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PROTECTION OF A BUSINESSMAN'S PROPRIETARY INFORMATION

Julian Clark Martin* and Jack R. Springgate**

One of a businessman's most valuable assets is his proprietary information. As such, it has traditionally been strenuously protected by law. However, our laws protecting such information evolved during the early growth of this country, sometimes at the expense of the rival interests of free competition, mobility of employees, and liberal circulation of ideas. Presently our legislative bodies and judiciary are engaged in a re-examination of these laws to determine if they still properly balance the public interests. It is the purpose of this Article to discuss for general practitioners and businessmen the present state of the law protecting proprietary information, with emphasis on the law applicable to Louisiana, and to recommend certain actions a businessman can take to enhance his protection.

The term "proprietary information" for the purposes of this Article is intended to have the broadest possible scope; it encompasses all ideas, technology and knowledge owned or within the control of the businessman. There are presently three bodies of law affording protection in varying degrees to various segments of proprietary information: the federal patent law, the law of federal and common law copyright, and the law of unfair competition.

THE FEDERAL PATENT LAW

The most unique and, to the average practitioner, most mysterious protection a businessman can obtain for certain segments of his proprietary information is that afforded by the Federal Patent Act. A great portion of the mystery disappears, however, once the rationale behind the patent system is understood. It is universally agreed that the progress of science is best promoted by the full and free disclosure and circulation of ideas. In this way many are able to consider another's theory or concept and possibly apply it in ways the original inventor might never have even dreamed. The rationale behind the con-
institutional authority\(^1\) for patents and Congress' theory throughout the years in enacting the various patent laws has been that without the inducement of a limited "monopoly," inventors would, whenever possible, exploit their inventions by keeping them secret.\(^2\) Under the present Patent Act, Congress has chosen to promote the progress of science and the useful arts by granting an inventor, his representatives, assigns or successors, the right to exclude all others from making, using or selling his invention within the United States for a period of seventeen years.\(^3\)

Although Congress possibly could have provided patent protection for all types of proprietary information, it did not choose to do so. The only portion of proprietary information which may be patented is that which may be classified as and embodied in a process, machine, manufacturer, composition of matter, any improvement of these,\(^4\) a design,\(^5\) or a plant.\(^6\) Certain types of subject matter, some of which may be very valuable to businessmen, traditionally have been determined not to be patentable. The Patent Office presently will not issue a patent covering methods of doing business, printed matter, naturally occurring articles, or scientific principles.\(^7\) Whether computer programs

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1. U.S. Const. art. I, § 8, cl. 8: "The Congress shall have power . . . [t]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writing and Discoveries."

2. In Mazer v. Stein, 347 U.S. 201, 219 (1954), the United States Supreme Court stated the purpose of the Constitutional mandate as follows: "The economic philosophy behind the clause empowering Congress to grant patents and copyrights is the conviction that encouragement of individual effort by personal gain is the best way to advance public welfare through the talents of authors and inventors in 'Science and Useful Arts.'"

It has often been pointed out, and equally often ignored by antitrust protagonists, that the term "monopoly" as used in connection with patents and copyrights is not the same as the odious monopoly which the founders of our country had learned to despise in England. The true monopoly removes something from commerce. "The term monopoly connotes the giving of an exclusive privilege for buying, selling, working or using a thing which the public freely enjoyed prior to the grant." On the other hand, "[a]n inventor deprives the public of nothing which it enjoyed before his discovery." When he is induced to disclose his invention to the public, he "gives something of value to the community by adding to the sum of human knowledge." United States v. Dubilier Condenser Corp., 289 U.S. 178, 186 (1933).


4. 35 U.S.C. §§ 100 (b) and 101 (1970).

5. Id. § 171.

6. Id. § 161.

shall constitute patentable subject matter has not yet been resolved.\(^8\)

In addition to applying to only certain classes of information, the federal patent law requires that the idea in question be useful\(^9\) and novel.\(^10\) And, even though novel, the idea must constitute a sufficient advance over the prior art to warrant patent protection. For there to be "invention," the idea must not be obvious when considered in light of the prior art.\(^11\)

Congress has established certain conditions, not unlike prescriptive periods, which, if they occur, will prevent an inventor from obtaining a patent.\(^12\) The most important of these for the purposes of this Article is the condition relating to secrecy. Although the invention sought to be patented does not have to be maintained in secrecy, any patent application thereon must be filed within one year from the date the invention was first publicly used or placed on sale in the United States.

The Patent Office functions to determine whether the alleged

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\(^8\) It has long been held that a process consisting of one or more "mental steps" is not patentable subject matter. See, e.g., In re Abrams, 188 F.2d 165 (C.C.P.A. 1951). This conclusion is based on the theory that the patent law is meant to protect only those inventive processes which are embodied in physical apparatus and not those processes which can be performed mentally. Recently, however, the Court of Customs and Patent Appeals has held on several occasions that a computer program constitutes patentable subject matter. See, e.g., In re Benson, 441 F.2d 682 (C.C.P.A. 1971); In re Musgrave, 431 F.2d 882 (C.C.P.A. 1970). These decisions possibly are a pragmatic realization that unless the inducement of patent protection is afforded, inventive computer programs will be maintained as trade secrets rather than freely disclosed to the public. The Patent Office itself disagreed with this determination and filed with the United States Supreme Court a petition for a writ of certiorari to the Court of Customs and Patent Appeals to review the decision of In re Benson (No. 71-485, October 4, 1971). The Supreme Court has granted the writ of certiorari, _U.S._ (1972).

\(^9\) 35 U.S.C. § 101 (1970). Determining what is "useful" (as well as what constitutes patentable subject matter) requires a delicate balancing of the public interests. For example, in Brenner v. Manson, 383 U.S. 519 (1966), it was held that a chemical process which has no known use other than it produces the intended product or it belongs to a class of compounds which is the subject of serious scientific investigation, is not "useful." In reaching this decision the Court rejected the argument that such a chemical process should be patentable in order to induce chemists not to maintain the process in secrecy. The Court stated that "if the inventor of a process cannot himself ascertain a 'use' for that which his process yields, he has every incentive to make his invention known to those able to do so." 383 U.S. at 534. Contrary to the Court's conclusions, it has been rumored that, at least insofar as the competition for the Nobel Prize is concerned, information of the type involved in Brenner is not freely disseminated. See, e.g., J. Watson, The Double Helix (1969).


\(^11\) Id. § 103.

\(^12\) Id. §§ 102(b), (c), and (d).
invention meets all of the statutory tests and conditions. The Patent Office examines the subject matter of the patent application, searches the relevant classes of the more than three million existing United States patents, its file of foreign patents, and its scientific library to determine if the alleged invention described in the application is useful and new and, if so, whether it is nonobvious over the prior art found by the Patent Office.

It is surprising how often more than one person recognizes the need for a certain device or process and, each working independently of the other, arrives at an almost identical solution or fulfillment of the need. As a result there is often a controversy as to who was the first inventor. Factors which are considered in determining the first inventor are: when did each conceive the idea, when was the idea "reduced to practice," and generally whether each of the persons was duly diligent in carrying the invention from the conception stage to "reduction to practice."

The document which issues to the first and true inventor if the determination of patentability is favorably made is referred to as a Letters Patent. It consists primarily of two portions, the "specification" and the "claims." The specification describes one or more embodiments of the invention. The claims define the metes and bounds of the invention. They point out what the Patent Office has decided is useful, novel, and nonobvious over the prior art, and what the public is precluded from making, selling, or using without the consent of the patentee. Letters Patent may be analogized to a contract between the inventor and the sovereign. In consideration of the detailed disclosure to the public of some new and useful information embodied in a physical device, the sovereign grants the inventor carefully defined, exclusive rights for a limited period of time.

It cannot be emphasized strongly enough that the issuance of a patent does not give the owner the absolute authority to practice the invention. Rather, it merely gives him the right to exclude others from practicing the invention. Suppose that

13. The precise grant contained in a United States Letters Patent provides: "[t]hese Letters Patent are to grant unto the said Claimant(s) and the successors, heirs or assigns of the said Claimant(s) for the term of Seventeen years from the date of this grant, subject to the payment of issue fees as provided by Law, the right to exclude others from making, using or selling the said Invention throughout the United States."
one invented an improvement to the Polaroid Land Camera which substantially decreased the distance between the lens and the film, thereby making the camera more compact. Although a patent on the invention would allow the inventor to preclude the Polaroid Corporation from making, using, or selling the improvement, the chances are that the inventor himself could not effectually practice his invention because the rest of the camera would fall within the purview of existing patents owned by the Polaroid Corporation.\footnote{14}

Patents are deemed by the Patent Act to have the attributes of personal property.\footnote{15} Except for certain characteristics dictated by the Patent Act, the property rights in patents are controlled by the laws of the various states. Thus, the Louisiana laws with respect to individual and community property, capacity to contract, existence and interpretation of a contract, and inheritance are applicable to determine ownership of and rights in patents.\footnote{16} One of the notable exceptions provided by the Patent Act is that any interest in the patent “shall be assignable in law by an instrument in writing,” and that as against any subsequent bona fide purchaser or mortgagee the assignment shall be void unless recorded in the Patent Office within three months from the date of execution or prior to the subsequent purchase or mortgage, whichever is later.\footnote{17}

The various types of transfers of interests in patents have been grouped by the courts into “assignments” and “licenses.” An assignment transfers all or part of the title of the patent. A license is anything less than an assignment. A license may be

\begin{footnotes}
\footnoteref{14} A practical solution to this apparent stalemate is cross-licensing between the parties.

This aspect of the patent system is very important to the promotion of the progress of science. For fifty cents anyone can obtain a copy of any patent and use the information it discloses to design around the claimed invention or conceive an improvement to the invention. The patent system thus applies pressure to the original inventor to continue to invent and improve so that he maintains the best product available.


\footnoteref{16} In Pierce v. Luker, 237 So.2d 727 (La. App. 4th Cir. 1970), the court applied Louisiana law, particularly La. Civ. Code art. 1805, to determine whether a proposed license agreement ever became a binding contract.

