



1974

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### Recommended Citation

Johnson, Linus (1974) "Constitutional Law - Patents and Trade Secrets - Federal Patent Law Does Not Preempt State Trade Secret Law," *North Dakota Law Review*. Vol. 51 : No. 1 , Article 12.

Available at: <https://commons.und.edu/ndlr/vol51/iss1/12>

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CONSTITUTIONAL LAW—PATENTS AND TRADE SECRETS—FEDERAL PATENT LAW DOES NOT PREEMPT STATE TRADE SECRET LAW

Plaintiff company brought suit in federal district court<sup>1</sup> to enjoin defendants from disclosing or using trade secrets.<sup>2</sup> Plaintiff, a manufacturer of synthetic crystals,<sup>3</sup> had taken over sixteen years to develop the unique technology necessary to produce a synthetic crystal 17 inches in size. Plaintiff considered some of these processes to be trade secrets. Defendant corporation, established and later joined by former employees of plaintiff, took only nine months to develop the same technology. All of the individual defendants, while employees of the plaintiff company, had executed at least one agreement not to disclose confidential information or trade secrets obtained in their employment. The district court, applying Ohio trade secret law,<sup>4</sup> granted a permanent injunction as to some of the alleged secrets.<sup>5</sup> On appeal, the Court of Appeals<sup>6</sup> for the Sixth Circuit reversed, holding that although the district court's findings of fact were not clearly erroneous, Ohio's trade secret law was preempted by federal patent law.<sup>7</sup> The Supreme Court reversed the Sixth Circuit in *holding* that state trade secret law is not preempted by the United States Patent Laws.<sup>8</sup> *Kewanee Oil Co. v. Bicron Corp.*, 94 S. Ct. 1879 (1974).

Trade secret law is a common law phenomenon originating in this country around the middle of the 19th century.<sup>9</sup> The statutory

1. This was a diversity action brought in the United States District Court for the Northern District of Ohio, Eastern Division.

2. The most widely accepted definition of a trade secret is found in the RESTATEMENT OF TORTS:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.

RESTATEMENT OF TORTS § 757, comment b at 5 (1939).

3. The crystals are useful in the detection of ionizing radiation. *Kewanee Oil Co. v. Bicron Corp.*, 94 S. Ct. 1879, 1882 (1974).

4. OHIO R. C. § 1333.51(C) (Supp. 1973) provides:

No person, having obtained possession of an article representing a trade secret or access thereto with the owner's consent, shall convert such article to his own use or that of another person, or thereafter without the owner's consent make or cause to be made a copy of such article, or exhibit such article to another.

Generally, though, states have based their trade secret protection on common law and equitable doctrines rather than on statutory provisions. R. ELLIS, TRADE SECRETS § 2 (1953). For a discussion of trade secret protection under criminal law (theft), refer to 12 R. MILGRIM BUSINESS ORGANIZATIONS TRADE SECRETS § 1.10 (1967).

5. The district court ruling is not reported.

6. *Kewanee Oil Co. v. Bicron Corp.*, 478 F.2d 1074 (6th Cir. 1973), *rev'd*, 94 S. Ct. 1879 (1974). Because of the fact situation in *Kewanee*, this holding was narrowed to trade secrets eligible for patent consideration but which had been in commercial use for over one year and were therefore precluded from obtaining a patent under 35 U.S.C. § 102(b) (1970). On certiorari, the Supreme Court considered the broader issue of patent preemption of all trade secrets.

7. 35 U.S.C. §§ 1-293 (1970).

8. Chief Justice Burger wrote the majority opinion. Justice Marshall filed a concurring opinion. Justice Douglas, with whom Justice Brennan concurred, filed a dissenting opinion. Justice Powell did not take part.

