

# Unfair Competition—Another Decade

Robert C. Hays\*

THIS ARTICLE reviews the California cases on unfair competition arising from an employer-employee relationship decided since *Aetna Bldg. Maintenance Co. v. West*<sup>1</sup> was handed down in 1952. Included also is a discussion of cases resulting from the relationships of lessor-lessee, vendor-vendee, and patron-manufacturer. To properly orient himself, the reader should first examine an earlier study of the California cases in this field covering the decisions prior to and including *Aetna*.<sup>2</sup> As there noted, by 1952 the California law appeared to be developing a trend favorable to the former employee, particularly if he had avoided palpably sharp practices when he quit or was fired from his old job and went into competition with his former employer. In general terms, that trend has continued. In cases outside the classic trade route situation, the former employee now has additional precedent in his favor, although he can dilute its value by engaging in tactics repugnant to common ethics.

The basic task of the courts continues to be to balance the proprietary or property rights of the former employer against the right of the former employee to pursue his occupation. The courts long ago recognized that to impose unduly broad restrictions upon the employee's use of knowledge, skill, or acquaintances acquired during his former employment is to deprive him of the freedom to engage in the only kind of work he knows—unless he is prepared to move to another community.

In the field of unfair competition a familiarity with the facts of the decided cases is vital to an understanding of the current law. Consequently, the major portion of this article is devoted to a discussion of the facts of the significant recent cases and their treatment by the courts. This approach seems best suited to an attempt to set forth the precise limits of acceptable competitive behavior by a former employee and to define the scope of the remedies available to a former employer when those limits have been transgressed.

## I

### THE CASES

#### A. The Typical "Route" Cases

Notwithstanding an intimation to the contrary in a recent opinion,<sup>3</sup> the California law of unfair competition regarding former trade route

---

\* Member, California Bar; Lecturer, University of San Francisco School of Law.

<sup>1</sup> 39 Cal. 2d 198, 246 P.2d 11 (1952).

<sup>2</sup> Hays, *The California Law of Unfair Competition Takes a Turn—Against the Employer*, 41 CALIF. L. REV. 38 (1953).

<sup>3</sup> See *Peerless Oakland Laundry Co. v. Hickman*, 205 A.C.A. 620, 625, 23 Cal. Rptr. 105, 108 (1962).

employees has not undergone any material change in the last ten years. Relief by injunction and damages is still given. While the laundry route is the classic situation, this category now includes also food catering and distribution routes, chrome-plating pick-up service, sanitary supply distribution, and house-to-house installment sales. The same considerations have governed distribution to merchants of a "Name 'N Place Booklet" and the servicing of insurance policies. The common denominator in these service cases is that although the identities and locations of the customers may be freely ascertainable, they are numerous and usually scattered, and it takes a substantial amount of time, effort, and expense to obtain these customers initially. While the product or service may not be unique or superior, the customer relationship tends to continue unless disturbed by dissatisfaction or normal competition. The personal acquaintance factor is obviously important, although not conclusive. Keeping these elements in mind it is understandable why the courts have treated the route case as a special category.<sup>4</sup>

The defendant in *Peerless Oakland Laundry Co. v. Hickman*<sup>5</sup> had been employed as supervisor of plaintiff's linen supply business. Being acquainted with the customers' names, addresses, likes, dislikes, requirements, and dates of pick-up, and having developed friendly contacts with these people, he quit plaintiff to set up a competing service and began soliciting his old patrons for himself. Conceding that in the absence of an enforceable contract containing covenants to the contrary, equity will not enjoin a former employee from soliciting business from his former employer's patrons, "provided *such competition is fairly and legally conducted*,"<sup>6</sup> the appellate court upheld the finding of use of confidential information by the employee, the illegal act. "While the mere identity of the customers may not be considered confidential,<sup>7</sup> it may become such if it contains additional and confidential information about the customers."<sup>8</sup> The injunction, properly limited to customers of whom defendant obtained knowledge while in the employ of plaintiff, was affirmed.

One of the more interesting of the recent cases is *Southern Cal. Disinfecting Co. v. Lomkin*.<sup>9</sup> Plaintiff's business was stocking and distributing sanitary maintenance supplies to establishments maintaining public restrooms. Over the years plaintiff had built up a list of around 3,000 customers, on cards bearing the name, address, phone number, identity of person

---

<sup>4</sup> See *Aetna Bldg. Maintenance Co. v. West*, 39 Cal. 2d 198, 246 P.2d 11 (1952).

<sup>5</sup> 205 A.C.A. 620, 23 Cal. Rptr. 105 (1962).

<sup>6</sup> *Id.* at 623, 23 Cal. Rptr. at 107.

<sup>7</sup> Citing *Fortna v. Martin*, 158 Cal. App. 2d 634, 323 P.2d 146 (1958).

<sup>8</sup> 205 A.C.A. at 624, 23 Cal. Rptr. at 107, citing *Western Electro-Plating Co. v. Henness*, 180 Cal. App. 2d 442, 4 Cal. Rptr. 434 (1960).

<sup>9</sup> 183 Cal. App. 2d 431, 7 Cal. Rptr. 43 (1960).

in charge of maintenance, kind of supplies used, past sales record, credit, and other information. Each salesman had a route or territory and received a route book containing the above information, which he was instructed was confidential and to be augmented by him as he carried out his duties. When defendant Lomkin received his route book he agreed in writing to return it upon termination of his employment. Apparently an ambitious man, Lomkin won promotion to sales manager, then supervisor. For some undisclosed reason, however, he later found himself demoted back to salesman. Thereafter when Lomkin called on plaintiff's customers he would give them cards and advertising matter identifying him as being associated with defendant Calar Chemical Co., and solicited their patronage for Calar and other defendants. When Lomkin finally left plaintiff, true to his word he gave back the route book—after removing the sheets with information on 135 of the best customers, for which he substituted blank pages. He also assured plaintiff he did not intend to go into a similar business.

In affirming judgment for compensatory and exemplary damages (injunctive relief having become moot), the court said, "This case is not the usual commercial hitchhiking of a former employee but rather it is trade secret larceny."<sup>10</sup> Although the defendants had relied on the apparent liberality of the *Aetna* decision, the court responded: "There is no statement in the *Aetna* case to the effect that where fraud, deceit, breach of contract and deception are present, as they are so present in the case at hand, the business of plaintiff is open to invasion on the part of a former employee and a scheming entrepreneur."<sup>11</sup>

One does not ordinarily associate the chrome-plating of auto accessories with the route cases, but *Western Electro-Plating Co. v. Hennessy*<sup>12</sup> presented such a case. Defendants worked as driver-salesmen for plaintiff, soliciting business from auto dealers and repair shops, and picking up parts for plating and returning them. Each employee received from plaintiff a list of customers in his assigned territory and would call on these customers once or twice a day, usually traveling regular routes. The trial court found that the identity of these customers was not confidential, but the value and nature of the accounts was secret information. Additional findings were that the chrome-plating business involved little competition as to price or quality, that personal contact and friendship between solicitor and customer was important, and that the business relationship usually continued unless interfered with.

While still in Western's employ, defendants began soliciting its patrons

---

<sup>10</sup> *Id.* at 446, 7 Cal. Rptr. at 53.

<sup>11</sup> *Id.* at 447, 7 Cal. Rptr. at 53.

<sup>12</sup> 180 Cal. App. 2d 442, 4 Cal. Rptr. 434 (1960).

to transfer their business to the Whetnall Plating Company, one of plaintiff's competitors. Eventually Whetnall garnered forty-two customers, all but five of whom had been patrons of plaintiff. Noting the trial court's findings, the appellate court approved the injunction but modified its terms to restrain Whetnall Plating from accepting any business from plaintiff's former customers resulting from the direct or indirect solicitation by any of the defendants. (As rendered originally the injunction had prohibited the defendants from accepting any business from any of the customers listed in the complaint.)

In Los Angeles there was and may still be a man named Harry S. Gordon who protected himself with outstanding efficiency against competition from former employees. His business, consisting of thousands of accounts, was the selling of a line of general merchandise such as clothing, household goods, and appliances, to low-income-bracket housewives on a house-to-house, small installment sales basis. Out of this operation came *Gordon v. Schwartz*,<sup>13</sup> *Gordon v. Wasserman*,<sup>14</sup> and *Gordon v. Landau*.<sup>15</sup> In each case the defendant employee had been a collector-salesman for Gordon. Entrusted to the several defendants were routes and sets of cards showing customers' addresses, merchandise previously purchased by them, and a record of payments. Their job was to collect installments due and to make "add-on" sales. Despite considerable turnover in the accounts, many hundreds of regular customers could be counted on to buy from Gordon month after month. New customers were obtained through references from other customers, canvassing by the employees, and by Gordon's purchases of new accounts from other companies.

