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## Trade Regulation - Trade Secrets - Ex-Employee's Use of Former Employer's Trade Secret May Be Enjoined

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to secure legislation to that end. The courts of this State are reluctant to invalidate such provisions except in those situations in which statute or precedent gives them no alternative.

MRS. B. SIDLER

**TRADE REGULATION—TRADE SECRETS—EX-EMPLOYEE'S USE OF FORMER EMPLOYER'S TRADE SECRET MAY BE ENJOINED**—In the case of *Schulenburg v. Signatrol, Inc.*, 50 Ill. App. 2d 402, 200 N.E.2d 615 (4th Dist. 1964), the Appellate Court of Illinois was confronted with the question of whether an ex-employee's use of a former employer's trade secret constituted unfair competition so as to necessitate the issuance of an injunction.

The plaintiff purchased plans for producing electrical flashers<sup>1</sup> from his previous employer in 1945 at a cost of under three thousand dollars,<sup>2</sup> and began manufacturing and selling these devices. The four defendants had been employees of plaintiff for many years (two of the defendants were employed nearly twenty years) during which time they learned the process for manufacturing such flashers. In 1959, one defendant, having disagreed with the plaintiff over company policies, decided to terminate his employment, form his own company and compete with the plaintiff in the business of manufacturing flashers. The remaining defendants terminated their employment with the plaintiff and joined the competing firm. The plaintiff filed suit in October, 1959, seeking to enjoin the defendants on the basis of unfair competition from using the plaintiff's alleged trade secret. The Circuit Court granted an injunction restraining defendants from the further manufacture and sale of competing flashers.

On appeal, the plaintiff alleged that its manufacturing know-how was a trade secret which had been imparted in confidence to the defendants while employees, and that the defendants had abused that confidence by using the trade secret in manufacturing a competing product to the plaintiff's financial detriment. The defendants contended that the plaintiff was not possessed of a trade secret and that the defendants used only general skills and knowledge of the plaintiff's operation acquired through employment. The Appellate Court affirmed the lower court's judgment, finding that the plaintiff's blueprinted know-how qualified as a trade secret,<sup>3</sup> that the defendants copied and memorized the plaintiff's trade secret, and

<sup>1</sup> A mechanical device for automatically making and breaking electrical circuits and thereby causing lights of signs to alternately flash on and off in various patterns. Brief for Appellees, p. 2, *Schulenburg v. Signatrol, Inc.*, 50 Ill. App. 2d 402, 200 N.E.2d 615 (4th Dist. 1964).

<sup>2</sup> The cost of developing information is a factor to consider in determining whether or not a trade secret exists. Restatement, Torts § 757, comment b (1939).

<sup>3</sup> Plaintiffs considered their know-how a trade secret and attempted to keep it confidential; the secret was disclosed to defendants as select employees; the secret was not divulged or abandoned by marketing the finished product; and the secret was not connected with business. *Schulenburg v. Signatrol, Inc.*, *supra* note 1.

that the defendant's use of such knowledge, in producing a competing product, constituted unfair competition which could be enjoined.<sup>4</sup>

A trade secret has been defined by the Restatement of Torts as ". . . [A]ny 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."<sup>5</sup> A confidential customer list of a business,<sup>6</sup> a laminating process used in manufacturing shoe uppers,<sup>7</sup> and blueprints<sup>8</sup> have been held to constitute trade secrets. However, trade secrets should be distinguished from patents. The owner of a trade secret has a monopoly of such information as long as he keeps it secret,<sup>9</sup> while the holder of a patent has a monopoly of his patented article for a period of seventeen years,<sup>10</sup> whether secret or not.

The case of *Peabody v. Norfolk*<sup>11</sup> is generally cited as the landmark case dealing with the issue of legal protection of trade secrets. A number of theories have been advanced as a basis for affording protection to the owner of a trade secret. In *Peabody* and earlier cases, the courts held that the owner was entitled to protection because the trade secret constituted a property right.<sup>12</sup> Breach of contract<sup>13</sup> and violation of trust<sup>14</sup> concepts have also been invoked to provide protection. The prevention of unfair competition as a ground for relief has been increasingly recognized in recent cases.<sup>15</sup> Regardless of the label given this judicial awareness of a situation warranting protection, it would seem that it is the finding of a breach of confidence which actually moves the court to remedy the wronged owner of a trade secret.<sup>16</sup>

<sup>4</sup> Petition for Leave to Appeal to the Supreme Court of Illinois was filed on September 16, 1964.