\footnoteref{17} 35 U.S.C. § 261 (1970). It should be noted that section 261 also specifies that a certificate of acknowledgment before a person authorized to administer oaths “shall be prima facie evidence of the execution of an assignment, grant or conveyance of a patent or application for patent.”
\end{footnotes}
an exclusive\textsuperscript{18} or a non-exclusive right to make and/or use and/or sell. A license gives the licensee immunity from suit by the licensor for the actions covered by the license. Pursuant to express authority in the Patent Act, an exclusive right in a patent may be granted to any specified geographical part of the United States.\textsuperscript{19} Another peculiarity of patent law is that an owner of an undivided interest in a patent may, unless contractually bound otherwise, license others fully and without limitation, and he is not accountable to his co-owners for the profits.\textsuperscript{20}

Applications for Letters Patent must be filed in the name of the inventor or inventors and the patents issuing therefrom are owned by the inventor unless he has otherwise disposed of his rights.\textsuperscript{21} An inventor can agree to assign his rights in inventions made during his employment to his employer and such agreements are generally enforced.\textsuperscript{22} In the absence of such an agreement, inventions made by an employee who was not hired to invent the particular invention are held to be the property of the employee; an employer is entitled to an assignment of the employees' rights in an invention only if he can prove that the purpose of the employment was to make the invention which was in fact made.\textsuperscript{23}

To prevent inequities in situations in which an employee makes, tests, and completes an invention during his employment using the time, facilities and materials of his employer, the courts have created for the employer the equitable doctrine of an implied license to use the invention.\textsuperscript{24} This doctrine has become known as the "shop rights" doctrine. The employer's shop right is a bare royalty-free, non-exclusive and non-transferable\textsuperscript{25} right and license to use the employee's invention. It does not allow the employer to otherwise interfere with the employee's enjoyment of his rights in the invention.

\textsuperscript{18} An exclusive license to make, use and sell is almost tantamount to an assignment and, for tax purposes, has the same effects as an assignment. Waterman v. MacKenzie, 138 U.S. 252 (1891). An exclusive license is also exclusive of the licensor; the licensor loses the right to make, use or sell if he grants such rights exclusively to another.


\textsuperscript{20} Id. § 262.

\textsuperscript{21} Id. §§ 111, 152.

\textsuperscript{22} Id. § 261.

\textsuperscript{23} United States v. Dubiller Condenser Corp., 289 U.S. 178 (1933).

\textsuperscript{24} McClurg v. Kingsland, 42 U.S. (1 How.) 202 (1843).

\textsuperscript{25} Hapgood v. Hewitt, 119 U.S. 226 (1886), wherein the court recognized the implied license or shop right but held that it was not transferable to the employer's successor.
The federal courts have exclusive jurisdiction over actions brought by a patent owner alleging infringement of his patent. The remedies allowed by the Patent Act are an action at law for damages and a suit in equity for injunctive relief. The actions are cumulative to the extent that the patent owner may obtain both damages for past infringement and an injunction prohibiting future infringement. In addition, in exceptional and rare circumstances the court may award treble damages. The questions of patent validity and infringement, as well as the remedies therefor, are governed by federal law.

**The Federal Copyright Act and Common Law Copyright**

The Federal Copyright Act was enacted under the same constitutional mandate as was the Patent Act. As in the patent system, the purpose of the Copyright Act is not to reward the author but instead to secure to the public the general benefits derived from his labors. Again, in implementing the constitutional mandate, Congress did not choose to protect all segments of information included within its term "author's writings." Congress chose instead to protect by the Copyright Act only the published writings of an author, plus certain limited unpublished writings. Congress specifically provided that the author of an unpublished work retains his common law rights therein.

The Copyright Act does not expressly limit the definition

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26. 28 U.S.C. § 1338(a) (1970). Subsection 1338(a) has generally been applied only to a suit in which the plaintiff pleads a cause of action "arising under" the patent laws. If the plaintiff pleads his cause of action such that it does not arise under the patent laws, but arises under the state law (such as, a suit for past-due royalties under a license agreement, rather than a suit for patent infringement), then the federal courts do not have exclusive jurisdiction. The case may be brought in state court even though the issues of infringement and validity of the patent may arise. See Chisum. The Allocation of Jurisdiction between State and Federal Courts in Patent Litigation, 46 WASH. L. REV. 633 (1971).


28. Id. § 283.

29. Id. § 284.


35. Id. § 12.

36. Id. § 2.
of writings. It does list thirteen types of works definitely within the purview of that term, including books, periodicals, lectures, musical compositions, maps, drawings, plastic works, photographs, prints, labels, and motion pictures.\textsuperscript{37} Judicial interpretations of the Copyright Act have determined that a mere idea, however, is not protectible. The idea must be expressed tangibly.\textsuperscript{38} And the tangible expression of intellectual creation, to be protectible by the Copyright Act, must possess at least a modicum of originality with the author.\textsuperscript{39} Originality must be distinguished from novelty. Originality means only that the work was independently created by the author and was not copied from other works.\textsuperscript{40}

Publication of a work occurs when, by consent of the owner of the work, the original or tangible copies thereof are sold, leased, given away or otherwise made available to the general public, or when an authorized offer is made to dispose of the work in such a manner.\textsuperscript{41} The owner of a work may obtain protection under the Copyright Act by publishing the work with the statutory copyright notice attached to a designated location on the original and every authorized copy thereof.\textsuperscript{42} The notice consists of the word “Copyright,” the abbreviation “Copr.” or the symbol ©, accompanied by the name of the owner of the work, and, for certain types of works, the year of first publication.\textsuperscript{43} An authorized publication of the work without the requisite copyright notice thereon injects the work into the public

\textsuperscript{37} Id. § 5.
\textsuperscript{38} See, e.g., Kalem Co. v. Harper Bros., 222 U.S. 55, 63 (1911) (moving pictures depicting principal scenes in \textit{Ben Hur} held to be copyright infringement).
\textsuperscript{40} A work is deemed to be original and may command copyright protection even if it is substantially similar to a prior work, and thus is not novel, provided it was not copied from such prior work but rather is a product of the independent efforts of its author. See, e.g., Whitoil v. Wells, 231 F.2d 550 (7th Cir. 1956); Sheldon v. Metro-Goldwyn Pictures Corp., 81 F.2d 49 (2d Cir. 1936), aff'd, 309 U.S. 390 (1940); M. NIMMER, COPYRIGHT, A TREATISE ON THE LAW OF LITERARY, MUSICAL AND ARTISTIC PROPERTY, AND THE PROTECTION OF IDEAS § 10.1 (1963) [hereinafter cited as NIMMER ON COPYRIGHT].
\textsuperscript{41} NIMMER ON COPYRIGHT § 49.
\textsuperscript{42} 17 U.S.C. § 20 (1970). Placement of the statutory notice is very critical. In the case of a book or other printed publication, it must be placed upon its title page or the page immediately following; in the case of a periodical, either upon the title page or upon the first full page of text of each separate number or under the title heading; in the case of a musical work, either upon the title page or the first page of music.
\textsuperscript{43} Id. § 19. The year is required only if the work is a printed literary, musical or dramatic work.
Thus, the term publication becomes extremely important and, as one would surmise, has grown to be a legal doctrine in itself, replete with numerous exceptions and variations.\textsuperscript{45}

In order to maintain an action for infringement of the copyright, the owner must register the work with the Copyright Office and deposit therein two copies of the work.\textsuperscript{46} It is important to realize that registration of a published work does not create the copyright; it is merely a procedural step which records the copyright. The copyright was created upon publication with correct notice.

The term of copyright protection is twenty-eight years from the date of first publication, not the date of registration. In the twenty-eighth year, the copyright may be renewed by certain persons for an additional twenty-eight years.\textsuperscript{47} Upon the expiration of the second term, the work passes into the public domain.

An action for infringement of a registered copyright must be brought in federal court.\textsuperscript{48} Under the Copyright Act, the owner of the copyright is entitled to the following remedies against an infringer: injunction, damages and profits, impounding of the infringing work pending the action, and destruction of the infringing work after completion of the action.\textsuperscript{49} Additionally, the statute provides for the recovery of full costs and attorney's fees.\textsuperscript{50} Infringement means that someone other than the copyright owner is exercising some right granted by the statute exclusively to the copyright owner. The infringement situation is complicated somewhat because the rights granted the copyright owner by

\textsuperscript{44} See, e.g., Wheaton v. Peters, 33 U.S. (8 Pet.) 591 (1834).
\textsuperscript{45} See Nimmer on Copyright § 49.
\textsuperscript{46} 17 U.S.C. § 13 (1970) provides that: "After copyright has been secured by publication of the work with the notice of copyright as provided in . . . this title, there shall be promptly deposited . . . ." the required copies and claim of copyright in the Copyright Office. However, the Supreme Court held in Washingtonian Publishing Co. v. Pearson, 306 U.S. 30 (1939), that the words "promptly deposited" may not be read as a condition subsequent which, if not satisfied, would result in destruction of the copyright. Therefore, registration of the work and the copyright is a requisite only to an infringement action under 17 U.S.C. § 15 (1970).
\textsuperscript{50} Id. § 116.
the statute vary depending upon the type of work involved. Irrespective of the type work involved, however, the copyright owner has the exclusive right to print, reprint, publish, copy, and vend the copyrighted work.

Existing concomitantly with the Federal Copyright Act is the so-called "common law copyright." This creature of the common law of the various states recognizes that property status, and thus some protection, should be afforded the fruits of intellectual labor. To be entitled to protection under the doctrine of common law copyright, the author's work must be the unpublished expression of an original idea. Common law copyright protects such an unpublished work from the moment of its creation without the need to observe any formalities. The moment the work is "published" the common law copyright is lost. If the statutory formalities are observed at the moment of publication, the common law copyright is replaced with the statutory copyright. But if not, the work is passed into the public domain.

The owner of a work generally has somewhat greater rights under the common law copyright than under the statutory copyright, but of course his work is unpublished and he probably is not receiving any monetary reward. For instance, types of works not protected by the Copyright Act are often protected in unpublished form by the common law copyright. And the rights afforded by the common law copyright are not limited depending upon the type of the work. The owner of a work protected by common law copyright has the same type action against the infringer existing for other injuries to personal property. He may recover damages, injunctive relief and such other equitable relief as the court is empowered to grant. In the absence of a state statute or contractual provision, he may not recover attorney's fees.

The author who has not sold or otherwise alienated the

51. Id. § 1.
52. The common law copyright is actually a recognition by the various state courts that it is an act of unfair competition for one to print, publish, copy, vend or perform an author's unpublished work without his consent. 17 U.S.C. § 2 expressly provides that the act shall not be construed or limit the right of the author or proprietor of an unpublished work, at common law or in equity, to prevent the copying, publication or use of such unpublished work without his consent and to obtain damages therefor.
54. See, e.g., NIMMER ON COPYRIGHT § 111.
rights in his work will own the common law copyright on his work and the right to obtain the statutory copyright thereon.\textsuperscript{56} Unlike the Patent Act, the Copyright Act provides that either the author or the proprietor of the work may obtain the statutory copyright.\textsuperscript{56} Thus, the author may assign his work to another who may then publish it and obtain the federal registration. Even more dissimilar to the Patent Act, the Copyright Act defines "author" to include an employer in the case of "works made for hire."\textsuperscript{57} There has been no need for the development of an equitable doctrine similar to the patent system's "shop right" doctrine because, if the employer/author relationship is such that the work was made for hire, the employer is deemed to be the author of the work. The employer thus owns all rights in the work rather than simply having an equitable right to use the work. On the other hand, if the work was not created as a part of the author's duties to his employer, the work remains the property of the author\textsuperscript{58} and, in the absence of an express agreement, the employer acquires no rights therein.\textsuperscript{59} The critical question in determining whether the work was made for hire is whether the employment relationship exists between the employer and the author; more particularly, whether the employer has the right to control the manner of work being performed by the author. The manner of payment for the work has no pronounced effect on this determination.\textsuperscript{60}

The renewal provisions of the Copyright Act in certain instances limit the right to renew the statutory copyright to the author, his heirs, executor or next of kin.\textsuperscript{61} If the author is dead, the proprietor of the copyrighted work may not renew the copyright even if the right to renew the work had been assigned to him. Thus, it is especially important for an employer to be considered the author of the work.