When he began working for Gordon each defendant (except Schwartz) had signed a contract providing that during the period of one year immediately succeeding termination of the employment he would neither divulge the names or addresses of nor solicit business from the customers with whom he had become acquainted while working for Gordon, and that he would be subject to a restraining order or injunction if he did.<sup>16</sup>

After leaving Gordon's employ each defendant had commenced a competing service, soliciting for himself with the aid of knowledge obtained from the customer cards entrusted to him by Gordon, and calling on his old patrons, the friendly housewives. Each defendant, when sued for an injunction and damages, claimed there was no confidential information involved. Wasserman and Landau argued that the restraints imposed by

---

<sup>13</sup> 147 Cal. App. 2d 213, 305 P.2d 117 (1956).

<sup>14</sup> 153 Cal. App. 2d 328, 314 P.2d 759 (1957).

<sup>15</sup> 49 Cal. 2d 690, 321 P.2d 456 (1958).

<sup>16</sup> The pertinent provisions of this contract are set forth in the text accompanying notes 85-86 *infra*.

their contracts with Gordon were invalid and unenforceable, being restraints of trade banned by section 16600 of the Business and Professions Code.<sup>17</sup> The courts, including the California Supreme Court, proved un-receptive to these arguments, holding that since Gordon had a valuable trade secret involved, the agreements were enforceable.

The *Gordon* decisions represent a fair application of the route case principles. Even though there is nothing secret about the identity or location of low-income-bracket housewives, the former employee must go out and find them for himself.

*Ingrassia v. Bailey*,<sup>18</sup> a lunch route catering service case, involved a lessor-lessee rather than an employer-employee relationship, but the issues were the same. Plaintiff had leased the catering service and a truck to defendant, the operation being to travel a route of industrial concerns in the Los Angeles area, arriving at each at a particular time, selling food and drink to the employees. Defendant received from plaintiff a route list showing names, addresses, parking places, times of arrival, durations of stops, numbers of employees to be served, and the nature and quantity of food required at each concern. He agreed in writing that this information should be conclusively regarded as a trade secret, and that upon termination of the parties' relationship the defendant would not solicit any of the customers on the route for a period of one year. After plaintiff terminated the agreement for good cause (lessee having become uninsurable) defendant got himself another truck, loaded up with the desired provender, and headed for the old route.

On appeal from a preliminary injunction he argued that the information was not confidential, and that the contractual restriction violated Business and Professions Code section 16600. The court disagreed, saying:

An agreement between the parties that something is a trade secret will not make of it a trade secret if in fact it is not. However, in the present case, we have both an actual trade secret plus an agreement by defendant to treat the information received from plaintiff as a trade secret and to hold such inviolate.<sup>19</sup>

As to the alleged noncompliance with the Business and Professions Code, the court concluded:

In the instant case there is no promise or agreement by the defendant that, after the termination of the contract, he would not engage in any profession, trade, or business. The contract merely provided that defendant

---

<sup>17</sup> "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." CAL. BUS. & PROF. CODE § 16600.

<sup>18</sup> 172 Cal. App. 2d 117, 341 P.2d 370 (1959).

<sup>19</sup> *Id.* at 123-24, 341 P.2d at 375.

would not solicit those customers made known to him in confidence. Such an agreement is not rendered invalid by section 16600.<sup>20</sup>

The judgment was affirmed.

A helpful and extensive review of the law in this field is set forth in *Alex Foods, Inc. v. Metcalfe*.<sup>21</sup> The case deals with a variation of the usual problem: the former employee has not induced plaintiff's route customers—retail and wholesale outlets in this instance—to discontinue use of plaintiff's products, but only to supplement that use by also stocking the products now being distributed by the former employee who is working for a competitor.

Plaintiff manufactured and distributed perishable Spanish food products. Defendant had worked for plaintiff as a supervisor, sometimes as a driver-salesman, developing new routes, becoming familiar with customer locations, customer needs, etc., and selling to retail and wholesale outlets, many of whom also sold other competing brands. Although he knew all the information, defendant retained no route books or other records upon his discharge by plaintiff; nor was there any evidence that defendant ever disparaged his former employer or its products. He acquired thirty-five new customers for his new boss, all of whom had been handling plaintiff's products, but only a few of them then ceased buying from plaintiff.

After deliberating over the question whether the case came within the "route case" rules or the rule of *Continental Car-Na-Var v. Mosely*,<sup>22</sup> the court held the injunction proper as to solicitation and sale to the customers (retail) who had as a result quit buying from plaintiff to sell the products distributed by defendant, but improper as to the buyers (wholesale), dealing in competitive lines, who continued as customers of plaintiff though a portion of their business had been solicited away by defendant. The court also struck down that part of the injunction that restrained defendants from selling products not being handled by plaintiff.

### B. The Quasi-Route Cases

Certain of the cases do not involve trade routes in the literal sense yet have the components that characterize the typical route case—the numerous, scattered customers; the valuable detailed information on the needs of this clientele; the influence of previous personal contacts; and the continuing relationship—and justify application of the route case principles.

In *Reid v. Mass Co.*,<sup>23</sup> an action for damages and an injunction against

---

<sup>20</sup> *Id.* at 124, 341 P.2d at 375.

<sup>21</sup> 137 Cal. App.2d 415, 290 P.2d 646 (1955).

<sup>22</sup> 24 Cal. 2d 104, 148 P.2d 9 (1944) (equity should protect inherent right to follow any common occupation).

<sup>23</sup> 155 Cal. App.2d 293, 318 P.2d 54 (1957).

former employees, plaintiffs operated a business throughout California and neighboring states. They distributed an indexed book entitled "Names 'N Places," ostensibly an informal telephone directory but also containing reference to subscribing merchants in the community who paid plaintiffs for their listing. These books were distributed by plaintiffs to householders in the community, and to the subscribing merchants, all of whose contracts with plaintiffs in a given community were written to expire at the same time. They maintained a "master chart" showing these expiration dates.

Some of their former employees began to compete with "Names 'N Places," offering a service they called "My Little Red Book." Having knowledge of the expiration dates of plaintiffs' contracts and of the identity of their customers was a tremendous help to the defendants, but to give "My Little Red Book" a further boost, they falsely represented to some of plaintiffs' subscribers that the "Names 'N Places" service would no longer operate in that part of the state. As a result of all this, plaintiffs' net profits dropped sharply.

Citing *Alex Foods, Inc. v. Metcalfe*<sup>24</sup> as controlling, and Labor Code section 2860,<sup>25</sup> the court examined the facts in view of the five element test laid down in *Aetna Bldg. Maintenance Co. v. West*,<sup>26</sup> finding all five elements present. The court observed that while the identity of some of plaintiff's customers may have been easily ascertainable, the entire list was not; that even if the customer list is not a trade secret in itself, the list becomes a trade secret when there is included other confidential information as to the customers on the list. The court noted also the value to the defendant of the knowledge of contract expiration dates, in itself affording a preferred list of business prospects.

Finally, the court said: "Whether the employee or the employer severs the relationship is of no consequence; the determinative factors are the

---

<sup>24</sup> 137 Cal. App. 2d 415, 290 P.2d 646 (1955), discussed in text accompanying note 21 *supra*.

<sup>25</sup> "Everything which an employee acquires by virtue of his employment, except the compensation which is due to him from his employer, belongs to the employer, whether acquired lawfully or unlawfully, or during or after the expiration of the term of his employment." CAL. LAB. CODE § 2860.

<sup>26</sup> 39 Cal. 2d 198, 246 P.2d 11 (1952). This test is discussed in Hays, *supra* note 2, at 57. In bare outline, *Aetna* indicates that to establish unfair competition by the former employee the evidence must show that:

- (1) The information was confidential and not readily accessible to competitors;
- (2) The former employee solicited the customers of his former employer with intent to injure him;
- (3) The former employee sought out certain preferred customers whose trade is particularly profitable and whose identities are not generally known to the trade;
- (4) The business is such that a customer will ordinarily patronize only one concern;
- (5) The established business relationship between the customer and the former employer would normally continue unless interfered with.

nature of the information the employee takes away with him, the use he makes thereof, and his subsequent conduct."<sup>27</sup>

Two years later, in *State Farm Mut. Auto. Ins. Co. v. Dempster*,<sup>28</sup> the district court of appeal affirmed an injunction against a group of insurance company agents on the ground that they had exploited their knowledge of contract expiration dates, *i.e.*, insurance policies issued by plaintiff. The defendants had worked for plaintiff under contracts providing that upon termination of the agreement the employee agents would return to the company all records, files, unused materials, and supplies, and—more pointedly—would not service company policyholders or compete with the company or interfere with its business for one year from the date of termination. After plaintiff discharged the defendants, they advised their clients not to renew with plaintiff company, which aided defendants in obtaining a substantial portion of the business for themselves and their new underwriters.

State Farm also claimed that its former agents had taken advantage of the information they possessed on names, addresses, and phone numbers of the old policyholders, the number and types of existing policies, expiration dates, due dates, amounts of premiums, description and location of the insured properties, credit standing, and other personal data pertaining to the insured.

