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# Unfair Competition -- Customer Lists not Trade Secrets

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## UNFAIR COMPETITION—CUSTOMER LISTS NOT TRADE SECRETS

Plaintiff corporation sought to enjoin defendants from using information regarding customers and sources of supply obtained from plaintiff while in its employment as director and employee. Plaintiff maintained that using such information in the course of a competing business was a breach of a fiduciary trust imposed upon the defendants by reason of their employment. *Held*, so-called customer lists are not trade secrets, and there was no breach of a fiduciary trust in the use of the information acquired in the course of employment by the plaintiff. *Renpak Inc. v. Oppenheimer*, 104 So. 2d 642 (Fla. 1958).

The courts generally agree that the use of customer lists by a former employee is permissible where the list is one that is readily ascertainable<sup>1</sup> and there has been no express agreement<sup>2</sup> that such information will not be used by the departing employee. Some courts consider the method by which the customer list is acquired and distinguish between lists that are written while the employment continued and those that are carried away in the minds of the employees. "Trade Secrets"<sup>4</sup> are considered to be only such information as may be patentable,<sup>5</sup> derived from a secret formula,<sup>6</sup> or of such a special value that it will give the owner a distinct

1. *Pure Foods, Inc. v. Sir Loin, Inc.*, 84 So. 2d 51 (Fla. 1955); *Sims v. Burnett*, 46 So. 90 (Fla. 1908); *Stein v. National Life Ass'n*, 105 Ga. 821, 32 S.E. 615 (1899); *Wooley's Laundry v. Silva*, 304 Mass. 383, 23 N.E. 2d 899 (1939); *Boone v. Kreig*, 156 Minn. 83, 194 N.W. 92 (1923); *Excelsior Laundry Co. v. Diehl*, 32 N.M. 169, 252 Pac. 991 (1927); *New York Towel Supply Co. v. Lally*, 162 N.Y.Supp. 247 (S. Ct. 1916); *Texas Shop Towel v. Haire*, Tex. Civ. App., 246 S.W. 2d 482 (1952).

2. *American Cleaners & Dyers v. Foreman*, 252 Ill. App. 122, (1929); *Padover v. Axelson*, 268 Mass. 148, 167 N.E. 301 (1929); *Club Aluminum Co. v. Young*, 263 Mass. 223, 160 N.E. 804 (1928); where salesman went to a competitor in violation of an express contract not to compete for one year. The court stated at p. 806 "The use of trade or business secrets gained through employment may be made the subject of restrictive agreements. In this case fall also agreements not to use lists of customers and not to entice old customers away."

3. *May v. Angoff*, 272 Mass. 317, 172 N.E. 220 (1930) where defendants returned books of employer before leaving and any information taken was done so mentally and not physically; *D'Angelo v. Scuzillo*, 387 Mass. 291, 191 N.E. 426 (1934) held writing out a list of customers while an employee considered a violation of duty to the employer.

4. *Pure Foods, Inc. v. Sir Loin, Inc.*, 84 So. 2d 51 (Fla. 1955); *New Method Die & Cut-Out Co. v. Milton Bradley Co.*, 289 Mass. 277, 194 N.E. 80 (1935); *Todd Prtoectograph Co. v. Hirschberg*, 165 N.Y.Supp. 906, 100 Misc. Rep. 418 (1917).

5. *E. L. Bruce Co. v. Bradley Lumber Co.*, 79 F. Supp. 176, 189 (D.C. Ark. 1948); *Schreyer v. Casco Products Corp.*, 97 F. Supp. 159, 168 (D.C. Conn. 1951); *Fairchild Engine and Airplane Cor. v. Cox*, 50 N.Y.Supp. 2d 643, 656; *Aaronson v. Orlov*, 228 Mass. 1, 116 N.E. 951 (1917), *cert. denied*, 245 U.S. 662 (patent applied for, but patent rights considered to be secondary to right to protection from unfair competition from former employees who used information in bad faith.)