Copyrights, both common law and statutory, are property

\textsuperscript{56} Id.
\textsuperscript{57} Id. § 26.
\textsuperscript{59} Shapiro, Bernstein & Co. v. Jerry Vogel Music Co., 221 F.2d 569 (2d Cir. 1955); Hillsboro Nat'l Bank v. Hyde, 75 N.W. 781 (N.D. 1898).
\textsuperscript{60} Donaldson Publishing Co. v. Bregman, Vocco & Conn, Inc., 375 F.2d 639 (2d Cir. 1967).
\textsuperscript{61} 17 U.S.C. § 24 (1970). The statute was enacted to protect the families of authors who had made bad bargains with publishers.
rights. Similar to patents, the validity and infringement of a statutory copyright, and the remedies therefor, are governed by federal law. Actions for infringement of common law copyright are governed by the laws of the various states. With certain exceptions delineated by the Federal Copyright Act, such as the public record requirement for assignment of statutory copyright, both the common law and statutory copyrights are subject to the laws of the various states on contracts, sale, mortgage, inheritance and community property.

THE LAW OF UNFAIR COMPETITION

The law of unfair competition is an amorphous, dynamic body of law stemming generally from the common law of the separate states. It has been developed over the years by the courts' concluding on a case-by-case basis what practices are contrary to ordinary business ethics. As such, the law of unfair competition is continually changing to reflect the social and economic climate.

Actions which in other states have been held to amount to unfair competition include making false and/or misleading advertising, disparaging a competitor's property or reputation, bribing employees of customers and prospective customers, and inducing another to breach a contract. Long considered to be an act of unfair competition is "palming-off" one's goods or services for those of his competitors. This may be accomplished by simulation of shape, design, method of operation, labeling, or otherwise. The law relating to trade names, trademarks, and service marks, derived from the much older prohibition against palming-off, is also a part of the law of unfair competition.

62. Id. § 30.
63. See, e.g., id. §§ 27 and 28.
64. A plaintiff may bring his unfair competition action in federal court if he can establish diversity of citizenship, 28 U.S.C. § 1332 (1970), or if the claim may be joined with a substantial and related claim under the patent, copyright or trademark laws. Id. § 1338(b). In either case, it is generally held that state law is applicable to the unfair competition question.

Additionally, sections 43(a) and 44(h) of the Lanham Act (15 U.S.C. §§ 1-1051 (1970)) create a federal cause of action of unfair competition in certain limited situations. The federal courts have jurisdiction over an unfair competition action brought under either of these sections without regard to diversity of citizenship or a pendent claim and have been using these sections to create a federal law of unfair competition.

65. See note 127 infra for a contrary holding in Louisiana.
66. The trade name and trademark facet of the law of unfair competition is unique in that Congress and the various States have enacted legis-
These activities constituting acts of unfair competition, although extremely important to a businessman wishing to protect his good will and success, do not generally concern proprietary information, and are not within the scope of this Article.

**Misappropriation of Information**

Also considered a part of the law of unfair competition are the protections afforded a businessman against the unlawful exploitation of his labors and the misappropriation of his proprietary information. The landmark decision establishing protection against the unlawful exploitation of one's labors was *International News Service v. Associated Press.* Both plaintiff and defendant in the INS case were engaged in a business of gathering and distributing news. The defendant was augmenting its news service by gathering portions of its news from the early editions of plaintiff's newspapers. The plaintiff charged that the defendant was systematically pirating the fruit of its efforts. The defendant responded that all property rights in the uncopyrighted news were lost after publication and thus could be used by anyone. The United States Supreme Court declined to pass upon the questions whether there is any property right in news matter at common law or whether the federal Copyright Act was applicable. Instead it decided the case solely on the theory of unfair competition in business. The Court stated:

"[D]efendant, by its very act, admits that it is taking material that has been acquired by complainant as the result of organization and the expenditure of labor, skill, and money, and which is salable by complainant for money, and that defendant in appropriating it and selling it as its own is endeavoring to reap where it has not sown, and by disposing of it to newspapers that are competitors of complainant's members is appropriating to itself the harvest of those who have sown. Stripped of all disguises, the process amounts to an unauthorized interference with the normal operation of complainant's legitimate business precisely at the point where the profit is to be reaped, in order to divert..."
a material portion of the profit from those who have earned it to those who have not; with special advantage to defendant in the competition because of the fact that it is not burdened with any part of the expense of gathering the news. The transaction speaks for itself, and a court of equity ought not to hesitate long in characterizing it as unfair competition in business.” 68 (Emphasis added.)

Thus, the Court appeared to create a new competitive tort, often summarized as “reaping where one has not sown.”

The doctrine advanced by the majority of the Court in INS was severely undercut by the persuasive dissent of Justice Brandeis. The dissent argued that the noblest of human productions—knowledge, truth ascertained, conceptions and ideas—become, after voluntary communication to others, free as the air to common use. Only in certain classes of cases where public policy has seemed to demand it does the attribute of property continue after publication. These exceptions are confined to productions which, in some degree, involve creation, invention or discovery. Justice Brandeis argued that a businessman has no absolute right to the protection of his labors, such as the news, not belonging to those exceptions, but merely the qualified right to be protected as against the defendant’s acts because of the special relation in which the defendant stands or the wrongful method or means employed in acquiring the knowledge or manner in which it is used. In such cases protection is afforded based upon a theory of breach of contract or trust or upon unfair competition.

From the date the INS decision was rendered, the courts have steadily receded from the broad position of the majority to the position advanced by Justice Brandeis. The most recent recessions from INS are the United States Supreme Court’s decisions in Sears, Roebuck & Co. v. Stiffel Co. 69 and Compco v. Day-Brite Lighting, Inc. 70 The question presented in both cases was whether a state’s unfair competition law can, consistent with the policy of federal law, impose liability for or prohibit the copying of an article which is protected by neither a federal patent nor a federal copyright. In Sears the plaintiff, Stiffel,

68. Id. at 239-40.
70. 376 U.S. 234 (1964).
had obtained utility and design patents on a pole lamp, which proved to be a decided commercial success.\textsuperscript{71} Sears soon thereafter put on the market a substantially identical, but less expensive, pole lamp. Stiffel sued Sears in federal court claiming in its first count that Sears infringed Stiffel's patents, and, in its second count, that by selling copies of Stiffel's lamp, Sears had caused confusion in the trade as to the source of the lamps and had thereby engaged in unfair competition under Illinois law. The trial court and the court of appeals found Stiffel's patents to be invalid but, since a likelihood of confusion was established (there was no showing of palming-off), Sears was enjoined from unfair competition and ordered to account for profits and damages. The United States Supreme Court reversed, holding that this use of a state's law of unfair competition is incompatible with the Federal Patent Act.

Examining the constitutional authority for patents and copyrights and the legislation enacted pursuant to such authority, the Court stated:

"[T]he patent system is one in which uniform federal standards are carefully used to promote invention while at the same time preserving free competition. Obviously a State could not, consistently with the Supremacy Clause of the Constitution, extend the life of a patent beyond its expiration date or give a patent on an article which lacked the level of invention required for federal patents. To do either would run counter to the policy of Congress of granting patents only to true inventions, and then only for a limited time. Just as a State cannot encroach upon the federal patent laws directly, it cannot, under some other law, such as that forbidding unfair competition, give protection of a kind that clashes with the objectives of the federal patent laws."\textsuperscript{72}

Concerning the question of likelihood of confusion, the Court stated that mere inability of the public to tell two identical articles apart is not enough to support an injunction against copying or an award of damages for copying that which the Federal Patent Act permits to be copied. Sharing in the goodwill of an article unprotected by patent, copyright, or trade-

\textsuperscript{71} The facts of the Compco decision are similar and will not be discussed.
\textsuperscript{72} 376 U.S. 225, 230-31 (1964).
mark is the exercise of a right possessed by all. Thus it was held that Sears had a right under the federal patent system to copy Stiffel's design and sell lamps identical to those sold by Stiffel.

Importantly though, the Court asserted that a state may, in appropriate circumstances, require that goods, whether patented or unpatented, be labeled or that other precautionary steps be taken to prevent customers from being misled as to the source. The Court also asserted that a state may continue to protect businesses in the use of their trademarks, labels, or distinctive dress in the packaging of goods so as to prevent others, by imitating such markings, from misleading purchasers as to the source of the goods.

The Sears decision and its companion case, Compco, have had and are continuing to have a profound effect upon the laws protecting proprietary information. To the extent that INS afforded a remedy for mere copying, it is no longer authoritative.73 Clearly Sears and Compco give one the right to copy the functional portions on an unpatented and uncopyrighted product.74 Although the question is much closer if one copies the nonfunctional elements of his competitor's product, if these nonfunctional components have not acquired a secondary meaning, the copying definitely should be lawful under Sears and Compco. And even if the nonfunctional elements have obtained secondary meaning, if the products being produced in imitation of the competitor's products are conspicuously marked so there is no confusion to the public, the copying should be lawful.75

Other than for mere copying, however, the remainder of

73. See, e.g., Columbia Broadcasting Sys., Inc. v. DeCosta, 377 F.2d 315 (1st Cir. 1967). The court in DeCosta stated that INS was no longer authoritative for at least two reasons: INS was decided as a matter of general federal law before the decision in Erie Railroad v. Tompkins, 304 U.S. 64 (1938) and, since INS prohibited the copying of published written material that had not been copyrighted, it has clearly been overruled by Sears and Compco. In DeCosta it appeared that CBS had slavishly copied DeCosta's stage name "Paladin," his style, his symbol (the Knight chess piece) and his calling card ("Have Gun Will Travel, Wire Paladin, North Court Street, Cranston, Rhode Island") for its television program. However, it was held that under the Sears and Compco doctrine CBS was not liable because DeCosta had no rights in his performance, and his cards, which were copyrightable, had been published without securing copyright thereon. See also Riback Enterprises, Inc. v. Denham, 452 F.2d 845 (2d Cir. 1971).
75. Tappan Co. v. General Motors Corp., 380 F.2d 888 (6th Cir. 1967).
the law of unfair competition dealing with unlawful exploitation of one's labors and proprietary information has not been eroded by Sears and Compco. It has been recognized by the courts that while a manufacturer can copy an unpatented or uncopyrighted product, he cannot *market* his product in a way which he knows will induce purchasers to buy it thinking it is the product of another. Thus, palming-off⁷⁶ and material misrepresentation in advertising⁷⁷ have been held to be still actionable torts. Additionally, all other actions previously considered to constitute unfair competition which involve more than mere copying of one's products should not be affected by Sears and Compco.⁷⁸