Once again the defendants clung to the line secured, they hoped, to Business and Professions Code section 16600. But that familiar bollard failed again. The court said that the case turned on more than the contract between the parties:

The essence of the protected interest is the trade secret or trust. The contract of the parties is not decisive in establishing the interest; the contract cannot make a trade secret out of a situation where none exists; the interest itself as developed from the accepted relationship of the parties must be determinative.<sup>29</sup>

Agreeing that the information acquired by these defendants was in the nature of a trade secret, the court approved the injunction insofar as it prohibited the defendants from interfering for a period of one year with plaintiff's policyholders whom defendants had serviced, and from imparting to any insurance company, broker, or agent the information received or developed by them while representing plaintiff's respective policyholders, likewise for one year after the termination of employment. The defendants were permitted, however, to sell to former clients who came over to them unsolicited.

---

<sup>27</sup> 155 Cal. App. 2d at 306, 318 P.2d at 63.

<sup>28</sup> 174 Cal. App. 2d 418, 344 P.2d 821 (1959).

<sup>29</sup> *Id.* at 426, 344 P.2d at 825-26.



Lest the conclusion be drawn that the plaintiff in these cases always wins, a notion more fully dispelled in later pages, consider *Paraco, Inc. v. Owens*.<sup>30</sup> Paraco was in the business of collecting used lubricating oils from service stations and garages, on a first-come, first-served basis. Paraco had competitors for this salvage, but kept no record of the stations which released it or the amounts available at the respective stations. It appeared that one's ability to obtain the drain oil depended upon no confidential information or personal acquaintance. The names and locations of the sources were, of course, available in telephone directories.

Defendant, one of Paraco's tank drivers, quit to go into business for himself and began picking up the oil wherever available, including the outlets he had covered for plaintiff. Finding no intent on the part of defendant to injure his former employer, the trial court refused plaintiff relief.

In affirming for the defendant, the appellate court quoted the fundamental rule expressed in *Continental Car-Na-Var v. Moseley*:<sup>31</sup> "A former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer, even for the business of those who had formerly been the customers of his former employer, provided such competition is fairly and legally conducted. . . ."<sup>32</sup> The court went on to measure the facts against the five elements required under the *Aetna* opinion<sup>33</sup> as prerequisites to relief, and found not a single condition satisfied.

A recent case in this field, *American Loan Corp. v. California Commercial Corp.*,<sup>34</sup> involved a former Wisconsin attorney, a Mr. Rooney, who became an employee in plaintiff's investment business in Riverside County, which consisted principally of the purchase and sale of secured loans on real property. The operation was complicated; it required a training manual to be understood by employees, and the "investors," whose addresses were not easily obtainable, lived as far away as Texas. When defendant Rooney, after becoming an officer of plaintiff corporation, spoke of leaving the business he indicated a preference for retaining some connection with it, as, for example, by his servicing plaintiff's customers for ten per cent of the gross.

Rooney proceeded to open an office in the town of Arlington and began conducting a similar business through his own corporation. He had a copy of plaintiff's training manual. He took with him duplicates of plaintiff's card index customer list, and he sent an announcement of his new office

---

<sup>30</sup> 166 Cal. App. 2d 777, 333 P.2d 360 (1959).

<sup>31</sup> 24 Cal. 2d 104, 110, 148 P.2d 9, 13 (1944).

<sup>32</sup> 166 Cal. App. 2d at 781, 333 P.2d at 363.

<sup>33</sup> See note 26 *supra*.

<sup>34</sup> 211 A.C.A. 609, 27 Cal. Rptr. 243 (1963).

to all those on that list classified as repeat investors. He also made personal contact with many of them and sent them his "monthly bulletin." Assuming that Rooney was acting in accordance with the servicing-for-ten-per-cent understanding, plaintiff printed between five and ten thousand mailing brochures, including therein Rooney's name and Arlington office address. Then plaintiff learned that Rooney was in business only for Rooney.

The trial court awarded an injunction plus damages. Affirming, the appellate court agreed that the information relative to the operation of plaintiff's business was of a type not readily obtainable; several months of study and hundreds of dollars had been spent in developing the business; the customer list was not easily obtainable, nor was the information on the purchasing habits of these customer investors; and there had been solicitation by the defendants.

### *C. The Design Copy Cases*

These cases involve competition through the use of a design not protected by patent but disclosed by plaintiff to defendant in connection with a contractual relationship between the parties. The decisions do not encourage generalization.

In *King v. Gerold*<sup>35</sup> the plaintiff, inventor and designer of a house trailer known as the "Sport King," had by written contract licensed defendant to manufacture and sell the trailers for a certain period, with the proviso that if the license was not renewed defendant would cease to produce the trailer for any purpose. Plaintiff worked for defendant, supervising construction of the trailers. After expiration of the contract, plaintiff resumed building the trailers on his own, but defendant continued to manufacture and sell a trailer substantially similar to the "Sport King" in competition with plaintiff and to his loss of profits. King sued Gerold for breach of contract. Gerold defended on the ground the contractual restraint was invalid under Business and Professions Code section 16600, but the trial court awarded damages.

On appeal the agreement was held not barred by section 16600. The defendant was not prohibited by the agreement from carrying on the business of manufacturing trailers, but only from manufacturing and selling trailers of the particular design and style invented by plaintiff, who in the first instance licensed defendant to use that design for a limited time only. The judgment was affirmed.

On the frontier of unfair competition even the "top fast draw artist of the world" met someone willing to take him on. They shot it out, shall we say, in *Ojala v. Bohlin*.<sup>36</sup> The plaintiff, who satisfied the court that he was

---

<sup>35</sup> 109 Cal. App. 2d 316, 240 P.2d 710 (1952).

<sup>36</sup> 178 Cal. App. 2d 292, 2 Cal. Rptr. 919 (1960).

probably the world's fastest "fast draw," had designed the "Hollywood Fast Draw Holster," a rig with a specially designed metal interior to permit cocking of a revolver while it was being withdrawn from the holster. He engaged the defendant to manufacture the holster for him and disclosed all the information on design, construction, and assembly. They entered into an agreement that defendant would not compete with plaintiff in the manufacture of such a holster. When plaintiff subsequently fired defendant for raising the price of manufacture, however, defendant entered competition with a duplicate of the Hollywood Fast Draw Holster, advertising it as "The Lightning Draw Holster." Adding insult, the advertisement claimed that *he* had pioneered both holsters. The trial court found defendant's conduct detrimental to plaintiff's reputation as the top fast draw artist in the world, at least in Hollywood, where plaintiff instructed celebrities in the art of the fast draw. Accordingly, defendant was held liable for damages and ordered to stop competing with plaintiff by such means.

On appeal the court sustained the injunctive relief on two grounds. First, the court declared defendant a trustee under Civil Code section 2219.<sup>37</sup> "One who receives confidential information to enable him to make a novel product for another, and for that purpose alone, may be enjoined from using it for purposes of his own to the detriment of the one from whom the information was received."<sup>38</sup> Secondly, defendant had competed unfairly by means of false and misleading advertising under Civil Code section 3369.<sup>39</sup> The court said that plaintiff was also entitled to a recovery proportionate to the detriment he had suffered, including injury to his reputation.

*Ungar Elec. Tools, Inc. v. Sid Ungar Co.*<sup>40</sup> illustrates restrictions on

---

<sup>37</sup> "Every one who voluntarily assumes a relation of personal confidence with another is deemed a trustee, within the meaning of this chapter. . . ." CAL. CIV. CODE § 2219.

<sup>38</sup> 178 Cal. App. 2d at 300, 2 Cal. Rptr. at 924.

<sup>39</sup>

2. Any person performing or proposing to perform an act of unfair competition within this State may be enjoined in any court of competent jurisdiction.

3. As used in this section, unfair competition shall mean and include unfair or fraudulent business practice and unfair, untrue or misleading advertising . . . .

CAL. CIV. CODE § 3369.

<sup>40</sup> 192 Cal. App. 2d 398, 13 Cal. Rptr. 268 (1961). See also *By-Buk Co. v. Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 329 P.2d 147 (1958): Defendant Black, a disabled veteran working for plaintiff as a trainee under the Veterans Administration program, became familiar with experimental models of machines plaintiff was building to produce die-cut masks and overlapping masking discs. Black quit plaintiff to work for defendant Tape Company, disclosed plaintiff's methods of producing such masks and discs, and helped the company construct two machines, substantially copies of plaintiff's machines. The Tape Company commenced production of the masks and discs in competition with plaintiff, using materials, brochures, and advertising similar to those of plaintiff.

Holding Black bound by the same principles as any other employee, the appellate court approved compensatory and punitive damages. The court said that plaintiff's machines were

the use of confidential information that may exist even in the face of a written agreement expressly permitting competition. Defendant Sidney Ungar had been an officer and employee of plaintiff corporation, manufacturer of electric soldering iron heating units and tips. The trial court found that plaintiff had spent many years and a great deal of money developing its products, and had taken reasonable precautions to preserve as secret and confidential its techniques, processes of manufacture and assembly, ingredients, and sources of supply. Defendant corporation, with Sid Ungar and four other former employees of plaintiff, began substantially duplicating plaintiff's soldering products. Sid's written agreement with plaintiff corporation expressly permitted him to compete either personally or through another company. (The agreement was silent as to use or nonuse of confidential information or trade secrets.) It must have looked like green lights all the way.