9. The case often cited for the basis of much trade secret law in this country is *Pea-*

patent law arises out of the Patent and Copyright Clause<sup>10</sup> of the Constitution. Each had coexisted for 100 years. The holder of a patentable invention could choose either avenue of protection.<sup>11</sup> The issue of preemption by federal law of state trade secret law is of modern origin, arising primarily from dicta and dissent in three recent Supreme Court cases.<sup>12</sup>

In *Sears, Roebuck & Co. v. Stiffel Co.*<sup>13</sup> and *Compco Corp. v. Day-Brite Lighting Inc.*,<sup>14</sup> it was held that items in the public domain cannot be the subject of injunctions against copying based on state unfair competition laws, because applying such laws would be in conflict with the purposes of federal patent law.<sup>15</sup> However, in reaching their conclusions, the *Sears* and *Compco* Courts employed overly broad language such as:

[B]ecause 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.<sup>16</sup>

This language suggested that unpatented information was precluded from protection under state trade secret law. Although these decisions had dealt with matters in the public domain and had nothing to do with trade secrets (by definition, not in the public domain), many writers subsequently discussed the preemption question.<sup>17</sup> In

body v. Norfolk, 98 Mass. 452 (1868). For a discussion of the development of trade secret case law in this country refer to Orenbuch, *Trade Secrets and the Patent Laws*, 52 J. PAT. OFF. SOC'Y, 638, 644-46 (1970).

10. U.S. CONST. art. 1, § 8 provides in part:

The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries. . . .

11. See *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933); 12 R. MILGRIM BUSINESS ORGANIZATIONS TRADE SECRETS § 2.08 [1] at 2-53, § 8.02 [1] at 8-3 (1967); Marmorek, *The Inventor's Common Law Rights Today*, 50 J. PAT. OFF. SOC'Y, 369, 381 (1968).

12. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. 225 (1964); *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964); *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

13. 376 U.S. 225 (1964).

14. 376 U.S. 234 (1964). Because of their virtually identical fact situations and holdings, *Sears* and *Compco* are usually cited together.

15. 376 U.S. at 231-32. 376 U.S. at 237. In the *Sears* case the Stiffel Co. had marketed a highly successful pole lamp on which it had secured a design patent. Sears copied it and sold the substantially identical lamp at a lower price. Stiffel's suit in federal district court for patent infringement and violation of Illinois unfair competition law resulted in the invalidation of the patent for lack of inventiveness. But an injunction was granted under the state law which was designed to protect consumers from confusion as to the source of goods. After the Court of Appeals affirmed, the Supreme Court reversed, holding that to do otherwise would interfere with the patent policy favoring free competition in the use of ideas in the public domain. 376 U.S. at 230-31.

16. *Sears, Roebuck & Co. v. Stiffel Co.*, 376 U.S. at 232, 233 (dictum). Both *Sears* and *Compco* did note that state law may require those who make copies to clearly label them so as to not pass them off as the original. *Id.* at 232; *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. at 238.

17. E.g., Adelman, *Trade Secrets and Federal Preemption—the Aftermath of Sears and Compco*, 49 J. PAT. OFF. SOC'Y 713 (1967); Doerfer, *The Limits on Trade Secret Law Imposed by Federal Patent and Antitrust Supremacy*, 80 HARV. L. REV. 1432 (1967); Treece, *Patent Policy and Preemption: The Stiffel and Compco Cases*, 32 U. CHI. L. REV. 30 (1964); Note, *The Stiffel Doctrine and the Law of Trade Secrets*, 62 NW. U. L. REV. 956 (1968); Note, *Trade Secrets After Sears and Compco*, 53 VA. L. REV. 356 (1967).

1969 the Supreme Court had an opportunity to address the issue in *Lear Inc. v. Adkins*<sup>18</sup> but declined to do so.<sup>19</sup> However, in a partial dissent written by Justice Black and joined by Chief Justice Warren and Justice Douglas, the issue of preemption was held to have already been decided, against the states, in *Sears and Compco*.<sup>20</sup> Although *Lear* fueled the continuing debate over preemption, the majority of courts continued to uphold trade secret law.<sup>21</sup> Four courts of appeals<sup>22</sup> had decided against preemption when the Sixth Circuit in this case placed the issue squarely in view.

