April 1961

Avoiding Adverse Receipt of Patentable Material

E. D. Roberts

Follow this and additional works at: https://scholarship.kentlaw.iit.edu/cklawreview

Part of the Law Commons

Recommended Citation
Available at: https://scholarship.kentlaw.iit.edu/cklawreview/vol38/iss1/4
A progressive manufacturing corporation today requires a patent "backbone" which will enable it to stand strong in the tempest of ever-increasing competition. Man's ingenious contrivances, represented by patents or by patentable subject matter, provide the substantive elements on which such a corporation may be formed and maintained. Many corporations, for this purpose, rely on a research staff composed of their own creative engineers and the like; others fitfully try to rely solely on material submitted by outsiders. Both types, however, may be exposed, voluntarily or inadvertently, to a knowledge of the outsider's inventions and thereby incur a potential for subsequent strife. The corporation so exposed, conscious of the unsolved need, may have already spent a considerable sum of its own money to develop an invention. It would feel that it should be free to utilize its own discoveries without having to compensate the outsider, notwithstanding an approximate duplication of effort and result on his part. Moreover, the corporation would probably not be willing to pay for the invention without seeing the material, and the inventor may not want to disclose his material without some guarantee of compensation. This situation creates an impasse which would probably not be settled without a struggle in lieu of an appropriate mediator.

It becomes readily apparent, then, that a potential financial hazard lies before every manufacturing corporation when it merely opens its mail. For it might, by doing so, expose itself to the pitfalls resulting from the confidential disclosure of such questionable patent material. The patent material as referred to herein, is merely a highly concrete form of a trade secret. On this basis, the plaintiff has the burden of proving: (1) that the disclosure was novel; (2) that the disclosure was made in confidence; and (3) that the feature disclosed has been used by the defendant. How, then, may the corporation proceed in order to protect itself against the adversities that may flow from the receipt of confidential patent disclosures, whether sought by it or thrust upon it by the outsider?

One possible approach to this question would be for a corporation to introvert itself and try to refuse to consider all patent material submitted by an outside inventor. A small number of corporations believe that this

1 "Patentable material" or "patent material" as used in this comment refers to ideas of a broad or general patentable nature.
approach will prevent any adverse contact with outsiders and is therefore the best way to defend against the consequences of disclosures from such persons. This is an inane belief resulting from a rather naive approach to the business world. Even the smallest and most backward corporation must have outside activity and this alone is enough to result in at least an occasional inadvertent exposure to unsolicited patent material and possible liability for payment therefor. However, this approach will provide a high margin of safety by absolutely preventing the outsider from establishing an express contract. It will also tend to prevent the establishment of an outsider’s proof, which he needs, in order to get relief under an alternative of an implied or quasi-contract, by avoiding thoughtless adverse admissions by the corporation.

However, even a corporation which is introverted to this extent must still open its mail. By so doing, it may be forever damned under the implied-in-fact or quasi-contract theories notwithstanding the fact that it may have independently developed the same or similar contrivance. This is especially true under circumstances of a jury trial where there is great sympathy for the individual. The impressionable lay jury may have the tendency to look upon a corporation as a cornucopia to be shared by all and as an undeserving bully having an overpowering bargaining position.

With these factors in mind, the introverted corporation, which feels that it is incapable of properly handling such outside patent material and seeks refuge by refusing to consider any such material under any circumstances, should be ready to demonstrate that it has not unduly exposed itself to patent material which is inadvertently received. If there is any remote indication that it has shown the material to its developmental or other associated personnel, it may become liable for breach of confidential relationship if a similar feature is subsequently utilized. This is exemplified by *Booth v. Stutz Motor Car Co.* An engineer of the defendant Corporation had merely seen the plaintiff’s designs for a new car which the defendant returned to the plaintiff. Subsequently, a new car was designed and built by the defendant’s company with the help of the engineer avowedly without the aid of the plaintiff’s plans. The court said that "there must have been an ‘unconscious assimilation’, and although final plans deviated from the plaintiff’s in more or less substantial

---

6 56 F. (2d) 962, 13 USPQ 12 (1932).
particulars, the salient features of the plaintiff's were included; to the extent that the plaintiff's plans, communicated in confidence to defendant Company, did enter into final designs, the defendant did inequitably appropriate those plans and should account to the plaintiff."