When the lights changed to the unfriendly red of a law suit, defendants denied the existence of any trade secret, contending that even if there had been one it was disclosed by a patent, since expired. The trial court, nevertheless, imposed a broad injunction<sup>41</sup> and awarded damages.

Affirming, the appellate court said that the character of the secrets, if peculiar and important to the business, is not material; but they must, as the term implies, be kept secret by the one who creates them. It did not matter that defendants could have gained their knowledge from an expired patent if in fact they did not, but rather gained it from a confidential relationship.<sup>42</sup>

---

clearly trade secrets, but modified the injunction so as to prohibit manufacturing, using, placing in use, disposing of, rebuilding, or revealing the invention of the machines, and to order the dismantling of defendants' machines. Defendants were also enjoined from selling or disposing of any of the discs theretofore produced by their machines, and ordered to give an account of their sales of said products already made. (A petition for hearing by the supreme court was denied.)

<sup>41</sup> Defendants were permanently enjoined from manufacturing or assembling heating units by utilizing knowledge that had been acquired with respect to plaintiff's trade secrets relating to ingredients, plaintiff's sources of supply of materials (specifically not including cement), and plaintiff's techniques and processes of manufacture and assembly of its heating units. Defendants were not enjoined from the use of the shape, dimensions, and iron plating of the metallic parts of the soldering tips theretofore made by them.

The permanent injunction extended, in addition, to the selling or distributing of any soldering heating units of the specifications that had previously been manufactured or assembled by defendants and to the further manufacturing, assembling, distributing, or selling thereof.

Defendants were furthermore permanently enjoined from making, selling, or distributing any other heating units which were manufactured or assembled by utilizing the trade secrets of the respondent.

Finally, the judgment specifically did not preclude the defendants from the manufacture, sale, or distribution of soldering-iron heating units (other than units of the specifications as were manufactured or assembled by the defendants as set forth in the specific prohibitions), provided the same were the result of independent research and development.

<sup>42</sup> Citing *Franke v. Wiltschek*, 209 F.2d 493, 495 (2d Cir. 1953).

In *Futurecraft Corp. v. Clary Corp.*,<sup>43</sup> decided only a few months ago, plaintiff sought an injunction, an accounting, and damages against a former employee for the alleged wrongful use and disclosure of valve designs alleged to be confidential trade secrets of Futurecraft Corp. Futurecraft and Clary Corp. were competitors in the design, manufacture, and sale of valves and valve components for guided missiles and rockets. Plaintiff Futurecraft had patent applications pending on certain of the designs. The trial court limited the issue to: What, if any, trade secret, embraced within the issues as established by the pleadings, stipulations, and pretrial order, became entrusted to the defendant Koutnik while he was an employee of the plaintiff? The trial court found that none existed.

On appeal, the court considered that the case did not involve a secret of know-how, process, machine, or tools, but rather various allegedly secret *design features* and an alleged agreement by the defendant Koutnik not to utilize the design in competition with plaintiff. The district court of appeal held that even assuming a trade secret existed, there was ample evidence to support the trial court's conclusion that there had been no breach of confidence, nor agreement by Koutnik not to make competitive use of the design. Moreover, the court indicated that as a matter of law there was no trade secret here, for "matters which are completely disclosed by the goods one markets cannot be his secret."<sup>44</sup>

The court's language is very expressive of the problem of balancing the respective rights of former employer and former employee in this type of case:

Before turning to the "definitional problem" of what constitutes a trade secret, it is well to mention a basic underlying problem, namely, the legal basis upon which plaintiff predicates its right to relief. This problem stems from the fact that ownership of a trade secret does not give the owner a monopoly in its use, but merely a proprietary right which equity protects against usurpation by unfair means. . . .<sup>45</sup>

" . . . The employer thus has the burden of showing two things: (1) a legally protectable trade secret; and (2) a legal basis, either a covenant or a confidential relationship, upon which to predicate relief."<sup>46</sup>

The court said further:

A basis for the protection of trade secrets is that the recipient obtains through a confidential relationship something he did not previously know.

The court cannot compel a man who changes employers to wipe clean the slate of his memory. . . .<sup>47</sup> To grant plaintiff the relief prayed for would

---

<sup>43</sup> 205 A.C.A. 323, 23 Cal. Rptr. 198 (1962).

<sup>44</sup> 4 RESTATEMENT, TORTS § 757, comment b at 6 (1939).

<sup>45</sup> 205 A.C.A. at 327, 23 Cal. Rptr. at 207.

<sup>46</sup> Quoting from *Wexler v. Greenberg*, 399 Pa. 569, 577, 160 A.2d 430, 434 (1960). (All italicized in original.)

<sup>47</sup> Citing, *inter alia*, *Avocado Sales Co. v. Wise*, 122 Cal. App. 2d 627, 10 P.2d 485 (1932).

in effect restrain Koutnik from the pursuit of his profession. He would be deprived of the use of knowledge and skill which he gained which did not originate with plaintiff. . . . If the foregoing is not soundly premised how could a former employee with Koutnik's knowledge and skill obtain future employment?<sup>48</sup>

Judgment for the defendant was affirmed. In brief, plaintiff had freely disclosed the designs by merchandising the products; thus, its only protection would be through patents. Defendant Koutnik had violated no confidence, breached no agreement. There was no trade secret for equity to protect; and the court would not enjoin Koutnik from using knowledge, much of which had been acquired elsewhere, so as to bar him from future employment. Significantly, it does not appear that defendant Koutnik had been guilty of any other questionable conduct.<sup>49</sup>

#### *D. Defense Cases—Nonroute*

Acknowledging that *Futurecraft* could be included in this category and bypassing for the moment a simple janitorial service case mentioned later in a discussion of contractual stipulations against competition,<sup>50</sup> let us examine the recent nonroute cases, which are of great aid and comfort to defendants and their attorneys. Three of these cases were won on general demurrers.

The complaint in *Mathews Paint Co. v. Seaside Paint Co.*<sup>51</sup> alleged the following: Plaintiff was engaged for many years in the business of manufacturing paints and lacquers. Two defendants, one a salesman, the other a chemist, left plaintiff's employ to work for defendant Seaside Paint Co. They solicited plaintiff's customers, labelled, numbered, and otherwise represented Seaside's products to correspond in style, number, and appearance with those of plaintiff, and represented the products as coming from the same source as those sold by plaintiff. Among Mathews Paint Co.'s former customers were eighteen firms that manufactured and finished furniture, cabinets, and fixtures. Defendants Goldflam and Rousselot, while employed by plaintiff, had learned the needs and requirements of those customers. By making products serving their special needs, plaintiff had caused these customers to develop a preference for plaintiff's service and thus had developed a continuing relationship.

---

<sup>48</sup> 205 A.C.A. at 332, 23 Cal. Rptr. at 210.

<sup>49</sup> See also *Daniel Orifice Fitting Co. v. Whalen*, 198 Cal. App.2d 791, 18 Cal. Rptr. 659 (1962), affirming an injunction granted against former officer of plaintiff corporation, under no contract not to compete, who concealed improvements developed by him on plaintiff's valves during his employment, and later used this and other confidential information to compete with plaintiff.

<sup>50</sup> See text accompanying note 80 *infra*.

<sup>51</sup> 148 Cal. App. 2d 168, 306 P.2d 113 (1957).

Defendant's demurrers were sustained with leave to amend but plaintiff declined to do so.

Adopting language from *California Intelligence Bureau v. Cunningham*,<sup>52</sup> the appellate court said:

The fundamental difference in the decisions, as we read them, is whether in a given case the knowledge gained by an employee is secret and confidential. If it is, its use by a former employee will be enjoined. If it is not, its use by a former employee will not be enjoined. Some knowledge gained by an employee is of such a general character that equity will not restrict its later use. An employee has a right, after cessation of employment, to use anything that is not the property of his employer. . . .<sup>53</sup>

The following deficiencies were noted in the complaint:

1. Plaintiff failed to allege that the formulas were secret or that plaintiff had a proprietary interest in them.

2. The complaint did not allege that any of plaintiff's customers were not equally well known to plaintiff's competitors as wholesale buyers. Thus, plaintiff's list of customers was not a secret one nor one in which plaintiff could have a proprietary interest. "If the customer list is not secret and confidential it is not the property of the employer."<sup>54</sup>

3. While it was alleged that defendants became familiar with the requirements of plaintiff's customers, there was no allegation that there was anything secret about those requirements. "A salesman necessarily becomes somewhat acquainted with the particular requirements of his customers, but the knowledge that he obtains in this manner is not in and of itself confidential information which is the property of the employer."<sup>55</sup>

4. It was not alleged that plaintiff had any property rights in the labels, numbering, or other identifying appearance of its own products, or that there was anything in the appearance of the Seaside products that would tend to deceive the public into the belief they were plaintiff's products or would otherwise constitute unfair competition.

