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COMMENTS

TRADE SECRETS AFTER PATENT PUBLICATION: A PUNITIVE INJUNCTION

I. INTRODUCTION

Comparison of trade secret and patent cases provides an interesting study in judicial subjectivism. The most cursory review of the cases reveals that one who would assert his rights based upon a patent is a monopolist, an anomaly in our antitrust society, and as such is granted relief only to the extent that his rights are indefeasibly vested by statute. On the other hand, plaintiffs who complain that trade secrets have been wrongfully appropriated are made special wards of equity under the guise of "enforcing increasingly higher standards of fairness or commercial morality in trade."¹

This difference in judicial approach is all the more curious when viewed objectively. The patentee himself had a trade secret when he first developed the substance of his patent. However, instead of suppressing his discovery, he chose to dedicate it to the "progress of science,"² reserving to himself a statutory monopoly for a limited time.³ On the other hand, the trade secret plaintiff attempts to conceal his discovery—forever, if possible. To him, selfish economic considerations outweigh his devotion to the "progress of science."

All this talk about "the progress of science" is admittedly idealistic. As a practical matter, our hypothetical patentee could probably "care less" about the progress of science, being just as self-interested as his trade secret counterpart. However, by detaching ourselves from personal motives, we may decide who should receive judicial protection; then, when we turn to the practical side of the law, it is surprising to find that, in fact, judicial sympathy is contrary to our objective conclusion.

It is not the purpose of this discussion to justify or condemn this apparent divergence between logic and fact. It is suggested, however, that it results from a desire to punish wrongdoers, even if an extension of the conventional limits of civil remedies is necessary to do so. What concerns us here, more important than the reason for a judicial attitude, is its effect. In the area of trade secret remedies, the result in some cases has been an overzealous use of the injunction, with relief being extended to the plaintiff subsequent to the grant of a patent whereby he has disclosed his secret to the world. In such a case, it

1. The entire statement is often quoted by the courts and made the basis for equitable protection: "[T]he tendency of the law, both legislative and common, has been in the direction of enforcing increasingly higher standards of fairness or commercial morality in trade." Restatement, Torts, Introductory Note ch. 35, at 540 (1938).

2. The purpose of the patent statutes is expressed in the Constitution as follows: "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. . . ." U.S. Const. art. I, § 8.

3. 35 U.S.C. § 154 (1958) defines the nature and duration of a patent grant.

would seem at first glance that since the secret no longer exists, there is no further need to protect it. Yet, there is a line of cases dating back to 1934 that does just that.

It may be advisable to describe more clearly the situation in which such a case arises. First of all, the plaintiff has a trade secret, which is defined as a new process, mechanism or compound known only to its owner and those to whom it has necessarily been confided. It must be kept in substantial secrecy but need not be patentable.⁴ Next, the defendant wrongfully appropriates the plaintiff's trade secret by putting it to his own use after having received it either in confidence⁵ or by wrongful means.⁶ Then, some time after the defendant learns the secret, it is disclosed in a patent granted to the plaintiff. The situation which results varies, depending upon whether the patent is valid or invalid, and whether the substance of the secret is claimed or merely disclosed without being claimed.⁷ However, the factor upon which the courts have placed the greatest weight is whether the defendant's misappropriation occurred before or after the issuance of the plaintiff's patent. In a somewhat analogous case, the secret may also be published in a periodical, or it may be embodied in a product publicly used or sold, whereby the secret is capable of being discovered by mere inspection.

Under these circumstances some courts, in what has become known as the *Shellmar*⁸ line of cases, have ignored the plaintiff's patent publication and held that one to whom the secret has been disclosed in confidence is bound by an implied promise not to use or disclose the secret even after the owner has disclosed it to the general public. To enforce this implied promise, these cases grant a perpetual injunction against use of the secrets by the confidential disclosee.

Opposed to these decisions is what has become known as the *Conmar*⁹ line of cases. These cases hold that the disclosee's duty terminates with public disclosure of the secret by its owner.

4. For a more complete definition see Restatement, Torts § 757, comment b, at 5-8 (1939). The novelty requirements for trade secrets are discussed in Ellis, Trade Secrets 34-55 (1953).

5. Most frequently in the reported cases such secrets were entrusted to the defendant as employee of the plaintiff, or in the course of the negotiation or performance of a contract, such as a license agreement between the parties.

6. "Wrongful means" encompasses just about any unauthorized invasion of the plaintiff's privacy. By far the most popular method used is to induce the plaintiff's employees to breach their confidential duty to the plaintiff.

7. The law requires that a patent specification be concluded by one or more claims which particularly point out and distinctly claim the invention. 35 U.S.C. § 112 (1958). The scope of the protection accorded to a patentee is measured by the claims. *L. S. Donaldson Co. v. La Maur, Inc.*, 299 F.2d 412, 417 (8th Cir.), cert. denied, 371 U.S. 815 (1962).

8. *Shellmar Prods. Co. v. Allen-Qualley Co.*, 87 F.2d 104 (7th Cir. 1936), cert. denied, 301 U.S. 695 (1937).

9. *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150 (2d Cir. 1949).

II. THE PLAINTIFF'S RIGHTS

Before discussing the *Shellmar* and *Conmar* lines of cases in more detail, it may be well to discuss what would appear to be the plaintiff's rights and remedies under the facts of these cases.