Even the introverted corporation may very well be doomed to the pitfalls of confidential disclosures if it retains the unsolicited materials. It can refuse to open suspected mail and can immediately return all questionable disclosures to the sender and unconditionally refuse to consider them. At best, this procedure is highly dangerous inasmuch as it destroys the corporation's record of what was actually disclosed. This could cause a great hardship to the corporation if the inventor is able to provide records which might otherwise be contradictory, and if the corporation's independent development of the inventor's scope of disclosure is an issue in subsequent litigation.

The introverted policy may prevent thoughtless or inadvertent admissions, but this policy also discourages the submission of ideas. Obviously, such a policy may hamper the corporation's relations with the public, but may stop the submission of unsolicited future patentable ideas. However, this results in ignorance on the part of the corporation with a resulting market disadvantage as compared to corporations which are prepared to handle such disclosures to their betterment.

By absolutely refusing to accept patentable material, the corporation creates situations which prevent "fishing expeditions" by outside inventors who are seeking information about a corporation's progress in a certain field. Otherwise, an adventurous corporation, which accepts patentable material and informs the inventor of the merits of his material in regard to the desires and needs of the corporation, commits a two-fold error. The acceptance of material may subject the corporation to possible liability for breach of confidential relationship and unjust enrichment. Further, the corporation's reply may well supply such inventor with information which will enable him to anticipate the goals of the corporation's developmental staff. The latter situation would be disastrous to the corporation's financial and employee incentive. The corporation might thereby be maintaining a developmental staff which does nothing more than lay the groundwork for an outside inventor who will want compensation. Corporations would thereby collectively inundate the entire industry with

7 See 65 Harv. L. Rev. 673 (1952), for a survey of the specific types of risks involved in confidential disclosures.

an outside inventor's inventions which have the latest and most desirable advances in the specific art. The pseudo inventor can claim a reward with very little or no actual developmental effort on his part.

The introverted corporation policy will tend to prevent the corporation from contributing to the inventor's "fishing expeditions" and incidentally prevent thoughtless and inadvertent admissions. However, it will not provide the awareness and know-how to prevent certain specific indirect exposures; namely, exposures occurring during mergers or contract negotiations and of purchasing or licensing agreements, which normally befall even the most inactive and backward corporations.9

If a corporation recognizes the value of properly receiving patent material and chooses to do so, it should proceed under carefully controlled conditions. One such condition should be to encourage general disclosures only. These disclosures should merely indicate the broad classification of the invention. The personnel chosen to receive such a disclosure can thereby reduce the exposure to totally undesirable materials by politely turning down an opportunity for further investigation of undesirable fields. Of course, this personnel should have current knowledge of the general applicable areas in which the corporation is interested and to which they are willing to further expose themselves. The corporation cannot force the inventor to submit only general disclosures, although the corporation could develop a favorable precedent in this regard by constantly pursuing this method of receiving patent material from the public.

As an additional attempt at safeguarding the corporation, the receiver should require that the inventor sign a waiver or release wherein he submits his invention on condition that the amount of payment therefor will be left to the discretion of the corporation. Prima facie, it would appear that such a release would relieve a corporation of practically all liability in view of the fact that the inventor is in no way forced to sign such a release. However, the equity court will not allow the waiver to be a license for the corporation to steal and will infer unjust enrichment and breach of trust or otherwise apply the quasi-contract theory to decide the case regardless of what the conditions were of the waiver or other agreement.10

The benefits to be derived from a release are questionable. It may relieve the defendant from liability.11 On the other hand, there may be

a quasi-contract situation notwithstanding a release by the plaintiff as indicated above. A recent case where the plaintiff had signed a release was not decided on the basis of the release but instead the court ignored this argument and chose to decide the case on the basis of novelty. Thus, no corporation should rely on a release as an absolute means of protection. It appears that even though such a release or other agreement is signed by an inventor, who is thoroughly aware of what he is doing, he is nonetheless not necessarily bound thereby to the expense and frustration of a corporation. Thus, any negotiations with the inventor can cause trouble for the defendant unless the defendant has clear records to repudiate confidential disclosure which would otherwise result in a quasi-contract if not an implied-in-fact contract. A waiver could constitute such record by clearly identifying the subject matter in question by establishing the date of submission and defining the conditions of submission.