Holding that on the facts alleged plaintiff was not entitled to an injunction, the court sent the defendants on their way with this benediction: "A salesman who leaves one employer has a right to enter the employment of a competitor. He necessarily is possessed of information gained in the earlier employment which will enable him to better succeed in later ones."<sup>56</sup>

In *American Alloy Steel Corp. v. Ross*<sup>57</sup> plaintiff tried and failed four times to state a cause of action. American Alloy alleged that it was in the

---

<sup>52</sup> 83 Cal. App. 2d 197, 203, 188 P.2d 303, 306 (1948), discussed in Hays, *supra* note 2, at 50.

<sup>53</sup> 148 Cal. App. 2d at 171, 306 P.2d at 115.

<sup>54</sup> *Id.* at 173, 306 P.2d at 116.

<sup>55</sup> *Id.* at 174, 306 P.2d at 117.

<sup>56</sup> *Id.* at 175, 306 P.2d at 117.

<sup>57</sup> 149 Cal. App. 2d 215, 308 P.2d 494 (1957).

business of selling tool steel and alloy steel to customers whose equipment and machinery, which were in continuous operation, had wearable parts which had to be replaced by tool steel and alloy steel; that while there are hundreds of users of steel, it takes considerable time and money to find and identify those who require tool and alloy steels; that the list of such users was confidential and secret; that once a business relationship with such users is established it tends to continue.

American Alloy further alleged that after defendants quit American Alloy they joined employees of a competitor company, also a defendant, and began soliciting American's customers whose names they had learned while working for American, with the intent of injuring American's business; and that they endeavored to induce those customers to cease purchasing their steel from American and to become customers of one of the other defendants. The prayer was for an injunction and damages.

On appeal the court repeated the statement from the *California Intelligence Bureau* case quoted in the opinion in *Mathews Paint Co. v. Seaside Paint Co.*<sup>58</sup> The court then observed that the fourth amended complaint did not allege that defendant Ross had acquired trade and business information not readily accessible to others, and that it was "obvious" that purchasers of tool steel and alloy steel are generally known in the trade or could be readily ascertained. Moreover, the allegation that the list of plaintiff's customers was secret and confidential was held a mere conclusion. It was not alleged, said the court, that the tool steel and alloy steel sold by plaintiff was any different from that sold by plaintiff's competitors. Consequently, defendant Ross had no duty to refrain from soliciting persons whose names he had learned in plaintiff's employ. The judgment for the defendant was affirmed.

In the termite case, *Fortna v. Martin*,<sup>59</sup> the plaintiff found that one "pest" he could not control was his former manager. This employee had worked for plaintiff under a contract providing that for a period of five years after termination the employee would not solicit, serve, or cater to, engage, assist, be interested in, or connected with any other person, firm, etc., soliciting, serving, or catering to any of the customers served by the defendant or by any other employee of plaintiff during defendant employee's time with the company.

After Martin left Fortna to make war against the termites on his own, he called upon plaintiff's customers, left his card, and told them that if he

---

<sup>58</sup> See text accompanying note 52 *supra*.

<sup>59</sup> 158 Cal. App. 2d 634, 323 P.2d 146 (1958). See also *Lloyd Pest Control Co. v. Lopez*, 173 Cal. App. 2d 606, 343 P.2d 757 (1959), where the former employee conducted himself in almost a model manner for immunity against an injunction or damages, and rightly prevailed in the litigation.



could be of service he would. He apparently was, since several of Fortna's old customers stopped giving Fortna their business. Fortna sought to enjoin Martin from competing with him.

In the trial court Martin argued in vain that the contract was void because in restraint of trade and that the findings showed no information constituting a trade secret. He was enjoined from competing with plaintiff or soliciting structural pest control work, in a specified area, for five years, and from making use of confidential information or trade secrets acquired from the plaintiff.

The appellate court reversed, holding that the evidence failed to show any information used by the defendant that could be considered a trade secret or confidential. The identity of plaintiff's customers was held to be common knowledge. There was nothing confidential about the materials used or the services performed in termite control work. Plaintiff's method of pricing and bidding, the court said, did not appear from the evidence to be secret or improved. The mere fact—and this is worth noting—that plaintiff did not disclose that information to *other* employees did not make it secret and confidential. Nor was the knowledge of the identity of the man in each customer firm who controlled the business confidential—"any solicitor could ascertain this." The court concluded with the following statement of the employee's Magna Charta: "A former employee has the right to engage in a competitive business for himself and to enter into competition with his former employer, even for the business of those who had formerly been the customers of his former employer, provided such competition is fairly and legally conducted."<sup>60</sup>

The restraint imposed on defendant Martin's activities by the contract of employment was held ineffective because it was not within one of the exceptions permitted by section 16600 of the Business and Professions Code.<sup>61</sup>

The defendant in *Show Management v. Hearst Publishing Co.*<sup>62</sup> must surely have been the first party in an unfair competition case to be accused of using the Governor of California as an unwitting tool in an alleged plan to do the plaintiff wrong. According to the complaint, plaintiff, who had been putting on an annual "Los Angeles Sportsmen's Vacation, Boat and Trailer Show," was making ready its 1960 exposition and had some exhibitors signed up, with several others having indicated their intention to contract with plaintiff as well. Defendants allegedly agreed with each other to put on an exposition in Los Angeles, at about the same time as plaintiff's,

---

<sup>60</sup> 158 Cal. App. 2d 638, 323 P.2d at 148, quoting *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal. 2d 104, 110, 148 P.2d 9, 12 (1944).

<sup>61</sup> See note 17 *supra*.

<sup>62</sup> 196 Cal. App. 2d 606, 16 Cal. Rptr. 731 (1961).

under the name, "International Sports and Vacation Show." Then, the averments continued, defendants prevailed on the Governor, by misrepresentations, to issue a proclamation declaring the period of defendants' show to be "International Sports and Vacation Week" and distributed a brochure containing pictures of the Governor, an "Honorary Committee," and the proclamation. This was done, said the complaint, to give the impression that defendants' show was a civic event or enterprise and to give their show an unfair advantage over that of plaintiff, thereby inducing exhibitors to patronize their show instead of plaintiff's. It was further alleged that these tactics had caused some of plaintiff's exhibitors to reduce the space they would have otherwise taken, and had induced others not to contract with plaintiff at all.

Plaintiff's grievance against defendant Hearst Publishing Co. was that plaintiff had given the company the names of those persons employed by prospective exhibitors who had the responsibility of contracting for exhibit space, to enable Hearst to solicit advertising for the Los Angeles Examiner. But Hearst and the other defendants allegedly used this "confidential information" to solicit exhibitors for their show and to induce others to break their contracts with plaintiff.

The district court of appeal agreed with the lower court that the complaint failed to state a cause of action. "[I]t does not appear that the purpose of the defendants' conduct was *solely* to cause harm to plaintiff by bringing about a cancellation of the plaintiff's contracts with exhibitors."<sup>63</sup> Relying on *Fortna v. Martin*,<sup>64</sup> the court held that the information allegedly given to Hearst was not confidential, for the names of the persons to be solicited could be easily ascertained.<sup>64a</sup>

### *E. The "Five Element Test" of the Aetna Case*

Reference has been made to the five conditions laid down by the California Supreme Court in *Aetna Bldg. Maintenance Co. v. West*<sup>65</sup> as prerequisite to the granting of relief against a former employee. This decision and its five element test were discussed in some detail by the writer in the earlier article.<sup>66</sup> It was suggested there that *Aetna* inadvertently set forth these requirements in the conjunctive—instead of the alternative—thus

---

<sup>63</sup> *Id.* at 619, 16 Cal. Rptr. at 739.

<sup>64</sup> Note 59 *supra*.

<sup>64a</sup> See also *Mary Doe Enterprises, Inc. v. Central Valley Professional Exch., Inc.*, 212 A.C.A. 599, 28 Cal. Rptr. 158 (1963), where injunctive relief and damages were denied in an action against plaintiff's former employee, a switchboard operator, who had become a shareholder and agent of defendant corporation, a competing telephone answering exchange service.

<sup>65</sup> 39 Cal. 2d 198, 246 P.2d 11 (1952). The test is set forth in note 26 *supra*.

<sup>66</sup> Hays, *The California Law of Unfair Competition Takes a Turn—Against the Employer*, 41 CALIF. L. REV. 38 (1953).

compounding a plaintiff's problem fivefold—whereas the decisions prior to *California Intelligence Bureau v. Cunningham*,<sup>67</sup> apparently the inspiration for this language in *Aetna*, had never required satisfaction of all these conditions for the granting of relief in any one case. There is no intent here to retravel old ground but merely to note briefly the attention the *Aetna* test has received in later appellate court cases in California.