As a starting point, the Supreme Court reviewed the salient features of patents and trade secrets, implicitly acknowledging that much of the difficulty has come from misunderstanding. The Court noted that a patent functions to give its holder a complete right of exclusion against everyone for a limited time,<sup>23</sup> while the holder of a trade secret is protected only against those who seek to use or disclose the secret in breach of contract or confidential relationship or who have obtained it by improper means.<sup>24</sup> Thus, as to those who by independent research, accidental disclosure, or by "reverse engineering,"<sup>25</sup> obtain the information, there is no protection afforded the trade secret holder.

Next, the Court held that the Patent Clause<sup>26</sup> did not preclude state enactment of trade secret laws.<sup>27</sup> Turning to the main issue

18. 895 U.S. 653 (1969).

19. *Id.* at 675. The decision in *Lear* is significant in that it overturned the doctrine of licensee estoppel under which a licensee had been precluded from challenging the validity of the licensed patent in a suit for royalties due under a contract.

20. *Id.* at 676-77.

21. See Milgrim, *Sears To Lear To Painton: Of Whales and Other Matters*, 46 N.Y.U.L. Rev. 17, 24 n.31 (1971); 12 R. MILGRIM, *supra* note 4, at § 7.08[2][c] n.43.

22. *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2d Cir. 1971); *Dekar Indus, Inc. v. Bisset-Berman Corp.*, 434 F.2d 1304 (9th Cir. 1970), *cert. denied*, 402 U.S. 945 (1971); *Water Servs., Inc. v. Tesco Chems., Inc.*, 410 F.2d 163 (5th Cir. 1969); *Servo Corp. of America v. Gen. Elec. Co.*, 337 F.2d 716 (4th Cir. 1964), *rehearing denied*, 342 F.2d 993 (1965), *cert. denied*, 383 U.S. 934, *rehearing denied*, 384 U.S. 914 (1966).

23. "Every patent shall contain . . . a grant . . . for the term of seventeen years . . . of the right to exclude others from making, using, or selling the invention throughout the United States. . . ." 35 U.S.C. § 154 (1970).

24. The case often cited as illustrative of "improper means" is *E. I. duPont de Nemours & Co., Inc. v. Christopher*, 431 F.2d 1012 (5th Cir. 1970), *cert. denied*, 400 U.S. 1024 (1971). While duPont was constructing a plant, Christopher flew overhead in a small plane taking pictures in an attempt to discern duPont's methods and processes of manufacture.

25. "Reverse engineering" is the method of studying the finished product, which is in the public domain, and attempting to discover the trade secret from it.

26. U.S. CONST. art. 1, § 8, *supra* note 10.

27. 94 S. Ct. at 1835. In doing so, the Court referred to its decision in *Goldstein v. California*, 412 U.S. 546 (1973) wherein it was held that the Constitutional (art. 1, § 8) grant of copyright power was not exclusive as to writings. In *Goldstein*, Chief Justice Burger referred to the principles first stated by Alexander Hamilton in Number 32 of *THE FEDERALIST*. Hamilton saw the removal of state power in only three situations: (1) if a power is exclusively delegated to the central government; (2) if a power is delegated to the central government and expressly denied to the states; and, (3) if a power is delegated to the central government, to which a similar power in the states would be absolutely and totally contradictory and repugnant. *Id.* at 250 (J. Hamilton ed. 1885) (A. Hamilton; emphasis in the original). In applying the third principle the decision cited to *Cooley v. Board of Wardens*, which stated:

Whatever subjects of this power are in their nature national, or admit of only one uniform system, or plan of regulation, may justly be said to be of such a

of preemption by virtue of the Supremacy Clause<sup>28</sup> of the U.S. Constitution, the Court noted that the determinative consideration was whether the state law acts as an obstacle to the purposes and objectives of Congress in passing the federal law.<sup>29</sup> The Court identified the objectives of patent law as the encouragement of invention, the requirement of disclosure,<sup>30</sup> and the policy that items cannot be removed from the public domain by action of the states. The objectives of trade secret law were said to be the encouragement of invention and the maintenance of commercial ethics. The Court proceeded to determine whether the state law in question interfered with federal patent legislation.