<sup>5</sup> Restatement, Torts, *supra* note 2. *Accord*, *Victor Chemical Works v. Iliff*, 299 Ill. 532, 132 N.E. 806 (1921); *Louis Milani Foods v. Scharf*, 335 Ill. App. 569, 82 N.E.2d 75 (1st Dist. 1948).

<sup>6</sup> *Heyman v. A.R. Winarick, Inc.*, 325 F.2d 584 (2d Cir. 1963).

<sup>7</sup> *Junker v. Plummer*, 320 Mass. 76, 67 N.E.2d 667 (1946).

<sup>8</sup> *Pressed Steel Car Co. v. Standard Steel Car Co.*, 210 Pa. 464, 60 Atl. 4 (1904).

<sup>9</sup> Klein, *The Technical Trade Secret Quadrangle: A Survey*, 55 Nw. U.L. Rev. 437, 456 (1960).

<sup>10</sup> 35 U.S.C. § 154 (1958).

<sup>11</sup> 98 Mass. 452 (1868). "Beginning with *Peabody v. Norfolk*, American courts of equity have protected discoverers by enjoining the use or disclosure of their trade secrets after a wrongful taking. . . ." *Developments in the Law—Competitive Torts*, 77 Harv. L. Rev. 947, 948 (1964).

<sup>12</sup> See, e.g., *Tabor v. Hoffman*, 118 N.Y. 30, 23 N.E. 12 (1889); *Cincinnati Bell Foundry Co. v. Dodds, S.C.*, 10 Ohio Dec. Repr. 154 (1887); but see, *E. I. duPont de Nemours Powder Co. v. Masland*, 244 U.S. 100, 102, 37 Sup. Ct. 575, 576 (1917).

<sup>13</sup> Note, 39 Notre Dame Law. 200, 203 (1964).

<sup>14</sup> 42 Am. Jur., *Property* § 8 (1942); See *Jones v. Ulrich*, 342 Ill. App. 16, 95 N.E.2d 113 (3d Dist. 1950).

<sup>15</sup> See, e.g., *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250 (S.D. Cal. 1958); *Newell v. O. A. Newton & Son Co.*, 104 F. Supp. 162 (D. Del. 1952).

<sup>16</sup> See, e.g., *E. I. duPont de Nemours & Co. v. American Pot. & Ch. Corp.*, — Del. —, 200 A.2d 428 (1964); *Junker v. Plummer*, 320 Mass. 76, 67 N.E.2d 667 (1946); *Wireless Specialty Apparatus Co. v. Mica Condenser Co.*, 239 Mass. 158, 131 N.E. 307 (1921).

Most trade secret cases arise out of the employer-employee relationship, particularly when the employee has terminated the relationship and is about to take another job.<sup>17</sup> The general rule is that the contract of employment places the former employee under an obligation not to disclose any trade secret or other confidential information obtained by him in the course of employment for his own benefit or that of his employer's competitor, and to the detriment of his former employer.<sup>18</sup> Injunctive relief to restrain threatened disclosure or use of trade secrets or confidential information by the former employee is the employer's usual remedy,<sup>19</sup> although there are many other remedies at the employer's disposal to meet the specific factual situation.<sup>20</sup> However, to be protected the information must be found to be confidential, for the employee is entitled to take with him and use the general knowledge, experience, and skill which he has acquired during the employment relationship, even if such knowledge is used in competition with the former employer.<sup>21</sup>

Recent decisions have presented the dilemma of the skilled and long term employee<sup>22</sup> who desires to obtain a new job but is fearful of having a lawsuit follow him, and the predicament of an employer who is faced with the prospect of losing his legal monopoly over secret information vital to his business.<sup>23</sup> The court, in *B. F. Goodrich Co. v. Wohlgemuth*,<sup>24</sup> in deciding that Goodrich was entitled to an injunction against a former employee (an engineer who had worked for more than six years in the company's space suit department) when there was present a real threat of disclosure of Goodrich's trade secrets to a competitor of Goodrich, recognized the rights of employer and employee in stating:

We have no doubt that Wohlgemuth had the right to take employment in a competitive business, and to use his knowledge (other

<sup>17</sup> Note, *The Law of Unfair Competition in Illinois*, 4 Ill. L. Rev. 675, 686 (1950); *Developments in the Law—Competitive Torts*, 77 Harv. L. Rev. 947, 950 (1964).