Reference to the test appears in *Alex Foods, Inc. v. Metcalfe*,<sup>68</sup> *Gordon v. Schwartz*,<sup>69</sup> *Reid v. Mass Co.*,<sup>70</sup> *Paraco, Inc. v. Owens*,<sup>71</sup> *Southern Cal. Disinfecting Co. v. Lomkin*,<sup>72</sup> *Western Electro-Plating Co. v. Hennessy*,<sup>73</sup> *Peerless Oakland Laundry Co. v. Hickman*,<sup>74</sup> and *American Loan Corp. v. California Commercial Corp.*<sup>75</sup> In all of these cases except *Paraco*, and possibly *American Loan Corp.*, the court found the evidence sufficient to satisfy all five requirements. In *Paraco*, however, the evidence was found insufficient to satisfy any of the requirements. Thus the problem, if there is one, under the *Aetna* test in the event the plaintiff satisfies, say, only three or four of the conditions, has not yet materialized at the appellate level.<sup>76</sup> No further supreme court pronouncement on the point has been found.

#### F. Restraint by Contract

Any attempt to restrict competition by the former employee by contract appears likely to be doomed under section 16600 of the Business and Professions Code,<sup>77</sup> unless the restriction is carefully limited and the agreement protects merely a proprietary or property right of the employer recognized as entitled to protection under the general principles of unfair competition. In other words, it seems that the employer will be able to restrain by contract only that conduct of the former employee that would have been subject to judicial restraint under the law of unfair competition, absent the contract. This may sound tantamount to saying such an agreement is worthless, but no such conclusion is intended. Apart from the pos-

---

<sup>67</sup> 83 Cal. App. 2d 197, 188 P.2d 303 (1948).

<sup>68</sup> *Supra* note 21.

<sup>69</sup> *Supra* note 13.

<sup>70</sup> *Supra* note 23.

<sup>71</sup> *Supra* note 30.

<sup>72</sup> *Supra* note 9.

<sup>73</sup> *Supra* note 12.

<sup>74</sup> *Supra* note 5.

<sup>75</sup> *Supra* note 34.

<sup>76</sup> The problem may have appeared in *American Loan Corp. v. California Commercial Corp.*, *supra* note 34, where the court quotes the *Aetna* test verbatim but then makes no explicit effort to show all five conditions fulfilled. *Quaere*, whether more than three were proven satisfied.

<sup>77</sup> "Except as provided in this chapter, every contract by which anyone is restrained from engaging in a lawful profession, trade, or business of any kind is to that extent void." CAL. BUS. & PROF. CODE § 16600.

sible practical and psychological value of the employee knowing he has agreed to desist from certain conduct after his employment ends, the courts sometimes include the fact of the agreement as a sort of additional reason why the employer is entitled to judgment.<sup>78</sup> An agreement to return a customer list or records and files upon termination of employment is enforceable.<sup>79</sup> And if the former employee has agreed not to solicit, cater to, divert, or divulge the names of plaintiff's customers—to mention a few examples—obviously this employee, if sued, may have the additional burden of demonstrating that these provisions of the contract are invalid.

A simple example of a restraining contract that failed is seen in *Morris v. Harris*,<sup>80</sup> an action to recover liquidated damages for breach of contract not to solicit, or accept without solicitation, any of plaintiff's janitorial service clients. Harris turned in his broom and set forth with a janitorial service of his own, thereafter performing services for certain of Morris' customers, but without having solicited them. The court held that the agreement "not to accept" any of plaintiff's customers was a violation of section 16600 of the Business and Professions Code, and said:

Equity recognizes a fiduciary duty of any employee after leaving the employer's service not to take unfair advantage of trade secrets and customer's lists. It seems reasonable that to the extent of this rule the parties may implement it by contract. But the rule does not cover the services of a janitor who after leaving the employer's service accepts employment from the employer's customers without solicitation on his part.<sup>81</sup>

Another contract which failed to avoid the proscription of the Business and Professions Code appears in *Fortna v. Martin*,<sup>82</sup> a case already discussed. Martin's agreement of employment with Fortna was that Martin would not, for a period of five years after termination, solicit, serve, or cater to, engage, assist, be interested in or connected with any other person, firm, etc., soliciting, serving, or catering to any of the customers served by Martin or by any other employee of the company during his employment

---

<sup>78</sup> See *Southern Cal. Disinfecting Co. v. Lomkin*, 183 Cal. App. 2d 431, 7 Cal. Rptr. 43 (1960). Note the following statement adopted by the court in *By-Buk Co. v. Printed Cellophane Tape Co.*, 163 Cal. App. 2d 157, 164, 329 P.2d 147, 151 (1958):

Injunctive relief against disclosures of trade secrets and other confidential information obtained by an employee is undoubtedly available to the employer, where the employee has expressly agreed not to disclose the trade or business secrets. Such an agreement is not an unlawful restraint of trade unless it is more extensive than is reasonably required to protect the masters' secrets. But an express negative covenant not to make use of trade secrets or processes is not indispensable to the granting of relief. . . .

<sup>79</sup> *Southern Cal. Disinfecting Co. v. Lomkin*, *supra* note 78.

<sup>80</sup> 127 Cal. App. 2d 476, 274 P.2d 22 (1954).

<sup>81</sup> *Id.* at 478, 274 P.2d at 23, citing the *Aetna* case.

<sup>82</sup> *Supra* note 59.

with Fortna's company. It will also be recalled that under the facts plaintiff was able to marshal a fairly good showing of items of alleged confidential information, certainly much better than in the janitorial service case. The appellate court, however, declined to recognize the existence of any information used by the defendant that constituted a trade secret or qualified as confidential. Reversing the decree of injunction, the court said that the contractual provisions did not fall within any of the exceptions to section 16600 of the Business and Professions Code.

There are several instances where contractual restraints on the former employee have been upheld. Notably, four were in route cases, one in a quasi-route case, and two in copy cases.<sup>83</sup> These, significantly, are the situations in which the plaintiff appears most likely to win relief even in the absence of a contract.

The agreement which now has the strongest backing of judicial authority in this state is the one under attack in the last two Gordon cases,<sup>84</sup> both route cases, the facts of which have been previously set forth.<sup>85</sup> That agreement (paragraphs 8 and 9) provided:

(8) Collector-salesman further agrees that during the period of one (1) year immediately after the termination of his employment with the employer he will not, either directly or indirectly, make known or divulge the names or addresses of any of the customers or patrons of employer at the time he entered the employ of employer or with whom he became acquainted after entering the employ of employer, to any person, firm or corporation, and that he will not directly or indirectly, either for himself or for any other person, firm, company or corporation, call upon, solicit, divert, or take away, or attempt to solicit, divert or take away any of the customers, business or patrons, or the employer upon whom he called or whom he solicited or to whom he catered or with whom he became acquainted, or upon whom he called or to whom he catered after his employment with said employer.

(9) Collector-salesman hereby consents and agrees that for any violation of any of the provisions of this agreement, a restraining Order and/or an injunction may issue against him in addition to any other rights the employer may have.<sup>86</sup>

Rejecting defendant's contention in *Gordon v. Wasserman* that the contract was void because in restraint of trade, the district court of appeal said:<sup>87</sup>

It clearly appears by the terms of the contract that it does not prevent

---

<sup>83</sup> See *Handyspot Co. v. Buegeleisen*, 128 Cal. App. 2d 191, 274 P.2d 938 (1954), discussed in text accompanying note 97 *infra*, treated separately since it involved the sale of a business.

<sup>84</sup> *Gordon v. Landau*, 49 Cal. 2d 690, 321 P.2d 456 (1958); *Gordon v. Wasserman*, 153 Cal. App. 2d 328, 314 P.2d 759 (1957).

<sup>85</sup> Discussed in text accompanying note 15 *supra*.

<sup>86</sup> *Gordon v. Wasserman*, 153 Cal. App. 2d 328, 329, 314 P.2d 759, 760-61 (1957).

<sup>87</sup> 153 Cal. App. 2d at 330, 314 P.2d at 761.

defendant from carrying on a weekly credit, or any other business. He covenants not to use plaintiffs' confidential lists to solicit customers for himself; similar covenants have been held valid and enforceable in *King v. Gerold*<sup>88</sup> . . . and in *Handyspot Co. v. Buegeleisen* . . . .<sup>89</sup>

When the same wording was before the California Supreme Court in *Gordon v. Landau*, with the defendant arguing that the contract was void because it restrained him from engaging in a lawful profession, trade, or business within the meaning of section 16600 of the Business and Professions Code, that court said:

It clearly appears from the terms of the contract that it did not prevent defendant from carrying on a weekly credit business or any other business. He merely agreed not to use plaintiff's confidential lists to solicit customers for himself for a period of one year following termination of his employment. Such an agreement is valid and enforceable.<sup>90</sup>

The court decided, moreover, that Gordon's list of customers constituted a valuable trade secret.

