Kentucky Law Journal

Volume 29 | Issue 2 Article 15

1941

Trade Secrets: Solicitation of Customers by Former Employee

John J. Justice
University of Kentucky

by reason of *stare decisis* under the instant facts would in all probability require no more than filing of claims before the proper officials in charge of the funds, since they would realize the futility of contesting an action should they force a proceeding on the part of the claimants. Surely equity is not bound by form to the extent that substance would be disregarded in a situation like this. The basic equitable factor here as well as in the ordinary class suit is that it is no more than fair that those who share the benefits of another's efforts should bear their portion of the expenditures. Moreover, since the allowance of costs in any given case is limited to reasonable expenses, if any be given, after a consideration of all the circumstances, the principle on which recovery may be had is reasonably free from inherent inducements encouraging the use of it in an abusive manner.

CLARENCE CORNELIUS

TRADE SECRETS: SOLICITATION OF CUSTOMERS BY FORMER EMPLOYEE

Defendant was employed by the plaintiff on oral contract to solicit and deliver laundry. He was given a list of customers' names and addresses in a particular territory, and was assigned that territory in which to work. There was no express contract not to disclose the list nor to solicit in competition with the plaintiff on the termination of his employment. Plaintiff, apprehensive that defendant intended to quit and go into the laundry business for himself, asked him to sign a contract not to solicit the plaintiff's customers upon termination of employment. Defendant refused to sign the contract, quit the employment of plaintiff, started a laundry of his own and began soliciting his former employer's customers. The corporation brought an action to restrain him from soliciting its customers. The court denied an injunction, stating that there was no confidential relation existing between the parties, and a contract could not be implied. *Woolley's Laundry, Inc.* v. *Silva*, 23 N. E. (2d) 899 (Mass. 1939).

If an employee makes an express contract not to disclose a list of customers' names, nor to use it in competition with the employer, after termination of the employment, equity will enforce it.[1] However, the

[1] Witkop-Holmes Co. v. Boyce, 61 Misc. 126, 112 N. Y. Supp. (1906) (The court said: "The names of the customers of a business concern whose trade and patronage have been secured by years of business efforts and advertisement and the expenditure of time and money constituting part of the good will of a business, which enterprise and foresight have built up, should be deemed just as sacred and entitled to the same protection as a secret compounding of some article of manufacture or commerce"); Mutual Milk and Cream Co. v. Prigg, 112 App. Div. 652, 98 N. Y. Supp. 458 (1906) (Contract not to use the list in competition with the employer at the termination of the employment enforced against a minor).

contract not to compete must not place a restraint on the employee greater than is necessary to protect the interests of the employer.[2]

The court will also restrain an employee from the use of names acquired in the course of employment in the absence of express contract, where the employee seeks to use a list to the detriment of the employer. But the decisions are not clear as to the underlying reasons for intervention in such cases. Various vague concepts are used to rationalize the decisions. Some courts base their decisions on an implied contract. This theory can only be a satisfactory basis where there is a confidential relation existing between the parties, as where the lists are kept secret by the employer and the employee should have known of the confidential relation. In such cases the court will imply a contract and impose a duty not to use the lists to the injury of the employer.[3] Other courts hold that the list is property of the employer. In the jurisdictions that base their decisions on the "property" theory, an employee will be enjoined from using a list in competition with the employer, if the list was copied surreptitiously or carried away, but he will not be restrained if he retains the names in his memory.[4] This theory is therefore unsatisfactory since it makes legal protection depend upon the form rather than the nature and use of the information.