**Secret Information**

Another segment of the law of unfair competition is comprised of the protection afforded secret information. These protections evidence a realization, principally by the judiciary

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⁷⁶ See, e.g., Riback Enterprises, Inc. v. Denham, 452 F.2d 845 (2d Cir. 1971); K-S-S Plastics, Inc. v. Carolite, Inc., 408 F.2d 54 (9th Cir. 1969); Heaton Distrib. Co. v. Union Tank Car Co., 387 F.2d 477 (8th Cir. 1967).
⁷⁷ See, e.g., Electronics Corp. of America v. Honeywell, Inc., 428 F.2d 191 (1st Cir. 1970).
⁷⁸ The "record piracy" cases clearly indicate the reluctance of the courts to give Sears and Compco a pervasive application. Prior to February 15, 1972, the sounds incorporated in records (as distinguished from the labels) were not copyrightable. Certain enterprising businessmen began pirating and selling the sounds from published records. The courts clearly considered these activities to be acts of unfair competition and thus were challenged to devise means of protecting the record owner. The theory seized upon by most courts was that the pirate did not merely copy and imitate the product, but rather actually took and appropriated the product. Under this view, INS was controlling rather than Sears and Compco. See, e.g., Tape Industries Ass'n of America v. Younger, 316 F. Supp. 340 (C.D. Cal. 1970); Capitol Records, Inc. v. Spies, 264 N.E.2d 874 (Ill. App. 1st Dist. 1970); Liberty/UA, Inc. v. Eastern Tape Corp., 11 N.C. App. 20, 180 S.E.2d 414, writ denied, 278 N.C. 702, 181 S.E.2d 600 (1971); Capitol Records, Inc. v. Greatest Records, Inc., 252 N.Y.S.2d 553 (N.Y. S.Ct. 1964).

Pub. L. 92-140 (Oct. 15, 1971) has now provided copyright protection for certain sound recordings fixed and first published after February 15, 1972. The courts will probably hold that since Congress has seen fit to provide copyright protection, the record owner must copyright his sounds in order to protect them. Publishing the sounds without securing statutory copyright will probably inject them into the public domain.

The Supreme Court has recently granted a writ of certiorari (No. 71-1192) in a case in which the petitioners were convicted under California's record piracy criminal statute for appropriating sounds from a recording fixed and first published prior to February 15, 1972. Goldstein v. California, ___U.S.___ (1972). In reviewing this case, the Court probably will consider whether state statutes and doctrines of unfair competition granting a form of copyright protection to published sound recordings conflict with U.S. Consc. art. I, § 8, cl. 8, and the implementing Federal Copyright Act. In all probability the Court will hold that the rationale of Sears, rather than INS, is controlling, and that uncopyrighted records may be freely copied once they are published (whether before or after February 15, 1972).
but to some extent by the legislative bodies, that so-called "trade secrets" and confidential information are of great value to their owners. Since such information is also of great value to the public, the patent and copyright acts are designed to induce the owners to disclose their ideas. But the vast majority of proprietary secret information does not meet the exacting standards of the patent system or is not copyrightable or, even if patentable or copyrightable, the proprietor does not wish to take a chance on losing the information by obtaining a patent or copyright. For lack of a better solution, the law has evolved certain protections, based partially on tort concepts, partially on property concepts, substantially on contract concepts and vastly on equitable concepts, for a businessman's secret information which allow him to conduct his business free from reprehensible business tactics.79

Possibly the most difficult aspect of this area of the law is determining what proprietary information is protectible. Most states provide protection to any information which meets the Restatement of the Law of Torts' definition of "trade secret":

"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. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers. . . . A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates or other concessions in a price list or catalogue, or a list of specialized cus-

79. Under the constricting rationale of Sears and Compco, state laws designed to protect trade secrets and confidential information cannot be based on the policy of rewarding or otherwise encouraging the development of secret processes or devices. This is the policy of the Federal Patent and Copyright Acts. Therefore, it is said that the protection is merely against breach of faith and reprehensible means of learning another's secrets. See, e.g., Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163, 171 (6th Cir. 1969); Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9th Cir. 1965).
tomers, or a method of bookkeeping or other office management.\textsuperscript{80} (Emphasis added.)

No attempt here will be made to enumerate the various types of proprietary information that have at one time or another been held to constitute protectible secret information. Several treatises are available which delve into the subject in detail.\textsuperscript{81} It is suggested that all proprietary information which is secret and confidential and gives its owner an opportunity to obtain an advantage over his competitors should be protectible.\textsuperscript{82}

In any event, the threshold issue in each case of this nature is whether the information in question was in fact secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the businessman’s marketed products cannot be his secret. On the other hand, a secret clearly need not be absolute to be protectible. The degree of secrecy required for the protection of the information is a matter of judgment and will vary from case to case. Some factors which the courts have generally considered in determining whether given information is a secret are: the extent to which the information is known outside of the owner’s business; the extent to which it is known by the owner’s employees and others involved in his business; the extent of the measures taken by the owner to guard the secrecy of his information; the value of the information to the entrepreneur and to his competitors; the amount of effort or money expended by him in developing the information; and the ease or difficulty with which the information could be properly acquired or duplicated by others.\textsuperscript{83}

Once it has been determined that there exists proprietary

\textsuperscript{80} 4 Restatement of Torts § 757, comment b (1939).
\textsuperscript{82} See, e.g., Clark v. Bunker, _F.2d_ (9th Cir. 1972), holding that no category of information is excluded from protection as a trade secret because of its inherent qualities. Thus, plaintiff’s detailed plan for the creation, promotion, financing and sale of contracts for prepaid funeral services gave its users a marked advantage over their competitors and was a protectible trade secret. The court held that novelty is not a requirement for a trade secret. The fact that the information could have been obtained elsewhere is not critical since it would have required substantial effort. The fact that the plan had been disclosed to others did not destroy the trade secret status since the others had held it secret.
\textsuperscript{83} 4 Restatement of Torts § 757, comment b (1939).
information which may constitute protectible subject matter and such proprietary information is secret to the necessary degree, the court will consider fashioning some rationale for protecting the secret information. Often it is said that the businessman has a property right in his secret information. The property concept is significant since the information must have some independent value in order to be protected. But it must be realized that this property right is not in rem and is not like the property right in other chattels. The owner of the secret information is protected only against its appropriation or use without his consent. If another obtains the information honestly, such as by reverse engineering the product or by discovering or conceiving the information independently, then the owner of the secret has no cause of action—and quite possibly all rights in the secret information have been lost because the information is no longer secret.

An alternative approach is to base the protection on the principles of either contract or confidence. The theory of founding recovery on contract or trust and confidence is generally thought to have arisen from the opinion of Mr. Justice Holmes in E. I. du Pont de Nemours Powder Co. v. Masland in which he stated:

"The word property as applied to . . . trade secrets is an unanalyzed expression of certain secondary consequences of the primary fact that the law makes some rudimentary requirements of good faith. Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be. Therefore the starting point for the present matter is not the property or due process of law, but that the defendant stood in confidential relations with the plaintiffs, or one of them."

In allowing recovery against one who has appropriated or used the secret information without the consent of the owner, the courts of the various states generally choose among the

84. "The inventor is one who has discovered something of value. It is his absolute property. He may withhold the knowledge of it from the public . . . ." (Emphasis added.) United States v. American Bell Telephone Co., 167 U.S. 224, 250 (1897). "We are dealing with a type of intellectual property—in effect, a property right in discovered knowledge." (Emphasis added.) Ferroline Corp. v. General Aniline & Film Corp., 207 F.2d 912, 922 (7th Cir. 1953).
85. 244 U.S. 100, 102 (1917).
property, contract, or confidence theories depending upon the relationship between the owner of the secret information and the alleged infringer. Absent a relationship of contract or confidence, the owner must rely on his naked absolute property right in the secret information and protection is afforded him against one who appropriates the secret by unfair tactics on classical principles of unfair competition. But if there exists a contractual or confidential relationship between the owner of the secret and the party who improperly disclosed or used it, the owner has an action based on breach of contract or breach of confidence. Regardless of the theory chosen, however, simply because the proprietary information happens to be secret and someone else turns up with it is not sufficient. That other party must have acquired the information unfairly or tortiously or in breach of a contractual or confidential relationship.

If there is a contractual or confidential relationship between the parties, the election of the court to afford protection to the businessman's secret information under the theory of breach of an express or implied contract, on the one hand, or under the theory of breach of confidence, on the other hand, can be very important. For instance, a different period of limitations may be applicable depending upon whether the activity is deemed to be a breach of an implied contract or a breach of a confidential relationship.

The most common relationship of the parties in trade secret litigation is that of employer and employee. The ownership of secret information in an employment relationship depends upon whether the information was developed by the employee along his line of duty. The employer owns and has the right to keep to himself the work which he has done or paid for doing. On the other hand, all information which an employee brings with him to his employment is free of ownership by the employer in the absence of an agreement purchasing such information.

86. See, e.g., the INS decision and text discussed at note 67 supra.

87. See Chadwick v. Covell, 151 Mass. 190, 23 N.E. 1968 (1890), where Judge (later Justice) Holmes held that the only right the owner of secret formulae had was to prevent anyone from obtaining and using them through a breach of trust or contract.

88. In Louisiana, if deemed to be a breach of confidence, the action will probably be considered one ex delicto and prescribe in one year. LA. CIV. CODE art. 3536. But if deemed to be a breach of contract or implied contract, the action will probably prescribe in ten years. LA. CIV. CODE art. 3544.


It is well settled at common law that the existence of the employment relationship imposes a duty upon the employee not to use or disclose any of his employer's confidential information which the employee knew was to be treated as confidential. Whether the employer intended to maintain the information in confidence may be implied from the employer's course of conduct or it may be shown by express agreement. The obligation of the employee to protect his employer's secret information extends throughout his employment and continues after such employment is terminated. This obligation extends to all employees having knowledge of the trade secret and not just those who are hired to develop such information. Other persons who have been held to be obligated as a result of their relationship to maintain the confidential nature of another's secret information are former joint venturers, former partners, officers of a corporation, the prior owner of a business, and attorneys. On the other hand, no protection is afforded the owner of secret information with respect to those persons with whom he has no contractual or confidential relationship, such as visitors to a plant. Usually a contractual or confidential obligation not to use or disclose secret information terminates with the publication or loss of confidentiality of the information.