The agreement in *Ingrassia v. Bailey*,<sup>91</sup> between lessor and lessee (where the court remarked that the principles enunciated in the route cases were fully applicable), stipulated that the information being given to the lessee relative to the route list in a food catering service would be conclusively regarded by the parties as a trade secret, and that upon termination of the agreement the lessee would not solicit any of the customers on the route for a period of one year. Approving a preliminary injunction, the court held the contract enforceable for reasons set forth in our principal discussion of this case.<sup>92</sup> The court conceded that an agreement between the parties will not make something a trade secret if in fact it is not, but said that here there was an actual trade secret with or without the agreement.

In the insurance agent case, *State Farm Mut. Auto. Ins. Co. v. Dempster*,<sup>93</sup> it had been agreed that on termination of the agreement the agent would return to the company all records and files used by the agent in his representation of the company; that the agent would not thereafter service policyholders of the company or compete with it or interfere with its business for one full year after termination. It will be recalled the court found the information acquired by defendants a trade secret and held the agreement valid.

---

<sup>88</sup> (Footnote added.) 109 Cal. App. 2d 316, 240 P.2d 710 (1952), discussed in text accompanying note 35 *supra*.

<sup>89</sup> (Footnote added.) *Supra* note 83.

<sup>90</sup> 49 Cal. 2d at 694, 321 P.2d at 459, citing *Gordon v. Wasserman*, *Handyspot Co. v. Buegeleisen*, and *King v. Gerold*.

<sup>91</sup> 172 Cal. App. 2d 117, 341 P.2d 370 (1959).

<sup>92</sup> See text accompanying note 18 *supra*.

<sup>93</sup> 174 Cal. App. 2d 418, 344 P.2d 821 (1959), a quasi-route case, discussed in text accompanying note 28 *supra*.

It appears that in *Southern Cal. Disinfecting Co. v. Lomkin*<sup>94</sup> the only thing defendant had expressly agreed to do upon termination of his employment was to return the route book. The appellate court considered him under "an extraordinary duty" because he had agreed in writing to return the book and did not do so. The court found "trade secret larceny."

In the "fast draw" case, *Ojala v. Bohlin*,<sup>95</sup> the trial court found that defendant, when undertaking manufacture of the holster for plaintiff, had agreed not to compete with him in the manufacture of the holster. The opinion of the appellate court, however, does not appear to have predicated relief on the agreement, yet does not say it was invalid.

In *King v. Gerold*,<sup>96</sup> the house trailer case, defendant licensee had agreed that if his license from plaintiff should not be renewed he would cease to produce the trailer for any purpose whatever. The appellate court held the agreement not barred by the Business and Professions Code, observing that the defendant was not prohibited by his agreement from carrying on the business of manufacturing trailers but merely from manufacturing and selling trailers of the particular design and style invented by the plaintiff.

#### *G. Solicitation After Sale of Business*

Though this aspect of unfair competition is not, strictly speaking, within the boundaries of this article, and the coverage does not purport to be exhaustive, one of the decisions in this area, *Handyspot Co. v. Buegeleisen*,<sup>97</sup> has been cited by the California Supreme Court in a case involving employer and employee.<sup>98</sup>

In *Handyspot*, defendant had sold to plaintiff a business of selling drugs, sundries, and novelty items to retail establishments. There was no express sale of good will, nor covenant by the defendant seller not to engage in a competitive business. After the sale of the business, defendant solicited the trade of certain of the large accounts transferred to plaintiff. On appeal from a preliminary injunction, defendant argued that it was under no covenant not to compete and that, at any rate, such a covenant would be void under sections 16600 and 16601<sup>99</sup> of the Business and Pro-

---

<sup>94</sup> 183 Cal. App. 2d 431, 7 Cal. Rptr. 43 (1960), a route case, discussed in text accompanying note 9 *supra*.

<sup>95</sup> 178 Cal. App. 2d 292, 2 Cal. Rptr. 919 (1960), a design copy case, discussed in text at note 36 *supra*.

<sup>96</sup> *Supra* note 88, a design copy case.

<sup>97</sup> 128 Cal. App. 2d 191, 274 P.2d 938 (1954).

<sup>98</sup> *Gordon v. Landau*, *supra* note 84.

<sup>99</sup> Any person who sells the good will of a business . . . may agree with the buyer to refrain from carrying on a similar business within a specified county . . . in which the business so sold . . . has been carried on, so long as the buyer, or any person deriving title to the good will or shares from him, carries on a like business therein.

fessions Code because the contract did not purport to be a sale of good will. Defendant had agreed, however, "to use its best efforts to transfer all of its customers" to plaintiff by having them sign an agreement "as required by" plaintiff. This, said the court, amounted to an agreement to sell the good will, and:

The seller of good will, even in the absence of a covenant not to compete, will not be permitted to destroy the value of the good will by canvassing directly with his old customers endeavoring to dissuade them from dealing with the purchaser of the good will, and soliciting them to trade with the seller.<sup>100</sup>

The court held that the contract was not in restraint of trade, for there was nothing to bar the defendant from becoming a competitor so long as he did not solicit his former customers contrary to the provisions of the agreement—but to do so would amount to unfair competition.

## II

### SCOPE OF REMEDIES AVAILABLE TO FORMER EMPLOYER

#### *A. The Injunction*

Once injunctive relief has been found warranted in the unfair competition cases, the courts have not been reluctant to impose effective restraints. The first ban is usually on solicitation of the former employer's customers<sup>101</sup> or of the accounts sold with the good will of a business.<sup>102</sup> Fortunately, the courts apparently recognize that nothing is remedied by enjoining solicitation after the defendant has already captured what he went after. The injunctions have usually been framed, therefore, in a manner to prevent the defendant from enjoying the fruits of his larceny.<sup>103</sup> For example:

(1) *Selling or delivering.* The defendant may be enjoined from selling or delivering to the customers of the plaintiff wrongfully solicited;<sup>104</sup>

(2) *Accepting.* The restraint may also preclude accepting the business of persons who were customers of the plaintiff during the period of defendant's employment when such business came to defendant as a result of direct or indirect solicitation by him;<sup>105</sup>

---

<sup>100</sup> 128 Cal. App. 2d at 195, 274 P.2d at 941. See also *Anderson Crop Dusters, Inc. v. Matley*, 159 Cal. App. 2d 811, 324 P.2d 710 (1958); *Bramwell v. Airport Blue Print Co.*, 154 Cal. App. 2d 57, 315 P.2d 360 (1957); *Kaye v. Telsen*, 129 Cal. App. 2d 115, 276 P.2d 611 (1954); *Karsh v. Haiden*, 120 Cal. App. 2d 75, 260 P.2d 633 (1953).

<sup>101</sup> See *Alex Foods Inc. v. Metcalfe*, *supra* note 21; *Gordon v. Schwartz*, *supra* note 13; *Reid v. Mass Co.*, *supra* note 23.

<sup>102</sup> See *Handyspot Co. v. Buegeleisen*, 128 Cal. App. 2d 191, 274 P.2d 938 (1954).

<sup>103</sup> See *Hays*, *supra* note 66, at 59-61.

<sup>104</sup> *Alex Foods, Inc. v. Metcalfe*, *supra* note 21.

<sup>105</sup> *Gordon v. Schwartz*, *supra* note 13; *Western Electro-Plating Co. v. Henness*, *supra* note 12.



(3) *Distributing, Disposing of, Using, Placing in Use, Selling.* Defendants have been enjoined from distributing products manufactured by them through the wrongful use of plaintiff's trade secrets; and from disposing of, using, or placing in use their machines (ordered dismantled) constructed through piracy of a trade secret, or selling or disposing of the products thereof.<sup>106</sup>

(4) *Interfering.* In one case the defendants were restrained from "interfering" with policyholders of plaintiff insurance company whom defendants had serviced while in plaintiff's employ.<sup>107</sup>

(5) *Diverting.* The prohibition may be against soliciting and "diverting" the business of former customers.<sup>108</sup>

(6) *Imparting Information.* The defendant may be enjoined from imparting information received or developed by him while working for the plaintiff.<sup>109</sup>

(7) *False Representation.* Former employees have been restrained from falsely representing themselves as continuing to be agents of the plaintiff.<sup>110</sup>

(8) *Manufacturing, Assembling, or Rebuilding.* The judgment may prohibit defendant from manufacturing or assembling products by utilizing knowledge acquired from plaintiff's trade secrets, or rebuilding machines ordered dismantled.<sup>111</sup>

(9) *Retaining Files, Records, Forms, etc.* The defendant may be ordered to return to plaintiff all records, files, manuals, forms, unused materials, and supplies furnished by plaintiff to defendant under an agreement that these materials were to be returned on termination of the employment.<sup>112</sup>

(10) *Taking Applications.* In one insurance company case defendants were enjoined from taking applications for insurance from plaintiff's policyholders.<sup>113</sup>

(11) *Advertising for Sale.* In the case of the "world's fastest fast draw artist," defendant was commanded to cease the manufacture, sale, distribution, or advertising for sale of a fast draw holster based upon or which was a copy of plaintiff's product.<sup>114</sup>

---

<sup>106</sup> Ungar Elec. Tools, Inc. v. Sid Ungar Co., *supra* note 40.