6. *Pure Foods, Inc. v. Sir Loin, Inc.*, 84 So. 2d 51 (Fla. 1955); a process common to an industry is not considered to be a secret formula; *New Method Tool & Cut-Out Co. v. Milton Bradley Co.*, 289 Mass. 277, 194 N.E. 80 (1935); a secret formula for one phase of production is not equal to a secret formula for an entire similar process that might be used in competition; *Tode v. Gross*, 127 N. Y. 480, 28 N.E. 469 (1891).

advantage over his competitors. Lists of customers who are of a general class or group and which may be compiled from such public sources as a telephone book or a common trade list are not considered trade secrets or to be such confidential information as to entitle the employer to equitable relief in preventing its use by a former employee.<sup>8</sup>

The activities of corporate directors and employees are more critically examined when the compiling and using of such lists and information takes place during the course of employment by one to whom they owe a fiduciary duty.<sup>9</sup> There is imposed upon these fiduciaries a strict duty to their employers while the course of employment continues<sup>10</sup> and, in some jurisdictions, the obligation may continue after the employment ends.<sup>11</sup> While it is generally held that competing businesses may be started after leaving the employer,<sup>12</sup> there are only a few selected instances

7. *Aaronson v. Orlov*, 228 Mass. 1, 116 N.E. 951(1917), *cert. denied*, 245 U.S. 662; *Hunt v. Rossback*, 128 N.J.Eq. 77, 15 A. 2d 227(1940); *Newark Cleaning & Dye Works v. Gross*, 97 N.J. Eq. 406, 128 Atl. 789 (1925).

8. *Pure Foods, Inc. v. Sir Loin, Inc.*, 84 So. 2d 51 (Fla. 1955); *Sims v. Burnett*, 46 So. 90(Fla. 1908) where the court stated that no cases can be found where the fact of copying customers names and those of suppliers was, of itself, cause for injunction; *Hunt v. Rossback*, *supra* note 7; *Maas v. Waldstein Co. v. Walker*, 100 N. J. Eq. 224, 234, 135 Atl. 275(1926); *Bond Electric Corp. v. Keller*, 113 N.J. Eq. 195, 166 Atl. 341(1933); *ewitter v. Adler*, 101 N.J.Eq. 74, 137 Atl. 541.1927)(window cleaning business); *Automobile Club v. Zerlin*, 127 N.J. Eq. 329, 12 A. 2d 369(1940) (automobile liability insurance); *contra*, *Abalene Exterminating Co. v. Oser*, 125 N.J. 329, 5 Atl. 738, 739 (1939) stating that the names of the customers was of a type not readily available to the public.

9. *Fisher v. Grady*, 131 Fla. 1, 178 So. 852(1937); *Fulton v. Clewiston, Ltd.*, 100 Fla. 257, 129 So. 773(1930); *Quinn v. Phipps*, 93 Fla. 805, 113 So. 419(1927); *Wooley's Laundry, Inc. v. Silva*, 304 Mass. 383, 23 N.E. 2d 899(1939); RESTATEMENT, AGENCY § 393,394; *Dodd, Is Effective Enforcement of the Fiduciary Duties of Corporate Managers Practicable*, 2 U. OF CHI. L. REV., 194(1934), considering the problem of control of corporate management in this subject matter in relation to the size of the corporate employer.

10. *Hackley v. Oltz*, 105 So. 2d 20(Fla. 1958) *decided after noted case*; *LeMire v. Galloway*, 130 Fla. 101, 177 So. 283(1937); *Hayes v. Belleaire Development Co.*, 120 Fla. 326, 162 So. 698(1935); *Orlando Orange Groves Co. v. Hale*, 107 Fla.304, 144 So. 674(1932); *Tampa Water Works Co. v. Wood*, 97 Fla. 493, 121 So. 789 (1929); *Chippola Valley Realty Co. v. Griffen*, 94 Fla. 1151, 115 So. 541(1927); SOWARDS, CASES, COMMENTS AND MATERIALS ON CORPORATIONS AND PARTNERSHIPS 267 (1958); STEVENS, HANDBOOK ON THE LAW OF PRIVATE CORPORATIONS 8 (2nd ed. 1949).

11. *Greer v. Stannard*, 85 Mont. 78, 277 Pac. 622(1929), holding a director has no duty, after resigning, from refraining from entering a similar field of business; RESTATEMENT, AGENCY, § 396 (1958): "After the termination of the agency, according to the American Law Institute's view on the point, an agent, unless there is a contrary agreement, is subject to a duty to the principal not to disclose the third person, or to use, on his own account or on the account of others, in competition with the principal or to his injury, trade secrets, written lists of names, or other similar confidential matters given to him only for the principal's use . . ."