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[2] Sherman v. Pffercorn, 241 Mass. 468, 135 N. E. 568, 569 (1922) (The court said: "As stated by Lord McNaghten, in Nordengeldt v. Maxin, Nordenfeldt Guns and Ammunition Co., 'The public have an interest in every person's carrying on his trade freely; so has the individual. All interference with individual liberty of action in trade, and all restraints of trade of themselves, if there is nothing more, are contrary to public policy, therefore void. That is the general rule. But there are exceptions. Restraints of trade and interference with individual liberty of action may be justified by special circumstances of a particular case. It is sufficient justification, and indeed it is the only justification, if the restriction is reasonable, . . . reasonable that is, in reference to the interest of the parties concerned, and reasonable in reference to the interest of the public, so framed and so guarded as to afford adequate protection to the party in whose favor it is imposed, while at the same time it is in no way injurious to the public.' That, I think, is the fair result of all the authorities. This rule is in accord with our cases"); Restatement, Contracts, Sec. 516.

[3] Empire Steam Laundry Co. v. Lozier, 165 Cal. 95, 130 P. 1180 (1913) (There was an express contract here, but the court did not decide its validity and based its decision on the ground of an implied contract); Morrison v. Woodbury, 105 Kan. 17, 185 Pa. 735 (1919); Goldschmidt v. Sachs, 162 N. Y. Supp. 323 (1916); People's Coat, Apron, and Towel Supply Co. v. Light, 171 App. Div. 671, 157 N. Y. Supp. 15 (1916); John Davis & Co. v. Miller, 104 Wash. 424, 177 Pac. 323 (1918); Robb v. Green (1895) 1 Ch. 218.

[4] Eldorado Laundry Co. v. Ford, 174 Ark. 107, 294 S. W. 393 (1927); Garst v. Scott, 114 Kan. 678, 220 P. 277 (1923); Progress Laundry Co. v. Hamilton, 208 Ky. 348, 270 S. W. 834 (1925); May v. Angoff, 272 Mass. 317, 172 N. E. 220 (1930); Federal Laundry Co. v. Zimmerman, 218 Mich. 211, 187 N. W. 335 (1922); Fulton Grand Laundry Co. v. Johnson, 140 Md. 359, 117 Atl. 753 (1922); Boone v. Krieg, 156 Minn. 83, 194 N. W. 92 (1923); Peerless Pattern Co. v. Pictorial Review, 147 App. Div. 715, 132 N. Y. Supp. 37 (1911); Ice Delivery Co. of Spokane v. Davis, 137 Wash. 649, 243 P. 842 (1926).

The mere taking of the written list, not written on the employer's paper can not make the list property.[5]

It would seem that the true ground for equity's protection in these cases is a breach of confidential relation existing between the parties.[6] Information of this sort is barred from use in competition with the employer only to the extent that, considering all the circumstances, it would be unfair to him for the employee to use it. In determining this, the desirability of permitting employees to be free to terminate the relationship, and the fact that the chief assets after such termination often consist of a special skill and knowledge acquired during the relationship, are factors to be considered. The problem of the court is to determine whether there is a confidential relationship between the parties, and whether it is of such a nature that the knowledge gained in the course of employment should not be disclosed.

The court seems to have drawn the line correctly in the principal case. There is no express contract, no list copied or carried away, and not such a confidential relation between the parties as to justify restraining the defendant employee. To quote the court in *Fulton Grand Laundry Co.* v. *Johnson*, "For him (the employee) to be compelled to give up all his friends and business acquaintances made during his previous employment would tend to destroy the freedom of employees and reduce them to a condition of servitude."[7]

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[5] In these jurisdictions the courts offer as a further reason for not granting an injunction, that it would be in restraint of trade and against public policy. At the same time they intimate that a contract not to compete would be enforced. Here again the decision is made to turn on mere form. See, Progress Laundry Co. v. Hamilton, n. 4, supra; Garst v. Scott, n. 4, supra; Fulton Grand Laundry Co. v. Johnson, n. 4, supra; Boone v. Kreig, n. 4, supra.

[6] See, Restatement, Agency, sec. 396, 393; McLain, Injunctive Relief against Employee Using Confidential Information (1935) 23 Ky. L. J. 248.

[7] Fulton Grand Laundry Co. v. Johnson, n. 4, supra, at p. 753.