Prior to publication, the owner of a trade secret retains a proprietary interest in the secret which is protected by law and equity against misappropriation.¹⁰ However, others are free to discover and use the secret so long as they do not use unlawful means.¹¹ The owner of a trade secret retains an interest in that secret after publication only if he obtains a patent on the subject matter of the secret either coincidentally with the publication or at some later date.¹² In all other instances of publication, the trade secret is dedicated to the public and may be used by the general public with impunity. In fact, if the owner has concealed his secret and the publication is made by a third party who, working independently, discovers and patents it, that third party obtains a right to make, use and sell the substance of the secret to the exclusion of the original discoverer.¹³

The most important type of publication is one whereby the substance of the trade secret is described in a patent granted to the owner. Here, the owner retains no interest in the secret unless the secret is defined by the claims of the patent. Thus, if the secret is disclosed but not claimed, it is dedicated to the public.¹⁴ Furthermore, the owner retains an interest in a claimed secret only if the patent is valid.¹⁵

The interest retained in a secret disclosed and claimed in a valid patent is "the right to exclude others from making, using, or selling the invention throughout the United States" for the term of seventeen years.¹⁶ This right has been limited to excluding only commercial manufacture, use or sale. Thus, it has been held not to extend to use in research, on the theory that such a construction would frustrate "the progress of science and useful arts."¹⁷

The right of others to use patented inventions in research is not to be disparaged. For example, competitors may patent improvements on a basic inven-

10. See, e.g., *Bohlman v. American Paper Goods Co.*, 53 F. Supp. 794 (D.N.J. 1943), and cases cited therein.

11. *Cheney Bros. v. Doris Silk Corp.*, 35 F.2d 279 (2d Cir. 1929).

12. An inventor must apply for a patent in the United States within one year after the invention is described in a printed publication in this or a foreign country or is in public use or on sale in this country. 35 U.S.C. § 102 (1958).

13. *Mason v. Hepburn*, 13 App. D.C. 86 (D.C. Cir. 1898).

14. *Underwood v. Gerber*, 149 U.S. 224, 231 (1893); *McClain v. Ortmyer*, 141 U.S. 419, 423-24 (1891); *Miller v. Brass Co.*, 104 U.S. 350, 352 (1881).

15. A patent is presumed valid and the burden of establishing invalidity is on the party asserting it. However, when so proven, invalidity is a defense to an action for infringement. 35 U.S.C. § 282 (1958).

16. 35 U.S.C. § 154 (1958).

17. E.g., *Chesterfield v. United States*, 141 Ct. Cl. 838, 846, 159 F. Supp. 371, 375-76 (1958) (per curiam). See also *Katz Mfg. Co. v. Chesebrough-Ponds, Inc.*, 317 F.2d 679, 680 (2d Cir. 1963); *Dugan v. Lear Avia, Inc.*, 55 F. Supp. 223, 229 (S.D.N.Y. 1944), aff'd, 156 F.2d 29 (2d Cir. 1946).

tion, or possibly new and useful ways of making or using the patented product. Each such patent reduces the scope and value of the original patent and may restrict the right of the original inventor to practice his own invention. At the same time, these subsequent patents put competitors in a better position to enter into licensing or cross-licensing agreements with the holder of the dominant patent. Although this may seem to be an unjust whittling away of the rights of the original inventor, it actually stimulates competition and prevents a seventeen-year moratorium in the area covered by the patent. Thus, it truly aids the realization of the constitutional purpose.¹⁸

The possibility—indeed, probability—of such outside research activity is one of the burdens that an inventor must expect when he resorts to the protection of the patent statutes. If, on the other hand, he conceals his invention, no one will have the information necessary to practice it, in research or otherwise, and such use by a misappropriator can be enjoined.

III. THE PLAINTIFF'S REMEDIES

In a suit for misappropriation of an unpublished trade secret, the plaintiff is entitled to damages and a permanent injunction against disclosure or adverse use.¹⁹ Such an injunction is broad enough to include noncommercial use; and it would be futile for a defendant, under the disability of such an injunction, to try to assert a later-obtained improvement patent against the original plaintiff in a subsequent suit.²⁰

In a suit for patent infringement, on the other hand, the plaintiff is entitled to damages²¹ and an injunction "to prevent the violation of any right secured

18. See note 2 *supra*. A good example of the significance of extra-commercial activity is provided by the present polypropylene patent situation in the United States. DuPont, while not engaged in the commercial manufacture of polypropylene, is apparently in a very strong patent position in that field and recently entered into a cross-licensing agreement with Montecatini, one of eight domestic manufacturers and a contender with DuPont and three others for the basic composition-of-matter patent. Hope Glimmers in PP Patent Snarl, *Chemical Week*, June 15, 1963, p. 21.

19. See *Reynolds v. Whitin Mach. Works*, 167 F.2d 78, 88 (4th Cir.), cert. denied, 334 U.S. 844 (1948); *Herold v. Herold China & Pottery Co.*, 257 Fed. 911, 913 (6th Cir. 1919); *Ojala v. Bohlin*, 124 U.S.P.Q. 526 (Cal. Dist. Ct. App. 1960); *Morison v. Moat*, 9 Hare 241, 68 Eng. Rep. 492 (V. Ch. 1851). Cf. *E. I. DuPont DeNemours Powder Co. v. Masland*, 244 U.S. 100 (1917); *Board of Trade v. Christie Grain & Stock Co.*, 198 U.S. 236 (1905); *Simmons Medicine Co. v. Simmons*, 81 Fed. 163, 166 (C.C.E.D. Ark. 1897). See generally 1 Nims, *Unfair Competition & Trade Marks* § 143(a), at 409 (4th ed. 1947); *Restatement, Torts* § 757, comment e, at 10 (1939).

