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Disclosure of Specific Types of Ideas: Misappropriation

Homer C. McRae*

NORMAL PROCEDURE in attempting sale of a valuable idea is for the claimant to offer his idea for sale to the recipient who usually will refuse to buy it until disclosure. Then, after disclosure, the recipient may or may not promise to pay for the idea if he uses it. In either case, the recipient may use the idea later, perhaps in a modified form, and refuse to compensate the claimant.

Lack or Failure of Consideration

(a) *Past Consideration*

In *Fulton v. Varney*,¹ the claimant alleged that he recommended the recipients for certain work to be performed, and notified the recipients, and that they agreed to pay the claimant one-half of the profits arising out of the work to be performed, in consideration of the recommendation. The Court said that if after receipt of the information and recommendation, the recipients promised to pay for these services, the consideration was a past one and could not support the contract. However, if the claimant was to supply the information after the recipients promised to pay for the information, the pleading was insufficient because performance by the claimant was not averred.

In another case it was agreed between the claimant and the recipient, at the time of the conveying of certain information as to the availability of certain bonds for purchase by the recipient, that the recipient would pay the claimant a reasonable commission for finding the bonds and conveying the information. The Court said:

This allegation, that performance and promise were contemporaneous, alleges present consideration. . . . It is sufficient to make out a cause of action that a valid, present consideration, the giving of the information concerning the whereabouts of the bonds, is alleged.²

However, a dissenting opinion stated:

All that is really pleaded is a promise made in consideration of benefits theretofore rendered without a request by the promisors, express or implied. Such a promise is invalid.³

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¹ 117 App. Div. 572, 102 N. Y. S. 608 (1907).

² *Gellert v. Dick*, 277 N. Y. 123, 125, 127, 13 N. E. 2d 603, 604 (1938).

³ *Id.*, 277 N. Y., at 128, 13 N. E. 2d, at 605.

These two cases are the exception to the rule: The difficulty with disclosing the idea as a consideration before the agreement is made, oddly enough, does not usually arise as an issue. In *Brunner v. Stix Co.*,⁴ the claimant devised a plan for increasing the number of department store charge accounts by means of a prize contest among the employees of the department store to secure new customers. The plan set forth the means and methods for conducting the contest. The plan was presented to the recipient, who asked the originator of the plan what he wanted for it. Since the plan had never been tried, the claimant asked the recipient to try it to see how effective it might be, and then some arrangement for settlement could be made. The recipient agreed. The plan was tried with success, but no compensation was paid the claimant. Recovery was allowed, the Court saying:

The case does not pivot on an unauthorized use of an asserted property right, common law or statutory, in a disclosed idea, but on a contract to pay for the authorized use of a disclosed idea. Plaintiff was under no legal obligation to make his plan known. He disclosed it in consideration of a promise given and received as the equivalent in value for its disclosure.⁵

Notice that last sentence in the opinion completely ignores the facts of the case: the disclosure was made before any promise was given.

The difficulty with past consideration is now overcome by statute⁶ in New York. This makes past consideration valid for supporting a contract, if the consideration is expressed in writing and is proved to have been given.

(b) *Failure of Consideration*

In *Soule v. Bon Ami Co.*, the claimant of an idea obtained an agreement before disclosure, from the recipient, to pay him one half of the profits resulting from the use of the idea. The recipient manufactured a product known as "Bon Ami." The whole-sale price was \$10 per gross, and the grocers retailed it for 10¢ per package. The suggestion was to increase the wholesale price to \$10.50 or \$10.80, but to retain the retail price, thus increasing profits for the manufacturer without losing sales. Only the grocer would lose profits. The claimant was satisfied that this could be done because it had been done to a similar product in the face of keen competition. The manufacturer adopted the plan with increased profits, but refused to pay anything to the originator of the idea. Recovery was denied. The Court said:

The central idea here was an obvious one. . . . There was no monopoly on the idea that an increase in price would result

⁴ 352 Mo. 1225, 181 S. W. 2d 643 (1944).