<sup>18</sup> 35 Am. Jur., *Master and Servant* § 97 (1941); Annot., 165 A.L.R. 1453 (1946).

<sup>19</sup> See, e.g., 28 Am. Jur., *Injunction* §§ 103, 105 (1959); *Allen-Qualley Co. v. Shellmar Products Co.*, 36 F.2d 623 (7th Cir. 1929), *affirming* 31 F.2d 293 (N.D. Ill. 1929); *Messenger Pub. Co. v. Makstad*, 257 Ill. App. 161 (1st Dist. 1930).

<sup>20</sup> Klein, *The Technical Trade Secret Quadrangle: A Survey*, 55 Nw. U.L. Rev. 437, 448. ". . . [C]ompensatory damages for breach of express or implied contract, punitive damages, damages for deceit, and costs of the suit."

<sup>21</sup> 35 Am. Jur., *Master and Servant* § 97 (1941). *Accord*, *Sarkes Tarzian, Inc. v. Audio Devices, Inc.*, 166 F. Supp. 250 (S.D. Cal. 1958); *Peerless Pattern Co. v. Pictorial Review Co.*, 147 App. Div. 715, 132 N.Y. Supp. 37, 39 (1911): ". . . [E]quity has no power to compel a man who changes employers to wipe clean the slate of his memory."

<sup>22</sup> This situation has been the subject of recent law review notes. See, e.g., Note, *Industrial Secrets and The Skilled Employee*, 38 N.Y.U.L. Rev. 324 (1963); *Developments in the Law—Competitive Torts*, 77 Harv. L. Rev. 947, 950 (1964).

<sup>23</sup> "No company wants to see the discoveries produced by all that money (spent on research) go out of its doors in attache cases, or even in the heads, of young scientists bound for greener pastures." Brooks, *Annals of Business: One Free Bite*, *The New Yorker*, p. 46 (January 11, 1964). This article presents an interesting account of the *Goodrich* case, *infra* note 24.

<sup>24</sup> 117 Ohio App. 493, 192 N.E.2d 99 (1963), popularly referred to as the "space suit case."

than trade secrets) and experience for the benefit of his new employer, but a public policy demands commercial morality, and courts of equity are empowered to enforce it by enjoining an improper disclosure of trade secrets known to Wohlgenuth by virtue of his employment. Under the American doctrine of free enterprise, Goodrich is entitled to this protection.<sup>25</sup>

In addition to balancing the interests of the employer and the former employee in a particular case, there is an awareness by the courts of the effect that such decisions could have on employees in view of present day technological advancements which make the line between general knowledge or skills and trade secrets even more difficult to distinguish.<sup>26</sup> The courts might also consider the deterrent effect their decisions would have on the serious problem of industrial or business espionage,<sup>27</sup> reports of which indicate that trade secret stealing is big business.

In the instant case, the Appellate Court did not cite any Illinois cases involving trade secrets,<sup>28</sup> but Illinois has in the past followed the general rule that the employee is under a contractual obligation not to disclose any trade secret or confidential information obtained by him in the course of employment to the detriment of his former employer,<sup>29</sup> and that an injunction would issue against such use of confidential information.<sup>30</sup> The Illinois courts have also recognized the rights of employees to leave their employer and enter into competition with him using the general skill and knowledge acquired through the employment relationship.<sup>31</sup>

The *Signatrol* case does not depart from the general rule regarding the

<sup>25</sup> *Id.* at 500, 192 N.E.2d at 104.

<sup>26</sup> *E. I. duPont de Nemours & Co. v. American Pot. & Ch. Corp.*, 200 A.2d 428 (Del. May 1964), *motion for summary judgment denied*. Present order on notice. In addition to recognizing that the case is one of great social and industrial significance both on the question of the right to relief and the scope thereof, the Court of Chancery of Delaware said:

. . . [I]t is hard to ask a man to work in a trade secret area and thereby circumscribe his possible future liberty of action and the use of the knowledge and skills which are inextricably interwoven with his knowledge of the trade secrets.