20. Being unable to disclose the basic secret, one would be unable to patent an improvement upon that secret. 35 U.S.C. § 112 (1958). Use of an improved process would subject the user to liability the same as use of the original secret. *Protexol Corp. v. Koppers Co.*, 229 F.2d 635, 637 (2d Cir. 1956) (dictum); *Tower Mfg. Co. v. Monsanto Chem. Works*, 20 F.2d 386, 387 (S.D.N.Y. 1927). See generally *Restatement, Torts* § 757, comment c, at 9 (1939). Courts deny relief in patent infringement suits where the plaintiff is guilty of "unclean hands." *Stearns v. Tinker & Razor*, 252 F.2d 589, 600 (9th Cir. 1957). See 35 U.S.C. § 282 (1958).

21. 35 U.S.C. § 284 (1958) (includes discretionary provision for treble damages).

by patent."²² This, of course, means an injunction of limited scope and duration, measured by the rights of the plaintiff under the patent.²³

What, then, is the proper remedy in an action for misappropriation of a trade secret which is patented prior to judgment? More specifically, what injunctive relief is the plaintiff entitled to—that appropriate to a trade secret action, that appropriate to a patent suit, or none at all until he has put his patent in suit and tested its validity? This discussion will concern the proper remedy in the case where publication is made in a patent which discloses and claims the secret, as it is here that the plaintiff would seem to have the greatest rights after publication.

As previously stated, the cases on this subject fall into two groups, the *Shellmar* line, holding that the plaintiff is entitled to the same injunctive relief he would get in the absence of a publication, and the *Conmar* line, holding that the plaintiff is relegated to his remedy under the patent statutes. These two lines of cases, however, are not completely contradictory. In each *Shellmar* case, the misappropriation took place prior to issuance of the patent, while in the *Conmar* cases, there was no use of the information obtained in confidence until after issuance of the plaintiff's patent.²⁴ Thus, the defendant, according to the time of his transgression, is categorized as either a "defaultant fiduciary"²⁵ or one who "had the fiduciary status and faithfully maintained it,"²⁶ and is treated accordingly. While these two lines of cases may appear to be complimentary, the reasoning espoused in the *Shellmar* line is incompatible with that of the *Conmar* line. The proper use of the injunction is to protect future rights as opposed to punishing previous wrongs,²⁷ and it would seem that the future rights of the plaintiff are the same in both cases. It is therefore submitted that the injunctive relief granted by the *Shellmar* cases, insofar as it extends beyond the rights of the plaintiff which survive publication of the patent, is a misuse of the injunctive power of a court of equity. Such relief protects no right and is therefore punitive in nature. Although equity has the power to assess punitive damages,²⁸ it does not have the

22. 35 U.S.C. § 283 (1958). Also, in exceptional cases the court may award attorney's fees to the prevailing party. 35 U.S.C. § 285 (1958).

23. See *Freedman v. Friedman*, 242 F.2d 364, 367 (4th Cir. 1957).

24. There have been attempts to harmonize these lines of cases on the basis of the distinction of whether the tort occurred before or after issuance of the patent. See *Gallowhur Chem. Corp. v. Schwerdle*, 37 N.J. Super. 385, 397-98, 117 A.2d 416, 423 (Ch. 1955); Comment, Relief in Trade Secret Cases After Patent Publication, 5 Patent, Trademark, and Copyright J. of Research and Education 70 (1961).

25. *Adolph Gottscho, Inc. v. American Marking Corp.*, 18 N.J. 467, 475, 114 A.2d 438, 442, cert. denied, 350 U.S. 834 (1955).

26. *Gallowhur Chem. Corp. v. Schwerdle*, 37 N.J. Super. 385, 399, 117 A.2d 416, 424 (Ch. 1955).

27. *Swift & Co. v. United States*, 276 U.S. 311, 326 (1928); *J. C. McFarland Co. v. O'Brien*, 6 F.2d 1016, 1018 (N.D. Ohio 1925); *May's Furs & Ready-to-Wear, Inc. v. Bauer*, 282 N.Y. 331, 343, 26 N.E.2d 279, 284 (1940).

28. *I. H. P. Corp. v. 210 Central Park So. Corp.*, 16 App. Div. 2d 461, 228 N.Y.S.2d 883 (1st Dep't 1962), 31 Fordham L. Rev. 825 (1963).

right or power to invoke the extraordinary remedy of injunction²⁰ to effectuate such a purpose.

A. The "Shellmar" Line

The *Shellmar* line of cases dates back to *A. O. Smith Corp. v. Petroleum Iron Works Co.*³⁰ in 1934. In that case, the defendant hired an employee of the plaintiff for the purpose of obtaining knowledge of secret welding processes used in the manufacture of a patented oil still. The district court referred the trade secret suit for damages and an injunction to a Master along with a related suit for infringement of the oil still patent. By the time the Master submitted his report, some of the twelve secret processes in suit had been disclosed and claimed in patents issued to the plaintiff, while others were the subject of applications pending before the Patent Office. The district court issued an injunction restraining the defendant from the use of only the unpatented secrets.³¹ The sixth circuit affirmed the court below, authorizing further limitation of the injunction on remand if the district court should find that any other secrets had been subsequently patented.³² The court proceeded on the theory that the plaintiff had elected to seek protection of his other secrets under the patent statutes.³³ However, on rehearing and without elaborating, the court decided that since the defendant had obtained the information covered by the patents by inducing a breach of confidence, it would be estopped from contesting the validity of these patents. On this basis, in order to save the plaintiff from the burden of a second suit for infringement of patented processes in which it had already established its proprietary rights, the court modified its previous opinion and extended the injunction against *infringement* to all processes involved in the trade secret suit, whether covered by patent or not.³⁴

The rule of this case appears to be in line with other estoppels which arise in patent cases.³⁵ One of the unfortunate circumstances resulting from a judicial declaration of patent invalidity is the inability of the court to do what the Patent Office can do³⁶—return to the inventor the consideration he paid for the patent,

29. *Ibid.* Cf. *Morrison v. Work*, 266 U.S. 481, 490 (1925).