⁵ *Id.*, at 352 Mo. 1232 181 S. W. 2d 646.

⁶ N. Y. Pers. Prop. L. § 33, Subdiv. 3.

in an increase in profits. This was not new or original. The very nature of the offer suggests that the information must be new. To call attention to a fact already known is not imparting information.⁷

In another case an agreement was obtained for five percent commission to be paid to the originator of an idea, if used. This agreement was made before disclosure. The recipient was a railroad company. The idea was to sell advertising space (sale by the railroad) and to display the advertisements on its railway stations, depots, rights of way, cars, and fences. The plan was used, resulting in income of several millions of dollars, but no commission was paid for the idea. Prior to disclosure, no advertising had been displayed as suggested. Recovery was denied the claimant. The Court took judicial notice that the idea of selling advertising space is common knowledge.⁸

In *Futter v. Paramount Pictures*, the idea was submitted, to a motion picture company, of making short moving picture features in color, with offscreen comment, depicting unusual jobs, photographed at the actual location and using the title "Odd Jobs." No recovery was obtained because it was not novel or original.⁹

In another case an interesting situation is presented in which the idea or information is unknown by the recipient, but the information is open to public knowledge in public records. Is this idea novel and sufficient consideration for supporting a contract? An agreement was made before disclosure to pay the claimant thirty-five percent of all refunds and future savings resulting from disclosure of certain information to the recipient. The information was a section of the Internal Revenue Code which exempted the payment of telephone excise taxes by anyone engaged in the dissemination of news for the public press, such as the recipient of the information. In refusing to pay the claimant, the recipient argued that the disclosure of a public statute does not involve secret or confidential information. The Court held otherwise, however:

While the idea disclosed may be common or even open to public knowledge, yet such disclosure if protected by contract, is sufficient consideration for the promise to pay.¹⁰

The case law of business ideas thus includes a requirement similar to that of patentable novelty. If the idea is not novel, there is failure of consideration because the claimant does not render performance by imparting information which is already known. From the writer's experience in the field of patentable ideas or inventions, a great deal of controversy exists over

⁷ 201 App. Div. 794, 796, 195 N. Y. S. 574, 575, 576 (1922).

⁸ *Masline v. N. Y. & H. R. Co.*, 95 Conn. 702, 707, 112 A. 639, 640 (1921).

⁹ 69 N. Y. S. 2d 438, 440 (1947).

¹⁰ *High v. Trade Union Courier Pub. Corp.*, 69 N. Y. S. 2d 526, 529 (1946).

whether an idea is novel. Yet no cases were found on this point. The difficulty arises from two different views of examining ideas: from hindsight or foresight. It seems that after an idea is disclosed, the recipient who understands it, and sometimes even when he does not understand it, concludes that he could also have originated the idea; and then, he illogically concludes that the idea was not novel after all. In fact, sometimes, even after the originator of an idea has spent considerable time, effort and study to come up with a solution to a problem, he is likely to think that there is nothing novel about the idea, merely because it was derived from well known laws of engineering.

(c) *Implied Contract*

If no promise is given by the recipient to pay the claimant, either express or implied, there is lack of consideration and no contract. The difficulty before the courts is in determining whether an implied promise exists as indicated by the conduct of the recipient in using the idea. Does the use of the idea imply a promise to pay for the disclosure?

In *Haskins v. Ryan*,¹¹ the claimant studied the situation of the white lead industries outside a certain company and formulated a plan for combining them in one company. Executing the plan would require several million dollars. He also procured options on such industries, or opened negotiations for their purchase. He laid the plan before the recipient, a capitalist, seeking his co-operation and aid, himself agreeing to contribute in part, if the recipient would join him therein. The recipient expressed a willingness to join him if an examination of the plan and papers by the recipient's attorneys and experts confirmed the statements made. The recipient, however, using the information furnished by the claimant, organized his own company, controlled the industries and made a large profit. The claimant was not paid for his idea. Recovery was not allowed on the theory of property, which is discussed below. This situation also, in effect, did not imply any promise by the recipient.