The interests involved are as easy to state as they are difficult to protect, particularly in the face of the ever-increasing complexity of present day technology. What accommodation, if any, is to be made must await the decision after trial. *Id.* at 437.

That former employees are well aware of their situation, see, *Anderson v. Pictorial Productions, Inc.*, 232 F. Supp. 181 (D.C.N.Y. 1964), where plaintiff brought action for judgment declaring that he was free to compete with his former employer without becoming liable for divulging any of employer's claimed trade secrets.

<sup>27</sup> Note, *Industrial Secrets and The Skilled Employee*, 38 N.Y.U.L. Rev. 324, 326-334 (1963); see generally, Klein, *The Technical Trade Secret Quadrangle: A Survey*, 55 Nw. U.L. Rev. 437, 465-467 (1960), on the need for legislative enactments.

<sup>28</sup> This fact is stressed in the defendants' Petition for Leave to Appeal to the Supreme Court of Illinois, p. 36, filed on September 16, 1964, since defendant's counsel repeatedly referred to Illinois cases.

<sup>29</sup> *Boylston Coal Co. v. Rautenbush*, 237 Ill. App. 550 (1st Dist. 1925).

<sup>30</sup> *Louis Milani Foods v. Scharf*, 335 Ill. App. 569, 82 N.E.2d 75 (1st Dist. 1948); *Messenger Pub. Co. v. Makstad*, 257 Ill. App. 161 (1st Dist. 1930).

<sup>31</sup> *American Cleaners and Dyers v. Foreman*, 252 Ill. App. 122 (1st Dist. 1929).

former employee's obligations to his former employer pertaining to trade secrets, nor does it deny that employees have a right to use general skills and knowledge acquired during employment in competition with his former employer. However, the court points out the fact that the line between what is usable and what is not is difficult to draw.<sup>32</sup> The instant case is similar to *Goodrich* in that the Illinois court speaks of higher standards of commercial morality,<sup>33</sup> and labels as unfair competition that misuse of confidential information which . . . "shocks one's sense of fair play."<sup>34</sup> Again, it is the finding of a breach of confidence which moves the court to rescue the owner of a trade secret.

The *Signatrol* case is significant in that two of the defendants had been employees of the plaintiff for nearly twenty years, and almost all of their work experience dealt with the production of flashers. Thus, the decision to permanently enjoin the defendants from the further manufacture and sale of competing flashers put the defendants out of business, quite likely the only business defendants knew. The court's justification for the harshness of the decree was that the defendants had only themselves to blame, and that even though they may not have known of the consequences of their acts, this lack of knowledge did not warrant sanctioning their foul play.<sup>35</sup> It is submitted that, while injunctive relief was proper, the scope of the injunction, in view of the facts presented, was an unwarranted extension of equitable principles for it does not truly balance the interests of the parties concerned.<sup>36</sup>

The *Signatrol* decision, more than the *Goodrich* case, dramatizes the dilemma of the skilled or long term employee faced with the prospect of an industrial servitude when seeking to better his employment situation after years of service with one employer. A former employee's use of trade secrets acquired through previous employment, to the financial detriment of the former employer, should of course be subject to injunctive relief. But the court, before rushing to the aid of the stricken employer, should take a long look at the evidence presented and then carefully weigh the interests of the parties, for not only may one person's livelihood be at stake, but the future employment opportunities of others at the same time.

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<sup>32</sup> *Schulenburg v. Signatrol, Inc.*, 50 Ill. App. 2d 402, 200 N.E.2d 615 (4th Dist. 1964).

<sup>33</sup> For viewpoint that the majority of courts favor protection of employee mobility over protection of business from breach of confidence, see, *Wexler v. Greenberg*, 399 Pa. 569, 579, 160 A.2d 430, 435 (1960).

<sup>34</sup> *Schulenburg v. Signatrol, Inc.*, *supra* note 32, at 405, 200 N.E.2d at 617. *Goodrich* involved a threatened disclosure of trade secrets whereas *Signatrol* involved an actual use of trade secrets in manufacturing a competing product.

<sup>35</sup> *Id.* at 412, 200 N.E.2d at 620.

<sup>36</sup> *Stedman, Trade Secrets*, 23 Ohio. St. L.J. 4, 31-34 (1962). Proposes a federal statute entitling trade secrets to protection for a limited time.