30. 73 F.2d 531 (6th Cir. 1934), modified and aff'd on rehearing, 74 F.2d 934 (6th Cir. 1935).

31. *A. O. Smith Corp. v. Petroleum Iron Works Co.*, 12 U.S.P.Q. 447 (N.D. Ohio 1932).

32. 73 F.2d at 539.

33. *Id.* at 537.

34. 74 F.2d at 935.

35. A licensee is estopped to contest the validity of the licensed patent. *Hall Labs., Inc. v. National Aluminate Corp.*, 224 F.2d 303 (3d Cir. 1955), cert. denied, 350 U.S. 932 (1956); *National Transformer Corp. v. France Mfg. Co.*, 215 F.2d 343 (6th Cir. 1954). An assignor of a patent is estopped to deny its validity. *Jacquard Knitting Mach. Co. v. Ordnance Gauge Co.*, 213 F.2d 503, 507 (3d Cir. 1954); *United States Appliance Corp. v. Beauty Shop Supply Co.*, 121 F.2d 149 (9th Cir.), cert. denied, 314 U.S. 680 (1941). One who appropriates the teaching of a patent is estopped to deny its utility. *United States Gypsum Co. v. Consolidated Expanded Metal Cos.*, 130 F.2d 888 (6th Cir. 1942), cert. denied, 317 U.S. 698 (1943).

36. All pending and abandoned patent applications are maintained in confidence and

i.e., the secrecy of his development. Whether or not a court would, if it were possible, return the contents of an invalid patent to the status of secrecy is moot; certainly the equities of the circumstance would favor such action. In view of the inability of the court to make such restoration, denying the wrongdoer the right to tear away the last veil of protection left to the plaintiff—the *prima facie* validity of his patent—leaves the defendant under no greater burden than he bargained for.³⁷

Thus, the inclusion of the patented secrets within the scope of the injunction, thereby avoiding a second trial in which the issues would already have been settled by estoppel, was a proper disposal of the appeal. One can only wonder if the court used the term *infringement* in the decree as a word of art. In retrospect, it is hoped that it did.³⁸

The next case, *Shellmar Prods. Co. v. Allen-Qualley Co.*,³⁹ arose out of a bill to modify an injunction which proscribed the use of certain trade secrets by the petitioner, on the ground that some of the secrets involved had been subsequently disclosed to the public in various patents.⁴⁰ The court, relying on the holding of *A. O. Smith*, held that while the issuance of the patent enabled the whole world to infringe it at the risk of being sued by Allen-Qualley, Shellmar was disabled by the earlier decree.⁴¹ Here again the court stressed its unwillingness to force Allen-Qualley to bring another suit to enforce its previously established rights, especially since Shellmar was in no position to defend itself in view of the rule set out in *A. O. Smith*. The court held, therefore, that Shellmar had failed to establish a right to modification of the original injunction.⁴² It is interesting to note that the injunction forbade Shellmar to make, use or sell the product—the same language used to define the present statutory patent rights⁴³

cannot, with certain exceptions, be seen without the consent of the applicant. 35 U.S.C. § 122 (1958). See also United States Patent Office Rules of Practice, Rule 14, 37 C.F.R. § 1.14 (Supp. 1963). However, upon issue of the patent the secret is published to the world.

37. There is some doubt as to how widely this rule has been followed. It was followed by the seventh circuit in *Allen-Qualley Co. v. Shellmar Prods. Co.*, 31 F.2d 293 (N.D. Ill.), *aff'd*, 36 F.2d 623 (7th Cir. 1929). However, it was rejected by the seventh circuit in *Smith v. Dravo Corp.*, 203 F.2d 369 (7th Cir. 1953), where the court relied on *Booth v. Stutz Motor Car Co.*, 56 F.2d 962 (7th Cir. 1932), and *Schreyer v. Casco Prods. Corp.*, 190 F.2d 921 (2d Cir. 1951), *cert. denied*, 342 U.S. 913 (1952). It should be noted that in each of the cases relied on there was no commercial use of the secret prior to issue of the patent.

38. This construction was given to the decree in *A. O. Smith* by Judge Simons in *Detachable Bit Co. v. Timken Roller Bearing Co.*, 133 F.2d 632, 637 (6th Cir. 1943) (*dictum*). Judge Simons also wrote the opinion in *A. O. Smith*.

39. 87 F.2d 104 (7th Cir. 1936), *cert. denied*, 301 U.S. 695 (1937).

40. The injunction had been issued in a prior suit charging that the defendant had learned the secrets in the course of negotiating a contract and had put them to its own use after the negotiation was broken off. *Allen-Qualley Co. v. Shellmar Prods. Co.*, 31 F.2d 293 (N.D. Ill.), *aff'd*, 36 F.2d 623 (7th Cir. 1929).

41. 87 F.2d at 108.

42. 87 F.2d at 108-10.

43. At the time of decision the statutory language of the patent right was "to make, use, and vend." Act of May 23, 1930, ch. 312, § 1, 46 Stat. 376 (now 35 U.S.C. § 154 (1958)).

—or to use, reveal or make known the process and machinery used. It is at least arguable that the court considered the injunction to be no broader than Allen-Qualley's rights under the patent, and that therefore Shellmar's petition, made prior to the expiration of the patent, was premature.