In contrast with that case, in *Ryan v. Century Brewing Association*,¹² several advertising agencies were invited to submit suggestions for an introduction of the recipient's product, beer. The claimant did submit various ideas, among them the phrase, "The Beer of the Century," inasmuch as the name of the recipient's company was "The Century Brewing Association." A limited disclosure only was made, coupled with an express warning forbidding the gratuitous use of the ideas submitted. The phrase was used with success, but the claimant was not employed or paid. Recovery was allowed, a jury having found that an implied promise was made to pay a reasonable value for use of the idea. Was the court influenced by the solicitation by the recipient for

¹¹ 71 N. J. Eq. 575, 64 A. 436 (1906).

¹² 185 Wash. 600, 55 P. 2d 1053 (1936).

ideas or by the claimant's warning against gratuitous use? What did the claimant's warning have to do with recipient's use of the idea or the implied promise?

Many companies will refuse to make any agreement before the disclosure of an idea. In this case it is best for the claimant to take his idea elsewhere. Of course, many ideas are only useful to one company. In *Lueddecke v. Chevrolet Motor Co.*, the claimant wrote the recipient that he had an idea to correct a defect in the design of the Chevrolet car, and he invited their offer for disclosing the idea. The recipient refused to offer or make any agreement before disclosure, but did suggest that the claimant send signed, dated and witnessed drawings; if sufficient interest were found to warrant further investigation, some mutually satisfactory agreement would be made. Then the claimant, without any drawings, voluntarily disclosed his idea: too much weight on the left side of the car caused it to sag; to correct this situation, strengthen the springs on the left side, or shift some of the individual units to the right side for better balance. The recipient answered that it was not advisable to change the design at this time and that they would go no further into the matter. The claimant alleged that the recipient did use the ideas he submitted. He brought an action for an implied contract to pay a reasonable value for the ideas. Recovery was denied, partly because the idea was not novel or useful, but also because the facts indicated no promise to pay.¹³

Some companies accept ideas only on the understanding that the use by the recipient and the compensation to be paid, if any, are to rest solely within the discretion of the recipient. In *Davis v. General Foods Corp.*,¹⁴ the claimant wrote a letter to the recipient, explaining that she had an idea for a new food product and form of merchandising it. The reply was made that the recipient would be glad to examine the idea only with the understanding that the use to be made of it, and the compensation, if any, were matters resting solely in the discretion of the recipient. The claimant did disclose her idea, which was used by the recipient without giving compensation. Again, no recovery was allowed, either on an implied-in-fact contract or quasi-contractually. The letter was so indefinite as to terms that it could not result in a binding obligation. If the claimant trusts the fairness and liberality of the recipient, there is not only no contract but no reliance upon the supposed contract, and so no legal obligation at all.

Quasi-Contract

The theory of quasi-contract is rarely applied to the cases on ideas. It would seem that in many cases it is the only theory upon which the claimant could rest his cause of action. If there

¹³ 70 F. 2d 345, 347, 348 (8th Cir. 1934).

¹⁴ 21 F. Supp. 445 (S. D. N. Y., 1937).

is no express or implied promise by the recipient to pay the claimant, or if a promise is given after disclosure, nevertheless, the circumstances may be such that the recipient knew that the claimant expected to be paid, and that the recipient had become unjustly enriched. In *Davis v. General Foods Corp.*,¹⁵ the quasi-contract theory was correctly applied by the court. There the claimant could not definitely be expected to be paid if the idea were used.

Ideas as Property

If ideas were property, some of the difficulties mentioned would be eliminated. Past consideration and implied promises would not arise as issues. The claimant could merely license the use of the idea or revoke it at will. He could also contract with respect to the use of the idea. However, generally the courts do not recognize property in ideas. Notice that the opinion stated in *Brunner v. Stix Co.*,¹⁶ denies any property right in the disclosed idea, but then contradicts itself by saying that there is a contract to pay for the use of the idea. If a contract could be made to use an idea, there would be control over the idea and this would be a property right.