A corporation should inform the outside inventor that he should obtain patent protection before he attempts to negotiate, and he should be informed that his material is being kept out of the hands of pertinent personnel until such time as he is able to rely on his patent rights. This indicates that the corporation is negotiating, if at all, for that which the outsider can clearly establish ownership of and not merely an idea which is of questionable ownership. The reasoning back of this is that the law will not imply a promise on the part of any person against his express will. The protection here would be much stronger than that derived from a waiver. However, it is important that both the waiver and an issued patent be relied on to predetermine the status of the parties.

The best answer to the question of how to prevent the adversities otherwise resulting from receiving confidential patent material, is to meet the situation squarely with a specially trained organization which can anticipate and avoid the pitfalls which would otherwise envelop the corporation. The liability attendant disclosure of patent material is a foe that proper organization and know-how can deal with to the advantage of the inventor as well as the corporation. There must be a special "breed" of personnel provided who are aware of the corporation's technical needs and business activities while remaining acutely aware and specially equipped to cope with the legal adversities which may arise.

If a non-technical staff is utilized by the corporation to receive questionable patent material disclosures, there will be a natural barrier

---

14 Id.
between the disclosure and the developmental and management staff. This barrier will provide a measurable amount of protection against "unconscious assimilation." Further, the non-technical staff would no doubt lack the appropriate authority for making a binding agreement. This situation would tend to defeat the possibility of an express contract which might otherwise result from thoughtless statements made by persons receiving disclosures. However, it should be realized that a non-technical staff could readily receive material which is subsequently used by a corporation with the resulting inference leading to an implied-in-law contract. A non-technical staff would be advantageous to some degree in maintaining a record of disclosures which might be important in establishing a corporation's position in regard to scope and nature of a specific disclosure to relieve or prevent subsequent disagreement or litigation.

It is important that the non-technical personnel be isolated from the intricacies of the independent developments of the corporation which could lead to "unconscious assimilation." With this in mind, an obvious disadvantage of such a staff manifests itself; namely, because of the lack of knowledge of the developments, there can be no statement given to the outsider which would indicate to him that the corporation has already developed the idea independently. Such a bit of knowledge expressed in a friendly manner to the inventor, might otherwise preclude a suit by the inventor against the corporation before it gained momentum. It is hardly necessary to mention that this would be the least expensive way to handle such a situation. The cost of vindication can be high.

A non-technical staff is usually not informed about management's activities in regard to negotiations dealing with licenses, mergers, contracts, etc. Patent material is usually an element which forms a main portion of such transactions and therefore should be handled with extreme accuracy and legal caution with a full record of what was disclosed and on what basis it was disclosed. However, an advantage in using a non-technical staff for receiving confidential disclosures is that they are inherently ignorant of the intricate problems to be solved and are therefore not in a position to make thoughtless, good-faith, technical comments

18 See note 15, ante.
19 Smith v. Dravo Corp., 208 F. (2d) 388, 97 USPQ 98 (1953).
which would result in contributing to a "fishing expedition" by the outside inventor. This likewise though, illustrates the inability of such a staff to be able to recognize, analyze, and utilize needed valuable disclosures.