One aspect of this case may explain the confusion in some of the later cases. It appears that after Shellmar had learned the secrets in confidence, it caused a search of the art to be made in the Patent Office, from which it was discovered that the secret infringed an unexpired patent issued to one Olsen. In violation of its confidential relationship to the plaintiff, Shellmar purchased the Olsen patent for its own account. The trial court in the original action directed him to assign the Olsen patent to Allen-Qualley upon payment of the price it had paid for it.⁴⁴

The court held, as others have before and since,⁴⁵ that the fact that the secret was substantially disclosed in a prior patent to another did not render the subject matter incapable of being treated as a trade secret.⁴⁶ If the owner of the secret believes his improvement to be new and it is in fact unknown to the confidential disclosee and others similarly situated, then the secret is entitled to protection by a court of equity, and the disclosee will not be allowed to show that what he has learned in confidence was previously available to him. The distinction lies in the source of the publication. If it was made by the one who later asserts a proprietary interest in the invention as a trade secret, the publication will defeat his right to protection. On the other hand, if the prior publication was by another, the plaintiff may establish his property rights by showing that the publication was not known to others in the community, trade, or geographical section of the country.⁴⁷

With regard to the prior Olsen patent, the court stated that the "appellant by its inequitable conduct had taken itself outside the pale of the general public to which the disclosure of that patent was made."⁴⁸ This language is inaccurate. The defendant could not avail itself of the Olsen patent because it learned of the subject matter in confidence; and to allow defendant to defeat the plaintiff's rights through a betrayal of that confidence would be unjust. The defendant would be unable to assert the Olsen patent whether or not it was guilty of inequitable conduct. Errors such as this, though slight, are unfortunate when they appear in what has proved to be such an important case. In our system of stare decisis, words are often quoted out of context and it is quite likely that the patent referred to in the above quote has often been confused with the plaintiff's later patent. Indeed, the rule of the *Shellmar* line of cases is generally considered

44. *Allen-Qualley Co. v. Shellmar Prods. Co.*, 31 F.2d 293, 297 (N.D. Ill.), aff'd, 36 F.2d 623 (7th Cir. 1929).

45. Probably the leading case on this point is *Franke v. Wiltschek*, 209 F.2d 493 (2d Cir. 1953). See also *Ellis*, op. cit. supra note 4, § 22.

46. 31 F.2d at 297.

47. Just what prior knowledge is necessary to defeat a claimed trade secret is difficult to pin down. In the recent case *Kamin v. Kuhnuau*, 222 Ore. 139, 374 P.2d 912 (1962), the Oregon Supreme Court protected the plaintiff's secret although it apparently was known to the trade outside the locality in which plaintiff and defendant operated.

48. 87 F.2d at 107.

to be that the defendant, by his wrongful conduct, is denied the right of the general public to avail itself of the disclosure of the plaintiff's patent.⁴⁹

Among the cases which follow or reject *Shellmar*, the decisions in New Jersey provide an interesting study. The cases in that state seem to follow *Shellmar* or *Conmar* depending upon whether the defendant used the secrets before or after their disclosure.

The New Jersey Supreme Court, in *Adolph Gottscho, Inc. v. American Marking Corp.*,⁵⁰ affirmed a lower court decision awarding damages and an injunction which was not limited to the plaintiff's patent rights.⁵¹ In its decision, the court directed its full attention to the question of whether or not the plaintiff's pre-existing cause of action for misappropriation of trade secrets survived the issuance of his patent disclosing them. The court decided that it did, giving all the usual reasons: (1) it was not concerned with the rights of the public generally; (2) the need for commercial morality; and (3) the unnecessary burden on plaintiff if he has to sue again on his patent. However, there was no mention, on appeal, of the scope or duration of the injunction.

Three other New Jersey decisions in which the defendant had begun use of the secret after publication follow the *Conmar* line.⁵² In holding that only an express agreement to honor plaintiff's secret after publication would be enforced by injunction, they strike at the very heart of the *Shellmar* line, which is an implied promise to honor the plaintiff's secret.

The Texas case of *Hyde Corp. v. Huffines*⁵³ settled any doubts about the intended scope of injunctions issued in the *Shellmar* line of cases. That case grew out of a one-year exclusive license agreement under which Hyde was to make and sell garbage trucks equipped with Huffines' compressor mechanism, then the subject of a United States patent application. The contract provided for automatic renewal from year to year "for the pendency of said patent application or applications, and for the life of any patent or patents that may issue therefrom."⁵⁴ After two years, Hyde repudiated the contract but continued to manufacture the trucks on his own. The Texas Court of Civil Appeals issued a perpetual injunction against the defendant's use of the contents of the original

49. Such confusion certainly is indicated by the following quote from Judge Learned Hand's decision in the *Conmar* case: "The Seventh Circuit, and apparently the Sixth as well, have, however, held that if before issue one has unlawfully obtained and used information which the specifications later disclose, he will not be free to continue to do so after issue; his wrong deprives him of the right which he would otherwise have had as a member of the public." 172 F.2d at 155. See also *Picard v. United Aircraft Corp.*, 128 F.2d 632, 637 (2d Cir.), cert. denied, 317 U.S. 651 (1942).

50. 18 N.J. 467, 114 A.2d 438, cert. denied, 350 U.S. 834 (1955).

51. *Adolph Gottscho, Inc. v. American Marking Corp.*, 35 N.J. Super. 333, 346 (Ch. 1954) (semble).

52. *Dollac Corp. v. Margon Corp.*, 164 F. Supp. 41 (D.N.J. 1958), aff'd, 275 F.2d 202 (3d Cir. 1960); *Darsyn Labs., Inc. v. Lenox Labs., Inc.*, 120 F. Supp. 42 (D.N.J.), aff'd per curiam, 217 F.2d 648 (3d Cir. 1954), cert. denied, 349 U.S. 921 (1955); *Gallowhur Chem. Corp. v. Schwerdle*, 37 N.J. Super. 385, 117 A.2d 416 (Ch. 1955).