First, as to matters not meeting the statutory requirement for patent consideration,<sup>31</sup> the Court found no conflict between federal and state laws because Congress had passed no laws affecting them.<sup>32</sup> In considering those items eligible for patent consideration, the Court recognized the possibility of conflict and the issue remained whether trade secret protection could function as an alternative to patent procedures.

No conflict with the patent objective of encouraging invention was found by the Court since trade secret law also seeks to encourage it.<sup>33</sup> The patent policy regarding matters in the public domain was not affected by trade secret law, the Court held, because trade secrets are by definition not in the public domain.<sup>34</sup>

In order to examine the effect of trade secret law on the patent objective of disclosure, the Court divided trade secrets eligible for patent consideration into three categories: (1) those known to its holder to be not patentable; (2) those whose patentability is considered doubtful, and (3) those believed by the holder to be patentable.<sup>35</sup> As for trade secrets known to be not patentable, there was

nature as to require exclusive legislation by Congress.

53 U.S. (12 How.) at 319.

28. U.S. CONST. art. VI, cl. 2 states:

This Constitution, and the Laws of the United States which shall be made in Pursuance thereof . . . shall be the Supreme Law of the Land; and the Judges in every State shall be bound thereby, any Thing in the Constitution or Laws of any State to the Contrary notwithstanding.

*Id.*

29. 94 S. Ct. at 1885 *citing* Hines v. Davidowitz, 312 U.S. 52 (1941).

30. Disclosure is the price the public exacts in return for the limited monopoly or right of exclusion conferred by a patent. To insure full disclosure a patent application must "contain a written description . . . in such full, clear, concise and exact terms . . . to enable any person skilled in the art . . . to make and use the same. . . ." 35 U.S.C. § 112 (1970).

31. 35 U.S.C. § 101 (1970) limits inventions eligible for a patent to ". . . any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof. . . ." After meeting this initial requirement, inventions then are eligible for the requirements of §§ 101-1011 (1970).

32. 94 S. Ct. at 1887. The Court noted that even if trade secret protection was abolished, there could be no increased disclosure since a patent was unavailable. *Id.*

33. *Id.*

34. *Id.*

35. *Id.* The Court acknowledged that this was the approach used by Judge Henry Friendly in *Painton & Co. v. Bourns, Inc.*, 442 F.2d 216 (2nd Cir. 1971). *Id.*

no conflict because even if trade secret protection was abolished, the mere filing of a patent application would not result in disclosure.<sup>36</sup> The Court further observed that trade secret protection for this category serves useful purposes such as encouraging invention in areas that patent law fails to reach and preventing a detrimental mis-allocation of resources and economic waste.<sup>37</sup> In its analysis of trade secrets of doubtful patentability, the Court found no conflict with the patent objective of disclosure since the superior rewards of patent protection would favor the seeking of a patent.<sup>38</sup> The Court also noted that the availability of trade secret law to this category has a beneficial effect on society and patent policy.<sup>39</sup> Finally, considering trade secrets of known patentability, where the public interest in disclosure would be highest, the Court found that the superior rewards of patent protection would again serve to remove any conflict with the state law.<sup>40</sup> Regardless of category, the Court specifically acknowledged the state interest in providing protection under trade secret law to instances of industrial espionage.<sup>41</sup>

The Court concluded by stressing the importance of trade secret law, the absence of any conflict with patent objectives, and the wisdom of Congress, by its silence over the years, in allowing the states to enforce it.<sup>42</sup>

The instant case is an important decision for the still-developing law of trade secrets because it removes the existing doubt of its validity. The opinion, which carefully noted the importance and utility of trade secret law, will serve to strengthen its growth.

36. *Id.* at 1888. Public disclosure does not occur during the period an application is pending. 35 U.S.C. § 122 (1970).

37. 94 S. Ct. at 1888-89. The Court reasoned that in the absence of trade secret law, holders of trade secrets would be forced to spend large sums for self help protective measures and that research might become fragmented for the same reason. In addition, the incentive for trade secret holders to license their secrets would be decreased because of the lack of legal protection.