The remedies available to a trade secret owner at common law include injunctive relief, damages from both the disloyal

95. To protect his secret information from visitors, the businessman should either prevent the visitors from viewing the secret information or should establish a contractual relationship with them. See, e.g., Cloud v. Standard Packaging Corp., 376 F.2d 354 (7th Cir. 1967). Of course, if the visitor obtains the information by industrial espionage, such as theft, he will be liable to the owner for damages and also be obligated to maintain the confidential nature of the information. See, e.g., Sandler v. Gordon, 210 F.2d 316 (Cal. 1950); Dior v. Milton, 155 N.Y.S.2d 443 (N.Y.S.Ct. 1956); Eastern Extracting Co. v. Greater New York Extracting Co., 110 N.Y.S. 738 (1908).
person and the person who induced the disclosure, and return or destruction of materials embodying the trade secret. Very few jurisdictions have statutes making the betrayal of a trade secret or inducement thereof a crime. In certain cases of industrial espionage, however, the manner in which the trade secret is obtained may result in criminal sanctions. In actions to protect secret information or to recover for its betrayal, most jurisdictions have provisions for in camera proceedings to protect against a publication of the trade secret and thereby losing it.

Although the Sears and Compco decisions did not involve secret information, some of the Court's broad statements immediately precipitated much agonizing as to whether the law of unfair competition protecting secret information had been displaced. As the various federal and state courts grappled with the problem, it became apparent that generally it had not been displaced. The United States Second Circuit Court of Appeals stated that Sears merely held that states cannot, under the guise of regulating unfair competition, grant what is in effect patent protection. To the extent that one makes out a breach of confidence case against an individual defendant, he is not seeking patent protection, that is, protection against the world, but only a tort or contract remedy against an individual wrongdoer. The United States Fifth Circuit Court of Appeals considered the situation in which a defendant hired an employee of the plaintiff to take advantage of the employee's expertise in reproducing a complicated system first developed by the plaintiff. Recovery was allowed. The court stated that Sears and Compco did not involve trade secrets and did not displace the law of trade secrets.

100. New York and New Jersey have such penal provisions with respect to trade secrets (misdemeanor).

The broadest extension of Sears and Compco was provided by the United States Ninth Circuit Court of Appeals in a case involving former employees who were using and disclosing their ex-employer's secret information.
Although the post-*Sears* and *Compco* decisions by the various federal and state courts had begun to assuage the fears of those attempting to protect secret information, the Supreme Court's 1969 decision in *Lear, Inc. v. Adkins* caused a resurgence of the fears. Adkins had been hired by Lear for the purpose of solving a problem relating to gyroscopes. Adkins promised to grant Lear a license as to all ideas he might develop on a mutually satisfactory royalty basis. As his ideas gained fruition, Adkins filed a patent application and negotiated an agreement with Lear under the conditions of which Lear promised to pay royalties for Adkins' improvements. Lear commenced paying royalties to Adkins, but prior to Adkins' obtaining a patent on his improvements, Lear unilaterally decided that the improvements did not constitute patentable invention and thus quit paying the royalties. Subsequently the Patent Office determined that the improvements did constitute invention and issued the patent. The main issue of the case turned on whether the doctrine of licensee estoppel would preclude Lear from attacking the validity of Adkins' patent. The Supreme Court expressly overruled the doctrine of licensee estoppel, holding that it must give way before the demands of the public interest.

The Court then examined the question of royalties, stating that at the core of this question is the difficult determination of whether federal patent policy bars a state from enforcing a

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Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9th Cir. 1965). The Ninth Circuit examined the policy considerations involved in deciding what limitations should be imposed upon an employee in the use and disclosure of information acquired in the course of a terminated employment relationship or, conversely, what protection should be extended to the former employer against the use and disclosure of such information. One of the considerations advanced for protecting the employer's confidential, but unpatented, information was that the results of research and development must be afforded reasonable protection from disclosure or private investment in such area will be slowed, with consequent loss to both employers and public. The employer argued that the patent laws do not afford adequate protection because excessive time is required to process a patent application and because a high standard of invention must be met to obtain a patent or at least to sustain a patent once issued. The Ninth Circuit rejected this argument, however, stating that "[t]he rationale of *Sears*, ... precludes judicial recognition of a legally protectible interest in the secrecy of industrial information as such, as distinguished from an interest in the integrity of confidential employer-employee relationships." *Id.* at 138. Turning to the facts of the case and finding a confidential employer-employee relationship, the Ninth Court held that the employer was entitled to protection by injunctive relief against substantial duplication of its trade secrets by its former employees and their new employer.

contract regulating access to an unpatented secret idea. The Court rejected Adkins’ argument that Lear was controlled by the terms of the contract. The Court stated:

“The parties’ contract, however, is no more controlling on this issue than is the State’s doctrine of estoppel, which is also rooted in contract principles. The decisive question is whether overriding federal policies would be significantly frustrated if licensees could be required to continue to pay royalties during the time they are challenging patent validity in the courts.”104

The Court held, for reasons of overriding federal public policy, that Lear must be permitted to avoid the payment of all royalties accruing after the patent issued if Lear could prove patent invalidity.

The only issue left for the Court was whether Adkins was entitled to the royalties due him from the date he conceived his secret improvements until they were disclosed in the issued patent. This issue had not been addressed by the California Supreme Court, and the United States Supreme Court declined to consider the matter, stating:

“[W]e have concluded, after much consideration, that even though an important question of federal law underlies this phase of the controversy, we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of inventors of unpatented secret ideas.”105 (Emphasis added.)

In remanding the matter to the California Supreme Court, the United States Supreme Court stated that its decision would require the states to reconsider the theoretical basis of their decisions enforcing the contractual rights of inventors and the protections to be afforded in the future to secret information.

Perhaps the most ominous aspect of Lear appeared in the dissent. Justice Black, speaking for himself, Chief Justice Warren, and Justice Douglas, stated:

“I still entertain the belief I expressed for the Court in Stiffel and Compco that no State has a right to authorize any

104. Id. at 673.
105. Id. at 675.
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.”106 (Emphasis added.)

Various state and federal courts are now engaged in re-examining the theoretical basis of their decisions protecting confidential information. One of the first re-examinations occurred in Painton & Co. v. Bourns, Inc.107 Painton manufactured electronic components under a contract with Bourns, which provided that Painton would receive secret information, drawings, and engineering assistance and would be obligated to pay specified royalties on components incorporating such data. When the contract expired, Painton refused to return the secret information to Bourns, refused to cease using it, and refused to pay any more royalties.

The district court noted that California law was applicable to construe the contract, but held that the state law must obey the dictates of the supremacy clause and thus yield to the federal policies enunciated in Sears and Compco. Concerning the components which were covered only by trade secrets, the court followed the dissent of Mr. Justice Black in Lear and refused to enforce the terms of the contract, stating “the federal patent law requires an inventor to submit his ideas to the Patent Office before he can compel consideration for the use of his idea.”108 The district court did not decide whether, under Cali-

106. Id. at 677.
108. Id. at 274. The district court also held that the trade secret agreement could not be enforced in respect to those components covered by an existing British patent. “Once a patent issues, regardless of what was the intention of the contracting parties, the patentee-licensor may not enforce its trade secret claims . . . .” Id. at 273.
fornia law, an inventor, if he makes a patent application, can be compensated for his disclosure before the patent has issued.

The United States Court of Appeals for the Second Circuit reversed as unsound in law Painton's holding that trade secret agreements are contrary to public policy. 109 As to whether an agreement requiring payment for trade secrets is invalid under the rationale of Sears, the Second Circuit noted that in Sears the state law was conferring a monopoly against copying an article otherwise in the public domain. But 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. Rather than having a monopolistic tendency, the upholding of private agreements for the sharing of trade secrets on mutually acceptable terms tends against the owner's hording them. 110

The reasoning of Judge Friendly was logical and correct:

"We therefore do not find, either in general considerations of public policy or in emanations from the federal patent law, a sufficient basis for declining to enforce even the royalty provisions of trade secret agreements, at least with respect to cases where no patent application has been filed. Whatever the impact of Lear may be with respect to agreements governing inventions for which patent applications have been filed, we find no suggestion in the opinion that the Court intended to cast doubt on the long-standing principle that an inventor who chooses to exploit his invention by private arrangements is entirely free to do so, though in so doing he may thereby forfeit his right to a patent. Although the Court stated that 'federal law requires that all ideas in general circulation be dedicated to the common good unless they are protected by a valid patent,' ... it did not say or suggest that federal law requires that all ideas must be put in general circulation. ... In thousands of contracts businessmen have divulged such secrets to competitors, dealing at arms' length and well able to protect them-

110. Id. at 223. The Second Circuit also refuted the district court's theory that the protecting of trade secrets in advance of the filing of a patent application discourages the filing of such applications and is against the public interest. Id. at 223-25.
selves, on the faith that mutually acceptable provisions for payment, for the preservation of confidentiality, and for the return of the secret information on termination or default will be enforced by the courts. Provisions against competition not utilizing the trade secret, after expiration of the agreement, are a different matter which must be judged on their own facts. The district judge cited no data to prove that licensing of trade secrets had worked adversely to the public interest. To the contrary, such facts as have been brought to our notice indicate that the sharing of technological know-how on the basis of proper agreements has been beneficial not only within this country but in its relations with others. 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 the conditions that gave it birth no longer prevail. There has been no such showing here."

Other post-Lear decisions show no inclination to change the traditional common law concepts protecting secret information against misappropriation, breach of contract or breach of confidence. For instance the United States Ninth Circuit Court of Appeals has upheld a preliminary injunction restraining an employee and his conspirators from exploiting and misusing his ex-employer's trade secrets, stating:

"And although [the employee] himself may have developed some of the secrets, he gave [his employer] a written covenant not to use or disclose them, and this covenant also extends to those whom the Court held were conspirators.... 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."\[112\]

111. Id. at 225-226.
112. Dekar Industries, Inc. v. Bisseft-Berman Corp., 434 F.2d 1304, 1306 (9th Cir. 1970). In providing protection to an employer's trade secrets, the Ninth Circuit cited the pre-Lear decisions of Winston Research Corp. v. Minnesota Mining & Mfg. Co., 350 F.2d 134 (9th Cir. 1965), and Servo Corp. of America v. General Electric Co., 337 F.2d 716 (4th Cir. 1964). See Cataphote Corp. v. Hudson, 444 F.2d 1313 (5th Cir. 1971) and 422 F.2d 1290 (5th Cir. 1970), a post-Lear trade secret case decided by the Fifth Circuit. Although it was ultimately held that the subject matter did not constitute a protectible trade secret because it did not possess at least
Post-Lear decisions of course continue to apply the Sears
and Compco doctrine strenuously to situations in which the owner
voluntarily or negligently discloses his secret information. In
such cases, the competitor may lawfully reverse engineer the
finished product or slavishly copy it.113