53. 158 Tex. 566, 314 S.W.2d 763, cert. denied, 358 U.S. 898 (1958).

54. Id. at 573, 314 S.W.2d at 767-68.

application. It is interesting to note that the injunction had a greater duration than the express contract of the parties.

The Texas Supreme Court, in affirming the court of civil appeals, formulated what has been called the "head start" doctrine. This doctrine grants to the plaintiff injunctive protection surviving the issuance of the patent on the theory that, unlike the general public, the defendant has had a marketing head start.⁵⁵

In formulating the theory, the court seemed more concerned with the injunction's survival upon issuance of the patent than its status at the expiration of the patent, relying heavily on the *Adolph Gottcho* case. The court considered the possibility of a limited injunction and rejected it on the grounds that: (1) defendant didn't properly raise the issue;⁵⁶ and (2) there was no showing of an abuse of discretion by the trial judge in issuing a perpetual injunction, the normal form of injunction used in a trade secret case.

Kamin v. Kuhnan,⁵⁷ the most recent of the *Shellmar* cases, was decided last year by the Oregon Supreme Court. That case involved the construction of garbage trucks with hydraulically operated plows for packing the garbage. It appears that the defendant had contracted to build such trucks for the plaintiff, both parties operating under the assumption that the device was new and novel. The court found that the disclosure was made "under such circumstances as to raise an implication of a promise" by the defendant not to misappropriate the plaintiff's secret.⁵⁸

After the defendant had made a number of trucks for the plaintiff, he terminated the relationship and began manufacture of the trucks on his own. The plaintiff's secret was later patented, but he elected to sue the defendant in the state court for misappropriation of his trade secret, rather than test his patent in a federal court.

The Oregon court quickly aligned itself with "the cases adopting the higher standard of 'commercial morality' [which] emphasize the breach of the confidence reposed in the defendant, rather than the existence of the trade secret."⁵⁹ The court relied heavily on the *Hyde* case in sustaining the right of the plaintiff to a perpetual injunction.

B. The "Conmar" Line

As previously stated, the *Conmar* line⁶⁰ does not present facts identical to the *Shellmar* cases. In each of the *Conmar* cases the defendant did not put the

55. Just what kind of a "head start" the court had in mind is not clear. In its opinion the court called it a marketing head start. *Id.* at 581, 314 S.W.2d at 773. In the court's discussion of the motion for rehearing it was referred to as a manufacturing head start. *Id.* at 588, 314 S.W.2d at 778.

56. It was apparently raised in a brief filed *amicus curiae*. 158 Tex. at 585, 314 S.W.2d at 776.

57. 232 Ore. 139, 374 P.2d 912 (1962).

58. *Id.* at 146, 155, 374 P.2d at 916, 920. It appears that such a construction was previously used elsewhere in the country, but not in Portland or the surrounding area.

59. *Id.* at 151, 374 P.2d at 918.

60. The following cases are included in the *Conmar* line: *Dollac Corp. v. Margon Corp.*, 164 F. Supp. 41 (D.N.J. 1958), *aff'd*, 275 F.2d 202 (3d Cir. 1960); *Darsyn Labs., Inc. v.*

secret to commercial use until after issuance of the patent.⁶¹ The cases recognized that had there been use prior to patenting the defendant would have been held to account for such use.⁶² However, in the absence of an express agreement not to use the secrets after publication by the plaintiff, the court would not imply such an agreement.⁶³ Thus, the courts reject the *Shellmar* cases by relegating the plaintiff to his patent rights and allowing the defendant to defend the infringement suit like any other member of the public. Plaintiff's remedies are thereby restricted to those provided by the patent statutes.

C. Analysis of the "Shellmar" Line

It is submitted that the *Shellmar* cases are irreconcilable with the *Conmar* cases. Although the facts of the cases are distinguishable, the difference cannot justify issuance of a more severe injunction where the defendant's misappropriation occurred prior to issuance of the patent.

Injunction is an extraordinary remedy which should issue only where irreparable injury to the rights of the petitioner would otherwise result.⁶⁴ The existence of an actual and substantial right to be protected is a prerequisite to the granting of injunctive relief,⁶⁵ and such relief should not be granted merely to compensate for a completed wrong.⁶⁶ In other words, an injunction should not be granted for the purpose of punishment, but only to prevent a future wrong.⁶⁷ Rights already

Lenox Labs., Inc., 120 F. Supp. 42 (D.N.J.), aff'd per curiam, 217 F.2d 648 (3d Cir. 1954), cert. denied, 349 U.S. 921 (1955); Schreyer v. Casco Prods. Corp., 190 F.2d 921 (2d Cir. 1951), cert. denied, 342 U.S. 913 (1952); Conmar Prods. Corp. v. Universal Slide Fastener Co., 172 F.2d 150 (2d Cir. 1949); Kesses v. Eastman Kodak Co., 82 U.S.P.Q. 13 (S.D.N.Y. 1949); Pennington Eng'r Co. v. Houde Eng'r Corp., 136 F.2d 210 (2d Cir.), cert. denied, 320 U.S. 771 (1943); Picard v. United Aircraft Corp., 128 F.2d 632 (2d Cir.), cert. denied, 317 U.S. 651 (1942); Kohloff v. Ford Motor Co., 37 F. Supp. 470 (S.D.N.Y. 1940); Gallowhur Chem. Corp. v. Schwerdle, 37 N.J. Super. 385, 117 A.2d 416 (Ch. 1955).