About the only instance where the courts will admit a property right in ideas is before they are disclosed. At this point the claimant has complete dominion over the idea and therefore it is property. However, once the idea is disclosed, it ceases to be property. This is very well stated in the opinion of *Brunner v. Stix Co.*, thus:

Executory contracts for the rendition of such services are valid. A distinction exists between physical and mental efforts in that the former produces corporeal and the latter incorporeal results. Property rights in a corporeal thing are not lost with the disclosure or exhibition of the physical device. The owner may follow a chattel and assert his property therein. An idea, sometimes likened to *ferae naturae*, does not have physical attributes and escapes the creator's dominion when uttered. It may not ordinarily be followed after disclosure, yet, as long as the creator of an idea refuses to disclose it, he exercises dominion over it.¹⁷

The courts distinguish between abstract and concrete ideas in relation to property. In *Williamson v. N. Y. Central R. Co.*, the claimant based his claim to compensation on letters disclosing the idea of the production and staging of a miniature railroad at the New York World's Fair. In denying recovery, the Court said:

¹⁵ *Ibid.*

¹⁶ *Supra* note 5.

¹⁷ 352 Mo. 1225, 1232, 181 S. W. 2d 643, 646 (1944).

An implied contract to do so does not arise therefrom, because the letters merely contain an abstract idea which may not be made the subject of property right in the absence of protection thereof by an express contract prior to disclosure.¹⁸

In another case an insurance agent suggested to a son-in-law that he pay his father-in-law's premiums on life insurance policies. The father-in-law could no longer make the payments. In a short time, the father-in-law died, making a substantial profit for the recipient of the idea. The agent then claimed ten percent of the profit made, as reasonable compensation for this idea. Recovery was denied. The Court said:

An idea which never takes concrete form at the time of disclosure, even if novel, is not the subject of a property right or of contract.¹⁹

In *O'Brien v. RKO Radio Pictures*, a claimant submitted the idea of a motion picture based on the colorful story of the Palace Theatre and the old vaudeville characters. Four different possible suggestions were made for story treatment. All four were described with the utmost brevity. Recovery was denied, not only because of absence of a contract prior to disclosure, but also because:

. . . an author has no property right in his ideas unless the same are given embodiment in a tangible form (and) . . . the idea was too abstract and general to give rise to a claim, even if copied.²⁰

In another case a plan was suggested to a recording company to induce world famous artists to produce recordings without royalty, their compensation to be on the reasonable value of their services. The recordings were to be sold without the names of the artists annexed to them, at a price so low that persons of modest means could buy them. Sale and distribution were to be effected not by dealers, but by newspapers as a cultural and civic service. The idea was used, but the claimant was not compensated. Again recovery was denied on the basis:

. . . that in the absence of an express contract, owing to the difficulties of enforcing such right, the courts have uniformly refused to assume to protect property and ideas that have not been reduced to a concrete form.²¹

In *Alberts v. Remington Rand*,²² the claimant suggested that the manufacturer of electric shavers make a chart of the direc-

¹⁸ 258 App. Div. 226, 16 N. Y. S. 2d 217 (1939).

¹⁹ *Anderson v. Distler*, 173 Misc. 261, 265, 17 N. Y. S. 2d 674, 678 (1940).

²⁰ 68 F. Supp. 13, 14 (S. D. N. Y., 1946).

²¹ *Plus Promotions v. RCA Mfg. Co.*, 49 F. Supp. 116, 118 (S. D. N. Y., 1943).

²² 175 Misc. 486, 23 N. Y. S. 2d 892 (1940).

tions in which the hairs on each individual's face grow; then issue the resulting charts to prospective customers as an aid in the sale and use of the electric shaver. The idea was appropriated by the recipient without payment of compensation. The Court held that this idea was not reduced to concrete form, and in the absence of an express agreement, the claimant could not recover.