Louisiana Law Protecting Confidential Information

The proper beginning for an inquiry into the protections
afforded confidential information by the Louisiana law is to
examine the Louisiana Constitution, statutes, and code provi-
sions.114 The Louisiana Legislature has made it amply clear that
it does not condone unfair competition. It has enacted legislation
dealing with trademarks and trade names, unfair discrimina-
tion in trade, endless chains, willingly and knowingly adver-
sising commodities at less than stipulated minimum prices, and
false advertising. Although there is little express legislation
concerning the protection of confidential information, there is

444 F.2d 1061 (7th Cir. 1971) (the defendant could lawfully copy an adver-
sising slogan that had been in the public domain for three years); Lemelson
v. Kellogg Co., 440 F.2d 988 (2d Cir. 1971) (the defendant could lawfully
 copy plaintiff's art work for its cereal boxes because the art work had been
made public by the issuance of a copyright, copyright infringement not
being in issue); and Sinatra v. Goodyear Tire & Rubber Co. 435 F.2d 711
(9th Cir. 1970) (the defendant was allowed to copy the style of Nancy
Sinatra's singing of the song "Boots").
114. LA. CIV. CODE art. 1.
116. Id. §§ 331-337.
117. Id. §§ 361-371.
118. Id. §§ 391-396.
119. Id. §§ 411-412.
ample evidence that the legislature recognizes the existence of trade secrets. The Louisiana Code of Civil Procedure provides for the protection of secret processes, developments and research during the taking of depositions.120 And provisions have been made for the protection of the trade secrets of others uncovered by certain administrative bodies in their investigations.121

There have not been many opportunities for the Louisiana judiciary to develop a broad body of law concerning unfair competition. In the cases that have arisen, the Louisiana courts, quoting liberally from legal encyclopedias, the works of commentators, and the decisions of other jurisdictions, generally have applied the legal principles extant throughout the United States and condemned those acts which have been prohibited in other states.122

Particularly, palming-off has been condemned.123 Protection has been provided to a businessman's trade names, trademark, service mark, and distinctive appearance against confusing similar imitations.124 A notable difference developed by the Louisiana courts in this area is that, insofar as a trade name is concerned, the plaintiff has been required to show both unfairness and fraud on the part of the defendant before he can obtain injunctive relief.125 The solicitation of an employer's customers

120. La. Code Civ. P. art. 1452.
121. See, e.g., La.R.S. 40:636(6) (1950); Id. § 1033(7); and id. 51:1058(b).
124. See, e.g., New Orleans Checker Cabs, Inc. v. Mumphrey, 205 La. 1083, 18 So.2d 629 (1944); Albrecht v. Del Econdo, 138 La. 502, 177 So. 587 (1937); Marev v. Mandich, 138 La. 15, 103 So. 359 (1925); Yellow Cab Co. v. Jones, 156 La. 837, 101 So. 216 (1924); Huth v. Rosenzweig, 27 So.2d 742 (La. App. Orl. Cir. 1946). See also Trappey v. McIlhenney Co., 231 F. 23 (5th Cir.), cert. dened, 280 U.S. 738 (1922) (involving the mark "Tobasco").
125. See, e.g., Straus Frank Co. v. Brown, 246 La. 999, 169 So.2d 77 (1964); Home Beverage Serv. v. Baas, 210 La. 873, 28 So.2d 461 (1946). It is suggested once it is determined that the plaintiff has used the trade name in connection with his goods or services or business and has obtained rights therein and that the defendant's use of a trade name, trademark or service mark is confusingly similar thereto, the defendant's lack of fraud should be relevant only for the mitigation of damages. Injunctive relief is designed to prevent further injury to the plaintiff's rights and to protect the public, and should not be governed by the fraud or lack thereof on the part of the defendant.
by the employee for his new competing business prior to termi-
nation of the employment relationship has been held to be an 
act of unfair competition.\textsuperscript{128} Unfortunately, the Louisiana courts 
have consistently held, contrary to all other states, that one has 
no action \textit{ex delicto} against another for inducing a breach of 
contract.\textsuperscript{127} However, these decisions have indicated that a cause 
of action \textit{ex contractu} may be proper under certain circum-
stances.

Since the Louisiana courts have generally applied the com-
mon law principles recognized in other states to other questions 
of unfair competition, it is logical to assume they would also 
apply many of the common law protections afforded by the 
various states to a Louisiana businessman's confidential informa-
tion—unless such an application would conflict with an express 
Louisiana statute or a strong, overriding public policy. This 
assumption is supported by the relatively few reported decisions 
in Louisiana dealing with a businessman's confidential informa-
tion.

In \textit{Marcann Outdoor, Inc. v. Johnston},\textsuperscript{128} the defendant had 
developed unique, secret formulae and processes for photographic 
emulsion. The court found that the information constituted a 
"valuable trade-secret property."\textsuperscript{129} The defendant sold these 
trade secrets, as well as any future developments to these 
processes, to the plaintiff. Subsequently, the defendant sought 
employment with one of plaintiff's principal competitors and 
threatened to disclose the secrets to the competitor. Plaintiff 
sought an injunction prohibiting the defendant from making, 
using, selling or disclosing all or any portion of the formulae 
and processes as well as future developments.

Without citing any Louisiana case directly in point, the 
court held "there is little question but that Marcann is entitled

\textsuperscript{127} See, e.g., Cust v. Item Co., 200 La. 515, 8 So.2d 361 (1942); Moulin 
v. Monteleone, 165 La. 169, 115 So. 447 (1927); Roussel Pump & Elec. Co. v. 
Sanderson, 216 So.2d 650 (La. App. 4th Cir. 1969). See also Note, 30 LA. L. 
Rmv. 713 (1970). Due to the harshness of this doctrine, the Louisiana courts 
may develop a theory of recovery for inducement of a breach of contract 
based on the right of privacy. See Pack v. Wise, 155 So.2d 909 (La. App. 3d 
Cir.), cert. denied, 245 La. 84, 157 So.2d 231 (1963); \textit{The Work of the Louisiana 
(1965).
\textsuperscript{128} 229 So.2d 419 (La. App. 3d Cir. 1970).
\textsuperscript{129} Id. at 420.
to injunctive relief to protect the valuable trade-secret industrial property purchased by it." 130 The only problem in the minds of the court was the breadth of the injunction. Since the defendant could cite no authority invalidating the sale to the plaintiff of the future developments in the processes, the court concluded that the terms of the injunction should include the future developments.

The Louisiana Third Circuit Court of Appeal arrived at a correct result by applying ordinary property and contract concepts to secret information. Since the defendant had sold his secret incorporeal property to the plaintiff, the law should not permit him to use it himself or disclose it to others until the information otherwise becomes publicly known.

In *Great Lakes Carbon Corp. v. Continental Oil Co.*, 131 the court considered a charge of misappropriation of trade secrets which had been joined with a substantial and related claim under the patent laws. Commenting that Louisiana follows the law of unfair competition as recognized generally, the court stated that the essential elements of a cause of action for breach of confidence relating to secret information are: (a) possession by the plaintiff of knowledge or information which is not generally known; (b) communication of this knowledge or information by the plaintiff to the defendant under an express or implied agreement limiting its use or disclosure by the defendant; and (c) use or disclosure by the defendant of the knowledge or information so obtained in violation of the contract or confidence, to the injury of the plaintiff. The court found that all of the alleged secret information was described in issued United States patents and was therefore publicly known. Since proof of the existence of a trade secret is essential to a claim of misappropriation of a trade secret, plaintiff’s complaint was dismissed.

The test applied in *Great Lakes* was based on contractual or fiduciary obligations and made no reference to property concepts. It was expressly followed in *Wheelabrator Corp. v. Fogle*, 132 but again plaintiff’s complaint was properly dismissed because the information sought to be protected was not in fact secret.

130. Id.
131. 219 F. Supp. 468 (W.D. La. 1963), aff'd, 345 F.2d 175 (5th Cir. 1965).
though the plaintiff may have had the intent to keep the processes and the machinery secret, he had not exercised any secrecy precautions. The court found that the guardhouses were unmanned and no admission restrictions were enforced on the premises. Customers, independent contractors, repairmen, engineers and other professionals were allowed to stroll about in the area where the alleged secret processes were being conducted. Additionally, an annual report of the plaintiff published a photograph of the heat treating equipment alleged to be a secret.\textsuperscript{133}

\textit{Standard Brands, Inc. v. Zumpe}\textsuperscript{134} considered an agreement under the terms of which Zumpe had agreed not to use or disclose at any time after the termination of his employment any of his employer's confidential information. The court determined that certain valuable information, not readily available elsewhere, had been disclosed to Zumpe in confidence and, irrespective whether the information was technically a "trade secret" under some definitions, if Zumpe disclosed it to another he would violate his contract.

\textit{Brown & Root, Inc. v. LeBauve}\textsuperscript{135} was concerned with the situation where an employee, upon obtaining a compilation of information from his employer which gave him an opportunity to gain an advantage over other businessmen (even though each individual piece of the information could have been found in the public domain), resigned and took steps to induce his ex-employer's principal to deal with him rather than his ex-employer. The court granted the plaintiff a preliminary injunction stating that a fiduciary or trust relationship existed between the defendant and the plaintiff, a relationship of mutual confidence which obliged the defendant to work in the interest of the plaintiff to the ultimate end of fulfilling its contract.

"To permit defendant to now capitalize on the information and knowledge he has gained while in the employ of

\textsuperscript{133}The plaintiff argued that its employment agreement with the employee acknowledged that the process was a secret. Judge Dawkins stated that while the agreement must be given some weight in the determination of the existence of a confidential relationship, it is not conclusive of the issue. "[I]t is a function of the court . . . not the employee to determine whether a trade secret so-called and considered by the employee is actually such." 317 F. Supp. at 638.

\textsuperscript{134}264 F. Supp. 254 (E.D. La. 1967).

\textsuperscript{135}219 F. Supp. 179 (W.D. La. 1962), aff'd, 319 F.2d 582 (5th Cir. 1963).
plaintiff at a time when the end product of his employment comes into fruition, is repugnant to the nature of the engagement entered into by him with his employer. The fiduciary relationship continues even after termination of the employment...."{138

These decisions indicate that the state and federal courts in Louisiana will rely on the same concepts utilized by courts in other states to provide protection for secret information. The courts will examine the facts of each case to determine if there exists an express or implied contractual or confidential relationship between the parties imposing an obligation on one not to use or disclose the other's secret information. In the absence of such a relationship, the facts will be examined to determine if one party unlawfully or unfairly misappropriated another's secret information property. If either of these situations exists, there is a legal basis for affording relief to the owner of the secret information.