61. There is a group of cases in which the defendant was found guilty of misappropriating trade secrets prior to issuance of a patent disclosing them. However, in those cases the plaintiff was granted an accounting for profits during that period and no mention was made of injunctive relief based on the breach of confidence. These cases cannot properly be grouped with either the *Conmar* or *Shellmar* cases. E.g., *Hoeltke v. C. M. Kemp Mfg. Co.*, 80 F.2d 912 (4th Cir. 1935), cert. denied, 298 U.S. 673 (1936); *Micek v. Radiator Specialty Co.*, 135 U.S.P.Q. 220 (S.D. Cal. 1961); *Thiberg v. Bach*, 107 F. Supp. 639 (D.N.J. 1952), aff'd per curiam, 203 F.2d 956 (3d Cir. 1953).

62. See, e.g., *Dollac Corp. v. Margon Corp.*, 164 F. Supp. 41, 60 (D.N.J. 1958), aff'd, 275 F.2d 202 (3d Cir. 1960).

63. See, e.g., *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150, 156 (2d Cir. 1949).

64. *Watkins v. Rupert*, 224 F.2d 47 (2d Cir. 1955) (per curiam); *Minden Syrup Co. v. Applegate*, 150 So. 421 (La. Ct. App. 1933); *Arthur Murray Dance Studios, Inc. v. Witter*, 62 Ohio L. Abs. 17, 105 N.E.2d 685 (C.P. 1952).

65. *McCormick v. McCann*, 57 Ohio L. Abs. 203, 94 N.E.2d 55 (C.P. 1950); *Wise v. McCannless*, 183 Tenn. 107, 191 S.W.2d 169 (1945).

66. See authorities cited note 28 supra.

67. *Walling v. T. Buettner & Co.*, 133 F.2d 306 (7th Cir.), cert. denied, 319 U.S. 771

lost or wrongs already perpetrated cannot be corrected by injunction.⁶⁸ Moreover, it has been established that an injunction should be modified where oppressive or broader than necessary for plaintiff's protection,⁶⁹ and dissolved where the reason for granting it no longer exists.⁷⁰

In the light of these principles, it should be clear that the *Shellmar* cases cannot be harmonized with the *Conmar* line, since in the factual setting of each the future rights of the plaintiff are the same. The *Shellmar* cases seem to ignore the patent rights of the plaintiff and proceed instead on the theory of a contract, express or implied. In so doing they imply a greater obligation than the parties would have imposed themselves. In the *Hyde* case, for example, the duration of the license agreement was to be measured by the life of any patents which may have issued; yet the court issued a perpetual injunction. On the other hand, unwillingness to extend the defendant's duty of secrecy beyond the life of the secret, in the absence of an express promise, is the very core of the *Conmar* cases.⁷¹

If the "head start" theory has any validity at all, it should be more than satisfied by an injunction of a duration equal to the life of the patent. It seems that the problem of the defendant's getting a "head start" was answered by the decision in *Schreyer v. Casco Prods. Corp.*⁷² There, the court found that by misappropriating the plaintiff's secret, the defendant was able to market his product sooner than he could have if he had acquired his knowledge from plaintiff's later-issued patent. Unwilling to let the defendant profit by his wrongful conduct, the court ordered him to account for those profits resulting from his earlier marketing of the infringing product.⁷³ Although such damages were punitive in nature, it is within the powers of equity to assess punitive damages as distinguished from a punitive injunction.⁷⁴

The most recent *Shellmar* cases direct too much attention to the wrongful

(1943). Accord, *General Leather Prods. Co. v. Luggage Union*, 119 N.J. Eq. 432, 183 A. 165 (Ch.), appeal dismissed per curiam, 121 N.J. Eq. 101, 187 A. 582 (Ct. Err. & App. 1936).

68. See *Walling v. T. Buettner & Co.*, supra note 67; *Fidler v. Roberts*, 41 F.2d 305 (7th Cir. 1930); *J. C. McFarland Co. v. O'Brien*, 6 F.2d 1016 (N.D. Ohio 1925).

69. See *Mele v. Ryder*, 8 App. Div. 2d 390, 188 N.Y.S.2d 446 (1st Dep't 1959), appeal dismissed, 7 N.Y.2d 1027, 166 N.E.2d 859, 200 N.Y.S.2d 69 (1960); *Zemel v. 1616 Corp.*, 277 App. Div. 1098, 101 N.Y.S.2d 297 (1st Dep't 1950) (per curiam).

70. See *Consolidated Peoples Ditch Co. v. Foothill Ditch Co.*, 205 Cal. 54, 269 Pac. 915 (1928); *Goldman v. Cohen*, 222 App. Div. 631, 227 N.Y. Supp. 311 (1st Dep't 1928).

71. E.g., *Conmar Prods. Corp. v. Universal Slide Fastener Co.*, 172 F.2d 150, 156 (2d Cir. 1949); *Picard v. United Aircraft Corp.*, 128 F.2d 632, 637 (2d Cir.), cert. denied, 317 U.S. 651 (1942); *Dollac Corp. v. Margon Corp.*, 164 F. Supp. 41, 59 (D.N.J.), aff'd, 275 F.2d 202 (3d Cir. 1960).

72. 190 F.2d 921 (2d Cir. 1951), cert. denied, 342 U.S. 913 (1952).

73. *Id.* at 924. The *Schreyer* case was recently followed by the ninth circuit in *Englehard Indus., Inc. v. Research Instrumental Corp.*, 139 U.S.P.Q. 179 (9th Cir. 1963).