The most undesirable type of personnel for handling confidential disclosures of patent material is the technically informed developmental or engineering staff. Obviously, a disclosure thereto through the mail or otherwise would be a direct contact with the heart of the corporation creative personnel and it would be easy for a court to find sufficient exposure to make the defendant liable. A technical staff is highly concerned with the development and is thereby vulnerable to discussion which would directly contribute to the outsider's fishing for information. Also, a technical personnel has its experimentation and development as its horizon and is not equipped or otherwise prone to keeping exacting records of the scope and dates of the disclosures. Instead, it will be more interested in the technical working aspects of the patent material and probably anxious for a chance to be exposed to all innovations appearing in its realm of activity. This is exactly the attitude that the corporation should prevent except under controlled conditions. The technical staff should be separated from direct exposure to unsolicited patent material by an organization which can prevent untamed exposure to patent material.

The technical staff does not take part in phases of proposed license agreements or other corporate negotiations where a disclosure is likely to be made. Thus, the corporation would be exposed to material without control. Even if the technical personnel was a part of the corporation's management, it would not be properly informed or otherwise capable of legally advising the corporation to guide it from the grip of an implied or quasi-contract in regard to patent material.

Inasmuch as confidential disclosures of patent material may result in adverse legal consequences, it follows that a corporation's legal staff should handle such disclosures. More particularly, the disclosures should be handled by the patent arm of the legal staff inasmuch as it is especially equipped to cope with this type of situation. The general legal staff will no doubt be aware of the broad possibility of adversity from receiving patent material, but it is not trained to interpret the specific legal problems or the technical structural scope of patents or patent material.

A legal staff of registered patent attorneys is inherently equipped to squarely meet the problem of confidential disclosure so that the inventor and corporation may both justly benefit. A patent staff would constitute

---

20 See note 15, ante.
a barrier between the outside inventor and the corporation's developmental staff to prevent any direct exposure of the corporation to unsolicited patent material. The patent attorney should withhold disclosures from the corporation's engineers and other developmental personnel until the inventor and the corporation can come to terms. The attorney should immediately inform the inventor of this situation so that the inventor will reconcile himself with the idea that the corporation's liability will depend on negotiations and not upon mere disclosure. Every effort should be made to prevent exposure of the corporation's creative or management staff to the disclosure. The inventor should be convinced that this is true. Under this procedure the corporation will remain essentially unexposed and, in the event negotiations with the inventor fail, the heart of the corporation is not contaminated with the disclosure.

A patent legal staff is less likely to make thoughtless admissions which would contribute to an inventor's knowledge of the subject matter and thus restrain any "fishing expeditions." The patent attorney would refrain from making statements resulting in a contract although he may be vested with the power to contract. Also, he would be present at negotiations of merger, purchase or license agreements and could thereby exert his aid in preventing unnecessary exposure to patent material except on a controlled basis.

A patent staff is morally bound to see that exacting records are kept of conceptions made during the corporation's developments, both as to content and date. If the corporation has developed an idea independently and prior to the disclosure from the outsider, the patent department would be in a position to know immediately and could politely inform the outside inventor without making unnecessary admissions. Inasmuch as the patent attorney has a technical background, by necessity, he is in a better position to inform the inventor in terms of his art without having excessive legal overtones that might alienate the inventor.

In summary, it is suggested that corporations face the possibilities of confidential disclosures as being inevitable and prepare themselves to deal with them rather than trying to avoid them. In so doing, the corporation should adopt an attitude whereby it resigns itself to deal fairly with outside inventors, but to rigorously apply procedures most likely to prevent adverse disclosure of patent material. The largest measure of protection is gained by having a patent legal staff to act as a mediator between the outside inventor and the corporation. Although the patent attorneys utilized thereby will be in the employ of the corporation, they

nevertheless can operate with a higher degree of independence than any other staff might be able to do. Under these suggested circumstances, there would be a barrier between the outside inventor and the heart of the corporation. This barrier would prevent adverse confidential disclosure in a manner least apt to alienate the outside inventor with procedures having legal overtones, but which is still capable of conditionally receiving patent material disclosures and which is inherently equipped to maintain records and advise the corporation. Inasmuch as a patent legal staff will be patent material conscious, alert to technical aspects of inventions, and legally alert to disclosure adversity, it can serve both the corporation and the outside inventor in a manner most advantageous to both.

E. D. Roberts