideas are constantly discovered and merged with other new or preexisting ideas so as to eventually result in an invention suitable for patenting? Unfortunately, the Kewanee court does not consider any of these difficulties.

Finally, the Kewanee opinion could have an effect upon the foreign trade of the United States. If trade secrets dealing with patentable objects are declared to be preempted by patent law, then it logically follows that licenses of trade secrets should be declared void as such licenses would result in royalties for an object which is not entitled to any protection except patent protection. One author estimates that $1 billion in licenses of American industry to foreign enterprise, involving know-how or equity-type transactions, would be threatened by the preemption of trade secret law.124

VI. CONCLUSION

The United States Supreme Court has recently heard oral arguments in Kewanee.125 In deciding the case, the Court probably will have to consider many of the elements which have been discussed in this comment. The basic problem that the Court will have to face is how to promote the free exchange of ideas in order to stimulate competition, while at the same time providing the inventor adequate protection so that he can gain benefit from his invention. To be more specific, the Court will have to determine the relationship between federal patent law and state trade secret law with respect to objects which are potentially patentable.

A key statutory provision the Court must consider is Title 35 of the United States Code, Section 102(b) which provides that no

patent will be granted if "the invention was patented . . . or in public use or on sale in this country, more than one year prior to the date of the application for the patent in the United States." As "public use" includes secret use as a trade secret, for profit, the trade secrets in Kewanee probably are no longer eligible for a patent.

If protection from the federal system of patents is no longer possible, should state protection via trade secret law be allowed? Or, should trade secret law be preempted by patent law as to objects which are potentially patentable: if any protection at all is to be granted, must it come from the patent system?

As was discussed in Section III of this comment, the United States Supreme Court has articulated a policy of federal patent preemption as to a number of aspects of state unfair competition law and state contract law in Sears, Compco, Brulotte, and Lear. Although none of these cases dealt directly with trade secret law, they do indicate that the Court was unwilling to allow the state to extend significantly the statutory monopoly established by the patent statutes. The extent of which the Supreme Court will allow patent preemption as to state trade secret law, however, is unclear after Goldstein. This case was concerned with state protection of recorded material which a federal law specifically exempted from federal copyright protection. The Supreme Court upheld the state protection, clearly implying that federal preemption had limits.

Even before Goldstein, federal appellate courts refused to extend the trend of federal patent preemption to trade secret law, as was discussed in Section IV. For the most part, these courts simply stated that the trend toward preemption articulated in Sears and Compco was not applicable because Sears and Compco dealt with copying, not with the breach of a confidential relationship. This comment has contended that trade secret protection in fact creates a monopoly in an instance where the federal patent system probably would not allow a patent monopoly. To be certain, the trade secret monopoly is a great deal more limited

127. Id. § 154.
FEDERAL PATENT PREEMPTION

than the patent monopoly, but it is a monopoly, nevertheless. It should be evaluated for its influence upon free competition.

The courts before Kewanee had ignored this monopoly aspect of trade secret law because they focused almost entirely upon the means (e.g., the breach of the confidential relationship) by which the information was obtained and failed to really consider the subject matter of the trade secret (e.g., the possibility that the information may be subject to patent laws, so that in fact the inventor is attempting to substitute a trade secret monopoly for a patent monopoly).

On the other hand, Kewanee focused on the subject matter of the trade secret, but did not consider the means by which it was obtained. The Kewanee court refused to impose liability upon former employees who misappropriated trade secrets, holding that federal patent law preempted state trade secret law. The court thereby failed to consider the possible effect of its decision upon the obtaining of protection for the inventor so that he can reap the benefits of his invention. As the discussion of Kewanee in Section V pointed out, business relationships will be seriously disrupted if state trade secret law is determined to be preempted completely by federal patent law as to objects which could be subject to patent laws.

This comment has attempted to analyze and criticize the decisions which have focused almost exclusively upon either the means by which the trade secret was obtained or the subject matter of the trade secret. Merely depending upon one element without considering the other has meant that either the potential trade secret monopoly or the possible negative effect upon the incentive to invent has not been adequately treated. This comment has argued that both the means by which the trade secret was obtained and the subject matter of the trade secret should be considered in deciding whether liability for the breach of a trade secret should be imposed. By articulating both elements and the underlying policy goals, it is hoped that some sort of a balance can be struck. Steps toward such a balancing test can be implied from decisions written by Judge Wisdom\textsuperscript{129} and Judge Friendly.\textsuperscript{130}

Although Goldstein dealt with copyright law and so is not directly applicable, a few theories might be developed from this related area to assist in predicting how the Court might hold in its expected upcoming decision on Kewanee.

\textsuperscript{129} See note 90 and accompanying text \textit{supra}.
\textsuperscript{130} See note 101 and accompanying text \textit{supra}. 

In *Goldstein*, the majority appeared uneasy with the continuation of the trend toward federal preemption, and was willing to allow the states to protect recordings which Congress was not willing to protect. The majority spoke broadly of the lack of necessity of federal preemption. Certainly, the same logic could be applied easily to the *Kewanee* facts as well. State trade secret law clearly has been developed to include both items which are patentable and those which are not. To decree that trade secret law no longer existed would create a considerable furor, as a considerable number of business relationships are dependent upon trade secret law.

Perhaps as important was the line of reasoning suggested by the strong dissent in *Goldstein*, which complained that the inequities implicit in the unsavory business of tape pirating should not be allowed to influence the Court's judgment. Whether this problem of equity was raised in the chambers when *Goldstein* was decided and whether it will be discussed in *Kewanee* is, of course, a matter of speculation. If the issue is raised as a key factor to be considered, however, it is likely that *Kewanee* will be reversed. The concept of providing judicial sanction for disloyal employees who misappropriate their former employers' expertise, which had been developed over a period of years, for their own short-term gain would seem to be more unsavory than the copying of another's records. As the various appellate courts before *Kewanee* stated, there is a confidential relationship involved in many trade secret actions which should be preserved. Such a confidential relationship also existed in *Kewanee*.

What this comment has advocated is that the Supreme Court should not reverse *Kewanee* simply on the grounds that a confidential relationship was involved, but rather should open the doors to the principle that both the means by which the trade secret was obtained and the subject matter of that trade secret should be analyzed to determine the possible impact upon the free competition of ideas and the protection of an inventor's ideas.

*Henry Wright '75*