74. *I. H. P. Corp. v. 210 Central Park So. Corp.*, 16 App. Div. 2d 461, 228 N.Y.S.2d 883 (1st Dep't 1962).

conduct of the defendant;⁷⁵ they rely on the following language of *Franke v. Wiltschek*:⁷⁶

Plaintiffs do not assert, indeed cannot assert, a property right in their development such as would entitle them to exclusive enjoyment against the world. Theirs is not a patent, but a trade secret. The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from a study of the expired patent and plaintiffs' publicly marketed product. The fact is that they did not. Instead they gained it from plaintiffs via their confidential relationship, and in so doing incurred a duty not to use it to plaintiffs' detriment. This duty they have breached.⁷⁷

That case involved an unpatented product, cotton sponges, and the defendants, after learning of plaintiff's secret by fraudulently indicating a desire to sell them for the plaintiff, tried to show that such secret was disclosed in an old expired patent. As the above language indicates, the court held that the fact the secret was disclosed in an expired patent did not defeat the plaintiff's right to assert an interest in it as a trade secret.⁷⁸

Here again, as previously pointed out, it is important to distinguish a patent secured by the owner of the trade secret from one issued to a stranger. In the latter case, the secret is not disclosed by its owner, and most likely would exist unnoticed by the defendant in the absence of the confidential disclosure from the plaintiff. The *Shellmar* cases have failed to make this distinction. Instead, they quote the above passage out of context and intimate that it is on all fours with the case at bar. In this way, the *Shellmar* cases have justified punishing the wrongdoer.

It is curious that the decision in the *Franke* case by Judge Clark, who concurred in both *Conmar* and *Schreyer*, has been so continuously construed to support a view opposite to that espoused by those cases. That Judge Clark considered that the facts in the *Franke* case presented a different question from those in a case involving a later patent issued to the plaintiff, is evident from his failure to cite *Conmar*, *A. O. Smith*, or *Shellmar* in a rather thorough review of trade secret cases. The distinction arises from the issuance of the patent to the plaintiff disclosing his alleged secret.

It is not surprising that a court of equity would go out of its way to protect a secret for a plaintiff whose only rights depend upon its existence. Thus, in cases involving a prior disclosure, as in the Olsen patent of the *Shellmar* case or the expired patent of the *Franke* case, the courts do not allow a defendant to defeat the plaintiff's rights by showing that the information was available elsewhere. In those cases, it should be remembered, the discovery of the prior patent and recognition of its significance was greatly aided, if not made possible in the first place, by the confidential disclosure.

75. See *Adolph Gottscho, Inc. v. American Marking Corp.*, 18 N.J. 467, 473, 114 A.2d 438, 441 (1955); *Hyde Corp. v. Huffines*, 158 Tex. 566, 583, 314 S.W.2d 763, 774-75 (1958); *Kamin v. Kuhnau*, 232 Ore. 139, 157-59, 374 P.2d 912, 921-22 (1962).

76. 209 F.2d 493 (2d Cir. 1953).

77. *Id.* at 495.

78. But see *Scott Paper Co. v. Marcalus Mfg. Co.*, 326 U.S. 249, 257 (1945).

Similarly, in a case where the defendant asserts that he could have learned the plaintiff's secrets from an inspection of the publicly sold product, the courts are reluctant to let the wrongdoer defeat the plaintiff's only remaining rights.⁷⁹ Having learned the subtleties of a design in confidence, the defendant cannot prove that he would have recognized them on mere inspection; and any doubts in this matter are always resolved against the defendant.⁸⁰ This rule is not founded solely on a desire to penalize a wrongdoer. An understanding of allowable tolerances, safety factors employed and running clearances required are often important to the success of the machine, but rarely discernible by inspection. Thus, the defendant is not allowed to show that he could have found the secret, when the plaintiff has told him where to look. The rule of these cases has been restricted to complicated mechanisms, however; a simple secret, easily observed on the face of a product, is not so protected.⁸¹

It is important to note, in those cases where the defendant asserts that he could have learned the secret from an old patent or from products in public use, that the plaintiff actually asserts the continued existence of a secret. On the other hand, in the case of an issued patent, the disclosure is required by statute to be "in such full, clear, concise, and exact terms as to enable any person skilled in the art . . . to make and use the same. . . ."⁸² Under such conditions, the patentee is hardly in a position to urge that the subject matter is still secret. There is a valid basis for distinction between cases concerning publication by patent and those in which publication is by public use and sale. In the case of a patent, the plaintiff has taken affirmative action inconsistent with a desire to maintain his secret, such action being under a statutory compulsion to disclose fully if at all. In the public-use-and-sale case, the plaintiff has taken only that action necessary to exploit his secret, and he did so in the hopes that others would be unable to duplicate it. Thus, in one case the plaintiff has surrendered any right to secrecy, while in the other he hopes to retain it. The courts, then, have a basis in the public-use-and-sale cases for giving continued protection to the secret, unless it is plainly disclosed and discoverable on mere inspection. If the plaintiff desires to retain his secret, although it is publicly exploited, surely one who has obtained it in confidence should not be allowed to defeat it. Such a basis for future protection is lacking where the plaintiff has disclosed and claimed his secret in a patent.

IV. CONCLUSION

The courts in the *Shellmar* line have been overzealous in their protection of confidential disclosures. The result has been that many businessmen, realizing this attitude of the courts, are reluctant to accept suggestions in confidence

79. See, e.g., *Tabor v. Hoffman*, 118 N.Y. 30, 36, 23 N.E. 12, 13 (1889).

80. See *Hoeltke v. C. M. Kemp Mfg. Co.*, 80 F.2d 912, 923 (4th Cir. 1935), cert. denied, 298 U.S. 673 (1936).

81. See *Northup v. Reish*, 200 F.2d 924 (7th Cir. 1953); cf. *K & G Oil Tool & Serv. Co. v. G & G Fishing Tool Serv.*, 158 Tex. 594, 314 S.W. 2d 782 (1958).

82. 35 U.S.C. § 112 (1958). See also United States Patent Office Rules of Practice, Rule 71, 37 C.F.R. § 1.171 (1960).