12. *Seepedt v. Southern Laundry Inc.*, 149 Fla. 402, 5 So. 2d 859 (1942); *Silversmith v. Sydeman*, 305 Mass. 65, 25 N.E. 2d 215 (1940); *Baker v. Allen*, 292 Mass. 169, 197 N.E. 521 (1935); *May v. Angoff*, 272 Mass. 317, 172 N.E. 220 (1930); *Peerless Pattern Co. v. Pictorial Review Co.*, 147 App. Div. 715, 132 N.Y. Supp. 37 (1911) at p. 39: "Employee can use in new employment the knowledge he acquired in the old. This, if it involves no breach of confidence, is not unlawful; equity has no power to compel a man who changes employers to wipe clean the slate of his memory."

where competing interests are permitted to exist contemporaneously.<sup>13</sup>

The instant case is unique in that the court refused the request for injunctive relief while noting that, although the competition began after<sup>14</sup> the "severance of their relationship with the appellant . . . *there is no dispute that planning and negotiations were under way before appellees had severed their connections.*" (Emphasis added). Other jurisdictions interpret such actions as being contrary to the fiduciary duties of directors and employees, and will impose equity restraints on the activities of the new business<sup>15</sup> on the basis that the "fiduciaries succeeded in carving a new business out of the old without paying for it."<sup>16</sup>

Both the good faith of the fiduciaries and the soundness of public policy in permitting employees the freedom to seek other opportunities<sup>17</sup> are the concern of the courts in dealing with this problem. These factors must be balanced against the interests of free competition to determine when injunctive relief is merited. The court in the instant case does not seem to have given the proportionate weight to these factors. By accepting the defendant's admission that the preliminary organizational work had been done while in the employ of the plaintiff, the court has seriously impaired the consideration or value to be given to the entire concept of good faith in such situations.

COLEMAN ROSENFELD

## TORTS—WRONGFUL DEATH—JONES ACT

The owner of a tug petitioned for exoneration from, or limitation of, liability when his tug was consumed by fire and a crewman was killed. The fire was caused by an open flame kerosene lamp which ignited

13. *American Inv. Co. v. Lichenstein*, 134 F. Supp. 857 (Mo. 1955) (Competitive business allowed if not a violation of fiduciary relationship); *Industrial Indem. Co. v. Golden State Co.*, 256 P. 2d 677 (Cal. 1953), where the court held there to be a difference between a "competing business" and a "similar business," permitting the latter; *Regenstein v. J. Regenstein Co.*, 213 Ga. 157, 97 S.E. 2d 693 (1957); *Jasper v. Appalachian Gas Co.*, 152 Ky. 68, 153 S.W. 50 (1913) stating majority opinion if corporation is insolvent and no longer functioning, directors and officers are under no obligation to refrain from engaging in the same line of business.

14. Defendant corporation was open for business within seven days after defendants left employ of plaintiff. Brief for Appellee, p. 6, *Renpak, Inc. v. Oppenheimer*, 104 So. 2d 642 (Fla. 1958).

15. *Barden Cream & Milk Co. v. Mooney*, 305 Mass. 642, 26 N.E. 2d 324 (1940); *Duane Jones Co. v. Burke*, 281 App. Div. 622, 121 N.Y. Supp. 2d 107, *modified and aff'd*, 117 N.E. 2d 237 (1954).

16. Hart, *Termination of the Fiduciary Duty of Business Associated Not to Compete for the Firm's Customers and Suppliers*, 4 Duke B.A.J. 16-27 (1954).

17. See cases cited note 10, *supra*.

18. *Hunt v. Rossback*, 128 N.J. Eq. 77, 15 A. 2d 227 (1940); *Eberle & Co. v. Morgansteen*, 6 La. App. 35 (1927); *Texas Shop Towel Inc. v. Haire*, 246 S.W. 2d 482 (Tex. Civ. App. 1952) stating in the majority opinion that employees are free to contract for themselves and a contract between an employer and his employees is not assignable to a third person without the consent of the employee.