38. *Id.* at 1889.

39. *Id.* The Court reasoned that abolition of trade secret protection would falsely encourage non-patentable applications to the patent office with two undesirable results. First, the patent office would turn down some but in the meantime society would have been denied the use of these discoveries through trade secret protected licensing. Second, the patent office would grant a patent to others but that patent would be found invalid if ever challenged in the courts. *Id.*

40. *Id.* at 1891. The Court noted that even if a rare inventor would choose trade secret protection over a patent, or even choose to keep the invention secret, the ripeness of time concept of invention dictates the prediction that independent discovery of the same invention would soon take place. *Id.* at 1890.

41. *Id.* at 1889. Industrial espionage is "the practice of engaging in surreptitious surveillance for the purpose of discovering a businessman's secrets." Comment, *Industrial Espionage: Piracy of Secret Scientific and Technical Information*, 14 U.C.L.A. L. Rev. 911 (1967). The Court stated that besides the increased costs necessary to protect against instances of burglary, wiretapping, etc., there is an inevitable cost to the basic decency of society when firms steal from each other. In addition, the Court stated that the fundamental right of privacy was involved which served to make the state interest in providing protection against industrial espionage, unchallengeable. 94 S. Ct. at 1889.

42. 94 S. Ct. at 1892. If Congress desires to expressly preempt the trade secret area, it could, of course, do so with appropriate legislation.

The case can also be viewed as a further recognition of the basic principles of our federal system, which allow the states to develop their own approaches to issues not demanding of national uniformity and which hold that power not expressly delegated to the national government is reserved to the states.

LINUS JOHNSON

COURTS—JURISDICTION—STATE ASSUMPTION OF JURISDICTION OVER A DIVORCE ACTION BETWEEN ENROLLED RESERVATION INDIANS

Plaintiff and defendant were both enrolled members of Indian tribes<sup>1</sup> and both resided within the exterior boundaries of Indian reservations.<sup>2</sup> They were married pursuant to Montana law outside the boundaries of any Indian reservation. Northern Cheyenne Indian marriages have been performed and divorces granted pursuant to Montana law since 1937, when the Northern Cheyenne Tribal Council adopted a provision in the tribal code requiring all marriages and divorces to be so consummated.<sup>3</sup> Plaintiff filed for a divorce in the state district court and defendant was served with process while she was within the boundaries of a Montana reservation. Defendant moved to dismiss the action on the grounds the state court lacked personal and subject matter jurisdiction. The district court granted the motion to dismiss on both counts. Plaintiff appealed. The Montana Supreme Court reversed and *held* that since the marriage took place off the reservation, the tribal ordinance effectively granted the district court jurisdiction over the divorce action and validated the service of process on the defendant inside the reservation. *Bad Horse v. Bad Horse*, —Mont.—, 517 P.2d 893 (1974).

The Indian tribes were once separate nations within the United States. Conquest and the imposition of treaties induced these nations to surrender their complete independence and the right to go to war. In return, the tribes were given federal protection, aid, and grants of land. In 1830, Georgia attempted to impose its laws on the Cherokee Reservation. In *Worcester v. Georgia*,<sup>4</sup> which chal-

1. Plaintiff is an enrolled member of the Northern Cheyenne Indian Tribe. Defendant is an enrolled member of the Three Affiliated Tribes of the Fort Berthold Reservation in North Dakota.

2. Plaintiff resides within the boundaries of the Northern Cheyenne Indian Reservation. Defendant was residing at Poplar, Montana, located within the boundaries of the Fort Peck Indian Reservation when served with process.

3. N. CHEY. TRIBAL CODE, ch. 3, § 1 (1966) provides:

All Indian marriages and divorces must be consummated in accordance with the laws of the State of Montana, except that no common-law marriages shall be recognized within the bounds of the Northern Cheyenne Reservation.

4. *Worcester v. Georgia*, 31 U.S. (6 Pet.) 515 (1832).