In *Hamilton Nat. Bank v. Belt*, a plan was disclosed to the Assistant Superintendent of Public Schools for weekly broadcasts of student talent selected by holding auditions in the high schools. Each show would be presented first to the student body as an assembly, recorded, and the recording broadcast in the evening. A school atmosphere would be retained, and a different school would be featured each week. The program would include several pieces by the glee club in addition to the talent. The show was subject to the supervision of the school authorities. The claimant of the idea reserved the right to negotiate with any school, radio station, or sponsor as well as all other rights. A sponsor contracted with the claimant to employ him to make the necessary arrangements with the schools. Later, a revised agreement was to be made if the sponsor approved the programs. However, the school authorities did not at first give the necessary approval. So the sponsor canceled its contract, paying \$50 in full and final payment. After a few months, the school authorities advised the sponsor of their willingness to approve such a program. The sponsor, without the assistance of the claimant, broadcast the programs for over a year. The claimant recovered damages, the Court holding that the plan was concrete:

. . . in the field of radio broadcasting, concreteness may lie between the boundaries of mere generality on the one hand and, on the other, a full script containing the words to be uttered and delineating the action to be portrayed. Where the plan is for a series of broadcasts the contents of which depend upon selection of talent at different times, a detailed program cannot be presented at the preliminary stages of negotiation. This should not in and of itself deprive the originator of a property right in his plan.²³

In using the abstract and concrete theory of ideas, the courts are influenced by the fact that frequently a mere idea is easy to think of but difficult to carry out. Hence, a "substantial performance" test is made in labeling an idea as concrete. Therefore, it is recommended that the originator of an idea work out the idea in as much detail as possible.

From the holdings of the "abstract and concrete" cases, it would appear that (1) if the idea is abstract but an agreement is made before disclosure, a recovery will be allowed, or (2) if the idea is concrete and an agreement is made after disclosure a recovery will be allowed. The second possibility has been dis-

²³ 210 F. 2d 706, 709 (D. C. Cir., 1953).

cussed above under the section on past consideration. The first conclusion could not be found as a holding in any case, only as dicta.

Substantiating the theory that there is no property right in a disclosed idea, independently of any contractual relationship, is the case of *Hughes v. West Publishing Co.* The claimant originated and published a key number system in his textbooks, relating to fundamental legal principles, practice and procedure. He illustrated the system with the picture of a key to a Yale lock. There were no contractual relations, no negotiations, and no fiduciary relation between the claimant and the recipient, who merely adopted the system in publishing its law books, textbooks, digests and serial reporters. The claimant did not aver any damages resulting, and did not claim to be in competition with the recipient. In denying an injunction to restrain the use of the system of legal study, the Court said:

. . . there is no authority holding that at common law there is a property right in a system, device, plan or scheme.²⁴

In the *Haskins v. Ryan* case, the question before the Court was whether the claimant had a property right in the ideas in his plan as well as a property right in his manuscript as a combination of words. The Court reasoned:

. . . The combination of words and figures in the plan belongs to him absolutely. Its publication or reproduction or exhibition in any form may be enjoined. But the idea contained in the plan differs. . . It involves the voluntary action and co-operation of many different men. . . Such a project or idea can scarcely be called property. It lacks that dominion—that capability of being applied by its originator to his own use—which is the essential characteristic of property . . . it has never, in the absence of contract or statute, been held, that mere ideas are capable of legal ownership and protection.²⁵

Contrary to the theory that the claimant loses his property right in the idea after it is disclosed is the theory of "limited disclosure." In *Ryan v. Century Brewing Association*²⁶ the property right in the idea was the basis upon which recovery was permitted. However, the difficulty in this case is that it was an implied contract. When was the contract binding? Was it before or after disclosure?

In making a contract, it is wise to protect against possible disclosure by the recipient to third parties, as well as use by the recipient. More explicitly, the recipient should agree to treat the matter in the strictest confidence and to make no disclosure or

²⁴ 225 Ill. App., 58, 65 (1922).