Affording protection to a businessman's secret information on the basis of breach of contract or breach of confidence, however, often requires a balancing of the businessman's interest against the Louisiana public policy of free competition. The problem is augmented in many instances by the existence of a non-competition agreement, which must be reconciled with the strong Louisiana policy embodied in R.S. 23:921. Under

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136. Id. at 180.
137. See, e.g., Jones v. Ernst & Ernst, 172 La. 406, 134 So. 375 (1931); Deon v. Kirby Lumber Co., 162 La. 671, 111 So. 55 (1928); Lewis v. Huie-Hodge Lumber Co., 121 La. 653, 46 So. 655 (1908); Marine Forwarding & Shipping Co. v. Barone, 154 So.2d 528 (La. App. 4th Cir. 1963); Bogalusa Ice Co. v. Moffett, 179 So. 327 (La. App. 1st Cir. 1938).
138. One of the implied terms of a contract of employment is that the employee will not use or disclose his employer's secret information learned during his employment. But since it may be difficult to determine what is secret information, the covenant not to compete has grown up as a practical solution to the problem of protecting confidential information. See Water Services, Inc. v. Tesco Chemicals, Inc., 410 F.2d 163, 171 (5th Cir. 1969).
139. LA. R.S. 23:921 (1950), as amended, LA. Acts 1962, No. 104, provides:
"No employer shall require or direct any employee to enter into any contract whereby the employee agrees not to engage in any competing business for himself, or as the employee of another, upon the termination of his contract of employment with such employer, and all such contracts, or provisions thereof containing such agreement shall be null and unenforceable in any court, provided that in those cases where the employer incurs an expense in the training of the employee or incurs an expense in the advertisement of the business that the employer is engaged in, then in that event it shall be permissible for the employer and employee to enter into a voluntary contract and agreement whereby the employee is permitted to
the common law of the various states, the legality of a covenant not to compete is governed by the reasonableness of the terms and conditions of the covenant. Although the Louisiana courts have followed the doctrine of reasonableness in non-competition agreements ancillary to the sale of the goodwill of the business, R.S. 23:921 rejects this doctrine as concerns restrictive covenants ancillary to employment contracts.

In other jurisdictions, an action for breach of a covenant not to compete and an action for misappropriation of a trade secret by a breach of a confidential or contractual relationship are independent actions. The actions are often related because an employer has a legitimate interest in protecting a trade secret by means of a restrictive covenant. The existence of the trade secret also bears on the reasonableness of the restraints imposed on the employee by the covenant. However, an employer may elect not to require his employees to execute a non-competition agreement and may nevertheless indefinitely prevent his ex-employees from using or disclosing secret information they learned from him during their employment. The federal and state decisions which have struggled with the confrontation in Louisiana of the businessman's interest in protecting his secret information and the public policy of free competition appear to be developing a similar doctrine.

On at least two occasions, courts in Louisiana have been able to address the problem of balancing the businessman's interest in protecting his confidential information against another's interest in free competition unfettered by an express non-competition agreement or any demands that the other party be enjoined from working for a competitor, soliciting customers agree and bind himself that at the termination of his or her employment that said employee will not enter into the same business that employer is engaged over the same route or in the same territory for a period of two years."

The judicial foundation of La. R.S. 23:921 was indeed shaky. The early decisions voided restrictive covenants ancillary to employment contracts on the theory that they constituted potestative conditions. Blanchard v. Haber, 166 La. 1014, 118 So. 117 (1928); Cloverland Dairy Prod. Co. v. Grace, 180 La. 694, 157 So. 393 (1934). This reasoning was later rejected by the Louisiana Supreme Court in Martin-Parry Corp. v. New Orleans Fire Detection Serv., 221 La. 977, 60 So.2d 83 (1952), but not until after the result of the earlier decisions had been embodied in La. R.S. 23:921.

140. See, e.g., Moorman & Givens v. Parkerson, 127 La. 835, 54 So. 47 (1911).
or the like. In these cases, *Marcann*\(^{142}\) and *Brown & Root*,\(^{143}\) the plaintiff was seeking only an injunction prohibiting the defendant from using or disclosing his confidential information. In both cases the defendant argued that simply prohibiting him from using plaintiff's confidential information impaired his ability to compete with the plaintiff and violated the Louisiana public policy of free competition. The defendant in *Brown & Root* expressly raised the provisions of R.S. 23:921. The court in each case rejected this argument and held that the defendant was not prohibited from engaging in a competitive business, he was simply prohibited from using or disclosing plaintiff's confidential information.

A much more difficult question would have been presented if the plaintiff had proven the defendant's employment with another would inevitably result in the use or disclosure of plaintiff's confidential information and, even though lacking an express non-competition agreement, had demanded that the defendant be enjoined from such employment. This issue was raised in *Standard Brands*\(^{144}\) where the employer sought to enjoin his former employee from working for a competitor and from disclosing confidential information and trade secrets learned during his employment. Zumpe had not signed a non-competition agreement, but he had agreed not to disclose or use at any time after the termination of his employment any of his employer's confidential information.

The court examined the Louisiana law to determine whether an injunction should issue prohibiting Zumpe from working for his new employer in any capacity involving responsibility for the production of instant tea or coffee. After examining the history of R.S. 23:921, the court concluded that there can be little doubt that Louisiana courts would in a proper case enjoin the disclosure of trade secrets in violation of a fiduciary or contractual obligation to maintain their secrecy. However, that does not mean that Louisiana would sanction an injunction against working for a competitor because the new job entails the possible disclosure of trade secrets.

\(^{142}\) 229 So.2d 419 (La. App. 3d Cir. 1969).
\(^{143}\) 219 F. Supp. 179 (W.D. La. 1963), aff'd, 319 F.2d 582 (5th Cir. 1963).
\(^{144}\) 264 F.Supp. 254 (E.D. La. 1967).
“While it does not appear here that the disclosure of confidential information by Mr. Zumpe will inevitably result from his employment by Reily, even if this were the consequence, no remedy could be afforded. For Louisiana has made a legislative determination, binding on this court as it is on the courts of Louisiana, that prevents enforcement even of an express covenant not to compete, let alone an implied obligation not to do so. If this imperils the ability of manufacturers having plants in Louisiana to insulate their trade secrets, that is the result of Louisiana’s policy to protect the employee from what it considers to be an improper bargain even where he has expressly covenanted not to compete.”145 (Emphasis added.)

The plaintiff had presented no evidence that it met the expense and advertisement exceptions of R.S. 23:921.

The court also considered whether an injunction should issue preventing disclosure of the plaintiff’s confidential information by Zumpe while in the employ of Reily. The court concluded that the issuance of an injunction is not justified by the mere fact that irreparable harm may possibly ensue if restraint is not imposed. Rather, the plaintiff must make out a case for the issuance of the injunction by demonstrating that there is a clear and present need for it. The court stated its holding was not influenced by the existence of an express agreement between the parties; the same duties would have been imposed upon Zumpe under the law.

In most of the Louisiana cases involving the problem of confidential information, however, the plaintiff’s demand for protection of his confidential information has been coupled with a demand that the defendant be enjoined from performing some activity expressly prohibited by an employment agreement. Each of these decisions necessarily involved consideration of R.S. 23:921. An orderly examination of these decisions should commence with Martin-Parry v. New Orleans Fire Detection Service,146 a Louisiana Supreme Court decision not involving secret information. The parties had entered into an employment agreement in which the employee agreed that for a period of two years after his employment terminated he would not disturb,
hire, entice away, or in any other manner persuade any employee or dealer of his ex-employer to discontinue his employment relationship. The supreme court found that this was a perfectly lawful promise based on reasonable grounds and supported by valuable consideration. It did not violate the provisions of R.S. 23:921 because it did not prevent the ex-employee from engaging in a competitive business. It simply protected the ex-employer against having his other employees enticed away.

*National Motor Club, Inc. v. Conque*, 147 considered an employment agreement which contained a covenant not to compete for five years from the date the employment terminated and a clause whereby the employee agreed not to attempt to sell competing memberships to the company’s customers after his employment terminated. The district court reformed the covenant not to compete by enjoining the defendant from selling automobile insurance for a period of two years from the date his employment terminated. The court of appeal held that this injunction effectively prohibited the defendant from earning a livelihood in the field of his experience and thus was governed by the provisions of R.S. 23:921. The facts surrounding the employment were examined and found not to fall within the limited exceptions permitted by R.S. 23:921, and thus the covenant was declared invalid.

Concerning the agreement not to sell competing memberships to the company’s customers, the company argued that the clause was lawful under the holding of *Martin-Parry*. The court of appeal rejected this argument stating that the clause in *Martin-Parry* protected the employer against raids of his staff and dealerships. A covenant not to sell to the company’s customers, on the other hand, effectively requires one not to engage in a competing business and thus is not lawful under R.S. 23:921 unless supported by valid training and advertising expenses.

In *Delta Finance Co. v. Graves*, 148 the employer sued his ex-employee and a third party under the terms of his ex-employee’s employment contract. The employment contract provided that if, after the termination of his employment, the employee should go into a same or similar business, he would not: (a) solicit

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148. 180 So.2d 85 (La. App. 2d Cir. 1965).
any active or paid out customers of the company; (b) pay off or make payments on any active customer’s accounts of the company; (c) transmit or reveal any information, written or oral, concerning the active or paid out accounts of the company or methods of operation or types of business forms of the company to a competitor or use the same for himself or others in the same or similar employment; and (d) publish his photograph or cause it to be published or allow it to be published or use his name or advertising in conjunction with the same or similar employment.

The court of appeal examined the history of R.S. 23:921 and the judicial interpretations thereof, including National Motor Club of Louisiana, Inc. v. Conque, and concluded that, by amending R.S. 23:921, the legislature:

"[r]emoved the broad injunction against noncompeting contracts as being contrary to public policy. The statute as presently written gives approval to general non-competitive contracts meeting the requirements of the 1962 amendment, and in so doing, places such agreements beyond condemnation of public policy. A fortiori, contractual provisions which merely restrict the employee’s activity as to certain particulars of the employer’s business should be respected."149 (Emphasis added.)

The court distinguished the contract from that in National Motor Club, Inc. v. Conque: “The effect of these provisions is to prohibit Graves from pirating or taking direct steps to secure and injure the business of the former employer, Delta. It does not prevent him from utilizing his training or competing with other similar business.”150 The case was remanded for determination of damages and injunctive relief against the ex-employee.151

The Martin-Parry and Delta Finance doctrine that neither Louisiana public policy nor R.S. 23:921 prohibits an employee from agreeing that, upon termination of his employment, he will not pirate or take direct steps to injure his ex-employer’s busi-

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149. Id. at 88.
150. Id. at 88-89.
151. Interestingly, as concerns the alleged third party co-conspirator, the matter was dismissed under the existing Louisiana theory that “[o]ne not a party to a contract is not liable in damages to one of the parties to the contract for inducing the other party to breach the contract.” 180 So.2d at 89.
ness, has been followed in later decisions.\textsuperscript{1}\textsuperscript{2} A particular problem, however, has arisen in determining whether such an agreement will be enforced insofar as it obligates the ex-employee to refrain from using a confidential customer list or soliciting the employer's customers.