<sup>107</sup> State Farm Mut. Auto. Ins. Co. v. Dempster, *supra* note 28.

<sup>108</sup> Peerless Oakland Laundry Co. v. Hickman, *supra* note 5.

<sup>109</sup> State Farm Mut. Auto. Ins. Co. v. Dempster, *supra* note 28; By-Buk Co. v. Printed Cellophane Tape Co., *supra* note 40.

<sup>110</sup> State Farm Mut. Auto. Ins. Co. v. Dempster, *supra* note 28.

<sup>111</sup> Ungar Elec. Tools, Inc. v. Sid Ungar Co., *supra* note 40; By-Buk Co. v. Printed Cellophane Tape Co., *supra* note 40.

<sup>112</sup> State Farm Mut. Auto. Ins. Co. v. Dempster, *supra* note 28.

<sup>113</sup> *Ibid.*

<sup>114</sup> Ojala v. Bohlin, *supra* note 36.

(12) *Use of Customer Lists*. The court may prohibit the use by the defendant of plaintiff's customer lists.<sup>115</sup>

(13) *Limitation*. The injunction should not be so broad as to preclude acceptance by the defendant of patronage from plaintiff's customers who come to him without solicitation.<sup>116</sup>

### B. Damages

Though compensatory damages are denied on occasion as speculative,<sup>117</sup> the courts remain lukewarm towards a lament by the defendant that the ascertainment of damages would be difficult. As the court said in *Western Electro-Plating Co. v. Henness*: "[I]t is clear that some damage to plaintiff's business was being caused by defendants and 'one whose wrongful conduct has rendered difficult the ascertainment of the damages cannot escape liability because the damages could not be measured with exactness.'"<sup>118</sup>

There may also be an award of exemplary damages.<sup>119</sup>

## III

### CONCLUSIONS

On the basis of this review of the cases on unfair competition decided by the appellate courts of California during the past decade, the following observations appear to be in order:

1. The typical trade route cases, where the business of serving customers is based upon regular calls at definite periods and the establishment of a business relationship between the customer and the company, which, unless interfered with, normally will continue,<sup>120</sup> receive virtually the same

---

<sup>115</sup> *Gordon v. Wasserman*, *supra* note 14.

<sup>116</sup> *State Farm Mut. Auto. Ins. Co. v. Dempster*, *supra* note 28; *Western Electro-Plating Co. v. Henness*, *supra* note 12. See also *Butler v. Superior Court*, 178 Cal. App.2d 763, 3 Cal. Rptr. 180 (1960), where on petition for writ of certiorari to annul a judgment of contempt for alleged violation of a preliminary injunction, the court had occasion to construe an injunction restraining defendants "from soliciting any contracts from any subscribers of plaintiff with whom they became acquainted or whose identity and addresses they learned while in and by virtue of, and in the course of their employment by or official capacity with plaintiff . . . ." Judgment annulled.

<sup>117</sup> See *State Farm Mut. Auto. Ins. Co. v. Dempster*, *supra* note 28.

<sup>118</sup> 196 Cal. App.2d 564, 574, 16 Cal. Rptr. 691, 696-97 (1961). To the same affect are *Southern Cal. Disinfecting Co. v. Lomkin*, 183 Cal. App.2d 431, 7 Cal. Rptr. 43 (1960); *Ojala v. Bohlin*, 178 Cal. App.2d 292, 2 Cal. Rptr. 919 (1960); *Reid v. Mass Co.*, 155 Cal. App.2d 293, 318 P.2d 54 (1957).

<sup>119</sup> *Southern Cal. Disinfecting Co. v. Lomkin*, *supra* note 118. See generally Comment, *Monetary Awards for Unfair Competition in California*, 34 So. CAL. L. REV. 283 (1961).

<sup>120</sup> As described by the court in *Continental Car-Na-Var Corp. v. Moseley*, 24 Cal.2d 104, 109, 148 P.2d 9, 12 (1944).

judicial treatment as heretofore. The same is true of cases involving essentially the same equitable factors, though not literally route situations. The plaintiff employer still has an excellent chance of obtaining an injunction and possibly damages, particularly if the former employee has resorted to shabby practices in addition to soliciting. The problem is whether the facts will be governed by the classic route and quasi-route case rules or by the rules applied in such cases as *Aetna* and *Continental Car-Na-Var*, where "there is no assurance of an order unless he [the salesman] can satisfy the customer that his merchandise is better, cheaper or more salable than that of his competitor,"<sup>121</sup> or "the evidence shows that the business is highly competitive and patronage depends upon efficiency of service rather than personal relationship . . ."<sup>122</sup> A third approach is exemplified by *Mathews Paint Co.*, *Martin v. Fortna*, and *American Alloy Steel Corp.*, where the courts have insisted on a showing of confidential information or a genuine trade secret.

2. The less the resemblance of the facts to those of the route or quasi-route case, the greater appears the burden on the former employer to show that the former employee is unfairly making use of information or a relationship which qualifies as a proprietary or property right in the former employer. The burden may be especially onerous if the former employee has otherwise conducted himself with common business decency.

3. While generalization on the point may not be warranted,<sup>123</sup> if the defendant is competing with plaintiff by selling a product originally designed by the plaintiff, the manufacture of which had been entrusted to defendant in the course of a contractual relationship between the parties, the odds appear substantially in favor of the plaintiff, even though the product was not under patent protection.

4. An employment contract which stipulates that the employee shall not solicit the employer's customers within a reasonable period after termination of the employment may be of value to the employer, and enforceable, if it seeks to protect a right or interest of the employer which is protectable under the principles of the law of unfair competition. If not, such a contractual provision will probably be unenforceable under Business and Professions Code section 16600. For instance, a bare stipulation "not to compete" after termination of the employment has no sanction. Since there are forms of contractual restraint affecting the employee which have been

---

<sup>121</sup> *Ibid.*

<sup>122</sup> *Aetna Bldg. Maintenance Co. v. West*, 39 Cal. 2d 198, 246 P.2d 11 (1952).

<sup>123</sup> Compare the "Design Copy" cases, discussed in text following note 35 *supra*, with *Mathews Paint Co. v. Seaside Paint Co.*, *supra* note 51, where a demurrer was sustained to the complaint alleging, *inter alia*, that defendants had labelled, numbered, and otherwise identified their products to correspond in style, identifying number, and appearance to the products manufactured by plaintiff.

expressly upheld by appellate courts in California, it would seem imprudent indeed not to use them.

5. There is an apparent tendency in certain recent decisions to be unimpressed with the property interest of an employer in the value of the "friendly contact" or knowledge of likes, dislikes, preferences, and requirements of customers<sup>124</sup> who are not in a route or quasi-route category, but whose patronage is likely to continue unless disturbed. Though these factors may not qualify as secret or confidential the employer nevertheless has invested a substantial amount of money—much of it in the form of salary to the former employee—in establishing and developing the contacts and in acquiring the information. Many times, it is true, the customers involved are interested only in "the best buy," e.g., in purchasing a car, and the enumerated factors are thus secondary or entirely absent. Nevertheless, where those factors do have an important bearing on the continuation of the particular business relationship, and where there are a sufficiently large number of customers potentially available in the area—e.g., users of paints, steel, or perhaps pest controls—so that the restraint would not prevent the former employee from pursuing his occupation in the same community, would it not be just that the former employer's investment be accorded the protection of an injunction against the former employee's *soliciting* of the customers with whom he had had contact during the term of employment, for a reasonable period? On these premises he would retain adequate freedom to acquire customers, though admittedly not nearly so quickly, conveniently, and inexpensively, to him, or his new boss, as by diverting the old patrons already cultivated at the expense of the former employer. Should the customers choose to follow the former employee without having been solicited, as many will, he is perfectly free to continue serving them.

---

<sup>124</sup> Considerations stressed as favorable to the former employer in earlier cases. *E.g.*, *George v. Burdusis*, 21 Cal. 2d 153, 130 P.2d 399 (1942); *Dairy Dale Co. v. Azevedo*, 211 Cal. 344, 295 Pac. 10 (1931); *Pasadena Ice Co. v. Reeder*, 206 Cal. 697, 275 Pac. 944 (1929); *Wallich v. Koren*, 80 Cal. App. 2d 223, 181 P.2d 682 (1947); all route cases, it must be conceded. But the same factors were recognized in a nonroute case, *Aetna Bldg. Maintenance Co. v. West*, 39 Cal. 2d 198, 205, 246 P.2d 11, 16 (1952), as a basis for equitable protection, "where such knowledge will aid . . . in securing and retaining [the] business," but not where "superiority of product or service, rather than personal relationships or a secret specialty, is the basis for patronage . . . ."