²⁵ *Supra*, note 11, at 71 N. J. Eq., at 579, 580, 64 A. at 438.

²⁶ *Supra* note 12.

use, unless and until the claimant and the recipient may mutually agree on a basis of compensation. Disclosing an idea in confidence or sometimes in "trust and confidence" could be defined as a limited disclosure. It means that the idea does not escape to the public at large and is not lost. This, in effect, treats the idea as property, even though it has been disclosed to a limited number of persons.

In *Cincinnati Bell Foundry Co. v. Dodds*, claimant bought a business, part of which was a secret process for manufacturing bells. A foreman of the original owner of the company had knowledge of the secret process and attempted to start a business of his own, using the secret process. The Court granted an injunction against the foreman, saying:

A court of equity will protect the inventor of a secret process against its disclosure or unauthorized use by any person obtaining knowledge of it in confidence.

The inventor may sell the secret to another, and vest in his assignee as full right to protection from disclosure or use by persons acquiring knowledge of it in confidence, as he himself would have.²⁷

Even though a disclosure has been made in confidence, if before or after disclosure, the scheme is put into authorized operation and released to the public, the idea escapes and is lost forever. In *Stein v. Morris*, the claimant had a special banking plan which he had put into effect for some years, making it known to the public. The claimant approached the recipient with the request that they should unite in organizing a similar savings association at another location, which they did. The effort failed, and their connection ended. Sometime later, the recipient organized a similar savings company which became quite successful. The claimant asked for an accounting and an injunction to restrain the recipient from using his plan. Aside from the fact that the plans used by the claimant and recipient were not identical, the Court said:

If the claimant had originated the scheme or idea of banking of which he claims to be the owner, he could not have a property right in such a method or idea for conducting business without any physical means or devices for carrying it out. In other words, he could not put such an idea into operation without it at once escaping his own grasp and becoming the property of mankind.²⁸

The question then arises as to how limited must the disclosure be, to how many persons, and under what circumstances, so that it does not escape to the public. This has happened many times in the writer's experience. The claimant approaches sev-

²⁷ 10 Ohio Dec. Reprint 154, 155 (1887).

²⁸ 120 Va. 390, 394, 91 S. E. 177, 179 (1917).

eral companies with the same idea. The purpose is to sell to the highest bidder, or possibly to sell to more than one company. No case on ideas could be found, but by analogy from common law copyright, in *White v. Kimmell*, a manuscript in mimeograph form was distributed at random to anyone, including strangers who asked for a copy. There were only about two hundred copies made and distributed, but the author requested that it was not to be distributed in published form. The Court interpreted this to mean in book form and held that it was unlimited publication and therefore in public domain, and could be quoted by anyone without infringement. The Court said:

A limited publication which communicated contents of a manuscript to a definitely selected group and for a limited purpose and without right of diffusion, reproduction, distribution or sale is considered a "limited publication" which does not result in a loss of the author's common law right to his manuscript; but that the circulation must be restricted both as to persons and purpose, or it cannot be called a private or limited publication.²⁹

Summary

A claimant who wishes to protect his idea when selling it should observe certain rules. First, he should work out the idea in as much detail as possible and make sure that it is novel. Next, an agreement should be made before disclosing the idea. The claimant promises to disclose the idea in return for the recipient's promise to pay a reasonable value for it or to pay a percentage of the commission or profits resulting therefrom. The recipient should also promise to pay a nominal amount of money for the disclosure in order to establish a definite consideration. In this manner, the recipient can be convinced that he does not have to use the idea and he has little or nothing to lose by making the agreement.

As an additional precaution, the recipient should promise to treat the idea in confidence and not disclose it to third parties.

If the recipient refuses to make an agreement before disclosure, the claimant should point out before disclosure that he expects to be paid if the idea is used.

²⁹ 193 F. 2d 744, 746, 747 (9th Cir., 1952).

As to protection of ideas when organizing a corporation to exploit an idea, see, 1 Oleck, *Modern Corporation Law*, ch. 5 (1958).