Under the common law of the various states, an employee may be prevented from soliciting his employer's customers, even in the absence of an express agreement, if he made a list of the names of the customers while in the employment relationship. But he cannot be so prevented, in the absence of an express agreement, if he committed the names of the customers to memory. On at least one occasion this latter principle was applied in Louisiana to a situation in which an employer, having no express agreement with his ex-employee, sought to enjoin his ex-employee from using names of customers obtained during the employment and from soliciting those customers. The court found that the names of the customers were lawfully learned by the employee while employed and were part of his memory and knowledge. Thus the customers could be freely solicited by the ex-employee.\textsuperscript{1}\textsuperscript{3} It is questionable whether the former principle will be adopted at all in Louisiana as the courts have been very cautious about enforcing even express agreements not to solicit customers. Although \textit{Delta Finance}\textsuperscript{1}\textsuperscript{4} and \textit{Buckeye Garment Rental Co. v. Jones}\textsuperscript{1}\textsuperscript{5} enforced agreements prohibiting an employee from soliciting his ex-employer's customers, \textit{National Motor Club}\textsuperscript{1}\textsuperscript{6} and \textit{Servisco v. Morreale}\textsuperscript{1}\textsuperscript{7} refused to enforce similar agreements because they in effect prevented the ex-employee from engaging in a competing business. As both \textit{Buckeye} and \textit{Servisco} were decided by the same judge, it is quite obvious that these determinations shall be made on a case-by-case basis with the interests of the parties involved carefully weighed against each other.

\begin{footnotesize}
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\item[\textsuperscript{1}\textsuperscript{2}] See Buckeye Garment Rental Co. v. Jones, 276 F. Supp. 560 (E.D. La. 1967); Bookkeepers Business Serv., Inc. v. Davis, 208 So.2d 1 (La. App. 4th Cir. 1968).
\item[\textsuperscript{1}\textsuperscript{3}] See also Baton Rouge Cigarette Serv. v. Bloomenstiel, 88 So.2d 742 (La. App. 1st Cir. 1956). Cf. 
\item[\textsuperscript{1}\textsuperscript{4}] Servisco v. Morreale, 312 F. Supp. 103, 106 (E.D. La. 1970); Brown & Root, Inc. v. LaBauve, 219 F. Supp. 179 (W.D. La. 1962), aff'd, 319 F.2d 582 (5th Cir. 1963).
\item[\textsuperscript{1}\textsuperscript{5}] 173 So.2d 238 (La. App. 3d Cir.), cert. denied, 247 La. 875, 175 So. 110 (1965).
\item[\textsuperscript{1}\textsuperscript{6}] 312 F. Supp. 103 (E.D. La. 1970).
\end{itemize}
\end{footnotesize}
The courts in Louisiana generally are correctly correlating the interests businessmen have in their secret information with the public interests in free competition. One who obtains another's secret information unlawfully or in breach of a contract or a confidence should be prohibited from using or disclosing the information. He should not be enjoined from engaging in competitive activities (as that term has been judicially defined) however, unless he is a former employee of the owner of the information and the owner meets the requirements of R.S. 23:921, or it is inevitable that he will use or disclose the secret information while engaged in such competitive activities. In this connection, it is suggested that the court's statement in Standard Brands concerning the effect of R.S. 23:921 was unnecessarily broad. The court had already determined that it was not inevitable that Zumpe would use or disclose his former employer's secret information and that if Zumpe did disclose the secrets to his new employer and he used them, it was inevitable that Zumpe's former employer could ascertain this fact and take further action. This factual determination would have supported the refusal to issue the injunction. It is also suggested that, as indicated in Delta Finance, the legislative pronouncement in R.S. 23:921 is not a general condemnation of all of the conflicting rights of others. There should surely be instances when an employer, to protect his valuable secret information, may obtain injunctive relief preventing his ex-employee from performing a type of work in which he will inevitably use or disclose such secrets.

Finally, since the purpose of injunctive relief is to preserve the status quo, and in the case of secret information to preserve the secret, if it appears there is any possibility the secret may be used or disclosed by one who obtained the secret unlawfully or in breach of a contract or a confidence, then the injunction should issue. Failure to issue the injunction may result in the secret information being injected into the public domain, leaving the former owner of the information with only an action for damages against the tortious or breaching party.

Guidelines

A businessman often faces problems pertaining to proprietary information and through ignorance or passiveness fails to
take the steps necessary to protect himself and his information. Thus a businessman wishing to protect his proprietary information should be versed in the law. He should establish certain standard operating procedures designed to protect his proprietary information under the law, and he should follow those procedures energetically and diligently.

To protect himself, it is most important that the owner of proprietary information strive in all cases to develop a contractual or confidential relationship with those to whom the information will be disclosed. Preferably the relationship will be governed by an express, written contract.158

One who develops or is continually developing proprietary information is faced with a business decision as to how he should best use and exploit it. If the information constitutes patentable subject matter, meets the strict standards and conditions of the Patent Act, and can be reverse-engineered by a competitor once the product embodying the invention is placed on the market, the businessman should consider applying for a patent on the information. A procedure should be developed for maintaining detailed, written records of the progress of the conception and development of the information. Each entry in these records should be dated and signed by at least one of the persons working on the development of the information and another person not related to the project. If the secrecy of the developed information is destroyed by the information being placed on sale or put into public use in the United States, care must be taken to ensure the patent application is filed within one year thereafter.

The businessman should be aware of the common law copyright protecting his unpublished “writings” and the simple precautions necessary to obtain statutory copyright when he publishes the writings. Writings which are original with the businessman, such as maps, plans and specifications, and which by necessity are required to be published, should always bear the requisite statutory notice when “published.”159

158. See note 88 supra. The Louisiana courts look to the allegations and prayer of the petition to determine whether the action is ex contractu or ex delicto for the purpose of determining the applicable prescription. Importsales, Inc. v. Lindeman, 231 La. 663, 92 So.2d 574 (1957).

159. The statutory notice must be on the writing when it is originally published. It is a crime to put the notice fraudulently on a writing which has been previously published and is already in the public domain. 17 U.S.C. § 106 (1970).
The businessman should be aware that any unpatented product or uncopyrighted writing injected into the public domain by him can be slavishly copied by his competitor. The law of unfair competition only limits the manner in which the competitor can market the copied product.

The businessman should be especially alert in protecting his proprietary information which either is not patentable or copyrightable or is more valuable maintained in secrecy. All persons with whom the businessman considers dealing should be required to enter into an express contractual relationship providing that all of his confidential information will be received in confidence and will not be used or disclosed without his written consent. All writings containing the businessman's confidential information should be marked with an obvious classification label, such as "CONFIDENTIAL INFORMATION," and a statement that the information is the property of the businessman. Steps should be taken to prevent visitors from having access to the confidential information. If the information is embodied in a visible apparatus, the area should be walled or sealed and possibly guarded. Visitors requesting or having access to the confidential information may be required to enter into an agreement not to use or disclose such information.

The relationship between a businessman and his employees is an extremely critical aspect of protecting secret information. If business practices permit, the employer should enter into an agreement with each of his employees requiring the disclosure and assignment to the employer of all information, whether patentable or not, developed during their employment. In the case where the employee was not hired to invent, an agreement to this effect gives the employer ownership of the information rather than a mere "shop right." If the employee was hired to

160. This can also give rise to certain implied obligations on the part of one who inadvertently receives the writings.
162. E.g., In view of your request to visit our development laboratories and examine the facilities, equipment and processes, it is desired that you be advised that these are considered proprietary with respect to this company. By your signature at the bottom of this letter it is understood that you agree not to use or disclose any of this information without our prior written consent.
163. Although this provision merely restates to some extent the employee's obligations under the law, it has a favorable psychological effect on the employee.
invent or write, the invention or "writing" belongs to the employer as a matter of law. The employee should agree to maintain the confidentiality of all of the employer's confidential information and not to use or disclose the information during the period of his employment or thereafter.164 The employee should agree not to take steps after the termination of his employment to injure his employer's business. The prohibited actions should be clearly enunciated and may include enticing away or disturbing other employees and soliciting customers with whom the employer has done business within a certain period of time. And, of course, the employee may be requested to agree not to compete for a period of two years. Since the various provisions of the agreement will be enforced only if they do not conflict with R.S. 23:921 or Louisiana public policy, a severability clause definitely should be included in the agreement.165

It is suggested that there be both a pre-employment and a post-employment interview with each employee. In the pre-employment interview, the policies of the employer with respect to his proprietary information should be explained and the details of the agreement which the prospective employee is expected to execute should be reviewed. The employee should be cautioned that he is expected not to use or disclose any confidential information he learned from his prior employer.166 At the post-employment interview, the terminating employee should be requested to submit in writing the details of all the proprietary information developed by him during his employment. He should be advised of the obligations resulting from his employment that are continuing obligations. Assurances should be obtained that the employee does not have any documents or other property of the employer.

Businessmen sincerely interested in protecting secret information should carefully screen their prospective employees to ensure they are not susceptible to industrial espionage. Information should be distributed throughout the organization only on a need-to-know basis.

164. Contracting as to what will be considered confidential information probably will not be considered binding by the courts. See Wheelabrator Corp. v. Fogle, 317 F. Supp. 633, 638 (W.D. La. 1970).
166. This provision may even be included as part of his employment agreement.
Lastly, a businessman should utilize what he has learned about protecting his own proprietary information to avoid being involved in a contractual or confidential relationship with another which restricts his operations. Care should be taken in dealing with persons submitting unsolicited suggestions that no confidential relationship arises. Unless the businessman is willing to risk not being able to use or disclose the information received or having to pay royalties to the solicitor, the information should not be accepted or examined until the solicitor has agreed there is no obligation to keep the information confidential or to refrain from freely using and disclosing it.\(^\text{167}\) Care should be taken in setting up contractual or confidential relationships to limit the period of the obligation, as at least the Texas law has on occasion resulted in a permanent injunction against one using trade secrets in breach of the confidential relationship even though the secret information had become a part of the public domain.\(^\text{168}\)

In summary, the field of the law pertaining to proprietary information, perhaps more so than most other areas of the law, is responsive to socio-economic conditions. Additionally, particular attention has been focused on this field of law as a result of the United States Supreme Court decision in Lear. However, the resulting re-examination by the courts of our existing legal systems providing protection to proprietary information is establishing that the systems are for the most part vital to the orderly conduct of business, function to promote the progress of science, and are not alien to the present socio-economic conditions of this country. A businessman should, therefore, not be hesitant to pursue the protection of his valuable proprietary information. He simply should be careful to conduct his activities in accordance with the law and respected business principles so that problems concerning his proprietary information are always in a posture which, while favorable to him, is not so inequitable to others as to cause a court to alter the law.

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\(^\text{167}\) In the case of a controversy between the parties, the businessman may find himself forever precluded from using and disclosing the information he received in confidence. The businessman will bear the burden of proving he independently conceived the information.